CROATIA BANKA d.d.

ANNUAL REPORT FOR 2015

CONTENTS

INTRODUCTION

The Annual Report includes the Report on the Bank's position, an overview of financial and operational performance, audited financial statements, together with the Independent Auditor's Report, and additional financial reports for the Croatian National Bank.

Legal form

The Annual Report has been prepared pursuant to the Accounting Act and the Companies Act which require reporting to the shareholders at the annual meeting of shareholders by the company management. Pursuant to the Companies Act, the full statutory set of financial statements consists of the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and notes to the financial statements, and the Companies Act stipulates in Article 250a an obligation to submit an annual report on the Bank's state of affairs.

The annual financial statements have been prepared in line with the legal requirements for bank accounting in Croatia and audited in accordance with International Standards on Auditing.

Abbreviations

In this Annual Report, Croatia banka d.d. is referred to as the "Bank", the Croatian National Bank as the "CNB", the Croatian Bank for Reconstruction and Development as the "CBRD", the State Agency for Deposit Insurance and Bank Rehabilitation as the "DAB" and the Financial Agency as "FINA".

Exchange rates

For the purpose of translating the amounts in foreign currencies into HRK amounts, the following mid exchange rates of the CNB were used:

At 31 December 2015 EUR 1 = HRK 7.635047; USD 1 = HRK 6.991801

At 31 December 2014 EUR 1 = HRK 7.635047; USD 1 = HRK 6.302107

Operational summary and key financial indicators
(amounts in millions of HRK)

Indicator / Year	2015	2014	2013	2012	2011
Key indicators					
Profit/(loss) before tax	2	5	(25)	(126)	(14)
Net profit/(loss)	(15)	4	(25)	(104)	(14)
Total assets	3,109	3,038	2,629	1,984	1,886
Loans and advances to customers	1,893	1,906	1,630	1,042	980
Total deposits received	2,616	2,593	2,066	1,486	1,348
Capital and reserves	182	200	195	220	117

Other indicators					
Ratio of operating expenses in operating income	73.00 %	79.70%	113.70%	129.00%	100.80%
Own funds	175	171	193	218	187
Total capital ratio	15.91%	13.29%	14.00%	17.36%	15.23%

Historical development of the Bank

Croatia banka d.d., Zagreb was founded on 22 December 1989, under the name Banka male privrede, d.d., Zagreb. On that day, 50 shareholders paid in socially owned capital contributions to form the initial (share) capital of 22,340,435,000 former Yugoslav dinars, equivalent to DEM 319,149 (which was then the condition for establishing a bank), which was subsequently divided into 4,565 founders' shares. On 25 January 1990 the Bank received from the Yugoslav National Bank the Decision granting full banking licence and had it registered at the court on 18 July 1990. On 4 May 1990 the Bank changed its name from Banka male privrede d.d. Zagreb into Croatia banka male privrede d.d. Zagreb, (abbreviated: "Croatia banka d.d. Zagreb"), and on 21 June 1995 it changed its name into Croatia banka d.d. Zagreb.

As a result of difficulties faced by the Bank, a procedure to rehabilitate the Bank was initiated in 1999 and, pursuant to Article 15(1), Article 16(1) and Article 17(1) of the Bank Rehabilitation and Restructuring Act (Croatian Official Gazette no 44/94) and Point VII of the Decision of the Government of the Republic of Croatia on the rehabilitation and restructuring of Croatia banka d.d. Zagreb of 27 September 1999 and the Decision of the Government of the Republic of Croatia on amendments to the Decision on rehabilitation and restructuring of Croatia banka d.d. Zagreb of 24 May 2000, the General Assembly of Croatia banka d.d. adopted on 13 September 2000 a Decision on issuing new replacement shares in the amount of HRK 204.6 million and a Decision on amendments to the Statute of Croatia banka d.d., which formally ended the process of the Bank's rehabilitation. The DAB contributed capital to the Bank in the amount of the replacement shares, and the Bank continued to operate as a Croatian public limited company (Croatian: 'dioničko društvo') fully owned by the State.

Information on economic trends and forecasts[1]

According to estimates, the real GDP for 2015 should be higher by around 1.8 percent than in 2014, and the real GDP for the third quarter of 2014 was higher by 2.8 percent. This definitely supports the expectation of a GDP increase, which could reflect itself positively on the credit demand.

After the economic activity had intensified in the third quarter, the available monthly indicators suggest a continuation of the relatively favourable movements in the fourth quarterly period as well. In the last quarter of 2015 the volume of industrial production increased by 2.7 percent. Growth took place in all categories, and the overall growth was mainly due to a higher output of intermediary and capital goods.
Retail trade growth also continued, and the growth rate for the last quarter was 1.3 percent relative to the average growth rate for the previous quarter, marking thus the highest quarterly growth since the middle of 2013.
Positive trends continue also in the tourist trade, with the number of overnight stays for October and November being 4.7 percent year-on-year.

At the beginning of the fourth quarter of 2015, the commodity exchange at the international level shows exports increasing, and imports slightly decreasing from the average figures for the third quarter.

The fourth quarter data continue to show favourable trends on the labour market. Thus, the number of persons employed increased from the previous quarter, mostly due to a higher level of employment in the public and private sector service industries. Given the higher outflow from unemployment than inflow to unemployment in the last quarter of 2015, the number of unemployed persons has continued to decrease. The registered unemployment rates for the last quarter of the year fell to 17.2 percent, showing a further declining trend. In annual terms, 2015 was the year in which employment rose after having been falling for six consecutive years, whereas the administrative unemployment rate decreased by 2 percentage points (from 19.7 in 2014 to 17.7). Nominal and real salaries continued to increase in the last quarter of 2015, albeit to a lesser extent than in the first three quarterly periods of the year.

At the end of November 2015 the general government deficit amounted to HRK 285.2 billion and represented 85.3 percent of the assessed GDP. The almost unchanged share of the debt in the GDP from the end of 2014 is mainly a result of the deficit being partly co-funded with deposits arising from loans raised in the prior year and the estimated higher nominal GDP.

In December consumer prices decreased 0.6 percent from the previous month, mostly due to seasonal sales of clothing and footwear, cheaper food products and lower oil product prices thanks to the lower crude oil prices on the global market. The annually observed decrease in the overall consumer price index decelerated in December 2015 when it reached minus 0.6 percent.

At the end of 2015, the exchange rate of the Croatian kuna against the euro was somewhat lower than at the end of 2014 (HRK 7.635047 versus HRK 7.661471).

The extremely slowly falling interest rates offered by banks for accepting funds and issuing loans continued in the last quarter of 2015, with interest rates on received funds declining slightly faster than those on issued loans.

In the last quarter of the year, placements made by credit institutions to domestic industry sectors (other than government) decreased moderately, mostly as a result of deleveraging of non-financial entities and individuals.

The CNB's expansive monetary policy continued throughout 2015, combined with maintaining the kuna/euro exchange rate stable.

[1] *Press release on economic trends, CNB, February 2016*

Description of operations

The Bank's activities include all types of deposit and loan operations for legal and natural persons, domestic and foreign payments, issuing guarantees, avals and other forms of guarantees, purchase and sale of securities and other banking activities.

The Bank is fully (100%) owned by the state and ranked by assets (HRK 3.1 billion) as the 12th of a total of 28 banks. As at 31 December 2015, the Bank has 15 branches and 3 outlets.

The Bank's own (regulatory) capital as at 31 December 2015 amounts to HRK 174,967 thousand, and the regulatory capital adequacy rate is 15.91%.

In 2015 the Bank generated a pre-tax profit in the amount of HRK 2,263 thousand, and the loss after tax amounts to HRK 15,134 thousand. The main reason underlying the negative net result for 2015 was the impairment of deferred tax assets in the amount of HRK 17,851 thousand following a revision of the long-term financial plan. The deferred tax assets originate from 2012 and were recognised in respect of a tax loss in the amount of HRK 22,761 thousand included in the long-term plan under the Decision on the Bank's rehabilitation. In the meantime, the following occurred:

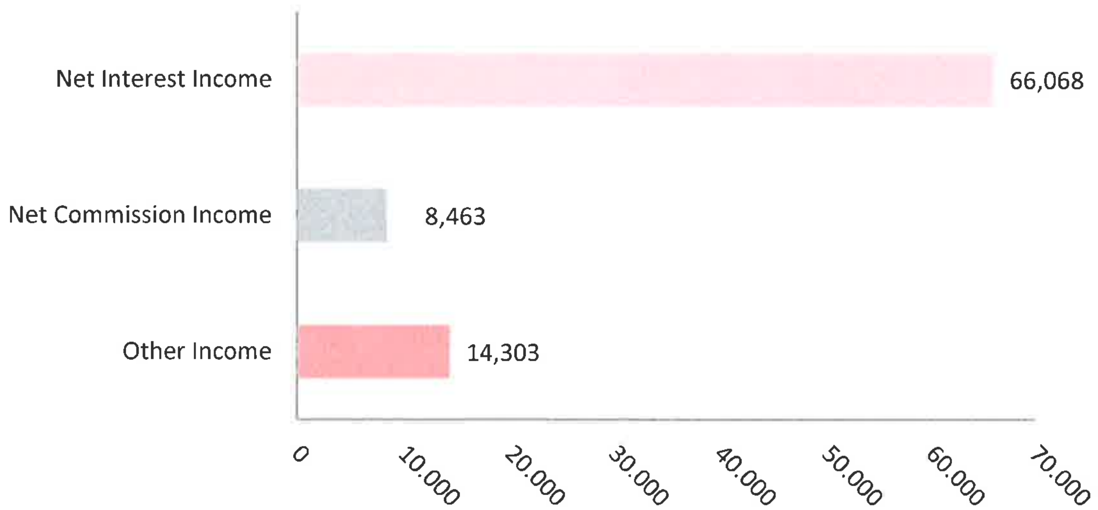
- the legislation effective from 1 January 2014 was amended in the part that regulates the minimum total capital ratio which was increased from 12 percent to around 15 percent;
- the actual provisioning costs in prior years were higher than budgeted.

Therefore, an additional increase in capital by HRK 50,000 thousand was planned in 2015 using a hybrid instrument, but has been postponed to the beginning of 2017. Under such circumstances, the long-term financial plan was revised in late 2015 to include lower and more stable operating profit levels than envisaged in the original plan from 2013.

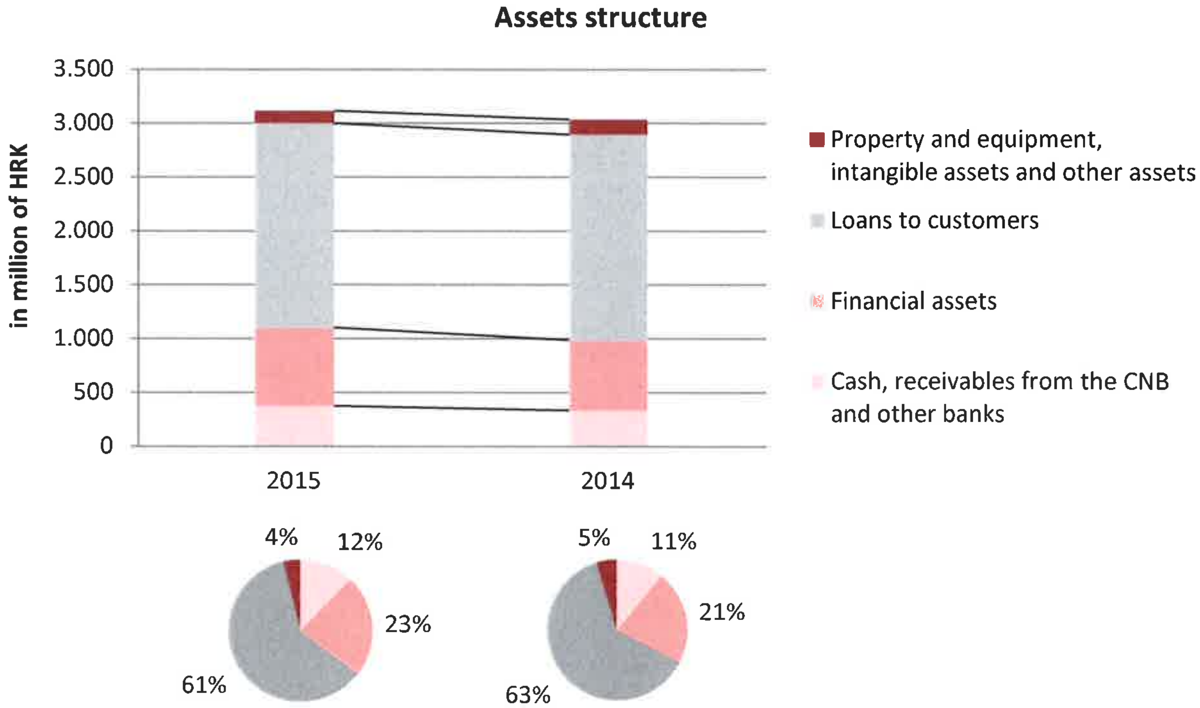
The operating profit for the year amounts to HRK 23,926 thousand, the impairment and provisioning expense amount to HRK 21,663 thousand.

Total net operating income increased by 4.3 percent from 2014. Interest income represents the most significant share of the total income and amounts to 74.4 percent (HRK 66,068 thousand).

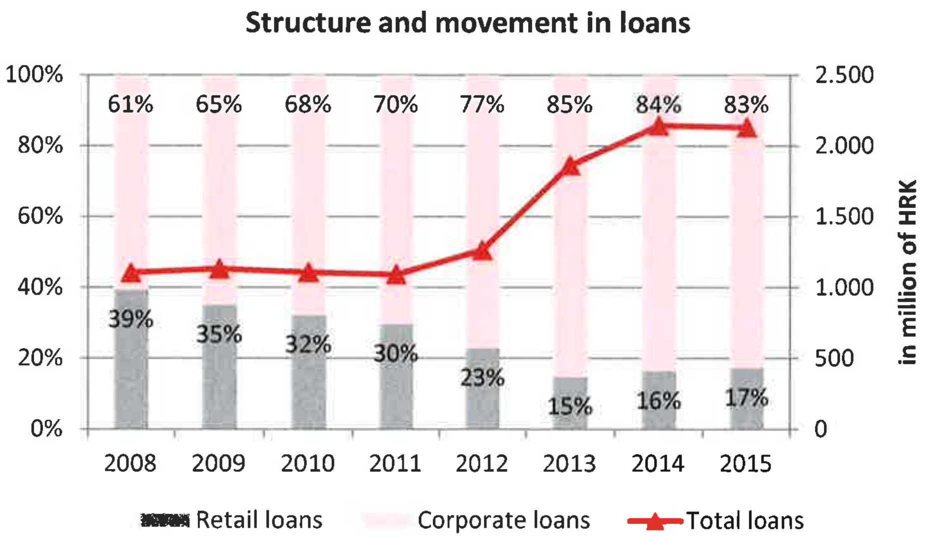
Structure of operating income for the period from 1 January 2015 to 31 December 2015 (in thousands of HRK)



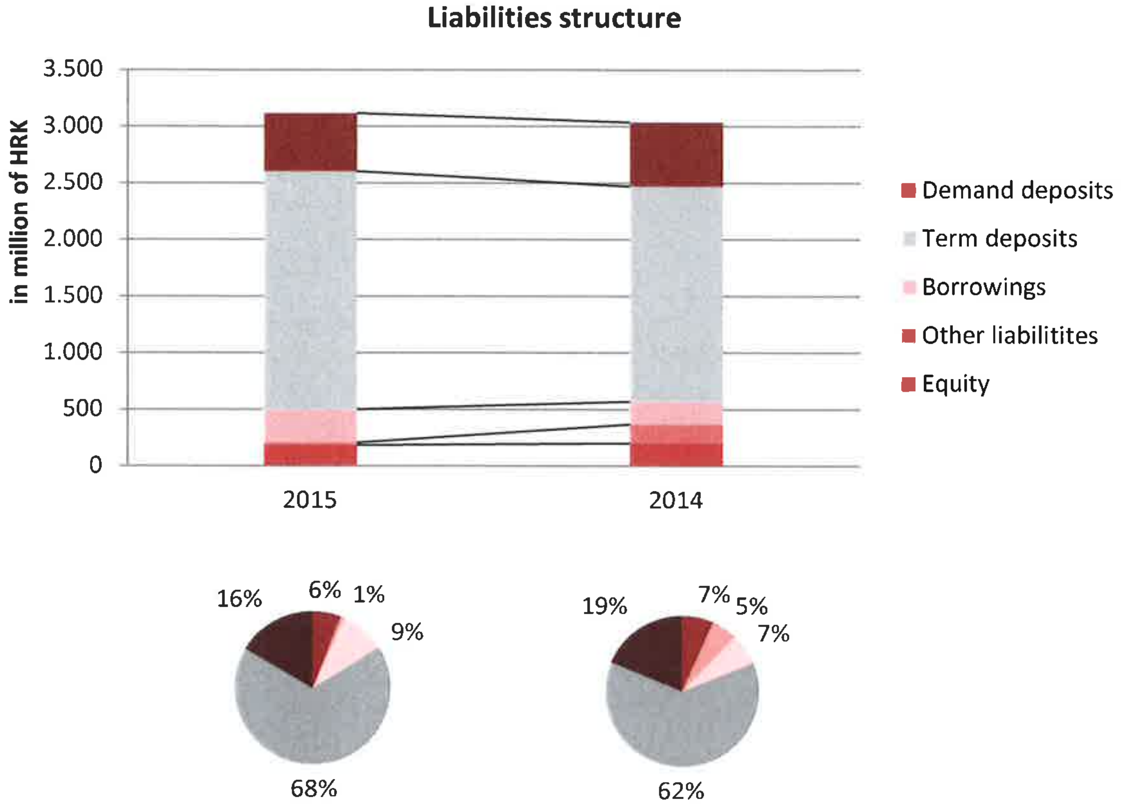
At the end of 2015 the Bank's assets amount to HRK 3,108,567 thousand, HRK 71,090 thousand (2.3 %) more than at the end of 2014. Loans and receivables from customers represent the largest share (61 %), followed by financial assets (23 %), with cash, receivables from the Croatian National Bank and other banks constituting in aggregate 12 percent.



At 31 December 2015, the balance of total gross loans to customers was HRK 2,128,800 thousand, which is 0.7 percent less than in 2014. Loans to legal persons represent 83 percent of the total loans to customers, and loans to individuals (including sole traders) account for 17 percent.

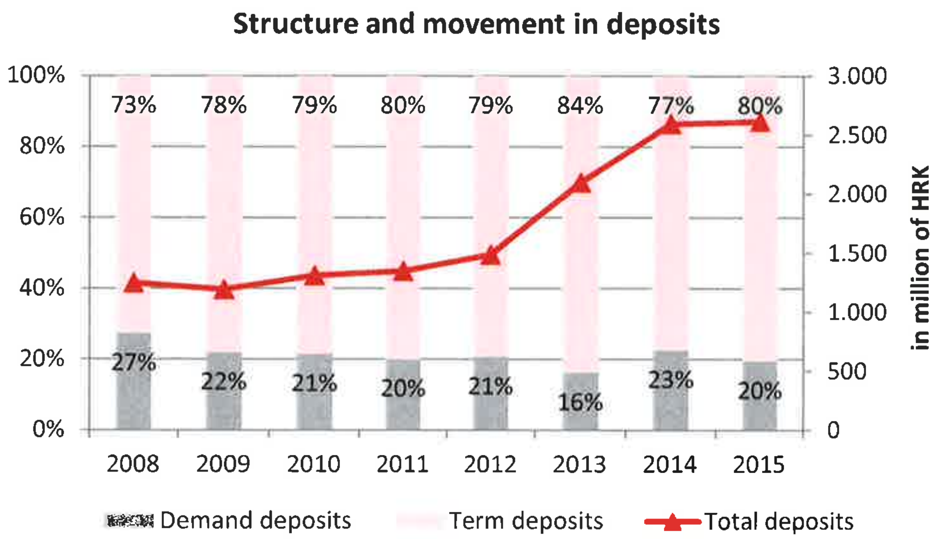


Term deposits represent the largest portion of liabilities and account for 68 percent, followed by demand deposits which represent 16 percent.



Customer deposits increased by 2 percent from the end of 2014, and total deposits (i.e. including deposits from other banks) rose by 1 percent to HRK 2.6 billion at the end of 2015.

As regards the structure of total deposits, term deposits (80 %) prevail by far over demand deposits (20 %) and increased 5 percent, with their share in the total deposits having increased by 3 percentage points. In 2015 demand deposits fell by 13 percent.



Retail customer operations

Operations involving individuals continued to perform well in 2015, as in the two previous years, and all key targets were achieved, including an increase in profitability.

Goods trends in lending operations continued, with a focus on the recovery of default loans from prior years, which significantly improved the operating results. As a result of the activities, interest income from retail operations was ultimately above target.

General-purpose loans continued to prevail in the structure of new loans, but the volume of housing loans increasing.

The year 2015 was marked by great efforts to increase the stability of the deposit base by improving significantly the maturity structure of deposits in favour of long-term deposits which increased from 46 percent to 64 percent, with a simultaneous decrease in the average deposit interest rates. Namely, total deposits to individuals increased by over HRK 251,947 thousand, representing an annual growth of 17.6 percent, and the interest expense increased by only 6.5 percent.

The positive developments in the number of current accounts as a result of an increasing number of customers continued significantly improved the level of non-interest income from fees, mainly in the area of credit card operations. Good trends in sales from services involving third-party products, such as bank assurance, also continued and additionally increased the non-interest income, so that business targets in the area of fee income were also achieved.

Operations with legal persons

Deposits from legal persons (excluding deposits from other banks) account for 30 percent of the Bank's total deposits. They fell by 21 percent from the end of 2014 and amount to HRK 790,653 thousand. Of that balance, demand deposits amount to HRK 305,912 thousand, and term deposits amount to HRK 484,741 thousand. The decrease was mostly due to several larger deposits being strategically released for high interest expense. On the other hand, term deposits of individuals were growing, as a planned substitute for the released deposits.

At the end of 2015, the total portfolio of loans to legal persons amounted to HRK 1,761,848 thousand, which is HRK 29,168 thousand (1.6 %) less than at the end of 2014. The portfolio shrinking was also a part of the plan considering the capital requirements the Bank is to comply with.

The 2015 plan for corporate customer operations was focused on preserving existing solid customers and increasing the base of active clients using an increasing number of the Bank's products and services.

During the year, this operating segment continued to focus on improving continually the quality of business processes, in particular the loan process, in cooperation with other organisational units of the Bank.

Treasury operations

The Bank maintains its liquidity using available liquid instruments denominated in HRK and foreign currencies (balances on accounts with the Bank, securities, inter-bank loans, repurchase and Lombard loans), but without using more advanced instruments, such as futures and derivatives. In 2015 the Bank maintained a high liquidity rate, along with a significant increase of the Treasury portfolio, mainly as a result of the regulatory requirements.

Despite unfavourable conditions on the bond and cash markets, the Treasury managed to preserve a high level of income, with a considerably higher actual interest income and a mildly lower trading income. Despite the increase in the CHF exchange rate, the majority of banks incurred significant losses on the conversion of the CHF loans, but not Croatia banka d.d., which reported almost no loss, but its exchange differences increased somewhat compared with 2014.

The operational part underwent further fine-tuning of internal methodologies in all the areas of the treasury operations.

This year, the Treasury increased both the volumes and number of transactions on all its products, having thus assumed an active role as one of the Bank's profit centre.

