CROATIA BANKA d.d.

ANNUAL REPORT FOR 2014

CROATIA BANKA d.d.

C O N T E N T

INTRODUCTION

The Annual report includes the Report on the Bank's position, financial overview and overview of operations, audited financial statements with the Independent auditor's report and additional financial statements for the Croatian National Bank.

Legal form

The Annual report was prepared in line with the Accounting Act and the Companies Act which require reporting to the shareholders at the annual meeting of shareholders by the company Management. According to the Companies Act, the main financial statements include the statement of financial position, the income statement, the statement of changes in equity, the cash flow statement and notes to the financial statements, and the Companies Act, in Article 250a, stipulates an obligation to submit an annual report on the Bank's position.

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

Abbreviations

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

Foreign exchange rate

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

31 December 2014	EUR 1 = HRK 7.661471 USD 1 = HRK 6.302107
31 December 2013	EUR 1= HRK 7.637643 USD 1 = HRK 5.549000

Operations summary and main financial indicators
(amounts in millions of HRK)

Indicator/Year	2014	2013	2012	2011	2010
Main indicators					
Net loss	4	(25)	(104)	(14)	(42)
Total assets	3,038	2,629	1,984	1,886	1,892
Loans and advances to customers	1,906	1,630	1,042	980	1,010
Total deposits received	2,593	2,066	1,486	1,348	1,308
Capital and reserves	200	195	220	117	126

Other indicators					
Ratio of operating expenses in operating income	79.7%	113.7%	129.0%	100.8%	121.3%
Regulatory capital	171	193	218	187	192
Capital adequacy	13.29%	14.0%	17.4%	15.4%	14.5%

Historical development of the Bank

Croatia banka d.d., Zagreb was founded on 22 December 1989, under the name Banka male privrede, d.d., Zagreb. On that day, 50 shareholders with the social ownership capital paid the amount of the founding fund (the founding principal) of 22,340,435,000 former Yugoslav dinars or DEM 319,149 (which was then the condition for establishing a bank) and the founding fund was then divided into 4,565 founding shares. The Bank obtained the Decision on full authorization on 25 January 1990 by the Yugoslav National Bank, and registered it at the court as of 18 July 1990. As of 4 May 1990, the Bank changed its name from Banka male privrede d.d. Zagreb into Croatia banka male privrede d.d. Zagreb, (short name Croatia banka d.d. Zagreb), and as of 21 June 1995 it changed its name into Croatia banka d.d. Zagreb.

Due to difficulties the Bank had, in 1999, a procedure to rehabilitate the Bank was commenced, and, in line with Article 15 Paragraph 1, Article 16 Paragraph 1, and Article 17 Paragraph 1 of the Bank Rehabilitation and Restructuring Act (Official Gazette No. 44/94), and Point VII of the Decision of the Government of the Republic of Croatia on rehabilitation and restructuring of Croatia banka d.d. Zagreb of 27 September 1999 and the Decision of the Government of the Republic of Croatia on amendments to the Decision on rehabilitation and restructuring of Croatia banka d.d. Zagreb of 24 May 2000, the General Assembly of Croatia banka d.d. on 13 September 2000 made a Decision on issuing new substitute shares in the amount of HRK 204.6 million, and the Decision on amendments to the Statute of Croatia banka d.d. which formally ended the process of the Bank's rehabilitation. The DAB contributed capital to the Bank in the amount of the substitute shares, so the Bank continued in operation as a joint-stock company fully owned by the state.

Information on economic trends and forecasts[1]

According to the first estimate, real GDP in 2014 dropped by 0.4% compared to 2013 with the note that the quarterly gross domestic product for the fourth quarter of 2014 is in real terms higher by 0.3 percent. These data certainly support the arguments that in 2015 it is realistic to expect a GDP growth which could have a positive impact on credit demand.
The volume of industrial production increased strongly in October and November, which compensated the decline in industrial activity during the second and third quarters. Data on construction activity for October indicate an increase in activity compared to the previous quarter, while real turnover of retail trade for October and November is in stagnation.

In October and November last year, the stagnation in the number of employed persons continued, which also marked the first three quarters of 2014. The data show increased employment in the sectors of public administration, the stagnation of the number of employed persons in industry and the decline in construction and trade and services.
The decrease in the administrative unemployment rate in November last year to 18.8 percent from 20.7 percent the year before, is largely a consequence of the deletion of persons from the register for non-compliance with legal provisions. The data from the Labour Force Survey indicate a slight increase in the employment rate. Nominal gross and net salaries slightly increased during October and November 2014 compared to the average of the previous quarter, while real gross and net salaries stagnated.

The decrease in goods exports and imports at the beginning of the fourth quarter of 2014 were determined by movements in the exchange of other transport vehicles and oil and oil products, and if these categories are excluded, there was an increase in trade. According to the CBS data, total exports of goods decreased by 2.8 percent in October compared to the average of the previous quarter, while exports of ships and oil increased by 1.2 percent. This was supported by the increased exports of clothing and medical and pharmaceutical products. Positive developments in 2015 are expected to continue in the field of foreign trade, i.e. further stronger growth in exports than imports, although at somewhat slower rates than in 2014.

It is estimated that the inflation rate, after the negative rate in 2014, could be about 0.2 percent in the following year, and it will largely depend on the movement of oil prices on the global market.

Good liquidity of the banking sector in the euro area supported by expectations about the intensification of expansionary monetary policy of the ECB, has resulted in the retention of euro reference interest rates in November and December 2014 on very low levels. Global risk avoidance increased slightly at the end of the year, while the risk premium for most European emerging markets at the end of December was approximately at the same level as at the end of October. The premium for Croatia at the end of December was 264 bp and did not significantly change, but it still remained significantly higher than the premiums of comparable countries.

Very good liquidity of the domestic financial system was retained in November and December. The monetary policy of the Croatian National Bank will remain expansive. The intention of the CNB is to continue to maintain the structural liquidity, until GDP and employment start to grow more significantly. The objective of the exchange rate policy continues to be the stable exchange rate of HRK against EUR.

The banking sector continued to maintain its stability, and the CNB showed no weaknesses. The trend of deleveraging of the population continued. The increase in individual’s deposits impacted in 2014 the reduction of indebtedness of banks. It is estimated that bank interest rates will continue to decline slightly.

[1]*Report on banks No. 210 and No. 211, CNB*

Description of operations

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

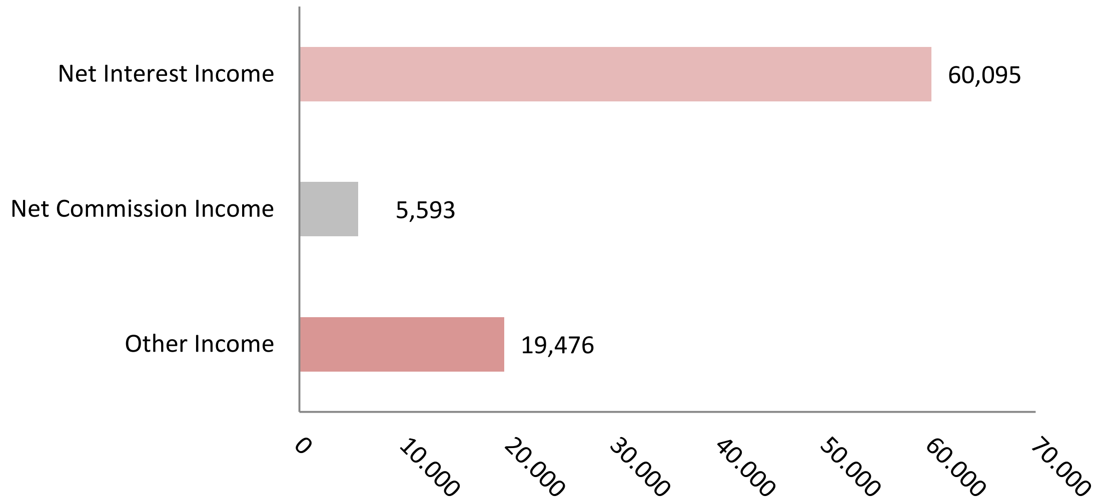
The Bank is 100% owned by the state, and according to the amount of assets (HRK 3.0 billion) it takes 12th position of the total of 28 banks. As at 31 December 2014, the Bank has 15 branches and 3 bureaus.

As at 31 December 2014, the regulatory capital amounts to HRK 171.1 million, and the regulatory capital adequacy rate is 13.29%

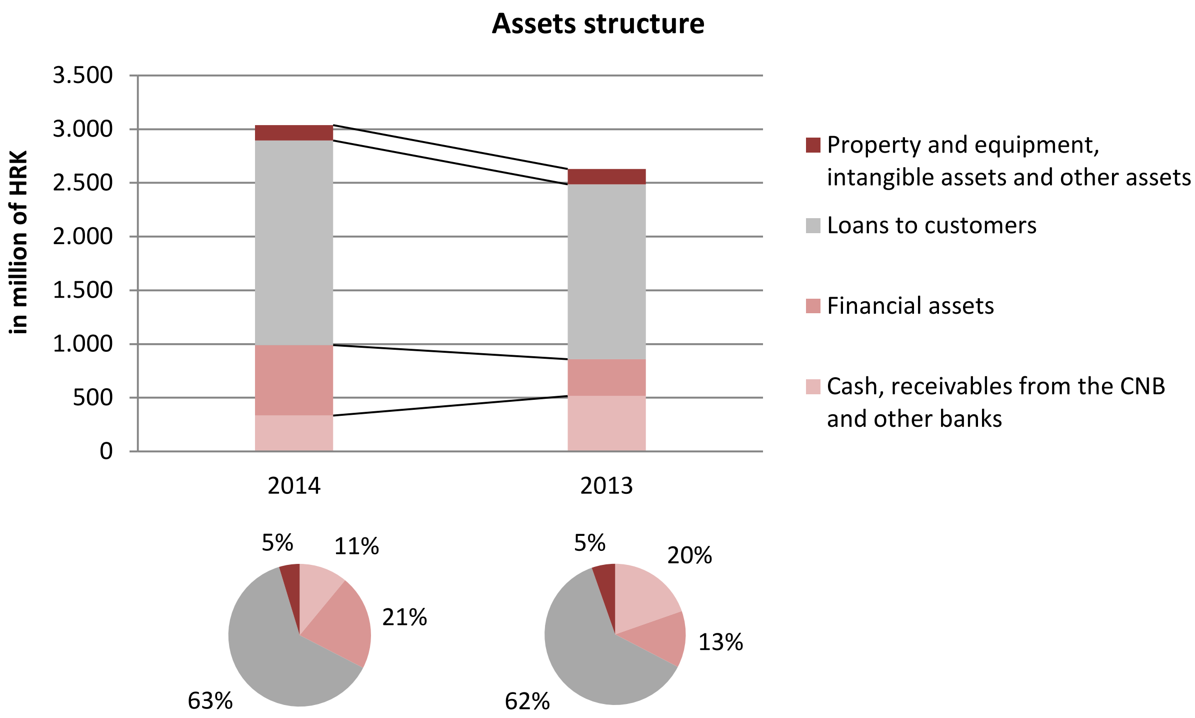
In 2014, the Bank realised profit after tax in the amount of HRK 3.9 million. Operating profit amounts to HRK 17.3 million, and impairment costs and provisions to HRK 12.2 million.

Total operating income increased by 31.1 percent compared to 2013. The most significant portion of operating income is net interest income which makes 70.6 percent (HRK 60.1 million) of the total income.

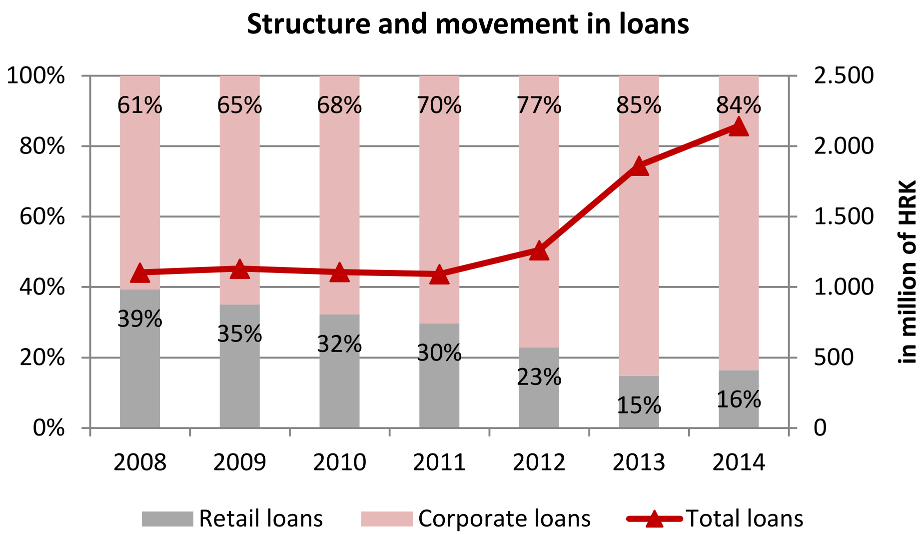
Structure of operating income for the period from 1 January 2014 to 31 December 2014 (in thousands of HRK)



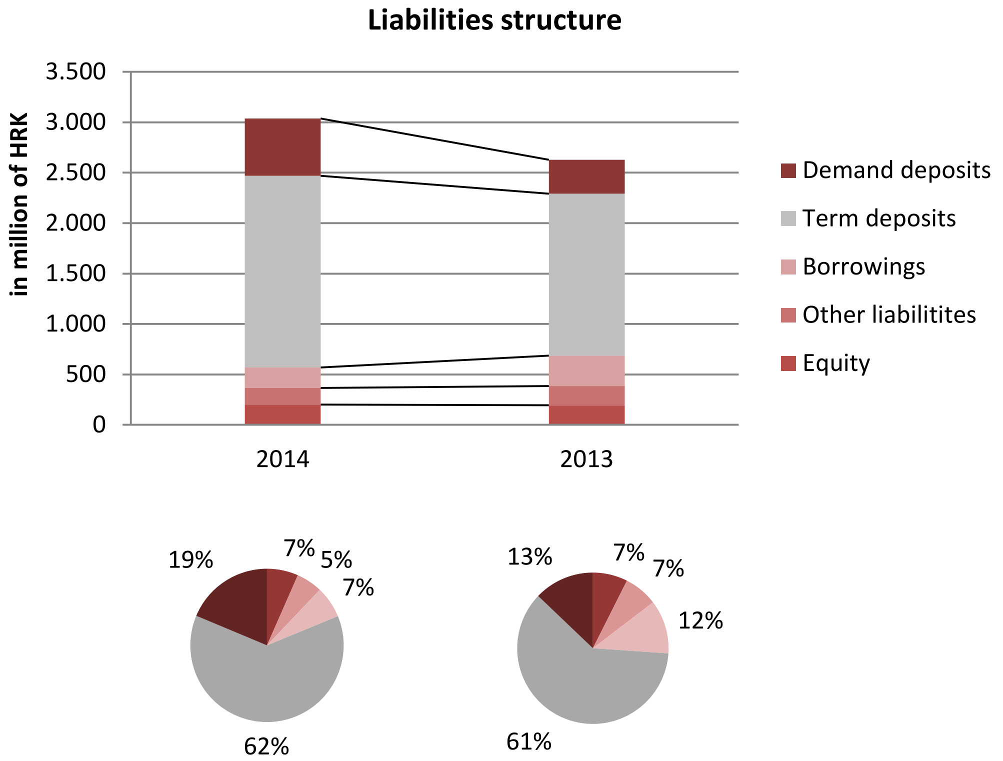
At the end of 2014, the Bank's assets amounted to HRK 3.0 billion and increased by HRK 408.9 million or 15.6 percent compared to 2013. In the assets structure, the greatest share make loans and receivables from customers (63 percent), followed by financial assets (21 percent) and cash funds, receivables from the Croatian National Bank and other banks (11 %).



As at 31 December 2014, the total gross loans to customers amounted to HRK 2,144.1 million and increased by 15 percent compared to 2013. In the structure of loans to customers, 84 percent make loans to legal persons, and 16 percent loans to individuals (including loans to craftsmen).

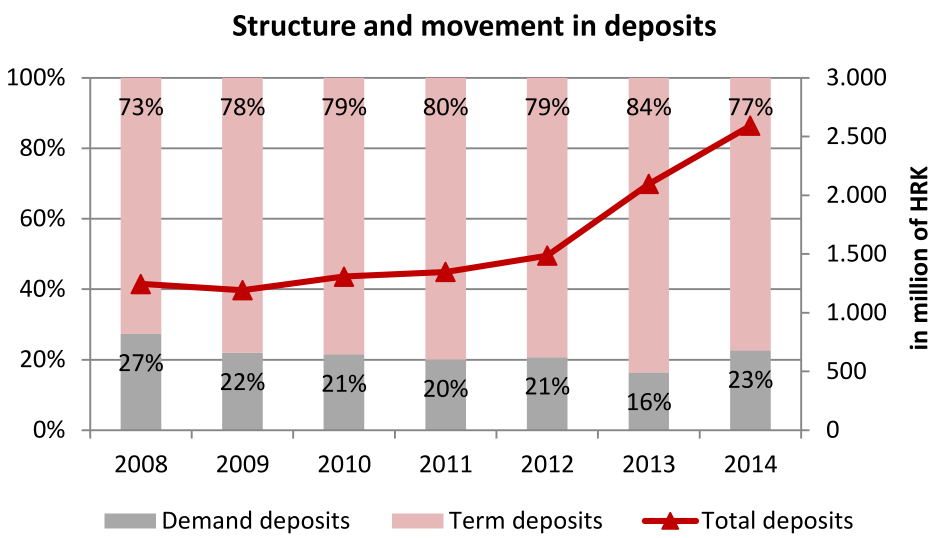


In the liability structure, the most significant share of 62 percent make term deposits. They are followed by deposits held at call with 19 percent.



Customer deposits recorded an increase compared to the end of 2013 by 27 percent, and the growth in total deposits (including deposits of banks) was 24 percent and at the end of 2014, they amounted to HRK 2.6 billion.

In the total deposit structure, term deposits have the greatest share (77 percent) compared to deposits held at call (23 percent). Term deposits increased by 14 percent, and their share in the total deposit structure decreased by 7 percentage points. In 2014, deposits held at call increased by 72 percent.



