Annual report for the year 2015

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Introduction

The annual report comprises a summary of operation and key financial indicators, a description of operation and the audited financial statements for the year ended 31 December 2015 together with the Independent Auditor's Report.

Legal status

The Annual Report includes annual financial statements prepared in accordance with accounting legislation applicable to banks in the 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 Companies Act which requires the Management Board of an entity to report to shareholders at their annual General Assembly.

Abbreviations

In the Annual Report, Vaba d.d. banka Varaždin is referred to as 'the Bank' or 'Vaba', the Croatian National Bank as 'CNB', the Republic of Croatia as 'the Government' and the Croatian Bank for Reconstruction and Development as 'CBRD'.

Exchange rates

The following CNB middle exchange rates were used for translation of foreign currencies into Croatian kuna:

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

Summary of operation and key financial indicators

[HRK'000]	31 December 2014	31 December 2015
Net interest income	14,799	27,608
Net fee and commission income	5,378	4,821
Income from trading and other	11,338	10,020
Operating income	**31,515**	**42,449**
Loss before impairment of assets	(14,453)	(9,316)
Neto profit / (loss)	**(11,911)**	**(50,476)**
Total assets	**1,345,888**	**1,654,743**
Loans and advances to customers	**654,038**	**875,788**

The Bank's operations in 2015 have been characterised by a further increase of share capital by J&T Banka, whereby two capital contributions (HRK 37.5 million in January and HRK 65 million in September) raised the total share capital to HRK 231.1 million (31 December 2014: HRK 128.6 million). After these capital contributions, J&T Banka holds a 76.81% share.

These capital contributions enable portfolio growth which was aimed at reaching the level of monthly income that would enable the Bank to continue in operating existence. At the beginning of 2015, the total corporate sector portfolio amounted to HRK 382.9 million and increased during the year by 88% to HRK 718.4 million as at 31 December 2015. Although a deleveraging trend was recorded in 2015 in the retail sector in the Republic of Croatia, the Bank's appropriate business policy ensured also positive trends in movements in the retail portfolio, contributing to the increase in interest income from the retail sector. Gross loans as at 31 December 2015 amount to HRK 981.71 million, of which 82.4% relates to placements to legal entities and 17.6% to natural persons. Provisions for identified losses on these loans were formed in the amount of HRK 102.68 million, i.e. 10.5% of total gross loans.

In addition to the increase in loans, 2015 saw significant growth in the retail line of business: term savings of natural persons rose by 19 percent, accompanied by a significant fall in average interest rates; the number of current account holders rose by 7 percent; and the number of credit card users rose by 18 percent. The Bank's term deposits form the most significant part of the Bank's financing structure, i.e. account for 66.12% of the total sources of funds, and amount to HRK 1,094.1 million as at 31 December 2015. The Bank's capital accounts for 10.7% of the total sources of funds and amounts to HRK 176.7 million as at 31 December 2015.

As at 31 December 2015, total Bank's assets amounted to HRK 1,654.74 (31 December 2014: HRK 1,345.89 million).

The Bank performs its retail sector activities through 8 branches (in Varaždin, Ludbreg, Novi Marof, Čakovec, Zagreb, Slavonski Brod, Nova Gradiška and Pula). The Bank has 8 ATMs installed in the branches. In 2015, two branches (in Varaždin and Ivanec) were closed so the client portfolio of these branches transferred to the central branch in Varaždin.

Following the decision of the German regulator BaFin (Die Bundesanstalt für Finanzdienstleistungsaufsicht), Vaba d.d. banka Varaždin is allowed to operate in the German market, i.e. now it can provide services of collection of deposits from foreign clients. The expansion of its operations to the German market commenced in October in cooperation with its partner company Savedo GmbH from Berlin. By the end of 2015, a significant amount of term deposits have been collected at favourable interest rates.

Macroeconomic environment and banking sector in the Republic of Croatia in 2015

GLOBAL TRENDS

In 2015, the recovery of the world economy continued, with conditions on international financial markets remaining relatively mild, despite the increased volatility arising from investors' concerns regarding the sustainability of the growth of Chinese economy and negative macroeconomic trends in major emerging markets. EU countries continue to recover prompted by lower prices of energy sources and goods, ECB's continued expansionary monetary policy and lower effective exchange rates of the euro. It is expected that stronger domestic demand will continue to contribute the most to recovery in the coming period. Rates of economic growth projected for 2016 for developed countries are still relatively low compared to CEE countries whose average amounts to approximately 3%. The World Bank projected economic growth in the EU of 2.1% in 2016, which is just slightly higher than the 2015 projected growth of 2%.

The ECB continues to implement expansionary monetary policy in these conditions and is ready to continue to use unconventional measures until deemed necessary. Moreover, the announced extension of the expanded bond purchase programme which includes the purchase of government bonds of the euro area Member States and bonds of European institutions and agencies on the secondary market in the cumulative monthly amount of EUR 60 billion even after September 2016, i.e. until the convergence of the euro area inflation rate is achieved at the targeted level of "below, but close to 2% annually" over the medium term, additionally contributes to expectation of low interest rates in the euro area.

CROATIAN TRENDS

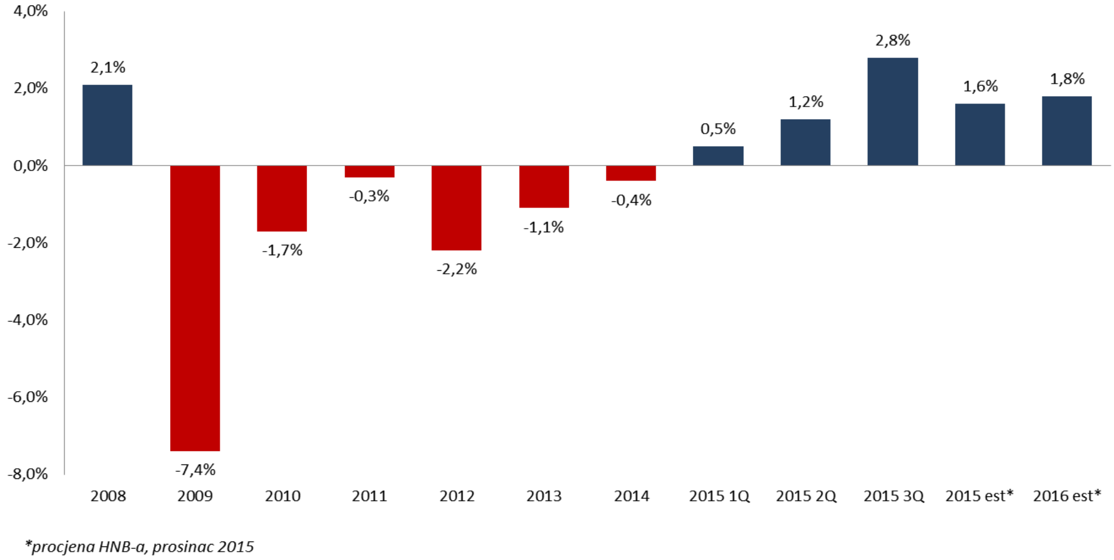
Economic activity

After six consecutive years of the drop in real GDP, Croatian economy has finally recorded a positive annual growth rate. The first estimates of the Croatian Bureau of Statistics indicate that the 2015 GDP was higher by 1.6% compared to 2014 in real terms.

Such expectations are primarily the consequence of a strong positive contribution of household consumption, which has been recovering due tax changes at the beginning of the year, lower gas prices which have a positive impact on the disposable real income, and higher tourism consumption. Government consumption has slightly grown in the previous year, i.e by 0.4%, despite the expected decrease imposed in Croatia by the excessive deficit procedure. It seems that the election year coupled with a rise in tax income, which surpassed expectations, had the greatest impact on the growth of government consumption. Data for 2014 and the first three quarters of 2015 suggest that investments in 2014 reached the bottom and started to rapidly recover in 2015.

CNB's December estimate expects continued GDP growth in 2016 and a jump of the expected growth rate from 1.5% to 1.8%, primarily due to the expected growth of export of goods and services, but also due to the revitalisation of private consumption.

Graph 1: Real GDP annual growth rate

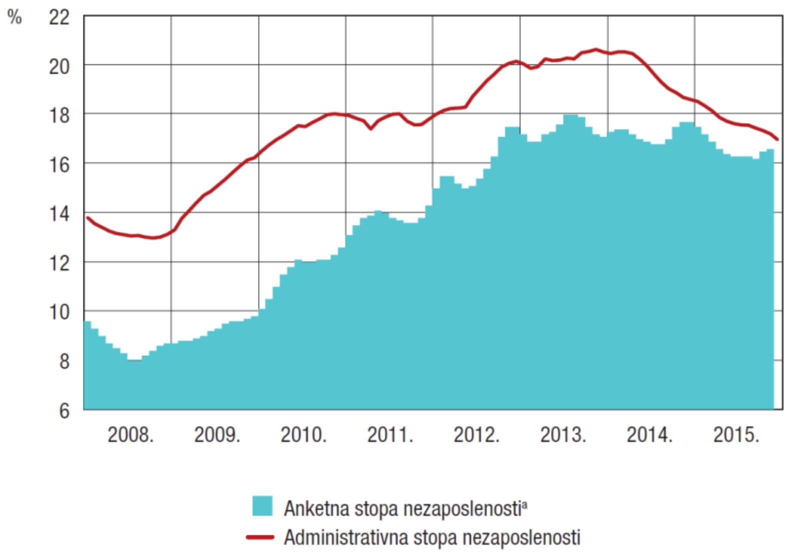


Source: CNB, Croatian Chamber of Economy

Labour market

In the last quarter of 2015, the labour market was marked by continued favourable trends. The employment rate grew compare to the previous quarter, largely due to an increase in employment in the service industry in both the public and private sector. Furthermore, unemployment continued to decrease given that outflow from unemployment exceeded inflow in the last quarter of 2015. The dominant reasons for net outflows are still employment and other business reasons. Consequently, the registered unemployment rate decreased in the fourth quarter to 17.2%, thereby continuing its downward trend. On the other hand, Eurostat estimated that the LFS unemployment rate in October and November amounted to 16.6%, meaning it grew slightly compared to the previous quarter. On the level of 2015, after six years of continued decrease, employment grew in 2015 and the registered unemployment rate decreased by 2 percentage points (from 19.7% in 2014 to 17.7%). Salaries continued to grow in both nominal and real terms in the last quarter, but with lower intensity than in the first three quarters of 2015.

Graph 2: Unemployment rate



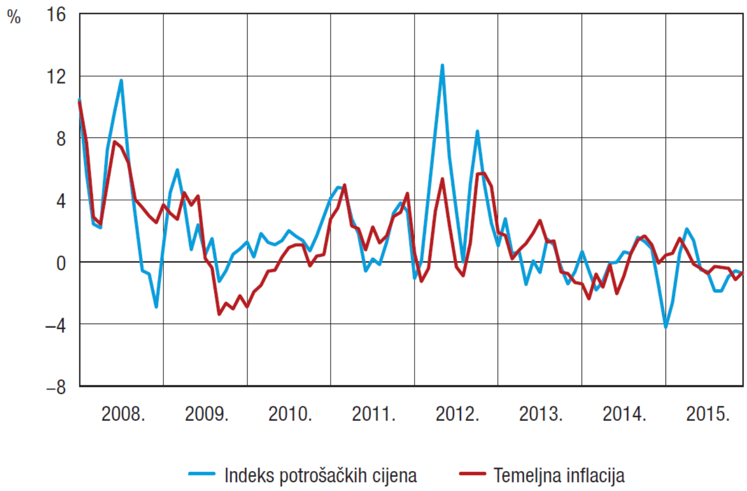
Source: Croatian Employment Service, EUROSTAT
Blue: LFS unemployment rate; red: registered unemployment rate

Inflation

In December, consumer prices decreased by 0.6% compared to the previous month, largely due to the seasonal fall in clothing and footwear prices, cheaper food products and lower prices of oil derivatives arising form the fall in crude oil prices on the world market. The annual fall of the overall consumer price index slowed down in December 2015 and rose from -0.9% to -0.6%, largely a results of energy price trends on an annual basis. More precisely, the negative contribution of energy prices to the annual inflation rate decreased from -1.1 percentage point in November to -0.9 percentage points in December, despite the continued fall in oil derivative prices. This is the effect of the base period, i.e. a more prominent fall in oil derivative prices in December 2014. The annual core inflation rate fell from -0.3% in November 2015 to 0.0% in December, which was prompted by trends in clothing prices, whose annual growth increased from 1.3% in November to 5.1% in December because the seasonal lower prices were less prominent than in the same period of last year.

Since mid-2015, there was in overall terms a downward trend in inflation, which is largely the result of the transfer of lower crude oil prices to domestic prices. The mentioned energy prices trend alleviated the impact that the strengthening of domestic consumption and the weakening of the euro (and consequently the kuna) against major world currencies had on inflation growth during 2015.

Graph 3: Consumer price index and core inflation



Source: Croatian Bureau of Statistics, CNB's calculation
Blue: consumer price index; red: core inflation

Private consumption

Private consumption is the most important component of GDP trends accounting for approximately 60% of total consumption. During the entire crisis period, its fall was affected by the reduction in commercial banks' lending activity, lower net salaries, lower employment and lower propensity to consume. In 2015, low lending activities and employment decline continued, but net salaries grew, mostly due to changes to personal income tax. In addition to net salary growth and positive global trends, the domestic market has recorded an increase in propensity to consume.

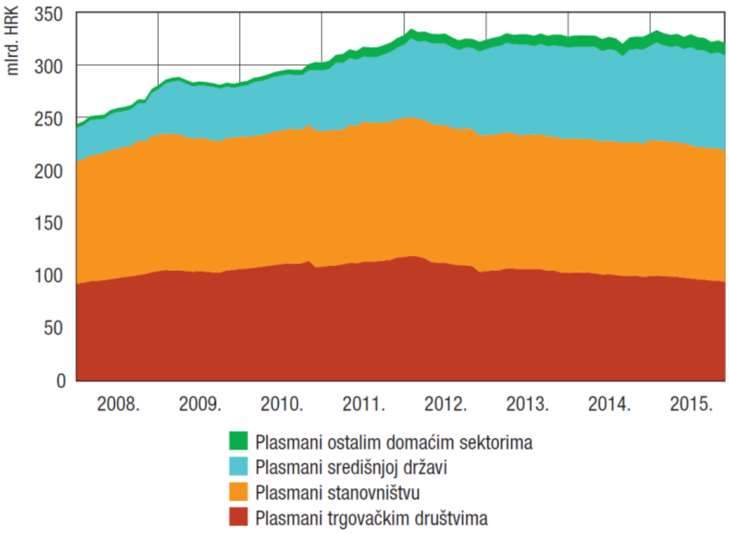
Financing terms and banking sector

ECB's continued expansionary monetary policy and high liquidity of the euro area banking sector resulted in a further decline in euro reference interest rates. Risk premiums for most European countries with emerging markets have not changed significantly, while the Croatian risk premium was 6 b.p. lower at the end of January 2016 than at the end of December 2015 and amounted to 293 b.p., but it was still significantly higher as opposed to comparable countries.

The slow downward trend in active and passive interest rates of commercial banks continued through October and November 2015, with passive interest rates declining slightly faster than active interest rates.

Placements of credit institutions to domestic sectors (except for the state) have moderately decreased in the last quarter of 2015. This is mainly the result of deleveraging of non-financial entities as well as citizens. The decline in placements to companies slowed down on an annual basis, amounting to -2.9% in December with more than half of the decline relating to state owned enterprises. When it comes to retail loans, December marked the beginning of the conversion process and a partial write-off of loans in CHF. In December 2015, HRK 2.1 billion were converted to loans in EUR, while HRK 1.0 billion was written off. In addition to the multi-year retail sector disinvestment process being continued, the annual rate of change in placements to this sector reached its lowest level for 2015 with -1.7% at the end of that year. At the end of December 2015, the annual rate of changes in total placements of credit institutions (except for the state) amounted to -2.2%.

Graph 4: Structure of credit institutions' placements

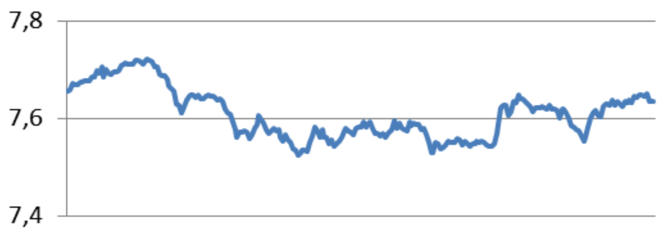


Source: CNB's Bulletin
Green: placements to other domestic sectors; blue: government placements; orange: retail placements; red: corporate placements

Monetary policy

CNB continued with the expansionary monetary policy at the end of 2015 and the beginning of 2016, and additionally relaxed the reserve requirement. More precisely, CNB abolished the obligation to allocate the foreign exchange component of the reserve requirement, thus enabling the banks from the middle of January 2016 to maintain the entire foreign currency reserve requirement through average daily balances of liquid receivables. This will enable more flexible management of approximately EUR 0.5 billion for banks, which is the amount of the allocated foreign component of the reserve requirement at the end of 2015. During November and December 2015, interest rates on the money market remained low. The weighted interest rate on overnight loans in direct interbank trading at the end of 2015 stood at 0.49%. At the same time, yields on all treasury bills were held at low levels.

