# HRVATSKA POŠTANSKA BANKA d.d.

Annual Report for 2015

Zagreb, March 2016

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## Introduction

The Annual report includes a summary of financial information, description of operations and audited financial statements together with the independent auditor's opinion for the year ended 31 December 2015, in Croatian and English language.

***Legal Status***

The Annual report includes the annual financial statements prepared in accordance with statutory accounting requirements for banks in Republic of Croatia and audited in accordance with International Standards on Auditing.

The Annual report has been prepared in accordance with the Accounting Act and the Companies Act that require reporting to shareholders at the annual shareholders' meeting of the Management Board. According to the Accounting Law the statutory financial statements are statement of financial position, income statement with a statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the financial statements, and the Companies Act, in accordance Article 250.a and 250.b, prescribes the obligation to submit an annual report on the state of the Bank, other members of the HPB Group and consolidated annual report of the Group.

***Abbreviations***

In the Annual report Hrvatska Poštanska Banka d.d. is referred to as «the Bank» or «HPB», Hrvatska Poštanska Banka Group is referred to as «the HPB Group» or just «the Group», the Croatian National Bank is referred to as «the CNB» or "HNB" and the Croatian Bank for Reconstruction and Development is referred to as «HBOR».

***Exchange Rates***

For the purpose of translation of foreign currencies into Croatian kuna, the following exchange rates of the CNB were used:

| | | |
|---|---|---|
| 31 December 2015 | EUR 1 = HRK 7.635047 | USD 1 = HRK 6.991801 |
| 31 December 2014 | EUR 1 = HRK 7.661471 | USD 1 = HRK 6.302107 |

## Summary of Operation and Key Financial Indicators

in HRK million

| Group | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Basic Indicators** | | | | | |
| Net Profit/( Loss) for the Year | 125 | (629) | 36 | 102 | 86 |
| Operating Profit | 322 | 307 | 259 | 275 | 211 |
| Total Assets | 18,014 | 17,570 | 18,598 | 17,266 | 16,692 |
| Loans to customers | 10,298 | 10,474 | 11,754 | 10,769 | 9,709 |
| Received Deposits | 14,851 | 14,459 | 15,103 | 13,634 | 12,988 |
| Share Capital and Reserves | 1,779 | 843 | 1,445 | 1,411 | 1,243 |
| **Other Indicators** | | | | | |
| Return on Equity | 7.01% | -65.11% | 3.70% | 10.57% | 9.10% |
| Return on Assets | 0.69% | -3.58% | 0.19% | 0.59% | 0.51% |
| The Ratio of Operating expenses[1] to Operating Income | 59.50% | 60.36% | 63.90% | 63.61% | 71.03% |

| Bank | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Basic Indicators** | | | | | |
| Net (Loss)/Profit for the Year | 123 | (635) | 42 | 94 | 88 |
| Operating Profit | 321 | 300 | 266 | 266 | 213 |
| Total Assets | 17,691 | 17,351 | 18,357 | 17,045 | 16,452 |
| Loans to Customers | 10,185 | 10,335 | 11,656 | 10,679 | 9,622 |
| Received Deposits | 14,649 | 14,254 | 14,885 | 13,449 | 12,766 |
| Share Capital and Reserves | 1,779 | 845 | 1,453 | 1,411 | 1,255 |
| **Other Indicators** | | | | | |
| Return on Equity | 10.14% | -65.73% | 4.39% | 9.73% | 9.08% |
| Return on Assets | 0.70% | -3.66% | 0.23% | 0.55% | 0.53% |
| The Ratio of Operating Expenses[1] to Operating Income | 58.88% | 60.15% | 62.48% | 63.63% | 70.15% |
| Regulatory Capital | 1,534 | 645 | 1,573 | 1,669 | 1,492 |
| The Capital Adequacy | 15.85 | 6.65% | 13.51% | 14.89% | 14.23% |

[1] *General and Administrative Expenses, Depreciation and Amortization and Other Costs*

## Supervisory Board Report of Condition

I am extremely grateful to be given this opportunity, as the President of the Supervisory Board of Hrvatska poštanska banka p.l.c., to present you the financial results in 2015.

With pleasure I am informing you that Hrvatska Poštanska Banka, confronted with many challenges in a form of recapitalization and reorganization, managed to make the best net profit in its history in 2015. The net profit amounted to HRK 123 mil. The Bank's business in 2015 was characterized by the record operating profit in the amount of HRK 321 mil which is 7.2% better than previous year. The Bank's credit growth last year was limited up until the recapitalization process which was done in September. During that period the Bank made a risk optimization process which resulted with stable gross loans to customers at HRK 12.35 billion. Total deposits were up by 2.8% to HRK 14.6 billion which resulted with excess source of financing. This made the Bank able to repay HRK 0.5 billion of taken loans and relieved the pressure on the interest margin. Lower interest expense made a minimal drop in net interest income of 0.6%.

Net income from commissions and fees in 2015 was up by 5.2% compared to 2014.

Within the structure of total net operating income, financial markets segment's continuous contribution of 23 percent share should be especially emphasized.

In 2015 the Bank made substantial other revenue (HRK 42 mil) which is 4 times more than a year before. This was due to one-off revenue related to sale of the assets and improved collection of receivables.

On the expense line, operating expenses rose by 1.7% due to higher general and administrative expense, depreciation and amortization and other costs which are a result of the recapitalization and reorganization. Nevertheless 3.9% higher operating revenue was enough to overshadow minimal growth of operating expenses.

In 2015 the Bank made substantial provisions for NPLs. These are provisions for loans and other assets in the amount of HRK 186 million and provisions for liabilities and expenses in the amount of HRK 9 million. This resulted with 2.9 percentage points better NPL coverage ratio of 64.3% which is still substantially more than Croatian peers (56.6% as per 2015 year-end).

The Bank's assets in 2015 grew by 2.0% to HRK 17.7 billion. This puts the Bank in the seventh place by assets' level in Croatia.

Recapitalization, conversion of hybrid instrument into equity and other capital gains resulted with capital more than doubling, to the level of HRK 1.7 billion. This increased the capital adequacy at the end of 2015 to 15.85% which is in line with all regulatory requirements.

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I would like to use this opportunity to express my gratitude to all employees of Hrvatska Poštanska Banka d.d. whose hard work made the contribution to recapitalization, restructuring and risk optimization in a year which was full of uncertainty and which in turn resulted with far better Bank's balance sheet, substantially higher risk resistance and lower financial leverage. Let me express my gratitude to the Management Board which made substantial contribution to previously mentioned process, together with my colleagues from the Supervisory Board for their cooperation. I would like to express special gratitude to all clients of the Bank which believe in us and whose expectations we would need to fulfill in the future.

Dražen Kobas

President of the Supervisory Board

## Management Board Report of Condition

Dear clients and shareholders,

As the President of this institution, I have a great honor to present you the financial results of Hrvatska Poštanska Banka. In 2015 were confronted by many challenges, we made the recapitalization, reorganization and despite of all – made the best financial results in the Bank's history.

Our clients are our greatest capital. The Bank currently has 640 thousand clients. Considering the last year marked the end of the economic stagnation, clients' expectations are rising by the day and we are ready to meet them. We have successfully implemented new m-banking solution, we have introduced a new contactless Mastercard for current accounts, together with the first joint product of the Bank and Croatian Post – Pošta & HPB Mastercard. Our loan offer was expanded by new multi-purpose loans in HRK and housing loans at extremely competitive interest rates. We made all that to strengthen our position as a bank which has satisfied clients and enjoys their trust.

***Financial Results of Hrvatska Poštanska Banka***

Hrvatska Poštanska Banka made the **best net profit** in its history in 2015 – HRK 123 mil. Along with the net profit, the Bank made the new **record operating profit** which grew from HRK 300 million in 2014 to HRK 321 million.

The most important operating factor in 2015 was preservation of net interest margin considering the Bank was, for the most part of the year (before recapitalization), faced with limited credit growth due to which a risk optimization process (RWA) took place. Decrease in **net interest income** was kept at minimal 0.6% due to better structure of financing sources and lower interest expenses.

**Net income from commissions and fees** is up by 5.2% despite slightly lower total revenue due to long-term decreasing trend in externalized network cash payments. This trend has been to a large part neutralized by own network revenue from products and services in retail and direct banking segments. In line with continuing growth in number of clients, their activity has improved by offering them an access to modern solutions and products.

Financial markets sector has confirmed its efficiency in 2015 by continued stable financial results from **securities and FX trading**.

Substantially higher **other revenue** (fourfould increase) was due to one-off items related to sale of assets and other items related to collection of receivables which is a result of improved procedures and practices in collection and sale of non-financial assets. Besides making revenue, this enabled the Bank to avoid further costs related to non-financial assets maintenance, as well as resulted in cash inflow which can be used in a more appropriate way.

The Bank carried out two important processes in 2015 – recapitalization and reorganization – which produced one-off costs. On top of that a new regulatory contribution was imposed during 2015. This resulted with inevitable growth of **general and administrative expenses, depreciation and amortization** in 2015 (+1.7%). However, reorganization made preconditions for rationalizing operations which will enable the Bank to cut costs in the following years.

Higher operating income (+3.9%) neutralized the minimal growth in operating expenses. Thus, **C/I efficiency indicator** at 58.9% continues to converge to the Bank's peers.

In 2015 the Bank put substantial amount of its operating profit to provisions for NPLs. **Provisions for loans and other assets** are HRK 186 mil, while provisions for liabilities and expenses were HRK 9 mil. This marks the increase in NPL impairment coverage ratio from 61.2% to 64.3% which puts the Bank ahead of its pears (56.6% on December 31st 2015).

The Bank's **assets** on 31 Dec 2015 amounted to HRK 17.7 billion which is 1.8% more than at the end of the previous year.

Considering the already mentioned activities of recapitalization and limited credit growth amid which the Bank continued to optimize its risk-weighted assets (RWA), **gross loans to customers** were kept at HRK 12.35 billion. However, retail loans are still growing (+5.8%), wherein housing loans spiked by 12.3%. These developments resulted with higher market share in this business segment (cca. 3.7%).

Total deposits were up by 2.8% to HRK 14.6 billion. Their structure was also changed. On the retail front term and demand deposits continued to grow. On the corporate front part of the term deposits were repaid due to satisfying liquidity, whilst demand and restricted deposits continued to grow. Demand deposits grew due to large number of newly acquired corporate accounts and retail accounts, as well as trust of the Bank's savers. Due to increase in deposits the Bank had more than enough liquidity sources and it repaid HRK 0.5 billion of borrowings in line with repayment schedule, which unburdened the interest margin.

Recapitalization, conversion of hybrid instrument into equity and realized gains resulted with accounting equity in the amount of HRK 1.7 billion which is double the amount from 2014. Due to performed risk optimization the Bank enters 2016 with substantially stronger balance sheet and lower financial leverage.

Capital adequacy on 31 Dec 2015 was 15.85% which meets all regulatory requirements.

***Consolidated Financial Results of Hrvatska Poštanska Banka Group***

Hrvatska Poštanska Banka Group consists of Hrvatska Poštanska Banka as the parent company and HPB Stambena Štedionica, HPB Invest (investment fund management company) and HPB Nekretnine (real-estate company). All subsidiaries made a profit in 2015, with HPB Stambena Štedionica earning HRK 405 thousand, HPB Nekretnine HRK 415 thousand and HPB Invest HRK 740 thousand. Besides subsidiaries which are founded and wholly owned by Hrvatska Poštanska Banka, consolidated statement on financial position includes results of H1 Telekom d.d.. in which the bank holds a 58.2% stake. This ownership stake was acquired during a process of pre-bankruptcy settlement through debt-to-equity swap and was classified as assets designed for sale.

Led by the parent company Hrvatska Poštanska Banka Group made an after-tax profit of HRK 124.8 million in 2015. The Group's assets are almost entirely the Bank's assets, so change in the latter reflects the change in the former, although there are certain consolidation differences due to internal transactions. In line with that, the Group's assets at the end of 2015 were HRK 18.0 billion.

***Plan of Hrvatska Poštanska Banka for 2016***

With stronger capital position, adopted best banking risk management practices and openness to new technologies we are ready for challenges facing us in 2016. Client relationship will remain our top priority and we will continue to offer ever-better and wider range of services to Croatian citizens. We will not neglect the Croatian economy and will continue to develop our business relationships with small and medium enterprises. Our goal for the following period is to live our values in order to become the best bank in Croatia through our recognizable corporate culture which is characterized by full commitment to clients.

At the end I would like to express my gratitude to our clients for their trust, all the shareholders which have recognized the Bank’s potential during the recapitalization process, our employees for their effort and contribution to results that have been achieved, and members of the Supervisory Board for their cooperation.

Tomislav Vuić

President of the Management Board

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## Management Board

**TOMISLAV VUIĆ, President of the Management Board**

Responsibilities: Office of the Board, Internal Audit, Corporate Communications, Human Resources Management, Marketing, Legal Affairs, Retail banking, Corporate Banking, Direct Banking

**DUBRAVKA KOLARIĆ, member of the Management Board**

Responsibilities: Assets and Liabilities Management, Compliance Office, Corporate security, Financial markets

**MLADEN MRVELJ, member of the Management Board**

Responsibilities: Organization and Project Management, Procurement and General affairs, IT sector, Business support

**DOMAGOJ KARADJOLE, member of the Management Board**

Responsibilities: Risk Management, Collection Management, Financial Management, Service Quality Management.

## Macroeconomic Developments in Croatia

During 2015 world economic growth had slowed down due to slower growth in China and US, while Eurozone growth had slightly accelerated.

First estimate of Croatian Bureau of Statistics shows 1.6% economic growth in Croatia in 2015 when compared to 2014, which marks the first annual growth since 2008. The largest part of the growth came from investments, especially in H2 2015, together with consumption, while at the same time exports continued to grow. Positive economic growth was recorded in all four quarters of 2015, for the first time since 2008, while in the last quarter the economy grew 1.9%.

**Macroeconomic Indicators for Croatia**

| | 2011. | 2012. | 2013. | 2014. | 2015. |
|---|---|---|---|---|---|
| GDP growth rate - real (%) | -0.3 | -2.2 | -1.1 | -0.4 | 1.6 |
| Average annual inflation rate (%) | 2.3 | 3.4 | 2.2 | -0.2 | -0.5 |
| Official unemployment rate (%) | 15.7 | 16.9 | 18.3 | 17.8 | 17.9 |
| BoP Current account balance (% of GDP) | -0.7 | 0.0 | 1.0 | 0.8 | 2.7 |
| General Government Debt (% BDP-a) | 63.7 | 69.2 | 80.8 | 85.1 | - |
| EUR/HRK exchange rate as per Dec 31 | 7.530 | 7.546 | 7.638 | 7.662 | 7.635 |
| Assets of credit institutions (in HRK billion) | 415.2 | 407.7 | 405.7 | 403.7 | 401.3 |
| Gross loans (in HRK billion) | 291.7 | 283.9 | 286.9 | 279.9 | 275.4 |
| Total deposits (in HRK billion) | 287.6 | 282.1 | 289.2 | 292.8 | 300.8 |
| Total NPLs (in HRK billion) | 262.6 | 305.2 | 390.4 | 47.8 | 45.6 |
| Net profit/(loss) of credit institutions (in HRK billion) | 3.8 | 2.8 | 0.7 | 2.0 | -4.3 |

Sources: Croatian Bureau of Statistics, Croatian National Bank

**Banking Sector in Croatia**

Bank assets (aggregated, credit institutions) at the end of 2015 were HRK 401.3 billion which is 0.6% less than a year before. In line with the last year, the assets were down due to lower domestic demand reflected in lower credit activity to the real sector. Thus, the excess liquidity was targeted to government securities and liquid assets. Government loans were slightly lower than in 2014, while deleveraging of private companies resulted with slightly lower corporate loans as a percentage of the total assets. At the same time corporate NPLs were down (by HRK 2 billion) but their coverage was up (by 6.2 pp to 54.9%). This resulted with lower total NPL to total loans ratio (by 0.5 pp to 16.56%). Retail loans were also down compared to the previous year, although lower NPLs (by HRK 88 mil) did not result with lower retail NPL ratio (mild growth of 0.12 pp to 12.15%). However their coverage ratio also increased (by 3.4 pp to 59.6%).

Increase in deposits is primarily result of higher balances on corporate giro accounts and savings deposits.

Despite better economic developments banks' financial results were negative while loss was more than twice the profit achieved during 2014. Substantial negative bottom line was due to almost 2.5 times higher total impairments and provisions compared to a year before. Mentioned large increase in total impairments and provisions was a result of increase in other provisions which were largely related to CHF loans. Furthermore, operating profit (before impairments and provisions) has decreased as well – by 2.0%, consequent to lower net non-interest income, which overshadowed slight increase in net interest income.

**Labor Market**

Number of employed individuals at the end of 2015 was slightly higher compared to the same period in previous year. At the same time number of unemployed persons was down substantially (over 30 thousands) which resulted with 1.7 pp better official unemployment rate of 17.9%. After stagnation in 2014, wages were up over 1% on a gross basis in 2015. In real terms due to negative annual inflation rate gross wages are almost 2% higher compared to 2014.

**Inflation**

At the end of 2015 annual inflation rate was negative at -0.6% which is 0.1 pp less than a year before. The largest negative effect came from 6% lower transportation prices. At the same time energy prices were down substantially, while the largest growth was recorded in prices of clothing and footwear.

**International Trade Balance**

Exceptionally good movements in international trade of goods and services during the Q3 2015 were enough to put the whole year in the positive territory. Although negative deficits were recorded in all other quarters, a surplus of 2.7% of GDP was recorded in the current account on the basis of the whole 2015 which is 0.7 pp more than in 2014.

**Monetary Policy**

The Croatian National Bank continued its expansively directed monetary policy in 2015 by encouraging credit and economic activity and keeping interest rates at low levels. In December 2015 the Croatian National Bank made a decision to abolish allocating FX funds as part of the mandatory reserve requirements. At the same time the rate of mandatory reserve requirement remained unchanged at 12%. The decision is effective from mid-January 2016.
In line with the managed float exchange rate regime the central bank sold almost EUR 270 mil at the end of September on the FX market at EUR/HRK rate of 7.638 which was the last intervention on FX market. At the end of 2015 the EUR/HRK rate was 7.635 which is 0.3% less than at the end of 2014.

**Public Finances**

According to the Croatian National Bank data revenue of the central government and off-budget users was HRK 127.2 billion which is almost 8% more than a year before. The key driver of better revenue are more convenient economic movements including the higher consumption which resulted with better VAT and excise revenue. At the same time expenditures of the central government and off-budget users were HRK 132.4 billion which is 3.5% more than in 2014. The key driver of higher expenditures are higher interests and subsidies to non-government companies. At the end of 2015 budget deficit of the central government and off-budget users was HRK 5.1 billion which is almost half the amount from 2014. In line with previous years, the government financed its deficit by issuing new debt which increased the general government debt but at lower growth rate than in previous years. The general government debt at the end of November 2015 was HRK 285.3 billion which is almost 86% of GDP.

## Description of Hrvatska Poštanska Banka Group

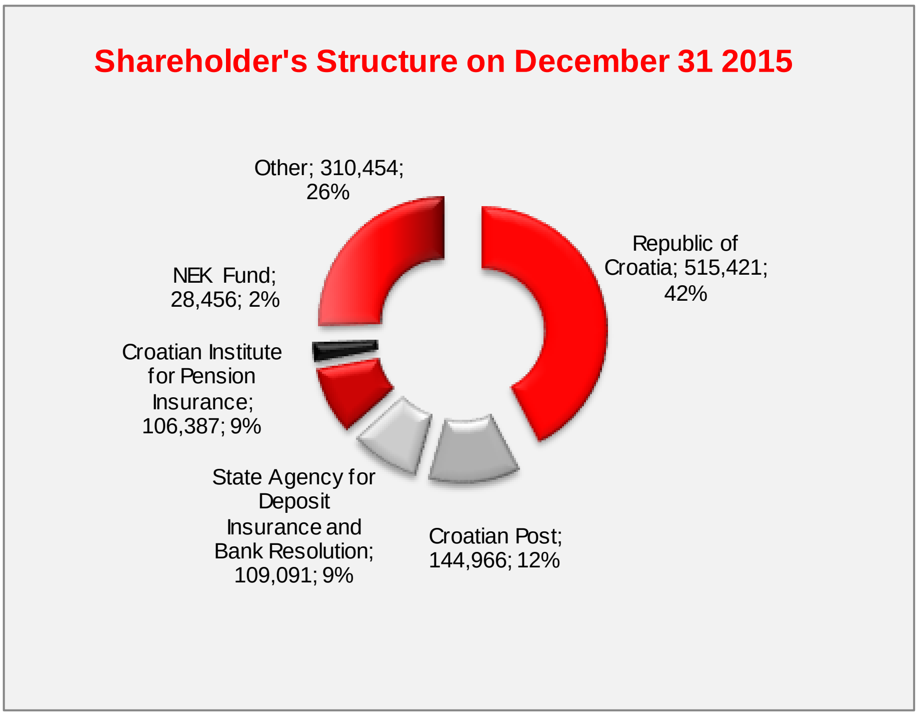
### Hrvatska Poštanska Banka d.d.

Hrvatska Poštanska Banka d.d.., Zagreb, was founded and registered as a joint stock company in accordance with the official Croatian legislation. It is authorized for doing banking operations in Croatia. The Bank's headquarters are in Jurišićeva 4, Zagreb. On 31 Dec 2015 the Bank operated through 8 regional centers, 43 outlets and 10 detached tellers.

The Bank's main business is making all types of deposit and credit activities for legal and natural persons in domestic and foreign currency, making domestic and international payments, issuing guarantees, sureties and other types of guarantees, debt collection services, financial lease, securities trading and other banking activities.

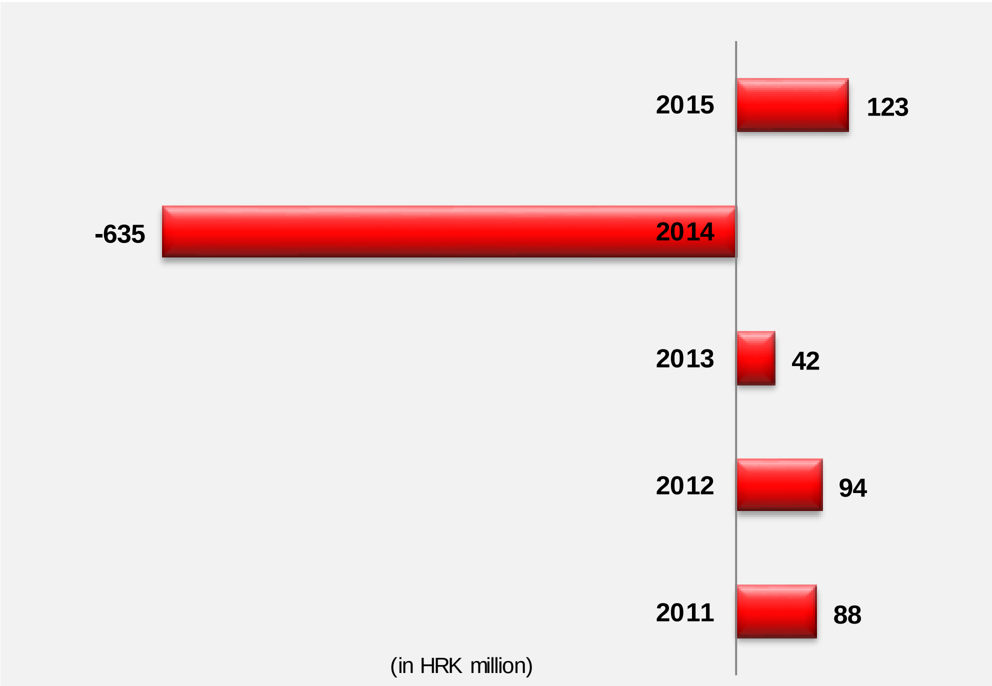
As a domestically owned bank, Hrvatska Poštanska Banka with total assets of HRK 17.7 billion, is ranked 7$^{th}$ out of 28 banks in Croatia by the amount of assets.

The Bank is 100% owner of HPB Stambena Štedionica d.d, HPB Invest Ltd and HPB Nekretnine Ltd which make the Hrvatska Poštanska Banka Group. In July 2015 Bank increased its ownership stake in H1 Telekom d.d. to 58.2% based on prebankruptcy settlement. Bank has designated this equity stake for sale.



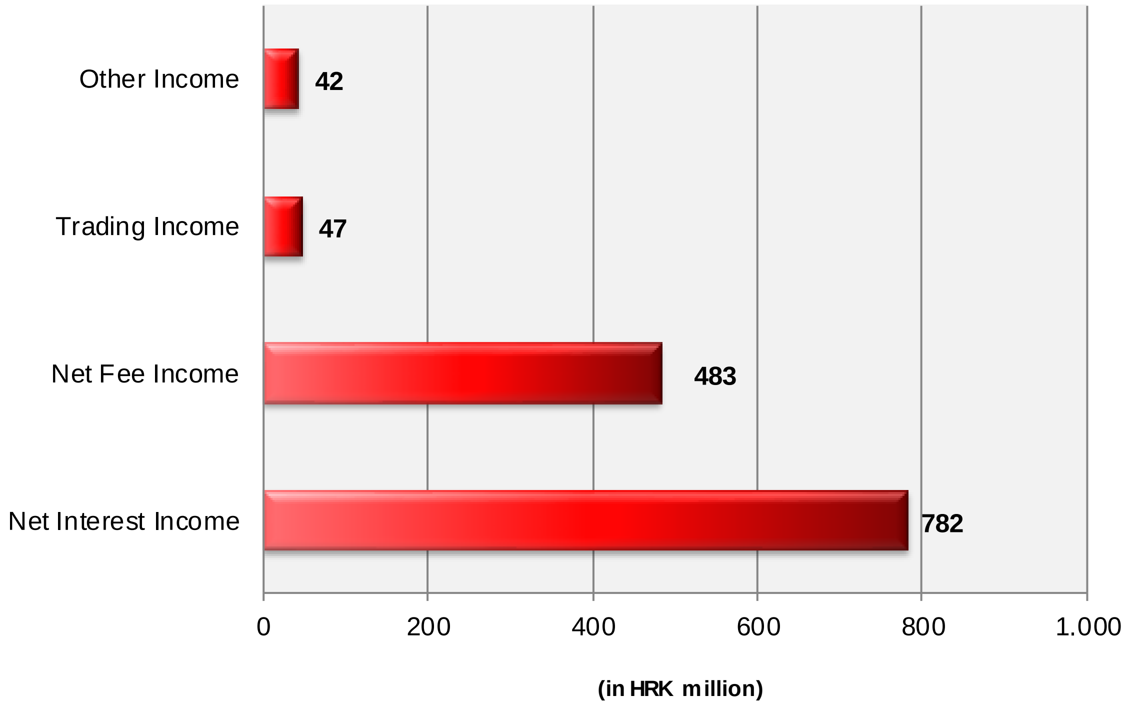
In 2015 the Bank made an after-tax profit of HRK 123.2 mil. Operating profit before impairments and provisions amounted to HRK 321.1 mil. Provisions for loans and other assets were HRK 185.6 mil, while provisions for liabilities and expenses were HRK 9.0 mil.

**Net Profit/(Loss)**

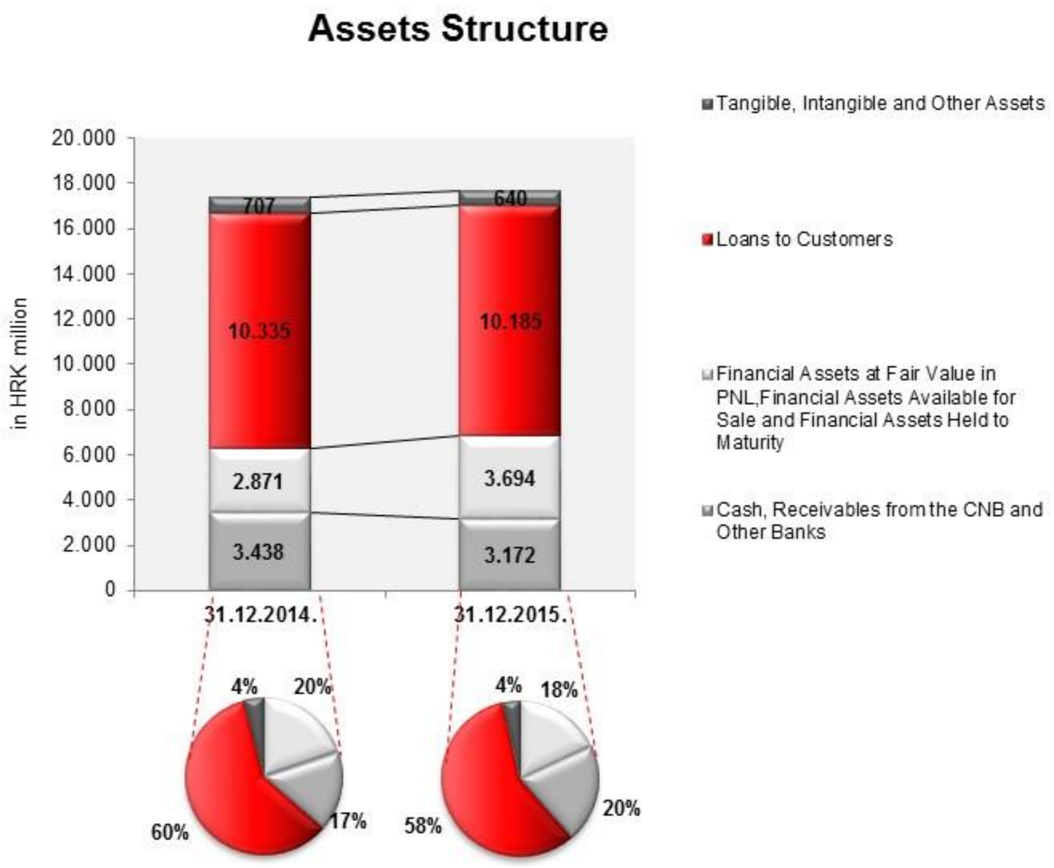



In 2015 total operating income was up by 3.9% compared to the previous year. Net interest income in the amount of HRK 510.3 mil made 65.3% of total operating income.

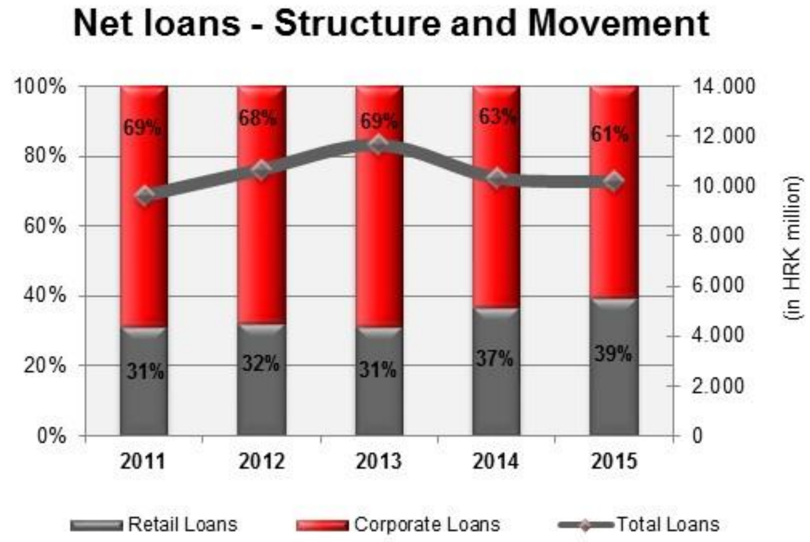
**Structure of Operating Income for the Period From Jan 01 – Dec 31 2015**



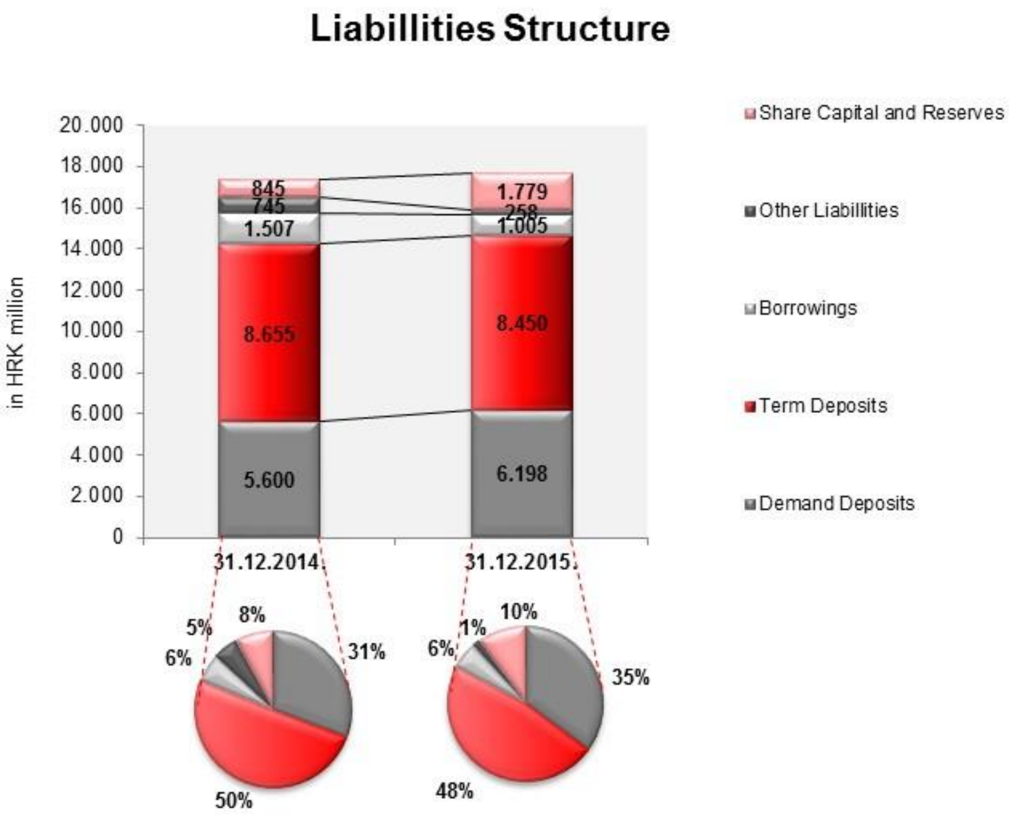
At the end of 2015 the Bank's assets were HRK 17,691 mil which is HRK 340.4 mil (+2.0%) more than in the same period of 2014. The most significant part of the Bank's assets are client loans and receivables (57.6%), followed by mandatory reserve requirements at the CNB, loans and receivables from banks and other cash fund (17.9%), and financial assets available for sale (12.6%).




Total loans in 2015 amounted to HRK 10,185 mil which is HRK 150.4 mil lower than in 2014. Looking at the structure of total loans retail loans rose to 39.4%, while corporate loans fell to 60.6%.

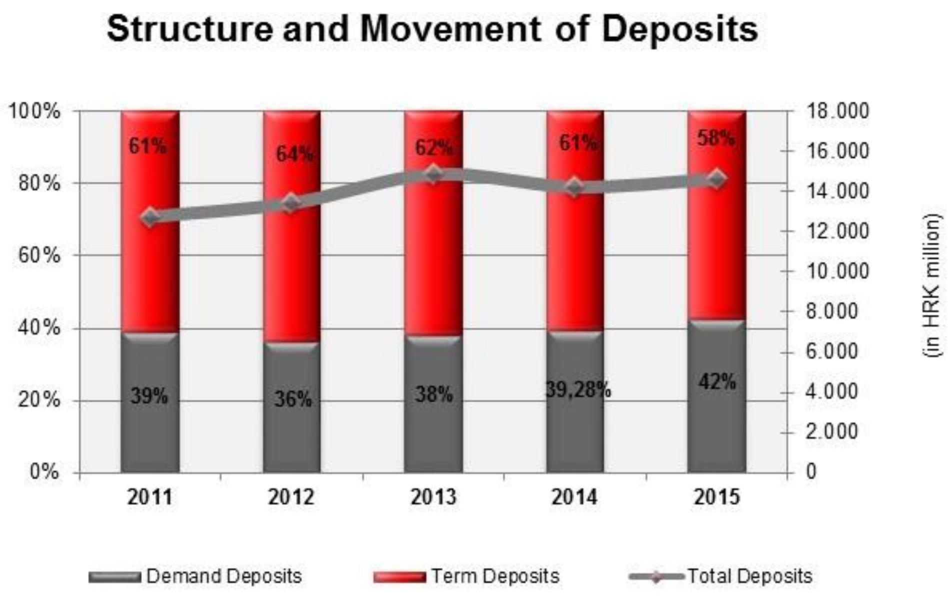



Term deposits with share of 47.8% make the largest part of liabilities side of the balance sheet. They are followed by demand deposits which increased the share by 2.8 pp to 35% when compared to 2014.



During 2015 client deposits were up by 3% or HRK 411.7 mil compared to the previous year. Total deposits (including bank deposits) grew HRK 394.5 mil or 2.8%.

Term deposits with a share of 57.7% are still dominant part of the total deposits. During 2015 demand deposits increased their share from 39.3% to 42.3%.



*__Retail Business__*

HPB performs retail business through its own business network which comprises 8 regional centers, 43 outlets and 10 detached tellers. Retail services are also offered through more than 1,000 postal offices throughout the territory of Republic of Croatia.


2015 was characterized by the systematization of working places and the Bank's reorganization. The same applies for the retail business. New organizational structure has been established in order to achieve better management of sales network and background processes, put emphasis on development of products and alternative sales channels, and better client relationship management.

In 2015 the Bank has improved its sales network by moving some outlets to better locations. The Bank continued the development and improvement of the direct banking distribution channels by introduction of new generation mobile banking and setting 7 new ATMs. At the end of 2015 the Bank had 367 ATMs and 1,726 ETFPOS terminals in total.

The Bank has improved the cooperation with its strategic partner Croatian Post by improving sales of products and services in post offices and introduction of the joint product Pošta&HPB credit card.

During 2015 Hrvatska Poštanska Banka has improved its cooperation with Croatia Osiguranje through sales of bancassurance which resulted with additional non-interest revenue and realization of bonus premium.

In 2015 the Bank made substantial results by selling more than 161 thousands products by stipulating more than 36 thousands HPB combinations. This resulted with 11.5% higher non-interest revenue compared to 2014.

Retail deposits make 59% of the total deposits. Last year they grew 6.1% to HRK 8.6 billion at the end of 2015. Out of that amount demand deposits were HRK 2.4 billion which is 8.2% higher than a year before. On the other hand term deposits were HRK 6.2 billion which is 5.3% higher than a year before. Higher deposits were a result of quality services, client's loyalty, outstanding marketing promotion and recognition of the Bank as a safe financial factor of Croatian banking.

Gross retail loans at the end of 2015 were HRK 4.6 billion. Retail loans make 37.4% of the total gross loans to customers. Retail loans consist mainly of multi-purpose loans, with housing loans being on the rise (+12.3% or HRK 105.0 mil in 2015).

These results were achieved by maximum effort of the sales personnel, quality of services, loyalty of the existing and acquisition of new clients, better inter-sector cooperation and improved support process.

By regular monitoring of market, competition activity and new trends new differentiated products were developed. It confirms the Bank is highly competitive. *Motiv Plus* savings is an example of an innovative and attractive product developed for clients within the savings business area. HRK loans are another example of well accepted product and the Bank was among the first to have them. The Bank went a step further by fixing interest rate in some loans as it turned out to be quite important when clients choose credit products and banks. The Bank will continue to develop new products in line with clients' desires in order to show the clients are its top priority.

In August 2015 development of new CRM system has begun in order to gain better client relationship management. New CRM will enable unification, monitoring and management of interaction with clients, systemic and intuitive management of clients' portfolios and transparent and efficient monitoring of the sales results. It is also expected to increase sales productivity, lower the costs, automatize business processes, increase selling opportunities and in the end increase revenue.

*Corporate Business*

Corporate business offers bank services to some 8,000 clients and always leans to constant improvement of its services and introduction of innovative concepts in order to satisfy the ever-growing clients' needs.

In September 2015 the Bank's recapitalization process was completed. It resulted with capital increase and risk management optimization which lay ground for future business growth.

Slow national economic recovery and capital adjustments impacted Bank's operations, resulting with 3.2% decrease in gross corporate loans during 2015 when compared to 2014. Loan portfolio amounts to HRK 7.7 billion as per 2015 year-end. Gross corporate loans consist mainly of loans to companies with 54% share, while loans to government units make 46%. Remaining part of the corporate loans is made by loans to financial institutions..

Total corporate deposits (without bank deposits) on Dec 31 2015 were HRK 5.6 billion. Demand deposits were up by 11.4% while term deposits recorded a substantial drop of 20.0% compared to 2014.

Lower loans due to risk optimization and lower interest rates resulted with lower interest revenue, thus bringing net interest income down by 13.7% compared to 2014.

In 2015 corporate guarantees were up by 73% compared to 2014, which is one of the drivers for non-interest revenue.

At the end of 2014 the Bank initiated cooperation with the Ministry of Entrepreneurship and Crafts. This cooperation continued in 2015 with two lending programs (Module 1 and Module 2) at more favorable conditions for corporations. Successful cooperation with Croatian Bank for Reconstruction and Development, and Croatian Agency for SMEs, Innovation and Investments had continued in 2015.

As usual the Bank will keep intensive cooperation and will offer lending support to companies, central and local government units with emphasis on the small and medium enterprises portfolio, in order to adjust to market conditions. The focus will be on increasing non-interest revenue with ongoing improvement of quality and broadening of bank services.

***Financial Markets***

*Treasury*

During 2015 domestic and international bank markets were characterized by extreme liquidity which enabled interest rate to continue to decrease. Amid negative interest rates due to ECB measures and creating additional liquidity in Eurozone the Bank's business was dominantly focused towards excess liquidity optimization and creating reserves in liquid money market instruments.

In H1 2015 the Bank was more active in forming the portfolio of fixed-income instruments, while successful recapitalization in H2 2015 enabled it to increase its investments in open-end investment funds and Croatian treasuries.

Amid continuingly high levels of domestic money market liquidity the Bank remained one of the most significant players with substantial volumes, especially in Q4 when liquidity was slightly higher with marginal increases in interest rates. Taking into account Bank's adequate liquidity position, it did not participate in CNB's regular REPO auctions which have been initiated again in 2016, and it maintained prescribed coefficients and liquidity ratios.

FX trading and gains from FX translation differences were favorable for the Bank in 2015, although trading was still influenced by spread tightening.

Treasury product sales and FX trading volumes were up in cooperation with corporate clients through stipulation of spot and forward FX trades.

On the cash management front the Bank is still one of the most significant players. With broad network of outlets and licensed money exchangers, and through cooperation with FINA cash services the Bank offers more competitive service in trading and cash provision.

*Investment Banking*

The Bank acts as an intermediator in trading financial instruments for clients on domestic, regional and world markets with a possibility of electronic trading and placing orders. Turnovers on domestic and regional markets were somewhat lower in 2015 than in 2014. A few new IPOs were not enough to encourage more trading on ZSE. It is also reasonable to expect that full application of the Income Tax Law and taxing capital gains in 2016 could lower activity of some smaller investors on equity markets.

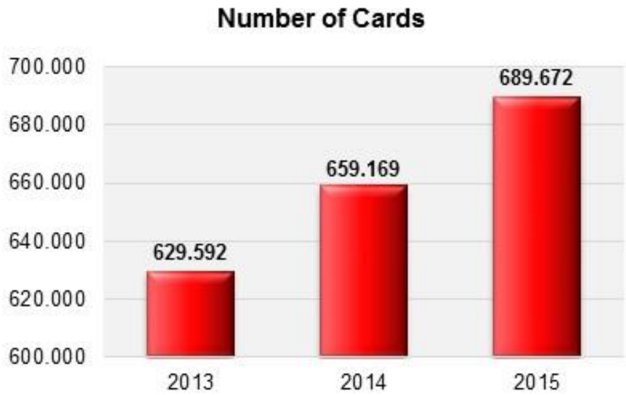
The Bank is still acting as one of the arrangers of bond issues on domestic market and had participated as co-arranger in issuing Croatian government bonds in 2015.

On the custody and depositary bank front, the Bank continuingly improves and coordinates services with a number of regulatory requirements and changes, and remains one of the most important players in that part of the business.

***Direct Banking Operations***

*a) Card Business*

At the end of 2015 the Bank had 17 different card products in its portfolio with 689,672 issued cards which is 5% more than in 2014. 99% of all cards were issued to individuals and 1% were issued to corporates.




In 2015 there were 16,727,222 transactions by bank cards (+6% compared to 2014) in the total amount of HRK 8,975,243,412 (+7% compared to 2014).

At the end of 2015 the Bank had altogether 367 ATMs and 1,726 EFTPOS terminals. Compared to 2014 both the number of ATMs and amount of transactions increased. At the same time the number of EFTPOS terminals was reduced but they made higher number (+2%) and volume of transactions (+9%).

Revenue from card operations is up by 7% in 2015, due to significant increase revenue from DCC service.

In 2015 the Bank developed 3 new card products including Debit Mastercard contactless card for demand deposits, Visa prepaid gift card and Pošta&HPB Mastercard co-branded contactless card. By developing new products, the Bank offered its clients a new technological solutions for contactless payments as well as new and distinguished functionalities of installment payments and deferred payments with Pošta&HPB card.

Last year the Bank laid grounds for new non-interest revenue by broadening its services to accepting Diners card for cash payouts in ETFPOS network of Croatian Post.

At the end of 2015 the Bank finished its pilot project in cooperation with Croatian Post and accepted payments from new types of card paying terminal "PLATOMAT". This lays ground for future development of PLATOMAT network with new partners.

*b) Direct Banking*

1. Internet Banking

As per 31 Dec 2015 number of internet banking individual users was 56,735 which is 23% more than in 2014. Number of internet banking transactions by individual users was up by 16%, while volume of transactions was up by 26% compared to 2014.

Number of internet banking corporate users was up by 12%. Corporate users made 20% more internet banking transactions with 2% higher volume.

2. Mobile Banking

A number of mobile banking users at the end of 2015 was 42,436 which is 76% more than in 2014. Number and volume of mobile banking transactions were doubled in 2015 compared to 2014.

In mid-July 2015 the Bank launched its mHPB application which contains mobile banking (mBanking) and mobile token (mToken) services, together with other tools and services (list of outlets and ATMs, money exchangers, possibility to arrange meetings).

3. Text messaging

Number of text messaging users at the end of 2015 was 74,295 which is 2% more than at the end of previous year. At the same time number of texted messages was up by 15%.

*c) Call Center*

There were 1,153,482 calls to the Bank’s IVR in 2015, out of which 93% were related to checking account balances, while 6% were related to dates of income payouts (pensions, child benefits, maternity benefits, disability benefits). Only 1% of calls were related to other options. Call efficiency in 2015 was 88%.

***Internal Controls System and Internal Audit***

Internal controls are part of the managing process of management and all the Bank's employees.
Internal controls are rational guarantee that business goals will be delivered in appropriate way, within set time limits and by satisfying all regulatory standards.
Basic principles of internal controls system are:

- Clear lines of responsibility
- Separating responsibilities and duties
- Specific control procedures
- Internal audit function

The management and all employees are responsible for the implementation and application of the elements of internal control systems. The elements of internal control systems are described in the internal regulations and implementing documents of business areas. Internal Audit provides an independent assessment of the adequacy and effectiveness of internal controls of audited areas.

***Internal Audit***

Internal audit is organized as an independent organizational part, and is based on professional principles of internal auditing, alongside associated regulations. Management and responsibilities of internal audit were set by dual responsibility. Administratively it responds to the Management Board, while functionally it responds to the Supervisory Board, and Board of Auditors.

Internal audit procedures are performed in accordance with general internal audit standards and regulatory requirements, in four phases, as follows:

- planning;
- research;
- reporting; and
- results monitoring.

Planning is based on documented risk assessment and Yearly Operational Program is adopted by the Management Board with prior consent of the Audit Committee and the Supervisory Board. Internal Audit covers all business areas of the Bank and is structurally divided into audit of retail, general audit, audit of information system and audit of the financial markets.