Operations with individuals

In the field of operations with individuals, in 2014 the Bank focused its activities on the placement of funds, improving stability and increase in deposits, and further increase in the number of clients.
Despite unfavourable economic trends and over-indebtedness of citizens, the Bank managed to significantly increase crediting of individuals, which led to a doubled level of placements compared to 2013, despite the fact that the number of business units was reduced. This enabled full realisation of the business plan of assets and interest income, and largely due to the lower base, the growth in crediting of 28.2% was achieved.
In the structure of total loans to individuals, the greatest share have cash loans, then housing loans and used revolving loans on current accounts.
In 2014, deposits increased by HRK 257 million, which is the annual growth of 21.9%. In addition to the realisation of the business plan in this area, the plan was also realised in terms of interest expenses, as in addition to the aforementioned growth, a significant decrease in average passive interest rates was achieved.
The number of open current accounts was increased several times, which greatly impacted the realisation of non-interest income plans, while the lower growth in non-interest income was recorded only in the part of payment transactions, and the sole reason for this is the mentioned reduction in the number of business units.
The Banka also started to sell third-party products more actively, such as insurance policies, which enabled additional increase in non-interest income.

Operations with legal persons

Deposits of legal persons (excluding deposits of banks) make 41.0 percent of the Bank’s total deposits. Compared to the end of 2013, deposits of legal persons record an increase of 36.0 percent and amount to HRK 997.9 million. Of this, deposits held at call amount to HRK 427.1 million, and term deposits to HRK 570.8 million.

At the end of 2014, the total gross credit portfolio of legal persons amounted to HRK 1,791.0 million, which is an increase by HRK 204.7 million, or 12.9 percent compared to end of 2013.

The above figures clearly show the growth of the business with the economy, and they are also a result of activities continued in 2014, whose main goal is strengthening the market position of the Bank. Acquisition campaigns started in 2013 were continued in 2014, and active efforts were made to improve the quality of offer and services. A new service for customers business entities was introduced, *Maestro Business* card. These measures aim to attract new customers, but also to retain the existing quality clients. Also, continuous efforts are made to improve the quality of business processes with a focus on the crediting process. Business network, specifically sales staff, is gradually relieved of the back office activities. Given that the implementation of organisational changes takes some time in order to sort all business processes, this measure is gradually successfully implemented.

Treasury operations
The Bank maintains liquidity with available instruments of HRK and foreign currency liquidity (funds in Bank's accounts, securities, inter-bank loans and repurchase and collateral loans), and it does not use more advanced instruments, such as different types of derivatives.

In managing operating liquidity, internal methodology has been developed for reporting on daily liquidity needs. In addition, internal methodology has been established for managing position foreign exchange differences for the purpose of decreasing and/or eliminating the impact of foreign exchange losses.

In its efforts to increase the activities of sale of treasury products, and establish a better communication and contact with clients, the Bank introduced and elaborated the internal methodology of foreign currency trading with the Bank's clients (Customer Desk). This way, direct contact with a portion of clients was established, with the aim to present the possibilities of transactions of purchasing and selling foreign currency, and the invitation for cooperation was sent with the presentation of advantages the Bank offers at its Customer Desk. As support to sales activities, the possibilities and direct contacts of the Treasury have been published on the Bank's official website.

In the previous year, the Treasury increased the volumes and number of transactions for all products and thereby actively accepted the role of the bank's profit centre.

Investment banking operations
The Bank has obtained all permits from the Croatian National Bank and the Croatian Financial Services Supervisory Agency for providing investment services and activities, and has ensured all preconditions for providing investment services. In the field of investment banking, the Bank offers to its clients the activities of mediation in purchase and sale of financial instruments, and activities of custody over client's financial assets, margin loans for the purchase of financial instruments, and cash S-loans with collaterals of financial instruments in the bank's custody.

Despite unfavourable situation in the Croatian financial market, marked by low turnovers, and low activity of investors, the Bank achieved positive results in the field of investment banking. In the last year, the client base was significantly extended, and the turnover on the Zagreb Stock Exchange increased several times. In the following period, the Bank will offer to its clients the Internet trading service, which should ultimately result in an additional improvement in the result in this field.

Internal controls system and internal audit

The internal controls system is established at the Bank's level by internal acts that vertically and horizontally divide responsibilities among the Bank's organisational units.

The internal controls system in the Bank is established as a set of processes and procedures established for an adequate risk control, monitoring the efficiency and effectiveness of the Bank's operations, reliability of its financial and other information, and compliance with regulations, internal acts, standards and codes for the purpose of ensuring stability of the Bank's operations.

Internal audit

The internal audit function is organised as a separate organisational part, functionally and organisationally independent of activities it audits and other organisational parts of the Bank.

The annual audit plan is based on the documented risk assessment, and it contains all the elements prescribed by the Credit Institutions Act and internal acts. The annual work plan of the internal audit is approved by the Bank's Management Board with previous opinion of the Audit Committee and consent of the Supervisory Board.

Report on the results of the performed audit is delivered to responsible persons of the Bank's organisational part responsible for the audited business areas, the member of the Management Board responsible for the audited business area and the Audit Committee.

Internal audit prepares and submits to the Management Boards and the Audit Committee quarterly, to the Supervisory Board semi-annual, and to the CNB annual reports on its work.

Statement on the corporate management code application
In accordance with the provisions of Paragraph 272.p of the Companies Act, the Management Board of Croatia banka d.d. Zagreb states that the Bank in its operations voluntarily applies the Positions of the Croatian National Bank on corporate management in banks.

In 2014, the Bank mainly followed and applied the recommendations determined by the CNB's Positions, disclosing all information the disclosure of which is foreseen by the effective regulations and information that is in the interest of the Bank's owners and clients.

In accordance with the corporate management requirements, and in line with the provisions of the Companies Act, the Supervisory Board carries out the internal supervision by regular controls of submitted reports. Members of the Supervisory Board regularly obtain detailed information on the Bank's management and operations. At the Supervisory Board meetings, all issues from the competence of this Body are discussed and decided on.
The Bank keeps business and other records and business documentation, prepares accounting documents, realistically assesses assets and liabilities, prepares financial statements and other reports in accordance with accounting regulations and standards and the effective laws and regulations.
Corporate management is conducted in the Bank not only by meeting regulatory requirements, but it also arises from the culture of corporate and personal integrity of management and employees. The description of main characteristics in carrying out internal supervision and risk management in relation to financial reporting are contained in this Annual report.
Candidates for the president and members of the Bank's Management Board must meet all conditions prescribed by law that regulates the operations of banks and other relevant regulations. After obtaining preliminary approval of the central bank, the Supervisory Board appoints the president and members of the Board for a period of maximum four years. The competences of the Bank's Board are defined by law and the Statute. A special decision, adopted with the consent of the Supervisory Board, determines the division of responsibilities of the president and other members of the Management Board.

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

Bank's management structure
In accordance with the Companies Act, the Credit Institutions Act and the Bank's Statute, the Bank's management structure comprise the Supervisory and Management Boards, and these acts also regulate the duties and responsibilities of the Supervisory and Management Boards.

Significant events after the end of the business year
There were no significant events after the end of the business year.

Other information
The Bank did not carry out any research and development activities during 2014.
The Bank did not purchase any treasury shares during 2014.
The Bank does not own other legal entities.
Purchase and sale of financial instruments is an integral part of the Bank's operations, described in detail in these financial statements.
The Bank's goals and policies related to financial risk management, and the company's exposure to price risk, credit risk, liquidity risk and cash flow risk are described in detail in the financial statements.

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS FOR 2014

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

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

The Management Board is responsible for the submission of the annual report, including the annual financial statements to the Supervisory Board for their review. If the Supervisory Board agrees with the annual financial statements they are considered as confirmed by the Management Board and Supervisory Board.

The financial statements for 2014 set out on pages 21 to 89 as well as the schedules prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 30 May 2008 (Official Gazette 62/08) were authorised by the Management Board on 23 March 2015 for issue to the Supervisory Board.

As an acknowledgment, financial statements are signed by the authorized persons as follows.

For and on behalf of Croatia banka d.d.

Suzana Brenko	Stjepan Mandić	Ivan Šverko
President of the Management Board	Member of the Management Board	Member of the Management Board

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CROATIA BANKA
d.d. Zagreb
UPRAVA

Independent Auditor's Report

To the Shareholder and Management of Croatia banka d.d., Zagreb

We have audited the accompanying financial statements of Croatia banka d.d. (the "Bank"), which comprise the statement of financial position as at 31 December 2014 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 statutory accounting regulations for banks in Croatia as described in Note 3 - 'Basis for preparation of financial statements' 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with statutory accounting regulations for banks in Croatia as described in Note 3 - 'Basis for preparation of financial statements' to the financial statements.

Other Legal and Regulatory Requirements

Based on the Decision on the Form and Content of the Annual Financial Statements of Banks (Official Gazette 62/08, the "Decision"), the Management Board of the Bank created forms presented on pages 88 to 103, entitled the Balance sheet as at 31 December 2014, and the Income statement, Statement of changes in equity and Cash flow statement of the Bank for the year then ended together with information to reconcile the forms to the Bank's financial statements. The Bank's management is responsible for the preparation of these forms and information on reconciliation and they do not represent an integral part of these financial statements, but contain information required by the Decision. The financial information in the forms is based on the Bank's financial statements prepared in accordance with statutory accounting regulations for banks in Croatia as described in Note 3 - 'Basis for preparation of financial statements' to the financial statements presented on pages 17 to 87 as adjusted for purposes of the Decision.

We have read the accompanying Annual Report of the Bank for the year ended 31 December 2014 set out on pages 3 to 13. We have verified that the information included in the Annual Report which describes matters that are also presented in the financial statements is consistent, in all material respects, with the financial statements referred to above.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 23 March 2015

in thousands of HRK

	Note	**2014**	**2013**
Interest income	*5*	142,212	112,894
Interest expense	*6*	(82,117)	(69,124)
Net interest income		**60,095**	**43,770**
Fee and commission income	*7*	10,656	9,803
Fee and commission expense	*8*	(5,063)	(4,981)
Net fee and commission income		**5,593**	**4,822**
Net gains/(losses) from financial operations	*9*	6,463	(566)
Net income from foreign exchange differences	*10*	4,001	4,333
Other income from operating activities	*11*	9,012	12,904
Total other income		**19,476**	**16,671**
Other operating expenses	*12*	(67,870)	(74,214)
Impairment losses and provisions	*13*	(12,158)	(15,693)
Total other expenses		**(80,028)**	**(89,907)**
Profit/(loss) before tax		**5,136**	**(24,644)**
Income tax	*14*	**(1,217)**	**-**
Profit/(loss) for the year		**3,919**	**(24,644)**
Other comprehensive income			
Unrealised gains/(losses) from the valuation of financial assets available for sale		1,025	(183)
TOTAL COMPREHENSIVE INCOME/(LOSS)		**4,944**	**(24,827)**
Earnings per share	*33*	**0.83**	**(5.19)**

Significant accounting policies and other notes on pages 21 to 87 form an integral part of these financial statements.

in thousands of HRK

	Notes	**31 December 2014**	**31 December 2013**
ASSETS			
Cash	*15*	87,431	266,877
Receivables from the Croatian National Bank	*16*	208,448	192,094
Placements with banks	*17*	38,168	57,497
Financial assets held for trading	*18*	-	5,081
Financial assets available for sale	*19*	593,630	333,495
Financial assets held to maturity	*20*	61,176	2,149
Loans and advances to customers	*21*	1,906,494	1,629,818
Investment property	*22*	35,696	36,095
Property and equipment	*23*	19,446	20,921
Intangible assets	*23*	2,530	2,715
Foreclosed assets	*24*	28,842	25,810
Deferred tax assets	*14*	21,545	22,761
Other assets	*25*	34,071	33,240
Total assets		**3,037,477**	**2,628,553**
LIABILITIES			
Liabilities to banks	*26*	126,365	154,412
Demand deposits	*27*	567,732	338,204
Term deposits	*28*	1,899,262	1,604,622
Borrowings	*29*	203,414	301,647
Other liabilities	*30*	31,234	21,734
Provisions	*31*	9,301	12,709
Total liabilities		**2,837,308**	**2,433,328**
EQUITY			
Share capital	*32*	474,600	474,600
Accumulated losses		(280,959)	(256,315)
Reserves		2,609	1,584
Loss for the year		3,919	(24,644)
Total equity		**200,169**	**195,225**
Total liabilities and equity		**3,037,477**	**2,628,553**

Significant accounting policies and other notes on pages 21 to 87 form an integral part of these financial statements.

in thousands of HRK

	Share capital	Accumulated losses	Reserves	(Loss)/ profit for the year	Total
Balance at 1 January 2013	**474,600**	**(152,714)**	**1,767**	**(103,601)**	**220,052**
Changes in equity in 2013					
Transfer of accumulated losses	-	(103,601)	-	103,601	-
Unrealised change in fair value of available-for-sale financial assets	-	-	(183)	-	(183)
Net loss recognised directly in equity	*-*	*-*	*(183)*	*-*	*(183)*
Loss for the year	-	-	-	(24,644)	(24,644)
Balance at 31 December 2013	**474,600**	**(256,315)**	**1,584**	**(24,644)**	**195,225**
Balance at 1 January 2014	**474,600**	**(256,315)**	**1,584**	**(24,644)**	**195,225**
Changes in equity in 2014					
Transfer of accumulated losses	-	(24,644)	-	24,644	-
Unrealised change in fair value of available-for-sale financial assets	-	-	1,025	-	1,025
Net profit recognised directly in equity	*-*	*-*	*1,025*	*-*	*1,025*
Profit for the year	-	-	-	3,919	3,919
Balance at 31 December 2014	**474,600**	**(280,959)**	**2,609**	**3,919**	**200,169**

Significant accounting policies and other notes on pages 21 to 87 form an integral part of these financial statements.

	2014	2013
		in thousands of HRK
NET CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	**5,136**	**(24,644)**
Adjustment to net cash from operating activities		
Impairment allowance on loans and other assets (net)	14,187	15,154
Provisions for potential liabilities (net) (Note 13)	1,144	543
Provision for litigation (net)	(2,159)	(678)
Other provisions (net)	(432)	1,237
(Profit)/loss on realisation of available-for-sale financial assets (Note 9)	(6,445)	566
Gain on financial assets at fair value for trading (Note 9)	(18)	-
Amortization and depreciation (Note 23)	3,520	4,484
Foreign exchange differences on translation	(67)	163
Gains on sale of foreclosed assets (Note 11)	(4,054)	(5,594)
Write-offs of tangible assets	8	82
Changes in assets and liabilities from operating activities		
Increase in receivables from the Croatian National Bank	(16,520)	(63,497)
Increase in loans and advances to customers	(298,587)	(597,473)
(Increase)/decrease in other assets	(4,952)	2,522
Decrease in liabilities to banks	(28,047)	(20,018)
Increase in demand deposits	229,528	60,613
Increase in term deposits	292,921	563,317
Increase in other liabilities	9,500	1,848
Net cash flow from operating activities	**194,663**	**(61,375)**
CASH FLOW FROM INVESTING ACTIVITIES		
Sale of available-for-sale financial assets	84,983	102,705
Purchase of available-for-sale financial assets	(337,649)	-
Purchase of financial assets held for trading	-	(5,081)
Sale of financial assets held for trading	5,099	-
Collection of held-to-maturity financial assets	2,171	397
Purchase of held-to-maturity financial assets	(61,790)	-
Purchase of property, equipment and intangible assets	(1,868)	(3,692)
Proceeds from sale of property	11,775	7,602
Net cash flow from investing activities	**(297,279)**	**101,931**
CASH FLOW FROM FINANCING ACTIVITIES		
Borrowings received	-	55,247
Borrowings settled	(98,233)	-
Net cash flow from financing activities	**(98,233)**	**55,247**
Net change in cash and cash equivalents	**(200,849)**	**95,803**
Cash and cash equivalents at beginning of the year (Note 36)	**327,380**	**231,577**
Cash and cash equivalents at end of the year (Note 36)	**126,531**	**327,380**

Significant accounting policies and other notes on pages 21 to 87 form an integral part of these financial statements.

1. GENERAL INFORMATION ABOUT THE BANK

Legal framework and activities

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

The Bank is engaged in all types of deposit and credit related services to legal entities and individuals, domestic and international payments, guarantees, avals and other forms of guarantees, securities trading and other banking activities.

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

Bank's Bodies

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

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

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

During 2014, the members of the Supervisory Board were:

Marija Hrebac – President

Branka Grabovac – Deputy President

Ivan Tomljenović – Member

Mladen Duliba – Member

Management Board

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

The Management Board's main responsibility is conducting the Bank's operations and representing the Bank toward third parties. In addition, the Management Board is responsible for ensuring that the Bank operates in accordance with the rules on risk management pursuant to the Credit Institutions Act and other regulations that govern banking operations and the provision of other financial services and regulations adopted on the basis of law and Bank's general acts; approving and regularly reviewing risk management strategies and policies, including managing risks that arise from the macroeconomic environment in which the Bank operates, and the state of the business cycle of the Bank; ensuring systematic monitoring, assessment and the strategy for maintaining or reaching the adequate amount of capital in relation to risks to which the Bank is exposed in its operations in accordance with the Credit Institutions Act, and acts adopted in line with the Act; ensuring functioning of the internal controls system for all areas of the Bank's operations; ensuring unobstructed internal audit; ensuring that the Bank keeps business and other records and business documentation, prepares accounting documents, realistically estimates assets and liabilities, prepares financial and other reports in accordance with accounting regulations and standards and the Credit Institutions Act and other regulations adopted on the basis of law; ensuring that the Bank reports and informs the Croatian National Bank in line with the Credit Institutions Act and other regulations adopted on the basis of law; and ensuring the implementation of measures ordered by the Croatian National Bank.

The Bank's Management Board had not less than two and not more than three members, of which one is appointed as the President of the Management Board. The President of the Management Board represents the Bank jointly and severally, and a member of the Management Board together with another member of the Management Board.

