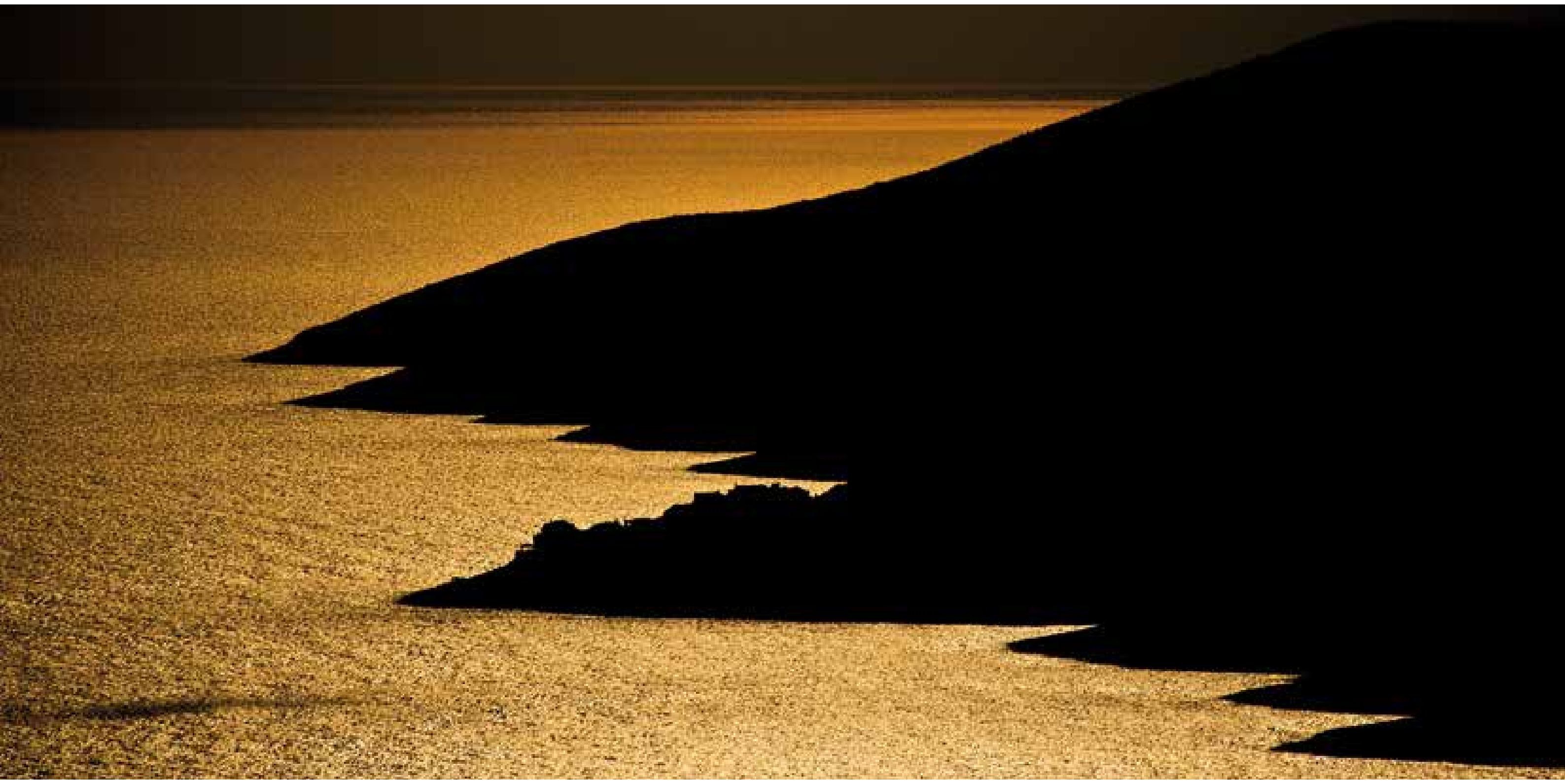
PRIVREDNA BANKA ZAGREB

Annual Report | 2015



PBZ, a bank of INTESA SANPAOLO

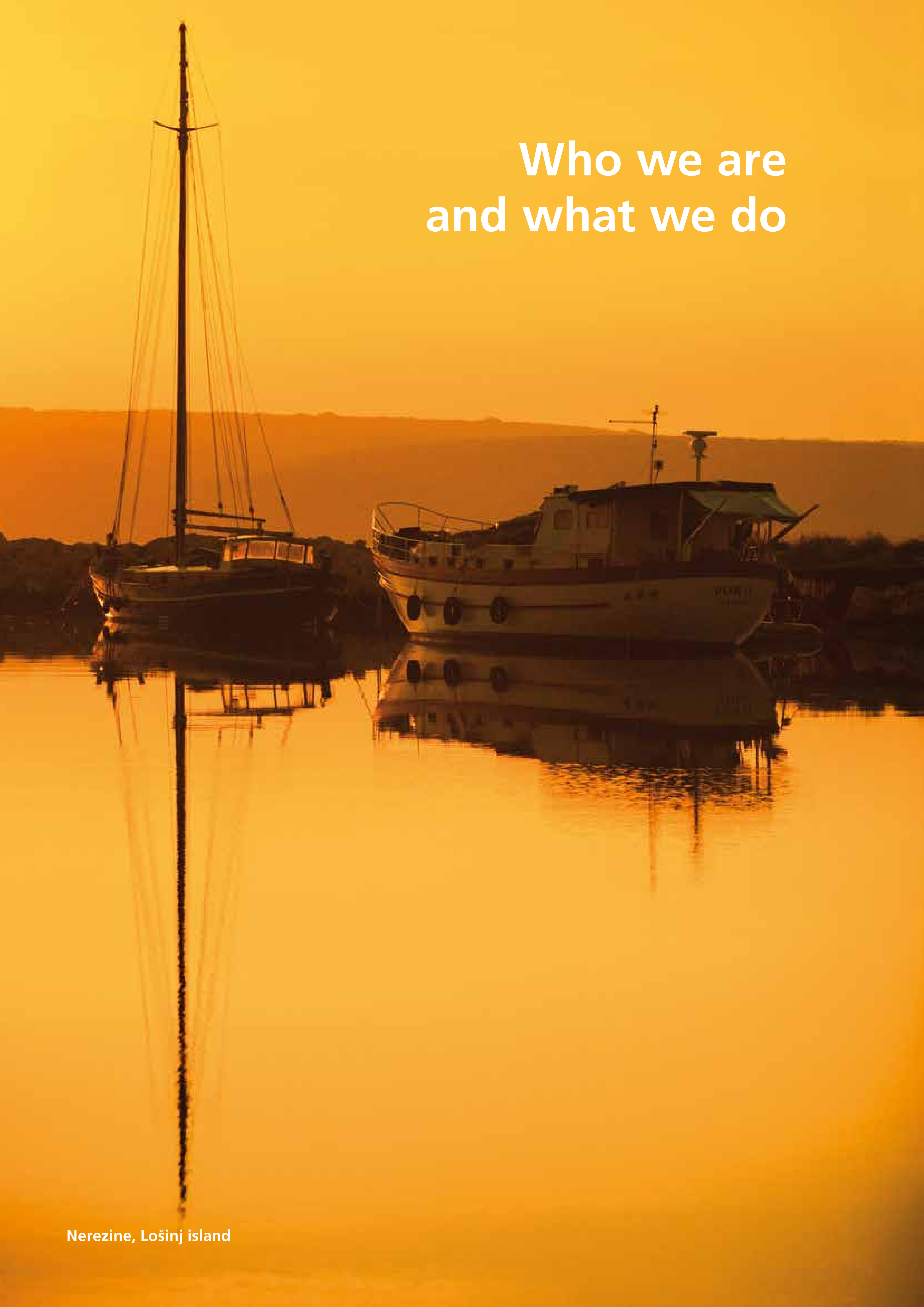
Annual report and financial statements

31 December 2015

Brijuni National park

Table of contents

Who we are and what we do



Nerezine, Lošinj island

We are a leading Croatian financial services group engaged in retail and corporate banking, credit card operations, investment banking, private banking, leasing, investment management services and real estate activities. We operate in the entire area of Croatia and employ over four thousand people.
Our mission is to permanently and effectively utilize all of the resources at our disposal to continuously improve all aspects of our business activities, including human resources, technology and business processes.
Our vision is to be a model company and centre of excellence in creating new value, as well as provision of high-quality service in all of our activities for the benefit of our clients, the community, our stakeholders and our employees.

1,801 thousand
TOTAL CUSTOMERS

905 thousand
CURRENT ACCOUNTS

HRK **55** billion
TOTAL GROSS LOANS

HRK **79.3** billion
TOTAL CUSTOMERS' FUNDS*

HRK **9.8** billion
TOTAL HOUSING LOANS

HRK **9.3** billion
ASSETS UNDER CUSTODY

2,491 thousand
TOTAL CARDS ISSUED

490 thousand
INTERNET BANKING USERS

33,016
EFT POS

250
TOTAL BRANCHES

781
ATM MACHINES

123
DAY AND NIGHT VAULTS

**Comprises customers deposits, assets under management and assets under custody*

Introduction

The Management Board of Privredna banka Zagreb dd has the pleasure of presenting its Annual report to the shareholders of the Bank. This comprises a summary of financial information, management reviews, the audited financial statements and the accompanying audit report, supplementary forms required by local regulation and unaudited supplementary statements in EUR. Audited financial statements are presented for the Group and the Bank.

CROATIAN AND ENGLISH VERSION

This document comprises the Annual Report and financial statements of Privredna banka Zagreb dd for the year ended 31 December 2015 in the English language. This report is also published in the Croatian language for presentation to shareholders at the Annual General Meeting.

LEGAL STATUS

These annual financial statements are prepared in accordance with International Financial Reporting Standards as adopted by European Union (hereinafter: EU) and audited in accordance with International Standards on Auditing. The Annual Report is prepared in accordance with the provisions of the Companies Act and the Accounting Law, which require the Management Board to report to shareholders of the company at the Annual General Meeting.

ABBREVIATIONS

In this Annual Report, Privredna banka Zagreb dd is referred to as "the Bank" or "PBZ" or as "Privredna banka Zagreb", and Privredna banka Zagreb dd, together with its subsidiary undertakings are referred to collectively as "the Group" or "the Privredna banka Zagreb Group".
The central bank, the Croatian National Bank, is referred to as "the CNB". The European Bank for Reconstruction and Development is referred to as "EBRD".
In this report, the abbreviations "HRK thousand", "HRK million", "USD thousand", "USD million", "CHF thousand", "CHF million", "EUR thousand", "EUR million" and "BAM thousand" or "BAM million" represent thousands and millions of Croatian kunas, US dollars, Swiss francs, Euros and Bosnian convertible marks respectively.

EXCHANGE RATES

The following mid exchange rates set by the CNB ruling on 31 December 2015 have been used to translate balances in foreign currency on that date:

CHF 1 = 7.060 HRK
USD 1 = 6.992 HRK
EUR 1 = 7.635 HRK
BAM 1= 3.915 HRK

Five year summary and financial highlights

in HRK million	2015	2014	2013*	2012*	2011*
GROUP					
Income statement and statement of financial position					
Total gross revenue	5,198	5,355	5,234	5,468	5,569
Net interest income	2,515	2,454	2,257	2,406	2,480
Net operating income	3,975	3,938	3,726	3,761	3,874
Net profit for the year	370	989	821	1,014	1,268
Total assets	78,423	78,328	70,117	72,554	74,154
Loans and advances to customers	50,985	51,187	48,557	49,960	51,398
Due to customers	58,180	55,346	47,729	48,143	47,431
Shareholders' equity	13,179	13,983	12,772	12,788	12,322
Other data (as per management accounts)					
Return on average equity	2.66%	7.19%	6.44%	8.14%	10.86%
Return on average assets	0.43%	1.17%	1.07%	1.29%	1.61%
Assets per employee	19.7	18.9	17.2	17.4	17.9
Cost income ratio	45.93%	46.72%	45.41%	43.63%	44.00%

** Presented information does not include Intesa Sanpaolo Banka dd Bosnia and Herzegovina, a subsidiary acquired in 2015 in a common control transaction.*

in HRK million	2015	2014	2013	2012	2011
BANK					
Income statement and statement of financial position					
Total gross revenue	4,087	4,052	4,351	4,489	4,591
Net interest income	2,193	2,132	2,145	2,213	2,268
Net operating income	3,161	2,944	3,039	3,035	3,146
Net profit for the year	193	643	615	846	1,136
Total assets	69,214	68,876	65,617	68,411	67,481
Loans and advances to customers	44,186	44,543	45,106	46,918	46,691
Due to customers	52,815	50,387	46,427	46,973	44,081
Shareholders' equity	11,424	11,660	11,499	11,726	11,194
Other data (as per management accounts)					
Return on average equity	1.67%	5.57%	5.30%	7.49%	10.65%
Return on average assets	0.26%	0.88%	0.86%	1.19%	1.61%
Assets per employee	21.7	20.4	17.7	18.1	19.0
Cost income ratio	43.73%	48.01%	46.95%	41.93%	41.96%

Report from the President of the Supervisory Board

On behalf of the Supervisory Board of Privredna banka Zagreb dd, I am honored to present you the business results of the Bank and Group for the year 2015. 2015 will be remembered as a very strenuous year for Croatian banking industry, where this negative setting has been induced by still present economic crisis as well as adverse situation related to the forced conversion of Swiss franc pegged loans. However, we in Privredna banka Zagreb and its Group managed to cope exceptionally well with this imposed external elements and by doing so to outperform all our peers. This achievement is a direct result stemming from our thoughtfully planned strategy and its comprehensive execution along with momentous aide by our long-term strategic accomplice: the parent bank Intesa Sanpaolo.

Unfortunately, negative macroeconomic trends from the past have not been sufficiently reversed in 2015. Still, after long years of negative economic growth, 2015 ended up noting shy growth of GDP, at least indicating a possibility to end negative trends in the future periods. Based on this still fragile yet positive trend, 2016 has a real chance to be seen as a start of long-awaited recovery. One of the generators of growth was private consumption that grew due to increase of net wages caused by positive changes in tax legislation and by declining level of prices. The following contributor to GDP growth was rise in investment activity, mainly supported by utilization of EU funds. The last driver of GDP growth was an increase of external demand, demonstrating an improved exporter competitiveness and tangible results of the benefits of EU membership.

Notwithstanding the above, the Croatian banking industry did not benefit much from any of the positive macroeconomic trends observed in 2015. Prevailing business and consumer pessimism increased the aversion to debt and increased inclination to savings thus putting an additional pressure on banks' net interest income that is proportionally the most influential component of the profit. This kind of business environment pushed the banks to focus on risk management and cost control instead of development of new products and services.

In addition to this shy recovery of economic trends and still prevailing cautious views of banks' clients, an unprecedented event took place – the forced conversion of Swiss franc pegged loans. Namely, the Government introduced changes in the Credit Institutions Act and Consumer Credit Act, enforcing a conversion of Swiss franc loans into euro linked loans at the exchange rate prevailing at the time of loan approval, thus creating an enormous loss for the banking industry amounting to HRK 8 billion (according to currently only available but unofficial sources). This unilaterally made Government decision created huge legal and market controversy seeking further legal unfolding in front of The Constitutional Court.

Despite such a harsh environment, PBZ Group managed to stabilize its business and to control risks arising from its transactions far better than any of peers. We even did it to such a degree that we fully protected our capital base, deposits and liquidity and in the end even earned profits for our shareholders. This good result was achieved by application of our long-term strategy built around conservatism in identification and measurement of all risks arising from our daily operations and full dedication to client-oriented approach in all stages of our activities. On top of all this, the PBZ Group maintains a

comfortable structural liquidity position, given its stable customer deposit base, appropriate sources of long-term funding and its shareholders' equity. Mix of all those elements enabled us to be truly proud of the strength and resiliency that have been proven in such circumstances. We have succeeded in meeting our goals and were able to retain the value of our Group. Total gross revenue for the PBZ Group amounted to HRK 5.2 billion. Consolidated net operating income equaled HRK 3.98 billion, whereas net profit recorded HRK 365 million. Our cost/income ratio, an efficiency key measure, closed once again below 50 (45.9) percent, while the return on average equity reached 2.66 percent. These are all very satisfactory figures consistently representing strong performance throughout the years.
In 2015, the PBZ Group further reinforced its position as one of Croatia's foremost banks in terms of productivity, returns and value creation for its shareholders. We are the second largest group in the country with a strong customer base. Looking ahead, the present economic climate suggests that the respective environment in 2016 will nevertheless remain challenging. Therefore, a continued focus by management on overseeing asset quality, maintaining optimal product mix as well as an active monitoring of operating costs will be crucial. We have the ability to overcome the near-term challenges. Furthermore, we are well positioned to earn benefits from the present and future trends in growing integration of the Croatian market into the global financial markets. Given our business model, these trends present a significant growth opportunity for us.
On behalf of the Supervisory Board, I would like to express my gratitude and appreciation to all the employees of the Group for their commitment and valued contribution. I would also like to thank the Management Board for its strong leadership and outstanding performance. Finally, I would like to express my great appreciation for the work to my former and new colleagues on the Supervisory Board, as well as to the Audit Committee members for their wise counsel and contribution.

REPORT ON THE PERFORMED SUPERVISION IN THE YEAR 2015

In 2015 the Supervisory Board of the Bank performed duties in conformity with the law, the Bank's Articles of Association, and Rules of Procedure of the Supervisory Board of the Bank. During 2015 the Supervisory Board held three regular meetings and thirteen meetings by letter in order to make decisions on the issues that had to be resolved without delay. In order to prepare the decisions that fall within its competence and supervise the implementation of the previously adopted decisions, the Supervisory Board of the Bank was provided with the assistance of Audit Committee, which regularly reported on their work at the meetings of the Supervisory Board. In 2015, the Audit Committee held six meetings where it discussed the processes within its competence. In accordance with its legal responsibility, the Supervisory Board of the Bank has examined the Annual Financial Statements and Consolidated Annual Financial Statements of the Bank for 2015, Report on the Operation of the Bank and its Subsidiaries and Draft Decision on the Allocation of the Bank's Profit Earned in 2015, that were all submitted by the Management Board of the Bank. The Supervisory Board made no remarks on the submitted reports. In that respect, the Supervisory Board established that the Annual Financial Statements and Consolidated Annual Financial Statements were prepared in accordance with the balances recorded in the business books and that they impartially disclosed the assets and financial status of the Bank and the PBZ Group, which was also confirmed by the external auditor KPMG d.o.o., Zagreb, the company that had audited the financial statements for 2015. Since the Supervisory Board has given its consent regarding the Annual Financial Statements and Consolidated Annual Financial Statements of the Bank for 2015, the respective financial statements are considered to have been confirmed by the Management Board and by the Supervisory Board of Privredna banka Zagreb pursuant to the provisions of Art. 300.d of the Companies Act. The Supervisory Board of the Bank accepted the report of the Management Board on the operation of Privredna banka Zagreb and its subsidiaries and it agreed that HRK 193,142,575.36 of the Bank's net profit totaling HRK 193,167,296.56, earned in the year that ended on 31 December 2015, should be distributed by pay-out of dividends (or HRK 10.16 per share) whereas the remaining amount should be allocated to retained earnings.

Yours faithfully

Giovanni Gilli
President of the Supervisory Board

9 February 2016

Fishing boat, Lošinj island

Management Board report of the Status of the Bank

Distinguished shareholders,

I am honoured to present you the Annual Report and Financial Statements of Privredna banka Zagreb dd for the year ended on 31 December 2015. In spite of still unsupportive macroeconomic conditions as well as turbulent and adverse repercussions of the situation related to Swiss franc pegged loans, our operations proved to be resilient and sound. Therefore, Privredna banka Zagreb dd and its subsidiaries, supported by our strategic partner Intesa Sanpaolo, managed to substantially outperform our peers in most relevant business aspects. We were able to accomplish such achievement by continuing to execute our predetermined business strategy built around customer relations and well-diversified source of income, thus keeping a steady course and reflecting the resilience of our earnings power in this challenging conditions. All our business segments managed to cope extremely well with the surrounding conditions, while SME business segment even managed to increase the size of its portfolio. Supplementary to this, we have been investing significant effort into shaping ourselves into well-capacitated, experienced and agile entity able to conduct exceptional management of non-performing loans. Commitment to do so enabled us to hike selling of non-performing part of portfolio, its collection and restructuring and by applying this mix of activities to bear fruits in the form of both substantially decreased non-performing loans share and provisions costs.

OUTLOOK

Global developments in 2015 were marked by uncertainty surrounding the slowdown in the Chinese economic growth, expectations of a potential shift in the Federal Reserve's monetary policy, continuation of the European Central Bank's expansionary monetary policy, decrease in the prices of oil and key raw materials as well as the Greek debt crisis, but also the refugee crisis, especially pronounced by the end of the year. The European Union economic performance, the most interesting for Croatia as a traditional export market, benefited in 2015, and will benefit in 2016 from low oil prices, considerable depreciation of the euro, the European Central Bank decision to expand the size and composition of its outright asset purchase as well as the European Commission Investment Plan.

After seven long years of economic contraction, Croatia started a gradual recovery in 2015. A continued recovery in the European Union and unfortunate events in competing tourist markets boosted exports of goods and services, while oil and commodity prices declines and income tax changes contributed to a rebound in private consumption. The recovery is expected to continue in 2016-17 at an average of 1.5 percent. Notwithstanding the above, Croatia is tailing other European Union member states in terms of recovery stresses the necessity of structural reforms in order to enhance the country's competitiveness and to ensure a more dynamic growth.

Private consumption grew amid the 2014 year-end due to changes in personal income taxation. However, more tangible positive effects are dulled by still high unemployment limiting any substantial growth in household consumption or investments. The observed rise in investments over the second and third quarter of 2015 was mainly supported by European Union funds utilisation and partially by awakened investment activity in tourism-related facilities.

OUTLOOK (CONTINUED)

In line with the increased external demand, industrial production recorded a 2.5 percent growth in 2015, although still 15 percent lower level than in 2008.

The financial and monetary system operated in an environment of low (or even historically lowest) interest rates, reduced costs of funding, ample liquidity and persistent deleveraging. The central bank maintained generous liquidity of the system and stability of the exchange rate against the euro. Lack of significant positive impulses in the real sector lead to another year of private sector debt shrinking and savings build-up.

Therefore, despite the modest recovery, Croatian economy requires reforms to consolidate its finances, increase competitiveness and boost employment. Since in 2016 Croatia will be in a post-general-election phase, we expect that newly formed government will increase the pace in removing the constraints that hinder development of the economy.

SWISS FRANC INDEXED LOANS

2015 in the banking industry will be remembered as a year of huge controversy over loans pegged to the Swiss franc. Namely, after the abrupt sharp appreciation of the Swiss franc at the beginning of the year, the Government made a decision to temporary fix the exchange rate for retail and small business loans. However, in early autumn, the Government introduced changes in the Credit Institutions Act and Consumer Credit Act, enforcing a conversion of Swiss franc loans into euro linked loans at the exchange rate prevailing at the time of loan approval.

The forced conversion created the huge loss for the banking industry amounting around HRK 8 billion (an estimate by unofficial sources given the fact that official figures have not been published yet). Aided by Croatian Banking Association, we and other implicated banks in Croatian market were proposing an application of a different model that would not apply a unilateral approach to all affected clients, but rather creation of a model considering socio-economic position of the afore mentioned clients.

Additionally, we find these amendments to be legally disputable, so we and the other banks have individually filed for the constitutionality review of the provisions of these acts to The Constitutional Court.

Until the decision of the Court is made, we are fully complying with the provisions of the amended acts and we have organized ourselves in a way that allowed us to be the fastest bank on the market in carrying out the conversion process.

Still, it is vital to stress that these amendments had profound impact on our yearly results as the loss in our case amounted to HRK 1.3 billion before tax. Notwithstanding the gravity of its negative effect, by long-term application of our business strategy we have managed to build sufficient buffers that enabled us to produce positive results at the year-end. In this manner, we fully succeeded in protecting our capital thus displaying remarkable resilience and flexibility.

CONSOLIDATED FINANCIAL RESULTS

The consolidated net profits for 2015 amounted to HRK 365 million, representing a notable decline compared to 2014 and caused only by the HRK 1.3 billion loss related to the conversion of Swiss franc pegged loans. Without this imposed and heavy negative effect, our results could easily be described as exceptional. This still positive result is stemming from carefully planned and perennially executed business strategy that encompasses execution of conservative and systematic approach towards all risks arising from the business transactions, dedication to client orientation and diversification of income sources. Despite the lack of prevailing presence of positive macroeconomic signals, that eventually negatively reflects to the banking industry, we managed to control risks arising from our operations in a far better way than any of our peers. This achievement is stemming from our commitment to manage non-performing part of our portfolio in flexible, prudent and swift manner allowing us to sell noticeable parts of non-performing portfolio, increase collection and improve restructuring process. This resulted in decrease of non-performing loans ratio from 13.9 to 11.9 percent, compared to the previous year. Additionally, we managed to substantially reduce cost of risk while simultaneously increasing the coverage of non-performing portfolio, thus making us well-fitted to meet all future challenges.

It is also important to stress that in recent periods the validity of our approach towards the measurement of the risk has been tested and proven sound by detailed Asset Quality Review exercise performed by joint home-host supervisory team under the ECB's Comprehensive Assessment and Stress Test which encompassed most significant European banking groups.

Additionally, the positive effect of our in-built-long-lasting client orientation managed to offset another negative outcome of the macroeconomic scenario - stagnation of net interest income and net fee and commission income. Equally important, despite these gloomy surroundings we have found ourselves in, our previously taken strategic decisions enabled us to additionally strengthen our capital base and secure stable liquidity sources thus reducing our costs of funding and allowing us to adopt customer driven practices that resulted in an improvement of our products and services.

Aligned with the above and in more details, our net interest income rose by 2.5 percent compared to 2014, though affected by a decrease in interest income it was overly-compensated by a stronger decrease in interest expense. These effects were caused by high liquidity on the market and by still restrictive and defensive nature of the economic community towards consumption and investments. Net fee and commission income increased by 3.1 percent. Provisions and impairment losses shrank by 73.5 percent due to already mentioned remarkable NPL management.

As a reflection these events, the Group's earnings per share amounted HRK 19.2. Based on the methodology used for management reporting, the Group's return on average equity in 2015 was 2.7 percent, while return on average assets stood at 0.4 percent. Assets per employee equalled HRK 19.7 million, whereas the cost to income ratio, according to the consolidated financial statements, remained significantly below the 50 percent threshold (45.9 percent).

The balance sheet of the PBZ Group remained unchanged, amounting to HRK 78.4 billion. The most significant portion of our assets are loans and advances to customers which experienced a slight reduction in the outstanding amount by 0.4 percent in spite of negative effect of Swiss franc pegged loans conversion and the lack of demand for loans caused by the challenging economic situation that affected our clients, both corporate and retail. We continue practicing a well-diversified loan portfolio policy, having remotely higher volume of placements to retail customers on one side than placements to public and corporate clients on the other. Given our firm commitment to apply a prudent approach in risk identification and measurement, non-performing loans decreased by 14.9 percent, additionally indicating that all risks were promptly spotted and covered by sufficient provisions. As we are well aware that the excellence in customer orientation can only be accomplished if one stands by its customers during troubled times, we have embedded such approach in all our business processes. Therefore, we continue developing comprehensive initiatives aimed at helping our customers during crises. From the liabilities perspective, customer deposits mainly fund our balance sheet, where the retail segment plays the most significant role. In 2015, we experienced an upsurge in customer deposits by 5.1 percent caused by both high liquidity observable on the market and our reputation of being one of the most stable and client oriented financial group on the market. Capital adequacy ratio remained stable and it is by far exceeding the prescribed threshold.

The Group's capital management policies and practices, among other tools, are based on an internal capital adequacy assessment process (ICAAP). In this process, the Group regularly identifies its risks and determines the amount of free available capital in stress scenarios. I am pleased to report that the PBZ Group is one of the leading, well-capitalized banking groups in the country, with more than sufficient capital shield compared to internal capital requirement in a stress scenario.

UNCONSOLIDATED FINANCIAL RESULTS OF THE BANK

The Bank's net result in 2015 was HRK 193 million, representing an evident decrease compared to the preceding year, again caused only by the HRK 1.3 billion loss related to the conversion of Swiss franc pegged loans. Defying bleak economy, net interest income rose by noticeable 2.9 percent. It is noticeable that interest income slightly declined, caused exclusively by the presence of excessive liquidity pushing downwards reference market rates. On the other hand, although volume of deposits rose, interest expense contracted considerably proving that we are widely recognized as steady and low-risk partner to all our clients further affirming us to continue practicing our dedication to fulfilment of overall client requirements. This strategy was accompanied by efficient and omnipresent cost management enterprise carried within all organizational units enabling us to successfully control the expense side of our business. Hence, we were able to maintain our cost to income ratio significantly below 50 percent (i.e. 43.7 percent) threshold. Although the imposed conversion as well as still present macroeconomic crisis did take its toll on the profitability, provisions and impairment losses were reduced by momentous 72 percent compared to 2014. Such a decrease is also the result of our prompt and orthodox approach to identifying all risks arising from our business ventures.

The overall Bank's balance negligible increased, reaching a level of HRK 69.2 billion. Despite the negative effect of the Swiss franc pegged loans conversion, loans and advances to customers reduced by meagre 0.8 percent, amounting to HRK 44.2 billion.

Management Board report of the Status of the Bank
(continued)

UNCONSOLIDATED FINANCIAL RESULTS OF THE BANK (CONTINUED)

Current accounts and deposits from customers increased for notable 4.8 percent, reaching the level of HRK 52.8 billion. Considering the total structure of the balance sheet, the relative portion of customer deposits was increased and now amounts to 76.3 percent. The total loan to deposit ratio of the Bank equals 83.7 percent emphasizing the stability and conservative nature of our ventures.

BRIEFLY ON THE BANK'S SUBSIDIARIES

Starting from July 2015 PBZ Group has been enriched by a new member – Intesa Sanpaolo Banka dd Bosna i Hercegovina. Its valid contribution has already been felt throughout 2015 so based on this fact and on the characteristics of our business models, we fully expect benefit from positive synergic effects in the near future. In 2015, the PBZ Group members coped well with the overall economic conditions that resulted in positive financial outcomes. Therefore, PBZ Card achieved a net profit of HRK 196.3 million, Intesa Sanpaolo Banka dd Bosna i Hercegovina HRK 99.8, PBZ Leasing HRK 20.2 million, PBZ stambena štedionica HRK 15.8 million, whereas PBZ Croatia osiguranje, our jointly owned pension fund management company, earned a profit of HRK 27.5 million. ISP Card, an associated company established in 2009, earned net profit of HRK 33.6 million.

CONCLUSION

The PBZ Group is well-fitted not only to face up to challenges, but also to seize opportunities. We have a strong capital base, liquidity and funding positions, preparing us for potential market uncertainties and for tighter regulation. We are continuously transiting to a better balanced, more diversified and lower-risk business model. In the end, I would like to take this opportunity to express gratefulness to all my colleagues and all employees of the PBZ Group for their dedication and true professionalism that enabled us safely to sail through these troubled times. Furthermore, I would like to thank all our acclaimed clients and business partners for putting their trust in our hands. Also, I would like to express my most sincere gratitude to all the members of the Supervisory Board for their encouragement in conducting our business affairs.

Božo Prka, M.S.
President of the Management Board

9 February 2016

Management Board report on the Status of the Bank's subsidiaries and financial highlights of the Group

Pursuant to the Capital Market Act, Article 403 and Rules of the Zagreb Stock Exchange approved by the Croatian Financial Services Supervisory Agency, the Management Board states that to its best knowledge the Report of the Status of the Group and the Bank for 2015 represents a true view of operations, risks and financial results as well as financial positions of Privredna banka Zagreb dd and its subsidiaries.

PRIVREDNA BANKA ZAGREB DD

In 2015, despite unfavourable regulatory conditions, Privredna banka Zagreb dd recorded good business results in the challenging environment. Below we provide an overview of these results together with results achieved by the Bank's subsidiaries. The results of the Bank and the Bank's subsidiaries are presented on a stand-alone basis, before intercompany and consolidation adjustments.

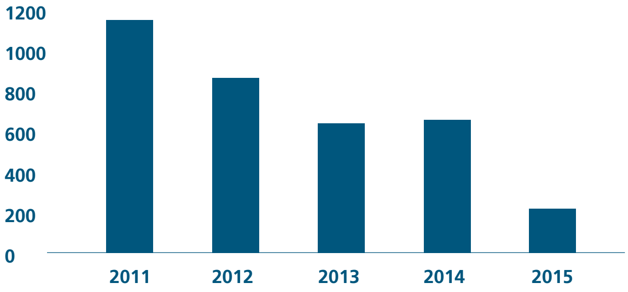
PBZ recorded profit before taxes of HRK 210 million, while net profit for the year of HRK 193 million represents a decrease of 69.9 percent compared to the previous year. The lower net profit is primarily the result of recognition of HRK 1,311 million loss the basis of the conversion of loans in Swiss francs to loans in euros, according to regulatory requirements.

The Bank realised gross revenue of HRK 4,087 million, which includes HRK 3,010 million of interest income, HRK 758 million of fees and commissions and HRK 319 million of other income. During 2015, the Bank managed to record net interest income of HRK 2,193 million representing a 2.9 percent increase compared to the previous year. Due to innovative offerings of non-interest related products and efficient business processes, net fee and commission income reached HRK 649 million which is 9.8 percent above 2014.

In spite the difficult market conditions, PBZ's management strategy, combining good revenue drive and cost containment, enabled the Bank to record HRK 3,161 million in operating income, 7.4 percent above the year before.

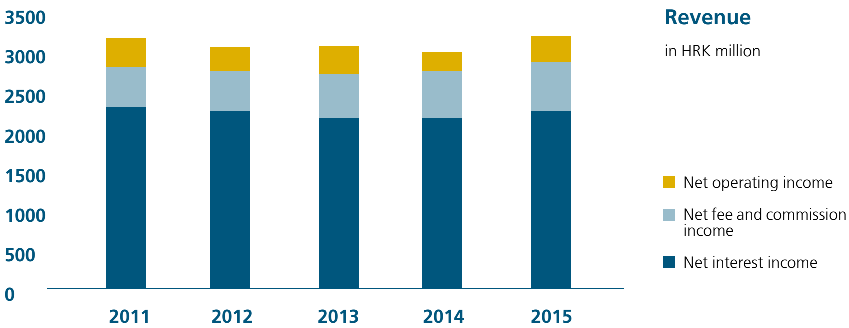
Moreover, PBZ in 2015 adequately managed the risks it is exposed to, in particular credit risk, which allows us to anticipate all essential changes in the portfolio and consequently make appropriate provisions for the coverage of losses. During the year the Bank set aside HRK 145 million for impairments and loss provisions.

Other operating expenses amounted to HRK 1,495 million, 1.5 percent below 2014. Cost income ratio was 43.7 percent, below the 50 percent threshold, set internally and stable.



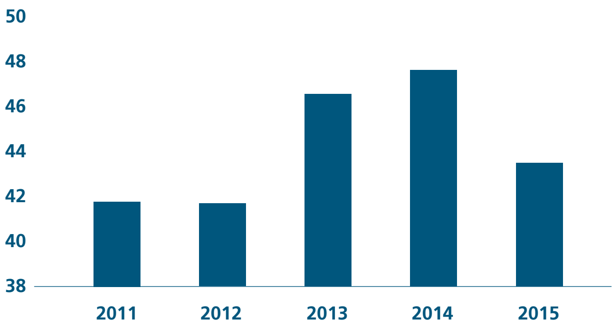
Net profit for the year

in HRK million



Revenue

in HRK million



Cost income ratio

in %

Management Board report on the Status of the Bank's subsidiaries and financial highlights of the Group

(continued)

PRIVREDNA BANKA ZAGREB DD (CONTINUED)

For 2015, the Bank recorded a 0.5 percent increase in total assets, which at year-end amounted to HRK 69,214 million. Loans and advances to customers represent the most significant component of the financial position with 63.8 percent of the total balance. Other important items include financial assets at fair value through profit or loss which represent 8.4 percent of total assets, and balances with the Croatian National bank which represent a 6.6 percent share of the total assets. At the year end, PBZ held HRK 12,019 million of cash and cash equivalents, which indicates the robust liquidity position of the Bank.

Total liabilities amounted to HRK 57,790 million at the end of 2015. Customer deposits are the main source of funding, representing 76.3 percent of total liabilities and equity, 3.1 percentage points above the year before, whereas interest-bearing borrowings represent 4.1 percent of total liabilities and equity of the Bank. Total shareholders' equity at the end of 2015 stood at HRK 11,424 million, 2.0 percent lower than 2014.

PBZ CARD

In the previous year, which was accompanied by general adverse economic environment, regardless of the specific signs of market recovery, PBZ Card results show a continuation of stable business and confirm its leading position in the domestic card market.

The Company's profit prior to taxation amounted to HRK 255.9 million, and after taxation it amounted to HRK 196.3 million, which is 11.8 percent less compared to the last year, but more than planned. The expected lower result for the year 2015 was mainly due to the lower fees and charges as the result of the adjustment to the regulatory requirements related to the entry into force of the Directive of the European Parliament and the Council on the inter-bank fees for card transactions. Net income from commissions and fees amounting to HRK 507.5 million make up the major part of the structure of the Company's operating income, which in 2015 amounted to HRK 579.4 million, which is 8.0 percent less, compared to the previous year.

During the year 2015, the collection of the overdue receivables and resolving and non-performing loans portfolio has been intensified, which resulted in a negative effect in the segment of the interest income due to lower default interest charged. The decline in income from the default interest was further influenced by the legal reduction of the interest rate as of 1st August 2015. The total interest income amounted to HRK 48.8 million, which is 22.4 percent less compared to the previous year. The positive effects of the implemented activities have been recorded through a reduction in provisions and allowances, that is, the income amounting to HRK 59.6 million.

The total operating expenses for the year 2015 amounted to HRK 384.1 million, which is for 2.6 percent above the level of the previous year. In the cost structure, the increase was recorded mainly in the area of material expenses and services related to the development of the existing products and the introduction of the new technology, which is in line with the expectations.

The total assets of PBZ Card for the year 2015 amounted to HRK 2,457 million, which represents an increase of 1.2 percent compared to the end of the year 2014.

These results make PBZ Card the second most profitable segment of PBZ Group and all the objectives of the Group have been achieved and PBZ Card shall continue implementing the business model aimed at making profits by further stimulation of spending on the cards, physical as well as virtual ones, by launching the new products, focusing on innovative, modern digital technology and investing in value-added services for the cardholders and merchants, thus maintaining a leading position in the market, which will further strengthen the position of the PBZ Group in the area of card operations.

PBZ LEASING

PBZ Leasing is a Croatian company providing leasing services to clients. Despite the lack of positive changes in the leasing market, the Company recorded a successful business year with net profit amounting to HRK 20.2 million (2014: HRK 10.3 million). In 2015, the Company signed new lease contracts in the total value of HRK 251 million, thus retaining one of the leading positions in the Croatian leasing industry in terms of the number of realized placements.

At the end of 2015, the Company's total portfolio included net fixed assets under operating leases in the amount of HRK 400 million and net receivables under finance leases in the amount of HRK 591 million.

In 2016, the business activities of PBZ Leasing will be directed to maintaining a stable balance sheet, retaining the Company's market share and achieving product diversification through introduction of new distribution channels.

PBZ NEKRETNINE

PBZ Nekretnine in 2015 continued to be affected by the economic developments in Croatia, especially in the real estate market. Nevertheless, PBZ Nekretnine maintained its presence on the real estate market by realizing more than 6 thousand appraisals.

During 2016 PBZ Nekretnine will continue to promote its activities with the aim of becoming the centre of excellence for real estate operations not only within the PBZ Group but in the whole country.

PBZ STAMBENA ŠTEDIONICA

In 2015 profit before income taxes of PBZ stambena štedionica reached HRK 19.7 million, which represents a HRK 2.1 million decrease compared to the year before. Also, net profit in 2015 was HRK 1.7 million lower and amounts to HRK 15.8 million. By means of PBZ's large branch network and through its own sales channels, PBZ stambena štedionica reached more than 95 thousands clients at the end of 2015. As at 31 December 2015 PBZ stambena štedionica reached HRK 1,601 million in total assets.

The introduction of variable government premiums system of housing savings adapts to market conditions, it is achieved the stability of the system and provides a constant number of depositors whose deposits provide a stable source of funding for housing credits.

PBZ stambena štedionica will in the whole of 2016 focused on increasing of house loans activity and retain existing and attract new clients.

INTESA SANPAOLO BANKA BOSNA I HERCEGOVINA

The 2015 net profit of HRK 94.8 million shows a 33 percent increase versus the previous year. Operating income was sustained by a positive performance in net interest margin, where the continuous decline of lending rates was more than absorbed by increasing volumes of loans and significant compression of cost of funding, and a remarkable 10 percent improvement of net income from payment transactions, boosted primarily by expanding card business and payment volumes and by higher number of e-products acquired and utilized by clients. On the other hand, the continuous search for higher efficiency in bank's operations enabled to keep the operating costs under strict control, notwithstanding the technological and organizational developments strategically implemented to best support the expansion of business activities.

The Bank focused on cautious classification of uncertain receivables and estimation of provisions. All this translates into non-performing to total loans ratio of 8.44 percent, more than 100 basis points lower than at the end of 2014 and largely lower than the sector's average, while coverage ratio on non-performing portfolio increased further, showing the Bank's commitment to ensure long-term sustainable profits.

Total assets increased by 8 percent at HRK 6,029 million with net loans in the amount of HRK 4,414 million and customer deposits in the amount of HRK 4,139 million. Loan portfolio growth was sustained by Retail and Corporate segment, where lending to private customers increased by 9.17 percent and lending to legal entities increased by 2.30 percent. Positive performance confirmed also by improvement in collection of retail deposits 10.98 percent and corporate deposits by 5.38 percent. The Bank's position in terms of available liquidity remains comfortable and safe, even if we were to assume worsening macro-economic scenarios, and ready to sustain expected further expansion of credit.

The Bank's capital adequacy ratio continues improving. Shareholders support Bank's recorded and planned growth through allocation of past years' cumulated retained earnings to capital aimed at covering potential future losses and further retention into Equity of 2015 net profit. Capital of the Bank is in the amount of HRK 853 million as of December 2015.

Strategic objectives of the Bank for 2016 are defined by the usual vision of a continuous growth of the business and of the financial results, combined this time with the situation arising from the change in ownership and the plan of actions designed in cooperation with the new majority shareholder.

Multi-year significant investments for the infrastructural and technological modernization of the Bank:

ICT support will focus on developing systems and operational solutions that improve the commercial offer of products and services, while increasing the efficiency of processes already in place.

Organizational changes to exploit new levers:

- Increase productivity through the re-definition of organizational architecture and operations processes,
- Optimization of back-office and administration processes.

Strategic objectives of Retail Business Segment:

- Offering new loan products and stronger tools for analysis of customer behavioural models,
- Progressively stronger focus on Small Business segment - definition of dedicated products and processes,
- In Small Business segment expanding further the customer base of the Bank, which in turn is the source of diversification of risks and of larger number and volumes of fx, card, payment and other transactions.

INTESA SANPAOLO BANKA BOSNA I HERCEGOVINA (CONTINUED)

- Adopting new network solutions, with the introduction of dedicated physical spaces for specific segments (students, affluent sub-segment, etc.) and geographical expansion of the bank through ATM and POS network.

Strategic objectives of Corporate Business Segment:

- Introduce new commercial services (cash-pooling, custody service) and to expand volumes in lending and transactional services,
- Dedicated tool for the analysis of commercial behaviours and needs of clients,
- Better servicing of multichannel SW solutions (mobile and internet banking) available to clients,
- Continuous decrease of lending rates.

Strategic objectives of Other Business Segments in the Bank:

- Improving collection processes of non-performing exposures and early detection and management of exposures signalling potential difficulties,
- Decrease of stock of non-performing exposures through effective collection processes and through applying selective exit-strategies which may include sale of specific portfolios,
- Digitalization of administrative processes.

PBZ CROATIA OSIGURANJE

PBZ Croatia osiguranje continues to achieve positive financial results. In 2015 the Company reached net profit of HRK 27.4 million, which is 18.3 percent higher than the result in 2014. At the same time, the cost income ratio stands at 50.2 percent (2014: 51.8 percent). Total assets on 31 December 2015 reached HRK 136.6 million.

Around 5.7 thousand members with accelerated pension plan left the fund during 2015 but in spite of that there was an increase in the number of total fund members. PBZ Croatia osiguranje ended the year 2015 with nearly 312 thousand members.

PBZ Croatia osiguranje is a well-recognised and highly respectable pension fund management company in Croatia. Development strategy for 2016 will be oriented at maintaining its status within the general public in the country as well as successfully managing the funds' assets.

INTESA SANPAOLO CARD GROUP

In the year 2015, the Intesa Sanpaolo Card Group continued with the consolidation of its business-information architecture, and enforced its strategy towards mobile payments and innovative solutions, with special emphasis on HCE (Host Card Emulation) technology.

Intesa Sanpaolo Card Group developed and provided support for the implementation of following innovative products and services:

Mobile payments:

- Wave2Pay mobile wallet and included mobile payments based on HCE technology commercially implemented in Croatia for four American Express products in April 2015 and the Visa Inspire card in November 2015;
- Card-less ATM withdrawal solution released for a closed in-house pilot in Slovakia;
- Mobile payments pilot launched in Serbia with the Visa Inspire product in first half of the year;
- HCE based mobile payments pilot launched with MasterCard in Slovenia at year's end.

Strong authentication

- Development of the mToken mobile application completed and piloted in Slovenia. The application is also made available for cross-border issuing purposes.

Intesa Sanpaolo Card Group has developed or offered support for the implementation of the following products and services:

- Start of implementation of Group level products in several processed markets;
- Launch of the Black card as Visa Infinite in Albania at the beginning of the year;
- Migration to an improved e-commerce platform at the end of the year.

Intesa Sanpaolo Card Group has made a major step forward in providing its services in a wider Intesa Sanpaolo Group perimeter. In support of the opening of the Intesa Sanpaolo Private Banking (ISPB) branch in London, together with Banka Koper, cross-border issuing of debit and charge cards in the UK has been implemented in production. Intesa Sanpaolo Card Group is also providing continuous support to ISPB clients through its dedicated Call Center.

As a consequence of the EU regulation on Interchange Fees the Intesa Sanpaolo Card Group has been engaged in activities to provide support to EU member banks in complying with part of the regulation in force as of December 9th 2015.

Intesa Sanpaolo Card Group is engaged in development for China Union Pay card acceptance on ATMs in Slovenia according to the global agreement.

Also, Intesa Sanpaolo Card Group also successfully performed the yearly PCI-DSS and Visa e-commerce 3D Secure audits.
Furthermore:

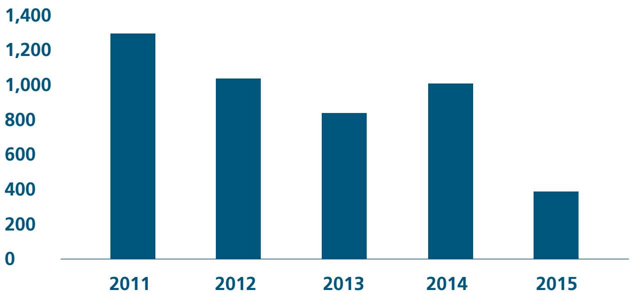
- First American Express contactless card issued in Croatia as part of the revitalization and migration to Group level product for youth, being the first American Express contactless issued card in the wider region;
- Mass roll-out of contactless terminals enabled for all three payment schemes – American Express, Visa and MasterCard in Croatia;
- Start of implementation of Group level products in several markets – above mentioned Youth card in Croatia launched in April 2015 and support towards implementation of Group products in Slovakia and Russia
- Business support provided for the Russia launch of the Black Card in November 2015;
- Contactless enablement of the entire debit product portfolio in Slovakia during the second half of 2015;
- Project finalisation for implementation of standardized methodology for Card Life Cycle Management in Hungary and Slovakia.

In 2015 Intesa Sanpaolo Card Zagreb and its subsidiaries recorded profit before income taxes of HRK 41 million, while net profit for the year amounted to HRK 34 million, which represents increase of 12.26 percent compared to the year before.

FINANCIAL HIGHLIGHTS OF THE PBZ GROUP

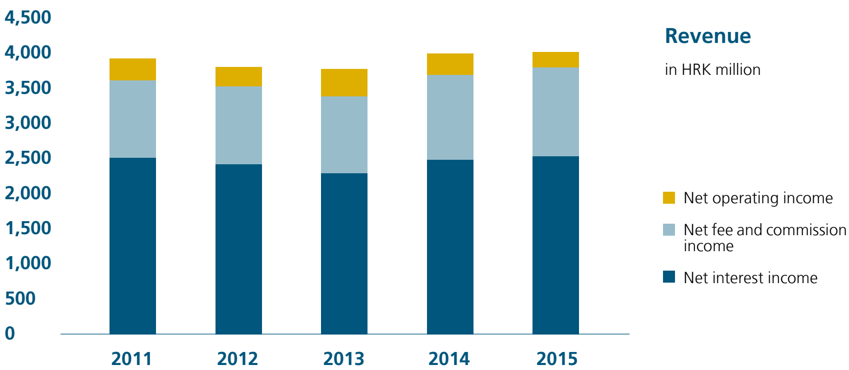
On a consolidated level the Group recorded profit before income tax expense of HRK 467 million, while net profit for the year amounted to HRK 370 million which represents a decrease of 62.6 percent compared to the previous year.

By presenting more detailed figures, we may emphasise that in 2015 PBZ Group recorded interest income amounting to HRK 3,445 million, which compared to 2014 represents a decline of 4.1 percent. At the same time, the Group reported HRK 205 million lower interest expenses amounting to HRK 930 million, or 18.1 percent less compared to the year before. This is a result of efficient management of financing costs by anticipating the possibility of lower financing costs and timely refinancing of its obligations with the parent bank. Given the above, PBZ Group recorded net interest income of HRK 2,515 million, which is an annual growth of 2.5 percent.



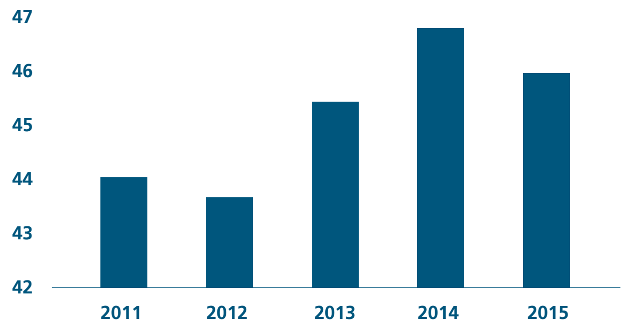
Net profit for the year

in HRK million



Revenue

in HRK million



Cost income ratio

in %

Management Board report on the Status of the Bank's subsidiaries and financial highlights of the Group

(continued)

FINANCIAL HIGHLIGHTS OF THE PBZ GROUP (CONTINUED)

As for the non-interest operating income, PBZ Group recorded net fee and commission income of HRK 1,228 million, which is 3.1 percent higher than 2014. The PBZ Group adequately manages the risks it is exposed to, in particular credit risk which allows it to anticipate essential changes in its portfolio and consequently make appropriate provisions for the coverage of losses. During the year the Group set aside HRK 151 million for impairment losses and provisions. Other operating expenses of the PBZ Group have remained at the same level compared to last year's figures. During the last several years, the Group increased its efforts in efficient cost containment and rationalisation of business processes at all levels. The result of such activities has ensured an adequate cost income ratio, which stood at 45.9 percent in 2015.

At the end of the reporting period, the balance sheet of the PBZ Group amounted to HRK 78.4 billion. Loans and advances to customers account for 65.0 percent of the Group's assets. At the end of 2015, loans and advances to customers stood at HRK 50.9 billion, which accounts for a decline of HRK 0.2 billion, or 0.4 percent compared to previous year's figures. Financial assets initially designated at fair value through profit or loss account for 7.6 percent of the Group's total assets followed by Balance with the Croatian National Bank with a 5.8 percent share in total Group's assets.