Report on audit results is submitted to accountable person within the subject of internal audit, and member of the Bank's Management Board in-charge, and Audit Committee. Each individual report is subject to discussion during MB session, thus ensuring that MB is aware ot the audit's result, recommendations, as well as deadlines to implement recommendations and measures.

Internal audit prepares the report on work on semi-annual basis and submits it to the Management Board, Audit Committee and the Supervisory Board.

The report contains information on the achievement of annual work plan, a summary of the most important facts established during the audits carried out, the recommendations and the status of execution and removal of the recommendations and measures identified during the audit.

***Development Plan of Hrvatska Poštanska Banka***

The Bank's capital was increased last year which was enough to meet all the regulatory requirements and give enough room for organic growth after 2015 results were the best in the bank's history. The Bank plans are based on expectations of continuing economic recovery, improving optimism and consumer sentiment due to the economic growth and gradual employment recovery.

Therefore, in 2016 the Bank will put an emphasis on improving profitability and market share, further building of the image as strong Croatian bank and professional cost management.

Basic principles of HPB's strategy are:

1. **Responsibility to clients**

   Bank's core value is its client base with more than 640 thousands clients. The Bank will continue to improve the quality of its services and products by regular following of the market developments, new trends and using contemporary technological solutions in order to keep and justify the clients' trust.

2. **Responsibility to shareholders**

   After the recapitalization process the Bank has a larger number of shareholders. In the following year the Bank will focus on maintaining and increasing value, the market growth with optimal risk management, together with operational excellence.

3. **Focus on profitable segments and segments with growth potential**

   HPB is mainly a retail bank which boasts with some of the most satisfied clients in Croatia. The Bank's services will be improved by implementation of a new CRM system which will contribute to better understanding of clients and their needs. This will enable better client relationship managements and will create new incentives for increasing sales productivity. Client acquisition will put a special emphasis on adjusting products to younger working population but will also take care of other age groups.

4. **Focus on operational efficiency and cost management**

   The Bank performed a reorganization in 2015. However it will continue to place strong emphasis on operational excellence and automatization of business process in order to ensure ever-better cost efficiency.

5. **Cooperation with Croatian Post**

   Croatian Post, besides being one of the Bank's shareholders, is also its strategic partner. On the transaction banking front the Bank due to cooperation with Croatian Post has a unique comparative advantage. After successful introduction of mutual Pošta&HPB credit card further expansion of the Bank's products and services at postal counters is expected.

6. **Value for the Croatian economy**

   HPB is a relevant bank in Croatian ownership. The Bank will continue to develop its products and services in order to support small and medium enterprises and crafts with focus on propulsive industries which create additional value. At the same time exporters are identified as the key driver of the GDP growth. Tourist industry is also significant as higher tourist demand can easily recover agricultural production based on commercial principles. Good cooperation with central and local government units is also expected to continue.

***Risk Exposure***

The most significant risks to which the Bank is exposed are credit risk, liquidity risk, market risk, currency risk, operational risk and interest rate risk in the Bank's non-trading book. The market risk includes currency risk, interest rate risk and risk of value change in financial instruments.

The Bank is exposed to the credit risk by credit and investment activities and in in cases where it is an intermediary on behalf of clients or third persons. The Bank's main exposure to credit risk is related to loans and receivables from customers. Credit exposure related to the mentioned items and fixed-income securities held to maturity and valued at amortized cost are accounting value of the assets in the balance sheet. Furthermore the Bank is exposed to the credit risk at off-balance sheet items in a form of liabilities of approved but unused loans and issued guarantees.

The main liquidity risks the Bank is exposed to are liquidity refinance risk (structural liquidity risk) and market liquidity risk.

Exposure to market risks is related to items in and off balance sheet booked at market (fair) value including financial assets held for trading, financial asset available for sale and FX positions (including positions related to FX-linked placements and liabilities).

Exposure to the interest rate in the Bank's non-trading book is a result of mismatching assets and liabilities items of the Bank which are allocated by the repricing gaps criteria, as well as different nature of interest rates (reference interest rates) at which the Bank issues loans and gets liquidity.

The operational risk is related to all activities, process, products and systems of the Bank. This risk is related to a possible event which could cause a loss due to inappropriate or unsuccessful internal processes, people or systems, and external effects. The definition includes legal risk.

Detailed risk management of the Group and the Bank is described in Note 2.

## HPB Invest d.o.o.

**HPB Invest d.o.o.** (in further text referred to as Company) is a company that manages investment funds and was founded on 19 July 2005 with 100% ownership by Hrvatska Poštanska Banka. Company started with its operations on 5 October 2005 with shareholder's capital of HRK 5.0 mil.

As per 31 December 2015 the Company manages five open-end investment funds with public offer. Company also manages Umirovljenički fond, which is a special purpose fund, established by the Croatian Government for repayment of pensioners' debt.

Total assets under management are HRK 418 mil.

Structure of the assets under management is as follows:

| Fund Name | Assets Under Management HRK '000 | YTD Return (%) |
|---|---|---|
| HPB Dionički fond | 21,441 | 8.21% |
| HPB Global fond | 58,316 | 7.46% |
| HPB Novčani fond | 268,401 | 0.72% |
| HPB Obveznički fond | 54,937 | 2.85% |
| HPB Euronovčani | 15,285 | 0.26% |

As of 31 December 2015 balance sheet of the Company amounted to HRK 9.4 mil. In 2015 the Company made net earnings of HRK 740 thousands. As per 2015 year-end the Company had 10 employees.

### *Development Plan*

The Company's main activities will remain in the field of professional asset management and high quality of services in order to ensure sustainable return on clients' assets. Continuing improvement of the Company's development policy will be directed towards continuing professional, human resource, organizational and technological improvements. Together with continuing improvement of the Company's development policy and ever-growing legal and regulatory requirements, the Company will continue to attract clients with long-term attractive pallet of funds and investment products which can satisfy all of their needs differentiated by goals, investment horizon and risk appetites. On top of all the things mentioned, the Company's development policy assumes continuing improvement and focus on the two most important sales channels – Croatian Post and HPB.

### *Risks Exposure*

The most important types of risks the Company is exposed to are credit risk, market risk, liquidity risk and operational risk. On the reporting date the Company did not have substantial exposure to market and liquidity risks. The main part of the Company's credit risk exposure is related to fair value of instruments reported in the statement on financial position.

The company is exposed to operational risks in its regular business activities. The Company manages its operational risks with quarterly and annual management reports about events which can be classified as operational risks.

Risks which can affect the Company's regular business activities include assets decrease risk amid clients' funds withdrawal or amid asset value depreciation.

The company puts special emphasis on the internal control system which monitors business efficiency, regulatory compliance and risks to which the Company is exposed.

**HPB Stambena Štedionica d.d.**

HPB Stambena Štedionica (in further text: “Savings Bank“) is a credit institution which collects long-term savings with a purpose to resolve housing needs of depositors. Furthermore, it approves housing loans bearing fixed interest rates and with state subsidies.

As the fifth savings bank on the market, the Savings Bank was founded in 2006. As of 2015 year-end it had 113,752 registered savings contracts at notational value of EUR 496.4 million. Operations are performed through the branch network of HPB, through postal offices of Croatian Post and through authorized agents.

The Savings Bank had brokered 10,030 new housing savings contracts during 2015. HPB remains a primary sales channel, through which 9,792 contracts were contracted. Remainder of the contracts was brokered through Croatian Post via authorized agents and in headquarters.

Value of the total housing loans at the end of 2015 was HRK 143.2 million which is 3% or HRK 5 mil lower than a year before.

The Savings Bank recorded net profit amounting to HRK 405 thousands during 2015.

At the end of 2015 the Savings Banks’ total assets amounted to HRK 292.1 mil which is 5.5% more than at the end of the previous year. The savings bank had 19 employees.

***Development Plan***

On business planning front the Savings Bank plans to make positive effects for the whole HPB Group by strengthening its market position and delivering own results. This is planned to achieve by constant cooperation improvement with HPB and more intensifying cooperation with Croatian Post.

***Risks Exposure***

Risk management system of the Savings Bank is accomplished through internal risk management acts, through organizational structure with clearly defined responsibilities and authorizations with regard to risk management, through risk management process and through effective internal control system. The Savings Bank expresses its risk tolerance by defining targeted risk profile, while taking into account all demands impacting adequacy of available regulatory capital.

The most important risks to which the Savings Bank is exposed are non-trading book interest rate risk, liquidity risk, market risks, credit risk and operational risk.

The Savings Bank evaluates non-trading book interest rate risk from two perspectives:

- perspective of economic value, e.g. possible market value decrease in the non-trading book due to market interest rate changes
- earnings perspective, e.g. potential decrease of net interest income due to market interest rates movements.

When measuring interest rate risk from the economic value perspective, simplified calculus is used for assessment of economic value of the non-trading book as prescribed by the Croatian National Bank's "Decision on managing interest rate risk in the non-trading book", which takes into account adjusted entry data i.e. adjusted model, which is applied by savings banks from October 20, 2011.

When measuring interest rate risk from the earnings perspective the Savings Bank applies basic simulation of parallel interest rate changes (positive and negative) observed over a time horizon of twelve months, and effects on realized annualized net interest income during the observed period (from the beginning of the year).

Liquidity risk management comprises assessment and measurement of liquidity risk exposure, setting liquidity risk limits, reporting, monitoring and controlling those limits. Liquidity risk management is realized through operative management of daily and short-term liquidity, as well as through structural liquidity management.

For assessment and measuring of exposure to market risks internal model of HPB is used. This model is based on risk value method, which measures maximum potential loss that could be inflicted on the Savings Bank in a specific time period, with statistical reliability.

Credit risk management is based on evaluation of loan capacity of the debtor. Quality and value of the collateral obtained are also assessed, as well as historical regularity of debt repayment.

Quality of the loan portfolio is monitored by Risk control function, which reports quarterly to the Savings Bank's Management about the quality of loan portfolio with regard to risk group qualification and impairments made. Reports about the loan portfolio also comprise overview of quality by loan type, by large exposures, by loan concentration and geographical concentration.

In order to determine and estimate operational risk exposure the Savings Bank collects and analyses internal data about certain events caused by operational risk. Also performed are self-assessments of exposure to operational risk and self-assessment of control quality, estimation of risks linked to externalization, risk assessment regarding IT system and analysis of effects of unavailability of resources for critical processes within the business continuity scope.

Savings Bank's exposure to risks has been within limits defined by the law throughout the whole year.

## HPB Nekretnine d.o.o.

HPB Nekretnine d.o.o. (“Company” in further text) is a company specialized in real estate business which started its business activities in August 2005, and is fully owned by the Bank. Shareholders’ capital amounts to HRK 0.5 mil.

Primary business activities of HPB Nekretnine are real estate value estimation, advisory services, project development and real estate transactions.

As of 31 December 2015 balance sheet of HPB Nekretnine amounted to HRK 10.4 mil, with net profit of HRK 414.8 thousands. At the end of 2015 the Company had 6 employees.

### *Development Plan*

In the upcoming period focus will be on the active market promotion and on further improvements in quality of services rendered. The Company’s business and development policy will be built on expected rise in market demand for specific services which the Company offers, as well as for testing market potential for new consulting and engineering services, which the Company is equipped to offer. The Company should therefore contribute to Group becoming more recognizable, and a synergy effect will be accomplished.

### *Risks Exposure*

Most significant types of risk that the Company is exposed to are: market and liquidity risk. Market risk takes into account that demand volume for specific services offered by the Company is difficult to foresee, especially appraisal of property. Linked directly to this is the liquidity risk due to high share of these services in Company’s overall offer. The Company manages its risks according to prescribed policies and procedures of HPB described in Note 2.

## Statement on Application of the Corporate Governance Codex

***Application of the Corporate Governance Codex***

In accordance with article 272.p of Commercial Companies Law the Management Board and the Supervisory Board state that the Bank voluntarily implements the Corporate Governance Codex which was established by Croatian Financial Services Supervisory Agency and Zagreb Stock Exchange („ZSE“). Also, the Bank implemented the Corporate Governance Codex for Commercial Companies in which the Republic of Croatia has shares or stakes which was established by the Croatian Government („Narodne Novine“, number 112/2010).

Constituent part of this Statement is Annual Questionnaire for 2015. The questionnaire is also available on the Bank’s website and it reflects corporate management practice used in the Bank in accordance with the recommendation from the Corporate Governance Codex and detailed treatment explanations.

With recommendations of the mentioned codices and in accordance with the credit institutions regulation, the Bank is actively improving its corporate management in line with the Bank’s structure and organization, strategy and business goals, distribution of privileges and duties with a special emphasis on effective procedures for determining, measuring, monitoring and reporting of risks associated with the Bank’s business, as well as setting up corresponding internal control mechanisms.

**Description of basic characteristics associated with internal supervision and risk management can be found in the bank’s business description in the Note 2.**

***Significant Shareholders and Limited Share Rights***

The Republic of Croatia is the most significant shareholder of the Bank with 42.43% stake. Together with Croatian Pension Insurance Institute, Croatian Post, State Agency for Deposit Insurance and Bank Resolution, and NEK Fund the Government controls more than 74% of equity and voting rights.

In line with the Bank’s Statute, voting rights are not limited, nor are there limits for realizing voting rights.

***Rules for the Appointment or Removal of Management Board members, Bringing Amendments to the Statute and Certain Management Board Authorizations***

In accordance with the Bank’s Statute, the Management Board consists of a minimum of two and a maximum of five members, and decision on number of members is made by Supervisory Board. Decision of the Supervisory Board from 29 October 2014 outlines that the Management Board has four members. Members and the President of the Management Board are appointed by Supervisory Board for a period of up to five years, and can be reappointed with no restrictions. Only individuals who meet the criteria prescribed by the law and sub-law regulations regarding bank operations, and who have the prior approval of HPB can be appointed as Management Board members. Supervisory Board can bring a decision to remove the President of the Management Board and Members of the Board when there are valid grounds for such a decision. President and Members of the Management Board can also resign by submitting their written resignation.

The Statute can only be amended by General Assembly’s decision. A decision is considered brought if voted for by at least three quarters of share capital represented at the General Assembly. A proposed Decision on amendments to the Statue is submitted by the Management Board to the Supervisory Board, which is authorized to accept the proposal and submit it to the General Assembly for consideration.

Bank's Management Board is authorized, with prior written approval by the Supervisory Board, in a period of up to five years from September 28th 2015, to bring one or more decisions to increase the Bank's share capital with a cash payment, by issuing new shares where the total amount of such share capital increase must not exceed HRK 450,000,000.00. Bank's Management Board is authorized, with the prior written approval of the Supervisory Board, with respect to shares issued based on the above mentioned authorization, to exclude priority in the subscription of new shares. Decisions regarding scope of rights from the shares issued based on the above-mentioned authorization, and of the terms and conditions for the issue of such shares, are made by the Management Board with prior written approval by the Supervisory Board. It is Supervisory Board's obligation to grant all approvals based on a majority vote of all its members. In line with amendments to the Bank's Statute valid from September 28th 2015, Management Board is authorized to acquire Bank's treasury shares on regulated market or outside regulated market during a period of up to five years, where total amount of such capital regarding acquisition own shares, together with own shares the Bank already owns, must not exceed one tenth of share capital.

***Supervisory Board Members and Activities***

Supervisory Board's authorizations are regulated by Commercial Companies Act, Credit Institutions Act and the Bank's Statute. The Supervisory Board has set up an Audit Committee, Committee for receipts, Nomination Committee and the Risk Committee as supporting bodies.

From 1 January to 31 December 2015, the Supervisory Board had following four members:

- Dražen Kobas, president
- dr.sc. Nada Karaman Aksentijević, vice president
- Marin Palada, member
- mr. sc. Niko Raič, member

Members of the Supervisory Board do not own Bank's shares or any other securities issued by the Bank.

***Management Board Members and Activities***

Privileges, duties and responsibilities of the Bank's Management Board are described in the Commercial Companies Act, Credit Institutions Act, the Bank's Statute and the Board's Work Regulations. The Board establishes permanent and temporary boards and commissions. The Bank's permanent boards are Credit Board, Assets and Liabilities Management Board and Operational Risk Management Board.

From 1 January to 31 December 2015 the Management Board had 4 members:

- Tomislav Vuić, president
- Dubravka Kolarić, member
- Mladen Mrvelj, member
- Domagoj Karadjole, member

The Bank's Board members do not own Bank's shares or any other securities issued by the Bank.

## CORPORATE GOVERNANCE CODEX

## ANNUAL QUESTIONNAIRE

*All questions from this questionnaire are related to a period of one business year in line with annual financial reports.*

**COMMITMMENT TO PRINCIPLES OF CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY**

**1.** Has the company accepted application of the Corporate Governance Codex or it has own corporate governance policy?

**YES**

**2.** Are principles of the Corporate Governance Codex part of internal company policies?

**YES**

**3.** Does the company report principles of Corporate Governance Codex within its annual financial reports based on “do or explain” principle?

**YES**

**4.** Does the company’s decision process take into count interests of all its shareholders in accordance with the principles of the Corporate Governance Codex?

**YES**

**SHAREHOLDERS AND SHAREHOLDERS’ MEETING**

**5.** Is the company part of the mutual shareholding with other companies? (if yes, please explain)

**NO**

**6.** Does every share give one voting right? (if no, please explain)

**YES**

**7.** Is the company treating all shareholders equally? (if no, please explain)

**YES**

**8.** Is authorization to vote at the shareholders’ meeting extremely simple and without formal requirements? (if no, please explain)

**YES**

**9.** Has the company secured, without special charges, authorized voting persons for all shareholders who were not able to vote by themselves but according to their instructions? (if no, please explain)

*There were no such demands. The Bank is ready to secure authorized voting persons for shareholders who are not able to vote by themselves.*

**10.** Has the Management Board of the Board of Directors while arranging the shareholders’ meeting determined a date for registered shares and based on which the voting right may be determined in a way the date is not set more than 6 days before the shareholders’ meeting? (if no, please explain)

**YES**

**11.** Are shareholders’ meeting schedule and all the data relevant for the daily agenda published on the company’s website and put at disposal to shareholders in the company’s premises right after the first publication of the daily agenda? (if no, please explain)

**YES**

**12.** Does dividend payout or prepayment resolution contain date on which the dividend right will be obtained together with the date on which the dividend will be paid? (if not, explain)

*There were no dividend payouts.*

**13.** Is the dividend payout or prepayment set 30 or less days after the resolution is made? (if no, please explain)

*See explanation at 12.*

**14.** Have certain shareholders been in more convenient position in relation to other shareholders during dividend payout or prepayment? (if yes, please explain)

*See explanation at 12.*

**15.** Are shareholders able to vote at the shareholders’ meeting by using contemporary communication technology? (if no, please explain)

**NO**

*There were no such demands by shareholders.*

**16.** Are conditions for participation at the shareholders’ meeting and using voting rights set (no matter whether set according to the act or the statute), such as preregistration of participation, attesting authorization etc? (if yes, please explain)

**YES**

*Due to optimal organization and arrangement of the shareholders’ meeting every shareholder is needed to register its participation at the meeting, while authorizations are needed to be attested in order to determinate valid voting rights.*

**17.** Did the company’s management board publish decisions of the shareholders’ meeting?

**YES**

**18.** Did the company publish information about potential lawsuits that deny these decisions? (if no, please explain)

**NO**

*There were no lawsuits related to denying the decisions.*

**MANAGEMENT AND SUPERVISORY BOARDS**

- **STATE MANAGEMENT BOARD MEMBERS AND THEIR FUNCTIONS**

*Tomislav Vuić, president of the Board*

*Dubravka Kolarić, member of the Board*

*Domagoj Karadjole, member of the Board*

*Mladen Mrvelj, member of the Board*

- **STATE SUPERVISORY BOARD MEMBERS AND THEIR FUNCTIONS**

*Dražen Kobas, president of the Board*

*Nada Karaman Aksentijević, vice-president of the Board*

*Niko Raič, member of the Board*

*Marin Palada, member of the Board*

**19.** Did supervisory board or board of directors make a decision on approximate working plan which includes a list of sessions and data which is regularly needed to be supplied to the supervisory board members?

**YES**

## ANNUAL QUESTIONNAIRE

*All questions from this questionnaire are related to a period of one business year in line with annual financial reports.*

**20.** Did the supervisory board or the board of directors enact internal working rules? (if not, please explain)

**YES**

**21.** Is the supervisory board or non-executive directors of the board of directors made mostly out of independent members? (if no, please explain)

**NO**

*According to the Credit Institutions Act, a bank's supervisory board must have one independent member. The Supervisory Board of HPB has 2 independent members.*

**22.** Does the company have a long-term succession plan? (if no, please explain)

**NO**

*The Bank does not have it due to regulation which determines appointment of the president and members of the management boards in companies and other persons in legal entities which are of strategic and special importance to the Government.*

**23.** Are compensation schemes of supervisory boards or board of directors partially or fully performance-based? (if no, please explain)

**NO**

*According to the Shareholders' Meeting Decision compensations to the members of the Supervisory Board is determined by the Government Decision on Compensation to Members of Supervisory Board and Board of Directors.*

**24.** Are compensation schemes to the members of the supervisory board and the board of directors determined by the shareholders' meeting decision or the statute? (if no, please explain)

**YES**

**25.** Is information on compensation from the company and company-linked entities for every single member of the supervisory board and the board of directors, together with the compensation structure, publicly available? (if no, please explain)

**NO**

*Information on compensation for the members of the Supervisory Board are publicly available on the individual basis in the Shareholders' Meeting Decision which determines compensation for their work. Compensation for the Management Board members, higher management and linked persons is available in a special note within the annual financial report in line with the International Financial Reporting Standards. The annual financial reports are available on the Bank's website.*

**26.** Is every member of the supervisory board or the board of directors notifying the company about any changes related to their acquiring or dismissal of the company shares at the latest of five trading days after the change is being made?

**NO**

*Members of the Supervisory Board do not own the Bank's shares.*

**27.** Are all activities in which participated members of the supervisory board or the board of directors or their linked persons clearly stated in company reports?

**NO**

*Aggregated data on transactions with linked persons are stated in the annual financial reports which are based on the International Financial Reporting Standards.*

**28.** Do contracts between members of the supervisory board or the board of directors exist?

**YES**

*Contracts exist as part of the regular business activities.*

**29.** Are they authorized by the supervisory board or board of directors? (if no, please explain)

**YES**

*Yes if authorization is needed.*

**30.** Are all important elements of such contracts stated in the annual financial report? (if no, please explain)

**NO**

*Aggregated data on transactions with linked persons are stated in the annual financial reports which are based on the International Financial Reporting Standards.*

**31.** Did the supervisory board or the board of directors establish the nomination commission?

**YES**

**32.** Did the supervisory board or the board of directors establish the remuneration commission?

**YES**

**33.** Did the supervisory board or the board of directors establish the audit commission?

**YES**

**34.** Are most members of the commission also independent members of the supervisory board? (if no, please explain

**NO**

*Commission members are also members of the supervisory board but supervisory board according to the Credit Institutions Act needs to have one independent member. Out of established commissions Receipts Board has the most independent members.*

**35.** Did the commission follow the integrity of the company's financial information, in particular correctness and consistency of accounting policies used by the company and its group including consolidation criteria for the companies which are part of a group? (if no, please explain)

**YES**

**36.** Did the commission estimate the quality of the internal control and risk management system in order for the main risks faced by the company (including regulatory risks) to be properly identified, published and managed? (if no, please explain)

**YES**

## CORPORATE GOVERNANCE CODEX

## ANNUAL QUESTIONNAIRE

*All questions from this questionnaire are related to a period of one business year in line with annual financial reports.*

**37.** Did the commission work on maintaining efficiency of the internal audit system, especially by making recommendations during selection, nomination, renomination and changing directors of internal audit, as well as financial means at its disposal, and estimates of director's activities related to recommendations of the internal audit? (if no, please explain)

**YES**

**38.** If the company does not have an internal audit did the commission make an evaluation of needs for establishing such function? (if no, please explain)

**NO**

*The Bank has the internal audit function.*

**39.** Did the commission supervise independence and objectiveness of external auditor, especially in relation to rotation of authorized auditors within the auditing company and fees paid for the auditing services? (if no, please explain)

**YES**

**40.** Did the commission monitor nature and volume of services which are not auditing but are received from the auditing company or linked persons?

**NO**

*There were no such services as they are not allowed according to the Credit Institutions Act.*

**41.** Did the commission make rules about which services external auditor and linked persons cannot provide to the companies, which services it can provide with previous approval by the commission and which services it can provide without previous approval by the commission? (if no, please explain)

**NO**

*It is described within the national legislature.*

**42.** Did the commission consider efficiency of the external audit and procedures of higher management considering the recommendation made by the external auditor? (if no, please explain)

**YES**

**43.** Did the audit commission secure delivery of quality information of dependent and independent entities and third persons (like tax consultants)? (if no, please explain)

**YES**

**44.** Is the work-related documentation delivered to all members of the supervisory board or the board of directors in a timely manner? (if no, please explain)

**YES**

**45.** Do all minutes from the meetings of the supervisory board or the board of directors contain all enacted decisions with voting results? (if no, please explain)

**YES**

**46.** Did the supervisory board or the board of directors make evaluation of its work in the previous period which includes valuing contribution and competence of each member, as well as mutual work of boards, estimate of the work done by commissions and estimate of realized versus planned company goals?

**NO**

**47.** Did the company publish statement on compensation scheme for the management board, the board of directors and the supervisory board in its annual report? (if no, please explain)

**NO**

*See answer 48.*

**48.** Is statement on compensation scheme of the Management Board and executive directors permanently published on company's website? (if no, please explain)

**YES**

*Statement on compensation scheme is available on the Bank's company website as part of the public announcement of rating and other requirements in accordance with the Credit Institutions Act and Regulation 575/2013.*

**49.** Is all information about compensation of the members of the Management Board and executive directors detailed and publicly available in the annual company report? (if no, please explain)

**NO**

*Aggregated data on transactions with linked persons and the Bank's management are stated in the annual financial reports which are based on the International Financial Reporting Standards.*

**50.** Are all sorts of compensation received by the members of the management board and the supervisory board, together with options and other benefits, publicly available as detailed items and persons in the annual company report? (if no, please explain)

**NO**

*See answer 49.*

**51.** Are all activities in which members of the management board or executive directors or their linked persons took place with company or company-linked entities clearly mentioned in company reports? (if no, please explain)

**NO**

*See answer 49.*

**52.** Do reports by the supervisory board or the board of directors to the shareholders' meeting, besides contents defined by legislation, contain evaluation of total business performance of the company, management and their cooperation with the management board?

**YES**

## CORPORATE GOVERNANCE CODEX

## ANNUAL QUESTIONNAIRE

*All questions from this questionnaire are related to a period of one business year in line with annual financial reports.*

**AUDIT AND INTERNAL CONTROL MECHANISMS**

**53.** Does the company have an external auditor?

**YES**

**54.** Is external auditor linked to the company?

**NO**

**55.** Did the external auditor or its linked entities offer other services to the company?

**NO**

**56.** Did the company publish fees paid to external auditors for auditing and other services? (if no, please explain)

**NO**

*The auditor audited financial reports of the Bank and its subsidiaries in line with contracted price conditions which is in accordance with its general business conditions.*

**57.** Does the company have internal auditors and established internal control system?

**YES**

**TRANSPARENCY AND BUSINESS OPENNESS**

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

**YES**

**59.** Did the company make the calendar with most important events?

**NO**

*The Bank made an approximate calendar with most important events which is used internally and is not published on the Bank's website which is in line with recommendations of the Codex. All important events or information is publicly disclosed after determining the exact dates.*

**60.** Did the company establish mechanism for making sure the persons which have or get in contact with privileged information understand the nature, importance and limitations related to this information?

**YES**

**61.** Did the company establish mechanism for monitoring the privileged information flow and their potential misuse?

**YES**

**62.** Did someone suffer negative consequences because it pointed to supervisory bodies or internal bodies to some deficiencies in applying regulation and ethical standards within the company?

**NO**

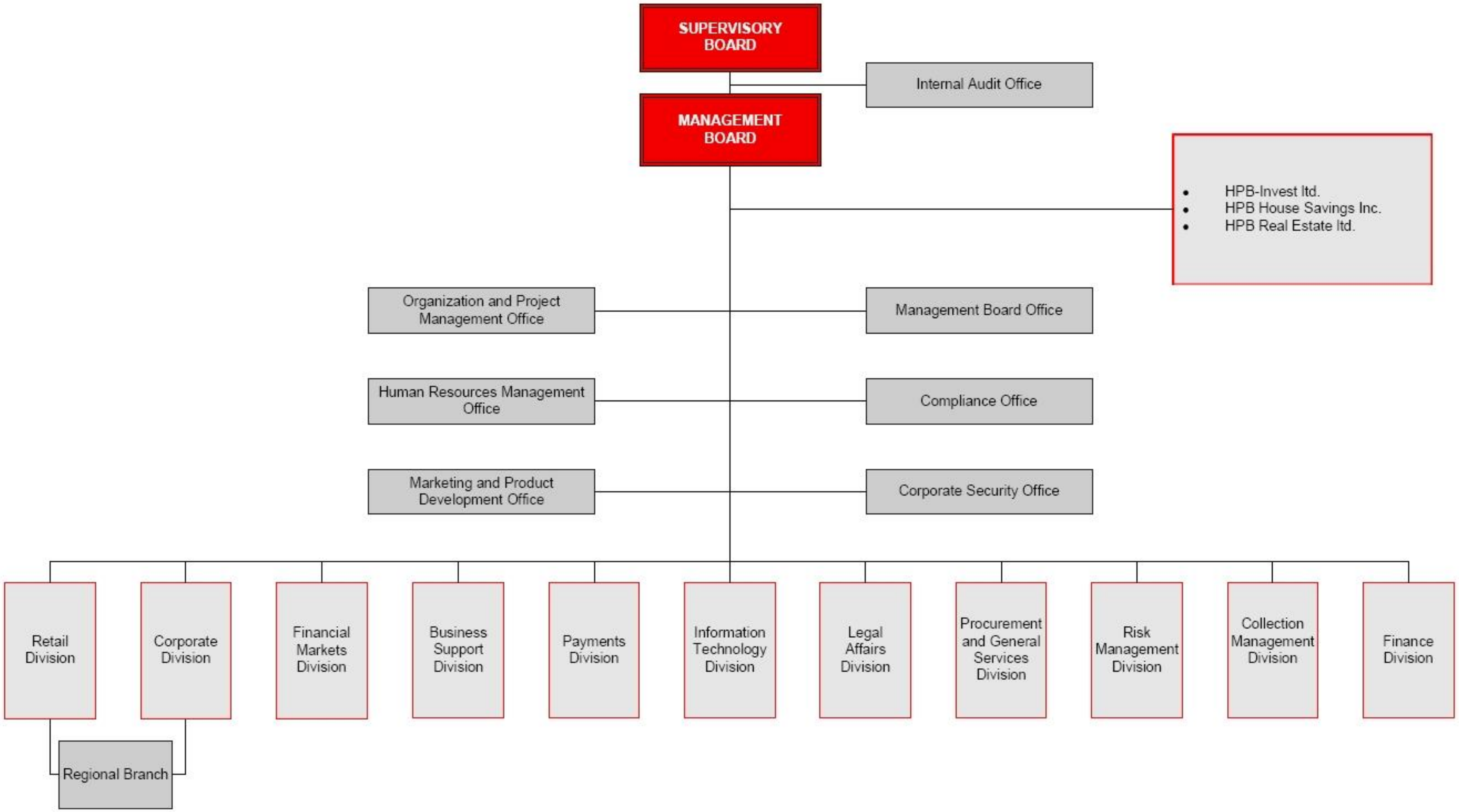
**63.** Did the management board have meetings with interested investors during previous year?

**YES**

**64.** Do all members of the management board and supervisory board or the board of directors agree the information provided in answers to this questionnaire are completely true to the best of their knowledge?

**YES**

***Organizational Scheme of Hrvatska Poštanska Banka d.d.***



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## Responsibilities of the Management and Supervisory Boards for the Preparation and Approval of the Annual Financial Statements

Management Board of the Bank is required to prepare unconsolidated and consolidated financial statements of Hrvatska Poštanska Banka d.d. ("Bank") and its subsidiaries ("Group") for each financial year. These statements give a true and fair view of financial position of the Bank and the Group and of the results of their operations and cash flows, in accordance with applicable accounting standards. The Management Board is also responsible for maintaining proper accounting records needed for preparation of such financial statements at any given time. Also, the Board is responsible for the whole annual report of the Bank and the Group, together with forms of financial reports constructed in accordance with the CNB Decision on Forms and Contents of Bank Financial Reports (Narodne Novine 62/08) which are available in the attachment. The Management Board has a general responsibility for taking available measures aiming to safeguard Bank's and Group's assets, and to prevent and detect fraud and other irregularities.

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

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

The Management bord is responsible for preparation and contents of the annual report in accordance with the Accounting Act (NN 109/07, 54/13).

Unconsolidated and consolidated financial reports shown in pages 49-177, together with Forms made in accordance with the CNB's Decision on Structure and Contents of Bank's Annual Financial Reports enacted on 30 May 2008 (NN 62/08) shown in pages 178-194 were approved by the Bank's Management Board on 25 March 2016 and delivered to the Supervisory Board for approval. As a confirmation, financial reports were signed by the authorized persons, as shown below.

Unconsolidated and consolidated financial statements set out on pages between 49 and 177 were approved by the Management Board on March 25 2016 for their issue to the Supervisory Board, which is confirmed by the signature below:

Signed in the name of Hrvatska poštanska banka d.d.

Hrvatska poštanska banka
Zagreb
0100000
1

| Tomislav Vuić<br>President of the Management Board | Domagoj Karadjole<br>Member of the Management Board |
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**Independent Auditor's Report**

**To the Shareholders of Hrvatska poštanska banka d.d. Zagreb:**

We have audited the accompanying separate and consolidated financial statements of Hrvatska poštanska banka d.d. Zagreb ('the Bank') and its subsidiaries (together 'the Group'), which comprise the separate and consolidated statements of financial position at 31 December 2015, the separate and consolidated income statement, the separate and consolidated statement of other comprehensive income, the separate and consolidated statement of changes in equity and reserves and the separate and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

The Management Board of the Bank is also responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with statutory accounting requirements for banks in the Republic of Croatia and for such internal controls the Management Board considers necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

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

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

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

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**Independent Auditor's Report (continued)**

*Opinion*

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

**Other Legal and Regulatory Requirements**

i. Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Annual Financial Statements of Banks (Official Gazette No. 62/08; hereinafter: 'the Decision') the Management Board of the Bank has prepared reporting forms, set out on pages 178 to 194, which comprise the separate and consolidated balance sheet at 31 December 2015, the separate and consolidated income statement, the separate statement and consolidated of changes in equity and the separate statement of cash flows for the year then ended, together with the notes about the reconciliations with the separate and consolidated statutory financial statements. These forms and the notes thereto are the responsibility of the Bank's Management Board and they do not constitute a part of the separate and consolidated financial statements prepared under the statutory accounting requirements for banks in Croatia, which are set out on pages 49 to 177, but rather a requirement imposed by the Decision. The financial information provided in those forms have been derived from the statutory financial statements of the Bank.

ii. Pursuant to the Accounting Act, the Management Board is also responsible for preparing the Annual Report.

   Our responsibility is to issue an opinion on the consistency of the Annual Report with the separate and consolidated financial statements based on our audit. Our procedures have been conducted in accordance with the International Standards on Auditing and limited solely to assessing of whether information disclosed in the Annual Report is consistent, in all material respects, with the information presented in the separate and consolidated financial statements. We have not audited any data or information other than the financial information obtained from the separate and consolidated financial statements and accounting ledgers. We believe that the performed audit provides a reasonable basis for our audit opinion.

   In our opinion, the financial information presented in the Annual Report is consistent, in all material respects, with the above mentioned separate and consolidated financial statements at 31 December 2015.

**Branislav Vrtačnik,**
President of the Management Board and certified auditor
**Deloitte d.o.o.**
Zagreb, 25 March 2016

**Vanja Vlak**
Certified auditor

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HPB
HRVATSKA POŠTANSKA BANKA

| | Notes | Group 2015 HRK '000 | Group 2014 HRK '000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and Amounts Due from Banks | 5 | 1,630,115 | 1,308,452 |
| Mandatory Reserve with the Croatian National Bank | 6 | 1,279,570 | 1,545,787 |
| Loans to and Receivables from Banks | 7 | 261,913 | 583,784 |
| Financial Assets at Fair Value in PNL | 8 | 1,019,694 | 381,801 |
| Financial Assets Available for Sale | 9 | 2,221,310 | 2,002,974 |
| Financial Assets Held to Maturity | 10 | 571,764 | 597,943 |
| Loans and Receivables from Customers | 11 | 10,298,014 | 10,473,750 |
| Assets Held for Sale | 12 | 7,930 | 7,930 |
| Property and Equipment | 14 | 142,236 | 153,225 |
| Investment Property | 15 | 9,568 | 9,828 |
| Intangible Assets | 16 | 117,010 | 140,342 |
| Deferred Tax Assets, Net | 17 | 10,750 | 16,603 |
| Tax Prepayment | | 371 | 53 |
| Other Assets | 18 | 443,828 | 347,439 |
| **TOTAL ASSETS** | | **18,014,073** | **17,569,911** |
| | | | |
| **LIABILITIES** | | | |
| Financial Liabilities at Fair Value in PNL | 19 | - | 508 |
| Deposits from Banks | 20 | 357,639 | 374,750 |
| Customer deposits | 21 | 14,493,594 | 14,084,725 |
| Borrowings | 22 | 1,005,383 | 1,507,327 |
| Hybrid Instruments | 23 | - | 260,921 |
| Provisions for Liabilities and Expenses | 24 | 36,723 | 29,758 |
| Other Liabilities | 25 | 341,903 | 469,194 |
| **TOTAL LIABILITIES** | | **16,235,242** | **16,727,183** |
| | | | |
| **EQUITY** | | | |
| Share Capital | 26 | 1,214,775 | 966,640 |
| Capital Gain | 26 | - | 228,136 |
| Own Shares | 26 | (477) | (875) |
| Reserves for Own Shares | 26 | 477 | 875 |
| Statutory Reserve | 26 | - | 10,579 |
| Other Reserves | 26 | 358,306 | - |
| Fair Value Reserve | 26 | 82,089 | 72,867 |
| Revaluation Reserve | 26 | 877 | 887 |
| (Accumulated Loss)/Retained Earnings | 26 | (1,993) | 193,009 |
| Profit/(Loss) for the Year | | 124,777 | (629,390) |
| **TOTAL EQUITY** | | **1,778,831** | **842,728** |
| **TOTAL LIABILITIES AND EQUITY** | | **18,014,073** | **17,569,911** |

The significant accounting policies and other notes on pages 59-177 form an integral part of these financial statements.

# Consolidated Income Statement
# For the year ended 31 December 2015

| | Notes | Group 2015 HRK '000 | Group 2014 HRK '000 |
|---|---|---|---|
| Interests and Similar Income | 27 | 792,827 | 872,407 |
| Interests and Similar Expense | 28 | (278,497) | (355,587) |
| **Net Interest Income** | | **514,330** | **516,820** |
| Fees and Commissions Income | 29 | 495,327 | 499,034 |
| Fees and Commissions Expense | 30 | (302,343) | (313,407) |
| **Net Fees and Commissions Income** | | **192,985** | **185,627** |
| Gains Less Losses Arising from Securities at Fair Value in PNL | 31 | 6,042 | 6,293 |
| Gains Less Losses Arising from Securities Available for Sale | 32 | 1 | 17,348 |
| Gains Less Losses Arising from Dealing in Foreign Currencies | | 40,655 | 36,625 |
| Other Operating Income | 33 | 41,923 | 10,627 |
| **Trading and Other Income** | | **88,621** | **70,893** |
| **Operating Income** | | **795,936** | **773,340** |
| General and Administrative Expenses | 34 | (427,524) | (413,220) |
| Depreciation and Amortization | 14,15,16 | (46,053) | (53,571) |
| Impairment Losses on Loans and Receivables from customers and Other Assets | 35 | (184,657) | (932,942) |
| Provisions for Liabilities and Expenses | 24 | (9,023) | (3,969) |
| **Total Expenses and Provisions** | | **(667,257)** | **(1,403,702)** |
| **PROFIT/(LOSS) BEFORE TAX** | | **128,679** | **(630,362)** |
| Deferred Income Tax (Expense)/Income | 36 | (3,902) | 972 |
| **PROFIT/(LOSS) FOR THE YEAR** | | **124,777** | **(629,390)** |

The significant accounting policies and other notes on pages 59-177 form an integral part of these financial statements.

| | Group 2015 HRK '000 | Group 2014 HRK '000 |
|---|---|---|
| **Profit/(Loss) for the Year** | **124,777** | **(629,390)** |
| **Other Comprehensive Income** | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | |
| Revaluation Reserve | (73) | (317) |
| Income Tax Relating to items That Will Not Be Reclassified Subsequently | 63 | 15 |
| | **(10)** | **(302)** |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Gains from Financial Assets Available for Sale | 11,525 | 34,703 |
| Income Tax Relating to Items That May Be Reclassified Subsequently | (2,303) | (7,777) |
| | **9,222** | **26,926** |
| **Other Comprehensive Gains for the Year** | **9,212** | **26,624** |
| **Total Comprehensive Income for the Year, Net of Income Tax** | **133,989** | **(602,766)** |

The significant accounting policies and other notes on pages 59-177 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity
# For the year ended 31 December 2015

| Group | Share Capital | Capital Gain | Own Shares | Reserve for Own Shares | Statutory Reserve | Fair Value Reserve | Revaluation Reserve | Retained Earnings | Profit/(Loss) for the Year | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| **Balance at 1 January 2014** | **966,640** | **228,136** | **(875)** | **875** | **8,458** | **45,941** | **1,189** | **159,392** | **35,738** | **1,445,494** |
| Revaluation Reserve | - | - | - | - | - | - | (317) | - | - | **(317)** |
| Change in the Fair Value of Financial Assets Available for Sale | - | - | - | - | - | 34,703 | - | - | - | **34,703** |
| Deferred Tax | - | - | - | - | - | (7,777) | 15 | - | - | **(7,762)** |
| Net Profit for 2014 | - | - | - | - | - | - | - | - | (629,390) | **(629,390)** |
| **Total Comprehensive Income for the Year 2014** | **-** | **-** | **-** | **-** | **-** | **26,926** | **(302)** | **-** | **(629,390)** | **(602,766)** |
| Transfer to Statutory Reserve | - | - | - | - | 2,120 | - | - | - | (2,120) | - |
| Transfer to Retained Earnings | - | - | - | - | - | - | - | 33,618 | (33,618) | - |
| **Balance at 31 December 2014** | **966,640** | **228,136** | **(875)** | **875** | **10,578** | **72,867** | **887** | **193,010** | **(629,390)** | **842,728** |
| **Balance at 1 January 2015** | **966,640** | **228,136** | **(875)** | **875** | **10,578** | **72,867** | **887** | **193,010** | **(629,390)** | **842,728** |
| Revaluation Reserve | - | - | - | - | - | - | (73) | - | - | **(73)** |
| Change in the Fair Value of Financial Assets Available for Sale | - | - | - | - | - | 11,525 | - | - | - | **11,525** |
| Deferred Tax | - | - | - | - | - | (2,303) | 63 | - | - | **(2,240)** |
| Net Profit for 2015 | - | - | - | - | - | - | - | - | 124,777 | **124,777** |
| **Total Comprehensive Income for the Year 2015** | - | - | - | - | - | **9,222** | **(10)** | **-** | **124,777** | **133,989** |
| Transfer of Loss from 2014 | - | - | - | - | - | - | - | (629,390) | 629,390 | - |
| Loss Coverage from 2014 | | | | | | | | | | |
| -Transfer from Statutory Reserve | - | - | - | - | (10,578) | - | - | 10,578 | - | - |
| - Transfer from Capital Gain | | (228,136) | | | | | | 228,136 | - | - |
| Decrease of Share Capital | | | | | | | | | | |
| -Coverage of Uncovered Loss | (195,673) | - | - | - | - | - | - | 195,673 | - | - |
| -Transfer to Other Reserves | (358,306) | - | - | - | 358,306 | - | - | - | - | - |
| Increase of Share Capital | 802,114 | - | - | - | - | - | - | - | - | **802,114** |
| Other Changes | - | - | 398 | (398) | - | - | - | - | - | - |
| **Balance at 31 December 2015** | **1,214,775** | **-** | **(477)** | **477** | **358,306** | **82,089** | **877** | **(1,993)** | **124,777** | **1,778,831** |

The significant accounting policies and other notes on pages 59-177 form an integral part of these financial statements.

| | Notes | Group 2015 HRK '000 | Group 2014 HRK '000 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Profit/(Loss) Before Taxation | | 128,679 | (630,362) |
| Adjusted by: | | | |
| - Depreciation and Amortization | 14,15,16 | 46,053 | 53,571 |
| - Foreign Exchange Gains | 33 | (9,669) | (4,161) |
| - Net Impairment Losses on Loans and Receivables from Customers and Other assets | 35 | 184,657 | 932,942 |
| - Provisions for Liabilities and Expenses | 24 | 9,023 | 3,969 |
| - Net Unrealized Gains on Financial Assets at Fair Value in PNL | 31 | (7,916) | (4,458) |
| ***Changes in Operating Assets and Liabilities*** | | | |
| Net Decrease in Loans to and Receivables from Banks | | 69,740 | 62,302 |
| Net (Increase)/Decrease in Financial Assets at Fair Value in PNL | | (629,977) | (33,502) |
| Net (Increase)/Decrease in Loans to and Receivables from Customers | | (18,281) | 498,072 |
| Net Decrease in Other Assets | | 51,744 | 78,675 |
| Net Decrease in Deposits from Banks | | (17,111) | (366,457) |
| Net Increase/(Decrease) in Customer Deposits | | 414,977 | (276,640) |
| Net Decrease in Other Liabilities | | (235,416) | (69,415) |
| **Net Cash (Outflow)/Inflow from Operating Activities Before Tax** | | **(13,497)** | **244,536** |
| Income Tax Paid | | (318) | (295) |
| **Net Cash (Outflow)/Inflow from Operating Activities** | | **(13,815)** | **244,241** |
| **Cash Flows from Investing Activities** | | | |
| Purchases of Property, Equipment and Intangible Assets | | (18,982) | (30,501) |
| Disposal of Financial Assets Available for Sale | | 670,446 | 846,586 |
| Acquisition of Financial Assets Available for Sale | | (882,317) | (1,129,243) |
| Maturity of Financial Assets Held to Maturity | | 23,394 | 222,466 |
| Dividends Received | | 1,073 | 1,359 |
| **Net Cash Outflow from Investing Activities** | | **(206,386)** | **(89,333)** |
| **Cash Flows from Financing Activities** | | | |
| Decrease in Hybrid Instruments | | - | (150,000) |
| Increase in Borrowings | | 44,384 | 1,108,382 |
| Repayments of Borrowings | | (546,328) | (675,068) |
| Increase in Share Capital | | 550,000 | - |
| **Net Cash Inflow from Financing Activities** | | **48,056** | **283,314** |
| Effect of Foreign Exchange Differences on Cash and Cash Equivalents | | 2,999 | (1,912) |
| **Net (Decrease)/Increase in Cash and Cash Equivalents** | | **(169,146)** | **436,310** |
| **Cash and Cash Equivalents at the Beginning of the Year** | 39 | **3,416,260** | **2,979,950** |
| **Cash and Cash Equivalents at the End of the Year** | 39 | **3,247,114** | **3,416,260** |

The significant accounting policies and other notes on pages 59-177 form an integral part of these financial statements.

| | Notes | Bank 2015 HRK '000 | Bank 2014 HRK '000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and Amounts Due from Banks | 5 | 1,630,052 | 1,308,449 |
| Mandatory Reserve with the Croatian National Bank | 6 | 1,279,570 | 1,545,787 |
| Loans to and Receivables from Banks | 7 | 261,913 | 583,784 |
| Financial Assets at Fair Value in PNL | 8 | 900,943 | 284,011 |
| Financial Assets Available for Sale | 9 | 2,221,310 | 1,988,682 |
| Financial Assets Held to Maturity | 10 | 571,764 | 597,943 |
| Loans and Receivables from Customers | 11 | 10,184,719 | 10,335,154 |
| Assets Held for Sale | 12 | 7,930 | 7,930 |
| Investments in Subsidiaries | 13 | 45,490 | 45,490 |
| Property and Equipment | 14 | 142,150 | 153,107 |
| Intangible Assets | 16 | 116,850 | 140,301 |
| Deferred Tax Assets, Net | 17 | 10,224 | 15,868 |
| Tax Prepayment | | 81 | 53 |
| Other Assets | 18 | 318,385 | 344,456 |
| **TOTAL ASSETS** | | **17,691,382** | **17,351,015** |
| | | | |
| **LIABILITIES** | | | |
| Financial Liabilities at Fair Value in PNL | 19 | - | 508 |
| Deposits from Banks | 20 | 357,639 | 374,750 |
| Customer Deposits | 21 | 14,291,102 | 13,879,406 |
| Borrowings | 22 | 1,005,383 | 1,507,327 |
| Hybrid Instruments | 23 | - | 260,921 |
| Provisions for Liabilities and Expenses | 24 | 36,592 | 29,748 |
| Other Liabilities | 25 | 221,401 | 453,760 |
| **TOTAL LIABILITIES** | | **15,912,117** | **16,506,420** |
| | | | |
| **EQUITY** | | | |
| Share Capital | 26 | 1,214,775 | 966,640 |
| Capital Gain | 26 | - | 228,136 |
| Own Shares | 26 | (477) | (875) |
| Reserves for Own Shares | 26 | 477 | 875 |
| Statutory Reserve | 26 | - | 10,579 |
| Other Reserve | 26 | 358,306 | - |
| Fair Value Reserve | 26 | 82,089 | 72,741 |
| Revaluation Reserve | 26 | 877 | 887 |
| (Accumulated Loss)/Retained Earnings | 26 | - | 200,996 |
| Profit (Loss) for the Year | | 123,217 | (635,384) |
| **TOTAL EQUITY** | | **1,779,264** | **844,595** |
| **TOTAL LIABILITIES AND EQUITY** | | **17,691,382** | **17,351,015** |

The significant accounting policies and other notes on pages 59-177 form an integral part of these financial statements.

