

KentBank d.d.

ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2014

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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 founding share capital of HRK 20,216 thousand. In July 2005, the Bank had a capital increase following which the total share capital amounted to HRK 41,158 thousand.

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

In addition to the ordinary shares described above the Bank has issued preference shares in the amount of HRK 9,679 thousand (presented in the financial statements increased by interest payable in total amount of HRK 10,453 thousand) which are classified as a liability in the statement of financial position but which are included as capital when calculating capital adequacy, and which are also registered with the Commercial Court in Zagreb.

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

Over the past three years, the Management Board and 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 strengthening the balance sheet.

About Süzer Group

Süzer Group was established in 1952, in Gaziantep, as a local construction and trading company. The Group grew by rapid, yet balanced expansion beginning from the 1960's and 1970's in the fields of construction, tourism and foreign trade. With the liberalization of the Turkish Economy starting from the 1980's the Group embarked on a new phase in expansion, becoming in due course one of the few Turkish companies whose foreign trade volume exceeds 1 billion dollars. Today the Group is a conglomerate of companies, all of which represent Turkey in international competition and have partnerships with global leaders in their respective sectors.

ANNUAL REPORT (CONTINUED)

About Süzer Group (continued)

The Süzer Group portfolio covers a wide range of sectors including real estate development, retail, finance, tourism and energy. In Turkey, Süzer Group owns Kent Leasing and Kent Factoring, and apart from finance, it also 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.

Business activities of the Bank

KentBank d.d. was registered as a joint stock company at the Commercial Court in Zagreb under MBS 080129579, with headquarters in Zagreb, Gundulićeva 1, for performing the following activities:

- receiving deposits or other repayable funds;
- lending, including consumer lending, mortgage loans and, where permitted under a special law, financing of commercial transactions, including export finance based on the purchase at a discount without recourse of long-term, non-current, non-matured receivables collateralized with a financial instrument (*forfaiting*);
- repurchase of receivables with or without recourse (*factoring*);
- issue of guarantees or other sureties;
- trading for its own account, or for the account of clients, in: money market instruments, negotiable securities and foreign exchange, including currency exchange transactions;
- payment processing services, in accordance with special laws;
- services ancillary to lending, such as e.g. collection, analysis and provision of information on the creditworthiness of legal and natural persons conducting business;
- renting safety deposit boxes;
- intermediary services in money market transactions;
- receiving deposits or other repayable funds from the public and granting credits out of these funds, for the Bank's own account;
- issuing and administering other means of payment, if the provision of such services is not considered the provision of services within the meaning of item (7) of this paragraph and pursuant to a special law;
- issuance of electronic money.

ANNUAL REPORT (CONTINUED)

Operations of the Bank in 2014

Total assets of the Bank as at 31 December 2014 amounted HRK 1,173,993 thousand, representing growth of 33% compared to 31 December 2013, and, in the category of customer loans, recorded an increase of 29%, with loans amounting to HRK 598,059 thousand as at 31 December 2014. During 2014, the share of corporate loans in total loans increased in relation to previous years. The ratio between retail and corporate gross loans at the end of the 2014 is 52% compared to 48%, while at the end of 2013 the ratio was 64% compared to 36%. This clearly shows that in 2014 there was a significant increase of the share of corporate loans in total loans in the Bank's portfolio. There was also a significant increase of deposits, which grew by 35%, in the liabilities of the Bank.

The majority owner increased the ordinary share capital in 2014 by HRK 38,210 thousand, after which the ordinary share capital of the Bank amounted to HRK 230,235 thousand. In 2014, the Bank generated HRK 62 million of interest income, while interest expenses amounted HRK 28 million. Net interest income amounted to HRK 34 million and increased by 24% in relation to the previous year. Net income from fees and commissions in 2014 was realized in the amount of HRK 4 million, which is a 6% decrease compared to the previous year.

As evident from the financial statements for 2014, the Bank achieved balance sheet growth, but continued to make losses. In part this reflects an increase in business activities over the last three years as the Bank expands its network. The result was also influenced by the macroeconomic situation, which was characterized by continued recession, high unemployment and very low liquidity in the real sector. In the course of 2014, specific provision expenses decreased by 58% compared to 2013. Furthermore, due to the previously mentioned increased balance sheet growth, provisions for unidentified losses also increased. During 2014, expenses for unidentified losses amounted to HRK 2 million.

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 these 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.

a) Credit risk

Credit risk management is described in notes 28, 29 and 33b to the financial statements.

b) Liquidity risk

Liquidity risk management is described in notes 30 and 33c to the financial statements.

c) Market risk

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

d) Operational risk management

Operational risk management is described in note 33f to the financial statements.

ANNUAL REPORT (CONTINUED)

Corporate governance

In accordance with legislation and for the purpose of establishing high standards of corporate governance, KentBank d.d., as a company with preference shares listed on the MTF 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 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 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 60,588 ordinary shares and 2,547 preference shares, with a nominal value of HRK 3,800.00. The majority owner, Eksen Holding Anonim Sirketi, holds 60,587 ordinary shares. The additional capital in 2014 was paid by the majority shareholder of the Bank. In the previous period the Bank has not repurchased any own shares nor it has such intention in the coming period.

Supervisory Board

During 2014, the Supervisory Board of the Bank consisted of three members. Their term of office is four years and they may be reappointed. In 2014 Mr. Mehmet Koçak was appointed President of the Supervisory Board, after the resignation submitted by the previous President of the Supervisory Board, Mr. Hakan Barut. After 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 Statutes of the Bank and the Rules of Procedure of the Supervisory Board, all in accordance with applicable regulations of the Companies Act and Credit Institutions Act.

The members of the Supervisory Board in office from 1 January 2014 up to date of issuance of these financial statements, are as follows:

Mehmet Koçak	President of the Supervisory Board since 18 November 2014 and Deputy President of the Supervisory Board until 18 November 2014
Hakan Barut	President of the Supervisory Board until 3 November 2014
Hakan Özgüz	Deputy President of the Supervisory Board since 18 November 2014 and Supervisory Board Member since 3 November 2014 until 18 November 2014
Boris Zenić	Supervisory Board Member

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

ANNUAL REPORT (CONTINUED)

Corporate governance (continued)

- monitoring financial reporting process;
- monitoring the effectiveness of internal control systems, internal audit and risk management system;
- analyzing internal audit reports and making stands in this regard;
- monitoring audits of annual financial and consolidated statements;
- monitoring the independence of the external audit company that performs the audit of the financial statements, particularly the relation to contracts for additional services;
- cooperating with the external auditor;
- discussing the annual internal audit plan and report and significant issues related to this area;
- performing other activities in accordance with applicable regulations and its internal document which regulates the work of the Committee.

Management Board

In accordance with the provisions of the Statutes of the Bank, the Management Board may consist of up to five (5) members. Members of the Management Board including the President of the Management Board shall be appointed by the Supervisory Board for a term up to four (4) years. Only a person who meets the conditions prescribed by the Credit Institutions Act may be appointed as 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, Credit Institutions Act and Statutes of the Bank. The Management Board manages the operations of the Bank and its assets and has responsibility and powers to take all actions and make all 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 2014 up to 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)
Mičo Tomičić	Management Board Member

Major events after the end of the reporting date

In 2015 the Management Board of the Bank will comprise of three members in line with approved appointment by CNB Council in February 2015. In the course of 2015, the Bank plans to expand its branch network to Zadar and Varaždin, and thus cover the whole Croatian market by the end of the year.

ANNUAL REPORT (CONTINUED)

Development plan

The basic strategic direction of the Bank is to achieve continuous growth of 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. In addition to this, after changing the owner and expanding from being a regional to a more national bank, the Bank opened up the possibility of doing business with customers from more developed Croatian regions than before, thus providing a basis for better and stronger growth than before.

Strategic objectives

- improve sales orientation
- generating a positive business result;
- increase of customer base as prerequisite for card business implementation in 2015
- orientation to SME clients
- through implementation of new products affirmate as a flexible, efficient and innovative Bank that creates value for shareholders, clients, employees and the environment in which it works and operates;
- through implementation of Turkish desk affirmate as the only Turkish bank in Croatia which connects Turkish investors with Croatia
- orientation to better collection

In the coming period and in accordance with applicable regulations and economic circumstances, the Bank intends to continue with the activities aimed at affirmation of 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 other employees, will continuously work on improving the management system of the business processes, the risk management system, the expansion of the product range, 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 Bilčić

President of the Management Board

Mičo Tomičić

Member of the Management Board

Emir Deldag

Member of the Management Board

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 68 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 69-72 with the reconciliation to statutory financial statements presented on pages 73 to 76 were authorised by the Management Board on 30 March 2015 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. The annual report set out on pages 3 to 8 was authorised by the Management Board on 30 March 2015 and signed accordingly.

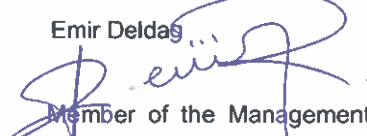
For and on behalf of KentBank d.d.