On the liabilities and equity side, the total equity has recorded a drop of 5.8 percent reaching a total of HRK 13.2 billion. The deposits from customers of the PBZ Group account for 74.2 percent of the total liabilities and equity and are followed by shareholders' equity with a share of 16.8 percent and interest-bearing borrowings with a share of 5.0 percent.

Below we provide an overview of the operating income business segments of the PBZ Group presented per core lines of business of the Group members.

Group operating income by business segment (in HRK million)	2015	2014
Banking	3,468	3,228
Card services	580	630
Leasing	91	95
Other financial services	32	32
Non-financial services	10	10
Consolidation adjustments	(206)	(57)
Operating income	**3,975**	**3,938**

As apparent from the above table the banking segment continues to be the strongest contributor to the consolidated operating revenue reaching HRK 3,468 million. The major individual contribution was realised by Privredna banka Zagreb dd. Net profit of the Bank amounted to HRK 193 million (2014: HRK 643 million). Subsidiaries and associates contributed by HRK 177 million (2014: HRK 272 million) to the consolidated net profit of the Group.

Yours faithfully,

Božo Prka, M.S.
President of the Management Board

9 February 2016

Cathedral, Osor, Cres island

Dubrovnik, wall detail

Macroeconomic developments in Croatia in 2015

FRAGILE RECOVERY

After six long years of economic contraction, Croatia started a gradual recovery in 2015. A continued recovery in the EU and unfortunate events in competing tourist markets boosted exports of goods and services, while oil and commodity prices declines and income tax changes contributed to a rebound in private consumption. The recovery is expected to continue in 2016-17 at an average of 1.5%. However, external factors like the economic slowdown in Croatia's main trading partners, the FED's tightening of the monetary policy and a surge in emerging markets risk premium, could undermine this fragile recovery, affecting exports and rising financing costs of an already highly indebted government and other domestic sectors. On the "domestic front" difficulties in forming a new government (following general elections held in November 2015), and unclear fiscal consolidation measures for 2016-17 could hamper the growth outlook. In addition, a stronger recovery of personal consumption is limited by still high levels of unemployment, particularly youth unemployment, while domestic demand in general will remain burdened by low investment activity, even though dynamic utilisation of EU funds will be supportive to growth.

The fact that Croatia is lagging behind other EU member states in terms of recovery stresses the necessity of structural reforms in order to enhance the country's competitiveness and to ensure a more dynamic growth. Under the unfavourable long-term demographics, only a dynamic economic growth can ensure stable and sustainable fiscal developments and limit public debt growth.

Last year turned out to be the most challenging year for banks since the beginning of the crisis. The trends in banking industry were a true reflection of the still prevailing business and consumer caution, which caused prolonged deleveraging. After the abrupt sharp appreciation of the Swiss franc at the beginning of the year, loans indexed to Swiss francs became a major topic in 2015. The instalments soared over night, and the Government made a decision to temporary fix the exchange rate for retail and small business loans. However, in early autumn, the Government introduced changes in the Credit Institutions Act and Consumer Credit Act, enforcing a conversion of CHF-linked loans to EUR- linked loans at the exchange rate prevailing at the time of loan approval (approximately 30% lower than the current fx rate). The Constitutional Court has rejected the banks' request to suspend regulations on the CHF-loan conversion; therefore both disputable acts will remain in force until a final ruling declaring the acts constitutional is passed. In the meantime, banks adhered to the procedure and proceeded with the conversion resulting in bank losses and foregone fiscal revenues of around 2.0 and 0.3% of GDP, respectively.

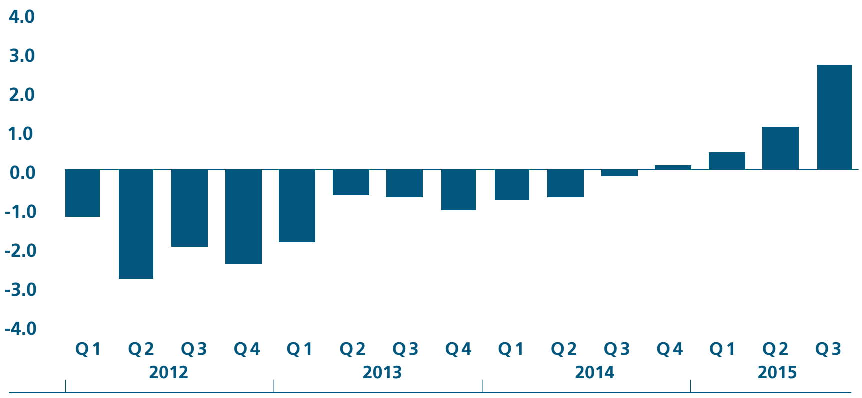
2015 IN REVIEW

After a real annual growth of 0.8% in the first half of the year, growth accelerated to 2.8% in the third quarter of 2015, which was the fourth consecutive quarter of positive GDP growth and the highest GDP growth since the second quarter of 2008.

Private consumption grew amid the 2014 year-end changes in personal income taxation, due to which net wages increased by an average of 3.4% in nominal terms, but also supported by declining prices (oil products), thus real wages grew by almost 4% compared to the previous year. However, still high unemployment (inch below 18%) remains a limiting factor for any substantial growth in household consumption or investments. Although consumer expectations slightly improved over the year, inclination to save and deleverage is still a predominant household behaviour. Supported by growth in wages and a strong tourist season but also by the impact of deflation, real retail trade increased by more than 2% compared to 2014, however still at around 14% lower level than in 2008.

Real GDP, annual growth rates (%)

Source: CBS

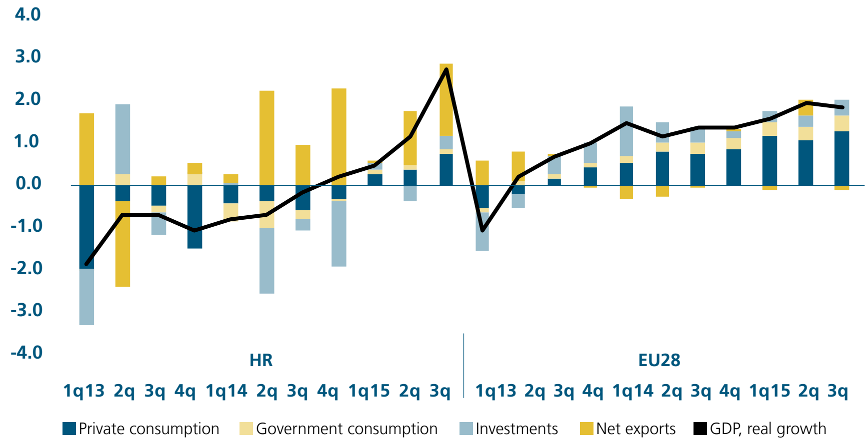


Macroeconomic developments in Croatia in 2015

(continued)

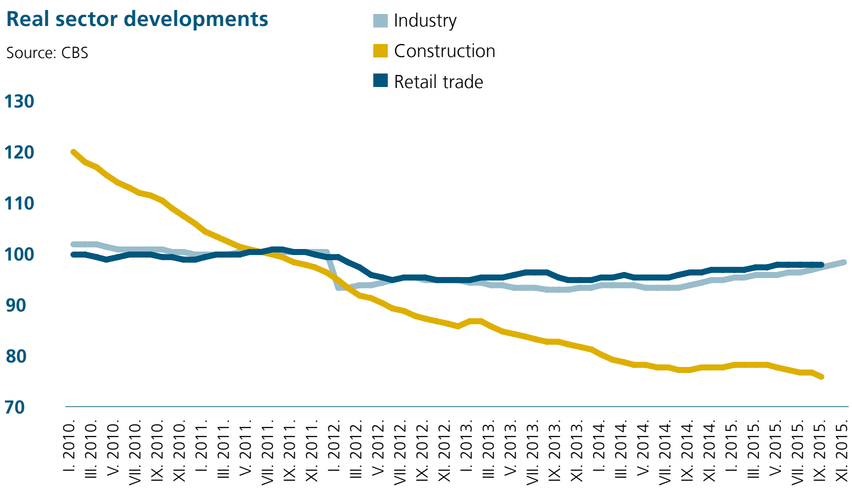
Contributions to real GDP growth

Source: CBS, Eurostat



Real sector developments

Source: CBS



2015 IN REVIEW (CONTINUED)

After a solid six-year period of a strong decline, a rise in investment activity recorded over the second and third quarter of 2015 was mainly supported by EU funds utilisation but also by awakened investment activity in tourism-related facilities. During 2015, the construction works recorded stagnation compared to 2014, while, compared to 2008, this drop amounted to high 40%. As in previous years, an inactive real-estate market, a large number of built, but unsold apartments, deleveraging of citizens and lack of investments had a limiting impact on the construction sector activity.

External demand was again the main driver of the economic growth, demonstrating an improved exporter competitiveness and tangible results of the benefits of EU membership. In line with the increased external demand, industrial production recorded a 2.6% growth in 2015, although still at around 15% lower level than in 2008. In addition, exports of services (tourism) benefited from favourable weather conditions and unfortunate adverse developments in competitive destinations (like Greece, Morocco and Egypt), turning the 2015 tourist season into the best to date, surpassing EUR 8 billion intake.

The labour market improved slightly as growth prospects recovered and the employment support measures strengthened. The survey-based unemployment rate declined to 16.8% in the first three quarters of 2015, 0.5 percentage points down from the same period the year before. Further, activity and employment rates increased (to 52.7% and 43.9%, respectively), although remaining well below the EU average. The administrative unemployment data continued its year and a half-long downward trend supported by the public sector and service sector employment, as well as active labour market programs.

The current account balance recorded a surplus for the first time in the second quarter and a record high surplus in the third quarter of 2015. This was mainly due to improvements in the trade balance, as exports grew by 9.5% yoy over the first three quarters. A solid tourist early season followed by an exceptional peak season (+7.5% rise in tourism revenues) has contributed additionally to the current account surplus together with the rise in employee compensation, increased transfers from the EU but also positive direct investment income balance amid CHF conversion-related banking sector losses. Cumulatively, in the last four quarters ending third quarter of 2015, the current account surplus reached a record high of 4.7% of GDP.

Although Croatia is under the European Commission's Excessive Deficit and Macroeconomic Imbalances Procedure (EDP/MIP), high public deficit and adverse public debt dynamics remain unchallenged. Thus, public deficit remained at high 5% of GDP with debt approaching 90% of GDP, well above both Maastricht criteria (3/60%) and the EDP set targets. It is obvious that again, as in 2014, Croatia will not fulfil EDP targets and that it needs a prolonged period for adjustment. Despite the modest recovery, the economy requires urgent reforms to consolidate its finances, increase competitiveness and boost employment.

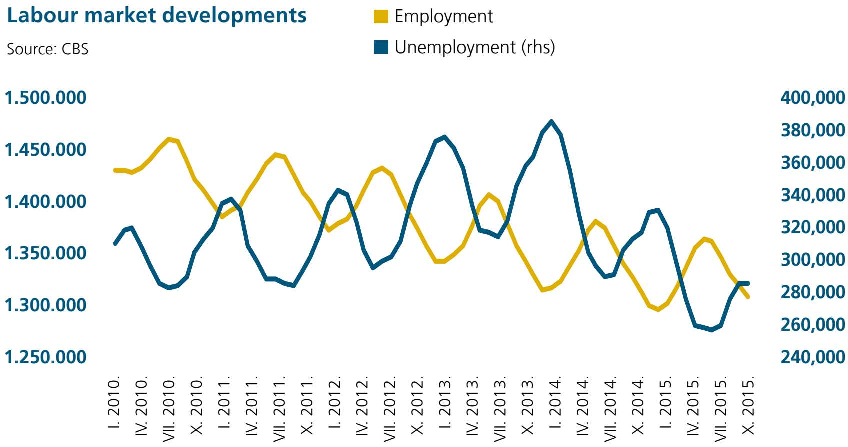
As in 2014, general price level in 2015 was predominantly under the influence of declining oil prices and the still subdued domestic demand. Despite the short-lived upward movement into positive territory at the end of the first quarter and the flattish second quarter performance, the last two quarters (-0.6% and -0.6%, respectively) confirmed cost-driven deflationary pressures and the 2015 average inflation rate declined to -0.5%.

2015 was another year in which the Croatian National Bank continued its policy of maintaining high liquidity in the banking sector without moving its primary focus from maintaining the stability of the exchange rate. Even though the CNB tried to encourage banks to revive lending activity, this goal did not materialise amid lack of investment activity and continued deleveraging of private sector.

The average exchange rate in 2014 reached 7.61 kunas to euro, -0.3% yoy. Following the movements of the euro on the global markets and the Swiss central bank's decision to abandon the franc's peg to the euro (January 2015), the kuna lost its value towards both the US dollar and Swiss franc. The average exchange rate grew to 6.86 kunas to US dollar and 7.13 kunas to CHF.

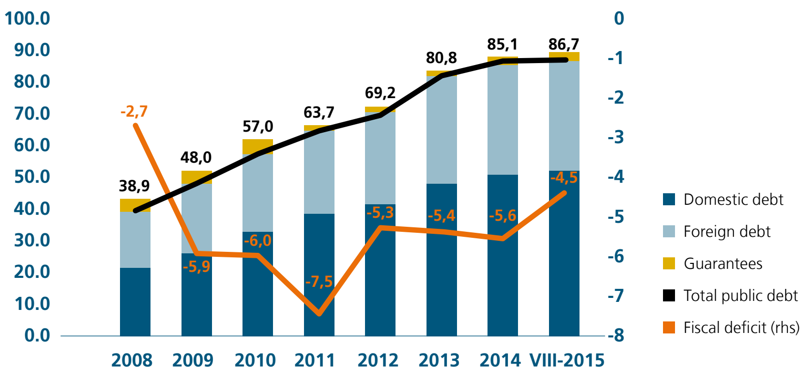
Labour market developments

Source: CBS



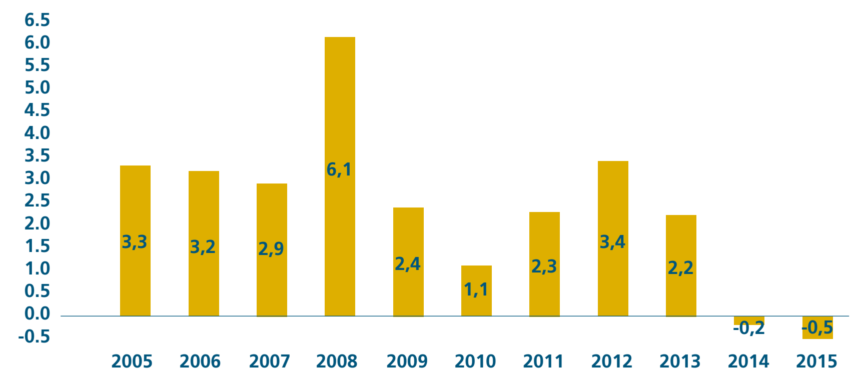
General government deficit and debt; % of GDP

Source: CNB, CBS



Average annual CPI, %

Source: CBS

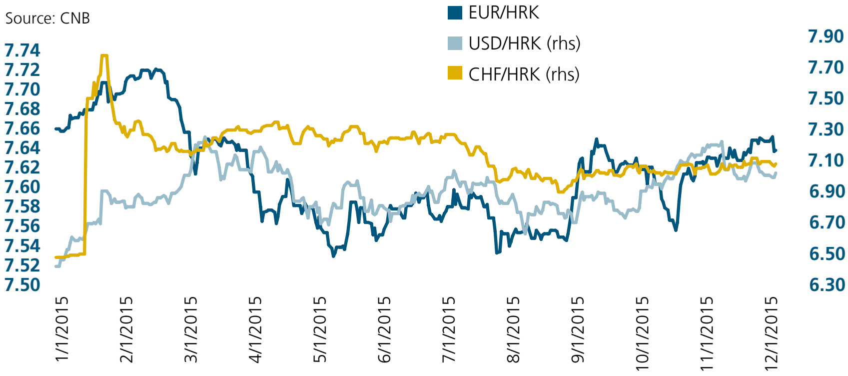


Macroeconomic developments in Croatia in 2015

(continued)

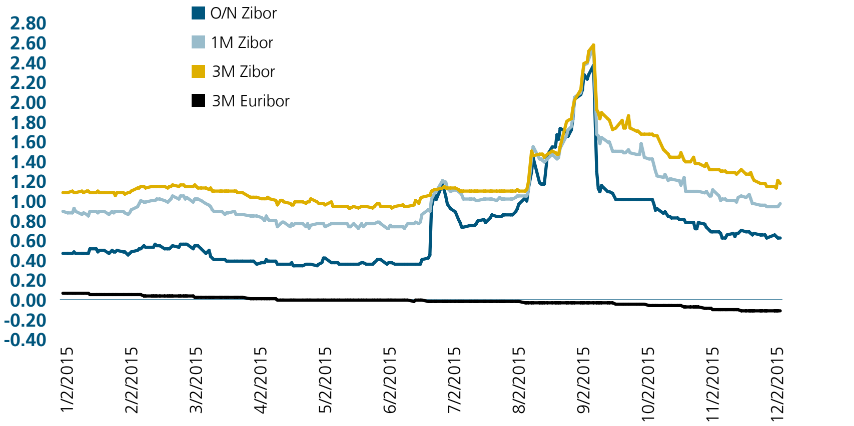
HRK mid-point exchange rate

Source: CNB



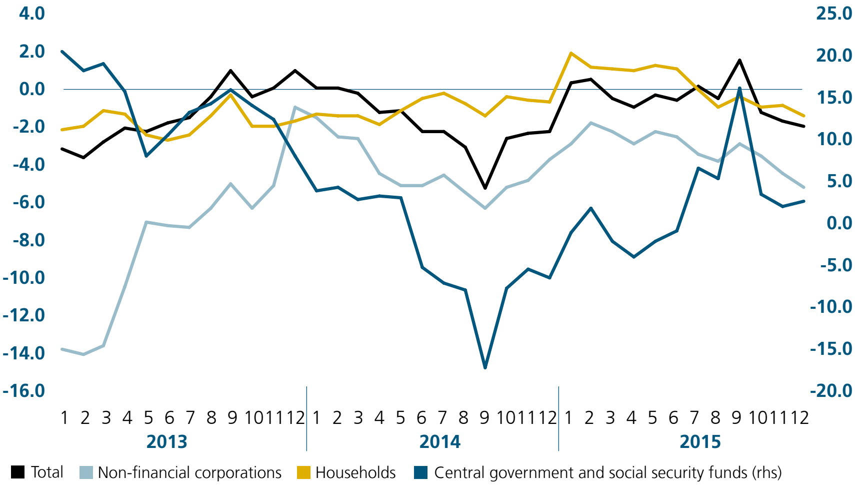
Zibor , %

Source: Reuters



Loans, yoy % change

Source: CNB



2015 IN REVIEW (CONTINUED)

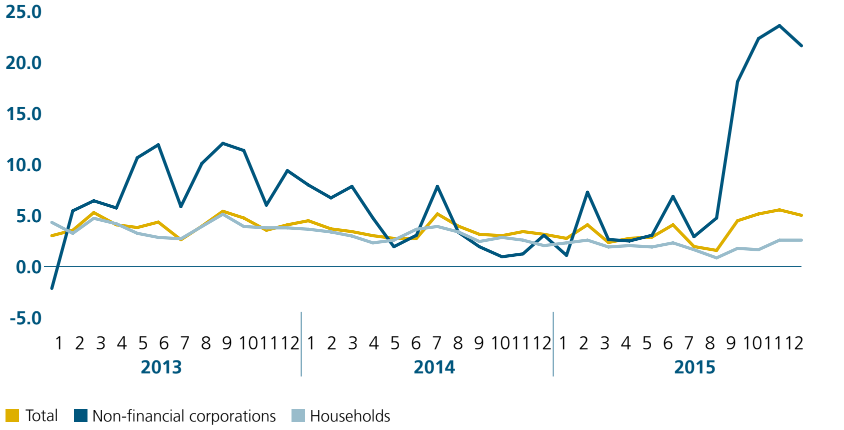
As a result of central banks' expansionary monetary policies, the liquidity both domestic and global was ample, hence the low money market rates. By a series of connected measures taken at the end of the third and fourth quarter of 2015, the central bank increased liquidity of the monetary system and lessened the pressures on the foreign exchange and money market which were a result of the adoption of legislative changes which regulate the conversion of loans in Swiss francs. The CNB has continued with its regular weekly reverse repo operations with the extended collateral and a decrease in the repo rate from the initial 0.8% to 0.5%, while, after repealing the compulsory T-bills, HRK 3.4 bn have been released. At the same time, the CNB announced plans to maintain the expansionary monetary policy which will have a favourable impact on domestic financing costs and recovery of domestic credit activity in 2016. The average interest rate on overnight loans amounted to 0.7%, 1M stood at 1.1% and 3M at 1.2%, while 3M Euribor dropped to -0.02%.

Lack of stronger positive impulses in the real sector lead to another year of private sector debt shrinking and savings build-up. Total assets of MFIs declined by 0.7% yoy; deposits recorded the largest growth on the liability side, while at the same time foreign liabilities decreased by HRK 15.7 bn. A 1.5% growth of claims (loans and securities) on the central and local government was followed by 3% decrease in the claims on private sector. Total loans sank by 2.0% yoy, where the fastest rate of decrease was recorded by non-financial corporations (-5.2%) and households (-1.5%) while loans to the central government and social security funds recorded a 2.8% increase. Total deposits jumped by 5.2% yoy, at the rate of 21.8% for non-financial corporations (mainly amid sale of TDR and exceptional tourist season) and 2.7% for households.

The share of partially recoverable and fully irrecoverable loans in total loans stagnated in Q3 2015 at 17.05% (from 17.06% in 2014) on the back of declining NPLs in other sectors (from 7.6% to 7.2%), while NPL ratio reached 12.1% in retail and even 31.08% in corporate sector.

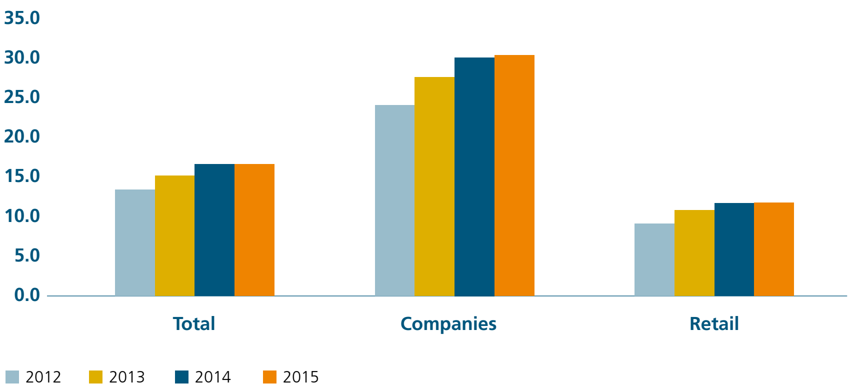
Deposits, yoy % change

Source: CNB



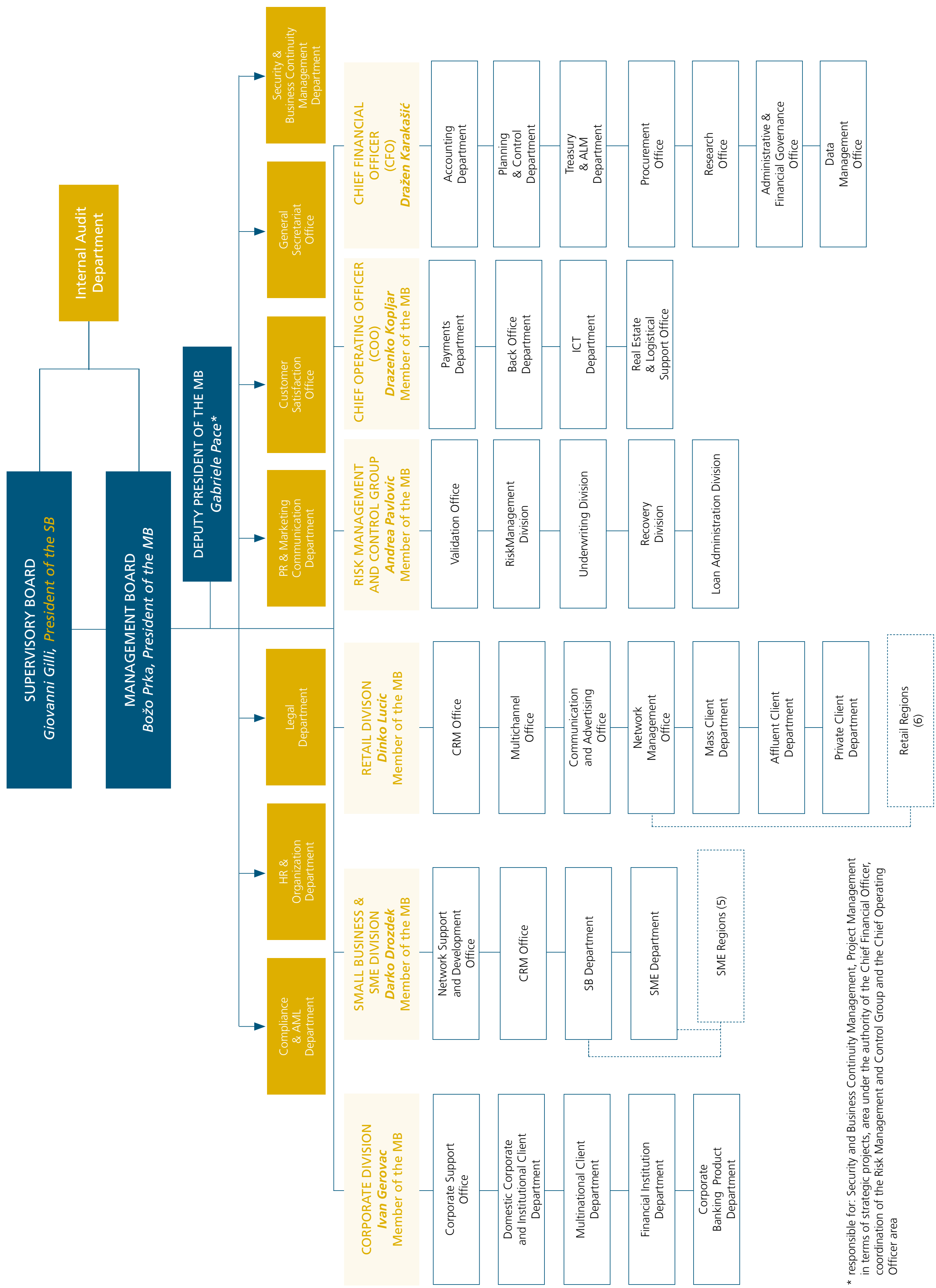
Share of partially recoverable and fully irrecoverable loans in total loans, in %

Source: CNB



Ferryman at river Sava, county of Zagreb

Organisational chart



* responsible for: Security and Business Continuity Management, Project Management in terms of strategic projects, area under the authority of the Chief Financial Officer, coordination of the Risk Management and Control Group and the Chief Operating Officer area

Pustike village, county of Zagreb

Business description of the Bank

Privredna banka Zagreb dd was founded in 1966 and has consistently been a leading financial institution in the Croatian market, with an established business base and a highly recognized national brand name.
During all periods of its history, PBZ supported the largest investment programs in tourism, agriculture, industrialisation, shipbuilding, electrification and road construction. PBZ has become a synonym for economic vitality, continuity and the Croatian identity.
Privredna banka Zagreb dd today is a modern and dynamic financial institution, which has actively sought and won the role of market leader on the financial markets in Croatia. It is a fully licensed bank with nationwide branch network. With its nationwide network of branches and outlets, as well as a broad group of banking and non-banking subsidiaries, PBZ is one of the universal banks that cover the whole territory of Croatia.

Organisational Structure and Business Activities

Nowadays, PBZ is the leading bank in Croatia in terms of subscribed share capital and the second bank in terms of total assets. It has consistently been a leading financial institution on the Croatian market with an established business base and recognised national brand name.
Upon successful privatisation in December 1999, PBZ became a member of Gruppo Intesa Sanpaolo – the largest Italian banking group and one of the most significant financial institutions in Europe. With this partnership, PBZ has retained its business strategy aimed at modern forms of banking and new products, confirming its image of a dynamic and modern European bank, which meets the demands of the market and its clients. The benefits of strategic partnership are clearly visible in the continuously improving financial results of the Bank, as well as of the PBZ Group.
Along with the adoption of the business and corporate governance standards set by its parent bank, Privredna banka Zagreb dd has maintained the strategic development orientation of a modern, client oriented, technically innovative universal financial institution. PBZ is focused on the continued advancement of its economic performance well into the future, as well as strengthening its position as a product leader in offering the most progressive banking products, through the optimal mix of traditional and modern distribution channels. This ensures that PBZ will continue to be able to set standards of the highest quality for product innovations and services offered to both its domestic and international clients.

This commitment to quality and advanced banking practices is clearly seen by the fact that Privredna banka Zagreb dd received the Best Bank in Croatia award from Euromoney in 2001, 2002, 2004, 2005, 2007, 2008, 2009, 2013, 2014 and 2015. During 2006 PBZ received The Best Debt House in Croatia award by Euromoney. In 2012 PBZ won award for the Best Private Banking Service in Croatia. PBZ also received The Banker's Award for the Croatian Bank of the Year in 2005 and 2011. Additionally, PBZ's quality was confirmed by Global Finance's magazine in 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010 and 2011 when it received the Award for the Best Bank in Croatia, while in 2012, 2013 and 2014 it was recognised as the Best Internet Bank in Croatia in the category Best Internet Banks in Croatia and Eastern Europe. Also, in 2013 and 2014 Global Finance magazine announced that PBZ is the Best Bank in Croatia in the category Best Emerging Markets Banks in Central and Eastern Europe. In 2003, 2004, 2005 and 2006 PBZ received the domestic prestige awards – the Golden Share Award for the Best Banking Share in the country, and the Golden Kuna Award in 2004, 2005 and 2010 for the previous year. Bank also received acknowledgement from Central European, Finance Central Europe, Adria Zeitung and others.
In addition, Privredna banka was listed among the world's top 500 financial brands for 2007 by Global 500 Financial Brands Index. This report, initially published in 2006, was the first publicly available table analysing the financial value of the world's leading banking brands.
Privredna banka Zagreb dd currently employs some 3,462 employees and provides a full range of specialized services in the areas of retail, corporate and investment banking services. The business activities of the Bank are organized into three principal client-oriented business groups.

RETAIL BANKING GROUP

In the retail banking segment, PBZ has a comparative advantage over its competitors due to the fact that it has the most extensive branch network in Croatia, consisting of 198 organizational units in 6 regions and 19 sales centres, which cover the entire territory of Croatia. Our customer orientation is confirmed by "inovacija", a rewarding scheme for clients who use several product groups (up to 8) and who are given discounts on fees charged or awarded incentive interest rates.

In addition to restructuring and repositioning the traditional distribution channels of the business network, PBZ also continues to develop and improve its direct banking distribution channels. It has extended the network of ATMs that accept Maestro, MasterCard, Visa and Visa Electron as well as American Express cards (a total of 692 ATMs have been installed). The number of EFT POS's (point of sale) has reached 29,917.
As a leader in modern technologies, PBZ has also expanded its distribution channels and products by applying the most advanced technology in order to implement its PBZ 365 services. With Internet banking - PBZ365@NET and mobile banking - mPBZ services – clients can access their accounts 24 hours a day, seven days a week, from any location in the world with Internet access. Seven years ago PBZ introduced mPBZ, a full range of banking services over the mobile phone, such as paying bills (including 2D barcode scanning - „scan & pay"), checking account balances, trading with securities etc. These achievements have firmly established PBZ as the Croatian market leader in electronic banking, as well as the technological leader on Croatia's financial market. PBZ was one of the leading bank in Croatia to implement secure e-commerce based on 3D Secure technology (Verified by Visa and MasterCard SecureCode). In the area of retail product development, PBZ is constantly monitoring market demands and improving its wide range of products and services accordingly.
Based on identified needs, PBZ recognized its role in the environmental protection and social responsibility, and therefore amended and extended its product offer with loans such as Energo loans, tuition fee loans and student cost of living loans, loans for retired persons, socially stimulated housing loans, state subsidy housing loans, etc. In addition to responding to market requirements, PBZ is monitoring regulatory and legislative requirements and timely adjusting its products and services to them. Thus it has introduced several types of credit scoring loans.
Overall in the period from 2000, PBZ established itself as the market leader in retail loans with a 20 percent share in the loan market on the Group level. In the area of savings, the PBZ Group has significantly increased its deposits, keeping over 20 percent of all retail deposits in Croatia.
PBZ's retail operations comprise the following divisions: the Distribution Channels Management Division, the Product Development and Management Division, the Competitive Intelligence Division, the Analysis & Client Relationship Development Division, Group Support office and ISBD Client Relationship Management Office.

Distribution Channel Management Division

This Division is responsible for defining, structuring, implementing and monitoring classical and direct distribution channels for the delivery of retail products and services (the branch network, ATM & night safe depository network, PBZ 365 services - Internet, mobile and telephone banking, SMS banking, mPay). It prepares and co-ordinates a budget and staff education, and supervises the realization of all its goals for all distribution channels.
The Division takes special care of the segment for affluent banking and the segment for regular banking, as well as private banking and student segment banking, which includes developing, improving, monitoring and controlling these three segments, setting up and improving business processes, organizing training courses for personal bankers, and following and reviewing market trends. Other very important tasks are negotiations and co-operation with corporate clients (favourable loans conditions for bank clients) and firms (the bank prepares special proposals for a firm's employees), development and improvement of utility business, training, co-ordination and budgeting of financial advisors. It chooses the appropriate distribution channels for finished products intended for a specific targeted client group. In coordination with the Division for Product Development and the Competitive Intelligence Division it chooses the right moment for the launch of a new product/service and is responsible for informing Distribution Channels of all pursuant marketing activities which will have an effect on them.

Product Development and Management Division

In co-operation with the Competitive Intelligence Division and Distribution Channel Management Division, this Division monitors the macroeconomic environment, competitors' activities and the market position of the Bank in retail operations. It controls the entire process of product design for a targeted group of clients, determines the price of products and delivers the finished product to the Distribution Channel Management Division, to which it proposes appropriate distribution channels and the appropriate moment for the product's launch. In co-operation with the Distribution Management Channels Division it participates in monitoring overall profitability (product-distribution).

RETAIL BANKING GROUP (CONTINUED)

Analysis and Client Relationship Development Division

This Division deals in analysis and development of models of client relationships as well as supervision and implementation of measurements of key indicators related to the effectiveness of the distribution network, production and services aimed at retail customers for the Bank and other members of the PBZ Group. The key tasks of the sector are CRM activities, conducting analyses (of clients, products, services and distribution network) and direct marketing, the development of support for better relationship management with clients and calculation of key indicators of success in managing relations between the client and the Bank. The Retail Banking Group also includes the ISBD CRM Business Competence Centre for supporting ISBD banks in implementing CRM Business practice.

Competitive Intelligence Division

The activities of this Division encompass the selection and coordination of suitable communication and marketing campaigns and the development of ideas for promotion and supporting the sales for the Bank's retail and SME products and services. In cooperation with the marketing agency, the Division defines, organises and implements marketing campaigns (direct marketing, promotion and advertising). The Division's tasks also include choosing the most efficient communication channels for particular market segments and creating advertising plans in cooperation with the marketing agency.

The Division takes part in drafting marketing budgets and marketing plans and monitors their implementation all year round. It regularly keeps track of the Bank's new and existing products and services and those of its competitors. It also monitors the competitors' communication channels and marketing campaigns.

CORPORATE, TREASURY AND INVESTMENT BANKING GROUP

Privredna banka Zagreb dd is one of the leading Croatian banks when it comes to corporate banking. With a wide range of products and services offered to its corporate clients, both locally and internationally, it is hard to find a major company in Croatia today that does not bank with Privredna banka Zagreb dd Supported by powerful electronic distribution channels, our network of well-organized branches is the key driving force in serving our clients effectively. We strive to create additional value by providing integrated financial solutions to meet the individual requirements of our clients.

Privredna banka Zagreb dd has thoroughly developed a platform for supporting classic cash and non-cash transactions for corporate clients within the Bank's network. Wide network of correspondent banks, and it's SEPA reachability, enabling to offer its clients fast and affordable services in the area of international payments. Also, Privredna banka Zagreb dd has significantly developed the process of handling domestic payments. The Bank directly participates in the Croatian RTGS system (HSVP) and in the national clearing system (NKS) and thus has the ability to process any payment through the most appropriate channel. Improved with the new functionality, Internet banking for corporate clients – PBZ COM@NET service – is available for both domestic and international payments.

In terms of finance banking, Privredna banka Zagreb dd is a dominant participant on the Croatian market. It has originated many contemporary products and has largely initiated the development of the financial market in the country. Consequently, PBZ, with its active role in the foreign exchange market, money market and primary and secondary capital market, has earned the title of market leader. We are determined to be recognized as the best financial services institution in the region. We have achieved this recognition from our clients through our ability to deliver the best quality in everything we do.

Corporate and Investment Banking Group performs its business activities through: Office of the Corporate and Investment Banking Group, Public Sector (Entities) Division, Large Companies and Foreign Companies Division, Financial Institutions and Special Financing Division, Investment Banking Division and Support Division.

Public Sector (Entities) Division

Public Sector (Entities) Division is responsible for managing the entire business relationship with the central state and state-owned companies. The Sector is also responsible for running and monitoring the entire business relationship with major private enterprises whose business relationship with the Bank is exceptionally complex and structured, which implies the multiple interweaving of the products and services they use. Recognising and taking into account the requirements of its clients for banking products and services, the Division offers all types and forms of short-term and long-term financing, purchase of receivables, B/E discounting, factoring, letters of guarantees, letters of credit, and renders services involving the opening of business accounts, cash pooling, contracting Internet banking, multi-purpose facilities, providing financial support to export businesses, active participation in the conclusion of deals of its clients abroad, as well as different models of deposit transactions and other innovative solutions adjusted to the requirements of each single client. Apart from the operations mentioned, it is also important to highlight the services in agency business – transactions performed on behalf and for the account of the ordering party, and commission business – deals made in its own name and for the account of the ordering party.

Particularly interesting are our financial advising services, applicable to whatever line of business/branch a legal entity is associated with, and the creation of the best possible solution for the respective entity.

In coordination with other units of the Bank, the Division participate in cross selling of all the PBZ Group products. By managing the overall business relationship between the Bank and the client, through a synergic effect we strive for the creation of new supplementary value for our clients.

Appreciating the diversity of its clients' business activities, employees of the Public Sector (Entities) Division, through their individual approach to each client, as well as in team work, provide support to clients in all aspects of their business activities by affording them the use of a wide range of the Bank's services and products, thus developing long-term business relations and partnerships.

In every segment of its business activities, operations and service rendering, the Division endeavours to promote the highest quality banking standards, first and foremost in being professionally and flexibly oriented, both to its present, and to its potential clients.

Large Companies and Foreign Companies Division

The Large Companies and Foreign Companies Division is responsible for establishing and managing business relationships with large domestic companies, companies in foreign ownership, as well as with foreign legal entities – non-residents.

The Division offers a complete range of banking products and services tailored to specific customer needs, in cooperation with other organisational units of the Bank and of the PBZ Group. Clients are accessed individually according to their requirements and they are provided with banking and advisory services, as well as support in all aspects of their business activities. Clients have at their disposal the following banking products and services: opening of transaction accounts, unified account management, contracting the Internet banking services, approval of loan facilities, purchase of receivables, B/E discounting, advisory services on all aspects of financing, issuing of letters of guarantees and opening of letters of credit, cash handling services (organising, transporting, collecting and transferring cash, cash pooling, global cash management), card operations, leasing, retail products and many other.

Leading clients of the Division are companies engaged in tourism, companies engaged in the pharmaceutical industry, companies engaged in construction business, companies engaged in food manufacturing, and large trading companies. Given the well-developed business network of Privredna banka Zagreb dd, we have successfully organised the complete conduct and management of cash transactions for some of our clients, who are also some of the largest chain stores, and companies engaged in tourist industry. To companies engaged in the construction of residential and business premises intended for sale we offer complete project implementation service – from the control of project documentation and building supervision to the financing of construction and sale of real estate to final buyers.

The International Desk forms part of the Division, and is in charge of managing the business relationship with domestic companies in foreign ownership and of coordinating activities of Privredna banka Zagreb dd and its parent bank – Intesa Sanpaolo. All banking and advisory services are provided by the International Desk to Intesa Sanpaolo Group clients present on the Croatian market, as well as to other companies in foreign ownership. Apart from conducting business relations, this unit also assists foreign investors in the process of starting up a new company in Croatia, provides advisory services and general information on business terms and conditions in Croatia, contacts clients and puts them in touch with institutions exigent in the performance of regular business activities.

The non-resident unit is responsible for establishing and developing co-operation with foreign entities (foreign companies and private individuals engaged in business activities, foreign diplomatic and consular representative offices and representative offices of foreign legal entities, foreign associations, foundations and other non-profit organisations, international missions).

The co-operation includes the opening and managing of accounts, depositing funds, providing the clients with all the necessary information required for conducting business in Croatia, which demands constant monitoring of all local currency regulations (close cooperation with the Croatian National Bank and the Ministry of Finance, particularly in Anti Money Laundering & Terrorism Financing Prevention).

CORPORATE, TREASURY AND INVESTMENT BANKING GROUP (CONTINUED)

Large Companies and Foreign Companies Division (continued)

An individualized approach to every client as well as the focusing of our attention and activities on the clients demands has been widely recognized and appreciated by the Bank clients. Employees of the Large Companies & Foreign Companies Division on the basis of their expertise and personal commitment are able to provide timely and top-quality solutions to demands made by our clients, including the implementation of innovative banking solutions. As a result of this method of work, the Bank has been able to record, for a number of years now, a stable market share as a leader in the area of corporate banking, in banking operations that involve foreign-owned large companies as well as multinationals.

Financial Institutions and Special Financing Division

The Financial Institutions & Special Financing Division plays an important role in the Bank's operations, because it ensures - through the establishment, monitoring and advancement of a wide range of business relations between the Bank and more than 1800 domestic and foreign banks as well as various other financial institutions - continuous and successful operations of the Bank in today's financial markets and provides support to Bank clients in their international business activities. The Division, among other things, manages correspondent banking relationships established with other financial institutions i.e. it manages account transactions of financial institutions; defines cross-border and international payments' performance policies; sells the Bank's products and services and, where necessary, it negotiates contracts for products and services that are offered by other financial institutions. Thanks to the activities performed by the Division, the Bank has gained in the international market a reputation as an active player, capable of providing support to its clients in all world markets, especially through synergy with the ISP Group. Within the scope of special financial services, the Financial Institutions & Special Financing Division offers Bank clients diverse financing solutions aimed at satisfying their needs: project financing and trade finance, loans and special arrangements concluded with domestic and foreign financial institutions, loan arrangements agreed with the development banks of the European Union, intended for financing environmental protection projects, energy efficiency projects, projects aimed at increasing competitiveness and similar other projects, which are supported by EU grants (non-repayable EU funds) as well as by technical assistance.
In the area of export financing, in addition to buyer's credit, we also offer forfaiting – the temporary purchase of outstanding receivables covered by quality payment security instruments, primarily irrevocable documentary letters of credit. In this way, the exporters are provided the opportunity to offer their buyers financing or deferred payment, and they thus gain a more competitive negotiating position in the export business.
The activities carried out by the Division enable the Bank to be an active participant in the syndicated loans/club loans market, both in the segment of corporate financing and in the segment of project financing (financing of big real estate development projects, tourist and infrastructure projects, projects related to renewable energy sources, as well as M&A transactions). The Bank has established itself, for a number of years now, as a leader in the domestic market in terms of arranging of syndicated/club loans and in offering agency services for loan arrangements that involve a large number of creditor banks.
In addition to being active in the primary market, the Bank also plays an active role in the secondary market of syndicated loans.
In order to be able to offer services of the highest quality to our clients and to fully utilize internal synergies, the Division has been assigned the responsibility for all international documentary operations performed in the Bank (documentary letters of credit, documentary collections and guarantees in international transactions) on a centralized basis, for all Bank clients.
The obtaining of funding for the needs of all PBZ Group subsidiaries is also part of the responsibilities of the Financial Institutions & Special Financing Division.
Other financial institutions have recognized the dedication and professionalism of specialist teams that operate within the Financial Institutions & Special Financing Division, as well as successful inter-action of expert teams from different units within the Bank. In 2015, Privredna banka Zagreb dd received an award of the European Bank for Reconstruction and Development (EBRD) for its commitment to financing

sustainable growth projects as well as the annual award granted within the scope of the EBRD Trade Facilitation Programme as the most active partner bank in Croatia in export financing. For many years, the Bank has been receiving a number of awards for excellence in the performance of international payment services (Straight Through Processing Excellence Award) granted to it by several leading world banks, such as Citibank NA, The Bank of New York Mellon, Commerzbank AG, Deutsche Bank AG, Societe Generale, etc.

Investment Banking Division

As a leader in the Croatian investment banking industry, Privredna banka Zagreb dd provides its institutional and private clients with a wide spectrum of investment banking products and services through capital market activities, financial advisory and structured finance services, research, as well as brokerage and custody services. In cooperation with Intesa Sanpaolo and its affiliates, we are able to provide investment-banking services to our clients across Europe.

With an outstanding reputation for innovative financial solutions, the Bank has been consistently recognized as the leading Arranger of equity, debt and commercial papers issues in the Republic of Croatia. The Bank has specialized origination, syndication and sales desks that deal with different types of debt (short and long-term) and equity issues. Over the past years, we have organized and executed numerous debt and equity issues for many clients including; sovereign issues of the Republic of Croatia, municipal bonds, corporate bonds, commercial paper issues and equity public offerings.

The Structured Finance department provides services directed towards structuring project and M&A financing (including acquisition finance, leveraged buyout etc.), as well as other activities related to structured transactions. This includes the following; designing and executing structured finance transactions, providing support to clients during the creation of optimal financial structure of the project; preparing financial projections of planned projects and potential M&A transactions as needed by the Bank, target valuation in M&A financing as needed by the Bank, identifying risks within the structured transactions and suggesting measures to mitigate those risks, participating in the organisation and management of due diligence processes in order to prepare and execute structured transactions and participating in organisation and management of gathering financial sources needed for structured transactions.

PBZ's Financial Advisory Services team provides advisory services related to capital structure, business strategies and mergers and acquisitions transactions. Our primary goal is to help our clients in various corporate activities aimed at creating added value and positioning our clients ahead of their competitors. Main areas of our expertise include advising on creating and executing corporate activities, such as: mergers and acquisitions, divestments, privatisations, employee share ownership programs (ESOP), leveraged transactions (MBO/LBOs), takeover defence, valuation exercises, business strategies and financial restructuring.

The Research department closely cooperates with other departments of the Investment Banking Division and provides a wide array of services related to the preparation and execution of various M&A, capital markets transactions, project finance related activities etc.

In addition to the purchase and sale of securities on domestic and foreign stock exchanges, the Bank's brokerage services consist of providing detailed information on trading activities, supply and demand, which is readily available through electronic trading systems and prompt reporting of securities transactions.

Privredna banka Zagreb dd is the leading Croatian custody bank offering high quality custody services for investments in domestic and foreign securities. In-depth market knowledge and expertise of our team combined with excellence in quality and services is why global custodians, other financial institutions and corporations turn to Privredna banka Zagreb dd. As a depositary bank for top Croatian investment funds, we ensure that investors' assets are protected, managed and valued according to regulatory requirements and acknowledged accounting standards.

Our dedicated staff in the Investment Banking Division, focused know-how and experience, combined with the ability to access local and regional markets effectively, provides our clients with top quality products and services and the assurance required in successfully accomplishing all their business goals.

SMALL AND MEDIUM-SIZE ENTERPRISES (SME) GROUP

Support Division

Division provides support to organisational units of the Corporate and Investment Banking Group regarding transaction banking, implementation and monitoring of contracted syndicated loans, preparing internal and external reports arising from the activities of the Group and participates in the preparation and monitoring of business plan.

Privredna banka Zagreb dd., as one of the leading corporate banks, established the Small and Medium-Sized Enterprises Group (SME Group) in 2006, with a clear focus on small and medium-sized enterprises. The SME Group is made up of three divisions within the Bank's head office (Sales Management Division, Support Division, and Marketing Division) and the network.

With the aim of building a strong business relationship with customers, the SME Group has a widespread network organised into 5 regions, 16 SME business banking centres, and 54 Sinergo desks with around 260 employees.

The Group is committed to developing new and improving existing products, implementing state-of-the-art business applications, optimising processes and organisation in order to provide a more efficient service to more than 62,000 customers - companies, crafts, and enterprises. Customers can use the largest network of ATMs (Cash-In/Cash-Out), night safes, and EFT POS terminals.

PBZ is a technological leader and has a pioneering role in terms of introducing the Internet and mobile banking services to the domestic market, currently available under labels PBZCOM@NET, mPBZ and PBZ365@NET. An increasing number of users as well as a more frequent use of direct distribution channels are the best indicators of the quality of our services. VISA Electron debit cards linked to transaction accounts, American Express business cards, and the largest network of EFT POS terminals are available with the support of PBZ CARD, a company of the PBZ Group.

The SME Group cooperates with EU development finance institutions to provide its customers with high-quality credit lines on favourable terms. Furthermore, in cooperation with the national development bank – Croatian Bank for Reconstruction and Development, the Group offers to local self-government units and small and medium-sized enterprises an extensive range of (long-term) development loans intended to finance production, export and other development projects.

In order to expedite and optimise the process of loan approval to micro enterprises and crafts, the SME Group uses an automated credit scoring system, which is a significant step forward in terms of lending to this segment of customers in the Croatian market. The range of products approved through the automated system is continuously expanded.

The SME Group consists of Sales Management Division, Network Support Division, Marketing Division and 5 SME Regions.

Sales Management Division

The key responsibilities of this Division are business monitoring on a regional and segment level, providing sales support, initiating the development of new products and services, improving business processes, and promoting various products. Additionally, this Division includes the Factoring Department, which provides first-rate services in domestic and export factoring as well as other services related to the purchase of accounts receivable that are available within the PBZ Group.

Network Support Division

This Division is responsible for providing support to the SME network, developing and maintaining business applications and processes, providing support in the development of new products and services developed jointly with other business divisions and IT, and assisting SME customers in using products and services of the Bank. With the aim of running these operations adequately the Division is supported by the following Departments: Product Development Department and Customers Contact Service.

Marketing Division

The Marketing Division is in charge of the establishment, development and monitoring of business relations with SME clients. The Division is responsible for providing business definitions of products and distribution channels, for monitoring income, costs and profitability of clients and business centres, for planning and calculation of key performance indicators, as well as for the employee performance evaluation and the incentive system.

The Marketing Division defines business segments and manages all types of marketing campaigns by using Customer Relationship Management and DWH tools via available media and the Bank communication channels.

SME – Region

The SME Group is organised into 5 regional centres: Zagreb, Central Croatia, Dalmatia, Istra-Rijeka-Lika, and Slavonia, numbering 16 business banking centres and 54 Sinergo desks.

Activities and responsibilities of centres and desks include the sale of Bank's products and services to SME customers (loans, guarantees, letters of credit, factoring, deposits, payment transactions, and other services), advising of SME customers about financing, and cooperation with other organisational units of the Bank and companies of the PBZ Group.

LOGISTICS AREAS

Business areas focusing on client requirements can only fully exploit their potential if they are provided with a reliable and efficient infrastructure.

The Accounting Department, Planning & Control Department, Treasury & ALM Department, Administrative & Financial Governance Office, Procurement Office, Research Office and Data Management Office led by the Chief Financial Officer (CFO), provide skilful and in-depth support with regard to all financial monitoring and reporting matters, financial planning and budgeting as well as administrative assistance to the business groups.