Graph 5: Average middle exchange rate EUR/HRK in 2015



Source: Bloomberg

Description of the Bank's operations

Vaba d.d. banka Varaždin is registered as a public limited liability company at the Commercial Court in Varaždin under registration number (MBS): 50000185, with its registered office in Varaždin, Aleja kralja Zvonimira 1, for the performance of the following activities:

- accepting deposits or other repayable funds from people and approving credits from those funds, for own account;
- accepting deposits and other repayable funds;
- approval of loans and credits, including consumer credits and loans, and mortgage credits and loans, if it is allowed by a special law, and financing commercial activities, including export financing based on discount repurchase and without reimbursement of long-term unmatured claims ensured by financial instruments (forfeiting);
- purchase of receivables with or without recourse (factoring);
- finance lease;
- issuing guarantees and other warrants;
- trading for own account or for the client's account:
  - money market instruments,
  - transferable securities,
  - foreign currencies, including exchange transactions,
  - financial futures and options,
  - currency and interest rate instruments,
- payment services in line with special laws;
- services related to crediting, e.g. collection of data, conducting analyses and providing information on creditworthiness of legal and natural persons who conduct business activities on their own;
- issuing other payment instruments and managing them, in line with a special law, unless provision of these services is not considered provision of payment services in line with special laws;
- renting safe boxes;
- mediation in money market transactions;
- investments and other services and activities in accordance with separate laws regulating capital markets, as follows:
  - trading for own account,
  - bidding or sale of financial instruments without a firm commitment to repurchase,
  - safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash or collateral management,
- carrying out activities related to sale of insurance policies in line with regulations on insurance.

As at 31 December 2015, the Bank operates through 8 branches (Varaždin, Ludbreg, Novi Marof, Čakovec, Zagreb, Slavonski Brod, Nova Gradiška, Pula).

MISSION

Our individual approach to each client and our top quality and professional services, based on the competencies of our employees, creates added value for our clients. This contributes to the growth of our organisation and the improvement of the quality of life of our community. We appreciate the personal contribution of all of our employees whose creativity and knowledge are our greatest values.

VISION

Our vision is to continuously exceed expectations and be the first to innovate and create new values. We want to be a leader in creating world-class financial solutions for our customers and be the best in providing growth and development opportunities to all our employees.

Retail sector

The Bank performs its retail sector activities through 8 branches (in Varaždin, Ludbreg, Novi Marof, Čakovec, Zagreb, Slavonski brod, Nova Gradiška and Pula). The Bank has 8 ATMs installed in the branches. In 2015, two branches (in Varaždin and Ivanec) were closed so the client portfolio of these branches transferred to the central branch in Varaždin.

During 2015, the Bank continually improved its deposit and credit products for consumers so as to harmonise them with the needs of the consumers and market trends. Although a deleveraging trend was recorded in 2015 in the retail sector in the Republic of Croatia, the Bank's appropriate business policy ensured positive trends in movements in the retail portfolio, contributing to the increase in interest income from the retail sector.

The year 2015 saw significant growth in the retail line of business: term savings of natural persons rose by 19 percent, accompanied by a significant fall in average interest rates; the number of current account holders rose by 7 percent; and the number of credit card users rose by 18 percent.

Additional emphasis was placed on the optimisation of business processes and the implementation of new IT solutions aimed at optimising all resourcing and improving client service. In 2015, the Bank presented its new visual identity and new web-site, which received the prestigious Masterweb award for the best web design in 2015.

Following the decision of the German regulator BaFin (Die Bundesanstalt für Finanzdienstleistungsaufsicht), Vaba d.d. banka Varaždin is allowed to operate in the German market, i.e. now it can provide services of collection of deposits from foreign clients. The expansion of its operations to the German market commenced in October in cooperation with its partner company Savedo GmbH from Berlin. By the end of 2015, a significant amount of term deposits have been collected at favourable interest rates.

Corporate sector

The Sector's and Bank's strategy in 2015 primarily focused on expanding the portfolio in order to reach the level of monthly income that would enable the Bank to continue in operating existence. At the beginning of the year, the total corporate sector portfolio amounted to HRK 382.9 million and increased during the year by 88% to HRK 718.4 million as at 31 December 2015. This substantial capital growth was the result of two capital contributions provided by the majority owner over the year in the total amount of HRK 102.5 million, and of the increased deposit base.

The year was also marked by significant organisational changes. The Sole Proprietorship and Small Enterprises Department was transferred from the Retail Sector to the Corporate Sector, contributing to the growth of the Sector's portfolio with HRK 22.6 million.

Furthermore, the entire credit administration of legal entities (except for the final check and release of the placement) has been transferred from the Banking Operations Sector to the Corporate Sector. Therefore, 4 new assistants were employed charged with credit administration.

Organisational changes created the need to change internal regulations, which was initiated at the end of the year.

Considering the above, the number of employees in the Sector was increased substantially, from 7 to 17. The Sector's management also underwent changes at the beginning of the year, i.e. a new Sector Director was appointed, while in the last quarter the positions of the Corporate Department director and manager were filled.

Treasury activities

In 2015, the Croatian money market saw the continuation of certain trends from previous years. Although the national GDP finally rose by approximately 1.6% in real terms after 6 years of recession, CNB's monetary policy remained expansionary due to negative inflation rates. CNB thus relaxed the foreign exchange component of the reserve requirement by enabling more flexible management of one part of the foreign currency liquidity of banks, while making it clear that it will encourage further development of domestic currency lending when it announced structural repo auctions. This, coupled with ECB's extremely expansionary policy, makes it clear that there were strong influences on the further decrease of interest rates over the entire year both on the Euro area and Croatian markets.

The domestic and Euro area banking system remained highly liquid, leading to a decline in all reference interest rate. Thus the 6M EURIBOR rate of 0.169% at the beginning of the year fell to the negative -0.04% on the last day of the year. The slow downward trend in bank financing costs in Croatia both in HRK and other currencies continued; in the first quarter, CBA's 12-month National Reference Rate (NRS) for the average financing costs of the banking sector fell to 1.36% for HRK, while it amounted to 2.00% for EUR.

Although the difference between the Croatian government bond yields and the benchmark German bond yields rose slightly, the overall decrease in European yields lead to a continued decrease of Croatian yields, causing the yields on the longest domestic government bond indexed to the EUR, with substantial volatility over the year, to stand at 3.9% at the end of they year. A similar trend was recorded for HRK-denominated bonds issued by Croatia.

However, at least one trend was stopped - the rise in the average annual exchange rate of the euro against the kuna. After several years of the single European currency continuously strengthening against the kuna, the average annual exchange rate in 2015 was 7.61, slightly lower than 7.63 recorded in 2014.

Within this macro framework and despite the increase in balance sheet and business activities, the Bank kept a high share of liquid assets in its balance sheet throughout the year, while simultaneously reducing the average interest expense from its liabilities.

Regardless of the rise in bond prices, the Bank did not realise significant gains on securities. Unlike in 2014, when the realised loss on securities amounted to almost HRK 7 million, the Bank realised in 2015 gains on securities totalling HRK 660 thousand.

Increase business activities of the Bank in 2015 lead to increased foreign exchange gains. The total foreign exchange gains in 2015 amounted to HRK 4.01 million, which a significant increase compared to HRK 2.64 million realised in the previous year.

In 2015, after a longer period of development, the new "Securities" module of the Bank's Olbis IT system was implemented. This module enables the Bank to manage the entire securities portfolio within its IT system. In addition to offering all advantages of managing a portfolio through a centralised banking system, the fully IT supported securities trading process reduces operational risks that occur when parts of the process are not supported by IT.

Internal controls system and internal audit

The internal controls system is a set of processes and procedures set up to adequately control risks, monitor efficiency and performance of the Bank's operations, the reliability of its financial and other information, and compliance with regulations, internal acts, standards and codes in order to ensure the stability of the Bank's operations.

In accordance with the Credit Institutions Act and the Decision on the internal controls system, the Bank established an internal controls system comprising the following:

1. appropriate organisational structure;
2. organisational culture;
3. adequate control activities and segregation of duties;
4. appropriate internal controls integrated into business processes and activities of the credit institution;
5. appropriate administrative and accounting procedures;
6. activities within the scope of the control functions of the credit institution.

The Bank prescribed and established adequate control activities and segregation of duties, adequate internal controls and appropriate administrative and accounting procedures carried out in course of the Bank's regular operations.

In accordance with provisions of laws and by-laws, the Bank established three control functions independent of the business processes and activities in which risk occurs, i.e. which the functions monitor and supervise. There are:

1. the risk control function;
2. the compliance monitoring function;
3. the internal audit function.

The risk control function ensures the Bank's compliance with risk management strategies and policies by performing risk analysis, monitoring risk, reporting risk-related information to the Management Board and other persons, and participating in the preparation, application and monitoring of the functionality of risk management methods and models. It also carries out the evaluation of the Bank's internal capital adequacy and controls the preparation of the Bank's recovery plan.

The compliance monitoring function ensures the compliance of the Bank's operations with relevant regulations, standards and codes and internal acts. The compliance monitoring function is responsible for: determining and assess compliance risks to which the Company is or might be exposed; advising the Management Board and other responsible persons on the application of relevant legislation, standards and rules; assessing the effects that changes to relevant regulation will have on the Bank's operations; verifying the compliance of new products and procedure with relevant legislations and regulations as well as with related amendments; serving as advisor in the preparation of compliance-related training programmes.

The internal audit function, as part of the internal controls system, assesses and evaluates the following: adequacy and efficiency of the internal controls system; adequacy and efficiency of risk management and risk assessment methodologies; efficiency and reliability of the compliance monitoring function; system for informing the Management Board and management; adequacy and reliability of the accounting records system and financial statements; strategies and procedures for assessing internal capital adequacy; reliability of the reporting system and the timeliness and accuracy of reports set out in the Credit Institutions Act; asset safeguarding; collection system and validity of information that is made public. It also reviews the IT system and performs all other tasks needed to achieve the objectives of internal audit.

All control functions prepare reports in line with their tasks and established operational work plans, in accordance with provisions of the Credit Institutions Act and regulations and decisions issued based thereon.

Development plan

The Company's business strategy is based on implementing into VABA the successful and long-standing models of J&T Banka in the Czech Republic, Slovakia and Russia. These business models require certain adjustments to the Croatian market in order to meet all regulatory requirements.

J&T Bank's strategy is based on the care for clients with financial assets exceeding EUR 10.000. Depending on their life cycle, the size of private property and risk appetite, the clients will be offered an optimal and individual combination of financial products and services.
For this purpose, it will be necessary to build a small number of exclusive branches in which the Bank's employees will have a direct relationship with clients all over the country.

To ensure the success of this business strategy, it is essential to build a good reputation and client's trust in the institution, so active marketing will be the cornerstone of the Bank's new stability, new strategy, new products and the overall image and strength of the entire group supporting the Bank.

Short-term objective

- Completion of managerial control of the bank
- Implementation of J&T standards
- Modification of bank communications

Long-term objective

- Stable position in TOP 10 banks (bank size) – approx. 300% increase in balance sheet total
- Surpass the 1% share of the Croatian market
- Rationalisation and further improvements in operating efficiency
- Diversification of risks and asset and liability management according to best professional standards
- Achieve sustainable return on share capital.

Recent capital contributions by J&T Banka enabled the Bank to further develop and improve operations and to achieve strategic objectives. This should help improve the quality of the Bank's operations to the satisfaction of clients, regulators, employees and shareholders of the Bank.

Description of operations in 2015

As at 31 December 2015, total Bank's assets amounted to HRK 1,654.74 (31 December 2014: HRK 1,345.89 million).

Gross loans amount to HRK 981.71 million, of which 82.4% relates to placements to legal entities and 17.6% to natural persons. Provisions for identified losses on these loans were formed in the amount of HRK 102.68 million, i.e. 10.5% of total gross loans.

CNB's regulations require the Bank to form provisions for potential losses on a collective basis of items which have not been individually impaired. As at 31 December 2015, these provisions amount to HRK 12.8 million (31 December 2014: 8.8 million).

Term deposits in the retail sector form the most significant part of the Bank's financing structure, i.e. account for 66.12% of the total sources of funds, and amount to HRK 1,094.1 million as at 31 December 2015. The Bank's capital accounts for 10.7% of the total sources of funds and amounts to HRK 176.7 million as at 31 December 2015.

Interest income in 2015 was higher than interest income in 2014 (HRK 68.9 million in 2015, HRK 57.6 million in 2014) as a result of a larger number of credit placements during 2015. Interest expense (excluding deposit insurance premium) did not change compared to last year and amounts to HRK 41.3 million, while the net interest income amounts to HRK 27.6 million (2014: HRK 14.8 million).

Interest income from legal entities accounts for the majority of interest income (63.1%), while interest income from citizens accounts for 18.6%. Citizens hold the greatest share in interest expense (87%), followed by legal entities (4.5%).

In 2015, the fee and commission income decreased compared to 2014 (8.7%), and, with expense reduced by 4%, the net fee and commission income realised was lower by HRK 4.8 million compared to 2014 (HRK 5.4 million).

During the year, the Bank sold part of its bad debt portfolio so the remaining operating income in 2015 amounts to HRK 10.02 million (2014: HRK 11.34 million).

In 2015, the total operating income was higher than in 2014 (HRK 42.45 million in 2015, HRK 31.51 million in 2014), general and administrative expenses were higher than last year (HRK 51.8 million in 2015, HRK 46.0 million in 2014) as a result of investments in stronger management staff and operational processes, while loss before impairment of assets amounts to HRK 9.3 million (2014: loss in the amount of HRK 14.5 million).

Collective provisions in 2015 amounted to HRK 4.4 million (2014: HRK 1.3 million).

The net loss realised in 2015 amounts to HRK 50.5 million (2014: HRK 11.9 million).

Risk management

The most significant types of financial risk to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk include foreign exchange risk, interest rate risk and risk of changes in market prices of equity and debt securities.

An integrated risk management system is being developed and constantly upgraded on the Bank level by introducing policies and procedures for risk assessment, measurement, control and management, and for determining the risk exposure limits compliant with the legal framework and the Bank's risk profile.

Credit risk

The Bank is exposed to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of a client or third party or when issuing guarantees. The risk of default which occurs in financial instrument transactions with certain parties is constantly monitored. To manage credit risk, the Bank deals with clients of good credit standing and obtains security instruments in order to, as a rule, secure the repayment of placement by two independent instruments (cash flow and collateral).

Credit risk is managed in line with the Bank's policies. Credit exposure toward a portfolio or specific groups is regularly reviewed in accordance with established limited. The competent bodies of the Bank responsible for approving limits are regularly informed of limit utilisation. The Credit Committee approves all material increases in credit exposure and issues all decisions related to credit risk.

Liquidity risk

Liquidity risk arises in the funding of the Bank's activities and in the management of its positions.

The Bank has access to different sources of funding. Funds are gathered through a variety of instruments, including different type of deposit, borrowings, dependent liabilities, including deposits, borrowings and equity. The Bank is systematically working on defining the procedures and business processes that efficiently monitor liquidity risk by detecting and monitoring changes in funding in order to achieve business objectives set in accordance with the overall business strategy of the Bank.

The Bank adapts its business activities related to liquidity risk in accordance with legal provisions and internal policies for maintaining liquidity reserves, matching assets and liabilities and limit control, and with targeted liquidity ratios and contingency plans. The Treasury manages liquidity reserves on a daily basis and ensure that all of the client's needs are successfully met.

Market risk

Market risk management entails position and foreign exchange risk management. In order to manage position risk defined as the risk of loss arising from the change in the price of a financial instrument, a limit system has been established according to the type of financial instrument and issuer. Limit utilisation is monitored on a daily basis.

Foreign exchange risk, defined as loss arising from the change in exchange rates of a relevant foreign currency due to the currency gap in the balance sheet, is managed by the Bank on a daily basis in accordance with legal provisions related to the open foreign exchange position.

Interest rate risk represents the sensitivity of the Bank's financial position to movements in interest rates. The Bank's operations are influenced by interest rate risk to the extent that interest-bearing assets and liabilities mature or their interest rates change at different points in time or in different relationship.

Operational risk

Operational risk exists in every segment of the Bank's operations, requiring knowledge and continuous monitoring of all business processes. The organisational model of the operational risk management process is conceived at the level of centralised and decentralised functions of operational risk management. It is carried out in accordance with legal provisions, Basel guidelines and internal acts (policies, procedures and methodologies for operational risk management).

In the context of managing operational risk of the information system, IS security management entails a series of periodic activities whose aim is to reduce operational risk of the Bank's information system, or, more precisely, to implement control mechanisms, improve business processes and harmonise with legislation in order to reduce damages that vulnerabilities can cause in the Bank's information system.

In order to manage operational risk, the Bank ensured adequate information system and IS risk management, management of risks related to outsourcing, compliance risk management and going concern management, as well as ensured an appropriate AML/CFT system.

Policies for managing financial risks are described in detail in Notes to the Annual Report for the year 2015.

Statement on the application of the Corporate Governance Code

In December 2009, the Management Board and Supervisory Board adopted the Corporate Governance Code of Vaba d.d. banka Varaždin which set high standards and means of implementation of good corporate governance (hereinafter: the Bank's Code). The Bank's Code is published on the Bank's official web-page (www.vaba.hr).

In all matters not regulated by the Bank's Code, the Bank applies the Corporate Governance Code prepared as a collaboration between the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange in the part that it applies to the Bank.

Pursuant to Article 272.p of the Companies Act, the Management Board assures that, during the business year 2015, the Bank voluntarily applied recommendations from both codes, deviating only in certain parts (a detailed explanation can be found in the annual questionnaire - an integral part of the Code - submitted to the Zagreb Stock Exchange for public disclosure).

The Bank's Management Board manages the Bank's operations and assets. It is required and authorised to undertake all actions and reach all decisions that are deemed necessary for the successful management of the Bank's operations and its performance in compliance with the applicable Companies Act and Credit Institutions Act.

In accordance with the Bank's Articles of Association, the Bank's Management Board consists of at least two and at most three members, where the Supervisory Board decides on the number of members. The Bank's Management Board currently consists of two members, but preparations are under way to propose another member of the Management Board, after whose appointment the Management Board would comprise 3 members.

The members and President of the Management Board are appointed by the Bank's Supervisory Board for a maximum term of 5 years with the possibility of reappointment after obtaining the consent of the Croatian National Bank. The internal Policy for Evaluating the Eligibility of the President and Members of the Management Board closely defines criteria and procedures for evaluating the eligibility of the members of the Bank's Management Board, which apply at the moment of their appointment to the relevant function and continuously during their term of office.

The Supervisory Board may revoke its decision on appointing a member of the Bank's Management Board or its president when there are important grounds for it in accordance with applicable law.