Ivo Bilić

President of the Management Board

Mičo Tomičić

Member of the Management Board

Emir Deldas

Member of the Management Board



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

We have audited the accompanying financial statements of KentBank d.d. ("the Bank"), which comprise the statement of financial position as at 31 December 2014, 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 2014 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)

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 69 to 72 ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2014, 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 73 to 76. 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 68 on which we have expressed an opinion as set out above.

Further, pursuant to legal and regulatory requirements, the Management Board of the Company has prepared the annual report set out on pages 3 to 8. The Management Board of the Company is responsible for the preparation and content of the annual report in accordance with Article 18 of the Accounting Act. 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. The information given in the accompanying annual report for 2014 is consistent with the financial statements set out on pages 12 to 68.

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

Zagreb, 30 March 2015

For and on behalf of KPMG Croatia doo za reviziju:



Goran Horvat
Director, Croatian Certified Auditor

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Lučića 2a, 10000 Zagreb

Statement of financial position

As at

	Notes	31 December 2014	31 December 2013
		HRK 000	HRK 000
ASSETS			
Cash and current accounts with banks	12	214,628	120,001
Obligatory reserve with Croatian National Bank and compulsory CNB bills	14	74,587	62,866
Financial assets available for sale	15a)	159,145	139,939
Financial investments held to maturity	15b)	57,257	70,683
Loans to and receivables from customers	17a)	598,059	462,232
Placements with other banks	16	17,627	-
Property, plant and equipment	18a)	42,915	10,851
Intangible assets	18b)	7,276	15,521
Foreclosed assets	19	1,172	597
Income tax prepayment	11	274	302
Other assets	20	1,053	1,144
TOTAL ASSETS		1,173,993	884,136
LIABILITIES			
Current accounts and deposits from banks and financial institutions	21a)	6,771	2,016
Current accounts and deposits from customers	21b)	982,566	729,684
Liabilities for preference shares	21c)	10,453	10,453
Provisions for liabilities and charges	22	448	223
Other liabilities	23	8,616	7,513
Deferred tax liability		848	112
Total liabilities		1,009,702	750,001
EQUITY			
Ordinary share capital	24a)	230,235	192,025
Legal and other reserves	24b)	2,137	2,137
Accumulated losses		(71,474)	(60,476)
Fair value reserve		3,393	449
Total equity		164,291	134,135
TOTAL LIABILITIES AND EQUITY		1,173,993	884,136

The accompanying notes on pages 17 to 68 form an integral part of these financial statements.

Statement of changes in shareholders' equity

As at and for the year ended

<i>HRK 000</i>	Ordinary share capital (Note 24a)	Legal and other reserves (Note 24b)	Accumulated losses	Fair value reserve	Total
Balance at 1 January 2013	117,028	3,622	(38,853)	5,160	86,957
Change in fair value of financial assets available for sale, net of amounts realised and deferred tax	-	-	-	(4,711)	(4,711)
Total other comprehensive income/(loss)	-	-	-	(4,711)	(4,711)
Loss for the year	-	-	(23,108)	-	(23,108)
Total comprehensive income / (loss)	-	-	(23,108)	(4,711)	(27,819)
Transactions with owners recognized directly in equity:					
Increase in issued share capital	74,997	-	-	-	74,997
Appropriations of reserves for general banking risks for covering of accumulated losses	-	(1,485)	1,485	-	-
Balance at 31 December 2013	192,025	2,137	(60,476)	449	134,135
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 recognized 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

The accompanying notes on pages 17 to 68 form an integral part of these financial statements.

Income statement

For the year ended 31 December

	Notes	2014 HRK 000	2013 HRK 000
Interest and similar income	5	61,986	49,288
Interest expense and similar charges	6	(27,800)	(21,660)
Net interest income		34,186	27,628
Fee and commission income	8a)	6,431	6,280
Fee and commission expense	8b)	(2,238)	(1,831)
Net fee and commission income		4,193	4,449
Net realised gains from financial assets available for sale	9a)	1,847	4,945
Net gains from translation of monetary assets and liabilities and foreign exchange spot trading	9b)	5,186	4,250
Other income	9c)	381	794
		7,414	9,989
Total income		45,793	42,066
Depreciation and amortization	18a); 18b)	(6,045)	(6,156)
Staff costs	10a)	(24,615)	(25,755)
Other administrative expenses	10b)	(15,580)	(17,884)
Total general and administrative expenses		(46,240)	(49,795)
Impairment losses and provisions	7	(10,551)	(15,379)
LOSS BEFORE TAX		(10,998)	(23,108)
Income tax expense	11	-	-
LOSS FOR THE YEAR		(10,998)	(23,108)
LOSS PER SHARE (in HRK)	25	(189.38)	(506.77)

The accompanying notes on pages 17 to 68 form an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December

	2014 <i>HRK 000</i>	2013 <i>HRK 000</i>
LOSS FOR THE YEAR	(10,998)	(23,108)
Other comprehensive income, net of income tax		
Change in fair value of financial assets available for sale, net of amounts realised and deferred tax	2,944	(4,711)
Other comprehensive income for the year	<u>2,944</u>	<u>(4,711)</u>
TOTAL COMPREHENSIVE INCOME	<u>(8,054)</u>	<u>(27,819)</u>

The accompanying notes on pages 17 to 68 form an integral part of these financial statements.

Cash Flow Statement

For the year ended 31 December

	Note	2014 HRK 000	2013 HRK 000
<u>Cash flow from operating activities</u>			
Loss for the year		(10,998)	(23,108)
Depreciation and amortisation	18a), 18 b)	6,045	6,156
Impairment losses and provisions	7	10,551	15,379
Other changes		802	712
<i>Changes in operating assets and liabilities</i>			
Increase in obligatory reserve and compulsory treasury bills with Croatian National Bank		(11,721)	(18,955)
Increase in placements with other banks with maturity over three months		(2,300)	-
Increase in loans to and receivables from customers		(145,677)	(219,059)
(Increase)/decrease in other assets		(285)	890
Increase in deposits from banks and financial institutions		4,755	2,016
Increase in current accounts and deposits from customers		252,882	230,476
Increase in/(decrease of) other liabilities and provisions		1,765	(572)
Payment of dividends on preference shares		(774)	(774)
Net cash from operating activities		<u>105,045</u>	<u>(6,839)</u>
<u>Increase in cash flow from investment activities</u>			
Decrease/(increase) in financial investments held to maturity		13,220	(19,365)
Increase in financial assets available for sale		(16,262)	(21,278)
Net purchase of property, plant and equipment and intangible assets		(30,259)	(5,309)
Net cash from investment activities		<u>(33,301)</u>	<u>(45,952)</u>
<u>Cash flow from financing activities</u>			
Increase in issued share capital		38,210	74,997
Net cash from financing activities		<u>38,210</u>	<u>74,997</u>
Net increase of cash and cash equivalents		109,954	22,206
Cash and cash equivalents as at 1 January		120,001	97,795
Cash and cash equivalents as at 31 December	13	<u>229,955</u>	<u>120,001</u>

The accompanying notes on pages from 17 to 68 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 EKSEN HOLDING Anonim Sirketi.

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 2014.

These financial statements have been approved by the Management Board for issue to the Supervisory Board on 30 March 2015. These financial statements are a translation based on separately issued statutory financial statements.

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 8,977 thousand (2013: HRK 6,550 thousand), and recognised an expense in the amount of HRK 2,427 thousand related to these provisions within impairment losses for the year (2013: HRK 3,006 thousand). Such off-balance-sheet related provisions as at 31 December 2014 amounted to HRK 440 thousand (31 December 2013: HRK 144 thousand) and the Bank recognised an expense in the amount of HRK 296 thousand (2013: HRK 82 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.
- 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.

Notes to the financial statements (continued)

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

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.

e) New accounting standards applied

In 2014 the Bank applied IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities, along with the related Amendments. After reexamining the relationships with its borrowers, the Bank concluded there is no effect on the financial statements.

Notes to the financial statements (continued)

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 placement is not contracted in mid foreign exchange rate.

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)

The Bank had no such assets at the reporting date. 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.

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

7.661471 = 1 EUR;

6.302107 = 1 USD;

6.368108 = 1 CHF.

Official mid spot exchange rates effective as at 31 December 2013 were:

7.637643 = 1 EUR;

5.549000 = 1 USD;

6.231758 = 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.

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.

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Financial instruments (continued)

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 instruments (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 measured 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 (at the reporting date the Bank did not have any such assets). 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.

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Financial instruments (continued)

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 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. 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.

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Financial instruments (continued)

Impairment of financial assets (continued)

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. 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 any such assets).

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Financial instruments (continued)

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.

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.

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.

Notes to the financial statements (continued)

3. Accounting policies (continued)

h) Property and equipment (continued)

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:

	2014 years	2013 years
Buildings	10-50	40
Electronic equipment and computers	4-5	4-5
Other equipment	2-10	2-10
Furniture and vehicles	4-5	4-5

The Bank reassessed estimated useful life of buildings, and prolonged estimated useful life of buildings from 40 to 50 years in May 2014. Result of this change is lower depreciation expense in the amount of HRK 107 thousand.

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:

	2014 years	2013 years
Software	5	5
Leasehold improvements	5	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.