# Separate Income Statement
For the year ended 31 December 2015

| | Notes | Bank 2015 HRK '000 | Bank 2014 HRK '000 |
|---|---|---|---|
| **Active Business Parts** | | | |
| Interests and Similar Income | 27 | 781,980 | 862,370 |
| Interests and Similar Expense | 28 | (271,654) | (348,982) |
| **Net Interest Income** | | **510,326** | **513,388** |
| Fees and Commissions Income | 29 | 483,022 | 484,933 |
| Fees and Commissions Expense | 30 | (301,289) | (312,103) |
| **Net Fees and Commissions Income** | | **181,734** | **172,830** |
| Gains Less Losses Arising from Securities at Fair Value in PNL | 31 | 6,289 | 1,370 |
| Gains Less Losses Arising from Securities Available for Sale | 32 | - | 17,353 |
| Gains Less Losses Arising from Dealing in Foreign Currencies | | 40,655 | 36,625 |
| Other Operating Income | 33 | 42,036 | 10,064 |
| **Trading and Other Income** | | **88,980** | **65,412** |
| **Operating Income** | | **781,040** | **751,630** |
| General and Administrative Expenses | 34 | (414,197) | (399,025) |
| Depreciation and Amortization | 14, 16 | (45,698) | (53,078) |
| Impairment Losses on Loans and receivables from Customers and Other Assets | 35 | (185,573) | (931,762) |
| Provisions for Liabilities and Expenses | 24 | (8,986) | (4,818) |
| **Total Expenses and Provisions** | | **(654,454)** | **(1,388,683)** |
| **PROFIT/(LOSS) BEFORE TAX** | | **126,586** | **(637,053)** |
| Deferred Income Tax (Expense)/Income | 36 | (3,369) | 1,669 |
| **PROFIT/(LOSS) FOR THE YEAR** | | **123,217** | **(635,384)** |

The significant accounting policies and other notes on pages 59-177 form an integral part of these financial statements.

| | Bank 2015 HRK '000 | Bank 2014 HRK '000 |
|---|---|---|
| **Profit/(Loss) for the Year** | **123,216** | **(635,384)** |
| **Other Comprehensive Income** | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | |
| Revaluation Reserve | (73) | (317) |
| Income Tax Relating to Items That Will Not Be Reclassified Subsequently | 63 | 15 |
| | **(10)** | **(302)** |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Gains from Financial Assets Available for Sale | 11,685 | 34,658 |
| Income Tax Relating to Items That May Be Reclassified Subsequently | (2,337) | (7,767) |
| | **9,348** | **26,891** |
| **Other Comprehensive Gains for the Year** | **9,338** | **26,589** |
| **Total Comprehensive Income/(Loss) for the Year, Net of Income Tax** | **132,554** | **(608,795)** |

| | Bank 2015 HRK '000 | Bank 2014 HRK '000 |
|---|---|---|
| **Profit/(Loss) for the Year** | **123,216** | **(635,384)** |
| Owners of the Bank | 123,216 | (635,384) |
| **Earnings / (Loss) per Share** | | |
| Basic (HRK per share) | 84.92 | (723.70) |
| Diluted (HRK per share) | 84.92 | (723.70) |

The significant accounting policies and other notes on pages 59-177 form an integral part of these financial statements.

# Separate Statement of Changes in Equity
## For the year ended 31 December 2015

| Bank | Share Capital | Capital Gain | Own Shares | Reserve for Own Shares | Statutory Reserve | Fair Value Reserve | Revaluation Reserve | Retained Earnings | Profit/(Loss) for the Year | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| **Balance at 1 January 2014** | **966,640** | **228,136** | **(875)** | **875** | **8,458** | **45,850** | **1,189** | **160,707** | **42,410** | **1,453,390** |
| Revaluation Reserve | - | - | - | - | - | - | (317) | - | - | **(317)** |
| Change in the Fair Value of Financial Assets Available for Sale | - | - | - | - | - | 34,658 | - | - | - | **34,658** |
| Deferred Tax | - | - | - | - | - | (7,767) | 15 | - | - | **(7,752)** |
| Net Loss for 2014 | - | - | - | - | - | - | - | - | (635,384) | **(635,384)** |
| **Total Comprehensive Income for the Year 2014** | **-** | **-** | **-** | **-** | **-** | **26,891** | **(302)** | **-** | **(635,384)** | **(608,795)** |
| Transfer to Statutory Reserve | - | - | - | - | 2,120 | - | - | - | (2,120) | **-** |
| Transfer to Retained Earnings | - | - | - | - | - | - | - | 40,290 | (40,290) | **-** |
| **Balance at 31 December 2014** | **966,640** | **228,136** | **(875)** | **875** | **10,578** | **72,741** | **887** | **200,997** | **(635,384)** | **844,595** |
| **Balance at 1 January 2015** | **966,640** | **228,136** | **(875)** | **875** | **10,578** | **72,741** | **887** | **200,997** | **(635,384)** | **844,595** |
| Revaluation Reserve | - | - | - | - | - | - | (73) | - | - | **(73)** |
| Change in the Fair Value of Financial Assets Available for Sale | - | - | - | - | - | 11,685 | - | - | - | **11,685** |
| Deferred Tax | - | - | - | - | - | (2,337) | 63 | - | - | **(2,274)** |
| Net Profit for 2015 | - | - | - | - | - | - | - | - | 123,217 | **123,217** |
| **Total Comprehensive Income for the Year 2015** | **-** | **-** | **-** | **-** | **-** | **9,348** | **(10)** | **-** | **123,217** | **132,555** |
| Transfer of Loss from 2014 | - | - | - | - | - | - | - | (635,384) | 635,384 | **-** |
| Loss Coverage from 2014 | | | | | | | | | | |
| -Transfer from Statutory Reserve | - | - | - | - | (10,578) | - | - | 10,578 | - | **-** |
| - Transfer from Capital Gain | - | (228,136) | - | - | - | - | - | 228,136 | - | **-** |
| Decrease of Share Capital | | | | | | | | | | |
| -Coverage of Uncovered Loss | (195,673) | - | - | - | - | - | - | 195,673 | - | **-** |
| -Transfer to Other Reserves | (358,306) | - | - | - | 358,306 | | | | - | **-** |
| Increase of Share Capital | 802,114 | - | - | - | - | - | - | - | - | **802,114** |
| Other Changes | - | - | 398 | (398) | - | - | - | - | - | **-** |
| **Balance at 31 December 2015** | **1,214,775** | **-** | **(477)** | **477** | **358,306** | **82,089** | **877** | **-** | **123,217** | **1,779,264** |

The significant accounting policies and other notes on pages 59-177 form an integral part of these financial statements.

| | Notes | Bank 2015 HRK '000 | Bank 2014 HRK '000 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Profit/(Loss) Before Taxation | | 126,586 | (637,053) |
| Adjusted by: | | | |
| - Depreciation and Amortization | 14,16 | 45,698 | 53,078 |
| - Foreign Exchange Gains | 34 | (9,971) | (4,180) |
| - Impairment Losses on Loans and Other Assets | 36 | 185,573 | 931,762 |
| - Provisions for Liabilities and Expenses | 24 | 8,986 | 4,818 |
| - Net Unrealized (Gains)/Loss on Financial Assets at FVPL | 31 | 8,634 | (119) |
| ***Changes in Operating Assets and Liabilities*** | | | |
| Net Decrease in Loans to and Receivables from Banks | | 69,740 | 62,302 |
| Net (Increase) in Financial Assets at FVPL | | (608,568) | (6,846) |
| Net (Increase)/Decrease in Loans to Customers | | (23,256) | 539,497 |
| Net Decrease in Other Assets | | 53,771 | 64,266 |
| Net (Decrease) in Deposits from Banks | | (17,111) | (366,457) |
| Net Increase/(Decrease) in Customer Deposits | | 411,696 | (264,616) |
| Net Decrease in Other Liabilities | | (235,009) | (54,446) |
| **Net Cash (Outflow)/Inflow from Operating Activities Before Tax** | | **(229)** | **322,006** |
| Income Tax Paid | | (28) | (53) |
| **Net Cash (Outflow)/Inflow from Operating Activities** | | **(257)** | **321,953** |
| | | | |
| **Cash Flows from Investing Activities** | | | |
| Purchases of Property, Equipment and Intangible Assets | | (18,800) | (30,107) |
| Disposal of Financial Assets Available for Sale | | 656,314 | 768,458 |
| Acquisition of Financial Assets Available for Sale | | (882,317) | (1,129,243) |
| Maturity of Financial Assets Held to Maturity | | 23,394 | 222,465 |
| Dividends Received | | 1,073 | 1,359 |
| **Net Cash Outflow from Investing Activities** | | **(220,366)** | **(167,068)** |
| | | | |
| **Cash Flows from Financing Activities** | | | |
| Decrease in Hybrid Instruments | | - | (150,000) |
| Increase in Borrowings | | 44,384 | 1,108,382 |
| Repayments of Borrowings | | (546,328) | (675,068) |
| Increase in Share Capital | | 550,000 | - |
| **Net Cash Inflow from Financing Activities** | | **48,056** | **283,314** |
| Effect of FX Differences on Cash and Cash Equivalents | | 3,362 | (1,920) |
| **Net (Decrease)/Increase in Cash and Cash Equivalents** | | **(169,175)** | **436,279** |
| **Cash and Cash Equivalents at the Beginning of the Year** | 39 | **3,416,226** | **2,979,947** |
| **Cash and Cash Equivalents at the End of the Year** | 39 | **3,247,051** | **3,416,226** |

The significant accounting policies and other notes on pages 59-177 form an integral part of these financial statements.

## 1. SIGNIFICANT ACOUNTING POLICIES

Hrvatska poštanska banka d.d. Zagreb (“the Bank”) is a joint stock company incorporated and domiciled in the Republic of Croatia, Jurišićena 4, Zagreb. The Bank is the parent of the Hrvatska poštanska banka Group (“the Group”).

Bank has control over following subsidiaries that make HPB Group:

| | Industry | State | Ownership as of 31 December 2015 % |
|---|---|---|---|
| HPB Invest d.o.o. | Investment funds management | Croatia | 100.00 |
| HPB Nekretnine d.o.o. | Real estate agency and construction | Croatia | 100.00 |
| HPB Stambena štedionica d.d. | Savings bank | Croatia | 100.00 |

In addition to investments in subsidiaries, the consolidated financial position includes the following investments held for sale:

| | Industry | State | Ownership as of 31 December 2015 % |
|---|---|---|---|
| H1 TELEKOM d.d. | Telecomunications | Croatia | 58.17 |

Overview of Bank’s subsidiaries and method of their consolidation is provided in Note 13, investment in H1 Telekom d.d. in Note 12, while the basis of consolidation is provided in Note 1, section e).

These financial statements comprise both the separate and the consolidated financial statements of the Bank as defined in International Financial Reporting Standard 10 “Consolidated Financial Statement” and International Accounting Standard 27 “Separate Financial Statements”.

These financial statements were approved by the Board on 25 March 2016 for submission to the Supervisory Board.

The principal accounting policies used for preparation of these financial statements are summarized below. Where specific accounting policies are aligned with accounting principles of International Financial Reporting Standards, in describing the accounting policies of the Group, it can refer to certain standards; and unless otherwise stated, these references are for Standards applicable at 31 December 2015.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***a) Statement of Compliance***

These financial statements are prepared in accordance with the legal requirements applicable to accounting for banks in the Republic of Croatia. Group's financial reporting is regulated by Croatian National Bank ("the CNB") which is the central supervisory institution of Croatian banking system. These financial statements have been prepared in accordance with the above-mentioned banking regulations.
These statutory financial statements are prepared for the purpose of compliance with legal requirements and for general information and not for any specific purpose or transaction. Accordingly, users should not rely exclusively on these financial statements and should undertake other appropriate inquiries before making decisions.

The accounting regulations of the CNB rely on International Financial Reporting Standards ("IFRSs") adopted by European Union. The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards are as follows:

- Although the Group calculates impairment losses on corporate lending as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate, in accordance with International Financial Reporting Standards, the CNB requires the amortization of the discount calculated to be presented in the income statement within the movement on impairment losses on loans and receivables to customers and other assets, rather than as interest income, as required by International Financial Reporting Standards.

- Suspended interests are accrued but not paid interests on individually impaired assets. At the moment of reclassification the Bank impaires the total adjusted value of accrued but not paid interests through the profit and loss statement. Furthermore, further financial position accrual is suspended, with interest being booked off-balance sheet until the debtor makes a payment. This accounting procedure is not in line with the IFRS 18 "Revenue" and IFRS 39 "Financial Instruments: Recognition and Measurement" which require the interest revenue from impaired financial assets to be calculated by using effective interest rate method.

- In line with amendments to CNB's Decision on the classification of placements and off-balance-sheet liabilities of credit institutions, in force from October 1st 2013, CNB prescribes minimum levels of impairment losses for certain specifically identified impaired exposures, which may be different from impairment loss calculated in accordance with International Financial Reporting Standards (IFRSs).

The accounting policies are the same as in the preparation of annual financial statements for the year ended 31 December 2014.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***b) Basis of Preparation***

These financial statements represent the general-purpose financial statements of the Bank and the Group. The financial statements were prepared for the reporting period from January 1st 2014 to December 31st 2015 in compliance with existing accounting regulations applicable in Croatia.

The financial statements are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss, assets available for sale, derivative financial instruments and property and repossessed assets except those for which a reliable fair value measurement is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortized or historical cost.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***b) Basis of Preparation (continued)***

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

Estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of applicable standards that have significant effects on financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 2.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***b) Basis of Preparation (continued)***

***Standards, interpretations and changes to published standards***

***New and Amended International Financial Reporting Standards effective in current period with evaluation of the impact on the Financial Statements***

- Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)” resulting from the annual improvement project of IFRS:
  - IFRS 1 First-time Adoption of IFRS - clarifying the meaning of the application of IFRS that are in effect at the end of the first reporting period for entities that for the first time apply IFRSs
  - IFRS 3 Business Combinations - the scope of the exemption of joint ventures
  - IFRS 13 Fair Value Measurement - the scope of paragraph 52 has been amended so as to clarify the exceptions in the portfolio,
  - IAS 40 Investment Property - explains the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property.
  - The changes are the result of removing inconsistencies and clarification of the text, and have been adopted in the European Union on 18 December 2014 (applicable to annual periods beginning on or after 1 January 2015),
- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS:
  - IFRS 2 Share-based Payment - the definition of vesting,
  - IFRS 3 Business Combinations - accounting of contingent consideration in a business combination,
  - IFRS 8 Operating Segments - adjustment of the total assets of the reporting segment with the assets of the entity,
  - IFRS 13 Fair Value Measurement - short-term receivables and payments,
  - IAS 16 Property, plant and equipment - revaluation method,
  - IAS 24 Related Party Disclosures - key personnel management,
  - IAS 38 Intangible assets - revaluation method

The changes are the result of removing inconsistencies and clarification of the text, and have been adopted in the European Union on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015).

- Amendments to IAS 19 “Employee Benefits” - "The defined benefits: contributions paid by employees", adopted in the European Union at 17 December 2014 (effective for annual periods beginning on or after 1 February 2015). These amendments of the narrow scope apply to employees or third parties who pay contributions to the plans (funds) of defined benefits. The aim is to simplify the method of calculating contributions which do not depend on years of service of employees, such as contributions ehich are calculated as a fixed percentage of salary.

All these changes have no impact on the Group's or Bank's financial statements.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***b) Basis of Preparation (continued)***

***Standards, interpretations and changes to published standards (continued)***

***The new and revised International Financial Reporting Standards adopted by the EU and which take effect after the reporting period***

- Amendments to IFRS 11 Joint Arrangements were adopted in the European Union on 24 November 2015 (effective for periods beginning on or after 1 January 2016), provide new guidance on the manner of calculating the acquisition of shares in the joint management and prescribe the appropriate method of calculating acquisition transactions of this type.

  With the current business business strategy indicated changes to IFRS will have no impact on the Bank and Group after initial application.

- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible assets have been adopted in the European Union on 2 December 2015 (effective for periods beginning on or after 1 January 2016), which complement existing standards which explains acceptable depreciation method.

  The Group does not expect significant changes to its financial position and the results after implementing these changed standards.

- „Amendments to IFRS cycle 2012-2014" resulting from the annual improvement project of IFRS:

  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - changes in the methods of sale (alienation)
  - IFRS 7 Statement of Cash Flows - service agreements; the applicability of the amendments to IFRS 7 in the interim abbreviated financial statements
  - IAS 19 Employee Benefits - discount rate: the question of the regional market
  - IAS 34 Financial Reporting periods within the year - disclosure of information "elsewhere in the interim financial report".

The changes are the result of removing inconsistencies and clarification of the text, adopted by the European Union on 15 December 2015 (applicable to annual periods beginning on or after 1 January 2016).

These changes will have no significant impact on the Bank and Group after initial application.

- Amendments to IAS 1 "Presentation of Financial Statements" were adopted by the European Union on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016). In the part " The initiative concerning publication" subject is instructed to use professional judgment in determining the information which will be published in its financial statements. It was explained that the concept of materiality applies to all financial statements, as well as the inclusion of information which are not material may reduce the appropriateness of published financial information. In addition, expert judgment should be applied in determination of the place and the order of presentation of financial information.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***c) Basis of Preparation (continued)***

***Standards, interpretations and changes to published standards (continued)***

Amendments to IFRS will have no significant impacts on the disclosure of financial statements of the Group after initial application.

- The amended IAS 27 Separate Financial Statements - "Equity method in the separate financial statements" adopted in the European Union on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016). With this the equity method as an option for accounting of investments in subsidiaries, joint ventures and associates in the separate financial statements of the reporting entity is brought back.

The Group does not expect significant impact on its financial position and the results of implementing these changes standards.

***The new and revised International Financial Reporting Standards issued by the Board of IFRS that have not been adopted in the European Union and take effect after the reporting period:***

- IFRS 9 Financial Instruments was published in July 2014 (effective for annual periods beginning on or after 1 January 2018) is a replacement for IAS 39 "Financial Instruments: Recognition and Measurement" contains requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting in general.

  **Classification and Measurement -** IFRS 9 introduces a new approach to the classification of financial assets based on the characteristics of the cash flow and business model under which an item of financial assets is held. The new model also introduces a unique model of impairment which applies to all financial instruments.

  **Impairment** - IFRS 9 introduces a new model of impairment to expected losses, which will require more timely recording of expected credit losses.

  **Hedge Accounting** - IFRS 9 introduces significantly altered model of hedge accounting, with expanded information that should be disclosed about the activities of risk management.

  Given the comprehensiveness of the entire project to replace the existing IAS 39 with IFRS 9, the Group will start during 2016 the Project of the implementation of IFRS 9. In the initial phase an analysis of the gap in areas classification, measurement and impairment, and then analyzing the impact of IFRS 9 based on identification of the Bank's products with SPPI test and testing of business models. Also, an analysis of the impact of changes in the impairment model will be carried out in order to preprare the Group for the implementation of IFRS 9 in 2017.

- IFRS 14 Accrued items prescribed by regulation transitional standard (effective for periods beginning on or after 1 January 2016), refers to the subjects which first applies IFRSs and have a regulatory limit for determing pricing of products and services.

  The Group begins to apply the amendment to IFRS upon their adoption by the European Union. The Group has determined that the new IFRS 14 will not have a significant impact after beginning of the application.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***b) Basis of Preparation (continued)***

***Standards, interpretations and changes to published standards (continued)***

- IFRS 15 Revenue from contracts with customers (effective for periods beginning on or after 1 January 2018) defines the manner and timing of the recognition of revenue when reporting under IFRS, as well as the obligation of entities reporting under IFRS that users of financial statements provide more informative and relevant information. The standard replaces IAS 18 "Revenue", IAS 11 "Construction contracts" and several interpretations related to income. The use of standards is mandatory for those reporting under IFRS and to almost all contracts with customers, with the exception of lease contracts, financial instruments and insurance as the main exceptions. The fundamental principle of IFRS 15 is that an entity recognizes revenue as a reflection of the transfer of goods or services to the customer in the amount that reflects the compensation (ie. payment) for which it is expected to realize in exchange for those goods or services. The new standard also expands the information to be published on income, provides guidance for transactions that had not been thoroughly worked (for example, revenues from services and modifications of the contract) and improved instructions for jobs that contain multiple elements.

  This new IFRS will have no significant impact on the Bank or the Group after initial application.

- IFRS 16 Leases (effective for periods beginning on or after January 1, 2019) according to which the lessee recognizes the right to use the asset and liability for the rental. The right to use the asset is treated in a similar manner as other non-financial assets, and amortized accordingly. The obligation of the lease is initially measured at the present value of lease payments over the period of the lease agreement, discounted at a rate resulting from the lease, if it can be determined. If such rate can not be easily determinable, the lessee will use its own rate on loan. As with standards that preceded IFRS 16 - IAS 17, the lessor classifies the lease as a financial lease or operating lease. Lease is classified as financial if it transfers the risk and return arising from the ownership of assets of the underlying lease. In other cases, the lease is classified as operational. In financial lease lessor recognizes revenue over the lease term, based on the pattern that reflects a constant periodic rate of return on the net investment. The lessor recognizes revenue from operating leases on a straight-line basis, or on some other basis in the event that the benefits of the use of property decrease during the period of use.

  The Bank and the Group does not expect significant impact of the new IFRS on the financial position and results.

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Interests in associates and joint ventures" (the date the application was postponed indefinitely) - deals with the contradictions between the requirements of IAS 28 and those under IFRS 10 and explain that the expression gain or loss in the transaction involving the associate or joint venture depends on whether the assets are sold or entered into a commercial entity.

  The Bank and the Group begins to apply the amendment to IFRS upon their adoption by the European Union. The Group has estimated that with current business business strategy mentioned amendments to IAS and IFRS will not have a significant impact

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***b) Basis of Preparation (continued)***

***Standards, interpretations and changes to published standards (continued)***

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Interests in associates and joint ventures" (the date the application was postponed indefinitely pending the completion of project estimates the equity method). In the "Investment entities: application of the exemption from consolidation" .- it's about small scale Amendments in order to clarify the requirements with accounting for investment companies. They provided for the exemption from the application in certain circumstances.

  The amendments to IFRS will have no significant impact on the Group after initial application.

- Amendments to IAS 12 "Income taxes" relate to the recognition of deferred tax assets for unrealized losses (effective for periods beginning on or after 1 January 2017). The amendment clarifies the method of calculation of deferred tax assets related to debt instruments measured at fair value.

  The Bank or the Group will assess the impact of this amendment to IAS.

***c) Functional and Presentation Currency***

The Group's and the Bank's financial statements are presented in Croatian kuna (HRK), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

***d) Changes in Presentation or Classification of the Items in the Financial Statements***

There were no changes in the classification of the significant amounts or items in the financial statements in the reporting period.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***e) Basis of Consolidation***

Financial statements are presented for the Group and the Bank. The Group financial statements comprise the consolidated financial statements of the Bank and its subsidiaries: HPB Nekretnine d.o.o., a real estate agency; HPB Invest d.o.o., an investment fund management company; and HPB Stambena štedionica d.d., a specialized financial institution involved in collecting deposits from retail customers and granting subsided housing loans to Croatian citizens in the Republic of Croatia. In the consolidated financial position the results of the company H1 Telekom d.d. are included, in which the Bank has a controlling ownership interest of 58.17% gained in the process of the pre-bankruptcy settlement through the debt to equity swap, and it is classified as an asset held for sale. In addition to this majority stake, all other subsidiaries are 100% owned by the Bank, and all have been established and domiciled in Croatia.

Investments in subsidiaries are disclosed at purchase cost, minus possible impairments, with the exception of investments in H1 Telekom d.d. which are disclosed at the lower of carrying amount and fair value in the separate financial statements of the Bank. Investments in subsidiaries are consolidated in the consolidated financial statements of the Group.

*Subsidiaries*

Subsidiaries are all enterprises controlled by the Bank. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies, except for H1 Telekom d.d. which is acquired in pre-bankruptcy settlement and classified as an asset held for sale.

*Transactions Eliminated on Consolidation*

All intragroup assets and liabilities, equity, income and expenses relating to transactions between members of the Group are eliminated in full on consolidation, except for H1 Telekom d.d.

The purchase cost method of accounting is used to account for the acquisition of subsidiaries at the Group. The cost of acquiring a subsidiary is measured at fair value of assets given, equity instruments issued and of liabilities incurred or assumed as of the date of exchange, increased by all costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired, including intangible assets, is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***e) Basis of Consolidation (continued)***

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Company H1 Telekom d.d. is consolidated in line with IFRS 5 „Non-current Assets Held for Sale and Disontinued Operations“. According to IFRS 5, H1 Telekom d.d. is classified as discountinued operation acquired exclusively with an intent to be disposed of through sale.

In line with Guidelines for applicaiton of IFRS 5, which include short-cut method of consolidation for a subsidiary held exclusively for sale, company H1 Telekom d.d. is consolidated by short-cut method. Short-cut method of consolidation is permitted because it avoids the burden of full disclosure of fair value according to IFRS 3 „Business combinations“, and therefore enables that subsidiaries be treated as one-off investments.

In order for the Group to be in line with the main concept of short-cut consolidation by which H1 Telekom d.d. is treated one-off investment by following guidelines:

- at inception, Group measured acquired assets at fair value less costs to sell, plus fair value of ascertainable liabilities,
- as per the date of preparation of statements, Group has measured acquired assets at fair value less costs to sell, plus fair value of ascertainable liabilities,
- as per the date of statement, Group presented above mentioned assets and liabilities apart from its other assets and liabilities within the consolidated financial statement,
- in profit or loss statment, Group presents total profit or loss after tax from subsequent measurement of discontinued operation acquired exclusively with an intent to sell.

Company was no acquired as investment but during a prebankruptcy procedure through a debt-to-equity swap, and company's results are not stated in profit or loss statement since equity of H1 Telekom d.d. is negative.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***f) Interest Income and Expense***

Interest income and expense are recognized in the income statement as they accrue for all interest bearing financial instruments, including those measured at amortized cost, at fair value through profit or loss and available for sale, using the effective interest rate method. Such income and expense is presented as interest and similar income or interest expense and similar charges in the income statement. Interest income and expense also includes fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortization, and other differences between the initial carrying amount of an interest-bearing financial instrument and its value at maturity, recognized on a basis of effective interest rate. Interest income and expense on all trading assets and liabilities are presented as interest income or expense.

***g) Fees and Commissions Income and Expense***

Fee and commission income and expense arise on financial services provided by the Group and received by the Group, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by and to the Group. Fee and commission income and expense are recognised in the income statement when the related service is performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognised over the term of the commitment. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part for itself, or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment fund management are recognised on an accrual basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

***h) Dividend Income***

Dividend income on equity investments is recognised in the income statement when the right to receive dividends is established.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***i) Gains Less Losses from Financial Instruments at Fair Value in PNL and Financial Instruments Available for Sale***

Gains less losses from financial instruments at fair value through profit or loss include unrealised and realised gains and losses arising from derivative financial instruments, trading debt securities and other financial instruments designated at fair value through profit or loss.

Gains less losses arising from financial instruments available for sale comprise realised gains from financial instruments available for sale.

Financial assets available for sale are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty, or
- breach of contract, such as a default or delinquency in interest or principal payments, or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation, or
- the disappearance of an active market for that financial asset because of financial difficulties.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

***j) Gains Less Losses Arising from Dealing in Foreign Currencies***

Gains less losses from dealing in foreign currencies include unrealised and realised gains and losses arising from spot dealings in foreign currencies.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***k) Foreign Currencies***

Transactions in foreign currencies are translated into HRK at the rate of exchange applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate applicable at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates applicable at the dates when the fair values were determined. Non-monetary 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.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

***l) Financial Instruments***

***i) Classification***

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

*Financial Assets and Liabilities at Fair Value in PNL*

This category comprises two subcategories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. The Group designates financial assets and liabilities at fair value through profit or loss when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis,
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets at fair value through profit or loss include equity and debt securities, units/shares in investment funds and derivative financial instruments.

*Loans and Receivables*

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

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***l) Financial Instruments (continued)***

***i) Classification (continued)***

*Financial Instruments Held to Maturity*

This category comprises non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. This category includes debt securities.

*Financial Assets Available for Sale*

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

*Other Financial Liabilities*

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

***ii) Recognition and Derecognition***

Purchases and sales of financial assets and financial liabilities at fair value through profit or loss, and financial assets held to maturity and available for sale, are recognised on the settlement date. Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders.

The Group derecognises financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over financial instrument.

This occurs when the Group transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired. The Group 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, the Group will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

***iii) Initial and Subsequent Measurement***

Financial assets and liabilities are recognised initially at fair value plus, in the case of a financial asset or financial liability not 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.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***l) Financial Instruments (continued)***

***iii) Initial and Subsequent Measurement (continued)***

After initial recognition, the Group measures financial instruments at fair value through profit or loss and financial assets available for sale at their fair value, without any deduction for costs of sale. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are initially recognized at acquirement cost, and afterwards measured applying internal models of fair value estimation.

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

***iv) Gains and Losses***

Gains and losses on changes in the fair value of financial assets at fair value through profit or loss are recognised in the income statement.

Gains or losses arising from a change in the fair value of available-for-sale monetary assets are recognised directly within equity and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange differences, interest income and amortisation of premium or discount on available-for-sale monetary assets are recognised in the income statement. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in equity.

Dividend income is recognised in the income statement. Upon sale or other derecognition 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 instruments carried at amortised cost may also be recognised in the income statement when a financial instrument is derecognised or when its value is impaired.

***v) Determination of Fair Value of Financial Instruments***

The fair value of quoted financial assets in an active market is based on their closing price. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Group uses an internal evaluation model for fair value estimation. Such models include the use of prices achieved in recent transactions, by reference to similar financial instruments, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate.

The fair value of non-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date, taking into account current market conditions, its own credit risk and the current creditworthiness of the counterparties.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***l) Financial Instruments (continued)***

***vi) Impairment of Financial Assets***

*Impairment of Assets Identified as Impaired*

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

The Group estimates and performs impairment of all financial assets, except financial assets at fair value through profit or loss.

If any objective evidence of impairment 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. Impairment losses recognised in the income statement on equity instruments are not reversed through 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 the income statement.

The recoverable amount of financial instruments measured at amortised cost is calculated as the present value of the expected future cash flows, discounted at the instrument's original interest rate. Short-term balances are not discounted. Allowances for uncollectibility are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts (or lower amount if required by applicable CNB regulations). The expected cash flows for portfolio of similar assets are estimated based on previous experience. Also taken into considering are: credit rating of the underlying customers, and delays in payments of interest or penalties. Increases of impairment allowances are recognised in the income statement. When a loan is identified as uncollectable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period the amount of impairment loss decreases, and the decrease can be linked objectively to an event occurring after the write-down, the write-down or impairment loss is reversed through the income statement.

*Impairment of Assets Not Individually Identified as Impaired*

In addition to recognised impairment losses on assets, the Group recognises in its income statement latent losses on its on-balance sheet and off-balance sheet items exposed to credit risk at a level not lower than 0.80% of the total placements and off-balance sheet exposures in accordance with the CNB regulations.

At the reporting date, debt securities carried at fair value at the reporting date, initially recognized as financial assets at fair value through profit or loss, as well as financial assets available for sale, are excluded from the calculation basis of these impairments.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***l) Financial Instruments (continued)***

***vii) Reclassifications***

According to IFRSs, the Group has the possibility to reclassify certain financial instruments out of the category at fair value through profit or loss into available for sale or held to maturity instruments.

***m) Specific Financial Instruments***

*Cash and Cash Equivalents*

Cash and cash equivalents comprise cash balances on hand, cash deposited with CNB, placements with other banks with original maturities of three months or less, and items in course of collection.

*Derivative Financial Instruments*

The Group uses derivative financial instruments to hedge economically its exposure to currency risk and interest rate risk arising from operating, financing and investing activities. In accordance with its investment policies, the Group does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied and consequently, all derivative agreements are classified as financial instruments at fair value through profit or loss.

Derivative financial instruments include foreign currency agreements, forward agreements, futures and other financial derivatives and are initially recognised at fair value which is the value of consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on the discounted cash flow. All derivative instruments are presented as assets if their fair value is positive and as liabilities if their fair value is negative.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed as an embedded derivative. Except as required to the contrary by the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealised gains and losses recognised in the income statement, unless there is no reliable measure of their fair value.

Changes in the fair value of derivatives are included in gains less losses arising from dealing securities.

*Treasury Bills and Debt Securities*

Treasury bills and debt securities that the Group holds for the purpose of short-term profit taking are classified as at fair value through profit or loss or as available-for-sale assets, and are carried at fair value. Treasury bills and debt securities that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***m) Specific Financial Instruments (continued)***

*Equity Securities and Investments in Open-End Investment Funds*

Equity securities and investments in open-ended investment funds are classified as at fair value through profit or loss or as available-for-sale assets.

*Placements with Banks*

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

*Loans and Receivables from Customers*

Loans and receivables from customers are presented net of impairment losses. Purchased loans that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets.

In accordance with CNB requirements, the amortization of any discounts included within impairment losses is presented in impairment losses.

*Investments in Subsidiaries*

In the Bank's separate financial statements, investments in subsidiaries are recorded at cost, except for H1 Telekom dd which is, as assets held for sale, recorded at the lower of carrying amount and fair value.

*Borrowings*

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period of the borrowings as interest. The amount is subsequently reduced by not deferred portion of the fee paid at the point of loan approval.

*Repurchase Agreements and Linked Transactions*

The Group enters into purchases/(sales) of investments under agreements to resell (repurchase) essentially identical investments, or in a series of linked sales and buy-back transactions at a certain future date at a fixed price. The amounts paid are recognised in loans and advances to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value, as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase amount is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***n) Income Tax***

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated income statement and consolidated statement of other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

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

The measurement of deferred tax liabilities and assets reflects the amount that the Bank expects, at the end of the financial statements date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified in the statement of financial position as non-current assets and/or non-current liabilities. Deferred tax assets are recognised only to the extent that it is probable that the related tax benefit will be realised. At each reporting date, the Group reviews the unrecognised potential tax assets and the carrying amount of the recognised tax assets.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***o) Property and Equipment***

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

*Recognition and Measurement*

An item of property whose fair value can be measured reliably is subsequently carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The fair value of land and buildings is determined by the independent professional surveyor.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation is recognized in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

Equipment is measured at cost, less accumulated depreciation and accumulated impairment losses.

The estimated useful lives are as follows:

| | **2015** | **2014** |
|---|---:|---:|
| Buildings | 40 years | 40 years |
| Computers | 3 years | 3 years |
| Furniture and Equipment | 3-4 years | 3-4 years |
| Motor Vehicles | 5 years | 5 years |
| Other Assets | 10 years | 10 years |

Depreciation methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount, and are included in the income statement.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***p) Investment Property***

Investment properties are properties which are held by the Group either to earn rentals or for capital appreciation, or both. Investment property is carried at cost less accumulated depreciation and any impairment losses. Depreciation is provided on all investment property, except for investment property not yet brought into use, on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful life of the asset as follows:

| | 2015 | 2014 |
|---|---|---|
| Investment Property | 40 years | 40 years |

***q) Intangible Assets***

Intangible assets are carried at cost less accumulated amortisation and impairment. Development costs are capitalized if all the requirements specified in IAS 38 "Intangible Assets" are met. Amortisation is provided on a straight-line basis over the estimated useful life of an intangible asset. Maintenance costs are recognised as an expense when they are incurred. Depreciation methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount, and are included in the income statement.

Amortization method and estimated useful life are reassessed on the date of preparing financial reports. Gains and losses from disposal are determined by comparing realized sale price and book value of assets and is included in the profit or loss statement.

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

| | 2015 | 2014 |
|---|---|---|
| Leasehold Improvements | 4 years | 4 years |
| Software | 3-10 years | 3-10 years |
| Licences | 3-10 years | 3-10 years |

***r) Impairment of Non-Financial Assets***

The recoverable amount of property and equipment, investment property and intangible 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 levels for which there are separately identifiable cash flows ("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.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***s) Non-Current Assets Held for Sale***

Tangible assets gained in exchange for uncollected receivables Group records as assets held for sale in accordance with International Financial Reporting Standard 5 (IFRS 5). Only exceptionally, if the assets can be used for the Group's business operations decision on using the assets and accounting treatment will be in accordance with International Financial Reporting Standard 16.

The Group initially recognise (classifies) non-current assets as assets held for sale if its value be through sale, rather than used for the purpose of conducting business activities through depreciation. Such assets are classified at the lower of carrying amount or fair market value less costs to sell.

Subsequent measurement of assets held for sale is carried at the lower of carrying value and the current fair market value less costs to sell.

In case of events that may extend the period to perform the sale of the property does not preclude the classification of assets as held for sale if the circumstances beyond the control of the Group occur and if there is evidence that the Group will continue in line with the plans to continue selling the same.

The Group does not perform depreciation of assets held for sale.

Impairment losses arising on the subsequent measurement of assets is recorded in the income statement of the Group.

Subsequent gains from increase in the fair value of previously impaired assets will be recognized in the income statement at the time of sale.

If it is determined that the non-current assets classified as held for sale do not meet the criteria for initial recognition of the Group does not recognize those assets as assets held for sale.

Group does not recognize assets held for sale in the event that such property is sold. Gain or loss on sale of assets held for sale are recognized in the income statement.

***t) Provisions for Liabilities and Expenses***

The Group recognises a provision when it has a present obligation as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the obligation. Provisions are also made for off-balance sheet credit risk exposures on a portfolio basis.

Provision for liabilities and charges represents the best estimate of the expenditures needed to settle the present obligation at the reporting date. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Provisions are released only for such expenditure in respect of which provision are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***u) Operating Lease***

Leases where the Group as lessor retains substantially all the risks and rewards incidental to ownership are included in tangible and intangible assets at cost net of accumulated depreciation. Rental income under operating leases is recognised in the income statement on a straight-line basis over the term of the lease.

The Group leases office space under operating leases. Payments under operating leases are recognised in the income statement over the term of the underlying lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense. The Group does not have operating lease contracts with the termination period longer than one year.

***v) Employee Benefits***

*Defined Pension Contributions*

The Group pays contributions to pension-insurance funds on a mandatory, contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

*Provisions for Severance Payments and Jubilee Awards*

In calculating provisions for severance payments and jubilee awards, the Group discounts expected future cash flows in respect of the liabilities, using discount rates that, in opinion of the Group's management, best represent the time value of money.

***w) Share Capital and Reserves***

*Share Capital and Reserves*

Share capital is denominated in the Croatian kuna and stated at nominal value. The amount of fees paid on repurchase of share capital, including directly attributable costs, is recognised as a deduction from equity and classified as treasury shares.

*Dividends*

Dividends are recognised as a liability in the period in which they are declared.

*Retained Earnings/ Accumulated Losses*

All income for the year, retained after appropriations, is transferred to reserves, in accordance with the decision of the General Assembly.

Loss for the period is charged on the accumulated retained earnings. Any remaining loss is allocated in accordance with the regulations applicable to trading companies in the Republic of Croatia.

During the reduction of the share capital of the Bank in 2015 remaining amount after loss coverage from the previous period has been allocated to retained earnings based on the Decision of the General Assembly and in accordance with the regulations applicable to trading companies in the Republic of Croatia.

*Earnings per Share*

The Bank presents earnings or loss per share data for its ordinary shares. Earnings/loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. EPS is not presented for the Group.

**1. SIGNIFICANT ACOUNTING POLICIES (continued)**

***x) Contingencies and Commitments***

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

***y) Funds Managed for and on Behalf of Third Parties***

The Group manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Group's assets and are excluded from the statement of financial position. For the services rendered, the Group charges a fee which is recognised in the income statement on an accruals basis. The Group also manages five open-end funds with a public offering: HPB Equity Fund, HPB Global Fund, HPB Cash Fund, HPB Bond Fund, and HPB Eurocash Fund.

Investment funds assets that is managed by the Group is not part of consolidated statements of the Group.

The investment of the parent company in the investment funds of the parent company are stated at fair value through profit and loss.

***z) Segment Reporting***

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) which achieves econcomic benefits or costs, including the transactions with other parts of the Group. During 2015 the Group did not use internal transfer prices in determining the success of the segments.

The Group has identified four major segments: Corporate Banking; Retail Banking; Financial Markets, (including treasury and investment banking, together with custody services (business segment)) and direct banking. The business segments and their financial performance are presented in Note 4 to the financial statements.

Bank's operations, its total assets as well as the majority of its clients are based in Croatia.

## 2. RISK MANAGEMENT

This note details the Group's risk exposures as well as the methods applied by the management to identify, measure and manage those risks for the purpose of preserving capital. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk, interest rate risk in the Bank’s non-trading book, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

An integrated system of risk management is established at the Group level by introducing a set of policies, procedures and manuals, determining the limits of risk levels acceptable to the Group and monitoring their implementation. The limits are set with respect to the amount of regulatory capital and are applied to all types of risk. Additionally, the Bank sets limits for annual potential losses measured by Value-at-Risk techniques for its market risk exposure. Internal methodologies and models for managing other types of risks are also being developed.

The responsibility for determining the framework of the Group’s risk management lies with the Bank’s Management Board which has delegated the risk management tasks to the Assets and Liabilities Management Committee, Credit Committee and Operational Risk Management Committee.

### 2.1 Credit Risk

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

The risk that counterparties to financial instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank evaluates debtors' creditworthiness, and in order to minimize credit risk, obtains appropriate collateral.

At reporting date, the Group’s credit risk exposure to financial instruments classified as at fair value through profit or loss is presented by the positive fair value of these instruments, as recorded in the statement of financial position. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties in derivative transactions and do not measure the Group’s exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The Group is exposed to credit risk primarily through loans and receivables from customers. The amount of credit exposure in this regard, as well as held-to-maturity debt securities recognized at amortized cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to the credit risk through off-balance-sheet items, i.e. through commitments arising from unused facilities and guarantees issued, as disclosed in Note 40.

Credit risk management comprises assessment of placements’ credit risk, subsequent monitoring, supervision, and evaluation of recoverability of placements and off-balance sheet commitments, as well as formation of required impairments and provisions for identified losses on placements and off-balance sheet commitments, and reporting to the Management Board of the Bank.

**2. RISK MANAGEMENT (continued)**

**2.1. Credit Risk (continued)**

**2.1.1 Credit Risk Assessment**

Assessment of the individual credit risk exposure comprises the following:

- debtors' creditworthiness,
- debtors' timeliness in meeting their obligations,
- collateral quality.

Therefore the Bank uses confirmed credit rank of its debtors and other persosns involved in the credit business (guarantors, co-debtors etc.), a number of days of outstanding liabilities and type and estimated value of available collaterals. By taking it into count together with other available data and information the Bank estimates recoverability of its loans by assessing future cash flows from the loans. These cash flows are discounted and put into relation with book value of loans in order to get the amount of needed impairments. At the same time the Bank takes into count the CNB's Decision on classifying placements and off-balance sheet liabilities of credit institutions in relation to managing restructured placements, placements which will be paid by activating collateral, placements which are not fully collateralized, togethere with provisions on collateral eligibility and adequate impairment factors.

Monitoring of credit risk includes continuous assessment whether elements exist which would indicate a deterioration of the client's financial position, the client's exposure to currency risk or an increase in risk due to the decrease of collateral value.

**2.1.2. Classification of Placements into Risk Categories**

The Bank classifies placements into risk categories depending on the estimated recovery rate of placements, and in accordance with the Croatian National Bank's Decision on Classification of Placements and Off-balance Sheet Liabilities of Credit Institutions. All placements that the Bank estimates are fully recoverable are classified in risk category A. Upon initial approval, the Bank classifies all placements into risk category A. Placements that the Bank estimates are partly recoverable are classified into risk category B, depending on the loss percentage: in subcategory B1 (loss is estimated at below 30% of nominal carrying value of the placement), in subcategory B2 (loss is estimated at between 30% and 70% of nominal carrying value of the placement), and in subcategory B3 (loss is estimated at above 70%, but below 100% of nominal carrying value of the placement). Placements estimated to be fully irrecoverable are classified into risk category C.

**2.1.3. Placements Impairment Policy**

When estimating the recoverable amount of placements, the Bank separates placements between small and large portfolios.

Small portfolio represents placements and off-balance sheet commitments whose gross value (before any impairment loss) does not exceed HRK 700 thousand towards a single debtor or a single group of related parties at the date of estimation.

Generally, the Bank estimates the recoverability of placements to retail customers according to criteria established for the small portfolio, whereas the recoverability of placements to corporate clients is estimated according to criteria which do not apply to the small portfolio.

**2. RISK MANAGEMENT (continued)**

**2.1. Credit Risk (continued)**

**2.1.3. Impairment Policy on Placements (continued)**

***Individual Assessment***

The recoverable amount of placements that are not classified within the small loan portfolio of the Bank is estimated on an individual basis according to the following criteria:

- debtors' creditworthiness,
- debtors' timeliness in meeting their obligations, and
- collateral quality.

With respect to this, credit rating of the debtor and/or other parties in the loan business (guarantors, co-debtors etc.) is taken into account, as well as days-past-due in debt settlement and type and appraised value of the available collateral. By taking this into consideration, as well as other available information, Bank estimates loan recoverability by evaluating future cash flows arising from the placement, which are discounted and compared with placement's book value. Required impairments are determined in this way. Bank complies with regulations from *Decision on the Classification of Placements and Off-Balance Sheet Liabilities of Credit Institutions* with respect to procedures for restructured placements, placements whose repayment is based on collateral, placements that are not secured by adequate collateral, as well as other regulations regarding eligibility of collateral and appropriate discount factors used for impairment calculus.

***Portfolio-Based Assessment***

The Bank estimates the recoverable amount of exposures that are classified on a portfolio basis by having regard principally to the debtors' timeliness in meeting their obligations. In arriving at the recoverable amount, the present value of future cash flows from the placements is estimated by reducing the principal by reference to the loan type and the number of days in default.