In 2015, the members of the Management Board were as follows:

- Mr. Ivica Božan, President of the Management Board
- Ms. Monika Cereova, Member of the Management Board

As at 31 December 2015, the Supervisory Board comprised six members appointed for a four-year term with the possibility of reappointment, in accordance with the Bank's Articles of Association. The Supervisory Board must have at least one independent member. In 2015, this member was Mr. Željko Filipović. In accordance with the Companies Act, Article 256, paragraph 2, the shareholder J&T Banka a.s. Varaždin has the right to appoint 2 (two) members of the Supervisory Board as long as it is an owner of at least 25% of the Bank's shares. The shareholder did not use this right.

A person can be appointed as a member of the Supervisory Board only if this person's knowledge and experience in banking or economy or scientific work can guarantee that they will be able to properly and duly perform the duties of a Supervisory Board member. Moreover, a person cannot become a member of the Supervisory Board if there are legal reasons against such person's appointment as a Supervisory Board member of the Bank. The internal Policy for Evaluating the Eligibility of the President and Members of the Management Board closely defines criteria and procedures for evaluating the eligibility of the members of the Bank's Management Board, which apply at the moment of their appointment to the relevant function and continuously during their term of office.

The privileges of the Supervisory Board are governed by the Bank's Articles of Association in accordance with the relevant provisions of the Companies Act and the Credit Institutions Act.

During 2015, the Bank's Supervisory Board members were as follows:

- Mr. Julius Strapek, President of the Supervisory Board
- Mr. Željko Filipović
- Mr. Igor Kováč
- Mr. Ivo Enenkl
- Mr. Juraj Lalík
- Mr. Patrik Tkáč.

Information on the composition and activities of the Management Board and the Supervisory Board and their sub-committees is provided within the Annual Questionnaire within the Corporate Governance Code.

The procedure for amending the Articles of Association is defined in Article 57 of the Articles of Association, which stipulates that amendments to the Articles of Association can be made at the General Assembly in accordance with the law and these Articles of Association, whereas the Supervisory Board is entitled to amend the Articles of Association only in order to adapt or consolidate their contents.

The Management Board is authorised to issue new shares of the Bank within the provisions of the so-called approved capital. With the consent of the Bank's Supervisory Board, within a period of 5 years calculating from the day of entering the amendments into the court register and based on the Decision of the General Assembly of 11 June 2015, the Management Board is authorised to adopt one or more decisions about the increase of the Bank's share capital by cash payment and by issuing new shares, provided that the total amount of such share capital increase does not exceed half of the nominal amount of the share capital on the date of the said decision on the amendments to the Articles of Association. With the consent of the Supervisory Board and in respect of the shares being issued on the basis of this provision, the Management Board is authorised to exclude the pre-emptive right to subscribe new shares. The Management Board decides on the rights arising from shares which are issued under this authority, as well as the conditions for the issuance of these shares, with the consent of the Supervisory Board.

The Bank's main shareholders with a share capital exceeding 2% of the total share capital as at 31 December 2015 were as follows:

Name and surname/Company name	Security ticker	Number of shares	% of share capital
J&T BANKA A.S.	BPBA-R-B	17750000	76.81
PBZ D.D./ALTERNATIVE UPRAVLJANJE d.o.o.	BPBA-R-B	3571429	15.46
VALIDUS d.d. u stečaju	BPBA-R-A	513477	2.22

In February 2015, the Bank's share capital was increased on the basis of the provisions of the Articles of Association on the so-called approved capital by payment of the amount of HRK 37,500,000.00 by the Bank's majority shareholder J&T Banka a.s. In September 2015, the Bank's share capital was again increased under the same conditions by payment of the amount of HRK 65,000,000.00 by the same shareholder, so that the new share capital amounts to HRK 231,085,400.00, and the said shareholder holds a total of 17,750,000 shares, ticker BPBA-RB, i.e. an equity share of 76.81%.

During 2015, the Bank's Audit Committee comprised the following members:

- Mr. Branko Tomašković, President (from 19 February 2015)
- Mr. Julius Strapek, Member
- Mr. Juraj Lalik, Member

The Audit Committee assists the Supervisory Board in performing the function of business supervision, and especially in performing the following tasks:

– monitoring the financial reporting process,

– monitoring the effectiveness of internal control, internal audit and risk management system,

– supervising the audit of the annual financial and consolidated financial statements,

– monitoring the independence of the independent auditor or the audit company in charge of the audit, especially additional service agreements,

– making recommendations to the General Assembly regarding the selection of the independent auditor or audit company,

– discussing plans and the annual internal audit report and significant issues relating to this area.

In addition to the Audit Committee, the Supervisory Board in its function of controlling the Bank's operations, monitors and evaluates the effectiveness of internal audit and makes recommendations to improve the quality of work, as well as recommendations for the use of available resources, with the aim of establishing a sound system of internal controls to timely identify the risks the Bank is exposed to, with the aim of effective risk management.

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Ivica Božan, President of the Management Board

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Monika Cereova, Member of the Management Board

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Mirsad Latović, Procurator

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

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

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

The Management Board is obliged to submit to the Supervisory Board the Bank's Annual Report together with the annual financial statements for acceptance. If the Supervisory Board approves the annual financial statements they are deemed confirmed by the Management Board and Supervisory Board.

The financial statements set out on pages 21 to 81 were authorised by the Management Board on 31 March 2016 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of Vaba d.d. banka Varaždin:

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Ivica Božan, President of the Management Board

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Monika Cereova, Member of the Management Board

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Mirsad Latović, Procurator

Independent Auditor's Report

To the Shareholders and Management of VABA d.d. banka Varazdin

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting regulations applicable to banks in Croatia as set out in Note I. (a) – "Statement of compliance" to the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

PricewaterhouseCoopers d.o.o., Ulica kneza Ljudevita Posavskog 31, 10000 Zagreb, Croatia
T: +385 (1) 6328 888, F:+385 (1) 6111 556, www.pwc.hr

Basis for Qualified Opinion

As at 31 December 2015 Loans and advances to clients, as it is presented in Note 8 to the financial statements, included the Bank's gross exposure towards a debtor in the amount of Croatian kuna (HRK) 38,128 thousand for which the provision for identified losses in the amount of HRK 11,427 thousand was recognised as at that date. Based on our audit evidence, the recoverability of a part of the exposure is questionable due to worsening of the financial position of the debtor and questionable collection through collateral so the Bank should have recognised additional impairment losses in the amount of HRK 21,453 thousand for the year ended 31 December 2015. As a result, loss for the year was understated and Loans and advances to clients were overstated by the amount of HRK 21,453 thousand.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of VABA d.d. banka Varaždin as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with accounting regulations applicable to banks in Croatia as set out in Note I. (a) – "Statement of compliance" to the financial statements.

PricewaterhouseCoopers d.o.o.
Zagreb, 31 March 2016

This version of our report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Statement of financial position as at 31 December 2015

[HRK'000] BALANCE SHEET	Notes	31 December 2014	31 December 2015
ASSETS			
Cash and deposits with Croatian National Bank	4	191,124	198,079
Placements with other banks	5	189,998	240,164
Available-for-sale financial assets	6	191,640	130,430
Held-to-maturity financial assets	7	30,032	120,381
Loans and advances to customers	8	654,038	875,788
Property and equipment	9	42,372	58,074
Intangible assets	10	17,675	16,664
Other assets	11	29,008	15,163
TOTAL ASSETS		**1,345,888**	**1,654,743**
LIABILITIES			
Deposits from customers	12	1,145,526	1,385,184
Borrowings	13	37,894	54,919
Hybrid instruments	14	26,489	22,905
Provisions for liabilities and charges	15	970	1,281
Other liabilities	16	11,279	13,706
TOTAL LIABILITIES		**1,222,157**	**1,477,996**
EQUITY			
Share capital	17.1	128,585	231,085
Other reserves	17.2	25,222	25,222
Fair value reserve	17.3	1,041	2,033
Accumulated losses	17.4	(31,117)	(81,594)
TOTAL EQUITY		**123,731**	**176,746**
TOTAL LIABILITIES AND EQUITY		**1,345,888**	**1,654,743**

The significant accounting policies and other notes on pages 26 to 81 form an integral part of these financial statements.

Income statement for 2015

[HRK'000] INCOME STATEMENT	Notes	2014	2015
Interest and similar income	18	57,552	68,879
Interest and similar expense	19	(42,753)	(41,271)
Net interest income		**14,799**	**27,608**
Fee and commission income	20	7,260	6,629
Fee and commission expense	21	(1,882)	(1,808)
Net fee and commission income		**5,378**	**4,821**
Gains less losses from available-for-sale financial assets	22	6,833	660
Gains less foreign exchange losses	23	2,827	4,649
Other operating income	24	1,677	4,711
Trading and other income		**11,338**	**10,020**
OPERATING INCOME		**31,515**	**42,449**
General and administrative expenses	25	(42,516)	(46,667)
Depreciation and amortisation		(3,425)	(4,749)
Provisions for liabilities and charges		(27)	(349)
Operating expenses		**(45,968)**	**(51,765)**
OPERATING PROFIT BEFORE IMPAIRMENT OF ASSETS		**(14,453)**	**(9,316)**
Identified losses		(3,866)	37,120
Identified impairment losses on collective basis		(1,324)	(4,041)
Total impairment of assets	26	**(2,543)**	**41,161**
PROFIT/(LOSS) BEFORE TAX		**(11,911)**	**(50,476)**
Income tax	27	-	-
PROFIT/(LOSS) FOR THE YEAR		**(11,911)**	**(50,476)**

The significant accounting policies and other notes on pages 26 to 81 form an integral part of these financial statements.

Statement of comprehensive income for 2015

[HRK'000]	2014	2015
Profit/(loss) for the year	**(11,911)**	**(50,476)**
Net unrealised gains/losses from available-for-sale financial assets	(1,636)	2,033
Other comprehensive income/(loss)	**(1,636)**	**2,033**
TOTAL COMPREHENSIVE INCOME/(LOSS)	**(13,547)**	**(48,443)**

The significant accounting policies and other notes on pages 26 to 81 form an integral part of these financial statements.

Statement of changes in equity for 2015

[HRK'000]	Share capital	Share premium	Other reserves	Fair value reserve	Accumulated losses	Total
Balance at 1 January 2014	**75,020**	**-**	**94,030**	**2,677**	**(109,449)**	**62,278**
Share capital increase	75,000	-	-	-	-	75,000
Share capital decrease	(21,434)	-	-	-	-	(21,434)
Transfer to reserves	-	-	(68,809)	-	-	(68,809)
Coverage of loss from previous years	-	-	-	-	90,242	90,242
Other comprehensive income						
Profit/(loss) for the year	-	-	-	-	(11,911)	(11,911)
Net unrealised losses on available-for-sale financial assets	-	-	-	(1,636)	-	(1,636)
Total comprehensive income	***-***	***-***	***-***	***(1,636)***	***(11,911)***	***(13,547)***
Balance at 31 December 2014	**128,586**	**-**	**25,221**	**1,041**	**(31,118)**	**123,731**
Share capital increase	102,500	-	-	-	-	102,500
Other comprehensive income						
Profit/(loss) for the year	-	-	-	-	(50,476)	(50,476)
Net unrealised losses on available-for-sale financial assets	-	-	-	991	-	991
Total comprehensive income	***-***	***-***	***-***	***991***	***(50,476)***	***(49,485)***
Balance at 31 December 2015	**231,086**	**-**	**25,221**	**2,033**	**(81,594)**	**176,746**

The significant accounting policies and other notes on pages 26 to 81 form an integral part of these financial statements.

Statement of cash flows for 2015

[HRK'000]	2014	2015
Cash flow from operating activities		
Profit/(loss) before tax	**(11,911)**	**(50,476)**
Adjustments:	**691**	**45,487**
- depreciation and amortisation	3,425	4,749
- foreign exchange (gains)/losses	(142)	(738)
- impairment losses on loans and other assets	(2,592)	41,476
- provisions for liabilities and charges	-	-
Changes in operating assets and liabilities	**180,443**	**(16,994)**
Net decrease/(increase) in placements with other banks	3,661	1,576
Net decrease/(increase) in loans and advances to customers	37,198	(264,476)
Net decrease/(increase) in other assets	(3,135)	7,664
Net (decrease)/increase in deposits from banks	(2,720)	9,266
Obligatory reserves	(6,857)	(12,612)
Net (decrease)/increase in deposits from customers	154,330	236,211
Net (decrease)/increase in other liabilities	(2,034)	5,377
Net cash inflow/(outflow) from operating activities	**169,223**	**(21,983)**
Cash flow from investing activities		
Purchase of property, equipment and intangible assets	(2,252)	(12,810)
Increase in available-for-sale financial assets	(2,071)	62,390
Maturity/(acquisition) of held-to-maturity financial investments	26,462	(90,350)
Net cash inflow/(outflow) from investing activities	**22,139**	**(40,770)**
Cash flow from financing activities		
(Decrease)/increase in borrowings	(90,099)	13,670
Share capital (decrease)/increase	75,000	102,500
Net cash inflow/(outflow) from financing activities	**(15,099)**	**(116,170)**
Effect of foreign exchange rate changes on cash and cash equivalents	1,428	359
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**177,691**	**53,776**
Cash and cash equivalents at beginning of year	**110,076**	**287,767**
Cash and cash equivalents at end of year	**287,767**	**341,543**

The significant accounting policies and other notes on pages 26 to 81 form an integral part of these financial statements.

Notes to the financial statements for the year 2015

1. SIGNIFICANT ACCOUNTING POLICIES

General information

Vaba d.d. banka Varaždin (hereinafter: the Bank) was established as Brodsko Posavska banka d.d., Slavonski Brod in 1994. On 27 December 2004, the Bank's name was changed to VABA d.d. banka Varaždin, and its registered office was relocated from Slavonski Brod to Varaždin, Anina 2. This change was a result of the changes in the ownership structure of the Bank, whose majority shareholder became Validus d.d. from Varaždin, with the consent of the Croatian National Bank, provided that the Bank's operations would be secured in accordance with the law.

At the General Assembly held on 14 December 2006, the Bank issued a decision on increasing its share capital by issuing 292 thousand new shares, with a nominal value of HRK 100 per share through a private offer at a price of HRK 140 per share. At the General Assembly held on 18 April 2007, the Bank issued a decision on increasing its share capital by issuing 619 thousand new shares, with a nominal value of HRK 100 per share through a private offer to existing shareholders at a price of HRK 140 per share. The share capital of the Bank was increased from HRK 62,226,400 to HRK 153,355,000 which was registered at the Commercial Court in Varaždin following the Court decision dated 17 August 2007.

Based on the decision of the General Assembly dated 18 April 2007, the Bank’s registered office was relocated to Aleja kralja Zvonimira 1, Varaždin.

On 6 March 2009, the General Assembly authorised a share capital increase from the amount of HRK 153,355,000 by the maximum amount of HRK 31,113,200 to the maximum amount of HRK 184,468,200. The Company's share capital was increased from HRK 23,167,800 to the amount of HRK 176,522,800 by payment in cash. The share capital is distributed among 1,765,228 ordinary registered shares, each with a nominal value of HRK 100.

As at 31 January 2013, the General Assembly authorised a simplified reduction of share capital to cover losses and transfer to capital reserves from the amount of HRK 176,522,800.00 to the amount of HRK 24,713,192.00. At the same meeting, the General Assembly decided to increase the share capital by the amount of HRK 50,000,006.00 to the amount of HRK 74,713,198.00 by payment in cash, whereby 3,571,429 new ordinary registered shares were issued in dematerialised form without nominal value.

Based on the Decision of the Management Board of 2 April 2013 adopted in accordance with Article 17 of the Articles of Association, with the prior approval of the Bank's Supervisory Board, the Bank's share capital was increased from the amount of HRK 74,713,198.00 by the amount of HRK 306,362.00 to the amount of HRK 75,019,560.00 (approved share capital). The share capital of the Bank was increased by issuing 21,883 ordinary registered shares in dematerialised form, without nominal value in cash each in the amount of HRK 14.00 per share.

On 12 May 2014, the General Assembly made a decision on decreasing share capital from the amount of HRK 75,019,560.00 by the amount of HRK 21,434,160.00 to the amount of HRK 53,585,400.00. The Bank's share capital is decreased in line with Article 342 of the Companies Act for the purpose of being included in the capital reserves of the entity without returning parts of this capital to shareholders, by reducing the amount of individual shares from the amount of HRK 75,019,560.00 by the amount of HRK 21,434,160.00 to the amount of HRK 53,585,400.00 and is divided among 5,358,540 ordinary registered shares, without nominal value.

On 12 May 2014, the General Assembly made a decision on increasing the share capital from the amount of HRK 53,585,400.00 by the amount of HRK 75,000,000.00 to the amount of HRK 128,585,400.00. The Bank's share capital was increased from the amount of HRK 53,585,400.00 by the amount of HRK 75,000,000.00 to the amount of HRK 128,585,400.00. The Bank's share capital was increased by payment in cash, by issuing 7,500,000 new ordinary registered shares in dematerialised form, without nominal value.

Based on the Decision of the Management Board from 17 December 2014 adopted in accordance with Article 17 of the Articles of Association, with the prior approval of the Bank's Supervisory Board, the Bank's share capital was increased from the amount of HRK 128,585,400.00 by the amount of HRK 37,500,000.00 to the amount of HRK 166,085,400.00 (approved share capital). The Bank's share capital was increased by issuing 3,750,000 new ordinary registered shares in dematerialised form, without nominal value. The share capital increase was performed on 28 January 2015 through a payment in cash by J&T Banka, Prague, and it was entered into the register of the Commercial Court on 9 February 2015.

In September 2015, the Bank's share capital was increased again in line with Article 17 of the Articles of Association (approved share capital) by payment of HRK 65,000,000.00 by the Bank's majority owner J&T Banka a.s. Prague, so that the new share capital amounts to HRK 231,085,400.00.

These financial statements were approved by the Bank's Management Board on 31 March 2016 for submission to the Supervisory Board.

I. Basis of presentation

(a) Statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia. The Bank's operations in Croatia are subject to the Credit Institutions Act, in accordance with which the Bank's financial reporting is regulated by the Croatian National Bank (the CNB) which is the central monitoring institution of the banking system in Croatia.