Notes to the financial statements (continued)

3. Accounting policies (continued)

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). 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

Leases in accordance with the terms of which the Bank as lessee 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.

Notes to the financial statements (continued)

3. Accounting policies (continued)

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.

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 and liabilities 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.

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments (continued)

Accounting estimates and judgments (continued)

Impairment losses on loans and receivables (continued)

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 age of overdue amounts. Small loan portfolio covered with firm collateral (e.g. real-estate) is monitored on individual basis.

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 days overdue:

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

Counting the number of days of delay 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:

	2014				2013			
	<i>HRK 000</i>				<i>HRK 000</i>			
	Corporate	Retail	Other	Total	Corporate	Retail	Other	Total
Gross value of impaired loans	45,634	44,926	3,059	93,619	36,969	41,798	3,817	82,584
Impairment rate	50%	75%	47%	62%	59%	67%	47%	63%

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 2014 would cause an additional impairment loss in the amount of HRK 936 thousand (in 2013: HRK 826 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.

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments (continued)

Accounting estimates and judgments (continued)

Impairment losses on loans and receivables (continued)

Impairment losses estimated on a portfolio basis as at 31 December 2014 amounted to HRK 9,417 thousand (in 2013: HRK 6,694 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.

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. However, it is assessed that the market is active for using fair value.

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.

Notes to the financial statements (continued)

5. Interest and similar income

a) Interest income analysed by product:

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Interest income from loans to and receivables from customers	49,750	40,601
Interest income from financial assets available for sale	6,901	3,831
Interest income from financial investments held to maturity	5,289	4,765
Interest income from deposits	46	91
TOTAL	61,986	49,288

b) Interest income analysed by sectors:

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Companies	20,128	14,375
Financial institutions	46	159
Individuals (retail)	34,935	30,958
Central government and local authorities	6,876	3,792
Other	1	4
	61,986	49,288

6. Interest expense and similar charges

Interest expense analysed by sector:

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Interest expense to individuals (retail)	25,305	19,231
Interest expense to non-residents	579	1,032
Interest expense to companies	880	520
Interest expense to financial institutions	226	80
Dividends on preference shares	774	774
Other	36	23
TOTAL	27,800	21,660

Notes to the financial statements (continued)

7. Impairment losses and provisions

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Impairment of loans to and receivables from customers	9,850	14,990
<i>Specific impairment losses (Note 17c)</i>	7,423	11,984
<i>Unidentified losses (Note 17c)</i>	2,427	3,006
Impairment of other assets (Note 20a)	196	396
Impairment of financial investments held to maturity (Note 15b)	206	-
Provisions for court cases (Note 22a)	3	(89)
Provisions for off-balance-sheet exposure to credit risk (Note 22b)	296	82
TOTAL	10,551	15,379

8. Fee and commission income and expense

a) Fee and commission income

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Payment transaction service fees	5,902	5,971
Currency exchange fees	-	10
Loan origination fees	282	250
Other banking services	247	49
TOTAL	6,431	6,280

b) Fee and commission expenses

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
FINA commission	1,360	1,232
CNB	36	36
Domestic banks	773	511
Domestic clients	69	52
TOTAL	2,238	1,831

Notes to the financial statements (continued)

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

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Domestic government bonds available for sale	1,847	4,945
TOTAL	1,847	4,945

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

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Net gains/(losses) from translation of monetary assets and liabilities and foreign exchange spot trading		
- items denominated in foreign currency	(3,626)	(4,368)
- items linked to foreign currency	5,109	4,926
Net gain from foreign exchange spot trading	3,703	3,692
TOTAL	5,186	4,250

9c. Other income

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Income from invoiced court and lawyer expenses	-	527
Other	381	267
TOTAL	381	794

10. Staff costs and other administrative expenses

a) Staff costs

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
- Net salaries to employees	12,489	12,849
- Contributions on salaries	3,402	3,322
- Contributions, taxes and surtaxes from salaries	7,585	9,000
- Other	1,139	584
TOTAL	24,615	25,755

Notes to the financial statements (continued)

10. Staff costs and other administrative expenses (continued)

a) Staff costs (continued)

Staff costs include HRK 3,791 thousand (2013: HRK 4,092 thousand) of defined pension contributions payable into obligatory pension plans.

During 2014, average number of employees was 130 (2013: 120).

b) Other administrative expenses

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Rent expenses	2,701	4,194
Intellectual services	743	763
Other services	2,185	2,024
Marketing and advertisement expenditure	469	1,570
Material costs and similar charges	1,168	1,542
Costs of deposit insurance	2,303	1,552
Mail and phone expenditure	966	990
Maintenance expenses	1,746	1,484
Insurance and protection expenses	1,223	1,627
Other expenditure	2,076	2,138
TOTAL	15,580	17,884

11. Income tax

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Accounting loss before tax	(10,998)	(23,108)
Income tax at 20% (2013: 20%)	(2,200)	(4,622)
Non-deductible expenses	935	1,566
Non-taxable income	(699)	(529)
Tax loss for the year	(1,964)	(3,585)
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 recognised in its books a deferred tax liability on unrealised gains from financial assets available for sale in the amount of HRK 848 thousand (2013: 112).

In 2014 the Bank wrote off HRK 28 thousand of income tax prepayment as it relates to uncollectable amount recorded in previous years.

Notes to the financial statements (continued)

11. Income tax (continued)

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 2014	31 December 2013
	<i>HRK 000</i>	<i>HRK 000</i>
No later than 1 year	-	-
No later than 2 years	1,531	-
No later than 3 years	5,188	1,531
No later than 4 years	3,585	5,188
No later than 5 years	1,964	3,585
Total tax losses carried forward not recognised as deferred tax assets	12,268	10,304

12. Cash and current accounts with banks

	2014			2013		
	<i>HRK 000</i>			<i>HRK 000</i>		
	HRK	Foreign currency	Total	HRK	Foreign currency	HRK
Current accounts with the CNB	119,246	-	119,246	35,409	-	35,409
Current accounts with other banks	-	55,858	55,858	-	47,862	47,862
Cash in hand	15,547	23,977	39,524	14,197	22,533	36,730
TOTAL	134,793	79,835	214,628	49,606	70,395	120,001

13. Cash and cash equivalents

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Cash on accounts with the CNB (Note 12)	119,246	35,409
Cash on accounts with other banks (Note 12)	55,858	47,862
Cash in hand (Note 12)	39,524	36,730
Placements with banks with original maturity less than 3 months (Note 16)	15,327	-
TOTAL	229,955	120,001

Notes to the financial statements (continued)

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 2014, accounted for 12% of kuna and foreign currency funds (31 December 2013: 12%).

The part of the obligatory reserve calculated in kuna is increased by 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% 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%, while the percentage of mandatory allocation of the remaining foreign currency obligatory reserve is 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 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.

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Allocated obligatory reserve in HRK	60,600	47,353
Allocated obligatory reserve in foreign currency	13,147	10,746
Compulsory CNB bills	840	4,767
Total	74,587	62,866

15. Financial investments

a) Financial assets available for sale

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Domestic sovereign bonds	82,877	55,352
Domestic corporate bonds	1,319	1,142
Domestic sovereign treasury bills	74,949	64,359
Foreign treasury bills	-	19,086
Listed	84,196	55,352
Unlisted	74,949	84,587
TOTAL	159,145	139,939

Foreign treasury bills held in 2013 are issued by France and Germany.

Notes to the financial statements (continued)

15. Financial investments (continued)

b) Financial investments held to maturity

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Bills of exchange - companies	44,525	35,296
Bills of exchange – state and local authorities	-	5,963
Factoring – receivables from companies	10,849	23,227
Factoring – receivables from state and local authorities	1,883	6,197
TOTAL – UNLISTED	<u>57,257</u>	<u>70,683</u>

Movement in impairment allowance against financial assets held to maturity

	2014
	<i>HRK 000</i>
Balance at 1 January	-
Increase in provisions (Note 7)	206
Write off and reversal	-
Balance at 31 December	<u>206</u>

16. Placements with other banks

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
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	2,300	-
Placements with other foreign banks – in foreign currency (Note 13)	15,327	-
TOTAL	<u>17,627</u>	<u>-</u>

a) Movement of allowance for impairment on placements with other banks in HRK:

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Balance at 1 January	10,220	10,220
Increase in provisions recognised in profit or loss	-	-
Balance at 31 December	<u>10,220</u>	<u>10,220</u>

Notes to the financial statements (continued)

17. Loans to and receivables from customers

a) Analysis according to types of loans

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Short-term loans:		
Companies	105,961	85,075
Retail customers	43,591	37,617
Other customers	3,058	3,876
Total short-term loans	152,610	126,568
Long-term loans:		
Companies	215,934	100,927
Retail customers	296,658	293,021
Other customers	-	-
Total long-term loans	512,592	393,948
Total short-term and long-term loans	665,202	520,516
Impairment allowance	(67,143)	(58,284)
TOTAL	598,059	462,232

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

All retail loans relate to non-purpose loans.