The following tables present the classification of exposures into risk categories for the Group and the Bank and the allocation of the corresponding impairment losses as a percentage of gross principal.

HPB
HRVATSKA POŠTANSKA BANKA

**2. RISK MANAGEMENT (continued)**

**2.1. Credit Risk (continued)**

**2.1.3 Impairment Policy on Placements (continued)**

**Group**

| % | **Loans and Receivables from Customers** | Impairment Allowance | **Loans to and Receivables from Banks** | Impairment Allowance | **Financial Assets Held to Maturity** | Impairment Allowance | **Balances with the Croatian National Bank** | Impairment Allowance | **Fees Receivable** | Impairment Allowance |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | | | |
| A | 73.75 | 1.00 | 99.81 | - | 95.38 | 1.43 | 100.00 | - | 55.39 | - |
| A - 90 days | 0.12 | 1.00 | - | - | - | - | - | - | - | - |
| B and C | 26.13 | 64.47 | 0.19 | 100.00 | 4.62 | 83.92 | - | - | 44.61 | 100.00 |
| **2014** | | | | | | | | | | |
| A | 73.65 | 1.09 | 99.91 | - | 95.54 | 0.96 | 100.00 | - | 59.39 | - |
| A - 90 days | 0.64 | 1.09 | - | - | - | - | - | - | - | - |
| B and C | 25.70 | 61.17 | 0.09 | 100.00 | 4.46 | 82.58 | - | - | 40.61 | 100.00 |

**Bank**

| % | **Loans and Receivables from Customers** | Impairment Allowance | **Loans to and Receivables from Banks** | Impairment Allowance | **Financial Assets Held to Maturity** | Impairment Allowance | **Balances with the Croatian National Bank** | Impairment Allowance | **Fees Receivable** | Impairment Allowance |
|---|---|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | | | |
| A | 73.23 | 1.00 | 99.81 | - | 95.38 | 1.43 | 100.00 | - | 54.68 | - |
| A - 90 days | 0.12 | 1.00 | - | - | - | - | - | - | - | - |
| B and C | 26.65 | 64.30 | 0.19 | 100.00 | 4.62 | 83.92 | - | - | 45.32 | 100.00 |
| **2014** | | | | | | | | | | |
| A | 73.39 | 1.10 | 99.91 | - | 95.54 | 0.96 | 100.00 | - | 58.66 | - |
| A - 90 days | 0.65 | 1.10 | - | - | - | - | - | - | - | - |
| B and C | 25.96 | 61.24 | 0.09 | 100.00 | 4.46 | 82.58 | - | - | 41.34 | 100.00 |

## 2. RISK MANAGEMENT (continued)

### 2.1. Credit Risk (continued)

### 2.1.3 Impairment Policy on Placements (continued)

**Maximum Exposure to Credit Risk before Consideration of Collateral**

The table below shows the maximum exposure of the Bank and the Group to credit risk as at 31 December 2015 and 31 December 2014, not considering the collateral, if any. The exposures presented below are net of impairment losses and provisions.

| **Maximum Exposure** | | **Group** | | **Bank** | |
|---|---|---|---|---|---|
| | | **2015** | **2014** | **2015** | **2014** |
| | Note | **HRK '000** | **HRK '000** | **HRK '000** | **HRK '000** |
| Giro Account with the CNB and Other Banks | 5 | 1,217,930 | 947,334 | 1,217,930 | 947,334 |
| Mandatory Reserve with the CNB | 6 | 1,279,570 | 1,545,787 | 1,279,570 | 1,545,787 |
| Loans to and Receivables from Banks | 7 | 261,913 | 583,784 | 261,913 | 583,784 |
| Held-to-Maturity Investments | 10 | 571,764 | 597,943 | 571,764 | 597,943 |
| Loans and Receivables from Customers | 11 | 10,298,014 | 10,473,750 | 10,184,719 | 10,335,154 |
| Fees Receivable | 18 | 15,538 | 14,370 | 15,101 | 13,945 |
| **Off-Balance Sheet Exposure** | 40 | **1,896,190** | **1,653,458** | **1,894,416** | **1,652,388** |
| Undisbursed Lending Commitments | | 1,334,010 | 1,319,379 | 1,332,236 | 1,318,309 |
| Guarantees | | 522,627 | 302,272 | 522,627 | 302,272 |
| Other Contingent Liabilities | | 39,553 | 31,807 | 39,553 | 31,807 |
| **Total Credit Exposure** | | **15,540,919** | **15,816,426** | **15,425,413** | **15,676,335** |

## 2. RISK MANAGEMENT (continued)

### 2.1. Credit Risk (continued)

#### 2.1.4. Assets Exposed to Credit Risk

| Group 2015 | Loans and Receivables from Customers HRK '000 | Loans to and Receivables from Banks HRK '000 | Financial Assets Held to Maturity HRK '000 | Balances with the Croatian National Bank HRK '000 | Fees Receivable HRK '000 |
|---|---|---|---|---|---|
| Loans Neither Overdue nor Impaired | 9,215,915 | 261,913 | 575,541 | 1,767,612 | 15,538 |
| Overdue Loans Not Impaired | 14,843 | - | - | - | - |
| Impaired Loans | 3,264,932 | 500 | 27,859 | - | 12,514 |
| **Total Gross** | **12,495,690** | **262,413** | **603,400** | **1,767,612** | **28,052** |
| Individually Identified Losses | (2,104,998) | (500) | (23,380) | - | (12,514) |
| Portfolio-Based Losses | (92,678) | - | (8,256) | - | - |
| **Total Identified Losses** | **(2,197,676)** | **(500)** | **(31,636)** | **-** | **(12,514)** |
| **Total** | **10,298,014** | **261,913** | **571,764** | **1,767,612** | **15,538** |

| Group 2014 | Loans and Receivables from Customers HRK '000 | Loans to and Receivables from Banks HRK '000 | Financial Assets Held to Maturity HRK '000 | Balances with the Croatian National Bank HRK '000 | Fees Receivable HRK '000 |
|---|---|---|---|---|---|
| Loans Neither Overdue nor Impaired | 9,243,362 | 583,784 | 598,814 | 2,133,130 | 14,370 |
| Overdue Loans not Impaired | 80,654 | - | - | - | - |
| Impaired Loans | 3,225,750 | 500 | 27,978 | - | 9,826 |
| **Total Gross** | **12,549,766** | **584,284** | **626,792** | **2,133,130** | **24,196** |
| Individually Identified Losses | (1,974,201) | (500) | (23,103) | - | (9,826) |
| Portfolio-Based Losses | (101,815) | - | (5,746) | - | - |
| **Total Identified Losses** | **(2,076,016)** | **(500)** | **(28,849)** | **-** | **(9,826)** |
| **Total** | **10,473,750** | **583,784** | **597,943** | **2,133,130** | **14,370** |

## 2. RISK MANAGEMENT (continued)

### 2.1. Credit Risk (continued)

#### 2.1.4. Assets Exposed to Credit Risk (continued)

| Bank 2015 | Loans and Receivables from Customers HRK '000 | Loans to and Receivables from Banks HRK '000 | Financial Assets Held to Maturity HRK '000 | Balances with the Croatian National Bank HRK '000 | Fees Receivable HRK '000 |
|---|---|---|---|---|---|
| Loans Neither Overdue nor Impaired | 9,081,333 | 261,913 | 575,541 | 1,767,612 | 15,101 |
| Overdue Loans Not Impaired | 14,843 | - | - | - | 0 |
| Impaired Loans | 3,305,594 | 500 | 27,859 | - | 12,514 |
| **Total Gross** | **12,401,770** | **262,413** | **603,400** | **1,767,612** | **27,615** |
| Individually Identified Losses | (2,125,655) | (500) | (23,380) | - | (12,514) |
| Portfolio-Based Losses | (91,396) | - | (8,256) | - | - |
| **Total Identified Losses** | **(2,217,051)** | **(500)** | **(31,636)** | **-** | **(12,514)** |
| **Total** | **10,184,719** | **261,913** | **571,764** | **1,767,612** | **15,101** |

| Bank 2014 | Loans and Receivables from Customers HRK '000 | Loans to and Receivables from Banks HRK '000 | Financial assets Held to Maturity HRK '000 | Balances with the Croatian National Bank HRK '000 | Fees Receivable HRK '000 |
|---|---|---|---|---|---|
| Loans Neither Overdue nor Impaired | 9,106,699 | 583,784 | 598,814 | 2,133,130 | 13,945 |
| Overdue Loans Not Impaired | 80,615 | - | - | - | - |
| Impaired Loans | 3,221,236 | 500 | 27,978 | - | 9,826 |
| **Total Gross** | **12,408,550** | **584,284** | **626,792** | **2,133,130** | **23,771** |
| Individually Identified Losses | (1,972,766) | (500) | (23,103) | - | (9,826) |
| Portfolio-Based Losses | (100,630) | - | (5,746) | - | |
| **Total Identified Losses** | **(2,073,396)** | **(500)** | **(28,849)** | **-** | **(9,826)** |
| **Total** | **10,335,154** | **583,784** | **597,943** | **2,133,130** | **13,945** |

**2. RISK MANAGEMENT (continued)**

**2.1. Credit Risk (continued)**

**2.1.4. Assets Exposed to Credit Risk (continued)**

In accordance with applicable acts, the Bank utilizes the following common types of collateral: bank guarantees; HAMAG-BICRO (Croatian Agency for SMEs, Innovation and Investments) and other corporate guarantees; bills of exchange accepted by a bank; pledged property and equipment; insurance policies; pledged shares, bonds, commercial papers, and units in open-ended investment funds; assignment of receivables (cessions) from corporate clients and the Government; pledged concessions; pledged industrial and intellectual property; and other common financial execution instruments, such as bills of exchange and promissory notes.

Collateral value is reviewed along the lines of internal policies and procedures, and in accordance with good business practice and current market trends.

Collateral value in the table below relates to recorded collateral value based on valuation made by certified appraisers without adjustments for discount factors but excluding burdens listed before the Bank and limiting to the amount of exposure which it collateralizes.

| | | Group | | | Bank |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| **Asset Type** | **Collateral Type** | **HRK '000** | **HRK '000** | **HRK '000** | **HRK '000** |
| **Financial Assets Held to Maturity** | | **25,703** | **-** | **25,703** | **-** |
| | Deposits | 25,703 | - | 25,703 | - |
| **Loans to and Receivables from Customers** | | **4,800,698** | **8,584,905** | **4,663,528** | **8,343,536** |
| | Deposits | 156,415 | 123,941 | 156,415 | 123,941 |
| | Debt Securities | 71,165 | 33,010 | 71,165 | 33,010 |
| | Guarantees and Warranties of the Republic of Croatia | 1,136,185 | 1,422,428 | 1,136,185 | 1,422,428 |
| | Real Estate – Non-Business Purposes | 1,308,913 | 2,481,618 | 1,172,083 | 2,256,490 |
| | Real Estate – Business Purposes | 1,537,552 | 3,497,173 | 1,537,552 | 3,497,174 |
| | Movable Property (equipment, supplies, vehicles, ships...) | 207,888 | 328,467 | 207,888 | 328,467 |
| | Equity Investments (Single-Stocks and Funds) | 65,190 | 186,180 | 65,190 | 186,180 |
| | Land | 317,390 | 512,088 | 317,049 | 495,848 |
| **Total** | | **4,826,401** | **8,584,905** | **4,689,231** | **8,343,538** |

**2. RISK MANAGEMENT (continued)**

**2.1. Credit Risk (continued)**

**2.1.4. Assets Exposed to Credit Risk (continued)**

Below is presented an overview of due receivables aging structure based on days-past-due, with regard to the principal of the loans:

| Group HRK '000 | Total | Undue Exposure to Credit Risk | Days Past Due 1-30 | Days Past Due 31-60 | Days Past Due 61-90 | Days Past Due 91-180 | Days Past Due 180+ |
|---|---|---|---|---|---|---|---|
| **31 Dec 2015** | | | | | | | |
| Government | 4,151,027 | 4,145,173 | 1,994 | - | 1,946 | 1,912 | 2 |
| Other Corporate Clients | 4,004,502 | 2,132,519 | 34,753 | 4,970 | 12,501 | 163,981 | 1,655,778 |
| Retail | 4,755,612 | 4,145,173 | 8,599 | 4,023 | 17,322 | 9,554 | 570,942 |
| **Total** | **12,911,141** | **10,422,865** | **45,345** | **8,993** | **31,769** | **175,447** | **2,226,722** |
| **31 Dec 2014** | | | | | | | |
| Government | 2,754,692 | 2,754,566 | 123 | - | - | 1 | 2 |
| Other Corporate Clients | 5,223,787 | 3,412,671 | 39,453 | 35,882 | 34,213 | 24,390 | 1,677,178 |
| Retail | 4,517,588 | 3,947,545 | 15,825 | 4,571 | 2,931 | 21,095 | 525,621 |
| **Total** | **12,496,067** | **10,114,782** | **55,401** | **40,453** | **37,144** | **45,486** | **2,202,801** |

| Bank HRK '000 | Total | Undue Exposure to Credit Risk | Days Past Due 1-30 | Days Past Due 31-60 | Days Past Due 61-90 | Days Past Due 91-180 | Days Past Due 180+ |
|---|---|---|---|---|---|---|---|
| **31 Dec 2015** | | | | | | | |
| Government | 3,684,158 | 3,678,304 | 1,994 | - | 1,946 | 1,912 | 2 |
| Other Corporate Clients | 4,075,727 | 2,203,742 | 34,754 | 4,970 | 12,501 | 163,981 | 1,655,778 |
| Retail | 4,611,424 | 4,001,246 | 8,556 | 4,004 | 17,321 | 9,512 | 570,786 |
| **Total** | **12,371,309** | **9,883,292** | **45,304** | **8,974** | **31,768** | **175,405** | **2,226,567** |
| **31 Dec 2014** | | | | | | | |
| Government | 2,754,692 | 2,754,566 | 123 | - | - | 1 | 2 |
| Other Corporate Clients | 5,233,177 | 3,422,061 | 39,453 | 35,882 | 34,213 | 24,390 | 1,677,178 |
| Retail | 4,367,485 | 3,797,720 | 15,758 | 4,570 | 2,901 | 20,940 | 525,596 |
| **Total** | **12,355,354** | **9,974,347** | **55,334** | **40,452** | **37,114** | **45,331** | **2,202,776** |

The gross balance of fully recoverable amounts not identified as past due beyond 90 day and as individually impaired at the reporting date sheet day, together with the underlying collateral at its fair value, expressed as a percentage of net placements is as follows:

**(following tables show changes in collateral total between Dec 31 2015 and Dec 31 2014. These changes arise from limitation on collateral value to principal level for 2015 figures. Figures for 2014 show total collateral value which has resulted in collateral value being higher than the exposure it secures)*

**2. RISK MANAGEMENT (continued)**

**2.1. Credit Risk (continued)**

**2.1.4. Assets Exposed to Credit Risk (continued)**

***(a) Assets exposed to credit risk but not impaired (risk category A)***

| **Group 2015 HRK '000** | Government Units | Financial Institutions (Excl. Banks) | Companies | Housing Loans | Mortgage Loans | Credit Cards | Other Loans | **Total Loans and Receivables from Customers** | **Loans to and Receivables from Banks** | **Financial Assets Held to Maturity** | **Balances with the Croatian National Bank** | **Fees Receivable** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross amount | 3,475,938 | 71,182 | 1,626,689 | 1,056,083 | 856 | 147,732 | 2,837,435 | **9,215,915** | 261,913 | 575,541 | 1,767,612 | 15,538 |
| Total Portfolio-Based Losses | (34,925) | (715) | (16,431) | (10,455) | (9) | (1,484) | (28,510) | **(92,529)** | - | (8,256) | - | - |
| Net Amount | **3,441,013** | **70,467** | **1,610,259** | **1,045,628** | **847** | **146,248** | **2,808,925** | **9,123,386** | **261,913** | **567,285** | **1,767,612** | **15,538** |
| Collateral Value | 858,793 | 71,165 | 856,186 | 974,943 | 856 | - | 223,951 | **2,985,894** | - | 25,703 | - | - |
| Collateral Coverage (%) | 24.96 | 100.99 | 53.17 | 93.24 | 101.06 | - | 7.97 | **32.73** | - | 4.53 | - | - |

| **Group 2014 HRK '000** | Government Units | Financial Institutions (Excl. Banks) | Companies | Housing Loans | Mortgage Loans | Credit Cards | Other Loans | **Total Loans and Receivables from Customers** | **Loans to and Receivables from Banks** | **Financial Assets Held to Maturity** | **Balances with the Croatian National Bank** | **Fees Receivable** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross amount | 2.771.920 | 31.508 | 2.583.366 | 963.401 | 912 | 152.032 | 2.741.131 | **9.244.270** | 583.784 | 598.814 | 2.133.130 | 14.370 |
| Total Portfolio-Based Losses | (30,361) | (345) | (28,389) | (10,036) | (10) | (1,665) | (30,024) | **(100,830)** | - | (5,746) | - | - |
| Net Amount | **2,741,559** | **31,163** | **2,554,977** | **953,365** | **902** | **150,367** | **2,711,107** | **9,143,440** | **583,784** | **593,068** | **2,133,130** | **14,370** |
| Collateral Value | 962,971 | 33,010 | 2,262,579 | 1,618,967 | 3,422 | - | 439,621 | **5,320,570** | - | - | - | - |
| Collateral Coverage (%) | 35.12 | 105.93 | 88.56 | 169.82 | 379.38 | - | 16.22 | **58.19** | - | - | - | - |

**2. RISK MANAGEMENT (continued)**

**2.1. Credit Risk (continued)**

**2.1.4. Assets Exposed to Credit Risk (continued)**

***(a) Assets exposed to credit risk but not impaired (risk category A) (continued)***

| **Bank 2015 HRK '000** | Government Units | Financial Institutions (Excl. Banks) | Companies | Housing Loans | Mortgage Loans | Credit Cards | Other Loans | **Total Loans and Receivables from Customers** | **Loans to and Receivables from Banks** | **Financial Assets Held to Maturity** | **Balances with the Croatian National Bank** | **Fees Receivable** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross amount | 3,475,938 | 71,182 | 1,635,277 | 912,913 | 856 | 147,732 | 2,837,435 | **9,081,333** | 261,913 | 575,541 | 1,767,612 | 15,101 |
| Total Portfolio-Based Losses | (34,925) | (715) | (16,431) | (9,173) | -9 | (1,484) | (28,510) | **(91,247)** | - | (8,256) | - | - |
| Net Amount | **3,441,013** | **70,467** | **1,618,847** | **903,740** | **847** | **146,248** | **2,808,925** | 8,990,086 | **261,913** | **567,285** | **1,767,612** | **15,101** |
| Collateral Value | 858,793 | 71,165 | 856,186 | 839,209 | 856 | - | 223,951 | **2,850,160** | - | 25,703 | - | - |
| Collateral Coverage (%) | 24.96 | 100.99 | 52.89 | 92.86 | 101.06 | - | 7.97 | **31.70** | - | 4.53 | - | - |

| **Bank 2014 HRK '000** | Government Units | Financial Institutions (Excl. Banks) | Companies | Housing Loans | Mortgage Loans | Credit Cards | Other Loans | **Total Loans and Receivables from Customers** | **Loans to and Receivables from Banks** | **Financial Assets Held to Maturity** | **Balances with the Croatian National Bank** | **Fees Receivable** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross amount | 2,771,920 | 31,508 | 2,591,847 | 817,349 | 912 | 152,032 | 2,741,131 | **9,106,699** | 583,784 | 598,814 | 2,133,130 | 13,945 |
| Total Portfolio-Based Losses | (30,361) | (345) | (28,389) | (8,953) | -10 | (1,665) | (30,024) | **(99,747)** | - | (5,746) | - | - |
| Net Amount | **2,741,559** | **31,163** | **2,563,458** | **808,396** | **902** | **150,367** | **2,711,107** | 9,006,952 | **583,784** | **593,068** | **2,133,130** | **13,945** |
| Collateral Value | 962,971 | 33,010 | 2,262,580 | 1,380,399 | 3,422 | - | 439,621 | **5,082,003** | - | - | - | - |
| Collateral Coverage (%) | 35.12 | 105.93 | 88.26 | 170.76 | 379.38 | - | 16.22 | **56.42** | - | - | - | - |

**2. RISK MANAGEMENT (continued)**

**2.1. Credit Risk (continued)**

**2.1.4. Assets Exposed to Credit Risk (continued)**

***(b) Assets exposed to credit risk in the risk category A that are past due beyond 90 days but not impaired***

The gross balance and the coverage of those assets with collateral at fair value, presented as a percentage of net placements is as follows:

| **Group 2015 HRK '000** | **Loans and Receivables from Customers** | | | | | **Fee Receivable** |
|---|---|---|---|---|---|---|
| | Government Units | Companies | Housing Loans | Other Loans | **Total** | |
| Gross Amount | - | 14,843 | - | - | 14,843 | - |
| Total Portfolio-Based Losses | - | (149) | - | - | (149) | - |
| **Net Amount** | **-** | **14,694** | **-** | **-** | **14,694** | **-** |
| Collateral Value | - | 12,456 | - | - | 12,456 | - |
| **Collateral Coverage (%)** | - | 84.77 | - | - | 84.77 | - |

| **Group 2014 HRK '000** | **Loans and Receivables from Customers** | | | | | **Fee Receivable** |
|---|---|---|---|---|---|---|
| | Government Units | Companies | Housing Loans | Other Loans | **Total** | |
| Gross Amount | - | 71,229 | 27 | 9,385 | 80,641 | - |
| Total Portfolio-Based Losses | - | (780) | - | (103) | (883) | - |
| **Net Amount** | **-** | **70,449** | **27** | **9,282** | **79,758** | **-** |
| Collateral Value | - | 81,942 | - | 14,624 | 96,566 | |
| **Collateral Coverage (%)** | - | 116.31 | - | 157.55 | 121.07 | - |

## 2. RISK MANAGEMENT (continued)

### 2.1. Credit Risk (continued)

### 2.1.4. Assets Exposed to Credit Risk (continued)

***(b) Assets exposed to credit risk in the risk category A that are past due beyond 90 days but not impaired (continued)***

| **Bank 2015 HRK '000** | Loans and Receivables from Customers | | | | | **Fee Receivable** |
|---|---|---|---|---|---|---|
| | Government Units | Companies | Housing Loans | Other Loans | **Total** | |
| Gross Amount | - | 14,843 | - | - | 14,843 | - |
| Total Portfolio-Based Losses | - | (149) | - | - | (149) | - |
| **Net Amount** | **-** | **14,694** | **-** | **-** | **14,694** | **-** |
| Collateral Value | - | 12,456 | - | - | 12,456 | - |
| **Collateral Coverage (%)** | - | 84.77 | - | - | 84.77 | - |

| **Bank 2014 HRK '000** | Loans and Receivables from Customers | | | | | **Fee Receivable** |
|---|---|---|---|---|---|---|
| | Government Units | Companies | Housing Loans | Other Loans | **Total** | |
| Gross Amount | - | 71,229 | - | 9,385 | **80,614** | - |
| Total Portfolio-Based Losses | - | (780) | - | (103) | **(883)** | |
| **Net Amount** | **-** | **70,449** | **-** | **9,282** | **79,731** | **-** |
| Collateral Value | - | 81,942 | - | 14,624 | **96,566** | |
| **Collateral Coverage (%)** | - | 116.31 | - | 157.55 | 121.11 | - |

**2. RISK MANAGEMENT (continued)**

**2.1. Credit Risk (continued)**

**2.1.4. Assets Exposed to Credit Risk (continued)**

***(c) Credit risk on impaired assets in risk categories B and C***

Tables below show the amount of loans with impairments, both individual and portfolio-based, as well as coverage of these placements by corresponding collateral at fair value in percentage and in relation to net placements as following:

| **Group 2015 HRK '000** | **Loans to Customers** | | | | | | **Loans to and Receivables from Banks** | **Financial Assets Held to Maturity** | **Fees Receivable** |
|---|---|---|---|---|---|---|---|---|---|
| | Companies | Housing Loans | Mortgage Loans | Credit Cards | Other Loans | **Total** | | | |
| Gross Amount | 2,498,704 | 44,597 | 60 | 12,660 | 708,911 | **3,264,932** | 500 | 27,859 | 12,514 |
| Total Identified Losses | (1,547,154) | (19,885) | (6) | (11,039) | (526,914) | **(2,104,998)** | (500) | (23,380) | (12,514) |
| **Net Amount** | **951,550** | **24,712** | **54** | **1,621** | **181,997** | **1,159,934** | **-** | **4,479** | **-** |
| Collateral Value | 1,578,486 | 39,041 | 60 | - | 184,761 | **1,802,348** | **-** | **-** | **-** |
| **Collateral Coverage (%)** | 165.89 | 157.98 | 111.11 | - | 101.52 | 155.38 | **-** | **-** | **-** |

| **Group 2014 HRK '000** | **Loans to Customers** | | | | | | **Loans to and Receivables from Banks** | **Financial Assets Held to Maturity** | **Fees Receivable** |
|---|---|---|---|---|---|---|---|---|---|
| | Companies | Housing Loans | Mortgage Loans | Credit Cards | Other Loans | **Total** | | | |
| Gross Amount | 2,528,782 | 35,648 | 82 | 10,332 | 647,922 | **3,222,766** | 500 | 27,978 | 9,826 |
| Total Identified Losses | (1,450,986) | (14,571) | (8) | (8,995) | (498,570) | **(1,973,130)** | (500) | (23,103) | (9,826) |
| **Net Amount** | **1,077,796** | **21,077** | **74** | **1,337** | **149,352** | **1,249,636** | **-** | **4,875** | **-** |
| Collateral Value | 2,784,441 | 53,109 | 697 | - | 329,522 | **3,167,769** | - | - | - |
| **Collateral Coverage (%)** | 258.35 | 251.98 | 941.89 | - | 220.63 | 253.50 | - | - | - |

**2. RISK MANAGEMENT (continued)**

**2.1. Credit Risk (continued)**

**2.1.4. Assets Exposed to Credit Risk (continued)**

***(c) Credit risk on impaired assets in risk categories B and C (continued)***

| **Bank 2015 HRK '000** | **Loans to Customers** | | | | | | **Loans to and Receivables from Banks** | **Financial Assets Held to Maturity** | **Fees Receivable** |
|---|---|---|---|---|---|---|---|---|---|
| | Companies | Housing Loans | Mortgage Loans | Credit Cards | Companies | Housing Loans | | | |
| Gross Amount | 2,540,851 | 43,112 | 60 | 12,660 | 708,911 | **3,305,594** | 500 | 27,859 | 12,514 |
| Total Identified Losses | (1,568,227) | (19,469) | (6) | (11,039) | (526,914) | **(2,125,655)** | (500) | (23,380) | (12,514) |
| **Net Amount** | **972,624** | **23,643** | **54** | **1,621** | **181,997** | **1,179,939** | **-** | **4,479** | **-** |
| Collateral Value | 1,578,486 | 37,605 | 60 | - | 184,761 | **1,800,912** | - | - | - |
| **Collateral Coverage (%)** | 162.29 | 159.05 | 111.11 | - | 101.52 | 152.63 | - | - | - |

| **Bank 2014 HRK '000** | **Loans to Customers** | | | | | | **Loans to and Receivables from Banks** | **Financial Assets Held to Maturity** | **Fees Receivable** |
|---|---|---|---|---|---|---|---|---|---|
| | Companies | Housing Loans | Mortgage Loans | Credit Cards | Companies | Housing Loans | | | |
| Gross Amount | 2,528,782 | 34,118 | 82 | 10,332 | 647,922 | **3,221,236** | 500 | 27,978 | 9,826 |
| Total Identified Losses | (1,450,986) | (14,207) | (8) | (8,995) | (498,570) | **(1,972,766)** | (500) | (23,103) | (9,826) |
| **Net Amount** | **1,077,796** | **19,911** | **74** | **1,337** | **149,352** | **1,248,470** | **-** | **4,875** | **-** |
| Collateral Value | 2,784,441 | 50,309 | 697 | - | 329,522 | **3,164,969** | - | - | - |
| **Collateral Coverage (%)** | 258.35 | 252.67 | 941.89 | - | 220.63 | 253.51 | - | - | - |

**2. RISK MANAGEMENT (continued)**

**2.1. Credit Risk (continued)**

**2.1.4. Assets Exposed to Credit Risk (continued)**

***(d) Prolonged and rescheduled loans to customers***

Prolongation of a loan is approved to customers because of common and current financing needs of their business activities.

Loans are most often rescheduled when borrowers' business operations are disrupted, with considerable changes made to the previously agreed lending terms and conditions.

| | | **Bank** |
|---|---|---|
| | **2015 HRK '000** | **2014 HRK '000** |
| **Gross Loans to Customers** | | |
| Corporates | 1,084,795 | 1,592,406 |
| Small and Medium Enterprises | 147,546 | 239,097 |
| Retail | 86,546 | 112,283 |
| **Total** | **1,318,887** | **1,943,786** |

### 2.1.5. Credit Risk Concentration by Industry

An analysis of the concentration of credit risk by industry is presented in the table below:

| | **Group 2015 HRK '000** | **Group 2014 HRK '000** |
|---|---|---|
| Public administration, Defense and Compulsory Social Security | 2,724,818 | 1,796,691 |
| Manufacturing | 1,225,856 | 1,459,161 |
| Construction | 1,332,131 | 1,432,713 |
| Transportation and Storage | 358,387 | 685,143 |
| Wholesale and Retail Trade; Motor Vehicles and Motorcycles Repair | 557,988 | 540,708 |
| Professional, Scientific and Technical Activities | 149,661 | 412,783 |
| Accommodation and Food Service Activities | 232,141 | 230,574 |
| Agriculture, Forestry and Fishing | 239,189 | 228,338 |
| Information and Communications | 198,165 | 203,164 |
| Electricity and Gas Supply and Air-Conditioning | 98,522 | 134,802 |
| Arts, Entertainment and Recreation | 95,425 | 96,896 |
| Administrative and Auxiliary Services | 42,059 | 77,147 |
| Other | 427,976 | 680,360 |
| **Total Gross Corporate Loans** | **7,682,318** | **7,978,480** |
| **Gross Retail Loans** | **4,763,360** | **4,517,588** |
| Collateralized | 4,800,698 | 8,584,905 |
| Accrued Interests | 50,012 | 53,699 |
| Provisions for Impairment Losses | (2,197,676) | (2,076,017) |
| **Total** | **10,298,014** | **10,473,750** |

**2. RISK MANAGEMENT (continued)**

**2.1. Credit Risk (continued)**

**2.1.5. Credit Risk Concentration by Industry (continued)**

| | Bank 2015 HRK '000 | Bank 2014 HRK '000 |
|---|---|---|
| Public administration, Defense and Compulsory Social Security | 2,724,818 | 1,796,691 |
| Manufacturing | 1,225,856 | 1,459,161 |
| Construction | 1,332,131 | 1,432,713 |
| Transportation and Storage | 358,387 | 685,143 |
| Wholesale and Retail Trade; Motor Vehicles and Motorcycles Repair | 557,988 | 540,708 |
| Professional, Scientific and Technical Activities | 149,661 | 412,783 |
| Accommodation and Food Service Activities | 239,189 | 228,338 |
| Agriculture, Forestry and Fishing | 232,141 | 230,574 |
| Information and Communications | 198,165 | 203,164 |
| Electricity and Gas Supply and Air-Conditioning | 98,522 | 134,802 |
| Arts, Entertainment and Recreation | 95,425 | 96,896 |
| Administrative and Auxiliary Services | 42,059 | 77,147 |
| Other | 478,711 | 689,750 |
| **Total Gross Corporate Loans** | **7,733,053** | **7,987,870** |
| **Gross Retail Loans** | **4,619,172** | **4,367,485** |
| Collateralized | 4,663,528 | 8,343,536 |
| Accrued Interests | 49,545 | 53,196 |
| Provision for Impairment Losses | (2,217,051) | (2,073,397) |
| **Total** | **10,184,984** | **10,335,154** |

**2. RISK MANAGEMENT (continued)**

### 2.2. Liquidity risk

Liquidity risk arises in the general funding of the Bank's and the Group's activities and in the management of its positions. The main categories of liquidity risk to which the Bank and the Group is exposed are as follows:

- liquidity funding risk (structural liquidity risk): risk that the Bank and the Group will not be able to meet efficiently its expected and unexpected present and future cash and collateral requirements without impacting its day-to-day operations or its own financial result,
- market liquidity risk, risk that the Bank and the Group will not be able to offset its positions or liquidate positions at market price due to a market disturbance or the market being insufficiently deep.

The Bank and the Group manage liquidity risk in accordance with the legal and regulatory requirements. In addition to those requirements, liquidity risk management is governed by the following internal regulations:

- Risk Management Policy,
- Liquidity Risk Management Manual.

The system for managing liquidity risk, in line with defined polices, includes:

- estimation and measurement of liquidity risk exposure;
- setting liquidity risk exposure limits,
- reporting and monitoring the limits used,
- the mechanism for the distribution of liquidity costs and benefits,
- control function.

Liquidity risk management is realized through:

- operational management of daily liquidity,
- operational management of short-term liquidity,
- structural liquidity management.

Operational management of daily and short-term liquidity is performed through:

- planning and projecting daily/ten-day/monthly cash flows
- maintaining minimum weekly and monthly liquidity coefficient in HRK, total of all convertible currencies and non-convertible currencies individually, and total minimum weekly and monthly liquidity coefficient, calculated according to CNB's Decision on Liquidity Risk Management, within the prescribed limit.

Structural liquidity management is performed through:

- maintaining positions depending on gap limits between receivables and liabilities according to remaining contractual maturity,
- maintaining positions in accordance with liquidity risk exposure limits,
- diversification of sources of funding.

**2. RISK MANAGEMENT (continued)**

**2.2. Liquidity Risk (continued)**

Risk Management Division is reporting monthly about liquidity risk and liquidity risk exposure limits during sessions of Assets and Liabilities Management Committee.

The Bank and the Group are submitting monthly reports to the CNB in form and in deadline prescribed by Decision on Liquidity Risk Management, with end-of-the-month status. Prescribed quantitative requirements consist of following reports: about the amount of highly liquid assets (presently marketable assets), about the maturity gap of assets and liabilities (expected inflows and outflows form), about the level of minimal liquidity coefficient and funds concentration within total liabilities. Information is delivered for two periods: up to one week and up to one month, separately for HRK, convertible currencies and each non-convertible currency individually (if they represent a significant amount) and on portfolio basis for HRK and convertible currencies. The Bank and the Group have maintained all limits above prescribed levels during 2015. The Bank and the Group maintain mandatory reserve and minimal foreign currency receivables within limits prescribed by Decision on Reserve Requirements and Decision on Minimum Required Amount of Foreign Currency Claims.

Financial Markets Division reports monthly to Assets and Liability Management Committee about planned outflows and inflows.

Ultimate responsibility for liquidity risk management rests with the Bank's Management Board. The Bank's Asset and Liability Committee is authorized by the Management Board to manage liquidity risk. The Committee makes decisions and conclusions regarding liquidity management in its sessions. Each sector to which these decisions and conclusions made by the committee relate, is obliged to enact them.

As a part of liquidity risk management system, authority, responsibilities and procedures in conditions of liquidity crisis are determined separately.

The Bank and the Group prescribe and implement stress tests of its liquidity. Risk sector conducts tests of immunity to stress by taking into account all the factors specific to the Bank and the Group (internal factors) and market factors (external factors).

Stress tests are conducted on minimal liquidity coefficient for HRK and total convertible currencies, for periods up to a week and up to a month.

Long-term liquidity is managed by maintaining positions in accordance with the limits of exposure to liquidity risk.

**2.2.1 Maturity Analysis**

A maturity analysis of assets and liabilities, as well as equity, of the Bank and the Group, based on their remaining contractual maturity, except for financial assets at fair value through profit and loss that are analyzed as current based on their classification and the Bank's and the Group's trading intention, as at 31 December 2015 and 31 December 2014, is presented in the tables below.

**2. RISK MANAGEMENT (continued)**

**2.2. Liquidity Risk (continued)**

**2.2.1. Maturity Analysis (continued)**

**Group 2015**
**HRK '000**

| | 0-30 Days | 31-90 Days | 91-360 Days | 1 to 3 Years | Over 3 Years | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and Amounts Due from Banks | 1,630,115 | - | - | - | - | 1,630,115 |
| Mandatory Reserve with the Croatian National Bank | 1,279,570 | - | - | - | - | 1,279,570 |
| Loans to and Receivables from Banks | 193,492 | 35,036 | - | 33,385 | - | 261,913 |
| Financial Assets at Fair Value in PNL | 1,016,415 | 3,279 | - | - | - | 1,019,694 |
| Financial Assets Available for Sale | - | 27,429 | 1,127,074 | 255,346 | 811,461 | 2,221,310 |
| Financial Assets Held to Maturity | 45,461 | - | 360,395 | 151,073 | 14,835 | 571,764 |
| Loans and Receivables from Customers | 1,445,319 | 327,128 | 1,654,477 | 3,291,819 | 3,579,271 | 10,298,014 |
| Assets Held for Sale | - | - | - | 7,930 | - | 7,930 |
| Properties and Equipment | - | - | - | - | 142,236 | 142,236 |
| Investment Properties | - | - | - | - | 9,568 | 9,568 |
| Intangible Assets | - | - | - | - | 117,010 | 117,010 |
| Deferred Tax Assets, Net | - | - | - | - | 10,750 | 10,750 |
| Tax Prepayment | - | - | 371 | - | - | 371 |
| Other Assets | 193,410 | 777 | 11,538 | 7,558 | 230,545 | 443,828 |
| **TOTAL ASSETS** | **5,803,782** | **393,649** | **3,153,855** | **3,747,111** | **4,915,676** | **18,014,073** |
| **LIABILITIES** | | | | | | |
| Financial Liabilities at Fair Value in PNL | - | - | - | - | - | - |
| Deposits from Banks | 236,661 | 5,678 | 115,300 | - | - | 357,639 |
| Customer Deposits | 6,983,856 | 1,417,744 | 4,491,227 | 1,412,130 | 188,637 | 14,493,594 |
| Borrowings | 6,351 | 18,945 | 77,905 | 630,707 | 271,475 | 1,005,383 |
| Hybrid Instruments | - | - | - | - | - | - |
| Provisions for Liabilities and Expenses | 14,160 | 6,614 | 12,026 | 2,479 | 1,444 | 36,723 |
| Other Liabilities | 171,013 | 19,318 | 17,074 | 8,325 | 126,173 | 341,903 |
| Total Equity | - | - | - | - | 1,778,831 | 1,778,831 |
| **TOTAL LIABILITIES AND EQUITY** | **7,412,041** | **1,468,299** | **4,713,532** | **2,053,641** | **2,366,560** | **18,014,073** |
| **MATURITY GAP** | **(1,608,259)** | **(1,074,650)** | **(1,559,677)** | **1,693,470** | **2,549,116** | **-** |
| **CUMMULATIVE MATURITY GAP** | **(1,608,259)** | **(2,682,909)** | **(4,242,586)** | **(2,549,116)** | **-** | **-** |
| ***OFF-BALANCE SHEET*** | ***550,711*** | ***118,497*** | ***923,542*** | ***235,609*** | ***67,831*** | ***1,896,190*** |
| *Derivatives* | - | - | - | - | - | - |
| *Off-Balance Sheet Contingent Liabilities* | *550,711* | *118,497* | *923,542* | *235,609* | *67,831* | *1,896,190* |

**2. RISK MANAGEMENT (continued)**

**2.2. Liquidity Risk (continued)**

**2.2.1. Maturity Analysis (continued)**

**Group 2014**
**HRK '000**

| | 0-30 Days | 31-90 Days | 91-360 Days | 1 to 3 Years | Over 3 Years | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and Amounts Due from Banks | 1,308,452 | - | - | - | - | 1,308,452 |
| Mandatory Reserve with the Croatian National Bank | 1,545,787 | - | - | - | - | 1,545,787 |
| Loans to and Receivables from Banks | 459,293 | 80,450 | 10,762 | 257 | 33,022 | 583,784 |
| Financial Assets at Fair Value in PNL | 379,518 | 2,283 | - | - | - | 381,801 |
| Financial Assets Available for Sale | 11,661 | 394,902 | 303,397 | 627,437 | 665,577 | 2,002,974 |
| Financial Assets Held to Maturity | 82,472 | 17,827 | 227,445 | 255,290 | 14,909 | 597,943 |
| Loans and Receivables from Customers | 2,086,755 | 492,852 | 2,750,437 | 2,239,853 | 2,903,853 | 10,473,750 |
| Assets Held for Sale | - | - | - | 7,930 | - | 7,930 |
| Properties and Equipment | - | - | - | - | 153,225 | 153,225 |
| Investment Properties | - | - | - | - | 9,828 | 9,828 |
| Intangible Assets | - | - | - | - | 140,342 | 140,342 |
| Deferred Tax Assets, Net | - | - | 735 | - | 15,868 | 16,603 |
| Tax Prepayment | - | - | 53 | - | - | 53 |
| Other Assets | 150,369 | 113 | 34,718 | 5,609 | 156,630 | 347,439 |
| **TOTAL ASSETS** | **6,024,307** | **988,427** | **3,327,547** | **3,136,376** | **4,093,254** | **17,569,911** |
| **LIABILITIES** | | | | | | |
| Financial Liabilities at Fair Value in PNL | 508 | - | - | - | - | 508 |
| Deposits from Banks | 43,838 | 263,308 | 67,604 | - | - | 374,750 |
| Customer Deposits | 6,442,699 | 1,704,129 | 4,682,584 | 1,126,172 | 129,141 | 14,084,725 |
| Borrowings | 36,543 | 23,802 | 375,948 | 736,794 | 334,240 | 1,507,327 |
| Hybrid Instruments | 52,537 | 8,384 | 200,000 | - | - | 260,921 |
| Provisions for Liabilities and Expenses | 15,524 | 806 | 4,036 | 9,372 | 20 | 29,758 |
| Other Liabilities | 397,591 | 15,343 | 30,518 | 7,533 | 18,209 | 469,194 |
| Total Equity | - | - | - | - | 842,728 | 842,728 |
| **TOTAL LIABILITIES AND EQUITY** | **6,989,240** | **2,015,772** | **5,360,690** | **1,879,871** | **1,324,338** | **17,569,911** |
| **MATURITY GAP** | **(964,933)** | **(1,027,345)** | **(2,033,143)** | **1,256,505** | **2,768,916** | **-** |
| **CUMMULATIVE MATURITY GAP** | **(964,933)** | **(1,992,278)** | **(4,025,421)** | **(2,768,916)** | **-** | **-** |
| ***OFF-BALANCE SHEET*** | ***695,227*** | ***192,386*** | ***707,479*** | ***82,055*** | ***53,434*** | ***1,730,581*** |
| *Derivatives* | *77,123* | - | - | - | - | *77,123* |
| *Off-Balance Sheet Contingent Liabilities* | *618,104* | *192,386* | *707,479* | *82,055* | *53,434* | *1,653,458* |

**2. RISK MANAGEMENT (continued)**

**2.2. Liquidity Risk (continued)**

**2.2.1. Maturity Analysis (continued)**

**Bank 2015**
**HRK '000**

| | 0-30 Days | 31-90 Days | 91-360 Days | 1 to 3 Years | Over 3 Years | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and Amounts Due from Banks | 1,630,052 | - | - | - | - | 1,630,052 |
| Mandatory Reserve with the Croatian National | 1,279,570 | - | - | - | - | 1,279,570 |
| Loans to and Receivables from Banks | 193,492 | 35,036 | - | 33,385 | - | 261,913 |
| Financial Assets at Fair Value in PNL | 899,639 | 1,304 | - | - | - | 900,943 |
| Financial Assets Available for Sale | - | 27,430 | 1,127,074 | 255,346 | 811,460 | 2,221,310 |
| Financial Assets Held to Maturity | 45,461 | - | 360,395 | 151,073 | 14,835 | 571,764 |
| Loans and Receivables from Customers | 1,443,451 | 325,032 | 1,647,086 | 3,271,510 | 3,497,640 | 10,184,719 |
| Assets Held for Sale | - | - | - | 7,930 | - | 7,930 |
| Properties and Equipment | - | - | - | - | 45,490 | 45,490 |
| Investment Properties | - | - | - | - | 142,150 | 142,150 |
| Intangible Assets | - | - | - | - | 116,850 | 116,850 |
| Deferred Tax Assets, Net | - | - | - | - | 10,224 | 10,224 |
| Tax Prepayment | - | - | 81 | - | - | 81 |
| Other Assets | 198,682 | 58 | 8,952 | 7,558 | 103,135 | 318,385 |
| **TOTAL ASSETS** | **5,690,347** | **388,860** | **3,143,588** | **3,726,802** | **4,741,785** | **17,691,382** |
| **LIABILITIES** | | | | | | |
| Financial Liabilities at Fair Value in PNL | - | - | - | - | - | - |
| Deposits from Banks | 236,661 | 5,678 | 115,300 | - | - | 357,639 |
| Customer Deposits | 7,014,220 | 1,409,222 | 4,432,283 | 1,319,593 | 115,784 | 14,291,102 |
| Borrowings | 6,351 | 18,945 | 77,905 | 630,707 | 271,475 | 1,005,383 |
| Hybrid Instruments | - | - | - | - | - | - |
| Provisions for Liabilities and Expenses | 14,151 | 6,614 | 11,919 | 2,463 | 1,445 | 36,592 |
| Other Liabilities | 166,028 | 16,887 | 13,743 | 10,784 | 13,959 | 221,401 |
| Total Equity | - | - | - | - | 1,779,264 | 1,779,264 |
| **TOTAL LIABILITIES AND EQUITY** | **7,437,411** | **1,457,346** | **4,651,150** | **1,963,547** | **2,181,927** | **17,691,382** |
| **MATURITY GAP** | **(1,747,064)** | **(1,068,486)** | **(1,507,562)** | **1,763,255** | **2,559,857** | **-** |
| **CUMMULATIVE MATURITY GAP** | **(1,747,064)** | **(2,815,550)** | **(4,323,112)** | **(2,559,857)** | **-** | **-** |
| ***OFF-BALANCE SHEET*** | ***550,711*** | ***118,353*** | ***921,912*** | ***235,609*** | ***67,831*** | ***1,894,416*** |
| *Derivatives* | - | - | - | - | - | - |
| *Off-Balance Sheet Contingent Liabilities* | *550,711* | *118,353* | *921,912* | *235,609* | *67,831* | *1,894,416* |

**2. RISK MANAGEMENT (continued)**

**2.2. Liquidity Risk (continued)**

**2.2.1. Maturity Analysis (continued)**

**Bank 2014**
**HRK '000**

| | 0-30 Days | 31-90 Days | 91-360 Days | 1 to 3 Years | Over 3 Years | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and Amounts Due from Banks | 1,308,449 | - | - | - | - | 1,308,449 |
| Mandatory Reserve with the Croatian National Bank | 1,545,787 | - | - | - | - | 1,545,787 |
| Loans to and Receivables from Banks | 459,293 | 80,450 | 10,762 | 257 | 33,022 | 583,784 |
| Financial Assets at Fair Value in PNL | 283,014 | 997 | - | - | - | 284,011 |
| Financial Assets Available for Sale | 11,661 | 394,632 | 289,376 | 627,437 | 665,576 | 1,988,682 |
| Financial Assets Held to Maturity | 82,472 | 17,827 | 227,445 | 255,290 | 14,909 | 597,943 |
| Loans and Receivables from Customers | 2,082,556 | 491,512 | 2,743,625 | 2,218,229 | 2,799,232 | 10,335,154 |
| Assets Held for Sale | - | - | - | 7,930 | - | 7,930 |
| Properties and Equipment | - | - | - | - | 45,490 | 45,490 |
| Investments in Dependant Companies | - | - | - | - | 153,107 | 153,107 |
| Intangible Assets | - | - | - | - | 140,301 | 140,301 |
| Deferred Tax Assets, Net | - | - | - | - | 15,868 | 15,868 |
| Tax Prepayment | - | - | 53 | - | - | 53 |
| Other Assets | 149,277 | 49 | 34,113 | 5,609 | 155,408 | 344,456 |
| **TOTAL ASSETS** | **5,922,509** | **985,467** | **3,305,374** | **3,114,752** | **4,022,913** | **17,351,015** |
| **LIABILITIES** | | | | | | |
| Financial Liabilities at Fair Value in PNL | 508 | - | - | - | - | 508 |
| Deposits from Banks | 43,838 | 263,308 | 67,604 | - | - | 374,750 |
| Customer Deposits | 6,457,695 | 1,696,470 | 4,637,597 | 1,017,887 | 69,757 | 13,879,406 |
| Borrowings | 36,543 | 23,802 | 375,948 | 736,794 | 334,240 | 1,507,327 |
| Hybrid Instruments | 52,537 | 8,384 | 200,000 | - | - | 260,921 |
| Provisions for Liabilities and Expenses | 15,523 | 806 | 4,026 | 9,372 | 21 | 29,748 |
| Other Liabilities | 391,751 | 10,417 | 29,884 | 7,533 | 14,175 | 453,760 |
| Total Equity | - | - | - | - | 844,595 | 844,595 |
| **TOTAL LIABILITIES AND EQUITY** | **6,998,395** | **2,003,187** | **5,315,059** | **1,771,586** | **1,262,788** | **17,351,015** |
| **MATURITY GAP** | **(1,075,886)** | **(1,017,720)** | **(2,009,685)** | **1,343,166** | **2,760,125** | **-** |
| **CUMMULATIVE MATURITY GAP** | **(1,075,886)** | **(2,093,606)** | **(4,103,291)** | **(2,760,125)** | **-** | **-** |
| **OFF-BALANCE SHEET** | ***695,227*** | ***192,299*** | ***706,496*** | ***82,055*** | ***53,434*** | ***1,729,511*** |
| Derivatives | *77,123* | - | - | - | - | *77,123* |
| *Off-Balance Sheet Contingent Liabilities* | *618,104* | *192,299* | *706,496* | *82,055* | *53,434* | *1,652,388* |

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk**

The exposure to market risk occurs with respect to balance sheet and off-balance-sheet positions recognised at fair value:

- financial assets held for trading,
- financial assets available for sale,
- positions denominated in foreign currency (including placements and liabilities linked to foreign currencies).