The principal accounting policies applied in the preparation of these financial statements are summarised below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards (IFRS), reference may be made to certain Standards in describing the accounting policies of the Bank; unless otherwise stated, these references are to Standards as adopted in the European Union as at 31 December 2015.

The accounting regulations based on which these financial statements have been prepared differ from IFRS both in terms of presentation as well as in terms of recognition and measurement. We draw attention to the following differences between the accounting regulations of the CNB and the recognition and measurement requirements of IFRS:

- The CNB requires banks to recognise impairment losses, in the income statement, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets carried at fair value through profit or loss). In accordance with these requirements, the Bank has recognised portfolio-based provisions of HRK 13,964 thousand (2014: HRK 9,574 thousand) in the balance sheet and has recognised loss in the amount of HRK 4,390 thousand within impairment losses on loans to customers and other assets (2014: loss of HRK 1,282 thousand).
- Although the Bank 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 IFRS, the CNB requires the amortisation of the calculated discount to be presented in the income statement within the movement in impairment losses on loans and other assets, rather than as interest income, as required by International Financial Reporting Standards.
- Additionally, the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognised in accordance with IFRS.

(b) Basis of preparation

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities at fair value through profit or loss and available for sale assets, except those for which there is no reliable measure of fair value. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost.

The financial statements are prepared in a format that is commonly used and internationally recognised by banks.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which they are incurred if affecting only that period or the period in which they are incurred and future periods if they impact current and future periods.

Judgements made by the management in applying the appropriate standards that have significant effects on the financial statements and estimates with a significant risk of a possible material adjustment in the next year are discussed in Note 3.

(c) *Functional and presentation currency*

The Bank's financial statements are presented using the currency of the primary economic environment in which the Bank operates (the functional currency), Croatian kuna (HRK). Amounts are rounded to the nearest thousand.

The exchange rates of currencies, in which the majority of the Bank's assets and liabilities are denominated, are used for the translation of the Bank's assets and liabilities and as at 31 December 2015 they were as follows: EUR 1 = HRK 7.635 (2014: EUR 1 = HRK 7.661) and USD 1 = HRK 6.992 (2014: USD 1 = HRK 6.302).

(d) Changes in presentation or classification of items within the financial statements

Where necessary, comparative information has been reclassified to achieve consistency with amounts presented in the current financial year amounts and other disclosures.

II. Specific accounting policies

(a) Interest income and expense

Interest income and expense are recognised in the income statement as they accrue for all interest-bearing financial instruments, including those measured at amortised cost, at fair value through profit or loss and available for sale, using the straight-line 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 amortisation, and other differences between the initial carrying amount of an interest-bearing financial instrument and its value at maturity, recognised on a linear basis. Income and expense on all assets and liabilities held for trading is recognised as interest income and expense.

(b) Fee and commission income and expense

Fee and commission income and expense arise on financial services provided by the Bank and received by the Bank, 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 the Bank. Fee and commission income and expense are recognised in the income statement when the related service is performed.

Commitment fees for loans that are likely to be drawn down are deferred linearly (together with related direct costs) and recognised as an adjustment to the interest rate on the loan. Commitment fees in relation to loans that are not likely to be drawn are recognised over the term of the commitment. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part for itself, or has retained a part at the same effective interest rate as other participants. Portfolio and other management and advisory service fees are recognised based on the applicable service contracts upon completion of the service.

Investment 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.

(c) Dividend income

Dividend income from equity securities is recognised in the income statement when the rights to receive the dividend are established.

(d) Gains less losses from securities at fair value through profit and loss and investment securities

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

Gains less losses arising from investment securities comprise realised gains and losses from available-for-sale financial instruments.

(e) 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.

(f) Foreign currencies

Foreign currency transactions are translated into HRK using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate prevailing at that date.

Foreign currency differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into HRK at the foreign exchange rate prevailing at the date on which their fair value was determined.

Non-monetary assets and items that are carried at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not re-translated.

Changes in the fair value of monetary securities denominated in foreign currencies and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the net carrying amount of the security. The translation differences are recognised in the income statement as part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within general and administrative expenses in the income statement or other operating income. Translation differences on non-monetary financial assets, such as equity instruments classified as available for sale, are included in the fair value reserve in equity.

(g) Financial instruments

i) <u>Classification</u>

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

Financial assets and financial liabilities at fair value through profit or loss

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

- the assets and 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 and liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

As at 31 December 2014, the Bank had no financial assets and financial liabilities at fair value through profit or loss (2013: zero).

Loans and receivables

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

Held-to-maturity financial instruments

Held-to-maturity financial instruments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank's Management Board has the positive intention and ability to hold to maturity. These include corporate bills of exchange.

Available-for-sale financial assets

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. Available-for-sale financial assets 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 prices of equity securities.

Available-for-sale financial assets include debt and equity securities, shares in investment funds and shares in a private equity fund.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not held for trading or designated 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, held-to-maturity financial assets and available-for-sale financial assets are recognised on the settlement date, that is, the date when the financial instrument is delivered to or transferred by the Bank. Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders.

The Bank derecognises financial instruments (in full or in part) when the contractual rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights to such financial instruments. This occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired. The Bank derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Bank 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 their 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.

After initial recognition, the Bank measures financial instruments at fair value through profit or loss and available-for-sale financial assets at their fair value, without any deduction for selling costs. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment.

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 or losses arising from a change in the fair value of financial assets or financial liabilities 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 in the fair value reserve within equity and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange gains and losses, 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 financial assets, any cumulative gains or losses on the instrument are transferred to the income statement.

Gains or losses arising from financial assets and financial liabilities carried at amortised cost are recognised as interest in the income statement over the period of amortisation.

Gains or losses 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 values of quoted available-for-sale financial assets are based on closing prices at the reporting date. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured based on the market price, the Bank uses an internal evaluation model for fair value estimation.

The fair value of non-trading derivatives is estimated at the amount that the Bank would receive or pay to terminate the contract on the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

vi) Impairment of financial assets

Impairment of assets identified as impaired

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The Bank estimates and performs an impairment of all financial assets other than financial assets at fair value through profit or loss.

If any evidence of impairment exists for available-for-sale financial assets, the cumulative impairment loss measured as the difference between the 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. A significant or prolonged decline in the fair value of investments in equity instruments and shares in investment funds is considered an impairment. 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 assets measured at amortised cost is calculated as the present value of the expected future cash flows, discounted at the instrument's original interest rate. Short-term balances are not discounted. Provisions for uncollectibility are made against the net carrying amount of loans to customers that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans to their recoverable amounts (or lower amount if required by applicable CNB regulations). The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of regular or penalty interests. An increase in impairment losses is recognised in the income statement. When a loan is known to be 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-off, the written-off amount is included in income in the income statement.

Impairment of assets not identified as impaired

In addition to the above described impairment losses on assets identified as impaired, the Bank recognises impairment losses in the income statement, in on- and off-balance-sheet credit risk exposures not identified as impaired at the rate of 1.00% in accordance with the accounting regulations of CNB (Amendment to the Decision on the classification of placements and off-balance-sheet contingent liabilities with effect from 31 August 2013 in the part regarding the impairment of assets on a collective basis).

Debt securities carried at fair value and classified as available for sale were excluded from the basis of such calculation at the reporting date.

(h) Specific financial instruments

Cash and cash equivalents

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

Derivative financial instruments

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

Derivative financial instruments include foreign currency forward agreements and swaps and are initially recognised at fair value which is the value of the 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 derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is considered to represent an embedded derivative. Except as required to the contrary by 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 instruments are included in gains less losses arising from dealing in foreign currencies.

Treasury bills and debt securities

Treasury bills and debt securities that the Bank holds for short-term gain purposes are classified as available-for-sale assets, and are carried at fair value. The Bank uses treasury bills for liquidity purposes.

Equity securities and investments in investment and other funds

Equity securities and investments in open-ended and close-ended investment funds are classified as available-for-sale assets.

Placements with banks

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

Loans and advances to customers

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

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 expense.

Repurchase agreements and linked transactions

The Bank enters into purchases/(sales) of investments under agreements to resell (repurchase) substantially identical investments or in a series of linked sales and buy-back transactions at a certain date in the future at a fixed price. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security from the repurchase agreement. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. Proceeds from the sale of investments are reported as liabilities to either banks or customers.
The difference between the sale and repurchase consideration is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.

Offsetting of financial instruments

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(i) Income tax

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which the carrying value of assets and liabilities is expected to be recovered or settled based on tax rates enacted at the reporting date.

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

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the balance sheet. Deferred tax assets are recognised only to the extent that it is probable that they could be utilised as a tax benefit. At each balance sheet date, the Bank reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

(j) Property and equipment

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

Recognition and measurement

Property and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes the cost that is directly attributable to the acquisition of assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.
Land and assets under construction are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

	2015	2014
Buildings	33 years	33 years
IT equipment	5 years	5 years
Furniture and equipment	7-15 years	7-15 years
Motor vehicles	4 years	4 years
Other assets	10 years	10 years

Residual values are not taken into account. Depreciation methods and estimated useful lives are reassessed at the each reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount, and are included in the income statement.

(k) Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairment. Expenditure on development activities is recognised as intangible assets if all of the requirements of IAS 38 "*Intangible Assets*" are met. Amortisation is provided on the straight-line basis over the estimated useful lives of intangible assets. Costs associated with maintaining intangible assets are recognised as an expense as incurred.

Intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

	2015	2014
Leasehold improvements	5 years	5 years
Software	5 years	5 years
Licences	5 years	5 years

(l) Impairment of non-financial assets

The recoverable amount of property and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purposes 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 amortisation/depreciation, if no impairment had been recognised.

(m) Provisions for liabilities and charges

Provisions are recognised when the Bank has a present obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made, or as required by law in the case of provisions for unidentified impairment of off-balance-sheet credit risk exposures, as previously referred to in Note II (b) 'Financial Instruments'.
Provisions for liabilities and charges are maintained at a level which the Bank's Management Board believes is adequate to absorb probable future losses. The Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of various categories of transactions and other relevant factors. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If an outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

(n) Operating lease

Leases where the Bank has substantially all the risks and rewards of ownership, are classified as finance leases. At the reporting date, the Bank did not have any financial leases neither as a lessee nor lessor. Other leases are operating leases. Rental income under operating leases is recognised in the income statement on a straight-line basis over the term of the lease. The Bank leases office space for conducting its business activities. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(o) Employee benefits

Pension obligations

The Bank pays contributions to state-owned institutions and obligatory pension funds managed by privately owned management companies, in accordance with legal requirements or by individual choice. The Bank has no further payment obligations once the contributions have been paid. Pension contributions are recognised as staff costs in the income statement as they accrue.

Other employee benefits

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory termination benefits, are recorded as the net present value of the liability for defined benefits at the reporting date. The projected discounted present value unit method is used for the calculation of the present value of the liability, using discount rates that, in the opinion of the Bank's Management Board, best represent the time value of money.

(p) Equity

Issued share capital represents the nominal value of paid-up ordinary shares classified as equity and is denominated in HRK.

Accumulated losses

Accumulated losses include losses from previous periods, the profit for the year and expenditures related to the acquisition of property in the prior period.

Earnings per share

The Bank presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

(q) Off-balance-sheet commitments and contingent liabilities

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

(r) Funds management for and on behalf of third parties

The Bank manages funds for and on behalf of corporate and retail customers. Those amounts do not represent the Bank's assets and are excluded from the balance sheet. For the services rendered, the Bank charges a fee which is recognised in the income statement on an accruals basis. The Bank is not exposed to any credit risks from these placements, nor does it guarantee for investments.

2. RISK MANAGEMENT

2.1. Internal assessment of risk of the Bank's operations

This section provides details of the Bank's exposure to risk and describes the methods used by the management to identify, measure and manage risks in order to safeguard capital. The most significant types of financial risk to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk.

For the most significant risks, the Bank adopted a policy and management strategy which includes objectives and basic principles of risk assumption and management, it defined its risk profile and risk appetite and the compliance of the Bank's risk profile and the level of capital.

The Bank has established a risk management system appropriate to the nature, scope and complexity of the business, and risk profile of the Bank, which includes an adequate strategy, policy and other internal regulations for risk management, organisational structure with defined authorities and responsibilities for risk management, risk management process and an effective system of internal controls. The Bank regularly monitors and checks the risk management system and identifies and assesses the risks to which it is or expects to be exposed in its operations.

2.1.1. 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. Credit risk can be defined as a risk of financial loss of the Bank by a counterparty failing to discharge its obligation.

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

The Bank's primary exposure to credit risk arises from loans to and receivables from customers. The amount of credit exposure in this regard, and in respect of held-to-maturity securities recognised at amortised cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to credit risk arising from off-balance-sheet items, through commitments arising from unused facilities and guarantees issued.

The Bank manages its credit risk exposure in accordance with the legislative requirements and regulations of the Croatian National Bank, as well as in accordance with its internal procedures.

The credit risk management policy and strategy is an umbrella document, i.e. a framework for managing credit risk, which is complemented with procedures, instructions and other documents that define the following in more detail:

- credit risk appetite,
- clear lines of authority and responsibility,
- way of assumption, overcoming and management of credit risk,
- defining the credit process and establishing a system of control and reporting of credit risk exposure,
- methodology for determining credit worthiness, measurement and assessment of credit risk for the duration of the repayment / validity of risky products,
- procedures for controlling and monitoring credit risk, including the establishment of exposure limits,
- procedures and measures if there is a deviation from the application of existing policies, procedures and authority for approval of such deviations and
- stress testing as a preparation of the Bank for possible crisis situations.

The above stated makes for a comprehensive credit risk management system.

Credit risk assessment

The process of credit risk assessment of placements comprises the following:

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

Creditworthiness is assessed on each loan application, that is, as a minimum once a year subsequent to the delivery of the annual financial statements by the clients to which the Bank is exposed and who have not filed a loan request for a new risky product.

Creditworthiness implies the ability of a client to comply with credit terms or contingent liabilities and to ensure the fulfilment of commitments towards the Bank with its own funds, in the manner and within the period determined by the contract and that the client's operations comply with laws and regulations.

The creditworthiness of a corporate customer is assessed using at least the following criteria:

1. the nature of the debtor
2. the debtor's capital
3. creditworthiness of the debtor
4. liquidity and profitability
5. cash flow of the debtor
6. the general business terms and conditions and the outlook of the debtor
7. the debtor's exposure to currency indicated credit risk
8. the debtor's indebtedness.

Monitoring of placements and contingent liabilities includes continuous assessment as to whether elements exist which would indicate a deterioration of the customer's financial position, the customer's exposure to foreign exchange risk or an increase in risk due to the decrease of collateral value.

Credit risk management during 2015 was complex and largely influenced by macroeconomic trends, as well as efforts to ensure the collection of receivables by implementing restructuring and/or rescheduling measures. By introducing the concept of pre-bankruptcy settlements as a new, legally acceptable and regulated modality for the restructuring of the debtor's liabilities towards all creditors was an additional challenge in the effort to reconcile the customers' ability to pay in accordance with prevailing market conditions by way of the overall restructuring of the debtors' operations or financial position. This will ultimately lead to a better settlement of liabilities to the Bank and improve the liquidity of customers in order to ensure business stability and sustainability over the long term.

Classification of placements into risk categories

The process and criteria for the classification of placements into risk categories and calculation of impairment is defined by the By-law on the classification of placements and contingent liabilities of VABA d.d. banka, in accordance with CNB's Decision on the Classification of Placements and Contingent Liabilities of Banks.

The Bank assesses the quality of placements and contingent liabilities continuously over the term of the contractual relationship and classifies them based on the following general criteria:

a) creditworthiness of the debtor,
b) debtors' timeliness in meeting their obligations and
c) collateral quality.

The Bank uses all of the criteria in the process of classification of placements, in line with the best practices of credit risk management.

Exceptionally, in accordance with CNB's Decision on the Classification of Placements and Contingent Liabilities of Banks, the Bank classifies placements from the "small loan portfolio" into risk categories based on the debtors' timeliness in meeting their obligations towards the Bank with individually significant placements being classified based on the collateral quality if the key criteria for the approval of the placement was not the creditworthiness of the debtor, but the collateral quality and value (with obligatory monitoring of the value and marketability of the collateral).

Based on the criteria and the classification of the placements and contingent liabilities which are defined separately for the small loan portfolio (total exposure toward one counterparty or a group of related counterparties less than HRK 200,000 at the assessment date) and for individually significant exposures (total exposure toward one counterparty or a group of related counterparties more than HRK 200,000 at the assessment date), the Bank classifies all of its placements into risk categories with impairment losses as follows:

1. **Risk category A** – newly approved placements upon initial approval and placements that the Bank estimates are fully recoverable – with no impairment losses on individual basis (impairment losses for risk category A placements are calculated on the collective basis).

2. **Risk category B** – partly recoverable placements – **risk category B**, which are classified into three subcategories, depending on the percentage of the impairment losses in relation to the nominal carrying amount:

    B1 – losses ranging from 1% to 30.00%,

    B2 – losses ranging from 30.01% to 70.00%,

    B3 – losses ranging from 70.01% to 99.99%.

3. **Risk category C** - non-recoverable placements with impairment losses of 100%.

Risk categories are classified at least on a quarterly basis. Risk categories for the small loan portfolio are applied systematically and controlled by the Risk Management Sector. The recoverability of placements which are not part of the small loan portfolio is assessed continuously and risk categories are updated at least on a quarterly basis as suggested by the Risk Management Sector.

Assets exposed to credit risk

Based on the applicable acts, the Bank uses the usual instruments as collaterals: bank guarantees, fiduciary right on real estate and movable assets, insurance policies, fiduciary rights on shares and shares in open-ended investment funds, fiduciary rights on equity interests in a company, cessions of receivables from companies and ministries (government), guarantees of guarantee agencies, cash deposits as well as bills of exchange and promissory notes. The valuation of property and movable assets is performed by certified valuers included in the list of the Bank's certified valuers. The collateral value is revised based on common business practices and market movements.