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

b) Loans by industry

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Manufacturing	60,984	56,946
Trade	81,894	48,135
Tourism	39,453	4,325
Agriculture	9,673	10,437
Construction	82,282	40,806
Services	46,643	23,370
Other	966	1,983
Gross corporate	321,895	186,002
Retail gross	340,249	330,638
Other gross	3,058	3,876
Total gross	665,202	520,516
Impairment allowance	(67,143)	(58,284)
TOTAL	598,059	462,232

Notes to the financial statements (continued)

17. Loans to and receivables from customers (continued)

c) Movements in impairment allowance

<i>HRK 000</i>	2014			2013		
	Specific impairment	Unidentified losses	Total	Specific impairment	Unidentified losses	Total
Balance at 1 January as restated	51,734	6,550	58,284	40,396	3,544	43,940
Increase in provisions	10,472	2,427	12,899	16,156	3,006	19,162
Decrease in provisions	(3,049)	-	(3,049)	(4,172)	-	(4,172)
<i>Net impairment charge recognised in income statement</i>	7,423	2,427	9,850	11,984	3,006	14,990
Write off	(991)	-	(991)	(646)	-	(646)
Balance at 31 December	58,166	8,977	67,143	51,734	6,550	58,284

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 the income statement.

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 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	(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)

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 2013	467	5,466	9,452	3,646	578	19,609
Additions	24	159	968	113	-	1,264
Transfers	-	-	(1,615)	(7)	94	(1,528)
Write-off and disposals	-	-	(18)	-	-	(18)
Balance 31 December 2013	491	5,625	8,787	3,752	672	19,327
Depreciation						
Balance as at 1 January 2013	-	524	4,923	1,495	-	6,942
Charge for the year	-	89	1,038	547	-	1,674
Transfers	-	-	(121)	(6)	-	(127)
Write-off and disposals	-	-	(13)	-	-	(13)
Balance 31 December 2013	-	613	5,827	2,036	-	8,476
Net carrying amount						
1 January 2013	467	4,942	4,529	2,151	578	12,667
Net carrying amount						
31 December 2013	491	5,012	2,960	1,716	672	10,851

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	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)

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 2013	14,639	5,691	20,330
Additions	2,226	1,818	4,044
Transfers	(10)	1,374	1,364
Write-off and disposals	-	(124)	(124)
Balance 31 December 2013	16,855	8,759	25,614
Amortisation			
Balance as at 1 January 2013	1,932	3,765	5,697
Charge for the year	3,101	1,381	4,482
Transfers	-	-	-
Write-off and disposals	-	(86)	(86)
Balance 31 December 2013	5,033	5,060	10,093
Net carrying amount 1 January 2013	12,707	1,926	14,633
Net carrying amount 31 December 2013	11,822	3,699	15,521

Notes to the financial statements (continued)

19. Foreclosed assets

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Properties acquired in exchange for uncollectible receivables	1,172	597
TOTAL	1,172	597

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

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Receivables for advances	175	168
Receivables for fees and commissions	190	223
Prepaid expenses	517	359
Receivables from customers	30	28
Other receivables	1,296	1,392
Impairment allowance	(1,155)	(1,026)
TOTAL	1,053	1,144

a) *Movement in impairment allowance against other assets*

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Balance at 1 January	1,026	630
Increase in provisions	542	1,214
Reversal of provisions	(346)	(818)
<i>Net charge recognized in profit or loss (Note 7)</i>	196	396
Write off	(67)	-
Balance at 31 December	1,155	1,026

Notes to the financial statements (continued)

21. Current accounts and deposits and liabilities for preference shares

a) Current accounts and deposits from banks and financial institutions

	2014		2013	
	<i>HRK 000</i>	<i>HRK 000</i>	<i>HRK 000</i>	<i>HRK 000</i>
	HRK	Foreign currency	HRK	Foreign currency
Current accounts	16	-	16	-
Term deposits	6,755	-	2,000	-
TOTAL	6,771	-	2,016	-

b) Current accounts and deposits from customers

ba) Current accounts from customers

	<i>HRK 000</i>					
	2014			2013		
	HRK	Foreign currency	Total	HRK	Foreign currency	Total
Retail	11,214	31,435	42,649	5,379	7,654	13,033
Corporate	21,345	3,742	25,087	17,061	3,817	20,878
State and other institutions	1,411	25	1,436	3,312	-	3,312
Foreign individuals	488	10,275	10,763	170	8,416	8,586
Total current accounts	34,458	45,477	79,935	25,922	19,887	45,809

bb) Term deposits from customers

	<i>HRK 000</i>					
	2014			2013		
	HRK	Foreign currency	Total	HRK	Foreign currency	Total
Retail	98,356	710,333	808,689	94,402	546,564	640,966
Corporate	52,649	22,737	75,386	5,673	23,297	28,970
State and other institutions	730	757	1,487	595	-	595
Foreign individuals	326	16,743	17,069	356	12,988	13,344
Total term deposits	152,061	750,570	902,631	101,026	582,849	683,875

Notes to the financial statements (continued)

21. Current accounts and deposits and liabilities for preference shares (continued)

b) Current accounts and deposits from customers (continued)

bc) Total current accounts and deposits from customers

	2014			2013		
	HRK	Foreign currency	Total	HRK	Foreign currency	Total
Retail	109,570	741,768	851,338	99,781	554,218	653,999
Corporate	73,994	26,479	100,473	22,734	27,114	49,848
State and other institutions	2,141	782	2,923	3,907	-	3,907
Foreign individuals	814	27,018	27,832	526	21,404	21,930
TOTAL	186,519	796,047	982,566	126,948	602,736	729,684

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 dividend of 8% of nominal value.

	2014	2013
	HRK 000	HRK 000
Principal at par	9,679	9,679
Accrued interest	774	774
TOTAL	10,453	10,453

In accordance with CNB regulations, in 2014 80% of these preference shares are part of tier I capital for the purpose of capital adequacy calculation (in 2013 the whole amount was part of tier I capital).

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.

Notes to the financial statements (continued)

21. Current accounts and deposits and liabilities for preference shares (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 2014	% of holding of preference shares at 31 December 2014	Number of preference shares at 31 December 2013	% of holding of preference shares at 31 December 2013
Eksen holding	BRBA-P-A	634	24.89	-	0.00
Jelčić Nedjo	BRBA-P-A	220	8.64	220	8.64
Boroša Boris	BRBA-P-A	209	8.20	200	7.85
Barančić Mihovil	BRBA-P-A	150	5.89	150	5.89
Tomičić Mičo	BRBA-P-A	104	4.08	104	4.08
Vidaković Zdenko	BRBA-P-A	102	4.00	102	4.01
Kamber Helo	BRBA-P-A	86	3.38	86	3.38
Miliša Joško	BRBA-P-A	74	2.91	-	0.00
Bilobrk Robertino	BRBA-P-A	74	2.91	200	7.85
Others	BRBA-P-A	894	35.10	1,485	58.30
TOTAL		2,547	100.00	2,547	100.00

22. Provisions for liabilities and charges

	2014	2013
	HRK 000	HRK 000
Provisions for legal cases initiated against the Bank	8	79
Provisions for identified losses for off-balance-sheet exposure to credit risk (Note 27)	440	144
TOTAL	448	223

Provisions are included in the analysis in Note 7 Impairment losses and provisions and are recognised in the income statement.

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

	2014	2013
	HRK 000	HRK 000
Balance at 1 January	79	683
Increase in provisions	3	251
Release of unused amounts	-	(340)
<i>Net charge/(release) recognised in profit or loss (Note 7)</i>	3	(89)
Used during year	(74)	(515)
Balance at 31 December	8	79

Notes to the financial statements (continued)

22. Provisions for liabilities and charges (continued)

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

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Balance at 1 January	144	62
Increase in provisions recognised in profit or loss (Note 7)	296	82
Write offs	-	-
Balance at 31 December	440	144

23. Other liabilities

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Liabilities to suppliers	1,774	1,244
Liabilities for loan prepayments	3,393	3,681
Liabilities to employees	2,773	1,923
Liabilities for taxes and contributions	77	89
Other liabilities	599	576
TOTAL	8,616	7,513

24. Equity

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Ordinary share capital (Note 24a)	230,235	192,025
Legal and other reserves (Note 24b)	2,137	2,137
Accumulated loss	(71,474)	(60,476)
Fair value reserve (Note 24c)	3,393	449
TOTAL	164,291	134,135

a) Ordinary share capital

Ordinary share capital amounts to HRK 230,235 thousand (31 December 2013: HRK 192,025 thousand) and it is divided into 60,588 ordinary shares (31 December 2013: 50,533 shares) with a nominal value of HRK 3,800.00 each.

Notes to the financial statements (continued)

24. Equity (continued)

a) Ordinary share capital (continued)

According to the Decision of the Extraordinary General Assembly as of 19 March 2014, the ordinary share capital of the Bank was increased by the amount of HRK 38,210 thousand. The Bank issued 10,055 ordinary shares with a nominal value of HRK 3,800.00 to the majority shareholder of the Bank, Eksen 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 2014	% of the ordinary share capital	Number of ordinary shares at 31 December 2013	% of the ordinary share capital
EKSEN HOLDING A.S.	BRBA-R-A	60,587	100.00	50,532	100.00
HYPO ALPE-ADRIA-BANK D.D./ SZIF D.D.	BRBA-R-A	1	0.00	1	0.00
TOTAL		60,588	100.00	50,533	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.