All trading instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous (i.e. impaired). Trading financial instruments are recognized at fair value, and all changes in market conditions directly affect trading income. The Bank and the Group manage their use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed through acquisitions or disposals of financial instruments in accordance with the risk limits set in Market Risk Management Guidelines.

Market risk management of the Bank and the Group are conducted in accordance with regulatory requirements, as is defined by internal policies and procedures regarding market risks which are regularly revised by the Risk Management Sector.

The Risk Management Sector daily calculates market risk exposure figures, usage of exposure to market risk limits and capital requirements for exposure to market risks.

In the measurement of the market risk exposure, the Bank and the Group rely on regulations set out by the Croatian National Bank and monitors:

- Capital requirement calculated by the standard method calculated in accordance with the Croatian National Bank's Decision on the capital adequacy of financial institutions,
- Value at Risk (VaR) which represents the maximum potential loss that the Bank could incur as a result of changes in market risk factors (interest rates, exchange rate and share prices) for a period of retaining the same position for 10 days at statistical accuracy of 99%. VaR is calculated at the end of the day and does not include daily exposure arising from a change in position. To calculate VaR, a database containing 250 historical figures is used,
- Capital requirement calculated by an internal model (VaR x multiplying factor depending on the backward number of overdrafts in the test results - *backtesting*).

In addition the Bank and the Group use the following internally prescribed measures in measuring exposure to debt instrument position risks:

- Duration (measure of the sensitivity of debt security prices to changes in interest rates),
- PV01 which represents the decline of portfolio value in a scenario where interest rates increase by 0.01%.

The Risk Management Sector reports daily to the Financial Markets Sector on the usage of market risk exposure limits, daily to the Financial Management Sector regarding the capital requirements for currency risk and position risks, and monthly to the Assets and Liabilities Management Committee on market risk exposure.

**2. RISK MANAGEMENT (continued)**

**2.3 Market Risk (continued)**

**a) Trading Portfolio**

The table below shows the movements in those measures at 31 December 2015 and 31 December 2014.

**Bank**

| **2015** | **Position HRK '000** | **VaR** |
|---|---|---|
| FX Risk | 44,801 | (390) |
| Fixed-Income Position Risk | 407,197 | (1,248) |
| Equity Position Risk | 33,947 | (2,276) |
| Investment Fund Position Risk | 469,309 | (1,259) |
| Correlation Effect | - | 1,645 |
| **Market Risk** | | **(3,528)** |
| **2014** | | |
| FX Risk | 38,268 | (225) |
| Fixed-Income Position Risk | 95,682 | (849) |
| Equity Position Risk | 33,588 | (2,207) |
| Investment Fund Position Risk | 166,052 | (1,005) |
| Correlation Effect | - | 1,582 |
| **Market Risk** | | **(2,704)** |

## 2. RISK MANAGEMENT (continued)

### 2.3 Market Risk (continued)

#### b) Available-for-Sale Portfolio

The available-for-sale portfolio consists of fixed-income and equity securities.

The table below shows market value and VaR movements for the portfolio of fixed-income and equity securities available for sale.

**Bank**

| Fixed-Income | Market Value HRK '000 | VaR HRK '000 |
|---|---|---|
| **2015** | 2,179,064 | (8,788) |
| **2014** | 2,014,200 | (19,228) |

| Equity | Market Value HRK '000 | VaR HRK '000 |
|---|---|---|
| **2015** | 42.246 | (1.447) |
| **2014** | 14.651 | - |

**2. RISK MANAGEMENT (continued)**

**2.4 Interest Rate Risk in the Bank's Non-Trading Book**

Interest rate risk in the Bank's non-trading book is a risk which can have a negative effect on economic value of the Bank's book and earnings (net interest income), because of variation of market interest rates. Exposure to interest rate risk in the Bank's non-trading book arises as a consequence of:

- mismatch between assets and liabilities distributed according to the possibility of interest rate change criterion (repricing gaps),
- various natures of interest rates (reference rates) applied by the Bank in arranging its lending and borrowing activities.

Accordingly, all interest-rate sensitive items in the Bank's non-trading book are exposed to interest rate risk.

The Bank manages interest rate risk in its non-trading book in accordance with the legal and regulatory requirements. In line with the Croatian National Bank's Decision on the Management of Interest rate risk in the Bank's non-trading book, in effect from 31 March 2010, the Bank is required to submit quarterly reports to the Croatian National Bank about the interest rate risk in the bank's non-trading book, on unconsolidated and consolidated basis both.

Apart from those regulations, managing interest rate risk in the Bank's non-trading book is regulated by:

- Risk Management Policy, and
- Manual on Managing Interest Rate Risk in the Bank's non-trading book.

The Manual on Managing Interest Rate Risk in the Bank's non-trading nook defines the management process, evaluation methods and measures of exposure to interest rate risk in the Bank's non-trading book, as well as exposure limits, manner and frequency of reporting about the Bank's exposure to that risk.

The Bank assesses interest rate risk in the bank's non-trading book by observing this risk from two perspectives:

- Perspective of economic value: a potential market value decrease of the Bank's non-trading book because of interest rate movements in the market,
- Profit perspective: a potential decrease of net interest income because of movements in market interest rates.

***Perspective of Economic Value of Capital***

The Bank uses simplified calculation of estimated change in economic value of the bank's book by applying standard interest shock on non-trading book positions which are exposed to interest rate risk, for all significant currencies separately and other currencies jointly. Interest sensitive positions of the non-trading book are distributed in 13 time zones, whereby positions with fixed interest rate, variable interest rate and interest rate that can be changed by Management Board's decision (administrative interest rate) are distinguished, and estimates a change in market value of the Bank's non-trading book by applying basic simulation of parallel interest rates movements by 2 basis points. The Bank calculates a ratio between the change in economic value of the non-trading book and regulatory capital, and maintains it on a level below 18% (legal ratio prescribed by the Croatian National Bank's Decision equals 20%). Change in economic value of capital amounts to HRK 53,744 thousand or 3.50% of regulatory capital as per 2015 year-end.

**2. RISK MANAGEMENT (continued)**

**2.4 Interest Rate Risk in the Bank's Non-Trading Book (continued)**

***Profit Perspective***

The profit perspective takes into account the potential decrease in net interest income as a result of a change in market interest rates. To measure interest rate risk from the profit perspective, the Bank simulates basic parallel movements in interest rates ± 2% in a period of 12 months, and the potential decrease in net interest income is to be maintained within a 10% limit of realized net interest income for the observed period (from beginning of the year) projected to a yearly basis. Potential change in net interest income amounts to HRK 47,633 thousand, representing 9.34% of net interest income (2014: change by HRK 38,195 thousand, or 7.44% of net interest income).

Additionally, at least once a year stress tests are conducted, whereby the Bank tests effects of adverse interest rate movements for specific product types on the market, on net interest income, by assuming a decrease of active interest rates and an increase of passive interest rates.

Risk Management Sector is reporting monthly to the Assets and Liabilities Management Committee about exposure of the interest rate risk in the Bank’s non-trading book.

**2.5 Foreign Exchange Risk**

The Bank and the Group are exposed to FX risk through transactions in foreign currencies.

Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored daily in accordance with legislation and internally set limits, for each currency and for the total balance sheet denominated in or linked to foreign currency.

The Bank and the Group direct their business activities trying to minimize the gap between assets and liabilities denominated in or linked to foreign currency.

The Bank and the Group manage their currency risk by setting principles and limits for foreign currency exposures and monitoring exposures against these limits. The Bank and the Group direct their business activities towards trying to minimize the gap between assets and liabilities denominated in or linked to a foreign currency, and maintaining daily business activities within the internal and regulatory limits per currency.

The Bank and the Group are primarily exposed to changes in the euro exchange rate. At 31 December 2015, value of the Bank’s assets denominated in euros or euro-linked currencies amounted to HRK 6,279,768 (2014: HRK 6,346,949 thousand), while liabilities denominated in euros or euro-linked currencies amounted to HRK 6,123,932 thousand (2014: HRK 6,460,308 thousand). Hence, a 1% fall in the EUR/HRK currency pair (appreciation of the HRK) would affect the result in the amount of +HRK 1,558 thousand (2014: -HRK 1,134 thousand).

**2.5.1 FX Risk Analysis**

The following tables illustrate the value of total assets and liabilities of the Group and Bank on 31 December 2015 and 31 December 2014 in HRK and foreign currencies (values denominated in HRK with foreign currency clause are mostly linked to EUR).

## 2. RISK MANAGEMENT (continued)

### 2.5. Foreign Exchange Risk (continued)

### 2.5.1 FX Risk Analysis (continued)

**Group 2015**

| HRK '000 | HRK | HRK Linked to Foreign Currencies | EUR | Other Foreign Currencies | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and Amounts Due from Banks | 817,537 | - | 641,649 | 170,929 | 1,630,115 |
| Mandatory Reserve with the Croatian National Bank | 1,172,198 | - | 107,372 | - | 1,279,570 |
| Loans to and Receivables from Banks | 213,444 | - | 1,063 | 47,406 | 261,913 |
| Financial Assets at Fair Value in PNL | 550,795 | 165,786 | 303,113 | - | 1,019,694 |
| Financial Assets Available for Sale | 1,108,044 | 381,613 | 589,077 | 142,576 | 2,221,310 |
| Financial Assets Held to Maturity | 556,639 | 15,125 | - | - | 571,764 |
| Loans and Receivables from Customers | 5,983,461 | 2,873,795 | 1,389,876 | 50,882 | 10,298,014 |
| Assets Held for Sale | 7,930 | - | - | - | 7,930 |
| Property and Equipment | 142,236 | - | - | - | 142,236 |
| Investment Properties | 9,568 | - | - | - | 9,568 |
| Intangible Assets | 117,010 | - | - | - | 117,010 |
| Deferred Tax Assets, Net | 10,750 | - | - | - | 10,750 |
| Tax Prepayment | 371 | - | - | - | 371 |
| Other Assets | 387,477 | 346 | 49,905 | 6,100 | 443,828 |
| **TOTAL ASSETS** | **11,077,460** | **3,436,665** | **3,082,055** | **417,893** | **18,014,073** |
| **LIABILITIES** | | | | | |
| Financial Liabilities at Fair Value in PNL | - | - | - | - | - |
| Deposits from Banks | 273,749 | - | 62,140 | 21,750 | 357,639 |
| Customer Deposits | 8,756,338 | 288,026 | 5,057,423 | 391,807 | 14,493,594 |
| Borrowings | 76,649 | 481,578 | 447,156 | - | 1,005,383 |
| Hybrid Instruments | - | - | - | - | - |
| Provisions for Liabilities and Expenses | 36,722 | 1,00 | - | - | 36,723 |
| Other Liabilities | 295,898 | - | 28,622 | 17,383 | 341,903 |
| Total Equity | 1,778,831 | - | - | - | 1,778,831 |
| **TOTAL LIABILITIES AND EQUITY** | **11,218,187** | **769,605** | **5,595,341** | **430,940** | **18,014,073** |
| **NET FOREIGN EXCHANGE POSITION** | **(140,727)** | **2,667,060** | **(2,513,286)** | **(13,047)** | **-** |

## 2. RISK MANAGEMENT (continued)

### 2.5. Foreign Exchange Risk (continued)

### 2.5.1 FX Risk Analysis (continued)

**Group 2014**

| HRK '000 | HRK | HRK Linked to Foreign Currencies | EUR | Other Foreign Currencies | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and Amounts Due from Banks | 880,851 | - | 303,477 | 124,124 | 1,308,452 |
| Mandatory Reserve with the Croatian National Bank | 1,437,461 | - | 108,326 | - | 1,545,787 |
| Loans to and Receivables from Banks | 384,469 | - | 112,494 | 86,821 | 583,784 |
| Financial Assets at Fair Value in PNL | 229,123 | 152,678 | - | - | 381,801 |
| Financial Assets Available for Sale | 1,023,285 | 394,344 | 524,112 | 61,233 | 2,002,974 |
| Financial Assets Held to Maturity | 544,038 | 53,905 | - | - | 597,943 |
| Loans and Receivables from Customers | 5,546,414 | 3,498,327 | 1,397,581 | 31,428 | 10,473,750 |
| Assets Held for Sale | 7,930 | - | - | - | 7,930 |
| Property and Equipment | 153,225 | - | - | - | 153,225 |
| Investment Properties | 9,828 | - | - | - | 9,828 |
| Intangible Assets | 140,342 | - | - | - | 140,342 |
| Deferred Tax Assets, Net | 16,603 | - | - | - | 16,603 |
| Tax Prepayment | 53 | - | - | - | 53 |
| Other Assets | 304,036 | 186 | 29,737 | 13,480 | 347,439 |
| **TOTAL ASSETS** | **10,677,658** | **4,099,440** | **2,475,727** | **317,086** | **17,569,911** |
| **LIABILITIES** | | | | | |
| Financial Liabilities at Fair Value in PNL | - | - | - | 508 | 508 |
| Deposits from Banks | 332,781 | - | 28,315 | 13,654 | 374,750 |
| Customer Deposits | 8,677,512 | 252,035 | 4,926,060 | 229,118 | 14,084,725 |
| Borrowings | 88,793 | 583,405 | 835,129 | - | 1,507,327 |
| Hybrid Instruments | 208,349 | 52,572 | - | - | 260,921 |
| Provisions for Liabilities and Expenses | 29,758 | - | - | - | 29,758 |
| Other Liabilities | 450,091 | - | 10,310 | 8,793 | 469,194 |
| Total Equity | 842,728 | - | - | - | 842,728 |
| **TOTAL LIABILITIES AND EQUITY** | **10,630,012** | **888,012** | **5,799,814** | **252,073** | **17,569,911** |
| **NET FOREIGN EXCHANGE POSITION** | **47,646** | **3,211,428** | **(3,324,087)** | **65,013** | **-** |

## 2. RISK MANAGEMENT (continued)

### 2.5. Foreign Exchange Risk (continued)

#### 2.5.1 FX Risk Analysis (continued)

**Bank 2015**
**HRK '000**

| | HRK | HRK Linked to Foreign Currencies | EUR | Other Foreign Currencies | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and Amounts Due from Banks | 817,474 | - | 641,649 | 170,929 | 1,630,052 |
| Mandatory Reserve with the Croatian National Bank | 1,172,198 | - | 107,372 | - | 1,279,570 |
| Loans to and Receivables from Banks | 213,444 | - | 1,063 | 47,406 | 261,913 |
| Financial Assets at Fair Value in PNL | 529,954 | 67,876 | 303,113 | - | 900,943 |
| Financial Assets Available for Sale | 1,108,044 | 381,613 | 589,077 | 142,576 | 2,221,310 |
| Financial Assets Held to Maturity | 556,639 | 15,125 | - | - | 571,764 |
| Loans and Receivables from Customers | 6,010,806 | 2,733,155 | 1,389,876 | 50,882 | 10,184,719 |
| Assets Held for Sale | 7,930 | - | - | - | 7,930 |
| Investments in Subsidiaries | 45,490 | - | - | - | 45,490 |
| Property and Equipment | 142,150 | - | - | - | 142,150 |
| Intangible Assets | 116,850 | - | - | - | 116,850 |
| Deferred Tax Assets, Net | 10,224 | - | - | - | 10,224 |
| Tax Prepayment | 81 | - | - | - | 81 |
| Other Assets | 262,436 | (56) | 49,905 | 6,100 | 318,385 |
| **TOTAL ASSETS** | **10,993,721** | **3,197,713** | **3,082,055** | **417,893** | **17,691,382** |
| **LIABILITIES** | | | | | |
| Financial Liabilities at Fair Value in PNL | - | - | - | - | - |
| Deposits from Banks | 273,749 | - | 62,140 | 21,750 | 357,639 |
| Customer Deposits | 8,794,859 | 46,611 | 5,057,825 | 391,807 | 14,291,102 |
| Borrowings | 76,649 | 481,578 | 447,156 | - | 1,005,383 |
| Hybrid Instruments | - | - | - | - | - |
| Provisions for Liabilities and Expenses | 36,592 | - | - | - | 36,592 |
| Other Liabilities | 175,396 | - | 28,622 | 17,383 | 221,401 |
| Total Equity | 1,779,264 | - | - | - | 1,779,264 |
| **TOTAL LIABILITIES AND EQUITY** | **11,136,510** | **528,189** | **5,595,743** | **430,940** | **17,691,382** |
| **NET FOREIGN EXCHANGE POSITION** | **(142,789)** | **2,669,524** | **(2,513,688)** | **(13,047)** | **-** |

## 2. RISK MANAGEMENT (continued)

### 2.5. Foreign Exchange Risk (continued)

### 2.5.1 FX Risk Analysis (continued)

**Bank 2014**
**HRK '000**

| | HRK | HRK Linked to Foreign Currencies | EUR | Other Foreign Currencies | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and Amounts Due from Banks | 880,848 | - | 303,477 | 124,124 | 1,308,449 |
| Mandatory Reserve with the Croatian National Bank | 1,437,461 | - | 108,326 | - | 1,545,787 |
| Loans to and Receivables from Banks | 384,469 | - | 112,494 | 86,821 | 583,784 |
| Financial Assets at Fair Value in PNL | 197,039 | 86,972 | - | - | 284,011 |
| Financial Assets Available for Sale | 1,023,285 | 380,052 | 524,112 | 61,233 | 1,988,682 |
| Financial Assets Held to Maturity | 544,038 | 53,905 | - | - | 597,943 |
| Loans and Receivables from Customers | 5,555,804 | 3,350,341 | 1,397,581 | 31,428 | 10,335,154 |
| Assets Held for Sale | 7,930 | - | - | - | 7,930 |
| Investments in Subsidiaries | 45,490 | - | - | - | 45,490 |
| Property and Equipment | 153,107 | - | - | - | 153,107 |
| Intangible Assets | 140,301 | - | - | - | 140,301 |
| Deferred Tax Assets, Net | 15,868 | - | - | - | 15,868 |
| Tax Prepayment | 53 | - | - | - | 53 |
| Other Assets | 301,287 | (48) | 29,737 | 13,480 | 344,456 |
| **TOTAL ASSETS** | **10,686,980** | **3,871,222** | **2,475,727** | **317,086** | **17,351,015** |
| **LIABILITIES** | | | | | |
| Financial Liabilities at Fair Value in PNL | - | - | - | 508 | 508 |
| Deposits from Banks | 332,781 | - | 28,315 | 13,654 | 374,750 |
| Customer Deposits | 8,699,711 | 24,517 | 4,926,060 | 229,118 | 13,879,406 |
| Borrowings | 88,793 | 583,405 | 835,129 | - | 1,507,327 |
| Hybrid Instruments | 208,349 | 52,572 | - | - | 260,921 |
| Provisions for Liabilities and Expenses | 29,748 | - | - | - | 29,748 |
| Other Liabilities | 434,657 | - | 10,310 | 8,793 | 453,760 |
| Total Equity | 844,595 | - | - | - | 844,595 |
| **TOTAL LIABILITIES AND EQUITY** | **10,638,634** | **660,494** | **5,799,814** | **252,073** | **17,351,015** |
| **NET FOREIGN EXCHANGE POSITION** | **48,346** | **3,210,728** | **(3,324,087)** | **65,013** | **-** |

**2. RISK MANAGEMENT (continued)**

**2.6. Operational Risk Management**

Operational risk is inherent to all activities, processes, products and systems of the Bank and the Group. The Bank and the Group ensure appropriate operational risk management by applying procedures and a system of authorizations and responsibilities specified in detail in its internal by-laws, the Risk Management Policy and the Internal Operational Risk Management Manual as root documents. The operational risk management system has been established through appropriate bodies of the Bank and the Group and an efficient internal control system.

The Bank and the Group define operational risk as a risk of an event which, as a consequence, exposes the Bank and the Group to financial losses, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk. Significant operational risk is a risk of an event resulting in significant loss because of operational risk.

In order to efficiently manage the overall exposure to operational risk, the Bank and the Group apply the following:

- Collecting and analyzing internal data about operational risk events,
- Self-assessment of risks and controls,
- Assessment of information technology risk, and
- Business Impact Analysis of unavailability of key business processes.

The Bank and the Group assess the outsourcing risk as an additional exposure to all significant risks arising from the fact that the Bank and the Group do not itself perform the outsourced activities, but rather that those activities are performed by external vendors; hence, the impact of outsourcing on the Bank's risk profile is assessed.

The Bank and the Group assess the impact of introducing a new product on the Bank's and the Group’s risk profile, which includes exposure to all significant risks.

For the purpose of efficient operational risk management, the Bank has set up the Operational Risk Management Committee. Based on the reports on the Bank's exposure to operational risk, the Operational Risk Management Committee draws conclusions and makes decisions about appropriate measures necessary to undertake in order to overmaster the exposure to operational risk.

The Bank and the Group apply the Standardized Approach in calculating the capital requirement for operational risk.

**2.7. Capital Management**

Capital requirement calculations are based on exposures to customers classified into the prescribed exposure categories, which are then weighted according to risk depending on the exposure category of the customer (exposure to sovereign debt, to institutions, public bodies, individuals, etc.), remaining maturity, type of collateral (i.e. residential or commercial property), diversification of loans, identified number of days past due and the amount of provisions made.

The Bank manages capital in line with the Internal Capital Adequacy Assessment Process (ICAAP). The Bank determines risks to which it is or may be exposed, calculates and evaluates necessary capital requirements for exposure to certain risks, together with determining total necessary (internal) capital for current and following period in line with the business plan. In line with such capital needs capital planning is performed while items of available capital are solely items recognized for regulatory capital calculations.

**2. RISK MANAGEMENT (continued)**

**2.7 Capital Management (continued)**

In the capital planning phase it is necessary to take notice on regulatory capital adequacy, i. e. regulatory capital requirements for exposures to credit risk, market risk and operational risk. During 2015 the Bank did not fully comply with all regulatory capital requirements. However by turning half-year profit into capital and after the recapitalization process was concluded in H2 2015 the Bank met all of the regulatory capital requirements. This enabled bank to offset previous limitations due to capital shortfall like limited credit growth and potential reputational risk where other market participants could perceive the Bank as being too risky amid limited public information availability.

The Bank and the Group use standardized approach to calculate capital requirements.

Total share capital was increased by HRK 902,182 thousand in 2015, mainly due to recapitalization process which was done in two cycles. In the first cycle in June 2015 share capital was increased by converting hybrid instruments into equity in the amount of HRK 252,115 thousand. The second cycle was done in September 2015 through SPO when HRK 550,000 thousand of new shareholders' equity was issued paid-in. Mentioned half-year profit is disclosed in Bank's interim reports which have included auditors report about review. Further contributing to own-funds increasing was the half-year profit (HRK 82,689 thousand) inclusion into regulatory capital calculation. With a total amount of HRK 1,533,579 thousand of regulatory capital, capital adequacy on 31 Dec 2015 equalled 15.85% which is 9.2 pp better than at the end of the previous year.

Minimum regulatory capital adequacy defined by law on 31 Dec 2015 was 8%. Maintaining conservation capital buffer of 2.5% and systemic risk capital buffer of 1.5% is mandatory by law. On top of all mentioned, the Bank is required by the supervisor to maintain additional capital requirement equalling 2%. This brings regulatory requirements to 14% (8% + 6%) on 31 Dec 2015.

| **Bank** | **2015** | **2014** |
|---|---|---|
| | **HRK '000** | **HRK '000** |
| **OWN FUNDS** | | |
| Tier-1 Capital | 1,533,579 | 631,397 |
| *Common Equity Tier-1 Capital* | *1,533,579* | *631,397* |
| Tier-2 Capital | - | 13,949 |
| **Total Own Funds** | **1,533,579** | **645,346** |
| **Credit Risk Exposure Using Standardized Approach** | 7,353,639 | 7,920,115 |
| Exposure to FX and Position Risk | 940,430 | 417,426 |
| Exposure to Operational risk | 1,381,297 | 1,372,452 |
| Exposure to Credit Value Adjustment Risk | 109 | 218 |
| **Total Risk Exposure** | **9,675,475** | **9,710,211** |
| **Total Capital Adequacy Ratio** | **15.85** | **6.65** |

## 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Group's portfolio exposed to credit risk represents the major source of estimation uncertainty. This and other key sources of estimations uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

***Impairment Losses on Loans and Receivables***

The Group monitors the creditworthiness of its customers on an ongoing basis. In accordance with CNB regulations, the need for impairment of the Group's on and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying amount of loans and advances to corporate and retail customers (summarized in Note 11), and as provisions for liabilities and expenses arising from off-balance-sheet risk exposure to customers, mainly in the form of guarantees, documentary credits and undrawn loan commitments (summarized in Notes 24 and 40). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

Following tables represent the summary of impairment losses of loans to and receivables from customers, as well as provisions for off-balance sheet exposures:

| **Group** | **Notes** | **2015<br>HRK '000** | **2014<br>HRK '000** |
|---|---|---|---|
| Impairment Losses on Loans to and Receivables from Customers | 11 | 2,197,676 | 2,076,016 |
| Provisions for Off-Balance-Sheet Exposures | 24 | 20,143 | 18,824 |
| **Total** | | **2,217,819** | **2,094,840** |

| **Bank** | **Notes** | **2015<br>HRK 000** | **2013<br>HRK 000** |
|---|---|---|---|
| Impairment Losses on Loans to and Receivables from Customers | 11 | 2,217,051 | 2,073,396 |
| Provisions for Off-Balance-Sheet Exposures | 24 | 20,118 | 18,814 |
| **Total** | | **2,237,169** | **2,092,210** |

### 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

*Financial Assets at Amortized Cost*

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

The Group 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, when and where these changes can be correlated with defaults.

The Group 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 Group also has regard to the ranges of specific impairment loss rates prescribed by the CNB.

Gross value of specifically impaired loans and other receivables for interest classified in risk groups B and C, and the rates of recognized impairment losses, were as follows as per year end:

| **Group** | **2015** | **2014** |
|---|---|---|
| **Gross Exposures (in HRK '000)** | **3,305,805** | **3,261,070** |
| Impairment Loss (in HRK ‘000) | 2,141,392 | 2,006,559 |
| **Impairment Rate** | **64.78%** | **61.53%** |

| **Bank** | **2015** | **2014** |
|---|---|---|
| **Gross Exposures (in HRK '000)** | **3,346,467** | **3,259,540** |
| Impairment Loss (in HRK ‘000) | 2,162,049 | 2,006,195 |
| **Impairment Rate** | **64.61%** | **61.55%** |

Each additional increase of one percentage point in the impairment rate on the gross portfolio at 31 December 2015 would lead to recognition of additional impairment loss amounting to HRK 33,058 thousand for the Group (2014: HRK 32,641 thousand), and HRK 33,465 thousand for the Bank (2014: HRK 32,596 thousand).

The Group also seeks to recognise impairment losses which are known to exist at the reporting date, but which have not yet been specifically identified. In assessing impairment losses on a portfolio basis, historical loss rates are used which are determined in accordance with an internal methodology. The Group considers impairment losses depending on the type of assets, whereby the overall impairment rate may not be below 0.80% of the total on-balance sheet and off-balance sheet credit risk exposure, except in the case of available-for-sale assets at fair value through profit or loss. The amounts assessed as impaired on an individual basis are excluded from this calculation.

## 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

*Financial Assets at Amortized Cost (continued)*

The amount of impairment allowance at 31 December 2015 estimated on a portfolio basis amounted to HRK 120,365 thousand (2014: HRK 126,932 thousand) of relevant on and off-balance sheet exposure of the Group, and HRK 119,059 thousand (2014: HRK 125,091 thousand) of relevant on- and off-balance-sheet exposure of the Bank, classified in A risk category. At the minimum rate prescribed by the CNB, portfolio based impairment allowances would be HRK 4,223 thousand (2014: HRK 9,937 thousand) lower than the amount recognised by the Group and HRK 4,321 thousand (2014: HRK 8,853 thousand) lower than the amount recognised by the Bank.

If the Bank and the Group did not have its internal methodology for assessing latent losses on a portfolio basis, it would have to apply the impairment rate equal to 1.00 percent of the relevant on-balance sheet and off-balance sheet credit risk exposure. In that case, impairment losses on a portfolio basis be HRK 24,812 thousand (2014: HRK 19,851 thousand) higher than the amount recognised by the Group and HRK 24,363 thousand (2014: HRK 20,205 thousand) higher than the amount recognised by the Bank.

***Market Value of Pledged Property and Foreclosed Assets***

As disclosed (in Note 2.1.4 (c)), loans and receivables to customers include exposures with a carrying value of HRK 3,346,467 thousand (2014: HRK 3,259,549 thousand) classified by the Bank as impaired in view of delinquencies in payment. A proportion of these loans is secured with collateral in the form of property, plant and equipment. When assessing loan recoverability based on pledged property, market value of pledged property is discounted to present value by applying discount factors and periods prescribed by internal acts, and in accordance with the CNB decision. In addition, as disclosed in Note 18, other assets at 31 December 2015 include property, plant and equipment with gross book value of HRK 192,719 thousand (2014: HRK 258,180 thousand), representing foreclosed assets collected in settlement of non-performing debt. The Bank and the Group did not recognise loss on above stated property at the end of the reporting period (2014: HRK 75,111 thousand). Net book value of repossessed assets ad of 31 December 2015 amounts HRK 103,135 thousand (2014: HRK 155,408 thousand).

Information and fair value hierarchy of foreclosed assets of the Group as of 31 December 2015 is presented below:

| | Level 1 | Level 2 | Level 3 | Fair Value as of 31 December 2015 |
|---|---|---|---|---|
| | HRK ‘000 | HRK ‘000 | HRK ‘000 | HRK ‘000 |
| - Land | - | - | 31,868 | 31,868 |
| - Buildings | - | - | 65,320 | 65,320 |
| - Equipment | - | - | 5,947 | 5,947 |
| **TOTAL** | **-** | **-** | **103,135** | **103,135** |

Properties are assessed in accordance with the Regulation on the Assessment of Real Estate Value (Official Gazette 76/2014, Art. 6 and 7), and the corresponding Regulation on the Methods of Evaluation of Property Value (Official Gazette 75/2015), using cost and revenue methods which take into account a number of factors in determining its current market value. The method of evaluation is not changed during the year.

During the year 2015 there were no transfers between Level 1 and 2 in the period and vice versa.

**3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**

***Fair Value of Derivatives***

Fair value of OTC derivatives that are quoted on active market is determined using their closing market price. For derivatives that are not traded on active markets, Bank determines contractual value applying internally developed models for fair value assessment.

***Fair Value of Treasury Bills***

The Group determines the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia using an internal model which takes into account their remaining maturity and latest available auction prices of equivalent instruments. As at 31 December 2015, the Bank had HRK 303,114 thousand treasury bills classified as financial assets at fair value through profit or loss (2014: -). As at 31 December 2015, carrying amount of treasury bills classified as financial assets available for sale amounted to HRK 675,525 thousand (2014: 141,256 thousand).

***Provisions for Court Cases Initiated Against the Bank and the Group***

In calculating provisions for court expenses, the Bank and the Group discount expected future cash flows with respect to the liabilities using the CNB's discount rate.

***Taxation***

The Group recognises tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of tax authorities that are entitled to carry out subsequent inspections of taxpayers' records.

## 4. SEGMENT REPORTING

The Group's business segments represent the primary reportable segments. The primary format is based on the Bank's and the Group's management and internal reporting structure. As the Bank and the Group do not allocate overhead expenses and equity to segments, segment profitability is not reported.

***Business Segments***

The Bank and the Group comprises following primary reportable segments:

- *Corporate Banking* — Includes loans, deposits and other transactions and balances with corporate customers,
- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers,
- *Financial Markets* — Group financing operations and the aggregate liquidity and foreign exchange risk activities in respect of borrowings, transactions with debt securities, use of derivatives and investments in liquid assets. It also includes asset management, securities custody and brokerage services.
- *Direct Banking* — Includes undisturbed functioning and development of all Bank's/Group's direct product and services distribution channels, and card operations

The Bank and the Group do not apply internal transfer prices in determining the financial results of segments.

Classification of individual sectors for the purposes of notes on the results and position of segments differs from other parts of the financial statements. This primarily refers to the owner of small enterprises, who are part of Corporate Banking in the statement of segmentation, while in the financial statements part of positions related to the Retail Banking.

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HRVATSKA POŠTANSKA BANKA

**4. SEGMENT REPORTING (continued)**

| Group | Corporate | Retail | Financial Markets | Direct Banking | Unallocated | 2015 HRK '000 Total |
|---|---|---|---|---|---|---|
| Net Interest Income | 261,169 | 141,173 | 111,988 | - | - | 514,330 |
| Net Fees and Commissions Income | 51,070 | 86,272 | 5,474 | 29,254 | 20,915 | 192,985 |
| Trading and Investment Income | - | - | 46,698 | - | - | 46,698 |
| Other Income | 19,581 | 10,961 | 11,381 | - | - | 41,923 |
| **Operating Income** | **331,820** | **238,406** | **175,541** | **29,254** | **20,915** | **795,936** |
| General and Administrative Expenses | (22,298) | (155,632) | (5,895) | (24,653) | (219,045) | (427,524) |
| Depreciation and Amortisation | - | - | - | - | (46,053) | (46,053) |
| Impairment Losses on Loans and Other Assets | (117,431) | (54,713) | (5,061) | - | (7,451) | (184,657) |
| Provisions for Liabilities and Expenses | - | - | - | - | (9,023) | (9,023) |
| **Operating Expenses** | **(139,729)** | **(210,345)** | **(10,956)** | **(24,653)** | **(281,572)** | **(667,257)** |
| **Profit Before Taxation** | **-** | - | - | - | | 128,679 |
| Deferred Income Tax | - | - | - | - | (3,902) | (3,902) |
| **Profit for the Year** | **-** | **-** | **-** | **-** | **(3,902)** | **124,777** |
| Segment Assets | 6,577,530 | 4,726,538 | 6,176,454 | - | - | 17,480,522 |
| Unallocated Assets | - | - | - | - | 533,551 | 533,551 |
| **Total Assets** | **6,577,530** | **4,726,538** | **6,176,454** | **-** | **533,551** | **18,014,073** |
| Segment Liabilities | 6,637,616 | 8,963,639 | 500,648 | - | - | 16,101,903 |
| Unallocated Equity and Liabilities | - | - | - | - | 1,912,170 | 1,912,170 |
| **Total Equity and Liabilities** | **6,637,616** | **8,963,639** | **500,648** | **-** | **1,912,170** | **18,014,073** |

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## 4. SEGMENT REPORTING (continued)

| Group | Corporate | Retail | Financial Markets | Unallocated | 2014 HRK '000 Total |
|---|---|---|---|---|---|
| Net Interest Income | 303,350 | 117,634 | 92,404 | 3,432 | 516,820 |
| Net Fees and Commissions Income | 46,913 | 123,180 | 3,898 | 11,636 | 185,627 |
| Trading and Investment Income | - | - | 55,347 | 4,919 | 60,266 |
| Other Income | (87) | 869 | 5,697 | 4,148 | 10,627 |
| **Operating Income** | **350,176** | **241,683** | **157,346** | **24,135** | **773,340** |
| General and Administrative Expenses | (21,086) | (166,401) | (6,171) | (219,562) | (413,220) |
| Depreciation and Amortisation | - | - | - | (53,571) | (53,571) |
| Impairment Losses on Loans and Other Assets | (691,449) | (135,401) | (29,803) | (76,290) | (932,942) |
| Provisions for Liabilities and Expenses | - | - | - | (3,969) | (3,969) |
| **Operating Expenses** | **(712,535)** | **(301,802)** | **(35,974)** | **(353,392)** | **(1,403,702)** |
| **Profit Before Taxation** | **-** | **-** | **-** | **-** | (630,362) |
| Deferred Income Tax | - | - | - | 972 | 972 |
| **Profit for the Year** | **-** | **-** | **-** | **972** | **(629,390)** |
| Segment Assets | 6,993,481 | 4,304,567 | 5,857,076 | - | 17,155,124 |
| Unallocated Assets | | | | 414,787 | 414,787 |
| **Total Assets** | **6,993,481** | **4,304,567** | **5,857,076** | **414,787** | **17,569,911** |
| Segment Liabilities | 7,438,342 | 8,408,606 | 607,046 | - | 16,453,994 |
| Unallocated Equity and Liabilities | - | - | - | 1,115,917 | 1,115,917 |
| **Total Equity and Liabilities** | **7,438,342** | **8,408,606** | **607,046** | **1,115,917** | **17,569,911** |

**4.SEGMENT REPORTING (continued)**

| **Bank** | | | | | | **2015** |
|---|---|---|---|---|---|---|
| | | | | | | **HRK '000** |
| | **Corporate** | **Retail** | **Financial Markets** | **Direct Banking** | **Unallocated** | **Total** |
| Net Interest Income | 261,666 | 136,672 | 111,988 | - | - | 510,326 |
| Net Fees and Commissions Income | 49,371 | 76,721 | 5,474 | 29,254 | 20,914 | 181,734 |
| Trading and Investment Income | - | - | 46,944 | - | - | 46,944 |
| Other Income | 19,531 | 11,124 | 11,381 | - | - | 42,036 |
| **Operating Income** | **330,568** | **224,517** | **175,787** | **29,254** | **20,914** | **781,040** |
| General and Administrative Expenses | (22,298) | (155,630) | (5,893) | (24,653) | (205,722) | (414,197) |
| Depreciation and Amortisation | - | - | - | - | (45,698) | (45,698) |
| Impairment Losses on Loans and Other Assets | (117,431) | (55,643) | (5,061) | - | (7,437) | (185,573) |
| Provisions for Liabilities and Expenses | - | - | - | - | (8,986) | (8,986) |
| **Operating Expenses** | **(139,729)** | **(211,274)** | **(10,954)** | **(24,653)** | **(267,843)** | **(654,454)** |
| **Profit Before Taxation** | **-** | - | - | - | - | 126,586 |
| Deferred Income Tax | - | - | - | - | (3,369) | (3,369) |
| **Profit for the Year** | **-** | **-** | **-** | **-** | **(3,369)** | **123,217** |
| Segment Assets | 6,614,393 | 4,434,441 | 6,203,472 | - | - | 17,252,306 |
| Unallocated Assets | - | - | - | - | 439,076 | 439,076 |
| **Total Assets** | **6,614,393** | **4,434,441** | **6,203,472** | **-** | **439,076** | **17,691,382** |
| Segment Liabilities | 6,652,312 | 8,678,744 | 527,666 | - | | 15,858,722 |
| Unallocated Equity and Liabilities | - | - | - | - | 1,832,660 | 1,832,660 |
| **Total Equity and Liabilities** | **6,652,312** | **8,678,744** | **527,666** | **-** | **1,832,660** | **17,691,382** |

## 4. SEGMENT REPORTING (continued)

| Bank | | | | | 2014 HRK '000 |
|---|---|---|---|---|---|
| | Corporate | Retail | Financial markets | Unallocated | Total |
| Net Interest Income | 303,350 | 117,634 | 92,404 | - | 513,388 |
| Net Fees and Commissions Income | 46,913 | 123,180 | 3,898 | (1,161) | 172,830 |
| Trading and Investment Income | - | - | 55,347 | - | 55,347 |
| Other Income | 3,499 | 869 | 5,697 | - | 10,065 |
| **Operating Income** | **353,762** | **241,683** | **157,346** | **(1,161)** | **751,630** |
| General and Administrative Expenses | (21,086) | (166,401) | (6,171) | (205,367) | (399,025) |
| Depreciation and Amortisation | - | - | - | (53,078) | (53,078) |
| Impairment Losses on Loans and Other | (691,449) | (135,401) | (29,803) | (75,110) | (931,762) |
| Provisions for Liabilities and Expenses | - | - | - | (4,818) | (4,818) |
| **Operating Expenses** | **(712,535)** | **(301,802)** | **(35,974)** | **(338,373)** | **(1,388,683)** |
| **Profit Before Taxation** | **-** | **-** | **-** | **-** | (637,053) |
| Deferred Income Tax | - | - | - | 1,669 | 1,669 |
| **Profit for the Year** | **-** | **-** | **-** | **1,669** | **(635,384)** |
| Segment Assets | 7,002,868 | 4,156,581 | 5,744,994 | - | 16,904,443 |
| Unallocated Assets | - | - | - | 446,572 | 446,572 |
| **Total Assets** | **7,002,868** | **4,156,581** | **5,744,994** | **446,572** | **17,351,015** |
| Segment Liabilities | 7,460,541 | 8,181,088 | 607,046 | - | 16,248,675 |
| Unallocated Equity and Liabilities | - | - | - | 1,102,340 | 1,102,340 |
| **Total Equity and Liabilities** | **7,460,541** | **8,181,088** | **607,046** | **1,102,340** | **17,351,015** |

## 5. CASH AND RECEIVABLES FROM BANKS

| Group | HRK | Foreign Currency | 2015 HRK '000 Total | HRK | Foreign Currency | 2014 HRK '000 Total |
|---|---|---|---|---|---|---|
| **Cash in Hand** | | | | | | |
| Held by the Group | 199.050 | 82.673 | 281.723 | 166,725 | 67,591 | 234,316 |
| Held by Other Parties | 130.445 | - | 130.445 | 126,784 | - | 126,784 |
| Cheques in the Course of Collection | - | 17 | 17 | - | 18 | 18 |
| | **329.495** | **82.690** | **412.185** | **293,509** | **67,609** | **361,118** |
| **Amounts Due from Banks** | | | | | | |
| Current Accounts with Domestic Banks | - | 67.848 | 67.848 | - | 14,282 | 14,282 |
| Current Accounts with Foreign Banks | - | 662.040 | 662.040 | - | 345,709 | 345,709 |
| Giro Account with the CNB | 488.042 | - | 488.042 | 587,343 | - | 587,343 |
| | **488.042** | **729.888** | **1.217.930** | **587,343** | **359,991** | **947,334** |
| **Total** | **817.537** | **812.578** | **1.630.115** | **880,852** | **427,600** | **1,308,452** |

| Bank | HRK | in foreign currency | 2015 HRK '000 Total | HRK | in foreign currency | 2014 HRK '000 Total |
|---|---|---|---|---|---|---|
| **Cash in Hand** | | | | | | |
| Held by the Bank | 198,987 | 82,673 | 281,660 | 166,722 | 67,591 | 234,313 |
| Held by Other Parties | 130,445 | - | 130,445 | 126,784 | - | 126,784 |
| Cheques in the Course of Collection | - | 17 | 17 | - | 18 | 18 |
| | **329,432** | **82,690** | **412,122** | **293,506** | **67,609** | **361,115** |
| **Amounts Due from Banks** | | | | | | |
| Current Accounts with Domestic Banks | - | 67,848 | 67,848 | - | 14,282 | 14,282 |
| Current Accounts with Foreign Banks | - | 662,040 | 662,040 | - | 345,709 | 345,709 |
| Giro Account with the CNB | 488,042 | - | 488,042 | 587,343 | - | 587,343 |
| | **488,042** | **729,888** | **1,217,930** | **587,343** | **359,991** | **947,334** |
| **Total** | **817,474** | **812,578** | **1,630,052** | **880,849** | **427,600** | **1,308,449** |

## 6. MANDATORY RESERVE WITH CROATIAN NATIONAL BANK

| | Group | | Bank | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | **HRK '000** | **HRK '000** | **HRK '000** | **HRK '000** |
| Mandatory Reserve | | | | |
| - in HRK | 1,172,199 | 1,220,856 | 1,172,199 | 1,220,856 |
| - in Foreign Currency | 107,371 | 108,326 | 107,371 | 108,326 |
| Mandatory Treasury Bills | - | 216,605 | - | 216,605 |
| Accrued Interests Due | - | - | - | - |
| **Total** | 1,279,570 | **1,545,787** | **1,279,570** | **1,545,787** |

The mandatory reserve with the CNB represents the amount required to be deposited with the CNB.

The mandatory reserve requirement was set at 12 percent of HRK and foreign currency deposits, borrowings and issued debt securities (31 December 2014: 12%).

As at December 31 2015 required minimum rate of maintenance of the HRK mandatory reserve with the CNB equalled 70% (2014: 70%), whereas the remaining 30 percent (2014: 30%) could be held in the form of other liquid receivables. This includes the part of foreign currency mandatory reserve required to be held in HRK (see below).

60% of the foreign currency mandatory reserve (2014: 60%) is maintained with the CNB, while the remaining 40% (2014: 40%) must be held in the form of other liquid receivables, after adjusting for the mandatory reserve requirement arising from foreign currency funds from non-residents and related parties (which is required to be held in full with the CNB), 75% (2014: 75%) of the foreign currency mandatory reserve is required to be held in HRK and is added to the HRK mandatory reserve (see above).

Due to the need of increasing the liquidity of the system in domestic currency CNB's Decision on the purchase of mandatory treasury bills from 2013 was prematurely terminated in October 2015, in order to stimulate economic recovery in the Republic of Croatia.

The CNB does not pay the fee on mandatory reserve fund and mandatory reserve funds.

## 7. LOANS TO AND RECEIVABLES FROM BANKS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015<br>HRK '000 | 2014<br>HRK '000 | 2015<br>HRK '000 | 2014<br>HRK '000 |
| Short-Term Placements with Domestic Banks | 80.000 | 99,154 | 80,000 | 99,154 |
| Short-Term Placements with Foreign Banks | 134.959 | 427,562 | 134,959 | 427,562 |
| **Total Short-Term Placements and Loans Banks** | **214.959** | **526,716** | **214,959** | **526,716** |
| Guarantee Deposits with Foreign Banks | 13.492 | 12,577 | 13,492 | 12,577 |
| Long-Term Placements with Domestic Banks | - | 10,762 | - | 10,762 |
| Long-Term Loans to Domestic Banks - CBRD | 33.022 | 33,022 | 33,022 | 33,022 |
| **Total Short-Term Placements and Loans Banks** | **46.514** | **56,361** | **46,514** | **56,361** |
| Short-Term Placements with Domestic Non-Banking Financial Institutions | 500 | 500 | 500 | 500 |
| Long-Term Placements with Domestic Non-Banking Financial Institutions | 363 | 257 | 363 | 257 |
| **Long-Term Placements with Domestic Non-Banking Financial Institutions** | **863** | **757** | **863** | **757** |
| **Provisions for Impairment Losses (Non-Banking Financial Institutions)** | **(500)** | **(500)** | **(500)** | **(500)** |
| Accrued Interests Not Yet Due | 77 | 450 | 77 | 450 |
| **Total Interests Receivable** | **77** | **450** | **77** | **450** |
| **Total** | **261.913** | **583,784** | **261,913** | **583,784** |

In 2015 long-term placement with domestic bank (collateral was a deposit held at domestic bank) reported in financial statements as long-term placements with domestic banks had matured (2014: HRK 10,762 thousand).