[HRK'000]	Notes	31 December 2014	31 December 2015
Deposits with Croatian National Bank	4	162,563	174,237
Placements with other banks	5	189,998	240,164
Available-for-sale financial assets	6	191,640	130,430
Held-to-maturity financial assets	7	30,032	120,381
Loans and advances to customers	8	654,038	875,788
Other assets	11	29,008	15,163
Total assets exposed to credit risk		1,257,279	1,556,163
Guarantees		23,264	16,099
Letters of credit		2,977	3,708
Credit lines		53,029	94,371
Other off-balance-sheet items		-	-
Total off-balance-sheet exposure to credit risk	31	79,270	114,194
Total credit exposure		**1,336,549**	**1,670,357**

Uncollected past due receivables

Uncollected past due receivables include gross receivables based on maturity of both past due and not past due principal, on an individual basis, including past due but uncollected interests. The total amount of individual placement is allocated to the maturity class of the oldest uncollected receivable, relating to either principal or the interest.

During 2015, a very low percentage of receivables from held-to-maturity financial assets was past due beyond 90 days. The nominal amount of receivables from loans and advances past due beyond 90 days as well as the share of these receivables in the total value of assets decreased. This is also due to improved collection of placements and accounting for conditions from concluded pre-bankruptcy settlements in which the Bank was a party. Some exposures, where debtors as at 31 December 2014 were fully included in outstanding debt, were transferred to receivables not past due after accounting for the conditions from the pre-bankruptcy settlement. Moreover, a significant growth in loans and advances to customers was recorded in 2015, whereby assets not past due increased due to these new placements.

[HRK'000]	**31 December 2015**				
	Gross	Not past due and past due up to 90 days	%	Past due beyond 90 days	%
ASSETS					
Deposits with Croatian National Bank	174,237	174,237	*100%*	-	*0%*
Placements with other banks	240,164	240,164	*100%*	-	*0%*
Held-to-maturity financial assets	120,381	118,999	*99%*	1,382	*1%*
Loans and advances to customers	1,013,437	805,081	*79%*	208,356	*21%*
Other assets	43,315	13,163	*30%*	30,152	*70%*
TOTAL	**1,548,219**	**1,338,481**	***86%***	**209,738**	***14%***

[HRK'000]	**31 December 2014**				
	Gross	Not past due and past due up to 90 days	%	Past due beyond 90 days	%
ASSETS					
Deposits with Croatian National Bank	162,563	162,563	*100%*	-	*0%*
Placements with other banks	189,998	189,998	*100%*	-	*0%*
Held-to-maturity financial assets	31,829	29,771	*94%*	2,058	*6%*
Loans and advances to customers	789,308	521,873	*66%*	267,435	*34%*
Other assets	56,651	29,235	*52%*	27,416	*48%*
TOTAL	**1,230,349**	**933,439**	***76%***	**296,910**	***24%***

[HRK'000]	Gross	%	Identified losses	Identified losses on collective basis	Total impairment	Impairment / gross	Net	Collateral value	Collateral value / net
	31 December 2015								
	1	2	3	4	5 = 3 + 4	6 = 5 / 1	7 = 1 - 6	8	9 = 8 / 7
ASSETS									
Deposits with Croatian National Bank	174,237	-	-	-	-	-	174,237	-	-
A	174,237	*100.00%*	-	-	-	-	174,237	-	-
Placements with other banks	240,164	-	-	-	-	-	240,164	-	-
A	240,164	*100.00%*	-	-	-	-	240,164	-	-
Held-to-maturity financial assets	122,879	-	1,296	1,202	2,498	*2.03%*	120,381	-	-
A	120,201	*97.82%*	-	1,202	1,202	*1.00%*	118,999	-	-
B, C	2,678	*2.18%*	1,296	-	1,296	*48.41%*	1,382	-	-
Loans and advances to customers	1,013,437	-	126,028	11,620	137,648	*13.58%*	875,788	507,531	*57.95%*
A	751,481	*74.15%*	-	11,620	11,620	*1.55%*	739,861	317,325	*42.89%*
B, C	261,956	*25.85%*	126,028	-	126,028	*48.11%*	135,928	190,206	*139.93%*
Retail	176,725	-	13,967	2,392	16,359	*9.26%*	160,366	54,406	*33.93%*
A	154,686	*87.53%*	-	2,392	2,393	*1.55%*	152,294	40,922	*26.87%*
B, C	22,039	*12.47%*	13,967	-	13,967	*63.37%*	8,072	13,484	*167.04%*
Corporate	836,711	-	112,061	9,228	121,289	*14.50%*	715,422	453,125	*63.34%*
A	596,795	*71.33%*	-	9,228	9,228	*1.55%*	587,567	276,403	*47.04%*
B, C	239,916	*28.67%*	112,061	-	112,061	*46.71%*	127,855	176,722	*138.22%*
Other assets	45,315	-	30,152	-	30,152	*66.54%*	15,163	*12,931*	*85.28%*
A	*15,163*	*33.46%*	-	-	-	*0%*	15,163	*12,931*	*85.28%*
B, C	*30,152*	*66.54%*	30,152	-	30,152	*100%*	-	-	-
TOTAL	**1,596,032**		**157,477**	**12,822**	**170,299**	***10.67%***	**1,425,734**	**520,462**	***36.50%***

[HRK'000]	31 December 2014								
	Gross	%	Identified losses	Identified losses on collective basis	Total impairment	Impairment / gross	Net	Collateral value	Collateral value / net
	1	2	3	4	5 = 3 + 4	6 = 5 / 1	7 = 1 - 6	8	9 = 8 / 7
ASSETS									
Deposits with Croatian National Bank	162,563	-	-	-	-	-	162,563	-	-
A	162,563	*100.00%*	-	-	-	-	162,563	-	-
Placements with other banks	189,998	-	-	-	-	-	189,998	-	-
A	189,998	*100.00%*	-	-	-	-	189,998	-	-
Held-to-maturity financial assets	31,829	-	1,510	287	1,797	*5.64%*	30,032	-	-
A	28,594	*89.84%*	-	287	287	*1.00%*	28,308	-	-
B, C	3,235	*10.16%*	1,510	-	1,510	*46.68%*	1,725	-	-
Loans and advances to customers	789,308	-	126,776	8,494	135,271	*17.14%*	654,038	366,892	*56.10%*
A	494,660	*62.67%*	-	8,494	8,494	*1.72%*	486,165	201,767	*41.50%*
B, C	294,649	*37.33%*	126,776	-	126,776	*43.03%*	167,873	165,125	*98.36%*
Retail	166,089	-	33,587	1,984	35,572	*21.42%*	130,517	53,479	*40.97%*
A	115,555	*69.57%*	-	1,984	1,984	*1.72%*	113,571	38,516	*33.91%*
B, C	50,534	*30.43%*	33,587	-	33,587	*66.47%*	16,946	14,963	*88.30%*
Corporate	623,220	-	93,189	6,510	99,699	*16.00%*	523,521	313,413	*59.87%*
A	379,104	*60.83%*	-	6,510	6,510	*1.72%*	372,594	163,251	*43.81%*
B, C	224,115	*39.17%*	93,189	-	93,189	*38.17%*	150,926	150,162	*99.49%*
Other assets	56,651	-	27,642	-	27,642	*48.79%*	29,088	-	-
A	-	-	-	-	-	-	-	-	-
B, C	-	-	27,642	-	27,642	-	(27,642)	-	-
TOTAL	**1,230,349**	**-**	**155,929**	**8,781**	**164,710**	***13.39%***	**1,065,639**	**366,892**	***34.43%***

2.1.2. Market risks

The exposure to market risk occurs in respect of positions recognised at market value and refers to securities and other financial instruments held for trading, securities and other available-for-sale financial instruments and positions denominated in foreign currencies.

2.1.2.1. Foreign exchange risk

Foreign exchange operations of the Bank are subject to risks due to changes in inter-currency relationships, as well as changes in foreign currency rates in relation to the domestic currency. The Bank monitors changes in the foreign currency sub-ledger on a daily basis by monitoring the relationship between the foreign currency receivables and liabilities, in accordance with CNB regulations on the open foreign exchange position.

The Bank uses the open foreign exchange position (gap analysis) to measure and report exposure to currency risk in accordance with the methodology prescribed by the Croatian National Bank. The operational management of the foreign currency position within the prescribed limits is the responsibility of the Treasury Department, which has the ability to propose measures to eliminate the currency gap through a reduction or increase in placements and deposits with a currency clause, selling or buying the currency or through arbitration - selling one currency for another.

The Risk Management Sector controls the compliance with limits on a daily basis, and monthly reports to the Asset and Liability Management Committee on foreign exchange risk exposure.

Foreign exchange risk analysis

[HRK'000]	31 December 2015				
	HRK	HRK with FC clause	EUR	Other foreign currencies	**Total**
ASSETS					
Cash and deposits with Croatian National Bank	170,847	-	9,679	17,553	199,079
Placements with other banks	-	-	251,923	24,241	240,164
Available-for-sale financial assets	40,452	70,619	19,359	-	130,430
Held-to-maturity financial assets	84,088	36,293	-	-	120,381
Loans and advances to customers	260,740	488,824	126,224	-	875,789
Property and equipment	58,074	-	-	-	58,074
Intangible assets	16,664	-	-	-	16,664
Other assets	15,158	-	4	1	15,163
TOTAL ASSETS	**646,023**	**595,736**	**371,189**	**41,795**	**1,654,743**
LIABILITIES					
Deposits from banks	-	-	-	-	-
Deposits from customers	425,804	8,056	909,804	41,519	1,385,184
Borrowings	28,736	11,429	14,755	-	54,919
Hybrid instruments	-	-	22,905	-	22,905
Provisions for liabilities and charges	1,281	-	-	-	1,281
Other liabilities	12,025	-	1,681	-	13,706
TOTAL LIABILITIES	**467,846**	**19,485**	**949,145**	**41,519**	**1,477,996**
EQUITY					
Share capital	231,085	-	-	-	231,085
Share premium	-	-	-	-	-
Other reserves	25,222	-	-	-	25,222
Fair value reserve	2,033	-	-	-	2,033
Accumulated losses	(81,594)	-	-	-	(81,594)
TOTAL EQUITY	**176,746**	**-**	**-**	**-**	**176,746**
TOTAL LIABILITIES AND EQUITY	**644,592**	**19,485**	**949,145**	**41,519**	**1,654,743**
CURRENCY GAP	**1,431**	**576,251**	**(577,955)**	**275**	**-**

[HRK'000]	31 December 2014				
	HRK	HRK with FC clause	EUR	Other foreign currencies	Total
ASSETS					
Cash and deposits with Croatian National Bank	164,515	-	10,916	15,693	191,124
Placements with other banks	-	-	179,976	10,022	189,998
Available-for-sale financial assets	52,511	62,564	76,565	-	191,640
Held-to-maturity financial assets	26,058	3,974	-	-	30,032
Loans and advances to customers	203,518	419,174	30,954	392	654,038
Property and equipment	42,372	-	-	-	42,372
Intangible assets	17,675	-	-	-	17,675
Other assets	27,425	-	1,583	-	29,008
TOTAL ASSETS	**534,074**	**485,712**	**299,994**	**26,107**	**1,345,888**
LIABILITIES					
Deposits from banks					0
Deposits from customers	361,511	54	758,020	25,941	1,145,526
Borrowings	20,973	9,853	7,068	-	37,894
Hybrid instruments	-	-	26,489	-	26,489
Provisions for liabilities and charges	970	-	-	-	970
Other liabilities	8,710	1,808	233	528	11,279
TOTAL LIABILITIES	**392,164**	**11,715**	**791,810**	**26,469**	**1,222,157**
EQUITY					
Share capital	128,585	-	-	-	128,585
Share premium	-	-	-	-	0
Other reserves	25,222	-	-	-	25,222
Fair value reserve	1,041	-	-	-	1,041
Accumulated losses	(31,117)	-	-	-	(31,117)
TOTAL EQUITY	**123,731**	**-**	**-**	**-**	**123,731**
TOTAL LIABILITIES AND EQUITY	**515,895**	**11,715**	**791,810**	**27,469**	**1,345,888**
CURRENCY GAP	**18,179**	**473,997**	**(491,816)**	**(362)**	**-**

2.1.2.2. Position risk

The exposure to position risk relates to risk arising from changes in the value of a financial instrument or changes in the underlying variable of derivatives.

Available-for-sale financial instruments are exposed to general position risk, which is the risk of loss due to price change of financial instruments which can occur due to interest rate changes, or more significant changes on capital markets not related to any specific characteristics of financial instruments. The stated instruments are also exposed to specific position risk which arises from price changes of individual financial instruments due to factors related to its issuer.

The Asset and Liability Management Committee of the Bank establishes limits to maximum exposures with respect to securities categorised as available-for-sale. The Bank's Management Board makes a decision on the purchase/sale of a financial instrument and its classification into a securities category. The Treasury Department performs the transaction, while the Risk Management Sector controls the compliance with the internal acts and monitors fair values of the financial instruments on a daily basis, if available.

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

In measuring market risk exposure, the Bank relies on regulations prescribed by the Croatian National Bank and monitors the following:

- capital requirements calculated by the standard method in accordance with the Croatian National Bank's Decision on capital adequacy,
- internal models of monitoring exposure to position risk.

The Risk Management Sector reports daily to the Treasury Department on the usage of market risk exposure limits and reports to the Asset and Liability Management Committee monthly.

2.1.2.3. Interest rate risk

The Bank’s operations are subject to the risk of loss which arises from potential interest rate fluctuations which affect positions in the Bank’s records.

In line with cautious interest rate risk management, the Bank defines responsibilities in accordance with generally accepted standards and defined limits for maintaining an acceptable level of economic capital and achieving satisfactory financial results.

The majority of placements and deposits are initially contracted at variable interest rate in accordance with the Bank’s decisions, except when, for competitive reasons, fixed interest rates are contracted.

The Bank utilises the following measures for measurement of interest rate risk exposure:

1. repricing gap analysis,
2. standard interest shock method.

Since 31 March 2010, based on the Decision on interest rate management in the Bank's records, the Risk Management Sector reports on interest rate exposure on a quarterly basis in accordance with regulatory requirements. For each reporting period in 2014, the economic value of capital in relation to liable capital was in line with regulatory requirements.

Measuring exposure to interest rate risk

The Bank measures the exposure to interest rate risk both from the profit perspective and the perspective of the economic value of capital.

Profit perspective

When calculating the effect of interest rate change on net interest income, the Bank uses the standard interest shock on net interest income for a 12-month period. The simulation is based on parallel movements in all interest rates, an increase/decrease by 2 percentage points for HRK and an increase/decrease by 1 percentage point for EUR and all other currencies.

[HRK'000]	2014	2015
Potential decrease in net interest income	-674	-1,923
% of budgeted net interest income	-1.69%	-3.84%

Perspective of economic value of capital

For purposes of reporting on credit risk exposure to the Croatian National Bank, the Bank uses in its records a simplified calculation of the change in economic value of the Bank's records by applying standard interest shock to positions in the Bank's record for all material currencies separately and collectively for all other currencies. The report on credit risk exposure in the Bank's records comprises all interest-sensitive balance-sheet and off-balance-sheet positions that are not considered positions in the trading records. It is prepared separately for each material currency and collectively for all other currencies. A material currency is each currency that accounts for more than 5% of the total balance-sheet and off-balance-sheet assets or liabilities in the Bank's records.

A standard interest shock is the parallel (positive or negative) change in interest rate on a reference yield curve by 200 base points for each material currency separately and collectively for all other currencies. Positions with fixed interest rates are allocated to time zones according to remaining maturity. Positions with variable interest rates are allocated to time zones according to remaining time until the next change in interest rates. Positions with unknown or difficult-to-determine time until maturity or change in interest rates is allocated by the Bank in the manner described in detail in the Interest Rate Risk Management Procedure in the Bank's records.

In accordance with provisions of the Credit Institutions Act, the change in the economic value of capital of a credit institution arising from the change in positions in the Bank's records, being the result of standard interest shock, may not exceed 20% of the Bank's regulatory capital.

The Risk Management Sector reports the results of the interest rate risk exposure analysis to the Bank's Asset and Liability Management Committee.

[HRK'000]	2014	2015
Net weighted position by currency (HRK)	950	1,659
Net weighted position by currency (EUR)	(728)	544
Net weighted position by currency (OTH)	(201)	(447)
Change in economic value	21	1,756
Change in economic value/regulatory capital	0.02%	0.98%

Interest rate risk stress test

The Market and Operational Risk Department performs stress test at least once a year. Since changes in interest rate have adverse effects on earnings and their economic value, the Bank performs stress tests taking into account the earnings perspective, i.e. the effect of stress events on the net interest income, and the economic value perspective, i.e. the effect of stress events on the Bank's economic value. The results of stress tests are presented at the meeting of the Banks' Asset and Liability Management Committee.

Interest rate gap analysis

The following table shows the Bank's exposure to interest rate risk, analysed on the basis of the contracted maturity, or, with the instruments whose interest rate changes before maturity (administrative interest rate), in the period until the next date of the interest rate change.