Investment banking

The Bank has obtained all permits from the Croatian National Bank and the Croatian Financial Services Supervisory Agency for providing investment services and activities and has achieved all prerequisites for providing investment services. In the field of investment banking, the Bank offers to its clients brokerage services, custody services for customers' financial assets, margin loan for purchases of financial instruments, as well as general-purpose S-loans against financial instruments placed into the Bank's custody.

Despite the unfavourable situation on the Croatian financial market, which features low transaction volumes and meagre investments, the Bank achieved a significant growth in the investment banking segment. Over the past one-year period, its customer base has grown considerably, and the portfolio of its investment banking customers has multiplied. As a result, the Bank reported a considerable increase in interest income, which supports the sustainability and profitability of this segment in the long run.

Internal control system and internal audit

The internal control system at the Bank's level has been set up by means of internal acts that vertically and horizontally divide responsibilities among the Bank's organisational units.

The internal control system at the Bank has been implemented as a set of established processes and procedures established for the purpose of adequate risk control, monitoring the efficiency and effectiveness of the Bank's operations, reliability of its financial and other information, and regulatory compliance, including compliance with internal acts, standards and codes, to ensure the stability of the Bank's operations.

Internal audit

The internal audit function has been set up as a separate organisational unit that is functionally and organisationally independent of activities it audits as well as of other organisational units of the Bank.

The Annual Audit Plan is based on documented risk assessments and contains all the relevant elements from the Decision on the internal control system and internal acts. The annual work plan of the internal audit is approved by the Bank's Management Board based on a prior consent of the Audit Committee and/or the Supervisory Board.

Internal audit reports are delivered to all members of the Management Board, persons responsible for the Bank's organisational part audited and the Audit Committee.

The Internal Audit also prepares its activity reports and submits them to the Management Board and the Audit Committee on a quarterly basis, to the Supervisory Board semi-annually, as well as the annual report for the CNB.

Implementation of the Corporate Governance Code

Pursuant to the provisions of Article 272 of the Companies Act, the Management Board of Croatia bank d.d. Zagreb hereby declares that the Bank implements the Corporate Governance Positions of the Croatian National Bank for Banks on a voluntary basis.

In 2015, the Bank continuously followed and applied the recommendations determined in the CNB's Positions, disclosing all information the disclosure of which is provided by positive regulations as well as making disclosures that are in the interest of the Bank's owners and clients.

Pursuant to the corporate governance requirements and in line with the provisions of the Companies Act, the Supervisory Board performs the internal oversight by regular controls of submitted reports. Members of the Supervisory Board regularly obtain detailed information on the Bank's management and operations. At the Supervisory Board meetings, all issues from the Board's area of responsibilities are discussed and decided on.
The Bank keeps business and other records and business documentation, prepares accounting documents, realistically assesses assets and liabilities, prepares financial statements and other reports in accordance with accounting regulations and standards and the applicable legislation.
Corporate governance at the Bank is implemented not only by meeting regulatory requirements, but it also derives from the culture of corporate and personal integrity of the management and employees. Main features of the implemented internal oversight and risk management relevant for financial reporting are described further below.
Nominees for the president and members of the Bank's Management Board must meet all requirements prescribed by legislation governing banking operations and other relevant regulations. Once the Croatian National Bank approves the nominees, the Supervisory Board appoints the president and members of the Management Board with a mandate of up to four years. The powers of the Bank's Management Board are defined by law and the Statute. The division of the respective responsibilities of the Management Board and its president are determined in a separate decision adopted with the consent of the Supervisory Board.

Decisions on amendments to the Statute are adopted at the Bank's General Assembly, in line with the Act and the Statute.
For the purpose of protecting the interests of the owners, clients, employees and all other stakeholders, Croatia banka d.d. Zagreb aims to maintain its operations in line with highest corporate governance standards.

Governance structure of the Bank
In accordance with the Companies Act, the Credit Institutions Act and the Bank's Statute, the Bank's governance structure comprises the Supervisory Board and the Management Board, whose duties and responsibilities are also regulated by those acts.

Other information

The Bank did not carry out any research and development activities in 2015.
The Bank did not purchase any treasury shares during in 2015.
The Bank does not own other legal entities.
Purchase and sale of financial instruments constitute an integral part of the Bank's operations and are described in detail in these financial statements.
Details about the Bank's financial risk management goals and policies, its exposure to price risk, credit risk, liquidity risk and other risks are provided in the accompanying financial statements.

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with applicable accounting standards, which give a true and fair view of the state of affairs and results of Croatia banka d.d. ("Bank") for that period.

The Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also ensure that the financial statements comply with the Croatian Accounting Law (Official Gazette no. 109/07, 54/13 and 121/14). The Management Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is responsible for preparation and content of the annual report in accordance with the article 18 of the Accounting Act (Official Gazette 109/07, 54/13 and 121/14).

For and on behalf of Croatia banka d.d.

Mladen Duliba
President of the Management Board

Ivan Šverko
Member of the Management Board

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Independent auditor's report

To the owners of Croatia banka d.d.:

We have audited the accompanying financial statements of Croatia banka d.d. ("the Bank"), which comprise the statements of financial position as at 31 December 2015, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting requirement for banks in Croatia, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the unconsolidated and consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Bank's preparation and fair presentation of 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 internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Independent auditor's report (continued)

Opinion

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

Other matters

The financial statements of the Bank for the year ended 31 December 2014 were audited by another auditor who expressed an unqualified opinion on those statements on 23 March 2015.

Other legal and regulatory requirements

i. Pursuant to the Decision of the Croatian National Bank on the Structure and Content of Annual Financial Statements of Banks (Official Gazette No. 62/08, hereinafter: "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix to these financial statements on pages 89 to 104, which comprise the statements of financial position as of 31 December 2015, and the profit and loss account, the statement of changes in equity and the statement of cash flow for the year then ended, as well as the reconciliation to the financial statements. These forms and the accompanying reconciliation to the financial statements are the responsibility of the Bank's management, and do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 14 to 88, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements of the Bank.

ii. The management is also responsible for the preparation of the Annual Report in accordance with the requirements of the Croatian Accounting Law.
Our responsibility is to issue an opinion on the consistency of the Annual Report with the financial statements based on our audit. Our procedures have been conducted in accordance with the International Standards on Auditing and limited solely to assessing of whether information disclosed in the Annual Report and presented in the financial statements is consistent, in all material respects, with the relevant financial statements. We have not audited any data or information other than the financial information obtained from the 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 aforementioned financial statements as of 31 December 2015.

Branislav Vrtačnik
President of the Management Board

Sanja Petračić
Certified auditor

Deloitte d.o.o.

Zagreb, 30 March 2016

in thousands of HRK

	Notes	2015	2014
Interest income	5	149,034	142,212
Interest expense	6	(82,966)	(82,117)
Net interest income		**66,068**	**60,095**
Fee and commission income	7	13,357	10,656
Fee and commission expense	8	(4,894)	(5,063)
Net fee and commission income		**8,463**	**5,593**
Net financial gains	9	4,385	6,463
Net income from exchange differences	10	3,628	4,001
Other operating income	11	6,290	9,012
Total other income		**14,303**	**19,476**
Other operating expenses	12	(64,908)	(67,870)
Impairment losses and provisions	13	(21,663)	(12,158)
Total other expenses		**(86,571)**	**(80,028)**
Profit before taxation		**2,263**	**5,136**
Income tax	14	**(17,397)**	**(1,217)**
(Loss)/profit for the year		**(15,134)**	**3,919**
Other comprehensive income			
Beginning balance		**2,609**	**1,584**
Items potentially included subsequently in profit or loss:		**(3,004)**	**1,025**
Unrealised (losses)/gains from the valuation of financial assets available for sale		(1,144)	2,328
Cumulative gains on the sale of available-for-sale financial assets transferred to profit or loss		(1,959)	**(1,303)**
Deferred tax on financial assets available for sale		99	-
Closing balance		(395)	**2,609**
TOTAL COMPREHENSIVE (LOSS)/INCOME		**(18,138)**	**4,944**
(Loss)/Earnings per share	32	**(3.19)**	**0.83**

The significant accounting policies and other notes on pages 21 to 89 form an integral part of these financial statements.

in thousands of HRK

	Notes	**31 December 2015**	**31 December 2014**
ASSETS			
Cash	*15*	103,596	87,431
Receivables from the Croatian National Bank	*16*	226,137	208,448
Placements with banks	*17*	47,985	38,168
Financial assets available for sale	*18*	677,732	593,630
Financial assets held to maturity	*19*	48,579	61,176
Loans and advances to customers	*20*	1,892,503	1,906,494
Investment property	*21*	35,696	35,696
Property and equipment	*22*	15,595	19,446
Intangible assets	*22*	4,289	2,530
Foreclosed assets	*23*	24,539	28,842
Deferred tax assets	*14*	4,246	21,545
Other assets	*24*	27,670	34,071
Total assets		**3,108,567**	**3,037,477**
EQUITY AND LIABILITIES			
Liabilities to banks	*25*	109,903	126,365
Demand deposits	*26*	473,276	567,732
Term deposits	*27*	2,032,676	1,899,262
Borrowings	*28*	292,726	203,414
Other liabilities	*29*	9,769	31,234
Provisions	*30*	8,186	9,301
Total liabilities		**2,926,536**	**2,837,308**
EQUITY			
Share capital	*31*	474,600	474,600
Accumulated losses		(292,174)	(277,040)
Reserves		(395)	2,609
Total equity		**182,031**	**200,169**
Total liabilities and equity		**3,108,567**	**3,037,477**

The significant accounting policies and other notes on pages 21 to 89 form an integral part of these financial statements.

in thousands of HRK

	Share capital	Accumulated losses	Reserves	Total
Balance at 1 January 2014	**474,600**	**(280,959)**	**1,584**	**195,225**
Changes in equity in 2014				
Transfer of accumulated losses	-	-	-	-
Unrealised change in the fail value of available-for-sale financial assets	-	-	2,328	2,328
Cumulative gains on the sale of available-for-sale financial assets transferred to profit or loss	-	-	(1,303)	(1,303)
Net income recognised directly in equity	-	-	*1,025*	*1,025*
Profit for the year	-	3,919	-	3,919
Balance at 31 December 2014	**474,600**	**(277,040)**	**2,609**	**200,169**
Balance at 1 January 2015	**474,600**	**(277,040)**	**2,609**	**200,169**
Changes in equity in 2015				
Transfer of retained earnings	-	-	-	-
Increase in share capital	-	-	-	-
Unrealised change in fair value of available-for-sale financial assets	-	-	(1,144)	(1,144)
Cumulative gains on the sale of available-for-sale financial assets transferred to profit or loss	-	-	(1,959)	(1,959)
Deferred tax on available-for-sale financial assets	-	-	99	99
Net loss recognised directly in equity	-	-	(3,004)	(3,004)
Loss for the year	-	(15,134)	-	(15,134)
Balance at 31 December 2015	**474,600**	**(292,174)**	**(395)**	**182,031**

The significant accounting policies and other notes on pages 21 to 89 form an integral part of these financial statements.

	2015	2014
		in thousands of HRK
NET CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	**2,263**	**5,136**
Adjustment to net cash from operating activities		
Impairment allowance on loans and other assets (net) (Note 13)	22,835	14,187
Provisions for contingent liabilities (net) (Note 13)	(973)	1,144
Litigation provision (net) (Note 13)	1,683	(2,159)
Other provisions (net) (Note 30)	(663)	(432)
Gains from realisation of available-for-sale financial assets (Note 9)	(4,115)	(6,445)
Gains on trading financial assets at fair value through profit or loss (Note 9)	(270)	(18)
Amortization and depreciation (Note 22)	3,343	3,520
Foreign exchange differences on translation	429	(67)
Gains on the sale of foreclosed assets (Note 11)	(1,070)	(4,054)
Write-offs of tangible assets	2,602	8
Changes in assets and liabilities from operating activities		
Increase in receivables from the Croatian National Bank	(17,867)	(16,520)
Increase in loans and advances to customers	(5,451)	(298,587)
Decrease/(increase) in other assets	5,782	(4,952)
Decrease in liabilities to banks	(16,462)	(28,047)
(Decrease)/increase in demand deposits	(94,456)	229,528
Increase in term deposits	132,043	292,921
(Decrease)/increase in other liabilities	(22,627)	9,500
Net cash flow from operating activities	**7,026**	**194,663**
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of financial assets available for sale	825,489	84,983
Purchase of financial assets available for sale	(908,309)	(337,649)
Sale of financial assets held for trading at fair value through profit or loss	-	5,099
Maturity/(acquisition) of financial assets held to maturity	12,719	(59,619)
Purchases of property, equipment and intangible assets	(3,853)	(1,868)
Proceeds from the sale of property	3,919	11,775
Net cash from investing activities	**(70,035)**	**(297,279)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds/Repayments of borrowings, net	89,312	(98,233)
Net cash flow from financing activities	**89,312**	**(98,233)**
Net change in cash and cash equivalents	**26,303**	**(200,849)**
Cash and cash equivalents at beginning of the year (Note 35)	**126,531**	**327,380**
Cash and cash equivalents at end of the year (Note 35)	**152,834**	**126,531**

The significant accounting policies and other notes on pages 21 to 89 form an integral part of these financial statements.

1. GENERAL INFORMATION ABOUT THE BANK

Legal framework and activity

Croatia banka d.d. Zagreb ("the Bank") was registered in the court register as a joint stock company in 1989 under the registration number 080007370. The headquarters of the Bank are at Roberta Frangeša Mihanovića 9, Zagreb, Croatia.

The Bank's activities include all types of deposit and loan operations for legal and natural persons, domestic and foreign payments, issuing guarantees, avals and other forms of guarantees, purchase and sale of securities and other banking activities.

The Bank has 15 branches – Branch Zagreb, Branch Bjelovar, Branch Čakovec, Branch Metković, Branch Osijek, Branch Poreč, Branch Požega, Branch Rijeka, Branch Slavonski Brod, Branch Split, Branch Vinkovci, Branch Virovitica, Branch Vukovar, Branch Zadar, Branch Županja, and 3 outlets: Outlet Šubićeva, Outlet Sky Office, and Outlet Drenovci.

Governance and management

Supervisory Board
The Supervisory Board operates in accordance with the Companies Act, the Credit Institutions Act and the Bank's Statute, whereby its main responsibility is the supervision of Bank's operations and appointment and dismissal of the president and members of the Management Board. In addition, the Supervisory Board approves the Management Board's business policies, financial plans, strategies and policies of risk taking and management, strategies and procedures for assessing the adequacy of internal capital, acts that establish and ensure adequate functioning of the internal control system, plans of control functions operations, salary and other benefits policy, organisational structure of the Bank, and it also decides on other issues as determined by law or the Bank's internal acts.

The Supervisory Board has four members that are elected and appointed for a period of four years.

The Supervisory Board generally holds meetings once a month or in shorter time intervals, as required.

Supervisory Board members in 2015:

From 1 January to 31 March 2015
Marija Hrebac, President
Branka Grabovac, Deputy President
Mladen Duliba, Member
Ivan Tomljenović, Member (exceptionally until 9 February 2015)

From 1 to 4 April 2015
Branka Grabovac, Deputy President
Mladen Duliba, Member
Maruška Vizek, Member
Ratko Bajakić, Member
Josip Lozančić, Member

From 9 April to 10 July 2015
Ratko Bajakić, President
Mladen Duliba, Deputy President
Branka Grabovac, Member
Maruška Vizek, Member
Josip Lozančić, Member

1. GENERAL INFORMATION ABOUT THE BANK (continued)

Governance and management (continued)

Supervisory Board (continued)

From 10 to 16 July 2015
Mladen Duliba, Deputy President
Josip Lozančić, Member
Branka Grabovac, Member
Maruška Vizek, Member

From 16 July to 30 September 2015
Mladen Duliba, President
Josip Lozančić, Deputy President
Branka Grabovac, Member
Maruška Vizek, Member

From 1 October to 31 December 2015
Mladen Duliba, President
Maruška Vizek, Deputy President
Branka Grabovac, Member

Supervisory Board members in 2014:

Marija Hrebac, President
Branka Grabovac, Deputy President
Ivan Tomljenović, Member
Mladen Duliba, Member

1. GENERAL INFORMATION ABOUT THE BANK (continued)

Management Board

Competences, duties and responsibilities of the Bank's Management Board in managing the operations and representing the Bank are determined by the Companies Act, the Credit Institutions Act, the Statute and the Rules of Procedure of the Bank's Management Board.

Management Board manages its business and manages its assets, and it has the responsibility and power to take any action and make any decision necessary for the successful management of the Bank. In the managing of business operations Management Board in particular is responsible for ensuring that the Bank operates in accordance with the rules on risk management in accordance with the Credit Institutions Act and other legislation and internally set regulations and laws; approving and regularly reviewing risk management strategies and policies, including managing risks that arise from the macroeconomic environment in which the Bank operates, and the state of the business cycle of the Bank; ensuring systematic monitoring, assessment and the strategy for maintaining or reaching the adequate amount of capital in relation to risks to which the Bank is exposed in its operations; ensuring functioning of the internal controls system for all areas of the Bank's operations; ensuring unobstructed internal audit; ensuring that the Bank keeps business and other records and business documentation, prepares accounting documents, realistically estimates assets and liabilities, prepares financial and other reports in accordance with accounting regulations and standards and the Credit Institutions Act and other regulations adopted on the basis of law; ensuring that the Bank reports and informs the Croatian National Bank in line with the Credit Institutions Act and other regulations adopted on the basis of law; and ensuring the implementation of measures ordered by the Croatian National Bank.

The Bank's Management Board consists of at least two to maximum three members, one of which is appointed as the President of the Management Board. The President of the Management Board represents the Bank solely and independently, and a member of the Management Board represents the Bank jointly with another member of the Management Board.

The Bank's Management Board is appointed by the Supervisory Board for a period of not more than four years, with the option of reappointment.

The Members of the Board during the 2015 were as follows:

Mladen Duliba – President (since 1 January 2016)

Ivan Šverko – Member

Josip Lozančić – President (from 1 October 2015 to 31 December 2015)

Suzana Brenko – President (until 30 September 2015)

Stjepan Mandić – Member (until 30 September 2015)

The Members of the Board during the 2014 were as follows:

Suzana Brenko – President

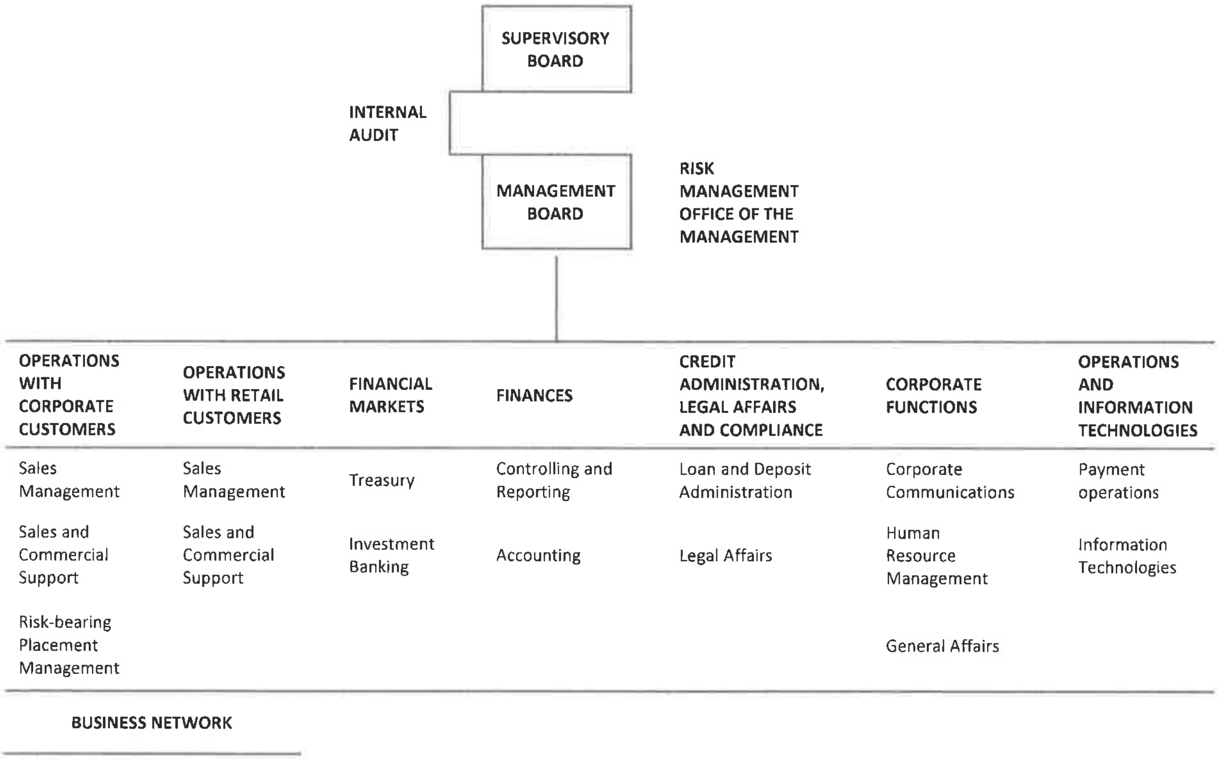
Stjepan Mandić – Member

Jasminka Gregurić Matić – Member (until 31 March 2014)

Ivan Šverko – Member (until 12 June 2014)

1. GENERAL INFORMATION ABOUT THE BANK (continued)

Organisation chart



2. GOING CONCERN

Capital management

For several years the Bank had not managed to reach operating profit, which is why the Bank's share capital was increased on several occasions, the most recent in the amount of HRK 200 million taking place in October 2012 by converting into equity bonds representing in aggregate a hybrid instrument, i.e. supplementary capital in the amount of HRK 70 million, and contributing HRK 130 million in cash.

In 2015 the Bank's lending activities continued to be focused on extending loans to the government and state-owned companies guaranteed by the Republic of Croatia that, under the applicable regulations, are not subject to capital requirements and still bring a satisfactory level of interest income. Regarding the sources of funds, total deposits (especially deposits from individuals) increased and ensure sources to lending activities. In 2015 operating expenses were reduced additionally, which, coupled with the continuing increase in operating income, resulted in a higher positive financial performance.

Total capital ratio at 31 December 2015 is 15.91 percent.

3. BASIS FOR THE PRESENTATION OF FINANCIAL STATEMENTS

Statement of compliance

These financial statements are prepared in accordance with the legal requirements applicable to accounting for banks in the Republic of Croatia. The Bank's operations are subject to the Credit Institutions Act under which the Bank's financial reporting is regulated by the Croatian National Bank ("the CNB") as the central institution overseeing the banking system in Croatia. These financial statements are prepared in accordance with the above-mentioned banking regulations.

The accounting regulations of the CNB are based on International Financial Reporting Standards ("IFRS"), but differ from them, both in terms of presentation and in terms of recognition and measurement.

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

- The CNB requires from banks to recognise in their income statements losses on impairment of assets not identified as impaired (including those bearing the Central Government Risk) at prescribed rates (with the exception of financial assets at fair value through profit or loss and assets available for sale). At 31 December 2015 the portfolio-based provisions amount to HRK 23,018 thousand (2014: HRK 20,620 thousand) and are presented on the Bank's balance sheet in accordance with the CNB requirements which include the requirement to recognise the related expense within impairment losses for the year.

- The Bank recognises impairment losses on loans and advances to customer by discounting the future expected cash flows using the original effective interest rate of the instrument, in accordance with International Financial Reporting Standards. The CNB requires the amortisation of the discount to be presented in the statement of comprehensive income as a change in impairment losses on loans and advances to customer instead of including them in interest income as required under IFRSs.

- Additionally, the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may differ from the impairment loss required to be recognised in accordance with IFRSs.

