KentBank d.d.

ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2015

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ANNUAL REPORT

About the Bank

In 1998, Štedionica Brod was founded which grew into Banka Brod d.d. in 2002 with its headquarters in Slavonski Brod and a founding share capital of HRK 20,216 thousand. In July 2005, Banka Brod d.d. had a capital increase following which the total share capital amounted to HRK 41,158 thousand.

In July 2011, the Eksen Holding (the Süzer Group) took over Banka Brod d.d. and at the beginning of 2012, it increased the capital by an additional EUR 10 million, to HRK 117,029 thousand. In 2015 Eksen Holding changed its name to Süzer Holding. In April 2013, the majority owner increased the capital by a further EUR 10 million and as of 31 December 2013 the ordinary share capital amounted to HRK 192,025 thousand. In 2014 the majority owner additionally increased the capital by a further EUR 5 million and as of 31 December 2014 the ordinary share capital amounted to HRK 230,235 thousand. In 2015, an additional capital of EUR 5 million was paid in and the ordinary share capital amounts to HRK 268,333 thousand. The Bank had not acquired its own shares in the previous financial years.

In addition to the ordinary shares described above, Banka Brod d.d. has issued preference shares in an amount of HRK 9,679 thousand (presented in the financial statements increased by interest payable in a total amount of HRK 11,227 thousand) which are classified as a liability in the statement of financial position, but which are included as a capital in the calculation of the capital adequacy, and which are also registered with the Commercial Court of Zagreb.

In July 2012, the Bank changed its name to KentBank d.d. ("the Bank") and moved its headquarters to Zagreb (Gundulićeva 1). At that time, the Bank had 9 branches (in Zagreb, Slavonski Brod, Požega, Nova Gradiška, Osijek, Pula, Rijeka) and 2 affiliated branches (in Zagreb and Slavonski Brod). During 2012 and 2013, the Bank opened new branches in Zagreb, Split and Dubrovnik. In 2015, new branches in Zadar and Varaždin were opened.

Over the past three years, the Management Board and the Owner of the Bank have been investing considerable effort in modernization and business improvement. The most important achievements during this period include the modernization of business systems and processes, the expansion of the branch network and the strengthening of the balance sheet.

About the Süzer Group

The Süzer Group was established in Gaziantep in 1952, as a local construction and trading company. The Group grew by rapid, yet balanced expansion beginning in the 1960's and the 1970's in the fields of construction, tourism and foreign trade. With the liberalization of the Turkish economy starting in the 1980s the Group embarked on a new phase of expansion, becoming in due course one of the few Turkish companies whose foreign trade volume exceeds one billion dollars. Today Süzer Group represents Turkey in the international field and has partnerships with world-wide leaders in their own sectors and is one of the leading groups of Turkey with a sustainable growth mission, an innovative vision and domestic, as well as foreign investments.

About Süzer Group (continued)

The Süzer Group portfolio covers a wide range of sectors including real estate development, retail, finance, tourism, service and energy. In Turkey, Süzer Group owns the Ritz Carlton Hotel in Istanbul. Its energy interests are represented by a majority share of Bahçeşehir Gas Distribution Inc., which is the first private company dealing with natural gas distribution in Turkey. The latest projects of the Süzer Group comprise real estate development in the United States. The Group plans to realize residence and luxurious hotel projects in New York and Miami. Within the scope of the foreign investment strategy of Süzer Group, a joint venture agreement was concluded in 2014 for the construction of HEPP Hydroelectric Power Plant to be constructed on the river Drini in Peshkopi, the region of Debre in Albania.

Business activities of the Bank

Kentbank provides banking services based on the activities registered in the court register, comprising corporate and retail banking. In an effort to improve its position on the market, the Bank proceeded with development of new products in 2015. Moreover, in 2015 the Bank expanded its activities and registered for two more of them, i.e. the issuing of electronic money and insurance brokerage.

Operations of the Bank in 2015

On 31 December 2015, the total assets of the Bank amounted to HRK 1,354,826 thousand, representing a growth of 15% compared to 31 December 2014, while the category of customer loans recorded an increase of 25%, with loans amounting to HRK 747,284 thousand on 31 December 2015. During 2015, the share of the corporate loans in the total loans increased in relation to previous years. The ratio between the retail and the corporate gross loans at the end of 2015 was 53% compared to 47%, while at the end of 2014 it was 49% compared to 51%. The deposits grew by 14%.

The majority owner increased the ordinary share capital in 2015 by HRK 38,098 thousand, after which the ordinary share capital of the Bank amounts to HRK 268,333 thousand. In 2015, the Bank generated HRK 68 million of interest income, while the interest expenses amounted to HRK 28 million. Net interest income amounted to HRK 39 million and it increased by 15% in relation to the previous year. Net income from fees and commissions in 2015 amounted to HRK 5 million, which is a 30% increase compared to the previous year.

By the end of 2015, the Bank recorded a positive result. It reflects an increase in business activities over the last three years as the Bank has expanded its network and activities. In the course of 2015, net specific provision expenses decreased by 48% compared to 2014 due to enhanced collection efforts and absence of new large defaults. During 2015, expenses for unidentified losses amounted to HRK 1 million.

Operations of the Bank in 2015 (continued)

The result of the Bank was influenced by the legislation related to valuation of CHF loans which was enacted in 2015.

On 23 January 2015, the Croatian Parliament adopted the Amendment to the Law on Consumer Lending which was effective from the same date and it was applicable to all the CHF denominated loans and loans linked to CHF (currency clause). The Amendment administratively fixed the CHF exchange rate for the instalments regularly maturing in the following 12 months at HRK 6.39 clearly stating that the fixing is done at the expense of the credit institutions. The impact on the 2015 financial statements was the expense in an amount of HRK 193 thousand.

On 22 September 2015, the Act Amending the Consumer Credit Act was adopted by which, as a permanent measure, the conversion of CHF loans into EUR was regulated. The Amendment came into force on 30 September 2015. Total expense of the Bank, as a result of the conversion, is HRK 647 thousand.

Financial risk management

The operations of the Bank are exposed to various types of risks, which arise from the uncontrollable character of the financial market. The Bank tries to control and minimize them. The most significant types of financial risks to which the Bank is exposed are the credit risk, the liquidity risk and the market risk. The market risk includes the risk of change of interest rates, the risk of change of foreign exchange rates and the change of market value of securities.

a) Credit risk

Credit risk management is described in notes 28, 29 and 34b to the financial statements.

b) Liquidity risk

Liquidity risk management is described in notes 30 and 34c to the financial statements.

c) Market risk

Market risk management is described in notes 31, 32, 33 and 34d to the financial statements.

d) Operational risk management

Operational risk management is described in note 34f to the financial statements.

ANNUAL REPORT (CONTINUED)

Corporate governance

In accordance with the relevant legislation and for the purpose of establishing high standards of corporate governance, the KentBank d.d., as a joint-stock company with the preference shares listed on the Multilateral Trading Facility on the Zagreb Stock Exchange d.d., applies in its operations the Code of Corporate Governance set by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange.

The corporate values which we use in daily operations include not only commercial success, but also care for people, the environment and the overall improvement of the quality of life of the community in which we operate.

General Assembly

At the end of the fiscal year, the ordinary share capital of the Bank consisted of 70,614 ordinary shares and 2,547 preference shares, with a nominal value of HRK 3,800.00. The majority owner, Suzer Holding Anonim Sirketi, holded all the ordinary shares at the end of 2015. The additional capital in 2015 was paid by the majority shareholder of the Bank. In the previous period, the Bank has not repurchased any own shares nor does it have such intention in the coming period.

Supervisory Board

During 2015, the Supervisory Board of the Bank consisted of three members. Their term of office is four years and they may be reappointed. After the changes in the membership of the Supervisory Board, it currently has two members chosen by the majority shareholder pursuant to the Companies Act and one independent member.

The powers of the Supervisory Board are governed by the Articles of Association of the Bank and by the Operating Procedures Manual of the Supervisory Board, in accordance with the applicable provisions of the Companies Act and the Credit Institutions Act.

The members of the Supervisory Board in office from 1 January 2015 to the date of issuance of these financial statements, are as follows:

Mehmet Koçak	President of the Supervisory Board
Hakan Özgüz	Deputy President of the Supervisory Board
Boris Zenić	Supervisory Board Member

ANNUAL REPORT (CONTINUED)

Supervisory Board (continued)

The Supervisory Board established an Audit and Risk Committee which consists of all the members of the Supervisory Board. The role of the Audit and Risk Committee is to assist the Supervisory Board in performing the function of supervising the operations of the Bank, and particularly the following:

- Monitoring financial reporting process;
- Monitoring the effectiveness of the internal control systems, the internal audit and the risk management system;
- Analyzing internal audit reports and taking positions in this regard;
- Monitoring audits of the annual financial and consolidated statements;
- Monitoring the independence of the external audit company that performs the audit of the financial statements, particularly with regard to contracts for additional services;
- Cooperating with the external auditor;
- Discussing the annual internal audit plan, the report and the significant issues related to this area;
- Performing other activities in accordance with the applicable regulations and the internal document governing the work of the Committee.

Management Board

In accordance with the provisions of the Articles of Association of the Bank, the Management Board may consist of up to five (5) members. The members of the Management Board, including the President of the Management Board, may be appointed by the Supervisory Board for a term of up to five (5) years, with possibility of re-election. Only the person who meets the conditions prescribed by the Credit Institutions Act, the Companies Act and the Decision on Suitability of the Croatian National Bank (CNB) may be appointed member of the Management Board with prior approval from the Croatian National Bank.

The Management Board has rights, duties and obligations prescribed by the Companies Act, the Credit Institutions Act and the Articles of Association of the Bank. The Management Board manages the operations of the Bank and its assets and it has the responsibility and the powers to take all the actions and make all the decisions necessary for successful management of the operations of the Bank and its performance.

The members of the Management Board in office from 1 January 2015 to the date of issuance of these financial statements, are as follows:

Ivo Bilić	President of the Management Board (appointed on 19 February 2015)
Mehmet Murat Sabaz	President of the Management Board (resigned on 18 February 2015)
Emir Deldag	Management Board Member (appointed on 24 February 2015)
Mićo Tomičić	Management Board Member (mandate expired on 15 December 2015)

ANNUAL REPORT (CONTINUED)

Development plan

The basic strategic direction of the Bank is to achieve continuous growth of the banking activities which will ensure the preservation of the loan portfolio quality, good liquidity management practice and capital adequacy, i.e. income growth and profit realization.

The key concept of the operations of the Bank is an individual approach to clients, as well as flexibility and efficiency in decision-making in relation to the larger banking system. Moreover, after changing the owner, the Bank expanded its network and product range to ensure healthy growth and to become an international bank rather than a regional bank.

In 2015, significant investments were made in the Bank's operations and infrastructure, which should be the base supporting future activities and growth. Apart from the introduction of numerous new products, in 2015 the Bank introduced the card business and set up an ATM network. Furthermore, the Bank launched the sales of insurance policies at the end of 2015.

As part of the Bank's strengthened HR structure, the collection department and the SME department were introduced within the internal reorganization.

Strategic objectives

- Improvement of sales orientation;
- Generating a positive business result;
- An increase of the customer base;
- The orientation to SME clients;
- With the introduction of new products, establish the KentBank as a flexible, efficient and innovative bank that creates value for shareholders, clients, employees and the environment in which it works and operates;
- Strengthening and expanding trade finance business;
- Enhancement of collection.

In the coming period and in accordance with the applicable regulations and economic circumstances, the Bank intends to continue its activities aimed at establishing the Bank as a dynamic, fast, flexible, efficient, innovative organization, capable of creating new values for shareholders, clients, employees and the environment in which it works and operates.

The Management Board, together with the Bank's team, will continuously work on improving the management system of the business processes, the risk management system, the expansion of the product range and the branch network, increasing the Bank's market share and enhancing the overall stability and reputation of the Bank.

For and on behalf of KentBank d.d.

Ivo Bilić
President of the Management Board

Emir Deldag
Member of the Management Board

KENTBANK d.d.
Zagreb

Responsibilities of the Management and Supervisory Boards for the preparation of the annual report and preparation and approval of the annual financial statements

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

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

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

The financial statements set out on pages 12 to 70 as well as the schedules prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 30 May 2008 (Official Gazette 62/08) presented on pages 71-74 with the reconciliation to statutory financial statements presented on pages 75 to 78 were authorised by the Management Board on 15 March 2016 for issue to the Supervisory Board and are signed below to signify this.

The Management Board is also responsible for the preparation and content of the annual report, as required by Article 18 of the Accounting Act (Official Gazette no 109/07, 54/13, 121/14 of the Republic of Croatia). The annual report set out on pages 3 to 8 was authorised by the Management Board on 15 March 2016 and signed accordingly.

For and on behalf of KentBank d.d.

Ivo Bilić President of the Management Board	Emir Deldag Member of the Management Board

KENTBANK d.d.
Zagreb

Independent auditors' report to the shareholders of KentBank d.d.

Report on the financial statements

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

Management Board's Responsibility for the Financial Statements

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

Auditors' 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Independent auditors' report to the shareholders of KentBank d.d. (continued)

Report on other Legal and Regulatory Requirements

Pursuant to the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 30 May 2008 (Official Gazette 62/08), the Management Board of the Bank has prepared the schedules set out on pages 71 to 74 ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2015, and of the income statement, statement of changes in equity and cash flow statement for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the financial statements as presented on pages 75 to 78. The Management Board of the Bank is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements of the Bank set out on pages 12 to 70 on which we have expressed an opinion as set out above.

Further, pursuant to legal and regulatory requirements as applicable for reporting periods ending to 31 December 2015, the Management Board of the Bank has prepared the annual report set out on pages 3 to 8. The Management Board of the Bank is responsible for the preparation and content of the annual report in accordance with Article 18 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia). Our responsibility is to report on the consistency of the information in the annual report with the audited financial statements based on procedures we considered appropriate to perform in accordance with Article 17 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14 of the Republic of Croatia). The information given in the accompanying annual report is consistent with the financial statements set out on pages 12 to 70.

KPMG Croatia doo za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

Zagreb, 15 March 2016

For and on behalf of KPMG Croatia doo za reviziju:

Horvat

Goran Horvat
Director, Croatian Certified Auditor

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
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Statement of financial position
As at

	Notes	31 December 2015	31 December 2014
		HRK 000	**HRK 000**
ASSETS			
Cash and current accounts with banks	12	111,836	214,628
Obligatory reserve with Croatian National Bank and compulsory CNB bills	14	88,787	74,587
Financial assets available for sale	15a)	258,128	159,145
Financial investments held to maturity	15b)	68,729	57,257
Loans to and receivables from customers	17a)	747,284	598,059
Placements with other banks	16	25,740	17,627
Property, plant and equipment	18a)	43,438	42,915
Intangible assets	18b)	7,544	7,276
Foreclosed assets	19	1,627	1,172
Income tax prepayment		274	274
Other assets	20	1,439	1,053
TOTAL ASSETS		**1,354,826**	**1,173,993**
LIABILITIES			
Current accounts and deposits from banks and financial institutions	21a)	59,667	6,771
Current accounts and deposits from customers	21b)	1,064,204	982,566
Liabilities for preference shares	21c)	11,227	10,453
Interest-bearing borrowings	21d)	7,637	-
Provisions for liabilities and charges	22	597	448
Other liabilities	23	10,685	8,616
Deferred tax liability		-	848
Total liabilities		**1,154,017**	**1,009,702**
EQUITY			
Ordinary share capital	24,24a)	268,333	230,235
Legal and other reserves	24,24b)	2,137	2,137
Accumulated losses	24	(67,556)	(71,474)
Fair value reserve	24,24c)	(2,105)	3,393
Total equity		**200,809**	**164,291**
TOTAL LIABILITIES AND EQUITY		**1,354,826**	**1,173,993**

The accompanying notes on pages 17 to 70 form an integral part of these financial statements.