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Legal reserves	2,137	2,137
TOTAL	2,137	2,137

Movement in 2013 in other reserves relates to movement in reserves for general banking risks. In line with the CNB regulations applicable to 31 December 2009, the Bank was required to form and maintain a provision for general banking risks, as a result of significant balance-sheet and off-balance-sheet growth and the related increased exposure to risk. In 2010 the regulations were changed, abolishing the requirement for calculation of provision for general banking risks. In 2013 provisions for general banking risks was set off against the accumulated loss in the amount of HRK 1,485 thousand.

c) Fair value reserve

Fair value reserve comprise gross change in fair value of HRK 4,241 thousand (2013: HRK 561 thousand) netted by the related deferred tax of HRK 848 thousand (2013: HRK 112 thousand).

During the year HRK 1,847 thousand was realized in profit or loss (Note 9a).

Notes to the financial statements (continued)

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 58,074 (2013: 45,599). 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 2014 was the same as used to calculate basic earnings per share.

Losses attributable to ordinary shareholders in HRK '000

	2014	2013
Losses attributable to ordinary shareholders in HRK '000	(10,998)	(23,108)
Weighted average number of shares	58,074	45,599
Basic and diluted loss per share in HRK	(189,38)	(506,77)

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 Eksen Holding Anonim Sirketi which is headquartered in Turkey. In addition to an increase of ordinary share capital in 2014 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 2014 and 31 December 2013 were as follows:

EKSEN HOLDING	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Other receivables	-	15
	-	15
Received deposits		
Current accounts	8,226	7,927
Term deposits	-	6
Other liabilities	-	1
	8,226	7,934

Notes to the financial statements (continued)

26. Related parties transactions (continued)

EKSEN HOLDING	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Other income	5	7
	<u>5</u>	<u>7</u>
Expenses on received deposits		
Current accounts	(8)	(22)
Term deposits	(16)	(499)
Other expenses	-	(17)
	<u>(24)</u>	<u>(538)</u>

Key management personnel	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Loans to and receivables from customers	1,562	1,924
Other receivables	-	48
	<u>1,562</u>	<u>1,972</u>
Received deposits		
Current accounts	165	158
Term deposits	2,335	2,238
Other liabilities	-	10
	<u>2,500</u>	<u>2,406</u>

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Interest income on loans to and receivables from customers	97	96
Other income	32	4
	<u>129</u>	<u>100</u>
Expenses on received deposits		
Current accounts	-	(19)
Term deposits	(79)	(37)
	<u>(79)</u>	<u>(56)</u>

Compensation to key management personnel was

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Compensation to key management personnel	7,106	9,991
	<u>7,106</u>	<u>9,991</u>

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 2014 for key management personnel amounted to HRK 924 thousand (for year ended 31 December 2013: HRK 1,349 thousand).

Notes to the financial statements (continued)

26. Related parties transactions (continued)

Transactions with owners of preference shares are as follows:

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Loans to and receivables from customers	1	34
Other receivables	-	7
	<u>1</u>	<u>41</u>
Received deposits		
Current accounts	111	132
Term deposits	2,089	2,247
Liabilities for dividends	774	774
	<u>2,974</u>	<u>3,153</u>
	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Interest income on loans to and receivables from customers	-	7
Other income	-	1
	<u>-</u>	<u>8</u>
Preference share dividend (recognised as interest expense)	(774)	(774)
Expenses on received deposits		
Term deposits	(64)	(73)
	<u>(838)</u>	<u>(847)</u>

27. Contingencies and commitments

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

	2014	2013
	<i>HRK 000</i>	<i>HRK 000</i>
Issued guarantees	20,301	6,748
Unused overdraft facilities	23,680	7,625
TOTAL	<u>43,981</u>	<u>14,373</u>
Identified provisions for off-balance-sheet exposure to credit risk (Note 22)	(440)	(144)
TOTAL	<u>43,541</u>	<u>14,229</u>

Notes to the financial statements (continued)

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

a) Maximum exposure to credit risk

	Note	2014 HRK 000	2013 HRK 000
Current accounts with the CNB and other banks	12	175,104	83,271
Obligatory reserve with the CNB and compulsory CNB bills	14	74,587	62,866
Placements with other banks	16	17,627	-
Financial assets available for sale	15a)	159,145	139,939
Financial investments held to maturity	15b)	57,257	70,683
Loans to and receivables from customers	17a)	598,059	462,232
Other assets	20	1,053	1,144
Total exposure to credit risk from balance-sheet items		1,082,832	820,135
Exposure to credit risk from off balance sheet items is as follows:			
Guarantees and letters of intent	27	20,301	6,748
Unused loans	27	23,680	7,625
Total exposure to credit risk from off-balance-sheet items		43,981	14,373
TOTAL		1,126,813	834,508

b) Concentration of credit risk

- Concentration of credit risk towards Central government

	Note	2014 HRK 000	2013 HRK 000
Current account with the CNB	12	119,246	35,409
Obligatory reserve with the CNB and compulsory CNB bills	14	74,587	62,866
Treasury bills issued by Ministry of Finance available for sale	15a)	74,949	64,359
Bonds issued by Republic of Croatia available for sale	15a)	82,877	55,352
Financial investments held to maturity	15b)	1,883	6,197
Loans		-	-
Income tax prepayment		274	302
Other receivables		187	108
Impairment allowance		(1,962)	(1,108)
TOTAL		352,041	223,485

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.

Notes to the financial statements (continued)

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

b) Concentration of credit risk (continued)

Aside from exposures towards central government, the maximum exposure to credit risk towards one customer (including groups of related parties) at the end of 2014 (*excluding off-balance-sheet risks*) amounted to HRK 32,948 thousand (2013: HRK 23,800 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.

As at 31 December 2014

	Neither past due nor impaired				Total
	Low-risk grades	Standard and sub-standard grades	Past due but not impaired	Individually impaired	
	<i>HRK 000</i>	<i>HRK 000</i>	<i>HRK 000</i>	<i>HRK 000</i>	<i>HRK 000</i>
Current accounts with banks (Note 12)	-	175,104	-	-	175,104
Obligatory reserve with CNB and compulsory CNB bills (Note 14)	-	74,587	-	-	74,587
Financial assets 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

Notes to the financial statements (continued)

29. Credit portfolio quality (continued)

Analysis of neither past due nor impaired loans

As at 31 December 2013

	Neither past due nor impaired		Past due but not impaired	Individually impaired	Total
	Low-risk grades	Standard and sub-standard grades			
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Current accounts with banks (Note 12)	-	83,271	-	-	83,271
Obligatory reserve with CNB and compulsory CNB bills (Note 14)	-	62,866	-	-	62,866
Financial assets available for sale (Note 15a)	-	139,939	-	-	139,939
Financial investments held to maturity (Note 15b)	-	70,274	409	-	70,683
Placements with other banks (Note 16)	-	-	-	-	-
Loans to and receivables from customers (Note 17a)	-	422,343	9,043	30,846	462,232
* retail	-	283,750	2,058	13,804	299,612
* corporate	-	138,593	6,985	17,042	162,620
TOTAL	-	778,693	9,452	30,846	818,991

Analysis of past due but not impaired loans:

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

As at 31 December 2013

	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	6,571	2,373	89	5	5	-	9,043
Financial investments held to maturity	-	409	-	-	-	-	409
Total	6,571	2,782	89	5	5	-	9,452

Notes to the financial statements (continued)

29. Credit portfolio quality (continued)

Analysis of individually impaired loans:

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

As at 31 December 2013								
	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	1,011	4	350	2,138	2,804	2,940	4,557	13,804
Corporate loans to and receivables from customers	5,902	-	661	-	554	2,818	7,107	17,042
Financial investments held to maturity	-	-	-	-	-	-	-	-
Total	6,913	4	1,011	2,138	3,358	5,758	11,664	30,846

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

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. Items without contractual maturity are presented in the bucket over 3 years.