3. BASIS FOR THE PRESENTATION OF FINANCIAL STATEMENTS (continued)

Basis of measurement

The financial statements are prepared on the fair value basis for financial assets available for sale and financial assets at fair value through profit or loss, 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 carried at amortised or historical cost.

Use of estimates and judgements

In preparing the financial statements, management is required to make 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 financial statements date, as well as amounts of income and expense for the period. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to 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.

The Bank monitors the creditworthiness of its customers on an ongoing basis. On-balance sheet and off-balance sheet credit risk exposures are reviewed for impairment on a quarterly basis. Impairment losses are generally charged to the carrying amount of loans and receivables issued to legal persons and individuals and as provisions for risk and charges arising from off-balance sheet exposures to customers, which mostly take on the form of approved, but not utilised loans, guarantees and letters of credit. In addition to individually identified impairment losses, the Bank monitors and recognises, on an ongoing-basis, impairment losses that are known to exist at the financial statements date, but have not been separately identified. In assessing unidentified impairment losses on a portfolio basis, the Bank seeks to collect sufficient reliable information about appropriate loss rates, based on its historical experience, adjusted to reflect the current circumstances and the period in which the loss is identified. The Bank has recognised a general provision of 1 percent which, pursuant to the CNB regulations, applies to all credit risk exposures other than those measured at fair value, including off-balance sheet credit risk exposures and the central government risk.

Functional and presentation currency

The financial statements are presented in Croatian kunas (HRK), which is the primary currency of the economic environment in which the Bank operates (its functional currency). At 31 December 2015, the official exchange rate of the Croatian kuna against 1 euro was HRK 7.635047 (2014: HRK 7.545624) and for 1 US dollar it was HRK 6.991801 (2014: HRK 6.302107).

Standards and Interpretations effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board ("IASB") and adopted by the European Union were effective in the current period:

- **Amendments to various standards "Improvements to IFRSs from the 2011–2013 Cycle"**, 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, adopted by the EU on 18 December 2014 (applicable to annual periods beginning on or after 1 January 2015),
- **IFRIC 21 "Levies"**, adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

3. BASIS FOR THE PRESENTATION OF FINANCIAL STATEMENTS (continued)

Standards and Interpretations effective in the current period (continued)

The adoption of the amended standards and interpretations has not lead to any changes in the Bank's accounting policies.

Standards and Interpretations issued by 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 IASB and adopted by the EU were in issue but not yet effective:

- **Amendments to IFRS 11 "Joint Arrangements" –** Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative - adopted by the EU on 18 December 2015 (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 - adopted by the EU on 2 December 2015 (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 - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (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 - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

- **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 - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016.

3. BASIS FOR THE PRESENTATION OF FINANCIAL STATEMENTS (continued)

Standards and Interpretations issued by 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 from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at 19 February 2016 (the effective dates stated below is for IFRS in full):

- **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) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 15 "Revenue from Contracts with Customers"** and further amendments (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to 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 and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded).

As assessed by the Bank, the adoption of hedge accounting under **IAS 39 "Financial instruments: Recognition and Measurement"** to financial assets and financial liabilities at the balance sheet date would not have a significant impact on the financial statements.

The Bank anticipates the adoption of the new standards and the amendments to the existing standards, except for IFRS 9 (as described below), will have no material impact on the financial statements of the Bank in the period of initial application.

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank is in the process of assessing the effects of the introduction of IFRS 9 on its financial assets and financial liabilities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies adopted in the preparation of financial statements is set out below. The accounting policies have been consistently applied to all the years presented in these financial statements unless stated otherwise.

Where the accounting policies are aligned with accounting principles of International Financial Reporting Standards (hereinafter IFRS or Standards), the description of the Bank's accounting policies may contain a reference to certain standards. Unless otherwise stated, these are the standards applicable at 31 December 2015.

4.1 Financial instruments

Classification

The Bank classifies its financial assets into the following categories: loans and receivables, financial assets available for sale, financial assets at fair value through profit or loss and financial assets held to maturity. The classification depends on the nature and purpose of the instrument acquired. The management determines the classification of financial instruments upon initial recognition.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Loans and receivables

This category comprises all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial assets available for sale

This category comprises non-derivative financial assets not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through profit or loss. Financial assets available for sale are intended to be held for an indefinite period of time, but may be sold in response to liquidity needs or changes in interest rates, foreign exchange rates, or equity prices.

Financial assets at fair value through profit or loss

This category comprises two subcategories: financial instruments held for trading and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, for short-term profit taking, or if designated as at fair value through profit or loss by management.

Financial instruments held for trading include shares (units) in investment funds.

Financial assets held to maturity

This category comprises non-derivative financial assets with fixed or determinable payments and fixed maturity not classified as loans and receivables that the Bank intends and is able to hold to maturity. Included in this category are certain debt securities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Financial instruments (continued)

Other financial liabilities

Other financial liabilities include all financial liabilities not designated as at fair value through profit or loss.

Recognition and derecognition

Purchases and sales of financial assets available for sale are recognized on the trade date, i.e. the date on which the financial instrument is delivered or transferred by the Bank. Loans and receivables, financial assets held to maturity and financial liabilities at amortized cost are recognized at the settlement date when received or issued.

The Bank derecognises financial instruments (in full or part) when the rights to receive cash flows from a financial instrument have expired or when it loses control over the contractual rights to the instrument. This occurs when the Bank has transferred substantially all the risks and rewards of ownership to another entity or when the rights are realized, expired or are surrendered. The Bank derecognizes a financial liability only when the liability ceases to exist, i.e. it is discharged, cancelled or expired. If the terms of a financial liability change, the Bank will derecognise the liability and simultaneously recognise a new financial liability with new terms and conditions.

Realized gains and losses from the sale of financial instruments are determined using the weighted average cost method.

Initial and subsequent measurement

Available-for-sale financial assets, loans and receivables, held-to-maturity financial assets and liabilities are recognised initially at fair value plus transaction costs directly attributable to the acquisition or issuance of financial assets or financial liabilities.

Financial assets or liabilities at fair value through profit or loss are recognised initially at fair value, with the transaction costs recognised immediately in profit or loss.

The Bank recognises financial assets available for sale and financial assets or liabilities at fair value through profit or loss subsequently at fair value, without any deduction for transaction costs.

Loans and receivables and held-to-maturity investments as well as financial liabilities not designated at fair value through profit or loss are measured at amortised cost using effective interest rate.

Gains and losses

Gains or losses arising from a change in the fair value of available-for-sale financial assets are recognised directly in the fair value reserve within equity and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange differences, interest income and amortisation of premium or discount on available-for-sale monetary assets are recognised in profit or loss. When an asset available for sale is sold or otherwise disposed of, any cumulative gains or losses on the instrument are transferred to profit or loss.

Unrealised gains and losses arising from changes in fair value of financial assets at fair value through profit or loss, as well as gains and losses realised on such assets and liabilities when they are sold or otherwise disposed of are included in profit or loss. Interest earned while holding those instrument is included in interest income, and dividends are recognised as dividend income and presented in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Financial instruments (continued)

Gains or losses arising from financial assets and financial liabilities carried at amortized cost are included in the income statement over the period of amortization. Gains or losses can also be recognized in profit and loss when the financial instrument is derecognized or impaired.

Fair value measurement of financial instruments

Financial instruments carried at fair value are classified into three-level fair value measurements according to the IFRS fair value hierarchy. Level 1 (based on closing prices on regulated markets), Level 2 (based on valuation techniques using inputs observable on the market), and Level 3 (fair value determined using other available data).

Impairment of financial assets

Impairment of assets identified as impaired

Financial assets are reviewed at each financial statements date to determine whether there is objective evidence of impairment. If any such indication exists, the recoverable amount of an item is estimated.

Individually significant financial assets are tested for impairment on an individual basis. Remaining financial assets are reviewed on a collective basis, in accordance with the relevant CNB regulations. Financial assets not identified as impaired are included in the impairment test for the purpose of a collective assessment.

The Bank first assesses whether objective evidence of impairment exists individually for assets that are individually significant (mainly corporate exposures) and collectively for assets that are not individually significant (mainly retail exposures). However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics.

The Bank estimates impairment losses in cases where it judges that the observable data indicate the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers and adverse changes in the economic conditions in which borrowers operate, or in the value or enforceability of security, where these changes can be correlated with defaults.

The recoverable amount of financial assets measured at amortised cost is calculated as the present value of the expected future cash flows, discounted at the instrument's original interest rate. Short-term balances are not discounted. The carrying amounts of assets are impaired through an allowance account, and the impairment losses are recognised in the income statement.

Impairment of assets not identified as impaired

In addition to impairment of assets identified as impaired, the Bank recognizes impairment in profit or loss in respect of exposures that are not identified as impaired at total amount of 1 % of total exposures, in accordance with the accounting regulations of the CNB.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents include cash and current accounts with the Croatian National Bank with an original maturity of up to 90 days as well as balances with other banks, net of any provision for impairment and uncollectible amounts and items in process of collection.

Debt securities

Debt securities that the Bank holds for the purpose of short-term profit-taking are classified as assets available for sale and carried at fair value.

Placements with banks

Placements with banks are classified as loans and receivables and measured at amortised cost less provision for impairment.

4.2 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is also recognised in equity or other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the financial statements date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates in effect at the balance sheet date.

Deferred taxes are not discounted and are classified in the balance sheet as non-current assets and/or non-current liabilities. Deferred tax assets are recognised only to the extent that it is probable that the related tax benefit will be realised. At each financial statements date, the Bank reviews the unrecognised contingent tax assets and the carrying amount of the recognised tax assets.

4.3 Property and equipment

Items of property and equipment are recognised at historical cost or revalued amount less accumulated depreciation and accumulated impairment losses.

Depreciation is provided on a straight-line basis so as to write down the cost over the estimated useful life of an asset. Land and assets under construction are not depreciated.

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial statements date. Where the net carrying amount of an asset exceeds its recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal are determined as the difference between the proceeds and the net carrying amount and included in the income statement.

Depreciation is provided on a straight-line basis over the estimated useful life of an asset as follows:

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Property and equipment (continued)

	2015	2014
Buildings	2.50%	2.50%
Computers	25%	25%
Furniture and equipment	10% - 20%	10% - 20%
Motor vehicles	25%	25%
Other tangible assets not mentioned above	5% – 10%	5% – 10%

4.4 Intangible assets

Intangible assets are recognised at cost less accumulated amortization and impairment losses. Development costs are capitalized if all the requirements specified in IAS 38 'Intangible Assets' are met. Amortisation is provided on a straight-line basis over the estimated useful life of an intangible asset.

Amortisation is provided on a straight-line basis over the estimated useful life of an asset as follows:

	2015	2014
Intangible assets (other)	10%–20%	10%–20%
Intangible assets - software	20%–25%	10%–25%

4.5 Foreclosed assets

For assets acquired in lieu of uncollected receivables the Bank assesses the marketability and only marketable assets, the value of which can be measured reliably, are recognised as assets in the statement of financial position. Such assets are stated at the lower of the cost of related outstanding receivables and the current fair value of that asset. Bank's intention is mainly to sell such assets (such assets are not amortised or held it to earn rentals (such assets are disclosed within Note 21 Investment property).

4.6 Investment property

Investment properties are properties which are held by the Bank either to earn rentals or for capital appreciation.

Investment property is measured initially at cost. At subsequent measurement of investment property, the Bank applies the fair value model.

4.7 Impairment of non-financial assets

Intangible assets that have an indefinite useful life not subject to amortisation and are tested annually for impairment. Depreciable assets are reviewed for impairment whenever events or changes in the circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is determined as the difference between the carrying amount of an asset and its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7. Impairment of non-financial assets (continued)

Non-financial assets other than goodwill that suffered an impairment loss are reviewed for possible reversal of the impairment at each reporting date.

Property, plant and equipment as well as intangible assets are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recovered.

When the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of property, plant and equipment and intangible assets carried at acquisition cost.

4.8 Provisions for liabilities and charges

The Bank recognizes provisions when it has a present legal or constructive obligation as a result of past events and if is probable that it will have an outflow to settle these obligations whose amount can be reliably estimated.

Provisions for liabilities and charges are maintained at a level which Management believes is adequate to absorb probable future losses. Management determines the adequacy of the provision based upon reviews of individual items, current economic conditions, the risk characteristics of the various categories of transactions and other relevant factors.

When the outflow of economic benefits to settle the obligations is no longer probable or less than the estimated provision is reversed. Provisions are released only for those costs which are originally recognized.

4.9 Employee benefits

The Bank pays contributions to pension insurance funds on a mandatory, contractual basis, in accordance with the law. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they arise.

The Bank recognises a provision for bonuses when there is a constructive obligation resulting from a contract or past practice. Furthermore, the Management recognises accrued benefits on the basis of annual vacation days outstanding at the date of the financial statements.

In calculating provisions for severance payments and jubilee rewards, discounted expected future cash flows arising from the liabilities is preformed, using discount rates that, in the opinion of management, best represent the time value of money.

4.10 Share capital and reserves

Share capital is denominated in the Croatian kunas and stated at nominal value.

4.11 Accumulated losses

If the Bank recognises a loss for the financial year, it is transferred to reserves.

4.12 Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognized in the income statement as they accrue, including those measured at amortized cost and those available for sale, using the effective interest rate method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating interest income or expense over the relevant period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Interest income and expense (continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation inputs include all fees and percentage points paid or received between the parties to the contract that are included in the effective interest rate, as well as transaction costs and all other premiums or discounts. The resulting income and expenses are included in profit or loss within interest income and income expense respectively.

They also include fees and commissions on loans and advances to customers as well as on borrowings from other banks.

4.13 Fee and commission income and expense

Fee and commission income comprises mainly fees received from customers for loans, guarantees, letters of credit and other services provided by the Bank. Fees are recognised as income upon the maturity date of services.

Fee and commission expense consist of fees paid to licensed banks for payment services provided in the foreign exchange operations, as well as to the Financial Agency services (FINA) for domestic payments.

4.14 Foreign currencies

Transactions in foreign currencies are translated into Croatian kunas at the rates of exchange applicable at the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are retranslated at the exchange rate in effect at the financial statements date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates applicable at the dates when the fair values were determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the transaction date but are not retranslated at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currencies and classified as available for sale are analysed as the difference between the exchange differences arisen from changes in the security's amortised cost and other changes in the net carrying amount of the security. Exchange differences are recognised in profit or loss as part of exchange gains and losses on revaluation of monetary assets and liabilities.

4.15 Contingent liabilities and commitments

In the ordinary course of business, the Bank enters into commitments which are maintained on off-balance-sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments. Such financial commitments are recognised in the statement of financial position if and when they become payable.

4.16 Rents

The Bank rents office space to perform operations that are treated as operating leases. The underlying asset is not recognized in the statement of financial position, and payments under operating leases are recognized in the income statement or loss on a straight-line basis over the lease term.
Rental income under operating leases Bank recognizes in the profit or loss on a straight-line basis over the lease term.

4.17 Borrowings

Borrowings are recognized initially at fair value net less costs. Subsequent valuation is carried at amortized cost and the difference between proceeds less transaction costs, and the amount payable at maturity is recognized in the statement of profit or loss during the period of the borrowings as interest expense. The amount was subsequently reduced by the deferred part of the fees paid during the loan approval.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Activities in the name and on behalf of third parties

The Bank manages assets on behalf of legal persons. These amounts do not represent the Bank's assets and are excluded from the statement of financial position. For the services provided the Bank charges a fee which is recognized in the statement of profit or loss.

4.19 Reporting by business segments

A business segment is an integral part of the Bank that engages in business activities from which it may earn revenues or expenses, including transactions with other parts of the Bank. The bank in 2015 did not apply the internal transfer pricing when determining business performance of individual segments.

5. Interest income

5.1 Interest income analysed by type of customer

in thousands of HRK

	2015	2014
Companies	93,489	87,617
Individuals	28,707	21,835
Government units	24,163	28,070
Banks and other financial institutions	1,417	1,134
Other organisations	1,258	3,556
Total	**149,034**	**142,212**

Included in interest income is income from partly recoverable placements in the amount of HRK 11.1 million (2014: HRK 13.9 million), of which HRK 4.9 million (2014: HRK 10.3 million) relate to legal persons, and the remaining HRK 6.2 million (2014: HRK 3.6 million) to individuals.

5.2 Interest income analysed by portfolio

in thousands of HRK

	2015	2014
Loans and receivables	127,572	124,975
Financial assets available for sale	19,540	16,879
Financial assets held to maturity	1,922	358
Total	**149,034**	**142,212**

6. Interest expense

6.1 Interest expense analysed by source

in thousands of HRK

	2015	2014
Individuals	44,848	41,420
Banks and other financial institutions	15,380	18,897
Companies	10,265	10,141
Savings deposit insurance costs	5,440	4,514
Non-residents	3,902	4,317
Government units	2,584	2,497
Croatian National Bank	206	-
Other organisations	341	331
Total	**82,966**	**82,117**

6. Interest expense (continued)

6.2 Interest expense analysed by portfolio

	in thousands of HRK	
	2015	**2014**
Financial liabilities at amortised cost	77,526	77,602
Savings deposit insurance costs	5,440	4,515
Total	**82,966**	**82,117**

7. Fee and commission income

		in thousands of HRK
	2015	**2014**
Companies	8,172	6,141
Individuals	3,962	3,616
Government units	208	199
Financial institutions	657	365
Non-profit organisations	278	269
Non-residents	80	66
Total	**13,357**	**10,656**

8. Fee and commission expense

		in thousands of HRK
	2015	**2014**
Service fees and commissions to FINA	2,386	2,479
Domestic partners	2,275	2,370
Foreign banks	198	214
Republic of Croatia	35	-
Total	**4,894**	**5,063**

9. Net financial gains

in thousands of HRK

	2015	2014
Net gain on financial assets available for sale	4,115	6,445
Net gain on financial assets at fair value through profit or loss	270	18
Total	**4,385**	**6,463**

10. Net income from exchange differences

in thousands of HRK

	2015	2014
Income from foreign currency trading	4,057	3,943
Net foreign exchange gains arising from foreign currency clause	652	2,017
Net foreign exchange gains/(losses) on translation of provision for potential credit losses	290	(231)
Net foreign exchange losses on translation	(1,371)	(1,728)
Total	**3,628**	**4,001**

11. Other operating income

in thousands of HRK

	2015	2014
Rental income	4,520	4,438
Net gains from the sale of property, plant and equipment, and foreclosed assets	1,070	4,054
Suspended interest	224	202
Other income	476	318
Total	**6,290**	**9,012**

12. Other operating expenses

	in thousands of HRK 2015	2014
Net salaries	(19,587)	(19,630)
Contributions, taxes and surtaxes	(14,653)	(14,659)
Other staff-related costs	(3,054)	(2,401)
Net provision for long-term employee benefits (jubilee awards and termination benefits) (Note 30)	676	443
Total staff-related costs	**(36,618)**	**(36,247)**
Amortization and depreciation (Note 22)	(3,343)	(3,520)
Total amortization and depreciation	**(3,343)**	**(3,520)**
Materials and services	(22,082)	(25,140)
Marketing expenses	(720)	(1,019)
Judicial and administrative fees	(758)	(884)
Other	(1,387)	(1,060)
Total other operating expenses	**(24,947)**	**(28,103)**
Total	**(64,908)**	**(67,870)**

At 31 December 2015, the Bank employed 219 persons (31 December 2014: 228 employees).

Personnel expenses include HRK 5,730 thousand (2014: HRK 5,896 thousand) of mandatory pension contributions paid into mandatory pension funds. The contributions are determined at a certain percentage of the employees' gross salaries.

12.1 Rental costs

Rental costs mostly relates to rental costs of office space in which the Bank carries out its activities.

31 December 2015

In thousands of HRK

	Up to 1 year	1 to 3 years	3 to 5 years
Rental cost	5,043	5,270	3,362

31 December 2014

In thousands of HRK

	Up to 1 year	1 to 3 years	3 to 5 years
Rental cost	7,506	7,678	4,316

13. Impairment losses and provisions

	2015	2014
	in thousands of HRK	
Impairment losses on loans and advances to customers (Note 20.2)	(18,879)	(9,178)
Impairment losses on foreclosed assets (Note 23)	(2,469)	(3,180)
Provisions and impairment losses on loans and other receivables, on a collective basis (Note 20.2)	(804)	(1,594)
Other provisions	(15)	(9)
Impairment losses on other assets (including provisions for unidentified losses on a collective basis)	(937)	(2,159)
Provisions for identified losses on a collective basis for contingent liabilities (Note 30)	22	5
Impairment losses on interest receivable (Note 20.2)	270	74
Net change in provision for litigation against the Bank (Note 30)	(1,683)	1,984
Provisions for unidentified losses on a collective basis for contingent liabilities (Note 30)	951	(1,148)
Subsequently recovered placements written-off as uncollectible in prior years	1,881	3,047
Total	**(21,663)**	**(12,158)**

14. Income tax

Movements in deferred tax assets *in thousands of HRK*

	Deferred fee income /(expenses) included in effective interest rate on given loans/(borrowings)	Deferred income per impairment of foreclosed assets	Deferred income from unrealised change in the fair value of available-for-sale financial assets	Tax losses	Total
At 1 January 2014	2,512	-	-	20,249	22,761
Recognised in profit or loss	97	-	-	(1,314)	(1,217)
Recognised in equity	-	-	-	-	-
At 31 December 2014	**2,609**	-	-	**18,935**	**21,544**
Recognised in profit or loss	(456)	910	-	(17,851)	(17,397)
Recognised in equity and other comprehensive income	-	-	99	-	99
At 31 December 2015	**2,153**	**910**	**99**	**1,084**	**4,246**

Deferred tax assets recognised on tax losses available for carry forward

The table below shows the tax effect of deferred tax assets in respect of tax losses carried forward and expected to be utilised in the next 5 years from the end of the reporting period in which they were generated.

14. Income tax (continued)

The availability of tax losses available for offset against taxable income in future periods, not recognised as deferred tax assets were as follows:

	2015 Total tax loss	2015 Effect of tax losses
31 December 2016	2,250	450
31 December 2017	3,170	634
	5,420	**1,084**

Reconciliation between the accounting and tax results is shown as follows:

	2015	2014
Accounting profit before taxation	**2,263**	**5,136**
Effect of income tax at the rate of 20% (**2014:** 20%)	453	1,027
Effect of tax non-deductible expenses	1,698	1,363
Effect of non-taxable income	(1,152)	(1,284)
Utilisation of tax losses brought forward	(999)	(1,106)
Effect of change in estimated utilisation of tax losses available for carry forward	(16,398)	(111)
Income tax	**(17,397)**	**(1,217)**

Unrecognised deductible temporary differences, unused tax losses and tax approval:

in thousands of HRK

Available for transfer up to	Tax loss	The amount of unrecognised deferred tax assets
2018	11,010	2,202
Total	**11,010**	**2,202**

The possibility of using unrecognized tax approvals expires in 2018.

The amount of unused tax losses are not recognized as deferred tax assets in the statement of comprehensive income because it is not likely that there will be sufficient taxable income to use these deferred tax assets.

15. Cash

	2015	*in thousands of HRK* 2014
Current account balance	21,965	12,161
Cash in hand:		
- in HRK	17,891	21,774
- in foreign currencies	9,682	11,631
Cash on foreign currency accounts with foreign banks	21,501	20,757
Cash on foreign currency accounts with domestic banks	33,324	21,635
Checks and other assets in course of collection	1	19
Provisions for impairment for unidentified losses on a collective basis	(768)	(546)
Total	**103,596**	**87,431**

16. Receivables from the Croatian National Bank

	2015	*in thousands of HRK* 2014
Obligatory reserve		
- in HRK	195,919	183,716
- in foreign currencies	32,502	26,838
Provisions for impairment for unidentified losses on a collective basis	*(2,284)*	*(2,106)*
Total	**226,137**	**208,448**

The CNB imposes a requirement to banks to calculate an obligatory reserve, which is required to be deposited with the CNB and held in the form of other liquid receivables.