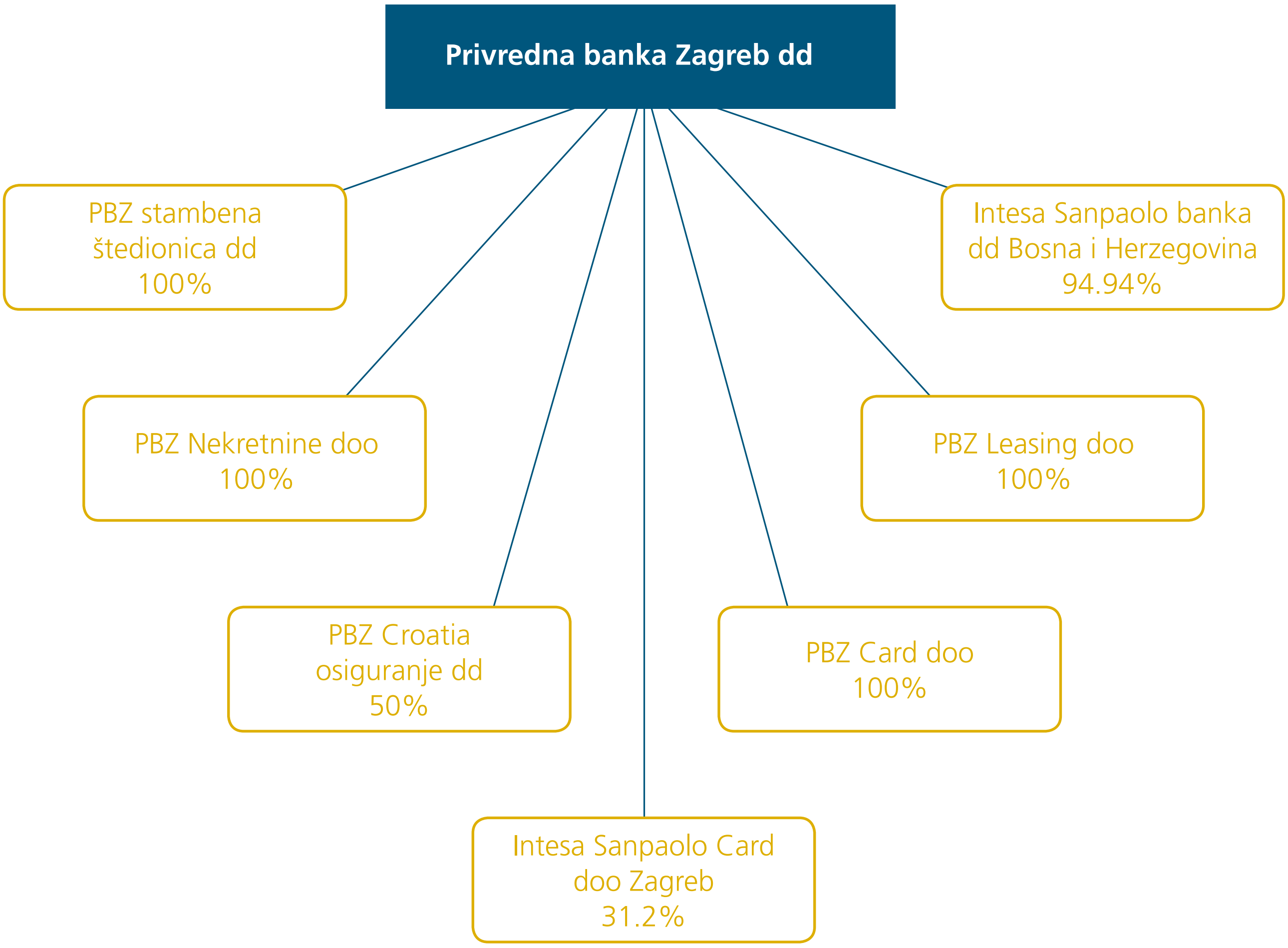
ICT Department, Back Office Department, Payments Department and Real Estate & Logistical Support Office represents a key business functions as part of the organisation that serves the entire Bank by providing IT and communications assistance, supporting distribution channels and feeding the system with financial information.

Risk management and control is a crucial part of our commitment to providing consistent, high-quality returns for our shareholders. It is our belief that delivery of superior shareholder returns greatly depends on achieving the appropriate balance between risk and return. In this context, we established the Risk Management and Control Group to protect the Bank from the risk of severe loss as a result of unlikely events arising from any of the material risks we face and to limit the scope of materially adverse implications to shareholder returns. Within the same Group there is a Recovery Division established with the goal of helping clients, who are unable to meet their financial obligations, to accomplish economic recovery through restructuring.

The Internal Audit Department, Management Board, General Secretariat Office, Human Resources and Organization Department, Legal Department, Compliance & AML Department, PR & Marketing Communication Department, Customer Satisfaction Office, Security & Business Continuity Management Department as well as the Supervisory Board are integral elements of the overall logistics and support of the business groups and the management.

Bell towers, city of Rab

The Group



Joining the Intesa Sanpaolo Bank dd Bosna and Herzegovina in July 2015 the Privredna banka Zagreb Group is a multinational based financial services group which provides a full range of retail and corporate banking services to customers in Croatia and Bosna and Herzegovina. At the end of 2015 the Group employs some 4,339 employees and serves over 1.8 million both private and corporate clients in both of the countries. PBZ Group today is a well-organised institution whose market share in the overall banking system stands at 17.7 percent in Croatia and 9.5 percent in Bosna and Herzegovina.
On 31 December 2015 the Group consisted of Privredna banka Zagreb dd and 5 subsidiaries and 2 associates. The composition of the Group and a brief description of each subsidiary are set out below.

PBZ CARD

PBZ Card is the leading company in conducting business with charge and credit cards held by natural and legal persons, and includes also the conduct of the business transactions with the merchants and this includes signing the agreements concluded with the merchants for the purpose of accepting the cards (by the merchants). In addition to this, the Company also offers a full range of travel services. The company's portfolio comprises approximately forty American Express and MasterCard, Maestro, Visa and Visa Electron products of Privredna banka Zagreb, including a rich selection of charge, debit, debit delayed, credit, pre-paid and other cards intended for natural and legal persons. The success of PBZ Card is based on the extensive knowledge and experience built up over more than forty years of presence of American Express on our market, the leading position of American Express brand on the charge and revolving credit cards market in the Republic of Croatia, the values of Visa and MasterCard brands and the strong position built by Privredna banka Zagreb as the leading bank in the field of introducing new technologies and products in the card business.

Late last year, taking into account the number of cards, PBZ Group held a 26.14 percent of the total Croatian market of the active cards, including a leading position on the credit cards market, with a share of 32.30 percent. The total turnover gained per user card products – American Express, Visa and MasterCard of PBZ Group in 2015 accounted for 32.2 percent of the total turnover of the users of the Croatian card market, made in the first three quarters of the last year. That same year, PBZ Card has maintained a leading position in both the total number of EFT POS terminals, on which it holds about 30 percent of the market.

The Company managed to keep the leading position in the domestic card market and it further strengthened this position during 2015, by offering its customers and business partners the products and services of superior quality and by improving them with a number of new benefits and special actions organized in cooperation with the points of sale. In addition to improving the existing portfolio of the products and services, the year 2015 was especially marked with a very important project of contactless mobile payment launched through PBZ Wave2Pay service, which uses the latest technology of contactless payment by means of mobile phone in the Republic of Croatia and abroad. The service is based on the Host Card Emulation (HCE) technology for NFC (Near-Field Communication) mobile payments at POS devices of PBZ Group, and PBZ Group was the first on the Croatian market to introduce this payment technology, already in April 2015, when it offered this service to the users of American Express cards, as follows: American Express® Cards (green, charge), The Gold Card®, The Platinum Card® and American Express® Heart Card. Therefore, the Company has become the first issuer of American Express cards in the world to introduce HCE mobile payment for American Express cards. Somewhere around the end of the year, PBZ Wave2Pay service was extended to Visa Inspire card – the first virtual card of the PBZ current account, integrated into a mobile phone. In late 2015, a virtual Visa Inspire card could be used for payments on more than 13,000 points of sale in the Republic of Croatia, that is, more than 17,000 POS terminals, which represents 60% of the POS network of PBZ Group, which is the largest network of POS terminals in the country. The network of the points of sale that allow contactless payment, in cooperation with the business partners, continues to increase with the new points of sale, and the share of contactless transactions in the total number of transactions made per PBZ Inspire Visa card issued is now more than 21 percent.

The leading position of the PBZ Group in the domestic market in the introduction of innovative technologies has been confirmed by the latest PBZ Wave2Pay service of contactless mobile phone and virtual American Express and Visa Inspire cards payments. The most recent HCE technology enables the Group to offer NFC mobile payment services for all of its cardholders in Croatia, regardless of the mobile operator and the card brand, and in addition to American Express and Visa cards, the integration of the other card products in PBZ mobile wallet is planned; these products belong both to the group and other issuers of the cards, including soon in PBZ mobile wallet plans supermarket chains etc. and this shall allow the customers to make their payments every week without using a classic wallet.

After Visa and Visa Inspire Wave 2 Pay sticker card, in the year 2015 the range of products with the option of modern contactless payments was enriched with American Express Start Card for students, which became the first American Express contactless card on our market.

During the year 2015, the Company sold a portfolio of bad placements, which enabled a stronger focus on the underlying portfolio. The previous year was also marked by adapting to the regulatory changes referring to the entry into force of the Directive of the European Parliament and the Council on the inter-bank charges for the card-based payment transactions.

PBZ STAMBENA ŠTEDIONICA

PBZ stambena štedionica is a member of the PBZ Group and in the 100% ownership of Privredna banka Zagreb. PBZ stambena štedionica was founded in 2003 and is doing its business according to the Law on housing savings and government incentives to housing savings. Housing savings include organized collection of cash deposits from natural entities aimed at meeting the housing needs of depositors by means of loan approval for house building purposes in the area of the Republic of Croatia with financial support of the Government. Depositors, besides the interest received on their deposits from Štedionica, are also entitled to government incentives, which are related to the amount of deposits made on their housing savings accounts up to a limited amount. The government incentives are determined by the special decision taken by the Government each year.

PBZ stambena štedionica offers its clients four types of savings: Prima, Basic, Golden and Golden Children's Savings. Prima savings are aimed at clients whose goal is to make use of a housing loan as soon as possible. The Basic savings are aimed at clients who want to dispose of a larger amount of deposits for investments through a longer loan repayment period. The Golden Savings are aimed at clients whose first interest is in saving money. In order to promote the savings products with young clients PBZ stambena štedionica offers the Golden Children's Savings intended for children under 13 years. Depending on their needs during the saving period, depositors can change the savings type, as well as gain the right to a housing loan by means of interfinancing programme even before the savings period has expired.

Housing savings contracts can be made in all branches of Privredna banka Zagreb, where clients can obtain all the necessary information on savings accounts and their existing housing savings accounts, make deposits into their savings accounts as well as the payment for their housing loans.

At this moment PBZ stambena štedionica has over 90,000 active housing savings accounts and deposits amounting to HRK 1.3 billion approximately.

PBZ LEASING

PBZ Leasing is wholly owned by Privredna banka Zagreb dd. Company was founded in 1991 under the name of "PBZ Stan". In the beginning it dealt with property appraisals and restructuring of the public housing fund. From 1995 until 2004, the company commenced granting car purchase loans by placing funds of Privredna banka Zagreb dd.

From 2004, leasing has become core business activity of the company. Through finance and operating leases, the Company engaged in financing of real estates, personal and commercial vehicles, vessels, machinery and equipment. In the last year the Company made new leasing placement in amount of almost HRK 251 million.

By the end of 2015, PBZ Leasing made over 4.7 thousand active lease arrangements with customers, which in financial terms reached HRK 1.0 billion.

PBZ NEKRETNINE

PBZ Nekretnine is a wholly owned subsidiary of Privredna banka Zagreb dd which engages in property transaction services, real estate valuation, financial and technical supervision over the construction of real estate. Privredna banka Zagreb dd established PBZ Nekretnine with the goal of providing its clients with a complete range of services relating to property and investment in business projects. PBZ Nekretnine offers apartments, houses, business premises, construction sites and other properties for sale. The activities of PBZ Nekretnine involve property transactions, property transaction services, property renting, appraisal of property value, construction, planning, construction supervision, construction evaluation, preparation of feasibility studies for investments, as well as legal supervision of works.

PBZ Nekretnine has a professional team capable of answering all its clients' complex requests. The company provides all kinds of services related to the activities mentioned, no matter how specific and complicated the clients' demands are. PBZ Nekretnine employs highly trained employees, (civil engineers, architects, economists, lawyer), five of which are court experts in the field of construction.

The company has been operating successfully within the Group since it was founded at the beginning of 1999. For the needs of its clients, PBZ Nekretnine has developed a network of associates and at the moment collaborates with over 70 external associates.

INTESA SANPAOLO BANKA BOSNA I HERCEGOVINA

Intesa Sanpaolo Banka dd Bosna i Hercegovina was established in Sarajevo on 2000 as UPI bank dd Sarajevo. In 2006 the main shareholder became Intesa Sanpaolo Holding S.A Luxembourg, with 94.92 percent of ownership. In July 2007, UPI banka finished merger process with LT Gospodarska banka dd Sarajevo. In 2008 the Bank change its name in Intesa Sanpaolo Banka dd Bosna i Hercegovina.

Part of Intesa Sanpaolo Group form Italy, the Bank's majority shareholding was purchased in July 2015 by former sister company Privredna Banka Zagreb dd, within the framework of an equity investments portfolio reorganization undertaken by the parent group.
As of September 2015, Intesa Sanpaolo Banka dd BiH is the 7th bank in Bosnia and Herzegovina by Total Assets, present in the country with 42 agencies in the Federation of BiH and 4 agencies in Republika Srpska. Its business operations are mainly concentrated (96 percent of Total Assets) in Federation of BiH, where the Bank ranks 3rd in total assets and total loans, with respective market shares of 9.5 percent in Total Assets and 10.5 percent in loans.
ISP Banka BiH performs general banking business with Retail and Corporate clients offering all ranges of products and commercial services commonly traded in the industry at BiH level.
The Bank's maintains its commercial presence on the territory BiH through its agencies and ATM network and further strengthens its cooperation with merchants and clients with the expansion of POS network. Support to private individuals and legal entities is shown by the development of product portfolio but most of all through available credit to the economy represented by almost HRK 4,3 billion gross disbursement of loans during 2015.

PBZ CROATIA OSIGURANJE

PBZ Croatia osiguranje is a joint stock company for compulsory pension fund management. The company was incorporated on 26 July 2001 in accordance with changes in Croatian pension legislation and it is a mutual project of both Privredna banka Zagreb dd and Croatia osiguranje dd with ownership in the company of 50% belonging to each shareholder. The principal activities of PBZ Croatia osiguranje include establishing and management of the compulsory pension funds category A, B and C. Following the initial stages of gathering members, PBZ Croatia osiguranje fund category B became one of the three largest compulsory funds in the country. The company's pension funds continued to operate successfully during 2015.
At this point, pension funds under management have nearly 312 thousand members and net assets in personal accounts exceeding HRK 11.9 billion, which represents a sound base for the long-term stable and profitable operation of the company.

INTESA SANPAOLO CARD GROUP

Intesa Sanpaolo Card was established in April 2009 by Intesa Sanpaolo Holding International S.p.A., Privredna banka Zagreb and Banka Koper. As of 31 December 2015, Privredna Banka Zagreb held 31.2 percent share of ownership, which was result of the demerger of processing unit in PBZ Card and direct capital investments. The foundation of the company is based on complementary strengths of the two strongest cards businesses within the Intesa Sanpaolo Group, Privredna banka Zagreb and Banka Koper, and their transition from local companies into a fully international organization. Both centres of excellence were recognized based on long-term experience in card business in home markets (Croatia and Slovenia) which are, by many parameters, more advanced than some of the West-European markets. Both centres have the best practice not only at the level of Intesa Sanpaolo Group but also at the level of the entire Central-Eastern Europe.
Intesa Sanpaolo Card delivers a wide range of services to meet business needs of its clients. All services and solutions are tailored to meet regional, local market or individual client requirements:

- Issuing solutions - the Company and the Group offer a range of services across all stages of customer lifecycle. The Company card processing platform supports a comprehensive portfolio of products including a broad range of payment card types (consumer and commercial cards, debit, prepaid, credit, co-brand and affinity cards) and brands (American Express, MasterCard, Visa, private label). Services provided - Card management system, Credit management, Transaction processing, Authorization processing, Card personalisation and distribution.
- Acquiring solutions – the Group card processing platform offers a wide range of services which help company's partners to build profitable card acquiring business. Services provided – Merchant administration, authorisation and transaction processing, POS and ATM terminal management, E-commerce solutions.
- Value added services - in addition to standard services and solutions, the Group provides a wide range of value-added services, giving innovative and technologically advanced solutions to company's partners helping them to retain their current customers and attract new ones (loyalty programs, dispute and chargeback management, fraud and risk management, value added services at ATMs and POS terminals).

Split, church detail

Overview of the activities within the Corporate Social Responsibility programme of PBZ

INTRODUCTION

Ever since its establishment Privredna banka Zagreb has been at the very top of the Croatian banking sector and for a series of years has been playing a significant role and producing impact on our society's economic and social development. Nowadays, being a member of a large international banking group – Intesa Sanpaolo, we stand for a dynamic and modern European bank that keeps its finger on the pulse of the market and its customers. Boosting trust and improving the relationship with all parts of society that interact with the Bank represents the condition of a continuous improvement of our business. With our actions we aim to meet the needs and rise up to the expectations of all participants, from caring for the needs of our customers, employees, developing the local communities in which we are a part of, caring for the environment to creating new

value for shareholders.

Below is an overview of some of the more significant activities carried out in 2015.

1. EDUCATION AND PROFESSIONAL DEVELOPMENT

- we have been investing continuously in development of corporate knowledge via the 'PBZ business school' project – in 2015 the 9th generation of students enrolled and the programme counted 225 active attendees
- 55 employees participated in courses provided by ISP/ISBD with total of 166 training days
- 1345 training days were conducted via e-learning and/or on-line channels
- number of training days in credit and operational areas of know-how were tripled in comparison to 2014 mainly due to credit conversions an AO CPS project, as well as planned SEPA transition
- Within the programme of 'professional training without employment', that is being conducted for 90 participants, we organized and conducted participants' rotations throughout the whole Bank allowing them to get overall insight in our organization. During the programme, HR coordinated participants, business groups and over 100 included mentors.
- internship programs for students have been started up within the PBZ group; 40 students came from various faculties/colleges (domestic and international) and completed the internship programme
- cooperation has been established with domestic and international universities for the purpose of promoting, co-designing and running education programmes in the field of finance and banking; here we would particularly like to single out our cooperation with Libertas Business College and University College for Applied Computer Engineering

2. CARING FOR EMPLOYEES

- **developing and upgrading web-based HR internal solutions:**
  - upgrading and improving internal application eHR portal throughout 2015: implementation of new reports for internal usage, implementation of employee's data on retirement conditions, improving Internal Mobility panel
  - developing new application HRIS (Human Resources Information System) - throughout 2015 started project of creating own ERP software which covers complete HR area which will include payroll and other payments, HR administration, reporting system,..
- aiming to continuously keep track of the potential and development needs of PBZ group employees, additional evaluation programmes have been set up and employees can now get feedback regarding their potential and development possibilities;
- after in 2012 internal rotation process has been rendered simpler and at a strategic level even more encouraged, so internal transfers are more numerous providing knowledge transfer, greater satisfaction and motivation of employees, all business and professional vacancies are being primarily advertised internally
- concerning the fact that question of employee engagement is becoming main challenge of organization throughout the world, PBZ started measuring employment engagement on a part of employees. As researches show that today, more than twice as many employees are motivated by work passion than career ambition, by measuring employment engagement we are trying to determine more accurately factors that could be improved for engagement.

- within the scope of regular socioeconomic activities, solidarity was shown by helping destitute employees and their families, children of employees who passed away and children of our former employees; grants were made to employees with school age children so that they may procure school books; as part of our on-going cooperation with our colleagues from Intesa Sanpaolo we made arrangements that children be sent to the Children's village Follonica, Italy for a summer vacation
- we care about the financial burden of our employees and educate and advise them via our Personal finance management programme on the way of balancing their income and expenses, we participate in putting forward proposals on debt rescheduling with a view to regaining financial stability
- as part of our employee healthcare programme, we organised regular full check-ups for both our employees and trainees, control check-ups for the employees who suffer from the ailments of the skeletal system with physical therapy as part of the treatment and preventive flu vaccination
- membership in the association PBZ Standard - main goal is to achieve better health and general well-being through the achievement of its objectives, which will positively affect the satisfaction and welfare of employees directly improving their mental and physical health; fundamental purpose of the association is to provide, organize and coordinate sport recreation and activities for association members; as of 2015 PBZ Standard has about 2.100 members; association is constantly working on the improving of the recreational and sports activities
- Our internal newspaper PBZXpress was launched in 2006 with the aim of improving internal multidirectional communication, strengthening the sense of belonging to the PBZ Group, as well as job satisfaction. Since then it has been continuously published every month on 16 pages. The focus is on our staff who write articles for the publication; about 2,751 articles have been written by 527 employees; besides presenting projects, sponsorships and internal communication campaigns, through PBZXpress we have organized several initiatives aimed at employees and their children.

  In January 2015. the 100th jubilee edition of PBZXpress was published.

  In 2013 and 2014 through PBZXpress we have organised an action "Make my wish come true" in which all our employees were invited to participate. We contacted several children's homes and collected individual whishes' from their children. Our idea was to give our employees the opportunity to fulfil these individual wishes. In the scope of humanitarian actions, since 2011, 690 individual wishes have been fulfilled and more than 400 gift packages have been donated to 15 children's homes and social care institutions thanks to the engagement of our colleagues. Thrughout 2015 with our humanitarian action "Christmas package" we have collected packages of food, hygienic supplies and toys for 246 families who are very economically challenged. In this way we helped over 600 children within these families.
- In 2014. Privredna Banka Zagreb earned the title of Mamforce Company, it is one of the first two companies in Croatia with that certificate. This certification recognizes PBZ's commitment to facilitate its employees' work-life balance while providing them with equal career opportunities. During 2015, Privredna banka Zagreb have confirmed the status MAMFORCE © companies and their assigned MAMFORCE COMPANY certificates for improved practices in the field of family responsibilities and gender equality in relation to the situation of a year ago. During this year PBZ have conducted education for trainee on topic work/life balance and education on topic women's leadership. Among these practices, we can mention the corporate kindergarten in Zagreb that, in its 2nd year of activity, has expanded its capacity from 70 to 96 enrolled children. PBZ employees can also benefit from regular medical check-ups (every two years), psychological support and other health care services. Moreover, the constant development of competences and skills is ensured by PBZ Business School, whose modules have been integrated with employees' work activities. Founded in 2007, 7 generations of employees have been trained there and successfully completed the courses.
- Continuously cooperating with student community, in 2015 PBZ was recognized as 'Student friend' gaining 'Golden index' reward for contribution in improving quality of students life, their education and professional training

3. DONATIONS AND SPONSORSHIPS

Privredna banka Zagreb aims to contribute and show its responsibility towards the larger community through its sponsorships and donations. In 2015 over HRK 20 million in total was appropriated for sponsorships and donations, through which we supported many cultural and other events such as; sports events, science and education, numerous associations and individuals. By its long-standing participation in the country's social life through donations and sponsorships, PBZ aims to contribute to the development and in general to a better quality of life in the Republic of Croatia.

Overview of the activities within the Corporate Social Responsibility programme of PBZ (continued)

3.1. Donations

Donations 2015	(in HRK)
Science and education	982,502
Sports	2,230,465
Culture	2,496,500
Social solidarity	7,547,249
Other	650,763
Total	**13,907,481**

PBZ actively participates in a series of social projects and supports a great number of humanitarian, social and health institutions. Among the donations given in 2015 we supported various programs dedicated to improvement of education and health, as well as sport and cultural programs aimed especially at helping children and socially vulnerable groups of our society.

3.2. Sponsorships

Sponsorships in 2015	(in HRK)
Science and education	668,809
Sports	5,224,304
Culture	688,000
Other	313,900
Total	**6,895,013**

Through defining itself to the community, PBZ provides continuous support and incentives to a great number of projects pertaining to culture, sports and science thereby contributing to the development of these areas of society for the long-term.
In 2015 we would emphasised cultural sponsorships by supporting various cultural events and institutions:

- Sponsorship of the Modern Art Gallery Zagreb with its permanent exhibition of the top works of Croatian artists from the 19th, 20th and the 21st centuries. All those works represent master pieces of landscape art, figurative art and abstract art as well as of portrait and animalistic sculpting.
- Support of various cultural programs and institutions included Croatian National Theatre in Zagreb and Varaždin, , traditional ethnological manifestation "Rapska fjera",Vinkovačke jeseni, Đakovački vezovi , Sinjska alka and many others...

We have been active among students population and supported various events (University of Zagreb Fair) and student contests ("Mozgalo", "The (Job) Hunt").

As for the sport events, we sponsored the Poreč Beach Volleyball Tournament (World Series), Italia Soccer Camp and the ATP Croatian Indoors tournament (PBZ Indoors).

3.3. Humanitarian project "Doing Good Every Day"

American Express Card with a Heart was presented to the market in 2008. It was created in order to assist projects of exceptional importance for further growth and development of the community. For each purchase with this card PBZ Group donates 1 kuna to their humanitarian project "Doing Good Every Day" that assists the project by the Ministry of Health called "Monitoring Children with Neurorisks" and the Ministry of Social Policy and Youth of the Republic of Croatia called "For a Better Life of Children in Social Welfare Homes". The card requires no entrance and membership fee for the first year of using the card and PBZ Group donates 15 kuna from every membership fee of the principal card member and 10 kuna from every membership fee of the supplementary card member from the second year of using the Card with a Heart. Other American Express card members may contribute to the project by donating their Membership Rewards points. Besides this, donations are possible on the Internet site www.cinimdobro.hr (doing good) to all American Express, MasterCard, Maestro and Visa card members, regardless of the issuing bank.

In 2015, seven donation were realized in total amount of 1,6 million kuna.
Three donations went to support the project "Monitoring Children with Neurorisks" in Koprivnica, Zagreb and Varaždin. Four donation were given to assist the project "For a Better Life of Children in Social Welfare Homes" by the Ministry of Social Policy and Youth in Daruvar, Ozalj, Lug and sv. Filip i Jakov.

4. IMPACT ON THE ENVIRONMENT

We have continuously been keeping track of our energy consumption and with various activities aim to reduce the consumption, while raising awareness of our employees on the importance of caring for the environment. On a regular basis, we have been sending our employees personalised e-mails to remind them about mandatory

shutting down of their PCs after office hours, turning off their-conditioning and heating over the weekend, separating used paper from other waste for recycling purposes.
Paper waste and plastics is gathered separately and collected by a contracted company that recycles it. Hazardous waste as cartridges are also separately sorted and collected by a contracted company that operates in compliance with laws and regulations.
According to the new legislation for environmental protection, our two managers of waste disposal have successfully completed three-day training in 12/2015
Double sided copying of documents, which we introduced as our standard setting, reusable envelopes and other activities in that direction have resulted in a continues decrease in the consumption of paper, which is presented in the table below:

Paper consumption
Within the last 5 years a reduction of over 100,000 kg in paper consumption has been realized and in the same period an increase of recycled paper usage of over 250,000 kg. Also, since June 2012 all the envelopes used in the Bank are made of recycled paper as well as A4 paper for automatic letter folding.

Energy usage
Installing energy efficient light bulbs and electronic ballast in order to cut energy consumption for lighting is a common practice. Upon replacement of worn-out equipment, attention is paid to having such equipment replaced with one of optimal characteristics. Classic light bulbs are replaced with energy efficient bulbs, air-conditioning devices with inverter technology and of higher energy efficiency degree are installed, the material and elements of good insulation properties are used in construction, LED lighting is used in advertising signs and heat recovery ventilation is installed.
Because of our efforts in that direction, since January 2013, we are official Partner in **GreenLight Program.**

GREENLIGHT

Electricity CONSUMPTION (MWH 000)

2009	18.617
2010	18.725
2011	17.529
2012	16.892
2013	16.966
2014	16.114
2015	16.788

- In the second half of the year 2015, Bank implemented 265 LED luminaire (down lighters) in central office building situated in Radnička 42-46.
- In 2015, LED bulbs and eco heating system with R-410 were installed in new branches (Sisak, Zaprešić, Samobor and Mali Lošinj). Additional LED bulbs were replaced in branches Pula and Oktogon Zagreb.
- Energy-efficient device in the cooling system was installed in Regional branch building Slavonski Brod and Poreč.
- Energy-efficient device in the heating system was installed in Regional branch building Gospić.
- New (energy-efficient) gas heating system was installed in branch Sisak and Regional branch building Sisak.
- In terms of reducing heating consumption, we finished installing thermostatic valves into heaters that were recommended in energy certificates issued for building owned by PZB Group (branch Sisak and Regional branch building Sisak).
- Retrofitting in devices in the cooling systems – replacement of cooling medium with eco-friendly R-410 (Đakovo, Biograd)
- In order to reduce the CO_2 emissions, beside 4 electric mopeds (no CO_2 emission), the Bank´s old cars in the "car pool" are being replaced with greener cars with low CO_2 emission. Today in "car pool" we have:
  - 2% of cars meet Euro 4 norm
  - 88% of cars meet Euro 5 norm
  - 10% of cars meet Euro 6 norm

As for the future goals, we will continue to promote responsible use of environmental resources, especially efficient use of energy and paper and proper waste management. Also, we will make effort to increase employees training and information on environmental issues to raise the awareness.

Vine cellar at Vanga, Brijuni National park

Corporate governance

In accordance with the Companies Law, Credit Institutions Act and its Article of Association, the Bank has a Supervisory Board and a Management Board. Above mentioned acts regulate the duties and responsibilities of members of the Management Board and the Supervisory Board. The two boards are separate and no individual may be a member of both boards.

SUPERVISORY BOARD

The Supervisory Board consists of seven members. The Board meets quarterly and oversees the Management Board. The members of the Supervisory Board of the Bank are appointed for a three year mandate.
Members of the Supervisory Board are the following:

Giovanni Gilli (President of the Supervisory Board, Intesa Sanpaolo) – mandate from 31 March 2014

Draginja Đurić (Deputy President of the Supervisory Board, Banka Intesa ad Beograd) – mandate from 31 March 2014

Paolo Sarcinelli (Member of the Supervisory Board, Intesa Sanpaolo) – mandate from 29 March 2013

Christophe Velle (Member of the Supervisory Board, Intesa Sanpaolo) – mandate from 16 October 2013

Antonio Nucci (Member of the Supervisory Board, Intesa Sanpaolo) – mandate from 3 December 2015

Fabrizio Centrone (Member of the Supervisory Board, Intesa Sanpaolo) – mandate from 3 December 2015

Branko Jeren (Member of the Supervisory Board, independent) – repeated mandate from 20 April 2013

Previous members in 2015:

Massimo Malagoli (Member of the Supervisory Board, Intesa Sanpaolo) – mandate until 9 July 2015 (resignation)

Nóra Kocsis (Member of the Supervisory Board, EBRD) – mandate until 15 June 2015 (resignation).

AUDIT COMMITTEE

Pursuant to the Articles of Association of Privredna banka Zagreb dd, the Supervisory Board on its 15th meeting held at 10 December 2002 established the Audit Committee and adopted the Audit Committee Charter.

The Audit Committee, appointed in accordance with the law and the parent bank's rules, consisted of five members during the previous year, two of whom were also members of the Supervisory Board. During 2015 six meetings of the Audit Committee were held. The issues within the competence of the Supervisory Board were discussed. The Audit Committee helped the Supervisory Board in carrying out duties related to the supervision of the financial reporting process, the audit process (including the recommendation of the General Assembly for the election of the external auditor), as well as compliance with laws, regulations, rules and code of ethics. The Supervisory Board, with the help of the Audit Committee, monitored the adequacy of the internal control system, which is achieved through three independent control functions (internal audit, risk control, compliance monitoring), and in order to establish such a system of internal controls that will enable early detection and monitoring of all risks the Bank is exposed in its operation. Members of the Audit Committee in 2015 are the following:

Mauro Zanni (President of the Audit Committee) – new mandate from 21 January 2014

Guido Gioncada (Member of the Audit Committee) – new mandate from 21 January 2014

Christophe Velle (Member of the Audit Committee) – new mandate from 21 January 2014

Fabrizio Centrone (Member of the Audit Committee) – mandate from 3 December 2015

Marco Valle (Member of the Audit Committee) – mandate from 25 September 2014

Previous member in 2015:

Massimo Malagoli, Member – mandate from 21 January 2014 to 9 July 2015 (resignation)

In 2014, in accordance with the provisions of the new Credit Institutions Act the Bank as a significant credit institution established three technical committees of the Supervisory Board: Remuneration Committee, Nomination Committee and Risk Committee, which are responsible for the Bank and its subsidiaries. Each committee has three members who are appointed among the members of the Supervisory Board and of which one is chairman of the committee. All members of the Supervisory Board elected to the established committees have appropriate knowledge, skills and expertise that Croatian regulations required for membership in committees, especially for membership in the Risk Committee. In 2015 all three committees held meetings at which they discussed issues within their competence in accordance with the law and internal Rules of Procedure of the Supervisory Board.

Remuneration Committee

Fabrizio Centrone, President – mandate from 3 December 2015

Giovanni Gilli, Member – mandate from 30 June 2014

Antonio Nucci, Member – mandate from 3 December 2015

Previous members in 2015:

Massimo Malagoli, President – mandate from 30 June 2014 to 9 July 2015 (resignation)

Branko Jeren, Member – mandate from 30 June 2014 to 2 December 2015

Nomination Committee

Giovanni Gilli, President – mandate from 30 June 2014

Draginja Đurić, Member – mandate from 30 June 2014

Branko Jeren, Member – mandate from 3 December 2015

Previous member in 2015:

Nóra Kocsis, Member – mandate from 30 June 2014 to 15 June 2015 (resignation)

Risk Committee

Paolo Sarcinelli, President – mandate from 30 June 2014

Christophe Velle, Member – mandate from 30 June 2014

Fabrizio Centrone, Member – mandate from 3 December 2015

Previous member in 2015:

Massimo Malagoli, Member – mandate from 30 June 2014 to 9 July 2015 (resignation)

MANAGEMENT BOARD

The Management Board conducts business operations of the Bank. The Board consists of seven members and on three-year mandates, each is allocated a specific area of responsibility. The Management Board meets once every two weeks to discuss and determine the operating policies of the Bank.

Members of the Management Board are the following:

Božo Prka (President of the Management Board, manages the activities of the Management Board and coordinate all business functions within the Bank and the PBZ Group, he is also responsible for: Control and Staff functions: Internal Audit, Compliance and Anti-Money Laundering, HR and Organization, Legal Affairs, PR and Marketing Communication, General Secretariat and Customer Satisfaction) – new mandate from 10 February 2015

Gabriele Pace (Deputy President of the Management Board responsible for: Control and Staff functions: Security and Business Continuity Management, Project Management in terms of strategic projects; area under the authority of the Chief Financial Officer: Accounting, Planning and Control, Treasury and ALM, Administrative and Financial Governance, Procurement, Research, Data Management; coordination of the Risk Management and Control Group and the Chief Operating Officer area) – new mandate from 18 July 2013

Darko Drozdek (Member of the Management Board responsible for the SME Banking Group) – repeated mandate from 22 October 2013

Ivan Gerovac (Member of the Management Board responsible for the Corporate and Investment Banking Group) – new mandate from 10 February 2015

Draženko Kopljar (Member of the Management Board responsible for the operations area - Chief Operating Officer: Payments, Back Office, ICT, Real Estate and Logistical Support) – new mandate from 10 February 2015

Dinko Lucić, (Member of the Management Board responsible for the Retail Banking Group) – new mandate from 10 February 2015

Andrea Pavlović (Member of the Management Board responsible for the Risk Management and Control Group) – repeated mandate from 13 May 2013

STATEMENT ON THE IMPLEMENTATION OF THE CODE OF CORPORATE GOVERNANCE AT PRIVREDNA BANKA ZAGREB DD

Pursuant to the provisions of Article 272.p of the Companies Act, the Management Board of Privredna banka Zagreb dd hereby declares that the Bank voluntarily implements the Code of Corporate Governance prepared jointly by the Croatian Agency for Supervision of Financial Services (HANFA) and the Zagreb Stock Exchange (ZSE).

The Annual questionnaire for the business year 2015, which makes a constituent part of this Statement (available also on the Bank's web site), reveals the Bank's corporate governance status and practices in view of the recommendations given in the Code of Corporate Governance, and provides explanations of certain departures. Namely, the Bank's corporate governance is not based solely on full satisfaction of regulatory requirements, but also on ingrained corporate culture and personal integrity of its management and employees.

General features of the conduct of internal supervision and risk management in terms of financial reporting are described in this Annual report, as well as data on the Bank's shareholders (as at 31 December 2015) are provided in this Annual report.

Rules on the appointment and recalling of members of the Management Board are laid down in the Bank's Articles of Association.

The number of members of the Management Board of the Bank is determined by decision of the Supervisory Board. Accordingly, the Management Board is composed of seven members. The Supervisory Board brings a decision to nominate candidates for President and members of the Management Board, who need to meet the conditions prescribed by the law governing banking operation and other relevant regulations. After obtaining the prior consent of the central bank, the Supervisory Board appoints the president and members of the Management Board for a three-year term of office, with the possibility of re-appointment. The Supervisory Board may revoke its decision on the appointment of a member or the president of the Management Board provided that there are substantial grounds therefore pursuant to the law in force.

Authorities of the Management Board are set out in the Bank's Articles of Association, while a special decision was adopted, with the consent of the Supervisory Board, to lay down the distribution of authority among the president, deputy president, and other members of the Management Board of the Bank.

Data of the composition and activities of the Management Board and the Supervisory Board of the Bank and their supporting bodies are presented in the enclosed Annual questionnaire.

Rules for making amendments to the Articles of Association of the Bank are laid down in the Articles of Association. The Decision on the amendments to the Articles of Association is adopted at the General Meeting of the Bank, in accordance with the law and the Articles of Association, by a ¾ majority of the voting share capital represented at the General Meeting on adoption of the decision. Amendments to the Articles of Association are proposed by the Supervisory Board, the Management Board, and the Bank's shareholders. The Supervisory Board is authorized to amend the Articles of Association only if it is a matter of harmonisation of the wording or of establishing the final version of the Articles of Association.

With a view to protect the interests of all investors, shareholders, customers, employees, and other interested parties, the Bank has set high corporate governance standards.

CODE OF CORPORATE GOVERNANCE – ANNUAL QUESTIONNAIRE

All the questions contained in this questionnaire relate to the period of one business to which annual financial statements also relate.

COMPANY HARMONIZATION TO THE PRINCIPLES OF CORPORATE GOVERNANCE CODE

1. **Did the Company accept the application of the Corporate Governance Code or did it accept its own policy of corporate governance?**
   Yes.

2. **Does the Company have adopted principles of corporate governance within its internal policies?**
   Yes.

3. **Does the Company announce within its annual financial reports the compliance with the principles of 'comply or explain'?**
   Yes.

4. **Does the Company take into account the interest of all shareholders in accordance with the principles of Corporate Governance Code while making decisions?**
   Yes.

SHAREHOLDERS AND GENERAL MEETING

5. **Is the company in a cross-shareholding relationship with another company or other companies? (If so, explain)**
   No.

6. **Does each share of the company have one voting right? (If not, explain)**
   Yes.

7. **Does the company treat all shareholders equally? (If not, explain)**
   Yes.

8. **Has the procedure for issuing power of attorney for voting at the general assembly been fully simplified and free of any strict formal requirements? (If not, explain)**
   Yes.

9. **Has the company ensured that the shareholders of the company who, for whatever reason, are not able to vote at the assembly in person, have proxies who are obliged to vote in accordance with instructions received from the shareholders, with no extra costs for those shareholders? (If not, explain)**
   No. There were no such initiatives by the shareholders but the Bank is prepared to provide proxies for the shareholders if such an initiative occurs.

10. **Did the management or Management Board of the company, when convening the assembly, set the date for defining the status in the register of shares, which will be relevant for exercising voting rights at the general assembly of the company, by setting that date prior to the day of holding the assembly and not earlier than 6 days prior to the day of holding the assembly? (If not, explain)**
    Yes.

11. **Were the agenda of the assembly, as well as all relevant data and documentation with explanations relating to the agenda, announced on the website of the company and put at the disposal of shareholders on the company's premises as of the date of the first publication of the agenda? (If not, explain)**
    Yes.

12. **Does the decision on dividend payment or advance dividend payment include information on the date when shareholders acquire the right to dividend payment, and information on the date or period during which the dividend will be paid? (If not, explain)**
    Yes.

13. **Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the date of decision making? (If not, explain)**
    Yes.

14. **Were any shareholders favoured while receiving their dividends or advance dividends? (If so, explain)**
    No.

Corporate governance
(continued)

CODE OF CORPORATE GOVERNANCE – ANNUAL QUESTIONNAIRE (continued)

15. Are the shareholders allowed to participate and to vote at the general assembly of the company using modern communication technology? (If not, explain)
No. There were no such initiatives by the shareholders.

16. Have the conditions been defined for participating at the general assembly by voting through proxy voting (irrespective of whether this is permitted pursuant to the law and articles of association), such as registra-tion for participation in advance, certification of powers of attorney etc.? (If so, explain)
No.

17. Did the management of the company publish the decisions of the general assembly of the company?
Yes.

18. Did the management of the company publish the data on legal actions, if any, challenging those decisions? (If not, explain)
No. There were no law suits contesting Decisions by the General Meeting.

MANAGEMENT AND SUPERVISORY BOARD

NAMES OF MANAGEMENT BOARD MEMBERS AND THEIR FUNCTIONS
Božo Prka, President;
Gabriele Pace, Deputy President;
Ivan Gerovac, Member;
Darko Drozdek, Member;
Dinko Lucić, Member;
Andrea Pavlović, Member;
Draženko Kopljar, Member.

NAMES OF SUPERVISORY BOARD AND THEIR FUNCTIONS
Giovani Gilli, President from 31 March 2014;
Draginja Đurić, Deputy President from 31 March 2014;
Paolo Sarcinelli, Member from 29 March 2013;
Christophe Velle, Member from 16 October 2013;
Fabrizio Centrone, Member from 3 December 2015;
Antonio Nucci, Member from 3 December 2015;
Branko Jeren, Member from 20 April 2013.
During 2015 mandate in Supervisory Board expired for following members:
Massimo Malagoli, Member, 9 July 2015 (resignation);
Nóra Kocsis, Member, 15 June 2015 (resignation).

19. Did the Supervisory or Management Board adopt a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board members, regularly and in a timely manner? (If not, explain)
Yes. The schedule of the Supervisory Board meetings for the current year is determined in advance. Reports that are regularly and timely put at the disposal of Supervisory Board members are defined by the individual decisions of the Supervisory Board and by law.

20. Did the Supervisory or Management Board pass its internal code of conduct? (If not, explain)
Yes.

21. Is the Supervisory Board composed of, i.e. are non-executive directors of the Management Board mostly independent members? (If not, explain)
No. The Supervisory Board have one independent member as required by provisions of Credit Institutions Act.

22. Is there a long-term succession plan in the company? (If not, explain)
Yes.

23. Is the remuneration received by the members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company's business performance? (If not, explain)
Yes.

24. Is the remuneration to the members of the Supervisory or Management Board determined by a decision of the general assembly or in the articles of association of the company? (If not, explain)
Yes.

25. Have detailed records on all remunerations and other earnings of each member of the Supervisory or Management Board received from the company or from other persons related to the

company, including the structure of such remuneration, been made public? (If not, explain)
Yes. Data on all remunerations to the Supervisory Board members are published in the decisions of the General Meeting. Total remunerations paid to the members of the Management Board, key management employees and Bank's related persons are disclosed in the Annual Report which is prepared in accordance with the International Financial Reporting Standards as adopted by EU. The Annual report is available on the Bank's website.

26. **Does every member of the Supervisory or Management Board inform the company of each change relating to their acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the company's shares, not later than five trading days, after such a change occurs (If not, explain)**
Yes. During 2015, there was no change (increase/decrease) the number of shares held by Management and Supervisory Board members.

27. **Were all transactions involving members of the Supervisory or Management Board or persons related to them and the company and persons related to it clearly presented in reports of the company? (If not, explain)**
Yes. The Bank has not performed specific commercial transactions with the Supervisory or Management Board members. The Bank has commercial (deposits-loans) transactions with the members of Intesa Sanpaolo Group which has a representative on the Supervisory Board. All transactions are market-based in terms and conditions. In the Annual Report, the Bank discloses a separate note on related party transactions which is prepared in accordance with the International Financial Reporting Standards as adopted by EU. The Annual Report is available on the Bank's website.

28. **Are there any contracts or agreements between members of the Supervisory or Management Board and the company?**
Yes, but only within the ordinary scope of business (e.g. employment contracts, deposit contracts, etc.).

29. **Did they obtain prior approval of the Supervisory or Management Board? (If not, explain)**
Yes, to the extent where such prior approval was needed.

30. **Are important elements of all such contracts or agreements included in the annual report? (If not, explain)**
Yes, to the extent required.

31. **Did the Supervisory or Management Board establish the appointment committee?**
Yes.

32. **Did the Supervisory or Management Board establish the remuneration committee?**
Yes.

33. **Did the Supervisory or Management Board establish the audit committee?**
Yes.

34. **Was the majority of the committee members selected from the group of independent members of the Supervisory Board? (If not, explain)**
No. In accordance to Credit Institutions Act the Supervisory Board have one independent member.

35. **Did the committee monitor the integrity of the financial information of the company, especially the correctness and consistency of the accounting methods used by the company and the group it belongs to, including the criteria for the consolidation of financial reports of the companies belonging to the group? (If not, explain)**
Yes.

36. **Did the committee assess the quality of the internal control and risk management system, with the aim of adequately identifying and publishing the main risks the company is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (If not, explain)**
Yes.

37. **Has the committee been working on ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and**

CODE OF CORPORATE GOVERNANCE – ANNUAL QUESTIONNAIRE (continued)

the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (If not, explain)
Yes.

38. If there is no internal audit system in the company, did the committee consider the need to establish it? (If not, explain)
No, since internal audit function is established.

39. Did the committee monitor the independence and impartiality of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company is paying for services provided by external auditors? (If not, explain)
Yes.

40. Did the committee monitor nature and quantity of services other than audit, received by the company from the audit company or from persons related to it? (If not, explain)
No. Limitations on providing services other than audit are regulated by law.

41. Did the committee prepare rules defining which services may not be provided to the company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (If not, explain)
No. Limitations on providing services other than audit are regulated by law.

42. Did the committee analyse the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (If not, explain)
Yes.

43. Did the audit committee ensure the submission of high quality information by dependent and associated companies, as well as by third parties (such as expert advisors)? (If not, explain)
Yes.

44. Was the documentation relevant for the work of the Supervisory Board submitted to all members on time? (If not, explain)
Yes.

45. Do Supervisory Board or Management Board meeting minutes contain all adopted decisions, accompanied by data on voting results? (If not, explain)
Yes.

46. Has the Supervisory or Management Board evaluated their work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?
Yes.

47. Did the company publish a statement on the remuneration policy for the management, Management Board and the Supervisory Board as part of the annual report? (If not, explain)
No. There is no such legal obligation. Statement on the remuneration policy is disclosed separately of annual report.

48. Is the statement on the remuneration policy for the management or executive directors permanently available on the website of the company? (If not, explain)
Yes.

49. Are detailed data on all earnings and remunerations received by each member of the management or each executive director from the company published in the annual report of the company? (If not, explain)
Yes. Total remunerations paid to member of the Management Board, key management employees and Bank's related persons are disclosed in the Annual Report, which is prepared in accordance with the International Financial Reporting Standards as adopted by EU. The Annual report is available on the Bank's website.

50. Are all forms of remuneration to the members of the management, Management Board and Supervisory Board, including options and other benefits of the management, made public, broken down by items and persons, in the annual report of the company? (If not, explain)
Yes. Total remunerations paid to the members of the Management Board and key management are disc-

losed within Annual report in aggregated amounts. Remunerations to members of the Supervisory Board are disclosed with in General Assembly decisions.

51. Are all transactions involving members of the management or executive directors, and persons related to them, and the company and persons related to it, clearly presented in reports of the company? (If not, explain)
Yes, in accordance with valid accounting standards.

52. Does the report to be submitted by the Supervisory or Management Board to the general assembly include, apart from minimum information defined by law, the evaluation of total business performance of the company, of activities of the management of the company, and a special comment on its cooperation with the management? (If not, explain)
Yes.

AUDIT AND MECHANISMS OF INTERNAL AUDIT

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

54. Is the external auditor of the company related with the company in terms of ownership or interests?
No.

55. Is the external auditor of the company providing to the company, him/herself or through related persons, other services?
No.

56. Has the company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (If not, explain)
No.

57. Does the company have internal auditors and an internal audit system established? (If not, explain)
Yes.

TRANSPARANCY AND THE PUBLIC OF ORGANIZATION OF BUSINESS

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

59. Did the company prepare the calendar of important events?
Yes.

60. Did the company establish mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it?
Yes.

61. Did the company establish mechanisms to ensure supervision of the flow of inside information and possible abuse thereof?
Yes.

62. Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the company or outside, shortcomings in the application of rules or ethical norms within the company? (If so, explain)
No.

63. Did the management of the company hold meetings with interested investors, in the last year?
No. The Bank has a stable shareholders structure and as a result, there was no need for additional meetings with the shareholders (investors) except the General Meeting.

64. Do all the members of the management, Management Board and Supervisory Board agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely truthful?
Yes.

Franciscan monastery library, Kloštar Ivanić

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

The Management Board of the Bank is required to prepare annual report and separate and consolidated financial statements for each financial year which give a true and fair view of the financial position of the Bank and Group and of the results of their operations and cash flows, in accordance with International Financial Reporting Standards as adopted by EU, 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 the Group 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 and the Group will continue in business.

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

The Management Board is also responsible for the preparation and fair presentation of the supplementary information 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).

The Management Board is responsible for the preparation and content of annual report in accordance with the requirements of Article 18 of the Accounting Act of the Republic of Croatia. The annual report presented on pages 1 to 46 has been approved by the Management Board as confirmed by the signatures below.

The separate and consolidated financial statements set out on pages 50 to 191, which have been prepared in accordance with International Financial Reporting Standards as adopted by EU, as well as the supplementary information on pages 192 to 216 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 9 February 2016 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of Privredna banka Zagreb dd

Božo Prka, M.S.
President of the Management Board

Gabriele Pace
Vice President of the Management Board

Independent auditors’ report

Independent auditors' report to the shareholders of Privredna banka Zagreb dd

We have audited the accompanying separate financial statements of Privredna banka Zagreb dd ("the Bank") and consolidated financial statements of Privredna banka Zagreb Group ("the Group"), which comprise the statements of financial position as at 31 December 2015, the income statements, statements of comprehensive income, statements of changes in equity and statements of 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 Separate and Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate and consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's and Group's preparation and fair presentation of the separate and consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and Group'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 separate and consolidated financial statements.

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

Independent auditors' report to the shareholders of Privredna banka Zagreb dd (continued)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2015 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 30 May 2008 (Official Gazette 62/08), the Management Board of the Bank has prepared the schedules ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2015, and of the income statement, statement of changes in equity and cash flow statement for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the financial statements. The Schedules and the Reconciliation are presented on pages 212 to 236. The Management Board of the Bank is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements of the Bank set out on pages 72 to 211 on which we have expressed an opinion as set out above. Pursuant to legal and regulatory requirements, as applicable for reporting periods to 31 December 2015, the Management Board of the Bank has prepared the annual report set out on pages 1 to 65. The Management Board of the Bank is responsible for the preparation and content of the annual report in accordance with Article 18 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14). Our responsibility is to report on the consistency of the information in the annual report with the audited financial statements based on procedures we considered appropriate to perform in accordance with Article 17 of the Accounting Act (Official Gazette 109/07, 54/13, 121/14). The information given in the accompanying annual report for 2015 is consistent with the financial statements set out on pages 72 to 211.