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)

30. Maturity profile of assets and liabilities (continued)

As at 31 December 2013

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	120,001	-	-	-	-	120,001
Obligatory reserve with CNB and compulsory CNB bills	9,178	5,433	25,390	21,859	1,006	62,866
Financial assets available for sale	315	16,066	13,642	54,546	55,370	139,939
Financial investments held to maturity	11,507	19,875	39,301	-	-	70,683
Loans to and receivables from customers	34,400	108,885	41,238	87,964	189,745	462,232
Property, plant and equipment	-	-	-	-	10,851	10,851
Intangible assets	-	-	-	-	15,521	15,521
Foreclosed assets	-	-	-	-	597	597
Income tax prepayment	-	-	-	-	302	302
Other assets	1,144	-	-	-	-	1,144
TOTAL ASSETS	176,545	150,259	119,571	164,369	273,392	884,136
LIABILITIES						
Current accounts and deposits from banks and financial institutions	16	-	-	2,000	-	2,016
Current accounts and deposits from customers	115,572	68,423	319,758	213,252	12,679	729,684
Liabilities for preference shares	774	-	-	-	9,679	10,453
Provisions for liabilities and charges	-	-	-	-	223	223
Other liabilities	7,288	7	33	184	1	7,513
Deferred tax liability	-	-	-	112	-	112
TOTAL LIABILITIES	123,650	68,430	319,791	215,548	22,582	750,001
EQUITY						
Ordinary share capital	-	-	-	-	192,025	192,025
Legal and other reserves	-	-	-	-	2,137	2,137
Fair value reserve	-	-	-	-	449	449
Accumulated losses	-	-	-	-	(60,476)	(60,476)
TOTAL EQUITY	-	-	-	-	134,135	134,135
TOTAL LIABILITIES AND EQUITY	123,650	68,430	319,791	215,548	156,717	884,136
MATURITY GAP	52,895	81,829	(200,220)	(51,179)	116,675	-

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 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)

As at 31 December 2013

HRK 000

ASSETS	EUR (and EUR linked)	USD	CHF	Other currencies	HRK	Total
Cash and current accounts with banks	61,647	1,329	6,485	934	49,606	120,001
Obligatory reserve with CNB and compulsory CNB bills	10,746	-	-	-	52,120	62,866
Financial assets available for sale	128,983	1,142	-	-	9,814	139,939
Financial investments held to maturity	1,323	-	-	-	69,360	70,683
Loans to and receivables from customers	396,938	15,084	18,322	-	31,888	462,232
Property, plant and equipment	-	-	-	-	10,851	10,851
Intangible assets	-	-	-	-	15,521	15,521
Foreclosed assets	-	-	-	-	597	597
Income tax prepayment	-	-	-	-	302	302
Other assets	-	-	-	-	1,144	1,144
TOTAL ASSETS	599,637	17,555	24,807	934	241,203	884,136
LIABILITIES						
Current accounts and deposits from banks and financial institutions	-	-	-	-	2,016	2,016
Current accounts and deposits from customers	559,203	17,550	25,922	61	126,948	729,684
Liabilities for preference shares	-	-	-	-	10,453	10,453
Provisions for liabilities and charges	-	-	-	-	223	223
Other liabilities	43	-	-	-	7,470	7,513
Deferred tax liability	-	-	-	-	112	112
TOTAL LIABILITIES	559,246	17,550	25,922	61	147,222	750,001
EQUITY						
Ordinary share capital	-	-	-	-	192,025	192,025
Legal and other reserves	-	-	-	-	2,137	2,137
Fair value reserve	-	-	-	-	449	449
Accumulated losses	-	-	-	-	(60,476)	(60,476)
TOTAL EQUITY	-	-	-	-	134,135	134,135
TOTAL LIABILITIES AND EQUITY	559,246	17,550	25,922	61	281,357	884,136
NET ASSETS/ LIABILITIES AND EQUITY	40,391	5	(1,115)	873	(40,154)	-

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	2014	2013
Maximum overall open foreign currency position including options (% of the regulatory capital)	6.65%	22.77%
Open FX position including options in u EUR (% of the regulatory capital)	2.85%	22.14%
Open FX position including options in u USD (% of the regulatory capital)	0.48%	0.05%
VaR (EUR) / open FX position of the Bank in EUR (% of the regulatory capital)	0.10%	0.16%
VaR (USD) / open FX position of the Bank in EUR (% of the regulatory capital)	0.65%	0.81%

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:

Currency	Changes in interest rate	Sensitivity of profit or loss to interest rate movements	Changes in interest rate	2014
				Sensitivity of profit or loss to interest rate movements
				<i>HRK 000</i>
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

Currency	Changes in interest rate	Sensitivity of profit or loss to interest rate movements	Changes in interest rate	2013
				Sensitivity of profit or loss to interest rate movements
				<i>HRK 000</i>
HRK	100 bp	(225)	200 bp	(449)
EUR	100 bp	6,323	200 bp	12,646
Other	100 bp	1,125	200 bp	2,250
TOTAL		7,223		14,447

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 2014		As at 31 December 2013	
	Interest rate type			
	Fixed	Variable	Fixed	Variable
Assets	50.76%	49.24%	59.25%	40.75%
Liabilities	91.80%	8.20%	93.68%	6.32%

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:

	2014 Effective interest rate	2013 Effective interest rate
Cash and current accounts with banks	-	0.01%
Obligatory reserve with the CNB and compulsory CNB bills	-	0.01%
Placements with other banks	0.71%	1.03%
Financial assets available for sale	4.20%	3.50%
Financial assets held to maturity	7.34%	8.09%
Loans to and receivables from customers	9.30%	10.57%
Current accounts and deposits from banks and financial institutions	3.47%	1.27%
Current accounts from customers	0.10%	0.10%
Term deposits from customers	3.45%	3.80%
Liability for preference shares	8.00%	8.00%

33. Risk and capital management

Note 33 complements notes 28 to 32, whereby note 33 provides general risk management policies and principles, notes 28 to 32 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 minimise 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.

Notes to the financial statements (continued)

33. Risk and capital management (continued)

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).

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.

Notes to the financial statements (continued)

33. Risk and capital management (continued)

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 utilisation.

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.

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 to 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.

Notes to the financial statements (continued)

33. Risk and capital management (continued)

d) Market risk (continued)

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.

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 on Basel II in the year 2013 and on Basel III in the year 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, 80% of preference shares (2013: 100%), accumulated losses, reserves and loss for the period after adjustment intangible assets.

The table below summarises the composition of regulatory capital and ratios of the Bank:

	Unaudited 31 December 2014 HRK 000	Audited 31 December 2013 HRK 000
Regulatory capital		
Issued ordinary share capital and preference shares	237,978	201,704
Reserves – legal	2,137	2,137
Losses in previous years	(60,476)	(37,368)
Loss for the year	(10,998)	(23,108)
Total qualifying capital of the bank	168,641	143,365
Adjustment for intangible assets	(7,276)	(12,680)
Total regulatory capital	161,365	130,685
Risk-weighted assets		
Credit risk-weighted assets	633,771	589,327
Exposure to operational risk	62,104	51,886
Exposure to currency risk	7,910	28,704
Total risk weighted assets	703,785	669,917
Capital adequacy ratio	22.93%	19.51%

Notes to the financial statements (continued)

33. Risk and capital management (continued)

e) Capital management (continued)

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 the capital buffers.

For comparative year, as at 31 December 2013, the Bank was obliged to maintain minimum capital ratio of 12% of the total risk exposure amount. The Bank complied with this requirements. The CNB prescribed the Bank's required capital adequacy at the end of 2014 and the Bank has complied with this requirement.

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.

34. 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 amortised 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.

Notes to the financial statements (continued)

34. Fair values (continued)

Loans and advances (continued)

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.

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 2014 and 2013.

	LEVEL 1	LEVEL 2	LEVEL 3	2014
Financial assets	HRK 000	HRK 000	HRK 000	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

	LEVEL 1	LEVEL 2	LEVEL 3	2013
Financial assets	HRK 000	HRK 000	HRK 000	TOTAL HRK 000
Financial assets available for sale				
Local Government bonds	55,352	-	-	55,352
Local corporate bonds	-	1,142	-	1,142
Local treasury bills	-	64,359	-	64,359
Foreign treasury bills	-	19,086	-	19,086
Total financial assets	55,352	84,587	-	139,939

Notes to the financial statements (continued)

Note 35 Events after the reporting date

The Amendment to the Law on Consumer Lending (“the Amendment”), approved by the Croatian Parliament on 23 January 2015 and effective from the same date is applicable to all CHF denominated loans and loans linked to CHF (currency clause) concluded before the Amendment was passed. The Amendment administratively fixes 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 Amendment does not represent an adjusting event after the reporting date. The effect on 2015. financial statements is not significant.

In first half of 2015 the Bank plans EUR 5 million recapitalisation in light of high growth rates and losses.

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 01.01.2014. to 31.12.2014.

Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
1. Interest income	048	49.289.183	61.985.878
2. (Interest expense)	049	-22.437.357	29.328.144
3. Net interest income	050	26.851.826	32.657.734
4. Fee and commission income	051	6.280.335	6.431.639
5. (Fee and commission expense)	052	-1.831.454	2.326.142
6. Net fee and commission income	053	4.448.881	4.105.497
7. Gain/(losses) from investment in subsidiaries, associates and joint ventures	054	0	0
8. Gains/(losses) from trading activities	055	3.691.407	3.702.506
9. Gains/(losses) from embedded derivatives	056	0	0
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	4.944.602	1.847.215
12. Gains/(losses) from activities related to held to maturity 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	558.181	1.483.309
17. Other income	064	1.133.759	1.798.451
18. Other expenses	065	3.579.447	3.297.648
19. General administrative expenses and depreciation	066	45.930.530	41.328.699
20. Net income from operations before impairment and other provisions (050+053 to 064-065-066)	067	-7.881.321	968.365
21. Impairment losses and provisions	068	15.227.008	11.966.152
22. PROFIT/(LOSS) BEFORE TAX	069	-23.108.329	-10.997.787
23. INCOME TAX	070	0	0
24. PROFIT/(LOSS) FOR THE PERIOD	071	-23.108.329	-10.997.787

Appendix 1 – Supplementary schedules for CNB

BALANCE SHEET AS AT 31.12.2014.