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

Members of the Board who have performed their functions during the year were:

Suzana Brenko – President

Stjepan Mandić – Member

Jasminka Gregurić Matić – Member (until 31 March 2014)

Ivan Šverko – Member (from 12 June 2014)

Organisational structure

SUPERVISORY BOARD

INTERNAL AUDIT

MANAGEMENT BOARD

RISK MANAGEMENT
MANAGEMENT BOARD OFFICE

OPERATIONS WITH LEGAL PERSONS	OPERATIONS WITH INDIVIDUALS	FINANCIAL MARKETS	FINANCES	CREDIT ADMINISTRATION, LEGAL AFFAIRS AND COMPLIANCE	BANK'S CORPORATE FUNCTIONS	OPERATIONS AND INFORMATION TECHNOLOGIES
Sale management	Sale management	Treasury	Controlling and reporting	Administration of loans and deposits	Corporate communication	Payment transactions
Product development	Product development	Investment banking	Accounting	Legal affairs	Human resources management	Information technologies
Management of placements with risk					General affairs	

BUSINESS NETWORK

2. GOING CONCERN

Capital management

The Bank has not managed to achieve profits from operating activities for a several years, therefore the owner increased the share capital of the Bank on several occasions, the latest being in October 2012 in the amount of HRK 200 million, consisting of conversion of issued bonds into equity that fully represented a hybrid instrument i.e. additional capital in the amount of HRK 70 million, and payment in the amount of HRK 130 million.

In 2014, the Bank also mainly focused its credit activity on crediting the state and legal entities owned by the state with guarantees of the Republic of Croatia for which, in line with effective regulations, capital requirements do not need to be made, and they yield a satisfactory interest income. As for the funds sources, the Bank realised a significant increase in total deposits (especially deposits by individuals) which ensure funds sources for credit activities. During 2014, all types of expenses were revised for the purpose of their reduction, which resulted, in addition to the increase in operating income, in a positive financial result.

Total capital ratio as at 31 December 2014 is 13.29 percent.
CNB's Decision of 3 February 2015 orders Croatia banka to, starting from 30 September 2015, retain regulatory capital above the required one, in order to achieve a 2.74 percentage points higher total capital ratio than the one established by Article 92 Paragraph 1 Item c) of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and Chapter VII of the Credit Institutions Act so that the minimum total capital ratio is 14.74 percent.
Consequently, the Bank started activities of capital increase in order to meet the Croatian National Bank's measure.

3. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

Statement of compliance:

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Republic of Croatia. The Bank's banking operations in Croatia are subject to the Credit Institutions Law, 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. These financial statements have been prepared in accordance with these regulations.

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

Attention is drawn to the following differences between the accounting regulations of the CNB and recognition and measurement requirements of IFRS:

- The CNB requires banks to recognise impairment losses in the income statement on assets not identified as impaired on individual basis (including assets with sovereign risk) at prescribed rates (excluding financial assets carried at fair value through profit and loss and available for sale). As at 31 December 2014, the provisions on a collective basis amounting to HRK 20,620 thousand (2013: HRK 19,027 thousand) are presented in the Bank's balance sheet in line with the CNB requirements, and on the basis of the CNB regulation, the expense for the Bank was recognised on the basis of these provisions within impairment losses for the year.
- Additional difference between IFRS and the accounting regulations of the CNB relates to the calculation of impairment losses by discounting the expected cash flows of the impaired asset at the instrument's original effective interest rate. Bank calculates impairment losses for individually significant items by estimating the future cash flows, and discounting them with original effective interest rate. Amortization

of such discounts is recognised as a decrease in provision. However, in some cases, collections are recognized as interest income only at the moment of reversal of impairment, in the full amount.

- Additionally, the CNB prescribes minimum level of provisions for impairment losses for certain specific exposures, which may be different from the impairment loss required to be recognised in accordance with IFRS.

Basis of measurement:

The financial statements are prepared on the fair value basis for financial assets available for sale, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are recognised at amortised or historical cost.

Use of estimates and judgments:

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities and disclosure of contingent liabilities at balance sheet date, as well as the reported amounts of revenues and expenses for the period. The estimates and associated assumptions are based on historical experience and various other factors which are believed to be reasonable under the circumstances, and information available at the date of preparation of financial statements, result of which makes the basis for the judgments about carrying values of assets and liabilities which is not directly apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are recognized in the period in which they arise if they affect only that period, or the period in which they are incurred and future periods, if they affect both current and future periods.

Functional and presentation currency:

The financial statements have been prepared in HRK, which is the primary currency of the economic environment in which the Bank operates ("the functional currency"), and amounts are rounded to nearest thousand. The official exchange rate at 31 December, 2014 was HRK 7.661471 per EUR 1 (2013: HRK 7.637643) and HRK 6.302107 per USD 1 (2013: HRK 5.549000).

Standards, interpretations and amendments to published standards not yet effective

Certain regulations have been issued by the HNB at the time these statements were authorized for issue, but are not yet effective at the balance sheet date, but it will be mandatory for accounting periods beginning on 1 January 2014 or later. The Bank considers that the following regulations could have a significant impact on the financial statements or a significant financial impact on its operations:

Adoption of new and revised International Financial Reporting Standards

The accounting policies adopted are consistent with those of the previous financial year unless otherwise stated and disclosed.

The Bank has adopted the following new and amended IFRS and IFRIC interpretations during the year which were endorsed by the EU. When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Bank, its impact is described below.

Amendment to IAS 32, 'Financial instruments: Presentation,' on asset and liability offsetting (effective for annual periods beginning on or after 1 January 2014)

These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation,' and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendment did not have a significant impact on the Bank's financial statements.

Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures (effective for annual periods beginning on or after 1 January 2014)

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment did not have a significant impact on the Bank's financial statements.

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014)

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. This standard did not have an impact on the Bank's financial position or performance.

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014)

IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. This standard did not have an impact on the Bank's financial position or performance.

IFRS 12 Disclosures of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014)

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard did not have an impact on the Bank's financial position or performance.

Other standards, amendments and interpretations that are effective for the financial year beginning on 1 January 2014 are not relevant to the Bank's financial statements.

Standards and interpretations issued but not yet effective:

A number of new standards and amendments to IFRS standards and IFRIC interpretations are effective for annual periods after 1 January 2014, and have not been applied in preparing these financial statements.

IFRIC 21, 'Levies' (effective in EU for annual periods beginning on or after 17 June 2014)

This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets.' IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation addresses what the obligating event is that gives rise to the payment of a levy and when a liability should be recognised. The amendment will not have a significant impact on the Bank's financial statements.

IFRS 15, 'Revenue from contracts with customers.' (effective for annual periods beginning on or after 1 January 2017)

This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts,' IAS 18,'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Bank is still assessing the impact on this amendment, but it is not expected to have any impact on the Bank's financial statements. The Bank plans to adopt the amendment on the effective date.

IFRS 9, 'Financial instruments' (effective for annual periods beginning on or after 1 January 2018)

The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The Bank plans to adopt this new standard on the effective date as of and when endorsed by EU. The Bank is still assessing the impact on this standard.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a significant impact on the Bank's financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Where the accounting policies are aligned with accounting principles of International Financial Reporting Standards (hereinafter IFRS or Standards), in describing the Bank's accounting policies there can be a reference to certain standards. Unless otherwise stated, these are standards that have been applied on 31 December 2014.

4.1. Financial Instruments

Classification

The Bank classifies its financial instruments into the following categories: loans and receivables, financial assets available for sale, financial assets at fair value through profit or loss, financial assets held to maturity and financial liabilities at amortized cost.

The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of financial instruments at initial recognition.

Loans and receivables

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

Financial assets available for sale

This category includes non-derivative financial assets that are not defined as loans and receivables or investments held-to-maturity, or are not defined as financial assets at fair value through profit or loss. Financial assets defined as available for sale are intended to be held indefinitely, but may be sold in response to needs for liquidity or changes in interest rates, changes in exchange rates or equity prices.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those classified at initial recognition by management as financial assets at fair value through profit or loss. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, for short-term profit or if so designated by management.

Financial instruments held for trading include shares in investment funds.

Financial assets held to maturity

This category includes financial assets that returns fixed or determinable payments with a fixed maturity, and the Bank intends to hold it to maturity.

Other financial liabilities

Other financial liabilities include all financial liabilities that are not allocated at fair value through profit or loss.

Recognition and derecognition

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

Bank derecognized financial instruments (in whole or in part) when their rights to receive cash flows from the financial asset expire, or when it loses control of the contractual rights of the instrument. It occurs when the Bank transfers substantially all the risks and rewards of ownership to another entity or when the rights are realized, expired or are surrendered. Bank derecognized financial liabilities only when the financial liability ceases to exist; it is discharged, cancelled or expired. If the terms of a financial liability change, the Bank will cease recognizing that liability and will recognize a new financial liability, with new conditions.

Realized gains and losses from the sale of financial instruments are calculated using the average acquisition cost.

Initial and subsequent measurement

Financial assets available for sale, loans, receivables, financial assets held to maturity and liabilities are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

After initial recognition, the Bank evaluates the financial assets available for sale at its fair value, without any deduction for transaction costs.

Loans and receivables, financial assets held to maturity and financial liabilities which are not carried at fair value through profit or loss statement are measured at amortized cost.

Profits and losses

Profits or losses from changes in fair value of monetary assets available for sale are recognized directly in the fair value reserve in equity, and are disclosed in the statement of changes in equity. Impairment losses, profits and losses from foreign exchange gains, interest income, and amortization of premium or discount monetary assets available for sale are recognized in the income statement. Upon sale or other derecognition of available-for-sale assets, any cumulative profits or losses on the instrument are transferred to the income statement.

Unrealised gains and losses arising from changes in fair value of financial assets at fair value through profit or loss, as well as all related realised gains and losses arising on the sale or other derecognition of these assets and liabilities are recognised in the income statement. Interest on the basis of holding these instruments is recognised as interest income, whereas dividends are recognised as dividend income in the income statement.

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

Determining the fair value of financial instruments

The fair values of financial instruments that are quoted in active markets are based on closing prices obtained from the regulated market (Level 1 according to IFRS fair value hierarchy). These instruments include liquid securities traded on liquid stock-exchanges.

The fair value of financial instruments whose value is determined by reference to similar instruments traded in active markets is based on valuation techniques that use observable market data (Level 2 according to IFRS fair value hierarchy). These instruments include less liquid debt and equity securities.

If there is no active market for a financial instrument or if, for other reasons, the fair value cannot be reliably measured by the market price, the Bank adequately assess the value by maximum use of market information that was not available in the market (Level 3 according to IFRS fair value hierarchy). These instruments include non-liquid debt and equity securities.

Impairment of financial assets

Impairment of assets identified as impaired

At each balance sheet date, all financial assets are reviewed to determine whether there is objective evidence of impairment. If any such indication exists, the recoverable amount of the asset is assessed.

The Bank evaluates and conducts impairment of all financial assets.

The recoverable amount of financial assets carried at amortized cost is calculated as the present value of expected future cash flows, discounted at the original interest rate of the instrument. Short-term balances are not discounted.

Impairment of assets not identified as impaired

In addition to the impairment of assets identified as impaired, the Bank recognizes impairment in the income statement on the balance sheet exposures that are not identified as impaired at rates of 1.00%, according to the accounting regulations of the CNB.

Cash and cash equivalents

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

Debt securities

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

Placements with banks

Placements with banks are classified as loans and receivables and are measured at amortized cost net of impairment losses.

4.2. Income tax

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in 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 or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities, based on tax rates enacted or substantially enacted at the balance sheet date.

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

Deferred tax assets and liabilities are not discounted and are classified as long-term assets and / or liabilities in the balance sheet. Deferred tax assets are recognized only to the extent that it is likely to be used as tax relief. At each balance sheet date, the Bank reassesses unrecognized potential deferred tax assets and the carrying amount of recognized deferred tax assets.

4.3. Property and equipment

Items of property and equipment are recognised at historical cost or estimated cost reduced by accumulated depreciation and impairment losses.

Amortization is calculated on a linear basis to allocate the cost of assets to their residual values over their estimated useful lives. Land and assets under construction are not depreciated.

Assets' residual values, depreciation method and estimated useful life are reviewed at each balance sheet date and adjusted if appropriate. The carrying value of an asset is written down immediately to its recoverable amount if the asset's carrying amount exceeds its recoverable amount. Profits and losses on disposals are determined by comparing the amount collected and the carrying amount, and are included in the profit and loss account.

	2014	**2013**
Buildings	2.50%	2.50%
Computers	25%	25%
Furniture and equipment	10% - 20%	10% - 20%
Vehicles	25%	25%
Other not mentioned tangible assets	5%-10%	5%-10%

4.4. Intangible assets

Intangible assets are recognised at acquisition cost net of accumulated amortization and impairment losses. Expenditure on development activities is recognized as an intangible asset if it satisfies all the requirements in accordance with IAS 38 "Intangible Assets”. Amortization is calculated on a linear basis over the estimated useful lives of intangible assets.

Intangible assets are amortized on a linear basis over their estimated useful lives as follows:

	2014	2013
Intangible assets (other)	10%-20%	10%-20%
Intangible assets – *software*	10%-25%	10%-25%

4.5. Foreclosed assets

The Bank initially recognises tangible assets taken in exchange for uncollected receivables at the lower of the cost or fair value. The foreclosed assets are subsequently measured at the lower of the net carrying amount and fair value net of transaction costs.

Tangible assets taken in exchange for uncollected receivables are recorded in the statement of financial position in the foreclosed assets position in accordance with International Accounting Standard 2 Inventories or assets held for sale if the conditions from International Accounting Standard 5 Non-current Assets Held for Sale are met. These conditions are met if the sale is highly probable, if the assets are available for sale in present state under normal conditions, if there is an active plan to sell at a reasonable price and if it is expected that the sale will be completed within a year of classification.

4.6. Investment property

Investment property includes Bank's investments held for rental yields or appreciation of property.

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

4.7. Impairment of non-financial assets

Impairment of assets, that have an indefinite useful life and are not amortized, is tested annually. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized as the difference between the asset's carrying amount and its recoverable amount. The recoverable amount is fair value of assets reduced by costs to sell or value in use, whichever is higher. For the purposes of assessing impairment, assets are grouped at the lowest levels in order to separately identify the cash flows (cash generating units). Non-financial assets for which is expressed impairment loss are reviewed at each reporting date for possible reversal of the impairment.

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

When the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of property, plant and equipment and intangible assets carried at acquisition cost, or is treated as a revaluation reserve decreased for assets carried at revalued amount if the impairment loss does not exceed the amount held in the revaluation. Depending on which is higher, the recoverable amount is the net selling price of assets or its value in use.

4.8. Provisions for liabilities and charges

Provisions for liabilities and charges are maintained at a level that management believe are adequate to absorb probable future losses. Management determines the adequacy of the provisions based upon reviews of individual items, current economic conditions, the risk characteristics of the various categories of transactions, as well as other relevant factors.

4.9. Employee benefits

Defined pension contributions

Bank pays contributions to planned insurance on a mandatory, contractual basis. Bank has no further payment obligations once the contributions are paid. The contributions are recognized as an expense recognized as an employee benefit when incurred.

The Bank recognizes a provision for bonuses where contractually obliged or when there is a past practice based on which are created derivative obligation. Furthermore, the Bank recognizes a liability for accumulated fees for absences from work based on unused vacation days at the date of the financial statements.

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

4.10. Share capital and reserves

Share capital is stated in HRK at nominal value.

4.11. Accumulated losses

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

4.12. Interest income and expenses

Interest income and expense is recognized in the income statement as it occurs, for all interest-bearing financial instruments, including those that are measured at amortized cost and available for sale, using the linear method, with the exception of income on treasury bills and bonds, which are recognized using the effective interest rate. Such income and expense is presented as interest income and similar income or interest expense and similar expense in the income statement. Interest income and expense also includes the amortization of premium or discount, and other differences between the initial carrying amount of an interest bearing instrument and its value at maturity, recognized by linear method.

In the case when loans repayment becomes doubtful, the principal is reduced to its estimated recoverable amount, and interest income is thereafter recognized at the rate used to discount future cash flows.

4.13. Fee and commission income and expense

Fee and commission income comprises mainly of fees received from customers for loans, guarantees, letters of credit and other services provided by the Bank. Fees are recorded to income due to maturity of services.

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

4.14. Foreign currencies

Transactions in foreign currencies are translated into HRK applying the middle exchange rate of CNB at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate defined at the balance sheet date. Exchange differences arising from conversion are recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are converted at the exchange rate at the date when the fair value was determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are converted at the exchange rate of the transaction and are not converted at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the securities. Exchange differences are recognized in the income statement as part of the foreign exchange gains or losses on conversion of monetary assets and liabilities.

4.14. Reclassification

For the purpose of a more adequate presentation of the nature of expenses and income from provisions for legal claims and expenses and income from provisions for employee benefits, the Banks reclassified them as follows:

Item	Description of change	2013 Before reclassification HRK'000	Reclassified HRK'000	2013 After reclassification HRK'000
STATEMENT OF COMPREHENSIVE INCOME				
Other operating income	Offsetting reversal of provisions for legal claims and provisions for employee benefits	14,827	(2,239)	12,588
Other operating expenses	Transfer of net income from provisions for employee benefits	(75,187)	973	(74,214)
Costs of impairment and provisions	Offsetting with income from reversal of provisions for legal claims and transfer of provisions for employee benefits to expenses	(16,643)	1,266	(15,377)

As the result, the net change in provisions is now recorded within “Costs of impairment and provisions”, while the net change in provisions for employee benefits is now recorded within “Other operating expenses” (previously both provisions corrections were recorded on a gross principle – income in other income, and expenses in impairment costs).

5. Interest income

in thousands of HRK

	2014	2013
Companies	87,617	71,394
Individuals	21,835	20,972
State units	28,070	17,143
Banks and other financial institutions	1,134	2,846
Other organisations	3,556	539
Total	**142,212**	**112,894**

Interest income includes income from partially recoverable placements in the amount of HRK 13.9 million (2013: HRK 17.7 million), of which HRK 10.3 million (2013: HRK 14.6 million) relates to transactions with legal persons, and the remaining HRK 3.6 million (2013: HRK 3.1 million) relates to transactions with individuals.