Statement of changes in shareholders' equity
As at and for the year ended

HRK 000	Ordinary share capital (Note 24a)	Legal and other reserves (Note 24b)	Accumulated losses (Note 24)	Fair value reserve (Note 24c)	Total
Balance at 1 January 2014	**192,025**	**2,137**	**(60,476)**	**449**	**134,135**
Change in fair value of financial assets available for sale, net of amounts realised and deferred tax	**-**	**-**	**-**	**2,944**	**2,944**
Total other comprehensive income/(loss)	**-**	**-**	-	2,944	**2,944**
Loss for the year	**-**	**-**	(10,998)	-	**(10,998)**
Total comprehensive income / (loss)	**-**	**-**	**(10,998)**	**2,944**	**(8,054)**
Transactions with owners recognised directly in equity:					
Increase in issued share capital	38,210	-	-	-	**38,210**
Balance at 31 December 2014	**230,235**	**2,137**	**(71,474)**	**3,393**	**164,291**
Balance at 1 January 2015	**230,235**	**2,137**	**(71,474)**	**3,393**	**164,291**
Change in fair value of financial assets available for sale, net of amounts realised	**-**	**-**	**-**	**(5,498)**	**(5,498)**
Total other comprehensive income/(loss)	**-**	**-**	-	(5,498)	**(5,498)**
Profit for the year	**-**	**-**	3,918	-	**3,918**
Total comprehensive income / (loss)	**-**	**-**	**3,918**	**(5,498)**	**(1,580)**
Transactions with owners recognised directly in equity:					
Increase in issued share capital	38,098	-	-	-	**38,098**
Balance at 31 December 2015	**268,333**	**2,137**	**(67,556)**	**(2,105)**	**200,809**

The accompanying notes on pages 17 to 70 form an integral part of these financial statements.

Income statement
For the year ended 31 December

	Notes	2015	2014
		HRK 000	HRK 000
Interest and similar income	5	67,598	61,986
Interest expense and similar charges	6	(28,325)	(27,800)
Net interest income		**39,273**	**34,186**
Fee and commission income	8a)	7,593	6,431
Fee and commission expense	8b)	(2,142)	(2,238)
Net fee and commission income		**5,451**	**4,193**
Net realised gains from financial assets available for sale	9a)	7,066	1,847
Net gains/(losses) from translation of monetary assets and liabilities, administrative fixing of CHF exchange rate and foreign exchange spot trading	9b)	6,962	5,186
Other income	9c)	576	381
		14,604	**7,414**
Total income		**59,328**	**45,793**
Depreciation and amortization	18a); 18b)	(5,807)	(6,045)
Staff costs	10a)	(26,316)	(24,615)
Other administrative expenses	10b)	(17,551)	(15,580)
Total general and administrative expenses		**(49,674)**	**(46,240)**
Impairment losses and provisions	7	(5,736)	(10,551)
PROFIT / (LOSS) BEFORE TAX		**3,918**	**(10,998)**
Income tax expense	11	-	-
PROFIT / (LOSS) FOR THE YEAR		**3,918**	**(10,998)**
EARNINGS / (LOSS) PER SHARE (in HRK)	25	**62.10**	**(189.38)**

The accompanying notes on pages 17 to 70 form an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December

	2015 *HRK 000*	2014 *HRK 000*
PROFIT / (LOSS) FOR THE YEAR	3,918	(10,998)
Other comprehensive income, net of income tax		
Change in fair value of financial assets available for sale, net of amounts realised and deferred tax	(5,498)	2,944
Other comprehensive income for the year	**(5,498)**	**2,944**
TOTAL COMPREHENSIVE INCOME / (LOSS)	**(1,580)**	**(8,054)**

The accompanying notes on pages 17 to 70 form an integral part of these financial statements.

Cash flow statement
For the year ended 31 December

	Note	2015	2014
		HRK 000	*HRK 000*
Cash flow from operating activities			
Profit / (loss) for the year		3,918	(10,998)
Depreciation and amortization	18a), 18 b)	5,807	6,045
Impairment losses and provisions	7	5,736	10,551
Other changes		741	802
Changes in operating assets and liabilities			
Increase in obligatory reserve and compulsory treasury bills with Croatian National Bank		(14,147)	(11,721)
Increase in placements with other banks with maturity over three months		(525)	(2,300)
Increase in loans to and receivables from customers		(154,078)	(145,677)
Increase in other assets		(872)	(285)
Increase in deposits from banks and financial institutions		52,734	4,755
Increase in current accounts and deposits from customers		89,015	252,882
Increase in other liabilities and provisions		724	1,765
Payment of dividends on preference shares for 2013		-	(774)
Net cash from operating activities		***(10,947)***	***105,045***
Cash flow from investment activities			
Payments for purchases of financial investments held to maturity		(177,116)	(169,705)
Proceeds from redemption of financial investments held to maturity		165,438	182,925
Payments for purchases of financial assets available for sale		(773,000)	(58,056)
Proceeds from sale and redemption of financial assets available for sale		661,227	41,794
Payments for purchase of property, plant and equipment and intangible assets		(6,990)	(30,259)
Receipts from sale of property, plant and equipment		372	-
Net cash from investment activities		***(130,069)***	***(33,301)***
Cash flow from financing activities			
Receipts from issued share capital		38,098	38,210
Receipts from interest-bearing borrowings		158,790	114,354
Repayments of interest-bearing borrowings		(151,076)	(114,354)
Net cash from financing activities		***45,812***	***38,210***
Net (decrease) / increase of cash and cash equivalents		(95,204)	109,954
Cash and cash equivalents as at 1 January		229,955	120,001
Cash and cash equivalents as at 31 December	13	**134,751**	**229,955**

The accompanying notes on pages from 17 to 70 form an integral part of these financial statements,

Notes to the financial statements

1. General information

KentBank d.d. (hereinafter: the Bank), with its headquarters in Zagreb, Gundulićeva 1, was established in the Republic of Croatia and provides commercial banking services. The Bank is entered in the register of the Commercial Court in Zagreb. The Bank's parent company is SUZER HOLDING Anonim Sirketi and the majority stocholder is Mr Mustafa Suzer.

2. Basis for preparation of the financial statements

a) Statement of Compliance

The Bank's operations are subject to the Credit Institutions Act. The Croatian National Bank ("the CNB") is the central regulatory institution of the banking system in Croatia, which also prescribes accounting banking regulations. In accordance with CNB regulations the financial statements of banks and other credit institutions are prepared in accordance with statutory accounting regulations for banks in the Republic of Croatia. These financial statements are prepared in line with the above-mentioned banking regulations. Where accounting policies of the Bank are aligned with International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU"), reference may be made to certain standards, in force as at 31 December 2015.

These financial statements have been approved by the Management Board for issue to the Supervisory Board on 15 March 2016. These financial statements are a translation based on separately issued statutory financial statements in Croatian.

The accounting regulations of the CNB differ from the IFRS as adopted by the EU especially with regards to measurement and recognition. The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of IFRS as adopted by the EU are as follows:

- The CNB requires banks to recognise impairment losses on assets not identified as impaired (including sovereign risk assets not carried at fair value) at prescribed rates. In line with the above-mentioned requirements, the Bank made portfolio-based provisions in the amount of HRK 9,986 thousand (2014: HRK 8,977 thousand), and recognised an expense in the amount of HRK 1,009 thousand related to these provisions within impairment losses for the year (2014: HRK 2,427 thousand). Such off-balance-sheet related provisions as at 31 December 2015 amounted to HRK 364 thousand (31 December 2014: HRK 440 thousand) and the Bank recognised income in the amount of HRK 76 thousand (2014: expense of HRK 296 thousand). Although, in accordance with International Accounting Standard 39: *Financial Instruments: Recognition and Measurement* ("IAS 39"), such provisions should more properly be presented as an appropriation within equity, the Bank continues to recognise such provisions as a substitute for existing but unidentified impairment losses calculated in accordance with the requirements of IAS 39. Due to the lack of observable historical data in respect of the unidentified losses existing in its various credit risk portfolios at the reporting date, the Bank is not yet able to assess provisions for unidentified credit losses which were incurred at the reporting date, as required by IAS 39.
- Additionally, the CNB prescribes minimum levels of impairment allowance against certain specifically identified impaired exposures, irrespective of the net present value of expected future cash flows, which may be different from the impairment allowance required to be recognised in accordance with IAS 39.
- In accordance with local regulations, interest income on impaired exposures is recognised on a cash basis, as opposed to IAS 39, which prescribes recognition of interest income on impaired exposures through unwinding of the discount.

3. Basis for preparation of the financial statements (continued)

a) Statement of Compliance (continued)

- In accordance with local regulations, the Bank recognises provisions for court cases incorporating the likelihood of the loss into measurement of the provision (i.e. if the likelihood of the loss is estimated to be 10%, the provision will be calculated as 10% of the potential loss), which is contrary to IFRS, which prescribes recognition of the full amount of potential loss, once it is probable that the court case will be lost.
- In accordance with the CNB instructions, the Bank accounted for the estimated cost of CHF conversions which have not been legally effected by 31 December 2015 by setting up a provision in the amount of HRK 233 thousand, presented within provisions for risk and charges. In accordance with IAS 39, such loss would be offset from the balance of loans to and receivables from customers.

b) Basis of measurement

These financial statements are prepared on an amortised or historical cost basis except for financial assets available for sale, which are measured at fair value.

The financial statements have been prepared in a format generally adopted and internationally recognised by banks.

c) Judgments and estimates

In preparing the financial statements, the Management Board has made judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions 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.

Judgments of management in the implementation of standards which have a risk of significant adjustment in the following year are described in Note 4.

d) Functional and reporting currency

Financial statements are prepared in kuna which is the official currency of the environment in which the Bank operates (functional currency), and the amounts are presented in HRK, rounded to the nearest thousand.

3. Accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these financial statements.

a) Interest income and expense

Interest income and expenses are recognised in the income statement for all interest-bearing instruments using the effective interest rate method. Interest expense also includes dividends payable on preference shares.

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

b) Fee and commission income and expense

Fee and commission income and expense are recognised in the income statement when the related service is provided. Fee and commission income and expense mainly comprise fees receivable for guarantees and letters of credit issued by the Bank on behalf of customers, and fees for domestic and foreign payment transactions.

c) Defined contribution pension plans

The Bank pays contributions to obligatory pension funds on a mandatory contractual basis calculated as percentage of gross salaries. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as staff costs in profit or loss as they accrue.

d) Short term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability for bonus is recognised in the amount expected to be paid under short-term cash bonuses based on the Company’s formal plan and when past practice has created a valid expectation by management/key employees that they will receive a bonus as a result of past service provided by the employee and the obligation can be estimated reliably.

e) Foreign currencies

Transactions in foreign currencies are translated into Croatian Kuna (“HRK”) at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are remeasured at each reporting date at the official mid spot foreign exchange rate of the Croatian National Bank ruling on the reporting date or at the Bank’s selling rate if the placement is contracted accordingly.

Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates ruling at the dates when the fair values were determined.

Notes to the financial statements (continued)

3. Accounting policies (continued)

e) Foreign currencies (continued)

Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of available for sale equity instruments, which are recognised in other comprehensive income (refer below).

Changes in the fair value of monetary (debt) securities denominated in or linked to foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences are recognised in income as a part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within financial income or financial expense in the profit or loss. Other changes in the carrying amounts are recognised in other comprehensive income. The translation differences on revaluation of non-monetary financial assets denominated in or linked to foreign currency classified as available for sale are recognised in other comprehensive income, along with other changes in their fair value.

Official mid spot exchange rates effective as at 31 December 2015 were:

7.635047 = 1 EUR;
6.991801 = 1 USD;
7.059683 = 1 CHF.

Official mid spot exchange rates effective as at 31 December 2014 were:

7.661471 = 1 EUR;
6.302107 = 1 USD;
6.368108 = 1 CHF.

f) Financial instruments

Classification

The Bank classifies its financial instruments into the following categories:

- loans and receivables;
- investments held to maturity;
- financial assets available for sale and
- other financial liabilities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money to a debtor with no intention of trading with the receivable and include placements with, and loans to, other banks and loans to and receivables from customers and various other receivables.

Financial investments held to maturity

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. These include debt securities.

3. Accounting policies (continued)

f) Financial instruments (continued)

Classification (continued)

Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit and loss.

Financial assets available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices.

Financial assets available for sale comprise various debt securities and open-ended cash investment funds.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss. Other financial liabilities include current accounts and deposits from financial institutions and customers and various payables.

Recognition and derecognition

Loans and receivables and other financial liabilities are recognised when cash is advanced to borrowers or received from lenders. Regular way purchases of financial assets available for sale and financial investments held to maturity are recognised on the settlement date.

The Bank derecognises financial assets (in full or in part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights on those financial assets. It occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired. The Bank derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change significantly, the Bank will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, except from the financial assets at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank measures financial assets available for sale at their fair value. Equity instruments classified as available for sale (at the reporting date the Bank did not have such assets) that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any impairment. Loans and receivables and held-to-maturity financial investments are measured at amortised cost, decreased if appropriate, for any impairment. Other financial liabilities are measured at amortised cost.

Gains and losses

Gains or losses from a change in the fair value of available-for-sale monetary assets are recognised directly in a fair value reserve within equity and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange gains and losses and interest income on an effective-interest-rate basis on available-for-sale monetary assets are recognised in the income statement. Foreign exchange differences on non-monetary equity instruments classified as available for are recognised in other comprehensive income.

3. Accounting policies (continued)

f) Financial instruments (continued)

Gains and losses (continued)

Dividend income is recognised in the income statement when the right to receive it has been established. Upon sale or other derecognising of available-for-sale assets, any cumulative gains or losses on the instrument are transferred to the income statement. Gains or losses arising from financial assets and financial liabilities carried at amortised cost may also arise, and are included in the income statement when a financial instrument is derecognised or when its value (in the case of assets) is impaired.

Determination of fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability also reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The Bank recognises the transfer between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Impairment of financial assets

Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has direct impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Financial instruments (continued)

Impairment of financial assets (continued)

Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Bank about the following loss events:

i) significant financial difficulty of the borrower;

ii) a breach of contract, such as a default or delinquency in interest or principal payments;

iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that it would not otherwise consider;

iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

v) the disappearance of an active market for the financial asset because of financial difficulties.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate or in accordance with the percentage prescribed by the CNB in certain eligible circumstances. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Portfolio based provisions are calculated at rates prescribed by Croatian National Bank as described in Note 4.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan is uncollectible, it is written off against the related impairment allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as reversals of impairment losses in the income statement.

When possible, the Bank implements loan restructuring rather than initiate enforcement action. This may include the extension of repayment period and other changes in credit conditions. After changing conditions, any further impairment calculation is made with the original effective interest rate applicable prior to changing conditions. The management continuously monitors restructured loans with regards to the fulfillment of the new conditions and security of future payments. These loans are subject to further regular testing of impairment on an individual or group basis (if they are not individually assessed as impaired or if they belong to the portfolio of collectively provisioned loans) using the original effective interest rate.

Financial assets available for sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement.

3. Accounting policies (continued)

f) Financial instruments (continued)

Impairment of financial assets (continued)

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through income statement. Impairment losses on equity instruments available for sale are not reversed through income statement until the final derecognition of the asset (at the reporting date, the Bank did not have impaired equity investments available for sale).

Offsetting of financial instruments

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

g) Specific financial instruments

Treasury bills and debt securities

Short-term treasury bills are classified as available-for-sale financial assets. Debt securities that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity investments. Other debt securities are classified as financial assets available for sale.

Placements with other banks

Placements with other banks are classified as loans and receivables and are carried at amortised cost less any impairment losses.

Investment funds

Investment in open-ended cash investment funds are classified as available for sale and stated at fair value.

Loans to customers

Loans and advances are presented net of impairment allowances to reflect the estimated recoverable amounts.