Zagreb, 9 February 2016

KPMG *Croatia d.o.o. za reviziju*
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

For and on behalf of KPMG Croatia d.o.o. za reviziju:

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

Goran Horvat

Director, Croatian Certified Auditor

Income statement

For the year ended 31 December

(in HRK million)	Notes	GROUP 2015	GROUP Restated* 2014	BANK 2015	BANK 2014
Interest income	6	3,445	3,589	3,010	3,126
Interest expense	6	(930)	(1,135)	(817)	(994)
Net interest income		**2,515**	**2,454**	**2,193**	**2,132**
Fee and commission income	7a	1,521	1,473	758	705
Fee and commission expense	7b	(293)	(282)	(109)	(114)
Net fee and commission income		**1,228**	**1,191**	**649**	**591**
Dividend income	8	5	1	170	15
Net trading income and net gains on translation of monetary assets and liabilities	9	82	167	72	154
Other operating income	10	145	125	77	52
Total operating income		**3,975**	**3,938**	**3,161**	**2,944**
Impairment losses on loans and advances to customers	13a	(148)	(558)	(149)	(526)
Loss recognized on CHF conversion	21f	(1,311)	-	(1,311)	-
Other impairment losses and provisions	13b	(3)	(86)	4	(77)
Personnel expenses	11	(851)	(874)	(695)	(722)
Depreciation and amortisation	14	(174)	(181)	(117)	(118)
Other operating expenses	12	(1,045)	(1,017)	(683)	(677)
Share of profits from associates	24	24	21	-	-
Profit before income tax		**467**	**1,243**	**210**	**824**
Income tax expense	15	(97)	(254)	(17)	(181)
Profit for the year		**370**	**989**	**193**	**643**
Attributable to:					
Equity holders of the Bank		365	985	193	643
Non-controlling interests		5	4	-	-
		370	**989**	**193**	**643**

* Disclosed in note 4.

	Notes	GROUP 2015	GROUP 2014 in HRK	BANK 2015	BANK 2014 in HRK
Basic and diluted earnings per share	52	19.2	51.8	10.2	33.8

The accompanying accounting policies and notes on pages 80 to 211 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December

(in HRK million)	GROUP 2015	GROUP Restated 2014	BANK 2015	BANK 2014
Profit for the year	370	989	193	643
Other comprehensive income				
Items that are or may be reclassified to profit or loss				
Net change in fair value on available-for-sale financial assets	*113*	*36*	*104*	*15*
Net amount transferred to the income statement	*3*	*-*	*1*	*(5)*
	116	**36**	**105**	**10**
Deferred tax on available-for-sale financial assets (Notes 15e, 15f)	(23)	(7)	(21)	(2)
Other comprehensive income for the year, net of tax	**93**	**29**	**84**	**8**
Total comprehensive income for the year, net of tax	**463**	**1,018**	**277**	**651**

Attributable to:				
Equity holders of the Bank	458	1,014	277	651
Non-controlling interests	5	4	-	-
	463	**1,018**	**277**	**651**

The accompanying accounting policies and notes on pages 80 to 211 are an integral part of these financial statements.

Statement of financial position

As at 31 December

Assets	Notes	GROUP			BANK	
(in HRK million)		2015	Restated* 2014	Restated* 2013	2015	2014
Cash and current accounts with banks	16	9,995	7,631	4,643	9,143	6,973
Balances with the Croatian National Bank	17	4,550	4,748	4,894	4,550	4,748
Financial assets at fair value through profit or loss	18	5,970	6,181	4,504	5,818	6,020
Derivative financial assets	19	4	2	7	4	2
Loans and advances to banks	20	3,450	5,585	6,039	2,966	5,107
Loans and advances to customers	21	50,985	51,187	52,583	44,186	44,543
Financial assets available for sale	22	1,118	588	110	293	116
Held-to-maturity investments	23	17	177	210	-	-
Investments in subsidiaries and associates	24	150	142	135	963	215
Intangible assets	25	182	164	160	106	90
Property and equipment	26	1,132	1,216	1,270	625	684
Investment property	27	23	24	25	10	11
Deferred tax assets	15c	141	144	156	100	98
Other assets	28	549	532	493	305	269
Tax prepayments		157	7	58	145	-
Total assets		**78,423**	**78,328**	**75,287**	**69,214**	**68,876**

* Disclosed in note 4.

The accompanying accounting policies and notes on pages 80 to 211 are an integral part of these financial statements.

As at 31 December

Liabilities (in HRK million)	**Notes**	**GROUP** 2015	Restated* 2014	Restated* 2013	**BANK** 2015	2014
Current accounts and deposits from banks	29	1,083	1,299	1,047	1,373	1,460
Current accounts and deposits from customers	30	58,180	55,346	51,100	52,815	50,387
Derivative financial liabilities	19	15	1	5	15	1
Interest-bearing borrowings	31	3,884	5,569	7,599	2,838	4,538
Subordinated liabilities	32	2	2	3	-	-
Other liabilities	33	1,438	1,416	1,453	316	319
Accrued expenses and deferred income	34	238	308	283	123	190
Provisions for liabilities and charges	35	313	329	280	288	306
Deferred tax liabilities	15d	34	11	7	22	1
Current tax liability		11	24	15	-	14
Total liabilities		**65,198**	**64,305**	**61,792**	**57,790**	**57,216**
Equity						
Share capital	37a	1,907	1,907	1,907	1,907	1,907
Share premium	37b	1,570	1,570	1,570	1,570	1,570
Treasury shares	37c	(76)	(76)	(76)	(76)	(76)
Other reserves	37e	466	466	472	302	302
Fair value reserve	37f	108	15	(14)	86	2
Retained earnings	37g	9,553	9,701	9,200	7,635	7,955
Merger reserve	37h	(348)	400	400	-	-
Total equity attributable to equity holders of the Bank		**13,180**	**13,983**	**13,459**	**11,424**	**11,660**
Non-controlling interests		**45**	**40**	**36**	**-**	**-**
Total equity		**13,225**	**14,023**	**13,495**	**11,424**	**11,660**
Total liabilities and equity		**78,423**	**78,328**	**75,287**	**69,214**	**68,876**

* Disclosed in note 4.

The accompanying accounting policies and notes on pages 80 to 211 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December

(in HRK million)	Notes	GROUP 2015	GROUP Restated* 2014	BANK 2015	BANK 2014
Cash flows from operating activities					
Profit before income tax		467	1,243	210	824
Impairment losses on loans and advances to customers	21c	148	558	149	526
Other impairment losses and provisions	13	3	86	(4)	77
Loss recognized on CHF conversion	21f	1,311	-	1,311	-
Gain on disposal of property and equipment and intangible assets	10	(13)	(3)	(4)	(1)
Depreciation and amortisation	14	174	181	117	118
Net (gains)/losses from securities at fair value through profit or loss		19	(1)	20	-
Share of profits from associates	24	(24)	(21)	-	-
Net interest income		(2,515)	(2,454)	(2,193)	(2,132)
Dividend income	8	(5)	(1)	(170)	(15)
		(435)	**(412)**	**(564)**	**(603)**
Decrease/(increase) in operating assets					
Balances with the Croatian National Bank		198	146	198	146
Loans and advances to banks		31	407	77	444
Loans and advances to customers		(1,333)	805	(1,116)	53
Financial assets at fair value through profit or loss and financial assets available for sale		(223)	(2,119)	109	(1,686)
Other assets		(31)	(45)	(46)	2
(Increase)/decrease in operating assets		**(1,358)**	**(806)**	**(778)**	**(1,041)**
Increase/(decrease) in operating liabilities					
Current accounts and deposits from banks		(216)	252	(87)	186
Current accounts and deposits from customers		3,121	4,363	2,568	4,047
Other liabilities		(37)	(18)	(58)	29
Increase/(decrease) in operating liabilities		**2,868**	**4,597**	**2,423**	**4,262**
Interest received		3,521	3,622	3,023	3,110
Interest paid		(1,217)	(1,252)	(957)	(1,081)
Dividends received		21	15	170	15
Net cash inflow from operating activities before income taxes paid		**3,400**	**5,764**	**3,317**	**4,662**
Income tax paid		(257)	(185)	(178)	(104)
Net cash from operating activities		**3,143**	**5,579**	**3,139**	**4,558**

* Disclosed in note 4.

The accompanying accounting policies and notes on pages 80 to 211 are an integral part of these financial statements.

For the year ended 31 December

(in HRK million)	Notes	GROUP 2015	GROUP Restated* 2014	BANK 2015	BANK 2014
Cash flows from investing activities					
Purchase of property and equipment and intangible assets	25, 26	(137)	(208)	(73)	(113)
Disposal of property and equipment and intangible assets		43	80	4	2
Redemption of held-to-maturity investments		160	33	-	-
Purchase of subsidiaries	24	(748)	-	(748)	-
Net cash used in investing activities		**(682)**	**(95)**	**(817)**	**(111)**
Cash flows from financing activities					
Dividends paid to equity holders of the parent		(513)	(490)	(513)	(490)
Decrease in interest-bearing borrowings and subordinated liabilities		(1,685)	(2,031)	(1,700)	(1,141)
Net cash used in financing activities		**(2,198)**	**(2,521)**	**(2,213)**	**(1,631)**
Net increase/(decrease) in cash and cash equivalents		**263**	**2,963**	**109**	**2,816**
Cash and cash equivalents as at 1 January		12,733	9,743	11,917	9,074
Effect of exchange rate fluctuations on cash held		(7)	27	(7)	27
Cash and cash equivalents as at 31 December	38	**12,989**	**12,733**	**12,019**	**11,917**

* Disclosed in note 4.

The accompanying accounting policies and notes on pages 80 to 211 are an integral part of these financial statements.

Statement of changes in equity

GROUP (in HRK million)	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	Merger reserve	Non-controlling interest	**Total**
Balance as at 1 January 2015	**1,907**	**1,570**	**(76)**	**466**	**15**	**9,701**	**400**	**40**	**14,023**
Other comprehensive income									
Net change in fair value on available-for-sale financial assets	-	**-**	**-**	**-**	113	**-**	**-**	**-**	**113**
Net amount transferred to the income statement	-	-	-	-	3	-	-	-	3
Deferred tax on available-for-sale financial assets (Note 15f)	-	-	-	-	(23)	-	-	-	(23)
Total other comprehensive income	**-**	**-**	**-**	**-**	**93**	**-**	**-**	**-**	**93**
Profit for the year	-	-	-	-	-	365	-	5	**370**
Total comprehensive income for the year	-	-	-	-	**93**	**365**	**-**	**5**	**463**
Dividends paid	-	-	-	-	-	(513)	-	-	**(513)**
Acquisition of Intesa Sanpaolo Banka dd Bosnia (note 24)	-	**-**	**-**	**-**	**-**	**-**	(748)	**-**	**(748)**
Transactions with owners, recorded directly in equity	-	-	-	-	-	**(513)**	**(748)**	**-**	**(1,261)**
Balance as at 31 December 2015	**1,907**	**1,570**	**(76)**	**466**	**108**	**9,553**	**(348)**	**45**	**13,225**
Balance as at 1 January 2014	**1,907**	**1,570**	**(76)**	**375**	**(14)**	**9,010**	**-**	**-**	**12,772**
Acquisition of Intesa Sanpaolo Banka dd Bosnia (note 24)	-	-	-	97	-	190	400	36	**723**
Balance as at 1 January 2014, restated	**1,907**	**1,570**	**(76)**	**472**	**(14)**	**9,200**	**400**	**36**	**13,495**
Other comprehensive income									
Net change in fair value on available-for-sale financial assets	-	-	-	-	36	-	-	-	**36**
Deferred tax on available-for-sale financial assets (Note 15f)	-	**-**	**-**	**-**	(7)	**-**	**-**	**-**	**(7)**
Transfer of other reserve into retained earnings	-	-	-	(6)	-	6	-	-	**-**
Total other comprehensive income	**-**	**-**	**-**	**(6)**	**29**	**6**	**-**	**-**	**29**
Profit for the year	-	-	-	-	-	985	-	4	989
Total comprehensive income for the year	**-**	**-**	**-**	**(6)**	**29**	**991**	**-**	**4**	**1,018**
Dividends paid	-	-	-	-	-	(490)	-	-	**(490)**
Transactions with owners, recorded directly in equity	**-**	**-**	-	**-**	**-**	**(490)**	**-**	**-**	**(490)**
Balance as at 31 December 2014, restated	**1,907**	**1,570**	**(76)**	**466**	**15**	**9,701**	**400**	**40**	**14,023**

The accompanying accounting policies and notes on pages 80 to 211 are an integral part of these financial statements.

BANK (in HRK million)	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	**Total**
Balance as at 1 January 2015	**1,907**	**1,570**	**(76)**	**302**	**2**	**7,955**	**11,660**
Other comprehensive income							
Net change in fair value on available-for-sale financial assets	-	-	-	-	104	-	**104**
Net amount transferred to the income statement	-	-	-	-	1	-	**1**
Deferred tax on available-for-sale financial assets (Note 15f)	-	-	-	-	(21)	-	**(21)**
Total other comprehensive income	-	-	-	-	**84**	-	**84**
Profit for the year	-	-	-	-	-	193	**193**
Total comprehensive income for the year	-	-	-	-	**84**	**193**	**277**
Dividends paid	-	-	-	-	-	(513)	**(513)**
Transactions with owners, recorded directly in equity	-	-	-	-	-	**(513)**	**(513)**
Balance as at 31 December 2015	**1,907**	**1,570**	**(76)**	**302**	**86**	**7,635**	**11,424**
Balance as at 1 January 2014	**1,907**	**1,570**	**(76)**	**308**	**(6)**	**7,796**	**11,499**
Other comprehensive income							
Net change in fair value on available-for-sale financial assets	-	-	-	-	15	-	**15**
Net amount transferred to the income statement	-	-	-	-	(5)	-	**(5)**
Deferred tax on available-for-sale financial assets (Note 15e)	-	-	-	-	(2)	-	**(2)**
Release of revaluation reserve	-	-	-	(6)	-	6	-
Total other comprehensive income	-	-	-	**(6)**	**8**	**6**	**8**
Profit for the year	-	-	-	-	-	643	643
Total comprehensive income for the year	-	-	-	**(6)**	**8**	**649**	**651**
Dividends paid	-	-	-	-	-	(490)	**(490)**
Transactions with owners, recorded directly in equity	-	-	-	-	-	**(490)**	**(490)**
Balance as at 31 December 2014	**1,907**	**1,570**	**(76)**	**302**	2	**7,955**	**11,660**

The accompanying accounting policies and notes on pages 80 to 211 are an integral part of these financial statements.

Notes to the financial statements

1 Reporting entity

Privredna banka Zagreb dd ("the Bank") is a joint stock company incorporated and domiciled in the Republic of Croatia. The registered office is at Radnička cesta 50, Zagreb. The Bank is the parent of the Privredna banka Zagreb Group ("the Group"), which has operations in the Republic of Croatia and Bosnia and Herzegovina. The Group provides a full range of retail and corporate banking services, as well as treasury, investment banking, asset management and leasing services.

These financial statements comprise both the separate and the consolidated financial statements of the Bank as defined in International Accounting Standard 27 *Consolidated and Separate Financial Statements.*

A summary of the Group's principal accounting policies are set out below.

2 Basis of preparation

a) Statement of compliance

These separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union ("IFRS").

These separate and consolidated financial statements were authorised for issue by the Management Board on 9 February 2016 for approval by the Supervisory Board.

b) Basis of measurement

The separate and consolidated financial statements are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss and 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 stated at amortised or historical cost.

c) Functional and presentation currency

The separate and consolidated financial statements are presented in Croatian kuna ("HRK") which is the functional and presentation currency of the Bank and the Group. Amounts are rounded to the nearest million, unless otherwise stated.

The exchange rates used for translation at 31 December 2015 amounted to EUR 1 = HRK 7.635, CHF 1= HRK 7.060, USD 1 = HRK 6.992 and BAM 1 = HRK 3.915 (31 December 2014: EUR 1 = HRK 7.661, CHF 1= HRK 6.368 , USD 1 = HRK 6.302 and BAM 1 = HRK 3.932).

During 2015 and 2014 BAM (official currency of Bosnia and Herzegovina) was pegged with Euro at 1 EUR = 1.95583 BAM.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period and other comprehensive income. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Information about judgments made by management in the application of IFRS that have a significant effect on the financial statements and information about estimates with a significant risk of resulting in a material adjustment in the next financial year are included in Note 5.

e) Acquisition of Intesa SanPaolo Banka dd, Bosnia and Herzegovina

The structure of the Group was changed following a Group reorganisation in 2015.

As of 20 July 2015 the Bank purchased a 94.9359% stake in Intesa Sanpaolo Banka dd Bosnia and Herzegovina from its parent company Intesa Sanpaolo Holding International S.p.A. Since the ultimate owner of both banks is Intesa Sanpaolo s.p. A. the transaction is carried out in accordance with the requirements of IFRS for transactions under common control. In its consolidated financial statements the Bank restated its comparatives and adjusted its current reporting period before the date of transaction as if the combination had occurred before the start of the earliest period presented. The excess of consideration paid over the carrying value of share capital at the time of combination is treated as a merger reserve in equity. The transaction costs for the combination were expensed in the income statement. For details, please refer to Note 4 Restatement of comparative information and note 24 Investment in subsidiaries and associates.

f) Financial crisis impact

The situation in global financial markets and impact on Croatia

Global developments in 2015 were marked by uncertainty surrounding the slowdown in the Chinese economic growth, expectations of a potential shift in the FED's monetary policy, continuation of the ECB's expansionary monetary policy, decrease in the prices of oil and key raw materials as well as the Greek debt crisis, but also the refugee crisis, especially pronounced by the end of the year.

Current estimate anticipates a 3.1% growth of World GDP in 2015, with a gradual acceleration of growth to 3.5% in 2016. Advanced economies performance remains diverse: US economy grew by around 2.6% in 2015, and is expected to reach 2.8% in 2016, whereas EA is slowly emerging from 1.6% in 2015 to 1.8% in 2016.

The EU economic performance, the most interesting for Croatia as a traditional export market, has benefited in 2015, and will benefit in 2016 from low oil prices, considerable depreciation of the euro, the ECB decision to expand the size and composition of its outright asset purchase as well as the European Commission Investment Plan. However, the impact of the above-mentioned factors will be slightly lower in 2016, while the slowdown of the developing economies and geopolitical tensions represent negative risks that should not be overlooked. In 2015, for the first time since the beginning of the crisis, all the EU countries except for Greece recorded a positive GDP growth, with the same forecast for 2016.

In 2015, the Croatian financial and monetary system operated in an environment of low (or even historically lowest) interest rates, reduced costs of funding, ample liquidity and persistent deleveraging. The central bank maintained generous liquidity of the system and stability of the exchange rate against the euro. However, 2015 will be remembered as a year of a forced conversion of loans pegged to the Swiss franc into loans pegged to the euro, where banks born losses totalling around 8 billion kuna.

3 Significant accounting policies

a) Basis of consolidation

i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In reassessing its control conclusion, the Group has taken into consideration the structured entities and entities with receivables in default for which it reassessed whether the key decisions are made by the Group and whether the Group is exposed to variability of returns from those entities. Business combinations under common control are accounted for based on carrying values, with any effects directly recognised in equity.

Acquisitions on or after 1 January 2010

- The Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the total is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Acquisitions prior to 1 January 2010

For acquisitions prior to 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in the income statement. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisitions.

ii) Non-controlling interests

Non-controlling interests in the net assets (excluding goodwill) of the consolidated subsidiaries are identified separately from the Group's equity therein. For each business combination, the Group elects to measure any non-controlling interests in the acquiree either at fair value or at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain is recognised in the income statement.

iii) Subsidiaries

Financial statements are prepared for the Bank and the Group. Financial statements of the Group include consolidated financial statements of the Bank and its entities under control (subsidiaries). In the Bank's separate financial statements, investments in subsidiaries are accounted for at cost less impairment.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated in preparing the consolidated financial statements. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

iv) Associates

Associates are entities over which the Group has significant influence but no control. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition. In the Bank's separate financial statements investments in associates are accounted at cost less impairment.

The Group's share of its associates' post-acquisition gains or losses is recognised in the income statement and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

Dividends received from associates are treated as a decrease of investment in the associate in the Group's consolidated statement of financial position and as dividend income in the Bank's unconsolidated income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

v) Acquisition of entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that ultimately controls the Group are accounted for using book value accounting at the date of acquisition. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the financial statements of the acquired entities. The components of equity of the acquired entities are added to the same components within Group equity except for issued capital. Consolidated financial statements reflect the results of combining entities for all periods presented for which the entities were under the transferor's common control, irrespective of when the combination takes place.

3 Significant accounting policies (continued)

a) Basis of consolidation (continued)

vi) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments (refer to accounting policy 3 l Financial instruments) depending on the level of influence retained.

vii) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

viii) Fund management

The Group manages and administers assets held in mutual funds on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity (there were no such cases at the reporting date). Information about the Group's fund management activities is set out in Note 39.

b) Foreign currency

i) Foreign currency translation

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the mid-market exchange rate of the Croatian National Bank. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date on which the fair value was determined.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in the income statement, except for differences arising on the translation of available-for-sale equity instruments, which are recognised in other comprehensive income.

Changes in the fair value of securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences on monetary securities available for sale are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary securities denominated in foreign currency classified as available for sale are recognised directly in other comprehensive income along with other changes, net of deferred tax. The Group does not have qualifying cash flow hedges and qualifying net investment hedges as defined in International Accounting Standard 39 *Financial Instruments: Measurement and Recognition* ("IAS 39").

ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

c) Interest income and expense

Interest income and expense are recognised in the income statement as they occur for all interest-bearing financial instruments, including those measured at amortised cost and those available for sale, using the effective interest rate method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate for its assets, the Group does not consider future credit losses. The calculation includes all fees and percentage points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Such income and expense is presented as interest income or interest expense in the income statement.

Interest income and expense also include fee and commission income and expense in respect of loans and advances to customers and banks, interest-bearing borrowings, finance and operating leases, premium or discount amortisation as well as other differences between the initial carrying amount of an interest-bearing financial instrument and its value at maturity, recognised on an effective interest basis. Interest income on debt securities at fair value through profit or loss is recognised using the nominal coupon rate and included in interest income.

d) Fee and commission income and expense

Loan commitment fees for loans and advances that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities that are not likely to be drawn down are recognised over the term of the commitment. Fee and commission income and expense mainly comprise fees and commissions related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and asset management, and are recognised in the income statement upon performance of the relevant service, unless they have been included in the effective interest calculation.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part for itself, or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment fund management are recognised on an accruals basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

3 Significant accounting policies (continued)

e) Net trading income and net gains and losses on translation of monetary assets and liabilities

Net trading income and net gains and losses on translation of monetary assets and liabilities include spreads earned from foreign exchange spot trading, trading income from forward and swap contracts, realised and unrealised gains on securities at fair value through profit or loss and net gains and losses from the translation of monetary assets and liabilities denominated in foreign currency.

f) Other operating income

Other operating income includes net gains on disposal of securities classified as financial assets available for sale, net gains on disposal of property and equipment, rental income from investment property and assets under operating lease and other income.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised on a straight-line basis over the lease term.

g) Employee benefits

Employee entitlements to annual leave are recognised when they accrue. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

i) *Personnel social contributions*

According to local legislation, the Group is obliged to pay contributions to the Pension Fund and the State Health Care Fund. This obligation relates to full-time employees and provides for paying contributions in the amount of certain percentages determined on the basis of gross salary which are in the Republic of Croatia as follows:

	from April 2014	**up to April 2014**
Contributions to the Pension Fund	20.00%	20.00%
Contributions to the State Health Care Fund	15.00%	13.00%
Contributions to the Unemployment Fund	1.70%	1.70%
Injuries at work	0.50%	0.50%

The Group is also obliged to withhold contributions from the gross salary on behalf of the employee for the same funds. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefits in the income statement as they accrue.

ii) *Termination benefits*

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

iii) *Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

iv) *Share-based payment transactions*

The Group has a share-based payment agreement which entitle the key employees to receive the cash payment, based on the price of the equity instrument (cash-settled transactions). The liability is initially measured by reference to the fair value of equity instruments at the grant date and remeasured until settlement. The fair value is determined as the market value of shares. The cost of cash-settled transactions is recognised over the period in which the performance and/or service conditions are fulfilled (refer to Note 39).

h) Direct acquisition costs related to housing savings

Direct acquisition expenses related to housing savings contracts are deferred, to the extent that they are estimated to be recoverable, and amortised to the income statement on a straight-line basis over the life of the related contracts.

i) Dividend income

Dividend income on equity securities is credited to the income statement when the right to receive the dividend is established except for dividend income from associates which is on consolidation credited to the carrying values of investments in associates in the Group's statement of financial position.

j) Income tax

The income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

i) Current income tax

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

ii) Deferred income tax

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 reporting date, to recover or settle the carrying amount of its assets and liabilities, based on tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

3 Significant accounting policies (continued)

k) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with remaining maturity of less than 90 days, including cash and current accounts with banks and loans and advances to banks up to 90 days.

l) Financial instruments

i) Recognition

The Group initially recognises loans and advances and other financial liabilities on the date at which they are originated, i.e. advanced to borrowers or received from lenders.

Regular way transactions with financial instruments are recognised at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset or liability is not recognised until the settlement date, changes in fair value of the underlying asset or liability are recognised starting from the trade date. All other financial assets and liabilities (derivatives) are recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

ii) Classification

Financial instruments are classified in categories depending on the purpose for which the Group initially acquired the financial instrument or upon reclassification and in accordance with the Group's investment strategy. Financial assets and financial liabilities are classified in the following portfolios: "at fair value through profit or loss"; "held to maturity"; "available for sale"; or "loans and receivables" and "other financial liabilities". The main difference between the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements as described below.

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

This category has two sub-categories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the short term, for the purpose of short-term profit-taking, or designated as such by management.

The Group designates financial assets and liabilities at fair value through profit or loss when:

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

Financial instruments at fair value through profit or loss include debt and equity securities and units in investment funds, as well as derivatives.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest rate method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investments as held-to-maturity for the current and the following two financial years. Held-to-maturity investments comprise debt securities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

(a) those that the Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

(b) those that the Group upon initial recognition designates as available for sale; or

(c) those for which the Group may not recover substantially all of the initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans and receivables include loans and advances to banks, loans and advances to customers, finance lease receivables, receivables from operating leases, obligatory reserve with the Croatian National Bank and trade and other receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Financial assets designated as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include debt and equity securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not held for trading or designated at fair value through profit or loss.

iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets, that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and consideration received (including any new asset obtained less any new liability assumed) is recognised in the income statement. In addition, any cumulative gain or loss that had been recognised in other comprehensive income is also recognised in the income statement.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. If transfer does not result in derecognition because the Group retained all or substantially all risks and rewards of ownership, the assets are not derecognised and liabilities secured with collateral are recognised in the amount of consideration received.

3 Significant accounting policies (continued)

l) Financial instruments (continued)

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. If the terms of a financial liability are significantly modified, the Group will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions. Realised gains and losses from the disposal of financial instruments are calculated using the weighted average cost method.

iv) Reclassification

No transfers of derivatives and financial instruments initially designated as at fair value through profit and loss are allowed to other portfolios. Financial assets held for trading may be reclassified from this category in the case when both of the following two conditions are met: a change in the intended purpose of the assets and an extraordinary event. In such case, the fair value at the reclassification date becomes the new cost/amortised cost. Reclassification is possible to the available-for-sale portfolio, the held-to-maturity portfolio and the loans and receivables portfolio. Transfers from other portfolios to the portfolio at fair value through profit and loss are not possible.

Financial asset classified as available for sale that would have met the definition of loans and receivables (if it had not been designated as available for sale) may be reclassified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in other comprehensive income shall be amortised to profit or loss over the remaining life of the asset using the effective interest method.

v) Offsetting of financial instruments

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

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

vi) Initial and subsequent measurement

When a financial asset or financial liability is recognised initially, the Group measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs which are directly attributable to the acquisition or issue of the financial asset or financial liability. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are immediately charged to the income statement.

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

Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortised cost (less any impairment for the assets) using the effective interest method.

vii) Gains and losses

Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss as well as all related realised gains and losses arising upon a sale or other derecognition of such assets and liabilities are recognised in the income statement.

Gains and losses from a change in the fair value of available-for-sale financial assets are recognised directly in a fair value reserve in other comprehensive income, net of deferred tax, and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on available-for-sale monetary assets are recognised in the income statement. Impairment losses on non-monetary available-for-sale assets are also recognised in the income statement. Foreign exchange differences on non-monetary financial assets available for sale are recognised in other comprehensive income, net of deferred tax. Dividend income is recognised in the income statement. Upon sale or other derecognition of available-for-sale financial assets, any cumulative gains or losses are transferred from other comprehensive income to the income statement.

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in the income statement, when a financial instrument is derecognised or when its value is impaired.

viii) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

ix) Fair value measurement principles

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

When available, the Group measures the fair value of an instrument using the quoted price in an active market for the instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques (except for certain unquoted equity securities). Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

3 Significant accounting policies (continued)

l) Financial instruments (continued)

ix) Fair value measurement principles (continued)

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.
The fair values of quoted investments are based on current closing bid prices.
The fair value of non-exchange-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

x) Impairment of financial assets

Impairment of financial assets identified as impaired

a) Financial assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets not carried at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

i) significant financial difficulty of the borrower or issuer;
ii) a breach of contract, such as a default or delinquency in interest or principal payments;
iii) the restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider;
iv) significant restructuring due to financial difficulty or expected bankruptcy;
v) the disappearance of an active market for the financial asset because of financial difficulties;
vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for the individual financial assets in the group.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.
If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.
When possible, the Bank seeks to restructure loans rather than to take possession of collateral. If the terms of the financial assets are renegotiated or modified or an existing financial asset is replaced with the new one due to

financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated assets are substantially different, then the contractual rights to cash flows from the original financial assets are deemed to have expired. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective assessment, calculated using the loan's original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. Those individually significant assets which are not identified as impaired are subsequently included in the basis for collective impairment assessment. Loans and advances to customers and held-to-maturity investments that are not individually significant are collectively assessed for impairment by grouping the assets on the basis of similar credit risk characteristics (i.e. on the basis of the Group's internal rating system that considers asset type, collateral type, past-due status and other relevant factors).

b) Financial assets carried at fair value

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired. In general, the Group considers a decline of 20% to be significant and a period of nine months to be prolonged. However, in specific circumstances a smaller decline or a shorter period may be appropriate. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is subsequently recognised in equity.

c) Financial assets carried at cost

These include equity securities classified as available for sale for which there is no reliable fair value. The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

An impairment loss is calculated as the difference between the carrying amount of the financial asset and the present value of expected future cash receipts discounted by the current market interest rate for similar financial assets. Impairment losses on such instruments, recognised in the income statement, are not subsequently reversed through the income statement.

3 Significant accounting policies (continued)

l) Financial instruments (continued)

Impairment of financial assets not identified as impaired

If no objective evidence of impairment exists for a financial asset, whether significant or not, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment that has been incurred but not reported ("IBNR"). Assets that are assessed for specific impairment on individual or collective basis, and for which an impairment loss is or continues to be recognised, are not included in the collective assessment of IBNR impairment.

In assessing collective impairment for IBNR, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's internal rating system, which considers asset type, counterparty type, and other relevant factors). In assessing IBNR impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries, and the amount of loss incurred, adjusted for management's judgment and current economic conditions. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

m) Derivative financial instruments

Derivative financial instruments are initially recognised in the statement of financial position in accordance with the policy for initial recognition of financial instruments and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and options pricing models, as appropriate.

All derivatives are carried as assets when their fair value is positive and as liabilities when negative. Changes in the fair value of derivatives and gains and losses on derivatives based on securities are included in the income statement under "Net trading gains from forward foreign exchange contracts and swaps". All derivatives are classified as held for trading.

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

The Group has receivables and liabilities originating in HRK, which are linked to foreign currencies with a one-way currency clause (disclosed as other embedded derivatives in Note 18). Due to this clause, the Group has an option to revalue the asset by the higher of the foreign exchange rate valid as of the date of repayments of the receivables by the debtors, or the foreign exchange rate valid as of the date of origination of the financial instrument. In case of a liability linked to this clause, the counterparty has this option. Due to the specific conditions of the market in the Republic of Croatia, the fair value of this option cannot be calculated given forward rates for Croatian kuna for periods over 9 months are generally not available. As such, the Group revalues its receivables and liabilities linked to this clause by the agreed reference rate valid at the reporting date or foreign exchange rate agreed through the option (rate valid at origination), whichever is higher.

Derivative financial instruments include foreign exchange forward contracts, foreign exchange swaps and embedded derivatives with a one-way currency clause.

n) Sale and repurchase agreements

The Group enters into purchases and sales of securities under agreements to resell or repurchase substantially identical securities at a certain date in the future at a fixed price. Investments purchased subject to such commitments to resell them at future dates are not recognised in the statement of financial position. The amounts paid are recognised as loans and advances to either banks or customers. The receivables are presented as collateralised by the underlying security. Securities sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of the securities are reported as collateralised liabilities to either banks or customers.

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

o) Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted at cost less impairment in the separate financial statements of the Bank. Investments in subsidiaries are fully consolidated in the consolidated financial statements whilst investments in associates are accounted for under the equity method.

p) Interest-bearing borrowings and subordinated debt

Interest-bearing borrowings and subordinated debt are initially recognised at their fair value, less attributable transaction costs. Subsequent to initial recognition, these are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

q) Current accounts and deposits from banks and customers

Current accounts and deposits are initially measured at fair value plus transaction costs, and subsequently stated at their amortised cost using the effective interest method.

r) Leases

Finance - Group as lessor

Leases where the Group, as lessor, transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. When assets are leased under finance lease arrangements, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Initial direct costs, such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance lease receivables are included in the statement of financial position within loans and advances to customers.

Operating - Group as lessor

The Group, as lessor, classifies all leases other than finance leases as operating leases. Operating leases are included in the statement of financial position within property and equipment at cost net of accumulated depreciation. Such assets are depreciated over their expected useful lives which are based on the lease term. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Operating lease receivables are included in loans and advances to customers.

3 Significant accounting policies (continued)

r) Leases (continued)

Operating - Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating lease arrangements. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included in other operating expenses.

s) Property and equipment

Property and equipment are stated at historical cost or deemed cost less accumulated depreciation and impairment losses. Historical cost includes its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Property and equipment are tangible items that are held for use in the provision of services, for rental or other administrative purposes.

Subsequent cost is included in the asset's carrying amount or is recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the period in which they have incurred.

Assets not yet brought into use are not depreciated until the relevant assets are completed and put into operational use and reclassified to the appropriate category of property and equipment.

Depreciation is provided on all assets except land and assets not yet brought into use on a straight-line basis at prescribed rates designed to write-off the cost over the estimated useful life of the asset. The estimated useful lives are as follows:

Buildings	40 years
Office furniture	5 years
Computers	4 years
Motor vehicles	5 years
Equipment and other assets	2 to 10 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

When the use of property changes from owner-occupied to rented, the property is reclassified to investment property.

When assets are sold or retired, their cost and accumulated depreciation are eliminated and any gain or loss resulting from their disposal is included in the income statement.

t) Intangible assets

Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. Subsequently, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight line basis over their estimated useful lives, which is 4 years.

The useful lives, residual values and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Goodwill

According to IFRS 3 "Business Combinations", any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired on the date of the acquisition is presented as goodwill and recognised as an asset. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or the group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro-rata to the other assets of the unit on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Upon the legal merger of the Bank's former subsidiary, Međimurska banka, goodwill formerly arising on consolidation was transformed into purchased goodwill recognised in the Bank's separate statement of financial position. Goodwill on acquisition of subsidiaries and purchased goodwill is included in intangible assets. Goodwill on acquisition of associates is included within investments in associates.

u) Investment property

Investment property is property held by the Group to earn rentals or for capital appreciation or for both, but not for sale in the ordinary course of business or for administrative purposes.

Investment property is measured initially at its cost, including transaction costs. Subsequently, investment property is stated at cost less accumulated depreciation and any impairment loss.

Investment property is depreciated on a straight-line basis over a period of 40 years.

Investment property is derecognised when either it has been disposed of or permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the income statement in the year of retirement or disposal.

v) Non-current assets and disposal groups classified as held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and the sale should be expected to be completed within one year from the date of classification.

3 Significant accounting policies (continued)

v) Non-current assets and disposal groups classified as held for sale (continued)

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, the assets (or disposal group of assets and liabilities) are measured at the lower of their carrying amount and fair value less cost to sell.

A non-current asset classified as held for sale is no longer depreciated. Impairment losses on initial classification as held for sale are included in the income statement, as well as gains and losses on subsequent measurement.

w) Impairment of non-financial assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested for impairment whenever there are indications that these may be impaired or at least annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are assessed at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of property and equipment, investment property and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Other previously impaired non-financial assets, other than goodwill, are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

x) Provisions

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

Provisions for liabilities and charges are maintained at the level that the Group's management considers sufficient for absorption of losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

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

y) Issued share capital

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

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

z) Treasury shares

When any Group company purchases the Bank's equity share capital (treasury shares), the consideration paid is deducted from equity attributable to the Bank's equity holders and classified as treasury shares until the shares are cancelled, reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of transaction costs, is included in equity attributable to the Bank's equity holders.

aa) Retained earnings

Any profit for the year retained after appropriations is classified within retained earnings.

bb) Off-balance-sheet commitments and contingent liabilities

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

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, being the premium received, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee becomes probable). Financial guarantees are included within Other liabilities.

cc) Managed funds for and on behalf of third parties

The Group manages funds for and on behalf of corporate and retail customers, banks and other institutions. These amounts do not represent the Group's assets and are excluded from the statement of financial position. For the services rendered the Group charges a fee. For details please refer to Note 37.

dd) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Management Board of the Bank (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Bank is organised into 3 primary operating segments: Retail, Corporate and Finance banking accompanied with a central supporting structure. Furthermore, the management of the Bank monitors performance of its subsidiaries on an individual basis. However, for the purpose of presentation of the operating segments for the Group, with the exception of PBZ Card and Intesa Sanpaolo Banka, all subsidiaries have been grouped into one segment. The primary segmental information is based on the internal reporting structure of business segments. Segmental results are measured by applying internal prices (Note 45).

3 Significant accounting policies (continued)

ee) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS are calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS are determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

ff) Foreclosed assets

The Group occasionally acquires real estate and other asset in settlement of certain loans and advances. Real estate and other asset are stated at the lower of the cost of the related loans and advances and the current fair value of such assets. The Group's intention is mainly to sell such assets, which, however, in certain limited cases may end up being used by the Group.

Gains or losses on disposal are recognised in the income statement.

gg) Standards, interpretations and amendments to published standards that are not yet effective and were not used in preparation of these financial statements

Several new and altered Standards and Interpretations have been issued by the International Accounting Standards Board ("IASB") and its International Financial Reporting Interpretations Committee, but are not applicable to entities reporting under IFRS as adopted by EU, for the year ended 31 December 2015, and have not been applied in preparation of these financial statements. The new and altered Standards and Interpretations endorsed by the EU are not relevant to the Group's business and hence will not affect its financial statements.

4 Restatement of comparative information

As further explained in note 24 of the financial statements in July 2015 the Bank acquired a 94.9 % in Intesa Sanpaolo Banka dd Bosnia and Herzegovina ("ISP BH") from Intesa Sanpaolo Holding International S.p.A.

Since the ultimate owner of both banks is Intesa Sanpaolo S.p.A. Turin the transaction is accounted for in accordance with the requirements of IFRS 3 for transactions under common control in line with the alternative accounting treatment allowed under IFRS 3. In the consolidated financial statements the transaction was accounted for as if the combination had occurred before the start of the earliest period presented, as presented in the column ISP BH, adjusted for consolidation and reclassification adjustments and intercompany balances and transactions. The comparative information was adjusted retrospectively.

In addition, certain comparative amounts have been reclassified to conform to the current period's presentation and are presented in the column other reclassifications. The effects on the Group's financial position, financial performance and cash flows are set out in the following tables:

Consolidated income statement

For the year ended 31 December 2014

(in HRK million)	Reported The Group	ISP BH*	Other reclassifications	Restated The Group
Interest income	3,270	311	8	3,589
Interest expense	(1,039)	(96)	-	(1,135)
Net interest income	**2,231**	**215**	**8**	**2,454**
Fee and commission income	1,394	79	-	1,473
Fee and commission expense	(262)	(20)	-	(282)
Net fee and commission income	**1,132**	**59**	**-**	**1,191**
Dividend income	1	-	-	1
Net trading income and net gains on translation of monetary assets and liabilities	160	7	-	167
Other operating income	125	-	-	125
Total operating income	**3,649**	**281**	**8**	**3,938**
Impairment losses on loans and advances to customers	(475)	(37)	(46)	(558)
Other impairment losses and provisions	(84)	(2)	-	(86)
Personnel expenses	(798)	(76)	-	(874)
Depreciation and amortisation	(175)	(14)	8	(181)
Other operating expenses	(979)	(68)	30	(1,017)
Share of profits from associates	21	-	-	21
Profit before income tax	**1,159**	**84**	**-**	**1,243**
Income tax expense	(245)	(9)	-	(254)
Profit for the year	**914**	**75**	**-**	**989**

Attributable to:				
Equity holders of the parent	914	71	-	985
Non-controlling interest	-	4	-	4
	914	**75**	**-**	**989**

(*) reported figures adjusted for intercompany transactions, consolidation and reclassification adjustments.

Notes to the financial statements
(continued)

As at 31 December 2014

Assets (in HRK million)	Reported The Group	ISP BH*	Other reclassifications	Restated The Group
Cash and current accounts with banks	6,973	658	-	7,631
Balances with the Croatian National Bank	4,748	-	-	4,748
Financial assets at fair value through profit or loss	6,180	1	-	6,181
Derivative financial assets	2	-	-	2
Loans and advances to banks	5,096	537	(48)	5,585
Loans and advances to customers	46,943	4,201	43	51,187
Financial assets available for sale	491	97	-	588
Held-to-maturity investments	177	-	-	177
Investments in subsidiaries and associates	142	-	-	142
Intangible assets	146	18	-	164
Property and equipment	1,179	55	(18)	1,216
Investment property	24	-	-	24
Deferred tax assets	144	-	-	144
Other assets	462	52	18	532
Tax prepayments	-	7	-	7
Total assets	**72,707**	**5,626**	**(5)**	**78,328**

(*) reported figures adjusted for intercompany transactions, consolidation and reclassification adjustments.

As at 31 December 2014

Liabilities (in HRK million)	Reported The Group	ISP BH*	Other reclassifications	Restated The Group
Current accounts and deposits from banks	1,090	209	-	1,299
Current accounts and deposits from customers	51,596	3,750	-	55,346
Derivative financial liabilities	1	-	-	1
Interest-bearing borrowings	4,774	800	(5)	5,569
Subordinated liabilities	-	2	-	2
Other liabilities	1,372	44	-	1,416
Accrued expenses and deferred income	308	-	-	308
Provisions for liabilities and charges	314	15	-	329
Deferred tax liabilities	4	7	-	11
Current tax liability	23	1	-	24
Total liabilities	**59,482**	**4,828**	**(5)**	**64,305**
Equity attributable to equity holders of the parent				
Share capital	1,907	-	-	1,907
Share premium	1,570	-	-	1,570
Treasury shares	(76)	-	-	(76)
Other reserves	369	97	-	466
Fair value reserve	15	-	-	15
Retained earnings	9,440	261	-	9,701
Merger reserve	-	400	-	400
Total equity attributable to equity holders of the Bank	**13,225**	**758**	**-**	**13,983**
Non-controlling interests	**-**	**40**	**-**	**40**
Total equity	**13,225**	**798**	**-**	**14,023**
Total liabilities and equity	**72,707**	**5,626**	**(5)**	**78,328**

(*) reported figures adjusted for intercompany transactions, consolidation and reclassification adjustments.

Notes to the financial statements
(continued)

As at 31 December 2013

Assets (in HRK million)	Reported The Group	ISP BH*	Other reclassifications	Restated The Group
Cash and current accounts with banks	4,039	604	-	4,643
Balances with the Croatian National Bank	4,894	-	-	4,894
Financial assets at fair value through profit or loss	4,503	1	-	4,504
Derivative financial assets	7	-	-	7
Loans and advances to banks	5,638	401	-	6,039
Loans and advances to customers	48,557	4,035	(9)	52,583
Financial assets available for sale	102	8	-	110
Held-to-maturity investments	210	-	-	210
Investments in subsidiaries and associates	135	-	-	135
Intangible assets	145	15	-	160
Property and equipment	1,233	61	(24)	1,270
Investment property	25	-	-	25
Deferred tax assets	156	-	-	156
Other assets	422	47	24	493
Tax prepayments	51	7	-	58
Total assets	**70,117**	**5,179**	**(9)**	**75,287**

(*) reported figures adjusted for intercompany transactions, consolidation and reclassification adjustments.

As at 31 December 2013

Liabilities (in HRK million)	Reported The Group	ISP BH*	Other reclassifications	Restated The Group
Current accounts and deposits from banks	930	117	-	1,047
Current accounts and deposits from customers	47,729	3,371	-	51,100
Derivative financial liabilities	5	-	-	5
Interest-bearing borrowings	6,709	899	(9)	7,599
Subordinated liabilities	-	3	-	3
Other liabilities	1,411	42	-	1,453
Accrued expenses and deferred income	283	-	-	283
Provisions for liabilities and charges	264	16	-	280
Deferred tax liabilities	-	7	-	7
Current tax liability	14	1	-	15
Total liabilities	**57,345**	**4,456**	**(9)**	**61,792**
Equity attributable to equity holders of the parent				
Share capital	1,907	-	-	1,907
Share premium	1,570	-	-	1,570
Treasury shares	(76)	-	-	(76)
Other reserves	375	97	-	472
Fair value reserve	(14)	-	-	(14)
Retained earnings	9,010	190	-	9,200
Merger reserve	-	400	-	400
Total equity attributable to equity holders of the Bank	**12,772**	**687**	**-**	**13,459**
Non-controlling interests	**-**	**36**	**-**	**36**
Total equity	**12,772**	**723**	**-**	**13,495**
Total liabilities and equity	**70,117**	**5,179**	**(9)**	**75,287**

(*) reported figures adjusted for intercompany transactions, consolidation and reclassification adjustments

Notes to the financial statements

(continued)

For the year ended 31 December2014

(in HRK million)	Reported The Group	ISP BH*	Other reclassifications	Restated The Group
Cash flows from operating activities				
Profit before income tax	1,159	84	-	1,243
Impairment losses on loans and advances to customers	475	37	46	558
Other impairment losses and provisions	84	2	-	86
Gain on disposal of property and equipment and intangible assets	(3)	-	-	(3)
Depreciation and amortisation	175	14	(8)	181
Net (gains)/losses from securities at fair value through profit or loss	(1)	-	-	(1)
Share of profits from associates	(21)	-	-	(21)
Net interest income	(2,231)	(215)	(8)	(2,454)
Dividend income	(1)	-	-	(1)
	(364)	**(78)**	**30**	**(412)**
Decrease/(increase) in operating assets				
Balances with the Croatian National Bank	146	-	-	146
Loans and advances to banks	444	(37)	-	407
Loans and advances to customers	1,106	(255)	(46)	805
Financial assets at fair value through profit or loss and financial assets available for sale	(2,036)	(83)	-	(2,119)
Other assets	(26)	(35)	16	(45)
(Increase)/decrease in operating assets	*(366)*	*(410)*	*(30)*	*(806)*
Increase/(decrease) in operating liabilities				
Current accounts and deposits from banks	160	92	-	252
Current accounts and deposits from customers	3,987	376	-	4,363
Other liabilities	(15)	(3)	-	(18)
Increase/(decrease) in operating liabilities	*4,132*	*465*	*-*	*4,597*
Interest received	3,303	319	-	3,622
Interest paid	(1,159)	(93)	-	(1,252)
Dividends received	1	14	-	15
Net cash inflow from operating activities before income taxes paid	**5,547**	**217**	**-**	**5,764**
Income tax paid	(176)	(9)	-	(185)
Net cash from operating activities	**5,371**	**208**	**-**	**5,579**

(*) reported figures adjusted for intercompany transactions, consolidation and reclassification adjustments.

For the year ended 31 December 2014

(in HRK million)	Reported The Group	ISP BH*	Other reclassifications	Restated The Group
Cash flows from operating activities				
Purchase of property and equipment and intangible assets	(195)	(13)	-	(208)
Disposal of property and equipment and intangible assets	75	5	-	80
Redemption of held-to-maturity investments	32	1	-	33
Net cash used in investing activities	**(88)**	**(7)**	**-**	**(95)**
Cash flows from financing activities				
Dividends paid to equity holders of the parent	(490)	-	-	(490)
Decrease in interest-bearing borrowings and subordinated liabilities	(1,935)	(96)	-	(2,031)
Net cash used in financing activities	**(2,425)**	**(96)**	**-**	**(2,521)**
Net increase/(decrease) in cash and cash equivalents	**2,858**	**105**	**-**	**2,963**
Cash and cash equivalents as at 1 January	9,021	722	-	9,743
Effect of exchange rate fluctuations on cash held	27	-	-	27
Cash and cash equivalents as at 31 December	**11,906**	**827**	**-**	**12,733**

(*) reported figures adjusted for intercompany transactions, consolidation and reclassification adjustments.

5 Accounting estimates and judgments in applying accounting policies

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

These disclosures supplement the commentary on fair values of financial assets and liabilities (Note 44) and financial risk management (Note 46).

a) *Impairment losses on loans and advances*

The Group reviews its portfolios of loans and advances to assess whether there is objective evidence of impairment on an ongoing basis.

The Group first assesses whether objective evidence of impairment exists individually for assets that are individually significant (corporate exposures) and collectively for assets that are not individually significant (retail). Those assets which are not identified as specifically impaired are subsequently included in the basis for collective impairment assessment, on the basis of similar credit risk characteristics.

Impairment allowance on assets individually assessed is based on the management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collective impairment for the group of homogenous assets that are not individually significant is established using statistical methods based on the historical loss rate experience. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the current economic conditions. Loss rates are regularly benchmarked against actual loss experience.

In addition to losses on an individual basis, the Group continuously monitors and recognises impairments which are known to exist at the reporting date, but which have not yet been identified. In estimating unidentified impairment losses for collectively assessed portfolios, the Group seeks to collect reliable data on appropriate loss rates based on historical experience related to and adjusted for current conditions, and the emergence period for the identification of these impairment losses. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

b) *Impairment of available-for-sale equity investments*

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. In this respect, the Group regards a decline in fair value in excess of 20% to be significant and a decline in quoted market price that persisted for 9 months or longer to be prolonged. In making this judgement, the Group evaluates among other factors, the nominal volatility in the share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

c) *Held-to-maturity investments*

The Group follows the guidance of International Accounting Standard 39 Financial Instruments: Recognition and Measurement on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

d) *Classification of lease contracts*

The Group acts as a lessor in operating and finance leases. Where the Group, as a lessor, transfers substantially all the risks and rewards incidental to ownership to the lessee, the leases are classified as finance leases. All other leases are classified as operating and related assets are included in property and equipment under operating leases at cost net of accumulated depreciation. In determining whether leases should be classified as operating or finance, the Group considers the requirements of International Accounting Standard 17 Leases.

e) *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

f) *Fair value of financial instruments*

If a market for a financial instrument is not active, or, if for any reason, fair value cannot be reasonably measured by market price, the Group establishes fair value using a valuation technique (except for certain unquoted equity securities). Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent to the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data. The chosen valuation techniques are periodically reviewed by an independent expert who has not participated in their formation. All models are certified before use.

g) *Reclassification of financial instruments*

The Group identified that the market conditions for Croatian government bonds no longer demonstrated active trading during the first half of 2009. In general, the fixed income market in Croatia was adversely impacted by the global recession which led to a standstill in trading, interrupted only by occasional forced transactions. In such circumstances, the Group could not actively trade these instruments and there were no observable elements on which the Group could reliably determine the fair value. In that context, in April and May 2009 the Group decided to reclassify the aforementioned financial instruments from the portfolio of financial instruments at fair value through profit and loss and available-for-sale portfolio to the loans and receivables portfolio. Overall, the Group has the intention and ability to hold the reclassified financial instruments for the foreseeable future. For more details refer to Note 44.