[HRK'000]	31 December 2015							
	0 - 30 days	31 - 90 days	91 - 360 days	1 - 3 years	over 3 years	Interest free	**Total**	Fixed interest rate
ASSETS								
Cash and deposits with Croatian National Bank	80,992	-	93,245	-	-	23,841	**198,079**	-
Placements with other banks	239,499	-	-	-	-	666	**240,164**	-
Available-for-sale financial assets	7,641	-	113,312	3,818	1,096	4,564	**130,430**	125,866
Held-to-maturity financial assets	2,790	99,589	19,483	1,382	-	(2,863)	**120,381**	123,244
Loans and advances to customers	111,804	83,920	544,349	67,374	53,648	14,694	**875,788**	173,800
Property and equipment	-	-	-	-	-	58,074	**58,074**	-
Intangible assets	-	-	-	-	-	16,664	**16,664**	-
Other assets	-	-	-	-	-	15,163	**15,163**	-
TOTAL ASSETS	**442,725**	**183,509**	**770,389**	**72,573**	**54,744**	**130,802**	**1,654,743**	**422,910**
LIABILITIES								
Deposits from banks	-	-	-	-	-	-	**-**	-
Deposits from customers	131,316	142,479	924,391	156,642	11,070	19,285	**1,385,184**	991,823
Borrowings	5,220	3,562	35,788	6,058	3,937	354	**54,919**	54,566
Hybrid instruments	-	-	22,905	-	-	-	**22,905**	-
Provisions for liabilities and charges	-	-	-	-	-	1,281	**1,281**	-
Other liabilities	-	-	-	-	-	13,706	**13,706**	-
TOTAL LIABILITIES	**136,537**	**146,042**	**983,084**	**162,700**	**15,007**	**34,626**	**1,477,996**	**1,046,389**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**	**176,746**	**176,746**	**-**
TOTAL LIABILITIES AND EQUITY	**136,537**	**146,042**	**983,084**	**162,700**	**15,007**	**211,372**	**1,654,743**	**1,046,389**
INTEREST GAP	**306,189**	**37,468**	**(212,695)**	**(90,127)**	**39,737**	**(80,570)**	**-**	**(623,478)**

[HRK'000]	31 December 2014							
	0 - 30 days	31 - 90 days	91 - 360 days	1 - 3 years	over 3 years	Interest free	**Total**	Fixed interest rate
ASSETS								
Cash and deposits with Croatian National Bank	72,673	-	80,624	-	-	37,828	**191,124**	-
Placements with other banks	187,798	-	-	-	-	2,200	**189,998**	435
Available-for-sale financial assets	30,694	30,653	124,455	-	-	5,838	**191,640**	185,802
Held-to-maturity financial assets	946	18,872	8,470	1,721	-	23	**30,032**	30,009
Loans and advances to customers	24,191	70,046	181,249	222,956	131,379	24,217	**654,038**	73,925
Property and equipment	-	-	-	-	-	42,372	**42,372**	-
Intangible assets	-	-	-	-	-	17,675	**17,675**	-
Other assets	-	-	-	-	-	29,008	**29,008**	-
TOTAL ASSETS	**316,302**	**119,571**	**394,798**	**224,677**	**131,379**	**159,161**	**1,345,888**	**290,171**
LIABILITIES								
Deposits from banks	-	-	-	-	-	-	**-**	-
Deposits from customers	106,724	122,799	804,970	83,013	11,514	16,506	**1,145,526**	759,939
Borrowings	221	4,046	20,323	6,546	6,690	68	**37,894**	30,803
Hybrid instruments	3,065	-	22,984	-	-	440	**26,489**	3,065
Provisions for liabilities and charges	-	-	-	-	-	970	**970**	-
Other liabilities	-	-	-	-	-	11,279	**11,279**	-
TOTAL LIABILITIES	**110,010**	**126,845**	**848,277**	**89,559**	**18,204**	**29,263**	**1,222,158**	**793,807**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**	**123,731**	**123,731**	**-**
TOTAL LIABILITIES AND EQUITY	**110,010**	**126,845**	**848,277**	**89,559**	**18,204**	**152,994**	**1,345,888**	**793,807**
INTEREST GAP	**206,292**	**(7,274)**	**(453,479)**	**135,118**	**113,175**	**6,167**	**-**	**(503,636)**

2.1.2.4. Liquidity risk

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

- inability to settle liabilities as a result of the maturity gap between cash inflow and outflow - structural liquidity risk, and
- risk of being unable to sell or acquire liquid instruments on the market in an appropriate time frame and at a reasonable price - liquidity risk of financial instruments.

The liquidity risk management is conducted in compliance with regulatory requirements and is defined by the following internal acts:

- liquidity risk management policy,
- liquidity stress test procedure,
- procedure for the Bank's liquidity management,
- liquidity risk (crisis) plan.

Internal acts are proposed by the Risk Management Sector and approved by the Bank's Management Board. In accordance with changes, the Risk Management Sector proposes revisions of internal acts.

The liquidity monitoring system is aimed at assessing the Bank's current liquidity and its ability to comply with future financing requirements. The Bank continuously aims its activities at improving the quality of the model and the entire process of liquidity management by upgrading the monitoring system, its related assumptions and by enhancing technical support and procedural elements of the entire process.

The key purpose of the liquidity policy is to ensure that the Bank operates in a way to achieve an optimal balance between the Bank's safety and shareholders return on investment. The framework for appropriate liquidity risk management comprises the following: liquidity management strategy approved by the Management Board within budget and strategic plans; efficient supervision by the Asset and Liability Management Committee and the Management Board; clearly defined responsibilities and operations in line with agreed limits; management of assets and liabilities by matching their maturities; an established evaluation system of all current and future inflows and outflows; liabilities structure management, specifically in monitoring the concentration of large deposits; sustained development of liquidity stress tests; assessment of access to financial markets and available funds under usual and stressed conditions; and a crisis plan.

As part of its business activities the Bank monitors liquidity risk and complies with relevant regulations, the following measures are part of liquidity risk management:

- prescribed ratio of current foreign currency receivables in relation to payables, which are monitored on a daily basis,
- reserve requirements - HRK,
- reserve requirements - foreign currency, and
- minimum liquidity ratio
- liquidity coverage ratio (LCR).

The purpose of managing liquidity funds is the compliance with the regulatory minimum by maintaining the minimum cost of liquidity funds.

The Bank uses the following models for liquidity risk measurement:

- financial and structural indicators,
- deposit concentration,
- cash flow notice and projection system, and
- liquidity stress tests.

The Bank raises funds using a broad range of instruments including deposits, borrowings, subordinated loans and share capital. The Bank continuously assesses its liquidity risk by identifying and monitoring changes in the level of funding required to achieve business goals and strategic targets. Diverse funds enable flexibility, decrease dependence on a single source of funding and enable straightforward management of financing costs.

Liquidity stress test

Liquidity stress tests are performed based on the analysis of different scenarios, i.e. the assessment of effects of simultaneous changes in several different factors of risk on the financial position of the Bank in clearly defined stress circumstances. In order to prepare for a possible impact on liquidity, the Bank performs liquidity stress tests adapted to business size and characteristics, strategic goals and plans, the internal Bank’s organisation and its environment, to ensure sufficient liquidity funding. The aim of the liquidity stress test is to recognise a situation and to prepare the Bank's relevant function for a prompt reaction in the case of a liquidity crisis. The development of the liquidity stress test represents the Bank’s internal policy and is good practice for liquidity management. The stress test relates to the change in value of certain parameters that have an impact on the financial and liquidity position of the Bank and determining the effects of the impact of these parameters on the entire business.

The stress scenario is arbitrarily selected and approved by the Risk Management Sector. Two scenarios are selected, at a minimum, one including the Bank's specific factors and the other including market factors. Different combinations of the factors are possible as well.

The selection of scenarios is usually affected by:
- current market movements;
- other movements historically significant for the Bank’s liquidity;
- future predictions based on available information significant for the Bank’s liquidity.

Upon selection of the stress scenario, the Treasury Department analyses the scenario or performs the sensitivity analysis, depending on whether one or more factors on the financial position of the Bank are analysed. The Risk Management Sector and the Treasury Sector report the results of the stress tests to the Asset and Liability Management Committee.

The following table provides information on the remaining maturity of the Bank's assets and liabilities.

Maturity analysis

[HRK'000]	31 December 2015 0 - 30 days	31 - 90 days	91 - 360 days	1 - 3 years	over 3 years	Without maturity	Total
ASSETS							
Cash and deposits with Croatian National Bank	198,079	-	-	-	-	-	**198,079**
Placements with other banks	240,164	-	-	-	-	-	**240,164**
Available-for-sale financial assets	91	8,893	204	39,686	81,555	-	**130,430**
Held-to-maturity financial assets	4,498	97,219	18,664	-	-	-	**120,381**
Loans and advances to customers	169,021	123,072	155,062	135,474	293,160	-	**875,788**
Property and equipment	-	-	-	-	58,074	-	**58,074**
Intangible assets	-	-	-	-	16,664	-	**16,664**
Other assets	1,157	-	482	-	13,524	-	**15,163**
TOTAL ASSETS	**613,010**	**229,184**	**174,412**	**175,160**	**462,977**	**-**	**1,654,743**
LIABILITIES							
Deposits from banks	-	-	-	-	-	-	**-**
Deposits from customers	244,318	145,737	711,079	269,815	14,235	-	**1,385,184**
Borrowings	9,343	7,077	26,560	11,940	-	-	**54,920**
Hybrid instruments	-	-	-	-	22,905	-	**22,905**
Provisions for liabilities and charges	-	-	-	-	1,281	-	**1,281**
Other liabilities	5,269	1,278	6,631	528	-	-	**13,706**
TOTAL LIABILITIES	**258,930**	**154,092**	**744,269**	**282,283**	**38,421**	**-**	**1,477,997**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**	**176,746**	**176,746**
TOTAL LIABILITIES AND EQUITY	**258,930**	**154,092**	**744,269**	**282,283**	**38,421**	**176 746**	**1,654,743**
MATURITY GAP	**354,080**	**75,092**	**(569,857)**	**(107,123)**	**424,556**	**(176,746)**	**-**

[HRK'000]	31 December 2014						
	0 - 30 days	31 - 90 days	91 - 360 days	1 - 3 years	over 3 years	Without maturity	**Total**
ASSETS							
Cash and deposits with Croatian National Bank	191,124	-	-	-	-	-	**191,124**
Placements with other banks	189,998	-	-	-	-	-	**189,998**
Available-for-sale financial assets	31,082	30,653	-	39,657	90,248	-	**191,640**
Held-to-maturity financial assets	2,965	18,683	8,384	-	-	-	**30,032**
Loans and advances to customers	99,644	59,794	96,850	78,961	318,789	-	**654,038**
Property and equipment	-	-	-	-	42,372	-	**42,372**
Intangible assets	-	-	-	-	17,675	-	**17,675**
Other assets	5,051	-	2,532	260	21,165	-	**29,008**
TOTAL ASSETS	**519,864**	**109,130**	**107,766**	**118,878**	**490,249**	**-**	**1,345,888**
LIABILITIES							
Deposits from banks	-	-	-	-	-	-	**-**
Deposits from customers	225,320	125,678	565,223	216,158	13,146	-	**1,145,526**
Borrowings	-	3,306	12,337	7,250	15,001	-	**37,894**
Hybrid instruments	-	3,065	-	-	23,424	-	**26,489**
Provisions for liabilities and charges	20	-	804	-	146	-	**970**
Other liabilities	5,899	718	4,147	515	-	-	**11,279**
TOTAL LIABILITIES	**231,239**	**132,767**	**582,511**	**223,923**	**51,717**	**-**	**1,222,157**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**-**	**123,731**	**123,731**
TOTAL LIABILITIES AND EQUITY	**231,239**	**132,767**	**582,511**	**223,923**	**51,717**	**123,731**	**1,345,888**
MATURITY GAP	**288,625**	**(23,637)**	**(474,746)**	**(105,045)**	**438,532**	**(123,731)**	**-**

2.1.3. Operational risk

Operational risk is defined as the risk of loss due to inadequate or incorrect processes, human or internal system errors or events caused by external factors (natural disasters, fire, flood, attack, changes of legislation, embezzlement).

Operational risk exists in every segment of the Bank's operations, requiring knowledge and continuous monitoring of all business processes. The organisational model of operational risk management is set up on the centralised and decentralised levels of operational risk management.

Operational risk management is conducted in compliance with regulatory requirements and is defined by the following internal acts:

- policy on operational risk management
- procedure on operational risk management
- methodology for operational risk management
- directive on reporting of operational losses and operational risks

When measuring operational risk exposure, based on the consequences of a risk event, the Bank distinguishes the following:
Loss from operational risk, which represents operational losses affecting the balance sheet and assuming the known amount of losses in the Bank's records.
Significant operational risk, which is present in business processes and has not resulted in operational losses, but there is a possibility of future operational losses resulting from it.

Operational risk assessment is performed through Self Risk Assessment for every business process of the Bank. Self Risk Assessment is performed on a yearly basis for every business process of the Bank using event-based questionnaires prepared in accordance with Basel guidelines. Based on collected data, each reported event which could result in operational risk is quantified and classified into a risk category. For events for which risks are high and very high, the business processes owners, in coordination with the Risk Management Sector, propose actions for reducing exposure to operational risk by using methods for reduction of effects, i.e. damages and the probability of occurrence or by transferring the risk to a counterparty. The Risk Management Sector reports the results of the Self Risk Assessment to the Management Board once a year.

The Risk Management Sector reports to the Management Board quarterly on recorded operational losses, i.e. events which resulted in losses recorded in the Bank's records due to exposure to operational risk. The report on operational losses contains, at a minimum, data on amounts of losses, recovered amounts, unrecovered amounts, operational losses per type of event and cause, and share of different organisational units of the Bank in operational losses.

For operational risk management, the Bank has secured the following:

- adequate IT system and risk management by using the following internal acts: Policy on Adequate Use of IT Systems
- adequate risk management related to outsourcing by using the following internal acts: Policy on Outsourcing, Procedure for Outsourcing and Policy on the Minimum Content of the Contract Provisions on the Matter of Outsourcing Contracts and Other Procurement or Provision of Services
- adequate compliance risk management by using the following internal acts: Policy on Compliance Monitoring and Implementation, and Methodology for Controls of Organisational Compliance of Processes with Internal and External Processes
- adequate business continuity management by using the following internal acts: Business Continuity Strategy, Business Continuity Management Procedure, and Business Continuity Plan
- adequate system for the prevention of money laundering and terrorism financing by using the following internal acts: Policies and Procedures for the Prevention of Money Laundering and Terrorism Financing.

2.1.4. Concentration risk

Concentration risk is every individual, direct or indirect exposure toward one counterparty or group of related parties or group of exposures connected by common risk factors such as industry, geographical area, operations or goods, i.e. application of techniques for credit risk reduction, which can cause such losses which could jeopardise the Bank's going concern.
The Bank analyses and reports on concentration risk present both on the asset side of the balance sheet, i.e. loan portfolio, as well as on the equity and liabilities side of the balance sheet, i.e. source of funds.

The Bank analyses concentration risk on the basis of each individual, direct or indirect exposure toward one counterparty or group of related parties and has regulated the identification of related parties by internal acts, determining the following:

1) control, i.e. relationship between the parent company and its subsidiary or similar relationship between any legal or natural person and the company, and
2) economical and financial ties.

This relationship is established mainly on the basis of information/data received from the client, but also by checking other available sources. Groups of related parties are formed and reported by the Credit Risk Management Department within the Risk Management Sector. Groups of related parties are entered into the Registry of Related Parties as the comprehensive database for related parties.

The identification and measurement of concentration relates to a group of exposures connected by common risk factors such as common industry, geographical area or identical operations.

In order to maintain a diversified and stable base of financing and to avoid becoming overly dependent on only certain sources, concentration is monitored for the following:

- clients or groups of related parties whose deposits comprise more than 2% of the Bank's total liabilities
- deposits from companies and other financial institutions: 10 biggest deponents with term deposits in relation to total deposits from legal persons and financial institutions; 10 biggest deponents in relation to total deposits
- retail deposits: 10 biggest deponents from the retail sector in relation to total retail deposits and 100 biggest deponents from the retail sector in relation to total deposits.

The Risk Management Sector reports the concentration risk to the Asset and Liability Management Committee on a monthly basis.

Concentration risk is also monitored on a sector basis, as shown in the following table:

[HRK' 000] Gross exposure	2014	%	2015	%
Retail	159,146	*12%*	167,785	*10%*
Agriculture and mining	51,499	*4%*	46,073	*3%*
Processing industry	240,500	*19%*	360,504	*21%*
Construction industry	84,226	*6%*	88,906	*5%*
Wholesale and retail	137,628	*11%*	200,097	*12%*
Financial and insurance activities	408,160	*32%*	547,471	*32%*
Scientific and technical services	82,278	*6%*	113,071	*6%*
Healthcare and social welfare services	8,168	*1%*	3,843	*1%*
Other	111,183	*9%*	163,328	*10%*
	1,282,788	**100 %**	**1,691,078**	**100%**

2.1.5. Business continuity management

The Bank has adopted internal acts regulating the plan for business continuity management for its main business processes. This plan contains data on key personnel contacts, alternative locations in case of operations discontinuity, descriptions of key processes and strategies for their emergency recovery and documentation to be prepared in the case of operations discontinuity.

2.2. The Bank’s general acts

2.2.1. General acts regulating credit policy

General acts regulating credit policy and asset and liability management are given as follows:

2.2.1.1. Credit policy objective

The credit policy objective includes the following:

- establishment of an adequate credit risk management environment
- operations in accordance with the generally accepted loan approval procedure
- maintenance of adequate procedures for administration, measurement and monitoring of loans
- maintenance of adequate controls over credit risk
- maintenance of adequate assessment of the quality of assets
- recognition of adequate impairment allowances for identified and unidentified losses.

2.2.1.2. General articles of credit policy

The Bank's credit policy is based on applicable legislation and mission, vision and business policy of the Bank. It includes all important factors needed for ensuring the development and reputation of the Bank, realisation of profit and maintenance of real value of capital based on safety, liquidity and profitability principles.

2.2.1.3. Definitions, principles and standards

The purpose of the credit policy is to establish basic principles for approving loans and other placements, relating to the implementation into processes and the segregation of responsibilities for execution and control of activities in the credit process.

The basic principles of the credit policy are:

- safety of placements through a realistic insight into the client’s operations, assessment of its business capacity and its capability of settling liabilities to the Bank,
- stable liquidity through assessment of repayments of placements in the scheduled time frame and expected inclusion of the debtor’s funds into the Bank’s deposit system as well as usage of the Bank’s other products,
- profitability, i.e. satisfying the investors interests and enhancing self-financing of sales activities,
- quality service and satisfied customer,
- cross selling and enhancing deposit bases through private and corporate banking,
- capital adequacy maintenance through adequate rating of primary credit risk and reduction of the need for capital coverage through collaterals for loans.

2.2.1.4. Approving placements

The Bank has established a formal procedure for rating and approving placements with the objective of maintaining a quality loan portfolio. Approvals are given in accordance with internal acts and are given by an appropriate organisational level. Each placement's approval procedure and the level of approval is properly documented. The segregation of duties of application, approval and execution of a risk product ensures the adequacy of the approval process.