Current accounts and deposits from banks and customers

Current accounts and deposits from banks and customers are classified as other liabilities and stated at amortised cost.

Preference shares

Preference shares are classified as other liabilities and stated at their nominal value, increased by the related interest accrual.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Notes to the financial statements (continued)

3. Accounting policies (continued)

h) Property and equipment

Property and equipment are held for use in the supply of services or administrative purposes.

Items of property and equipment are shown at cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The Bank capitalise the cost of replacing part of such an item when it is probable that future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other expenditures on repairs and maintenance are expensed as incurred.

Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful life. Land and assets under construction are not depreciated. The estimated useful lives are as follows:

	2015 *years*	**2014** *years*
Buildings	10-50	10-50
Electronic equipment and computers	4-5	4-5
Other equipment	2-10	2-10
Furniture and vehicles	4-5	4-5

The residual value of assets, depreciation method and useful lives are reviewed and adjusted, if necessary, at each reporting date. The net carrying value of an asset is immediately impaired to the recoverable amount if the carrying value of the asset is higher than the estimated recoverable amount. Gains and losses from sale are measured as the difference between the collected amount and the net carrying value, and recognised in the income statement.

From 2014, the Bank applies component approach for newly acquired buildings.

i) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is provided on a straight- line basis to write down the cost of assets to their residual values over their estimated useful life.

The estimated useful lives are as follows:

	2015 *years*	**2014** *years*
Software	5	5
Leasehold improvements	up to 5	up to 5

Leasehold improvements are amortised over the shorter of the life of the lease or 5 years. Costs incurred in order to enhance or extend the benefits of computer software programmes beyond their original specifications and lives which can be measured reliably are capitalised to the original cost of the software. All other maintenance is expensed as incurred.

j) Impairment of non-financial assets

The recoverable amount of non-financial assets, other than deferred tax assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest groups of assets that generate separately identifiable cash inflows (cash-generating units).

3. Accounting policies (continued)

j) Impairment of non-financial assets (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

k) Foreclosed assets

Foreclosed assets are stated at lower of the net recoverable value of property and the value of the related receivables. The Management Board has estimated that the carrying value of these assets approximates their market value.

l) Leases

If the Bank as lessee, in accordance with the terms of the lease, assumes substantially all the risks and rewards of ownership are classified as finance leases (at the reporting date the Bank did not have any finance leases). All other leases are classified and accounted for as operating leases. For operating leases in which the Bank is a lessee, the related assets are not recognised on the Bank's statement of financial position. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

m) Provisions for liabilities and charges

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

The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

n) Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded in off-balance sheet accounts, such as guarantees, commitments to extend credit and letters of credit and undrawn loan commitments. These financial instruments are recorded in the balance sheet if and when they become payable.

o) Income tax

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income/equity, in which case it is recognised in other comprehensive income/equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

3. Accounting policies (continued)

o) Income tax (continued)

Deferred taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the period in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Bank reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

p) Ordinary share capital and reserves

Ordinary share capital is denominated in HRK at its nominal value. The amounts paid for repurchase of ordinary share capital, including direct costs, are recognised as a decrease in equity and classified as preference shares.

r) Preference shares

Preference shares, which carry guaranteed dividend at 8%, are classified as other liabilities and stated at its nominal value increased by the accrued interest.

s) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, current accounts with banks and amounts due from banks on demand or with an original maturity of three months or less.

t) Treasury shares

Acquisition of treasury shares is conducted in cases envisaged by the Companies Act, in order to eliminate contingent losses. Redeemed treasury shares are recognised at acquisition cost. Any positive difference created by the sale of treasury shares at a price higher than the acquisition cost is recognised as a capital gain, and any negative difference generated below the cost of acquisition is recognised as a capital loss.

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments

Accounting estimates and judgments

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. Significant judgments made in determining the most appropriate methodology for estimating the fair value of financial instruments carried at fair value are also described below.

Impairment losses on loans to and receivables from customers and provisions for off-balance-sheet exposure to credit risk

The Bank monitors the creditworthiness of its customers on an ongoing basis. In accordance with CNB regulations, the need for impairment of the Bank's on- and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying value of loans and advances to corporate and retail customers (summarised in Note 17). The Bank also recognises provisions arising from off-balance-sheet exposure to credit risk to customers, mainly in the form of guarantees (as summarised in Notes 22b and 27). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value where the credit risk is not the primary impairment risk. Provisions for unidentified losses calculated for placements with banks and debt securities carried at amortised cost at the rates prescribed by the CNB are deducted from loans to and receivables from customers for the purpose of presentation of these financial statements.

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).

The Bank estimates impairment losses in cases where it judges that the observable data indicates 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 Bank takes into consideration the combined effect of several events when assessing impairment and uses its experienced judgment in cases where the observable data required to estimate impairment is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the Bank also has regard to the ranges of impairment loss prescribed by the CNB based on the aging of overdue amounts. Small loan portfolio covered with firm collateral (e.g. real-estate) is monitored on an individual basis using the DCF method.
For the rest of the small loan portfolio (exposure up to HRK 100 thousand), the Bank uses the following matrix to determine provisions based on past due days:

RISK GROUP	IMPAIRMENT	NUMBER OF DAYS
B 1	10%	91-120
B 1	20%	121-180
B 2	30%	181-210
B 2	40%	211-230
B 2	50%	231-250
B 2	60%	251-270
B 3	70%	271-300
B 3	80%	301-330
B 3	90%	331-365
C	100%	More than 365

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments (continued)

Impairment losses on loans to and receivables from customers and provisions for off-balance-sheet exposure to credit risk (continued)

Counting the number of past due days begins when the total debt due by the client exceeds HRK 1,750.00. At the year end, the ratio of impairment allowance in the total gross value of impaired loans was as follows:

				2015				**2014**
				HRK 000				***HRK 000***
	Corporate	Retail	Other	**Total**	Corporate	Retail	Other	**Total**
Gross value of impaired loans	38,921	45,444	3,877	**88,242**	45,634	44,926	3,059	**93,619**
Impairment rate	58%	78%	66%	**69%**	50%	75%	47%	**62%**

Assuming that the portfolio remains at the same level, each additional increase of one percentage point in the impairment rate on the gross impaired portfolio at 31 December 2015 would cause an additional impairment loss in the amount of HRK 461 thousand (in 2014: HRK 550 thousand).

The Bank also seeks to recognise impairment losses which are known to exist at the reporting date, but which have not yet been specifically identified. In estimating unidentified impairment losses existing in collectively assessed portfolios, and in the absence of reliable data on historical loss rates and the emergence period for the identification of these impairment losses, the Bank uses the rate of 1.00% which is in the range prescribed by the CNB for application to all credit risk exposures except those carried at fair value, including off-balance-sheet exposure to credit risk and Croatian sovereign debt.

Impairment losses estimated on a portfolio basis as at 31 December 2015 amounted to HRK 10,350 thousand (in 2014: HRK 9,417 thousand) of the relevant on- and off-balance-sheet exposure. The total of the portfolio-based impairment loss amounted to 1.00% of performing balance and off-balance-sheet exposure to credit risk, in both cases net of amounts individually assessed as impaired.

The Management Board believes that both individual and collective impairment losses and provisions are sufficient.

Legal cases

The Bank performs a risk classification of lawsuits taking into consideration the following principles: legal grounds of the claim; prior legal practice; opinions of relevant outsourced attorneys and other independent legal or other experts.

Lawsuits are classified into three groups: where the Bank expects a fully successful outcome; where the Bank expects to lose the case; and uncertain lawsuits, where the probability of a successful or unsuccessful outcome cannot be readily determined.

The Management Board believes that the provisions for legal cases are sufficient at the reporting date.

4. Significant accounting estimates and judgments (continued)

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of a taxpayer's records.

The Bank did not recognise deferred tax asset on tax losses carried forward as it is not probable there would be sufficient taxable profits to utilise them before their expiry.

Valuation of lands and buildings

Management Board believes that the net book value of the land and buildings is not significantly different from their fair value and that there are no indicators of impairment at the reporting date.

Fair value hierarchy

Fair value hierarchy is presented in Note 35.

CHF conversion

Conversion of CHF and CHF-linked loans (collectively "CHF loans") is described in Note 17d).

Notes to the financial statements (continued)

5. Interest and similar income

a) Interest income analysed by product:

	2015	2014
	HRK 000	*HRK 000*
Interest income from loans to and receivables from customers	56,640	49,750
Interest income from financial assets available for sale	5,313	6,901
Interest income from financial investments held to maturity	5,488	5,289
Interest income from deposits	157	46
TOTAL	**67,598**	**61,986**

b) Interest income analysed by sectors:

	2015	2014
	HRK 000	*HRK 000*
Companies	27,239	20,128
Financial institutions	624	46
Individuals (retail)	34,860	34,935
Central government and local authorities	4,491	6,876
Other	384	1
TOTAL	**67,598**	**61,986**

6. Interest expense and similar charges

a) Interest expense analysed by product:

	2015	2014
	HRK 000	*HRK 000*
Interest expense from term deposits	27,239	26,880
Interest expense demand deposits	164	47
Interest expense from preference shares	774	774
Interest expense from borrowings	142	82
Other	6	17
TOTAL	**28,325**	**27,800**

Notes to the financial statements (continued)

6. Interest expense and similar charges (continued)

b) Interest expense analysed by sector:

	2015	2014
	HRK 000	*HRK 000*
Interest expense to individuals (retail)	24,947	25,305
Interest expense to non-residents	714	579
Interest expense to companies	1,297	880
Interest expense to financial institutions	553	226
Fixed-rate dividends on preference shares	774	774
Other	40	36
TOTAL	**28,325**	**27,800**

7. Impairment losses and provisions

	2015	2014
	HRK 000	*HRK 000*
Impairment of loans to and receivables from customers	4,853	9,850
Specific impairment losses (Note 17c)	*3,844*	*7,423*
Unidentifed losses (Note 17c)	*1,009*	*2,427*
Impairment of other assets *(Note 20a)*	31	196
Impairment of financial investments held to maturity *(Note 15b)*	206	206
Provisions for court cases (Note 22a)	75	3
Provisions for off-balance-sheet exposure to credit risk *(Note 22b)*	(76)	296
Loss recognised on conversion of CHF loans (Note 17d)	414	-
Provision for expected losses on conversion of CHF loans (Note 17d)	233	-
TOTAL	**5,736**	**10,551**

8. Fee and commission income and expense

a) Fee and commission income

	2015	2014
	HRK 000	*HRK 000*
Payment transaction fees	6,996	5,902
Loan origination fees	234	282
Other banking services	363	247
TOTAL	**7,593**	**6,431**

Notes to the financial statements (continued)

8. Fee and commission income and expense (continued)

b) Fee and commission expenses

	2015	2014
	HRK 000	*HRK 000*
FINA commission	1,131	1,360
CNB	36	36
Domestic banks	873	773
Domestic clients	82	69
Other	20	-
TOTAL	**2,142**	**2,238**

9a. Net realised gains from financial assets available for sale

	2015	2014
	HRK 000	*HRK 000*
Domestic sovereign bonds available for sale	6,528	1,847
Domestic corporate bonds available for sale	86	-
Foreign sovereign bonds available for sale	29	-
Financial institutions bonds available for sale	376	-
Investment funds available for sale	47	-
TOTAL	**7,066**	**1,847**

9b. Net gains/(losses) from translation of monetary assets and liabilities, administrative fixing of CHF rate and foreign exchange spot trading

	2015	2014
	HRK 000	*HRK 000*
Net gains/(losses) from translation of monetary assets and liabilities		
- items denominated in foreign currency	(1,072)	(3,626)
- items linked to foreign currency	2,192	5,109
Net gain from foreign exchange spot trading	6,035	3,703
Net loss from administrative fixing of CHF loans (Note 17d)	(193)	-
TOTAL	**6,962**	**5,186**

Notes to the financial statements (continued)

9c. Other income

	2015	2014
	HRK 000	*HRK 000*
Income from invoiced notaries expenses	155	-
Net gain from sale of assets	40	-
Other	381	381
TOTAL	**576**	**381**

10. Staff costs and other administrative expenses

a) Staff costs

	2015	2014
	HRK 000	*HRK 000*
- Net salaries to employees	14,149	12,489
- Contributions on salaries	3,826	3,402
- Contributions, taxes and surtaxes from salaries	7,995	7,585
- Other	346	1,139
TOTAL	**26,316**	**24,615**

Staff costs include HRK 4,286 thousand (2014: HRK 3,791 thousand) of defined pension contributions payable into obligatory pension plans.

During 2015, average number of employees was 147 (2014: 130).

b) Other administrative expenses

	2015	2014
	HRK 000	*HRK 000*
Rent expenses	2,574	2,701
Intellectual services	839	743
Other services	3,500	2,185
Marketing and advertisement expenditure	947	469
Material costs and similar charges	1,238	1,168
Costs of deposit insurance	2,714	2,303
Mail and phone expenditure	834	966
Maintenance expenses	1,831	1,746
Insurance and protection expenses	1,121	1,223
Other expenditure	1,953	2,076
TOTAL	**17,551**	**15,580**

11. Income tax

	2015	2014
	HRK 000	*HRK 000*
Accounting loss before tax	**3,918**	**(10,998)**
Income tax at 20% (2014: 20%)	784	(2,200)
Non-deductible expenses	1,117	935
Non-taxable income	(740)	(699)
Taxable profit profit / (loss) for the year	**1,161**	**(1,964)**
Increase in carry forward tax losses	-	1,964
Utilization of carry forward tax losses	(1,161)	-
Income tax expense recognised in profit or loss	**-**	**-**
Effective income tax rate	**-**	**-**

On the reporting date the Bank did not recognise any deferred tax asset in respect of tax losses carried forward on the grounds of uncertainty as to whether sufficient future taxable profits will be available to utilise those losses before their expiry. The Bank also did not recognize deferred tax asset on positive fair value of financial assets available for sale (temporary tax difference) for the same reason (2014: deferred tax liability of HRK 848 thousand).

The availability of tax losses in future periods, calculated at the 20% rate enacted at the reporting date, subject to review by the Ministry of Finance, is as follows:

	31 December 2015	31 December 2014
	HRK 000	*HRK 000*
No later than 1 year	370	-
No later than 2 years	5,188	1,531
No later than 3 years	3,585	5,188
No later than 4 years	1,964	3,585
No later than 5 years	-	1,964
Total tax losses carried forward not recognised as deferred tax assets	**11,107**	**12,268**

12. Cash and current accounts with banks

	2015			2014		
	HRK 000			*HRK 000*		
	HRK	Foreign currency	Total	HRK	Foreign currency	HRK
Current accounts with the CNB	14,437	-	14,437	119,246	-	119,246
Current accounts with other banks	-	69,763	69,763	-	55,858	55,858
Cash in hand	16,214	11,422	27,636	15,547	23,977	39,524
TOTAL	**30,651**	**81,185**	**111,836**	**134,793**	**79,835**	**214,628**

13. Cash and cash equivalents

	2015	2014
	HRK 000	*HRK 000*
Cash on accounts with the CNB (Note 12)	14,437	119,246
Cash on accounts with other banks (Note 12)	69,763	55,858
Cash in hand (Note 12)	27,636	39,524
Placements with banks with original maturity less than 3 months (Note 16)	22,915	15,327
TOTAL	**134,751**	**229,955**

14. Obligatory reserve with Croatian National Bank and compulsory CNB bills

The obligatory reserve represents amounts required to be deposited with the CNB and is not available for use in the Bank's day-to-day operations.

Banks are obliged to calculate obligatory reserve in kuna and foreign currency at a rate which, as at 31 December 2015, accounted for 12% of kuna and foreign currency funds (31 December 2014: 12%).

The part of the obligatory reserve calculated in kuna is increased by 75% (31 December 2014: 75%) of the calculated obligatory reserve on eligible foreign currency funding sources. 70% of the obligatory reserve should be deposited into a special account held with the CNB, while the rest may be maintained in eligible liquid assets.