The obligatory reserve requirement as at 31 December 2015 was 12 % (2014: 12 %) of deposits, borrowings and issued debt securities denominated in kunas and foreign currencies.

As at 31 December 2015, the required rate for the part of the obligatory reserve calculated based on kuna liabilities to be deposited with the CNB amounted to 70 % (2014: 70 %), whereas the remaining 30 percent (2014: 30%) could be held in the form of other liquid receivables. This includes the part of foreign currency obligatory reserve required to be held in HRK. The portion of the reserve required to be held in foreign currencies is kept in the form of other liquid receivables. Seventy-five percent (75%) of the part of the obligatory foreign-currency reserve funds are required to be held in HRK and are included into the HRK-denominated portion of the obligatory reserve.

17. Placements with banks

	2015	*in thousands of HRK* 2014
Deposits with foreign banks	46,484	36,310
Deposits with domestic banks	1,985	2,237
Accrued interest	1	7
Provisions for impairment for unidentified losses on a collective basis	*(485)*	*(386)*
Total	**47,985**	**38,168**

18. Financial assets available for sale

	2015	*in thousands of HRK* 2014
Treasury bills /i/	520,302	481,380
HRK-denominated bonds /ii/	77,145	41,385
Foreign-currency denominated bonds /iii/	76,552	68,223
Corporate bills	774	774
Shares /iv/	439	439
Provisions for impairment for unidentified losses on a collective basis	*(774)*	*(774)*
Accrued interest	3,294	2,203
Total	**677,732**	**593,630**

18. Financial assets available for sale (continued)

In thousands of HRK

	Treasury bills	Bonds	Shares	Bills of exchange	Funds	Accrued interest	TOTAL
At 01 January 2015	**481,380**	**109,608**	**439**	**-**	**-**	**2,203**	**593,630**
Increase	778,315	129,895	-	-	-	1,091	909,301
Changes in fair value	-	(3,103)	-	-	-	-	(3,103)
Decrease	739,393	82,703	-	-	-	-	822,096
At 31 December 2015	**520,302**	**153,697**	**439**	**-**		**3,294**	**677,732**
							In thousands of HRK
At 01 January 2014	**184,779**	**75,852**	**439**	**70,695**	**41**	**1,689**	**333,495**
Increase	515,521	122,023		-	-	514	638,059
Changes in fair value	-	1,026	-	-	-		1,026
Decrease	218,920	89,293	-	70,695	41		378,950
At 31 December 2014	**481,380**	**109,608**	**439**	**-**	**-**	**2,203**	**593,630**

As of 31 December 2015 Bank has pledged, based on received repo loans of the Croatian National Bank in the amount of HRK 130,000 thousand, treasury bills worth HRK 162,391 thousand (2014.: HRK 98,920 thousand of treasury bills and bonds based on received deposits).

/i/ The treasury bills relate to:
- HRK 220 million (nominal) of HRK treasury bills issued by the Croatian Ministry of Finance with a yield of 1.496% - 1.504%.
- EUR 33.80 million (nominal) of foreign currency treasury bills issued by the Croatian Ministry of Finance with a yield of 1.95%
- EUR 6.00 million (nominal) of treasury bills issued by the Croatian Ministry of Finance and tied under a currency protection clause, with a yield of 0.201% - 0.250%.

/ii/ HRK-denominated bonds comprise the following:
- HRK 12.00 million (nominal) in respect of a bond issued by the Croatian Ministry of Finance that matures on 10 July 2018, with a nominal interest rate of 5.250%
- HRK 15.00 million (nominal) in respect of a bond issued by the Croatian Ministry of Finance that matures on 8 February 2017, with a nominal interest rate of 4.750%
- HRK 4.58 million (nominal) in respect of a bond issued by Erste Banka that matures on 23 November 2017, with a nominal interest rate of 5.875%
- HRK 4.78 million (nominal) in respect of a bond issued by Hrvatska pošta that matures on 10 November 2019, with a nominal interest rate of 5.125%
- HRK 4.50 million (nominal) in respect of a bond issued by the Croatian Ministry of Finance that matures on 9 July 2025, with a nominal interest rate of 4.500%
- HRK 12.80 million (nominal) in respect of a bond issued by the Croatian Ministry of Finance that matures on 10 July 2018, with a nominal interest rate of 4.250%

18. Financial assets available for sale (continued)

/ii/ The foreign-currency denominated bonds comprise the following:

- EUR 3.00 million (nominal) in respect of a bond issued by the Croatian Ministry of Finance that matures on 30 May 2022, with a nominal interest rate of 3.875%
- EUR 2.00 million (nominal) in respect of a bond issued by the Croatian Ministry of Finance that matures on 11 March 2025, with a nominal interest rate of 3.000%
- EUR 3.00 million (nominal) in respect of a bond issued by the Croatian Ministry of Finance that matures on 9 July 2018, with a nominal interest rate of 5.875%
- EUR 1.00 million (nominal) in respect of a bond issued by the Croatian Ministry of Finance that matures on 3 September 2024, with a nominal interest rate of 2.950%
- EUR 4.30 million (nominal) in respect of a bond issued by Zagrebački holding that matures on 10 July 2017, with a nominal interest rate of 5.500%

/iii/ The bonds with a currency protection clause comprise the following:

- EUR 3.00 million (nominal) in respect of a bond issued by the Croatian Ministry of Finance that matures on 10 July 2024, with a nominal interest rate of 5.750%
- EUR 0.10 million (nominal) in respect of a bond issued by the Croatian Ministry of Finance that matures on 22 July 2022, with a nominal interest rate of 6.500%

/iv/ The shares relate to the Bank's equity interest in companies and financial institutions below 20%.

The shares are not quoted and comprise the following:

- 1,044 units of the Croatian Register of Debtors (HROK)
- 85 shares of Tržište novca Zagreb (TNZ-R-A).

The fair value hierarchy of financial assets

Reliable indicators of the fair value are market prices in an active market. Available market prices are used for valuation at fair value (Level 1 of the fair value hierarchy).

If the market is not liquid valuation is calculated based on available market indicators and such instruments are classified as Level 2 of the fair value hierarchy.

Determining the fair value of financial assets and liabilities for which there are no observable market price requires the use of valuation techniques. The fair value of infrequently traded financial instruments with insufficiently observable prices is less objective; therefore, the calculation of the fair value of each financial asset or liability requires identifying and considering all risks affecting the specific instrument.

When calculating fair value, the Bank takes into account the rules of IFRS fair value hierarchy that reflect the significance of inputs used in the valuation process. Each instrument is individually assessed in detail.

If market prices are not available, the fair value of the instruments are valued using valuation models based on observed market data. If all significant inputs of valuation model for instruments are available, instruments are classified within level 2 of the fair value hierarchy.

The levels of the fair value hierarchy are determined based on the lowest level of input data significant for determining the fair value of the instrument. The levels according to the fair value hierarchy presented below relate to financial assets measured and presented on the balance sheet at fair value.

18. Financial assets available for sale (continued)

in thousands of HRK

	2015			2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Foreign-currency bonds	76,552	-	-	68,223	-	-
HRK bonds	77,145	-	-	41,385	-	-
Treasury bills	-	520,302	-	-	481,380	-
Shares	-	-	439	-	-	439
Total	**153,697**	**520,302**	**439**	**109,608**	**481,380**	**439**

Financial instruments carried at fair value are categorised into three levels of the IFRS fair value hierarchy, as follows:

- Level 1 - instruments that are valued using quoted prices in active markets, liquid markets. These instruments include: liquid debt securities that are traded on liquid stock markets and shares in investment funds.
- Level 2 – Instruments measured using valuation techniques using observable market data. The fair value of those instruments is determined by reference to similar instruments traded on active markets, or where all inputs used in a particular valuation technique are available on the market. These instruments include less liquid debt securities that are valued based on a model that uses Level 1 input.
- Level 3 – instruments measured using valuation techniques that are based on market data not readily available in the market. These are instruments whose fair value cannot be determined directly by reference to available market information and for whose value calculation different valuation techniques are used. These instruments include illiquid debt securities and illiquid equity securities.

19. Assets held to maturity

in thousands of HRK

	2015	2014
Foreign-currency bonds	24,550	14,810
Domestic currency bills of exchange	19,065	41,784
HRK bonds	4,763	4,760
Provisions for impairment for unidentified losses on a collective basis	(492)	(614)
Accrued interest	693	436
Total	**48,579**	**61,176**

20. Loans and advances to customers

20.1 Analysis by type of client

Analysis by type of client (including accrued interest and provision for interest)

		in thousands of HRK
	2015	**2014**
Individuals		
Overdrafts on transaction accounts	13,424	13,815
Mortgage loans	9,175	9,562
Housing loans	52,520	41,514
Cash loans	134,772	107,913
Loans for agriculture	31,326	36,201
Other loans	125,735	144,043
Total loans to individuals	**366,952**	**353,048**
Provisions for impairment for identified losses	*(28,467)*	*(42,103)*
Provisions for impairment for unidentified losses on a collective basis	*(3,100)*	*(2,701)*
Interest impairment provision - individuals	*(481)*	*(671)*
Total provisions for impairment - individuals	*(32,048)*	*(45,475)*
Accrued interest	2,541	2,415
Total loans to individuals, net	**337,445**	**309,988**
Legal persons (Corporate customers)		
Overdrafts on transaction accounts	37,626	34,099
Loans for payments under guarantees	8,427	14,729
Syndicated loans	816,578	717,507
Working-capital loans	148,465	201,285
Investment loans	516,840	623,706
Other loans	233,912	199,690
Total loans to legal persons	**1,761,848**	**1,791,016**
Provisions for impairment for identified losses	*(201,986)*	*(189,876)*
Provisions for impairment for unidentified losses on a collective basis	*(14,252)*	*(14,015)*
Interest impairment provision - legal persons	*(1,662)*	*(2,935)*
Total provisions for impairment	***(217,900)***	***(206,826)***
Accrued interest	11,110	12,316
Total loans to legal persons, net	**1,555,058**	**1,596,506**
Total loans	***2,142,451***	***2,158,795***
Total loan provision	*(249,948)*	*(252,301)*
Total net sales	**1,892,503**	**1,906,494**

20. Loans and advances to customers (continued)

As at 31 December 2015, the total gross exposure arising from partly recoverable and non-recoverable loans was HRK 413,794 thousand (2014: HRK 483,348 thousand), and the associated impairment losses amounted to HRK 230,453 thousand (2014: HRK 483,348 thousand).

20.2 Changes in impairment losses and provision for contingent losses

Changes in impairment losses and provision for contingent losses are as follows:

in thousands of HRK

	2015			2014		
	Impairment	**Specific provisions for unidentified losses on a collective basis**	**Total**	**Impairment**	**Specific provisions for unidentified losses on a collective basis**	**Total**
Balance at 1 January	**235,585**	**16,716**	**252,301**	**228,281**	**13,857**	**242,138**
Net impairment losses i.e. provisions (Note 13)	18,879	636	19,515	9,178	2,859	**12,037**
Net impairment losses on interest receivable (Note 13)	(270)	-	(270)	(74)	-	**(74)**
Exchange differences	292	-	292	261	-	**261**
Write-offs	(21,890)	-	(21,890)	(2,061)	-	**(2,061)**
Balance at 31 December	**232,596**	**17,352**	**249,948**	**235,585**	**16,716**	**252,301**

Under the applicable legislation, the Bank has to form reserves for unidentified losses on a loan portfolio basis based on prior experience. Taking into account the legal provisions, the amount of the reserves by the Bank's policies cannot be less than 1% of non-risk assets and 1% of non-risk commitments and contingencies as at 31 December 2015 (2014: 1% of non-risk assets and 1% of non-risk commitments and contingencies).

21. Investment property

in thousands of HRK

	2015	2014
Investment property	35,696	35,696
Total	**35,696**	**35,696**

Investment properties are properties which are held by the Bank either to earn rentals or for capital appreciation.

Investment property is measured initially at cost. Fair value reflects income from operating leases and other assumptions otherwise considered by other market participant in determining the fair value of investment property under the current market conditions. The reported fair value reflects the market conditions prevailing for an asset at the same location and in the same condition under a similar lease agreement.

21. Investment property (continued)

Investment property contains one property on the basis of which the Bank earns income from the lease. Contract with the tenant was concluded for an indefinite period and because very good business relationship of many years and the attractiveness of the location, the Bank does not expect contract termination in the coming period of 5 years.

21.1 Lease income and expense

31 December 2015

in thousands of HRK

	Up to 1 year	1 to 3 years	3 to 5 years
Received lease payments - income	4,212	8,424	8,424

31 December 2014

in thousands of HRK

	Up to 1 year	1 to 3 years	3 to 5 years
Received lease payments - income	4,218	8,436	8,436

21.2 Fair value hierarchy

in thousands of HRK

	Level 1	Level 2	Level 3	Total
Balance at 31 December 2014				
Investment property	-	-	35,696	35,696
Total assets	**-**	**-**	**35,696**	**35,696**
Balance at 31 December 2015				
Investment property	-	-	35,696	35,696
Total assets	**-**	**-**	**35,696**	**35,696**

21. Property and equipment, and intangible assets

in ths. of HRK

	Land and buildings	Furniture and vehicles	Equipment and other tangible assets	Tangible assets under construction	Total tangible assets	Intangible assets	Intangible assets under development	Total intangible assets	Grand total
Cost									
Balance at 31 December 2013	**33,261**	**9,750**	**26,023**	**-**	**69,034**	**28,704**	**-**	**28,704**	**97,738**
Additions	68	57	524	14	**663**	1,205	-	**1,205**	**1,868**
Disposals and retirements	-	(955)	(2,670)	-	**(3,625)**	(2,255)	-	**(2,255)**	**(5,880)**
Balance at 31 December 2014	**33,329**	**8,852**	**23,877**	**14**	**66,072**	**27,654**	**-**	**27,654**	**93,726**
Additions	-	18	600	30	**648**	2,935	270	**3,205**	**3,853**
Disposals and retirements	(5,182)	(467)	(1,696)	-	**(7,345)**	(2,984)	-	**(2,984)**	**(10,329)**
Balance at 31 December 2015	**28,147**	**8,403**	**22,781**	**44**	**59,375**	**27,605**	**270**	**27,875**	**87,250**
Accumulated depreciation/amortisation									
Balance at 31 December 2013	**16,918**	**8,168**	**23,027**	**-**	**48,113**	**25,989**	**-**	**25,989**	**74,102**
Charge for the year 2014	798	381	951	-	**2,130**	1,390	-	**1,390**	**3,520**
Disposals and retirements	-	(955)	(2,662)	-	**(3,617)**	(2,255)	-	**(2,255)**	**(5,872)**
Balance at 31 December 2014	**17,716**	**7,594**	**21,316**	**-**	**46,626**	**25,124**	**-**	**25,124**	**71,750**
Charge for the year 2015	714	368	815	-	**1,897**	1,446	-	**1,446**	**3,343**
Disposals and retirements	(2,615)	(462)	(1,666)	-	**(4,743)**	(2,984)	-	**(2,984)**	**(7,727)**
Balance at 31 December 2015	**15,815**	**7,500**	**20,465**	**-**	**43,780**	**23,586**	**-**	**23,586**	**67,366**
Net book value at 31 December 2013	**16,343**	**1,582**	**2,996**	**-**	**20,921**	**2,715**	**-**	**2,715**	**23,636**
Net book value at 31 December 2014	**15,613**	**1,258**	**2,561**	**14**	**19,446**	**2,530**	**-**	**2,530**	**21,976**
Net book value at 31 December 2015	**12,332**	**903**	**2,316**	**44**	**15,595**	**4,019**	**270**	**4,289**	**19,884**

During the year, the Bank retired certain items of property and equipment with a total cost of HRK 4,978 thousand (2014: HRK 5,139 thousand) and sold a portion in the amount of HRK 5,351 thousand (2014: HRK 741 thousand).

At 31 December 2015 no freehold assets of the Bank were pledged as collateral, nor in 2014.

23. Foreclosed assets

Changes in foreclosed assets for uncollected receivables are as follows:

in thousands of HRK

	2015	2014
Balance at 1 January	**28,842**	**25,810**
Increase based on foreclosing assets	1,016	13,534
New provisions/impairment made (Note 13)	(2,470)	(3,180)
Foreclosed assets sold	(2,849)	(7,322)
Balance	**24,539**	**28,842**

In 2015 the Bank foreclosed assets in the amount of HRK 2,849 thousand (2014: HRK 7,322 thousand) and realised a gain in the amount of HRK 1,070 thousand (2014: HRK 4,054 thousand).

In 2015 the Bank changed the manner of reporting foreclosed assets by electing to report them as off-balance sheet items until such time a decision on the settlement is issued. According to the previous practice, the assets were recognised on the balance sheet based on a decision on the award of assets. Hence, if the effect of the change in the presentation of foreclosed assets would be reflected in 2014 as well, the balance of foreclosed assets would be lower by HRK 2,454 thousand. The Bank considers that this change does not have a material impact on the financial statements.

24. Other assets

in thousands of HRK

	2015	2014
Receivables from the state	17,759	17,927
Trade receivables	9,745	12,923
Fees and commissions receivable	4,109	4,031
Other receivables from employees	4,516	4,517
Receivables from domestic legal persons based on paid court costs	2,696	2,652
Items in course of collection	2,220	2,264
Other receivables	4,047	6,560
Provisions for unidentified losses on a collective basis	(42)	(253)
Provisions for individually identified losses	(17,380)	(16,550)
Total other assets	**27,670**	**34,071**

25. Liabilities to banks

in thousands of HRK

	2015	2014
Demand deposits		
- in HRK	22,572	17,827
- in foreign currencies	16,400	666
Total demand deposits	**38,972**	**18,493**
Term deposits		
- in HRK	69,330	84,691
- in foreign currencies	1,231	22,176
Total term deposits	**70,561**	**106,867**
Accrued interest	370	1,005
Total	**109,903**	**126,365**

26. Demand deposits

in thousands of HRK

	2015	2014
Demand deposits - individuals		
- in HRK	80,427	71,789
- in foreign currencies	86,937	68,877
Total demand deposits from individuals	**167,364**	**140,666**
Demand deposits - corporate		
- in HRK	166,958	252,917
- in foreign currencies	10,210	12,749
Total corporate deposits	**177,168**	**265,666**
Demand deposits - financial institutions		
- in HRK	1,046	1,026
- in foreign currencies	2	-
Total deposits from financial institutions	**1,048**	**1,026**
Demand deposits - government and other institutions		
- in HRK	86,958	122,924
- in foreign currencies	9,289	7,823
Total demand deposits from government and other institutions	**96,247**	**130,747**
Restricted deposits		
- in HRK	3,405	2,909
- in foreign currencies	16,487	16,907
Total restricted deposits	**19,892**	**19,816**
Deposits from foreign entities		
- in HRK	2,280	2,207
- in foreign currencies	9,277	7,604
Total deposits from foreign entities	**11,557**	**9,811**
Total	**473,276**	**567,732**

27. Term deposits

in thousands of HRK

	2015	2014
Deposits from individuals		
- in HRK	168,912	158,332
- in foreign currencies	1,351,095	1,136,426
Total term deposits from individuals	**1,520,007**	**1,294,758**
Deposits - corporate		
- in HRK	141,531	160,118
- in foreign currencies	40,194	80,592
Total corporate term deposits	**181,725**	**240,710**
Deposits - financial institutions		
- in HRK	131,833	161,855
- in foreign currencies	-	536
Total term deposits from financial institutions	**131,833**	**162,391**
Deposits - government and other institutions		
- in HRK	32,339	35,265
Total term deposits from government and other institutions	**32,339**	**35,265**
Deposits from foreign entities		
- in HRK	3,251	3,614
- in foreign currencies	135,517	128,856
Total deposits from foreign entities	**138,768**	**132,470**
Deposits from non-profit organisations - foreign-currency denominated	**76**	-
Accrued interest	27,928	33,668
Total	**2,032,676**	**1,899,262**

28. Borrowings

in thousands of HRK

	2015	2014
Croatian National Bank	130,000	-
Domestic banks	162,435	202,920
Accrued interest	291	494
Total	**292,726**	**203,414**

29. Other liabilities

in thousands of HRK

	2015	2014
Amounts due to employees	2,970	2,813
Liabilities for savings deposit insurance	1,434	1,213
Liabilities to suppliers	1,431	1,694
Deferred income and accrued expenses	1,430	5,715
Amounts owed for insured deposits of bankrupt banks /i/	1,190	16,697
Other liabilities	1,020	2,750
Fees and commissions payable	294	352
Total	**9,769**	**31,234**

/i/ The State Agency for Bank Rehabilitation is making payments of insured deposits of bankrupt banks (Credo banka and Centar banka) through the Bank. The amount payable by the Bank in 2015 under claims of insured deposit holders is HRK 1,190 thousand (2014: HRK 16,697 thousand).

In 2015 the Bank changed the presentation of Other liabilities, as it reduced the balance of loans and advance to customers by the amounts it owes in respect of overpaid loans in the amount of HK 3,423 thousand. Hence, if the effect of the changed presentation of other liabilities and consequently of loans and advances to customers would be reflected in 2014 as well, the balance of other liabilities and of loans and advances to customers would be lower by HK 1,830 thousand. The Bank considers that this change does not have a material impact on the financial statements.

30. Provisions

in thousands of HRK

	2015	2014
Provisions for judicial proceedings	6,453	5,932
Provisions for contingent liabilities and commitments	1,637	2,610
Provisions for retirement and termination benefits	-	621
Vacation accruals	72	128
Other provisions	24	10
Total	**8,186**	**9,301**

Changes in provisions are shown as follows:

in thousands of HRK

	2015	2014
Balance at 1 January	**9,301**	**12,709**
Income from reversal of provisions for legal claims against the bank (Note 13)	(2,056)	(4,417)
New provisions made for judicial proceedings (Note 13)	3,739	2,433
Changes in provisions for commitments and contingencies (Note 13)	(973)	1,143
Changes in provisions for termination benefits (Note 13)	-	551
Income from reversal of provisions for jubilee awards, termination and similar benefits	(676)	(1,192)
Changes in provisions for unused vacation days	-	128
Changes in other provisions	12	83
Changes in payments made under legal actions	(1,161)	(176)
Transferred to impairment allowance on other assets (Note 24)	-	(1,961)
Balance at 31 December	**8,186**	**9,301**

30. Provisions (continued)

In 2015 the Bank paid HRK 1,161 thousand from the provisions for judicial proceedings (2014: HRK 176 thousand). Provisions for off-balance-sheet exposure to credit risk and legal claims are recognized in profit or loss as other losses from impairment and provisions (Note 13).

31. Share capital

The only shareholder of the Bank as at 31 December 2015 and 31 December 2014 is the State Agency for Deposit Insurance and Bank Rehabilitation.

in thousands of HRK

	2015	2014
Share capital	474,600	474,600
Accumulated losses	(277,040)	(280,959)
Reserves	(395)	2,609
(Loss)/profit for the year	(15,134)	3,919
Total equity	**182,031**	**200,169**

The share capital in the amount of HRK 474,600 thousand (31 December 2014: HRK 474,600 thousand) consists of 4,746,000 shares with a nominal value of HRK 100 per share (31 December 2014: 4,746,000 shares with a nominal value of HRK 100 per share).