5 Accounting estimates and judgments in applying accounting policies (continued)

h) *Taxation*

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

i) *Regulatory requirements*

The Croatian National Bank and the Croatian Financial Services Supervisory Agency are entitled to carry out regulatory inspections of the Group's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

j) *Litigation and claims*

The Group makes an individual assessment of all court cases. The assessment is made by the Legal Department of the Bank or its relevant subsidiaries and in certain cases external lawyers are engaged. As stated in Note 35 the Group and the Bank provided HRK 54 million (2014: HRK 82 million) and HRK 39 million (2014: HRK 77 million) respectively for principal and interest in respect of liabilities for court cases, which the management estimates as sufficient. The above amounts represent the Group's best estimate of loss in respect of legal cases, although the actual outcome of court cases initiated against the Group can be significantly different. It is not practicable for management to estimate the financial impact of changes to the assumptions based on which management assesses the need for provisions.

As explained in note 21f, the Bank is a defendant, together with seven other banks in Croatia, in a lawsuit brought by the civil rights group "Potrošač" alleging the miss-selling by the defendant banks of loans linked to CHF to retail customers, and thereby the infringement of the consumer protection rights of those customers ("CHF loans"). During 2015, change of credit consumer act regulated the conversion of CHF loans to EUR. The effects on the Bank's financial position and performance are further explained in note 21f. The lawsuits was formally completed on 9 April 2015 in a way that nullity of provisions of loan agreements denominated in CHF which gave the Bank the right to unilaterally modify the interest rate was determined.

On 22 September 2015 the Act Amending the Consumer Credit Act ("the Amendment") was approved, by which, the conversion of CHF loans into EUR was regulated. The Amendments also influenced the lawsuit "Potrošač" in a way that upon conversion there is no legal basis on which customers could request the return of overpaid interest since these amounts are recognized and accounted for in the agreements in which conversion was accepted.

k) *Fair value of property and equipment and investment property*

The Group uses the cost model for property and equipment and investment property. Carrying values are reviewed for impairment at least annually. The management considers that there are no indications of impairment at the reporting date based on these analyses.

l) *Foreclosed assets*

The Group occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the cost of the related loans and advances and the current fair value of such assets. Gains or losses on disposal are recognised in the income statement.

m) ***Determination of control over investees***

Management applies its judgement to determine whether the Group controls investees. In assessing whether the Group controls the investees, the Group performs the power analysis and takes into consideration purpose and design of the investee, the evidence of practical ability to direct the relevant activities of the investees etc.

As a result, the Group concluded that it does not control and therefore should not consolidate its special purpose vehicles and entities with receivables in default, as the Group does not have power over the relevant activities of those entities.

n) ***Law on Financial Transactions and Pre-bankruptcy Settlement***

The Law on Financial Transactions and Pre-bankruptcy Settlement came into force on 1 October 2012. The Law sets out criteria for the determination as to when the management of a business has an obligation to commence the process of pre-bankruptcy settlement. In accordance with the Law an application for pre-bankruptcy settlement has to include a restructuring plan and should be filed with the Financial Agency. The Law was designed to help debtors that are in financial difficulties to restructure their operations, thus allowing them to continue with their business activities. During the period of the pre-bankruptcy process, the company is protected from its creditors, who during this period are unable to block bank accounts or take steps to push the debtor into bankruptcy or otherwise seek to realise collateral. The implementation of a restructuring plan is subject to approval by certain majorities of creditors in various classes. At the same time, creditors may be in an improved position for the collection of their receivables than would otherwise be the case had they initiated bankruptcy proceedings against the debtor.

Regulation relating to prebankruptcy settlement was amended in 2015 with the new Law on bankruptcy which regulates prebankruptcy and bankruptcy conditions and activities.

The Group has set up an internal function which closely monitors clients that have filed for pre-bankruptcy settlement and assists these borrowers in developing and implementing a restructuring plan in order to facilitate the collection of the Group's assets. At the same time, although a majority of debtors that have filed for pre-bankruptcy settlement have been already identified by the Group as non-performing, the Group reassesses the adequacy of their provisions.

Up to December 2015, 250 debtors of the Group have filed an application with the Agency with total balance and off-balance-sheet exposure of HRK 902 million, net of impairment allowance. The impairment allowance accounts for 50.7% of the gross total value of those exposures.

Out of this, for 108 clients which were debtors of the Bank, the pre-bankruptcy settlement has been successfully agreed and these clients are currently in the process of restructuring. The total exposure for those clients amounts to HRK 357 million, net of impairment allowance.

For 37 clients with net exposure of HRK 171 million, the pre-bankruptcy settlement was not successful and for those receivership proceedings have been initiated.

The management is unable to determine the effect of the pre-bankruptcy settlement process on the realisable value of its credit-risk exposures, and expects that the consequences of the application of the Law will be visible in the following years.

Notes to the financial statements
(continued)

6 Net interest income

a) Interest income – analysis by source

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Retail	2,011	2,082	1,765	1,835
Corporate	872	882	702	706
Public sector and other institutions	540	607	519	567
Banks	22	18	24	18
	3,445	**3,589**	**3,010**	**3,126**

b) Interest income – analysis by product

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Loans and advances to customers	3,231	3,333	2,834	2,912
Financial assets initially designated at fair value through profit or loss	101	132	100	131
Debt securities classified as loans and receivables	58	72	49	56
Loans and advances to banks	24	19	24	18
Financial assets available for sale	25	22	1	5
Held-to-maturity investments	4	7	-	-
Financial assets held for trading	2	4	2	4
	3,445	**3,589**	**3,010**	**3,126**

Interest income includes collected interest income from impaired loans of the Group of HRK 251 million (2014: HRK 266 million) and of the Bank of HRK 214 million (2014: HRK 228 million).

c) Interest expense – analysis by recipient

(in HRK million)	GROUP		BANK	
	2015	Restated 2014	2015	2014
Retail	735	874	648	784
Banks	111	151	111	132
Public sector and other institutions	30	42	29	40
Corporate	54	68	29	38
	930	**1,135**	**817**	**994**

d) Interest expense – analysis by product

(in HRK million)	GROUP		BANK	
	2015	Restated 2014	2015	2014
Current accounts and deposits from retail customers	735	874	648	784
Interest-bearing borrowings	107	133	93	111
Current accounts and deposits from corporate customers and public sector	84	110	58	77
Current accounts and deposits from banks	4	18	18	22
	930	**1,135**	**817**	**994**

7 Net fee and commission income

a) Fee and commission income

(in HRK million)	GROUP		BANK	
	2015	Restated 2014	2015	2014
Credit cards	836	825	133	111
Payment transactions	364	358	348	345
Customer services	103	91	84	74
Investment management, brokerage and consultancy	69	51	68	50
Customer loans	44	45	38	40
Guarantees	45	48	38	41
Other	60	55	49	44
	1,521	**1,473**	**758**	**705**

b) Fee and commission expense

(in HRK million)	GROUP		BANK	
	2015	Restated 2014	2015	2014
Credit cards	224	208	67	66
Payment transactions	30	34	28	32
Bank charges	7	9	6	7
Other	32	31	8	9
	293	**282**	**109**	**114**

8 Dividend income

(in HRK million)	GROUP		BANK	
	2015	Restated 2014	2015	2014
Dividends from associates	-	-	15	14
Dividends from subsidiaries	-	-	150	-
Dividends from other equity securities	5	1	5	1
	5	**1**	**170**	**15**

9 Net trading income and net gains on translation of monetary assets and liabilities

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Net trading (expense) from forward foreign exchange contracts and swaps	(180)	(11)	(180)	(11)
Net gain from translation of monetary assets and liabilities denominated in foreign currency	53	32	57	27
Foreign exchange spot trading	228	145	215	138
Net gains /(losses) on financial assets held for trading	(23)	11	(23)	10
Net gains / (losses) from securities initially designated at fair value through profit or loss	4	(10)	3	(10)
	82	**167**	**72**	**154**

10 Other operating income

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Rental income from investment property and assets under operating lease	50	53	8	7
Net gain on disposal of available-for-sale securities	1	8	1	8
Gain on disposal of property and equipment and intangible assets	13	3	4	1
Other income	81	61	64	36
	145	**125**	**77**	**52**

Notes to the financial statements

(continued)

11 Personnel expenses

(in HRK million)	GROUP		BANK	
	2015	Restated 2014	2015	2014
Net salaries	453	435	359	344
Contributions for pension insurance	127	125	103	101
Taxes and surtaxes	89	95	79	84
Contributions for health insurance	99	93	80	76
Other personnel expenses	83	126	74	117
	851	**874**	**695**	**722**

During the year the average number of employees within the Group based on full-time employment equivalence was 3,580 (2014: 3,628) of which the Bank accounted for 2,870 employees (2014: 2,904).

12 Other operating expenses

	GROUP		BANK	
(in HRK million)	2015	Restated 2014	2015	2014
Materials and services	451	455	340	339
Deposit insurance premium	143	119	131	108
Rental expenses	59	63	75	82
Indirect and other taxes	18	17	16	16
Other expenses	374	363	121	132
	1,045	**1,017**	**683**	**677**

13 Impairment losses and provisions

a) Impairment losses on loans and advances to customers

(in HRK million)	Notes	GROUP		BANK	
		2015	Restated 2014	2015	2014
Movement in impairment losses on loans and advances to customers	21c	109	520	130	506
Legal expenses related to loans and advances to customers		39	38	19	20
		148	**558**	**149**	**526**

b) Other impairment losses and provisions

(in HRK million)	Notes	GROUP		BANK	
		2015	Restated 2014	2015	2014
Provisions for loans and advances to banks	20b	3	22	3	22
Movement in impairment loss on financial assets available for sale	22	1	1	1	1
Movement in impairment losses on other assets	28	12	12	8	10
Provisions for off-balance-sheet items	35	18	42	15	44
(Release of provisions)/provisions for court cases	35	(32)	2	(36)	-
Provisions for other items	35	1	7	5	-
		3	**86**	**(4)**	**77**

The impairment loss on financial assets available for sale in the amount of HRK 1 million (2014: HRK 1 million) relates to further impairment losses on previously impaired financial assets.

Notes to the financial statements

(continued)

14 Depreciation and amortisation

(in HRK million)	Notes	GROUP 2015	GROUP Restated 2014	BANK 2015	BANK 2014
Depreciation and impairment of property and equipment	26	129	135	79	76
Amortisation of intangible assets	25	44	45	37	41
Depreciation of investment property	27	1	1	1	1
		174	**181**	**117**	**118**

Depreciation of property and equipment includes HRK 39.5 million of depreciation of assets under operating lease (2014: HRK 43 million). Depreciation of property and equipment in 2015 also includes HRK 0.5 million of impairment loss for both the Group and the Bank (2014: HRK 5 million).

15 Income tax expense

a) Income tax expense recognised in the income statement

	GROUP 2015	GROUP Restated 2014	BANK 2015	BANK 2014
Current income tax charge	94	245	19	168
Net deferred tax charge	3	9	(2)	13
Income tax expense recognised in the income statement	**97**	**254**	**17**	**181**

b) Reconciliation of income tax expense

The reconciliation between the accounting profit and income tax expense is set out below:

(in HRK million)	GROUP 2015	GROUP Restated 2014	BANK 2015	BANK 2014
Accounting profit before tax	**467**	**1,243**	**210**	**824**
Tax calculated at rate of 20% (2014: 20%)	93	249	42	165
Effect of different tax rates in Bosnia and Herzegovina	(11)	(8)	-	-
Tax effects of:				
Non-deductible expenses	22	20	11	19
Tax exempt income	(8)	(7)	(36)	(3)
Expenses included directly in income tax expense	1	-	-	-
Total income tax expense	**97**	**254**	**17**	**181**
Effective income tax rate	**20.8%**	**20.4%**	**8.1%**	**22.0%**

c) Deferred tax assets

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Timing differences				
On deferred fees	41	45	36	40
On impairment of real estate	13	13	10	10
On unrealised losses on financial assets at fair value through profit or loss	42	40	42	40
On other items	12	9	12	8
On impairment of loans	33	37	-	-
Deferred tax assets	**141**	**144**	**100**	**98**

d) Deferred tax liabilities

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Timing differences				
On unrealised gains on available-for-sale financial assets	34	4	22	1
On other items	-	7	-	-
Deferred tax liabilities	**34**	**11**	**22**	**1**

e) Movement in deferred tax assets

GROUP (in HRK million)	Total	Deferred fees	Impairment of real estate	Unrealised losses on financial assets at fair value through profit or loss	Unrealised losses on available-for-sale financial assets	Other items	Impairment of loans
Balance as at 1 January 2015	**144**	**45**	**13**	**40**	**-**	**9**	**37**
Increase credited to income statement	***42***	*14*	*1*	*3*	-	*24*	-
Utilisation charged to income statement	***(45)***	*(18)*	*(1)*	*(1)*		*(21)*	*(4)*
Net amount charged to income statement	**(3)**	(4)	-	2	-	3	(4)
Balance as at 31 December 2015	**141**	**41**	**13**	**42**	**-**	**12**	**33**
Balance as at 1 January 2014	**156**	**53**	**8**	**47**	**3**	**8**	**37**
Increase credited to income statement	***33***	*12*	*5*	*1*	-	*14*	*1*
Utilisation charged to income statement	***(42)***	*(20)*	-	*(8)*	-	*(13)*	*(1)*
Net amount charged to income statement	**(9)**	(8)	5	(7)	-	1	-
Transfer to deferred tax liabilities	**(3)**	-	-	-	(3)	-	-
Balance as at 31 December 2014	**144**	**45**	**13**	**40**	**-**	**9**	**37**

15 Income tax expense (continued)

e) Movement in deferred tax assets (continued)

BANK (in HRK million)	Total	Deferred fees	Impairment of real estate	Unrealised losses on financial assets at fair value through profit or loss	Unrealised losses on available-for-sale financial assets	Other items
Balance as at 1 January 2015	*98*	*40*	*10*	*40*	*-*	*8*
Increase credited to income statement	*41*	*14*	*-*	*3*	*-*	*24*
Utilisation charged to income statement	*(39)*	*(18)*	*-*	*(1)*	*-*	*(20)*
Net amount charged to income statement	**2**	(4)	-	2	-	4
Balance as at 31 December 2015	**100**	**36**	**10**	**42**	**-**	**12**
Balance as at 1 January 2014	**112**	**49**	**8**	**47**	**1**	**7**
Increase credited to income statement	***28***	*12*	*2*	*1*	*-*	*13*
Utilisation charged to income statement	***(41)***	*(21)*	*-*	*(8)*	*-*	*(12)*
Net amount charged to income statement	**(13)**	(9)	2	(7)	-	1
Transfer to deferred tax liabilities	**(1)**	-	-	-	(1)	-
Balance as at 31 December 2014	**98**	**40**	**10**	**40**	**-**	**8**

f) Movement in deferred tax liabilities

(in HRK million)	**GROUP** Unrealised gains on available-for-sale financial assets	**BANK** Unrealised gains on available-for-sale financial assets
Balance as at 1 January 2015	**11**	**1**
Increase charged to other comprehensive income	23	21
Balance as at 31 December 2015	**34**	**22**
Balance as at 1 January 2014, restated	**7**	**-**
Transfer from deferred tax assets	(3)	(1)
Increase charged to other comprehensive income	7	2
Balance as at 31 December 2014, restated	**11**	**1**

16 Cash and current accounts with banks

(in HRK million)	GROUP		BANK	
	2015	Restated 2014	2015	2014
Cash in hand	1,982	1,478	1,430	1,353
Current accounts with the CNB	3,420	4,371	3,420	4,371
Current accounts with foreign banks	4,580	1,768	4,281	1,238
Current accounts with domestic banks	12	12	11	10
Other cash items	1	2	1	1
	9,995	**7,631**	**9,143**	**6,973**

17 Balances with the Croatian National Bank

(in HRK million)	GROUP		BANK	
	2015	2014	2015	2014
Obligatory reserve	4,550	4,364	4,550	4,364
Other deposits with the CNB and CNB bills	-	384	-	384
	4,550	**4,748**	**4,550**	**4,748**

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 2015 amounted to 12% (2014: 12%) of kuna and foreign currency deposits and borrowings.

According to the CNB decision, the funds released in 2014 as a result of the decrease in the obligatory reserve requirements in that year had to be used for the purchase of obligatory non-transferable, non-interest-earning CNB bills with 3 years' maturity, redeemable only by the CNB upon maturity or at the end of each month in an amount equal to 50% of the increase in placements with domestic non-financial customers in the preceding month. In October 2015, CNB abandoned this decision and released CNB bills before maturity to the Bank.

As at 31 December 2015, the required rate for the part of the obligatory reserve calculated based on kuna liabilities to be deposited with the CNB amounted to 70% (2014: 70%), while the remaining 30% (2014: 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.

No part of the obligatory reserve based on foreign currency liabilities must be deposited with the CNB (2014: 40%), so the 100% (2014: 60%) must be held in the form of other liquid receivables. 75% of the part of the obligatory reserve calculated based on foreign currency liabilities is required to be held in kuna and is added to the kuna part of the obligatory reserve. From May 2016, at least 2% of the part of the foreign currency obligatory reserve that must be held in the form of other liquid receivables Bank deposits to CNB.

The obligatory reserve did not earn any interest in 2015 (2014: nil).

18 Financial assets at fair value through profit or loss

(in HRK million)		**GROUP**		**BANK**
	2015	Restated 2014	2015	2014
Financial assets held for trading				
Republic of Croatia bonds	30	64	30	64
Equity securities	17	15	16	15
Domestic corporate bonds	28	-	28	-
Accrued interest	1	1	1	1
	76	**80**	**75**	**80**
Listed securities	76	80	75	80
	76	**80**	**75**	**80**
Financial assets initially designated at fair value through profit or loss				
Ministry of Finance treasury bills	5,677	5,800	5,618	5,741
Bonds issued by domestic corporate issuers	33	49	33	49
Municipal bonds	27	49	27	49
Equity securities	10	10	10	9
Accrued interest	55	92	55	92
	5,802	**6,000**	**5,743**	**5,940**
Listed securities	71	110	71	109
Unlisted securities	5,731	5,890	5,672	5,831
	5,802	**6,000**	**5,743**	**5,940**
Units in investment funds - quoted	92	101	-	-
	92	**101**	**-**	**-**
Financial assets at fair value through profit or loss	**5,970**	**6,181**	**5,818**	**6,020**

19 Derivative financial assets and liabilities

Derivatives classified as held for trading		**GROUP**		**BANK**
Assets (in HRK million)	2015	2014	2015	2014
Fair value:				
Forward foreign exchange contracts and swaps	4	2	4	2
	4	**2**	**4**	**2**
Notional amount:				
Forward foreign exchange contracts and swaps	2,892	1,562	2,892	1,562
Other embedded derivatives	1	20	1	20
	2,893	**1,582**	**2,893**	**1,582**
Liabilities				
Fair value:				
Forward foreign exchange contracts and swaps	15	1	15	1
	15	**1**	**15**	**1**
Notional amount:				
Forward foreign exchange contracts and swaps	2,904	1,560	2,904	1,560
Other embedded derivatives	1	2	1	2
	2,905	**1,562**	**2,905**	**1,562**

The Group uses foreign currency forward and swap contracts to manage its exposure to foreign currency risk. Other embedded derivatives relate to loans with single-sided currency clause.

As the Bank has not implemented hedge accounting the related derivatives are classified as financial instruments held for trading.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of instruments and, therefore, do not indicate the Group's exposure to credit or price risks.

Notes to the financial statements
(continued)

20 Loans and advances to banks

a) Analysis by type of product

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Term deposits	2,900	5,049	2,783	4,831
Obligatory reserve with CBBH	367	320	-	-
Loans	239	269	239	329
	3,506	**5,638**	**3,022**	**5,160**
Impairment allowance	(56)	(53)	(56)	(53)
	3,450	**5,585**	**2,966**	**5,107**

Term deposits mainly relate to short-term deposits (up to one month) with local and foreign banks bearing an average annual interest rate in the range of 0.2% and 2.3% (2014: in the range of 0.1% and 2.4%).
The obligatory reserve with the Bosnia and Herzegovina central bank ("CBBH") represents amounts required to be deposited with CBBH. The obligatory reserve is calculated on the basis of deposits and borrowings taken, regardless of the currency (excluding borrowings taken from foreign entities and funds from governments of Bosnia and Herzegovina entities for development projects).

b) Movement in impairment allowance

(in HRK million)	Notes		GROUP		BANK
		2015	Restated 2014	2015	2014
Balance at 1 January		**53**	**31**	**53**	**31**
Net charge for the year	13b	3	22	3	22
Balance at 31 December		**56**	**53**	**56**	**53**

c) Geographical analysis

(in HRK million)	GROUP		BANK	
	2015	Restated 2014	2015	2014
Republic of Croatia	298	335	291	395
Italy	75	663	-	509
Germany	813	1,302	811	1,300
France	385	996	385	996
Great Britain	94	96	94	96
Austria	685	361	650	361
Switzerland	101	369	101	306
Belgium	610	545	610	545
Other countries	445	971	80	652
	3,506	**5,638**	**3,022**	**5,160**
Impairment allowance	(56)	(53)	(56)	(53)
	3,450	**5,585**	**2,966**	**5,107**

As at 31 December 2015 loans and advances to banks included reverse repurchase agreements in the amount of HRK 20 million for both the Group and the Bank (2014: HRK 140 million and HRK 201 million respectively). Such agreements are secured with government bonds and treasury bills. For details on sale and repurchase agreements please refer to Note 46(a).

21 Loans and advances to customers

a) Analysis by type of customer

(in HRK million)	GROUP		BANK	
	2015	Restated 2014	2015	2014
Retail customers	28,742	29,810	23,949	25,036
Corporate customers	17,515	17,504	14,518	14,554
Public sector and other institutions	8,515	7,696	8,964	8,169
Debt securities	900	1,091	843	817
	55,672	**56,101**	**48,274**	**48,576**
Impairment allowance	(4,103)	(4,619)	(3,534)	(3,761)
Deferred interest and fees recognised as an adjustment to the effective yield	(260)	(295)	(230)	(272)
CHF conversion not yet finalised (note 21f)	(324)	-	(324)	-
	50,985	**51,187**	**44,186**	**44,543**

Debt securities of the Group and the Bank include HRK 83 million (2014: HRK 321 million) and HRK 23 million (2014: HRK 52 million), respectively, of Croatian bonds reclassified from available-for-sale financial assets in 2009, as well as HRK 607 million (2014: HRK 626 million) for the Group and the Bank of Croatian government bonds reclassified in 2009 from the held-for-trading category as described in Notes 22 and 44(d).

21 Loans and advances to customers (continued)

b) Analysis by sector

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Individuals	28,742	29,810	23,949	25,036
Construction	5,404	5,160	5,015	4,800
Public administration and defence	5,110	4,597	4,931	4,425
Wholesale and retail trade	4,357	4,469	3,275	3,332
Manufacturing	3,605	3,308	2,792	2,469
Energy products and water supplies	1,060	1,154	1,023	1,145
Hotels and restaurants	1,944	1,645	1,758	1,483
Professional, scientific and technical services	816	961	750	890
Transport and communication	1,680	1,711	1,450	1,540
Real estate, renting and business services	1,063	727	978	570
Agriculture, forestry and fishing	947	724	832	630
Other	944	1,835	1,521	2,256
	55,672	**56,101**	**48,274**	**48,576**
Impairment allowance	(4,103)	(4,619)	(3,534)	(3,761)
Deferred interest and fees recognised as an adjustment to the effective yield	(260)	(295)	(230)	(272)
CHF conversion not yet finalised	(324)	-	(324)	-
	50,985	**51,187**	**44,186**	**44,543**

Loans and advances to customers also include finance lease receivables. For a more detailed analysis of finance lease receivables please refer to Note 40 Leases.

c) Movement in impairment allowance on loans and advances to customers

GROUP (in HRK million)	Retail		Corporate		Public sector and other institutions		Total
	Specific	IBNR	Specific	IBNR	Specific	IBNR	
Balance at 1 January 2015	**1,975**	**220**	**1,963**	**438**	**9**	**14**	**4,619**
Net charge in the income statement	146	7	45	(88)	(3)	2	109
Amounts written off and amortization of discounts	(548)	-	(97)	-	-	-	(645)
Foreign exchange gain	18	-	2	-	-	-	20
Balance at 31 December 2015	**1,591**	**227**	**1,913**	**350**	**6**	**16**	**4,103**
Balance at 1 January 2014, restated	**1,883**	**182**	**1,797**	**410**	**45**	**21**	**4,338**
Net charge in the income statement	225	38	272	28	(36)	(7)	520
Amounts written off and amortization of discounts	(141)	-	(110)	-	-	-	(251)
Foreign exchange gain	8	-	4	-	-	-	12
Balance at 31 December 2014, restated	**1,975**	**220**	**1,963**	**438**	**9**	**14**	**4,619**

BANK	Retail		Corporate		Public sector and other institutions		Total
	Specific	IBNR	Specific	IBNR	Specific	IBNR	
Balance at 1 January 2015	**1,486**	**169**	**1,639**	**444**	**8**	**15**	**3,761**
Net charge in the income statement	170	12	42	(97)	(3)	6	130
Amounts written off and amortization of discounts	(294)	-	(84)	-	-	-	(378)
Foreign exchange gain	18	-	3	-	-	-	21
Balance at 31 December 2015	**1,380**	**181**	**1,600**	**347**	**5**	**21**	**3,534**
Balance at 1 January 2014	**1,421**	**133**	**1,460**	**377**	**44**	**18**	**3,453**
Net charge in the income statement	202	36	240	67	(36)	(3)	506
Amounts written off and amortization of discounts	(145)	-	(65)	-	-	-	(210)
Foreign exchange gain	8	-	4	-	-	-	12
Balance at 31 December 2014	**1,486**	**169**	**1,639**	**444**	**8**	**15**	**3,761**

21 Loans and advances to customers (continued)

d) Loans and contingencies under guarantee

The Republic of Croatia has in the past issued guarantees for the repayment of loans and advances to qualifying customers in certain key industries which were provided for by the state budget. In addition, the Republic of Croatia has issued guarantees for a certain number of the Bank's loans and off-balance-sheet credit risks.

The support and guarantee of the Republic of Croatia was taken into consideration when determining the level of provisions required against loans and off-balance-sheet credit risk exposure to certain entities.

Total Group balance-sheet and off-balance-sheet credit risks guaranteed by the Republic of Croatia or repayable from the state budget amounted to HRK 5,545 million (2014: HRK 5,197 million). Exposure to Croatian municipalities is included in the above analysis.

e) Collateral repossessed

During the year, the Group and the Bank foreclosed on assets previously charged to them as collateral, and thereby recognised foreclosed assets with a carrying value of HRK 34 million and HRK 8 million, respectively (2014: HRK 42 million and HRK 3 million respectively). The repossessed collateral, which the Group is in the process of selling, is disclosed as foreclosed assets within Other assets (Note 28). In general, the Group does not occupy repossessed properties for business use.

f) CHF loans conversion

In the period from 2005 to 2008 the Bank granted retail loans linked to or denominated in Swiss franc (CHF).

At loan inception, clients took advantage of favourable rates in CHF. However, from 2006 CHF LIBOR rates started to increase, as a result of which the Bank started to increase interest rates on CHF loans. In addition, in 2009 and then in 2015, CHF appreciated sharply against HRK (and EUR), which further increased monthly instalments, while CHF LIBOR rates fell markedly.

Due to the above noted changes, the civil rights group "Potrošač" brought a lawsuit against seven banks in the Republic of Croatia, including the Bank, alleging the miss-selling by the defendant banks of loans linked to CHF to retail customers, and thereby the infringement of the consumer protection rights of those customers ("CHF loans"). A first-instance court ruled against the defendant banks on 4 July 2013 and instructed them to offer to consumers amendments to the original contractual provisions of the CHF loans by expressing these loans in local currency at the exchange rate applicable at the date of loan disbursement and by fixing the rate of interest applicable at the date of loan origination for the duration of the loan. The defendant banks have each appealed separately against this decision claiming that the ruling was not legally well founded, citing a number of procedural and factual weaknesses. The High Commercial Court on 16 July 2014 issued a decision which partially rejected and partially upheld the above ruling issued by first-instance court. The Bank has sought extraordinary legal remedy – a revision (both regular and extraordinary).

Meanwhile, in response to a sudden appreciation of CHF, in January 2015 the Consumer Credit Act was changed and as a temporary measure the CHF exchange rate was fixed at 6.39 HRK for 1 CHF for the duration of one year for regular repayment annuities.

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

The total loss for the Bank and the Group recognized as the result of the conversion is HRK 1,311 million and is presented in the position Loss recognized on CHF conversion. Recognised loss for loans where the conversion has been finalised i.e. new loan contracts were signed by the clients is HRK 987 million and for loans where the conversion has been accepted but has not yet been formally and legally finalised or where the clients still have the opportunity to accept the conversion is HRK 324 million.

As of 31 December 2015 loans to customers are presented on net basis that is, loans to customers are reduced for the aforementioned loss on CHF conversion. For loans where the conversion has been formally and legally finalised both gross amount and impairment allowance (for non-performing loans) were adjusted for the effect of conversion while for loans where the conversion has not yet been finalised or accepted the loss on conversion of HRK 324 million has been presented in a separate line in note 21a.

The table below shows number of loan contracts and carrying value of loans subject to conversion prior to conversion and the number of loan contracts and carrying value of clients who accepted the conversion and details on loss on conversion:

	30 September 2015 prior to conversion		Clients who accepted the conversion until 31 December 2015		Loss on conversion
	Number of loan contracts	Carrying value HRK mil	Number of loan contracts	Carrying value at 30 September 2015 (prior conversion) HRK mil	HRK mil
Neither past due nor impaired	7,600	2,366	7,264	2,304	913
Past due but not impaired	1,567	568	1,482	537	200
Impaired	1,407	765	1,072	284	198
Gross	**10,574**	**3,699**	**9,818**	**3,125**	**1,311**
Specific impairment allowance		(229)		(149)	
Net of specific impairment allowance		**3,470**		**2,976**	

Out of the loans for which the clients accepted the conversion, which is shown in the table above, the conversion has been finalised for 8,036 loan contracts with total gross book value of HRK 2,533 million and net book value of HRK 2,476 million, while for the other loan contracts the conversion is still in process.

g) Sale of receivables

In 2015, the Group sold HRK 656 million gross receivables (HRK 43 million net receivables) to a third party for HRK 169 million what resulted with a release of specific impairment allowance of HRK 126 million and the Bank sold HRK 402 million gross receivables (impaired in full amount at the moment of sale) for HRK 80 million what resulted with a release of specific impairment allowance of HRK 80 million.

22 Financial assets available for sale

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Debt securities	900	490	76	20
Equity securities	218	98	217	96
	1,118	**588**	**293**	**116**

a) Available-for-sale debt securities

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Corporate debt securities	-	20	-	20
Republic of Croatia bonds	735	373	76	-
Foreign government treasury bills	80	-	-	-
Foreign government bonds	80	95	-	-
	895	**488**	**76**	**20**
Accrued interest	5	2	-	-
	900	**490**	**76**	**20**
Listed securities	820	490	76	20
Unlisted securities	80	-	-	-
	900	**490**	**76**	**20**

b) Available-for-sale equity securities

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Listed securities	33	14	33	14
Unlisted securities	185	84	184	82
	218	**98**	**217**	**96**

Following the start of the global financial crisis, the Group considered, during 2009, that market conditions for Croatian corporate, municipal and government bonds no longer enabled active trading.

As the Group had the ability and intention to hold these assets to maturity and they satisfied the definition of loans and receivables at the time, the Group decided to reclassify these securities from the available-for-sale portfolio to loans and receivables.

For details, please refer to Note 44(c) *Fair values of financial assets and liabilities - reclassification of financial assets.*

There were no further reclassifications after 2009.

Unlisted equity securities carried at cost

Unlisted equity securities whose fair value cannot be measured reliably are carried at cost or fair value at acquisition, less any impairment losses.

(in HRK million)		**GROUP**		**BANK**
	2015	Restated 2014	2015	2014
Cost/fair value at acquisition	129	130	128	128
Impairment losses	(47)	(46)	(47)	(46)
Carrying value of unlisted equity securities carried at cost	**82**	**84**	**81**	**82**

The following table represents the movement in impairment losses of unlisted equity securities carried at cost for the Group and the Bank:

(in HRK million)	**Notes**	
Balance at 1 January 2014		**45**
Impairment loss charged to income statement	13b	1
Balance at 31 December 2014		**46**
Impairment loss charged to income statement	13b	1
Balance at 31 December 2015		**47**

The Group holds 29% (2014: 29%) of the ordinary issued share capital of Quaestus Private Equity Kapital, a private equity investment fund ("the Fund"). The Group does not consider itself to have a significant influence over the Fund because the Group does not have the power to participate in the Fund's financial and operating policy decisions.

23 Held-to-maturity investments

(in HRK million)	GROUP		BANK	
	2015	2014	2015	2014
Republic of Croatia bonds	17	174	-	-
Accrued interest	-	3	-	-
	17	**177**	**-**	**-**

Republic of Croatia bonds relate to bonds issued by the Ministry of Finance of the Republic of Croatia. They are denominated in EUR, bear interest rates 5.38% and mature 2019.

24 Investments in subsidiaries and associates

(in HRK million)	GROUP		BANK	
	2015	2014	2015	2014
Consolidated subsidiaries	-	-	925	177
Associates accounted for under the equity method by the Group and at cost by the Bank	150	142	38	38
	150	**142**	**963**	**215**
Movements				
Balance at 1 January	**142**	**135**	**215**	**215**
Share of profits from associates	24	21	-	-
Acquisition of Intesa Sanpaolo Bank dd	-	-	748	-
Receipt of dividend	(16)	(14)	-	-
Balance at 31 December	**150**	**142**	**963**	**215**

24 Investments in subsidiaries and associates (continued)

The principal investments in subsidiaries and associates as at 31 December are as follows:

	COUNTRY	NATURE OF BUSINESS	2015 holding %	2014 holding %
CONSOLIDATED SUBSIDIARIES				
PBZ Card doo	Croatia	card services	100	100
PBZ Leasing doo	Croatia	leasing	100	100
PBZ Nekretnine doo	Croatia	real estate agency	100	100
PBZ stambena štedionica dd	Croatia	housing savings bank	100	100
Intesa Sanpaolo Banka dd	Bosnia and Herzegovina	credit institution	95	-
ASSOCIATES				
PBZ Croatia osiguranje dd	Croatia	pension management	50	50
Intesa Sanpaolo Card Zagreb doo	Croatia	card processing services	31	31

The Group considers that its 50% investment in PBZ Croatia osiguranje dd and 31% investment in Intesa Sanpaolo Card doo Zagreb represent investment in associates, as the Group does not have control over the companies. Consequently, PBZ Croatia osiguranje dd and Intesa Sanpaolo Card doo Zagreb are accounted for using the equity method in the consolidated financial statements.

The following table illustrates summarised financial information of the PBZ Croatia osiguranje dd and Intesa Sanpaolo Card doo Zagreb:

(in HRK million)	2015		2014	
	PBZ Croatia osiguranje	Intesa Sanpaolo Card Zagreb	PBZ Croatia osiguranje	Intesa Sanpaolo Card Zagreb
Associates' statement of financial position				
Current assets	135	171	124	161
Non-current assets	2	141	1	148
Current liabilities	(7)	(28)	(6)	(35)
Non-current liabilities	(2)	(4)	(3)	(3)
Net assets of associates'	**128**	**280**	**116**	**271**
Attributable to PBZ Group	**63**	**87**	**58**	**84**
Associates' income statements				
Revenue	64	298	55	295
Expenses	(37)	(265)	(32)	(265)
Profit	**27**	**33**	**23**	**30**
Attributable to PBZ Group	**14**	**10**	**12**	**9**

24 Investments in subsidiaries and associates (continued)

Involvement in unconsolidated structured entities
The Group is involved in financing several special purpose entities that carry out various activities, such as real estate construction, tourism, etc. The Group concluded that it does not control, and therefore should not consolidate, the special purpose entities and its involvement is in all cases limited to providing finance with aim of collecting interest. Taken as a whole, the Group does not have power over the relevant activities of those entities.

Acquisition of Intesa Sanpaolo Banka dd – common control transaction
As of 20 July 2015 the Bank purchased a 94.9359% stake in Intesa Sanpaolo Banka dd Bosnia and Herzegovina (425,142 ordinary shares with 94.9486% voting rights) from Intesa Sanpaolo Holding International S.p.A.
The sales price was determined based on the carrying value of the net asset of the purchased bank as of 31 December 2014 and amounted to HRK 748 million.
The date of acquisition was considered to be 1 July 2015, the date when the Bank assumed financial and operational control over the subsidiary.
Since the ultimate owner of both banks is Intesa Sanpaolo S.p.A. Turin the transaction was accounted for out in accordance with the requirements of IFRS 3 for transactions under common control. In accordance with the aforementioned in the consolidated financial statements, the excess of consideration paid over the carrying value of share capital at the time of the combination was treated as a merger reserve in equity. In addition, in its consolidated financial statements the Bank restated its comparatives and adjusted its current reporting period before the date of transaction as if the combination had occurred before the start of the earliest period presented.

Acquisition of Intesa Sanpaolo Banka dd – common control transaction (continued)

The carrying values of assets and liabilities of Intesa Sanpaolo Banka dd Bosnia and Herzegovina as at 1 January 2014, 31 December 2014 and 1 July 2015 were as follows:

(in HRK million)	1 January 2014*	31 December 2014*	1 July 2015*
Cash and current accounts with banks	607	661	1,027
Financial assets at fair value through profit or loss	1	1	1
Loans and advances to banks	401	537	433
Loans and advances to customers	4,035	4,201	4,247
Financial assets available for sale	8	97	161
Intangible assets	15	18	18
Property and equipment	61	55	48
Other assets	47	52	62
Tax prepayments	7	7	9
Total assets	**5,182**	**5,629**	**6,006**
Current accounts and deposits from banks	120	212	227
Current accounts and deposits from customers	3,371	3,750	4,039
Interest-bearing borrowings	899	800	790
Subordinated liabilities	3	2	2
Other liabilities	42	44	87
Provisions for liabilities and charges	16	15	16
Deferred tax liabilities	7	7	7
Current tax liability	1	1	-
Total liabilities	**4,459**	**4,831**	**5,168**
Net assets and liabilities	**723**	**798**	**838**
Minority interest	36	40	42
Negative goodwill			48
Consideration paid and payable			748
Cash acquired			1,199
Net cash inflow			451

(*) reported figures not adjusted for intercompany transactions, consolidation and reclassification adjustments.

Notes to the financial statements

(continued)

25 Intangible assets

(in HRK million)	Goodwill	Software	Other intangible assets	Assets acquired but not brought into use	Total
GROUP					
Acquisition cost					
Balance at 1 January 2014, as previously reported	**69**	**443**	**5**	**4**	**521**
Acquisition of entity under common control	-	18	12	6	**36**
Balance at 1 January 2014, restated	**69**	**461**	**17**	**10**	**557**
Additions	-	-	-	49	**49**
Transfer into use	-	47	-	(47)	**-**
Disposals and eliminations	-	(1)	(1)	-	**(2)**
Balance at 31 December 2014, restated	**69**	**507**	**16**	**12**	**604**
Additions	-	-	-	63	**63**
Transfer into use	-	47	9	(56)	**-**
Disposals and eliminations	-	(2)	-	-	**(2)**
Balance at 31 December 2015	**69**	**552**	**25**	**19**	**665**
Accumulated amortisation					
Balance at 1 January 2014, as previously reported	**-**	**372**	**4**	**-**	**376**
Acquisition of entity under common control	-	12	9	-	**21**
Balance at 1 January 2014, restated	**-**	**384**	**13**	**-**	**397**
Charge for the year	-	43	2	-	**45**
Disposals and eliminations	-	(1)	(1)	-	**(2)**
Balance at 31 December 2014, restated	**-**	**426**	**14**	**-**	**440**
Charge for the year	-	42	2	-	**44**
Disposals and eliminations	-	(1)	-	-	**(1)**
Balance at 31 December 2015	**-**	**467**	**16**	**-**	**483**
Carrying value					
Balance at 31 December 2014, restated	**69**	**81**	**2**	**12**	**164**
Balance at 31 December 2015	**69**	**85**	**9**	**19**	**182**

Goodwill represents goodwill arising from the acquisition of Međimurska banka in the amount of HRK 14 million, recognised as a purchased goodwill following the merger of Međimurska banka into Privredna banka Zagreb dd as at 1 December 2012 and goodwill arising from the acquisition of American Express card business in the amount of HRK 55 million.

(in HRK million)	Goodwill	Software	Other intangible assets	Assets acquired but not brought into use	Total
BANK					
Acquisition cost					
Balance at 1 January 2014	**14**	**409**	**-**	**3**	**426**
Additions	-	-	-	43	**43**
Transfer into use	-	41	-	(41)	**-**
Disposals and eliminations	-	(1)	-	-	**(1)**
Balance at 31 December 2014	**14**	**449**	**-**	**5**	**468**
Additions	-	-	-	53	**53**
Transfer into use	-	41	3	(44)	**-**
Balance at 31 December 2015	**14**	**490**	**3**	**14**	**521**
Accumulated amortisation					
Balance at 1 January 2014	**-**	**338**	**-**	**-**	**338**
Charge for the year	-	41	-	-	**41**
Disposals and eliminations	-	(1)	-	-	**(1)**
Balance at 31 December 2014	**-**	**378**	**-**	**-**	**378**
Charge for the year	-	37	-	-	**37**
Balance at 31 December 2015	**-**	**415**	**-**	**-**	**415**
Carrying value					
Balance at 31 December 2014	**14**	**71**	**-**	**5**	**90**
Balance at 31 December 2015	**14**	**75**	**3**	**14**	**106**

Following the legal merger of Međimurska banka into the Bank as at 1 December 2012, the goodwill formerly arising on consolidation of Međimurska banka was transformed into purchased goodwill and recognised in the Bank's separate statement of financial position.

26 Property and equipment

(in HRK million)	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	Total
GROUP						
Acquisition cost	-	-	-	-	-	**-**
Balance at 1 January 2014, as previously reported	**1,212**	**426**	**177**	**414**	**74**	**2,303**
Acquisition of entity under common control	49	37	4	45	1	**136**
Balance at 1 January 2014, restated	**1,261**	**463**	**181**	**459**	**75**	**2,439**
Additions	-	-	-	-	159	**159**
Transfer to foreclosed assets	-	-	(5)	-	-	**(5)**
Disposals	(24)	(15)	(81)	(41)	(17)	**(178)**
Transfer into use	54	27	47	28	(156)	**-**
Balance at 31 December 2014, restated	**1,291**	**475**	**142**	**446**	**61**	**2,415**
Additions	-	-	-	-	74	**74**
Disposals	-	(18)	(53)	(20)	-	**(91)**
Transfer into use	17	24	40	29	(110)	**-**
Balance at 31 December 2015	**1,308**	**481**	**129**	**455**	**25**	**2,398**
Accumulated depreciation						
Balance at 1 January 2014, as previously reported	**309**	**380**	**81**	**324**	**-**	**1,094**
Acquisition of entity under common control	11	26	2	36	-	**75**
Balance at 1 January 2014, restated	**320**	**406**	**83**	**360**	**-**	**1,169**
Charge for the year	33	25	29	43	-	**130**
Impairment	5	-	-	-	-	**5**
Disposals	(4)	(14)	(46)	(37)	-	**(101)**
Transfer to foreclosed assets	-	-	(4)	-	-	**(4)**
Balance at 31 December 2014, restated	**354**	**417**	**62**	**366**	**-**	**1,199**
Charge for the year	32	30	24	42	-	**128**
Impairment	1	-	-	-	-	**1**
Disposals	-	(12)	(31)	(19)	-	**(62)**
Balance at 31 December 2015	**387**	**435**	**55**	**389**	**-**	**1,266**
Carrying value						
Balance at 31 December 2014, restated	**937**	**58**	**80**	**80**	**61**	**1,216**
Balance at 31 December 2015	**921**	**46**	**74**	**66**	**25**	**1,132**

(in HRK million)	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	Total
BANK						
Acquisition cost						
Balance at 1 January 2014	**829**	**393**	**9**	**312**	**55**	**1,598**
Additions	-	-	-	-	70	**70**
Disposals	(7)	(14)	(4)	(25)	-	**(50)**
Transfer into use	20	25	-	21	(66)	**-**
Balance at 31 December 2014	**842**	**404**	**5**	**308**	**59**	**1,618**
Additions	-	-	-	-	20	**20**
Disposals	-	(6)	(3)	(8)	-	**(17)**
Transfer into use	8	18	1	27	(54)	**-**
Balance at 31 December 2015	**850**	**416**	**3**	**327**	**25**	**1,621**
Accumulated depreciation						
Balance at 1 January 2014	**289**	**353**	**8**	**257**	**-**	**907**
Charge for the year	21	21	-	29	-	**71**
Impairment	5	-	-	-	-	**5**
Disposals	(6)	(14)	(4)	(25)	-	**(49)**
Balance at 31 December 2014	**309**	**360**	**4**	**261**	**-**	**934**
Charge for the year	21	25	1	32	-	**79**
Impairment	-	-	-	-	-	**-**
Disposals	-	(6)	(3)	(8)	-	**(17)**
Balance at 31 December 2015	**330**	**379**	**2**	**285**	**-**	**996**
Carrying value						
Balance at 31 December 2014	**533**	**44**	**1**	**47**	**59**	**684**
Balance at 31 December 2015	**520**	**37**	**1**	**42**	**25**	**625**

Real estate, furniture and other equipment and motor vehicles of the Group include assets leased under operating leases with a carrying value of HRK 400.4 million (2014: HRK 415.7 million).

The Group reclassified motor vehicles in the gross amount of HRK 1 million (2014: HRK 5 million) and depreciation of HRK 1 million (2014: HRK 3 million) from property and equipment to foreclosed assets which were leased to customers under operating lease.

The carrying amount of the non-depreciable land within land and buildings is HRK 75 million for the Group and HRK 7 million for the Bank (2014: HRK 74 million and HRK 7 million, respectively).

27 Investment property

(in HRK million)	GROUP	BANK
Acquisition cost		
Balance at 1 January 2014	**44**	**30**
Transfer from property and equipment	-	-
Balance at 31 December 2014	**44**	**30**
Balance at 31 December 2015	**44**	**30**
Accumulated depreciation		
Balance at 1 January 2014	**19**	**18**
Charge for the year	1	1
Balance at 31 December 2014	**20**	**19**
Charge for the year	1	1
Balance at 31 December 2015	**21**	**20**
Carrying value		
Balance at 31 December 2014	**24**	**11**
Balance at 31 December 2015	**23**	**10**

The estimated fair value of investment property held by the Group as at 31 December 2015 amounted to HRK 40 million (2014: HRK 41 million) and for the Bank HRK 19 million (2014: HRK 20 million). The fair value was estimated by PBZ Nekretnine, a wholly owned subsidiary of the Bank, engaged in real estate management and by an independent appraiser. Both PBZ Nekretnine and independent valuers provide the fair values of the Group's investment property portfolio on at least yearly basis. The fair value measurements for all of the investment properties have been categorised as Level 3 fair value measurements. There were no transfers between levels during the year.

The property rental income earned by the Group and the Bank from its investment property, all of which was leased out under operating leases, amounted to HRK 4.5 million (2014: HRK 4.7 million) and HRK 1.7 million (2014: HRK 2 million) respectively, and was presented within other operating income (Note 10).

28 Other assets

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Receivables from card business	198	202	63	65
Receivables based on foreign currency transactions	3	-	3	-
Receivables from debtors	9	9	1	1
Foreclosed assets	148	154	68	65
Accrued fees	56	58	67	85
Advance payments	4	13	2	11
Prepaid expenses	30	30	19	17
Receivables in course of collection	4	4	1	1
Other assets	169	133	146	89
Leasehold improvements	27	26	21	18
	648	**629**	**391**	**352**
Impairment	(99)	(97)	(86)	(83)
	549	**532**	**305**	**269**

Movement in impairment

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Balance at 1 January	**97**	**85**	**83**	**73**
Net charge for the year	12	12	8	10
Amounts written off	(10)	-	(5)	-
Balance at 31 December	**99**	**97**	**86**	**83**

Movement in impairment on other assets is presented as part of Provisions for other items and other assets (Note 13b).

Notes to the financial statements
(continued)

29 Current accounts and deposits from banks

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Term deposits	161	258	487	435
Demand deposits	922	1,041	886	1,025
	1,083	**1,299**	**1,373**	**1,460**

30 Current accounts and deposits from customers

a) Analysis by term

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Term deposits	33,096	33,972	30,861	31,921
Demand deposits	25,084	21,374	21,954	18,466
	58,180	**55,346**	**52,815**	**50,387**

b) Analysis by source

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Retail deposits	42,592	41,589	39,148	38,388
Corporate deposits	10,322	8,630	9,818	8,136
Public sector and other institutions	5,266	5,127	3,849	3,863
	58,180	**55,346**	**52,815**	**50,387**

31 Interest-bearing borrowings

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Domestic borrowings	1,596	1,544	1,569	1,544
Foreign borrowings	2,293	4,030	1,274	2,999
Accrued fee	(5)	(5)	(5)	(5)
	3,884	**5,569**	**2,838**	**4,538**

a) Domestic borrowings

Domestic borrowings of the Group mainly consist of loans received from the Croatian Bank for Reconstruction and Development ("HBOR") in the amount of HRK 1.6 billion (2014: HRK 1.5 billion).

In accordance with the overall agreement, borrowings from HBOR are used to fund loans to customers for eligible construction and development projects at preferential interest rates.

b) Foreign borrowings

Foreign borrowings of the Group include short-term and long-term loans received from foreign banks and non-financial institutions denominated mostly in EUR and CHF and with floating interest rates.

32 Subordinated liabilities

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Ministry of Finance of Bosnia and Herzegovina	2	2	-	-
	2	**2**	**-**	**-**

With the approval of the Banking Agency of Federation of Bosnia and Herzegovina, the subordinated debt may be classified as Tier 2 capital in the calculation of capital adequacy.

33 Other liabilities

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Payables to suppliers	1,060	1,064	38	40
Items in the course of settlement and other liabilities	255	253	173	192
Salaries and other personnel costs	123	99	105	87
	1,438	**1,416**	**316**	**319**

34 Accrued expenses and deferred income

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Accrued expenses	159	227	103	172
Deferred income	79	81	20	18
	238	**308**	**123**	**190**

35 Provisions for liabilities and charges

GROUP (in HRK million)	Total	Provisions for off-balance-sheet items	Provisions for court cases	Provisions for other items
Balance as at 1 January 2015	**329**	**230**	**89**	**10**
Net charge/(release) in the income statement	(13)	18	(32)	1
Provisions used during the year	(3)	-	(3)	-
Balance as at 31 December 2015	**313**	**248**	**54**	**11**
Balance as at 1 January 2014, restated	**280**	**188**	**87**	**5**
Net charge in the income statement	51	42	2	7
Provisions used during the year	(2)	-	-	(2)
Balance as at 31 December 2014, restated	**329**	**230**	**89**	**10**

Bank (in HRK million)	Total	Provisions for off-balance-sheet items	Provisions for court cases	Provisions for other items
Balance as at 1 January 2015	**306**	**226**	**77**	**3**
Net charge/(release) in the income statement	(16)	15	(36)	5
Provisions used during the year	(2)	-	(2)	-
Balance as at 31 December 2015	**288**	**241**	**39**	**8**
Balance as at 1 January 2014	**262**	**182**	**77**	**3**
Net charge in the income statement	44	44	-	-
Balance as at 31 December 2014	**306**	**226**	**77**	**3**

Provisions for off-balance-sheet items, court cases and other items are recognised in other impairment losses and provisions in the income statement (Note 13b).

Provision for off-balance-sheet items relates to specific and collective provisions on credit-related contingencies as disclosed in Note 36.

As at 31 December 2015 there were several litigation cases taken against the Group. In the opinion of management, there is a probability that the Group may lose certain cases, in respect of which management has recognised provisions for court cases as at 31 December 2015 in the amount of HRK 54 million (31 December 2014: HRK 89 million) and HRK 39 million (31 December 2014: HRK 77 million), for the Group and the Bank, respectively.