Guarantee deposits mainly relate to deposits for card operations.

***Movements in Impairment Allowance***

No changes in impairment allowance for loans and receivables from banks occurred in 2015 (2014: -).

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015<br>HRK '000 | 2014<br>HRK '000 | 2015<br>HRK '000 | 2014<br>HRK '000 |
| Balance at 1 January | 500 | 500 | 500 | 500 |
| (Decrease)/Increase in Impairment Losses on Loans to and Receivables from Banks | - | - | - | - |
| **Balance at 31 December** | **500** | **500** | **500** | **500** |

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015<br>HRK '000 | 2014<br>HRK '000 | 2015<br>HRK '000 | 2014<br>HRK '000 |
| **Trading Instruments** | | | | |
| **Listed Debt Securities** | | | | |
| Treasury Bills of the Ministry of Finance | 303,113 | - | 303,113 | - |
| Bonds of the Ministry of Finance | 208,800 | 178,650 | 93,269 | 83,373 |
| **Listed Debt Securities** | **511,913** | **178,650** | **396,382** | **83,373** |
| **Listed Shares of Investment Funds** | **470,555** | **167,280** | **469,310** | **166,053** |
| **Listed Equity Securities** | **33,947** | **33,588** | **33,947** | **33,588** |
| | **1,016,415** | **379,518** | **899,639** | **283,014** |
| Accrued Interests Not Yet Due | 3,279 | 2,283 | 1,304 | 997 |
| **Total** | **1,019,694** | **381,801** | **900,943** | **284,011** |

## 9. FINANCIAL ASSETS AVAILABLE FOR SALE

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| **Debt Securities Not Listed** | | | | |
| Bonds of the Ministry of Finance | 1,396,368 | 1,353,292 | 1,396,368 | 1,339,271 |
| Corporate Bonds | 79,742 | 127,220 | 79,742 | 127,220 |
| Foreign Government Bonds | - | 382,752 | - | 382,752 |
| | **1,476,110** | **1,863,264** | **1,476,110** | **1,849,243** |
| **Debt Securities Not Listed** | | | | |
| Treasury Bills of the Croatian Ministry of Finance | 675,525 | 141,256 | 675,525 | 141,256 |
| **Equity securities Not Listed** | | | | |
| - Corporate | 38,930 | 12,981 | 38,930 | 12,981 |
| - Non-Banking Financial Institutions | 1,670 | 1,670 | 1,670 | 1,670 |
| | **40,600** | **14,651** | **40,600** | **14,651** |
| **Listed Equity Securities** | | | | |
| - Corporate | 6,706 | - | 6,706 | - |
| - Non-Banking Financial Institutions | - | - | - | - |
| **Provisions for Impairment Losses on Equity Securities** | (5,060) | - | (5,060) | - |
| | **1,646** | **-** | **1,646** | **-** |
| Accrued Interests Not Yet Due | 27,429 | 23,971 | 27,429 | 23,700 |
| **Provisions for Impairment Losses** | **-** | **(40,168)** | **-** | **(40,168)** |
| **Total** | **2,221,310** | **2,002,974** | **2,221,310** | **1,988,682** |

In accordance with the applicable accounting policies, the Bank recognizes available-for-sale financial assets at fair value with changes in fair value recognized within a fair value reserve in other comprehensive income.

## 9. FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

***Movement in Impairment Allowance for Financial Assets Available for Sale***

| Group | 2015 HRK '000 Individually Identified Losses | Portfolio-Based Losses | Total | 2014 HRK '000 Individually Identified Losses | Portfolio-Based Losses | Total |
|---|---|---|---|---|---|---|
| **At 1 January** | **40,168** | **-** | **40,168** | 10,366 | **-** | **10,366** |
| Increase/(Decrease) of Impairment Losses | 5,060 | - | **5,060** | 29,802 | - | **29,802** |
| Other (Conversion of Wholly Impaired Receivables into Equity Stake or Loans Based on Pre-Bankruptcy Settlement) | (40,168) | | (40,168) | - | | **-** |
| **At 31 December** | **5,060** | **-** | **5,060** | **40,168** | **-** | **40,168** |

| Bank | 2015 HRK '000 Individually Identified Losses | Portfolio-Based Losses | Total | 2014 HRK '000 Individually Identified Losses | Portfolio-Based Losses | Total |
|---|---|---|---|---|---|---|
| **At 1 January** | **40,168** | **-** | **40,168** | **10,366** | **-** | **10,366** |
| Increase/(Decrease) of Impairment Losses | 5,060 | - | **5,060** | 29,802 | - | **29,802** |
| Other (Conversion of Wholly Impaired Receivables into Equity Stake or Loans Based on Pre-Bankruptcy Settlement) | (40,168) | - | **(40,168)** | - | - | **-** |
| **At 31 December** | **5,060** | - | **5,060** | **40,168** | - | **40,168** |

## 10. FINANCIAL ASSETS HELD TO MATURITY

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Bonds of the Ministry of Finance | 277,473 | 388,476 | 277,473 | 388,476 |
| Bills of Exchange | 320,226 | 231,675 | 320,226 | 231,675 |
| | **597,699** | **620,151** | **597,699** | **620,151** |
| Accrued Interest Not Yet due | 5,701 | 6,641 | 5,701 | 6,641 |
| **Provisions for Impairment Losses** | **(23,380)** | **(23,103)** | **(23,380)** | **(23,103)** |
| **Portfolio-Based Impairment Allowance for Identified Losses** | **(8,256)** | **(5,746)** | **(8,256)** | **(5,746)** |
| **Total** | **571,764** | **597,943** | **571,764** | **597,943** |

### *Movement in Impairment Allowance for Financial Assets Held to Maturity*

The movements in the impairment allowance for financial assets held to maturity, recognised in the income statement, were as follows:

| **Group** | | | 2015 HRK '000 | | | 2014 HRK '000 |
|---|---|---|---|---|---|---|
| | **Individually Identified Losses** | **Portfolio-Based Losses** | **Total** | **Individually Identified Losses** | **Portfolio-Based Losses** | **Total** |
| **At 1 January** | **23,103** | **5,746** | **28,849** | **23,408** | **5,245** | **28,653** |
| Increase/(Decrease) of Impairment Losses | 276 | 2,509 | **2,785** | 396 | 501 | **897** |
| Write-Offs and Other | - | - | - | (701) | **-** | **(701)** |
| **At 31 December** | **23,379** | **8,255** | **31,634** | **23,103** | **5,746** | **28,849** |

| **Bank** | | | 2015 HRK '000 | | | 2014 HRK '000 |
|---|---|---|---|---|---|---|
| | **Individually identified losses** | **Portfolio-based losses** | **Total** | **Individually identified losses** | **Portfolio-based losses** | **Total** |
| **At 1 January** | **23,103** | **5,746** | **28,849** | **23,408** | **5,245** | **28,653** |
| Increase/(Decrease) of Impairment Losses | 276 | 2,509 | **2,785** | 396 | 501 | **897** |
| Write-Offs and Other | - | - | - | (701) | - | **(701)** |
| **At 31 December** | **23,380** | **8,255** | **31,635** | **23,103** | **5,746** | **28,849** |

## 11. LOANS TO AND RECEIVABLES FROM CUSTOMERS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| **Short-Term Loans** | | | | |
| Corporate | 2,376,908 | 2,595,158 | 2,377,857 | 2,596,066 |
| Retail | 1,166,199 | 1,117,046 | 1,166,199 | 1,117,046 |
| **Total Short-Term Loans** | **3,543,107** | **3,712,204** | **3,544,056** | **3,713,112** |
| **Long-Term Loans** | | | | |
| Corporate | 5,305,410 | 5,383,321 | 5,355,196 | 5,391,803 |
| Retail | 3,597,161 | 3,400,542 | 3,452,973 | 3,250,439 |
| **Total Long-Term Loans** | **8,902,571** | **8,783,863** | **8,808,169** | **8,642,242** |
| **Total Gross Loans** | **12,445,678** | **12,496,067** | **12,352,225** | **12,355,354** |
| Accrued Interests Due | 11,269 | 13,747 | 11,246 | 13,719 |
| Accrued Interests Not Yet Due | 38,743 | 39,952 | 38,299 | 39,477 |
| **Provisions for Impairment Losses** | **(2,104,998)** | **(1,974,201)** | **(2,125,655)** | **(1,972,766)** |
| **Portfolio-Based Impairment Allowance for Identified Losses** | **(92,678)** | **(101,815)** | **(91,396)** | **(100,630)** |
| **Total** | **10,298,014** | **10,473,750** | **10,184,719** | **10,335,154** |
| Total Impairment Allowance and Provisions as a Percentage of Gross Loans to Customers | 16.91% | 16.61% | 17.95% | 16.78% |

## 11. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

### *Movements in Impairment Allowance*

Movements in the impairment allowance on loans to and receivables from customers were as follows:

| Group | | | 2015 HRK '000 | | | 2014 HRK '000 |
|---|---|---|---|---|---|---|
| | Individually Identified Losses | Portfolio-Based Losses | Total | Individually Identified Losses | Portfolio-Based Losses | Total |
| **At 1 January** | **1,974,201** | **101,815** | **2,076,016** | **1,197,517** | **106,910** | **1,304,427** |
| Increase/ (Decrease) of Impairment Losses | 177,196 | (9,137) | **168,059** | 782,333 | (5,095) | **777,238** |
| Net Foreign Exchange Loss/(Gain) | (5,716) | | **(5,716)** | 3,966 | - | **3,966** |
| Write-Offs and Other | (40,683) | | **(40,683)** | (9,615) | - | **(9,615)** |
| **At 31 December** | **2,104,998** | **92,678** | **2,197,676** | **1,974,201** | **101,815** | **2,076,016** |

| Bank | | | 2015 HRK '000 | | | 2014 HRK '000 |
|---|---|---|---|---|---|---|
| | Individually Identified Losses | Portfolio-Based Losses | Total | Individually Identified Losses | Portfolio-Based Losses | Total |
| **At 1 January** | **1,972,766** | **100,631** | **2,073,397** | **1,197,153** | **105,827** | **1,302,980** |
| Increase/ (Decrease) of Impairment Losses | 178,210 | (9,234) | **168,976** | 781,266 | (5,197) | **776,069** |
| Net Foreign Exchange Loss/(Gain) | (5,710) | - | **(5,710)** | 3,962 | - | **3,962** |
| Write-Offs and Other | (19,610) | **-** | **(19,610)** | (9,615) | - | **(9,615)** |
| **At 31 December** | **2,125,656** | **91,397** | **2,217,053** | **1,972,766** | **100,630** | **2,073,396** |

## 12. ASSETS HELD FOR SALE

*a) The Group's Assets Held for Sale include:*

| | Industry | Domicile | Ownership at 31 December 2015 % |
|---|---|---|---|
| H1 Telekom d.d. | Telecommunications | Croatia | 58.17 |
| Drvna Industrija Spačva d.d. | Other Carpentry and Component Production | Croatia | 26.48 |

The Bank plans to compensate its investment in the aforementioned companies by sale and not by realizing its share rights. These investments are currently up for sale and the Bank has made all the necessary measures in order to sell them in an acceptable time period usual for these types of transactions.

The Group did not recognize additional impairments on its assets held for sale during the reporting period (2014: HRK 33,621 thousand).

*Investment in H1 Telekom d.d.*

On 25 March 2008 the Bank made an agreement with H1 Telekom d.d. to convert credit receivables from long-term loan into the company's equity. This agreement brought HPB 41.25% equity stake in the company. The stake was increased to 58.17% after converting receivables from bond, long-term loan and interest receivables into equity after the completion of the pre-bankruptcy settlement on 29 July 2015.

Financial position of H1 Telekom is included in the consolidated financial position of HPB Group by using short-cut consolidation procedure as described in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Consolidation of H1 Telekom is shown in the Note 18 Other Assets and Note 25 Other Liabilities.

*b) Assets Held for Sale are as follows:*

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| **Total as of 31 December** | **7,930** | **7,930** | **7,930** | **7,930** |

*c) Movements in Assets Held for Sale:*

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| **Balance at 1 January** | **7,930** | **41,551** | **7,930** | **41,551** |
| Impairment of Shares | - | (33,621) | - | (33,621) |
| **Balance at 31 December** | **7,930** | **7,930** | **7,930** | **7,930** |

## 13. INVESTMENTS IN SUBSIDIARIES

*a) The Group's subsidiaries are as follows:*

| | Industry | Domicile | Ownership at 31 December 2015 % |
|---|---|---|---|
| HPB Invest d.o.o. | Investment Fund Management | Croatia | 100 |
| HPB Nekretnine d.o.o. | Real Estate Agency and Construction | Croatia | 100 |
| HPB Stambena štedionica d.d. | Savings Bank | Croatia | 100 |
| H1 Telekom d.d. | Telecommunication | Croatia | 58,17 |

All the subsidiaries are fully consolidated in the Group's financial statements. HPB Invest d.o.o., HPB Nekretnine d.o.o., HPB Stambena štedionica d.d. are fully consolidated, while consolidation of H1 Telekom d.d. was carried out as decribed in Note 1 e) and 12.

*b) Investments in Subsidiaries that are fully consolidated, are as follows:*

| | Bank | |
|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 |
| HPB Invest d.o.o. | 5,000 | 5,000 |
| HPB Nekretnine d.o.o. | 490 | 490 |
| HPB Stambena štedionica d.d. | 40,000 | 40,000 |
| **Total** | **45,490** | **45,490** |

The following table presents summary financial information on the Bank's investment in subsidiaries, except for H1 Telekom d.d.:

| | 2015 | 2014 |
|---|---|---|
| | '000 HRK | '000 HRK |
| Short Term Assets | 171,066 | 55,433 |
| Long Term Assets | 140,825 | 241,631 |
| Short Term Liabilities | (90,522) | (74,099) |
| Long Term Liabilities | (172,143) | (175,309) |
| **Net aAsets, Book Value of Subsidiaries** | **49,226** | **47,656** |
| **Share of Revenue and Profit of Subsidiaries** | 100% | 100% |
| Revenue | 27,598 | 35,441 |
| Net profit | 1,560 | 5,994 |

*c) Movements of Investments in Subsidiaries:*

There were no changes in book value of investments in subsidiaries in 2015 (2014: no change).

## 14. PROPERTY AND EQUIPMENT

| Group<br>2015 | Land and Buildings HRK '000 | Computers, Equipment and Motor Vehicles HRK '000 | Assets Under Construction HRK '000 | Total HRK '000 |
|---|---|---|---|---|
| **Cost or Estimated Value** | | | | |
| Balance at 1 January 2015 | 169,529 | 303,072 | 9,345 | 481,946 |
| Revaluation of Land and Buildings | (73) | - | - | (73) |
| Additions | - | - | 6,788 | 6,788 |
| Amounts Written-Off | - | (9,706) | - | (9,706) |
| Brought Into Use | 69 | 12,880 | (12,949) | - |
| **Balance at 31 December 2015** | **169,525** | **306,246** | **3,184** | **478,955** |
| **Accumulated Depreciation** | | | | |
| Balance at 1 January 2015 | (59,519) | (269,202) | - | (328,721) |
| Charge for the Year | (2,951) | (14,717) | - | (17,668) |
| Revaluation | - | - | - | - |
| Amounts Written-Off | - | 9,670 | - | 9,670 |
| **Balance at 31 December 2015** | **(62,470)** | **(274,249)** | **-** | **(336,719)** |
| **Net Book Value** | | | | |
| Balance at 1 January 2015 | 110,010 | 33,870 | 9,345 | 153,225 |
| **Balance at 31 December 2015** | **107,055** | **31,997** | **3,184** | **142,236** |

| Group<br>2014 | Land and buildings HRK '000 | Computers, equipment and motor vehicles HRK '000 | Assets under construction HRK '000 | Total HRK '000 |
|---|---|---|---|---|
| **Cost or Estimated Value** | | | | |
| Balance at 1 January 2014 | 157,297 | 305,359 | 6,387 | 469,043 |
| Revaluation of Land and Buildings | (982) | - | - | (982) |
| Additions | 118 | - | 26,512 | 26,630 |
| Amounts Written-Off | - | (12,745) | - | (12,745) |
| Brought Into Use | 13,096 | 10,458 | (23,554) | - |
| **Balance at 31 December 2014** | **169,529** | **303,072** | **9,345** | **481,946** |
| **Accumulated Depreciation** | | | | |
| Balance at 1 January 2014 | (56,550) | (264,506) | - | (321,056) |
| Charge for the Year | (2,969) | (17,408) | - | (20,377) |
| Revaluation | - | - | - | - |
| Amounts Written-Off | - | 12,712 | - | 12,712 |
| **Balance at 31 December 2014** | **(59,519)** | **(269,202)** | **-** | **(328,721)** |
| **Net Book Value** | | | | |
| Balance at 1 January 2014 | 100,747 | 40,853 | 6,387 | 147,987 |
| **Balance at 31 December 2014** | **110,010** | **33,870** | **9,345** | **153,225** |

As at 31 December 2015, assets in the course of construction comprise equipment at cost of HRK 3,184 thousand (2014: HRK 9,345 thousand). The carrying value of land owned by the Group as at 31 December 2014 was HRK 45,895 thousand (2014: HRK 45,895 thousand).

Group's property is in no way pledged to nor are there mortgage rights in favour of third parties.

## 14. PROPERTY AND EQUIPMENT (continued)

| Bank<br>2015 | Land and Buildings HRK '000 | Computers, Equipment and Motor Vehicles HRK '000 | Assets Under Construction HRK '000 | Total HRK '000 |
|---|---|---|---|---|
| **Cost or Estimated Value** | | | | |
| Balance at 1 January 2015 | **169,529** | **302,641** | **9,347** | **481,517** |
| Revaluation of Land and Buildings | (73) | - | - | **(73)** |
| Additions | - | - | 6,734 | **6,734** |
| Amounts Written-Off | - | (9,671) | - | **(9,671)** |
| Brought Into Use | 69 | 12,826 | (12,895) | **-** |
| **Balance at 31 December 2015** | **169,525** | **305,796** | **3,186** | **478,507** |
| | | | | |
| **Accumulated Depreciation** | | | | |
| Balance at 1 January 2015 | **(59,519)** | **(268,891)** | **-** | **(328,410)** |
| Charge for the Year | (2,951) | (14,641) | - | **(17,592)** |
| Revaluation | - | - | **-** | - |
| Amounts Written-Off | - | 9,645 | - | **9,645** |
| **Balance at 31 December 2015** | **(62,470)** | **(273,887)** | - | **(336,357)** |
| | | | | |
| **Net Book Value** | | | | |
| Balance at 1 January 2015 | **110,010** | **33,750** | **9,347** | **153,107** |
| **Balance at 31 December 2015** | **107,055** | **31,909** | **3,186** | **142,150** |

| Bank<br>2014 | Land and buildings HRK '000 | Computers, equipment and motor vehicles HRK '000 | Assets under construction HRK '000 | Total HRK '000 |
|---|---|---|---|---|
| **Cost or Estimated Value** | | | | |
| Balance at 1 January 2014 | **157,297** | 304,972 | 6,388 | **468,657** |
| Revaluation of Land and Buildings | (982) | - | - | **(982)** |
| Additions | 118 | - | 26,424 | **26,542** |
| Amounts Written-Off | - | (12,700) | - | **(12,700)** |
| Brought Into Use | 13,096 | 10,369 | (23,465) | **-** |
| **Balance at 31 December 2014** | **169,529** | **302,641** | **9,347** | **481,517** |
| | | | | |
| **Accumulated Depreciation** | | | | |
| Balance at 1 January 2014 | **(56,550)** | **(264,246)** | - | **(320,796)** |
| Charge for the Year | (2,969) | (17,330) | - | **(20,299)** |
| Revaluation | - | - | - | **0** |
| Amounts Written-Off | - | 12,685 | - | **12,685** |
| **Balance at 31 December 2014** | **(59,519)** | **(268,891)** | **-** | **(328,410)** |
| | | | | |
| **Net Book Value** | | | | |
| Balance at 1 January 2014 | **100,747** | **40,726** | **6,388** | **147,861** |
| **Balance at 31 December 2014** | **110,010** | **33,750** | **9,347** | **153,107** |

As at 31 December 2015, assets in the course of construction comprise equipment at cost of HRK 3,186 thousand (2014: HRK 9,347 thousand). The carrying value of land owned by the Bank as at 31 December 2015 was HRK 45,895 thousand (2014: HRK 45,895 thousand).

Bank's property is in no way pledged to nor are there mortgage rights in favour of third parties.

## 15. INVESTMENT PROPERTIES

| Group | 2015<br>HRK '000 | 2014<br>HRK '000 |
|---|---|---|
| **Cost** | | |
| Balance at 1 January | 11,744 | 11,596 |
| Additions | - | 148 |
| Amounts Written-Off | - | - |
| Disposals | - | - |
| **Balance at 31 December** | **11,744** | **11,744** |
| | | |
| **Accumulated depreciation** | | |
| Balance at 1 January | (1,916) | (1,658) |
| Disposals | - | - |
| Charge for the Year | (260) | (258) |
| **Balance at 31 December** | **(2,176)** | **(1,916)** |
| | | |
| **Net book value** | | |
| Balance at 1 January | 9,828 | 9,938 |
| **Balance at 31 December** | **9,568** | **9,828** |

Fair value hierarchy of investment properties as of 31 December 2015 was as follows:

| | Level 1 | Level 2 | Level 3 | Fair Value as of 31 December 2015 |
|---|---|---|---|---|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| **TOTAL** | - | **-** | **27,141** | **27,141** |

Fair value hierarchy of investment properties as of 31 December 2014 was as follows:

| | Level 1 | Level 2 | Level 3 | Fair Value as of 31 December 2014 |
|---|---|---|---|---|
| | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| **TOTAL** | - | **-** | **27,141** | **27,141** |

Fair value of investment property is appraised by independent appraisers, in line with Regulation of the Real Estate Valuation (NN 76/2014, articles 6 and 7) and related Rules on the Methods of Real Estate Valuation (NN 105/2015), by using cost and revenue method in which number of factors are taken into account when determining current market value. The valuation method did not change during the year.

Group recorded HRK 1,016 thousand of rental income from investment property during 2015 (2014.: 1,018).

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## 16. INTANGIBLE ASSETS

**Group**

| 2015 | Software HRK '000 | Leasehold Improvements HRK '000 | Licences HRK '000 | Assets Under Construction HRK '000 | Total HRK '000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 January 2015 | 227,129 | 77,732 | 65,404 | 17,598 | 387.863 |
| Additions | - | - | - | 12,231 | 12.231 |
| Brought Into Use | 1,287 | 2,945 | 244 | (4,476) | - |
| Amounts Written-Off | - | (3,422) | - | (7,437) | (10.859) |
| **Balance at 31 December 2015** | **228,416** | **77,255** | **65,648** | **17,916** | **389.235** |
| **Accumulated Amortisation** | | | | | |
| Balance at 1 January 2015 | (129,009) | (69,456) | (49,056) | - | (247.521) |
| Charge for the Year | (20,044) | (4,504) | (3,578) | - | (28.126) |
| Amounts Written-Off | - | 3,422 | - | - | 3.422 |
| **Balance at 31 December 2015** | **(149,053)** | **(70,538)** | **(52,634)** | **-** | **(272.225)** |
| **Net Book Value** | | | | | |
| Balance at 1 January 2015 | 98,120 | 8,276 | 16,348 | 17,598 | 140,342 |
| **Balance at 31 December 2015** | **79,363** | **6,717** | **13,014** | **17,916** | **117,010** |

**Group**

| 2014 | Software HRK 000 | Leasehold improvements HRK 000 | Licences HRK 000 | Assets under construction HRK 000 | Total HRK 000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 January 2014 | 226,321 | 78,998 | 64,580 | 17,192 | 387.091 |
| Additions | - | - | - | 4,705 | 4.705 |
| Brought Into Use | 808 | 2,558 | 936 | (4,299) | 3 |
| Amounts Written-Off | - | (3,824) | (112) | - | (3.936) |
| **Balance at 31 December 2014** | **227,129** | **77,732** | **65,404** | **17,598** | **387.863** |
| **Accumulated Amortisation** | | | | | |
| Balance at 1 January 2014 | (105,884) | (67,491) | (45,007) | - | (218.382) |
| Charge for the Year | (23,125) | (5,650) | (4,161) | - | (32.936) |
| Amounts Written-Off | - | 3,685 | 112 | - | 3.797 |
| **Balance at 31 December 2014** | **(129,009)** | **(69,456)** | **(49,056)** | **-** | **(247.521)** |
| **Net Book Value** | | | | | |
| Balance at 1 January 2014 | 120,437 | 11,507 | 19,573 | 17,192 | 168,709 |
| **Balance at 31 December 2014** | **98.120** | **8,276** | **16,348** | **17,598** | **140,342** |

As at 31 December 2015 assets in the course of construction comprise application software, licences and leasehold improvements at a cost of HRK 17,916 thousand (2013: HRK 17,598 thousand) which are being prepared for use by the Group.

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**16. INTANGIBLE ASSETS (continued)**

**Bank**

| **2015** | **Software HRK '000** | **Leasehold Improvements HRK '000** | **Licences HRK '000** | **Assets Under Construction HRK '000** | **Total HRK '000** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 January 2015 | **226,189** | **77,621** | **65,404** | **17,595** | **386,809** |
| Additions | - | - | - | 12,092 | 12,092 |
| Brought Into Use | 1,228 | 2,945 | 244 | (4,417) | - |
| Amounts Written-Off | - | (3,422) | - | (7,437) | (10,859) |
| **Balance at 31 December 2015** | **227,417** | **77,144** | **65,648** | **17,834** | **388,043** |
| **Accumulated amortisation** | | | | | |
| Balance at 1 January 2015 | (128,083) | (69,368) | (49,058) | - | (246,509) |
| Charge for the Year | (20,041) | (4,487) | (3,578) | - | (28,106) |
| Amounts Written-Off | - | 3,422 | - | - | 3,422 |
| **Balance at 31 December 2015** | **(148,124)** | **(70,433)** | **(52,636)** | - | **(271,193)** |
| **Net Book Value** | | | | | |
| Balance at 1 January 2015 | 98,106 | 8,253 | 16,346 | 17,595 | 140,300 |
| **Balance at 31 December 2015** | **79,293** | **6,711** | **13,012** | **17,834** | **116,850** |

**Bank**

| **2014** | **Software HRK 000** | **Leasehold improvements HRK 000** | **Licences HRK 000** | **Assets under construction HRK 000** | **Total HRK 000** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 January 2015 | **225,390** | **78,749** | **64,580** | **17,189** | **385,908** |
| Additions | - | - | | 4,699 | 4,699 |
| Brought Into Use | 799 | 2,558 | 936 | (4,293) | - |
| Amounts Written-Off | - | (3,686) | (112) | - | (3,798) |
| **Balance at 31 December 2014** | **226,189** | **77,621** | **65,404** | **17,595** | **386,809** |
| **Accumulated Amortisation** | | | | | |
| Balance at 1 January 2015 | (105,064) | (67,318) | (45,007) | - | (217,389) |
| Charge for the Year | (23,019) | (5,599) | (4,161) | - | (32,779) |
| Amounts Written-Off | - | 3,548 | 112 | - | 3,660 |
| **Balance at 31 December 2014** | **(128,083)** | **(69,369)** | **(49,056)** | **-** | **(246,508)** |
| **Net Book Value** | | | | | |
| Balance at 1 January 2014 | 120,326 | 11,431 | 19,573 | 17,189 | 168,519 |
| **Balance at 31 December 2014** | **98,106** | **8,252** | **16,348** | **17,595** | **140,301** |

As at 31 December 2015 assets in the course of construction comprise application software, licences and leasehold improvements at a cost of HRK 17,834 thousand (2014: HRK 17,595 thousand) which are being prepared for use by the Bank.

## 17. NET DEFERRED TAX ASSETS

### *a) Recognised deferred tax assets and liabilities - Group*

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Group in 2015 are presented below:

| **Group**<br>**2015** | **2015**<br>**HRK '000** | **Recognised as income/(expense) in the income statement**<br>**HRK '000** | **Recognized through other comprehensive income**<br>**HRK '000** | **2014**<br>**HRK '000** |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Loans and advances to customers | 9,861 | (1,044) | - | 10,905 |
| Other provisions | 17 | (1,123) | - | 1,140 |
| Financial assets | 22,474 | (1,582) | - | 24,056 |
| Fair value reserve | - | - | 34 | (34) |
| **Deferred tax liability** | | | | |
| Borrowings | (423) | 45 | - | (468) |
| Revaluation reserve | (219) | - | 63 | (282) |
| Fair value reserve | (20,522) | - | (2,337) | (18,185) |
| Prepaid expenses | (438) | 91 | - | (529) |
| **Deferred tax assets, net** | **10,750** | **(3,613)** | **(2,240)** | **16,603** |

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Group in 2014 are presented below:

| **Group**<br>**2014** | **2014**<br>**HRK '000** | **Recognised as income/(expense) in the income statement**<br>**HRK '000** | **Recognized through other comprehensive income**<br>**HRK '000** | **2013**<br>**HRK '000** |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Loans and advances to customers | 10,905 | (958) | - | 11,863 |
| Other provisions | 1,140 | 14 | - | 1,126 |
| Financial assets | 24,056 | 2,131 | - | 21,925 |
| Fair value reserve | (34) | - | (10) | (24) |
| **Deferred tax liability** | | | | |
| Borrowings | (468) | 210 | - | (678) |
| Revaluation reserve | (282) | - | 15 | (297) |
| Fair value reserve | (18,185) | - | (7,767) | (10,418) |
| Prepaid expenses | (529) | 99 | - | (628) |
| **Deferred tax assets, net** | **16,603** | **1,496** | **(7,762)** | **22,869** |

## 17. NET DEFERRED TAX ASSETS (continued)

### *b) Recognised deferred tax assets and liabilities - the Bank*

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2015 are presented below:

| **Bank**<br>**2015** | **2015**<br>**HRK '000** | **Recognised as income/(expense) in the income statement**<br>**HRK '000** | **Recognized through other comprehensive income**<br>**HRK '000** | **2014**<br>**HRK '000** |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Loans and advances to customers | 9,181 | (713) | - | 9,894 |
| Other provisions | - | (1,119) | - | 1,119 |
| Financial assets | 22,474 | (1,582) | - | 24,056 |
| Fair value reserve | | | | - |
| **Deferred tax liability** | | | | |
| Borrowings | (689) | 45 | - | (734) |
| Revaluation reserve | (219) | - | 63 | (282) |
| Fair value reserve | (20,523) | - | (2,337) | (18,185) |
| **Deferred tax assets, net** | **10,224** | **(3,369)** | **(2,274)** | **15,868** |

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2014 are presented below:

| **Bank**<br>**2014** | **2014**<br>**HRK '000** | **Recognised as income/(expense) in the income statement**<br>**HRK '000** | **Recognized through other comprehensive income**<br>**HRK '000** | **2013**<br>**HRK '000** |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Loans and advances to customers | 9,894 | (672) | - | 10,567 |
| Other provisions | 1,119 | - | - | 1,118 |
| Financial assets | 24,056 | 2,131 | - | 21,925 |
| Fair value reserve | - | - | - | |
| **Deferred tax liability** | | | | |
| Borrowings | (734) | 210 | - | (944) |
| Revaluation reserve | (282) | - | 15 | (297) |
| Fair value reserve | (18,185) | - | (7,767) | (10,418) |
| **Deferred tax assets, net** | **15,868** | **1,669** | **(7,752)** | **21,951** |

## 18. OTHER ASSETS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Fees receivable | 28,052 | 24,196 | 27,615 | 23,771 |
| Foreclosed tangible assets | 192,719 | 258,180 | 192,719 | 258,180 |
| Items in course of collection | 122,424 | 94,855 | 122,393 | 94,824 |
| Deferred fee expense | 681 | 1,191 | - | - |
| Prepaid expenses | 5,744 | 7,918 | 5,590 | 7,783 |
| Receivables arising from syndicated loans | 55,475 | 56,170 | 55,475 | 56,170 |
| Other receivables | 28,831 | 25,918 | 25,185 | 24,717 |
| **Total other assets, gross** | **433,926** | **468,428** | **428,977** | **465,445** |
| **Impairment loss** | (110,621) | **(120,989)** | **(110,621)** | **(120,989)** |
| **Total other assets** | **323,305** | **347,439** | **318,356** | **344,456** |
| **Discontinued operations** | **120,523** | **-** | **29** | **-** |
| **Total** | **443,828** | **347,439** | **318,385** | **344,456** |

Items in course of collection mainly relate to HRK and foreign currency receivables from corporations in course of settlement, amounting to HRK 55,713 thousand (2014: HRK 42,950 thousand), as well as other receivables in course of settlement (card operations, payment services, currency trade).

Item Discountinued operations relates to Bank's share in total liabilities of a company held for sale, minus intercompany transactions between the Bank and the Company. As per Dec 31 2015 the Company's total liabilities were HRK 217,758 thousand while the Bank's share was HRK 126,660 thousand, minus internal transactions in the amount of HRK 6,137 thousand.

***Movements in Impairment Allowance***

Movements in the impairment allowance on other assets were as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Balance at 1 January | 120,989 | 45,047 | 120,989 | 45,015 |
| Increase in impairment losses | 3,191 | 80,351 | 3,176 | 80,351 |
| Disposal of repossessed assets | (13,188) | - | (13,187) | - |
| Amounts reversed / write-offs | (371) | (4,409) | (358) | (4,377) |
| **Balance at 31 December** | **110,621** | **120,989** | **110,621** | **120,989** |

### 18. OTHER ASSETS (continued)

At 31 December 2015 the gross carrying amount of foreclosed assets by the Bank and Group amounted to HRK 192,720 thousand (2014: HRK 258,180 thousand).

Those assets comprise buildings in the amount of HRK 131,820 thousand (2014: HRK 164,064 thousand), land in the amount of HRK 48,862 thousand (2014: HRK 82,534 thousand) and equipment in the amount of HRK 12,038 thousand (2014: HRK 11,583).

The Bank and the Group did not record any loss on above stated assets during 2015 (2014: HRK 75,111 thousand).

***Movements in Foreclosed Tangible Assets***

The following table represents movements in foreclosed assets during:

| **Group and Bank** | **2015** | **2014** |
|---|---|---|
| *Gross carrying value* | **HRK '000** | **HRK '000** |
| **Balance as at January 1** | **258,180** | **237,703** |
| Repossessed | 1,144 | 23,884 |
| Leased out | - | (1,130) |
| Disposal of repossessed assets | (66,691) | (2,974) |
| Investment property (or investments in facilities) and other | 2,086 | 697 |
| **Balance as at December 31** | **192,719** | **258,180** |
| ***Impairment losses*** | | |
| **Balance as at January 1** | **(102,772)** | **(28,285)** |
| Impairment loss charged to the income statement | - | (75,111) |
| Leased out | - | 624 |
| Disposal of repossessed assets | 13,188 | - |
| **Balance as at December 31** | **(89,584)** | **(102,772)** |
| ***Net carrying value*** | | |
| **Balance as at January 1** | **155,408** | **209,418** |
| **Balance as at December 31** | **103,135** | **155,408** |

Bank and Group are actively selling repossessed asset they own, and have sold repossessed assets with a net value of HRK 55,503 thousand during 2015 (2014: 0).

Income arising from disposal of assets amounted to HRK 14,935 during 2015 (2014: income of HRK 338 thousand).

## 19. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK ´000 | 2014 HRK ´000 | 2015 HRK ´000 | 2014 HRK ´000 |
| Negative fair value of forward foreign exchange contracts | - | - | - | - |
| Negative fair value of cross currency swaps | - | 508 | - | 508 |
| **Balance at 31 December** | **-** | **508** | **-** | **508** |

## 20. DEPOSITS FROM BANKS

| **Group** | **2015** | | | **2014** | | |
|---|---|---|---|---|---|---|
| | **HRK** | **In foreign currency** | **Total** | **HRK** | **In foreign currency** | **Total** |
| Demand deposits | 13,361 | 65,001 | 78,362 | 20,340 | 23,498 | 43,838 |
| Term deposits | 259,800 | 18,800 | 278,600 | 310,137 | 18,460 | 328,597 |
| Interest payable not yet due | 587 | 90 | 677 | 2,304 | 11 | 2,315 |
| **Total** | **273,748** | **83,891** | **357,639** | **332,781** | **41,969** | **374,750** |

| **Bank** | **2015** | | | **2014** | | |
|---|---|---|---|---|---|---|
| | **HRK** | **In foreign currency** | **Total** | **HRK** | **In foreign currency** | **Total** |
| Demand deposits | 13,361 | 65,001 | 78,362 | 20,340 | 23,498 | 43,838 |
| Term deposits | 259,800 | 18,800 | 278,600 | 310,137 | 18,460 | 328,597 |
| Interest payable not yet due | 587 | 90 | 677 | 2,304 | 11 | 2,315 |
| **Total** | **273,748** | **83,891** | **357,639** | **332,781** | **41,969** | **374,750** |

## 21. DEPOSITS FROM CUSTOMERS

| Group | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | HRK | In foreign currency | Total | HRK | In foreign currency | Total |
| **Demand deposits** | | | | | | |
| Retail | 2,003,645 | 392,668 | 2,396,313 | 1,879,099 | 337,961 | 2,217,060 |
| Corporate | 1,308,272 | 210,111 | 1,518,383 | 1,465,478 | 152,219 | 1,617,697 |
| **Restricted deposits** | | | | | | |
| Retail | 6,006 | 4,613 | 10,619 | 5,761 | 636 | 6,397 |
| Corporate | 1,939,895 | 237,440 | 2,177,335 | 1,635,249 | 57,197 | 1,692,446 |
| | **5,257,818** | **844,832** | **6,102,650** | **4,985,587** | **548,013** | **5,533,600** |
| **Term deposits** | | | | | | |
| Retail | 2,414,822 | 4,072,615 | 6,487,437 | 2,330,817 | 3,828,453 | 6,159,270 |
| Corporate | 1,344,321 | 486,665 | 1,830,986 | 1,579,733 | 732,371 | 2,312,104 |
| | **3,759,143** | **4,559,280** | **8,318,423** | **3,910,550** | **4,560,824** | **8,471,374** |
| Interest payable - not yet due | 32,928 | 39,593 | 72,521 | 33,542 | 46,209 | 79,751 |
| **Total** | **9,049,889** | **5,443,705** | **14,493,594** | **8,929,679** | **5,155,046** | **14,084,725** |

| Bank | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | HRK | In foreign currency | Total | HRK | In foreign currency | Total |
| **Demand deposits** | | | | | | |
| Retail | 2,003,645 | 392,668 | 2,396,313 | 1,879,099 | 337,961 | 2,217,060 |
| Corporate | 1,319,649 | 216,037 | 1,535,686 | 1,487,023 | 152,351 | 1,639,374 |
| **Restricted deposits** | | | | | | |
| Retail | 6,006 | 4,613 | 10,619 | 5,761 | 636 | 6,397 |
| Corporate | 1,939,895 | 237,440 | 2,177,335 | 1,635,771 | 57,197 | 1,692,968 |
| | **5,269,195** | **850,758** | **6,119,953** | **5,007,654** | **548,145** | **5,555,799** |
| **Term deposits** | | | | | | |
| Retail | 2,172,002 | 4,072,615 | 6,244,617 | 2,103,299 | 3,828,453 | 5,931,752 |
| Corporate | 1,367,334 | 486,665 | 1,853,999 | 1,579,733 | 732,371 | 2,312,104 |
| | **3,539,336** | **4,559,280** | **8,098,616** | **3,683,032** | **4,560,824** | **8,243,856** |
| Interest payable - not yet due | 32,940 | 39,593 | 72,533 | 33,542 | 46,209 | 79,751 |
| **Total** | **8,841,471** | **5,449,631** | **14,291,102** | **8,724,228** | **5,155,178** | **13,879,406** |

Restricted deposits mainly relate to client deposits which are predetermined for special purposes, such as those based on court orders.

## 22. BORROWINGS

| Group | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | HRK | In foreign currency | Total | HRK | In foreign currency | Total |
| Short-term loans from other financial institutions | - | 394 | 394 | 30,000 | 1,152 | 31,152 |
| Long-term bank borrowings | - | 446,650 | 446,650 | - | 833,638 | 833,638 |
| Long-term borrowing from HBOR | 557,730 | - | 557,730 | 641,264 | - | 641,264 |
| Accrued interest due | 189 | - | 189 | 2 | - | 2 |
| Accrued interest not yet due | 309 | 111 | 420 | 1,088 | 183 | 1,271 |
| **Total** | **558,228** | **447,155** | **1,005,383** | **672,354** | **834,973** | **1,507,327** |

| Bank | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | HRK | In foreign currency | Total | HRK | In foreign currency | Total |
| Short-term loans from other financial institutions | - | 394 | 394 | 30,000 | 1,152 | 31,152 |
| Long-term bank borrowings | - | 446,650 | 446,650 | - | 833,638 | 833,638 |
| Long-term borrowing from HBOR | 557,730 | - | 557,730 | 641,264 | - | 641,264 |
| Accrued interest due | 189 | - | 189 | 2 | - | 2 |
| Accrued interest not yet due | 309 | 111 | 420 | 1,088 | 183 | 1,271 |
| **Total** | **558,228** | **447,155** | **1,005,383** | **672,354** | **834,973** | **1,507,327** |

In accordance with their terms, borrowings from the Croatian Bank for Reconstruction and Development ("HBOR") are used to fund loans to customers of the Bank for financing eligible reconstruction and development projects at preferential interest rates.

## 23. HYBRID INSTRUMENTS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Hybrid instruments | - | 252,537 | - | 252,537 |
| Accrued interest not yet due | - | 8,384 | - | 8,384 |
| **Balance at 31 December** | **-** | **260,921** | **-** | **260,921** |

Pursuant to the decision of the General Assembly of the Bank at the end of the first half of 2015 hybrid instruments entered (converted) to share capital. Hereby the amount of share capital increased by HRK 252.1 million and the book value of the hybrid instruments at 31 December 2015 amounted to HRK 0 (2014: HRK 252,537 thousand).

## 24. PROVISIONS FOR LIABILITIES AND EXPENSES

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Litigation provisions | 15,230 | 10,540 | 15,230 | 10,540 |
| Provision for contingent liabilities | 712 | 100 | 712 | 100 |
| Provisions for other liabilities | 1,350 | 394 | 1,244 | 394 |
| Provisions for off-balance-sheet exposures | 19,431 | 18,724 | 19,406 | 18,714 |
| **Balance at 31 December** | **36,723** | **29,758** | **36,592** | **29,748** |

### *Movements in Provisions for Liabilities and Expenses*

The movements in provisions for liabilities and expenses were as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Balance at 1 January | 29,758 | 42,748 | 29,748 | 41,789 |
| Increase/(decrease) in provisions in the income statement | 9,023 | 3,969 | 8,986 | 4,818 |
| Amounts utilized / reversed during the reporting period | (2,058) | (16,959) | (2,142) | (16,859) |
| **Balance at 31 December** | **36,723** | **29,758** | **36,592** | **29,748** |

## 25. OTHER LIABILITIES

| | Group | | Bank | |
|---|---|---|---|---|
| | **2015 HRK '000** | **2014 HRK '000** | **2015 HRK '000** | **2014 HRK '000** |
| Trade accounts payable | 14,904 | 26,283 | 14,350 | 25,833 |
| Salaries, amounts to be withheld from salaries, taxes and contributions | 15,771 | 14,112 | 14,950 | 13,379 |
| Provisions for retirement benefits, termination benefits and similar liabilities | 4,964 | 15,922 | 4,964 | 15,922 |
| Fees payable | 12,809 | 11,543 | 12,743 | 11,496 |
| Items in course of settlement | 70,277 | 241,321 | 67,352 | 241,321 |
| Deferred fee income | 15,144 | 16,244 | 12,569 | 12,184 |
| Other liabilities | 102,476 | 143,769 | 94,474 | 133,625 |
| **Total continued operations** | **236,345** | **469,194** | **221,402** | **453,760** |
| **Discontinued operations** | **105,558** | **-** | **-** | **-** |
| **Total** | **341,903** | **469,194** | **221,402** | **453,760** |

Item *Disontinued operations* relates to Bank's share in total liabilities of the company held for sale, minus intercompany transactions between the Bank and the Company. Accordingly, as per Dec 31 2015 total liabilities of the company held for sale amount to HRK 217.758 thousand, with Bank's share amounting to HRK 126.660 thousand, minus elimination of intercompany transactions in the amount of HRK 21.102 thousand.

## 26. EQUITY

### *a) Share Capital*

Based on the decision of the General Assembly of the Bank, at the end of H1 2015 share capital was increased by the amount of HRK 252.1 million through conversion of hybrid instruments into equity. Fond za financiranje razgradnje i zbrinjavanja radioaktivnog otpada i istrošenog nuklearnog goriva Nuklearne elektrane Krško (Fund NEK) acquired 47,377 new shares, while State Agency for Deposit insurance and Bank Rehabilitation (DAB) acquired 181,818 new shares at a face value HRK 1,100.

On 11 September 2015, General Assembly made a Decision to increase share capital and approved the issue of ordinary shares by public offering contributions in cash with exclusion of priority rights of existing shareholders to subscribe new shares. Shares' face value was simultaneously decreased from HRK 1.100 per share to HRK 600 per share.

Based on this decision, public offering was carried out in two rounds, and 916.666 new shares have been subscribed, paid in and issued, each at par value of HRK 600. Private investors' share in the issuance amounted to HRK 305.9 million (or 509.852 new shares), whilst the remainder (HRK 244.1 million or 406,814 new shares) was paid in by Republic of Croatia.

On 31 December 2015, the Company's authorized, subscribed and fully paid-in capital amounted to HRK 1,214,755 thousand (2014: HRK 966,640 thousand) and comprised of 2,024,625 (2014: HRK 878,764 thousand) of authorized ordinary shares with a face value of HRK 600 each. At 31 December 2015 the Bank held 795 treasury shares (2014: 795) amounting to HRK 477 thousand (2014: HRK 875 thousand).

**26. EQUITY (continued)**

The ownership structure is as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Paid-in capital HRK '000** | **Ownership in %** | **Paid-in capital HRK '000** | **Ownership in %** |
| Republic of Croatia | 515,421 | 42.43% | 497,443 | 51.46% |
| Hrvatska pošta d.d. | 144,966 | 11.93% | 265,771 | 27.49% |
| DAB | 109,091 | 8.98% | - | - |
| Croatian State Pension Insurance Fund | 106,387 | 8.76% | 195,042 | 20.18% |
| Fund NEK | 28,456 | 2.34% | - | - |
| Others | 310,454 | 25.56% | 8,384 | 0.87% |
| **Total** | **1,214,775** | **100.00%** | **966,640** | **100.00%** |

***b) Capital Gain***

Capital gain is the excess amount paid with respect to nominal value of shares at the issue of new shares. Pursuant to the decision of the General Assembly of the Bank from June 2015, capital gain amounting to HRK 228,136 thousand was fully used to cover losses realised in 2014.

***c) Fair Value Reserve***

The fair value reserve includes unrealised gains and losses on changes in the fair value of financial assets available for sale, net of tax.