6. Interest expense

in thousands of HRK

	2014	2013
Companies	10,141	8,929
Individuals	41,420	31,940
State units	2,497	613
Banks and other financial institutions	18,897	20,277
Other organisations	331	307
Non-residents	4,317	3,734
Deposit insurance	4,514	3,324
Total	**82,117**	**69,124**

7. Fee and commission income

in thousands of HRK

	2014	2013
Companies	6,141	5,498
Individuals	1,720	1,668
Other	2,795	2,637
Total	**10,656**	**9,803**

8. Fee and commission expense

	2014	*in thousands of HRK* 2013
Provision for FINA services	(2,479)	(2,658)
Foreign banks	(214)	(175)
Domestic clients	(2,370)	(2,148)
Total	**(5,063)**	**(4,981)**

9. Net gains/(losses) from financial operations

in thousands of HRK

	2014	2013
Net gains on sale of financial assets available for sale	6,445	1,192
Net gains/(losses) on financial assets held for trading	18	(1,748)
Total	**6,463**	**(566)**

10. Net income from foreign exchange differences

	2014	*in thousands of HRK* 2013
Net foreign exchange losses on translation to exchange rate	(1,719)	(7,134)
Net foreign exchange gains arising from foreign currency clause	2,017	7,733
Income from foreign currency trading	3,934	4,496
Net foreign exchange losses on translation of provision for possible losses	(231)	(762)
Total	**4,001**	**4,333**

11. Other operating income

in thousands of HRK

	2014	**2013**
Net revenues from sale of property, plant and equipment and foreclosed assets	4,054	5,594
Rental income	4,438	4,430
Other income	318	2,564
Collection under suspended interest income	202	316
Total	**9,012**	**12,904**

12. Other operating expenses

As at 31 December 2014, the Bank had 228 employees (31 December 2013: 268 employees).

Personnel expenses include HRK 5.9 million (2013: HRK 6.8 million) of contributions for mandatory pension insurance which are paid into mandatory pension funds. Contributions are calculated as a percentage of employees' gross salaries.

in thousands of HRK

	2014	**2013**
Net salary	(19,630)	(22,324)
Contributions, taxes and surtaxes	(14,659)	(16,691)
Other personnel expenses	(2,401)	(2,778)
Net provision for long-term employee benefits (jubilee awards and termination benefits) (Note 31)	443	973
Total staff costs	**(36,247)**	**(40,820)**
Amortization and depreciation (Note 23)	(3,520)	(4,484)
Total amortization and depreciation	**(3,520)**	**(4,484)**
Material costs and services	(25,140)	(24,398)
Marketing expenses	(1,019)	(1,636)
Judicial and administrative fees	-	(313)
Other	(1,944)	(2,563)
Deferred tax expense	-	-
Total other operating expenses	**(28,103)**	**(28,910)**
Total	**(67,870)**	**(74,214)**

13. Impairment losses and provisions

in thousands of HRK

	2014	2013
Impairment of loans and advances to customers (Note 21.2)	(9,178)	(6,177)
Net impairment of interest receivable (Note 21.2)	74	39
Impairment of other assets (including provisions for unidentified losses on a collective basis) – (Note 25)	(2,159)	(422)
Impairment of foreclosed assets (Note 24)	(3,180)	(222)
Incomes from collection of written-off loans in previous years	3,047	1,852
Provisions and impairment on a collective basis for loans and other receivables	(1,594)	(7,660)
Net change in provision for litigation against the Bank (Note 31)	1,984	(348)
Provisions for identified losses for contingent liabilities	5	130
Provisions for unidentified losses on a collective basis for contingent liabilities	(1,148)	(673)
Total provisions for contingencies (Note 31)	***(1,143)***	***(543)***
Other provisions	(9)	(2,212)
Total expenses of impairment losses and provisions	**(12,158)**	**(15,693)**

14. Income tax

Income tax expense recognized in the income statement

	2014	2013
Current income tax expense	-	-
Deferred tax income	(1,217)	-
Tax expense	**(1,217)**	**-**

Reconciliation of accounting and tax results is shown as follows:

	2014	2013
Accounting profit/(loss) before tax	**5,136**	**(24,644)**
Effect of income tax at the rate of 20% (2013: 20%)	1,027	(4,929)
Effect of non-deductible tax expenses	1,363	3,342
Effect of non-taxable income	(1,284)	(615)
Utilisation of tax losses available for carry forward	(1,106)	-
Effect of change in estimate of usability of tax losses available for carry forward	(111)	-
Tax expense	**(1,217)**	**-**
Tax losses for the year potentially available for carry forward	-	(2,202)

Movements in deferred tax assets

	Deferred income /(expenses) by fees included in effective interest rate on loans given /(borrowings)	Tax losses	Total
At 1 January 2013	-	22,761	22,761
Credited in the in income statement	2,512	(2,512)	-
At 31 December 2013	**2,512**	**20,249**	**22,761**
Credited in the in income statement	**97**	(1,314)	(1,217)
At 31 December 2014	**2,609**	**18,935**	**21,544**

Recognised deferred tax assets on tax losses transferable to future periods

The table below shows the tax effect of recognized deferred tax assets on tax losses transferable to future periods, expected to be used in the next 5 years from the reporting period in which they are generated.

The amount of tax losses that is planned to be used until:	2014	2014
	Total tax loss	Effect of tax losses
31 December 2015	6,805	1,361
31 December 2016	29,708	5,942
31 December 2017	47,565	9,513
31 December 2018	10,595	2,119
	94,673	**18,935**

15. Cash

in thousands of HRK

	2014	2013
Giro account	12,161	88,198
Petty cash:		
- HRK	21,774	15,678
- foreign currency	11,631	11,100
Cash in foreign currency accounts in foreign banks	20,757	136,022
Cash in foreign currency accounts in domestic banks	21,635	18,296
Checks and other assets in the course of collection	19	8
Provisions for impairment for unidentified losses on a collective basis	(546)	(2,425)
Total cash	**87,431**	**266,877**

16. Receivables from the Croatian National Bank

in thousands of HRK

	2014	2013
Obligatory reserve		
- HRK	183,716	156,118
- foreign currency	26,838	26,701
Other mandatory deposits	-	11,215
Provisions for impairment for unidentified losses on a collective basis	*(2,106)*	*(1,940)*
Total	**208,448**	**192,094**

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

The obligatory reserve requirement as at 31 December 2014 amounted to 12.00% (2013: 12.00%) of kuna and foreign currency deposits, borrowings and issued debt securities.

As at 31 December 2014, the required rate for the part of the obligatory reserve calculated based on kuna liabilities to be deposited with the CNB amounted to 70% (2013: 70%), while the remaining 30% (2013: 30%) had to be held in the form of other liquid receivables. This includes the part of foreign currency obligatory reserve required to be held in HRK. At least 60% (2013: 60%) of the part of the obligatory reserve based on foreign currency liabilities must be deposited with the CNB, while the remaining 40% (2013: 40%) (or less to the extent that the amount deposited with the CNB exceeds 60%) must be held in the form of other liquid receivables, after adjusting for the obligatory reserve requirement arising from foreign currency funds from non-residents and related parties (which is required to be held in full with the CNB). 75% of the part of the obligatory reserve calculated based on foreign currency liabilities is required to be held in HRK and is added to the kuna part of the obligatory reserve.

17. Placements with banks

in thousands of HRK

	2014	2013
Deposits with foreign banks	36,310	56,541
Deposits with domestic banks	2,237	1,525
accrued interest	7	12
Provisions for impairment for unidentified losses on a collective basis	*(386)*	*(581)*
Total	**38,168**	**57,497**

18. Financial assets held for trading

in thousands of HRK

	2014	2013
Shares in investment funds	-	5,081
TOTAL	**-**	**5,081**

19. Financial assets available for sale

in thousands of HRK

	2014	2013
Foreign currency bonds /i/	68,223	38,595
Domestic currency bonds /ii/	41,385	37,257
Treasury bills /iii/	481,380	184,779
Bills of exchange of companies	774	71,469
Shares /iv/	439	439
Investment funds	-	41
Impairment allowance – available-for-sale portfolio /v/	*(774)*	*(774)*
Accrued interest	2,203	1,689
Total	**593,630**	**333,495**

/i/ Foreign currency bonds refer to:

- EUR 5.75 million (nominal) bond issued by the Croatian Ministry of Finance which matures on 30 May 2022, with the nominal interest rate of 3.875%
- EUR 2 million (nominal) bond issued by the Republic of Poland which matures on 15 January 2019, with the nominal interest rate of 1.625%,
- EUR 1 million (nominal) bond issued by Zagrebački holding which matures on 10 July 2017.

/ii/ Domestic currency bonds refer to:

- HRK 24.5 million (nominal) bond issued by the Croatian Ministry of Finance which matures on 10 July 2018, with the nominal interest rate of 5.25% p.a.
- HRK 5 million (nominal) bond issued by the Croatian Ministry of Finance which matures on 8 February 2017, with the nominal interest rate of 4.75% p.a.
- HRK 10 million (nominal) bond issued by Erste banka which matures on 23 November 2017, with the nominal interest rate of 5.875% p.a.

/iii/ Treasury bills refer to:

- HRK 292 million (nominal) of HRK treasury bills issued by the Croatian Ministry of Finance with yield of 1.50% - 2.30%.
- EUR 25 million (nominal) of foreign currency treasury bills issued by the Croatian Ministry of Finance with yield of 0.40% - 1.10%.

/iv/ Shares relating to the Bank shares in companies and financial institutions with less than 20% of the property.

Shares and interests are not listed and they relate to:

- 1,044 shares of Croatian Banking Association (Hrvatska udruga banaka) (HROK)
- 85 shares of Tržište novca Zagreb (TNZ-R-A).

/v/ Movements in the provision for impairment are as follows:

in thousands of HRK

	2014	2013
Balance as at 1 January	**774**	**774**
Impairment	-	-
Balance as at 31 December	**774**	**774**

The fair value hierarchy of financial assets

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and therefore the calculation of the fair value of each financial asset or liability requires identifying and considering all risks affecting the specific instrument.

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

The levels of the fair value hierarchy are determined based on the lowest level of input data significant for determining the fair value of the instrument.

	2014			**2013**		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Foreign currency bonds	68,223	-	-	38,595	-	-
Domestic currency bonds	41,385	-	-	37,257	-	-
Treasury bills	-	481,380	-	-	184,779	-
Bills of exchange of companies	-	-	-	-	-	71,469
Shares	-	-	439	-	-	439
Investment funds	-	-	-	5,122	-	-
	109,608	**481,380**	**439**	**80,974**	**184,779**	**71,908**

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

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

20. Assets held to maturity

in thousands of HRK

	2014	**2013**
Domestic currency bills of exchange	41,784	-
Domestic currency bonds	4,760	-
Foreign currency bonds	14,810	
Repurchased receivables	-	2,171
Provisions for impairment for unidentified losses on a collective basis	(614)	(22)
Accrued interest	436	-
Total	**61,176**	**2,149**

21. Loans and advances to customers

21.1. Analysis by type of client

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

	in thousands of HRK 2014	2013
Individuals		
Overdrafts on transaction accounts	13,815	11,607
Mortgage loans	9,562	2,872
Housing loans	41,514	24,691
Cash loans	107,913	61,982
Loans for agriculture	36,201	24,631
Other loans	144,043	149,509
Total loans to individuals	**353,048**	**275,292**
Provision for impairment for identified losses	*(42,103)*	*(42,955)*
Provision for impairment for unidentified losses on a collective basis	*(2,701)*	*(1,881)*
Provision for interest impairment – individuals	*(671)*	*(512)*
Total provisions for impairment – individuals	*(45,475)*	*(45,348)*
Accrued interest	2,415	1,779
Total loans to individuals, net	**309,988**	**231,723**
Legal entities		
Overdrafts on transaction accounts	34,099	29,432
Loans for payments under guarantees	14,729	16,103
Syndicated loans	717,507	438,846
Loans for working capital	201,285	257,563
Loans for investments	623,706	632,801
Other loans	199,690	211,559
Total loans to legal entities	**1,791,016**	**1,586,304**
Provision for impairment for identified losses	*(189,876)*	*(181,669)*
Provision for impairment for unidentified losses on a collective basis	*(14,015)*	*(11,976)*
Provision for interest impairment – legal entities	*(2,935)*	*(3,145)*
Total provisions for impairment	***(206,826)***	***(196,790)***
Accrued interest	12,316	8,581
Total loans to legal entities, net	**1,596,506**	**1,398,095**
Total loans	***2,158,795***	***1,871,956***
Total provisions for loans	*(252,301)*	*(242,138)*
Total loans and advances to customers, net	**1,906,494**	**1,629,818**

As at 31 December 2014, gross exposure arising from partly recoverable and non-recoverable placements was HRK 483,348 thousand (2013: HRK 480,111 thousand), and the associated impairment losses amounted to HRK 231,979 thousand (2013: HRK 224,623 thousand).

21.2. Changes in impairment losses and provision for potential losses

The changes in the impairment losses and provision for potential losses are as follows:

in thousands of HRK

	2014			2013		
	Impairment	**Special reserves for unident. losses on a collective basis**	**Total**	**Impairment**	**Special reserves for unident. losses on a collective basis**	**Total**
Balance as at 1 January	**228,281**	**13,857**	**242,138**	**221,413**	**8,099**	**229,512**
Net impairment losses i.e. provisions (Note 13)	9,178	2,859	**12,037**	6,177	5,758	**11,935**
Net impairment of interest receivable (Note 13)	(74)	-	**(74)**	(39)	-	**(39)**
Exchange differences	261	-	**261**	791	-	**791**
Write offs	(2,061)	-	**(2,061)**	(61)	-	**(61)**
Balance as at 31 December	**235,585**	**16,716**	**252,301**	**228,281**	**13,857**	**242,138**

In accordance with current legislation, the Bank has to create reserves for identified losses on a collective basis, determined in the credit portfolio based on previous experience. Taking into account the legal provisions, the amount of these reserves by the Bank's policies cannot be less than 1% of non-risk assets and 1% of non-risk commitments and contingencies as at 31 December 2014 (2013: 1% of non-risk assets and 1% of non-risk commitments and contingencies).

22. Investment property

in thousands of HRK

	2014	**2013**
Investment property	35,696	36,095
Total	**35,696**	**36,095**

The Bank mainly realises rental income on these properties.

23. Property, equipment and intangible assets

in thousands of HRK

	Land and buildings	Furniture and vehicles	Equipment and other tangible assets	Tangible assets acquired, but not brought into use	Total tangible assets	Intangible assets	Total
Cost							
Balance as at 31 December 2012	**35,702**	**11,477**	**27,787**	**53**	**75,019**	**30,682**	**105,701**
New purchases		1,535	916	(53)	**2,398**	1,241	**3,639**
Disposal and sale	(2,441)	(3,262)	(2,680)		**(8,383)**	(3,219)	**(11,602)**
Balance as at 31 December 2013	**33,261**	**9,750**	**26,023**	**-**	**69,034**	**28,704**	**97,738**
New purchases	68	57	524	14	**663**	1,205	**1,868**
Disposal and sale	-	(955)	(2,670)	-	**(3,625)**	(2,255)	**(5,880)**
Balance as at 31 December 2014	**33,329**	**8,852**	**23,877**	**14**	**66,072**	**27,654**	**93,726**
Accumulated depreciation							
Balance as at 31 December 2012	**18,559**	**11,104**	**23,967**	**-**	**53,630**	**27,508**	**81,138**
Depreciation in 2013 (Note 12)	800	274	1,710		**2,784**	1,700	**4,484**
Disposal and sale	(2,441)	(3,210)	(2,650)		**(8,301)**	(3,219)	**(11,520)**
Balance as at 31 December 2013	**16,918**	**8,168**	**23,027**	**-**	**48,113**	**25,989**	**74,102**
Depreciation in 2014 (Note 12)	798	381	951	-	**2,130**	1,390	**3,520**
Disposal and sale	-	(955)	(2,662)	-	**(3,617)**	(2,255)	**(5,872)**
Balance as at 31 December 2014	**17,716**	**7,594**	**21,316**	**-**	**46,626**	**25,124**	**71,750**
Net book amount as at 31 December 2012	**17,143**	**373**	**3,820**	**53**	**21,389**	**3,174**	**24,563**
Net book amount as at 31 December 2013	**16,343**	**1,582**	**2,996**	**-**	**20,921**	**2,715**	**23,636**
Net book amount as at 31 December 2014	**15,613**	**1,258**	**2,561**	**14**	**19,446**	**2,530**	**21,976**

The Bank wrote off certain assets from property and equipment with the cost in the amount of HRK 5,139 thousand (2013: HRK 9,162 thousand) and sold a portion in the amount of HRK 741 thousand (2013: HRK 2,440 thousand).

24. Foreclosed assets

Changes in foreclosed assets for uncollected receivables are as follows:

in thousands of HRK

	2014	2013
Balance as at 1 January	**25,810**	**24,151**
Increase based on foreclosing the assets	13,534	3,835
Decrease due to impairment (Note 13)	(3,180)	(221)
Decrease due to sales	(7,322)	(1,955)
Balance as at 31 December 2014	**28,842**	**25,810**

In 2014, the Bank sold foreclosed assets in the amount of HRK 7,322 thousand (2013: HRK 1,955 thousand) and thus realised the profit from sale in the amount of HRK 4,054 thousand (2013: HRK 792 thousand).