36 Contingent liabilities and commitments

Credit-related contingencies and commitments

Credit-related contingencies and commitments arise from various banking products, the primary purpose of which is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans and advances. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw funds on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly lower risk. Management has assessed that a provision of HRK 248 million for the Group and HRK 241 million for the Bank (2014: HRK 230 million and HRK 226 million respectively) is sufficient to cover risks due to the default of the respective counterparties (refer to Note 35). The aggregate amounts of outstanding guarantees, letters of credit and other commitments at the end of the year were as follows:

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Undrawn lending commitments	9,864	9,148	9,104	8,628
Performance guarantees	1,883	2,143	1,703	1,979
Kuna payment guarantees	286	369	286	369
Foreign currency payment guarantees	861	661	770	553
Foreign currency letters of credit	168	237	155	224
Factoring and forfaiting	2	3	1	3
Other contingent liabilities	4	5	4	4
	13,068	**12,566**	**12,023**	**11,760**

On 31 December 2015 the Group and the Bank had long-term commitments as lessees in respect of rent for business premises and equipment lease agreements expiring between 2016 and 2020. The future minimum commitments for each of the next five years are presented below:

(in HRK million)	2015	2016	2017	2018	2019	2020	Total
GROUP							
Premises	58	59	59	59	60	60	**297**
Equipment	3	3	3	3	3	4	**16**
	61	**62**	**62**	**62**	**63**	**64**	**313**
BANK							
Premises	71	73	73	73	73	73	**365**
Equipment	13	14	14	14	14	14	**70**
	84	**87**	**87**	**87**	**87**	**87**	**435**

37 Share capital

a) Issued share capital

Issued share capital as at 31 December 2015 amounted to HRK 1,907 million (31 December 2014: HRK 1,907 million). The total number of authorised registered shares at 31 December 2015 was 19,074,769 (2014: 19,074,769) with a nominal value of HRK 100 per share (2014: HRK 100 per share). The parent company of the Bank is Intesa Sanpaolo Holding International and the ultimate controlling party is Intesa Sanpaolo S.p.A.

Until June 2015, the second largest shareholder of the Bank was the EBRD which held 20.9% of equity stake. At that time, EBRD sold their stake in PBZ to the Intesa Sanpaolo Holding International.

The ownership structure as at 31 December 2015 and 31 December 2014 was as follows:

				REGISTERED SHARES
		31 December 2015		31 December 2014
	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership
Intesa Sanpaolo Holding International	18,591,522	97.5%	14,609,532	76.6%
EBRD	-	-	3,981,990	20.9%
Non-controlling shareholders	418,574	2.2%	418,574	2.2%
Treasury shares	64,673	0.3%	64,673	0.3%
	19,074,769	**100.0%**	**19,074,769**	**100.0%**

The Bank's shares are listed on the Zagreb Stock Exchange. As at 31 December 2015 the share price of the Bank's ordinary shares quoted on the Zagreb Stock Exchange was HRK 599 (31 December 2014: HRK 548.98).

On 31 December 2015, the President of the Management Board Mr Božo Prka held 361 shares (31 December 2014: 361) of Privredna banka Zagreb dd, and of the other members of the Management Board, Mr Ivan Gerovac held 120 shares (31 December 2014: 120) and Mr Draženko Kopljar held 108 shares (31 December 2014: 108).

b) Share premium

The Bank recognises share premium in an amount of HRK 1,570 million (31 December 2014: HRK 1,570 million) representing the excess of the paid-in amount over the nominal value of the issued shares.

c) Treasury shares

During 2014 and 2015 there were no movements in treasury shares.

Own shares held as collateral

The Bank holds 2,508 (31 December 2014: 2,719) of its own shares as collateral for loans to third parties.

d) Other reserves

Other reserves comprise legal, capital gains and treasury shares reserves.

Legal reserve

As required by the Companies Act, companies in Croatia are required to appropriate 5% of their annual net profit into legal reserves until they, together with capital reserves, reach 5% of issued share capital.

Capital gains

Capital gain is a result of transactions with treasury shares of the Bank in previous periods.

Treasury share reserve

During 2015 the Bank did not purchase any treasury shares on the open market for its own purposes.

e) Fair value reserve

Fair value reserve includes unrealised gains and losses on changes in the fair value of financial assets available for sale, net of income tax. As at 31 December 2015 the accumulated gain on fair value reserve amounted to HRK 108 million (31 December 2014: accumulated gain of HRK 15 million) and HRK 86 million (31 December 2014: accumulated gain of HRK 2 million) for the Group and the Bank, respectively.

f) Retained earnings

Retained profits are generally available to shareholders, subject to their approval.
The amount of dividends distributed to equity holders during 2015 in respect of 2014 is HRK 27 (2014 in respect of 2013: HRK 25.80) per share.

g) Merger reserve

Merger reserve is a reserve arising from common control transaction and includes any difference between the consideration paid and the share capital of the acquiree.

h) Non-distributable reserves

Management considers that the fair value reserve and other reserves may not be distributed to shareholders. As at 31 December 2015 non-distributable reserves amount to HRK 574 million (31 December 2014: HRK 481 million) and HRK 388 million (31 December 2014: HRK 304 million), for the Group and the Bank, respectively.

i) Return on assets

Return on asset measures the net profit earned in relation to total assets and for 2015 amounted to 0.47% (2014: 1.26%) and 0,28% (2014: 0.93%) for the Group and the Bank, respectively.

Notes to the financial statements

(continued)

38 Cash and cash equivalents

The table below presents an analysis of cash and cash equivalents for the purposes of the cash flows statement:

(in HRK million)	Notes		GROUP		BANK
		2015	Restated 2014	2015	2014
Cash and current accounts with banks	16	9,995	7,631	9,143	6,973
Loans and advances to banks with maturity of up to 90 days		2,994	5,102	2,876	4,944
		12,989	**12,733**	**12,019**	**11,917**

39 Managed funds for and on behalf of third parties

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Assets under custody	6,609	6,716	6,609	6,716
Assets under custody - investment funds	1,903	1,840	1,903	1,840
Assets under portfolio management	830	848	744	777
	9,342	**9,404**	**9,256**	**9,333**

The Group and the Bank provide custody services to banks and customers, including investment and pension funds. These assets are accounted for separately from those of the Group and kept off-balance sheet. The Group is compensated for its services by fees chargeable to the clients.

Funds under management in the obligatory pension fund managed by the Bank's associate PBZ Croatia osiguranje dd amount to HRK 11,978 million as at 31 December 2015 (31 December 2014: HRK 10,647 million). These funds are held by a custody bank which is not a member of the Group.

40 Leases

PBZ Leasing doo, a company wholly-owned by the Bank, is engaged in providing finance and operating lease arrangements to its clients of various items of vehicles, vessels, real estate and equipment. Net investment in finance leases as at 31 December 2015 amounted to HRK 591.0 million (31 December 2014: HRK 655.9 million) which is included within loans and advances to customers (Note 21) in the Group financial statements. The carrying value of leased property and equipment under operating lease as at 31 December 2015 amounted to HRK 400.35 million (31 December 2014: HRK 415.7 million) and are classified within property and equipment (Note 26).
Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are set out below:

(in HRK million)	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	2015	2015	2014	2014
Less than one year	275	243	320	284
Between one and five years	348	278	379	295
More than five years	234	179	298	228
Gross investment in finance lease	**857**	**700**	**997**	**807**
Unearned finance income	(157)	-	(190)	-
	700	**700**	**807**	**807**
Less: Impairment allowance	(109)	(109)	(151)	(151)
Net investment in finance lease	**591**	**591**	**656**	**656**

Future minimum lease payments at undiscounted amounts under non-cancellable operating leases where the Group is the lessor are as follows:

(in HRK million)	2015	2014
Less than one year	192	169
Between one and five years	164	175
More than five years	161	201
	517	**545**

The above is for illustrative purposes considering there are no non-cancellable leases.

Notes to the financial statements

(continued)

41 Related party transactions

The parent company of Privredna banka Zagreb dd and its subsidiaries is Intesa Sanpaolo Holding International which holds 97.5% of the Bank's share capital as at 31 December 2015 (76.6% as at 31 December 2014). The ultimate controlling party is Intesa Sanpaolo S.p.A., a bank incorporated in Italy. The remaining shareholders are shareholders of publicly held shares (2.2%). For 2014, the EBRD held 20.9% Bank's share capital.

The Bank considers that it has an immediate related party relationship with: its ultimate parent and its affiliates; other key shareholders and their affiliates; its subsidiaries and associates and the pension fund managed by its associate, PBZ Croatia osiguranje dd; Supervisory Board members, Management Board members and other executive management (together "key management personnel") and close family members of key management personnel, in accordance with the International Accounting standard 24 "Related party Disclosures" ("IAS 24").

The Bank grants loans to or places deposits with related parties in the ordinary course of business.

The volumes of related party transactions during the year and outstanding balances at the year-end were as follows:

(in HRK million)	Key management personnel	Ultimate controlling party - Intesa Sanpaolo S.p.A	Associates	Other shareholders and their affiliates and affiliates of ultimate controlling party
GROUP				
Deposits and loans given				
Balance at 1 January 2015	**11**	**663**	-	**28**
Changes during the year	2	(552)	-	(23)
Balance at 31 December 2015	**13**	**111**	-	**5**
Interest income for the year ended 31 December 2015	**-**	**1**	**-**	**-**
Interest income for the year ended 31 December 2014, restated	-	-	-	1
Deposits and loans received				
Balance at 1 January 2015	**41**	**303**	**66**	**3,457**
Changes during the year	(3)	(273)	21	(1,812)
Balance at 31 December 2015	**38**	**30**	**87**	**1,645**
Interest expense for the year ended 31 December 2015	**(1)**	**-**	**(1)**	**(47)**
Interest expense for the year ended 31 December 2014, restated	(1)	(4)	-	(101)
Contingent liabilities and commitments at 31 December 2015	**2**	**2**	**4**	**41**
Contingent liabilities and commitments at 31 December 2014, restated	1	6	6	32
Fees and other income for the year ended 31 December 2015	**-**	**1**	**1**	**47**
Fees and other income for the year ended 31 December 2014, restated	-	1	-	27
Fees and other expense for the year ended 31 December 2015	**-**	**(7)**	**(57)**	**(2)**
Fees and other expense for the year ended 31 December 2014, restated	-	(7)	(61)	(2)

(in HRK million)	Key management personnel	Bank's subsidiaries	Ultimate controlling party - Intesa Sanpaolo S.p.A	Associates	Other shareholders and their affiliates and affiliates of ultimate controlling party
Bank					
Deposits and loans given					
Balance at 1 January 2015	**7**	**846**	**509**	**-**	**25**
Changes during the year	2	(195)	(509)	-	(24)
Balance at 31 December 2015	**9**	**651**	**-**	-	**1**
Interest income for the year ended 31 December 2015	**-**	**29**	**1**	**-**	**-**
Interest income for the year ended 31 December 2014	-	14	-	-	1
Deposits and loans received					
Balance at 1 January 2015	**32**	**463**	**105**	**66**	**2,435**
Changes during the year	(2)	70	(92)	21	(1,813)
Balance at 31 December 2015	**30**	**533**	**13**	**87**	**622**
Interest expense for the year ended 31 December 2015	**(1)**	**(18)**	**-**	**(1)**	**(47)**
Interest expense for the year ended 31 December 2014	(1)	(18)	(2)	-	(62)
Contingent liabilities and commitments at 31 December 2015	**1**	**17**	**2**	**4**	**41**
Contingent liabilities and commitments at 31 December 2014	1	66	6	6	32
Lease expense for the year ended 31 December 2015	**-**	**(9)**	**-**	**-**	**-**
Lease expense for the year ended 31 December 2014	-	(18)	-	-	-
Fees and other income for the year ended 31 December 2015	**-**	**86**	**-**	**1**	**47**
Fees and other income for the year ended 31 December 2014	-	60	1	-	27
Fees and other expense for the year ended 31 December 2015	**-**	**(64)**	**(6)**	**(50)**	**-**
Fees and other expense for the year ended 31 December 2014	-	(33)	(4)	(48)	(2)

No provisions were recognised in respect of deposits and loans given to related parties as at 31 December 2015 (31 December 2014: nil).

41 Related party transactions (continued)

Annual key management remuneration:

(in HRK million)		GROUP
	2015	2014
Personnel compensation (gross)	22	27
Bonuses (gross)	14	7
Contributions to pension insurance	2	2
	38	**36**

Key management personnel include Management Board and senior executive directors as well as executive directors responsible for areas of strategic relevance. The total number of key management personnel of the Group and the Bank as at 31 December 2015 was 19 (31 December 2014: 20) and 18 (31 December 2014: 19), respectively.
All bonuses in 2015 and 2014 were mostly paid in cash, while for two executives bonuses also included share allocations on a deferred basis.

Share-based payments

In July 2012, the Board of Directors of Intesa Sanpaolo S.p.A. launched a long-term scheme, in favour of 2 executives holding key positions in the Group, aimed at achieving business plan objectives and increasing the value of the Intesa Sanpaolo Group.
This scheme entitles the key executives to a cash payment, based on the price of Intesa Sanpaolo S.p.A. shares, if certain performance conditions are fulfilled. The fair value of services received from key executives is measured by reference to the fair value of the instrument granted which is based on the quoted market prices of Intesa Sanpaolo S.p.A. shares.

	Number of instruments held (in units)		The carrying amount of liabilities for cash-settled arrangements (in HRK million)	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Awards granted	471,951	517,985	11	9

42 Capital

The Bank maintains an actively managed capital base to cover risks in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Regulation of the European parliament on prudential requirements for credit institutions (hereafter: CRR) and Croatian National Bank in supervising the Bank. This Regulation came to force as of 1 January 2014 laying down uniform rules concerning general prudential requirements for EU credit institutions.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue capital securities.

Regulatory capital and capital ratios according to EBA requirements and CNB national discretions, calculated for the Bank only (as of the date of issuance of these financial statements information on regulatory capital and risk-weighted assets and other risk elements is unaudited), are as follows:

Regulatory capital (unaudited)

(in HRK million)		BANK
	2015	2014
Issued share capital	1,907	1,907
Share premium	1,570	1,570
Treasury shares (net of share premium on treasury shares)	(18)	(18)
Retained earnings (excluding profit for the period)	7,442	7,312
Profit for the period, decreased by proposed dividend	-	130
Accumulated other comprehensive income	7	7
Other reserves	234	234
Deductions in accordance with EBA regulations	(248)	(700)
Common Equity Tier 1 capital	**10,894**	**10,442**
Additional Tier 1	-	-
Tier 1 capital	**10,894**	**10,442**
Tier 2 capital	-	-
Total regulatory capital (unaudited)	**10,894**	**10,442**
Risk weighted assets and other risk elements (unaudited)	**48,928**	**47,160**
Common Equity Tier 1 capital ratio	22.27%	22.14%
Tier 1	22.27%	22.14%
Total capital ratio	22.27%	22.14%

In 2014, regulation introduced a new structure of capital requirements for credit institutions by laying down minimum level of three capital ratios: Common Equity Tier 1 capital ratio of 4.5%, Tier 1 capital ratio of 6% and total capital ratio of 8%.

Notes to the financial statements

(continued)

43 Leverage ratio

In accordance with Article 429 of the CRR, from 1 January 2014, credit institutions are obliged to calculate the leverage ratio as the institution's capital measure (Tier 1 capital), divided by that institutions' total exposure measure, expressed as a percentage. A minimum requirement for the leverage ratio is 3%.

Leverage ratio (unaudited)

(in HRK million)	BANK 2015
Exposure and capital values in December 2015	
Securities Financing Transactions (SFT) exposure	30
Derivatives: Market value and Add-on Mark-to-Market Method	33
Other off-balance sheet items	5,224
Other assets	69,258
Exposure values	**74,545**
Common Equity Tier 1 capital	10,894
Tier 1 capital	-
Regulatory adjustments of Tier 1 capital	-
Capital	**10,894**
Leverage ratio (unaudited)	**14.6%**

44 Fair values of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Loans and advances to customers and held-to-maturity investments are measured at amortised cost less impairment. Available-for-sale instruments are generally measured at fair value with the exception of some equity investments which are carried at cost less impairment given that their fair value cannot be reliably measured.

a) Financial instruments measured at fair value and fair value hierarchy

The determination of fair value of 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 for this reason, when calculating the fair value of a financial asset or liability all material risks that affect them must be identified and taken into consideration.

When measuring fair values the Bank takes into account the IFRS fair value hierarchy that reflects the significance of the inputs used in making the measurement. Each instrument is individually evaluated. The levels are determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The financial instruments carried at fair value have been categorised under the three levels of the IFRS fair value hierarchy as follows:

Level 1: Instruments valued using quoted (unadjusted) prices in active markets for identical assets or liabilities; these are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets.

- These instruments include: liquid debt and equity securities traded on liquid markets, and quoted units in investment funds.

Level 2: Instruments valued using valuation techniques using observable market data. These are instruments where the fair value can be determined by reference to similar instruments trading in active markets, or where a technique is used to derive the valuation but where all inputs to that technique are observable.

- These instruments include: less-liquid debt and equity securities valued by a model which uses Level 1 inputs.

Level 3: Instruments valued using valuation techniques using market data which is not directly observable: these are instruments where the fair value cannot be determined directly by reference to market-observable information, and some other pricing technique must be employed. Instruments classified in this category have an element which is unobservable and which has a significant impact on the fair value.

- These instruments include: illiquid debt securities and illiquid equity securities.

44 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

The following table presents an analysis of financial instruments carried at fair value by the level of hierarchy:

GROUP				2015				2014
(in HRK million)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	4	-	**4**	-	2	-	**2**
Financial assets held for trading	48	-	28	**76**	80	-	-	**80**
Financial assets initially designated at fair value through profit or loss	102	5,731	61	**5,894**	110	5,891	100	**6,101**
Financial assets available for sale*	772	161	103	**1,036**	389	95	20	**504**
Financial assets	**922**	**5,896**	**192**	**7,010**	**579**	**5,988**	**120**	**6,687**
Derivative financial liabilities	-	15	-	**15**	-	1	-	**1**
Financial liabilities	**-**	**15**	**-**	**15**	**-**	**1**	**-**	**1**

* unlisted equity securities carried at cost are not included.

BANK				2015				2014
(in HRK million)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	4	-	**4**	-	2	-	**2**
Financial assets held for trading	47	-	28	**75**	80	-	-	**80**
Financial assets initially designated at fair value through profit or loss	10	5,672	61	**5,743**	9	5,831	100	**5,940**
Financial assets available for sale*	109	-	103	**212**	14	-	20	**34**
Financial assets	**166**	**5,676**	**192**	**6,034**	**103**	**5,833**	**120**	**6,056**
Derivative financial liabilities	-	15	-	**15**	-	1	-	**1**
Financial liabilities	-	**15**	-	**15**	**-**	**1**	**-**	**1**

* unlisted equity securities carried at cost are not included.

During the year 2015, no transfers from Level 1 to Level 2 or from Level 2 to Level 1 occurred, as there were no changes to the methodology used in determining levels of the fair value hierarchy, while the market activity of financial instruments in the Group's portfolios remained unchanged.

The existence of published prices quotations in an active market is the best evidence of fair value and these quoted prices (Effective Market Quotes) shall therefore be used as the primary method for measuring financial assets and liabilities in the trading portfolio. If the market for a financial instrument is not active, the Group determines the fair value by using a valuation technique. Valuation techniques include:

- using market values which are indirectly connected to the instrument being measured, deriving from products with similar risk characteristics (Comparable Approach);
- valuations conducted using (even only in part) inputs not deriving from parameters observable on the market, for which estimates and assumptions formulated by the assessor are used (Mark-to-Model).

Given the uncertainties of the domestic market, primarily characterised by low liquidity where market conditions do not show active trading but rather inactive, the Group primarily uses valuation techniques based on the following principles:

- Used yield curves are created from interest rate quotations observed on the market;
- An appropriate yield curve (the one that is associated with the same currency in which the security, whose price is modelled, is denominated) is used in discounting of all the security's cash flows in order to determine its present value;
- In determining the fair value of bonds issued by corporate issuers and municipality bonds, the Group additionally uses the spreads associated with the internal credit rating of the issuer, which is then added to the yield curve for valuation thus capturing credit risk and various other counterparty related risks. Range of estimates for unobservable input was 2.7% to 6.7% with weighted average used of 3.6%. Significant increases in those inputs would result in lower fair values, while significant reduction would result in higher fair values. Considering the relatively small size of the financial instruments classified as Level 3, changing one or more of the assumptions would have insignificant effects on the overall financial statements.

The following table presents a reconciliation from the beginning balances to the ending balances from fair value measurements in Level 3 of the fair value hierarchy.

			GROUP			BANK
(in HRK million)	Financial assets held for trading	Financial assets initially designated at fair value through profit or loss	Financial instruments available for sale	Financial assets held for trading	Financial assets initially designated at fair value through profit or loss	Financial instruments available for sale
Balance at 1 January 2015	**-**	**100**	**20**	**-**	**100**	**20**
Total gains/(losses):	-	(1)	103	-	(1)	103
in profit or loss	-	*(1)*	-	-	*(1)*	-
in other comprehensive income(*)	-	-	*103*	-	-	*103*
Purchases	*28*	-	-	*28*	-	-
Sale	-	(10)	(20)	-	(10)	(20)
Settlements	-	(28)	-	-	(28)	-
Balance at 31 December 2015	**28**	**61**	**103**	**28**	**61**	**103**

44 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

(in HRK million)		GROUP		BANK
	Financial assets initially designated at fair value through profit or loss	Financial instruments available for sale	Financial assets initially designated at fair value through profit or loss	Financial instruments available for sale
Balance at 1 January 2014	**133**	**21**	**133**	**21**
Total gains/(losses):	2	-	2	-
in profit or loss	*2*	-	*2*	-
Settlements	(35)	(1)	(35)	(1)
Balance at 31 December 2014	**100**	**20**	**100**	**20**

There were no transfers from or to Level 3 in 2014.

(*) As at 31 December 2015 financial assets available for sale categorised as Level 3 in the fair value hierarchy include equity investment in payments technology company. As at 31 December 2014 the investment was carried at cost less impairment as the fair value could not be measured reliably while as at 31 December 2015 the investment was measured at Level 3 fair value. The fair value was determined based on the announced information about the sales of the company and the indicative share of the sales proceeds to which the Bank is entitled to.

b) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value for the Group and the Bank and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

GROUP (in HRK million)	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2015					
Assets					
Cash and current accounts with banks	-	-	9,995	9,995	9,995
Balances with CNB	-	-	4,550	4,550	4,550
Loans and advances to banks	-	3,083	367	3,450	3,450
Loans and advances to customers	-	48,448	3,137	51,585	50,985
Held to maturity investments	21	-	-	21	17
Liabilities					
Current accounts and deposits from banks	-	1,032	-	1,032	1,083
Current accounts and deposits from customers	-	58,526	-	58,526	58,180
Interest-bearing borrowings and subordinated liabilities	-	3,950	2	3,952	3,886

GROUP (in HRK million)	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2014, restated					
Assets					
Cash and current accounts with banks	-	-	7,631	7,631	7,631
Balances with CNB	-	-	4,748	4,748	4,748
Loans and advances to banks	-	5,264	320	5,584	5,585
Loans and advances to customers	-	47,228	3,862	51,090	51,187
Held to maturity investments	179	-	-	179	177
Liabilities					
Current accounts and deposits from banks	-	1,299	-	1,299	1,299
Current accounts and deposits from customers	-	55,772	-	55,772	55,346
Interest-bearing borrowings and subordinated liabilities	-	5,642	2	5,644	5,571

44 Fair values of financial assets and liabilities (continued)

b) Financial instruments not measured at fair value (continued)

BANK (in HRK million)	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2015					
Assets					
Cash and current accounts with banks	-	-	9,143	9,143	9,143
Balances with CNB	-	-	4,550	4,550	4,550
Loans and advances to banks	-	2,966	-	2,966	2,966
Loans and advances to customers	-	42,113	2,761	44,874	44,186
Liabilities					
Current accounts and deposits from banks	-	1,373	-	1,373	1,373
Current accounts and deposits from customers	-	53,237	-	53,237	52,815
Interest-bearing borrowings	-	2,904	-	2,904	2,838

BANK (in HRK million)	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2014					
Assets					
Cash and current accounts with banks	-	-	6,973	6,973	6,973
Balances with CNB	-	-	4,748	4,748	4,748
Loans and advances to banks	-	5,106	-	5,106	5,107
Loans and advances to customers	-	41,181	3,355	44,536	44,543
Liabilities					
Current accounts and deposits from banks	-	1,460	-	1,460	1,460
Current accounts and deposits from customers	-	50,766	-	50,766	50,387
Interest-bearing borrowings	-	4,608	-	4,608	4,538

The following methods and assumptions have been made in estimating the fair value of financial instruments:

- There are no significant differences between carrying value and fair value of cash and current accounts with banks and balances with the Croatian National Bank given the short maturity of such assets.
- Loans and advances to banks and customers are presented net of impairment allowance. The estimated fair value of loans and advances represents the discounted amount of the estimated future cash flows expected to be received. Expected future cash flows are discounted at current market rates. Valuation of non-performing loans includes estimation and is therefore classified as Level 3 in fair value hierarchy, while performing part of the portfolio represents Level 2 due to observable market parameters used for valuation. Expected

future impairment losses are not taken into account. The fair value of debt securities classified as loans and receivables, representing Croatian Government bonds, is measured using valuation techniques based on the yield curves created from interest rate quotations observed on the market and are consequently classified as Level 2 in the fair value hierarchy, while fair value of other debt securities classified as loans and receivables is measured using spreads associated with internal credit ratings of the issuers and these securities are classified as Level 3 in the fair value hierarchy.

- The fair value of securities held to maturity is calculated based on their quoted market price.
- The estimated fair value of fixed-interest term deposits is based on the expected cash flows discounted using current market rates. For demand deposits and deposits with no defined maturity, the fair value is determined to be the amount payable on demand. The value of customer relationships has not been taken into account. Deposits and loans received are classified as Level 2 in the fair value hierarchy since the parameters used in valuation are market observable.

The majority of interest-bearing borrowings carry floating interest rates which are linked to market and repriced regularly. As such, the management believes that their carrying values approximate their fair values.

c) Classification of financial assets and financial liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

GROUP **As at 31 December 2015** **Assets** (in HRK million)	Trading	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total
Cash and current accounts with banks	-	-	-	9,995	-	-	**9,995**
Balances with the Croatian National Bank	-	-	-	4,550	-	-	**4,550**
Financial assets at fair value through profit or loss	76	5,894	-	-	-	-	**5,970**
Derivative financial assets	4	-	-	-	-	-	**4**
Loans and advances to banks	-	-	-	3,450	-	-	**3,450**
Loans and advances to customers	-	-	-	50,985	-	-	**50,985**
Financial assets available for sale	-	-	-	-	1,118	-	**1,118**
Held-to-maturity investments	-	-	17	-	-	-	**17**
Total assets	**80**	**5,894**	**17**	**68,980**	**1,118**	**-**	**76,089**
Liabilities							
Current accounts and deposits from banks	-	-	-	-	-	1,083	**1,083**
Current accounts and deposits from customers	-	-	-	-	-	58,180	**58,180**
Derivative financial liabilities	15	-	-	-	-	-	**15**
Interest-bearing borrowings	-	-	-	-	-	3,884	**3,884**
Subordinated liabilities	-	-	-	-	-	2	**2**
Total liabilities	**15**	**-**	**-**	**-**	**-**	**63,149**	**63,164**

44 Fair values of financial assets and liabilities (continued)

c) Classification of financial assets and financial liabilities (continued)

GROUP **Assets** (in HRK million) **As at 31 December 2014, restated**	Trading	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total
Cash and current accounts with banks	-	-	-	7,631	-	-	**7,631**
Balances with the Croatian National Bank	-	-	-	4,748	-	-	**4,748**
Financial assets at fair value through profit or loss	80	6,101	-	-	-	-	**6,181**
Derivative financial assets	2	-	-	-	-	-	**2**
Loans and advances to banks	-	-	-	5,585	-	-	**5,585**
Loans and advances to customers	-	-	-	51,187	-	-	**51,187**
Financial assets available for sale	-	-	-	-	588	-	**588**
Held-to-maturity investments	-	-	177	-	-	-	**177**
Total assets	**82**	**6,101**	**177**	**69,151**	**588**	**-**	**76,099**
Liabilities							
Current accounts and deposits from banks	-	-	-	-	-	1,299	**1,299**
Current accounts and deposits from customers	-	-	-	-	-	55,346	**55,346**
Derivative financial liabilities	1	-	-	-	-	-	**1**
Interest-bearing borrowings	-	-	-	-	-	5,569	**5,569**
Subordinated liabilities	-	-	-	-	-	2	**2**
Total liabilities	**1**	**-**	**-**	**-**	**-**	**62,216**	**62,217**

BANK **Assets** (in HRK million) **As at 31 December 2015**	Trading	Designated at fair value	Loans and receivables	Available-for-sale	Other amortised cost	Total
Cash and current accounts with banks	-	-	9,143	-	-	**9,143**
Balances with the Croatian National Bank	-	-	4,550	-	-	**4,550**
Financial assets at fair value through profit or loss	75	5,743	-	-	-	**5,818**
Derivative financial assets	4	-	-	-	-	**4**
Loans and advances to banks	-	-	2,966	-	-	**2,966**
Loans and advances to customers	-	-	44,186	-	-	**44,186**
Financial assets available for sale	-	-	-	293	-	**293**
Total assets	**79**	**5,743**	**60,845**	**293**	**-**	**66,960**
Liabilities						
Current accounts and deposits from banks	-	-	-	-	1,373	**1,373**
Current accounts and deposits from customers	-	-	-	-	52,815	**52,815**
Derivative financial liabilities	15	-	-	-	-	**15**
Interest-bearing borrowings	-	-	-	-	2,838	**2,838**
Total liabilities	**15**	**-**	**-**	**-**	**57,026**	**57,041**

44 Fair values of financial assets and liabilities (continued)

c) Classification of financial assets and financial liabilities (continued)

BANK As at 31 December 2014 **Assets** (in HRK million)	Trading	Designated at fair value	Loans and receivables	Available-for-sale	Other amortised cost	Total
Cash and current accounts with banks	-	-	6,973	-	-	**6,973**
Balances with the Croatian National Bank	-	-	4,748	-	-	**4,748**
Financial assets at fair value through profit or loss	80	5,940	-	-	-	**6,020**
Derivative financial assets	2	-	-	-	-	**2**
Loans and advances to banks	-	-	5,107	-	-	**5,107**
Loans and advances to customers	-	-	44,543	-	-	**44,543**
Financial assets available for sale	-	-	-	116	-	**116**
Total assets	**82**	**5,940**	**61,371**	**116**	**-**	**67,509**
Liabilities						
Current accounts and deposits from banks	-	-	-	-	1,460	**1,460**
Current accounts and deposits from customers	-	-	-	-	50,387	**50,387**
Derivative financial liabilities	1	-	-	-	-	**1**
Interest-bearing borrowings	-	-	-	-	4,538	**4,538**
Total liabilities	**1**	**-**	**-**	**-**	**56,385**	**56,386**

d) Reclassification of financial assets

Following a reduction in the level of market activity for many assets and inability to sell assets other than at substantially lower prices, in 2009 the Group decided to reclassify Croatian Government bonds and commercial papers from the portfolio of financial instruments at fair value through profit or loss (held for trading) and the available-for-sale portfolio to the loans and receivables portfolio. For the reclassified assets the Group has the intention and ability to hold the reclassified financial instruments for the foreseeable future or until maturity. Following reclassification, the carrying values of those assets are derived using the model as described below.

Upon reclassification of financial assets to the loans and receivables category, the fair value of the financial assets immediately prior to the reclassification became the new amortised cost. Following reclassification of a financial asset available for sale with a fixed maturity, any gain or loss previously recognised in other comprehensive income, and the difference between the newly established cost and the maturity amount are both amortised over the remaining term of the financial asset using the effective interest method. For a financial asset available for sale with no stated maturity, any gain or loss previously recognised in other comprehensive income is reclassified from other comprehensive income to profit or loss when the financial asset is disposed of or impaired.

The following tables present the carrying amount and fair value of financial assets reclassified from "Held-for-Trading" and from "Available-for-Sale" to the "Loans and Receivables" category, at the reporting date.

All transfers occurred on 30 April 2009. There were no other reclassifications prior to or after 30 April 2009.

(in HRK million)			GROUP			BANK
	Amounts reclassified	Carrying amount	Fair value	Amounts reclassified	Carrying amount	Fair value
31 December 2015						
Financial assets reclassified from held for trading to loans and receivables	1,903	607	634	1,903	607	634
Financial assets reclassified from available for sale to loans and receivables	1,418	83	90	381	23	27
31 December 2014, restated						
Financial assets reclassified from held for trading to loans and receivables	1,903	626	672	1,903	626	672
Financial assets reclassified from available for sale to loans and receivables	1,418	321	343	381	52	60

44 Fair values of financial assets and liabilities (continued)

d) Reclassification of financial assets (continued)

The following table presents gains and losses recognised in the income statement in 2015 and 2014 on assets reclassified to the loans and receivables category:

(in HRK million)		GROUP Restated		BANK
	2015	2014	2015	2014
Financial assets reclassified from held for trading to loans and receivables				
Interest income	35	39	35	39
Amortisation of discount	10	10	10	10
Financial assets reclassified from available for sale to loans and receivables				
Interest income	11	19	2	3
Amortisation of discount	6	10	4	4
Amortisation of fair value reserve	(4)	(8)	(1)	(3)

The following table presents the fair value gains or losses that would have been recognised in the income statement or in other comprehensive income during the year if the Group had not reclassified financial assets from "Held-for-Trading" and "Available-for-Sale" to the "Loans and Receivables" category.

This disclosure is provided for information purposes only and does not reflect what has actually been recorded in the financial statements of the Group.

(in HRK million)		GROUP Restated		BANK
	2015	2014	2015	2014
Financial assets reclassified from held for trading to loans and receivables				
Fair value gains/(losses) which would have been recognised in net trading income and net gains and losses on translation of monetary assets and liabilities	(7)	17	(7)	17
Financial assets reclassified from available for sale to loans and receivables				
Fair value losses which would have been recognised in other comprehensive income	(14)	(9)	(11)	(1)

45 Financial information by segment

The following tables present information on the Group's result of each reportable business segment.

The segment reporting format is based on business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic segment unit that offers different products and serve different markets. Intersegment income and expenses are based on current market prices.

For management purposes, the Bank is organised into 3 operating segments based on products and services accompanied with a central supporting structure. This segmentation follows the organisational structure as reflected in internal management reporting systems, which are the basis for assessing the financial performance of the business segments and for allocating resources to the business segments.

Retail banking: Individual customers' savings and deposits, current accounts and overdrafts, all types of consumer loans, credit cards facilities and other facilities to individual customers

Corporate banking: Loans and other credit facilities as well as deposit and current accounts for corporate and institutional customers including medium-term funding, public sector, government agencies and municipalities as well as small and medium sized enterprises

Finance banking: Treasury operations as well as investment banking services including corporate finance, merger and acquisition services and trading

Central structure: All other residual activities, including fund management activities

Furthermore, the management of the Bank monitors performance of its subsidiaries on an individual basis. However, for the purpose of presentation of the operating segments, with the exception of PBZ Card and ISP BH, subsidiaries have been grouped into one segment. In that context, the following tables present overall financial information for the Bank and the Group by segment.

Items of the income statement in the presented tables on segment information for the Bank and the Group are generally in the format and of classification criteria suited for management reporting purposes. Therefore, the disclosed segments have been reconciled to the financial statements prepared in accordance with IFRS. This reconciliation also includes consolidation adjustments in the Group segment report. Segment assets and segment liabilities for management reporting purpose are stated gross of provisions and other allowances unlike the disclosure criteria in the financial statements where assets and liabilities are presented net of provisions, deferred fees and other tax and non-tax allowances. In that context, reconciliation to the financial statements has reflected such offsetting.

Notes to the financial statements

(continued)

45 Financial information by segment (continued)

a) Information about business segments

GROUP (in HRK million) **As of and for the year ended 31 December 2015**	Corporate banking	Retail banking	Finance banking	Central Structure	PBZ Card	Other subsidiaries	Managerial financial statements	Reconciliation to financial statements	Financial statements
Net interest income	783	1,377	(98)	366	47	40	**2,515**	-	**2,515**
Net commission income/(expense)	346	363	1	-	507	11	**1,228**	-	**1,228**
Net profit/(loss) from trading and dividend and other operating income	10	(38)	(6)	(53)	(174)	113	**(148)**	404	**256**
Operating income	**1,139**	**1,702**	**(103)**	**313**	**380**	**164**	**3,595**	**404**	**3,999**
Operating expenses	(400)	(957)	(46)	-	(166)	(97)	**(1,666)**	(404)	**(2,070)**
Operating profit	**739**	**745**	**(149)**	**313**	**214**	**67**	**1,929**	**-**	**1,929**
Impairments and provisions*	(6)	(177)	(26)	(1,293)	41	(1)	**(1,462)**	-	**(1,462)**
Profit before tax	**733**	**568**	**(175)**	**(980)**	**255**	**66**	**467**	**-**	**467**
Income tax expense	-	-	-	(29)	(60)	(8)	**(97)**	-	**(97)**
Profit after tax	**733**	**568**	**(175)**	**(1,009)**	**195**	**58**	**370**	**-**	**370**
Segment assets	32,243	25,852	19,754	3,899	2,676	2,995	**87,419**	(9,146)	**78,273**
Investments in associates	-	-	-	150	-	-	**150**	-	**150**
Total segment assets	**32,243**	**25,852**	**19,754**	**4,049**	**2,676**	**2,995**	**87,569**	(9,146)	**78,423**
Total segment liabilities	**23,279**	**42,589**	**1,375**	**2,183**	**1,404**	**2,581**	**73,411**	(8,212)	**65,199**
Capital expenditure	1	14	-	82	2	-	**99**	**-**	**99**

* CHF loss on conversion of HRK 1,311 million is presented within central structure segment in line with classification criteria for management reporting purposes.

GROUP (in HRK million) **As of and for the year ended 31 December 2014, restated**	Corporate banking	Retail banking	Finance banking	Central Structure	PBZ Card	Other subsidiaries	Managerial financial statements	Reconciliation to financial statements	Financial statements
Net interest income	691	1,357	(107)	409	60	44	**2,454**	-	**2,454**
Net commission income/(expense)	300	315	32	-	535	9	**1,191**	-	**1,191**
Net profit/(loss) from trading and dividend and other operating income	23	(49)	52	10	(156)	76	**(44)**	358	**314**
Operating income	**1,014**	**1,623**	**(23)**	**419**	**439**	**129**	**3,601**	**358**	**3,959**
Operating expenses	(508)	(886)	(81)	-	(166)	(73)	(1,714)	(358)	(2,072)
Operating profit	**506**	**737**	**(104)**	**419**	**273**	**56**	**1,887**	**-**	**1,887**
Impairments and provisions	(338)	(269)	1	(28)	6	(16)	(644)	-	(644)
Profit before tax	**168**	**468**	**(103)**	**391**	**279**	**40**	**1,243**	**-**	**1,243**
Income tax expense	-	-	-	(190)	(56)	(8)	(254)	-	(254)
Profit after tax	**168**	**468**	**(103)**	**201**	**223**	**32**	**989**	**-**	**989**
Segment assets	28,172	26,692	22,859	3,108	2,900	3,101	**86,832**	(8,646)	**78,186**
Investments in associates	-	-	-	142	-	-	**142**	-	**142**
Total segment assets	**28,172**	**26,692**	**22,859**	**3,250**	**2,900**	**3,101**	**86,974**	(8,646)	**78,328**
Total segment liabilities	**23,384**	**41,744**	**1,114**	**2,131**	**1,674**	**2,727**	**72,774**	(8,469)	**64,305**
Capital expenditure	1	17	-	107	2	-	**127**	-	**127**

45 Financial information by segment (continued)

a) Information about business segments (continued)

BANK (in HRK million) **As of and for the year ended 31 December 2015**	Corporate banking	Retail banking	Finance banking	Central Structure	Managerial financial statements	Reconciliation to financial statements	Financial statements
Net interest income	678	1,249	(99)	365	**2,193**	-	**2,193**
Net commission income	323	326	-	-	**649**	-	**649**
Net profit/(loss) from trading and dividend and other operating income	47	138	(7)	(53)	**125**	194	**319**
Operating income	**1,048**	**1,713**	**(106)**	**312**	**2,967**	**194**	**3,161**
Operating expenses	(408)	(851)	(42)	-	**(1,301)**	(194)	**(1,495)**
Operating profit	**640**	**862**	**(148)**	**312**	**1,666**	**-**	**1,666**
Impairments and provisions*	21	(159)	(26)	(1,293)	**(1,457)**	-	**(1,457)**
Profit before tax	**661**	**703**	**(174)**	**(981)**	**209**	**-**	**209**
Income tax expense	-	-	-	(17)	**(17)**	-	**(17)**
Profit after tax	**661**	**703**	**(174)**	**(998)**	**192**	**-**	**192**
Total segment assets	**29,610**	**23,709**	**18,375**	**3,570**	**75,264**	**(6,050)**	**69,214**
Total segment liabilities	**20,962**	**40,369**	**465**	**2,044**	**63,840**	**(6,050)**	**57,790**
Capital expenditure	1	14	-	75	**90**	**-**	**90**

* CHF loss on conversion of HRK 1,311 million is presented within central structure segment in line with classification criteria for management reporting purposes.

BANK (in HRK million) **As of and for the year ended 31 December 2014**	Corporate banking	Retail banking	Finance banking	Central Structure	Managerial financial statements	Reconciliation to financial statements	Financial statements
Net interest income	579	1,251	(106)	408	**2,132**	**-**	**2,132**
Net commission income	260	298	33	-	**591**	**-**	**591**
Net profit/(loss) from trading and dividend and other operating income	30	(46)	46	10	**40**	181	**221**
Operating income	**869**	**1,503**	**(27)**	**418**	**2,763**	**181**	**2,944**
Operating expenses	(404)	(856)	(76)	-	(1,336)	(181)	**(1,517)**
Operating profit	**465**	**647**	**(103)**	**418**	**1,427**	**-**	**1,427**
Impairments and provisions	(351)	(226)	1	(27)	(603)	-	**(603)**
Profit before tax	**114**	**421**	**(102)**	**391**	**824**	**-**	**824**
Income tax expense	-	-	-	(181)	(181)	-	**(181)**
Profit after tax	**114**	**421**	**(102)**	**210**	**643**	**-**	**643**
Total segment assets	**25,598**	**24,719**	**21,687**	**2,728**	**74,732**	**(5,856)**	**68,876**
Total segment liabilities	**21,291**	**39,741**	**99**	**1,941**	**63,072**	**(5,856)**	**57,216**
Capital expenditure	1	16	-	98	**115**	-	**115**

45 Financial information by segment (continued)

a) Geographical segment information

(in HRK million)		**GROUP** Restated
	2015	2014
Operating income	**3,975**	**3,938**
Croatia	*3,668*	*3,656*
Bosnia and Herzegovina	*307*	*282*
Non-current assets*	**1,337**	**1,404**
Croatia	*1,270*	*1,332*
Bosnia and Herzegovina	*67*	*72*
Capital expenditure	**99**	**127**
Croatia	*90*	*117*
Bosnia and Herzegovina	*9*	*10*

* Includes property and equipment, intangible assets and investment property.

Geographical segmentation is based on the domicile of Group subsidiaries.

46 Financial risk management policies

This section provides details of the Group's exposure to risks and describes the methods used by the management to identify, measure and manage risks. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and equity price risk.

An integrated system of risk management has been established at the Group level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Group and monitoring their implementation. Additionally, the Group sets limits for annual potential loss measured by Value-at-Risk techniques for interest rate, exchange rate and equity price risk. The limits are set according to the amount of regulatory capital and apply to all types of risk. A methodology and models for managing operational risk have been developed.

Accepted management principles of risk management have been implemented in all subsidiaries.

a) Credit risk

The Group is subject to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group deals with counterparties of good credit standing, and when appropriate, obtains collateral.

The Group's primary exposure to credit risk arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. In addition, the Group is exposed to off-balance-sheet credit risk through commitments to extend credit and guarantees issued – as disclosed in Note 36.

Lending commitments including those based on guarantees issued by the Group that are contingent upon customers maintaining specific standards (including the solvency position of customers not worsening) represent liabilities that can be revoked. Irrevocable liabilities are based on undrawn but approved loans and approved overdrafts because these liabilities are the result of terms determined by loan contracts.

Guarantees and approved letters of credit that commit the Group to make payments on behalf of customers in the event of a specific act carry the same credit risk as loans. Standby letters of credit, which represent written guarantees of the Group in a client's name such that a third party can withdraw funds up to the preapproved limit, are covered by collateral, being the goods for which they were issued. The credit risk for this type of product is significantly lower than for direct loans.

Exposure to credit risk has been managed in accordance with the Group's policies and with the regulatory requirements of the Croatian National Bank. Credit exposures to portfolios and individual group exposures are reviewed on a regular basis against the limits set. Breaches are reported to the appropriate bodies and personnel within the Bank authorised to approve them. Any substantial increases in credit exposure are authorised by the Credit Committee. The Asset Quality Committee monitors changes in the credit-worthiness of credit exposures and reviews them for any proposed impairment losses. Credit risk assessment is continuously monitored and reported, thus enabling an early identification of impairment in the credit portfolio. The Group continually applies prudent methods and models used in the process of credit risk assessment.

46 Financial risk management policies

a) Credit risk (continued)

The Group is also continuously developing internal models compliant with an internal ratings-based approach ("IRB"), as prescribed by the CNB Decision on the capital adequacy of credit institutions requirements for calculation of capital adequacy, in order to quantify:

- default risk expressed in terms of internal rating which is periodically assigned to corporate and retail customers and quantified as probability of default (PD models);
- loss given default as an estimate of potential losses in the event of default, given the characteristics of the transaction and present collateral (LGD models).

Internal models are deeply embedded into credit processes and underwriting policies where they determine characteristics of the transaction such as lending limit, required collateral and price as well as an appropriate decision level within an internal scheme of delegation of powers. Furthermore, internal models are also used for calculation of an adequate level of internal capital (ICAAP) and within the stress testing framework.

Maximum exposure to credit risk

The table below presents the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is presented net of impairment allowance before the effect of mitigation through collateral agreements.

(in HRK million)	Notes		GROUP		BANK
		2015	Restated 2014	2015	2014
Cash and current accounts with banks (excluding cash in hand)	16	8,013	6,153	7,713	5,620
Balances with the Croatian National bank	17	4,550	4,748	4,550	4,748
Financial assets at fair value through profit or loss (excluding equity securities and units in investment funds)	18	5,851	6,055	5,792	5,996
Derivative financial assets	19	4	2	4	2
Loans and advances to banks	20	3,450	5,585	2,966	5,107
Loans and advances to customers	21	50,985	51,187	44,186	44,543
Financial assets available for sale (excluding equity securities)	22	900	490	76	20
Held-to-maturity investments	23	17	177	-	-
Other assets (excluding foreclosed assets, prepaid expenses and leaseholds improvements)	28	344	322	197	169
Tax prepayments		157	7	145	-
Total		**74,271**	**74,726**	**65,629**	**66,205**
Contingent liabilities and commitments	36	13,068	12,566	12,023	11,760
Total credit risk exposure		**87,339**	**87,292**	**77,652**	**77,965**

Where financial instruments are recorded at fair value, the amounts shown above represent the credit risk exposure at the reporting date but not the maximum risk exposure that could arise in the future as a result of changes in fair values.

Collateral held and other credit enhancements

In terms of credit risk mitigation the Group's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. As a rule, the Group approves a facility if there are two independent and viable repayment sources – cash flows generated by the borrower's activity and security instruments/collateral. The main types of collateral obtained are as follows:

- cash deposit for which the agreement stipulates that the Bank shall have the right to use the cash deposit for debt recovery and that the depositor may not use this deposit until the final settlement of all obligations under the approved facility;
- guarantee of the Government of the Republic of Croatia;
- pledge of securities issued by the Republic of Croatia or the Croatian National Bank;
- irrevocable guarantee or super guarantee issued by a domestic or foreign bank with adequate credit rating with the conditions of "payable on first demand" or "without objections" or similar;
- credit insurance policy issued by the Croatian Bank for Reconstruction and Development;
- credit insurance policy issued by an appropriate insurance company in accordance with the internal regulations of the Bank;
- pledge of units in investment funds managed by PBZ Invest;
- mortgage/lien/fiduciary transfer of ownership of property, movable property or securities of other issuers.

46 Financial risk management policies (continued)

a) Credit risk (continued)

Collateral held and other credit enhancements (continued)

In general, a quality security instrument is an instrument with characteristics that provide a reasonable estimate of the Bank's ability to recover its receivables secured by that instrument (in case of its activation), through market or court mechanisms, within a reasonable period of time. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its regular review of the adequacy of the allowance for impairment losses.

The majority of housing loans are secured by mortgages over residential property. A significant part of the corporate portfolio is secured by mortgages over different types of property. The Croatian real estate market, commercial and residential alike, has been illiquid since the end of 2007 and there are currently a limited number of transactions, despite a significant decrease in prices in the second half of 2009 and more moderate decreases in subsequent years. The decrease in prices and illiquidity of the real estate market have an adverse effect on the recoverability of assets and the timing thereof in cases when the borrower experiences financial difficulty and the Bank relies on collateral to collect the asset.

Refinanced receivables

Loan refinancing is done for clients where the focus of the business relationship has shifted from making profit to mitigating losses on lending exposure at a stage when legal action for mitigating losses is not yet needed. The goal is timely identification of clients where refinancing would enable them to continue in business and to mitigate or prevent further losses for the Group.

Refinancing activities are based on cooperation with other organisational parts of the Group, which identify clients/exposures that are the subject of refinancing and include: supporting of sales staff in defining the appropriate refinancing strategy, analysing refinancing applications, suggesting measures and making recommendations for refinancing, monitoring progress, monitoring the portfolio, assessing the level of impairment and the Group's proposing measures that would improve collateral coverage in order to strengthen its position in the collection of receivables.

Compared to the end of 2014, refinanced corporate portfolio of the Bank has grown in volume by 34.1% in 2015, amounting to HRK 1,788 million (2014: HRK 1,333 million). The refinanced portfolio provisions coverage as of 31 December 2015 was 50.9 percent (2014: 50 percent). The refinanced individuals portfolio has grown in volume by 18.8% in 2015, amounting to HRK 2,339 million (2014: HRK 1,969 million), with a portfolio provisions coverage of 37.6 percent.

The Group is also continuously improving collection and workout processes (problem loan management framework) by introducing new application support boosting process efficiency and developing novel collection strategies in the form of tailor-made products and offers to retail customers, refinancing standards and support for corporate clients, and finally sale of assets where further collection is deemed immaterial and therefore not appropriate/efficient to be executed within the Group.

Loans and advances to customers: analysis by performance

(in HRK million)	GROUP 2015	GROUP Restated 2014	BANK 2015	BANK 2014
Loans and advances to customers				
Neither past due nor impaired	46,242	44,667	40,508	39,364
Past due but not impaired	2,783	3,625	2,020	2,724
Impaired	6,647	7,809	5,746	6,488
Gross	**55,672**	**56,101**	**48,274**	**48,576**
Specific impairment allowance	(3,510)	(3,947)	(2,985)	(3,133)
IBNR	(593)	(672)	(549)	(628)
Net of impairment allowance	**51,569**	**51,482**	**44,740**	**44,815**

Loans and advances to customers that are neither past due nor impaired

For loans and advances to corporate customers that are neither past due nor impaired the Group and the Bank adopts special monitoring for clients with occasional defaults in repayment of loan. Special monitoring graded clients are analysed in detail within Proactive Credit Exposure Management (PCEM) team where individual client's strategies have been defined, implemented and their execution is closely monitored. In cases where the PCEM strategies fail, the Bank classifies the clients to individually impaired category.