After reduction by 75% (31 December 2014: 75%) which is added to obligatory reserve requirement calculated in kuna, the remainder of 25% of obligatory reserve calculated in foreign currency is maintained in foreign currency. Foreign currency obligatory reserve calculated on the basis of foreign currency funds from non-residents and foreign funds received from legal entities in a special relationship with the bank amounts 100% (31 December 2014: 100%), while the percentage of mandatory allocation of the remaining foreign currency obligatory reserve is 60% (31 December 2014: 60%) (allocation of funds can be in Euro and U.S. dollar). The remaining part can be maintained in eligible liquid assets.

In accordance with the CNB decision on the purchase of compulsory Croatian National Bank treasury bills (Official Gazette 142/2013) issued in December 2013, the Bank invested the amount of shortage of the total kuna component of reserve requirement in compulsory CNB treasury bills in 2014. On 7 October 2015 this Decision was withdrawn and the subscribed treasury bills were redeemed (Official Gazette 105/2015).

	2015	2014
	HRK 000	*HRK 000*
Allocated obligatory reserve in HRK	73,204	60,600
Allocated obligatory reserve in foreign currency	15,583	13,147
Compulsory CNB bills	-	840
Total	**88,787**	**74,587**

Notes to the financial statements (continued)

15. Financial investments

a) Financial assets available for sale

	2015	**2014**
	HRK 000	***HRK 000***
Domestic sovereign bonds	83,938	82,877
Domestic corporate bonds	3,568	1,319
Foreign sovereign bonds	16,516	-
Domestic sovereign treasury bills	45,469	74,949
Open-ended cash investment funds	108,637	-
From which		
Listed	104,022	84,196
Unlisted	154,106	74,949
TOTAL	**258,128**	**159,145**

b) Financial investments held to maturity

	2015	**2014**
	HRK 000	**HRK 000**
Bills of exchange – companies	51,208	44,731
Factoring – receivables from companies	15,224	10,849
Factoring – receivables from state and local authorities	2,709	1,883
Impairment allowance	(412)	(206)
TOTAL – UNLISTED	**68,729**	**57,257**

Movement in impairment allowance against financial investments held to maturity:

	2015	**2014**
	HRK 000	***HRK 000***
Balance at 1 January	**206**	**-**
Charge recognised in profit or loss (Note 7)	206	206
Write off and reversal	-	-
Balance at 31 December	**412**	**206**

Notes to the financial statements (continued)

16. Placements with other banks

	2015	2014
	HRK 000	*HRK 000*
Placements with other domestic banks - in HRK	10,220	10,220
Impairment allowance on placements with other banks in HRK	(10,220)	(10,220)
Placements with other domestic banks - in foreign currency with original maturity over 3 months	2,825	2,300
Placements with other foreign banks – in foreign currency with original maturity of up to 3 months (Note 13)	22,915	15,327
TOTAL	**25,740**	**17,627**

a) Movement in impairment allowance against placements with other banks in HRK:

	2015	2014
	HRK 000	*HRK 000*
Balance at 1 January	10,220	10,220
Charge / (release) recognised in profit or loss	-	-
Balance at 31 December	**10,220**	**10,220**

17. Loans to and receivables from customers

a) Analysis according to types of loans

	2015	2014
	HRK 000	*HRK 000*
Short-term loans:		
Companies	93,673	105,961
Retail customers	43,566	43,591
Other customers	3,923	3,058
Total short-term loans	**141,162**	**152,610**
Long-term loans:		
Companies	331,742	215,934
Retail customers	340,363	296,658
Other customers	4,805	-
Total long-term loans	**676,910**	**512,592**
Total short-term and long-term loans	**818,072**	**665,202**
Impairment allowance	(70,788)	(67,143)
TOTAL	**747,284**	**598,059**

Impairment allowance against loans to and receivables from customers includes also unidentified impairment losses calculated against debt securities and placements with banks.

Notes to the financial statements (continued)

17. Loans to and receivables from customers (continued)

a) Analysis according to types of loans (continued)

The classification above is based on original contractual maturity, while the remaining contractual maturities are analysed in Note 30.

b) Loans by industry/product

	2015	2014
	HRK 000	*HRK 000*
Manufacturing	61,515	60,984
Trade	142,441	81,894
Tourism	39,030	39,453
Agriculture	5,058	9,673
Construction	70,791	82,282
Services	106,328	46,643
Other	252	966
Gross corporate	***425,415***	***321,895***
Cash loans	347,418	321,590
Mortgage loans	34,227	17,632
Overdraft	1,287	1,027
Housing loans	822	-
Educational loans	97	-
Tourist loans	50	-
Credit card receivables	28	-
Retail gross	***383,929***	***340,249***
Other gross	***8,728***	***3,058***
Total gross	**818,072**	**665,202**
Impairment allowance	(70,788)	(67,143)
TOTAL	**747,284**	**598,059**

c) Movements in impairment allowance

	2015			2014		
HRK 000	Specific impairment	Unidentified losses	**Total**	Specific impairment	Unidentified losses	**Total**
Balance at 1 January as restated	**58,166**	**8,977**	**67,143**	**51,734**	**6,550**	**58,284**
Increase in provisions	10,058	1,009	**11,067**	10,472	2,427	**12,899**
Reversal of provisions	(2,090)	-	**(2,090)**	(3,049)*	n/a	**(3,049)**
Collections	(4,124)	n/a	**(4,124)**	-*	n/a	**-**
Net impairment charge recognised in profit or loss	3,844	1,009	**4,853**	7,423	2,427	**9,850**
Write off and foreclosure	(1,208)	-	**(1,208)**	(991)	-	**(991)**
Balance at 31 December	**60,802**	**9,986**	**70,788**	**58,166**	**8,977**	**67,143**

*Breakdown between reversal of provisions and collections for 2014 is not available.

Notes to the financial statements (continued)

17. Loans to and receivables from customers (continued)

c) Movements in impairment allowance

Net impairment charge for loans to and receivables from customers is included in the analysis within Note 7 Impairment losses and provisions and is recognised in profit or loss.

d) CHF loans conversion

In the period from 2006 to 2013 the Bank granted retail loans linked to or denominated in Swiss franc (CHF).
At loan inception, clients took advantage of favourable rates in CHF. However, from 2006 CHF LIBOR rates started to increase, as a result of which the Bank started to increase interest rates on CHF loans. In addition, in 2009 and then in 2015, CHF appreciated sharply against HRK (and EUR), which further increased monthly instalments, while CHF LIBOR rates fell markedly.
The Bank was not subject to actions (lawsuit) initiated by the civil rights group "Potrošač".

In response to a sudden appreciation of CHF, in January 2015 the Consumer Credit Act was changed and as a temporary measure the CHF exchange rate was fixed at 6.39 HRK for 1 CHF for the duration of one year for regular repayment annuities. The effect of such fixing on the Bank's profit or loss is HRK 193 thousand loss.

On 22 September 2015 the Act Amending the Consumer Credit Act ("the Amendment") was approved, by which, as a permanent measure, the conversion of CHF loans into EUR was regulated. The Amendment came into force on 30 September 2015. In accordance with the Amendment, the conversion of CHF loans into EUR is carried out in such a way that the position of the borrowers with loans denominated in CHF is matched to the position in which the borrower would have been if the loan was originally denominated in EUR, and the position of borrowers with loans denominated in HRK which contain a currency clause linking payments to CHF is matched to the position in which the borrower would have been if the loan was originally denominated in HRK containing a currency clause linking payments to EUR. The Amendment gave the banks a period of 45 days from when the Amendment came into force to deliver to the consumer the loan conversion calculation as at 30 September 2015. The consumer had 30 days to respond if the conversion is accepted. The time limit for the conversion itself, after the conversion had been accepted, was not specified.

The total loss for the Bank recognised as the result of the conversion is HRK 647 thousand and is presented in note 7 Impairment losses and provisions. Recognised loss for loans where the conversion has been finalised i.e. new loan contracts were signed by 31 January 2016 by the clients is HRK 414 thousand (netted against balance of loans to and receivables from customers) and for loans where the conversion has been accepted but has not yet been formally and legally finalised or where the clients still have the opportunity to accept the conversion and the Bank assesses it is likely they would, the provision is HRK 233 thousand (presented within provisions for liabilities and charges in Note 22).
For loans where the conversion has been formally and legally finalised both gross amount and impairment allowance (for non-performing loans) were adjusted for the effect of conversion.

17. Loans to and receivables from customers (continued)

d) CHF loans conversion (continued)

The table below shows carrying value of loans prior to conversion and the number and exposure of clients who accepted the conversion:

	30 September 2015 prior to conversion		Clients who accepted the conversion		Loss on conversion
	Number of loans	Carrying value HRK thousand	Number of loans	Carrying value at 30 September 2015 (prior conversion) HRK thousand	HRK thousand
Neither past due nor impaired	251	10,648	44	1,605	
Past due but not impaired	106	3,264	33	908	
Impaired	58	1,958	6	130	414
Gross	**415**	**15,870**	**83**	**2,643**	
Specific impairment allowance		(1,595)		(97)	
Net of specific impairment allowance		**14,275**		**2,546**	

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Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets

a) Movement in property, plant and equipment in thousand HRK

	Land	Buildings	Equipment	Furniture and vehicles	Assets under construction	Total
Cost						
Balance at 1 January 2015	472	40,048	11,364	4,254	93	56,231
Additions	-	11	3,124	528	112	3,775
Write-off and disposals	-	(340)	(2,161)	(855)	(98)	(3,454)
Balance 31 December 2015	**472**	**39,719**	**12,327**	**3,927**	**107**	**56,552**
Depreciation						
Balance as at 1 January 2015	-	2,877	7,744	2,695	-	13,316
Charge for the year	-	864	1,414	634	-	2,912
Write-off and disposals	-	-	(2,161)	(953)	-	(3,114)
Balance 31 December 2015	**-**	**3,741**	**6,997**	**2,376**	**-**	**13,114**
Net carrying amount 1 January 2015	**472**	**37,171**	**3,620**	**1,559**	**93**	**42,915**
Net carrying amount 31 December 2015	**472**	**35,978**	**5,330**	**1,551**	**107**	**43,438**

18. Property, plant and equipment and intangible assets (continued)

a) Movement in property, plant and equipment in thousand HRK (continued)

	Land	Buildings	Equipment	Furniture and vehicles	Assets under construction	Total
Cost						
Balance at 1 January 2014	491	5,625	8,787	3,752	672	19,327
Additions	-	28,729	922	313	-	29,964
Transfer from leasehold improvements (Note 18b)	-	5,489	1,655	189	-	7,333
Transfers to foreclosed assets (Note 19)	(19)	(182)	-	-	(192)	(393)
Transfers into use	-	387	-	-	(387)	-
Write-off and disposals	-	-	-	-	-	-
Balance 31 December 2014	**472**	**40,048**	**11,364**	**4,254**	**93**	**56,231**
Depreciation						
Balance as at 1 January 2014	-	613	5,827	2,036	-	8,476
Charge for the year	-	613	1,405	600	-	2,618
Transfer from leasehold improvements (Note 18b)	-	1,651	512	59	-	2,222
Write-off and disposals	-	-	-	-	-	-
Balance 31 December 2014	**-**	**2,877**	**7,744**	**2,695**	**-**	**13,316**
Net carrying amount 1 January 2014	**491**	**5,012**	**2,960**	**1,716**	**672**	**10,851**
Net carrying amount 31 December 2014	**472**	**37,171**	**3,620**	**1,559**	**93**	**42,915**

Transfers from intangible assets relate to reclassification of leasehold improvements to property, plant and equipment after purchase of previously leased property. Other transfers relate to reclassification from buildings to foreclosed assets and reclassification of assets under construction to buildings and foreclosed assets (Note 19).

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets (continued)

b) Movement in intangible assets in thousand HRK

	Leasehold improvements	Software	**Assets in preparation**	**Total**
Cost				
Balance at 1 January 2015	9,580	8,994	-	18,574
Additions	1,266	1,734	215	3,215
Write off	(224)	(1,170)	-	(1,394)
Balance 31 December 2015	**10,622**	**9,558**	**215**	**20,395**
Amortisation				
Balance as at 1 January 2015	4,865	6,433	-	11,298
Charge for the year	1,685	1,210	-	2,895
Write off	(204)	(1,138)	-	(1,342)
Balance 31 December 2015	**6,346**	**6,505**	**-**	**12,851**
Net carrying amount 1 January 2015	**4,715**	**2,561**	**-**	**7,276**
Net carrying amount 31 December 2015	**4,276**	**3,053**	**215**	**7,544**

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets (continued)

b) Movement in intangible assets in thousand HRK (continued)

	Leasehold improvements	Software	**Total**
Cost			
Balance at 1 January 2014	16,855	8,759	25,614
Additions	58	235	293
Transfer to property, plant and equipment (Note 18a)	(7,333)	-	(7,333)
Balance 31 December 2014	**9,580**	**8,994**	**18,574**
Amortisation			
Balance as at 1 January 2014	5,033	5,060	10,093
Charge for the year	2,054	1,373	3,427
Transfer to property, plant and equipment (Note 18a)	(2,222)	-	(2,222)
Balance 31 December 2014	**4,865**	**6,433**	**11,298**
Net carrying amount 1 January 2014	**11,822**	**3,699**	**15,521**
Net carrying amount 31 December 2014	**4,715**	**2,561**	**7,276**

Notes to the financial statements (continued)

19. Foreclosed assets

	2015	2014
	HRK 000	*HRK 000*
Properties acquired in exchange for uncollectible receivables	1,627	1,172
TOTAL	**1,627**	**1,172**

The Management Board of the Bank has estimated that the book value of the foreclosed assets approximates the fair value of these assets.

20. Other assets

	2015	2014
	HRK 000	*HRK 000*
Receivables for advances	321	175
Receivables for fees and commissions	336	190
Prepaid expenses	642	517
Receivables from customers	30	30
Other receivables	1,024	1,296
Impairment allowance	(914)	(1,155)
TOTAL	**1,439**	**1,053**

a) Movement in impairment allowance against other assets

	2015	2014
	HRK 000	*HRK 000*
Balance at 1 January	**1,155**	**1,026**
Charge	433	542
Reversal	(402)	(346)
Net charge recognised in profit or loss (Note 7)	*31*	*196*
Write off	(272)	(67)
Balance at 31 December	**914**	**1,155**

Notes to the financial statements (continued)

21. Current accounts and deposits, liabilities for preference shares and interest-bearing borrowings

a) Current accounts and deposits from banks and financial institutions

HRK 000

	2015			2014		
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Current accounts	1,411	-	**1,411**	16	-	**16**
Term deposits	35,468	22,788	**58,256**	6,755	-	**6,755**
TOTAL	**36,879**	**22,788**	**59,667**	**6,771**	**-**	**6,771**

b) Current accounts and deposits from customers

ba) Current accounts from customers

HRK 000

	2015			2014		
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Retail	17,458	27,397	**44,855**	11,702	41,710	**53,412**
Corporate	45,346	18,334	**63,680**	21,345	3,742	**25,087**
State and other institutions	2,263	-	**2,263**	1,411	25	**1,436**
Total current accounts	65,067	45,731	**110,798**	34,458	45,477	**79,935**

bb) Term deposits from customers

HRK 000

	2015			2014		
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Retail	106,818	802,684	**909,502**	98,682	727,076	**825,758**
Corporate	21,487	21,184	**42,671**	52,649	22,737	**75,386**
State and other institutions	1,233	-	**1,233**	730	757	**1,487**
Total term deposits	129,538	823,868	**953,406**	152,061	750,570	**902,631**

Notes to the financial statements (continued)

21. Current accounts and deposits, liabilities for preference shares and interest-bearing borrowings (continued)

b) Current accounts and deposits from customers (continued)

bc) Total current accounts and deposits from customers

	2015			2014		*HRK 000*
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Retail	124,276	830,081	**954,357**	110,384	768,786	**879,170**
Corporate	66,833	39,518	**106,351**	73,994	26,479	**100,473**
State and other institutions	3,496	-	**3,496**	2,141	782	**2,923**
TOTAL	194,605	869,599	**1,064,204**	186,519	796,047	**982,566**

c) Liability for preference shares

The Bank‘s funding resources include 2,547 shares issued at par value of HRK 3,800 per share, carrying a guaranteed fixed-rate dividend of 8% of nominal value.