32. Earnings per share

in thousands of HRK

	2015	2014
(Loss) / profit for the year	(15,134)	3,919
Number of shares (in thousands)	4,746	4,746
(Loss)/earnings per share	**(3.19)**	**0.83**

33. Contingent liabilities and commitments

in thousands of HRK

	2015	2014
Guarantees	(74,797)	(47,842)
Other common risk-bearing off-balance sheet items	(50,861)	(29,121)
Revolving loans	(35,502)	(173,103)
Unbacked letters of credit	(2,356)	(7,640)
Total	**(163,516)**	**(257,706)**

34. Legal actions

More than 200 legal claims from ex-shareholders of the Bank, and around thirty legal actions on other grounds have been initiated against the Bank.

The Bank assesses the potential outflow of cash under proceedings carrying a risk of loss and forms appropriate provisions in accordance with its internal act and applicable regulations.

As at 31 December 2015, the provisions for losses from legal claims filed against the Bank amounted to HRK 6,453 thousand (2014: HRK 5,932 thousand).

Due to mentioned above, ex-shareholders of the Bank, suing the Bank for the return of shares and compensation for share cancellation, have filed more than 200 legal claims against the Bank. Until 31 December 2015 several dozens of final court decisions were issued in favour of the Bank.

Until the date of this report almost all proceedings were completed, with the majority being ruled in favour of the Bank, and only several proceedings ruled in favour of the shareholders. However, as these proceedings pertain to the ownership of shares, they do not produce a significant impact on the financial operations of the Bank. Constitutional appeals were filed in cases where the judgements were in favour of the shareholders, and the Constitutional Court made the decision to acknowledge the Bank's constitutional appeals and returned the cases to the commercial court for retrial.

35. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

in thousands of HRK

	2015	2014
Cash in hand and on current accounts with banks (Note 15)	104,364	87,977
Balances with other banks with maturities of up to 3 months (Note 17)	48,470	38,554
Total	**152,834**	**126,531**

36. Transactions with related parties

The Bank is fully (100%) owned by the State Agency for Deposit Insurance and Bank Rehabilitation (DAB). The Bank considers to be directly related to its shareholder, Supervisory Board and Management Board members and other executive management (jointly referred to as "the key management personnel"), close members of their families, companies jointly controlled or significantly influenced by the Managing Board members and close members of their families, in accordance with the definition of the related party provided in International Accounting Standard 24 "Related Party Disclosures" (IAS 24). Key management includes members of the Management Board, Department directors, directors of branches and directors of control function departments. At 31 December 2015, the key management personnel of the Bank consisted of 30 persons (2014: 32 employees).

The balances of assets and liabilities as well as income and expenses as at 31 December 2015 and 31 December 2014 and for the years then ended resulting from key transactions with related parties are as follows:

in thousands of HRK

2015	Receivables	Liabilities	Income	Expenses
DAB (sole shareholder)	11	40,939	7	5,474
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	25	597	14	11,124
Long-term benefits (loans, deposits and other benefits)	8,372	2,181	301	60
State in narrow and broad definitions	1,691,561	352,370	70,794	11,832
Total	**1,699,969**	**396,087**	**71,116**	**28,490**

in thousands of HRK

2014	Receivables	Liabilities	Income	Expenses
DAB (sole shareholder)	73	21,783	84	4,555
Key management personnel				
Short-term benefits (bonuses, salaries and fees)	234	273	28	9,028
Long-term benefits (loans, deposits and other benefits)	5,178	1,401	160	66
State in narrow and broad definitions	1,588,776	188,960	74,774	5,999
Total	**1,594,261**	**212,417**	**75,046**	**19,648**

36. Transactions with related parties (continued)

Key management personnel do not hold any of the Bank's shares. Loans and receivables from customers include HRK 7,867 thousand (2014: HRK 5,097 thousand) of loans to key management personnel. During the year, the Bank collected interest in the amount of HRK 265 thousand (2014 HRK 187 thousand) from loans and receivables in respect of key management personnel, which were approved at annual interest rates ranging from 3.80% to 7.33% (2014: 3.50% - 8.00%). The balance of current accounts and deposits of customers includes term deposits of key management personnel in the amount of HRK 1,641 thousand (2014: HRK 1,399 thousand). The interest paid on those deposits in 2015 amounts to HRK 62 thousand (2014: HRK 66 thousand), and the interest rates ranged from 0.10% to 3.85% (2014: 2.10% – 4.30%).

Expenses in respect of the Supervisory Board for 2015 amount to HRK 411 thousand (2014: HRK 290 thousand).

Transactions with the state in narrow and broad definitions comprise transactions with:

- the Central Government,
- local governments,
- public non-financial companies,
- public insurance companies and pension funds,
- public auxiliary financial institutions,
- other monetary financial institutions of the state,
- other public financial intermediaries.

As at 31 December 2015, the exposure to the state in narrow and broad definitions comprises the exposure to state-owned company Hrvatske autoceste d.o.o. in the amount of HRK 480,028 thousand (2014: HRK 479,767 thousand) in respect of a syndicated loan (2014: HRK 353,611 thousand). The Bank is also exposed to HRK 6,469 thousand owed by the Croatian Bank for Reconstruction and Developed (2014: HRK 6,536 thousand).

The Bank also has an exposure under a syndicated loan to state-owned company Hrvatske ceste in the amount of HRK 218,288 thousand (2014: HRK 229,261 thousand) and under an investment loan to the Restructuring and Sale Centre in the amount of HRK 165,720 thousand (2014: HRK 165,660 thousand). The Bank's exposure to HŽ Cargo amounts to HRK 99,926 thousand (2014: HRK 100,013 thousand). The Bank is exposed to amounts owed by Borovo d.d. of HRK 18,726 thousand (2014: HRK 19,692 thousand). Receivables from Đuro Đaković Holding amount to HRK 9,911 thousand (2014: HRK 11,913 thousand).

The Bank's exposures to the Ministry of Finance comprise those on the Ministry's quoted bonds in the amount of HRK 136,992 thousand (2014: HRK 77,896 thousand) and the treasury bills in the amount of HRK 520,302 thousand (2014: HRK 481,380 thousand) issued by the Ministry of Finance.

The restricted deposit of the Ministry of Finance amounts to HRK 15,270 thousand (2014: HRK 15,323 thousand).

As at 31 December 2015, the Restructuring and Sale Centre holds on the transaction account at the Bank HRK 31,9 65 thousand (2014: HRK 77,660 thousand).

As at 31 December 2015, the Bank's shareholder, the State Agency for Deposit Insurance and Bank Rehabilitation, holds on the transaction account HRK 40,939 thousand (2014: HRK 21,783 thousand).

At 31 December 2015 the amount owed by the Bank for loans received from the Croatian Bank for Reconstruction and Development (joint customer funding with HBOR) HRK 164,750 thousand (31 December 2014: HRK 203,568 thousand).

All the above-mentioned significant transactions with the state and state-owned companies were entered into on a market-based principle.

36. Transactions with related parties (continued)

Income recognised in the profit and loss for 2015 treated as key transactions is as follows:

- income from loans to Hrvatske autoceste for the year 2015 in the amount of HRK 23,315 thousand (2014: HRK 14,666 thousand).
- income from loans to Hrvatske ceste for the year 2015 in the amount of HRK 13,119 thousand (2014: HRK 13,065 thousand).
- income from bonds issued by the Ministry of Finance in the amount of HRK 5,444 thousand (2014 : HRK 8,781 thousand).
- income from treasury bills issued by the Ministry of Finance amounts to HRK 10,916 thousand (2014 HRK 6,975 thousand).

Expenses recognised in the profit and loss treated as key transactions is as follows:

- term deposit from Hrvatske autoceste d.o.o. in the amount of HRK 223 thousand (2014: HRK 58 thousand).
- costs of loans received from HBOR in 2015 in the amount of HRK 5,553 thousand (2014: HRK 6,309 thousand).
- expenses in respect of DAB relate to costs for the savings deposit insurance and rental expenses in the amount of HRK 5,440 thousand and to transaction account costs in the amount of HRK 28 thousand (2014: HRK 40 thousand).

Exposures under receivables from key management personnel and the state in broad and narrow definitions include off-balance sheet receivables of the Bank in the following amounts:

in thousands of HRK	Key management personnel	State in narrow and broad definitions
2015		
Guarantees	-	194
Credit lines	471	2,057

in thousands of HRK		
2014		
Guarantees	-	19
Credit lines	350	123,887

The Bank's maximum off-balance sheet exposure to the state in narrow and broader definitions relates to Narodne novine d.d. and amounts to HRK 816 thousand (2014: to Hrvatske autoceste in the amount of HRK 121,357 thousand). All the exposures presented in this note are presented on a net basis, i.e. less identified and unidentified impairment losses.

37. Risk management policies

Details on the Bank's exposure to risks and methods the Management Board used to manage those risks are described below. The key financial risks to which the Bank is exposed comprise credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and price risk.

37.1 Credit risk

The Bank is continually exposed to credit risk arising from its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties.

The Bank's primary exposure to credit risk arises from loans and receivables from customers and banks and investments in securities. In addition, the Bank is exposed to credit risk on its off-balance sheet items, reflecting its commitments under undrawn facilities and guarantees issued.

Credit risk is the greatest individual risk arising from the Bank's operations; therefore, all organisational units and functions of the Bank monitor the risk closely. Credit risk management and controls are centralised within the Risk Management Office that provides regular risk reports to the Management Board, other bodies of the Bank, its Supervisory Board and senior management.

For the purpose of credit risk management, the Bank has spread its principal credit risk management activities over the following processes:

- loan approval
- loan monitoring
- loan portfolio analysis
- non-performing loans
- early warning of increased credit risk
- loan classification according to the magnitude of risk.

Establishing appropriate relations between the individual processes is a particularly important process, as it helps prevent any process overlaps and misalignment and establishes the necessary level of segregation of duties and responsibilities for the processes.

Organisational responsibilities for credit risk management are divided among the responsibility structures of sales and back-office/organisational units/functionalities, among control and management functions, and operation support, and are additionally positioned for all credit risk management segments, including:

- risk identification and monitoring
- risk analysis and supervision
- risk measurement/assessment
- risk controls
- risk reporting

37. Risk management policies (continued)

37.1 Credit risk (continued)

Loan analysis is organisationally placed within the Risk Management Function whose scope of responsibilities directly affect the credit risk management, primarily in developing analyses and opinions regarding the Bank's credit risk appetite, which includes the following sub-processes:

- Providing opinion on new credit placements
- Providing opinion on proposals for changes to the conditions for the already existing placements
- Analysing the viability of proposed renewal and restructuring of the existing placements
- Periodic reviews of all existing placements.

In analysing placements that belong to the credit risk management area, the Risk Management Service also estimates the acceptability of credit risk by individual placements, in accordance with the standards and criteria of best banking practice, i.e. application of the effective (external and internal) normative regulations. It communicates its views/principles of assessing the credit risk acceptability to decision-making individuals and bodies responsible for loans.

Further responsibilities of staff engaged in loan analysis include monitoring credit risk exposure, including the early warning of increased credit risk. The duties and responsibilities of the Risk Management Service include the credit portfolio control activity, which ensures, in cooperation with other organisational units at the Bank, timely identification of clients with potential risk. Such an approach involves a complex management of business relations with customers with the aim to reduce the cost of credit risk as well as improve the quality of the Bank's credit portfolio.

Credit risk control is based on an individual approach to the credit risk assessment specifically tailored to individual clients, including identification of clients with a potential risk, analysis and classification of clients with potential risk, determining the form and manner of managing business relations with clients, and following-up.

Special attention is paid to managing exposures to related parties by reference to the effective organisational normative and operational rules, as well as other aspects of credit risk exposure defined by the Credit Institutions Act and the related by-laws and internal acts governing its implementation.

37.1.1. Credit risk assessment

Loans and receivables (including contingent liabilities)

The Bank assesses the probability of default by individual clients using internal assessment tools created for all groups of customers in line with the internal acts and applicable laws.

Loans and contingent liabilities are classified into the following three key risk groups:

1.1. fully recoverable loans (risk group A) – loans assessed as fully recoverable (both principal and interest) and contingent liabilities expected not to result in an outflow of the Bank's resources, or if such an outflow is required, that they will be recovered in full.

1.2. partly recoverable loans (risk group B) – loans assessed as not recoverable at contractual amounts (principal and interest) or contingent liabilities expected to result in an outflow of the Bank's resources in excess of the estimated recoverable amount.

1.3. irrecoverable loans (risk group C) – loans estimated as fully irrecoverable or insignificantly recoverable and contingent liabilities expected to result in an outflow of the Bank's resources that will never be recovered.

37. Risk management policies (continued)

37.1 Credit risk (continued)

37.1.1. Credit risk assessment (continued)

Loans and receivables (including contingent liabilities) (continued)

Managing credit risk of a portfolio of workout or non-performing (bad) loans is the responsibility of a separate unit within the Bank which is in charge of working out such debt (Workout and Non-performing Loan Department), both owed from legal persons and individuals. These activities are primarily aimed at realising positive effects of the implementation of various forms of financial consolidation of clients' business, including various forms of prolongation, renewal or restructuring of loans with the aim of their recovery and maximising the recoverability of loans and receivables as well as improving the loan and guarantee portfolio of the Bank, or fully or partially stabilising as well as cases of full or partial stabilisation of the clients' business by taking consolidation measures, enabling the inclusion of such loans in "performing" ones.

The Risk Management Service estimates future cash flows from non-performing loans on the basis of which provisions for impairment are determined. Such assessment is prepared for all loans managed.

The Bank makes provisions for identified losses on loans and their impairment as follows:

- on an individual basis

  - for loans that are not included in the "small loans portfolio"

- on a collective basis

  - for loans classified in risk group "A";

  - for loans classified in the "small loans portfolio";

  - for all loans to a single debtor in bankruptcy procedure, if the Bank does not have the status of a creditor with a separate satisfaction right and assesses these loans on an individual basis.

The small loans portfolio comprises the total Bank's exposure to one person or a group of related persons that is not individually significant, i.e. at the date of assessment does not exceed HRK 250,000. Thereby the total exposure amount includes all active balance sheet and off-balance sheet items that are subject to classification in risk groups.

The large loans portfolio, individually significant exposure, comprises the total exposure to one person or a group of related persons whose total exposure at the estimation date exceeds HRK 250,000.

The credit risk assessment on an individual basis is a separate estimation of future cash flows and determining the existence or non-existence of loss for each individual loan and each individual off-balance sheet liability that the Bank is obliged to apply in assessing loans and off-balance sheet liabilities that make an integral part of individually significant exposure.

Credit risk assessment on a collective basis is a collective estimation of future cash flows and determining the existence or non-existence of loss for groups with similar characteristics of credit risk and off-balance sheet liabilities, and is performed in the following cases:

- in assessing the quality of loans and off-balance sheet liabilities for which evidence of the existence of visible losses was not identified, but which might bear latent losses, estimated on the basis of experience on a collective basis (this assessment includes all loans and off-balance sheet liabilities of the risk group A)

- in assessing identified losses for loans included in the small loans portfolio.

Finally, it should be noted that the Bank is currently in the process of upgrading and modifying the internal rating model, which will be introduced in the Bank's operations by the end of 2015. This rating model will improve credit risk assessment and estimation, for the purpose of accurate and timely credit risk management in the Bank.

37. Risk management policies (continued)

37.1.2. Risk limit control and policies for risk mitigation

The Bank manages, limits and controls credit risk concentrations wherever such risk is identified – especially with respect to individual clients and groups, industry sectors and countries. Concentrations are determined at the level of exposure to individual debtor (or a group of related parties) against the regulatory capital (over 10 % of the capital) as well as by reference to exposure of a particular activity relative to the overall exposure of the Bank.

The Bank manages credit risk levels by limiting credit risk with respect to a single customer, or a group of customers, and geographic and economic activity segments. Limits set by reference to products, industry sectors and countries are approved by the Bank's management.

The exposure to any debtor is further limited by sub-limitations that cover balance sheet and off-balance sheet exposures, as well as daily limits (the liability settlement risk) compared to items that are not traded. The actual exposure in relation to limitations is monitored on a daily basis. The credit risk exposure is also managed by a regular analysis of the ability of the existing clients and potential clients to settle their liabilities of repaying interest and principal and by changing credit limitations where necessary.

Further specific measures for credit risk control and mitigation are stated below.

(a) Security instruments

The Bank uses policies of security instruments for receivables that prescribe the main rules aimed at minimising the risk from credit operations.

Security instruments for receivables represent the secondary collection source, while the clients' operations and their ability to generate sufficient cash funds for settling financial liabilities are the primary source of collecting the Bank's receivables. The rules that prescribe the obligation to take security instruments for which the normative acts prescribe the conditions for acceptability, individually for each of the specific security instruments categories are standardised. Also, specific modalities of credit protection aimed at decreasing or mitigating credit risks are determined.

The most significant types of security instruments for loans and receivables are as follows:

- Mortgage over property,
- Pledge over operating/tangible assets,
- Pledge over financial instruments such as debt or equity securities
- Insurance policies for loan receivables, life insurance policies with redemption values and other instruments whose quality based on evidence may be equalised with the quality of other above-mentioned instruments.

Non-current financial assets, loans to companies and natural persons are generally secured by appropriate security instruments.

In addition, in order to reduce credit loss, the Bank requires additional collaterals from the contractual parties as soon as indicators of impairment for individual relevant loans and advances are determined. The collateral held as security for all financial assets other than loans and advances is determined on the basis of the nature of the instrument. Debt securities, treasury and other bills are generally not secured, with the exception of securities with coverage in assets and similar instruments secured by financial instruments portfolios.

(b) Commitments to extend credit

Loan commitments are unused granted loan amounts in the form of loans, guarantees or letters of credit. With respect to credit risk from loan commitments, the Bank is potentially exposed to loss in the amount equal to the total unused commitments.

37. Risk management policies (continued)

37.1.2. Risk limit control and policies for risk mitigation (continued)

However, the potential loss amount is lower than the total amount of unused commitments, since the majority of commitments depends on maintaining specific credit standards by the clients. The Bank monitors the remaining period to loan maturities as non-current liabilities generally have a higher degree of credit risk compared to current liabilities.

37.1.3. Impairment and provisioning policies

The amount of provisions for impairment in the portfolio of clients monitored on an individual basis is determined using the dynamic approach, on the basis of the calculation of the loan's recoverable value, calculated as the net present value of estimated future cash flows discounted at the effective interest rate of the loan at the moment when it was assessed as "non-performing" (for loans granted at fixed rates it is the original effective rate calculated at the moment of granting). The regulations of the Croatian National Bank on minimum rates of special provisions in special cases are also taken into account.

Instruments of credit protection for which the nominal value is discounted are as follows:

- pledge over housing property
- pledge over other property and movables for which the market exists and which may be sold in acceptable time periods.

Discounting future cash flows to the present value is calculated individually for all long-term loans from the large loans portfolio for which the impairment loss was identified and it is estimated that their future cash flow from operating activities (CF "P") and cash flow from security instruments (CF "O") will not be sufficient.

Based on the repayment on time criteria, loans in the large loans portfolio are classified into the following risk groups:

1) risk group "A" includes loans that meet the following criteria:

- the debtor's current financial situation and estimated future cash flows do not rise any doubts with respect to the debtor's further operations and settlement of their current and future liabilities to the Bank and other creditors,

- the debtor settles their liabilities to the Bank in contracted terms, and only exceptionally and occasionally after their maturity,

- the loans are secured by adequate security instruments for receivables.

2) Risk group B1 (loans for which the determined loss does not exceed 30% of the nominal carrying amount of individual loans).

3) Risk group B2 (loans for which the determined loss is from 30% to 70% of the nominal carrying amount of individual loans).

4) Risk group B3 (loans for which the determined loss is over 70% and less than 100% of the nominal carrying amount of individual loans).

5) Risk group C (fully unrecoverable loans are considered to be Bank's receivables arisen on a disputable legal basis and other receivables for which, due to an exceptionally poor asset and financial position of the debtor, and due to the lack of adequate security instruments, no cash flows may be expected for settling the debtor's liabilities to the Bank). The Bank is obliged to classify such loans in the risk group C. Loans classified in the risk group C, 100% impaired, are recorded by the Bank in the balance sheet until all legal procedures are finalised related to the termination of the debtor's liability, in line with the policies and procedures of the credit institution and the law that regulates civil obligations.

Specific provisions for impairment for the remaining portfolio of non-performing small loans (exposures below HRK 250 thousand) are calculated by reference to the regularity of payment.

37. Risk management policies (continued)

37.1.3. Impairment and provisioning policies (continued)

Based on the timeliness of repayment, loans in the small loans portfolio are classified into the following risk groups:

1) Risk group "A" includes fully recoverable loans. For a loan to remain classified in the risk group "A", the following conditions must be met:

   - the debtor's past due liabilities to the Bank are not older than 90 days

   - the full loan amount is covered by a guarantee deposit.

2) Risk group "B" or "C" loans must be provided for on the basis of the number of days of late payment according to specially determined tables

3) Risk group "C" includes loans that do not meet the conditions for classification in risk groups "A" and "B", and 100% unrecoverable loans, as follows:

   - unsecured loans (default in payments > 90 days);
   - loans classified in the 100% provision position according to specially determined tables.

37.1.4. Debt securities

For the purpose of realising future yield, the Bank usually invests surplus liquid funds in high-quality government debt securities and foreign bonds.

37.1.5. Past due loans and receivables

Past due loans and receivables by type at 31.12.2015

in thousands of HRK

Past due	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Up to 30 days	219	4,797	4,538	3,013	11	3,204	15,782
31-60 days	50	2,417	317	19	21	697	3,521
61-90 days	39	-	-	58	-	27	124
Over 90 days	1,821	229,534	18,226	3,207	840	92,361	345,989
Total	**2,129**	**236,748**	**23,081**	**6,297**	**872**	**96,289**	**365,416**

Past due loans and receivables by type at 31.12.2014

in thousands of HRK

Past due	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Up to 30 days	160	5,647	7,462	241	21	8,225	21,754
31-60 days	130	9,136	872	23	7	632	10,800
61-90 days	151	28,367	50	56	5	435	29,064
Over 90 days	6,680	238,034	20,870	7,347	644	97,483	371,058
Total	**7,121**	**281,184**	**29,254**	**7,667**	**677**	**106,775**	**432,676**

37. Risk management policies (continued)

37.1.6. Unimpaired loans

Unimpaired loans at 31.12.2015

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Not yet due	131,121	465,311	51,955	44,734	51,648	951,532	1,696,301
Due	234	8,963	4,620	2,550	32	2,306	18,705
Total	**131,355**	**474,274**	**56,575**	**47,284**	**51,680**	**953,838**	**1,715,006**

Unimpaired loans at 31.12.2014

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Not yet due	99,622	548,494	63,842	40,537	40,397	845,469	1,638,361
Due	111	9,560	7,159	1,187	17	4,320	22,353
Total	**99,733**	**558,054**	**71,001**	**41,724**	**40,414**	**849,789**	**1,660,714**

Unimpaired loans and receivables refer to placements classified in risk groups AA and A9. The placements in the risk group AA are loans and receivables regularly repaid by clients and not impaired by the Bank. The placements in the risk group A9 are loans and receivables with defaults in payments of more than 90 days, but not impaired by the Bank due to quality security instruments, as it is estimated that these receivables will be fully collected, but with delay.

The line item 'Other' comprises the participation in syndicated loans in the amount of HRK 816,578 thousand (2014: HRK 717,507 thousand), as well as lombard loans in the amount of HRK 35,807 thousand (2014: HRK 17,635), margin loans in the amount of HRK 16,798 thousand (2014: HRK 14,351 thousand) and mortgage loans in the amount of HRK 8,488 thousand (2014: HRK 8,868 thousand). The remaining balance consist of individual smaller loans intended for diverse purposes.