(in HRK million)	GROUP 2015	GROUP Restated 2014	BANK 2015	BANK 2014
Loans and advances to corporate customers				
Standard monitoring	22,255	20,028	20,489	19,290
Special monitoring	962	933	875	871
Loans and advances to retail customers				
Standard monitoring	23,025	23,706	19,144	19,203
Total	**46,242**	**44,667**	**40,508**	**39,364**

46 Financial risk management policies (continued)

a) Credit risk (continued)

Loans and advances to customers past due but not impaired

Past due but not impaired loans and advances to customers are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate based on the level of security, collateral available and/or the stage of collection of amounts owed to the Group.

An ageing analysis of loans and advances to customers past due but not impaired is shown below. The exposures below include both due and not due portions of the loan. The table below provides an aggregated analysis of financial assets for the Group and the Bank.

GROUP 2015 (in HRK million)	up to 15 days	16 to 30 days	31 to 90 days	91 to 180 days	more than 180 days	Total
Government and municipalities	-	1	11	-	-	**12**
Enterprises	142	54	224	-	-	**420**
of which:						
Micro enterprises	3	2	33	-	-	**38**
Small enterprises	14	3	56	-	-	**73**
Mid enterprises	125	39	100	-	-	**264**
Large corporate	-	10	35	-	-	**45**
Others	-	-	231	-	-	**231**
Loans and advances to corporate customers	**142**	**55**	**466**	**-**	**-**	**663**
Housing loans	143	138	329	111	51	**772**
Mortgage loans	13	21	45	6	1	**86**
Car loans	-	-	1	-	-	**1**
Non-purpose loans	126	143	184	15	1	**469**
Quick loans	27	6	29	2	-	**64**
Overdrafts	13	4	8	2	2	**29**
Refinancing	36	48	94	25	11	**214**
Others	301	95	60	16	13	**485**
Loans and advances to retail customers	**659**	**455**	**750**	**177**	**79**	**2,120**
Total	**801**	**510**	**1,216**	**177**	**79**	**2,783**

GROUP 2014, restated (in HRK million)	up to 15 days	16 to 30 days	31 to 90 days	91 to 180 days	more than 180 days	Total
Government and municipalities	-	-	4	-	-	**4**
Enterprises	212	244	311	1	-	**768**
of which:						
Micro enterprises	2	11	53	1	-	**67**
Small enterprises	9	10	80	-	-	**99**
Mid enterprises	190	119	29	-	-	**338**
Large corporate	11	104	149	-	-	**264**
Others	-	-	17	-	-	**17**
Loans and advances to corporate customers	**212**	**244**	**332**	**1**	**-**	**789**
Housing loans	157	200	651	167	93	**1,268**
Mortgage loans	16	28	69	14	3	**130**
Car loans	1	3	5	-	-	**9**
Non-purpose loans	135	148	229	25	2	**539**
Quick loans	22	5	33	2	-	**62**
Overdrafts	14	6	9	3	2	**34**
Refinancing	24	36	129	59	40	**288**
Others	332	98	74	1	1	**506**
Loans and advances to retail customers	**701**	**524**	**1,199**	**271**	**141**	**2,836**
Total	**913**	**768**	**1,531**	**272**	**141**	**3,625**

Notes to the financial statements
(continued)

46 Financial risk management policies (continued)

a) Credit risk (continued)

Loans and advances to customers past due but not impaired (continued)

Bank 2015 (in HRK million)	up to 15 days	16 to 30 days	31 to 90 days	91 to 180 days	more than 180 days	Total
Government and municipalities	-	1	11	-	-	**12**
Enterprises	46	5	162	-	-	**213**
of which:						
Micro enterprises	3	2	33	-	-	**38**
Small enterprises	14	3	56	-	-	**73**
Mid enterprises	29	-	38	-	-	**67**
Large corporate	-	-	35	-	-	**35**
Others	-	-	231	-	-	**231**
Loans and advances to corporate customers	**46**	**6**	**404**	**-**	**-**	**456**
Housing loans	136	127	328	111	51	**753**
Mortgage loans	5	8	41	6	1	**61**
Car loans	-	-	1	-	-	**1**
Non-purpose loans	119	104	177	15	1	**416**
Quick loans	27	6	29	2	-	**64**
Overdrafts	13	4	7	2	2	**28**
Refinancing	36	48	94	25	11	**214**
Others	7	12	7	1	-	**27**
Loans and advances to retail customers	**343**	**309**	**684**	**162**	**66**	**1,564**
Total	**389**	**315**	**1,088**	**162**	**66**	**2,020**

Bank 2014 (in HRK million)	up to 15 days	16 to 30 days	31 to 90 days	91 to 180 days	more than 180 days	Total
Government and municipalities	-	-	4	-	-	**4**
Enterprises	40	100	306	1	-	**447**
of which:						
Micro enterprises	2	11	53	1	-	**67**
Small enterprises	9	10	80	-	-	**99**
Mid enterprises	19	1	29	-	-	**49**
Large corporate	10	78	144	-	-	**232**
Others	-	-	17	-	-	**17**
Loans and advances to corporate customers	**40**	**100**	**327**	**1**	**-**	**468**
Housing loans	149	191	646	167	93	**1,246**
Mortgage loans	8	16	63	14	3	**104**
Car loans	1	2	5	-	-	**8**
Non-purpose loans	123	116	217	25	2	**483**
Quick loans	22	5	33	2	-	**62**
Overdrafts	14	6	8	3	2	**33**
Refinancing	24	36	129	59	40	**288**
Others	7	15	8	1	1	**32**
Loans and advances to retail customers	**348**	**387**	**1,109**	**271**	**141**	**2,256**
Total	**388**	**487**	**1,436**	**272**	**141**	**2,724**

The exposure is presented before the effect of mitigation through collateral agreements.

The delinquencies up to 30 days are of a technical nature and are frequently of low value and represent an insignificant part of the aggregate outstanding amount of the borrower. The management believes that these exposures are fully recoverable.

Loans to retail customers which are past due more than 90 days relate to those loans whose due instalments are below materiality threshold set by the Group. A significant part of this effect relates to housing loans which have relatively low instalments compared to total debt.

Notes to the financial statements

(continued)

46 Financial risk management policies (continued)

a) Credit risk (continued)

Loans and advances to customers that are impaired

The Group determines that loans and advances to customers are impaired when there is objective evidence that a loss event has occurred since initial recognition and such loss event has an impact on future estimated cash flows from the asset. Impaired loans and advances to customers are set out below:

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Loans and advances to corporate customers				
Government and municipalities	10	41	10	41
Enterprises	3,315	3,924	2,706	3,199
of which:				
Micro enterprises	531	594	531	594
Small enterprises	592	725	592	725
Mid enterprises	1,174	1,378	673	759
Large corporate	1,018	1,227	910	1,121
Others	231	263	231	263
Total gross amount	**3,556**	**4,228**	**2,947**	**3,503**
Specific impairment allowance	(1,919)	(1,972)	(1,605)	(1,647)
Net amount	**1,637**	**2,256**	**1,342**	**1,856**
Loans and advances to retail customers				
Housing loans	795	854	786	846
Mortgage loans	168	196	146	172
Car loans	19	26	15	22
Non-purpose loans	373	511	302	446
Quick loans	53	119	53	119
Overdrafts	89	112	83	106
Refinancing	1,387	1,236	1,387	1,236
Others	207	527	27	38
Total gross amount	**3,091**	**3,581**	**2,799**	**2,985**
Specific impairment allowance	(1,591)	(1,975)	(1,380)	(1,486)
Net amount	**1,500**	**1,606**	**1,419**	**1,499**
Total gross amount	**6,647**	**7,809**	**5,746**	**6,488**
Specific impairment allowance	(3,510)	(3,947)	(2,985)	(3,133)
Net amount	**3,137**	**3,862**	**2,761**	**3,355**

The fair value of collateral that the Group and the Bank hold in respect of loans determined to be impaired as of 31 December 2015 amounts to HRK 7,100 million (31 December 2014: HRK 8,201 million).

Analysis of performance of other financial assets

The table below sets out the credit quality of other financial assets.

GROUP (in HRK million)	Financial assets at fair value through profit or loss	Loans and advances to banks	Financial assets available for sale	Held-to-maturity investments
As at 31 December 2015				
Neither past due nor impaired	5,851	3,498	900	17
Past due but not impaired	-	-	-	-
Impaired	6	8	-	-
Gross	**5,857**	**3,506**	**900**	**17**
Specific impairment allowance	(6)	(8)	-	-
IBNR	-	(48)	-	-
Net of impairment allowance	**5,851**	**3,450**	**900**	**17**
As at 31 December 2014, restated				
Neither past due nor impaired	6,055	5,630	490	178
Past due but not impaired	-	-	-	-
Impaired	6	8	-	-
Gross	**6,061**	**5,638**	**490**	**178**
Specific impairment allowance	(6)	(8)	-	-
IBNR	-	(45)	-	(1)
Net of impairment allowance	**6,055**	**5,585**	**490**	**177**

46 Financial risk management policies (continued)

a) Credit risk (continued)

Analysis of performance of other financial assets (continued)

BANK (in HRK million)	Financial assets at fair value through profit or loss	Loans and advances to banks	Financial assets available for sale	Held-to-maturity investments
As at 31 December 2015				
Neither past due nor impaired	5,792	3,014	76	-
Past due but not impaired	-	-	-	-
Impaired	6	8	-	-
Gross	**5,798**	**3,022**	**76**	**-**
Specific impairment allowance	(6)	(8)	-	-
IBNR	-	(48)	-	-
Net of impairment allowance	**5,792**	**2,966**	**76**	**-**
As at 31 December 2014				
Neither past due nor impaired	5,996	5,152	20	-
Past due but not impaired	-	-	-	-
Impaired	6	8	-	-
Gross	**6,002**	**5,160**	**20**	**-**
Specific impairment allowance	(6)	(8)	-	-
IBNR	-	(45)	-	-
Net of impairment allowance	**5,996**	**5,107**	**20**	**-**

Loans and advances to customers per internal risk classification

Credit risk of loans and advances to customers is monitored using internal classifications for the credit risk.
The Group internally classifies the loan exposures into the following risk categories:

- Performing: the client is timely servicing its liabilities and there is no objective evidence of impairment;
- Doubtful: exposures to borrowers being effectively insolvent (although not yet legally) or in comparable status, regardless of any loss forecasts made by the bank;
- Unlikely to pay: exposures to borrowers which are experiencing financial or economic difficulties that are expected to be overcome in a reasonable period of time;
- Past due impaired: exposures other than those classified as unlikely to pay or doubtful that are past due for more than 90 days on a continuous basis above the established threshold.

The tables below present exposures to loans and advances to customers broken down by internal risk grades for management reporting purposes as at 31 December 2015 and 31 December 2014. The amounts provided are gross of specific or collective provisions.

GROUP (in HRK million)		**2015**		Restated **2014**
	Loans and advances to customers	Impairment allowance	Loans and advances to customers	Impairment allowance
Performing loans	**49,025**	**593**	**48,292**	**672**
Non-performing loans	**6,647**	**3,510**	**7,809**	**3,947**
Doubtful loans	*3,646*	*2,415*	*4,378*	*2,931*
Unlikely to pay	*2,909*	*1,065*	*3,219*	*954*
Past due impaired	*92*	*30*	*212*	*62*
	55,672	**4,103**	**56,101**	**4,619**

(in HRK million)

BANK		**2015**		**2014**
	Loans and advances to customers	Impairment allowance	Loans and advances to customers	Impairment allowance
Performing loans	**42,528**	**549**	**42,088**	**628**
Non-performing loans	**5,746**	**2,985**	**6,488**	**3,133**
Doubtful loans	*3,007*	*1,940*	*3,376*	*2,193*
Unlikely to pay	*2,673*	*1,026*	*2,986*	*908*
Past due impaired	*66*	*19*	*126*	*32*
	48,274	**3,534**	**48,576**	**3,761**

Notes to the financial statements
(continued)

46 Financial risk management policies (continued)

a) Credit risk (continued)

Loans and advances to customers per internal risk classification (continued)

The table below provides information of the credit quality of financial assets at fair value through profit or loss (excluding equity securities and units in investment funds); using external ratings of Fitch Ratings or Standard & Poor's if Fitch Ratings was not available:

(in HRK million)		GROUP		BANK
	2015	Restated 2014	2015	2014
Government bonds and treasury bills	**5,763**	**5,956**	**5,704**	**5,897**
BB+	3,146	5,454	3,101	5,395
BB	1,383	410	1,383	410
no rating	1,234	92	1,220	92
Domestic corporate bonds	**61**	**50**	**61**	**50**
BB-	11	16	11	16
B+	49	-	49	-
B	-	22	-	22
no rating	1	12	1	12
Municipal bonds	**27**	**49**	**27**	**49**
no rating	27	49	27	49
Total	**5,851**	**6,055**	**5,792**	**5,996**

Offsetting financial assets and financial liabilities

The disclosures set out in the table on the next page include financial assets and financial liabilities that are offset in the Group's statement of financial position; or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the tables unless they are offset in the statement of financial position.

The Group receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements; and
- securities lending and borrowing.

The disclosures set out in the table on the next page include financial assets and financial liabilities that are subject to offsetting, irrespective of whether they are offset in the statement of financial position. These include derivative clearing agreements, sale and repurchase agreements and reverse sale and repurchase agreements.

Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts, foreign exchange swaps and embedded derivatives in contracts with a single-sided currency clause. All derivatives are classified as held for trading and carried as assets when their fair value is positive and as liabilities when negative.

At 31 December 2015 derivative financial instruments with positive fair value amounted to HRK 4 million (31 December 2014: HRK 2 million), and derivative financial instruments with negative fair value amounted to HRK 15 million (31 December 2014: HRK 1 million) for both Group and Bank.

Sale and repurchase agreement, and reverse sale and repurchase transaction

Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it at a fixed price on a future date. The Group continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and a financial liability is recognised for the obligation to repay at the repurchase price, classified as interest-bearing borrowings.

Reverse sale and repurchase agreements are transactions in which the Group purchases a security and simultaneously agrees to sell it at a fixed price on a future date. The Group holds collateral in the form of marketable securities in respect of loans given.

Sale and repurchase agreements as well as reverse sale and repurchase agreements give the Group possibility for offsetting on a net basis, in case of default of any counterparty.

Notes to the financial statements

(continued)

46 Financial risk management policies (continued)

a) Credit risk (continued)

Offsetting financial assets and financial liabilities (continued)

Sale and repurchase agreement, and reverse sale and repurchase transaction (continued)

The table below shows the amount of collateral accepted in respect of reverse sale and repurchase agreements and given in respect of sale and repurchase agreements. Collateral accepted and given includes government issued T-bills and Bonds.

(in HRK million)	GROUP		BANK	
	2015	2014	2015	2014
Receivables from reverse sale and repurchase agreements related to:	**159**	**159**	**182**	**220**
- loans and advances to banks	*20*	*140*	*20*	*201*
- loans and advances to customers	*162*	*19*	*162*	*19*
Fair value of collateral accepted in respect of the above	205	169	205	235
Payables under sale and repurchase agreements	**-**	**-**	**-**	**-**
- interest-bearing borrowings	-	-	-	-
Carrying amount of collateral provided in respect of the above relating to:	-	-	-	-
- financial assets at fair value through profit and loss	-	-	-	-
- debt securities classified as loans and receivables	-	-	-	-

b) Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at the appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, interest-bearing borrowings and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funding. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy. In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management.

The Group adjusts its business activities to manage liquidity risk according to regulatory and internal policies for the maintenance of liquidity reserves, matching of liabilities and assets, control of limits, preferred liquidity ratios and contingency planning procedures. Needs for short-term liquidity are planned every month for a period of one month and are controlled and maintained daily. The Treasury department manages liquidity reserves daily, ensuring also the fulfilment of all customer needs.

Apart from external requirements that include regulatory limits prescribed by the CNB (obligatory reserve with the CNB, minimum required amount of foreign currency claims, minimum liquidity coefficient and others), the Bank has defined a set of internal limits for measuring and monitoring liquidity risk exposure. Thus, the process of liquidity monitoring and control is defined through the following activities and indicators:
monitoring of liquidity reserve levels;
short-term mismatches (Liquidity coverage ratio and Short term Gap);
stressed short-term mismatches;

- monitoring and control of the Bank's structural liquidity ratios (Net stable funding ratio and Medium and long-term "MLT" structural indicator) and analysis of the Bank's funding structure (core deposits modelling, MLT funding projection);
- money market debt exposure towards the overall deposit base and other funding concentration ratios;
- cash flow projections;
- liquidity contingency plan indicators.

For the purpose of the Group's liquidity risk exposure reporting, the following three types of signals are defined:

- *Hard limit* - breach of a prescribed limit demands action in accordance with the Bank's liquidity risk management guidelines;
- *Threshold of attention* - breach of a threshold acts as an early warning signal, demanding additional attention and action if decided by responsible persons;
- *Information on various measures and indicators* - serving as information to the relevant decision-making bodies.

In accordance with the CNB Decision on minimum foreign currency claims, the Bank is obliged to maintain a minimum of 17% (2014: 17%) of foreign currency liabilities in short-term assets. The actual figures were as follows:

2015	%	2014	%
"17% ratio" (at year end)	24.10	"17% ratio" (at year end)	21.08
Average	21.35	Average	19.64
Maximum	26.75	Maximum	25.15
Minimum	17.57	Minimum	17.45

A maturity analysis of financial liabilities according to the remaining contractual maturity as well as an analysis of financial assets and financial liabilities according to their expected maturities are presented in Note 47 to these financial statements.
As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and debt securities for which there is an active and liquid market so that they can be readily sold to meet liquidity requirements. In addition, the Group maintains agreed lines of credit with banks and holds unencumbered assets eligible for use as collateral.

46 Financial risk management policies (continued)

c) Market risk

All trading instruments are subject to market risk, which is the risk that changes in market prices, such as interest rates, equity securities prices, foreign exchange rates and credit spreads (not relating to changes in the obligator's/ issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The Group manages and controls market risk exposures within acceptable parameters to ensure the Group's solvency while optimising the return on risk.

Market risk limits are defined based on the Group strategy and requirements, in accordance with senior management risk policy indicators.

Market risk measurement techniques

Exposure to market risk is formally managed by risk limits which are approved by senior management and revised at least annually. The Group applies the following market risk management techniques: VaR ("Value at Risk"), issuer limits, positional (nominal) exposure, PV01 (the present value of the impact of a 1 bps movement in interest rate) and stop loss limits. The exposure figures and limit utilisations are delivered daily to the senior management and lower management levels within the Treasury Division, which enables informed decision-making at all management and operational levels.

The Group follows market risk measurement and management principles set in cooperation with the Intesa Sanpaolo Group. VaR methodology is used as a basis for top management reporting on the Group's market risk exposure. The Group uses historical simulation (as the Group standard VaR methodology) and RiskWatch (as a Group wide VaR calculation engine), and other supporting activities (pricing, back-testing, stress testing) to ensure compliance with Intesa Sanpaolo Group standards.

The major elements of the market risk management framework include:

- Sensitivity;
- Fair Value Measurement;
- Level measurements (nominal amount, open position, market value etc.);
- Profit and loss indicators (P&L);
- Stress testing and scenario analysis;
- Monitoring and measurement of counterparty and delivery risk exposure.
- *VaR*

The principal tool used to measure and control market risk exposure within the Group's trading portfolio is value-at-risk (VaR). VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) given an adverse movement with a specified probability (confidence level). The model used by the Group is based upon a 99% confidence level, assumes a 1 day holding period and takes into account 250 historical scenarios. The use of a 99% confidence level means that losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

The Group uses VaR to measure the following market risks:

- general interest rate risk in trading book;
- equity risk in trading book;
- foreign exchange risk on the statement of financial position level (both trading and banking book).

(in HRK thousand)	Equity VaR	Interest rate VaR	Foreign exchange VaR	Effects of correlation	Total
GROUP					
2015 – 2 January	254	1,020	1,623	(1,325)	**1,572**
2015 – 31 December	241	878	5,335	210	**6,664**
2015 – Average daily	261	613	7,121	(707)	**7,288**
2015 – Lowest	215	36	49	(14)	**286**
2015 – Highest	388	2,789	31,209	(2,785)	**31,601**
Note: historical simulation used for VaR calculations					

It is not practicable to disclose comparative information for 2014 for the Group.

(in HRK thousand)	Equity VaR	Interest rate VaR	Foreign exchange VaR	Effects of correlation	Total
BANK					
2015 – 2 January	254	1,020	1,623	(1,325)	**1,572**
2015 – 31 December	241	878	5,337	206	**6,662**
2015 – Average daily	261	613	7,122	(712)	**7,284**
2015 – Lowest	215	36	49	(14)	**286**
2015 – Highest	388	2,789	31,209	(2,785)	**31,601**
Note: historical simulation used for VaR calculations					

(in HRK thousand)	Equity VaR	Interest rate VaR	Foreign exchange VaR	Effects of correlation	Total
BANK					
2014 – 2 January	293	30	1,101	(281)	**1,143**
2014 – 31 December	253	1,020	2,183	(1,323)	**2,133**
2014 – Average daily	319	400	2,167	(684)	**2,202**
2014 – Lowest	227	16	92	95	**430**
2014 – Highest	566	1,519	4,679	(2,093)	**4,671**
Note: historical simulation used for VaR calculations					

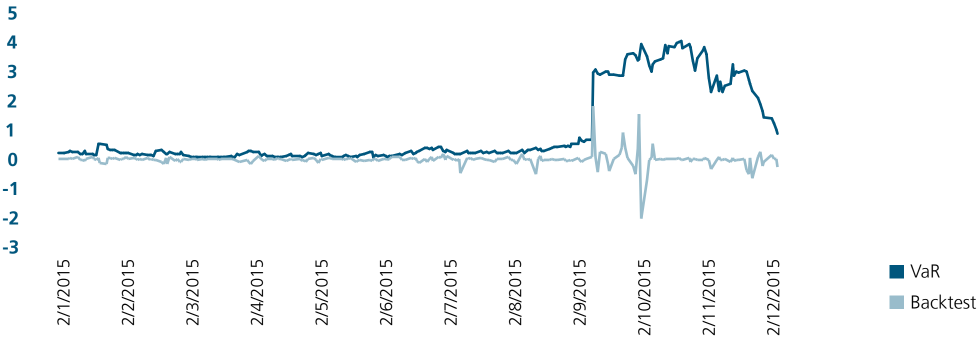
46 Financial risk management policies (continued)

c) Market risk (continued)

Chart below presents Bank's Total VaR movements in 2015 and corresponding backtest values:

HRK mid-point exchange rate

Source: CNB



Due to the fact that main contributor of the Total VaR is FX Open position, in 2015 Total VaR changed in line with movement of FX Open position.

According to the Act Amending the Consumer Credit Act effective from 30 September 2015, the Bank was obliged to convert all of its retail loans denominated in CHF to loans denominated in EUR. During the period of conversion the Bank was potentially exposed to significant FX risks generated by expected CHF short position which represents obligation to convert at fixed predetermined rate. Therefore, for the purpose of hedging the FX risks the Bank made an arrangement for put EUR - call CHF option. Consequently, Total and FX VaR limits were breached from 29 September 2015. In line with conversion dynamics Total and FX VaR were decreasing while majority of conversions were covered in second half of December 2015. Finally, as of 31 December 2015 Total and FX VaR were within prescribed limits.

In accordance with confidence level of VaR model, in period of one year at least 2 backtest breaches are expected, while in 2015 seven backtest breaches were observed of which six are related to significant change of exchange rate and one is related to decrease of equities prices.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations:

- a one day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for illiquid assets or in situations in which there is severe market illiquidity
- a 99% confidence level does not reflect losses that may occur beyond this level
- the use of historical data as a basis for determining the possible range of future outcomes may not cover all possible scenarios, especially those of an exceptional nature
- the VaR measure is dependent upon the Group's position and the volatility of market prices.

To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. As part of the validation process, the potential weaknesses of the models are analysed using statistical techniques, such as back-testing.

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies. Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored daily in accordance with regulations and internally set limits, for each currency and for the total assets and liabilities denominated in or linked to foreign currency.

The currency risk exposure is monitored at the overall statement-of-financial-position level by calculating the foreign exchange open position as prescribed by the regulatory provisions and daily through internal limits based on market risk models (foreign exchange VaR). The management of foreign exchange currency risk is supported by monitoring the sensitivity of the Group's financial assets and liabilities to fluctuation in foreign currencies.

The tables below indicate the currencies to which the Group and the Bank had significant exposure at 31 December 2015 and 31 December 2014 and for other currencies summarized. FX open position represents net exposure in foreign currency, for both balance and off-balance sheet items, after adjustments for the effects of derivatives. The analysis calculates the effect of a reasonably possible movement of the currencies against the kuna, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in the income statement, while a positive amount reflects a net potential increase.

GROUP

Currency (in HRK million)	FX Open position 31 December 2015*		Scenario 2015	FX Open position 31 December 2014*		Scenario 2014, restated
		10% Move Up	10% Move Down		10% Move Up	10% Move Down
GROUP						
EUR	**(151)**	(15.1)	15.1	**497**	49.7	(49.7)
CHF	**497**	49.7	(49.7)	**(13)**	(1.3)	1.3
USD	**3**	0.3	(0.3)	**8**	0.8	(0.8)
Other	**1,694**	169.4	(169.4)	**1,108**	110.8	(110.8)

* Positive amounts represent long FX position while negative amounts represent short FX Position.

Notes to the financial statements

(continued)

46 Financial risk management policies (continued)

c) Market risk (continued)

BANK

Currency (in HRK million)	FX Open position 31 December 2015*	Scenario 2015 10% Move Up	Scenario 2015 10% Move Down	FX Open position 31 December 2014*	Scenario 2014 10% Move Up	Scenario 2014 10% Move Down
GROUP						
EUR	**(265)**	(26.5)	26.5	**619**	61.9	(61.9)
CHF	**497**	49.7	(49.7)	**(13)**	(1.3)	1.3
USD	**2**	0.2	(0.2)	**7**	0.7	(0.7)
Other	**10**	1	(1)	**5**	0.5	(0.5)

* Positive amounts represent long FX position while negative amounts represent short FX Position.

Currency risk is further analysed in Note 49.

Interest rate risk

Interest rate risk represents the risk of decrease in assets values caused by adverse interest rate changes. Interest rate changes affect the net present value of future cash flows and consequently net interest income.

The sources of interest rate risk are:

- repricing risk - resulting from unfavourable changes in the fair value of assets and liabilities in the remaining period until the next interest rate change;
- yield curve risk - the risk of changes in shape and slope of yield curve; and
- basis risk - the risk of different base rates of corresponding asset and liabilities (e.g. EURIBOR vs LIBOR).

Asset-liability risk management activities are conducted to manage the Group's sensitivity to interest rate changes. Exposure to interest rate risk is monitored and measured using repricing gap analysis, net interest income and the economic value of capital. Risk management activities are aimed at optimising net interest income and the economic value of capital, in accordance with the Group's business strategies and given market interest rate levels.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates of the Group and the Bank income statements, with all other variables held constant. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2015. Items with floating interest rate are distributed according to next repricing date, while items with fixed interest rate according to their original maturity.

(in HRK million)	Increase in basis points	Change at 31 December 2015			Change at 31 December 2014, restated		
		interest income	interest expenses	net interest income	interest income	interest expenses	net interest income
GROUP	+25	128.5	(90.9)	37.6	125.1	(88.1)	37.0
	+50	257.0	(181.7)	75.3	250.1	(176.5)	73.6
BANK	+25	116.0	(81.1)	34.9	111.5	(77.1)	34.4
	+50	231.8	(162.2)	69.6	223.0	(154.5)	68.5

A decrease in basis points would have an opposite effect on the Bank and Group's net interest income in the same amount.

Interest rate risk management is further analysed in Note 47.

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment. The primary exposure to equity prices arises from equity securities held for trading and available for sale, which is not significant.

Derivative financial instruments

The Group enters into derivative financial instruments primarily to satisfy the needs and requirements of customers. Derivative financial instruments used by the Group include foreign exchange swaps and forwards. Derivatives are contracts which are individually negotiated over the counter.

d) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk. In order to measure and manage operational risk exposure at the Group level efficiently, the Group applies an internal model for operational risk exposure management in line with the prescribed Basel II framework.

The internal model for calculation of the regulatory capital requirement for operational risk is based on the Advanced Measurement Approach (AMA) and contains the following components: *Loss Distribution Approach – LDA* based on measure of historical losses or ex-post measured exposure (backward looking) and integrated *self-diagnosis process* (scenario analysis and business environment evaluation) based on subjective estimation of possible future operational losses (forward looking measure).

The AMA model has been used only for the calculation of the capital requirement for the Bank and it applies the AMA approach since 31 March 2011. For all other Group members the Standardised Approach (TSA) has been used, which calculates capital requirement as a risk weighted indicator for all regulatory business lines.

47 Interest rate risk

The following tables present the Group's and the Bank's assets and liabilities analysed according to repricing periods determined as the earlier of the remaining contractual maturity and the contractual repricing. Following amendments to the Customer Protection Law, which abolished the concept of administrative interest rates, for the majority loans covered by this Act interest rate is linked to one of the published index. Such loans are put in the appropriate category according to their next repricing period which depends on the period of the index revision. For part of housing loans financed from the joint program with the HBOR, according to the contract, regardless of the displayed index, the next repricing date is a fixed date in the future.

As at 1 January 2014, the Ministry of Finance amended the Consumer Lending Act which requires defining clear parameters in calculating interest rates for all existing loans. Consequently, the Bank changed its contracts with customers (which were previously agreed with administrative interest rate) and now all those clients have variable interest rate, which is linked to 6M EURIBOR and 6M NRS1 for EUR and HRK loans, and 6M LIBOR for non-housing CHF loans. CHF housing loans which in accordance with the amended Consumer Lending Act, have prescribed an interest rate which equals to weighted average of interest rates for all Croatian credit institutions decreased by 30% (i.e. 3.23%) as long as the appreciation of foreign exchange rate from initial fx rate is above 20%. Given the non-existence of the long-term forward rates for such contracts, it is not practicable for the Bank to separate and value embedded derivative related to contracts linked to CHF. Accordingly, embedded derivatives on these contracts are not separately measured and presented in these financial statements.

(in HRK million)

GROUP As at 31 December 2015	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
Assets						
Cash and current accounts with banks	8,800	-	-	-	1,195	**9,995**
Balances with the Croatian National Bank	-	-	-	-	4,550	**4,550**
Financial assets at fair value through profit or loss	-	2,004	3,690	101	175	**5,970**
Derivative financial assets	-	-	-	-	4	**4**
Loans and advances to banks	2,907	20	139	-	384	**3,450**
Loans and advances to customers	6,739	15,674	17,296	8,972	2,304	**50,985**
Financial assets available for sale	1	1	84	814	218	**1,118**
Held-to-maturity investments	-	-	-	17	-	**17**
Investments in associates	-	-	-	-	150	**150**
Intangible assets	-	-	-	-	182	**182**
Property and equipment	-	-	-	-	1,132	**1,132**
Investment property	-	-	-	-	23	**23**
Deferred tax assets	-	-	-	-	141	**141**
Other assets	-	-	-	-	549	**549**
Tax prepayments	-	-	-	-	157	**157**
Total assets	**18,447**	**17,699**	**21,209**	**9,904**	**11,164**	**78,423**
Liabilities						
Current accounts and deposits from banks	1,006	7	62	8	-	**1,083**
Current accounts and deposits from customers	5,724	5,613	37,581	8,686	576	**58,180**
Derivative financial liabilities	-	-	-	-	15	**15**
Interest-bearing borrowings	342	886	1,015	1,639	2	**3,884**
Subordinated liabilities	-	-	-	2	-	**2**
Other liabilities	-	-	-	-	1,438	**1,438**
Accrued expenses and deferred income	-	-	-	-	238	**238**
Provisions for liabilities and charges	-	-	-	-	313	**313**
Deferred tax liabilities	-	-	-	-	34	**34**
Current tax liability	-	-	-	-	11	**11**
Total liabilities	**7,072**	**6,506**	**38,658**	**10,335**	**2,627**	**65,198**
Interest sensitivity gap	**11,375**	**11,193**	**(17,449)**	**(431)**	**8,537**	**13,225**

47 Interest rate risk (continued)

GROUP (in HRK million)	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2014, restated						
Assets						
Cash and current accounts with banks	6,471	-	-	-	1,160	**7,631**
Balances with the Croatian National Bank	-	-	-	-	4,748	**4,748**
Financial assets at fair value through profit or loss	342	2,556	2,904	161	218	**6,181**
Derivative financial assets	-	-	-	-	2	**2**
Loans and advances to banks	3,337	1,715	73	140	320	**5,585**
Loans and advances to customers	5,280	16,356	17,305	10,060	2,186	**51,187**
Financial assets available for sale	-	20	36	431	101	**588**
Held-to-maturity investments	-	-	157	17	3	**177**
Investments in associates	-	-	-	-	142	**142**
Intangible assets	-	-	-	-	164	**164**
Property and equipment	-	-	-	-	1,216	**1,216**
Investment property	-	-	-	-	24	**24**
Deferred tax assets	-	-	-	-	144	**144**
Other assets	-	-	-	-	532	**532**
Tax prepayments	-	-	-	-	7	**7**
Total assets	**15,430**	**20,647**	**20,475**	**10,809**	**10,967**	**78,328**
Liabilities						
Current accounts and deposits from banks	1,132	134	13	20	-	**1,299**
Current accounts and deposits from customers	23,852	6,063	16,439	8,258	734	**55,346**
Derivative financial liabilities	-	-	-	-	1	**1**
Interest-bearing borrowings	353	2,824	998	1,348	46	**5,569**
Subordinated liabilities	-	-	-	2	-	**2**
Other liabilities	-	-	-	-	1,416	**1,416**
Accrued expenses and deferred income	-	-	-	-	308	**308**
Provisions for liabilities and charges	-	-	-	-	329	**329**
Deferred tax liabilities	-	-	-	-	11	**11**
Current tax liability	-	-	-	-	24	**24**
Total liabilities	**25,337**	**9,021**	**17,450**	**9,628**	**2,869**	**64,305**
Interest sensitivity gap	**(9,907)**	**11,626**	**3,025**	**1,181**	**8,098**	**14,023**

BANK (in HRK million)	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2015						
Assets						
Cash and current accounts with banks	7,712	-	-	-	1,431	**9,143**
Balances with the Croatian National Bank	-	-	-	-	4,550	**4,550**
Financial assets at fair value through profit or loss	-	1,994	3,640	101	83	**5,818**
Derivative financial assets	-	-	-	-	4	**4**
Loans and advances to banks	2,790	20	139	-	17	**2,966**
Loans and advances to customers	6,326	15,028	14,363	8,206	263	**44,186**
Financial assets available for sale	-	-	-	76	217	**293**
Investments in subsidiaries and associates	-	-	-	-	963	**963**
Intangible assets	-	-	-	-	106	**106**
Property and equipment	-	-	-	-	625	**625**
Investment property	-	-	-	-	10	**10**
Deferred tax assets	-	-	-	-	100	**100**
Other assets	-	-	-	-	305	**305**
Tax prepayments	-	-	-	-	145	**145**
Total assets	**16,828**	**17,042**	**18,142**	**8,383**	**8,819**	**69,214**
Liabilities						
Current accounts and deposits from banks	944	98	283	48	-	**1,373**
Current accounts and deposits from customers	3,789	5,357	36,015	6,985	669	**52,815**
Derivative financial liabilities	-	-	-	-	15	**15**
Interest-bearing borrowings	223	694	655	1,266	-	**2,838**
Other liabilities	-	-	-	-	316	**316**
Accrued expenses and deferred income	-	-	-	-	123	**123**
Provisions for liabilities and charges	-	-	-	-	288	**288**
Deferred tax liabilities	-	-	-	-	22	**22**
Total liabilities	**4,956**	**6,149**	**36,953**	**8,299**	**1,433**	**57,790**
Interest sensitivity gap	**11,872**	**10,893**	**(18,811)**	**84**	**7,386**	**11,424**

Notes to the financial statements

(continued)

47 Interest rate risk (continued)

BANK (in HRK million)	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2014						
Assets						
Cash and current accounts with banks	5,619	-	-	-	1,354	**6,973**
Balances with the Croatian National Bank	-	-	-	-	4,748	**4,748**
Financial assets at fair value through profit or loss	342	2,546	2,854	161	117	**6,020**
Derivative financial assets	-	-	-	-	2	**2**
Loans and advances to banks	3,117	1,777	73	140	-	**5,107**
Loans and advances to customers	4,914	15,533	14,498	9,414	184	**44,543**
Financial assets available for sale	-	-	-	20	96	**116**
Investments in subsidiaries and associates	-	-	-	-	215	**215**
Intangible assets	-	-	-	-	90	**90**
Property and equipment	-	-	-	-	684	**684**
Investment property	-	-	-	-	11	**11**
Deferred tax assets	-	-	-	-	98	**98**
Other assets	-	-	-	-	269	**269**
Total assets	**13,992**	**19,856**	**17,425**	**9,735**	**7,868**	**68,876**
Liabilities						
Current accounts and deposits from banks	1,077	-	320	63	-	**1,460**
Current accounts and deposits from customers	22,118	5,802	14,644	7,148	675	**50,387**
Derivative financial liabilities	-	-	-	-	1	**1**
Interest-bearing borrowings	220	2,497	567	1,214	40	**4,538**
Other liabilities	-	-	-	-	319	**319**
Accrued expenses and deferred income	-	-	-	-	190	**190**
Provisions for liabilities and charges	-	-	-	-	306	**306**
Deferred tax liabilities	-	-	-	-	1	**1**
Current tax liability	-	-	-	-	14	**14**
Total liabilities	**23,415**	**8,299**	**15,531**	**8,425**	**1,546**	**57,216**
Interest sensitivity gap	**(9,423)**	**11,557**	**1,894**	**1,310**	**6,322**	**11,660**

48 Weighted average interest rates

The average effective interest rates for interest-earning financial assets and interest-bearing financial liabilities during the year are calculated on average balances at the end of each month for the Group and average monthly balances for the Bank.

The weighted average interest rates at the year-end are as follows:

		GROUP		BANK
	2015	Restated 2014	2015	2014
	%	%	%	%
Current accounts with banks	0.00	0.00	0.00	0.00
Balances with the Croatian National Bank	0.00	0.00	0.00	0.00
Financial assets at fair value through profit or loss	1.70	2.41	1.75	2.47
Loans and advances to banks	0.26	0.25	0.27	0.25
Loans and advances to customers	5.63	6.08	5.69	6.19
Current accounts and deposits from customers	1.48	1.86	1.40	1.79
Current accounts and deposits from banks and interest-bearing borrowings	1.56	1.94	1.78	2.05

Notes to the financial statements

(continued)

49 Currency risk

The Group manages its exposure to currency risk through a variety of measures including the use of revaluation clauses, which have the same effect as denominating HRK assets in other currencies and foreign currency deals bought and sold forward.

The Group's open FX position is mitigated through the use of derivative financial instruments which are not shown in the tables below.

GROUP (in HRK million)	EUR and EUR linked	CHF and CHF linked	USD and USD linked	Other currencies	HRK	Total
As at 31 December 2015						
Assets						
Cash and current accounts with banks	3,868	630	271	1,211	4,015	**9,995**
Balances with the Croatian National Bank	660	-	-	-	3,890	**4,550**
Financial assets at fair value through profit or loss	1,185	-	-	-	4,785	**5,970**
Derivative financial assets	-	-	-	-	4	**4**
Loans and advances to banks	10	-	1,756	356	1,328	**3,450**
Loans and advances to customers	32,695	740	591	1,347	15,612	**50,985**
Financial assets available for sale	725	-	-	161	232	**1,118**
Held-to-maturity investments	17	-	-	-	-	**17**
Investments in associates	-	-	-	-	150	**150**
Intangible assets	-	-	-	20	162	**182**
Property and equipment	-	-	-	47	1,085	**1,132**
Investment property	-	-	-	-	23	**23**
Deferred tax assets	-	-	-	1	140	**141**
Other assets	44	-	11	36	458	**549**
Tax prepayments	-	-	-	6	151	**157**
Total assets	**39,204**	**1,370**	**2,629**	**3,185**	**32,035**	**78,423**
Liabilities						
Current accounts and deposits from banks	465	100	83	77	358	**1,083**
Current accounts and deposits from customers	34,036	779	3,026	2,183	18,156	**58,180**
Derivative financial liabilities	-	-	-	-	15	**15**
Interest-bearing borrowings	3,071	-	3	9	801	**3,884**
Subordinated liabilities	**-**	-	-	2	-	**2**
Other liabilities	84	2	9	51	1,292	**1,438**
Accrued expenses and deferred income	2	-	-	-	236	**238**
Provisions for liabilities and charges	35	-	14	17	247	**313**
Deferred tax liabilities	-	-	-	7	27	**34**
Current tax liability	-	-	-	1	10	**11**
Total liabilities	**37,693**	**881**	**3,135**	**2,347**	**21,142**	**65,198**
Net position	**1,511**	**489**	**(506)**	**838**	**10,893**	**13,225**

GROUP (in HRK million)	EUR and EUR linked	CHF and CHF linked	USD and USD linked	Other currencies	HRK	Total
As at 31 December 2014, restated						
Assets						
Cash and current accounts with banks	1,380	58	92	840	5,261	**7,631**
Balances with the Croatian National Bank	651	-	-	-	4,097	**4,748**
Financial assets at fair value through profit or loss	507	-	-	-	5,674	**6,181**
Derivative financial assets	-	-	-	-	2	**2**
Loans and advances to banks	2,534	-	2,168	580	303	**5,585**
Loans and advances to customers	31,118	3,123	364	1,353	15,229	**51,187**
Financial assets available for sale	374	-	-	98	116	**588**
Held-to-maturity investments	177	-	-	-	-	**177**
Investments in associates	-	-	-	-	142	**142**
Intangible assets	-	-	-	-	164	**164**
Property and equipment	-	-	-	-	1,216	**1,216**
Investment property	-	-	-	-	24	**24**
Deferred tax assets	-	-	-	-	144	**144**
Other assets	28	-	9	47	448	**532**
Tax prepayments	-	-	-	7	-	**7**
Total assets	**36,769**	**3,181**	**2,633**	**2,925**	**32,820**	**78,328**
Liabilities						
Current accounts and deposits from banks	383	43	28	68	777	**1,299**
Current accounts and deposits from customers	33,180	680	2,576	2,208	16,702	**55,346**
Derivative financial liabilities	-	-	-	-	1	**1**
Interest-bearing borrowings	3,004	1,761	3	10	791	**5,569**
Subordinated liabilities	2	-	-	-	-	**2**
Other liabilities	53	4	36	43	1,280	**1,416**
Accrued expenses and deferred income	2	-	-	-	306	**308**
Provisions for liabilities and charges	37	-	12	15	265	**329**
Deferred tax liabilities	-	-	-	7	4	**11**
Current tax liability	-	-	-	-	24	**24**
Total liabilities	**36,661**	**2,488**	**2,655**	**2,351**	**20,150**	**64,305**
Net position	**108**	**693**	**(22)**	**574**	**12,670**	**14,023**

49 Currency risk (continued)

BANK (in HRK million)	EUR and EUR linked	CHF and CHF linked	USD and USD linked	Other currencies	HRK	Total
As at 31 December 2015						
Assets						
Cash and current accounts with banks	3,787	615	267	88	4,386	**9,143**
Balances with the Croatian National Bank	660	-	-	-	3,890	**4,550**
Financial assets at fair value through profit or loss	1,184	-	-	-	4,634	**5,818**
Derivative financial assets	-	-	-	-	4	**4**
Loans and advances to banks	9	-	1,669	360	928	**2,966**
Loans and advances to customers	29,099	749	598	-	13,740	**44,186**
Financial assets available for sale	120	-	-	-	173	**293**
Investments in subsidiaries and associates	-	-	-	-	963	**963**
Intangible assets	-	-	-	-	106	**106**
Property and equipment	-	-	-	-	625	**625**
Investment property	-	-	-	-	10	**10**
Deferred tax assets	-	-	-	-	100	**100**
Other assets	36	-	11	3	255	**305**
Tax prepayments	-	-	-	-	145	**145**
Total assets	**34,895**	**1,364**	**2,545**	**451**	**29,959**	**69,214**
Current accounts and deposits from banks	726	100	44	34	469	**1,373**
Current accounts and deposits from customers	30,429	765	2,951	394	18,276	**52,815**
Derivative financial liabilities	-	-	-	-	15	**15**
Interest-bearing borrowings	2,062	-	3	-	773	**2,838**
Other liabilities	43	2	9	2	260	**316**
Accrued expenses and deferred income	2	-	-	-	121	**123**
Provisions for liabilities and charges	35	-	14	-	239	**288**
Deferred tax liabilities	-	-	-	-	22	**22**
Total liabilities	**33,297**	**867**	**3,021**	**430**	**20,175**	**57,790**
Net position	**1,598**	**497**	**(476)**	**21**	**9,784**	**11,424**

BANK (in HRK million)	EUR and EUR linked	CHF and CHF linked	USD and USD linked	Other currencies	HRK	Total
As at 31 December 2014						
Assets						
Cash and current accounts with banks	1,295	55	87	271	5,265	**6,973**
Balances with the Croatian National Bank	651	-	-	-	4,097	**4,748**
Financial assets at fair value through profit or loss	506	-	-	-	5,514	**6,020**
Derivative financial assets	-	-	-	-	2	**2**
Loans and advances to banks	2,441	-	2,105	260	301	**5,107**
Loans and advances to customers	28,044	3,164	368	-	12,967	**44,543**
Financial assets available for sale	-	-	-	-	116	**116**
Investments in subsidiaries and associates	-	-	-	-	215	**215**
Intangible assets	-	-	-	-	90	**90**
Property and equipment	-	-	-	-	684	**684**
Investment property	-	-	-	-	11	**11**
Deferred tax assets	-	-	-	-	98	**98**
Other assets	19	-	6	-	244	**269**
Total assets	**32,956**	**3,219**	**2,566**	**531**	**29,604**	**68,876**
Liabilities						
Current accounts and deposits from banks	422	43	27	67	901	**1,460**
Current accounts and deposits from customers	29,956	680	2,507	450	16,794	**50,387**
Derivative financial liabilities	-	-	-	-	1	**1**
Interest-bearing borrowings	1,982	1,761	3	-	792	**4,538**
Other liabilities	31	4	35	2	247	**319**
Accrued expenses and deferred income	2	-	-	-	188	**190**
Provisions for liabilities and charges	37	-	12	-	257	**306**
Deferred tax liabilities	-	-	-	-	1	**1**
Current tax liability	-	-	-	-	14	**14**
Total liabilities	**32,430**	**2,488**	**2,584**	**519**	**19,195**	**57,216**
Net position	**526**	**731**	**(18)**	**12**	**10,409**	**11,660**

50 Liquidity risk

Analysis of financial liabilities by remaining undiscounted contractual maturities

The tables below set out the remaining undiscounted contractual maturity of the Group's and Bank's financial liabilities as at 31 December 2015 and 31 December 2014.

GROUP (in HRK million) **As at 31 December 2015**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	1,010	6	59	7	1	**1,083**	**1,083**
Current accounts and deposits from customers	26,838	5,690	15,974	10,330	388	**59,220**	**58,180**
Derivative financial liabilities	2	1	12	-	-	**15**	**15**
Interest-bearing borrowings	42	103	726	2,357	920	**4,148**	**3,884**
Other liabilities*	1,765	33	120	63	55	**2,036**	**2,036**
Total undiscounted financial liabilities	**29,657**	**5,833**	**16,891**	**12,757**	**1,364**	**66,502**	**65,198**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	944	1,015	6,292	1,113	500	**9,864**	**9,864**
Other contingent liabilities	638	372	1,261	803	130	**3,204**	**3,204**
Total undiscounted off-balance sheet contingent liabilities and commitments	**1,582**	**1,387**	**7,553**	**1,916**	**630**	**13,068**	**13,068**

As at 31 December 2014, restated	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	1,065	-	175	22	47	**1,309**	**1,299**
Current accounts and deposits from customers	23,537	6,376	16,062	10,261	297	**56,533**	**55,346**
Derivative financial liabilities	-	-	-	-	1	**1**	**1**
Interest-bearing borrowings	71	65	629	4,161	1,165	**6,091**	**5,569**
Other liabilities*	1,842	24	103	37	85	**2,091**	**2,090**
Total undiscounted financial liabilities	**26,515**	**6,465**	**16,969**	**14,481**	**1,595**	**66,025**	**64,305**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	457	658	2,754	1,223	4,056	**9,148**	**9,148**
Other contingent liabilities	509	401	1,447	860	201	**3,418**	**3,418**
Total undiscounted off-balance sheet contingent liabilities and commitments	**966**	**1,059**	**4,201**	**2,083**	**4,257**	**12,566**	**12,566**

* Other liabilities include subordinated liabilities, other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability.

BANK (in HRK million) As at 31 December 2015	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	944	98	287	50	1	**1,380**	**1,373**
Current accounts and deposits from customers	25,042	5,428	15,084	7,900	181	**53,635**	**52,815**
Derivative financial liabilities	2	1	12	-	-	**15**	**15**
Interest-bearing borrowings	32	71	364	1,910	632	**3,009**	**2,838**
Other liabilities*	512	32	114	60	31	**749**	**749**
Total undiscounted financial liabilities	**26,532**	**5,630**	**15,861**	**9,920**	**845**	**58,788**	**57,790**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	905	919	5,798	981	501	**9,104**	**9,104**
Other contingent liabilities	616	371	1,070	733	129	**2,919**	**2,919**
Total undiscounted off-balance sheet contingent liabilities and commitments	**1,521**	**1,290**	**6,868**	**1,714**	**630**	**12,023**	**12,023**

As at 31 December 2014	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	1,077	-	326	23	47	**1,473**	**1,460**
Current accounts and deposits from customers	21,813	5,922	15,215	8,149	276	**51,375**	**50,387**
Derivative financial liabilities	-	-	-	-	1	**1**	**1**
Interest-bearing borrowings	60	97	419	3,687	661	**4,924**	**4,538**
Other liabilities*	626	18	106	35	45	**830**	**830**
Total undiscounted financial liabilities	**23,576**	**6,037**	**16,066**	**11,894**	**1,030**	**58,603**	**57,216**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	450	556	2,392	1,175	4,055	**8,628**	**8,628**
Other contingent liabilities	477	360	1,305	786	204	**3,132**	**3,132**
Total undiscounted off-balance sheet contingent liabilities and commitments	**927**	**916**	**3,697**	**1,961**	**4,259**	**11,760**	**11,760**

* Other liabilities include other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability.

Notes to the financial statements

(continued)

50 Liquidity risk

Maturity analysis of assets and liabilities

The tables below present analyses of assets and liabilities of the Group and Bank according to their expected maturities at 31 December 2015 and 31 December 2014. The Group's expected cash flows on some financial assets and liabilities vary significantly from the contractual cash flows. For example, demand deposits from customers are expected to maintain a stable balance and are not all expected to be drawn immediately.

The Group and the Bank made certain assumptions in producing the maturity analyses set out below. The assumptions applied for loans and advances to customers were mostly based on contractual maturities, whilst overdraft, revolving and other facilities without precise amortisation plans were assumed to be recoverable within 12 months. Moreover, expected maturities for current accounts and deposits from customers and to some extent non-performing loans were based on statistical behaviour model as of past experience. All other items of the Group and the Bank were mostly based on contractual maturities.