	2015	**2014**
	HRK 000	***HRK 000***
Principal at par	9,679	9,679
Accrued interest	1,548	774
TOTAL	**11,227**	**10,453**

In accordance with the CNB regulations, in 2015, 60% of these preference shares are part of tier I capital for the purpose of capital adequacy calculation (2014: 80%).

Preference shares are unconditionally, immediately and fully available to cover risks or losses, and in the case of bankruptcy or initiating a liquidation process of the Bank they are available in their entirety and without limitation to cover losses of the Bank after settling the claims of all other creditors of the Bank. Preferential shares give their holders preferential rights when paying out liquidation assets over ordinary shareholders.

Although the Bank recorded profit in 2015 in the amount of HRK 3,918 thousand, dividend on preference shares will not be paid to holders of preference shares as the Company Law stipulates that the profit is first to be used for covering accumulated losses from previous years.

21. Current accounts and deposits, liabilities for preference shares and interest-bearing borrowings (continued)

c) Liability for preference shares (continued)

Holders of preference shares are listed below:

Holder of preference shares	ISIN	Number of preference shares at 31 December 2015	% of holding of preference shares at 31 December 2015	Number of preference shares at 31 December 2014	% of holding of preference shares at 31 December 2014
Süzer holding	BRBA-P-A	2,089	82.02	634	24.89
Miliša Joško	BRBA-P-A	74	2.91	74	2.91
Bilobrk Robertino	BRBA-P-A	74	2.91	74	2.91
Kreso Feđa	BRBA-P-A	53	2.08	53	2.08
Kreso Ismar	BRBA-P-A	52	2.04	52	2.04
Panjol-Tuflija Zrinka	BRBA-P-A	40	1.57	52	2.04
Krasnić Rihard	BRBA-P-A	23	0.90	23	0.90
Krsnik Davor	BRBA-P-A	20	0.78	20	0.78
Udovičić Marko	BRBA-P-A	19	0.75	19	0.75
Others	BRBA-P-A	103	4.04	1.546	60.70
TOTAL		**2,547**	**100.00**	**2,547**	**100.00**

d) Interest-bearing borrowings

Liability relates to repo loan with maturity up to 1 month and interest rate of 0.4%. Domestic sovereign bond is used as collateral (note 15a). Fair value of the related collateral (domestic sovereign bonds available for sale) is HRK 8,325 thousand.

22. Provisions for liabilities and charges

	2015	2014
	HRK 000	***HRK 000***
Provisions for legal cases initiated against the Bank	-	8
Provisions for identified losses for off-balance-sheet exposure to credit risk (Note 27)	364	440
Provisions for expected losses on conversion of CHF loans	233	-
TOTAL	**597**	**448**

Movements in provisions are included in the analysis in Note 7 Impairment losses and provisions and are recognised in profit or loss.

Notes to the financial statements (continued)

22. Provisions for liabilities and charges (continued)

a) Movements in provisions for legal cases initiated against the Bank:

	2015	2014
	HRK 000	*HRK 000*
Balance at 1 January	**8**	**79**
Increase in provisions	125	3
Release of unused amounts	(50)	-
Net charge recognised in profit or loss (Note 7)	*75*	*3*
Used during year	(83)	(74)
Balance at 31 December	**-**	**8**

b) Movements in provisions for identified losses on off-balance-sheet exposure to credit risk

	2015	2014
	HRK 000	*HRK 000*
Balance at 1 January	**440**	**144**
(Release) / charge in provisions recognised in profit or loss (Note 7)	(76)	296
Write offs	-	-
Balance at 31 December	**364**	**440**

23. Other liabilities

	2015	2014
	HRK 000	*HRK 000*
Liabilities to suppliers	2,570	1,774
Liabilities for loan prepayments	4,575	3,393
Liabilities to employees	2,831	2,773
Liabilities for taxes and contributions	258	77
Other liabilities	451	599
TOTAL	**10,685**	**8,616**

24. Equity

	2015	2014
	HRK 000	*HRK 000*
Ordinary share capital (Note 24a)	268,333	230,235
Legal and other reserves (Note 24b)	2,137	2,137
Accumulated losses	(67,556)	(71,474)
Fair value reserve (Note 24c)	(2,105)	3,393
TOTAL	**200,809**	**164,291**

24. Equity (continued)

a) Ordinary share capital

Ordinary share capital amounts to HRK 268,333 thousand (31 December 2014: HRK 230,235 thousand) and is divided into 70,614 ordinary shares (31 December 2014: 60,588 shares) with a nominal value of HRK 3,800.00 each.

According to the Decision of the Extraordinary General Assembly as of 10 June 2015, the ordinary share capital of the Bank was increased by the amount of HRK 38,098 thousand. The Bank issued 10,026 ordinary shares with a nominal value of HRK 3,800.00 to the majority shareholder of the Bank, Süzer Holding Anonim Sirketi. The ordinary share capital of the Bank is fully paid up in cash.
The shareholder structure was as follows:

Shareholder	ISIN	Number of ordinary shares at 31 December 2015	% of the ordinary share capital	Number of ordinary shares at 31 December 2014	% of the ordinary share capital
SÜZER HOLDING A.S.	BRBA-R-A	70,614	100.00	60,587	100.00
HYPO ALPE-ADRIA-BANK D.D./ SZIF D.D.	BRBA-R-A	-	-	1	0.00
TOTAL		**70,614**	**100.00**	**60,588**	**100.00**

b) Legal and other reserves

Reserves include legal reserves. Legal reserves represent accumulated transfers from retained earnings in accordance with the Croatian Company Law, which stipulates that a minimum of 5% of current profits is transferred to undistributable legal reserves, until such reserves along with other capital reserves reach a minimum of 5% of the issued capital. The legal reserve can be used for covering losses from previous years if the losses are not covered from the profit of the current year, or if there are no other available reserves.

	2015	**2014**
	HRK 000	***HRK 000***
Legal reserves	2,137	2,137
TOTAL	**2,137**	**2,137**

c) Fair value reserve

Fair value reserve comprise negative fair value of HRK 2,105 thousand (deferred tax asset not recognised), (2014: positive gross fair value of HRK 4,241 thousand netted by the related deferred tax liability of HRK 848 thousand).

During the year HRK 7,066 thousand was realized to profit or loss (Note 9a).

25. Earnings per share

For the purposes of calculating earnings per share, earnings are calculated as the loss for the period attributable to equity holders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares used for basic earnings per share was 63,095 (2014: 58,074). Given that there is no effect of options, convertible bonds or similar effect, the weighted average number of ordinary shares used for diluted earnings per share for 2015 and 2014 was the same as used to calculate basic earnings per share.

	2015	2014
Profit / (loss) attributable to ordinary shareholders in HRK '000	3,918	(10,998)
Weighted average number of shares	63,095	58,074
Basic and diluted earnings / (loss) per share in HRK	**62.10**	**(189.38)**

26. Related parties transactions

The Bank considers that it has an immediate related-party relationship with its key shareholders and their direct and indirect subsidiaries, the Supervisory Board members, Management Board members and other executive management (together "key management personnel"), close family members of key management personnel, and entities controlled by key management personnel or their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures".

The majority owner of the Bank is Süzer Holding Anonim Sirketi which is headquartered in Turkey. In addition to an increase of ordinary share capital in 2015 the Bank also entered into banking transactions with the majority owner during the year, generating income and expense for the year, and assets and liabilities at year end.

Related party transactions as at and for the year ended 31 December 2015 and 31 December 2014 were as follows:

SUZER HOLDING	**2015**	**2014**
	HRK 000	***HRK 000***
Other receivables	-	-
	-	-
Received deposits		
Current accounts	557	8,226
Term deposits	-	-
Other liabilities	-	-
	557	8,226

Notes to the financial statements (continued)

26. Related parties transactions (continued)

SÜZER HOLDING

	2015	**2014**
	HRK 000	***HRK 000***
Other income	3	5
	3	**5**
Expenses on received deposits		
Current accounts	-	(8)
Term deposits	(2)	(16)
Other expenses	-	-
	(2)	(24)

Key management personnel	**2015**	**2014**
	HRK 000	***HRK 000***
Loans to and receivables from customers	2,351	1,562
Other receivables	-	-
	2,351	1,562
Received deposits		
Current accounts	613	165
Term deposits	3,303	2,335
Other liabilities	-	-
	3,916	2,500

	2015	**2014**
	HRK 000	***HRK 000***
Interest income on loans to and receivables from customers	141	97
Other income	189	32
	330	129
Expenses on received deposits		
Current accounts	-	-
Term deposits	(101)	(79)
	(101)	**(79)**

Income and expense transactions above include transactions with Management Board Member whose mandate expired in December 2015.

Compensation to key management personnel was

	2015	**2014**
	HRK 000	***HRK 000***
Compensation to key management personnel	8,012	7,106
	8,012	**7,106**

Notes to the financial statements (continued)

26. Related parties transactions (continued)

The key management personnel in the Bank are the members of the Management and Supervisory Board, procurators and executive directors and other senior management. The expense of contributions paid to mandatory pension funds in the year ended 31 December 2015 for key management personnel amounted to HRK 1,373 thousand (for year ended 31 December 2014: HRK 924 thousand).

Transactions with owners of preference shares are as follows:

	2015	**2014**
	HRK 000	***HRK 000***
Loans to and receivables from customers	-	1
Other receivables	-	-
	-	1
Received deposits		
Current accounts	108	111
Term deposits	764	2,089
Liabilities for dividends	1,548	774
	2,420	2,974

	2015	**2014**
	HRK 000	***HRK 000***
Interest income on loans to and receivables from customers	-	-
Other income	-	-
	-	-
Preference share dividend (recognised as interest expense)	(774)	(774)
Expenses on received deposits		
Term deposits	(30)	(64)
	(804)	**(838)**

27. Contingencies and commitments

Commitments include guarantees and unused overdraft facilities on current accounts of retail customers.

	2015	**2014**
	HRK 000	***HRK 000***
Issued guarantees and letter of intent	15,072	20,301
Unused overdraft facilities	21,327	23,680
TOTAL	**36,399**	**43,981**
Identified provisions for off-balance-sheet exposure to credit risk (Note 22)	(364)	(440)
TOTAL	**36,035**	**43,541**

Notes to the financial statements (continued)

28. Maximum exposure to credit risk and concentration of credit risk

a) Maximum exposure to credit risk

	Note	2015	2014
		HRK 000	*HRK 000*
Current accounts with the CNB and other banks	12	84,200	175,104
Obligatory reserve with the CNB and compulsory CNB bills	14	88,787	74,587
Placements with other banks	16	25,740	17,627
Debt securities available for sale	15a)	149,491	159,145
Financial investments held to maturity	15b)	68,729	57,257
Loans to and receivables from customers	17a)	747,284	598,059
Other assets	20	1,439	1,053
Total exposure to credit risk from balance-sheet items		**1,165,670**	**1,082,832**
Exposure to credit risk from off balance sheet items is as follows:			
Guarantees and letters of intent	27	14,921	20,098
Unused overdraft facilities	27	21,114	23,443
Total exposure to credit risk from off-balance-sheet items		**36,035**	**43,541**
TOTAL		**1,201,705**	**1,126,373**

b) Concentration of credit risk

Concentration of credit risk towards State and local authorities

	Note	2015	2014
		HRK 000	*HRK 000*
Current account with the CNB	12	14,437	119,246
Obligatory reserve with the CNB and compulsory CNB bills	14	88,787	74,587
Treasury bills issued by Ministry of Finance available for sale	15a)	45,469	74,949
Bonds issued by Republic of Croatia available for sale	15a)	83,938	82,877
Financial investments held to maturity	15b)	2,709	1,883
Loans		-	-
Income tax prepayment		274	274
Other receivables		94	187
Impairment allowance		(1,063)	(1,962)
TOTAL		**234,645**	**352,041**

The impairment allowance presented in the above table relates to unidentified losses calculated on the related balances, which is in these financial statements offset against loans to and receivables from customers and is presented for illustrative purpose only. Income tax prepayment is not a financial asset, but is also presented for illustrative purposes.

28. Maximum exposure to credit risk and concentration of credit risk (continued)

b) Concentration of credit risk (continued)

Aside from exposures towards state and local authorities, the maximum exposure to credit risk towards one customer (including groups of related parties) at the end of 2015 amounted to HRK 43,310 thousand (2014: HRK 32,948 thousand).

29. Credit portfolio quality

The Bank applies an internal system of assessment of portfolio quality based on the assessment system prescribed by the CNB. The tables below show the credit quality by class of financial asset and ageing analysis of due outstanding receivables.

Collateral and other security instruments

The amount and type of the necessary collateral depends on the assessment of counterparty credit risk. The Bank has defined guidelines for acceptance of the type of collateral and evaluation of collateral.

Basic types of collateral are:

- Deposits
- Mortgages over real estate
- Charges over movable property
- Guarantees.

In the following tables, category other customers and companies from note 17 are included within corporate.

As at 31 December 2015

	Neither past due nor impaired				
	Low-risk grades	**Standard and sub-standard grades**	**Past due but not impaired**	**Individually impaired**	**Total**
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Current accounts with banks (Note 12)	-	84,200	-	-	**84,200**
Obligatory reserve with CNB and compulsory CNB bills (Note 14)	-	88,787	-	-	**88,787**
Debt securities available for sale (Note 15a)	-	149,491	-	-	**149,491**
Financial investments held to maturity (Note 15b)	-	68,062	667	-	**68,729**
Placements with other banks (Note 16)	-	25,740	-	-	**25,740**
Loans to and receivables from customers (Note 17a)	**-**	**715,880**	**3,965**	**27,439**	**747,284**
* retail	-	331,295	2,573	9,847	343,715
* corporate	-	384,585	1,392	17,592	403,569
TOTAL	**-**	**1,132,160**	**4,632**	**27,439**	**1,164,231**

29. Credit portfolio quality (continued)

As at 31 December 2014

	Neither past due nor impaired				
	Low-risk grades	Standard and sub-standard grades	Past due but not impaired	Individually impaired	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Current accounts with banks (Note 12)	-	175,104	-	-	**175,104**
Obligatory reserve with CNB and compulsory CNB bills (Note 14)	-	74,587	-	-	**74,587**
Debt securities available for sale (Note 15a)	-	159,145	-	-	**159,145**
Financial investments held to maturity (Note 15b)	-	56,840	211	206	**57,257**
Placements with other banks (Note 16)	-	17,627	-	-	**17,627**
Loans to and receivables from customers (Note 17a)	**-**	**542,805**	**19,804**	**35,450**	**598,059**
* retail	-	288,677	2,045	11,107	301,829
* corporate	-	254,128	17,759	24,343	296,230
TOTAL	**-**	**1,026,108**	**20,015**	**35,656**	**1,081,779**

Analysis of past due but not impaired loans:

As at 31 December 2015

	Due up to 30 days	Due 31 - 90 days	Due 91 – 180 days	Due 181-365 days	Due 1 to 2 years	Due over 2 years	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Loans to and receivables from customers	1,505	2,043	392	25	-	-	**3,965**
Financial investments held to maturity	667	-	-	-	-	-	**667**
Total	**2,172**	**2,043**	**392**	**25**	**-**	**-**	**4,632**

As at 31 December 2014

	Due up to 30 days	Due 31 - 90 days	Due 91 – 180 days	Due 181-365 days	Due 1 to 2 years	Due over 2 years	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Loans to and receivables from customers	18,037	1,643	91	2	1	30	**19,804**
Financial investments held to maturity	211	-	-	-	-	-	**211**
Total	**18,248**	**1,643**	**91**	**2**	**1**	**30**	**20,015**

29. Credit portfolio quality (continued)

Category up to 30 days past due in 2014 included HRK 15,277 of loans with sovereign risk collateral which were being rescheduled.