25. Other assets

in thousands of HRK

	2014	2013
Receivables for fees and commissions	4,031	3,990
Trade receivables	12,923	15,092
Receivables from the state	17,927	18,280
Other receivables	15,993	8,560
Provisions for identified losses on an individual basis	(16,550)	(12,480)
Provisions for unidentified losses on a collective basis	(253)	(202)
Total other assets	**34,071**	**33,240**

The changes in the impairment losses and provision for potential losses are as follows:

in thousands of HRK

	2014			2013		
	Impairment	**Special reserves for unident. losses on a collective basis**	**Total**	**Impairment**	**Special reserves for unident. losses on a collective basis**	**Total**
Balance as at 1 January	**12,480**	**202**	**12,682**	**11,885**	**80**	**11,965**
Net impairment losses i.e. provisions (Note 13)	2,109	51	**2,160**	595	122	**717**
Transfer from provisions (Note 31)	1,961		**1,961**	-	-	**-**
Balance as at 31 December	**16,550**	**253**	**16,803**	**12,480**	**202**	**12,682**

26. Liabilities towards banks

in thousands of HRK

	2014	2013
Demand deposits		
- in HRK	17,827	2,668
- in currency	666	742
Total demand deposits	**18,493**	**3,410**
Term deposits		
- in HRK	84,691	122,990
- in currency	22,176	26,739
Total term deposits	**106,867**	**149,729**
accrued interest	1,005	1,273
Total	**126,365**	**154,412**

27. Demand deposits

in thousands of HRK

	2014	2013
Demand deposits - retail		
- in HRK	71,789	53,026
- in currency	68,877	48,702
Total individuals	**140,666**	**101,728**
Demand deposits - corporate		
- in HRK	252,917	131,454
- in currency	12,749	9,267
Total companies	**265,666**	**140,721**
Demand deposits – financial institutions		
- in HRK	1,026	549
Total financial institutions	**1,026**	**549**
Demand deposits – government and other institutions		
- in HRK	122,924	57,619
- in currency	7,823	10,285
Total government and other institutions	**130,747**	**67,904**
Limited deposits		
- in HRK	2,909	2,414
- in currency	16,907	16,000
Total limited deposits	**19,816**	**18,414**
Deposits from foreign entities		
- in HRK	2,207	1,213
- in currency	7,604	7,675
Total foreign entities	**9,811**	**8,888**
Total	**567,732**	**338,204**

28. Term deposits

		in thousands of HRK
	2014	**2013**
Deposits – retail		
- in HRK	158,332	138,109
- in currency	1,136,426	938,173
Total retail	**1,294,758**	**1,076,282**
Deposits – corporate		
- in HRK	160,118	121,639
- in currency	80,592	78,182
Total corporate	**240,710**	**199,821**
Deposits – financial institutions		
- in HRK	161,855	152,326
- in currency	536	535
Total financial institutions	**162,391**	**152,861**
Deposits – government and other institutions		
- in HRK	35,265	28,552
Total government and other institutions	**35,265**	**28,552**
Deposits of foreign entities		
- in HRK	3,614	3,035
- in currency	128,856	112,872
Total foreign entities	**132,470**	**115,907**
Accrued interest	**33,668**	**31,199**
Total term deposits	**1,899,262**	**1,604,622**

29. Borrowings

		in thousands of HRK
	2014	**2013**
Domestic banks	202,920	278,076
Foreign banks	-	22,913
Accrued interest	494	658
Total borrowings	**203,414**	**301,647**

30. Other liabilities

in thousands of HRK

	2014	2013
Liabilities for fees and commissions	352	1,348
Liabilities for derivatives	12	41
Trade payables	1,694	1,925
Liabilities to employees	2,813	3,610
Deferred income and accrued expenses	5,715	8,113
Liabilities for payment of insured deposits of bankrupt banks /i/	16,697	3,784
Other liabilities	3,951	2,913
Total other liabilities	**31,234**	**21,734**

/i/ State Agency for Bank Rehabilitation is making payments of insured deposits of bankrupt banks (Credo banka and Centar banka) through the Bank. The amount that the Bank has to pay under claims of insured deposit holders is HRK 16,697 thousand (2013: HRK 3,784 thousand).

31. Provisions

in thousands of HRK

	2014	2013
Provisions for judicial proceedings	5,932	8,091
Provisions for contingencies and commitments	2,610	1,466
Provisions for termination benefits	621	-
Provisions for unused vacation days	128	459
Provisions for jubilee awards	-	482
Other provisions	10	2,211
TOTAL	**9,301**	**12,709**

Changes in provisions are shown as follows:

in thousands of HRK

	2014	2013
At 1 January	**12,709**	**11,607**
Income from reversal of provisions for legal claims against the bank (Note 13)	(4,417)	(770)
Additional provision for judicial proceedings (Note 13)	2,433	1,118
Changes in provisions for commitments and contingencies (Note 13)	1,143	543
Changes in provisions for termination benefits (Note 12)	621	-
Income from reversal of provision for unused vacation days (Note 12)	(459)	(1,424)
Income from reversal of provision for jubilee awards (Note 12)	(733)	(45)
Increase in provision for vacation days (Note 12)	128	459
Increase in provision for jubilee awards (Note 12)	-	36
Increase in other provisions	13	2,210
Costs paid for legal claims	(176)	(1,025)
Transfer to impairment of other assets (Note 25)	(1,961)	-
At 31 December	**9,301**	**12,709**

During 2014, the provision for legal claims against the Bank in the amount of HRK 176 thousand was paid (2013: HRK 1,025 thousand).
Provisions for off-balance-sheet exposure to credit risk and legal claims are recognized as other losses from impairment and provisions in the profit and loss account (Note 13).

32. Share capital

The only shareholder of the Bank as at 31 December 2014 and 31 December 2013 is the State Agency for Deposit Insurance and Bank Rehabilitation.

in thousands of HRK

	2014	**2013**
Share capital	474,600	474,600
Accumulated loss	(280,959)	(256,315)
Reserves	2,609	1,584
Profit/(Loss) for the period	3,919	(24,644)
Total capital	**200,169**	**195,225**

Share capital in the amount of HRK 474,600 thousand (31 December 2013: HRK 474,600 thousand) consists of 4,746,000 shares with nominal value HRK 100 (31 December 2013: 4,746,000 shares with nominal value HRK 100).

33. Earnings per share

in thousands of HRK

	2014	**2013**
Profit/(Loss) for the current year	3,919	(24,644)
Number of shares (in thousands)	4,746	4,746
Earnings per share	**0.83**	**(5.19)**

34. Contingencies and commitments

in thousands of HRK

	2014	2013
Guarantees	(47,842)	(50,725)
Uncovered letters of credit	(7,640)	(7,391)
Revolving loans	(173,103)	(73,974)
Other classic off-balance sheet items with risk	(29,121)	(11,021)
Total contingencies and commitments	**(257,706)**	**(143,111)**

35. Legal claims

Several legal claims have been filed against the Bank. The Bank has, according to the internal act – Rulebook and the decision of the Croatian National Bank, formed adequate provisions for the proceedings carrying a risk of loss, and respectively evaluated a potential outflow of funds.

As at 31 December 2014, the provisions for losses from legal claims filed against the Bank amounted to HRK 5,932 thousand (2013: HRK 8,091 thousand).

As stated in Note 2 to financial statements, ex-shareholders of the Bank, suing the Bank for the return of shares and compensation for share cancellation, have filed more than 200 legal claims against the Bank. Until 31 December 2014 the stated proceedings resulted in several dozens of legally valid court decisions in Bank's favour.

Until the date of this report almost all proceedings are completed, with the most ruled in the favour of the Bank, while only several proceedings are ruled in the favour of shareholders, but considering these proceedings are related to share ownership they do not present a significant influence on the financial operations of the Bank. In cases where the judgements were in favour of the shareholders, Constitutional appeals were filed and in these legal proceedings the Constitutional Court made the decision to adopt the Bank's constitutional appeals and returned the case to the commercial court for a retrial.

36. Cash and cash equivalents

Cash and cash equivalents for the cash flow statement are shown as follows:

in thousands of HRK

	2014	2013
Petty cash and current accounts with banks (Note 15)	87,977	269,302
Deposits with other banks up to 3 months (Note 17)	38,554	58,078
	126,531	**327,380**

37. Transactions with related parties

The Bank is 100% owned by the State Agency for Deposit Insurance and Bank Rehabilitation (DAB). The Bank considers itself immediately related to its shareholder, the members of the Supervisory Board and the Management Board and other executives („key personnel“), to immediate family members of key personnel, to jointly controlled companies or companies under significant influence of Management Board members and members of their immediate families, according to the definition stated in International Accounting Standard 24 “Related Party Disclosures” (“IAS 24”). Key management includes members of the Management Board, Department directors, directors of branches and directors of control function departments. In 2014, key management comprised 32 employees (2013: 40 employees).

Assets and liabilities as well as revenues and expenses as at and for the year ended 31 December 2014 and 31 December 2013 result from key transactions with related parties as follows:

(in thousands of HRK)

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

(in thousands of HRK)

2013	receivables	liabilities	revenue	expense
DAB (sole shareholder)	355	30,148	16	4,538
Key personnel				
Short-term benefits (bonuses, salaries, benefits)	466	382	39	12,898
Long-term benefits (loans and deposits)	6,083	2,039	236	90
State in narrow and broad definition	1,036,298	457,491	36,346	15,906
Total	**1,043,202**	**490,060**	**36,637**	**33,432**

Key management does not own Bank's shares. Loans and receivables from customers include HRK 5.1 million (2013: HRK 6.0 million) related to loans and receivables granted to key management. During the year, the Bank collected interest in the amount of HRK 0.2 million (2013: HRK 0.24 million) on loans and receivables from key management granted with annual interest rates from 3.50% to 8.00% (2013: from 3.50% to 8.00%). The amount of current accounts and customer deposits includes HRK 1.6 million of key management deposits (2013: HRK 2.4 million). During 2014, the Bank paid interest on this basis in the amount of HRK 0.07 million (2013: HRK 0.09 million), with annual interest rates from 2.10% to 4.30% (2013: 2.10% – 4.60%).

Supervisory Board expenses in 2014 amounted to HRK 0.29 million, while in 2013 they amounted to HRK 0.28 million.

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

- Central government
- Local administration
- Public non-financial companies
- Public insurance companies and pension funds
- Public financial auxiliary institutions
- Public other monetary financial institutions
- Public other financial mediators

As at 31 December 2014, the exposure to the state in narrow and broad definition comprises the exposure to the state company Hrvatske autoceste d.o.o. in the amount of HRK 479.9 million (2013: HRK 248.2 million), of which HRK 353.6 million relates to receivables under a syndicated loan (HRK 247.2 million as at 31 December 2013), the remaining portion of the borrowing has not been utilised yet. In addition, the Bank has receivables from the Croatian Bank for Reconstruction and Development in the amount of HRK 6.5 million (2013: HRK 29.6 million).

The Bank also has an exposure under a syndicated loan to the company Hrvatske ceste in the amount of HRK 229.3 million (2013: HRK 113.3 million), and the exposure under a loan for investments to the Restructuring and Sale Centre in the amount of HRK 165.7 million (2013: HRK 224.5 million). The exposure to the company HŽ Cargo amounts to HRK 100 million (2013: the Bank has no exposure to this company). Receivables from the company Borovo d.d. amount to HRK 21.3 million (2013: HRK 21.7 million) while the net carrying exposure after impairment amounts to HRK 19.7 million (2013: HRK 20.8 million). Receivables from the company Đuro Đaković Holding amount to HRK 11.9 million (as in 2013).

In relations with the Ministry of Finance, the Bank no longer has exposure under loans (2013: HRK 18.9 million), under listed Ministry of Finance bonds it amounts to HRK 77.9 million (2013: HRK 57.7 million), and it also has exposure under issued MoF treasury bills in the amount of HRK 481.4 million (2013: HRK 184.8 million).

The Ministry of Finance limited deposit amounts to HRK 15.3 million (2013: HRK 15.3 million).

As at 31 December 2014, the Restructuring and Sale Centre holds in the transaction account in the Bank HRK 77.7 million (2013: HRK 4.4 million).

As at 31 December 2014, a Bank's shareholder, the State Agency for Deposit Insurance and Bank Rehabilitation holds in the transaction account HRK 21.8 million (2013: HRK 29.1 million).

As at 31 December 2014, the Bank has a liability to the Croatian Bank for Reconstruction and Development on the basis of the borrowing in the amount of HRK 203.4 million (as at 31 December 2013: HRK 208.8 million).

All the above mentioned significant transactions related to the state and state-owned companies were concluded at market principles.

Income recognised in the income statement in 2014 treated as key transactions is as follows:

- income from loan to Hrvatske autoceste in 2014 amounts to HRK 14.7 million (2013: income from the same loan amounted to HRK 9.6 million)
- income from loans to Hrvatske ceste in 2014 amounts to HRK 13.1 million (2013: HRK 1.0 million)
- income from loans given to the Ministry of Finance amounts to HRK 1.0 million (2013: HRK 4.9 million)
- income from MoF bonds amounts to HRK 9.5 million (2013: HRK 3.9 million)
- income from MoF treasury bills amounts to HRK 6.3 million (2013: HRK 5.7 million)

Expenses recognised in the income statement treated as key transactions are as follows:

- costs of the term deposit of the company Hrvatske autoceste d.o.o. in the amount of HRK 0.4 million (2013: HRK 2.5 million)
- costs of the borrowing from CBRD in 2014 in the amount of HRK 6.3 million (2013: HRK 5.6 million)
- costs to DAB relate to costs for the savings deposit insurance and rental expenses and HRK 0.04 million for transaction accounts expenses

Exposures under receivables to DAB, key management, the state in broad and narrow definition, contain off-balance sheet receivables of the Bank in the following amounts:

(in thousands of HRK)	key management	state in narrow and broad definition
2014		
guarantees	-	19
revolving loans	350	123,887

(in thousands of HRK)	key management	state in narrow and broad definition
2013		
guarantees	-	471
revolving loans	557	36,344

The Bank has the highest off-balance sheet exposure in the group State in narrow and broad definition to the client Hrvatske autoceste in the amount of HRK 122.6 million. All exposures presented in this note are on a net basis (they are reduced by impairment for identified and unidentified losses).

38. Risk management policies

Details on the Bank's exposure to risks and methods Management applies for risk control are described below. The most significant types of financial risks the Bank is exposed to are credit risk, liquidity risk and market risk. Market risk includes the foreign exchange risk, the risk of interest rate changes and price risk.

38.1. Credit risk

The Bank is continually exposed to credit risk in its operations through crediting and investing activities and in cases where it acts as a mediator on behalf of customers or third parties.

The Bank's primary exposure to credit risk arises from loans and receivables from customers and banks and investments available for sale. The amount of credit exposure on this basis and on the basis of debt securities is the carrying amount of assets in the balance sheet.

Also, the Bank is exposed to credit risk on off-balance sheet items, through liabilities for unused granted loans and issued guarantees.

Credit risk is the greatest individual risk in bank's operations, so all organisational units and bank's functionalities pay their maximum attention to it. Credit risk management and control are centralised in the Risk Management Service which regularly reports to the Management Board, Bank bodies, the Supervisory Board and higher management.

For the purposes of credit risk management, the Bank divided its basic activities into the following parts of the credit risk management process

- process of granting loans
- process of monitoring loans
- credit portfolio analysis
- procedure with bad loans
- system of early detection of increased credit risk
- process of loan classification according to risk degrees.

A specially important process is related to establishing appropriate relations between individual types of the stated processes, in order to avoid their disharmony and overlapping, for the purpose of establishing the required divisions of competences and responsibilities for them.

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

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

The work of credit analysis, organisationally located in the Risk Management Service, by its scope of activities directly influences credit risk management, primarily during the analysis and giving opinions on acceptability of credit risk for banks, including the following sub-processes:

- Giving opinion on new credit placements
- Giving opinion on proposals for changes in conditions of the existing placements
- Analysis of acceptability of the proposal for the renewal and restructuring of the existing placements
- Periodical review of all existing placements

In performing the analysis of placements that belong to the credit risk management area, the Risk Management Service also estimates the acceptability of credit risk by individual placements, in accordance with the standards and criteria of best banking practice, i.e. application of the effective (external and internal) normative regulations. It informs about its attitudes/principles of credit risk acceptability assessment individuals and bodies competent for making decision on loan approvals.

Further competences of employees engaged in placement analysis relate to the process of monitoring the credit risk exposure, including also monitoring the indicators for early detection of increased credit risk. The scope of work and responsibility of the Risk Management Service includes the credit portfolio control activity, which ensures, in cooperation with other bank's organisational units, timely identification of clients with potential risk. The aims of such approach are a complex management of business relations with clients, directed at decreasing credit risk costs, and at improving the quality of the Bank's credit portfolio.

Credit risk control is based on individual approach to the credit risk assessment in relation to individual clients, including identification of clients with potential risk, analysis and classification of clients with potential risk, determining the form and manner of managing business relations with clients, and the supervision of the activity implementation (*follow up*).

Special attention is paid to management of exposures to related parties, on the basis of the effective organisational normative and operative regulations, as well as other aspects of credit risk exposure, defined by the Credit Institutions Act and by-laws and internal acts for its implementation.

38.1.1. Credit risk measurement

Loans and receivables (including contingencies)

The Bank estimates the probability of defaults in settling liabilities of individual clients using internal assessment tools created for all groups of clients, in line with the internal acts and effective legal regulations.

Loans and contingencies are divided in three main risk groups:

1.1. fully recoverable loans (risk group A) – loans for which it is estimated they will be fully collected (principal and interest) and contingencies on the basis of which it is expected that no Bank's resources outflow will occur or if the outflow occurs, that they will be fully recovered.

1.2. partially recoverable loans (risk group B) – loans for which it is estimated they will not be collected in the contracted amount (principal and interest), and contingencies on the basis of which it is expected that Bank's resources outflow will occur exceeding the estimated recoverable amount.

1.3. unrecoverable loans (risk group C) – loans for which it is estimated they are fully uncollectible, or collectible in insignificant amounts, and contingencies on the basis of which it is expected that Bank's resources outflow will occur assessed as fully unrecoverable.

Credit risk management on the basis of the credit risk deterioration (*workout* or “non-performing” or “bad” loans) is performed by a separate organisational unit responsible for collecting these receivables (Department for managing loans with risk) for legal entities and natural persons. These activities are primarily aimed at realising positive effects of the implementation of various forms of financial consolidation of clients’ business, including various forms of prolongation, renewal or restructuring of loans with the aim of their recovery and realisation of the maximum possible level of receivables collection and improvement in the credit and guarantee portfolio of the Bank, as well as cases of full or partial stabilisation of the clients’ business by taking consolidation measures, enabling the inclusion of such loans in “performing” ones.

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

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

- on an individual basis

  - for loans that are not included in the “small loans portfolio”

- on a collective basis

  - for loans classified in risk group “A”;

  - for loans classified in the “small loans portfolio”;

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

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

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

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

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

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

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

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

38.1.2. Risk limit control and policies for risk mitigation

The Bank manages, limits and controls credit risk concentrations wherever such risk is identified – especially with respect to individual clients and groups, industry sectors and countries.

The Bank establishes credit risk levels it undertakes by placing limitations on the amount of risk accepted in relation to one client, or a group of clients, and to geographical and economic segments. Limitations on the credit risk level to products, industry sectors and countries are approved by the Bank's management.

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

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

(a) Security instruments

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

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

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

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

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

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

(b) Commitments related to loans

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

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

By issuing guarantees, the Bank is also exposed to credit risk. With the aim to reduce the credit risk cost, guarantees are generally secured by appropriate security instruments.

38.1.3. Policies for impairment and provisions

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

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

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

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

Exceptionally, the Bank does not determine the present value of expected future cash flows on partially recoverable loans by discounting them, if the time period in which the future cash flows are expected from these loans is less than one year of the balance sheet date. In this case, it is considered that the loss on a partially recoverable loan equals the difference between the loan carrying amount and expected future cash flows from the loan.

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

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

- the debtor's current financial situation and estimated future cash flows do not rise any doubts with respect to the debtor's further operations and settlement of their current and future liabilities to the Bank and other creditors,
- the debtor settles their liabilities to the Bank in contracted terms, and only exceptionally and occasionally after their maturity,
- the loans are secured by adequate security instruments for receivables.