2.2.1.5. Monitoring placements

The process of monitoring placements includes assessing the creditworthiness of a debtor, a group of related parties and the quality of collateral during the lifespan of the legal relationship representing the exposure. An efficient system for monitoring placements includes the following measures:

- ensuring the Bank's understanding of the current financial position of the debtor
- assessing the current collateral coverage in relation to the debtor's current position
- identifying overdue payments
- monitoring the debtor's payment of liabilities after the placement has been realised.

Internal acts define the organisational units and responsible personnel that provide all necessary information for undertaking corrective actions as well as deadlines in which to act, considering potential conflicts of interest.

2.2.1.6. Loan portfolio analysis and credit risk monitoring process

The Bank has established a system for monitoring the entire structure and quality of the loan portfolio. The Credit Committee, the Supervisory Board and the Audit Committee are regularly informed of the quality of the portfolio. The analysis of the loan portfolio includes, at a minimum, an analysis of risk categories, overdue days and the total exposure. The loan portfolio report is prepared by the Risk Management Sector / Credit Risk Management Department. Based on the analysis results, decisions are made on the Bank's strategy toward the counterparty, group of related parties, certain industry or economic sector, geographical region, certain type of collateral, etc.

2.2.1.7. Non-performing loans

Continuous monitoring of collection is an integral part of the loan process. If the borrower does not pay its liabilities before the due date, overdue liability exists. The Bank has internally defined actions and procedures for collection of overdue receivables. The primary goal is swift action and the objective is maximum collection while establishing the optimal solution for the Bank. Within the process of non-performing loans management, the Bank's objectives are improving its loan portfolio, timely reaction to identified collection issues, limiting potential losses from the placement to the minimum and loan portfolio management.

2.2.1.8. Credit risk control and stress test

Credit risk control is one of the Bank's control functions organised as a separate organisational unit, functionally and organisationally separated from other organisational units of the Bank, and is directly responsible to the Bank's Management Board.

The objective of establishing the credit risk control function is maintaining the Bank's exposure to credit risk within the parameters established by the Management Board. Credit risk control assists in ensuring that credit risk stays within the limits acceptable to the Bank.

Credit risk control ensures an independent, continuous check of the application and effectiveness of the credit risk management methods and procedures. Also, credit risk control includes establishing measurement and assessment of credit risk to which the Bank is or could be exposed, and making recommendations for adequate credit risk management.

In order to function effectively, the credit risk control function has the authorisation for unlimited and permanent access to all documents, records and personnel of the Bank, with strict confidentiality.

The credit risk control function keeps evidence on performed work and reports the results of each separate review to the Management Board.

Stress test

The Risk Management Sector / Credit Risk Management Departments tests the effects of two different factors, at a minimum. The stress situation simulated in a test is usually determined by indicators on the market and/or within the Bank which point to a possibility of occurrence of significant changes in the loan portfolio, resulting in changes to the financial results of the Bank and to the regulatory indicators.

The Risk Management Sector reports the results of the stress tests to the Credit Committee and recommends the risk management strategy to be maintained or changed, depending on the stress test results.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank 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. Key sources of estimation uncertainty are described below.

Impairment losses on loans and receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. In accordance with CNB regulations, the need for impairment of the Bank's on and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying value of loans and advances to corporate and retail customers as described in Note 2.1.1. "Credit risk", while provisions for liabilities and charges arise from off-balance-sheet exposure to customers, mainly in the form of guarantees, letters of credit and undrawn loan commitments.

Financial assets carried at amortised cost

Financial assets carried at amortised cost include financial assets held to maturity and loans and advances to customers.

The Bank initially assesses whether objective evidence of impairment exists. 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 Bank estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets.

The Bank also seeks to recognise impairment losses which are known to exist at the reporting date, but which have not yet been specifically identified. In estimating unidentified impairment losses existing in collectively assessed portfolios, and in the absence of reliable data on historical loss rates and the emergence period for the identification of these impairment losses, the Bank considers the range of impairment loss rates at 1% prescribed by the CNB to be calculated on all credit risk exposures except those carried at fair value, including off-balance-sheet amounts and Croatian sovereign risk. Amounts assessed as impaired on an individual basis are excluded from this calculation.

Fair value of financial instruments quoted in an active market

In estimating the fair value of quoted financial instruments, the Bank uses closing prices at the date of estimation. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Bank establishes fair value by using valuation techniques.

Legal disputes

The Bank conducts individual assessments of all legal disputes initiated against the Bank. The initial assessment is conducted by the Bank's Legal Department, while the Management Board makes the final decision on the risk group and provision amount. As at 31 December 2015, the Bank is a defendant in a total of 5 legal disputes, all of which are civil proceedings. In 3 proceedings, the Bank obtained first-instance rulings in its favour, while in one proceedings the second-instance court upheld the first-instance judgement in favour of the Bank. 5 disputes have been classified in risk group A. As at 31 December 2015, total provisions for the Bank were made in the amount of HRK 120,429.58, while legal disputes, including procedural costs and interest accrued by 31 December 2015, totalled HRK 13,116,157.02.

Regulatory requirements

The CNB is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

4. CASH AND DEPOSITS WITH CROATIAN NATIONAL BANK

[HRK'000] CASH AND DEPOSITS WITH CROATIAN NATIONAL BANK	31 December 2014	31 December 2015
Cash on hand	**28,562**	**23,841**
in HRK	16,618	12,893
in foreign currency	11,944	10,948
Giro accounts with CNB	**58,008**	**64,708**
in HRK	58,008	64,708
in foreign currency	-	-
Obligatory reserve with CNB	**95,289**	**109,529**
in HRK	80,624	93,245
in foreign currency	14,665	16,284
Treasury bills with CNB	**9,266**	**-**
in HRK	9,266	-
in foreign currency	-	-
Accrued interest	**-**	**-**
past due	-	-
not past due	-	-
TOTAL	**191,124**	**198,079**

Based on the Decision on obligatory reserve requirements, the Croatian National Bank prescribes the calculation, maintenance and allocation of obligatory reserve requirements for banks and other credit institutions. In line with the stated Decision, the rate of obligatory reserve as at 31 December 2015 is set at 12%.

Of the calculated part of the foreign currency obligatory reserve, 75% is included in the part of the obligatory reserve in HRK and is executed in HRK.

Of the calculated part of obligatory reserve requirement, banks are required to allocate a certain percentage to the accounts of CNB. For the HRK reserve requirement, the percentage is set at 70%, while for the foreign currency reserve requirement the percentage is set at 60%.

Banks maintain the remaining amount of the obligatory reserve by average daily balances of liquid claims over the maintenance period. The HRK part is maintained by average daily balances on the settlement account and in the account to cover the negative balance in the settlement account in the National Clearing System. The foreign currency part is maintained by an average daily balance of liquid foreign currency claims and average daily balances of foreign currency cash and foreign currency cheques.

The Croatian National Bank does not pay any fees on the obligatory reserve funds.

5. PLACEMENTS WITH OTHER BANKS

[HRK'000] PLACEMENTS WITH OTHER BANKS	31 December 2014	31 December 2015
Short-term	**187,798**	**239,065**
with foreign banks	121,089	166,349
with domestic banks	66,709	72,716
Long-term	**2,200**	**1,099**
with foreign banks	2,200	666
with domestic banks	-	434
Accrued interest	**-**	**-**
past due	-	-
not past due	-	-
Provisions for impairment	**-**	**-**
identified losses - domestic banks in bankruptcy	-	-
identified losses - accrued interest	-	-
TOTAL	**189,998**	**240,164**

Out of total placements with other banks as at 31 December 2015, the Bank had net deposits in the amount of HRK 240,164 thousand (2014: HRK 189,998 thousand).

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

[HRK'000] AVAILABLE-FOR-SALE FINANCIAL ASSETS	31 December 2014	31 December 2015
Debt securities	**185,802**	**125,866**
Bonds of the Croatian Ministry of Finance	139,493	105,525
Treasury bills of the Croatian Ministry of Finance	-	-
Foreign government bonds	-	-
Foreign government treasury bills	30,653	7,641
Corporate bonds	1,100	1,096
Foreign corporate bonds	14,557	11,605
Shares in investment funds	**4,306**	**3,016**
Equity securities	**-**	**-**
Accrued interest	**1,532**	**1,548**
past due	-	-
not past due	1,532	1,548
TOTAL	**191,640**	**130,430**

The Bank recognises available-for-sale financial assets at fair value with changes in fair value recognised in the fair value reserve in equity, i.e. in the other comprehensive income. Of the total value of available-for-sale financial assets, as at 31 December 2015, the Bank had collaterals for repurchase agreements in the total amount of HRK 27,907 thousand (2014: HRK 12,109 thousand).

Pursuant to Article 3 of the Decision on Classification of Placements and Off-Balance-Sheet Liabilities of Credit Institutions, the Bank classifies its "loans and receivables" and "held to maturity" placements in accordance with IAS 39 under the scope of the Decision. Pursuant to Article 4 of the Decision, financial assets classified as "at fair value through profit or loss" and "available-for-sale financial assets" in accordance with IAS 39 do not fall under the scope of the Decision. In accordance with the Decision, no impairment losses on the group basis are calculated for financial assets classified as "available for sale".

7. HELD-TO-MATURITY FINANCIAL ASSETS

[HRK'000] HELD-TO-MATURITY FINANCIAL ASSETS	31 December 2014	31 December 2015
Debt securities	**30,653**	**122,214**
Bills of exchange	30,653	122,214
Accrued interest	**1,176**	**665**
past due	1,176	665
not past due	-	-
Provisions for impairment	**(1,797)**	**(2,498)**
identified losses - bills of exchange	(337)	(633)
identified losses - accrued interest	(1,173)	(663)
identified losses on group basis	(287)	(1,202)
TOTAL	**30,032**	**120,381**

Held-to-maturity financial assets consist of discounted bills of exchange from companies. Discounted bills of exchange represent a short-term financial instrument in terms of acceptance of credit risk that perceives the recourse guarantee and represents acceptable exposure for the Bank.

8. LOANS AND ADVANCES TO CUSTOMERS

[HRK'000] LOANS AND ADVANCES TO CUSTOMERS	31 December 2014	31 December 2015
Gross loans	**752,605**	**981,705**
retail	160,418	172,491
corporate	592,187	809,214
Accrued interest	**36,703**	**31,732**
past due	33,935	26,418
not past due	2,768	5,314
Provisions for impairment	**(135,271)**	**(137,648)**
identified losses - gross loans	(98,841)	(102,680)
identified losses - accrued interest	(27,935)	(23,349)
identified losses on group basis	(8,494)	(11,620)
TOTAL	**654,038**	**875,788**

[HRK'000] MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS	2015		
	Identified losses	Identified losses on collective basis	TOTAL
Movement in provisions			
At 1 January	**126,776**	**8,494**	**135,271**
(Decrease)/increase in provisions	10,433	3,126	**13,559**
Write-offs	(11,205)	-	**(11,205)**
Collected impaired interest	-	-	**-**
Net foreign exchange losses/(gains)	24	-	**24**
At 31 December 2015	**126,028**	**11,620**	**137,648**

[HRK'000] MOVEMENTS IN PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS	2014		
	Identified losses	Identified losses on collective basis	TOTAL
Movement in provisions			
At 1 January	121,060	6,921	**127,981**
(Decrease)/increase in provisions	7,731	1,573	**9,304**
Write-offs	(1,916)	-	**(1,916)**
Collected impaired interest	-	-	**-**
Net foreign exchange losses/(gains)	(99)	-	**(99)**
At 31 December 2014	**126,776**	**8,494**	**135,271**

The Bank applies a rate of 1% on balance sheet and off-balance-sheet exposures which are subject to credit risk and for which no identified impairment has been recognised.

9. PROPERTY AND EQUIPMENT

2015 [HRK'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
At 1 January 2015	**43,903**	**9,123**	**11,062**	**1,502**	**9**	**65,598**
Additions	16	48	8	-	718	790
Purchase	18,470	184	106	357	0	19117
Write-offs	-	(987)	(464)	(468)	-	(1919)
Disposals	(1,025)	(25)	(149)	-	-	(1,199)
Transfers	-	-	-	-	(702)	(702)
Deficit	-	(548)	(247)	(17)	-	(812)
At 31 December 2015	**61,364**	**7,795**	**10,316**	**1,374**	**25**	**80,873**
Accumulated depreciation						
At 1 January 2015	**5,113**	**7,820**	**9,210**	**1,083**	**-**	**23,226**
Charge for the year	1,083	667	663	126	-	2,539
Write-offs	-	(980)	(452)	(456)	-	(1,888)
Deficit	-	(537)	(235)	(16)	-	(788)
Disposals	(118)	(24)	(148)	-	-	(290)
At 31 December 2015	**6,078**	**6,946**	**9,038**	**737**	**-**	**22,799**
Net book amount	**55,287**	**849**	**1,278**	**637**	**25**	**58,074**

2014 [HRK'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
At 1 January 2014	**29,969**	**9,016**	**11,106**	**1,944**	**58**	**52,092**
Additions	-	-	-	-	-	-
Purchase	-	-	-	-	220	220
Write-offs	-	(121)	(77)	(4)	-	(202)
Disposals	(978)	-	-	(445)	-	(1,423)
Transfers	14,912	228	33	7	(269)	14,911
At 31 December 2014	**43,903**	**9,123**	**11,106**	**1,502**	**9**	**65,598**
Accumulated depreciation						
At 1 January 2014	**4,334**	**7,264**	**8,474**	**1,442**	**-**	**21,514**
Charge for the year	811	677	813	90	-	2,391
Write-offs	(32)	(121)	(77)	(4)	-	(234)
Disposals	-	-	-	(445)	-	(445)
At 31 December 2014	**5,113**	**7,820**	**9,210**	**1,083**	**-**	**23,226**
Net book amount	**38,790**	**1,303**	**1,852**	**419**	**9**	**42,372**

Additions in land and buildings in 2015 are set out in Note 11.

10. INTANGIBLE ASSETS

2015 [HRK'000]	Software	Leasehold improvements	Licences	Assets under construction	Total
Cost					
At 1 January 2015	**3,607**	**9,614**	**5,521**	**15,198**	**33,940**
Additions	13,544	-	-	1,199	14,743
Purchase	-	-	225	-	225
Transfers	-	-	-	(13,768)	(13,768)
Deficit	-	-	(1)	-	(1)
Write-off	(7)	-	-	-	(7)
At 31 December 2015	**17,144**	**9,614**	**5,745**	**2,629**	**35,132**
Accumulated amortisation					
At 1 January 2015	**2,227**	**9,090**	**4,948**	**-**	**16,265**
Charge for the year	1,814	172	225	-	2,211
Deficit	-	-	(1)	-	(1)
Write-offs	(7)	-	-	-	(7)
At 31 December 2015	**4,034**	**9,262**	**5,172**	**-**	**18,468**
Net book amount	**13,110**	**352**	**573**	**2,629**	**16,664**

2014 [HRK'000]	Software	Leasehold improvements	Licences	Assets under construction	Total
Cost					
At 1 January 2014	3,607	9,614	5,438	14,060	32,722
Additions	-	-	-	955	955
Transfers	-	-	-	282	282
Write-offs	-	-	99	(99)	-
At 31 December 2014	**3,607**	**9,614**	**5,521**	**15,198**	**33,940**
Accumulated amortisation					
At 1 January 2014	1,765	8,816	4,667	-	15,248
Charge for the year	462	274	297	-	1,033
Write-off	**-**	**-**	(16)	-	(16)
At 31 December 2014	**2,227**	**9,090**	**4,948**	**-**	**16,265**
Net book amount	**1,380**	**524**	**573**	**15,198**	**17,675**

11. OTHER ASSETS

[HRK'000] OTHER ASSETS	31 December 2014	31 December 2015
Other assets	**56,650**	**45,315**
Fees receivable	2,868	634
Prepaid expenses	422	456
Repossessed assets	20,556	12,931
Inventories	326	310
Other receivables	32,478	30,985
Provisions for impairment	**(27,642)**	**(30,152)**
TOTAL	**29,008**	**15,163**

During 2015, the Bank repossessed non-current assets held for sale in the total amount of HRK 13,012 thousand (2014: HRK 1,485 thousand) of which HRK 0 thousand relates to land (2014: HRK 0 thousand), HRK 10,141 thousand relates to buildings (2014: HRK 997 thousand) and HRK 2,871 thousand relates to flats (2014: HRK 488 thousand).

During 2015, repossessed non-current assets sold in lieu of uncollected receivables amounted to HRK 2,598 thousand.

Although the Bank actively works on selling assets repossessed in lieu of uncollected receivables, during 2015 these assets in the amount of HRK 19,070 thousand (2014: HRK 14,913 thousand) were reclassified to property and equipment due to a time period of two years passing from the repossession. In such cases the Bank starts recognising depreciation of such assets (Note 9).

Movements in provisions for impairment of other assets are as follows:

[HRK'000] MOVEMENT IN PROVISIONS FOR OTHER ASSETS	2014	2015
At 1 January	**26,561**	**27,945**
Increase/decrease	303	(219)
Write-offs	1,081	2,510
At 31 December	**27,945**	**30,236**

12. DEPOSITS FROM CUSTOMERS

[HRK'000] DEPOSITS FROM CUSTOMERS	31 December 2014	31 December 2015
Demand deposits	**115,768**	**110,119**
retail	33,872	44,123
in HRK	*20,650*	*27,373*
in foreign currency	*13,222*	*16,749*
corporate	81,896	65,996
in HRK	*76,805*	*55,669*
in foreign currency	*5,090*	*10,327*
Restricted deposits	**292**	**477**
Term deposits	**1,013,251**	**1,255,780**
retail	942,841	1,094,063
in HRK	*220,477*	*247,776*
in foreign currency	*722,364*	*846,287*
corporate	70,410	161,718
in HRK	*39,354*	*97,927*
in foreign currency	*31,056*	*63,791*
Accrued interest	**16,214**	**18,808**
past due	86	53
not past due	16,128	18,755
TOTAL	**1,145,526**	**1,385,184**

13. BORROWINGS

[HRK'000] BORROWINGS	31 December 2014	31 December 2015
Short-term	**20,723**	**37,634**
from banks	13,700	30,635
in HRK	*13,700*	*23,000*
in foreign currency	-	*7,635*
from other financial institutions	7,023	6,999
in HRK	-	-
in foreign currency	*7,023*	*6,999*
from others	-	-
in HRK	-	-
in foreign currency	-	-
Long-term	**17,103**	**16,932**
from banks	17,103	16,932
in HRK	*17,103*	*16,932*
in foreign currency		
Accrued interest	**68**	**354**
past due	-	-
not past due	68	353
TOTAL	**37,894**	**54,919**

Borrowings include repurchase agreements in the total amount of HRK 20,000 thousand (2014: HRK 10,700 thousand).