Analysis of individualy impaired loans:

	As at 31 December 2015							
	Undue	**Due up to 30 days**	**Due 31 - 90 days**	**Due 91 – 180 days**	**Due 181-365 days**	**Due 1 to 2 years**	**Due over 2 years**	**Total**
	HRK 000	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***
Retail loans to and receivables from customers	461	635	710	1,610	2,766	501	3,164	**9,847**
Corporate loans to and receivables from customers	-	3,808	1,944	366	4,552	1,202	5,720	**17,592**
Financial investments held to maturity	-	-	-	-	-	-	-	**-**
Total	**461**	**4,443**	**2,654**	**1,976**	**7,318**	**1,703**	**8,884**	**27,439**

	As at 31 December 2014							
	Undue	**Due up to 30 days**	**Due 31 - 90 days**	**Due 91 – 180 days**	**Due 181-365 days**	**Due 1 to 2 years**	**Due over 2 years**	**Total**
	HRK 000	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***
Retail loans to and receivables from customers	1,477	-	611	985	2,518	771	4,745	**11,107**
Corporate loans to and receivables from customers	9,075	690	2,846	-	2,472	1,162	8,098	**24,343**
Financial investments held to maturity	-	-	-	-	206	-	-	**206**
Total	**10,552**	**690**	**3,457**	**985**	**5,196**	**1,933**	**12,843**	**35,656**

Anaysis of due amounts is based on the highest delay category per individual exposures.

Undue individually impaired loans relate to restructured loans retained in category impaired after restructuring.

Notes to the financial statements (continued)

30. Maturity profile of assets and liabilities

Assets and liabilities are allocated within time buckets according to their remaining contractual maturity period. Obligatory reserve is analysed according to the time buckets of the funds representing the base for its calculation. Open-ended investment funds available for sale are presented in bucket to 1 month, based on their high secondary liquidity. Other items without contractual maturity are presented in the bucket over 3 years.

As at 31 December 2015 *HRK 000*

ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Cash and current accounts with banks	111,836	-	-	-	-	**111,836**
Obligatory reserve with CNB and compulsory CNB bills	13,318	6,288	49,309	18,484	1,388	**88,787**
Financial assets available for sale	109,360	555	46,657	30,695	70,861	**258,128**
Financial investments held to maturity	7,514	3,039	56,803	1,373	-	**68,729**
Loans to and receivables from customers	43,529	25,686	173,231	241,913	262,925	**747,284**
Placements with other banks	22,915	534	2,291	-	-	**25,740**
Property, plant and equipment	-	-	-	-	43,438	**43,438**
Intangible assets	-	-	-	-	7,544	**7,544**
Foreclosed assets	-	-	-	-	1,627	**1,627**
Income tax prepayment	-	-	-	-	274	**274**
Other assets	1,439	-	-	-	-	**1,439**
TOTAL ASSETS	**309,911**	**36,102**	**328,291**	**292,465**	**388,057**	**1,354,826**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	12,234	-	47,433	-	-	**59,667**
Current accounts and deposits from customers	156,344	79,598	576,717	233,972	17,573	**1,064,204**
Liabilities for preference shares	1,548	-	-	-	9,679	**11,227**
Interest-bearing borrowings	7,637	-	-	-	-	**7,637**
Provisions for liabilities and charges	-	-	-	-	597	**597**
Other liabilities	10,607	6	72	-	-	**10,685**
TOTAL LIABILITIES	**188,370**	**79,604**	**624,222**	**233,972**	**27,849**	**1,154,017**
EQUITY						
Ordinary share capital	-	-	-	-	268,333	**268,333**
Legal and other reserves	-	-	-	-	2,137	**2,137**
Fair value reserve	1	-	(41)	39	(2,104)	**(2,105)**
Accumulated losses	-	-	-	-	(67,556)	**(67,556)**
TOTAL EQUITY	**1**	**-**	**(41)**	**39**	**200,810**	**200,809**
TOTAL LIABILITIES AND EQUITY	**188,371**	**79,604**	**624,181**	**234,011**	**228,659**	**1,354,826**
MATURITY GAP	**121,540**	**(43,502)**	**(295,890)**	**58,454**	**159,398**	**-**

Notes to the financial statements (continued)

30. Maturity profile of assets and liabilities (continued)

As at 31 December 2014 *HRK 000*

ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Cash and current accounts with banks	214,628	-	-	-	-	**214,628**
Obligatory reserve with CNB and compulsory CNB bills	10,228	7,074	37,471	18,669	1,145	**74,587**
Financial assets available for sale	324	75,748	119	1,308	81,646	**159,145**
Financial investments held to maturity	556	4,886	51,815	-	-	**57,257**
Loans to and receivables from customers	53,960	37,896	108,408	174,913	222,882	**598,059**
Placements with other banks	-	15,327	2,300	-	-	**17,627**
Property, plant and equipment	-	-	-	-	42,915	**42,915**
Intangible assets	-	-	-	-	7,276	**7,276**
Foreclosed assets	-	-	-	-	1,172	**1,172**
Income tax prepayment	-	-	-	-	274	**274**
Other assets	1,053	-	-	-	-	**1,053**
TOTAL ASSETS	**280,749**	**140,931**	**200,113**	**194,890**	**357,310**	**1,173,993**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	929	2,000	3,842	-	-	**6,771**
Current accounts and deposits from customers	136,276	92,898	487,573	250,451	15,368	**982,566**
Liabilities for preference shares	774	-	-	-	9,679	**10,453**
Provisions for liabilities and charges	-	-	-	-	448	**448**
Other liabilities	8,504	6	28	78	-	**8,616**
Deferred tax liability	-	-	-	56	792	**848**
TOTAL LIABILITIES	146,483	94,904	491,443	250,585	26,287	**1,009,702**
EQUITY						
Ordinary share capital	-	-	-	-	230,235	**230,235**
Legal and other reserves	-	-	-	-	2,137	**2,137**
Fair value reserve	-	192	-	32	3,169	**3,393**
Accumulated losses	-	-	-	-	(71,474)	**(71,474)**
TOTAL EQUITY	**-**	**192**	**-**	**32**	**164,067**	**164,291**
TOTAL LIABILITIES AND EQUITY	**146,483**	**95,096**	**491,443**	**250,617**	**190,354**	**1,173,993**
MATURITY GAP	**134,266**	**45,835**	**(291,330)**	**(55,727)**	**166,956**	**-**

Notes to the financial statements (continued)

31. Exposure to foreign currency risk

Foreign currency structure of the balance sheet is presented in the following tables:

As at 31 December 2015 ***HRK 000***

ASSETS	EUR (and EUR linked)	USD	CHF	Other currencies	HRK	Total
Cash and current accounts with banks	66,838	7,866	3,408	3,073	30,651	**111,836**
Obligatory reserve with CNB and compulsory CNB bills	15,583	-	-	-	73,204	**88,787**
Financial assets available for sale	122,157	3,568	-	-	132,403	**258,128**
Financial investments held to maturity	1,070	-	-	-	67,659	**68,729**
Loans to and receivables from customers	622,166	10,614	11,909	-	102,595	**747,284**
Placements with other banks	25,740	-	-	-	-	**25,740**
Property, plant and equipment	-	-	-	-	43,438	**43,438**
Intangible assets	-	-	-	-	7,544	**7,544**
Foreclosed assets	-	-	-	-	1,627	**1,627**
Income tax prepayment	-	-	-	-	274	**274**
Other assets	-	-	-	-	1,439	**1,439**
TOTAL ASSETS	**853,554**	**22,048**	**15,317**	**3,073**	**460,834**	**1,354,826**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	22,788	-	-	-	36,879	**59,667**
Current accounts and deposits from customers	835,511	21,660	12,207	220	194,606	**1,064,204**
Liabilities for preference shares	-	-	-	-	11,227	**11,227**
Interest-bearing borrowings	7,637	-	-	-	-	**7,637**
Provisions for liabilities and charges	-	-	-	-	597	**597**
Other liabilities	-	-	-	-	10,685	**10,685**
TOTAL LIABILITIES	**865,936**	**21,660**	**12,207**	**220**	**253,994**	**1,154,017**
EQUITY						
Ordinary share capital	-	-	-	-	268,333	**268,333**
Legal and other reserves	-	-	-	-	2,137	**2,137**
Fair value reserve	-	-	-	-	(2,105)	**(2,105)**
Accumulated losses	-	-	-	-	(67,556)	**(67,556)**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**200,809**	**200,809**
TOTAL LIABILITIES AND EQUITY	**865,936**	**21,660**	**12,207**	**220**	**454,803**	**1,354,826**
NET ASSETS/ LIABILITIES AND EQUITY	**(12,382)**	**388**	**3,110**	**2,853**	**6,031**	**-**

Notes to the financial statements (continued)

31. Exposure to foreign currency risk (continued)

As at 31 December 2014 ***HRK 000***

ASSETS	EUR (and EUR linked)	USD	CHF	Other currencies	HRK	Total
Cash and current accounts with banks	64,970	3,117	8,580	3,168	134,793	**214,628**
Obligatory reserve with CNB and compulsory CNB bills	13,147	-	-	-	61,440	**74,587**
Financial assets available for sale	154,590	1,320	-	-	3,235	**159,145**
Financial investments held to maturity	918	-	-	-	56,339	**57,257**
Loans to and receivables from customers	506,407	12,595	14,977	-	64,080	**598,059**
Placements with other banks	17,627	-	-	-	-	**17,627**
Property, plant and equipment	-	-	-	-	42,915	**42,915**
Intangible assets	-	-	-	-	7,276	**7,276**
Foreclosed assets	-	-	-	-	1,172	**1,172**
Income tax prepayment	-	-	-	-	274	**274**
Other assets	-	-	-	-	1,053	**1,053**
TOTAL ASSETS	**757,659**	**17,032**	**23,557**	**3,168**	**372,577**	**1,173,993**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	-	-	-	-	6,771	**6,771**
Current accounts and deposits from customers	758,425	16,186	21,363	72	186,520	**982,566**
Liabilities for preference shares	-	-	-	-	10,453	**10,453**
Provisions for liabilities and charges	-	-	-	-	448	**448**
Other liabilities	-	-	-	-	8,616	**8,616**
Deferred tax liability	-	-	-	-	848	**848**
TOTAL LIABILITIES	**758,425**	**16,186**	**21,363**	**72**	**213,656**	**1,009,702**
EQUITY						
Ordinary share capital	-	-	-	-	230,235	**230,235**
Legal and other reserves	-	-	-	-	2,137	**2,137**
Fair value reserve	-	-	-	-	3,393	**3,393**
Accumulated losses	-	-	-	-	(71,474)	**(71,474)**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**164,291**	**164,291**
TOTAL LIABILITIES AND EQUITY	**758,425**	**16,186**	**21,363**	**72**	**377,947**	**1,173,993**
NET ASSETS/ LIABILITIES AND EQUITY	**(766)**	**846**	**2,194**	**3,096**	**(5,370)**	**-**

Notes to the financial statements (continued)

31. Exposure to foreign currency risk (continued)

Sensitivity of profit and loss to exchange rate fluctuations

The table below represents sensitivity of the profit or loss to exchange rate fluctuations. The effect of exchange rate fluctuations is presented using VaR (value-at-risk - 500 observations and 99% confidence level) on the currencies for which the Bank has significant exposures as follows:

Currency risk	2015	2014
Maximum overall open foreign currency position including options (% of the regulatory capital)	3.00%	6.65%
Open FX position including options in u EUR (% of the regulatory capital)	0.57%	2.85%
Open FX position including options in u USD (% of the regulatory capital)	0.00%	0.48%
VaR (EUR) / open FX position of the Bank in EUR (% of the regulatory capital)	0.18%	0.10%
VaR (USD) / open FX position of the Bank in EUR (% of the regulatory capital)	1.14%	0.65%

32. Exposure to interest-rate risk

The following table shows sensitivity of profit or loss to reasonable interest rate movements (parallel shift), on condition that all other variables are constant:

				2015
Currency	Changes in interest rate	Sensitivity of profit or loss to interest rate movements	Changes in interest rate	Sensitivity of profit or loss to interest rate movements
		HRK 000		***HRK 000***
HRK	100 bp	2,726	200 bp	5,452
EUR	100 bp	7,318	200 bp	14,636
Other	100 bp	473	200 bp	946
TOTAL		**10,517**		**21,034**

				2014
Currency	Changes in interest rate	Sensitivity of profit or loss to interest rate movements	Changes in interest rate	Sensitivity of profit or loss to interest rate movements
		HRK 000		***HRK 000***
HRK	100 bp	37	200 bp	75
EUR	100 bp	4,879	200 bp	9,758
Other	100 bp	391	200 bp	782
TOTAL		**5,307**		**10,615**

Notes to the financial statements (continued)

32. Exposure to interest-rate risk (continued)

Analysis of loans by type of interest rate

	As at 31 December 2015		As at 31 December 2014	
	Interest rate type			
	Fixed	**Variable**	**Fixed**	**Variable**
Assets	56,93%	43.07%	50.76%	49.24%
Liabilities	89.95%	10.05%	91.80%	8.20%

Average effective interest rates

The average effective interest rates for interest-earning financial assets and interest-bearing financial liabilities during the year calculated on average quarterly balances for the Bank are as follows:

	2015 Effective interest rate	**2014 Effective interest rate**
Cash and current accounts with banks	0,03%	-
Obligatory reserve with the CNB and compulsory CNB bills	-	-
Placements with other banks	0.59%	0.71%
Debt securities available for sale	3,26%	4.20%
Financial assets held to maturity	7.48%	7.34%
Loans to and receivables from customers	8.47%	9.30%
Current accounts and deposits from banks and financial institutions	1.94%	3.47%
Current accounts from customers	0.18%	0.10%
Term deposits from customers	2.93%	3.45%
Liability for preference shares	8.00%	8.00%
Interest–bearing borrowings	0.62%	-

33. Exposure to price risk

The Bank’s investment in open-ended investment funds represent its exposure to price risk.

Sensitivity to price risk	**Impact on other comprehensive income before tax 2015 HRK’000**	Impact on other comprehensive income before tax 2014 HRK’000
Change in price by ± 3%	**3,259/(3,259)**	**-/-**

34. Risk and capital management

Note 34 complements notes 28 to 33, whereby note 34 provides general risk management policies and principles, notes 28 to 33 provide quantitative disclosures of exposure to various risks.

a) Financial risk management

The operations of the Bank are exposed to various types of risk, which arise from the uncontrollable character of the financial market. The Bank tries to control and minimize the risks. The most significant types of financial risk to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes the risk of change of interest rates, risk of change of foreign exchange rates and change of market value of securities.

b) Credit risk

Credit risk is the most significant type of risk to which the Bank is exposed in its operations. Credit risk arises from the inability of the other party to service their liabilities as they fall due. The Bank monitors the exposure to credit risk and the quality of the portfolio on a regular basis.

Credit risk management is principally implemented through the choice of customers of good credit-worthiness and seeking adequate collateral.

In granting placements, the quality, i.e. creditworthiness of the customer, is the main criteria. The Bank additionally reduces exposure to credit risk by securing placements with collateral. The Bank has established a Risk Assessment and Measurement Unit, (within the Risk Management Department) in charge of regular credit risk management and monitoring. Risk Management Department also participates in the process of granting all significant placements, as well as in the process of approving the Bank's lending policies.