GROUP (in HRK million)	Less than 12 months	Over 12 months	Total
As at 31 December 2015			
Assets			
Cash and current accounts with banks	9,995	-	**9,995**
Balances with the Croatian National Bank	-	4,550	**4,550**
Financial assets at fair value through profit or loss	5,869	101	**5,970**
Derivative financial assets	4	-	**4**
Loans and advances to banks	3,447	3	**3,450**
Loans and advances to customers	15,936	35,049	**50,985**
Financial assets available for sale	303	815	**1,118**
Held-to-maturity investments	**-**	17	**17**
Investments in associates	-	150	**150**
Intangible assets	-	182	**182**
Property and equipment	-	1,132	**1,132**
Investment property	-	23	**23**
Deferred tax assets	-	141	**141**
Other assets	374	175	**549**
Tax prepayments	157	-	**157**
Total assets	**36,085**	**42,338**	**78,423**
Liabilities			
Current accounts and deposits from banks	1,075	8	**1,083**
Current accounts and deposits from customers	39,286	18,894	**58,180**
Derivative financial liabilities	15	-	**15**
Interest-bearing borrowings	869	3,015	**3,884**
Subordinated liabilities	1	1	**2**
Other liabilities	1,438	-	**1,438**
Accrued expenses and deferred income	225	13	**238**
Provisions for liabilities and charges	240	73	**313**
Deferred tax liabilities	-	34	**34**
Current tax liability	11	-	**11**
Total liabilities	**43,160**	**22,038**	**65,198**
Net expected maturity gap	**(7,075)**	**20,300**	**13,225**

GROUP (in HRK million)	Less than 12 months	Over 12 months	Total
As at 31 December 2014, restated			
Assets			
Cash and current accounts with banks	7,631	-	**7,631**
Balances with the Croatian National Bank	-	4,748	**4,748**
Financial assets at fair value through profit or loss	6,019	162	**6,181**
Derivative financial assets	2	-	**2**
Loans and advances to banks	5,444	141	**5,585**
Loans and advances to customers	16,293	34,894	**51,187**
Financial assets available for sale	193	395	**588**
Held-to-maturity investments	160	17	**177**
Investments in associates	-	142	**142**
Intangible assets	-	164	**164**
Property and equipment	-	1,216	**1,216**
Investment property	-	24	**24**
Deferred tax assets	-	144	**144**
Other assets	386	146	**532**
Tax prepayments	7	-	**7**
Total assets	**36,135**	**42,193**	**78,328**
Liabilities			
Current accounts and deposits from banks	1,237	62	**1,299**
Current accounts and deposits from customers	35,293	20,053	**55,346**
Derivative financial liabilities	1	-	**1**
Interest-bearing borrowings	756	4,813	**5,569**
Subordinated liabilities	-	2	**2**
Other liabilities	1,416	-	**1,416**
Accrued expenses and deferred income	293	15	**308**
Provisions for liabilities and charges	236	93	**329**
Deferred tax liabilities	-	11	**11**
Current tax liability	24	-	**24**
Total liabilities	**39,256**	**25,049**	**64,305**
Net expected maturity gap	**(3,121)**	**17,144**	**14,023**

Notes to the financial statements
(continued)

50 Liquidity risk

Maturity analysis of assets and liabilities (continued)

BANK (in HRK million)	Less than 12 months	Over 12 months	Total
As at 31 December 2015			
Assets			
Cash and current accounts with banks	9,143	-	**9,143**
Balances with the Croatian National Bank	-	4,550	**4,550**
Financial assets at fair value through profit or loss	5,717	101	**5,818**
Derivative financial assets	4	-	**4**
Loans and advances to banks	2,966	-	**2,966**
Loans and advances to customers	12,232	31,954	**44,186**
Financial assets available for sale	217	76	**293**
Investments in subsidiaries and associates	-	963	**963**
Intangible assets	-	106	**106**
Property and equipment	-	625	**625**
Investment property	-	10	**10**
Deferred tax assets	-	100	**100**
Other assets	216	89	**305**
Tax prepayments	145	-	**145**
Total assets	**30,640**	**38,574**	**69,214**
Liabilities			
Current accounts and deposits from banks	1,325	48	**1,373**
Current accounts and deposits from customers	36,341	16,474	**52,815**
Derivative financial liabilities	15	-	**15**
Interest-bearing borrowings	462	2,376	**2,838**
Other liabilities	316	-	**316**
Accrued expenses and deferred income	110	13	**123**
Provisions for liabilities and charges	232	56	**288**
Deferred tax liabilities	-	22	**22**
Total liabilities	**38,801**	**18,989**	**57,790**
Net expected maturity gap	**(8,161)**	**19,585**	**11,424**

BANK (in HRK million)	Less than 12 months	Over 12 months	Total
As at 31 December 2014			
Assets			
Cash and current accounts with banks	6,973	-	**6,973**
Balances with the Croatian National Bank	-	4,748	**4,748**
Financial assets at fair value through profit or loss	5,858	162	**6,020**
Derivative financial assets	2	-	**2**
Loans and advances to banks	4,966	141	**5,107**
Loans and advances to customers	12,594	31,949	**44,543**
Financial assets available for sale	96	20	**116**
Investments in subsidiaries and associates	-	215	**215**
Intangible assets	-	90	**90**
Property and equipment	-	684	**684**
Investment property	-	11	**11**
Deferred tax assets	-	98	**98**
Other assets	180	89	**269**
Total assets	**30,669**	**38,207**	**68,876**
Liabilities			
Current accounts and deposits from banks	1,397	63	**1,460**
Current accounts and deposits from customers	32,273	18,114	**50,387**
Derivative financial liabilities	1	-	**1**
Interest-bearing borrowings	568	3,970	**4,538**
Other liabilities	319	-	**319**
Accrued expenses and deferred income	175	15	**190**
Provisions for liabilities and charges	241	65	**306**
Deferred tax liabilities	-	1	**1**
Current tax liability	14	-	**14**
Total liabilities	**34,988**	**22,228**	**57,216**
Net expected maturity gap	**(4,319)**	**15,979**	**11,660**

51 Concentration of assets and liabilities

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The Bank's and the Group's assets and liabilities can be analysed by the following geographical regions and industry sector:

As at 31 December 2015 (in HRK million)			GROUP			BANK
	Assets	Liabilities	Off balance sheet liabilities	Assets	Liabilities	Off balance sheet liabilities
Geographic region						
Republic of Croatia	64,024	55,850	11,200	60,841	53,810	11,216
Other European Union members	6,306	3,397	667	6,116	2,353	667
Other countries	8,093	5,951	1,201	2,257	1,627	140
	78,423	**65,198**	**13,068**	**69,214**	**57,790**	**12,023**
Industry sector						
Citizens	26,924	42,592	5,773	22,388	39,148	5,436
Finance	19,392	7,456	721	17,236	5,413	713
Government	15,711	2,278	299	14,503	1,549	272
Commerce	3,737	1,675	1,017	2,690	1,393	750
Tourism	1,751	492	97	1,563	368	51
Agriculture	710	160	100	629	143	95
Other sectors	10,198	10,545	5,061	10,205	9,776	4,706
	78,423	**65,198**	**13,068**	**69,214**	**57,790**	**12,023**

As at 31 December 2014 (in HRK million)			GROUP Restated			BANK
	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off balance sheet items
Geographic region						
Republic of Croatia	66,372	51,661	11,000	62,546	51,125	11,107
Other European Union members	5,700	6,364	619	5,482	4,453	581
Other countries	6,256	6,280	947	848	1,638	72
	78,328	**64,305**	**12,566**	**68,876**	**57,216**	**11,760**
Industry sector						
Citizens	27,658	41,589	5,293	23,384	38,388	5,292
Finance	18,673	9,144	711	16,744	6,955	709
Government	15,126	2,475	211	13,931	1,883	207
Commerce	4,048	1,490	886	2,915	1,192	651
Tourism	1,621	600	179	1,447	447	146
Agriculture	673	162	80	599	152	68
Other sectors	10,529	8,845	5,206	9,856	8,199	4,687
	78,328	**64,305**	**12,566**	**68,876**	**57,216**	**11,760**

52 Earnings per share

For the purpose of calculating earnings per share, earnings represent the net profit after tax. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used for basic earnings per share was 19,010,096 (2014: 19,010,096). There is no potential dilution effect from any instruments and hence the basic earnings per share are the same as diluted earnings per share.

		GROUP		**BANK**
	2015	Restated 2014	2015	2014
Profit attributable to equity holders of the Bank (in HRK million)	365	985	193	643
Weighted average number of ordinary shares	19.010.096	19.010.096	19.010.096	19.010.096
Basic and diluted earnings per share (in HRK per share)	**19.2**	**51.8**	**10.2**	**33.8**

Appendix 1 - Supplementary forms required by local regulation

Supplementary financial statements of the Group and the Bank prepared in accordance with the framework for reporting set out in the Decision of the Croatian National Bank on the Structure and Content of Annual Financial Statements (Official Gazette 62/08) are presented below:

Form "Balance sheet"

(in HRK million)		GROUP		BANK
	31 December 2015	Restated 31 December 2014	31 December 2015	31 December 2014
Assets				
Cash and deposits with the Croatian National Bank	9,953	10,599	9,401	10,473
Cash	1,983	1,480	1,431	1,354
Deposits with the Croatian National Bank	7,970	9,119	7,970	9,119
Deposits with banking institutions	7,857	7,149	7,074	6,079
Ministry of Finance treasury bills and the Croatian National Bank bills	5,677	5,800	5,618	5,741
Securities and other financial instruments held for trading	75	79	74	79
Securities and other financial instruments available for sale	1,113	586	293	116
Securities and other financial instruments held to maturity	17	174	-	-
Securities and other financial instruments at fair value through profit or loss which are not actively traded	162	209	70	107
Derivative financial assets	4	2	4	2
Loans to financial institutions	183	216	183	276
Loans to other clients	51,261	50,970	44,481	44,354
Investments in subsidiaries, associates and joint ventures	150	142	963	215
Foreclosed assets	148	154	68	65
Tangible assets (net of depreciation)	1,132	1,216	625	684
Interest, fees and other assets	1,186	1,032	855	685
Total assets	**78,918**	**78,328**	**69,709**	**68,876**

(in HRK million)		**GROUP**		**BANK**
	31 December 2015	Restated 31 December 2014	31 December 2015	31 December 2014
Liabilities				
Loans from financial institutions	3,877	5,555	2,834	4,528
Short-term loans	24	49	24	49
Long-term loans	3,853	5,506	2,810	4,479
Deposits	58,794	56,168	53,754	51,411
Giro account and current account deposits	14,642	13,161	13,321	11,945
Savings deposits	11,328	9,211	9,517	7,542
Term deposits	32,824	33,796	30,916	31,924
Other loans	-	-	-	-
Short-term loans	-	-	-	-
Long-term loans	-	-	-	-
Derivative financial liabilities and other financial liabilities held for trading	15	1	15	1
Debt securities issued	-	-	-	-
Short-term debt securities issued	-	-	-	-
Long-term debt securities issued	-	-	-	-
Subordinated instruments issued	2	-	-	-
Hybrid instruments issued	-	-	-	-
Interest, fees and other liabilities	3,005	2,581	1,682	1,276
Total liabilities	**65,693**	**64,305**	**58,285**	**57,216**
Equity				
Share capital	1,907	1,907	1,907	1,907
Current year profit/(loss)	370	989	193	643
Retained earnings/(loss)	9,228	8,752	7,442	7,312
Legal reserves	141	141	134	134
Statutory reserves and other capital reserves	1,471	2,219	1,662	1,662
Unrealised gains/(losses) on value adjustments of financial assets available for sale	108	15	86	2
Total equity	**13,225**	**14,023**	**11,424**	**11,660**
Total liabilities and equity	**78,918**	**78,328**	**69,709**	**68,876**
Total equity	**13,225**	**14,023**	**11,424**	**11,660**
Equity holders of the Bank	13,180	13,983	11,424	11,660
Non-controlling interests	45	40	-	-

The balance sheet form is prepared in accordance with the CNB Decision on the Structure and Content of Annual Financial Statements for Banks.

Appendix 1 - Supplementary forms required by local regulation (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB.

Balance sheet reconciliation as at 31 December 2015

Assets

GROUP CNB schedules (in HRK million)	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets at fair value through profit or loss	Derivative financial assets	Loans and advances to banks	Loans and advances to customers	Financial assets available for sale	Held-to-maturity investments	Investments in associates	Intangible assets	Property and equipment	Investment property	Deferred tax assets	Other assets	Tax prepayments	**Total assets per IFRS**
Cash and deposits with the Croatian National Bank	5,403	4,550	-	-	-	-	-	-	-	-	-	-	-	-	-	**9,953**
Cash	*1,983*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	***1,983***
Deposits with the Croatian National Bank	*3,420*	*4,550*	-	-	-	-	-	-	-	-	-	-	-	-	-	***7,970***
Deposits with banking institutions	4,592	-	-	-	3,265	-	-	-	-	-	-	-	-	-	-	**7,857**
Ministry of Finance treasury bills and the Croatian National Bank bills	-	-	5,677	-	-	-	-	-	-	-	-	-	-	-	-	**5,677**
Securities and other financial instruments held for trading	-	-	75	-	-	-	-	-	-	-	-	-	-	-	-	**75**
Securities and other financial instruments available for sale	-	-	-	-	-	-	1,113	-	-	-	-	-	-	-	-	**1,113**
Securities and other financial instruments held to maturity	-	-	-	-	-	-	-	17	-	-	-	-	-	-	-	**17**

per IFRS

GROUP **CNB schedules** (in HRK million)	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets at fair value through profit or loss	Derivative financial assets	Loans and advances to banks	Loans an d advances to customers	Financial assets available for sale	Held-to-maturity investments	Investments in associates	Intangible assets	Property and equipment	Investment property	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Securities and other financial instruments at fair value through profit or loss which are not actively traded	-	-	162	-	-	-	-	-	-	-	-	-	-	-	-	**162**
Derivative financial assets	-	-	-	4	-	-	-	-	-	-	-	-	-	-	-	**4**
Loans to financial institutions	-	-	-	-	183	-	-	-	-	-	-	-	-	-	-	**183**
Loans to other clients	-	-	-	-	-	51,261	-	-	-	-	-	-	-	-	-	**51,261**
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	-	150	-	-	-	-	-	-	**150**
Foreclosed assets	-	-	-	-	-	-	-	-	-	-	-	-	-	148	-	**148**
Tangible assets (net of depreciation)	-	-	-	-	-	-	-	-	-	-	1,132	-	-	-	-	**1,132**
Interest, fees and other assets	-	-	56	-	2	219	5	-	-	182	-	23	141	401	157	**1,186**
Transferred to position 'Interest, fees and other liabilities'	-	-	-	-	-	(495)	-	-	-	-	-	-	-	-	-	**(495)**
Total assets	**9,995**	**4,550**	**5,970**	**4**	**3,450**	**50,985**	**1,118**	**17**	**150**	**182**	**1,132**	**23**	**141**	**549**	**157**	**78,423**

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2015 (continued)

Liabilities

Per IFRS

GROUP CNB schedules (in HRK million)	Current accounts and deposits from banks	Current accounts and deposits from customers	Derivative financial liabilities	Interest-bearing borrowings	Subordinated liabilities	Other liabilities	Accrued expenses and deferred income	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	Transferred from position 'Loans and advances to customers'	**Total liabilities**
Loans from financial institutions	-	-	-	3,877	-	-	-	-	-	-	-	**3,877**
Short-term loans	-	-	-	*24*	-	-	-	-	-	-	-	***24***
Long-term loans	-	-	-	*3,853*	-	-	-	-	-	-	-	***3,853***
Deposits	1,082	57,712	-	-	-	-	-	-	-	-	-	**58,794**
Giro account and current account deposits	921	13,721	-	-	-	-	-	-	-	-	-	**14,642**
Savings deposits	-	*11,328*	-	-	-	-	-	-	-	-	-	***11,328***
Term deposits	*161*	*32,663*	-	-	-	-	-	-	-	-	-	***32,824***
Other loans	-	-	-	-	-	-	-	-	-	-	-	**-**
Short-term loans	-	-	-	-	-	-	-	-	-	-	-	**-**
Long-term loans	-	-	-	-	-	-	-	-	-	-	-	**-**
Derivative financial liabilities and other financial liabilities held for trading	-	-	15	-	-	-	-	-	-	-	-	**15**
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Short-term debt securities issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Long-term debt securities issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Subordinated instruments issued	-	-	-	-	2	-	-	-	-	-	-	**2**
Hybrid instruments issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Interest, fees and other liabilities	1	468	-	7	-	1,438	238	313	34	11	495	**3,005**
Total liabilities	**1,083**	**58,180**	**15**	**3,884**	**2**	**1,438**	**238**	**313**	**34**	**11**	**495**	**65,693**

Equity

Per IFRS

GROUP CNB schedules (in HRK million)	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	Merger reserve	Non-controlling interests	Total equity
Share capital	1,907	-	-	-	-	-	-	-	**1,907**
Current year profit/(loss)	-	-	-	-	-	370	-	-	**370**
Retained earnings/(loss)	-	-	-	-	-	9,228	-	-	**9,228**
Legal reserves	-	-	-	141	-	-	-	-	**141**
Statutory reserves and other capital reserves	-	1,570	(76)	325	-	(45)	(348)	45	**1,471**
Unrealised gains/(losses) on value adjustments of financial assets available for sale	-	-	-	-	108	-	-	-	**108**
Total equity	**1,907**	**1,570**	**(76)**	**466**	**108**	**9,553**	**(348)**	**45**	**13,225**

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2015 (continued)

Assets

per IFRS

BANK **CNB schedules** (in HRK million)	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets at fair value through profit or loss	Derivative financial assets	Loans and advances to banks	Loans and advances to customers	Financial assets available for sale	Inves-tments in subsidia-ries and associa-tes	Intangible assets	Property and equipment	Investment property	Deferred tax assets	Other assets	Tax pre-pay-ments	**Total assets**
Cash and deposits with the Croatian National Bank	4,851	4,550	-	-	-	-	-	-	-	-	-	-	-	-	**9,401**
Cash	*1,431*	-	-	-	-	-	-	-	-	-	-	-	-	-	***1,431***
Deposits with the Croatian National Bank	*3,420*	*4,550*	-	-	-	-	-	-	-	-	-	-	-	-	***7,970***
Deposits with banking institutions	4,292	-	-	-	2,782	-	-	-	-	-	-	-	-	-	**7,074**
Ministry of Finance treasury bills and the Croatian National Bank bills	-	-	5,618	-	-	-	-	-	-	-	-	-	-	-	**5,618**
Securities and other financial instruments held for trading	-	-	74	-	-	-	-	-	-	-	-	-	-	-	**74**
Securities and other financial instruments available for sale	-	-	-	-	-	-	293	-	-	-	-	-	-	-	**293**
Securities and other financial instruments held to maturity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

per IFRS

BANK CNB schedules (in HRK million)	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets at fair value through profit or loss	Derivative financial assets	Loans and advances to banks	Loans and advances to customers	Financial assets available for sale	Investments in subsidiaries and associates	Intangible assets	Property and equipment	Investment property	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Securities and other financial instruments at fair value through profit or loss which are not actively traded	-	-	70	-	-	-	-	-	-	-	-	-	-	-	**70**
Derivative financial assets	-	-	-	4	-	-	-	-	-	-	-	-	-	-	**4**
Loans to financial institutions	-	-	-	-	183	-	-	-	-	-	-	-	-	-	**183**
Loans to other clients	-	-	-	-	-	44,481	-	-	-	-	-	-	-	-	**44,481**
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	963	-	-	-	-	-	-	**963**
Foreclosed assets	-	-	-	-	-	-	-	-	-	-	-	-	68	-	**68**
Tangible assets (net of depreciation)	-	-	-	-	-	-	-	-	-	625	-	-	-	-	**625**
Interest, fees and other assets	-	-	56	-	1	200	-	-	106	-	10	100	237	145	**855**
Transferred to position 'Interest, fees and liabilities'	-	-	-	-	-	(495)	-	-	-	-	-	-	-	-	**(495)**
Total assets	**9,143**	**4,550**	**5,818**	**4**	**2,966**	**44,186**	**293**	**963**	**106**	**625**	**10**	**100**	**305**	**145**	**69,214**

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2015 (continued)

Liabilities

Per IFRS

BANK **CNB schedules** (in HRK million)	Current accounts and deposits from banks	Current accounts and deposits from customers	Derivative financial liabilities	Interest-bearing borrowings	Other liabilities	Accrued expenses and deferred income	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	Transferred from position 'Loans and advances to customers'	**Total liabilities**
Loans from financial institutions	-	-	-	**2,834**	-	-	-	-	-	-	**2,834**
Short-term loans	-	-	-	*24*	-	-	-	-	-	-	**24**
Long-term loans	-	-	-	*2,810*	-	-	-	-	-	-	**2,810**
Deposits	1,372	52,382	-	-	-	-	-	-	-	-	**53,754**
Giro account and current account deposits	*886*	*12,435*	-	-	-	-	-	-	-	-	**13,321**
Savings deposits		*9,517*	-	-	-	-	-	-	-	-	**9,517**
Term deposits	*486*	*30,430*	-	-	-	-	-	-	-	-	**30,916**
Other loans	-	-	-	-	-	-	-	-	-	-	**-**
Short-term loans	-	-	-	-	-	-	-	-	-	-	**-**
Long-term loans	-	-	-	-	-	-	-	-	-	-	**-**
Derivative financial liabilities and other financial liabilities held for trading	-	-	15	-	-	-	-	-	-	-	**15**
Debt securities issued	-	-	-	-	-	-	-	-	-	-	**-**
Short-term debt securities issued	-	-	-	-	-	-	-	-	-	-	**-**
Long-term debt securities issued	-	-	-	-	-	-	-	-	-	-	**-**
Subordinated instruments issued	-	-	-	-	-	-	-	-	-	-	**-**
Hybrid instruments issued	-	-	-	-	-	-	-	-	-	-	**-**
Interest, fees and other liabilities	1	433	-	4	316	123	288	22	-	495	**1,682**
Total liabilities	**1,373**	**52,815**	**15**	**2,838**	**316**	**123**	**288**	**22**	**-**	**495**	**58,285**

Equity

Per IFRS

BANK **CNB schedules** (in HRK million)	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	**Total equity**
Share capital	1,907	-	-	-	-	-	**1,907**
Current year profit/(loss)	-	-	-	-	-	193	**193**
Retained earnings/(loss)	-	-	-	-	-	7,442	**7,442**
Legal reserves	-	-	-	134	-	-	**134**
Statutory reserves and other capital reserves	-	1,570	(76)	168	-	-	**1,662**
Unrealised gains/(losses) on value adjustments of financial assets available for sale	-	-	-	-	86	-	**86**
Total equity	**1,907**	**1,570**	**(76)**	**302**	**86**	**7,635**	**11,424**

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Income statement"

(in HRK million)	GROUP		BANK	
	2015	Restated 2014	2015	2014
Interest income	3,432	3,581	2,997	**3,118**
(Interest expenses)	(930)	(1,135)	(817)	**(994)**
Net interest income	2,502	2,446	2,180	**2,124**
Income from fees and commissions	1,521	1,473	758	**705**
(Expenses on fees and commissions)	(293)	(282)	(109)	**(114)**
Net income from fees and commissions	**1,228**	**1,191**	**649**	**591**
Gains/(losses) from investments in subsidiaries, associates and joint ventures	24	21	-	**-**
Gains/(losses) from trading activities	(23)	11	(23)	**10**
Gains/(losses) from embedded derivatives	-	-	-	**-**
Gains/(losses) from financial assets at fair value through profit or loss and not traded	4	(10)	3	**(10)**
Gains/(losses) from activities related to assets available for sale	1	8	1	**8**
Gains/(losses) from activities related to assets held to maturity	-	-	-	**-**
Gains/(losses) from hedging transactions	-	-	-	**-**
Income from equity investments in subsidiaries, associates and joint ventures	-	-	165	**14**
Income from other equity investments	5	1	5	**1**
Gains/(losses) from exchange differences	101	166	92	**154**
Other income	144	117	76	**44**
Other expenses	(576)	(545)	(327)	**(322)**
General administrative expenses and depreciation	(1,494)	(1,527)	(1,168)	**(1,195)**
Net operating income before value adjustments and loss provisions	**1,916**	**1,879**	**1,653**	**1,419**
Impairment expenses	(1,449)	(636)	(1,443)	**(595)**
Profit/(loss) before taxes	**467**	**1,243**	**210**	**824**
Income tax	(97)	(254)	(17)	**(181)**
Current year profit/(loss)	**370**	**989**	**193**	**643**
Attributable to:				
Equity holders of the Bank	365	985	193	643
Non-controlling interests	5	4	**-**	-
	370	**989**	**193**	**643**

The income statement form is prepared in accordance with the CNB Decision on the Structure and Content of Annual Financial Statements for Banks.

Income statement reconciliation for the year endend 31 December 2015

GROUP **CNB schedules** (in HRK million)	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Other operating income	Personnel expenses	Impairment losses on loans and advances to customers	CHF loss	Other impairment losses and provisions	Depreciation and amortisation	Other operating expenses	Share of profits from associates	Income tax expense	Per IFRS **Profit for the year**
Interest income	3,432	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**3,432**
(Interest expenses)	-	(930)	-	-	-	-	-	-	-	-	-	-	-	-	-	**(930)**
Income from fees and commissions	-	-	1,521	-	-	-	-	-	-	-	-	-	-	-	-	**1,521**
(Expenses on fees and commissions)	-	-	-	(293)	-	-	-	-	-	-	-	-	-	-	-	**(293)**
Gains/(losses) from investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	24	-	**24**
Gains/(losses) from trading activities	-	-	-	-	-	(23)	-	-	-	-	-	-	-	-	-	**(23)**
Gains/(losses) from embedded derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Gains/(losses) from financial assets at fair value through profit or loss and not traded	-	-	-	-	-	4	-	-	-	-	-	-	-	-	-	**4**
Gains/(losses) from activities related to assets available for sale	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	**1**
Gains/(losses) from activities related to assets held to maturity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Appendix 1 - Supplementary forms required by local regulation (continued)

Income statement reconciliation for the year endend 31 December 2015

Per IFRS

GROUP CNB schedules (in HRK million)	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Other operating income	Personnel expenses	Impairment losses on loans and advances to customers	Loss recognised on CHF conversion	Other impairment losses and provisions	Depreciation and amortisation	Other operating expenses	Share of profits from associates	Income tax expense	**Profit for the year**
Gains/(losses) from hedging transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Income from equity investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Income from other equity investments	-	-	-	-	5	-	-	-	-	-	-	-	-	-	-	**5**
Gains/(losses) from exchange differences	-	-	-	-	-	101	-	-	-	-	-	-	-	-	-	**101**
Other income	-	-	-	-	-	-	144	-		-	-	-	-	-	-	**144**
Other expenses	-	-	-	-	-	-	-	-	-	-	-	-	(576)	-	-	**(576)**
General administrative expenses and depreciation	-	-	-	-	-	-	-	(851)	-	-	-	(174)	(469)	-	-	**(1,494)**
Impairment expenses	13	-	-	-	-	-	-	-	(148)	(1,311)	(3)	-	-	-	-	**(1,449)**
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(97)	**(97)**
Current year profit/(loss)	**3,445**	**(930)**	**1,521**	**(293)**	**5**	**82**	**145**	**(851)**	**(148)**	**(1,311)**	**(3)**	**(174)**	**(1,045)**	**24**	**(97)**	370

Income statement reconciliation for the year endend 31 December 2015

(in HRK million)

Per IFRS

BANK CNB schedules (in HRK million)	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Other operating income	Personnel expenses	Impairment losses on loans and advances to customers	Loss recognised on CHF conversion	Other impairment losses and provisions	Depreciation and amortisation	Other operating expenses	Income tax expense	**Profit for the year**
Interest income	2,997	-	-	-	-	-	-	-	-	-	-	-	-	-	**2,997**
(Interest expenses)	-	(817)	-	-	-	-	-	-	-	-	-	-	-	-	**(817)**
Income from fees and commissions	-	-	758	-	-	-	-	-	-	-	-	-	-	-	**758**
(Expenses on fees and commissions)	-	-	-	(109)	-	-	-	-	-	-	-	-	-	-	**(109)**
Gains/(losses) from investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Gains/(losses) from trading activities	-	-	-	-	-	(23)	-	-	-	-	-	-	-	-	**(23)**
Gains/(losses) from embedded derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Gains/(losses) from financial assets at fair value through profit or loss and not traded	-	-	-	-	-	3	-	-	-	-	-	-	-	-	**3**
Gains/(losses) from activities related to assets available for sale	-	-	-	-	-	-	1	-	-	-	-	-	-	-	**1**
Gains/(losses) from activities related to assets held to maturity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2015 (continued)

Per IFRS

BANK CNB schedules (in HRK million)	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Other operating income	Personnel expenses	Impairment losses on loans and advances to customers	Loss recognised on CHF conversion	Other impairment losses and provisions	Depreciation and amortisation	Other operating expenses	Income tax expense	**Profit for the year**
Gains/(losses) from hedging transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Income from equity investments in subsidiaries, associates and joint ventures	-	-	-	-	165	-	-	-	-	-	-	-	-	-	**165**
Income from other equity investments	-	-	-	-	5	-	-	-	-	-	-	-	-	-	**5**
Gains/(losses) from exchange differences	-	-	-	-	-	92	-	-	-	-	-	-	-	-	**92**
Other income	-	-	-	-	-	-	76	-	-	-	-	-	-	-	**76**
Other expenses	-	-	-	-	-	-	-	-	-	-	-	-	(327)	-	**(327)**
General administrative expenses and depreciation	-	-	-	-	-	-	-	(695)	-	-	-	(117)	(356)	-	**(1,168)**
Impairment expenses	13	-	-	-	-	-	-	-	(149)	(1,311)	4	-	-	-	**(1,443)**
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	(17)	**(17)**
Current year profit/(loss)	**3,010**	**(817)**	**758**	**(109)**	**170**	**72**	**77**	**(695)**	**(149)**	**(1,311)**	**4**	**(117)**	**(683)**	**(17)**	**193**

Form “Cash flow statement”

(in HRK million)	GROUP		BANK	
	2015	Restated 2014	2015	2014
Cash flow from operating activities				
Profit/(loss) before tax	467	1,243	210	824
Impairment losses	1,449	636	1,443	595
Depreciation and amortization	174	181	117	118
(Gains)/losses from sale of tangible assets	(13)	(1)	(4)	(1)
Unrealised (gains)/losses on securities at fair value through profit or loss	19	(3)	20	-
Other (gains)/losses	-	-	-	-
Cash flow from operating activities before changes in operating assets	**2,096**	**2,056**	**1,786**	**1,536**
(Increase)/decrease in operating assets				
Deposits with the Croatian National Bank	198	140	198	146
Ministry of Finance treasury bills and Croatian National Bank bills	125	(1,669)	125	(1,614)
Deposits with banking institutions and loans to financial institutions	30	412	77	444
Loans to other clients	(1,414)	773	(1,251)	29
Securities and other financial instruments held for trading	(18)	(52)	(18)	(52)
Securities and other financial instruments available for sale	(433)	(394)	(92)	(8)
Securities and other financial instruments at fair value through profit or loss which are not actively traded	49	25	39	22
Other operating assets	34	205	(207)	61
Net (increase)/decrease in operating assets	**(1,429)**	**(560)**	**(1,129)**	**(972)**
Increase/(decrease) in operating liabilities				
Demand deposits	1,481	2,721	1,374	2,583
Savings and term deposits	1,145	1,738	968	1,534
Derivative financial liabilities and other liabilities held for trading	14	(4)	14	(4)
Other liabilities	17	(227)	78	(100)
Net increase/(decrease) in operating liabilities	**2,657**	**4,228**	**2,434**	**4,013**
Net cash flow from operating activities	**3,324**	**5,724**	**3,091**	**4,577**
(Income tax paid)	(257)	(185)	(178)	(105)
Net inflow/(outflow) of cash from operating activities	**3,067**	**5,539**	**2,913**	**4,472**

Appendix 1 - Supplementary forms required by local regulation (continued)

Form “Cash flow statement” (continued)

(in HRK million)	GROUP		BANK	
	2015	Restated 2014	2015	2014
Investing activities				
Cash receipts from/(payments to acquire) tangible and intangible assets	(26)	(88)	(19)	(43)
Cash receipts from the disposal of/(payments for the investment in) subsidiaries, associates and joint ventures	(748)	-	(748)	-
Cash receipts from sales of/(cash payments to acquire) securities and other financial instruments held until maturity	157	32	-	-
Dividends received	5	1	170	15
Other receipts from/(payments for) investments	-	-	-	-
Net cash flow from investing activities	**(612)**	**(55)**	**(597)**	**(28)**
Financing activities				
Net increase/(decrease) in received loans	(1,679)	(2,031)	(1,694)	(1,138)
Net increase/(decrease) in issued debt securities	-	-	-	-
Net increase/(decrease) in subordinated and hybrid instruments	-	-	-	-
Proceeds from issue of share capital	-	-	-	-
(Dividends paid)	(513)	(490)	(513)	(490)
Other proceeds/(payments) from financing activities	-	-	-	-
Net cash flow from financing activities	**(2,192)**	**(2,521)**	**(2,207)**	**(1,628)**
Net increase/(decrease) in cash and cash equivalents	**263**	**2,963**	**109**	**2,816**
Effect of foreign exchange differences on cash and cash equivalents	(7)	27	(7)	27
Net increase/(decrease) in cash and cash equivalents	**256**	**2,990**	**102**	**2,843**
Cash and cash equivalents at the beginning of the year	12,733	9,743	11,917	9,074
Cash and cash equivalents at the end of the year	**12,989**	**12,733**	**12,019**	**11,917**

Cash flow statement reconciliation for the year ended 31 December 2015

(in HRK million)		GROUP			BANK	
	CNB schedules	per IFRS	Differences	CNB schedules	per IFRS	Differences
Cash flow from operating activities						
Profit (loss) before tax	467	467	-	210	210	-
Impairment losses	1,449	-	1,449	1,443	-	1,443
Impairment losses on loans and advances to customers	-	148	(148)	-	149	(149)
Other impairment losses and provisions	-	3	(3)	-	(4)	4
Depreciation and amortization	174	174	-	117	117	-
Loss recognised on CHF conversion	-	1,311	(1,311)	-	1,311	(1,311)
(Gains)/losses from sale of tangible assets	(13)	(13)	-	(4)	(4)	-
Unrealised (gains)/losses on securities at fair value through profit or loss	19	19	-	20	20	-
Other (gains)/losses	-	-	-	-	-	-
Share of profit from associates	-	(24)	24	-	-	-
Net interest income	-	(2,515)	2,515	-	(2,193)	2,193
Gain on disposal of subsidiary	-	-	-	-	-	-
Dividend income	-	(5)	5	-	(170)	170
Cash flow from operating activities before changes in operating assets	**2,096**	**(435)**	**2,531**	**1,786**	**(564)**	**2,350**
(Increase)/decrease in operating assets						
Deposits with the Croatian National Bank	198	198	-	198	198	-
Ministry of Finance treasury bills and Croatian National Bank bills	125	-	125	125	-	125
Deposits with banking institutions and loans to financial institutions	30	-	30	77	-	77
Loans and advances to banks	-	31	(31)	-	77	(77)
Loans to other clients	(1,414)	(1,333)	(81)	(1,251)	(1,116)	(135)
Securities and other financial instruments held for trading	(18)	-	(18)	(18)	-	(18)
Securities and other financial instruments available for sale	(433)	-	(433)	(92)	-	(92)
Securities and other financial instruments at fair value through profit or loss which are not actively traded	49	-	49	39	-	39
Financial assets held for trading and financial assets available for sale	-	(223)	223	-	109	(109)
Other operating assets	34	-	34	(207)	-	(207)
Other assets	-	(31)	31	-	(46)	46
Net (increase)/decrease in operating assets	**(1,429)**	**(1,358)**	**(71)**	**(1,129)**	**(778)**	**(351)**
Increase/(decrease) in operating liabilities						
Demand deposits	1,481	-	1,481	1,374	-	1,374
Savings and time deposits	1,145	-	1,145	968	-	968
Current accounts and deposits from banks	-	(216)	216	-	(87)	87
Current accounts and deposits from customers	-	3,121	(3,121)	-	2,568	(2,568)
Derivative financial liabilities and other liabilities held for trading	14	-	14	14	-	14
Other liabilities	17	(37)	54	78	(58)	136
Net increase/(decrease) in operating liabilities	**2,657**	**2,868**	**(211)**	**2,434**	**2,423**	**11**
Interest received	-	3,521	(3,521)	-	3,023	(3,023)
Interest paid	-	(1,217)	1,217	-	(957)	957
Dividends received	-	21	(21)	-	170	(170)
Net cash flow from operating activities	**3,324**	**3,400**	**(76)**	**3,091**	**3,317**	**(266)**
(Income tax paid)	(257)	(257)	-	(178)	(178)	-
Net inflow/(outflow) of cash from operating activities	**3,067**	**3,143**	**(76)**	**2,913**	**3,139**	**(266)**

Appendix 1 - Supplementary forms required by local regulation (continued)

Cash flow statement reconciliation for the year ended 31 December 2015 (continued)

(in HRK million)			GROUP			BANK
	CNB schedules	per IFRS	Differences	CNB schedules	per IFRS	Differences
Investing activities						
Cash receipts from/(payments to acquire) tangible and intangible assets	(26)	-	(26)	(19)	-	(19)
Purchase of property and equipment and intangible assets	-	(137)	137	-	(73)	73
Cash receipts from the disposal of/ (payments for the investment in) subsidiaries, associates and joint ventures	(748)	(748)	-	(748)	(748)	-
Disposal of property and equipment and intangible assets	-	43	(43)	-	4	(4)
Cash receipts from sales of/(cash payments to acquire) securities and other financial instruments held until maturity	157	160	(3)	-	-	-
Dividends received	5	-	5	170	-	170
Other receipts from/(payments for) investments	-	-	-	-	-	-
Net cash flow from investing activities	**(612)**	**(682)**	**70**	**(597)**	**(817)**	**220**
Financing activities						
Net increase/(decrease) in received loans	(1,679)	(1,685)	6	(1,694)	(1,700)	6
Net increase/(decrease) in issued debt securities	-	-	-	-	-	-
Net increase/(decrease) in subordinated and hybrid instruments	-	-	-	-	-	-
Proceeds from issue of share capital	-	-	-	-	-	-
(Dividends paid)	(513)	(513)	-	(513)	(513)	-
Other proceeds/(payments) from financing activities	-	-	-	-	-	-
Net cash flow from financing activities	**(2,192)**	**(2,198)**	**6**	**(2,207)**	**(2,213)**	**6**
Net increase/(decrease) in cash and cash equivalents	**263**	**263**	**-**	**109**	**109**	**-**
Effect of foreign exchange differences on cash and cash equivalents	(7)	(7)	-	(7)	(7)	-
Net increase/(decrease) in cash and cash equivalents	**256**	**256**	**-**	**102**	**102**	**-**
Cash and cash equivalents at the beginning of the year	12,733	12,733	-	11,917	11,917	-
Cash and cash equivalents at the end of the year	12,989	12,989	-	12,019	12,019	-

Differences between the cash flows positions disclosed in the statutory financial statements, and those prescribed by the CNB Decision relate to the following categories:

Net interest income, interest received and interest paid are disclosed separately in the statutory financial statements while in the CNB schedule they are included as part of the increase/decrease in operating assets and liabilities.

Dividends received are treated as cash flow from Operating activities in the statutory financial statements, while in the CNB schedule they are included within Investing activities.

Impairment losses on loans and advances to customers and Other impairment losses and provisions are disclosed separately in the statutory financial statements while in the CNB schedule they are presented as one category Impairment losses.

Other (gains)/losses in the CNB schedule include Net (gains)/losses from securities initially designated at fair value through profit or loss and Dividend income which are disclosed separately in the statutory financial statements.

Share of profit from associates is presented separately in the statutory financial statements while in the CNB schedule it is included within Other operating assets.

Net change in Ministry of Finance treasury bills and Croatian National Bank bills, Securities and other financial instruments held for trading, Securities and other financial instruments available for sale and Securities and other financial instruments at fair value in profit or loss and not traded are presented separately in the CNB schedule while in the statutory financial statements they are included within the position Financial assets held for trading and Financial assets available for sale.

Cash receipts from/(payments to acquire) tangible and intangible assets in the CNB schedule include net proceeds from purchase/sale of tangible and intangible assets and foreclosed assets. In the statutory financial statements purchase and disposal of property and equipment and intangible assets are disclosed separately within cash flows from investing activities and net proceeds from foreclosed assets are shown within Other assets.

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Statement of changes in equity"

(in HRK million)	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/(loss)	Unrealised gains/ (losses) on value adjustments of financial assets available for sale	Minority interest	**Total equity**
GROUP								
Balance as at 1 January 2015	**1,907**	**(76)**	**2,436**	**8,716**	**985**	**15**	**40**	**14,023**
Changes in accounting policies and correction of errors	-	-	-	-	-	-	-	**-**
Closing balance as at 1 January 2015	**1,907**	**(76)**	**2,436**	**8,716**	**985**	**15**	**40**	**14,023**
Sale of available-for-sale financial assets	**-**	-	-	-	-	(1)	-	**(1)**
Changes in fair value of the portfolio of available-for sale financial assets	**-**	-	-	-	-	113	-	**113**
Tax on items recognised directly or transferred from equity	**-**	-	-	-	-	(23)	-	**(23)**
Other gains and losses recognised directly in equity	**-**	-	-	-	-	4	-	**4**
Net gains/losses recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**93**	**-**	**93**
Current year profit/(loss)	**-**	-	-	-	365	-	5	**370**
Total current year income and expenses	**-**	**-**	**-**	**-**	**365**	**93**	**5**	**463**
Increase/(decrease) of share capital	**-**	-	-	-	-	-	-	**-**
(Purchase)/sale of treasury shares	**-**	-	-	-	-	-	-	**-**
Other changes	**-**	-	(748)	-	-	-	-	**(748)**
Transfer to reserves	**-**	-	-	472	(472)	-	-	**-**
Dividend payments	**-**	-	-	-	(513)	-	-	**(513)**
Profit distribution	**-**	**-**	**-**	**472**	**(985)**	**-**	**-**	**(513)**
Closing balance as at 31 December 2015	**1,907**	**(76)**	**1,688**	**9,188**	**365**	**108**	**45**	**13,225**

(in HRK million)	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/(loss)	Unrealised gains/ (losses) on value adjustments of financial assets available for sale	Minority interest	**Total equity**
GROUP								
Balance as at 1 January 2014, as previously reported	**1,907**	**(76)**	**1,945**	**8,189**	**821**	**(14)**	**-**	**12,772**
Changes in accounting policies and correction of errors	**-**	-	497	142	48	-	36	**723**
Closing balance as at 1 January 2014, restated	**1,907**	**(76)**	**2,442**	**8,331**	**869**	**(14)**	**36**	**13,495**
Sale of available-for-sale financial assets	**-**	-	-	-	-	(8)	-	**(8)**
Changes in fair value of the portfolio of available-for-sale financial assets	**-**	-	-	-	-	36	-	**36**
Tax on items recognised directly or transferred from equity	**-**	-	-	-	-	(7)	-	**(7)**
Other gains and losses recognised directly in equity	**-**	-	-	-	-	8	-	**8**
Net gains/losses recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**29**	**-**	**29**
Current year profit/(loss)	**-**	-	-	-	985	-	4	**989**
Total current year income and expenses	**-**	**-**	**-**	**-**	**985**	**29**	**4**	**1,018**
Increase/(decrease) of share capital	**-**	-	-	-	-	-	-	**-**
(Purchase)/sale of treasury shares	**-**	-	-	-	-	-	-	**-**
Other changes	**-**	-	-	-	-	-	-	**-**
Transfer to reserves	**-**	-	(6)	385	(379)	-	-	**-**
Dividend payments	**-**	-	-	-	(490)	-	-	**(490)**
Profit distribution	**-**	**-**	**(6)**	**385**	**(869)**	**-**	**-**	**(490)**
Closing balance as at 31 December 2014, restated	**1,907**	**(76)**	**2,436**	**8,716**	**985**	**15**	**40**	**14,023**

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

(in HRK million)	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/ (loss)	Unrealised gains/ (losses) on value adjustments of financial assets available for sale	**Total equity**
BANK							
Balance as at 1 January 2015	**1,907**	**(76)**	**1,872**	**7,312**	**643**	**2**	**11,660**
Changes in accounting policies and correction of errors	-	-	-	-	-	-	**-**
Closing balance as at 1 January 2015	**1,907**	**(76)**	**1,872**	**7,312**	**643**	**2**	**11,660**
Sale of available-for-sale financial assets	-	-	-	-	-	(1)	**(1)**
Changes in fair value of the portfolio of available-for sale financial assets	-	-	-	-	-	106	**106**
Tax on items recognised directly or transferred from equity	-	-	-	-	-	(21)	**(21)**
Other gains and losses recognised directly in equity	**-**	-	-	-	-	-	**-**
Net gains/losses recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**84**	**84**
Current year profit/(loss)	**-**	-	-	-	193	-	**193**
Total current year income and expenses	**-**	**-**	**-**	**-**	**193**	**84**	**277**
Increase/(decrease) of share capital	**-**	-	-	-	-	-	**-**
(Purchase)/sale of treasury shares	**-**	-	-	-	-	-	**-**
Other changes	**-**	-	-	-	-	-	**-**
Transfer to reserves	**-**	-	-	130	(130)	-	**-**
Dividend payments	**-**	-	-	-	(513)	-	**(513)**
Profit distribution	**-**	**-**	**-**	**130**	**(643)**	**-**	**(513)**
Closing balance as at 31 December 2015	**1,907**	**(76)**	**1,872**	**7,442**	**193**	**86**	**11,424**

(in HRK million)	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (loss)	Current year profit/(loss)	Unrealised gains/ (losses) on value adjustments of financial assets available for sale	**Total equity**
BANK							
Balance as at 1 January 2014	**1,907**	**(76)**	**1,878**	**7,181**	**615**	**(6)**	**11,499**
Changes in accounting policies and correction of errors	**-**	-	-	-	-	-	**-**
Closing balance as at 1 January 2014	**1,907**	**(76)**	**1,878**	**7,181**	**615**	**(6)**	**11,499**
Sale of available-for-sale financial assets	**-**	-	-	-	-	(8)	**(8)**
Changes in fair value of the portfolio of available-for sale financial assets	**-**	-	-	-	-	14	**14**
Tax on items recognised directly or transferred from equity	**-**	-	-	-	-	(2)	**(2)**
Other gains and losses recognised directly in equity	**-**	-	-	-	-	4	**4**
Net gains/losses recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**8**	**8**
Current year profit/(loss)	**-**	-	-	-	643	-	**643**
Total current year income and expenses	**-**	**-**	**-**	**-**	**643**	**8**	**651**
Increase/(decrease) of share capital	**-**	-	-	-	-	-	**-**
(Purchase)/sale of treasury shares	**-**	-	-	-	-	-	**-**
Other changes	**-**	-	-	-	-	-	**-**
Transfer to reserves	**-**	-	(6)	131	(125)	-	**-**
Dividend payments	**-**	-	-	-	(490)	-	**(490)**
Profit distribution	**-**	**-**	**(6)**	**131**	**(614)**	**-**	**(490)**
Closing balance as at 31 December 2014	**1,907**	**(76)**	**1,872**	**7,312**	**643**	**2**	**11,660**

Appendix 1 - Supplementary forms required by local regulation (continued)

Statement of changes in equity reconciliation

The statement of changes in equity form is prepared in accordance with the CNB Decision on the Structure and Content of Annual Financial Statements for Banks.
Legal, statutory and other reserves in the CNB schedule include Share premium and Other reserves which are presented separately in the statutory financial statements.
Retained earnings and Profit for the year are presented separately in the CNB schedule while in the statutory financial statements they are included within Retained earnings.
Sale of available-for-sale financial assets and Other gains and losses recognised directly in equity and reserves are shown separately in the CNB schedule while in the statutory financial statements they are shown within Net amount transferred to the income statement.

Appendix 2 - Supplementary financial statements in EUR

(unaudited)

Income statement

(in EUR million)	GROUP 2015	GROUP Restated 2014	BANK 2015	BANK 2014
Interest income	453	470	395	409
Interest expense	(122)	(149)	(107)	(130)
Net interest income	**331**	**321**	**288**	**279**
Fee and commission income	200	193	99	92
Fee and commission expense	(39)	(37)	(14)	(15)
Net fee and commission income	**161**	**156**	**85**	**77**
Dividend income	1	-	22	2
Net trading income and net loss on translation of monetary assets and liabilities	11	22	9	20
Other operating income	18	16	10	7
Total operating income	**522**	**515**	**414**	**385**
Impairment losses on loans and advances to customers	(19)	(73)	(20)	(69)
Losses recognized in CHF conversion	(172)	-	(172)	-
Other impairment losses and provisions	-	(11)	1	(10)
Personnel expenses	(112)	(115)	(91)	(95)
Depreciation and amortisation	(23)	(24)	(15)	(15)
Other operating expenses	(137)	(132)	(90)	(88)
Share of profits from associates	3	3	-	-
Profit before income tax	**62**	**163**	**27**	**108**
Income tax expense	(13)	(33)	(2)	(24)
Profit for the year	**49**	**130**	**25**	**84**
Attributable to:				
Equity holders of the Bank	48	129	25	84
Non-controlling interests	1	1	-	-
	49	**130**	**25**	**84**

The income statement items were translated from the measurement currency (HRK) to the Euro at the average exchange rate in 2015 (1 EUR = 7.609601 HRK) and in 2014 (1 EUR = 7.630014 HRK).

Appendix 2 - Supplementary financial statements in EUR

(unaudited) (continued)

Statement of financial position

As at 31 December

(in EUR million)	GROUP			BANK	
	2015	Restated 2014	Restated 2013	2015	2014
Assets					
Cash and current accounts with banks	1,308	996	608	1,198	910
Balances with the Croatian National Bank	596	620	641	596	620
Financial assets at fair value through profit or loss	782	807	590	762	786
Derivative financial assets	1	-	1	1	-
Loans and advances to banks	452	729	791	388	667
Loans and advances to customers	6,678	6,681	6,884	5,787	5,814
Financial assets available for sale	146	77	14	38	15
Held-to-maturity investments	2	23	27	-	-
Investments in subsidiaries and associates	20	19	18	126	28
Intangible assets	24	21	21	14	12
Property and equipment	148	159	167	82	89
Investment property	3	3	3	1	1
Deferred tax assets	18	19	20	13	13
Other assets	72	69	64	40	35
Tax prepayments	21	1	8	19	-
Total assets	**10,271**	**10,224**	**9,857**	**9,065**	**8,990**

The items of the statement of financial position were translated from the measurement currency (HRK) to the Euro at the closing exchange rates as at 31 December 2015 (1 EUR = 7.635047 HRK), as at 31 December 2014 (1 EUR = 7.661471 HRK) and as at 31 December 2013 (1 EUR = 7.637643 HRK).

(in EUR million)	GROUP			BANK	
	2015	Restated 2014	Restated 2013	2015	2014
Liabilities					
Current accounts and deposits from banks	142	170	137	180	191
Current accounts and deposits from customers	7,621	7,224	6,690	6,917	6,576
Derivative financial liabilities	2	-	1	2	-
Interest-bearing borrowings	509	727	995	372	592
Subordinated liabilities	-	-	-	-	-
Other liabilities	188	185	190	41	42
Accrued expenses and deferred income	31	40	37	16	25
Provisions for liabilities and charges	41	43	37	38	40
Deferred tax liabilities	4	1	1	3	-
Current tax liability	1	3	2	-	2
Total liabilities	**8,539**	**8,393**	**8,090**	**7,569**	**7,468**
Equity attributable to equity holders of the parent					
Share capital	250	250	250	250	250
Share premium	206	206	206	206	206
Treasury shares	(10)	(10)	(10)	(10)	(10)
Other reserves	61	61	62	40	39
Fair value reserve	14	2	(2)	11	-
Retained earnings	1,251	1,265	1,204	999	1,037
Merger reserve	(46)	52	52	-	-
Total equity attributable to equity holders of the Bank	**1,726**	**1,826**	**1,762**	**1,496**	**1,522**
Non-controlling interests	**6**	**5**	**5**	**-**	**-**
Total equity	**1,732**	**1,831**	**1,767**	**1,496**	**1,522**
Total liabilities and equity	**10,271**	**10,224**	**9,857**	**9,065**	**8,990**

The items of the statement of financial position were translated from the measurement currency (HRK) to the Euro at the closing exchange rates as at 31 December 2015 (1 EUR = 7.635047 HRK), as at 31 December 2014 (1 EUR = 7.661471 HRK) and as at 31 December 2013 (1 EUR = 7.637643 HRK).

Publisher **Privredna banka Zagreb d.d.**
Design & Production **Havas Worldwide Zagreb, a member of Unex Group**
Photography **Marko Vrdoljak**
Printing **Intergrafika** • Edition **100**

Annual Report 2015 in pdf version is available for download on
www.pbz.hr