The movements of fair value reserve during 2015 and 2014 were as follows:

| **Group** | **2015** HRK '000 | **2014** HRK '000 |
|---|---|---|
| Balance at 1 January | 72,867 | **45,941** |
| Net unrealized gain from financial assets available for sale | 11,527 | 42,924 |
| The cumulative gain on the sale of available-for-sale assets was transferred to the income statement. | - | (8,222) |
| Deferred taxes in respect of profits on revaluation of available-for-sale financial assets | (2,305) | (7,776) |
| **Balance at 31 December** | **82,089** | **72,867** |

| **Bank** | **2015** HRK 000 | **2014** HRK 000 |
|---|---|---|
| Balance at 1 January | **72,741** | **45,850** |
| Net unrealized gain from financial assets available for sale | 11,685 | 42,880 |
| The cumulative gain on the sale of available-for-sale assets was transferred to the income statement | - | (8,222) |
| Deferred taxes in respect of profits on revaluation of available-for-sale financial assets | (2,337) | (7,767) |
| **Balance at 31 December** | **82,089** | **72,741** |

**26. EQUITY (continued)**

***d) Revaluation Reserve***

A revaluation reserve in the amount of HRK 887 thousand (2014: HRK 887 thousand), net of tax, arises from the revaluation of land and buildings of the Group.

In 2015 change on the position of revaluation reserve amounts to HRK 10 thousand (2014: decrease by HRK 302 thousand). The movements of revaluation reserve in 2015 and 2014 were as follows:

| **Group and Bank** | **2015**<br>HRK '000 | **2014**<br>HRK '000 |
|---|---|---|
| Balance at 1 January | **887** | **1,189** |
| Decrease in the revaluation reserve on depreciation of assets | (73) | (317) |
| Deferred tax in respect of the revaluation reserve | 63 | 15 |
| **Balance at 31 December** | **877** | **887** |

***e) Proposed Dividends***

Dividends payable are not accounted for until they have been ratified at the General Assembly of Shareholders. There were no dividend payments for the year ended 31 December 2015 (2014: 0).

***f) Statutory Reserves***

The Bank is required to build legal reserves by appropriating 5% of net profit for the year until these reserves reach 5% of share capital. The balance of legal reserve at 31 December 2014 amounted to HRK 0 thousand (2014: HRK 10,578 thousand).

Other reserves as at December 31, 2015 amounted to HRK 358.306 thousand (2014: 0). Simulatenous to share capital increase based on Decision by the General Assembly, face value of Bank's share was decreased from HRK 1.100 per share to HRK 600 per share. This decrease has covered the remainder of uncovered losses amounting to HRK 195,674, whilst the remaining amount of HRK 358,306 thousand was used to form other capital reserves

***g) Retained Earnings/(accumulated losses)***

Bank has no retained earnings, and after loss coverage Bank no longer has accumulates losses from previous years (2014: HRK 200,996 thousand).

***h) Financial Leverage Ratio***

In line with article 429 of Regulation EU 575/2013 from January 01 2014, calculus of financial leverage ratio between common tier-1 equity and total exposure is mandatory for each credit institution.

Financial leverage ratio for the Bank is as follows:

| | **2015** | **2014** |
|---|---|---|
| Financial leverage ratio (in %) | 7.85 | 4.16 |

## 27. INTEREST AND SIMILAR INCOME

### *a) Analysis by Product:*

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Loans and advances to customers | | | | |
| - Corporate | 341,851 | 424,229 | 342,509 | 425,554 |
| - Individuals | 311,069 | 312,044 | 305,118 | 306,286 |
| | **652,920** | **736,273** | **647,627** | **731,840** |
| Loans and advances to customers | 3,276 | 2,615 | 3,181 | 2,611 |
| Debt securities | 119,309 | 111,542 | 113,850 | 105,942 |
| Bills of exchange | 17,322 | 21,977 | 17,322 | 21,977 |
| **Total** | **792,827** | **872,407** | **781,980** | **862,370** |

## 27. INTEREST AND SIMILAR INCOME (continued)

### *b) Analysis by Source:*

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Corporate | 193,914 | 261,052 | 194,572 | 262,377 |
| Retail | 311,069 | 312,044 | 305,118 | 306,286 |
| Government and public sector | 278,372 | 291,859 | 272,913 | 286,259 |
| Banks and other financial institutions | 3,953 | 3,328 | 3,858 | 3,324 |
| Other organisations | 5,519 | 4,124 | 5,519 | 4,124 |
| **Total** | **792,827** | **872,407** | **781,980** | **862,370** |

## 28. INTEREST AND SIMILAR EXPENSE

### *a) Analysis by Product*

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK'000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Borrowings | 29,592 | 39,282 | 29,592 | 39,282 |
| Customer deposits | | | | |
| - Corporate | 71,962 | 116,916 | 72,026 | 117,124 |
| - Retail | 172,130 | 190,053 | 165,222 | 183,255 |
| | **244,092** | **306,969** | **237,249** | **300,379** |
| Deposits from banks | 4,762 | 7,063 | 4,762 | 7,063 |
| Other | 51 | 2,273 | 51 | 2,258 |
| **Total** | **278,497** | **355,587** | **271,654** | **348,982** |

**28. INTEREST AND SIMILAR EXPENSE (continued)**

***b) Analysis by Recipient***

| | Group | | Bank | |
|---|---|---|---|---|
| | **2015 HRK '000** | **2014 HRK '000** | **2015 HRK '000** | **2014 HRK '000** |
| Corporate | 30,561 | 37,262 | 30,626 | 37,455 |
| Retail | 172,130 | 190,053 | 165,222 | 183,255 |
| Government and public sector | 21,366 | 40,676 | 21,366 | 40,676 |
| Banks and other financial institutions | 48,609 | 78,696 | 48,609 | 78,696 |
| Others | 5,831 | 8,900 | 5,831 | 8,900 |
| **Total** | **278,497** | **355,587** | **271,654** | **348,982** |

## 29. FEES AND COMMISSIONS INCOME

| | Group | | Bank | |
|---|---|---|---|---|
| | **2015 HRK '000** | **2014 HRK '000** | **2015 HRK '000** | **2014 HRK '000** |
| Cash payment operations | 286,552 | 302,089 | 286,552 | 302,090 |
| Non-cash payment operations | 44,291 | 42,998 | 44,291 | 42,998 |
| Retail and credit card operations | 117,299 | 107,989 | 114,606 | 102,560 |
| Letters of credit, guarantees and foreign-exchange payment operations | 19,623 | 17,643 | 19,623 | 17,643 |
| Other fee and commission income | 27,562 | 28,315 | 17,950 | 19,642 |
| **Total** | **495,327** | **499,034** | **483,022** | **484,933** |

## 30. FEES AND COMMISSIONS EXPENSE

| | Group | | Bank | |
|---|---|---|---|---|
| | **2015 HRK '000** | **2014 HRK '000** | **2015 HRK '000** | **2014 HRK '000** |
| Cash payment operations | 251,790 | 262,172 | 251,790 | 262,172 |
| Non-cash payment operations | 14,676 | 16,259 | 14,676 | 16,259 |
| Card operations | 28,046 | 26,576 | 28,046 | 26,576 |
| Other fee and commission income | 7,831 | 8,400 | 6,777 | 7,096 |
| **Total** | **302,343** | **313,407** | **301,289** | **312,103** |

## 31. GAINS LESS LOSSES FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| **Net unrealised losses/(gains) on financial assets at fair value through profit or loss** | | | | |
| **Realised gains/(losses)** | | | | |
| - Debt securities | 383 | 796 | 259 | 813 |
| - Equity securities | - | 465 | - | (136) |
| - Investment funds | 478 | 1,328 | 478 | 1,328 |
| - Forward contracts, OTC | (2,735) | (754) | (2,812) | (754) |
| | **(1,874)** | **1,835** | **(2,075)** | **1,251** |
| **Unrealised gains/(losses)** | | | | |
| - Debt securities | 2,584 | 9,342 | 3,050 | 5,003 |
| - Equity securities | 360 | (10,819) | 360 | (10,819) |
| - Investment funds | 4,446 | 6,445 | 4,446 | 6,445 |
| - Futures | 18 | - | - | - |
| - Forward contracts, OTC | 508 | (510) | 508 | (510) |
| | **7,916** | **4,458** | **8,364** | **119** |
| **Total** | **6,042** | **6,293** | **6,289** | **1,370** |

## 32. GAINS LESS LOSSES FROM FINANCIAL ASSETS AVAILABLE FOR SALE

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Realised gains on disposal of debt securities available for sale | 1 | 17,348 | - | 17,353 |
| Realised gains on disposal of equity securities available for sale | - | - | - | - |
| **Total** | 1 | **17,348** | **-** | **17,353** |

## 33. OTHER OPERATING INCOME

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Dividend income | 1,073 | 1,359 | 1,073 | 1,359 |
| Net foreign exchange gain from translation of monetary assets and liabilities | 9,669 | 4,161 | 9,971 | 4,180 |
| Income on dormant customer accounts | 32 | 46 | 32 | 46 |
| Income arising from sale of repossessed assets | 14,935 | 338 | 14,935 | 338 |
| Income from paid insurance premium | 8,000 | - | 8,000 | - |
| Other income | 8,214 | 4,723 | 8,025 | 4,141 |
| **Total** | **41,923** | **10,627** | **42,036** | **10,064** |

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### 34. GENERAL AND ADMINISTRATIVE EXPENSES

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Materials and services | 140,401 | 139,886 | 137,614 | 137,924 |
| Administration and marketing | 18,044 | 11,906 | 17,556 | 11,609 |
| Postage and telecommunications | 26,071 | 30,761 | 25,356 | 30,235 |
| Staff costs | 188,183 | 185,865 | 179,552 | 176,509 |
| Savings deposit insurance costs | 35,194 | 25,177 | 34,474 | 24,461 |
| Other general and administrative expenses | 19,631 | 19,625 | 19,645 | 18,287 |
| **Total** | **427,524** | **413,220** | **414,197** | **399,025** |

***a) Staff costs***

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Net salaries, termination and other employee benefit costs | 91,366 | 87,577 | 87,422 | 83,396 |
| Taxes and contributions (including contributions payable by employers) | 84,185 | 87,927 | 80,193 | 84,086 |
| Other fees to employees | 12,038 | 9,180 | 11,741 | 8,804 |
| Fees to Supervisory Board Members | 594 | 1,181 | 196 | 223 |
| **Total** | **188,183** | **185,865** | **179,552** | **176,509** |

As at 31 December 2015, Bank had 1,067 employees (2014: 1,084), and 1,102 persons were employed in the Group (2014: 1,120 employees).

## 35. IMPAIRMENT LOSSES ON LOANS TO AND RECEIVABLES FROM CUSTOMERS AND OTHER ASSETS

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Notes | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| **Individually identified impairment losses** | | | | | |
| Loans and receivables from customers | 11 | (177,196) | (782,333) | (178,210) | (781,266) |
| Interest receivable | | (3) | (11,476) | (16) | (11,465) |
| Financial assets available for sale | 9 | (5,060) | (29,802) | (5,060) | (29,802) |
| Financial assets held to maturity | 10 | (276) | (396) | (276) | (396) |
| Other assets | 18 | (3,191) | (80,351) | (3,177) | (80,351) |
| Tangible and intangible assets | 14,16 | (7,437) | - | (7,437) | - |
| Assets held for sale | | - | (33,621) | - | (33,621) |
| Gains from recovery of placements written-off in previous years | | 1,878 | 443 | 1,878 | 443 |
| **Total charge** | | **(191,285)** | **(937,536)** | **(192,298)** | **(936,458)** |
| | | | | | |
| **Portfolio based provisions for identified losses** | | | | | |
| Loans and receivables from customers | 11 | 9,137 | 5,095 | 9,234 | 5,197 |
| Financial assets held to maturity | 10 | (2,509) | (501) | (2,509) | (501) |
| Other assets | 18 | - | - | - | - |
| Loans to and receivables from banks | 7 | - | - | - | - |
| **Total reversal** | | **6,628** | **4,594** | **6,725** | **4,696** |
| | | | | | |
| **Total portfolio based and individually identified losses** | | | | | |
| Loans and receivables from customers | 11 | (168,059) | (777,238) | (168,976) | (776,069) |
| Interest receivable | | (3) | (11,476) | (16) | (11,465) |
| Financial assets available for sale | 9 | (5,060) | (29,802) | (5,060) | (29,802) |
| Financial assets held to maturity | 10 | (2,785) | (897) | (2,785) | (897) |
| Other assets | 18 | (3,191) | (80,351) | (3,177) | (80,351) |
| Tangible and intangible assets | 14,16 | (7,437) | - | (7,437) | - |
| Assets held for sale | | - | (33,621) | - | (33,621) |
| Loans to and receivables from banks | 7 | - | - | - | - |
| Gains from recovery of placements written-off in previous years | | 1,878 | 443 | 1,878 | 443 |
| **Total charge** | | **(184,657)** | **(932,942)** | **(185,572)** | **(931,762)** |

## 36. INCOME TAX

Total recognized income tax expense, calculated at the income tax rate of 20%, comprises income tax expense recognized in the income statement and movements in deferred tax recognized in equity, as follows:

### Income Tax Expense Recognised in the Income Statement

| | Group | | Bank | |
|---|---|---|---|---|
| | **2015 HRK '000** | **2014 HRK '000** | **2015 HRK '000** | **2014 HRK '000** |
| Current tax | (289) | (524) | - | - |
| Deferred tax income/(expense) in respect of origination and reversal of temporary differences | (3,613) | 1,496 | (3,369) | 1,669 |
| **Total current tax recognised in the income statement** | **(3,902)** | **972** | **(3,369)** | **1,669** |

**Bank's subisidiaries – HPB Invest d.o.o. and HPB Nekretnine d.o.o. – were liable to corporate income tax subsequent to net profit realized during 2015 and 2014*

### Movements in the Income Tax Recognized in Other Comprehensive Income:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2015 HRK 000** | **2014 HRK 000** | **2015 HRK 000** | **2014 HRK 000** |
| Deferred tax expense in respect of unrealised losses on available-for-sale assets not recognised in the fair valuation reserve | (2,303) | (7,767) | (2,337) | (7,767) |
| Deferred tax income in respect of revaluation of property | 63 | 15 | 63 | 15 |
| **Total tax expense recognized directly in equity** | **(2,240)** | **(7,752)** | **(2,274)** | **(7,752)** |

### Reconciliation of Income Tax Expense

The reconciliation between income tax expense and profit before tax is shown as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2015 HRK 000** | **2014 HRK 000** | **2015 HRK 000** | **2014 HRK 000** |
| Profit/(Loss) before taxation | 128,679 | (630,362) | 126,586 | (637,053) |
| Income tax at the rate of 20% (2014: 20%) | (25,736) | 126,072 | (25,317) | 127,411 |
| Tax non-deductible expenses | (15,407) | (21,539) | (15,401) | (21,531) |
| Non-taxable income | 8,198 | 9,099 | 8,065 | 8,463 |
| Effect of unrecognised deferred tax | 29,043 | (112,660) | 29,284 | (112,674) |
| | **(3,902)** | **972** | **(3,369)** | **1,669** |
| Effective income tax rate | 3.0% | - | 2.7% | - |

### 36. INCOME TAX (continued)

**Unrecognized Deferred Tax in Respect of Tax Losses Disposable in Prospective Periods**

At 31 December 2015 the Bank held HRK 355,370 thousand (2014: HRK 534,271 thousand) accumulated tax losses available for utilisation until 31 December 2019. Due to profit achieved as of 31 December 2015, as well as due to tax non-deductible impairment on equity stake, tax losses have decreased during 2015 by HRK 178,901 thousand, available for utilisation until 31 December 2019. No deferred tax assets with respect to tax losses carry forward were recognized because the realisation of sufficient future taxable profits against which the losses could be utilised is not certain.

### 37. EARNINGS/(LOSS) PER SHARE

For the purposes of determining earnings/losses per share, earnings(losses) represent the Bank's net profit/(loss) for the year attributable to the equity holders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used in determining the basic earnings/(losses) per shares was 1,450,900 (2014: 877,969). As there is no impact of any options, convertible bonds or similar effects, the weighted average number of ordinary shares used in determining diluted earnings/(losses) per share would be equal as the one used in determining basic earnings/(losses) per share i.e. 1,450,900 (2014: 877,969).

***a) Earnings Per Share***

Profit and weighted average number of ordinary shares outstanding:

| | **2015 HRK 000** | **2014 HRK 000** |
|---|---|---|
| Current Year Profit/(Loss) Distributable to the Bank's Owners | 123,217 | (635,384) |
| Dividend Payout | - | - |
| **Profit Used to Calculate Basic Earnings Per Share** | **123,217** | **(635,384)** |
| Weighted Average Ordinary Shares Outstanding Used to Calculate Basic Earnings Per Share | 1,450,900 | 877,969 |
| **Basic Earnings Per Share from Active Operations** | **HRK 84.92** | **HRK (723.70)** |

## 37. EARNINGS/(LOSS) PER SHARE (Continued)

***b) Diluted Earnings Per Share***

Profit used to calculate diluted Earnings Per Share

| | 2015<br>HRK 000 | 2014<br>HRK 000 |
|---|---|---|
| Profit Used to Calculate Earnings Per Share | 123,217 | (635,384) |
| Adjustments | - | - |
| **Profit/(Loss) Used to Calculate Diluted Earnings Per Share** | **123,217** | **(635,384)** |

Adjustments of weighted average ordinary shares outstanding used to calculate diluted earnings per share compared to weighted average ordinary shares outstanding used to calculate earnings per share:

| | 2015 | 2014 |
|---|---|---|
| Weighted Average Ordinary Shares Outstanding Used to Calculate Earnings Per Share | 1,450,900 | 877,969 |
| Shares Issued Without Cost: | | |
| - Options for Employees | - | - |
| - Partially Payed Ordinary Shares | - | - |
| - Convertible Bonds | - | - |
| - Other | - | - |
| Weighted Average Ordinary Shares Outstanding Used to Calculate Diluted Earnings Per Share | **1,450,900** | **877,969** |
| **Diluted Earnings Per Share** | **HRK 84,92** | **HRK (723,70)** |

## 38. CONCENTRATION OF ASSETS AND LIABILITIES

The assets and liabilities of the Bank are significantly concentrated on amounts directly due from and to the Republic of Croatia. The amounts at year end, including accrued interest, are as follows:

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Notes | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Giro account with the CNB | 5 | 488,042 | 587,343 | 488,042 | 587,343 |
| Mandatory reserve with the Croatian National Bank | 6 | 1,279,570 | 1,545,787 | 1,279,570 | 1,545,787 |
| Bonds of the Republic of Croatia | | 1,915,457 | 1,976,744 | 1,797,952 | 1,838,904 |
| Treasury bills of the Croatian Ministry of Finance | | 978,638 | 141,256 | 978,638 | 141,256 |
| Loans and advances to the Republic of Croatia | | 2,067,620 | 1,788,255 | 2,067,620 | 1,788,255 |
| Deposits from the Republic of Croatia | | (2,384,346) | (2,192,207) | (2,384,346) | (2,192,207) |
| **Total** | | **4,344,981** | **3,847,178** | **4,227,476** | **3,709,338** |

The Bank's exposure towards local government and state institutions not directly funded by the State Budget (excluding state owned companies) is presented below:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Loans | 942,325 | 1,014,902 | 942,325 | 1,014,902 |
| Deposits | (162,705) | (196,314) | (162,705) | (196,314) |
| **Total** | **779,620** | **818,588** | **779,620** | **818,588** |

## 39. CASH AND CASH EQUIVALENTS

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Notes | 2015 HRK '000 | 2014 HRK '000 | 2015 HRK '000 | 2014 HRK '000 |
| Cash and amounts due from banks | 5 | 1,630,115 | 1,308,452 | 1,630,052 | 1,308,449 |
| Mandatory reserve with Croatian National Bank | 6 | 1,279,570 | 1,545,787 | 1,279,570 | 1,545,787 |
| Deposits with banks with original maturities of up to 90 days | | 215,036 | 467,166 | 215,036 | 467,166 |
| Items in course of collection | 18 | 122,393 | 94,855 | 122,393 | 94,824 |
| **Total** | | **3,247,114** | **3,416,260** | **3,247,051** | **3,416,226** |

## 40. CONTINGENT LIABILITIES

| | Group | | Bank | |
|---|---|---|---|---|
| | 2015<br>HRK '000 | 2014<br>HRK '000 | 2015<br>HRK '000 | 2014<br>HRK '000 |
| Guarantees denominated in HRK | 304,855 | 300,066 | 304,855 | 300,066 |
| Guarantees denominated in foreign currency | 217,772 | 2,206 | 217,772 | 2,206 |
| Letters of credit | 39,553 | 31,807 | 39,553 | 31,807 |
| Undrawn lending commitments | 1,334,010 | 1,319,379 | 1,332,236 | 1,318,309 |
| **Total** | **1,896,190** | **1,653,458** | **1,894,416** | **1,652,388** |

At 31 December 2015, the Group and the Bank recognized portfolio-based provisions for off-balance-sheet items arising from the issue of guarantees, letters of credit and undrawn lending commitments, the Group in the amount of HRK 19,431 thousand, (2014: HRK 18,724 thousand), and the Bank in the amount of HRK 19,406 thousand (2014: HRK 18,714 thousand) thousand which are included in Provisions for liabilities and expenses (see Note 24).

## 41. DERIVATIVE INSTRUMENTS AND DEALINGS IN FOREIGN CURRENCIES

The Bank and the Group had the following derivative contracts, accounted for as trading instruments, open at year-end.

| Group and Bank | Notional amount, remaining life | | | | | Fair value | |
|---|---|---|---|---|---|---|---|
| | Up to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total | Assets | Liabilities |
| 2015 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 | HRK 000 |
| Forward foreign exchange contracts - OTC | - | - | - | - | - | - | - |
| Cross currency swap contracts - OTC | - | - | - | - | - | - | - |
| Futures | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - |

| Group and Bank | Notional amount, remaining life | | | | | Fair value | |
|---|---|---|---|---|---|---|---|
| | Up to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total | Assets | Liabilities |
| 2014 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 | HRK '000 |
| Forward foreign exchange contracts - OTC | - | - | - | - | - | - | - |
| Cross currency swap contracts - OTC | 76,615 | - | - | - | 76,615 | - | 508 |
| Futures | - | - | - | - | - | - | - |
| | **76,615** | **-** | **-** | **-** | **76,615** | **-** | **508** |

## 42. RELATED PARTY TRANSACTIONS

The Bank is the parent of the Hrvatska poštanska banka Group.

Key shareholders of the Bank and of the Group are the Republic of Croatia as the largest shareholder with an ownership stake of 42.43 percent, and Hrvatska pošta d.d. (“HP”) with a stake of 11.93 percent.

Other significant state-owned shareholders include: State agency for deposits insurance and bank resolution (“DAB”), the Croatian Pension Insurance Institute (“HZMO”) and Fund for financing the decommissioning of the Krško Nuclear Power Plant and the disposal of NEK radioactive waste and spent nuclear fuel (“NEK fund”). These shareholders together own 74.44% of the Bank's shares. The remaining 25.56% (2014: 0.87%) are publicly traded.

***a) Key transactions with related parties***

Hrvatska pošta d.d. ("HP") performs domestic payment transactions for and on behalf of the Bank. Exposure to Hrvatska pošta d.d. mainly comprises fees receivable based on domestic payment transactions performed for and on behalf of the Bank, as well as placements in debt securities issued by Hrvatska pošta d.d. Liabilities towards Hrvatska pošta d.d. mainly relate to demand and term deposits. Income and expenses mostly relate to commissions for services provided.

Exposure to the state is shown in Note 38, *Concentration of assets and liabilities*.

The exposure to members of HPB Group mainly consists of investment into share capital. The Bank performs payment transactions on behalf of its subsidiaries and, accordingly, recognizes income. Expenses payable to HPB Nekretnine relate to the services performed by the subsidiary in respect of estimation of collateral.

Key management personnel held no ordinary shares at the year-end (2014: -).

## 42. RELATED-PARTY TRANSACTIONS (continued)

### *b) Amounts arising from transactions with related parties*

Assets and liabilities and off-balance-sheet exposure and income and expense as at and for the years ended 31 December 2015 and 31 December 2014 of the Group, arising from transactions with related parties were as follows:

| Group 2015 | Exposure* HRK '000 | Liabilities HRK '000 | Income HRK '000 | Expenses HRK '000 |
|---|---|---|---|---|
| **Key shareholders** | | | | |
| Republic of Croatia | - | - | - | - |
| Hrvatska pošta d.d. | 98,385 | 119,204 | 301,184 | 292,849 |
| **Assets held for sale** | | | | |
| H1 Telekom | - | - | 2,229 | 3,518 |
| **Key management personnel** | | | | |
| Short-term benefits (bonuses, salaries and fees) | 1,212 | 6,740 | 34 | 18,988 |
| Long-term benefits (loans and deposits) | 16,722 | 453 | 646 | 3 |
| **Companies under significant influence** | **54,703** | **3,879** | **2,473** | **24** |
| **Total** | **171,022** | **130,276** | **306,566** | **315,382** |

| Group 2015 | Exposure* HRK '000 | Liabilities HRK '000 | Income HRK '000 | Expenses HRK '000 |
|---|---|---|---|---|
| **Key shareholders** | | | | |
| Hrvatska pošta d.d. | 251,901 | 192,990 | 325,310 | 300,483 |
| HZMO | 2,981 | 51 | 13 | 7 |
| Republic of Croatia | - | - | - | - |
| **Key management personnel** | | | | |
| Short-term benefits (bonuses, salaries and fees) | 896 | 4,310 | 27 | 19,882 |
| Long-term benefits (loans and deposits) | 11,135 | 174 | 627 | 98 |
| Severance payments | - | - | - | 484 |
| **Companies under significant influence** | **91,849** | **19,951** | **9,509** | **5,574** |
| **Total** | **358,762** | **217,476** | **335,486** | **326,528** |

*****Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 20,980 thousand (2014: HRK 51,603 thousand) of off-balance-sheet exposure.

Exposure to key members of the Group's Management include loan receivables in the amount of HRK 17,165 thousand (2014: HRK 12,031 thousand).

Expenses do not include impairment nor provisions for losses.

## 42. RELATED-PARTY TRANSACTIONS (continued)

### *b) Amounts arising from transactions with related parties (continued)*

Assets and liabilities and off-balance-sheet exposure and income and expense as at and for the years ended 31 December 2015 and 31 December 2014 of the Bank, arising from transactions with related parties were as follows:

| **Bank 2015** | **Exposure* HRK '000** | **Liabilities HRK '000** | **Income HRK '000** | **Expenses HRK '000** |
|---|---|---|---|---|
| **Key shareholders** | | | | |
| Republic of Croatia | - | - | - | - |
| Hrvatska pošta d.d. | 98,385 | 119,204 | 301,184 | 292,849 |
| **Subsidiaries** | | | | |
| HPB Invest d.o.o. | 5,175 | 7,202 | 885 | 2 |
| HPB Nekretnine d.o.o. | 9,362 | 12 | 739 | 2,446 |
| HPB Stambena štedionica d.d. | 40,148 | 27,062 | 670 | 63 |
| **Assets held for sale** | | | | |
| H1 Telekom | 21,102 | 6,108 | 2,229 | 3,518 |
| **Key management personnel** | | | | |
| Short-term benefits (bonuses, salaries and fees) | 1,082 | 6,739 | 27 | 17,015 |
| Long-term benefits (loans and deposits) | 14,760 | 453 | 549 | 3 |
| **Companies under significant influence** | **54,703** | **3,879** | **2,473** | **24** |
| **Total** | **244,717** | **170,659** | **308,756** | **315,920** |

| **Bank 2014** | **Exposure* HRK '000** | **Liabilities HRK '000** | **Income HRK '000** | **Expenses HRK '000** |
|---|---|---|---|---|
| **Key shareholders** | | | | |
| Hrvatska pošta d.d. | 251,901 | 192,990 | 325,310 | 300,483 |
| HZMO | 2,981 | 51 | 13 | 7 |
| Republic of Croatia | - | - | - | - |
| **Subsidiaries** | | | | |
| HPB Invest d.o.o. | 5,156 | 6,929 | 740 | 137 |
| HPB Nekretnine d.o.o. | 10,754 | 77 | 2,487 | 1,719 |
| HPB Stambena štedionica d.d. | 40,081 | 15,316 | 668 | 71 |
| **Key management personnel** | | | | |
| Short-term benefits (bonuses, salaries and fees) | 821 | 4,310 | 20 | 18,151 |
| Long-term benefits (loans and deposits) | 9,338 | 174 | 510 | 92 |
| Severance payments | - | - | - | 484 |
| **Companies under significant influence** | **91,849** | **19,951** | **9,509** | **5,574** |
| **Total** | **412,881** | **239,798** | **339,257** | **326,718** |

*Exposure comprises amounts advanced in cash or kind, commitments and contingencies, interest and other receivables, and includes HRK 21,257 thousand (2014: HRK 51,573 thousand) of off-balance-sheet exposure. Expenses do not include impairment nor provisions for losses.

**42. RELATED-PARTY TRANSACTIONS (continued)**

***c) State owned companies***

Major shareholders of the Bank, which together own 74.44% of its shares, are state agencies or state owned companies, all mainly funded from the State Budget. Accordingly, transactions and balances with other state owned companies, including credit risk exposures guaranteed by the state, also represent related party relationships. The Bank has a significant exposure to these parties, which is disclosed in Note 38.

**43. REPURCHASE AND RESALE AGREEMENTS**

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognised and the proceeds are accounted for as interest bearing borrowings. At the end of the year assets sold under repurchase agreements were as follows:

| | Fair value of securities HRK '000 | Carrying amount of corresponding liabilities HRK '000 | Repurchase date | Repurchase price HRK '000 |
|---|---|---|---|---|
| **Debt securities at fair value through profit or loss - repurchase agreements** | | | | |
| 2015 | 395 | 380 | August 2016 | 379 |
| 2014 | 31,517 | 32,080 | January to August 2016 | 31,879 |

Related transactions, according to IAS 39 *Financial instruments Recognition and Measurement* are recognized as repurchase agreements.

The Bank and the Group also purchase financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to customers and are accounted for as loans and advances to customers; the underlying financial instruments are not recognised.

| **Loans to customers – reverse repo agreements** | Fair value of receivables HRK '000 | Carrying amount of collaterals HRK '000 | Repurchase date | Repurchase price HRK '000 |
|---|---|---|---|---|
| 2015 | 71,182 | 67,228 | January 2016 | 71,206 |
| 2014 | 33,012 | 31,508 | January 2014 | 31,513 |

## 44. FUNDS MANAGED FOR AND ON BEHALF OF CORPORATE AND RETAIL CUSTOMERS

The Bank provides trust and custody services to companies, individuals, and investment funds (Group's investment funds) whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognized in the Bank's statement of financial position. The Bank is not exposed to any credit risk relating to such placements, nor does it guarantee for investments.

At 31 December 2015, the total assets under custody held by the Bank on behalf of customers, including the funds within the HPB Group, amounted to HRK 4.16 billion (2014: HRK 3.92 billion).

In addition, at 31 December 2015, total assets of investment and pension funds to which the Bank act as a depository bank, amounted to HRK 3.95 billion (2014: HRK 3.71 billion).

Furthermore, the Bank manages loan exposures of other parties as follows:

| | 2015<br>HRK '000 | 2014<br>HRK '000 |
|---|---|---|
| **Assets** | | |
| Corporate | 65,653 | 66,212 |
| Retail | 569,376 | 605,636 |
| Giro accounts | 346,909 | 287,285 |
| **Total assets** | **981,938** | **959,133** |
| | | |
| **Liabilities** | | |
| Croatian Employment Office | 71,910 | 72,149 |
| Counties | 15,129 | 15,713 |
| Government of the Republic of Croatia | 889,501 | 860,067 |
| HBOR | 3,787 | 9,329 |
| Other liabilities | 1,610 | 1,875 |
| **Total liabilities** | **981,938** | **959,133** |

## 45. AVERAGE INTEREST RATES

Average interest rates calculated as the weighted average of each category of interest-earning asset and interest-bearing liability, are presented below:

| Group | Average interest rates 2015 | Average interest rates 2014 |
|---|---|---|
| **Assets** | | |
| Cash and amounts due from banks | 0.01% | 0.05% |
| Mandatory reserve with the Croatian National Bank | - | - |
| Loans to and receivables from banks | 0.76% | 0.44% |
| Financial assets at fair value through profit or loss | 3.79% | 5.37% |
| Financial assets available for sale | 4.12% | 4.39% |
| Financial assets held to maturity | 3.66% | 6.29% |
| Loans and receivables from customers | 6.25% | 6.59% |
| **Liabilities** | | |
| Deposits from banks | 1.31% | 1.27% |
| Customer deposits | 1.72% | 2.00% |
| Borrowings | 2.36% | 3.05% |
| Hybrid instruments | - | 7.25% |

| Bank | Average interest rates 2015 | Average interest rates 2014 |
|---|---|---|
| **Assets** | | |
| Cash and amounts due from banks | 0.01% | 0.05% |
| Mandatory reserve with the Croatian National Bank | - | - |
| Loans to and receivables from banks | 0.74% | 0.44% |
| Financial assets at fair value through profit or loss | 3,83% | 5.79% |
| Financial assets available for sale | 4.06% | 4.41% |
| Financial assets held to maturity | 3.66% | 6.29% |
| Loans and receivables from customers | 6.28% | 6.63% |
| **Liabilities** | | |
| Deposits from banks | 1.31% | 1.27% |
| Customer deposits | 1.69% | 1.99% |
| Borrowings | 2.36% | 3.05% |
| Hybrid instruments | - | 7.25% |

**46. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's-length transaction.

Financial instruments at fair value through profit or loss or available-for-sale financial assets are measured at fair value. Loans and receivables, and held-to-maturity investments are measured at amortised cost less impairments. Financial assets at fair value through profit or loss and financial assets available for sale are disclosed at their fair value that arises from price quotes of these instruments on active markets. Financial liabilities at fair value through profit or loss are disclosed at fair values calculated on the basis of available conditions of these 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

*Loans*

The fair value of loans and advances is calculated based on discounted expected future cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. Expected future cash flows are estimated considering credit risk and any indication of impairment including portfolio based provisions for performing (i.e. A-risk rated) loans calculated at rates prescribed by the CNB. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. The Group has a limited portfolio of loans with fixed rates, where there is a difference between the fair value and the carrying amount.

**47. FAIR VALUE OF FINANCIAL INSTRUMENTS**

*Investments carried at cost*

For equity investments for which a quoted market price is not available, fair value is, where possible, estimated using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date. Where discounted cash flow techniques provide insufficiently reliable valuations due to a number of uncertainties related to estimations of future cash flows, investments are carried at cost less impairment.

*Bank and customer deposits*

For demand deposits and deposits with no defined maturities, 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.

*Borrowings*

Most of the Group's long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the reporting date to the Group for new debt of similar type and remaining maturity.

The following table represents the Group's and the Bank's estimate of the fair value hierarchy of financial instruments as of 31 December 2015 and 31 December 2014:

## 47. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

| Group 2015 (HRK '000) | Fair Value | Fair Value Level | Valuation Technique(s) and Key input(s) | Book Value | Unrecognized Gains/(Losses) |
|---|---|---|---|---|---|
| ***Financial Assets*** | | | | | |
| **Cash and Receivables from Banks** | **1,630,115** | **Level 1** | **Cash and Cash Equivalents** | **1,630,115** | **-** |
| **Mandatory Reserve with the Croatian National Bank** | **1,279,570** | **Level 1** | **Cash Equivalent** | **1,279,570** | **-** |
| **Loans to and Receivables from Banks** | **262,301** | **Level 3** | **Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows** | **261,913** | **388** |
| **Financial Assets at Fair Value through** | **1,019,694** | | | **1,019,694** | **-** |
| - Ministry of Finance Treasyury Bills | 303,113 | Level 3 | *Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows | 303,113 | |
| - Ministry of Finance Bonds | 208,800 | Level 1 | *Mark-to-Market* According to the Prices Quoted in an Active Market | 208,800 | - |
| - Open-End Investment Fund Investments | 470,555 | Level 1 | *Value of an Individual Share on Given Date* | 470,555 | - |
| - Equity Securities | 33,947 | Level 1 | *Mark-to-Market* According to the Prices Quoted in an Active Market | 33,947 | - |
| - Fair Value of Forwards | 0 | Level 3 | Internal valuation Model for FX Contracts Using Future Cash Flows | 0 | - |
| - Interest Receivables | 3,279 | not applicable | not applicable | 3,279 | - |
| **Financial Assets Available for Sale** | **2,221,310** | | | **2,221,310** | **-** |
| - Ministry of Finance Treasury Bills | 675,525 | Level 3 | *Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows | 675,525 | - |
| - Ministry of Finance Bonds | 1,396,368 | Level 1 | *Mark-to-Market* According to the Prices Quoted in an Active Market | 1,396,368 | - |
| - Corporate Bonds of State-Run Companies | 79,742 | Level 1 | *Mark-to-Market* According to the Prices Quoted in an Active Market | 79,742 | - |
| - Equity Securities – Not Listed | 35,592 | Level 3 | *Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows | 35,592 | - |
| - Equity Securities - Listed | 6,654 | Level 1 | *Mark-to-Market* According to the Prices Quoted in an Active Market | 6,654 | - |
| - Interest Receivables | 27,429 | not applicable | not applicable | 27,429 | - |
| **Financial Assets Held to Maturity** | **553,140** | **Level 3** | **Present Value of Future Discounted cash Flows** | **571,764** | **(18,624)** |
| **Loans and Receivables from Customers** | **10,244,797** | **Level 3** | **Present Value of Future Discounted Cash Flows** | **10,298,014** | **(53,217)** |
| **Total financial assets** | **17,210,928** | | | **17,282,380** | **(71,453)** |
| ***FINANCIAL LIABILITIES*** | | | | | |
| **Deposits from Banks** | **356,892** | **Level 3** | **Present Value of Discounted Cash Flows under the currently Effective Interest Rates** | **357,639** | **747** |
| **Customer Deposits** | **14,412,274** | **Level 3** | **Present Value of Discounted Cash Flows under the currently Effective Interest Rates** | **14,493,594** | **81,320** |
| **Borrowings** | **1,002,105** | **Level 3** | **Present Value of Discounted Cash Flows under the Currently Effective Interest Rates** | **1,005,383** | **3,278** |
| **Total Financial Liabilities** | **15,771,271** | | | **15,856,616** | **85,345** |
| **TOTAL** | | | | | **13,893** |

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## 47. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

| Group<br>2014 (HRK '000) | Fair value | Fair value level | Valuation technique(s) and key input(s) | Book value | Unrecognized gains/(losses) |
|---|---|---|---|---|---|
| ***FINANCIAL ASSETS*** | | | | | |
| **Cash and receivables from banks** | **1,308,452** | **Level 1** | **Cash and cash equivalents** | **1,308,452** | **-** |
| **Mandatory reserve with Croatian National Bank** | **1,545,787** | **Level 1** | **Cash equivalent** | **1,545,787** | **-** |
| **Loans and advances from banks** | **583,411** | **Level 3** | **Cash equivalent other than assets with maturities > 30 days at a fixed rate, where the fair value is the present value of discounted cash flows** | **583,784** | **(373)** |
| **Financial assets at fair value through profit and loss** | **381,801** | | | **381,801** | **-** |
| - Ministry of Finance bonds | 178,650 | Level 1 | *mark-to-market* according to the prices quoted in an active market | 178,650 | - |
| - Investments in open-end funds | 167,280 | Level 1 | value of an individual share at the measurement date | 167,280 | - |
| - Equity securities | 33,588 | Level 1 | *mark-to-market* according to the prices quoted in an active market | 33,588 | - |
| - The fair value of forward contracts | - | Level 3 | Internal valuation model for an FX swap agreement using future discounted cash flows | - | - |
| - Interest receivables | 2,283 | not applicable | not applicable | 2,283 | - |
| **Financial assets available for sale** | **2,002,975** | | | **2,002,975** | **-** |
| - Ministry of Finance treasury bills | 141,256 | Level 3 | *mark-to-model* using the internal model for determining the present value of future cash flows | 141,256 | - |
| - Ministry of Finance bonds | 1,353,292 | Level 1 | *mark-to-market* according to the prices quoted in an active market | 1,353,292 | - |
| - Foreign state bonds | 382,752 | Level 1 | *mark-to-market* according to the prices quoted in an active market | 382,752 | - |
| - Corporate bonds in state-run companies | 75,391 | Level 1 | *mark-to-market* according to the prices quoted in an active market | 75,391 | - |
| - Corporate bonds of other companies | 11,662 | Level 3 | *mark-to-model* using the internal model for determining the present value of future cash flows | 11,662 | - |
| - Equity securities – not quoted | 14,651 | Level 3 | *mark-to-model* using the internal model for determining the present value of future cash flows | 14,651 | - |
| - Equity securities – quoted | 23,971 | Level 1 | *mark-to-market* according to the prices quoted in an active market | 23,971 | - |
| - Interest receivables | **2,002,975** | not applicable | not applicable | **2,002,975** | **-** |
| **Financial assets held to maturity** | **558,882** | **Level 3** | **Present value of future discounted cash flows** | **597,943** | **(39,061)** |
| **Loans and advances to customers** | **10,429,101** | **Level 3** | **Present value of future discounted cash flows** | **10,473,750** | **(44,649)** |
| **Total financial assets** | **16,810,409** | | | **16,894,492** | **(84,083)** |
| ***FINANCIAL LIABILITIES*** | | | | | |
| **Financial liabilities at fair value through profit and loss** | **508** | **Level 3** | **Internal valuation model for an FX swap agreement using future discounted cash flows** | 508 | - |
| **Bank deposits** | **373,789** | **Level 3** | **Present value of discounted cash flows under the currently effective interest rates** | **374,750** | **961** |
| **Customer deposits** | **13,995,100** | **Level 3** | **Present value of discounted cash flows under the currently effective interest rates** | **14,084,725** | **89,625** |
| **Borrowings** | **1,502,455** | **Level 3** | **Present value of discounted cash flows under the currently effective interest rates** | **1,507,327** | **4,872** |
| **Total financial liabilities** | **15,871,852** | | | **15,967,310** | **95,458** |
| **TOTAL** | | | | | **11,375** |

## 47. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

| Bank 2015 (HRK '000) | Fair value | Fair value level | Valuation technique(s) and key input(s) | Book value | Unrecognized gains/(losses) |
|---|---|---|---|---|---|
| *Financial Assets* | | | | | |
| **Cash and Receivables from Banks** | **1,630,052** | **Level 1** | **Cash and Cash Equivalents** | **1,630,052** | **-** |
| **Mandatory Reserve with the Croatian National Bank** | **1,279,570** | **Level 1** | **Cash Equivalent** | **1,279,570** | **-** |
| **Loans to and Receivables from Banks** | **262,139** | **Level 3** | **Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows** | **261,913** | **377** |
| **Financial Assets at Fair Value in PNL** | **900,943** | | | **900,943** | **-** |
| - Ministry of Finance Treasyury Bills | **303,113** | Level 3 | *Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows | 303,113 | |
| - Ministry of Finance Bonds | 93,269 | Level 1 | *Mark-to-Market* According to the Prices Quoted in an Active Market | 93,269 | - |
| - Open-End Investment Fund Investments | 469,310 | Level 1 | *Value of an Individual Share on Given Date* | 469,310 | - |
| - Equty Securities | 33,947 | Level 1 | *Mark-to-Market* According to the Prices Quoted in an Active Market | 33,947 | - |
| - Fair Value of Forwards | - | Level 3 | Internal valuation Model for FX Contracts Using Future Cash Flows | - | - |
| - Interest Receivables | 1,304 | not applicable | not applicable | 1,304 | - |
| **Financial Assets Available for Sale** | **2,221,310** | Level 3 | | **2,221,310** | **-** |
| - Ministry of Finance Treasury Bills | 675,525 | Level 1 | *Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows | 675,525 | - |
| - Ministry of Finance Bonds | 1,396,368 | Level 1 | *Mark-to-Market* According to the Prices Quoted in an Active Market | 1,396,368 | - |
| - Corporate Bonds of State-Run Companies | 79,742 | Level 1 | *Mark-to-Market* According to the Prices Quoted in an Active Market | 79,742 | - |
| - Equity Securities – Not Listed | 35,592 | Level 3 | *Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows | 35,592 | - |
| - Equity Securities - Listed | 6,654 | Level 1 | *Mark-to-Market* According to the Prices Quoted in an Active Market | 6,654 | - |
| - Interest Receivables | 27,429 | not applicable | not applicable | 27,429 | - |
| **Financial Assets Held to Maturity** | **553,140** | **Level 3** | **Present Value of Future Discounted cash Flows** | **571,764** | **(18,624)** |
| **Loans and Receivables from Customers** | **10,156,789** | **Level 3** | **Present Value of Future Discounted Cash Flows** | **10,184,719** | **(27,930)** |
| **Total financial assets** | **17,004,095** | | | **17,050,272** | **(46,177)** |
| ***FINANCIAL LIABILITIES*** | | | | | |
| **Bank deposits** | **356,892** | **Level 3** | **Present Value of Discounted Cash Flows under the currently Effective Interest Rates** | **357,639** | **747** |
| **Customer Deposits** | **14,219,120** | **Level 3** | **Present Value of Discounted Cash Flows under the currently Effective Interest Rates** | **14,291,102** | **71,982** |
| **Loans** | **1,002,105** | **Level 3** | **Present Value of Discounted Cash Flows under the Currently Effective Interest Rates** | **1,005,383** | **3,278** |
| **Total Financial Liabilities** | **15,578,117** | | | **15,654,124** | **76,007** |
| ***TOTAL*** | | | | | **29,831** |

## 47. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

| Bank 2014 (HRK '000) | Fair value | Fair value level | Valuation technique(s) and key input(s) | Book value | Unrecognized gains/(losses) |
|---|---|---|---|---|---|
| ***FINANCIAL ASSETS*** | | | | | |
| **Cash and receivables from banks** | **1,308,449** | **Level 1** | **Cash and cash equivalents** | **1,308,449** | **-** |
| **Mandatory reserve with Croatian National Bank** | **1,545,787** | **Level 1** | **Cash equivalent** | **1,545,787** | **-** |
| **Loans and advances from banks** | **583,411** | **Level 3** | **Cash equivalent other than assets with a defined maturity > 30 days at a fixed rate, where the fair value is the present value of discounted cash flows** | **583,784** | **(373)** |
| **Financial assets at fair value through profit and loss** | **284,011** | | | **284,011** | **-** |
| - Ministry of Finance bonds | 83,373 | Level 1 | *mark-to-market* according to the prices quoted in an active market | 83,373 | - |
| - Investments in open-end funds | 166,053 | Level 1 | Value of an individual share at the measurement date | 166,053 | - |
| - Equity securities | 33,588 | Level 1 | *mark-to-market* according to the prices quoted in an active market | 33,588 | - |
| - The fair value of forward contracts | - | Level 3 | Internal valuation model for an FX swap agreement using future discounted cash flows | - | - |
| - Interest receivables | 997 | not applicable | not applicable | 997 | - |
| **Financial assets available for sale** | **1,988,683** | | | **1,988,683** | **-** |
| - Ministry of finance treasury bills | 141,256 | Level 3 | *mark-to-model* using the internal model for determining the present value of future cash flows | 141,256 | - |
| - Ministry of finance bonds | 1,339,271 | Level 1 | *mark-to-market* according to the prices quoted in an active market | 1,339,271 | - |
| - Corporate bonds in state-run companies | 382,752 | Level 1 | *mark-to-market* according to the prices quoted in an active market | 382,752 | - |
| - Corporate bonds of other companies | 75,391 | Level 3 | *mark-to-model* using the internal model for determining the present value of future cash flows | 75,391 | - |
| - Equity securities – not quoted | 11,662 | Level 3 | *mark-to-model* using the internal model for determining the present value of future cash flows | 11,662 | - |
| - Equity securities – quoted | 14,651 | Level 1 | *mark-to-market* according to the prices quoted in an active market | 14,651 | - |
| - Interest receivables | 23,700 | not applicable | not applicable | 23,700 | - |
| **Financial investements held to maturity** | **558,882** | **Level 3** | **Present value of future discounted cash flows** | **597,943** | **(39,061)** |
| **Loans and advances to customers** | **10,318,049** | **Level 3** | **Present value of future discounted cash flows** | **10,335,154** | **(17,105)** |
| **Total financial assets** | **16,587,272** | | | **16,643,811** | **(56,539)** |
| ***FINANCIAL LIABILITIES*** | | | | | |
| **Financial liabilities at fair value through profit and loss** | **508** | **Level 3** | **Internal valuation model for an FX swap agreement using future discounted cash flows** | **508** | **-** |
| **Bank deposits** | **373,789** | **Level 3** | **Present value of discounted cash flows under the currently effective interest rates** | **374,750** | **961** |
| **Customer deposits** | **13,799,577** | **Level 3** | **Present value of discounted cash flows under the currently effective interest rates** | **13,879,406** | **79,829** |
| **Loans** | **1,502,455** | **Level 3** | **Present value of discounted cash flows under the currently effective interest rates** | **1,507,327** | **4,872** |
| **Total financial liabilities** | **15,676,329** | | | **15,761,991** | **85,662** |
| **TOTAL** | | | | | **29,123** |

### 47. ENCUMBERED ASSETS OF THE CREDIT INSTITION

Bank and CI Group* consider following types of assets under the term encumbered assets: pledged assets, assets given as a collateral, assets subject to some form of securitization or assets used for credit enhancement of financial position which can not be freely exited. Furthermore, assets that are placed at facilities and that can not be freely withdrawn are also considered encumbered.