In measurement of credit risk of loans and advances to customers and banks, the Bank uses three major factors:

(i) the creditworthiness;
(ii) regular settlement of contractual obligations;
(iii) the quality of collateral, as explained below.

i) The Bank assesses creditworthiness using internal rating tools. They have been developed internally and combine statistical and empirical analysis based on loan officers' judgment, and if required, they are assessed in comparison with available external data. Placements with customers are divided into three categories of evaluation: fully recoverable loans (group A), partially recoverable (group B) and irrecoverable placements (group C).

ii) Settlement of obligations means payment of all obligations within contractual maturities, without establishing a new receivable.

(iii) The quality of the collateral is determined by marketability, protection of legal documentation and the possibility of enforcing collection.

The Bank manages, limits and controls concentrations of credit risk wherever they are identified, especially with regard to individual clients and groups, industries and countries (where applicable).

34. Risk and capital management (continued)

b) Credit risk (continued)

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower and a group of related parties, and industrial segments. Limits on the level of credit risk by industry sectors are regularly reviewed.

Exposure to credit risk is also managed by regular analysis of the ability of borrowers and potential borrowers to meet all obligations to the Bank and by changing lending limits where appropriate. The assessment of possible losses is monitored on a regular basis to enable timely identification of such placements and calculation of impairment losses.

c) Liquidity risk

Liquidity risk represents the risk that the Bank will not be able to settle its liabilities as they fall due, and finance or liquidate assets on the basis of acceptable prices. The Bank's lending portfolio is fully covered with customer deposits, which significantly decreases the liquidity risk and ensures funding flexibility.

In order to ensure the quality of funding sources, the Bank funds itself from various sources: deposits of retail customers, special participations, assets from the money market funds, and share capital, which reduces dependence on only one source, and consequently liquidity risk.

The Bank prepares strategies in order to ensure that the needs of the Bank for cash funds in certain currencies are covered. The Bank's strategy is oriented towards ensuring adequate liquidity level which meets both estimated and unforeseen needs for cash funding. In case of an unforeseen need for cash funds, the Bank could take actions such as control of the Bank's credit activity, withdrawal of the available lines of credit and other necessary measures.

The Bank manages its assets and sources of funding taking into consideration financial flows, cash flows and concentrations, all with the aim of matching the cash inflows and outflows of the Bank. Such management includes the identification of known, expected and potential cash outflows and making different strategies of assets and liabilities management in order to ensure the needs of the Bank for cash inflows. Accordingly, liquidity risk management system includes: assessment and measurement of liquidity risk exposure, setting and monitoring limits as well as reporting on their utilization.

Liquidity risk management is achieved by operational short-term liquidity management and long-term liquidity management.

The Management Board of the Bank is responsible for liquidity risk management.

d) Market risk

- *Foreign currency risk* mainly arises from transactions in EUR, USD and CHF, or linked to EUR, USD, CHF and to a lesser extent, other currencies.

Control and mitigation of foreign currency risk is implemented by monitoring foreign currency deposit and simultaneous contracting of loans with foreign currency clause. Foreign currency risk is controlled on a daily basis, according to regulatory, but also internally determined limits of certain currencies.

34. Risk and capital management (continued)

d) Market risk (continued)

The Bank directs its business activities trying to minimise gaps between assets and liabilities denominated in foreign currency directly or with foreign currency clauses. The Bank manages its assets and liabilities by maintaining the alignment of certain foreign currency assets and liabilities in order optimize the risk and profitability relationship due to currency movements.

- *Interest rate risk* is the risk of change of the prices of financial assets available for sale as a result of the changes in interest rates. Interest rate risk is controlled through monitoring the interest rate sensitivity of assets and liabilities.

Risk management activities are mainly carried out in the context of the Bank's sensitivity to interest rate changes. Exposure to interest rate risk is the result of mismatch between assets and liabilities, which carry variable and /or fixed rates and / or reprice at a different time and it is monitored using the analysis of mismatch between assets and liabilities.

The objective of interest rate risk management is to ensure an optimal and stable net interest margin. In accordance with its asset and liability management policy, the Bank monitors the mismatch between assets and liabilities in the statement of financial position, using various the criteria for possible change of interest rate. The calculation represents the amount of changes in the value of equity resulting from simultaneous changes in interest rates by 100 basis points (stress test 200 basis points). The above amount should be within 10% change of economic value of regulatory capital.

- *Price risk* is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than fluctuations resulting from currency and interest rate), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Bank’s investment in open-ended investment funds represent its exposure to price risk.

e) Capital management

The primary goals of the Bank related to equity management are alignment with all legal capital requirements, by concurrently retaining sufficient capital adequacy for the purpose of supporting business activity, in order to maximise the value for shareholders.

The Bank manages the structure of equity and adjusts it to the market conditions and risks arising from its business activity.

The Bank’s regulatory capital requirements were based Basel III in 2015 and 2014.

The Bank's regulatory capital consists of Tier 1 capital (all qualifies as Common Equity Tier 1 (“CET1”) capital, which includes ordinary share capital, 60% of preference shares (2014: 80%), accumulated losses, reserves and loss for the period after adjustment intangible assets.

34. Risk and capital management (continued)

e) Capital management (continued)

The table below summarises the composition of regulatory capital and ratios of the Bank (risk weighted assets have been unaudited as of the date of the issuance of these financial statements):

	Unaudited 31 December 2015 *HRK 000*	**Audited 31 December 2014** *HRK 000*
Regulatory capital		
Issued ordinary share capital and preference shares	274,140	237,978
Reserves – legal	2,137	2,137
Losses in previous years	(71,474)	(60,476)
Loss for the year	-	(10,998)
Total qualifying capital of the bank	**204,803**	**168,641**
Adjustment for intangible assets	(7,544)	(7,276)
Adjustment for negative revaluation reserve	(2,222)	-
Total regulatory capital	**195,037**	**161,365**
Risk-weighted assets		
Credit risk-weighted assets	807,329	633,771
Exposure to operational risk	73,811	62,104
Exposure to currency risk	7,178	7,910
Total risk weighted assets	**888,318**	**703,785**
Capital adequacy ratio	**21.96%**	**22.93%**

Prescribed minimal capital ratios in accordance with Article 92 of the Capital Requirements Regulation are as follows:

- Common Equity Tier 1 capital ratio of 4.5% of the total risk exposure amount,
- Tier 1 capital ratio of 6% of the total risk exposure amount,
- Total capital ratio of 8% of the total risk exposure amount.

In addition to regulatory prescribed minimal capital adequacy ratios and in accordance with Articles 117 and 130 of CNB's Credit Institutions Act and Articles 129 and 133 of CRD IV, the Bank is also obliged to maintain specifically set capital buffers.

The CNB prescribed the Bank's required capital adequacy at the end of 2014 and the Bank has complied with this requirement in both 2015 and 2014.

f) Operational risk management

Operational risk represents risk of loss due to inadequate or unsuccessful internal processes, employees or due to external events.

Responsibility for the implementation of operational risk management system and control of operational risk management at the level of the Bank is assigned to the Risk control function.

35. Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

Cash and balances with Croatian National Bank

The book value of cash and balances with the CNB approximate their fair value due to short-term maturity of these financial instruments.

Placements with other banks

Placements with other banks are stated at amortized cost. The fair value calculated by discounting the expected future flows of principal and interest is not significantly different from their book values in light of their short-term maturities.

Loans and advances

Management has considered the fair value of loans and advances. As most of the Bank's loan portfolio is contracted with variable interest rates and the Bank's portfolio of loans and advances with fixed rates and longer-term maturity were predominantly originated recently, management considers that the fair value of the overall portfolio of loans and advances, calculated by discounting expected future principal and interest cash flows (assuming that loan repayments will occur at contractual repayment dates taking into account existing identified impairment losses) would not be significantly different from the carrying amount before allowances for unidentified impairment losses. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis.

It is not possible for the Bank to estimate the difference between the effect of the unidentified impairment losses calculated in accordance with the CNB regulations, which are included in the carrying value of loans and advances, and the effect on the discounted cash flow calculations referred to above as an estimate of the fair value of expected future losses which would reduce future cash flows.

Financial investments held to maturity

The fair value of financial investments held to maturity, in the opinion of the Management Board, also approximates their book value, given that these are short – term instruments.

Deposits from banks and customers

For demand deposits, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values. As most of the Bank's deposits with fixed interest rates are due within one year, although the interest rate being above the market rate, there is no significant difference between the fair value of these deposits and their carrying value.

Interest-bearing borrowings

Due to its short-term nature, the book value approximates the fair value.

35. Fair values (continued)

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

There were no transfers between levels in 2015 and 2014.

Financial assets	**LEVEL 1** *HRK 000*	**LEVEL 2** *HRK 000*	**LEVEL 3** *HRK 000*	**2015 TOTAL** *HRK 000*
Financial assets available for sale				
Local Government bonds	100,454	-	-	**100,454**
Local corporate bonds	3,568	-	-	**3,568**
Local treasury bills	-	45,469	-	**45,469**
Cash funds	108,637	-	-	**108,637**
Total financial assets	**212,659**	**45,469**	**-**	**258,128**

Financial assets	**LEVEL 1** *HRK 000*	**LEVEL 2** *HRK 000*	**LEVEL 3** *HRK 000*	**2014 TOTAL** *HRK 000*
Financial assets available for sale				
Local Government bonds	82,877	-	-	**82,877**
Local corporate bonds	-	1,319	-	**1,319**
Local treasury bills	-	74,949	-	**74,949**
Total financial assets	82,877	76,268	-	**159,145**

Appendix 1 – Supplementary schedules for CNB

Croatian National Bank adopted on 19 May 2008 the Decision on the Structure and Content of the Financial Statements of Banks (Official Gazette 62/08).

Supplementary schedules for the CNB prepared pursuant to the above Decision are presented below along with the reconciliation of the supplementary schedules for CNB with the statutory financial statements, prepared in accordance with the accounting regulations applicable for banks in Croatia.

INCOME STATEMENT for the period 01.01.2015. to 31.12.2015.

Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
1. Interest income	**048**	61.985.878	67.598.273
2. (Interest expense)	**049**	29.328.144	30.264.525
3. Net interest income	**050**	32.657.734	37.333.748
4. Fee and commission income	**051**	6.431.639	7.592.053
5. (Fee and commission expense)	**052**	2.326.142	2.142.329
6. Net fee and commission income	**053**	4.105.497	5.449.724
7. Gain/(losses) from investment in subsidiaries, associates and joint ventures	**054**	0	0
8. Gains/(losses) from trading activities	**055**	3.702.506	6.034.436
9. Gains/(losses) from embedded derivatives	**056**	0	-192.618
10. Gains/(Losses) from assets which are not traded, but are designated at fair value value through profit or loss	**057**	0	0
11. Gains/(losses) from activities related to available for sale financial assets	**058**	1.847.215	7.066.144
12. Gains/(losses) from activties related to held to maturiry investments	**059**	0	0
13. Gains/(Losses) from hedging transactions	**060**	0	0
14. Income from investments in subsidiaries, associates and joint ventures	**061**	0	0
15. Income from equity investments	**062**	0	0
16. Gains/(losses) from foreign exchange differences	**063**	1.483.309	1.120.020
17. Other income	**064**	1.798.451	1.525.652
18. Other expenses	**065**	3.297.648	3.595.538
19. General administrative expenses and depreciation	**066**	41.328.699	46.020.078
20. Net income from operations before impairment and other provisions (050+053 to 064-065-066)	**067**	968.365	8.721.490
21. Impairment losses and provisions	**068**	11.966.152	4.803.617
22. PROFIT/(LOSS) BEFORE TAX	**069**	-10.997.787	3.917.873
23. INCOME TAX	**070**	0	
24. PROFIT/(LOSS) FOR THE PERIOD	**071**	-10.997.787	3.917.873

Appendix 1 – Supplementary schedules for CNB (continued)

BALANCE SHEET AS AT 31.12.2015.

Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
ASSETS			
1. Cash and deposits with CNB (002+003)	**001**	232.516.194	130.859.708
1.1.Cash	**002**	39.523.800	27.636.450
1.2.Deposits with the CNB	**003**	192.992.394	103.223.258
2. Deposits with banking institutions	**004**	73.479.460	95.493.136
3. MF treasury bills and CNB bills	**005**	75.789.721	45.469.454
4. Securities and other financial instruments held for trading	**006**	-	-
5. Securities and other financial instruments available for sale	**007**	82.954.486	210.192.488
6. Securities and other financial instruments held to maturity	**008**	57.516.125	68.850.924
7. Securities and other financial instruments which are not actively traded, but are designated at fair value throught profit or loss	**009**	-	-
8. Derivative financial assets	**010**	-	-
9. Loans to financial institutions	**011**	-	4.868.422
10. Loans to other clients	**012**	603.859.810	747.571.684
11. Investments in subsidiaries, associates and joint ventures	**013**	-	-
12. Foreclosed assets	**014**	1.171.587	1.626.704
13. Tangible assets (net of depreciation)	**015**	42.914.865	43.438.237
14. Interest, fees and other assets	**016**	11.979.738	14.721.448
A) TOTAL ASSETS (001+004 to 016)	**017**	**1.182.181.986**	**1.363.092.205**
LIABILITIES			
1. Borrowings from financial institutions (019+020)	**018**	-	7.635.047
1.1. Short-term borrowings	**019**	-	7.635.047
1.2. Long-term borrowings	**020**	-	-
2. Deposits (022 to 024)	**021**	973.585.191	1.108.543.410
2.1. Giro and current accounts	**022**	33.974.779	110.833.486
2.2. Saving deposits	**023**	44.716.732	255.228
2.3. Term deposits	**024**	894.893.680	997.454.696
3. Other borrowings (026+027)	**025**	115.577	77.669
3.1. Short-term borrowings	**026**	-	77.669
3.2. Long-term borrowings	**027**	115.577	-
4. Liabilities arising from derivatives and other liabilities held for trading	**028**	-	-
5. Issued debt securities (030+031)	**029**	-	-
5.1. Short-term issued debt securities	**030**	-	-
5.2. Long-term issued debt securities	**031**	-	-
6. Issued subordinate instruments	**032**	-	-
7. Issued hybrid instruments	**033**	-	-
8. Interest, fees and other liabilities	**034**	44.190.241	46.026.537
B) TOTAL LIABILITIES (018+021+025+028+029+032+033+034)	**035**	**1.017.891.009**	**1.162.282.663**
EQUITY			
1. Share capital	**036**	230.234.400	268.333.200
2. Profit (loss) for the year	**037**	- 10.997.787	3.917.873
3. Retained earnings/(loss)	**038**	- 60.476.288	- 71.474.075
4. Legal reserves	**039**	2.137.362	2.137.362
5. Statutory and other capital reserves	**040**	-	-
6. Unrealised gain/(loss) on value adjustments of assets available for sale	**041**	3.393.290	- 2.104.818
7. Hedge accounting reserves	**042**	-	-
C) TOTAL EQUITY (036 to 042)	**043**	**164.290.977**	**200.809.542**
D) TOTAL LIABILITIES AND EQUITY (035+043)	**044**	**1.182.181.986**	**1.363.092.205**

Appendix 1 – Supplementary schedules for CNB (continued)