37. Risk management policies (continued)

37.1.7. Impaired loans

Impaired loans at 31.12.2015

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Not yet due	1,522	5,480	10,079	-	-	50,003	67,084
Due	1,895	227,785	18,461	3,747	840	93,982	346,710
Total	**3,417**	**233,265**	**28,540**	**3,747**	**840**	**143,985**	**413,794**
Impairment	**2,348**	**144,927**	**9,785**	**3,020**	**239**	**70,134**	**230,453**

Impaired loans at 31.12.2014

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Not yet due	1,627	47,472	12,823	-	474	15,725	78,121
Due	6,536	267,495	21,491	6,171	625	102,910	405,227
Total	**8,163**	**314,967**	**34,314**	**6,171**	**1,099**	**118,635**	**483,348**
Impairment	**5,946**	**146,629**	**12,773**	**5,553**	**438**	**60,640**	**231,979**

Within the line item 'Other', long-term loans for the restructuring of various placements in the amount of HRK 47,944 thousand (2014: HRK 15,478 thousand) are the largest individual item, followed by long-term financial restructuring loans in cooperation with the CBRD in the amount of HRK 7,437 thousand (2014: HRK 7,461 thousand), construction loans in the amount of HRK 12,113 thousand (2014: HRK 12,966 thousand) and loans for making payments under guarantees and other sureties in the amount of HRK 9,145 thousand (2014: HRK 14,043 thousand).

37. Risk management policies (continued)

37.1.8. Placement structure by type of activity

Placement structure by type of activity at 31.12.2015

in thousands of HRK

Activity sector	Total placements and off-balance sheet liabilities	Placements of unimpaired value	Placements of impaired value	Impairment and provisions	% of impairment
Agriculture, hunting, forestry and fishing	175,904	138,387	37,517	18,240	**10.37**
Manufacturing	258,882	136,237	122,645	62,464	**24.13**
Construction	813,804	722,413	91,391	65,675	**8.07**
Wholesale and retail trade, repair of motor vehicles and household items	212,349	98,650	113,699	71,873	**33.85**
Service activities	312,238	265,336	46,901	26,876	**8.61**
Financial intermediation	252,879	252,864	15	2,543	**1.01**
Foreign financial institutions	67,986	67,986	-	680	**1.00**
CNB	250,464	250,464	-	2,505	**1.00**
Other activities	139,147	115,264	23,844	4,731	**3.40**
Activity sectors outside the Croatian National Classification	270,159	249,897	20,262	17,441	**6.45**
TOTAL	**2,753,812**	**2,297,498**	**456,314**	**273,028**	**9.91**

Placement structure by type of activity at 31.12.2014

in thousands of HRK

Activity sector	Total placements and off-balance sheet liabilities	Placements of unimpaired value	Placements of impaired value	Impairment and provisions	% of impairment
Agriculture, hunting, forestry and fishing	222,318	171,303	51,016	23,536	**10.59**
Manufacturing	284,217	134,894	149,323	62,276	**21.91**
Construction	830,720	746,286	84,434	70,431	**8.48**
Wholesale and retail trade, repair of motor vehicles and household items	272,356	144,237	128,119	53,556	**19.66**
Service activities	334,423	283,185	51,238	24,482	7.32
Financial intermediation	203,198	203,184	15	2,046	**1.01**
Foreign financial institutions	57,074	57,074	-	571	**1.00**
CNB	230,127	230,127	-	2,301	**1.00**
Other activities	98,841	78,304	20,538	4,224	**4.27**
Activity sectors outside the Croatian National Classification	244,788	206,311	38,474	31,092	**12.70**
TOTAL	**2,778,062**	**2,254,905**	**523,157**	**274,515**	**9.88**

37. Risk management policies (continued)

37.1.9. Past due loans and advances to customers in risk groups B and C for which provisions have been made

in thousands of HRK

	Individuals	Corporate customers	Total
31 December 2015			
Total exposure	60,751	353,043	**413,794**
Provisions	27,895	202,558	**230,453**
Total net exposure	32,856	150,485	**183,341**
Fair value of collateral	49,029	212,330	**261,359**
% of collateral coverage	149.22 %	141.10%	**142.55%**

in thousands of HRK

	Individuals	Corporate customers	Total
31 December 2014			
Total exposure	83,800	399,548	**483,348**
Provisions	41,208	190,771	**231,979**
Total net exposure	42,592	208,777	**251,369**
Fair value of collateral	53,758	273,248	**327,006**
% of collateral coverage	126.2 %	130.9 %	**130.10%**

37.2. Liquidity risk

Liquidity risk is the risk of loss arising from the existing or expected Bank's inability to settle its cash liabilities at maturities. This risk arises due to a mismatch of maturities of assets and liabilities, and is manifested as the risk that it will not be possible to convert some receivable into cash in suitable term and at suitable price, i.e. that it will not be possible to convert any non-cash form of assets into cash in a suitable timetable without loss.

The Financial Markets Sector, the Risk Management Service and the ALCO Committee are responsible for liquidity risk management, while the Bank's Management Board makes decisions, whereby precise roles in the liquidity management process are allocated to the following organisational parts or Bank's functionalities:

Cost rates are calculated by the Financial Markets Sector and the Treasury Department. The report does not include funds received from the Croatian Bank for Reconstruction and Development.

Internal prices of products are approved by the Asset-Liability Committee (hereinafter: the ALCO). Internal prices are calculated on a monthly basis, directly prior to the ALCO Committee meeting. Internal prices are confirmed by the ALCO Committee and they are effective until their following meeting. The Risk Management Service is responsible for controlling the limit, and if some of the limits are exceeded, it must immediately inform the Management Board, the Liquidity Committee and the Asset-Liability Committee. On the relevant meeting of the Asset-Liability Committee it is decided whether the limit excess is acceptable until a certain date or the Treasury Department has to bring indicators within the prescribed limits in accordance with the strategy determined at the Asset-Liability Committee meeting.

The allowed excess of liquidity indicators and the strategy defining the reasons for allowing the excess are documented by the minutes of the Asset-Liability Committee meeting.

37. Risk management policies (continued)

37.2. Liquidity risk (continued)

If the limits are not exceeded, but the early warning indicators related to the limits have been reached, the Treasury Department prepares a written explanation for the Management Board and the Liquidity Committee within not more than 3 working days about the reasons why the indicator of early warning has been reached and with the proposal of possible solutions. The Management Board and the Liquidity Committee make the decision on further action.

The Risk Management Service controls limits within the monthly report, and reports the exceeding of limits on the ALCO meetings.

Sources of Bank financing are deposits and equity capital. The Bank continually reassesses liquidity risk by identifying and following changes in financing that are necessary for accomplishing business aims set according to Bank strategy. Moreover, the Bank manages a portfolio of liquid assets as a part of its liquidity risk management strategy.

The Bank adjusts its operations concerning liquidity risk according to legal provisions and internal policies. The Bank manages assets and sources of funds from a viewpoint of financial flows, cash flows and concentration, all with the aim of adjusting cash inflows with Bank outflows.

Managing in that way assumes identification of known, expected and potential cash outflows and the production of different asset and liabilities management strategies in order to secure the Bank needs for cash inflows. According to the stated, the liquidity risk management system comprises the following: evaluation and measurement of liquidity risk exposure, setting limits of liquidity risk exposure and reporting and supervision of limit utilization.

Liquidity risk management is realized by operative management of short-term liquidity and by management of long-term liquidity. Management of short-term liquidity is realized with maintenance of a regular liquidity reserve in HRK and by planning and forecasting daily and weekly cash flows. The Bank produces daily, weekly, monthly and annual liquidity plans and evaluates current and future outflows and inflows based on them.

Indicators related to a possible crisis in the Bank's liquidity and general crisis of the banking system liquidity are monitored by the Risk Management Service and the Treasury Department, they are determined by the Risk Management Service and reported to the Management Board, Liquidity Committee and/or the Asset-Liability Committee.

37. Risk management policies (continued)

37.2 Liquidity risk (continued)

Future outflows under financial liabilities at 31 December 2015 represent undiscounted cash flows, including future interest payments in the amount of HRK 89,597 thousand on received deposits and borrowings, classified by maturities. Asset items are classified by maturities of the carrying amounts.

in thousands of HRK

2015	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS						
Cash	103,596	-	-	-	-	**103,596**
Receivables from the Croatian National Bank	226,137	-	-	-	-	**226,137**
Placements with banks	47,985	-	-	-	-	**47,985**
Financial assets available for sale	131,392	68,705	323,937	64,846	88,852	**677,732**
Financial assets held to maturity	9,862	9,012	693	24,298	4,714	**48,579**
Loans and advances to customers	222,656	52,623	537,849	478,275	601,100	**1,892,503**
Investment property	-	-	-	-	35,696	**35,696**
Property and equipment	-	-	-	-	15,595	**15,595**
Intangible assets	-	-	-	-	4,289	**4,289**
Foreclosed assets	-	-	-	-	24,539	24,539
Deferred tax assets	-	-	-	-	4,246	**4,246**
Other assets	27,670	-	-	-	-	**27,670**
Total assets	**769,298**	**130,340**	**862,479**	**567,419**	**779,031**	**3,108,567**
EQUITY AND LIABILITIES						
Liabilities to banks	50,352	267	59,877	-	-	**110,496**
Demand deposits	473,276	-	-	-	-	**473,276**
Term deposits	123,821	160,823	709,863	1,095,727	13,605	**2,103,839**
Borrowings	134,583	4,838	30,370	63,393	77,357	**310,541**
Other liabilities	9,769	-	-	-	-	9,769
Provisions	8,186	-	-	-	-	**8,186**
Total liabilities	**799,987**	**165,928**	**800,110**	**1,159,120**	**90,962**	**3,016,107**
EQUITY						
Share capital	-	-	-	-	474,600	**474,600**
Accumulated losses	-	-	-	-	(277,040)	**(277,040)**
Revaluation reserve	-	-	-	-	(395)	**(395)**
Loss for the year	-	-	-	-	**(15,134)**	**(15,134)**
Total equity	-	-	-	-	**182,031**	**182,031**
Total liabilities and equity	**803,594**	**165,928**	**800,110**	**1,159,120**	**272,993**	**3,198,138**
Net assets/liabilities and equity	(30,689)	(35,588)	62,369	(591,701)	506,038	(89,571)

37. Risk management policies (continued)

37.2 Liquidity risk (continued)

Future outflows under financial liabilities at 31 December 2014 reflect undiscounted cash flows, including future interest payments in the amount of HRK 78,389 thousand on received deposits and borrowings classified by maturities. Assets positions are classified by maturities of carrying amounts.

in thousands of HRK

2014	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS						
Cash	87,431	-	-	-	-	**87,431**
Receivables from the Croatian National Bank	208,448	-	-	-	-	**208,448**
Placements with banks	38,168	-	-	-	-	**38,168**
Financial assets held for trading	101,161	191,480	191,381	22,556	87,052	**593,630**
Financial assets available for sale	9,811	10,662	21,330	14,658	4,715	**61,176**
Financial assets held to maturity	256,015	51,041	327,824	622,605	649,009	**1,906,494**
Loans and advances to customers	-	-	-	-	35,696	**35,696**
Investment property	-	-	-	-	19,446	**19,446**
Property, plant and equipment	-	-	-	-	2,530	**2,530**
Intangible assets	-	-	-	-	28,842	**28,842**
Foreclosed assets	-	-	-	-	21,545	**21,545**
Deferred tax assets	-	-	-	-	21,545	**21,545**
Other assets	34,071	-	-	-	-	**34,071**
Total assets	**735,105**	**253,183**	**540,535**	**659,819**	**848,835**	**3,037,477**
EQUITY AND LIABILITIES						
Liabilities to banks	37,535	15,605	74,577	-	-	**127,717**
Demand deposits	567,732	-	-	-	-	**567,732**
Term deposits	101,787	246,930	1,219,526	373,029	12,853	**1,954,125**
Borrowings	5,037	4,580	29,442	74,288	112,241	**225,588**
Other liabilities	31,234	-	-	-	-	**31,234**
Provisions	839	152	8,310	-	-	**9,301**
Total equity and liabilities	**744,164**	**267,267**	**1,331,855**	**447,317**	**125,094**	**2,915,697**
EQUITY						
Share capital	-	-	-	-	474,600	**474,600**
Accumulated losses	-	-	-	-	(280,959)	**(280,959)**
Revaluation reserve	-	-	-	-	2,609	**2,609**
Profit for the year	-	-	-	-	3,919	**3,919**
Total equity	**-**	**-**	**-**	**-**	**200,169**	**200,169**
Total liabilities and equity	**744,164**	**267,267**	**1,331,855**	**447,317**	**325,263**	**3,115,866**
Net assets / equity and liabilities	(9,059)	(14,084)	(791,320)	212,502	523,572	(78,389)

37. Risk management policies (continued)

37.3. Market risks

Market risks represent potential effects that external conditions may have on the value of assets, liabilities and off-balance sheet positions of the Bank, and are caused by changes in prices and movements in financial markets.

All instruments for trading are subject to market risk, the risk that future changes in market conditions can make an instrument unfavourable or lead to value reduction.

The Bank manages financial instruments available for sale according to changes in market conditions. Exposure to market risk is formally managed by buying or selling instruments according to limits set by Management.

Market risk is the risk of loss on balance sheet and off-balance sheet positions arising from unfavourable movements in prices on some of the 4 fundamental markets: debt securities, foreign currencies, commodity and equity securities markets.

Market risks are as follows:

- Interest rate risk
- Currency risk
- Price risk – risk of a change in prices of equity and debt securities.

Interest rate risk is defined by the impact of changes in market interest rates on the Bank's financial results. The Bank's daily activities depend on the interest rate risk impacted by the terms of collection of assets and liabilities in relation to interest income and expenses or the terms in which interest rates change. These terms are controlled by the ALCO by defining the interest rate limits and coordinating activities that the bank has to take.

Interest rate risk is described in more detail in chapter 37.5. of the Report.

The Bank's activities are exposed to the risk of changes in the value of main currencies, which impacts the Bank's financial result and cash flow. The Bank controls foreign currency assets and foreign currency liabilities with the aim to avoid an inadequate currency risk.
The Management Board defined internal limits of open foreign currency position that are below the legally prescribed limits determined in line with the CNB Regulation.

Currency risk is described in more detail in the following chapter of the Report (item 37.4).

Market risk managements is performed in the Financial Markets Sector, Risk Management Service and the ALCO, and the Bank's Management Board is informed and makes decisions.

37. Risk management policies (continued)

37.4. Currency risk

Currency risk is the risk of loss that results from currency changes.

Exposure to currency risk materializes from holding assets and liabilities and/or off-balance sheet items denominated and/or indexed in foreign currency, or when they are structurally unadjusted in cases of unfavourable movement of HRK towards international currencies as well as unfavourable mutual movements of currencies.

Currency risk management process includes: identifying the Bank's exposure to currency risk, measuring currency risk exposure, defining boundaries and limits of currency risk exposure, instruments and processes for risk optimisation, currency risk management process supervision, reporting on the currency risk exposure.

At the end of each working day, the Bank adjusts its total open FX position so that the total open FX position (increased by the position in gold) does not exceed the amount of regulatory capital determined in line with the regulations of the Croatian National Bank.

The Bank uses the Value at Risk methodology (VaR) to evaluate exposure to market risk and expected maximum loss for the position in trading and other activities. VaR represents a statistically based evaluation of potential losses on the existing portfolio due to unfavourable market movements.

The Value at Risk method measures the maximum expected loss for the Bank in case of most unfavourable foreign currency movements in an observed time interval with normal market conditions and a given level of significance based on historical data. The Bank directs its business activities primarily trying to minimize the mismatch between assets' and liabilities' items denominated in foreign currency or carrying an FX clause. The Bank seeks to manage its assets and liabilities by matching the currencies of the individual asset and liability items to optimise the relationship between risk and profitability in unfavourable inter-currency movements.

The potential maximum daily loss of open foreign currency position (VaR: reliability 95%) as of 31.12.2015. was HRK 44 thousand (2014 : HRK 5 thousand).

37. Risk management policies (continued)

37.4 Currency risk (continued)

FX assets and liabilities of the Bank as at 31 December 2015 are shown as follows:

in thousands of HRK

2015	EUR	USD	Other	HRK, currency clause	Total FX equivalents	HRK	Total
ASSETS							
Cash	34,777	6,079	23,210	-	64,066	39,530	**103,596**
Receivables from the Croatian National Bank	32,177	-	-	-	32,177	193,960	**226,137**
Placements with banks	426	39,455	8,104	-	47,985	-	**47,985**
Financial assets available for sale	333,550	-	-	73,164	406,714	271,018	**677,732**
Financial assets held to maturity	24,957	-	-	-	24,957	23,622	**48,579**
Loans and advances to customers	713,092	-	970	549,516	1,263,578	628,925	**1,892,503**
Investment property	-	-	-	-	-	35,696	**35,696**
Property and equipment	-	-	-	-	-	15,595	**15,595**
Intangible assets	-	-	-	-	-	4,289	**4,289**
Foreclosed assets	-	-	-	-	-	24,539	**24,539**
Deferred tax assets	-	-	-	-	-	4,246	**4,246**
Other assets	871	-	1	-	872	26,798	**27,670**
Total assets	**1,139,850**	**45,534**	**32,285**	**622,680**	**1,840,349**	**1,268,218**	**3,108,567**
EQUITY AND LIABILITIES							
Liabilities to banks	17,541	97	8	-	17,646	92,257	**109,903**
Demand deposits	118,049	5,794	8,574	-	132,417	340,859	**473,276**
Term deposits	1,476,435	49,002	23,076	19,401	1,567,914	464,762	**2,032,676**
Borrowings	-	-	-	144,068	144,068	148,658	**292,726**
Other liabilities	134	-	1	-	135	9,634	**9,769**
Provisions	-	-	-	-	-	8,186	**8,186**
Total liabilities	**1,612,159**	**54,893**	**31,659**	**163,469**	**1,862,180**	**1,064,356**	**2,926,536**
EQUITY							
Share capital	-	-	-	-	-	474,600	**474,600**
Accumulated losses	-	-	-	-	-	(277,040)	**(277,040)**
Revaluation reserve	-	-	-	-	-	(395)	**(395)**
Loss for the year	-	-	-	-	-	(15,134)	**(15,134)**
Total equity	-	-	-	-	-	182,031	**182,031**
Total liabilities and equity	**1,612,159**	**54,893**	**31,659**	**163,469**	**1,862,180**	**1,246,387**	**3,108,567**
Net assets/liabilities and equity	(472,309)	(9,359)	626	459,211	(21,831)	21,831	-

37. Risk management policies (continued)

37.4 Currency risk (continued)

FX assets and liabilities of the Bank as at 31 December 2014 are shown as follows:

in thousands of HRK

2014	EUR	USD	Other	HRK with FX clause	Total FX equivalents	HRK	Total
ASSETS							
Cash	28,664	4,896	20,481	-	54,041	33,390	**87,431**
Receivables from the Croatian National Bank	26,570	-	-	-	26,570	181,878	**208,448**
Placements with banks	380	29,325	8,464	-	38,168	-	**38,168**
Financial assets available for sale	261,048	-	-	-	261,048	332,582	**593,630**
Financial assets held to maturity	14,810	-	-	-	14,810	46,366	**61,176**
Loans and advances to customers	612,302	4,301	512	672,812	1,289,927	616,567	**1,906,494**
Investment property	-	-	-	-	-	35,696	**35,696**
Property, plant and equipment	-	-	-	-	-	19,446	**19,446**
Intangible assets	-	-	-	-	-	2,530	**2,530**
Foreclosed assets	-	-	-	-	-	28,842	**28,842**
Deferred tax assets	-	-	-	-	-	21,545	**21,545**
Other assets	-	-	-	-		34,071	**34,071**
Total assets	**943,774**	**38,522**	**29,457**	**672,812**	**1,684,564**	**1,352,913**	**3,037,477**
EQUITY AND LIABILITIES							
Liabilities to banks	22,812	90	8	-	22,910	103,455	**126,365**
Demand deposits	102,889	3,759	7,313	-	113,961	453,771	**567,732**
Term deposits	1,296,270	48,131	25,511	23,815	1,393,727	505,535	**1,899,262**
Borrowings	-	-	-	172,891	172,891	30,523	**203,414**
Other liabilities	202	-	16	2	89	31,145	**31,234**
Provisions						9,301	**9,301**
Total liabilities	**1,422,173**	**51,980**	**32,848**	**196,708**	**1,703,578**	**1,133,730**	**2,837,308**
EQUITY							
Share capital	-	-	-	-	-	474,600	**474,600**
Accumulated losses	-	-	-	-	-	(280,959)	**(280,959)**
Revaluation reserve	-	-	-	-	-	2,609	**2,609**
Profit for the year	-	-	-	-	-	3,919	**3,919**
Total equity	-	-	-	-	-	200,169	**200,169**
Total liabilities and equity	**1,422,173**	**51,980**	**32,848**	**196,708**	**1,703,578**	**1,333,899**	**3,037,477**
Net assets/liabilities and equity	(478,399)	(13,458)	(3,391)	476,104	(19,014)	19,014	-

37. Risk management policies (continued)

37.5. Interest rate risk

Interest rate risk in the Bank's trading book is the risk of loss arising from possible changes in interest rates, which impact the items in the Bank's book. This risk arises due to a mismatch of assets and liabilities with respect to their type, base and amount of interest rates.

Repricing risk is the risk of a decrease in net interest income due to changes in interest rates and a decrease in economic value of capital due to changes in interest rates.

Interest rate risk is a result of: temporary mismatch in revaluation of assets, liabilities and off-balance sheet items; early repayment of loans, deposit withdrawal (term and without term) or the difference in the movements of active and passive interest rates (basic (primary) risk).

The Bank's operations are exposed to the risk of changes in interest rates to the extent that interest-bearing assets and liabilities mature or their interest rates change in different periods or in different amounts. Risk management activities are directed to optimizing net interest income according to the Bank's business strategy, at the given market rates.

Activities of managing "asset-liability" risks are performed in the context of the Bank's sensitivity to interest rate changes. Exposure to risk of interest rate changes is a consequence of assets' and liabilities' items mismatch considering the possibility of interest rate changes, and it is supervised by applying an analysis of assets' and liabilities' mismatch. The aim of interest rate risk management is to secure an optimal and stable net interest margin, and thus net profit. Interest rate risk is minimized by accepting deposits and approving loans as well as with investments carrying fixed interest rates.

The main elements of the interest rate risk management are as follows:

- interest rate sensitivity analysis
- establishing internal limits and thresholds (limit of a decrease in economic value or maturity periods)
- control of performing/fulfilling/meeting the set limits;
- testing the resistance to stress for interest rate risk and the analysis of the results obtained;
- introducing hedging operations if required.