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

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

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

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

For the remainder of non-performing loans classified in the small loans portfolio (exposure below HRK 250 thousand) special provisions for impairment are calculated based on the repayment on time criteria.

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

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

   - the debtor's past due liabilities to the Bank are not older than 90 days
   - the full loan amount is covered by a guarantee deposit.

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

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

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

38.1.4. Debt securities

For the purpose of realising future yield, the Bank places excess liquidity in government debt securities and foreign bonds of the highest rating or rating acceptable according to the CNB methodology.

38.1.5. Loans due

Loans due (II method DNP) by types of loans as at 31 December 2014

in thousands of HRK

Due	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Up to 30 days	160	5,647	7,462	241	21	8,225	21,754
31-60 days	130	9,136	872	23	7	632	10,800
61-90 days	151	28,367	50	56	5	435	29,064
over 90 days	6,680	238,034	20,870	7,347	644	97,483	371,059
Total	**7,121**	**281,183**	**29,254**	**7,667**	**677**	**106,775**	**432,678**

Loans due (II method DNP) by types of loans as at 31 December 2013

in thousands of HRK

Due	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Up to 30 days	144	7,910	4,177	3,537	31	4,233	20,033
31-60 days	215	8,522	1,130	-	9	1,126	11,001
61-90 days	39	9,473	34	-	4	188	9,738
over 90 days	6,185	167,977	21,767	2,930	491	85,446	284,795
Total	**6,583**	**193,881**	**27,108**	**6,467**	**535**	**90,993**	**325,567**

Using method II delay is shown in time classes as the debt was created, excluding the undue part.

38.1.6. Loans of unimpaired value

Loans of unimpaired value as at 31 December 2014

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Undue	99,622	548,494	63,842	40,537	40,397	845,469	1,638,361
Due	111	9,560	7,159	1,187	17	4,320	22,353
Total	**99,733**	**558,053**	**71,001**	**41,723**	**40,414**	**849,789**	**1,660,714**

Loans of unimpaired value as at 31 December 2013

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Undue	54,263	620,347	69,803	34,533	23,985	563,785	1,366,716
Due	108	7,243	4,258	784	31	4,310	16,733
Total	**54,371**	**627,590**	**74,061**	**35,316**	**24,016**	**568,095**	**1,383,450**

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

38.1.7. Loans of impaired value

Loans of impaired value as at 31 December 2014

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Undue	1,627	47,472	12,823	-	474	15,725	78,121
Due	6,536	267,495	21,491	6,171	625	102,910	405,227
Total	**8,162**	**314,967**	**34,314**	**6,171**	**1,100**	**118,634**	**483,348**
Impairment	**5,946**	**146,629**	**12,773**	**5,553**	**438**	**60,640**	**231,979**

Loans of impaired value as at 31 December 2013

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Undue	1,136	124,529	13,312	21	171	43,825	182,994
Due	6,474	186,639	22,850	5,684	504	74,965	297,117
Total	**7,611**	**311,168**	**36,162**	**5,705**	**675**	**118,790**	**480,111**
Impairment	**6,749**	**139,620**	**13,570**	**5,067**	**357**	**59,260**	**224,623**

38.1.8. Placement structure by sector

Placement structure by sector as at 31 December 2014 *in thousands of HRK*

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

Placement structure by sector as at 31 December 2013 *in thousands of HRK*

Sector	Total placements and off-balance sheet liabilities	Placements of unimpaired value	Placements of impaired value	Impairment and provisions	% of impairment
Agriculture, hunting, forestry and fishing	251,072	196,631	54,441	20,923	**8.33**
Manufacturing	264,476	113,946	150,529	59,907	**22.65**
Construction	492,053	397,615	94,437	69,652	**14.16**
Wholesale and retail trade, repair of motor vehicles and household items	317,551	205,067	112,484	46,013	**14.49**
Service activities	186,916	149,071	37,845	19,502	**10.43**
Financial intermediation	282,396	282,382	14	2,838	**1.00**
Foreign financial institutions	192,575	192,575	-	1,926	**1.00**
CNB	282,632	282,632	-	282	**1.00**
Other activities	89,362	70,414	18,949	7,264	**8.13**
Other sectors	199,094	152,029	47,065	33,117	**16.63**
TOTAL	**2,558,127**	**2,042,362**	**515,765**	**261,424**	**10.21**

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

in thousands of HRK

	Individuals	Legal entities	Total
31 December 2014			
Total amount of exposure	83,800	399,548	483,348
Provisions	41,208	190,771	231,979
Market value of security instruments	53,758	273,248	327,006

in thousands of HRK

	Individuals	Legal entities	Total
31 December 2013			
Total amount of exposure	46,858	468,907	515,765
Provisions	32,758	225,261	258,019
Market value of security instruments	27,653	288,297	315,950

38.2. Liquidity risk

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

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

Cost rates are calculated by the Financial Markets Sector, Treasury Department, on the basis of the data from the WEB report "SPP report on the average interest rate as at…" The report does not include funds received from the Croatian Bank for Reconstruction and Development.

Internal prices of products are approved by the Asset-Liability Committee (hereinafter: the ALCO Committee).

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

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

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

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

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

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

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

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

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

Future outflows under financial liabilities that as at 31 December 2014 contain undiscounted cash flows including future interest payments in the amount of HRK 78.4 million on received deposits and borrowings classified by maturities. Assets positions are classified by maturities of carrying amounts.

in thousands of HRK

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

Future outflows under financial liabilities that as at 31 December 2013 contain undiscounted cash flows including future interest payments in the amount of HRK 20.3 million on received deposits and borrowings classified by maturities. Assets positions are classified by maturities of carrying amounts.

in thousands of HRK

2013	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Total
ASSETS						
Cash	266,877	-	-	-	-	**266,877**
Receivables from the Croatian National Bank	192,094		-	-	-	**192,094**
Placements with banks	57,119	-	378	-	-	**57,497**
Financial assets held for trading	5,081	-	-	-	-	**5,081**
Financial assets available for sale	589	48,809	210,394	19,524	54,179	**333,495**
Financial assets held to maturity	272	1,267	610	-	-	**2,149**
Loans and advances to customers	231,505	101,220	237,804	501,720	557,569	**1,629,818**
Investment property	-	-	-	-	36,095	**36,095**
Property, plant and equipment	-	-	-	-	20,921	**20,921**
Intangible assets	-	-	-	-	2,715	**2,715**
Foreclosed assets	-	-	-	-	25,810	**25,810**
Deferred tax assets	-	-	-	-	22,761	**22,761**
Other assets	33,240	-	-	-	-	**33,240**
Total assets	**786,777**	**151,296**	**449,186**	**521,244**	**720,050**	**2,628,553**
LIABILITIES						
Liabilities to banks	22,041	57,819	76,479	-	-	**156,339**
Demand deposits	338,204	-	-	-	-	**338,204**
Time deposits	190,416	295,566	818,872	292,985	13,370	**1,611,209**
Borrowings	37,877	27,676	29,708	89,734	128,419	**313,414**
Other liabilities	21,734	-	-	-	-	**21,734**
Provisions	12,709	-	-	-	-	**12,709**
Issued hybrid instruments	-	-	-	-	-	**-**
Total liabilities	**622,981**	**381,061**	**925,059**	**382,719**	**141,789**	**2,453,609**
EQUITY						
Share capital	-	-	-	-	474,600	**474,600**
Accumulated loss	-	-	-	-	(256,315)	**(256,315)**
Revaluation reserves	-	-	-	-	1,584	**1,584**
Loss for the year	-	-	-	-	(24,644)	**(24,644)**
Total equity	**-**	**-**	**-**	**-**	**195,225**	**195,225**
Total liabilities and equity	**622,981**	**381,061**	**925,059**	**382,719**	**337,014**	**2,648,834**
Net assets/liabilities and equity	163,796	(229,765)	(475,873)	138,525	383,036	(20,281)

38.3. Market risk

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

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

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

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

Market risks are as follows:

- Interest rate risk
- Currency risk
- Price risk – risk of a change in prices of equity and debt securities
- Commodity risk (not represented in the Bank)

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

Interest rate risk is described in more detail in chapter 38.3.2. of the Report.

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

Currency risk is described in more detail in the following chapter of the Report (item 38.3.1.).

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

38.3.1. Currency risk

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

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

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

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

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

The Value at Risk method measures the maximum expected loss for the Bank in case of most unfavourable foreign currency movements in an observed time interval with normal market conditions and a given level of significance based on historical data. The Bank directs its business activities primarily trying to minimize the mismatch between assets' and liabilities' items denominated in foreign currency or carrying an FX clause. The Bank is trying to manage its assets and liabilities in a way that maintains currency compatibility of individual assets' and liabilities' items in the goal of optimizing the relationship between risk and profitability in unfavourable intercurrency movements.

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

in thousands of HRK

2014	EUR	USD	Other	HRK with FX clause	Total FX equivalents	HRK	Total
ASSETS							
Cash	28,664	4,896	20,481	-	54,041	33,390	**87,431**
Receivables from the Croatian National Bank	26,570	-	-	-	26,570	181,878	**208,448**
Placements with banks	380	29,325	8,464	-	38,168	-	**38,168**
Financial assets available for sale	261,048	-	-	-	261,048	332,582	**593,630**
Financial assets held to maturity	14,810	-	-	-	14,810	46,366	**61,176**
Loans and advances to customers	612,302	4,301	512	672,812	1,289,927	616,567	**1,906,494**
Investment property		-	-	-	-	35,696	**35,696**
Property and equipment		-	-	-	-	19,446	**19,446**
Intangible assets		-	-	-	-	2,530	**2,530**
Foreclosed assets		-	-	-	-	28,842	**28,842**
Deferred tax assets		-	-	-	-	21,545	**21,545**
Other assets		-	-	-		34,071	**34,071**
Total assets	**943,774**	**38,522**	**29,457**	**672,812**	**1,684,564**	**1,352,913**	**3,037,477**
LIABILITIES							
Liabilities to banks	22,812	90	8	-	22,910	103,455	**126,365**
Demand deposits	102,889	3,759	7,313	-	113,961	453,771	**567,732**
Time deposits	1,296,270	48,131	25,511	23,815	1,393,727	505,535	**1,899,262**
Borrowings	-	-	-	172,891	172,891	30,523	**203,414**
Other liabilities	202	-	16	2	89	31,145	**31,234**
Provisions						9,301	**9,301**
Total liabilities	**1,422,173**	**51,980**	**32,848**	**196,708**	**1,703,578**	**1,133,730**	**2,837,308**
EQUITY							
Share capital	-	-	-	-	-	474,600	**474,600**
Accumulated loss	-	-	-	-	-	(280,959)	**(280,959)**
Revaluation reserves	-	-	-	-	-	2,609	**2,609**
Profit for the year	-	-	-	-	-	3,919	**3,919**
Total equity	-	-	-	-	-	200,169	**200,169**
Total liabilities and equity	**1,422,173**	**51,980**	**32,848**	**196,708**	**1,703,578**	**1,333,899**	**3,037,477**
Net assets/liabilities and equity	(478,399)	(13,458)	(3,391)	476,104	(19,014)	18,764	-

FX assets and liabilities of the Bank as at 31 December 2013 are shown as follows:

in thousands of HRK

2013	EUR	USD	Other	HRK with FX clause	Total FX equivalents	HRK	Total
ASSETS							
Cash	99,106	42,784	23,536	-	165,426	101,451	**266,877**
Receivables from the Croatian National Bank	26,434	-	-	-	26,434	165,660	**192,094**
Placements with banks	49,532	-	7,965	-	57,497	-	**57,497**
Financial assets held for trading		-	-	-	-	5,081	**5,081**
Financial assets available for sale	39,568	-	-	19,899	59,467	274,028	**333,495**
Financial assets held to maturity	-	-	-	-	-	2,149	**2,149**
Loans and advances to customers	407,770	4,742	490	771,325	1,184,327	445,491	**1,629,818**
Investment property	-	-	-	-	-	36,095	**36,095**
Property, plant and equipment	-	-	-	-	-	20,921	**20,921**
Intangible assets	-	-	-	-	-	2,715	**2,715**
Foreclosed assets	-	-	-	-	-	25,810	**25,810**
Deferred tax assets	-	-	-	-	-	22,761	**22,761**
Other assets	2,225	-	1	-	2,226	31,014	**33,240**
Total assets	**624,635**	**47,526**	**31,992**	**791,224**	**1,495,377**	**1,133,176**	**2,628,553**
LIABILITIES							
Liabilities to banks	27,588	79	280	-	27,947	126,465	**154,412**
Demand deposits	81,347	3,664	6,918	-	91,929	246,275	**338,204**
Time deposits	1,080,770	45,992	27,305	34,622	1,188,689	415,933	**1,604,622**
Borrowings	22,913	-	-	187,985	210,898	90,749	**301,647**
Other liabilities	-	-	-	47	47	21,687	**21,734**
Provisions	-	-	-	-	-	12,709	**12,709**
Total liabilities	**1,212,618**	**49,735**	**34,503**	**222,654**	**1,519,510**	**913,818**	**2,433,328**
EQUITY							
Share capital	-	-	-	-	-	474,600	**474,600**
Accumulated loss	-	-	-	-	-	(256,315)	**(256,315)**
Revaluation reserves	-	-	-	-	-	1,584	**1,584**
Loss for the year	-	-	-	-	-	(24,644)	**(24,644)**
Total equity	**-**	**-**	**-**	**-**	**-**	**195,225**	**195,225**
Total liabilities and equity	**1,212,618**	**49,735**	**34,503**	**222,654**	**1,519,510**	**1,109,043**	**2,628,553**
Net assets/liabilities and equity	(587,983)	(2,209)	(2,511)	568,570	(24,133)	24,133	-

38.3.2. Interest rate risk

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

The risk of interest rate change is the risk: of a decrease in net interest income due to changes in interest rates and a decrease in economic value of capital due to changes in interest rates.

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

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

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

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

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

The table below shows assets and liabilities of the Bank at carrying value, classified into categories based on contractual price change or maturity, depending on which date is first as at 31 December 2014;

in thousands of HRK

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

The table below shows assets and liabilities of the Bank at carrying value, classified into categories based on contractual price change or maturity, depending on which date is first as at 31 December 2013;

in thousands of HRK

2013	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Non-interest-bearing	Total
ASSETS							
Cash	254,131	-	-	-	-	12,746	**266,877**
Receivables from the Croatian National Bank	35,976	-	156,118	-	-	-	**192,094**
Placements with banks	57,497	-	-	-	-	-	**57,497**
Financial assets held for trading	-	-	-	-	-	5,081	**5,081**
Financial assets available for sale	5,000	49,302	210,323	19,803	48,885	182	**333,495**
Financial assets held to maturity	-		2,149	-	-	-	**2,149**
Loans and advances to customers	568,519	91,175	753,153	84,872	35,221	96,878	**1,629,818**
Investment property	-	-	-	-	-	36,095	**36,095**
Property, plant and equipment	-	-	-	-	-	20,921	**20,921**
Intangible assets	-	-	-	-	-	2,715	**2,715**
Foreclosed assets	-	-	-	-	-	25,810	**25,810**
Deferred tax assets	-	-	-	-	-	22,761	**22,761**
Other assets	-	-	-	-	-	33,240	**33,240**
Total assets	**921,123**	**140,477**	**1,121,743**	**104,675**	**84,106**	**251,348**	**2,628,553**
LIABILITIES							
Liabilities to banks	22,425	56,523	75,464	-	-	-	**154,412**
Demand deposits	359	-	337,845	-	-	-	**338,204**
Time deposits	250,005	437,689	782,190	130,346	4,392	-	**1,604,622**
Borrowings	48,291	26,688	52,975	63,894	109,799	-	**301,647**
Other liabilities	-	-	-	-	-	21,734	**21,734**
Provisions	-	-	-	-	-	12,709	**12,709**
Total liabilities	**321,080**	**520,900**	**1,248,474**	**194,240**	**114,191**	**34,443**	**2,433,328**
EQUITY							
Share capital	-	-	-	-	-	474,600	**474,600**
Accumulated loss	-	-	-	-	-	(256,315)	**(256,315)**
Revaluation reserves	-	-	-	-	-	1,584	**1,584**
Loss for the year	-	-	-	-	-	(24,644)	**(24,644)**
Total equity	**-**	**-**	**-**	**-**	**-**	**195,225**	**195,225**
Total liabilities and equity	**321,080**	**520,900**	**1,248,474**	**194,240**	**114,191**	**229,668**	**2,628,553**
Net assets/liabilities and equity	**600,043**	**(380,423)**	**(126,731)**	**(89,565)**	**(30,085)**	**26,761**	**-**

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

	2014	2013
	u %	*u %*
Assets		
Cash	0.00-0.15	0.00 - 0.15
Receivables from the Croatian National Bank	0.00-0.00	0.00 - 0.00
Placements with banks	0.01-4.00	0.00 - 4.00
Financial assets available for sale	0.40-5.88	0.10 - 5.88
Loans and advances to customers	2.00-12.00	2.75 - 12.00
Liabilities		
Liabilities to banks	0.15-3.50	0.10 - 3.50
Demand deposits	0.05-3.40	0.05 - 2.50
Time deposits	0.00-5.00	0.15 - 5.30
Borrowings	0.00-6.46	0.00 - 5.00

38.3.3. Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether this is caused by factors specific for an individual instrument or issuer or all factors that affect all instruments traded on the market.

38.3.4 Market risk measurement techniques

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

VaR method

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

Boundaries and limits to currency risk exposure
The Bank is obliged to adjust its operations so that at any time the following structural principles are followed:

- the total open FX position, calculated using the methodology of the Croatian National Bank may not exceed the legally prescribed rate of 30% of the Bank's regulatory capital at any moment,
- the Bank internally determines that the Bank's total open FX position does not exceed 25% of the Bank's regulatory capital,
- the maximum allowed open FX position in EUR amounts to 20% of the regulatory capital,
- the maximum allowed open FX position in USD amounts to 10% of the regulatory capital,
- the maximum allowed open FX position by individual currencies, other than EUR and USD, amounts to 5% of the regulatory capital.