CASH FLOW STATEMENT - Indirect method in the period from 01.01.2015. to 31.12.2015.
Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
OPERATING ACTIVITIES			
1. Cash flow from operating activities before changes in operating assets (002 to 007)	**001**	7.013.772	14.619.904
1.1. Profit / (loss) before tax	**002**	-10.997.787	3.917.873
1.2. Impairment	**003**	11.966.152	4.855.017
1.3. Depreciation	**004**	6.045.407	5.806.637
1.4. Net unrealised profit/(loss) from financial assets and liabilities at fair value through income statement	**005**	0	0
1.5. (Gains) / losses from sale of tangible assets	**006**	0	40.377
1.6. Other (gains)/losses	**007**	0	0
2. Net (increase)/decrease in operating assets (009 to 016)	**008**	-178.092.817	-273.784.221
2.1. Deposits with CNB	**009**	-15.647.879	-15.039.770
2.2. MF treasury bills and CNB bills	**010**	-6.663.668	30.320.267
2.3. Deposits with banking institutions	**011**	-2.298.441	-526.526
2.4. Loans to other clients	**012**	-145.966.881	-153.229.313
2.5. Securities and other financial instruments held for trading	**013**	0	0
2.6. Securities nad other financial instruments available for sale	**014**	-5.552.130	-132.736.110
2.7. Securities and other financial instruments that are not actively traded but are evaluated at fair value through income statement	**015**	0	0
2.8. Other operating assets	**016**	-1.963.818	-2.572.769
3. Net increase/(decrease) in operating liabilities (018 to 021)	**017**	260.706.652	136.794.515
3.1. Current accounts	**018**	10.905.790	76.858.707
3.2. Saving accounts and time deposits	**019**	247.039.220	58.099.512
3.3. Derivative financial liabilities and other financial liabilities held for sale	**020**	0	0
3.4. Other liabilities	**021**	2.761.642	1.836.296
4. Net cash flow from operating activities before tax (001+008+017)	**022**	89.627.607	-122.369.802
5. Paid income tax	**023**	0	
6. Net cash inflow / (outflow) from operating activities (022+023)	**024**	89.627.607	-122.369.802
INVESTMENT ACTIVITIES			
7. Net cash flow from investing activities(026 to 030)	**025**	-17.021.583	-18.533.947
7.1. Cash receipts from (payments to acquire) tangible and intangible assets	**026**	-30.259.877	-6.993.148
7.2. Cash receipts from the disposal of (payments for the investment in) subsidiaries, associates and joint ventures	**027**	0	0
7.3. Cash receipts from sales of (cash payments to acquire) securities and other financial instruments held until maturity	**028**	13.238.294	-11.540.799
7.4. Dividends received	**029**	0	0
7.5. Other receipts from(payments for) investments	**030**	0	0
FINANCIAL ACTIVITIES			
8. Net cash flow from financing activities (032 to 037)	**031**	37.342.214	45.695.939
8.1. Net increase / (decrease) in received loans	**032**	-92.497	7.597.139
8.2. Net increase / (decrease) of issued debt securities	**033**	0	0
8.3. Net increase / (decrease) of subordinated and hybrid instruments	**034**	0	0
8.4. Proceeds from issue of share capital	**035**	38.209.000	38.098.800
8.5. (Dividends paid)	**036**	-774.289	0
8.6. Other proceeds(payments) from financing activities	**037**	0	0
9. Net increase / (decrease) of cash and cash equivalents (024+025+031)	**038**	109.948.238	-95.207.810
10. Effect of exchange differences on cash and cash equivalents	**039**		
11. Net increase / (decrease) of cash and cash equivalents (038+039)	**040**	109.948.238	-95.207.810
12. Cash and cash equivalents at the beginning of the year	**041**	120.000.872	229.949.110
13. Cash and cash equivalents at the end of the year(040+041)	**042**	229.949.110	134.741.300

Appendix 1 – Supplementary schedules for CNB (continued)

STATEMENT OF CHANGES IN EQUITY in the period from 1.1.2015 to 31.12.2015
Amounts in HRK

Position name	AOP code	Atributable to shareholders of the Bank						Minority interest	Total equity and reserves
		Share capital	Treasury shares	Legal, statutory, capital and other reserves	Retained earnings/loss	Profit/loss for the year	Unrealised gain/loss from revaluation on AFS financial assets		
1	2	4	5	6	7	8	9	10	11
Balance at 1 January 2015	**001**	230.234.400	0	2.137.362	-60.476.288	-10.997.787	3.393.290		164.290.977
Changes in accounting policies and errors	**002**								
Restated balance at 1 January 2015 (001+002)	**003**	230.234.400	0	2.137.362	-60.476.288	-10.997.787	3.393.290	0	164.290.977
Disposal of available-for-sale portfolio	**004**								
Change in fair value of available-for-sale portfolio	**005**						-5.498.108		-5.498.108
Deferred tax on movements in fair value reserve of available-for-sale portfolio	**006**								
Other gains/losses directly recognised in equity	**007**								
Net gains/losses directly recognised in equity (004+005+006+007)	**008**	0	0	0	0	0	-5.498.108	0	-5.498.108
Profit/loss for the perriod	**009**					3.917.873			3.917.873
Total recognised income and expenses for 2015 (008+009)	**010**	0	0	0	0	3.917.873	-5.498.108	0	-1.580.235
Increase/decrease of share capital	**011**	38.098.800							38.098.800
Acquisition/disposal of treasury shares	**012**								
Other movements	**013**								
Transfer to reserves	**014**				-10.997.787	10.997.787			0
Dividends paid	**015**								
Distribution of profit (014+015)	**016**	0	0	0	-10.997.787	10.997.787	0	0	0
Balance at 31 December 2015 (003+010+011+012+013+016)	**017**	268.333.200	0	2.137.362	-71.474.075	3.917.873	-2.104.818	0	200.809.542

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1

a) Comparison of profit and loss account

Statutory financial statements		Supplementary schedules for CNB				
Position name	Amount in HRK '000	Position name	AOP code	Amount in HRK '000	Difference	Explanation of difference
Interest and similar income	67.598	1. Interest income	**048**	67.598	-	
Interest expense and similar charges	- 28.325	2. Interest expense	**049**	- 30.265	1.940	HRK 2.714 thousand kuna of deposit insurance is presented within Other administrative expenses in statutory financial statements and for CNB reporting within "Interest expense" (Note a1). HRK 774 thousand of dividends on preferance shares is presented within "General administrative expenses and depreciation" for CNB reporting (Note a2).
Fee and commission income	7.593	4. Fee and commission income	**051**	7.592	1	Rounding difference
Fee and commission expense	- 2.142	5. Fee and commission expense	**052**	- 2.142	-	
		7. Gain/(losses) from investment in subsidiaries, associates and joint ventures	**054**	-	-	
					-	
Net gains from translation of monetary assets and liabilities, fixing of CHF rate and foreign exchange spot trading	6.962	8. Gains/(losses) from trading activities	**055**	6.034	928	Foreign exchange differences in relation to dealing with foreign currencies reclassified to Gains and losses from foreign exchange differences for CNB reporting (Note b)
		9. Gains/(losses) from embedded derivatives	**056**	- 192	192	
		10. Gains/(Losses) from assets which are not traded, but are designated at fair value value through profit or loss	**057**	-	-	
Net realised gains from financial assets available for sale	7.066	11. Gains/(losses) from activities related to available for sale financial assets	**058**	7.066	-	
		12. Gains/(losses) from activties related to held to maturiry investments	**059**	-	-	
		13. Gains/(Losses) from hedging transactions	**060**	-	-	
		14. Income from investments in subsidiaries, associates and joint ventures	**061**	-	-	
		15. Income from equity investments	**062**	-	-	
		16. Gains/(losses) from foreign exchange differences	**063**	1.120	- 1.120	Refer to Note b above
Other income	576	17. Other income	**064**	1.526	- 950	Cost of sale of tangible asset (HRK 558 thousand) netted with income from sale in statutory financial statements, income from reversal of provision for court cases (HRK 50 thousand) netted with provision expense in statutory financial statements and income from reversal of unused vacation day provision (HRK 552 thousand) included in staff costs in statutory financial statements and HRK 209 thousand of collection from impaired loan presented in other income in statutory financial statements; in CNB report it is netted within impairment losses and provisions (Note d)
		18. Other expenses	**065**	- 3.595	3.595	HRK 1,492 thousand relates to marketing and other expenses are presented within Other administrative expenses in statutory financial statements, HRK 646 thousand of loss on CHF conversion and provision for expected losses for CHF conversion is presented within impairment losses and provisions in stautory financial statements, HRK 558 thousand of cost of sale of tangible asset netted with income from sale in statutory financial statements, HRK 125 thousand of court cases provision is persented in imapirment losses and provisions in statutory financial statements, HRK 774 thousand of dividend expense is presented within interest expense in statutory financial statements and (Note c).
Depreciation and amortisation	- 5.807	19. General administrative expenses and depreciation	**066**	- 46.020	40.213	Refer to Note a1 above, Note a2 above, Note c above, Note d above, also separate presentation of staff cost in the CNB supplementary schedules.
Staff costs	- 26.316				- 26.316	
Other administrative expenses	- 17.551				- 17.551	
Impairment losses and provisions	- 5.736	21. Impairment losses and provisions	**068**	- 4.804	- 932	Refer to note c above and note d above
PROFIT (LOSS) BEFORE TAX	**3.918**	**22. PROFIT/(LOSS) BEFORE TAX (067-068)**	**069**	**3.918**	-	
Income tax expense	-	**23. INCOME TAX**	**070**	-	-	
LOSS FOR THE YEAR	**3.918**	**24. PROFIT/(LOSS) FOR THE PERIOD (069-070)**	**071**	**3.918**	-	

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1 (continued)

b) Comparison of statement of financial position

Statutory financial statements		Supplementary schedules for CNB				
Name of line	**Amount in HRK '000**	**Name of position**	**AOP code**	**Amount in HRK '000**	**Difference**	**Explanation of difference**
ASSETS		**ASSETS**				
Cash and current accounts with banks	111.836	1.1.Cash	**002**	27.636	84.200	Current account with the CNB and current accounts with other bank for the CNB reporting included in Deposits with CNB and Deposits with banking institutions.
Obligatory reserve with Croatian National Bank and compulsory CNB bills	88.787	1.2.Deposits with the CNB	**003**	103.223	-14.436	CNB supplementary schedules also include current account with the CNB presented in Cash and current accounts with banks for the statutory reporting.
Placements with other banks	25.740	2. Deposits with banking institutions	**004**	95.493	-69.753	Current accounts at banks are presented in Cash and current accounts with banks in Statutory financial statements. HRK 11 thousand of interest receivable is presented within Interest, fees and other assets in CNB reporting.
Financial assets available for sale	258.128	3. MF treasury bills and CNB bills	**005**	45.469	212.659	Financial assets available for sale includes investment in treasury bills in the amount of HRK 45,469 thousand which are included in position "MF treasury bills and CNB bills" for CNB schedules and investment in bonds presented in position " Securities and other financial instruments available for sale" in the amount of 210,192 thousand kuna. Also, HRK 2,466 thousand of receivable for interest is presented within the same line, while for CNB presentation it is included in position "Interest, fees and other assets". 1 is rounding difference.
		4. Securities and other financial instruments held for trading	**006**	-	0	
		5. Securities and other financial instruments available for sale	**007**	210.192	-210.192	
Financial investments held to maturity	68.729	6. Securities and other financial instruments held to maturity	**008**	68.851	-122	Difference relates to deferred fees on financial instruments held to maturity which are netted with principal in statutory financial statements, and for CNB reporting are included in other liabilities.
		7. Securities and other financial instruments which are not actively traded, but are designated at fair value throught profit or loss	**009**	-	0	
		8. Derivative financial assets	**010**	-	0	
		9. Loans to financial institutions	**011**	4.869	-4.869	Loans to financial institutions in the amount of HRK 4,869 thousand are presented in Loans to and receivables from customers in Statutory financial statements.
Loans to and receivables from customers	747.284	10. Loans to other clients	**012**	747.572	-288	HRK 8,153 thousand relates to deferred fees on loans to customers which are netted with principal in statutory financial statements, and for CNB reporting are included in other liabilities. HRK 2,988 thousand relates to interest receivables presented with principal in statutory financial statements and for CNB reporting preseneted within Interest, fees and other assets.
		11. Investments in subsidiaries, associates and joint ventures	**013**	-	0	
Foreclosed assets	1.627	12. Foreclosed assets	**014**	1.627	0	
Property, plant and equipment	43.438	13. Tangible assets (net of depreciation)	**015**	43.438	0	
Intangible assets	7.544	14. Interest, fees and other assets	**016**	14.722	-7.178	Total difference of HRK 5,465 thousand relates to HRK 11 thousand of interest receivables from deposits with banking institutions, HRK 2,466 thousand of interest receivables from securities available for sales and HRK 2,988 thousand of interest receivables from loans to customers which are included in the related lines above in statutory financial statements (see above).
Income tax prepayment	274				274	
Other assets	1.439				1.439	
TOTAL ASSETS	**1.354.826**	**A) TOTAL ASSETS (001+004 do 016)**	**017**	**1.363.092**	**-8.266**	Relates to deffered fees (see above)

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1 (continued)
b) Comparison of statement of financial position (continued)

Statutory financial statements		Supplementary schedules for CNB				
Name of line	Amount in HRK '000	Name of position	AOP code	Amount in HRK '000	Difference	Explanation of difference
LIABILITIES		**LIABILITIS**		-	0	
Liabilities for loans	7.637	1.1. Short-term borrowings	**019**	7.635	2	
		1.2. Long-term borrowings	**020**	-	0	
Current accounts and deposits from banks and financial institutions	59.667	2.1. Giro and current accounts	**022**	110.833	-51.166	Difference relates to interest liabilities which are presented within Interest, fees and other liabilities for CNB reporting.
Current accounts and deposits from customers	1.064.204	2.2. Saving deposits	**023**	255	1.063.949	
		2.3. Term deposits	**024**	997.455	-997.455	
Liabilities for loans		3.1. Short-term borrowings	**026**	78	-78	Liability for financial leasing is included in Other liabilities in statutory financial statements.
		3.2. Long-term borrowings	**027**	-	0	
		4. Liabilities arising from derivatives and other liabilities held for trading	**028**	-	0	
					0	
		5.1. Short-term issued debt securities	**030**	-	0	
		5.2. Long-term issued debt securities	**031**	-	0	
		6. Issued subordinate instruments	**032**	-	0	
		7. Issued hybrid instruments	**033**	-	0	
Liabilities for preference shares	11.227				11.227	Separate presentation in the statutory financial statements.
Provisions for liabilities and charges	597	8. Interest, fees and other liabilities	**034**	46.027	-45.430	Difference of HRK 34,745 thousand comprises HRK 15,328 thousand of interest liabilities presented above with deposits in statutory financial statemen, HRK 11,227 thousand of liability for preference shares presneted separately in statutory financial statements, HRK 8,266 of deferred fees netetd in asset positions in statutory financial statements and HRK 78 thousand kuna of financial lease liability presented separately for CNB reporting (above)
Other liabilities	10.685				10.685	
Total liabilities	**1.154.017**	**B) TOTAL LIABILITIES**	**035**	**1.162.283**	**-8.266**	
EQUITY		**EQUITY**		-		
Issued share capital	268.333	1. Share capital	**036**	268.333	0	
Accumulated loss	- 67.556	2. Profit/(loss) for the year	**037**	3.918	-71.474	Loss for the year is a separate line of equity for CNB reporting.
		3. Retained earnings/(loss)	**038**	- 71.474	71.474	
Legal and other reserves	2.137	4. Legal reserves	**039**	2.137	0	
		5. Statutory and other capital reserves	**040**	-	0	
Fair value reserve	- 2.105	6. Unrealised gain/(loss) on value adjustments of assets available for sale	**041**	- 2.105	0	
		7. Hedge accounting reserves	**042**	-	0	
Total equity	**200.809**	**C) TOTAL EQUITY (036 do 042)**	**043**	**200.809**	**0**	
TOTAL LIABILITIES AND EQUITY	**1.354.826**	**D) TOTAL LIABILITIES AND EQUITY (035+043)**	**044**	**1.363.092**	**-8.266**	Relates to deffered fees (see above)

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1 (continued)

c) Comparison of cash flow statement

Cash and cash equivalents for the purposes of CNB reporting do not include interest receivable which is presented in Other assets. Other differences arise from different classification of items of statement of financial position for statutory reporting and CNB reporting as well as elimination of non-cash transactions from movements for statutory financial reporting purposes.

d) Comparison of statement of changes in equity

In statutory financial statements loss for the year and accumulated loss are both included in accumulated loss, while they are separately presented for CNB reporting.