37. Risk management policies (continued)

37.5. Interest rate risk (continued)

The table below shows the carrying amounts of the Bank's assets and liabilities at 31 December 2015, classified into categories by the earlier of contractual repricing and maturity.

in thousands of HRK

2015	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Non-interest bearing	Total
ASSETS							
Cash	-	-	-	-	-	103,596	**103,596**
Receivables from the Croatian National Bank	-	-	-	-	-	226,137	**226,137**
Placements with banks	47,985	-	-	-	-	-	**47,985**
Financial assets available for sale	130,000	68,164	322,705	64,846	90,355	1,662	**677,732**
Financial assets held to maturity	10,000	9,200	-	24,403	4,775	201	**48,579**
Loans and advances to customers	146,790	158,797	1,115,722	271,454	63,597	136,143	**1,892,503**
Investment property	-	-	-	-	-	35,696	**35,696**
Property and equipment	-	-	-	-	-	15,595	**15,595**
Intangible assets	-	-	-	-	-	4,289	**4,289**
Foreclosed assets	-	-	-	-	-	24,539	24,539
Deferred tax assets	-	-	-	-	-	4,246	**4,246**
Other assets	-	-	-	-	-	27,670	27,670
Total assets	**334,775**	**236,161**	**1,438,427**	**360,703**	**158,727**	**579,774**	**3,108,567**
EQUITY AND LIABILITIES							
Liabilities to banks	38,972	-	70,561	-	-	370	**109,903**
Demand deposits	293	-	472,983	-	-	-	**473,276**
Term deposits	127,120	200,733	626,741	1,040,520	9,634	27,928	**2,032,676**
Borrowings	133,584	4,133	28,909	56,832	68,977	291	**292,726**
Other liabilities	-	-	-	-	-	9,769	9,769
Provisions	-	-	-	-	-	8,186	**8,186**
Total liabilities	**299,969**	**204,866**	**1,199,194**	**1,097,352**	**78,611**	**46,544**	**2,926,536**
EQUITY							
Share capital	-	-	-	-	-	474,600	**474,600**
Accumulated losses	-	-	-	-	-	(277,040)	**(277,040)**
Revaluation reserve	-	-	-	-	-	(395)	**(395)**
Loss for the year	-	-	-	-	-	(15,134)	**(15,134)**
Total equity	-	-	-	-	-	**182,031**	**182,031**
Total liabilities and equity	**299,969**	**204,866**	**1,199,194**	**1,097,352**	**78,611**	**228,575**	**3,108,567**
Net assets/liabilities and equity	**34,806**	**31,295**	**239,233**	**(736,649)**	**80,116**	**351,199**	-

37. Risk management policies (continued)

37.5 Interest rate risk (continued)

The table below shows the carrying amounts of the Bank's assets and liabilities at 31 December 2014, classified into categories by the earlier of contractual repricing and maturity.

2014	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Non-interest bearing	*in thousands of HRK* Total
ASSETS							
Cash	61,965	-	-	-	-	25,466	**87,431**
Receivables from the Croatian National Bank	26,838	-	181,610	-	-	-	**208,448**
Placements with banks	38,168	-	-	-	-	-	**38,168**
Financial assets available for sale	**100,000**	191,386	192,000	22,556	87,438	250	**593,630**
Financial assets held to maturity	10,000	11,000	22,000	15,323	2,853	-	**61,176**
Loans and advances to customers	675,893	189,462	745,485	63,562	51,002	181,090	**1,906,494**
Investment property	-	-	-	-	-	35,696	**35,696**
Property, plant and equipment	-	-	-	-	-	19,446	**19,446**
Intangible assets	-	-	-	-	-	2,530	**2,530**
Foreclosed assets	-	-	-	-	-	28,842	**28,842**
Deferred tax assets	-	-	-	-	-	21,545	**21,545**
Other assets	-	-	-	-	-	34,071	**34,071**
Total assets	**912,864**	**391,848**	**1,141,095**	**101,441**	**141,293**	**348,936**	**3,037,477**
EQUITY AND LIABILITIES							
Liabilities to banks	126,365	-	-	-	-	-	**126,365**
Demand deposits	343	-	565,923	-	-	1,466	**567,732**
Term deposits	198,844	330,027	1,113,295	250,666	6,430	-	**1,899,262**
Borrowings	4,123	3,673	27,471	66,217	101,930	-	**203,414**
Other liabilities	-	-	-	-	-	31,234	**31,234**
Provisions	-	-	-	-	-	9,301	**9,301**
Total liabilities	**329,675**	**333,700**	**1,706,689**	**316,883**	**108,360**	**42,001**	**2,837,308**
EQUITY							
Share capital	-	-	-	-	-	474,600	**474,600**
Accumulated losses	-	-	-	-	-	(280,959)	**(280,959)**
Revaluation reserve	-	-	-	-	-	2,609	**2,609**
Profit for the year	-	-	-	-	-	3,919	**3,919**
Total equity	-	-	-	-	-	**200,169**	**200,169**
Total liabilities and equity	**329,675**	**333,700**	**1,706,689**	**316,883**	**108,360**	**242,170**	**3,037,477**
Net assets/liabilities and equity	**583,189**	**58,148**	**(565,594)**	**(215,442)**	**32,933**	**106,766**	-

37. Risk management policies (continued)

37.5 Interest rate risk (continued)

The table below shows effective interest rates for interest-bearing assets and liabilities.

	2015	2014
	(in %)	*(in %)*
Assets		
Cash	0.00-0.15	0.00-0.15
Placements with banks	0.01-3.00	0.01-4.00
Financial assets available for sale	0.20-5.88	0.40-5.88
Loans and advances to customers	3.69-10.90	2.00-12.00
Equity and liabilities		
Liabilities to banks	0.00-1.20	0.15-3.50
Demand deposits	0.01-2.50	0.05-3.40
Term deposits	0.00-3.80	0.00-5.00
Borrowings	0.25-3.60	0.00-6.46

37.6. Price risk

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

37.7. Market risk measurement techniques

Measurement techniques used for measuring and controlling market risks are the Value at Risk (VaR) method and stress tests.

VaR method

The VaR method measures the Bank's maximum loss (the maximum expected loss) in case of unfavourable movements in FX exchange rates in a set time interval under normal market conditions and the set level of reliability on the basis of historical data.

Currency exposure limits

The Bank is obliged to adjust its operations so that at any time the following structural principles are followed:

- the total open FX position may not at any time exceed the legally prescribed rate of 25% of the Bank's regulatory capital,
- the Bank internally determines that the Bank's total open FX position does not exceed 25% of the Bank's regulatory capital,
- the maximum allowed open FX position in EUR amounts to 20% of the regulatory capital,
- the maximum allowed open FX position in USD amounts to 10% of the regulatory capital,
- the maximum allowed open FX position by individual currencies other than EUR and USD amounts to 5% of the regulatory capital.

37. Risk management policies (continued)

37.7 Market risk measurement techniques (continued)

	Internal limit	At 31.12.2015
Bank's total open FX position	25.00%	1.32%
Maximum open FX position in EUR	20.00%	0.75%
Maximum open FX position in USD	10.00%	0.48%
Maximum open FX position in other currencies	5.00%	0.36% for CHF

Daily VAR calculation

In accordance with the provisions of Basel II agreement on market risk measurement, the Bank has opted for the VaR method for calculating its FX position exposure to changes in foreign currency exchange rates (the impact of unfavourable movements in rates on the amount of open FX position).
For calculating VAR, the Bank develops the application of the Variance-Covariance Model, which implies the assessment of the present open risk on the basis of movements in exchange rates.
The Risk Management Service reports on the Bank's FX position under Value-at-Risk methodology on a daily basis, and to the ALCO at their meetings.

Stress tests

Stress test is a risk management technique used for assessing potential impacts of specific events and/or changes in several risk factors on the Bank's financial position.
The purpose of the stress test is to determine whether the Bank has an appropriate level of capital in case of the specific events and/or changes in several risk factors. These are unfavourable events that are difficult to foresee (extreme, but possible) and that impact the Bank's capital, risk profile and profit. The stress test may be divided into the scenario analysis and sensitivity analysis.
The scenario analysis is a stress test that analyses the impact of simultaneous changes of several risk factors on the Bank's financial position in clearly defined stress scenarios. The sensitivity analysis is a type of stress test that analyses the impact of a particular risk factor on the Bank's financial position without the stress cause being identified. The stress test is performed semi-annually.

In performing liquidity stress tests, the Bank assumes a liquidity shock on the market, such as deposit withdrawal or inability to place on the market the instruments the Bank possesses without incurring significant loss. In doing so, potential outflows are estimated under scenario and sensitivity analyses. In defining a scenario, the Bank considers the circumstances that may arise upon the expiry of a significant volume of deposits or losing a part of its unsecured sources of funding, including deposits from major customers etc. The baseline scenario used for the purpose of the analysis, with individual factors having two levels of disturbance intensity, are defined as follows:

1) Internal crisis of the Bank,
2) Market crisis
3) A combination of both.

VaR is not used in performing liquidity stress tests, as in extreme circumstances the losses exceed the expected losses in a much larger number of instances than envisaged using VaR.

37. Risk management policies (continued)

37.7 Market risk measurement techniques (continued)

Interest rate risk in the banking book

Interest rate risk in the banking book is the risk of loss arising from possible changes in interest rates that affect items in the Bank's banking book. For the purposes of the stress tests, the Bank uses simplified calculation of the changes in the economic value of the banking book, as defined in the Decision on the interest rate risk in the banking book. A change of 200 and 300 basis points is assumed, exceptionally 500 basis points.

In order to determine the weights over time horizons for a 300-bp change, the following weights are applied:

Time horizon	Time zones centers	Estimated modified duration	Weight (200bp)	Weight (300bp)	Weight (500bp)
Up to 1 month	0.50	0.04	0.08%	0.12%	0.20%
1 to 3 months	2.00	0.16	0.32%	0.48%	0.80%
3 to 6 months	4.50	0.36	0.72%	1.08%	1.80%
6 to 12 months	9.00	0.71	1.43%	2.13%	3.55%
1 to 2 years	1.50	1.38	2.77%	4.14%	6.90%
2 to 3 years	2.50	2.25	4.49%	6.75%	11.25%
3 to 4 years	3.50	3.07	6.14%	9.21%	15.35%
4 to 5 years	4.50	3.85	7.71%	11.55%	19.25%
5 to 7 years	6.00	5.08	10.15%	15.24%	25.40%
7 to 10 years	8.50	6.63	13.26%	19.89%	33.15%
10 to 15 years	12.50	8.92	17.84%	26.76%	44.60%
15 to 20 years	17.50	11.21	22.43%	33.63%	56.05%
Over 20 years	22.50	13.01	26.03%	39.03%	65.05%

The Bank performs the shock-test to determine the impact of a one-off increase or decrease of interest rates by 100 and 20 basis points over a one-year horizon.

The Bank has to align its operations so that the following structural principles are complied with at any time:

The economic value to regulatory capital, pursuant to the methodology of the CNB (200 bp) may never exceed the legally set rate of 20 percent of the Bank's regulatory capital.

in thousands of HRK

	Internal limit	**Internal early warning system**	**At 31.12.2015**
Economic value change / own funds	15%	10%	6.02%

37.8. Operational risk

The Bank is exposed to operational risk in all its business activities. The aim of operational risk management is identification of all observable forms of operational risk, its control and minimization of exposure.

The Bank is trying to accomplish optimal management of operational risk according to the principles defined by the regulator and Bank policies, and with the purpose of diminishing and mitigating operational risk. In relation to this the Bank collects data on operational risk events, follows key risk indicators, conducts scenario analysis,

37. Risk management policies (continued)

37.8. *Operational risk (continued)*

evaluates operational risk in its operations, reports to Management on operational risk exposure and proposes measures for diminishing, mitigating and transferring operational risk.

38. Fair value of financial assets and liabilities

The fair value of a financial instruments is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, the so-called exit price.

Table below summarises the year-end fair value estimates made by the Management Board.

	Carrying amount		Fair value	
	2015	**2014**	**2015**	**2014**
Financial assets				
Loans to and receivables from banks	47,985	38,168	47,985	38,168
Loans and receivables from customers	1,892,503	1,906,494	1,870,084	1,886,134
Financial liabilities				
Deposits from banks	109,903	126,365	109,903	126,365
Deposits from customers	2,505,952	2,466,994	2,437,062	2,434,305
Borrowings	292,726	203,414	292,726	202,845

Loans and receivables from customers and deposits from customers represent aggregate balances received from/owed to corporate and retail customers that bear interest at different average variable rates, and their effects are presented separately in the following tables.

Corporate customers	Carrying amount		Fair value	
	2015	**2014**	**2015**	**2014**
Financial assets				
Loans and receivables from customers	1,555,058	1,596,506	1,547,112	1,585,084
Financial liabilities				
Deposits from customers	668,256	1,435,424	661,334	1,410,385

Individuals	Carrying amount		Fair value	
	2015	**2014**	**2015**	**2014**
Financial assets				
Loans and receivables from customers	337,445	309,988	322,972	301,050
Financial liabilities				
Deposits from customers	1,837,696	1,031,570	1,775,728	1,023,920

38. Fair value of financial assets and liabilities (continued)

Set out below is an overview of key methods and assumptions used in estimating the fair values of financial instruments.

Loans to and receivables from banks

Loans and receivables are reported net of provision for impairment. The estimated fair value of loans and receivables represents future cash flows, discounted using the current market rates to arrive at the fair value of those assets.

Loans and receivables from customers

Loans and receivables are reported net of provision for impairment. The estimated fair value of loans and receivables represents discounted expected future cash flows Future cash flows are discounted using current market rates to arrive at their fair value. Future expected losses are not considered, and no adjustment is performed to reflect any amounts doubtful of collection (including timing uncertainty) for exposures under due and reprogrammed amounts as well as under exposures not yet due but required to be monitored more closely.

Deposits from banks

Fair value estimates of fixed-maturity deposits are based on expected cash flows discounted using current market rates on deposits with similar remaining maturities, but they may not be lower than the nominal amount of deposits that may be called by customers at any time.

Considering their short maturity, Management considers that their carrying amounts do not differ from their fair values.

Deposits from customers

The fair value estimate of fixed-maturity deposits is based on cash flows discounted at currently valid market rates on deposits with similar remaining maturities, however, the fair value cannot be lower than the nominal amount for those deposits that may be called by customers at any time. The value of client relationships is not taken into account in assessing the fair value.

39. Fair value of financial instruments

The fair value of a financial instruments is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, the so-called exit price. Available-for-sale financial assets are carried at fair value, except investments in treasury bills which are carried at discounted value at the balance sheet date.

40. Capital management

The main goal in managing the Bank's capital is to ensure the compliance with all regulatory capital requirements and maintain the credit rating and total capital adequacy to improve the operations.

The Bank manages its capital structure and adjusts it in accordance with changes in economic conditions and characteristics of its business risks.

In managing capital, the Bank also follows the principles of:

- Compliance with all legally prescribed capital requirements
- Maintaining the Bank's ability to continue operations and achieve the Bank's goals
- Maintaining the strong capital base that will enable a continued and sustainable development with the aim to achieve positive results in the income statement.

The Bank's regulatory capital and the total capital rate, calculated in accordance with the requirements of the Regulation (EU) no 575/2013 only for the Bank, were as follows:

in thousands of HRK

	2015	**2014**
Own funds		
Tier 1 capital		
Issued share capital	474,600	474,600
Share premium	-	-
Retained earnings (excluding the profit for the current year)	(277,040)	(280,960)
Loss for the year, net of dividends proposed	(15,134)	-
Legal, statutory and other reserves	-	-
Deductions pursuant to Regulation (EU) no. 575/2013 /i/	(7,459)	(22,465)
Total Tier 1 capital	174,967	171,175
Additional capital	-	-
Total additional capital	-	-
Deductions in respect of investments in banks and financial institutions	-	-
Total own funds	**174,967**	**171,175**

/i/ The amount includes deferred tax assets, intangible assets, unrealised losses on financial assets available for sale (not offset with gains) and 0.1% on the entire portfolio of financial assets available for sale.

As at 31 December 2015, the Bank's regulatory capital (own funds) amounts to HRK 174,967 thousand (2014: HRK 171,175 thousand).

40. Capital management (continued)

	2015	2014
		in thousands of HRK
Capital adequacy according to the Regulation EU No. 575/2014		
Capital requirements		
Credit risk exposure	75,324	91,972
Balance sheet items	*73,537*	*90,357*
Off-balance sheet items	*1,787*	*1,615*
Currency risk exposure	-	292
Operating risk exposure	12,639	10,749
Total capital requirement	**87,963**	**103,013**
Additional capital requirements		
Additional capital adequacy rate requirement	31,447	-
Capital conservation buffer	27,489	32,192
Systemic risk buffer	16,493	19,315
Total capital requirement	**163,392**	**154,520**
Common Equity Tier 1 capital ratio	**15.91%**	**13.29%**
Tier 1 capital ratio	**15.91%**	**13.29%**
Total capital ratio	**15.91%**	**13.29%**

The comparative information presents the capital adequacy in accordance with the requirements of the Regulation (EU) no. 575/2013. As at 31 December 2015, the total capital ratio is 15.91% (2014: 13.29%).

At 31 December 2015 the Bank complied with all capital requirements, as well as at 31 December 2014.

Legal reserve

The Companies Act requires that 5% of profit for the year is added to this reserve until 5% of issued share capital is reached. The legal reserve, amounting to 5% of the issued share capital, may be used to cover the current and prior year losses.

Fair value reserve

The fair value reserve includes unrealized gains and losses from changes in fair value of financial assets available for sale as well as foreign exchange differences resulting from non-monetary financial assets available for sale.

Accumulated losses

Accumulated losses include losses accumulated from previous years.

41. Accounting estimates and judgements in the application of the accounting policies

The Bank produces estimates and assumptions on uncertain events, including estimates and assumptions on the future. Such accounting assumptions and estimates are regularly reviewed, and they are based on historical experience and other factors, like the expected flow of future events that may be reasonably assumed in existing circumstances but, despite of this, inevitably represent the sources of estimate uncertainty. Evaluation of losses from impairment of a portfolio exposed to credit risk and evaluation of fair value of collateral in the form of real estate as an integral part of the evaluation, represents the most significant source of estimation uncertainty. This and other key sources of estimation uncertainty, that carry considerable risk of possible significant adjustments of assets' and liabilities' carrying value in the next business year, are described below.

a) Losses from impairment of loans and receivables

Chapter 3 'Basis of preparation of the financial statements' details the estimates and judgments made regarding loans and receivables.

Chapter 4 'Accounting policies' provides detailed explanations of the estimates and judgements applied to financial assets at amortised cost.

b) Deferred tax

The Bank recognizes deferred tax asset in line with management estimate. The management estimate is based on the Long-term business plan aimed at future profitable operations.

c) Regulatory requirements

The CNB and the Croatian Financial Services Supervisory Agency are authorized to exercise regulatory supervision over the Bank's operations and may impose the requirement to revise the assets' and liabilities' carrying amounts, in accordance with relevant regulations.

42. Concentrations of assets, liabilities and off-balance sheet items

Concentrations of assets, liabilities and off-balance sheet items are shown as follows:

in thousands of HRK

	31 December 2015			31 December 2014		
	Assets	Liabilities	Off-balance sheet items	Assets	Liabilities	Off-balance sheet items
Geographic region						
Republic of Croatia	3,033,157	2,958,141	163,515	2,964,768	2,889,820	257,708
Europe	64,804	78,686	1	46,852	62,911	-
Other	10,606	71,740	-	25,857	84,746	-
Total by geographical region	**3,108,567**	**3,108,567**	**163,516**	**3,037,477**	**3,037,477**	**257,708**
Sector						
Republic of Croatia (state)	738,394	198,815	15,926	619,243	47,613	2,552
Croatian National Bank	250,474	130,555	-	227,826	-	-
Trade and commerce	212,317	26,884	12,523	206,122	24,007	11,952
Finance	325,938	167,889	16,510	266,552	443,140	529
Tourist trade	41,271	2,764	2	36,938	2,499	1,185
Agriculture	175,903	9,526	3,444	192,490	662	5,138
Manufacturing	1,088,758	22,662	55,866	176,090	34,115	45,211
Individuals	270,043	1,836,543	14,014	194,115	1,577,876	17,914
Other	5,469	712,929	45,231	1,118,101	907,565	173,227
Total by sector	**3,108,567**	**3,108,567**	**163,516**	**3,037,477**	**3,037,477**	**257,708**
Allocated value of collateral	**1,736,871**	-	**68,524**	**1,532,430**	-	**185,645**

43. Subsequent events

There was a change in the Bank, at the beginning of 2016, in the composition of the Management Board members as follows:

Mladen Duliba - President (since 01.01.2016)

Joseph Lozančić - President (from 01.10.2015 to 31.12.2015)

There was a change in the Bank, at the beginning of 2016, in the composition of the Supervisory Board members as follows:

Mladen Duliba - President (until 31.12.2015)

Josip Lozančić - Member (from 01.01.2016)

Supplementary report for the Croatian National Bank

The statutory financial statements presented below were prepared under the reporting requirements and the financial reporting schedules determined by the CNB Decision on the structure and content of annual financial statements of banks (the 'Decision').