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	130.238.528	232.516.194
1.1.Cash	002	36.730.159	39.523.800
1.2.Deposits with the CNB	003	93.508.369	192.992.394
2. Deposits with banking institutions	004	47.861.228	73.479.460
3. MF treasury bills and CNB bills	005	69.126.053	75.789.721
4. Securities and other financial instruments held for trading	006	0	0
5. Securities and other financial instruments available for sale	007	74.457.873	82.954.486
6. Securities and other financial instruments held to maturity	008	70.960.419	57.516.125
7. Securities and other financial instruments which are not actively traded, but are designated at fair value through profit or loss	009	0	0
8. Derivative financial assets	010	0	0
9. Loans to financial institutions	011	0	0
10. Loans to other clients	012	467.742.929	603.859.810
11. Investments in subsidiaries, associates and joint ventures	013	0	0
12. Foreclosed assets	014	597.407	1.171.587
13. Tangible assets (net of depreciation)	015	10.851.211	42.914.865
14. Interest, fees and other assets	016	20.042.368	11.979.738
A) TOTAL ASSETS (001+004 to 016)	017	891.878.016	1.182.181.986
LIABILITIES			
1. Borrowings from financial institutions (019+020)	018	0	0
1.1. Short-term borrowings	019	0	0
1.2. Long-term borrowings	020	0	0
2. Deposits (022 to 024)	021	715.640.181	973.585.191
2.1. Giro and current accounts	022	23.068.989	33.974.779
2.2. Saving deposits	023	19.783.316	44.716.732
2.3. Term deposits	024	672.787.876	894.893.680
3. Other borrowings (026+027)	025	208.074	115.577
3.1. Short-term borrowings	026	0	0
3.2. Long-term borrowings	027	208.074	115.577
4. Liabilities arising from derivatives and other liabilities held for trading	028	0	0
5. Issued debt securities (030+031)	029	0	0
5.1. Short-term issued debt securities	030	0	0
5.2. Long-term issued debt securities	031	0	0
6. Issued subordinate instruments	032	0	0
7. Issued hybrid instruments	033	0	0
8. Interest, fees and other liabilities	034	41.894.480	44.190.241
B) TOTAL LIABILITIES (018+021+025+028+029+032+033+034)	035	757.742.735	1.017.891.009
EQUITY			
1. Share capital	036	192.025.400	230.234.400
2. Profit (loss) for the year	037	-23.108.331	-10.997.787
3. Retained earnings/(loss)	038	-37.367.957	-60.476.288
4. Legal reserves	039	2.137.362	2.137.362
5. Statutory and other capital reserves	040	0	0
6. Unrealised gain/(loss) on value adjustments of assets available for sale	041	448.807	3.393.290
7. Hedge accounting reserves	042	0	0
C) TOTAL EQUITY (036 to 042)	043	134.135.281	164.290.977
D) TOTAL LIABILITIES AND EQUITY (035+043)	044	891.878.016	1.182.181.986

Appendix 1 – Supplementary schedules for CNB

CASH FLOW STATEMENT - Indirect method in the period from 01.01.2014. to 31.12.2014.

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	-1.725.561	7.013.772
1.1. Profit / (loss) before tax	002	-23.108.329	-10.997.787
1.2. Impairment	003	15.227.008	11.966.152
1.3. Depreciation	004	6.155.760	6.045.407
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	0
1.6. Other (gains)/losses	007	0	0
2. Net (increase)/decrease in operating assets (009 to 016)	008	-262.409.762	-178.092.817
2.1. Deposits with CNB	009	-14.187.424	-15.647.879
2.2. MF treasury bills and CNB bills	010	9.538.575	-6.663.668
2.3. Deposits with banking institutions	011	0	-2.298.441
2.4. Loans to other clients	012	-222.802.206	-145.966.881
2.5. Securities and other financial instruments held for trading	013	0	0
2.6. Securities nad other financial instruments available for sale	014	-35.257.344	-5.552.130
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	298.637	-1.963.818
3. Net increase/(decrease) in operating liabilities (018 to 021)	017	237.052.013	260.706.652
3.1. Current accounts	018	8.557.703	10.905.790
3.2. Saving accounts and time deposits	019	220.541.193	247.039.220
3.3. Derivative financial liabilities and other financial liabilities held for sale	020	0	0
3.4. Other liabilities	021	7.953.117	2.761.642
4. Net cash flow from operating activities before tax (001+008+017)	022	-27.083.310	89.627.607
5. Paid income tax	023	0	0
6. Net cash inflow / (outflow) from operating activities (022+023)	024	-27.083.310	89.627.607
INVESTMENT ACTIVITIES			
7. Net cash flow from investing activities(026 to 030)	025	-24.900.960	-17.021.583
7.1. Cash receipts from (payments to acquire) tangible and intangible assets	026	-5.308.336	-30.259.877
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	-19.592.624	13.238.294
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	74.189.578	37.342.214
8.1. Net increase / (decrease) in received loans	032	-32.933	-92.497
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	74.996.800	38.209.000
8.5. (Dividends paid)	036	-774.289	-774.289
8.6. Other proceeds (payments) from financing activities	037	0	0
9. Net increase / (decrease) of cash and cash equivalents (024+025+031)	038	22.205.308	109.948.238
10. Effect of exchange differences on cash and cash equivalents	039		
11. Net increase / (decrease) of cash and cash equivalents (038+039)	040	22.205.308	109.948.238
12. Cash and cash equivalents at the beginning of the year	041	97.795.564	120.000.872
13. Cash and cash equivalents at the end of the year(040+041)	042	120.000.872	229.949.110

Appendix 1 – Supplementary schedules for CNB

STATEMENT OF CHANGES IN EQUITY in the period from 1.1.2014 to 31.12.2014

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 2014	001	192.025.400	0	2.137.362	-37.367.957	-23.108.331	448.807	0	134.135.281
Changes in accounting policies and errors	002	0	0	0	0	0	0	0	0
Restated balance at 1 January 2014 (001+002)	003								
Disposal of available-for-sale portfolio	004								
Change in fair value of available-for-sale portfolio	005						2.944.483		2.944.483
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	2.944.483	0	2.944.483
Profit/loss for the period	009					-10.997.787			-10.997.787
Total recognised income and expenses for 2014 (008+009)	010	0	0	0	0	-10.997.787	2.944.483	0	-8.053.304
Increase/decrease of share capital	011	38.209.000							38.209.000
Acquisition/disposal of treasury shares	012								
Other movements	013								
Transfer to reserves	014				-23.108.331	23.108.331			0
Dividends paid	015								
Distribution of profit (014+015)	016	0	0	0	-23.108.331	23.108.331	0	0	0
Balance at 31 December 2014 (003+010+011+012+013+016)	017	230.234.400	0	2.137.362	-60.476.288	-10.997.787	3.393.290	0	164.290.977

Appendix 2

Reconciliation of the statutory financial statements with the supplementary 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	61.986	1. Interest income	048	61.986	-	
Interest expense and similar charges	- 27.800	2. Interest expense	049	- 29.328	1.528	HRK 2.303 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 preference shares is presented within "General administrative expenses and depreciation" for CNB reporting (Note a2).
Fee and commission income	6.431	4. Fee and commission income	051	6.432	- 1	
Fee and commission expense	- 2.326	5. Fee and commission expense	052	- 2.326	-	
		7. Gain/(losses) from investment in subsidiaries, associates and joint ventures	054	-	-	
Net gains from translation of monetary assets and liabilities and foreign exchange spot trading	5.186	8. Gains/(losses) from trading activities	055	3.703	1.483	Foreign exchange differences in relation to dealing with foreign currencies reclassified to Gains and losses from foreign exchange differences (Note b)
		9. Gains/(losses) from embedded derivatives	056	-	-	
		10. Gains/(Losses) from assets which are not traded, but are designated at fair value value through profit or loss	057	-	-	
Realised gain/(loss) from financial assets available for sale	1.847	11. Gains/(losses) from activities related to available for sale financial assets	058	1.847	-	
		12. Gains/(losses) from activities related to held to maturity 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	1.483	- 1.483	Refer to Note b above
Other income	381	17. Other income	064	1.798	- 1.417	Income from invoiced court and lawery expenses netted with impairment losses in statutory financial statements (note d)
		18. Other expenses	065	- 3.298	3.298	HRK 3,298 thousand relates to marketing and other expenses which are presented within Other administrative expenses in statutory financial statements (Note c).
Depreciation and amortisation	- 6.045	19. General administrative expenses and depreciation	066	- 41.329	35.284	
Staff costs	- 24.615				- 24.615	Refer to Note a1 above, Note a2 above, Note c above, also separate presentation of staff cost in the CNB supplementary schedules.
Other administrative expenses	- 15.492				- 15.492	
Impairment losses and provisions	- 10.551	21. Impairment losses and provisions	068	- 11.966	1.415	Refer to note d above.
PROFIT (LOSS) BEFORE TAX	- 10.998	22. PROFIT/(LOSS) BEFORE TAX (067-068)	069	- 10.998	-	
Income tax expense	-	23. INCOME TAX	070	-	-	
LOSS FOR THE YEAR	- 10.998	24. PROFIT/(LOSS) FOR THE PERIOD (069-070)	071	- 10.998	-	