	Internal limit	as at 31 Dec 2014
Bank's total open FX position	25.00%	2.13%
Maximum open FX position in EUR	20.00%	1.87%
Maximum open FX position in USD	10.00%	0.03%
Maximum open FX position in other currencies	5.00%	0.08% for CHF

Daily VAR calculation

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

Date	Parameter method		Historical method	
	1 day		1 day	
	reliability 95%	reliability 99%	reliability 95%	reliability 99%
31 Dec 2014	-5,431	-7,669	-5,239	-6,178

Results of VAR show that at 31 December 2014 with 99% reliability the Bank should not lose due to open foreign currency position more than HRK 7,669 thousand according to the parameter method or HRK 6,178 thousand according to the historical method. This arises from the very low open FX position maintained by the Bank, but also due to a low open position in less volatile currencies.

Stress tests

Stress-resistance test is a risk management technique used for assessing potential impacts of specific events and/or changes in several risk factors on the Bank's financial position.
The purpose of the stress-resistance test is to determine whether the Bank has an appropriate level of capital in case of the occurrence of specific events and/or changes in several risk factors. These are unfavourable events that are difficult to foresee (extreme, but possible) that impact the Bank's capital, risk profile and profit. The stress-resistance test may be divided into the scenario analysis and sensitivity analysis. --
The scenario analysis is a type of stress-resistance test which estimates the impact of simultaneous changes of several risk factors on the Bank's financial position in clearly defined stress circumstances. The sensitivity analysis is a type of stress-resistance test which estimates the impact of a certain risk factor on the Bank's financial position whereby the stress cause is not identified. The resistance to stress test is performed semi-annually.

The stress-resistance test for liquidity risk;

Liquidity stress test

For the purposes of assessing the sufficiency of minimum required funds of liquidity reserves, the following is monitored on a monthly basis:

- the balance and changes of the total Bank deposits as follows:
    - HRK deposits
        - current and giro accounts
        - savings deposits
        - term deposits
    - foreign currency deposits
        - current and giro accounts
        - savings deposits
        - term deposits

Liquidity stress test II implies measuring the sufficiency of reserves and in the sense of this Methodology, it is defined as follows: the difference between the minimum and maximum deposit balance is determined, it is put in relation to the median, which is the basis for the liquidity stress test calculation as follows:

- HRK deposits without term (giro and current accounts and savings deposits) up to the maximum of 80% of the greatest difference (min – max balance) determined for the minimum period of two years preceding the measurement date;
- HRK term deposits up to the maximum of 30% of the greatest difference (min – max balance) determined for the minimum period of two years preceding the measurement date;
- foreign currency giro and current accounts fully the greatest difference (min – max balance) determined for the minimum period of two years preceding the measurement date;
- foreign currency savings deposits up to the maximum of 40% of the greatest difference (min – max balance) determined for the minimum period of two years preceding the measurement date;
- foreign currency term deposits up to the maximum of 20% of the greatest difference (min – max balance) determined for the minimum period of two years preceding the measurement date.

Resistance to stress test for interest rate risk in the bank's records

Interest rate risk in the bank's records is the risk of loss arising from possible changes in interest rates, impacting the items in the bank's records. In calculating the stress tests, the Bank uses the method of a simplified calculation of evaluation of the economic value application of the Bank's records as prescribed by the Decision on interest rate risk in the bank's records. For changing the economic value in the stress test, 200 and 300 bp are applied. Exceptionally, the movement of 500bp may be applied.

For the purposes of determining weights by time periods for 300 bp, the following weights are applied:

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

The Bank calculates the shock test of the impact of one-off increase or decrease in interest rates by 100 and 20 basis points for a period of one year.
The Bank is obliged to adjust its operations so that at any moment, the following structural principles are followed:

- a change in the economic value in relation to the regulatory capital, calculated using the Croatian National Bank methodology (200bp), may not exceed the legally prescribed rate of 20% of the Bank's regulatory capital at any time,

in thousands of HRK

	Internal limit	**Internal system of early warning**	**at 31 Dec 2014**
Change in economic value / RC	15%	10%	7.69%

38.4. Operational risk

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

The Bank is trying to accomplish optimal management of operational risk according to the principles defined by the regulator and Bank policies, and with the purpose of diminishing and mitigating operational risk. In relation to this the Bank collects data on operational risk events, follows key risk indicators, conducts scenario analysis, evaluates operational risk in its operations, reports to Management on operational risk exposure and proposes measures for diminishing, mitigating and transferring operational risk.

39. Fair value of financial assets and liabilities

Fair value represents the amount for which assets may be exchanged or liabilities settled in the best interest of the parties involved.

The table below summarizes management evaluation of fair values at year end.

Total	Carrying value		Fair value	
	2014	**2013**	**2014**	**2013**
Financial assets				
Loans and receivables from banks	38,168	57,497	38,168	57,497
Loans and receivables from clients	1,906,494	1,629,818	1,886,134	1,610,280
Financial liabilities				
Deposits from banks	126,365	154,412	126,365	154,412
Deposits from clients	2,466,994	1,942,826	2,434,305	1,915,468
Received loans	203,414	301,647	202,845	301,021

Loans and receivables from customers and deposits from customers are the sum of balances of legal persons and individuals that have different average variable interest rates and their effects are recorded separately in the following tables;

Legal persons	Carrying amount		Fair value	
	2014	**2013**	**2014**	**2013**
Financial assets				
Loans and receivables from customers	1,596,506	1,398,095	1,585,084	1,382,978
Financial liabilities				
Deposits from customers	1,435,424	618,046	1,410,385	609,634

Individuals	Carrying amount		Fair value	
	2014	**2013**	**2014**	**2013**
Financial assets				
Loans and receivables from customers	309,988	231,723	301,050	227,301
Financial liabilities				
Deposits from customers	1,031,570	1,324,780	1,023,920	1,305,834

A summary of principal methods and assumptions used in evaluation of fair value of financial instruments is set out below;

Loans and receivables from banks

Loans and receivables are decreased for provisions for impairment. Estimated fair value of loans and receivables represents the discounted amount of future cash flows. Future cash flows are discounted by currently valid market rates with the goal of establishing their fair value.

Considering their short maturity, Management considers carrying value does not differ from fair value.

Loans and receivables from customers

Loans and receivables are decreased for provisions for impairment. Estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows. Future cash flows are discounted by currently valid market rates with the goal of establishing their fair value. Expected future losses are not taken into account and adjustments for uncertainty of collection are not made (including terms) for due and restructured exposures, as well as undue exposures that require increased attention.

Deposits from banks

Estimated fair value of fixed-maturity deposits is based on expected cash flows discounted by currently valid market rates on deposits with similar remaining maturities, but it cannot be lower than the nominal amount for those deposits that may at any time be claimed by clients.

Considering their short maturity, Management considers carrying value does not differ from fair value.

Deposits from clients

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

Borrowings

Estimated fair value of borrowings with fixed maturities is based on cash flows discounted at current variable interest rates of similar remaining maturities.

40. Fair value of financial instruments

Fair value represents the amount for which assets may be exchanged or liabilities settled in ordinary market conditions. Financial assets available for sale are shown at fair value, except Investments in Treasury bills that are shown at discounted value at the balance sheet date.

41. Capital management

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

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

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

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

CNB's Decision of 3 February 2015 orders Croatia banka to, starting from 30 September 2015, retain regulatory capital above the required one, in order to achieve a 2.74 percentage points higher total capital ratio than the one established by Article 92 Paragraph 1 Item c) of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and Chapter VII of the Credit Institutions Act so that the total capital ratio is 14.74 percent.
Consequently, the Bank started activities of capital increase in order to meet the Croatian National Bank's measure.

The regulatory capital of the Bank and its capital adequacy are calculated according to the requirements of Regulation (EU) No. 575/2013 for the Bank only as follows:

in thousands of HRK

	2014	2013
Regulatory capital		
Base capital		
Issued equity capital	474,600	474,600
Premium on issued shares	-	-
Retained earnings (excluding profit for the year)	(280,960)	(256,315)
Profit for the year, net of proposed dividend	-	(24,644)
Legal, statutory and other reserves	-	-
Deductions according to the Regulation (EU) No. 575/2013 /i/	(22,465)	(776)
Total base capital	171,175	192,865
Additional capital	-	-
Total additional capital	-	-
Deductions from investments in banks and other financial institutions	-	-
Total regulatory capital	**171,175**	**192,865**

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

As at 31 December 2014, the Bank's regulatory capital amounts to HRK 171,175 thousand (2013: HRK 192,865 thousand).

	2014	2013
		in thousands of HRK
Capital adequacy according to the Regulation EU No. 575/2014		
Capital requirements		
Credit risk exposure	91,972	150,116
Balance sheet items	*90,357*	*142,668*
Off-balance sheet items	*1,615*	*7,448*
Currency risk exposure	292	612
Operating risk exposure	10,749	14,602
Basic capital requirements	**103,013**	**165,330**
Additional capital requirements		
Buffer for capital retention	32,192	-
Buffer for structural system risk	19,315	-
Total capital requirements	**154,520**	**165,330**
Basic capital ratio	**13.29%**	**-**
Base capital ratio	**13.29%**	**-**
Total capital ratio	**13.29%**	**14.00%**

The comparative information presents the capital adequacy in accordance with the requirements of the Regulation (EU) No. 575/2013. As at 31 December 2014, the capital adequacy rate is 13.29% (31 December 2013: 14.00%). The decrease in the capital adequacy rate is a consequence of the application of the new regulation that requires decreasing capital by deferred tax assets that is not dependent on future profitability and does not arise from temporary differences, while at the same time capital requirements were decreased due to the new total capital ratio prescribed by law from 12% at the end of 2013 to 8% at the end of 2014. However, additional capital requirements have been introduced, as follows: capital requirement for capital retention of 2.5% and capital requirement for structural system risk of 1.5%. Thereby the total minimum capital requirement remained at the same level as at the end of the previous year.

Legal reserve

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

Fair value reserve

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

Accumulated loss

Accumulated loss includes accumulated losses from previous years.

42. Accounting estimates and judgments in application of accounting policies

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

a) Losses from impairment of loans and receivables

The Bank continually follows the creditworthiness of its clients. The need for impairment of balance sheet and off-balance sheet exposures to credit risk is estimated quarterly. Impairment losses are mainly recognized so that they are matched to the carrying value of loans and receivables from legal and physical entities and as provisions for liabilities and expenses resulting from risky off-balance sheet exposures to clients, most frequently in the form of approved but unused loans, guarantees and letters of credit. With losses from impairment that are individually identified the Bank also constantly observes and recognizes losses from impairment that are known to exist at the balance sheet date, but are not yet individually identified. In estimating unidentified impairment losses that exist in portfolios that are assessed as a group, the Bank is trying to collect reliable data on appropriate loss rates, that are based on historical experience adjusted for current conditions and the corresponding period of impairment losses recognition. The Bank has also shown a general provision, by the rate of 1%, determined by the CNB and applied to all exposures to credit risk, except for those valued at fair value, including off-balance sheet exposure to credit risk and the risk of central government.

The amount of general provisions as at 31 December 2014 was HRK 20,620 thousand (2013: HRK 19,027 thousand), for balance sheet and off-balance sheet exposures, according to applicable regulatory requirements.

Financial assets valued at amortized cost

The Bank foremost estimates whether there exists objective evidence of impairment, individually for assets that are individually significant (mostly exposures to legal entities) and as a group for assets that are not individually significant (mostly exposures to physical entities). However, assets not individually recognized for impairment are included in groups of assets with similar credit risk characteristics, and then evaluated as a group for impairment.

The Bank estimates impairment losses in cases when it considers available data point to probability of a measurable decrease of estimated future cash flows from assets or a portfolio of assets. As evidence the Bank considers irregularity of repayment or other indications of financial difficulty of the borrower and unfavourable changes in economic conditions affecting the borrower's operations or the value/probability of realizing collateral, when these changes can be related to the impossibility of repayment.

b) Deferred tax

The Bank recognizes deferred tax asset in line with management estimate. The management estimate is based on the Long-term business plan aimed at future profitable operations. Management goals set for 2014 have been achieved.

c) Regulatory requirements

The CNB and the Croatian Financial Services Supervisory Agency are authorized to exercise regulatory supervision over Bank's operations and may demand amendments of the assets' and liabilities' carrying value, according to appropriate regulations.

43. Concentration of assets, liabilities and off-balance sheet items

Concentration of assets, liabilities and off-balance sheet items is shown as follows:

in thousands of HRK.

	31 December 2014			31 December 2013		
	Assets	**Liabilities**	**OBS items**	**Assets**	**Liabilities**	**OBS items**
Geographical region						
Republic of Croatia	2,964,768	2,889,820	257,708	2,423,142	2,477,774	143,108
Europe	46,852	62,911	-	164,023	124,761	4
Other	25,857	84,746	-	41,388	26,018	-
Total geographical region	**3,037,477**	**3,037,477**	**257,708**	**2,628,553**	**2,628,553**	**143,112**
Sector						
Republic of Croatia (state)	619,243	47,613	2,552	325,908	243,487	8,513
Croatian National Bank	227,826	-	-	279,806	-	-
Trade	206,122	24,007	11,952	315,613	19,171	11,840
Finance	266,552	443,140	529	480,811	566,238	554
Tourism	36,938	2,499	1,185	37,637	3,370	390
Agriculture	192,490	662	5,138	231,344	7,501	5,786
Industry	176,090	34,115	45,211	628,789	49,139	52,289
Physical entities	194,115	1,577,876	17,914	148,222	1,303,368	24,675
Other	1,118,101	907,565	173,227	180,423	436,279	39,065
Total sector analysis	**3,037,477**	**3,037,477**	**257,708**	**2,628,553**	**2,628,553**	**143,112**

Supplementary report for the Croatian National Bank

Annual financial statements are prepared according to the reporting frame and annual financial statements determined by the CNB Decision on the structure and content of annual financial statements of banks (the 'Decision').

Balance sheet

ASSETS	2014	2013
Cash	25,994	26,378
Financial assets held for trading	-	**5,081**
Derivatives held for trading	-	-
Equity instruments	-	-
Debt instruments	-	5,081
Loans	-	-
Financial assets at fair value through profit or loss	-	-
Equity instruments	-	-
Debt instruments	-	-
Loans	-	-
Financial assets available for sale	**593,629**	**333,495**
Equity instruments	439	439
Debt instruments	593,190	333,056
Loans	-	-
Loans and receivables (including finance lease)	**2,248,217**	**2,155,228**
Deposits with the CNB	227,826	279,806
Deposits given (except for deposits with the CNB)	80,136	210,272
Debt instruments	1,824	2,149
Loans and receivables	1,938,431	1,663,002
Investments held to maturity	61,173	-
Debt instruments	61,173	-
Loans	-	-
Derivatives used as hedging instruments	-	-
Micro hedges	-	-
Macro hedges from interest rate risk	-	-
Changes in fair value of hedged items in the hedge of portfolio from interest rate risk	-	-
Tangible assets	**83,986**	**82,827**
Property, plant and equipment	48,290	46,732
Investment property	35,696	36,095
Intangible assets	**2,529**	**2,714**
Goodwill (only in consolidation)	-	-
Other intangible assets	2,529	2,714
Investments in associates, subsidiaries and joint ventures	-	-
Tax assets	**21,676**	**22,761**
Current tax assets	2	-
Deferred tax assets	21,674	22,761
Non-current assets and groups for disposal classified as held for trading	-	-
Other assets	403	68
Less: Impairment for losses on a collective basis	-	-
TOTAL ASSETS	**3,037,607**	**2,628,553**

LIABILITIES		
Financial liabilities held for trading	-	**-**
Derivatives held for trading	-	-
Financial liabilities traded - short selling	-	-
Other financial liabilities held for trading		-
Financial liabilities at fair value through profit or loss		**-**
Financial liabilities valued at amortised cost	**2,796,369**	**2,398,688**
Electronic money	-	-
Transaction accounts	541,255	252,981
Savings deposits	25,011	70,422
Term deposits	2,007,136	1,755,624
Other deposits received	19,196	17,653
Borrowings	203,431	301,687
Issued debt securities	-	-
Hybrid and subordinated instruments	-	-
Other financial liabilities valued at amortised cost	340	320
Derivatives used as hedging instruments	-	-
Micro hedge	-	-
Macro hedges from interest rate risk	-	-
Changes in fair value of hedged items in the hedge of portfolio from interest rate risk	-	-
Provisions	**9,301**	**12,710**
Provisions for restructuring costs	-	-
Provisions for legal claims	5,932	8,091
Provisions for liabilities to employees	749	941
Provisions for pensions and other liabilities to former employees	-	-
Provisions for losses on acquired off-balance sheet liabilities	2,610	1,466
Provisions for onerous contracts	-	-
Other provisions	10	2,211
Tax liability	613	1,274
Current tax liability	483	1,274
Deferred tax liability	130	-
Liabilities included in groups for disposal classified as held for trading	-	-
Other liabilities	31,156	20,657
TOTAL LIABILITIES	**2,837,439**	**2,433,328**
CAPITAL		
Share capital	474,600	474,600
Subscribed capital	474,600	474,600
Capital gains on share issue (capital reserves)	-	-
Equity portion of complex financial instruments	-	-
Revaluation reserves	2,609	1,584
Unrealised gain (loss) on impairment of financial assets available for sale	2,609	1,584
Reserves on net foreign exchange differences	-	-

Reserves arisen from revaluation of tangible assets	-	-
Reserves arisen from revaluation of intangible assets	-	-
Reserves incurred from hedging transactions – effective portion of hedge of net investment in foreign operations	- -	- -
Reserves incurred from hedging transactions – effective portion of cash flow hedge	- -	-
Reserves on the basis of tangible assets or groups for assets for disposal classified as “assets held for trading”	- -	- -
Other revaluation reserves	-	-
Reserves	-	-
Legal reserves	-	-
Statutory and other capital reserves	-	-
Capital gain (loss) on purchase and sale of treasury shares	-	-
Less: treasury shares	-	-
Retained earnings (loss)	(280,960)	(256,315)
Profit / loss for the previous year	-	-
Profit / loss for the current year	3,919	(24,644)
Capital attributable to majority owners (only in consolidation)	200,168	-
Capital attributable to minority interests (only in consolidation)	-	-
TOTAL EQUITY	**200,168**	**195,224**
TOTAL LIABILITIES AND EQUITY	**3,037,607**	**2,628,553**

Supplementary report for the Croatian National Bank (continued)