Balance sheet

in thousands of HRK

	2015	2014
1 CASH AND BALANCES WITH THE CNB (1.1+1.2)	277,961	256,139
1.1 Cash	27,498	26,012
1.2 Balances with the CNB	250,463	230,127
2 DEPOSITS WITH BANKING INSTITUTIONS	103,293	80,939
3 TREASURY BILLS OF THE MINISTRY OF FINANCE AND OF THE CNB	520,302	481,380
4 SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
5 SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	154,135	110,046
6 SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	48,378	61,354
7 SECURITIES AND OTHER FINANCIAL INSTRUMENTS AT FVTPL THAT ARE NOT ACTIVELY TRADED	-	-
8 DERIVATIVE FINANCIAL ASSETS	-	13
9 LOANS TO FINANCIAL INSTITUTIONS	25,366	9,981
10 LOANS AND ADVANCES TO OTHER CUSTOMERS	1,887,605	1,902,090
11 INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	-	-
12 FORECLOSED ASSETS	60,234	64,538
13 TANGIBLE ASSETS (NET OF DEPRECIATION)	15,706	19,623
14 INTEREST, FEES AND OTHER ASSETS	19,293	51,375
TOTAL ASSETS	**3,112,273**	**3,037,478**

LIABILITIES		
1 LOANS FROM FINANCIAL INSTITUTIONS (1.1+1.2)	292,435	202,925
1.1 Short-term borrowings	130,000	300
1.2 Long-term borrowings	162,435	202,625
2 DEPOSITS (2.1+2.2+2.3)	2,567,743	2,538,728
2.1 Balances on giro and current accounts	364,667	453,350
2.2 Savings deposits	127,767	112,915
2.3 Term deposits	2,075,308	1,972,462
3 OTHER BORROWED FUNDS (3.1+3.2)	-	-
3.1 Short-term borrowings	-	-
3.2 Long-term borrowings	-	-
4 DERIVATIVE FINANCIAL AND OTHER LIABILITIES HELD FOR TRADING	3	12
5 ISSUED DEBT SECURITIES (5.1+5.2)	-	-
5.1 Short-term debt securities issued	-	-
5.2 Long-term debt securities issued	-	-
6 SUBORDINATED INSTRUMENTS ISSUED	-	-
7 HYBRID INSTRUMENTS ISSUED	-	-
8 INTEREST, FEES AND OTHER LIABILITIES	69,566	95,644
TOTAL LIABILITIES	**2,930,242**	**2,837,309**

EQUITY		
1 SHARE CAPITAL	474,600	474,600
2 PROFIT/(LOSS) FOR THE YEAR	(15,134)	3,919
3 RETAINED PROFIT/(ACCUMULATED LOSSES)	(277,040)	-280,960
4 LEGAL RESERVES	-	-
5 STATUTORY AND OTHER CAPITAL RESERVES	-	-
6 UNREALISED GAINS/(LOSSES) ON REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	(395)	2,609
7 HEDGING RESERVE	-	-
TOTAL EQUITY	**182,031**	**200,169**
TOTAL EQUITY AND LIABILITIES	**3,112,273**	**3,037,478**

Supplementary report for the Croatian National Bank (continued)

Income statement

	2015	*in thousands of HRK* 2014
1 Interest income	148,904	142,212
2 Interest expense	(82,909)	(82,117)
3 Net interest income	**65,995**	**60,095**
4 Fee and commission income	13,357	10,656
5 Fee and commission expenses	(4,894)	(5,063)
6 Net fee and commission income	**8,463**	**5,593**
7 Gains/(losses) on investments in subsidiaries, associates and joint ventures	-	-
8 Trading gains/(losses)	4,105	3,954
9 Gains/(losses) on embedded derivatives	(3)	(2)
10 Gains / (losses) on assets at FVTPL not actively traded	-	-
11 Gains / (losses) on available-for-sale assets	4,115	6,445
12 Gains / (losses) on held-to-maturity (HTM) assets	-	-
13 Hedging gains/(losses)	-	-
14 Gains on investments in subsidiaries, associates and joint ventures	-	-
15 Gains on other equity investments	-	-
16 Foreign exchange gains/(losses)	(449)	67
17 Other income	8,798	9,013
18 Other expenses	(5,794)	0
19 General administrative expenses and depreciation	(66,013)	(67,870)
20 Net profit from operations before impairment and provisions for losses	**19,217**	**17,294**
21 Impairment losses and provisions	(16,954)	(12,158)
22 PROFIT BEFORE TAXATION	**2,263**	**5,136**
23 INCOME TAX	**(17,397)**	**1,217**
24 (LOSS)/PROFIT FOR THE YEAR	**(15,134)**	**3,919**
25 (Loss)/earnings per share	(3.19)	0.83

Supplementary report for the Croatian National Bank (continued)
Statement of cash flows

in thousands of HRK

ITEM	2015	2014
Operating activities		
Profit/(loss) before taxation	2,263	3,919
Impairment allowance and provisions for losses	22,835	12,740
Depreciation and amortisation	3,343	3,520
Net unrealised (gains)/losses on financial assets and liabilities at FVTPL	-	(1,025)
(Gains)/losses on sale of tangible assets	(1,070)	(4,054)
Other (gains) / losses	(1,307)	1,425
Operating cash flows before changes in operating assets	***26,064***	***16,525***
Balances with the CNB	(17,867)	(16,520)
Treasury bills of the Ministry of Finance and of the CNB	(38,921)	(296,601)
Deposits with banking institutions and loans to financial institutions	-	-
Loans and advances to other customers	(5,451)	(285,053)
Securities and other financial instruments available for sale	(45,181)	31,028
Securities and other financial instruments held for trading	-	5,081
Securities and other financial instruments at FVTPL that are not actively traded	-	-
Other operating assets	7,044	(3,927)
Net (increase) / decrease in operating assets	***(100,376)***	***(565,992)***
Demand deposits	(71,334)	288,274
Savings and term deposits	93,973	206,101
Other liabilities	(19,368)	9,658
Net increase / (decrease) in operating liabilities	***3,271***	***504,033***
Net cash flow from operations before income tax	(71,041)	(45,434)
Income taxes paid	-	
Net cash inflow / (outflow) from operating activities	**(71,041)**	**(45,434)**
Investing activities		
Proceeds from sale/(Payments for purchases) of tangible and intangible assets	3,919	11,376
Proceeds from sale of/Payments for investments in subsidiaries, associates and joint ventures	-	-
Proceeds from/(Payments to acquire) securities and other financial instruments held to maturity	12,592	(59,619)
Dividends received	-	-
Other receipts/(payments) from financing activities	(8,479)	(8,939)
Net cash from investing activities	**8,032**	**(57,182)**
Financing activities		
Net increase/(decrease) in borrowings	89,312	(98,233)
Net increase/decrease of issued debt securities	-	-
Net increase/(decrease) in subordinated and hybrid instruments	-	-
Other receipts/(payments) from financing activities	-	-
Increase in share capital	-	-
Net cash from financing activities	**89,312**	**(98,233)**
Net increase / (decrease) in cash and cash equivalents	**26,303**	**(200,849)**
Cash and cash equivalents, beginning of the year	**126,531**	**327,380**
Cash and cash equivalents at the end of the year	**152,834**	**126,531**

Supplementary report for the Croatian National Bank (continued)

Statement of changes in equity

in thousands of HRK

Type of change in equity	Share capital	Retained earnings / (Accumulated losses)	Profit/(Loss) for the year	Unrealised gains/losses on revaluation of financial assets available for sale	Total equity
At 1 January of the current year	**474,600**	**(280,959)**	**3,919**	**2,609**	**200,169**
Change in the fair value of financial assets available for sale	-	-	-	(3,004)	(3,004)
Net gains/losses recognised directly in equity	-	-	-	-	-
Profit/(Loss) for the year		-	(15,134)		(15,134)
Total recognised income and expenses for the year	-	-	-	-	-
Increase/Decrease in share capital	-	-	-	-	-
Other changes	-	3,919	(3,919)	-	-
Balance at 31 December of the current year	**474,600**	**(277,040)**	**(15,134)**	**(395)**	**182,031**

Supplementary report for the Croatian National Bank (continued)

Balance sheet reconciliation at 31.12.2015

in thousands of HRK

ITEM	Under CNB Decision	Under Annual Report	Difference
Assets			
1 CASH AND BALANCES WITH THE CNB (1.1+1.2)	**277,961**	-	**277,961**
1.1 Cash	27,498	-	27,498
1.2 Balances with the CNB	250,463	-	250,463
2 DEPOSITS WITH BANKING INSTITUTIONS	103,293	-	103,293
Cash	-	103,596	(103,596)
Balances with the CNB	-	226,137	(226,137)
Placements with banks	-	47,985	(47,985)
3 TREASURY BILLS OF THE MINISTRY OF FINANCE AND OF THE CNB	520,302	-	520,302
4 SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-	-
5 SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	154,135	677,732	(523,597)
6 SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	48,378	48,579	(201)
7 SECURITIES AND OTHER FINANCIAL INSTRUMENTS AT FVTPL THAT ARE NOT ACTIVELY TRADED	-	-	-
8 DERIVATIVE FINANCIAL ASSETS	-	-	-
9 LOANS TO FINANCIAL INSTITUTIONS	25,366	-	25,366
10 LOANS AND ADVANCES TO OTHER CUSTOMERS	1,887,605	1,892,503	(4,898)
11 INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	-	-	-
12 FORECLOSED ASSETS	60,234	28,150	35,696
13 TANGIBLE ASSETS (NET OF DEPRECIATION)	15,706	15,595	111
Investment property		35,696	(35,696)
Intangible assets	-	4,289	(4,289)
Deferred tax assets	-	4,246	(4,246)
14 INTEREST, FEES AND OTHER ASSETS	19,293	27,670	(8,377)
TOTAL ASSETS	**3,112,273**	**3,108,567**	**3,706**

Supplementary report for the Croatian National Bank (continued)

Balance sheet reconciliation at 31.12.2015 (continued)

ITEM	Under CNB Decision	Under Annual Report	Difference
Liabilities and equity			
1 LOANS FROM FINANCIAL INSTITUTIONS (1.1+1.2)	292,931	292,726	205
1.1 Short-term borrowings	130,000	-	130,000
1.2 Long-term borrowings	162,931	-	162,931
Borrowings	-	292,726	(292,726)
2 DEPOSITS (2.1+2.2+2.3)	2,567,742	2,615,855	(48,113)
2.1 Balances on giro and current accounts	364,667	-	364,667
2.2 Savings deposits	127,767	-	127,767
2.3 Term deposits	2,075,308	2,032,676	42,632
Demand deposits	-	473,276	(473,276)
Liabilities to banks	-	109,903	(109,903)
3 OTHER BORROWED FUNDS (3.1+3.2)	-	-	-
3.1 Short-term borrowings	-	-	-
3.2 Long-term borrowings	-	-	-
4 DERIVATIVE FINANCIAL AND OTHER LIABILITIES HELD FOR TRADING	3	-	3
5 ISSUED DEBT SECURITIES (5.1+5.2)	-	-	-
5.1 Short-term debt securities issued	-	-	-
5.2 Long-term debt securities issued	-	-	-
6 SUBORDINATED INSTRUMENTS ISSUED	-	-	-
7 HYBRID INSTRUMENTS ISSUED	-	-	-
8 INTEREST, FEES AND OTHER LIABILITIES	69,566	9,769	59,797
Provisions	-	8,186	(8,186)
TOTAL LIABILITIES (1+2+3+4+5+6+7+8)	**2,930,242**	**2,926,536**	**3,706**
Equity			
1 SHARE CAPITAL	474,600	474,600	-
2 PROFIT/(LOSS) FOR THE YEAR	(15,134)	(15,134)	-
3 RETAINED PROFIT/(ACCUMULATED LOSSES)	(277,040)	(277,040)	-
4 LEGAL RESERVES	-	-	-
5 STATUTORY AND OTHER CAPITAL RESERVES	-	-	-
6 UNREALISED GAINS/(LOSSES) ON REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	(395)	(395)	-
7 HEDGING RESERVE	-	-	-
TOTAL EQUITY	**182,031**	**182,031**	**-**
TOTAL LIABILITIES AND EQUITY	**3,112,273**	**3,108,567**	**3,706**

Supplementary report for the Croatian National Bank (continued)

Balance sheet reconciliation at 31.12.2015 (continued)

The departures on the items included in the Annual Report versus the standard under the CNB Decision comprise the following:

ASSETS

Cash and deposits with the CNB, Deposits with banking institutions and Loans to financial institutions are items separately shown under the CNB standard, while in the Annual report those items are shown within the items Cash, Receivables from the CNB and Placements with banks. The CNB reporting line items Specific reserves for identified losses on a collective basis is included in Interest, fees and other assets, whereas in the Annual Report they are presented along with the items to which they relate.

Treasury bills of the Ministry of Finance and Securities and other financial instruments available for sale, disclosed separately under the CNB standard, are aggregated in the Annual Report under Financial assets available for sale.

The line item 'Loans and advances to customers' reported in the Annual report includes loan principal and the related accrued interest reduced by portfolio-based i.e. collective and individual provisions less overpaid loans and collected interest income relating to future periods. The CNB report line items 'Loans to other customers' and 'Loans to financial institutions' include principal amounts reduced by individual provisions, whereas collective provisions and accrued interest are presented under the line item 'Interest, fees and other assets', and overpaid loans and collected interest income relating to future periods under the line item 'Interest, fees and other liabilities'.

In addition, Tangible assets disclosed under the CNB decision include inventories which are presented in the Annual Report under Other assets.

Intangible assets are presented in the Annual Report separately, while in the CNB report they are included in Interest, fees and other assets. In addition, Interest, fees and other assets disclosed under the CNB requirements relate to the related receivables, whereas in the Annual Report interest receivable is presented along with the items it relates to.

LIABILITIES AND EQUITY

Loans from financial institutions (both short-term and long-term) and other loans are items that are presented separately under the CNB standard, and in the Annual Report they are included in Borrowings.

Giro account and current account balances, Savings deposits and Term deposits represent items under the CNB standard, while in the Annual Report they are included under line items Demand deposits, Term deposits and Liabilities to banks.

Restricted deposits are also included in the Interest, fees and other liabilities under the CNB disclosure requirements, and in the Annual Report they are presented under Demand deposits.

Derivative financial liabilities are shown separately in the CNB report, while in the Annual Report they are shown within the item Other liabilities.

Interest, fees and other liabilities is a separate line item under the CNB presentation requirements, and in the Annual Report the individual components are included in Borrowings, Term deposits, Liabilities to banks, Provisions and Other liabilities, as appropriate.

Supplementary report for the Croatian National Bank (continued)

Reconciliation of profit and loss items at 31.12.2015

in thousands of HRK

ITEM	Under CNB Decision	Under Annual Report	Difference
1 Interest income	148,904	149,034	(130)
2 Interest expense	(82,909)	(82,966)	57
3 Net interest income	**65,995**	**66,068**	**(73)**
4 Fee and commission income	13,357	13,357	-
5 Fee and commission expenses	(4,894)	(4,894)	-
6 Net fee and commission income	**8,463**	**8,463**	-
7 Gains/(losses) on investments in subsidiaries, associates and joint ventures	-	-	-
8 Trading gains/(losses)	4,105	-	4,105
9 Gains/(losses) on embedded derivatives	(3)	-	(3)
10 Gains/(losses) on assets at FVTPL not actively traded	-	-	-
Net financial (losses) gains	-	4,385	(4,385)
Net gains from exchange differences	-	3,628	(3,628)
11 Gains/(losses) on available-for-sale assets	4,115	-	4,115
12 Gains/(losses) on held-to-maturity (HTM) assets	-	-	-
13 Hedging gains/(losses)	-	-	-
14 Gains on investments in subsidiaries, associates and joint ventures	-	-	-
15 Gains on other equity investments	-	-	-
16 Foreign exchange gains/(losses)	(449)	-	(449)
17 Other income	8,798	6,290	2,508
18 Other expenses	(5,794)	-	(5,794)
19 General administrative expenses and depreciation	(66,013)	-	(66,013)
Other operating expenses	-	(64,908)	64,908
20 Net profit from operations before impairment and provisions for losses	**19,217**	**23,926**	**(4,709)**
21 Impairment losses and provisions	(16,954)	(21,663)	**4,709**
22 PROFIT BEFORE TAXATION	**2,263**	**2,263**	-
23 INCOME TAX	**(17,397)**	**(17,397)**	-
24 LOSS FOR THE YEAR	**(15,134)**	**(15,134)**	-
25 Loss per share	(3.19)	(3.19)	-

Supplementary report for the Croatian National Bank (continued)

Reconciliation of profit and loss items at 31.12.2015 (continued)

The line items Interest income/Interest expense under the CNB standard include Net foreign exchange gains which are reported in the Annual Report under Net foreign exchange gains.

Under the CNB standard, Trading gains/(losses), Gains/(losses) on embedded derivatives, Gains/(losses) on exchange differences and the already mentioned net exchange differences on interest income/expense are presented in the Annual Report, except for exchange differences on provisions which are included in the CNB report in Impairment and provisions for losses.

Furthermore, under the CNB standards, Gains/(losses) on available for sale assets and Gains on other equity investments are combined under Net financial (loss)/gains in the Annual Report.

Items Other expenses, General administrative expenses and depreciation under the CNB standard comprise the line item Other operating expenses in the Annual Report, and the difference relates to provisions for legal actions initiated against the Bank and to provisions for liabilities to employees which were included in the Annual Report in Impairment allowance and provisions for losses.

Supplementary report for the Croatian National Bank (continued)

Reconciliation of the Statements of cash flows for 2015

ITEM	Under CNB Decision	Under Annual Report	Difference
Operating activities			
Profit/(loss) before taxation	2,263	2,263	-
Impairment allowance and provisions for losses	22,835	-	22,835
Impairment allowance on loans and other assets (net)	-	22,835	(22,835)
Provisions for contingent liabilities (net)	-	(973)	973
Litigation provision (net)	-	(1,683)	1,683
Other provisions (net)	-	(663)	663
Depreciation and amortisation	3,343	3,343	-
Net unrealised (gains)/losses on financial assets and liabilities at FVTPL	-	-	-
(Gains)/losses on sale of tangible assets	(1,070)	(1,070)	-
Foreign exchange differences on translation	-	429	(429)
Write-offs of tangible assets	-	2,602	(2,602)
(Gains)/losses on realisation of available-for-sale assets	-	(4,115)	4,115
Gains on trading financial assets at fair value	-	(270)	270
Other (gains) / losses	(1,307)	-	(1,307)
Operating cash flows before changes in operating assets	***26,064***	***26,064***	-
Balances with the CNB	(17,867)	-	(17,867)
Decrease / Increase in receivables from the Croatian National Bank	-	(17,867)	17,867
Treasury bills of the Ministry of Finance and of the CNB	(38,921)	-	(38,921)
Deposits with banking institutions and loans to financial institutions	-	-	-
Loans and advances to other customers	(5,451)	-	(5,451)
(Increase) in loans and advances to customers	-	(5,451)	5,451
Securities and other financial instruments available for sale	(45,181)	-	(45,181)
Securities and other financial instruments held for trading	-	-	-
Securities and other financial instruments at FVTPL that are not actively traded	-	-	-
Other operating assets	7,044	5,782	1,262
Net (increase) / decrease in operating assets	***(100,376)***	***(17,536)***	***(82,840)***
Demand deposits	(71,334)	(94,456)	23,122
Savings and term deposits	93,973	132,043	(38,070)
Increase/(decrease) in liabilities to other banks	-	(16,462)	16,462
Other liabilities	(19,368)	(22,627)	3,259
Net increase / (decrease) in operating liabilities	***3,271***	***(1,502)***	***4,773***
Net cash flow from operations before income tax	(71,041)	7,026	(78,067)
Income taxes paid	-	-	-
Net cash inflow / (outflow) from operating activities	**(71,041)**	**7,026**	**(78,067)**
Investing activities			
Proceeds from sale/(Payments for purchases) of tangible and intangible assets	3,919	-	3,919
Proceeds from sale of/Payments for investments in subsidiaries, associates and joint ventures	-	-	-
Proceeds from/(Payments to acquire) securities and other financial instruments held to maturity	12,592	-	12,592
Sale of financial assets available for sale	-	825,489	(825,489)

Purchase of financial assets available for sale		(908,309)	908,309
Decrease in financial assets held to maturity	-	12,719	(12,719)
Purchases of property, equipment and intangible assets	-	(3,853)	3,853
Decrease/(increase) in foreclosed assets		3,919	(3,919)
Dividends received	-	-	-
Other receipts/(payments) from financing activities	(8,479)	-	(8,479)
Net cash from investing activities	**8,032**	**(70,035)**	**78,067**
Financing activities			
Net increase/(decrease) in borrowings	89,312	-	89,312
Proceeds from borrowings, net	-	89,312	(89,312)
Net increase/decrease of issued debt securities	-	-	-
Net increase/(decrease) in subordinated and hybrid instruments	-	-	-
Other receipts/(payments) from financing activities	-	-	-
Increase in share capital	-	-	-
Net cash from financing activities	**89,312**	**89,312**	-
Net increase / (decrease) in cash and cash equivalents	**26,303**	**26,303**	-
Cash and cash equivalents, beginning of the year	**126,531**	**126,531**	-
			-
Cash and cash equivalents at the end of the year	**152,834**	**152,834**	-

The departures on the items included in the Annual Report versus the standard under the CNB Decision comprise the following:

According to the CNB standard, Impairment allowance and provisions for losses as a single amount, while in the Annual Report they are shown within the items Impairment of loans and other assets, Provisions for contingent liabilities, Provisions for judicial proceedings and Other provisions.

MoF treasury bills under the CNB standard, together with items Securities and other financial instruments available for sale and Securities and other financial instruments held for trading are presented in the Annual Report within Investing activities, while under the CNB standard they are presented within Operating activities.

Supplementary report for the Croatian National Bank (continued)

In accordance with Article 164 of the Credit Institutions Act, the Bank is required to disclose the following information relating to the previous financial year:

1. Banking and financial services provided, the nature of its activities and the geographic location of services provision;
2. Amount of total income;
3. Number of employees on a full-time equivalent basis;
4. Amount of income tax; and
5. The amount of state subsidies received

Supplementary report for the Croatian National Bank (continued)

Ad.1.

In accordance with the Credit Institutions Act, the Bank engages in the following banking and financial services in the country and abroad:

- Receiving cash deposits,
- Granting of loans and other placements on its own behalf and for its own account,
- Issuing means of payment in the form of electronic money,
- Issuing guarantees and other commitments,
- Factoring,
- Finance leasing,
- Lending, including customer loans, mortgage loans and financing commercial transactions (including forfeiting),
- Trading on its own behalf and for its own account or on its own behalf and for the account of the client: money market instruments and other transferable securities, foreign currencies, including currency exchange, financial futures and options, currency and interest rate instruments,
- Payment transactions in the country and abroad in accordance with special laws,
- Collection, analysis and provision of information on the creditworthiness of legal entities and natural persons who perform activities independently,
- Issuing and management of payment instruments,
- Rental of safe deposit boxes,
- Representation in insurance,
- Receipt and transfer of orders in relation to one or more financial instruments,
- Execution of orders on behalf of clients,
- Trading for own account,
- Underwriting services, i.e. the sale of financial instruments with a purchase obligation,
- Underwriting Services, i.e. the sale of financial instruments without a purchase obligation,
- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash management and security instruments,
- Providing loans to investors to allow carrying out transactions with one or more financial instruments, if the transactions involve a company that grants loans,
- Foreign exchange services, if related to the provision of investment services,
- Services related to underwriting or selling financial instruments with a purchase obligation.

In accordance with the National Classification of Activities, the activities of Croatia banka are defined as: 64.19 Other monetary intermediation.
In 2015 Croatia banka performed its activities in the Republic of Croatia.

Ad.2.

In 2015, Croatia banka realised a total net income of HRK 88,834 thousand.

Ad.3.

As at 31 December 2014, Croatia banka had 209 employees based on the number of hours of work, but at the end of 2015 the actual number of employees was 219.

Supplementary report for the Croatian National Bank (continued)

Ad.4.

Income tax expense represents the sum of the tax currently payable and deferred tax. The Bank realised a taxable profit for 2015, but has no obligation to pay income tax because it utilises the benefit of tax losses brought forward from 2012 and 2013.

The amount reported under income tax relates to reversal of deferred tax assets in respect of tax losses upon the revision of the Long-term financial plan and to net deferred tax assets on prepaid/paid benefits.

Ad.5.

In 2015 Croatia banka did not receive any state subsidies.

SEAT:

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Website	www.croatiabanka.hr
Telephone	0800 57 57
Fax	01 2391 244
E-mail	info@croatiabanka.hr
IBAN:	HR0324850031000009027

BUSINESS NETWORK

The City	Address	Phone	Fax
Bjelovar Branch	Ulica Petra Zrinskog 14 43000 Bjelovar	043 241 610 043 241 611	043 241 612
Čakovec Branch	Ulica Ivana Mažuranića 2 40000 Čakovec	040 310 160 040 311 672	040 310 643
Drenovci Branch	Veliki šor 2 32257 Drenovci	032 862 842 032 862 843	032 862 844
Metković Branch	Ulica S.Radića 8 20350 Metković	020 681 013 020 681 082	020 681 089
Osijek Branch	Šamačka ulica 1 31000 Osijek	031 203 001 031 203 005	031 203 002
Poreč Branch	Zagrebačka 2 52440 Poreč	052 451 202 052 451 304	052 451 505
Požega Branch	Šamačka ulica 3 34000 Osijek	034 274 460	034 274 440
Rijeka Branch	Riva Boduli 1 51000 Rijeka	051 214 927 051 214 957	051 214 947
35000 Slavonski Brod	Petra Krešimira IV 3 35000 Slavonski Brod	035 442 112	035 442 110
Split Branch	Ulica Matice Hrvatske 1 21000 Split	021 539 795	021 539 794
Vinkovci Branch	Duga ulica b.b. 32100 Vinkovci	032 331 377 032 331 453	032 331 213

The City	Address	Phone	Fax
Virovitica Branch	Trg kralja Zvonimira 10 33000 Virovitica	033 725 441	033 725 602
Vukovar Branch	Josipa Jurja Strossmayera 5 32000 Vukovar	032 450 520	032 450 490
Zadar Branch	Ulica Franje Tuđmana 46 23000 Zadar	023 305 294 023 305 055	023 305 130
Šubićeva Outlet, Zagreb	Šubićeva 67 10000 Zagreb	01 4623 024	01 4623 027
Zagreb Branch / Sky Office Outlet	R.F. Mihanovića 9 10110 Zagreb	01 2391 667 01 2391 282	01 2391 240
Županja Branch	Strossmayerova 5 32270 Županja	032 831 051	032 833 424