Borrowings also include a loan from the EIF (European Investment Fund) in the amount of HRK 6,999 thousand (2014: HRK 7,023 thousand). These funds relate to a credit line for financing of small entrepreneurship.

14. HYBRID INSTRUMENTS

[HRK'000] HYBRID INSTRUMENTS	31 December 2014	31 December 2015
Hybrid instruments	**26,049**	**22,905**
in HRK	3,065	-
in foreign currency	22,984	22,905
Accrued interest	**440**	**-**
past due	440	-
TOTAL	**26,489**	**22,905**

In July 2009, the Bank received a hybrid instrument with a maturity of 5.5 years and a fixed interest rate of 7,75%. The hybrid instrument was included in the Bank's supplementary capital until its maturity in January 2015.

In July 2014, an Agreement on Subordinated Debt was signed based on which J&T Banka, Prague, made a payment in the amount of EUR 3 million at an interest rate of 12M Euribor + 7% p.a. This instrument is included in the Bank's supplementary capital.

15. PROVISIONS FOR LIABILITIES AND CHARGES

[HRK'000] PROVISIONS FOR LIABILITIES AND CHARGES	31 December 2014	31 December 2015
Provisions for legal disputes	146	120
Provisions for pensions and other liabilities to employees	20	-
Provision for contingent and other liabilities	803	1,161
TOTAL	**970**	**1,281**

The movement in provisions for liabilities and charges is presented below:

[HRK'000] MOVEMENT IN PROVISIONS FOR LIABILITIES AND CHARGES	2014	2015
At 1 January	**1,039**	**880**
Increase/decrease in the income statement	808	358
Used during the year	(967)	(976)
At 31 December	**880**	**262**

16. OTHER LIABILITIES

[HRK'000] OTHER LIABILITIES	31 December 2014	31 December 2015
Trade payables	1,027	380
Liabilities for salaries, deductions from salaries, taxes and contributions	1,892	1,957
Deferred fee income	3,433	5,545
Other liabilities	4,928	5,824
TOTAL	**11,279**	**13,706**

17. EQUITY

17.1. Share capital

31 December 2015	Number of shares	Ownership share (%)
J&T BANKA A.S. (1/1)	17,750,000	76.81
PBZ DD/ALTERNATIVE UPRAVLJANJE d.o.o.(1/1)	3,571,429	15.46
VALIDUS D.D. U STEČAJU (1/1)	513,477	2.22
RAIFFIESENBANK INTERNATIONAL AG/ATJ INVEST, S.R.O. (1/1)	283,944	1.23
Other shareholders	989,690	4.28
TOTAL	**23,108,540**	**100.00**

31 December 2014	Number of shares	Ownership share (%)
J&T BANKA A.S.	7,500,000	58.33
ALTERNATIVE D.O.O.	3,571,429	27.77
VALIDUS D.D. U STEČAJU	513,477	3.30
RAIFFEISENBANK AUSTRIA D.D. - custodian account	199,444	1.55
PLURIS D.D. U STEČAJU	158,694	1.23
Other shareholders	915,496	7.12
TOTAL	**12,858,540**	**100.00**

17.2. Other reserves

[HRK'000]	2014	2015
Reserves for treasury shares	2,522	2,552
Legal reserves	1,235	1,235
Other capital reserves	21,435	21,435
	25,222	**25,222**

17.3. Fair value reserve

The fair value reserve includes unrealised gains and losses on changes in the fair value of available-for-sale financial assets.

17.4. Accumulated loss

Accumulated loss comprises previous year accumulated losses and property acquisition cost related to capitalised costs incurred during sale and repurchase transactions of property owned by the Bank in prior years.

17.5. Legal reserve

The Bank is required to create a legal reserve by allocating 5% of its net profit for the year, until the reserve reaches 5% of the share capital. The legal reserve can be used to cover losses from previous years if the losses are not covered by current year profits or if other reserves are not available.

17.6. Proposed dividends

Dividends payable are not recognised until they are approved at the General Assembly. The Management Board will not propose a dividend payment for 2015 (2014: nil).

17.7. Capital adequacy

The basic parameters of the capital management policy are given by the Credit Institutions Act and the Regulation (EU) no. 575/2013.

The basic objectives of capital management mean ensuring the following:

- the going concern assumption and
- meeting the regulatory and capital adequacy requirements

The regulatory capital adequacy rate as at 31 December 2015 was set at a minimum of 8%, while based on CNB's Decision for the Bank this amount was increased by an additional 1.9%, while keeping a protective layer for the preservation of ordinary capital in the amount of 2.5% and a protective layer for structural system risk of 1.5%.

Total capital is determined as a category of capital that is managed by the Bank, and must be at least at a level that ensures the adequacy of capital sufficient to cover the capital requirements for operational risks and to ensure minimum prescribed capital adequacy ratio. Total capital is calculated in accordance with the prescribed subordinate acts of CNB and Regulation (EU) no. 575/2013.

[HRK'000] CAPITAL ADEQUACY	31 December 2014	31 December 2015
BASIC CAPITAL	104,515	156,583
Regular basic capital	104,515	156,583
Additional basic capital	-	-
Supplementary capital	23,034	22,905
REGULATORY CAPITAL	**127,550**	**179,488**
CAPITAL REQUIREMENTS	**72,229**	**89,431**
CAPITAL ADEQUACY RATIO	**14.13%**	**16.06%**

During 2015, J&T Bank provided sufficient capital which secured and met all legal criteria.

In February 2015, the Bank's share capital was increased on the basis of the provisions of its Articles of Association on the so-called approved capital by payment of the amount of HRK 37,500,000.00. In September 2015, the Bank's share capital was again increased under the same conditions by payment of the amount of HRK 65,000,000.00 by the same shareholder, so that the new share capital amounts to HRK 231,085,400.00.

18. INTEREST AND SIMILAR INCOME

[HRK'000] INTEREST AND SIMILAR INCOME	2014	2015
Analysis by product	**57,552**	**68,879**
Loans and advances to customers	48,883	56,285
retail	*10,524*	*12,826*
corporate	*38,360*	*43,459*
Deposits	27	19
Debt securities	8,773	12,450
Other	(131)	126
Analysis by source	**57,552**	**68,879**
Retail	10,524	12,826
Corporate	38,961	45,954
State and public sector	5,836	4,919
Financial institutions	502	1,149
Other	1,729	4,032

19. INTEREST AND SIMILAR EXPENSE

[HRK'000] INTEREST AND SIMILAR EXPENSE	2014	2015
Analysis by product	**42,753**	**41,271**
Deposits from customers	39,555	37,917
retail	*37,793*	*35,924*
financial institutions	*36*	*130*
corporate	*1,725*	*1,862*
Borrowings	1,709	1,300
Hybrid instruments	973	1,735
Other	516	320
Analysis by source	**42,753**	**41,271**
Retail	38,022	35,962
Corporate	1,434	1,635
State and public sector	297	174
Financial institutions	2,458	3,127
Other	542	373

20. FEE AND COMMISSION INCOME

[HRK'000] FEE AND COMMISSION INCOME	2014	2015
Payment transaction fees	**4,017**	**4,261**
Letters of credit and guarantee fees	**1,059**	**837**
Impairment	**16**	**15**
Other	**2,168**	**1,516**
TOTAL	**7,260**	**6,629**

21. FEE AND COMMISSION EXPENSE

[HRK'000] FEE AND COMMISSION EXPENSE	2014	2015
Payment transaction fees	1,298	1,152
Other	585	656
TOTAL	1,882	1,808

22. GAINS LESS LOSSES FROM AVAILABLE-FOR-SALE FINANCIAL SECURITIES

[HRK'000] GAINS LESS LOSSES FROM AVAILABLE-FOR-SALE SECURITIES	2014	2015
Realised	6,833	660
Shares	-	-
Bonds	6,839	604
Treasury bills	(6)	-
Investment funds	-	56
Impairment of available-for-sale financial assets - investment funds	-	-
TOTAL	6,833	660

23. GAINS LESS FOREIGN EXCHANGE LOSSES

[HRK'000] GAINS LESS FOREIGN EXCHANGE LOSSES	2014	2015
Net gains / (losses) from translation of monetary assets and liabilities	365	637
Net gains / (losses) from dealing in foreign currencies	2,463	4,012
TOTAL	2,827	4,649

24. OTHER INCOME

[HRK'000] OTHER OPERATING INCOME	2014	2015
Other income	1,677	4,711
TOTAL	1,677	4,711

25. GENERAL AND ADMINISTRATIVE EXPENSES

[HRK'000] GENERAL AND ADMINISTRATIVE EXPENSES	2014	2015
Staff costs	**21,698**	**23,295**
Deposit insurance premium	**2,851**	**3,296**
Other expenses	**17,967**	**20,077**
TOTAL	**42,516**	**46,667**

As at 31 December 2015, the Bank had 148 employees (31 December 2014: 143 employees).

26. IMPAIRMENT LOSSES

[HRK'000] IMPAIRMENT LOSSES	2014	2015
Identified losses	**(3,866)**	**37,120**
Available-for-sale securities	(27)	-
Held-to-maturity securities	234	370
Loans and advances to customers	(4,308)	34,713
Interest receivable	235	(473)
Other receivables	-	2,510
Identified losses on collective basis	**1,324**	**4,041**
Assets	1,324	4,041
TOTAL	**(2,543)**	**41,161**

27. INCOME TAX

Income tax expense recognised in the income statement:

[HRK'000] INCOME TAX	2014	2015
Loss before tax	**(11,911)**	**(50,476)**
Income tax at 20%	**(2,382)**	**(10,095)**
Non-deductible expenses	3,055	4,355
Non-taxable income	(2,192)	(2,744)
Tax at 20% after reconciliations	**(1,519)**	**(8,484)**
Income tax in the income statement	**-**	**-**
Effective tax rate	**0%**	**0%**

In previous years the Bank incurred tax losses. Such tax losses can be carried forward over the following five years in which they are incurred. Tax losses and their expiry dates as at 31 December 2015 were as follows:

[HRK'000] TAX LOSSES		2015	
Incurred	Year of expiry	Gross tax losses	Tax effect at a rate of 20%
2011	2016	8,312	1,662
2012	2017	8,137	1,627
2013	2018	105,472	21,094
2014	2019	7,597	1,519
2015	2020	42,421	8,484
TOTAL		**171,939**	**34,386**

The Bank has not recognised deferred tax assets since their utilisation in future periods is uncertain.

28. BASIC AND DILUTED EARNINGS PER SHARE

For the purpose of calculating earnings per share, earnings are calculated as the profit for the period attributable to shareholders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares in circulation during the year after deducting the number of ordinary treasury shares.

Since there is no effect of options, convertible bonds or similar effects, the weighted average number of ordinary shares used to calculate diluted earnings per share was the same as the one used to calculate basic earnings per share. The bank has no preference shares.

	2014	2015
Profit/(loss) for the year [HRK'000]	**(11,911)**	**(50,476)**
Weighted average number of shares	**12,858,540**	**23,108,540**
BASIC AND DILUTED EARNINGS PER SHARE	**(0.93)**	**(2.18)**

29. CONCENTRATION OF ASSETS AND LIABILITIES

[HRK'000]	31 December 2014	31 December 2015
Giro account with CNB	58,008	64,708
Obligatory reserve with CNB	95,289	109,529
Bonds issued by the Ministry of Finance	139,493	105,525
Borrowings from CBRD	(20,103)	(19,932)
TOTAL	**272,687**	**259,830**

The Bank's exposure towards local government and state institutions not directly funded from the State Budget (excluding companies owned by the state) is presented below:

[HRK'000]	31 December 2014	31 December 2015
Loans	4,697	13,627
Deposits	(19,118)	(9,571)
TOTAL	**(14,421)**	**4,056**

30. CASH AND CASH EQUIVALENTS

[HRK'000]	31 December 2014	31 December 2015
Cash and amounts due from banks	273,932	327,614
Placements to banks with original maturity up to 90 days	13,835	13,928
TOTAL	**287,767**	**341,542**

31. CONTINGENCIES

[HRK'000] COMMITMENTS AND CONTIGENCIES	31 December 2014	31 December 2015
Guarantees	**23,264**	**16,099**
in HRK	22,589	16,099
in foreign currency	675	-
Letters of credit	**2,977**	**3,708**
in foreign currency	2,977	3,708
Revolving facility	**53,029**	**94,371**
in HRK	53,017	91,918
in foreign currency	11	2,453
Other off-balance-sheet items	**-**	**16**
in foreign currency	-	16
TOTAL	**79,270**	**114,194**

As at 31 December 2015, the Bank recognised unidentified provisions for off-balance-sheet risks arising from the issue of guarantees, letters of credit and undrawn lending commitments in the amount of HRK 1,142 thousand (2014: HRK 793 thousand).

32. RELATED PARTY TRANSACTIONS

The key shareholders of the Bank are J&T Banka A.S., Alternative d.o.o. and Validus d.d. u stečaju which together at the year-end owned 94.48% of the Bank's shares. The remaining 5.52% of the shares are publicly traded. The Bank considers that it has an immediate related party relationship with its key shareholders; the Supervisory and Management Board members and other executive management (together "key management"); close family members of key management; and jointly controlled or significantly influenced by Management Board members and their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

32.1 Key transactions with immediate related parties

As at 31 December 2015, the Bank is exposed to transactions with key shareholders which are generated exclusively from deposits, use of services, lending activities and key management compensation. The total credit exposure to key shareholders as at 31 December 2015 as well as 31 December 2014 is nil.

As at 31 December 2015, the Bank has no obligation to key shareholders that relates to funds on transaction accounts and no obligation for rendered services.

Except for salaries, there was no other compensation to the key management in 2015 and 2014. In 2014, only transactions of the Management Board as the key management were disclosed. The Bank had no reward policy in 2015 and 2014.

[HRK'000] RELATED PARTY TRANSACTIONS	2014				2015			
	exposure	liabilities	revenue	expenses	exposure	liabilities	revenue	expenses
Key shareholders	-	-	420	1,323	-	941	-	648
Key management	1,302	-	-	2,816	1,960	438	103	5,150
Compensation paid	-	-	-	2,816	-	-	-	5,148
Loans granted	1,302	-	-	-	1,960	438	103	2
TOTAL	1,302	-	420	4,139	1,960	1,379	103	5,798

33. MANAGED FUNDS FOR AND ON BEHALF OF CORPORATE AND RETAIL CUSTOMERS

The Bank manages funds for and on behalf of corporate and retail customers, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. For providing these services, the Bank receives fee income. These assets do not represent the Bank's assets and are not recognised in the balance sheet. The Bank is not exposed to any credit risks from these placements, nor does it guarantee for investments.

Furthermore, the Bank manages credit exposure of third parties as follows:

[HRK'000] MANAGED FUNDS FOR AND ON BEHALF OF CORPORATE AND RETAIL CUSTOMERS	2014	2015
Assets	**98,670**	**53,140**
Corporate	63,594	18,648
Retail	35,071	34,490
Giro account	5	2
Liabilities	**98,670**	**53,140**
Companies	62,436	17,964
CBRD	24,689	22,593
Local authorities	1,641	1,841
Retail	9,904	10,742

34. AVERAGE INTEREST RATES

Average interest rates calculated based on the weighted average for each category of interest-earning assets and interest-bearing liabilities, are presented below:

[HRK'000]	2014	2015
Assets		
Obligatory reserve with CNB	-	-
Placements with and loans to other banks	0.37%	0.28%
Available-for-sale financial assets	3.27%	3.70%
Held-to-maturity financial investments	8.10%	8.61%
Loans and advances to customers	7.47%	7.93%
Liabilities		
Deposits	3.76%	3.17%
Borrowings	2.01%	2.62%
Hybrid instruments	7.50%	7.50%

35. OPERATING LEASE COMMITMENTS

[HRK'000] OPERATING LEASE COMMITMENTS	31 December 2014	31 December 2015
Up to 1 year	3,862	3,915
From 1 to 5 years	11,993	10,899
Over 5 years	2,383	-
	18,238	14,814

36. FAIR VALUE OF FINANCIAL ASSETS

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

The Management Board believes that the fair values of financial assets and liabilities are not significantly different from their carrying values recorded in the balance sheet as at 31 December 2015.

The following methods were used to estimate the fair value of financial instruments of the Bank:

Cash and amounts due from banks, amounts held with the CNB

The carrying values of cash, amounts due from banks, amounts held with CNB generally approximate their fair values.

Placements with and loans to other banks

Estimated fair value of loans and receivables represents the discounted value of future cash flows.

Available-for-sale financial assets

The fair value of available-for-sale financial assets is based on their market prices. Financial instruments not quoted on active markets are evaluated through discounted cash flows method or by an alternative method used for fair value estimation.

Loans and advances to customers

The fair value of loans and advances to customers is based on the analysis of discounted cash flows of loans by applying current interest rates for loans with similar conditions or characteristics. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis or the appraised value of the underlying collateral. Considering that an insignificant part of loans and advances to customers is contracted at a fixed interest rate or at a rate deviating from the market rate, the Bank considers the fair value of loans and advances to customers to approximate their carrying value.

Deposits from banks and customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable as at the balance sheet date. The fair values of term deposits at variable interest rates approximate their carrying values as at the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using rates currently applied to deposits of similar remaining maturities. Most of the customers' deposits with fixed interest rates become due within one year and therefore their fair value does not significantly differ from their carrying value.

37. EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date, there were no significant events that need to be disclosed here.