Income statement

in thousands of HRK

CONTINUED OPERATIONS	**2014**	**2013**
Interest income	142,534	113,295
Interest expenses	77,772	(65,941)
Net interest income	**64,762**	**47,354**
Fee and commission income	10,615	9,527
Fee and commission expense	5,063	(4,981)
Net fee and commission income	**5,552**	**4,546**
Income from other equity investments	-	-
Gains (losses)	10,817	4,623
Other operating income	8,811	12,586
Other operating expenses	4,863	3,442
Other non-interest income - net	**14,765**	**13,767**
Total operating income	**85,079**	**65,667**
General administrative expenses and depreciation	71,145	75,291
Net operating income before loss provisions	**13,934**	**(9,624)**
Provision costs and income from reversal of provisions	-2,417	1,586
Impairment costs for placements and provisions for identified losses on off-balance sheet liabilities	8,475	5,304
Impairment costs and provisions for identified losses on a collective basis	2,741	8,131
Impairment costs for assets available for sale	-	-
Impairment costs for non-financial assets	-	-
Total impairment costs and provisions	**8,799**	**15,021**
Negative goodwill	-	-
Shares in profit (loss) on investments in subsidiaries, associates and joint ventures (only in consolidated statements)	-	-
Gains (losses) on non-current assets and groups for disposal held for trading not classified as discontinued operations	-	-
Total other gains (losses)	-	**-**
Profit (loss) from continued operations, before tax	**5,136**	**(24,644)**
Income tax on continued operations	1,217	-
Profit (loss) from continued operations, after tax	3,919	(24,644)
DISCONTINUED OPERATIONS		-
Profit (loss) from discontinued operations, after tax	-	-
Profit (loss) for the year	**3,919**	**(24,644)**
Profit (loss) attributable to majority owners (only in consolidation)	3,919	(24,644)
Profit (loss) attributable to minority interests (only in consolidation)	-	-

Cash flow statement

in thousands of HRK

P O S I T I O N	**2014**	**2013**
Operating activities		
Gains/(losses) before tax	3,919	(24,644)
Impairment and provisions for losses	12,740	15,019
Depreciation and amortisation	3,520	-
Net unrealised (gain)/loss on financial assets and liabilities at fair value through P&L	(1,025)	-
(Gain) /loss on sale of tangible assets	(4,054)	-
Other (gains) / losses	1,425	(439)
Cash flow from operating activities before changes in operating assets	***16,525***	***(10,064)***
Deposits with the CNB	(16,520)	(63,497)
MoF treasury bills and CNB bills	(296,601)	56,289
Deposits with banking institutions and loans to financial institutions	-	(41,789)
Loans to other customers	(285,053)	(597,473)
Securities and other financial instruments available for sale	31,028	47,166
Securities and other financial instruments held for trading	5,081	(5,081)
Securities and other financial instruments not traded actively, carried at fair value through profit or loss	-	-
Other operating assets	(3,927)	2,820
Net (increase)/decrease in operating assets	***(565,992)***	***(601,565)***
Demand deposits	288,274	27,198
Savings and term deposits	206,101	584,039
Other liabilities	9,658	36,694
Net increase (decrease) in operating liabilities	***504,033***	***647,931***
Net cash flow from operating activities before profit tax	(45,434)	36,302
Profit tax paid		-
Net inflow (outflow) of cash from operating activities	**(45,434)**	**36,302**
Investing activities		
Cash receipts from sales of / (payments to acquire) tangible and intangible assets	11,376	7,549
Proceeds for sale /(payments to acquire) investments in subsidiaries, associates and joint ventures	-	-
Cash receipts from sales of / (cash payments to acquire) securities and other financial instruments held to maturity	(59,619)	397
Dividend received	-	-
Other receipts from /(payments for) investments	(8,939)	(3,692)
Net cash flow from investing activities	**(57,182)**	**4,254**
Financing activities		
Net increase/(decrease) in received loans	(98,233)	55,247
Net increase /(decrease) in issued debt securities	-	-
Net increase /(decrease) in subordinated and hybrid instruments	-	-
Other proceeds /(payments) from financing activities	-	

Increase of share capital	-	-
Net cash flow from financing activities	**(98,233)**	**55,247**
Net increase / (decrease) in cash and cash equivalents	**(200,849)**	**95,803**
Cash and cash equivalents at beginning of the year	**327,380**	**231,577**
Cash and cash equivalents at end of the year	**126,531**	**327,380**

Statement of changes in equity

in thousands of HRK

Type of change	Share capital	Retained earnings /(loss)	Current year profit/(loss)	Unrealised gains/losses on value adjustments of financial assets available for sale	Total equity and reserves
Balance as at 1 January of the current year	**474,600**	**(256,316)**	**(24,644)**	**1,584**	**195,224**
Changes in fair value of the portfolio of available-for-sale financial assets	-	-	-	1,025	1,025
Net gains/losses recognised directly in equity and reserves	-	-	-	-	-
Current year profit/(loss)		-	3,919		3,919
Total current year income and expenses	-	-	-	-	-
Increase/decrease in share capital	-	-	-	-	-
Other changes	-	(24,644)	24,644	-	-
Closing balance as at 31 December of the current year	**474,600**	**(280,960)**	**3,919**	**2,609**	**200,168**

Adjustment of the balance sheet as at 31 December 2014
in thousands of HRK

	CNB Decision	Annual report	Difference
ASSETS			
Cash	25,994	87,431	(61,437)
Financial assets held for trading	**-**	**-**	**-**
Derivatives held for trading	-	-	-
Equity instruments	-	-	-
Debt instruments	-	-	-
Loans	-	-	-
Financial assets at fair value through profit or loss	**-**	**-**	**-**
Equity instruments	-	-	-
Debt instruments	-	-	-
Loans	-	-	-
Financial assets available for sale	**593,630**	**593,630**	-
Equity instruments	439	439	-
Debt instruments	593,191	593,191	-
Loans	-	-	-
Loans and receivables (including finance lease)	**2,248,217**	**2,153,110**	**95,107**
Deposits with the CNB	227,826	208,448	19,378
Deposits given (except for deposits with the CNB)	80,136	38,168	41,968
Debt instruments	1,824	0	1,824
Loans and receivables	1,938,431	1,906,494	31,937
Investments held to maturity	**61,173**	**61,176**	**(3)**
Debt instruments	61,173	61,176	**(3)**
Loans	-	-	-
Derivatives used as hedging instruments	-	-	-
Micro hedges	-	-	-
Macro hedges from interest rate risk	-	-	-
Changes in fair value of hedged items in the hedge of portfolio from interest rate risk	-	-	-
Tangible assets	**83,984**	**83,984**	-
Property, plant and equipment	48,288	19,446	28,842
Investment property	-	28,842	(28,842)
Derivatives used as hedging instruments	35,696	35,696	-
Intangible assets	**2,530**	**2,530**	**-**
Goodwill (only in consolidation)	-	-	-
Other intangible assets	2,530	2,530	-
Investments in associates, subsidiaries and joint ventures	-	-	-
Tax assets	**21,676**	**21,545**	131
Current tax assets	2	0	2
Deferred tax assets	21,674	21,545	129
Non-current assets and groups for disposal classified as held for trading	-	-	-
Other assets	403	34,071	(33,668)
Less: Impairment for losses on a collective basis	-	-	-
TOTAL ASSETS	**3,037,607**	**3,037,477**	**130**

	CNB Decision	Annual report	Difference
LIABILITIES			
Financial liabilities held for trading	**-**		**-**
Derivatives held for trading	-		-
Financial liabilities traded - short selling	-		-
Other financial liabilities held for trading			-
Financial liabilities at fair value through profit or loss			**-**
Financial liabilities valued at amortised cost	**2,796,369**	**2,796,773**	**(404)**
Electronic money	-	-	**-**
Transaction accounts	541,255	567,732	**(26,477)**
Savings deposits	25,011	-	**25,011**
Term deposits	2,007,136	1,899,262	**107,874**
Other deposits received	19,196	-	**19,196**
Borrowings	203,431	203,414	**17**
Liabilities to banks	-	126,365	**(126,365)**
Issued debt securities	-		**-**
Hybrid and subordinated instruments	-		**-**
Other financial liabilities valued at amortised cost	340	-	**340**
Derivatives used as hedging instruments	-	-	-
Micro hedge	-	-	-
Macro hedges from interest rate risk	-	-	-
Changes in fair value of hedged items in the hedge of portfolio from interest rate risk	-	-	-
Provisions	**9,301**	**9,301**	**-**
Provisions for restructuring costs	-	-	**-**
Provisions for legal claims	5,932	-	**5,932**
Provisions for liabilities to employees	749	-	**749**
Provisions for pensions and other liabilities to former employees	-	-	**-**
Provisions for losses on acquired off-balance sheet liabilities	2,610	-	**2,610**
Provisions for onerous contracts	-	-	**-**
Other provisions	10	-	**10**
Tax liability	613		**613**
Current tax liability	483		**483**
Deferred tax liability	130		**130**
Liabilities included in groups for disposal classified as held for trading	-		**-**
Other liabilities	31,156	31,234	**(78)**
TOTAL LIABILITIES	**2,837,439**	**2,837,308**	**131**
CAPITAL			
Share capital	474,600	474,600	-
Subscribed capital	474,600	474,600	-
Capital gains on share issue (capital reserves)	-		-
Equity portion of complex financial instruments	-		-
Revaluation reserves	2,609	2,609	-
Unrealised gain (loss) on impairment of financial assets available for sale	2,609	2,609	-
Reserves on net foreign exchange differences	-		-
Reserves arisen from revaluation of tangible assets	-		-
Reserves arisen from revaluation of intangible assets	-		-
Reserves incurred from hedging transactions – effective portion of hedge of net investment in foreign operations	- -		- -
Reserves incurred from hedging transactions – effective portion of cash flow hedge	- -		- -
Reserves on the basis of tangible assets or groups for assets for disposal classified as "assets held for trading"	- -		- -
Other revaluation reserves	-		-
Reserves	-		-

Legal reserves	-		-
Statutory and other capital reserves	-		-
Capital gain (loss) on purchase and sale of treasury shares	-		-
Less: treasury shares	-		-
Retained earnings (loss)	(280,960)	(280,959)	(1)
Profit / loss for the previous year	-		
Profit / loss for the current year	3,919	3,919	-
Capital attributable to majority owners (only in consolidation)	200,168	200,169	(1)
Capital attributable to minority interests (only in consolidation)	-	-	-
TOTAL EQUITY	**200,168**	**200,169**	**(1)**
TOTAL LIABILITIES AND EQUITY	**3,037,607**	**3,037,477**	**130**

Deviations of balance sheet items in the Annual report from the standard determined by the CNB Decision refer to the following categories:

ASSETS

Cash and deposits with the CNB, Deposits with banking institutions and Loans to financial institutions are items separately shown in the CNB standard, while in the Annual report those values are shown within the items Cash, Receivables from the CNB and Placements with banks.

The item Loans and receivables in the Annual report includes interest receivables, while in the CNB standard they are included in Other assets.

The item Deferred tax assets is offset in the Annual report with Deferred tax liabilities and this is the reason why the final amount of the CNB balance sheet is higher than the balance sheet in the Annual report by HRK 130 thousand.

LIABILITIES AND EQUITY

Giro account and current account deposits, Savings deposits and Term deposits are items of the CNB standard, while in the Annual report these items have been included in the items Demand deposits, Term deposits and Liabilities to banks.

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

Tax liabilities in the CNB report are shown separately, while in the Annual report they are shown within the item Other liabilities (other than deferred tax liabilities which are offset with deferred tax assets).

Supplementary report for the Croatian National Bank (continued)

in thousands of HRK

CONTINUED OPERATIONS	CNB Decision	Annual report	Difference
Interest income	142,534	142,212	322
Interest expenses	(77,772)	(82,117)	4,345
Net interest income	**64,762**	**60,095**	4,667
Fee and commission income	10,615	10,656	(41)
Fee and commission expense	(5,063)	(5,063)	0
Net fee and commission income	**5,552**	**5,593**	(41)
Income from equity investments	-	-	-
Gains (losses)	10,817	10,464	353
Other operating income	8,811	9,012	(201)
Other operating expenses	(4,863)	-	(4,863)
Other non-interest income - net	**14,765**	**19,476**	(4,711)
Total operating income	**85,079**	**85,164**	(85)
General administrative expenses and depreciation	71,144	67,870	3,274
Net operating income before loss provisions	**13,935**	**17,294**	(3,359)
Provision costs and income from reversal of provisions	(2,417)	-	-
Impairment costs for placements and provisions for identified losses on off-balance sheet liabilities	8,475	-	-
Impairment costs and provisions for identified losses on a collective basis	2,741	-	-
Impairment costs for assets available for sale	-	-	-
Impairment costs for non-financial assets	-	-	-
Total impairment costs and provisions	**8,799**	**12,158**	3,359
Negative goodwill	-	-	-
Shares in profit (loss) on investments in subsidiaries, associates and joint ventures (only in consolidated statements)	-	-	-
Gains (losses) on non-current assets and groups for disposal held for trading not classified as discontinued operations	-	-	-

Total other gains (losses)	**-**	**-**	**-**
Profit (loss) from continued operations, before tax	**5,136**	**5,136**	**-**
Income tax on continued operations	1,217	1,217	-
Profit (loss) from continued operations, after tax	3,919	3,919	-
DISCONTINUED OPERATIONS	-	-	-
Profit (loss) from discontinued operations, after tax	-	-	-
Profit (loss) for the year	**3,919**	**3,919**	**-**
Profit (loss) attributable to majority owners (only in consolidation)	3,919	-	-
Profit (loss) attributable to minority interests (only in consolidation)	-	-	-
Unrealised gain/(loss) on valuation of financial assets available for sale	-	1,025	(1,025)
TOTAL COMPREHENSIVE INCOME/(LOSS)	-	4,944	(4,944)

Impairment costs on income from interest and fees and net foreign exchange differences on these impairments are presented in the supervisory report RN in items Interest income/ Interest expense and also in positions Commission and fee income / Commission and fee expense, and these positions differ accordingly. Also, premium expense for savings deposits insurance is recorded in the Annual Report in item Interest expense, and according to the CNB standard, they are recorded in Other operating expenses.

Items Other expenses, General administrative expenses and depreciation in the CNB standard comprise the item Other operating expenses in the Annual report, and the difference refers to impairment of foreclosed assets that is included in the item Total costs of impairment and provisions in the Annual report, and in the item General administrative expenses and depreciation in the CNB standard.

Adjustment of the cash flow statement for 2014

POSITION	CNB Decision	Annual report	Difference
Operating activities			
Profit/(loss) before tax	3,919	5,136	(1,217)
Impairment and provisions for losses	12,740	-	12,740
Impairment of loans and other assets (net)	-	14,187	(14,187)
Provisions for contingencies (net)	-	1,144	(1,144)
Provisions for legal claims (net)	-	(2,159)	2,159
Other provisions (net)	-	(432)	432
(Gain)/loss on realisation of financial assets available for sale	-	(6,445)	6,445
Gain on financial assets at fair value for trading	-	(18)	18
Depreciation	3,520	3,520	-
Net unrealized (gains)/losses from financial assets and liabilities at fair value through profit or loss	(1,025)	-	(1,025)
(Gains)/losses from sale of tangible assets	(4,054)	(4,054)	-
Foreign exchange differences on translation	-	(67)	67
Write-offs of tangible assets	-	8	(8)
Other (gains)/losses	1,425	-	1,425
Cash flow from operating activities before changes in operating assets	***16,525***	***10,820***	***5,705***
Deposits with the CNB / *Increase in receivables from Croatian National Bank*	(16,520)	(16,520)	-
MoF treasury bills and CNB bills	(296,601)	-	(296,601)
Loans to other clients	(285,053)	-	(285,053)
Increase in loans and advances to customers	-	(298,587)	298,587
Securities and other financial instruments available for sale	31,028	-	31,028
Securities and other financial instruments held for trading	5,081	-	5,081
Other operating assets	(3,927)	(4,952)	1,025
Net increase in operating assets	***(565,992)***	***(320,059)***	***(245,933)***
Demand deposits	288,274	229,528	58,746
Savings and time deposits	206,101	292,921	(86,820)
Decrease in liabilities to banks	-	(28,047)	28,047
Other liabilities	9,658	9,500	158
Net increase in operating liabilities	***504,033***	***503,902***	***131***
Net cash flow from operating activities before profit tax	(45,434)	215,058	(260,492)
Profit tax paid	-	-	-
Net inflow /(outflow) of cash from operating activities	**(45,434)**	**194,663**	**(240,097)**
Investing activities			
Cash receipts from sale/(payments to acquire) tangible and intangible assets	11,376	9,907	1,469
Cash receipts from collection/(payments to acquire) securities and other financial instruments held to maturity	(59,619)	(59,619)	-
Purchase of financial assets available for sale	-	(337,649)	337,649
Sale of financial assets available for sale	-	84,983	(84,983)
Sale of financial assets held for trading	-	5,099	(5,099)
Other receipts from/(payments for) investments	(8,939)	-	(8,939)
Net cash flow from investing activities	**(57,182)**	**(297,279)**	**240,097**
Financing activities			
Net decrease in received loans	(98,233)	(98,233)	-
Net cash flow from financing activities	**(98,233)**	**(98,233)**	**-**
Net decrease in cash and cash equivalents	**(200,849)**	**(200,849)**	**-**
Cash and cash equivalents at beginning of the year	**327,380**	**327,380**	**-**
Cash and cash equivalents at end of the year	**126,531**	**126,531**	**-**

Differences of cash flow statement items in the Annual report from the standard determined by the CNB Decision refer to the following categories:

According to the CNB standard, Impairment and provisions for losses are shown in one amount, while in the Annual report they are shown within the items Impairment of loans and other assets, Provisions for potential liabilities and Provisions for legal claims and Other provisions.

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

Supplementary report for the Croatian National Bank (continued)

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

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

Ad.1.

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

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

In accordance with the National Classification of Activities, the activities of Croatia banka are defined as: 64.19 Other monetary mediation.
During 2014, Croatia banka performed its activities in the Republic of Croatia.

Ad.2.

In 2014, Croatia banka realised a total net income of HRK 84,962 thousand.

Ad.3.

As at 31 December 2014, Croatia banka had 240 employees based on the number of hours of work, but at the end of 2014 the actual number of employees was 254.

Ad.4.

During 2014, Croatia banka did not receive any state subsidies.

BUSINESS NETWORK AND CONTACTS

HEADQUARTERS

Address	Roberta Frangeša Mihanovića 9
	10110 Zagreb
Website	www.croatiabanka.hr
Telephone	0800 57 57
Fax	01 2391 244
E-mail	info@croatiabanka.hr
IBAN:	HR0324850031000009027

BUSINESS NETWORK

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

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