Appendix 2

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

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	214.628	1.1.Cash	002	39.524	175.104	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	74.587	1.2.Deposits with the CNB	003	192.992	-118.405	CNB supplementary schedules also include current account with the CNB presented in Cash and current accounts with banks for the statutory reporting. Compulsory CNB bills excluded.
Placements with other banks	17.627	2. Deposits with banking institutions	004	73.479	-55.852	Current accounts at banks are presented in Cash and current accounts with banks in Statutory financial statements.
Financial assets available for sale	159.145	3. MF treasury bills and CNB bills	005	75.790	83.355	Financial assets available for sale includes investment in treasury bills in the amount of HRK 74,950 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 82,954 thousand kuna. Also, HRK 1,241 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	Also, CNB compulsory bills in the amount of HRK 840 thousand are presented within Obligatory reserve with Croatian National Bank and compulsory CNB bills for Statutory reporting, and for CNB reporting they are included in position "MF treasury bills and CNB bills" (Note a)
		5. Securities and other financial instruments available for sale	007	82.954	-82.954	
Financial investments held to maturity	57.257	6. Securities and other financial instruments held to maturity	008	57.516	-259	Note a
		7. Securities and other financial instruments which are not actively traded, but are designated at fair value through profit or loss	009	-	0	
		8. Derivative financial assets	010	-	0	
		9. Loans to financial institutions	011	-	0	
Loans to and receivables from customers	598.059	10. Loans to other clients	012	603.860	-5.801	Note a
		11. Investments in subsidiaries, associates and joint ventures	013	-	0	
Foreclosed assets	1.172	12. Foreclosed assets	014	1.172	0	
Property, plant and equipment	42.915	13. Tangible assets (net of depreciation)	015	42.915	0	
Intangible assets	7.276	14. Interest, fees and other assets	016	11.980	-4.704	
Income tax prepayment	274				274	Note a
Other assets	1.053				1.053	
TOTAL ASSETS	1.173.993	A) TOTAL ASSETS (001+004 do 016)	017	1.182.182	-8.189	

Note a: interest receivable and the related deferred fees added to relevant principal balances in the statutory financial statements.

Appendix 2

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

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	
		1.1. Short-term borrowings	019	-	0	
		1.2. Long-term borrowings	020	-	0	
Current accounts and deposits from banks and financial institutions	6.771	2.1. Giro and current accounts	022	33.975	-27.204	
Current accounts and deposits from customers	982.566	2.2. Saving deposits	023	44.717	937.849	Note b
		2.3. Term deposits	024	894.894	-894.894	
		3.1. Short-term borrowings	026	-	0	
		3.2. Long-term borrowings	027	116	-116	Liability for financial leasing is included in Other liabilities in statutory financial statements.
		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	10.453				10.453	Separate presentation in the statutory financial statements.
Provisions for liabilities and charges	448	8. Interest, fees and other liabilities	034	44.190	-43.742	
Other liabilities	8.616				8.616	Note b and separate presentation of preference shares.
Deferred tax liability	848				848	
Total liabilities	1.009.702	B) TOTAL LIABILITIES	035	1.017.892	-8.190	
EQUITY		EQUITY		-		
Issued share capital	230.235	1. Share capital	036	230.234	1	
Accumulated loss	- 71.474	2. Profit/(loss) for the year	037	- 10.998	-60.476	Loss for the year is a separate line of equity for CNB reporting.
		3. Retained earnings/(loss)	038	- 60.476	60.476	
Legal and other reserves	2.137	4. Legal reserves	039	2.137	0	
		5. Statutory and other capital reserves	040	-	0	
Fair value reserve	3.393	6. Unrealised gain/(loss) on value adjustments of assets available for sale	041	3.393	0	
		7. Hedge accounting reserves	042	-	0	
Total equity	164.291	C) TOTAL EQUITY (036 do 042)	043	164.290	1	
TOTAL LIABILITIES AND EQUITY	1.173.993	D) TOTAL LIABILITIES AND EQUITY (035+043)	044	1.182.182	-8.189	

Note b: interest payable and the related deferred fees added to relevant principal balances in the statutory financial statements.

Appendix 2

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

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.

e) Reclassification

a) Position of cash and cash equivalents in the cash flow statement for the purposes of CNB reporting has been aligned with position of cash and cash equivalents in statutory financial statements. In previous years cash for the purposes of CNB reporting included only cash in hand. According to the revised presentation in 2014, cash and cash equivalents for the purposes of CNB reporting include cash in hand, current accounts at other banks and deposits with maturity up to 3 months.

b) Change in fair value reserve within the equity has been reclassified from position 2.8. Other proceeds (payments) from financing activities within financing activities to position 2.6. Securities and other financial instruments available for sale within operating activities.

Position name	AOP code	Note	As previously reported	Effect of reclassification	Restated
OPERATING ACTIVITIES					
1. Cash flow from operating activities before changes in operating assets (002 to 007)	001		-1.725.561	0	-1.725.561
1.1. Profit / (loss) before tax	002		-23.108.329	0	-23.108.329
1.2. Impairment	003		15.227.008	0	15.227.008
1.3. Depreciation	004		6.155.760	0	6.155.760
1.4. Net unrealised profit/(loss) from financial assets and liabilities at fair value through income statement	005		0	0	0
1.5. (Gains) / losses from sale of tangible assets	006		0	0	0
1.6. Other (gains)/losses	007		0	0	0
2. Net (increase)/decrease in operating assets (009 to 016)	008	a)	-264.212.459	1.802.697	-262.409.762
2.1. Deposits with CNB	009	a)	-20.401.617	6.214.193	-14.187.424
2.2. MF treasury bills and CNB bills	010	a)	14.305.476	-4.766.901	9.538.575
2.3. Deposits with banking institutions	011	a)	-5.065.914	5.065.914	0
2.4. Loans to other clients	012		-222.802.206	0	-222.802.206
2.5. Securities and other financial instruments held for trading	013		0	0	0
2.6. Securities and other financial instruments available for sale	014	b)	-30.546.835	-4.710.509	-35.257.344
2.7. Securities and other financial instruments that are not actively traded but are evaluated at fair value through income statement	015		0	0	0
2.8. Other operating assets	016		298.637	0	298.637
3. Net increase/(decrease) in operating liabilities (018 to 021)	017		237.052.013	0	237.052.013
3.1. Current accounts	018		8.557.703	0	8.557.703
3.2. Saving accounts and time deposits	019		220.541.193	0	220.541.193
3.3. Derivative financial liabilities and other financial liabilities held for sale	020		0	0	0
3.4. Other liabilities	021		7.953.117	0	7.953.117
4. Net cash flow from operating activities before tax (001+008+017)	022	a), b)	-28.886.007	1.802.697	-27.083.310
5. Paid income tax	023		0	0	0
6. Net cash inflow / (outflow) from operating activities (022+023)	024	a), b)	-28.886.007	1.802.697	-27.083.310
INVESTMENT ACTIVITIES					
7. Net cash flow from investing activities(026 to 030)	025		-24.900.960	0	-24.900.960
7.1. Cash receipts from (payments to acquire) tangible and intangible assets	026		-5.308.336	0	-5.308.336
7.2. Cash receipts from the disposal of (payments for the investment in) subsidiaries, associates and joint ventures	027		0	0	0
7.3. Cash receipts from sales of (cash payments to acquire) securities and other financial instruments held until maturity	028		-19.592.624	0	-19.592.624
7.4. Dividends received	029		0	0	0
7.5. Other receipts from (payments for) investments	030		0	0	0
FINANCIAL ACTIVITIES					
8. Net cash flow from financing activities (032 to 037)	031	b)	69.479.069	4.710.509	74.189.578
8.1. Net increase / (decrease) in received loans	032		-32.933	0	-32.933
8.2. Net increase / (decrease) of issued debt securities	033		0	0	0
8.3. Net increase / (decrease) of subordinated and hybrid instruments	034		0	0	0
8.4. Proceeds from issue of share capital	035		74.996.800	0	74.996.800
8.5. (Dividends paid)	036		-774.289	0	-774.289
8.6. Other proceeds (payments) from financing activities	037	b)	-4.710.509	4.710.509	0
9. Net increase / (decrease) of cash and cash equivalents (024+025+031)	038	a), b)	15.692.102	6.513.206	22.205.308
10. Effect of exchange differences on cash and cash equivalents	039		0	0	0
11. Net increase / (decrease) of cash and cash equivalents (038+039)	040	a)	15.692.102	6.513.206	22.205.308
12. Cash and cash equivalents at the beginning of the year	041	a)	21.038.057	76.757.507	97.795.564
13. Cash and cash equivalents at the end of the year(040+041)	042	a)	36.730.159	83.270.713	120.000.872