Within the assets' structure, CI Group has encumbered assets amounting to HRK 3,047,392 tisuće kuna (2014.: 3,683,286 tisuća kuna), whilst the Bank has encumbered assets amounting to HRK 3,683,392 tisuće kuna (2014.: 3,683,286 tisuća kuna).

Book value of encumbered assets represents 17.23 percent of Bank's total assets (2014: 19.59 posto).

Calculated mandatory reserve with the Croatian National Bank is also included in encumbered assets, as well as balances on *nostro* accounts on which mandatory reserve is maintained, totalling HRK 1,853,243 tisuća kuna (2014: 1,545,786 thousand).

Remainder of encumbered assets relates to loans that are given out as collateral for a foreign borrowing, and to secirities given out as collateral for deposits received from customers.

**CI Group relates to group of credit institutions, and includes the Bank and HPB Stambena štedionice, for whom reporting on encumbered assets is a regulatory obligation.*

| | | 2015 | | 2014 |
|---|---|---|---|---|
| **CI Group (HRK '000)** | **Book value** | **Fair value** | **Book value** | **Fair value** |
| Equity instruments | - | - | - | - |
| Securities | 135,411 | 135,411 | 284,900 | 299,075 |
| Mandatory reserve and balances on nostro accounts on which mandatory reserve is maintained | 1,853,243 | 1,853,243 | 1,545,786 | 1,545,786 |
| Loans to customers and other assets | 1,058,738 | 1,058,738 | 1,567,699 | 1,567,699 |
| **Ukupno** | **3,047,392** | **3,047,392** | **3,398,385** | **3,412,560** |

| | | 2015 | | 2014 |
|---|---|---|---|---|
| **Bank (HRK '000)** | **Book value** | **Fair value** | **Book value** | **Fair value** |
| Equity instruments | - | - | - | - |
| Securities | 135,411 | 135,411 | 284,900 | 299,075 |
| Mandatory reserve and balances on nostro accounts on which mandatory reserve is maintained | 1,853,243 | 1,853,243 | 1,545,786 | 1,545,786 |
| Loans to customers and other assets | 1,058,738 | 1,058,738 | 1,567,699 | 1,567,699 |
| **Ukupno** | **3,047,392** | **3,047,392** | **3,398,385** | **3,412,560** |

Ova je stranica namjerno ostavljena prazna.

## Balance sheet as at December 31 2015

| | 2015 HRK 000 | 2014 HRK 000 |
|---|---|---|
| Cash and balances with the CNB | 2,179,810 | 2,494,250 |
| -- Cash | 412,197 | 361,122 |
| -- Deposits with the CNB | 1,767,613 | 2,133,129 |
| Deposits with banking institutions | 958,339 | 910,047 |
| Treasury bills of the Ministry of Finance and the CNB bills | 501,235 | - |
| Securities and other financial instruments held for trading | 596,526 | 283,013 |
| Securities and other financial instruments available for sale | 1,995,759 | 1,964,980 |
| Securities and other financial instruments held to maturity | 566,063 | 591,300 |
| Securities and other financial instruments at fair value through profit or loss - not actively traded | - | - |
| Derivative financial assets | - | - |
| Loans to financial institutions | 104,188 | 64,522 |
| Loans to other customers | 10,060,647 | 10,236,030 |
| Investments in subsidiaries, associates and joint ventures | 53,420 | 53,420 |
| Foreclosed assets | 103,135 | 155,408 |
| Tangible assets (less depreciation) | 147,109 | 159,118 |
| Interest, fees and other assets | 446,937 | 458,135 |
| **TOTAL ASSETS** | **17,713,166** | **17,370,224** |
| **LIABILITIES** | | |
| Borrowings from financial institutions | 558,124 | 699,300 |
| - short-term borrowings | 394 | 31,152 |
| - long-term borrowings | 557,730 | 668,148 |
| Deposits | 12,392,106 | 12,473,921 |
| - giro and current account deposits | 2,953,953 | 2,914,496 |
| - savings deposits | 1,060,935 | 986,972 |
| - term deposits | 8,377,218 | 8,572,453 |
| Other borrowings | 446,650 | 806,753 |
| - short-term borrowings | - | - |
| - long-term borrowings | 446,650 | 806,753 |
| Derivative financial and other liabilities held for trading | - | 508 |
| Issued debt securities | - | - |
| - short-term debt securities issued | - | - |
| - long-term debt securities issued | - | - |
| Subordinated debt issued | - | - |
| Issued hybrid instruments | - | 252,537 |
| Interest, fees and other liabilities | 2,537,022 | 2,292,610 |
| **TOTAL LIABILITIES** | **15,933,902** | **16,525,629** |
| **EQUITY** | | |
| Share capital | 1,214,298 | 1,193,902 |
| Profit/(Loss) for the year | 123,217 | (635,384) |
| Retained earnings / (Accumulated losses) | - | 200,996 |
| Legal reserves | - | 10,578 |
| Statutory and other capital reserves | 359,661 | 1,762 |
| Unrealised gains/(losses) on revaluation of financial assets available for sale | 82,089 | 72,741 |
| Hedging reserve | - | - |
| **TOTAL EQUITY** | **1,779,264** | **844,595** |
| **TOTAL LIABILITIES AND EQUITY** | **17,713,166** | **17,370,224** |

**Income Statement for the period January 01 – December 31 2015**

| | 2015 HRK 000 | 2014 HRK 000 |
|---|---|---|
| Interest income | 781,980 | 863,360 |
| Interest expense | 271,655 | (373,633) |
| **Net interest income** | **510,325** | **489,727** |
| Fee and commission income | 483,022 | 484,933 |
| Fee and commission expense | 301,289 | (312,103) |
| **Net fee and commission income** | **181,733** | **172,830** |
| Losses on investments in subsidiaries, associates and joint ventures | - | (33,621) |
| Trading gains | 46,944 | 37,995 |
| Gains/(losses) on embedded derivatives | - | - |
| Gains/(losses) on assets at fair value through profit or loss not actively traded | - | - |
| Gains on available-for-sale assets | - | 17,353 |
| Gains / (losses) on held-to-maturity assets | - | - |
| Hedging gains/(losses) | - | - |
| Income from investments in subsidiaries, associates and joint ventures | - | - |
| Income from other equity investments | 1,073 | 1,359 |
| Foreign exchange gains/(losses) | 9,972 | 6,216 |
| Other income | 16,165 | 14,106 |
| Extraordinarily income | 14,827 | - |
| Other expenses | 62,018 | (41,004) |
| General and administrative expenses, and depreciation | 397,877 | (478,458) |
| **Net profit from operations before provisions and impairment losses** | **321,144** | **186,503** |
| Impairment losses and provisions | 194,557 | (823,556) |
| **(LOSS)/PROFIT BEFORE TAXATION** | **126,587** | **(637,053)** |
| **INCOME TAX (EXPENSE)/INCOME** | **3,369** | (1,669) |
| **(LOSS)/PROFIT FOR THE YEAR** | **123,217** | **(635,384)** |
| (Loss)/earnings per share | 84,92 | (723.70) |

**Changes in equity during 2015**

| Bank | Share capital HRK 000 | Treasury shares HRK 000 | Legal, statutory and other reserves HRK 000 | Retained profit / (Accumulated losses) HRK 000 | Profit /loss for the year HRK 000 | Unreal. gains /losses on remeasurement of financial assets available for sale HRK 000 | Total equity HRK 000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **1,194,776** | **(874)** | **12,340** | **200,997** | **(635,384)** | **72,741** | **844,595** |
| Effects of changes in accounting policies and | - | - | - | - | - | - | **-** |
| Restated balance at 1 January 2015 | **1,194,776** | **(874)** | **12,340** | **200,997** | **(635,384)** | **72,741** | **844,595** |
| Disposal of financial assets available for sale | - | - | - | - | - | - | **-** |
| Change in the fair value of financial assets available for sale | - | - | - | - | - | 11,685 | **11,685** |
| Tax on items recognized directly in/transferred from equity | - | - | 63 | - | - | (2,337) | **(2,274)** |
| Other gains and losses recognised directly in equity | - | - | (73) | - | - | - | **(73)** |
| **Net gains/(losses) recognised directly in equity** | **-** | **-** | **(10)** | **-** | **-** | **9,348** | **9,338** |
| Profit /(loss) for the year | - | - | - | - | 123,217 | **-** | 123,217 |
| **Total recognised income and expenses for 2015** | **-** | **-** | **(10)** | **-** | **123,217** | **9,348** | **132,555** |
| Increase/(decrease) in share capital | 248,135 | 397 | 357,908 | 195,673 | - | - | 802,114 |
| Purchase/(sale) of treasury shares | - | - | - | - | - | - | - |
| Other changes | - | - | - | - | - | - | - |
| Transferred to reserves | (228,136) | - | (10,578) | (396,670) | 635,384 | - | - |
| Dividends paid | - | - | - | - | - | - | - |
| Profit allocation | **(228,136)** | **-** | **(10,578)** | **(396,670)** | **635,384** | **-** | **-** |
| **Balance at 31 December 2015** | **1,214,775** | **(477)** | **359,660** | **-** | **123,217** | **82,089** | **1,779,264** |

**Changes in equity during 2014**

| Bank | Share capital HRK 000 | Treasury shares HRK 000 | Legal, statutory and other reserves HRK 000 | Retained profit / (Accumulated losses) HRK 000 | Profit /loss for the year HRK 000 | Unreal. gains /losses on remeasurement of financial assets available for sale HRK 000 | Total equity HRK 000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2014** | **1,194,776** | **(874)** | **10,522** | **160,707** | **42,410** | **45,850** | **1,453,390** |
| Effects of changes in accounting policies and | - | - | - | - | - | - | **-** |
| Restated balance at 1 January 2014 | 1,194,776 | (874) | 10,522 | 160,707 | 42,410 | 45,850 | 1,453,390 |
| Disposal of financial assets available for sale | - | - | - | - | - | - | **-** |
| Change in the fair value of financial assets available for | - | - | - | - | - | 34,658 | **34,658** |
| Tax on items recognized directly in/transferred from | - | - | 15 | - | - | (7,767) | **(7,752)** |
| Other gains and losses recognised directly in equity | - | - | (317) | - | - | - | **(317)** |
| **Net gains/(losses) recognised directly in equity** | **-** | **-** | **(302)** | **-** | **-** | **26,891** | **26,589** |
| Profit /(loss) for the year | - | - | - | - | (635,384) | **-** | (635,384) |
| **Total recognised income and expenses for 2014** | **-** | **-** | **(302)** | **-** | **(635,384)** | **26,891** | **(608,795)** |
| Increase/(decrease) in share capital | - | - | - | - | - | - | - |
| Purchase/(sale) of treasury shares | - | - | - | - | - | - | - |
| Other changes | - | - | - | - | - | - | - |
| Transferred to reserves | - | - | 2,120 | 40,290 | (42,410) | - | - |
| Dividends paid | - | - | - | - | - | - | - |
| Profit allocation | **-** | **-** | **2,120** | **40,290** | **(42,410)** | **-** | **-** |
| **Balance at 31 December 2014** | **1,194,776** | **(874)** | **12,340** | **200,997** | **(635,384)** | **72,741** | **844,595** |

## Cash flows for the year 2015

| | 2015 | 2014 |
|---|---|---|
| | HRK 000 | HRK 000 |
| **OPERATING ACTIVITIES** | | |
| **Operating cash flows before changes in operating assets** | **348,509** | **348,306** |
| (Loss)/profit before taxation | **126,586** | (637,053) |
| Impairment losses and provisions | **194,559** | 936,580 |
| Depreciation and amortisation | **45,698** | 53,078 |
| Net unrealised (losses)/gains on financial assets and liabilities at fair value through profit or loss | **(8,363)** | (119) |
| Gains/(losses) on sale of tangible assets | **-** | - |
| Other losses | **(9,971)** | (4,180) |
| **Net decrease/(increase) in operating assets** | **(747,336)** | **286,816** |
| Treasury bills of the Ministry of Finance and the CNB bills | **(501,235)** | 299,483 |
| Deposits with banking institutions and loans to financial institutions | **30,075** | 398,763 |
| Loans to other customers | **1,693** | 208,121 |
| Securities and other financial instruments held for trading | **(305,149)** | (7,181) |
| Securities and other financial instruments available for sale | **(26,491)** | (658,486) |
| Other operating assets | **53,771** | 46,116 |
| **Net increase/decrease in operating liabilities** | **172,595** | **(673,901)** |
| Demand deposits | **39,458** | (163,793) |
| Savings and term deposits | **(121,273)** | (730,438) |
| Derivative financial and other liabilities held for trading | **(508)** | 500 |
| Other liabilities | **254,918** | 219,830 |
| **Net cash flow from operations before income tax** | **(226,232)** | **(38,779)** |
| Income taxes paid | **(28)** | (53) |
| **Net cash inflow/outflow from operating activities** | **(226,260)** | **(38,832)** |
| **INVESTING ACTIVITIES** | | |
| **Net cash from investing activities** | **5,667** | **193,717** |
| Proceeds from sale/(Payments for purchases) of tangible and intangible assets | **(18,800)** | (30,106) |
| Proceeds from sale of/Payments for investments in subsidiaries, associates and joint ventures | **-** | - |
| Proceeds from/(Payments to acquire) securities and other financial instruments held to maturity | **23,394** | 222,464 |
| Dividends received | **1,073** | 1,359 |
| **FINANCING ACTIVITIES** | | |
| **Net cash from financing activities** | **48,056** | **283,314** |
| Net increase/decrease in borrowings | **(501,944)** | 433,314 |
| Net increase/(decrease) in subordinated debt and hybrid instruments | **-** | - |
| Proceeds from issuance of share capital | **550,000** | (150,000) |
| **Net increase in cash and cash equivalents** | **(172,537)** | **438,199** |
| Effect of changes in foreign exchange rates on cash and cash equivalents | **3,362** | (1,920) |
| **Net increase in cash and cash equivalents** | **(169,175)** | **436,279** |
| **Cash and cash equivalents at the beginning of the year** | **3,416,226** | **2,979,947** |
| **Cash and cash equivalents at the end of the year** | **3,247,051** | **3,416,226** |

**Reconciliation of the balance sheet as at 31 December 2015**

| | CNB requirements HRK 000 | Per Financial Statements HRK 000 | Difference HRK 000 |
|---|---|---|---|
| Cash and balances with the CNB | | | |
| -- Cash | 412,197 | - | 412,197 |
| -- Deposits with the CNB | 1,767,613 | - | 1,767,613 |
| Cash and amounts due from banks | - | 1,630,052 | (1,630,052) |
| Mandatory reserve with the Croatian National Bank | - | 1,279,570 | (1,279,570) |
| Deposits with banking institutions | 958,339 | - | 958,339 |
| Loans to and receivables from banks | - | 261,913 | (261,913) |
| Treasury bills of the Ministry of Finance and the CNB bills | 501,235 | - | 501,235 |
| Securities and other financial instruments held for trading | 596,526 | - | 596,526 |
| Financial assets at fair value through profit or loss | - | 900,943 | (900,943) |
| Securities and other financial instruments available for sale | 1,995,759 | - | 1,995,759 |
| Financial assets available for sale | - | 2,221,310 | (2,221,310) |
| Securities and other financial instruments held to maturity | 566,063 | - | 566,063 |
| Financial assets held to maturity | - | 571,764 | (571,764) |
| Securities and other financial instruments at fair value through profit or loss not actively traded | - | - | - |
| Derivative financial assets | - | - | - |
| Loans to financial institutions | 104,188 | - | 104,188 |
| Loans to other customers | 10,060,647 | - | 10,060,647 |
| Loans and receivables from customers | - | 10,184,719 | (10,184,719) |
| Investments in subsidiaries, associates and joint ventures | 53,420 | - | 53,420 |
| Assets held for sale | - | 7,930 | (7,930) |
| Investments in subsidiaries | - | 45,490 | (45,490) |
| Foreclosed assets | 103,135 | - | 103,135 |
| Tangible assets (less depreciation) | 147,109 | - | 147,109 |
| Property and equipment | - | 142,150 | (142,150) |
| Intangible assets | - | 116,850 | (116,850) |
| Deferred tax assets, net | - | 10,224 | (10,224) |
| Prepaid income tax | - | 81 | (81) |
| Interest, fees and other assets | 446,936 | - | 446,936 |
| Other assets | - | 318,385 | (318,385) |
| **TOTAL ASSETS** | **17,713,166** | **17,691,382** | **21,784** |

**Reconciliation of the balance sheet as at 31 December 2015 (continued)**

| **LIABILITIES** | **Under CNB requirements HRK 000** | **Per Financial Statements HRK 000** | **Difference HRK 000** |
|---|---|---|---|
| Financial liabilities at fair value through profit or loss | - | - | - |
| *Borrowings from financial institutions* | - | - | - |
| Short-term borrowings | 394 | - | 394 |
| Long-term borrowings | 557,730 | - | 557,730 |
| Borrowings | - | 1,005,383 | (1,005,383) |
| *Deposits* | - | - | - |
| Giro and current account deposits | 2,953,953 | - | 2,953,953 |
| Savings deposits | 1,060,935 | - | 1,060,935 |
| Term deposits | 8,377,218 | - | 8,377,218 |
| Deposits from banks | - | 357,639 | (357,639) |
| Deposits from customers | - | 14,291,102 | (14,291,102) |
| *Other borrowings* | - | - | - |
| Short-term borrowings | - | - | - |
| Long-term borrowings | 446,650 | - | 446,650 |
| Derivative financial and other liabilities held for trading | - | - | - |
| *Issued debt securities* | - | - | - |
| Short-term debt securities issued | - | - | - |
| Long-term debt securities issued | - | - | - |
| Subordinated debt issued | - | - | - |
| Issued hybrid instruments | - | - | - |
| Hybrid instruments | - | - | - |
| Provisions for liabilities and expenses | - | 36,592 | (36,592) |
| Deferred tax liabilities, net | - | - | - |
| Current tax liability | - | - | - |
| Interest, fees and other liabilities | 2,537,022 | - | 2,537,022 |
| Other liabilities | - | 221,401 | (221,401) |
| **TOTAL LIABILITIES** | **15,933,902** | **15,912,117** | **21,784** |
| **EQUITY** | | | |
| Share capital | 1,214,298 | 1,214,775 | (477) |
| Capital gains | - | - | - |
| Treasury shares | - | (477) | 477 |
| Profit /(loss) for the year | 123,217 | 123,217 | - |
| Retained earnings | - | - | - |
| Legal reserves | - | - | - |
| Other reserves | 359,661 | 358,306 | 1,355 |
| Statutory and other capital reserves | - | - | - |
| General banking risk reserve | - | 477 | (477) |
| Revaluation reserve | - | 877 | (877) |
| Unrealised gains/losses on revaluation of financial assets available for sale | 82,089 | 82,089 | - |
| **TOTAL EQUITY** | **1,779,264** | **1,779,264** | **-** |
| **TOTAL LIABILITIES AND EQUITY** | **17,713,166** | **17,691,382** | **21,784** |

**Reconciliation of the balance sheet at 31 December 2015 (continued)**

1 Foreign currency accounts' balance with foreign banks in the amount of HRK 662,040 thousand is included in the regulatory statements in Deposits with banking institutions and in the statutory financial statements it is reported within Cash and amounts due from banks.

2 Foreign currency accounts' balance with domestic banks in the amount of HRK 67,848 thousand is included in the regulatory financial statements in Deposits with banking institutions and in the statutory financial statements it is reported within Cash and amounts due from banks.

3 Amount of HRK 488,042 thousand – giro account balance with the CNB is included in the regulatory statements in Deposits with the CNB and in the statutory financial statements it is reported within Cash and amounts due from banks.

4 Reclassification of deposits held with non-banking financial institutions in the amount of HRK 363 thousand (accounts 5214) from the item Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Loans to and receivables from banks in the financial statements.

5 Reclassification of the HBOR loan in the amount of HRK 33,022 thousand from Loans to financial institutions in the balance sheet per CNB's regulatory requirements to Loans to and receivables from banks in the financial statements.

6 Reclassification of receivables from interest accruals not yet due in the amount of HRK 72,810 thousand from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements into the following line items in the financial statements: HRK 77 thousand to Loans to and receivables from banks; HRK 1,304 thousand to Financial assets at fair value through profit or loss; HRK 27,429 thousand to Financial assets available for sale; HRK 5,701 thousand to Financial assets held to maturity; and HRK 38,299 thousand to Loans and receivables from customers.

7 Interest accruals due in the amount of HRK 11,246 thousand included in the in the balance sheet per the CNB regulatory requirements in Interest, fees and other assets, is reclassified into Loans and receivables from customers in the financial statements.

8 Portfolio based provisions for identified losses on income-based receivables are included in the balance sheet per the CNB regulatory requirements in Interest, fees and other assets in the amount of HRK 10,512 thousand. On the other hand, this item is presented in the financial statements as impairment allowance within Loans to and receivables.

9 Intangible assets in the amount of HRK 116,850 thousand are included in the balance sheet per the CNB regulatory requirements in Interest, fees and other assets, and in the financial statements in Intangible assets.

10 Reclassification of treasury bills of the Ministry of Finance in the amounth of HRK 501,235 from Treasury bills of the Ministry of Finance and the CNB bills in the balance sheet per the CNB regulatory into the following line items in the financial statements: HRK 303,113 thousand to Financial assets at fair value through profit or loss and HRK 198,122 thousand to Financial assets available for sale.

11 Reclassification of loans to other and non-banking financial institutions in the amount of HRK 71,165 thousand reported in the balance sheet per the CNB regulatory requirements within Loans to finacial institutions to Loans to and receivables from customers in the financial statements.

**Reconciliation of the balance sheet at 31 December 2015 (continued)**

12 Reclassification of credit card receivables in the amount of HRK 14,203 thousand (accounts 14811 and 1471) from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Loans to and receivables from customers in the financial statements.

13 Reclassification of impairment losses on credit card receivables in the amount of HRK 66 thousand (account 1493) from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Loans and receivables from customers in the financial statements.

14 Deferred tax assets in the amount of HRK 31,655 thousand included in the balance sheet per the CNB regulatory requirements in Interest, fees and other assets reclassified to Deferred tax assets, net, in the financial statements.

15 Netting-off of the deferred tax liability in the amount of HRK 21,430 thousand within Interest, fees and other liabilities in the balance sheet per the CNB regulatory requirements and its inclusion in Deferred tax assets, net, in the financial statements.

16 Prepaid income tax (account 1400) in the amount of HRK 81 thousand from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Prepaid income tax in the financial statements.

17 Foreclosed assets in the amount of HRK 103,135 thousand included in the balance sheet per the CNB regulatory requirements are included in the financial statements within Other assets.

18 Reclassification of the stock of office supplies of HRK 4,959 thousand from Tangible assets (less depreciation) in the balance sheet per the CNB regulatory requirements to Other assets in the financial statements.

19 Investments in H1 telekom d.d. and Drvna industrija Spačva d.d. amounting to HRK 7,903 thousand is included in the balance sheet per the CNB regulatory requirements in Investments in subsidiaries, associates and joint ventures, whereas in the financial statements it is reported within Assets held for sale.

20 Reclassification of long-term borrowings of HRK 557,730 thousand from Borrowings from financial institutions in the balance sheet per the CNB regulatory requirements and HRK 446,650 from Long-term borrowings per the CNB regulatory requirements into Borrowings in the financial statements in the amount of HRK 1,004,380 thousand.

21 Reclassification of Impairment for deferred placement fee income in the amount of HRK 279 thousand, included in Interetst, fees and other liabilites in the balance sheet per CNB regulatory into HRK 236 thousand Loans and receivables from customers in the financial statements and HRK 16 thousand Other liabilities.

22 Accrued interest payable not yet due in the amount of HRK 73,630 thousand, included in the balance sheet per the CNB regulatory requirements in Interest, fees and other liabilities are reclassified to the following items in the financial statements: HRK 420 thousand to Borrowings, HRK 678 thousand to Deposits from banks and HRK 72,532 thousand to Deposits from customers.

23 Accrued interest payable due in the amount of HRK 189 thousand, included in the balance sheet per the CNB regulatory requirements in Interest, fees and other liabilities is reclassified into Borrowings in the financial statements.

24 Reclassification of temporary transfers for the purpose of investing in domestic companies' share capital in the amount of HRK 1,017 thousand from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Deposits from customers in the financial statements.

**Reconciliation of the balance sheet at 31 December 2015 (continued)**

25 Reclassification of HRK 75 thousand of retail balances in course of settlement (account 2690) from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Cash and amounts due from banks in the financial statements.

26 Reclassification of Restricted deposits in the total amount of HRK 2,187,135 thousand from Interest, fees and other assets in the balance sheet per CNB regulatory requirements to Deposits from customers in the financial statements.

27 Reclassification of Provisions for liabilities and expenses of HRK 36,592 thousand from Interest, fees and other assets in the balance sheet per CNB regulatory requirements to Provisions for liabilities and expenses in the financial statements.

28 Items Giro and current account deposits in the amount of HRK 2,953,953 thousand, Savings deposits in the amount of HRK 1,060,935 thousand and Term deposits in the amount of HRK 8,377,218 thousand in the balance sheet per CNB regulatory requirements are reported in the financial statements as follows: HRK 356,62 thousand within Deposits from banks and HRK 12,035,144 within Deposits from customers.

29 Treasury shares in the amount of HRK 477 thousand are shown in the financial statements as a deduction from share capital.

30 Reclassification of the treasury share reserve in the amount of HRK 477 thousand from item Statutory and other capital reserves in the balance sheet per the CNB regulatory requirements to Retained earnings/Accumulated loss in the financial statements.

31 Other liabilities (account 241) in the amount of HRK 4,727 thousand from Interest, fees and other assets in the balance sheet per the CNB regulatory requirements to Deposits to customers in financial statements.

32 Reclassification of HRK 887 thousand from Statutory and other capital reserves in the balance sheet per the CNB regulatory requirements to Revaluation reserve in the financial statements.

**Reconciliation of the income statement for the year 2015**

| | CNB requirements HRK 000 | Per financial statements HRK 000 | Difference HRK 000 |
|---|---|---|---|
| Interest income | 781,980 | 781,980 | - |
| Interest expense | (271,654) | (271,654) | - |
| **Net interest income** | **510,326** | **510,326** | **-** |
| Fee and commission income | 483,022 | 483,022 | - |
| Fee and commission expense | (301,289) | (301,289) | - |
| **Net fee and commission income** | **181,734** | **181,734** | - |
| Gains less losses arising from securities at fair value through profit or loss and held for trading | - | 6,289 | (6,289) |
| Gains less losses arising from securities available for sale | - | - | - |
| Gains less losses arising from dealing in foreign currencies | - | 40,655 | (40,655) |
| Other operating income | - | 42,036 | (42,036) |
| | **-** | **88,980** | **-** |
| **Operating income** | - | **781,040** | - |
| Other non-interest income | 88,981 | - | 88,981 |
| Other non-interest expenses | 62,018 | - | 62,018 |
| **Other non-interest income, net** | **26,963** | **-** | **26,963** |
| **Net non-interest income** | **208,697** | **-** | 208,697 |
| General and administrative expenses, and depreciation | 397,877 | 459,895 | (62,018) |
| **Net operating income before provisions and impairment losses** | **321,146** | - | **321,146** |
| Impairment losses on loans and receivables to customers and other assets | - | 185,573 | (185,573) |
| Provisions for liabilities and expenses | - | 8,986 | (8,986) |
| **Operating expenses** | **-** | **654,454** | **(654,454)** |
| Impairment losses and provisions | 200,591 | - | 200,591 |
| Provisions for portfolio based impairment losses | (6,032) | - | (6,032) |
| **Total provisions for impairment losses** | **194,559** | **-** | **194,559** |
| **Profit/loss before taxation** | **126,586** | **126,586** | **-** |
| Income tax expense | (3,369) | (3,369) | - |
| **Profit /loss for the year** | **123,217** | **123,217** | **-** |
| **Loss per share in HRK** | **84.92** | **84.92** | **-** |

**Reconciliation of the income statement for the year 2015 (continued)**

1 Reconciliation of foreign exchange differences

Net foreign exchange differences in the amount of HRK 651 thousand are included in the income statement per the CNB regulatory requirements within Interest income and in the annual financial statements they are reported within Other operating income.

Net foreign exchange differences in the amount of HRK 777 thousand are included in the income statement per the CNB regulatory requirements within Impairment on interest income and in the annual financial statements they are reported within Other operating income.

Net foreign exchange differences in the amount of HRK 98 thousand are included in the income statement per the CNB regulatory requirements within Other non-interest income and in the financial statements they are reported within Other operating income.

Net foreign exchange differences in the amount of HRK 1 thousand are included in the income statement per the CNB regulatory requirements within Other non-interest income and in the financial statements they are reported within Other operating income.

Exchange differences in the amount of HRK 8,710 thousand on retranslation of the balance sheet at the mid-exchange rate are included in the income statement per the CNB regulatory requirements in Other non-interest income whereas in the financial statements they are reported within Other operating income.

Exchange differences in the amount of HRK 1,038 thousand on impairment losses (accounts 6409 and 6419) included in the income statement per the CNB regulatory requirements within Impairment losses and provisions are reclassified in the financial statements to Other operating income.

Exchange differences in the amount of HRK 40,655 thousand from foreign currency trading, which are included in the income statement per the CNB regulatory requirements within Other non-interest income are included in the financial statements in Gains less losses arising from dealing in foreign currencies.

2 Reclassification of HRK 34,474 thousand of the insurance premium expense from Interest expense in the income statement per the CNB regulatory requirements to General and administrative expenses and depreciation.

3 The amount of HRK 8,593 thousand from realized gains from financial assets available for sale which are included in the income statement per the CNB regulatory requirements within Other non-interest income are included in the financial statements in Gains less losses from securities available for sale.

4 Reclassification of HRK 2,304 thousand arising from trading derivative financial instruments from Other non-interest income in the income statement per the CNB regulatory requirements Gains less losses from securities at fair value through profit or loss and trading in the financial statements.

5 The amount of HRK 1,073 thousand of dividends received is included in the income statement per the CNB regulatory requirements in Other non-interest income whereas in the financial statements it is included in Other operating income.

6 The amount of HRK 16,165 thousand (other income - accounts 68 less balances on accounts 68010, 6885 and income from reversal of provisions on accounts 6881 and 68810) included in the income statement per the CNB regulatory requirements within Other non-interest income is captured in the financial statements within Other operating income.

**Reconciliation of the income statement for the year 2015 (continued)**

7 The amount of HRK 1,226 (income form provisions reversal, account 6882) included into Impairment losses and provisions per CNB regulatory requirements, is presented in the financial statements in Provisions for liabilities and expences.

8 The amount of HRK 108 thousand (income from reversal of provisions - account 68804) included in the income statement per the CNB regulatory requirements in Impairment losses and provisions is presented in the financial statements in Provisions for liabilities and expenses.

9 The amount of HRK 17,556 thousand (accounts 627) included in the income statement per the CNB regulatory requirements in Other non-interest expense is presented in financial statements in General and administrative expenses.

10 The amount of HRK 33 thousand expences on accured tangible assets (expences, account 63001000) included in the statement per the CNB regulatory requirements in Other non-interest expense is presented in financial statements in General and administrative expenses.

11 The amount of HRK 453 thousand Impairment losses for pensions, severance and other liabilites (expences, account 63001000) included in the statement per the CNB regulatory requirements in Other non-interest expense is presented in financial statements in General and administrative expenses.

12 The amount of HRK 9,503 thousand (accounts 634, 635 and 6311) included in the income statement per the CNB regulatory requirements in Other non-Interest expense is presented in the financial statements in General and administrative expenses.

13 The amount of HRK 9,016 thousand (accounts 633 and 638) included in the income statement per the CNB regulatory requirements in Impairment losses and provisions is presented in the financial statements under Provisions for liabilities and expenses.

14 The amount of HRK 14,827 thousand (income from the sale of foreclosed assets) included in the income statement per the CNB regulatory requirements in Other non-Interest income is presented in the financial statements in Other operating income.

15 The amount of HRK 7,437 thousand (net impairment of tangible assets, account 66293) included in the income statement per the CNB regulatory requirements in Impairment losses and provisions is presented in the financial statements under Impairment losses on loans to and receivables from customers and other assets.

16 The amount of HRK 5,060 thousand (impairment of equity investments available for sale, account 6442*) in Impairment losses and provisions per the CNB regulatory requirements, is presented in the financial statements under Impairment losses on loans to and receivables from customers and other assets.

17 The amount of HRK 179,801 thousand (account 647) included in the income statement per the CNB regulatory requirements in Expenses from value adjustments and provisions for identified losses is presented in the financial statements under Impairment losses on loans to and receivables from customers and other assets.

18 Reclassification of income from reversals amounting to HRK 6,725 thousand from the item Provisions for portfolio based impairment losses on placements in the income statement per the CNB regulatory requirements to Impairment losses on loans to and receivables from customers and other assets in the financial statements.

**Reconciliation of the income statement for the year 2015 (continued)**

19 Reclassification of provisions of HRK 692 thousand from the item Provisions for portfolio based impairment losses on off-balance sheet exposure in the income statement per the CNB regulatory requirements to Provisions for liabilities and expenses in the financial statements.

20 Reclassification of provisions for off-balance sheet exposures in the amount of HRK 612 thousand included in the income statement per the CNB regulatory requirements within Impairment losses and provisions to Provisions for liabilities and expenses in the financial statements.

**Reconciliation of the Statement of Changes in Equity for the year 2015**

| **Bank** | **Share capital HRK 000** | **Treasury shares HRK 000** | **Legal, statutory and other reserves HRK 000** | **Retained profit / (Accumulated losses) HRK 000** | **Profit /loss for the year HRK 000** | **Unreal. gains /losses financial assets available for sale HRK 000** | **Total equity HRK 000** |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **1,194,776** | **(874)** | **12,340** | **200,997** | **(635,384)** | **72,741** | **844,595** |
| Effects of changes in accounting policies and corrections of errors | - | - | - | - | - | - | **-** |
| Restated balance at 1 January 2015 | 1,194,776 | (874) | 12,340 | 200,997 | (635,384) | 72,741 | 844,595 |
| Disposal of financial assets available for sale | - | - | - | - | - | - | **-** |
| Change in the fair value of financial assets available for sale | - | - | - | - | - | 11,685 | **11,685** |
| Tax on items recognised directly in/transferred from equity | - | - | 63 | - | - | (2,337) | **(2,274)** |
| Other gains and (losses) recognised directly in equity | - | - | (73) | - | - | -- | **(73)** |
| **Net gains/(losses) recognised directly in equity** | **-** | **-** | **(10)** | **-** | **-** | **9,348** | **9,338** |
| Profit/(loss) for the year | - | - | - | - | 123,217 | **-** | 123,217 |
| **Total recognised income and expenses for 2015** | **-** | **-** | **(10)** | **-** | **123,217** | **9,348** | **132,555** |
| Increase/decrease in share capital | 248,135 | 397 | 357,908 | 195,673 | - | - | 802,114 |
| Purchase/sale of treasury shares | - | - | - | - | - | - | - |
| Other changes | - | - | - | - | - | - | - |
| Transferred to reserves | (228,136) | - | (10,578) | (396,670) | 635,384 | - | - |
| Dividends paid | - | - | - | - | - | - | - |
| Profit allocation | **(228,136)** | **-** | **(10,578)** | **(396,670)** | **635,384** | **-** | **-** |
| **Balance at 31 December 2015** | **1,214,775** | **(477)** | **359,660** | **-** | **123,217** | **82,089** | **1,779,264** |

Items: Legal reserve, General banking risk reserve, Revaluation reserve and Other reserves from the financial statements are presented in the statement of changes in equity per CNB's regulatory requirements in Legal, statutory and other reserves.

Retained earnings from the Annual Report are presented within Retained earnings/(Accumulated losses), Profit/(loss) for the year.

## Reconciliation of cash flows for the year 2015

| | CNB requirements HRK 000 | Per Financial Statements HRK 000 | Difference HRK 000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | 126,586 | 126,586 | - |
| Adjusted by: | | | |
| - Depreciation and amortisation | 45,698 | 45,698 | - |
| - Foreign exchange (gains)/ losses | (9,971) | (9,971) | - |
| - Impairment losses on loans and receivables to customers and other assets | - | 185,573 | (185,573) |
| - Impairment losses on provisions for liabilities and expenses | - | 8,986 | (8,986) |
| Impairment losses and provisions | 194,559 | - | 194,559 |
| - Gains less losses from financial assets at fair value through profit or loss | (8,364) | (8,364) | - |
| *Changes in operating assets and liabilities* | | | |
| Net increase in loans to and receivables from banks | - | 69,740 | (69,740) |
| Net decrease in financial assets at fair value through profit or loss | - | (608,568) | 608,568 |
| Treasury bills of the Ministry of Finance and the CNB bills | (501,235) | - | (501,235) |
| Deposits with banking institutions and loans to financial institutions | 30,075 | - | 30,075 |
| Loans to other customers | 1,693 | - | 1,693 |
| Securities and other financial instruments held for trading | (305,149) | - | (305,149) |
| Securities and other financial instruments available for sale | (26,491) | - | (26,491) |
| Net (increase)/decrease in loans to and receivables from customers | - | (23,256) | 23,256 |
| Net (increase)/decrease in other assets | 53,771 | 53,771 | - |
| Net (decrease)/increase in deposits from banks | - | (17,111) | 17,111 |
| Net increase/(decrease) in deposits from customers | - | 411,696 | (411,696) |
| Net increase/(decrease) in other liabilities | - | (235,009) | 235,009 |
| Demand deposits | 39,458 | - | 39,458 |
| Savings and term deposits | (121,273) | - | (121,273) |
| Derivative financial and other liabilities held for trading | (508) | - | (508) |
| Other liabilities | 254,919 | - | 254,919 |
| **Net cash inflow from operating activities before tax** | **(226,232)** | **(229)** | **(226,003)** |
| Income taxes paid | (28) | (28) | **-** |
| **Net cash generated from operating activities** | **(226,260)** | **(257)** | **(226,003)** |
| **Cash flows from investing activities** | | | |
| Investments in subsidiaries | - | - | **-** |
| Investments in associates | - | - | **-** |
| Purchases of property, plant, equipment and intangible assets | (18,800) | (18,800) | **-** |
| Disposal of financial assets available for sale | - | 656,314 | **(656,314)** |
| Acquisition of financial assets available for sale | - | (882,317) | **882,317** |
| Net disposal/(acquisition) of financial assets held to maturity | 23,394 | 23,394 | **-** |
| Dividends received | 1,073 | 1,073 | **-** |
| **Net cash inflow/(outflow) from investing activities** | **-** | **(220,336)** | **220,336** |
| **Cash flows from financing activities** | | | |
| Increase in borrowings | - | 44,384 | (44,384) |
| Repayments of borrowings | - | (546,328) | 546,328 |
| Net increase/decrease in borrowings | (501,944) | - | (501,944) |
| Proceeds from issuance of share capital | 550,000 | 550,000 | **-** |
| **Net cash inflow from financing activities** | **48,056** | **48,056** | **-** |
| Effect of foreign exchange differences on cash and cash equivalents | 3,362 | 3,362 | **-** |
| **Net increase/(decrease) in cash and cash equivalents** | **(169,175)** | **(169,175)** | **-** |
| **Cash and cash equivalents at the beginning of the year** | 3,416,226 | **3,416,226** | **-** |
| **Cash and cash equivalents at the end of the year** | **3,247,051** | **3,247,051** | **-** |

**Reconciliation of cash flows for the year 2015 (continued)**

1. Reclassification of HRK 194,559 thousand from Impairment losses on loans and receivables from customers and other assets in the cash flow statement per the CNB regulatory requirements into the following items in the financial statements: HRK 185,573 thousand to Impairment losses and provisions, and HRK 8,986 thousand as Impairment losses for liabilities and expenses.

2. Reclassification of HRK 501,235 thousand from Treasury bills issued by the Ministry of finance and CNB bills, HRK 30,075 thousand from Deposits and loans to financial institutions, HRK 1,693 thousand from Loans to other customers, HRK 305,149 Securities and other financial instruments held for trading, HRK 26,491 of Securities and other financial instruments available for sale, HRK 39,458 thousand of Demand deposits, HRK 121,273 thousand of Savings and term deposits, HRK 508 thousand of Financial derivatives and other financial liabilities held for trading, HRK 254,919 thousand of Other liabilities, from the cash flow statement as per the CNB reporting requirements to the following items in the financial statements: HRK 69,740 thousand to Net (increase)/decrease in loans and receivables from banks; HRK 608,568 thousand to Net (increase)/decrease in financial assets at fair value through profit or loss; HRK 23,256 thousand to Net (increase)/decrease in loans and receivables from customers; HRK 17,111 thousand to Net (decrease)/increase in deposits from banks; HRK 411,696 thousand to Net (decrease)/increase in deposits from customers; HRK 235,009 thousand to Net (decrease)/increase in other liabilities; and HRK 656,314 to Disposal of financial assets available for sale and HRK 882,317 thousand to Acquisition of financial assets available for sale.

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**BRANCH DONJI MIHOLJAC**

| | |
|---|---|
| **Address:** | Vukovarska 4 31 540 Donji Miholjac |
| **tel.:** | 031 620 040 |
| **fax:** | 031 620 041 |

**OFFICE ĐAKOVO**

| | |
|---|---|
| **Address:** | Bana J.Jelačića 8 31 400 Đakovo |
| **tel.:** | 031 815 156 |
| **fax:** | 031 815 158 |

**BRANCH NAŠICE**

| | |
|---|---|
| **Address:** | J.J.Strossmayera 2 31 500 Našice |
| **tel.:** | 031 615 162 |
| **fax:** | 031 615 173 |

**OFFICE OSIJEK 2**

| | |
|---|---|
| **Address:** | Prolaz J. Benešića 2 31 000 Osijek |
| **tel.:** | 031 555 260 |
| **fax:** | 031 555 269 |

**BRANCH BELI MANASTIR**

| | |
|---|---|
| **Address:** | Imre Nagya 2e<br>31 300 Beli Manastir |
| **tel.:** | 031 701 412 |
| **fax:** | 031 701 414 |

**OFFICE PULA**

| | |
|---|---|
| **Address:** | Anticova 9<br>52 100 Pula |
| **tel.:** | 052 300 602 |
| **fax:** | 052 300 609 |

**BRANCH BANJOLE**

| | |
|---|---|
| **Address:** | Banjole Kamnik bb<br>52 100 Pula |
| **tel.:** | 052 573 409 |
| **fax:** | 052 573 378 |

**BRANCH LIŽNJAN**

| | |
|---|---|
| **Address:** | Krasa 8<br>52 204 Ližnjan |
| **tel.:** | 052 578 550 |
| **fax:** | 052 578 552 |

**OFFICE POREČ**

| | |
|---|---|
| **Address:** | Trg slobode 14<br>52 440 Poreč |
| **tel.:** | 052 703 222 / 223 |
| **fax:** | 052 703 229 |

**OFFICE RIJEKA**

| | |
|---|---|
| **Address:** | Korzo 13<br>51 000 Rijeka |
| **tel.:** | 051 301 280 |
| **fax:** | 051 301 288 |

**OFFICE RIJEKA - ULJARSKA**

| | |
|---|---|
| **Address:** | Uljarska 4<br>51 000 Rijeka |
| **tel.:** | 051 555 571 |
| **fax:** | 051 555 589 |

**OFFICE ZADAR**

| | |
|---|---|
| **Address:** | Zrinsko - Frankopanska 8<br>23 000 Zadar |
| **tel.:** | 023 350 000 |
| **fax:** | 023 350 018 |

**OFFICE ŠIBENIK**

| | |
|---|---|
| **Address:** | Ante Starčevića b.b.<br>22 000 Šibenik |
| **tel.:** | 022 556 011 |
| **fax:** | 022 556 019 |

**OFFICE KNIN**

| | |
|---|---|
| **Address:** | Kralja Zvonimira 9<br>22 300 Knin |
| **tel.:** | 022 556 000 |
| **fax:** | 022 556 009 |

**OFFICE SPLIT - BIHAĆKA**

| | |
|---|---|
| **Address:** | Bihaćka 2<br>21 000 Split |
| **tel.:** | 021 340 626 |
| **fax:** | 021 340 629 |

**OFFICE SPLIT - DUBROVAČKA**

| | |
|---|---|
| **Address:** | Dubrovačka 31<br>21 000 Split |
| **tel.:** | 021 401 624 / 620 |
| **fax:** | 021 401 639 |

**OFFICE SPLIT – III**

| | |
|---|---|
| **Address:** | Ruđera Boškovića 18a<br>21 000 Split |
| **tel.:** | 021 555 854 |
| **fax:** | 021 555 873 |

**OFFICE KAŠTEL STARI**

| | |
|---|---|
| **Address:** | Ivana Danila 12<br>21 216 Kaštel Stari |
| **tel.:** | 021 246 184 |
| **fax:** | 021 246 199 |

**OFFICE TROGIR**

| | |
|---|---|
| **Address:** | Kardinala Alojzija<br>Stepinca 42<br>21 220 Trogir |
| **tel.:** | 021 555 725 |
| **fax:** | 021 555 743 |

**OFFICE SINJ**

| | |
|---|---|
| **Address:** | Vrlička 50<br>21 230 Sinj |
| **tel.:** | 021 708 080 |
| **fax:** | 021 708 097 |

**BRANCH ALKARSKI DVORI**

| | |
|---|---|
| **Address:** | Put Petrovca 12<br>21 230 Sinj |
| **tel.:** | 021 823 133 |
| **fax:** | 021 823 117 |

**BRANCH TRILJ**

| | |
|---|---|
| **Address:** | Bana Josipa Jelačića 8<br>21 240 Trilj |
| **tel.:** | 021 830 410 |
| **fax:** | 021 830 427 |

**OFFICE IMOTSKI**

| | |
|---|---|
| **Address:** | Šetalište S. Radića 19<br>21 260 Imotski |
| **tel.:** | 021 555 280 |
| **fax:** | 021 555 289 |

**OFFICE MAKARSKA**

| | |
|---|---|
| **Address:** | Trg 4. svibnja 533 br.1<br>21 300 Makarska |
| **tel.:** | 021 695 760 |
| **fax:** | 021 695 768 |

**OFFICE DUBROVNIK**

| | |
|---|---|
| **Address:** | Dr. Ante Starčevića 24<br>20 000 Dubrovnik |
| **tel.:** | 020 362 045 |
| **fax:** | 020 362 048 |

**OFFICE KONAVLE**

| | |
|---|---|
| **Address:** | Gruda 43<br>20 215 Gruda |
| **tel.:** | 020 450 800 |
| **fax:** | 020 450 802 |

**BRANCH CAVTAT**

| | |
|---|---|
| **Address:** | Trumbićeva 10<br>20 210 Cavtat |
| **tel.:** | 020 450 810 |
| **fax:** | 020 450 811 |

## Members of the HPB Group:

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