PRIVREDNA BANKA ZAGREB

Annual Report | 2014

PBZ, a bank of INTESA SANPAOLO

Annual report and financial statements

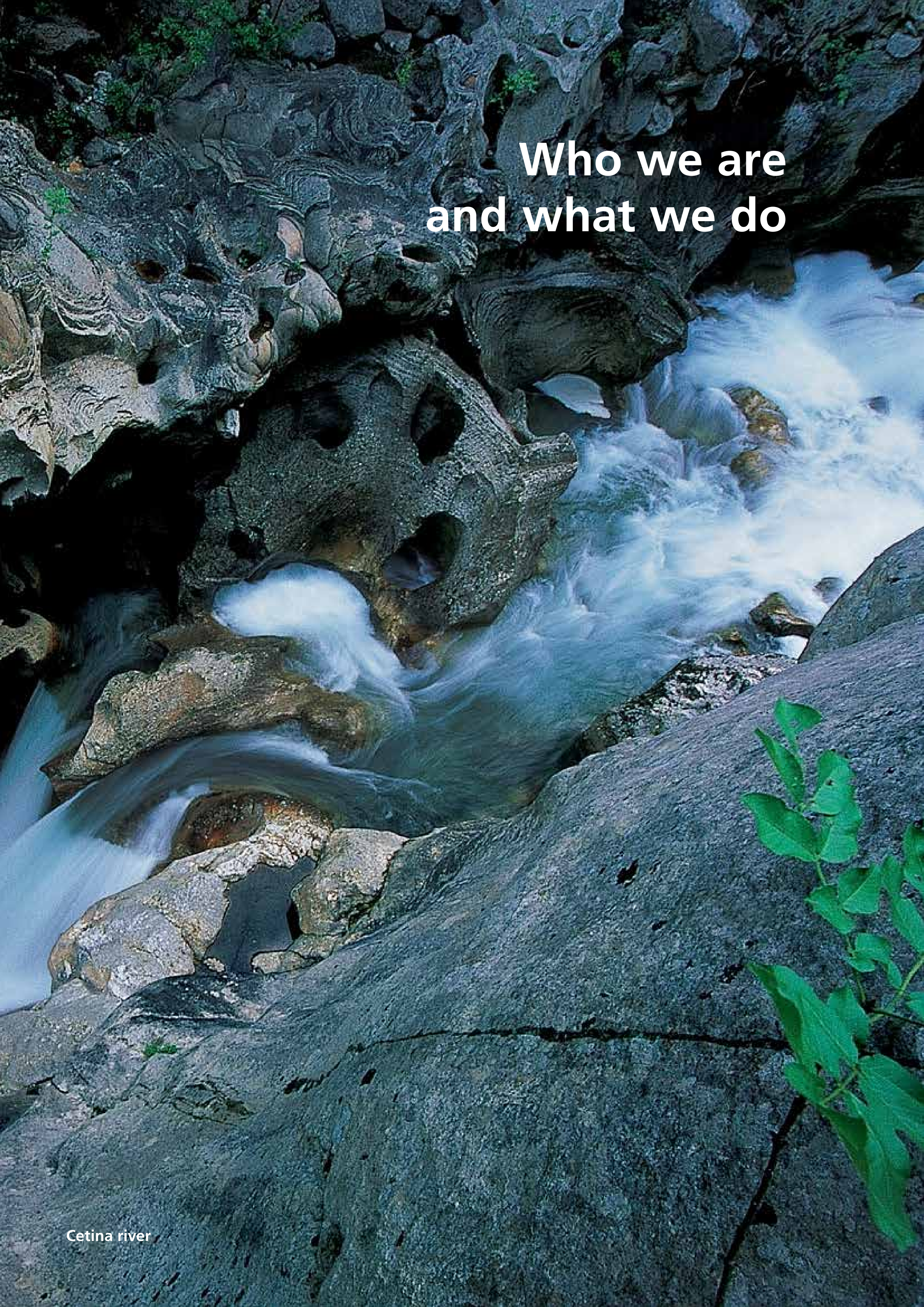
31 December 2014

Tangerine harvest

Table of contents

Who we are and what we do	7
Introduction	8
Five year summary and financial highlights	9
Report from the President of the Supervisory Board	10
Management Board report of the Status of the Bank	13
Management Board report on the Status of the Bank's subsidiaries and financial highlights of the Group	17
Macroeconomic developments in Croatia in 2014	23
Organisational chart	32
Business description of the Bank	34
The Group	44
Overview of the activities within the Corporate Social Responsibility programme of PBZ	50
Corporate governance	58
Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual financial statements	68
Independent auditors' report to the shareholders of Privredna banka Zagreb dd	70
Income statement	72
Statement of comprehensive income	73
Statement of financial position	74
Statement of cash flows	76
Statement of changes in equity	78
Notes to the financial statements	80
Appendix 1 - Supplementary forms required by local regulation	187
Appendix 2 - Supplementary financial statements in EUR (unaudited)	212

Who we are and what we do



Cetina river

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.

1,630 thousand
TOTAL CUSTOMERS

764 thousand
CURRENT ACCOUNTS

HRK **51.8** billion
TOTAL GROSS LOANS

HRK **71.5** billion
TOTAL CUSTOMERS' FUNDS*

HRK **10.2** billion
TOTAL HOUSING LOANS

HRK **9.3** billion
ASSETS UNDER CUSTODY

2,308 thousand
TOTAL CARDS ISSUED

430 thousand
INTERNET BANKING USERS

28,510
EFT POS

197
TOTAL BRANCHES

678
ATM MACHINES

115
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 2014 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" and "EUR thousand" or "EUR million" represent thousands and millions of Croatian kunas, US dollars, Swiss francs and Euros respectively.

EXCHANGE RATES

The following mid exchange rates set by the CNB ruling on 31 December 2014 have been used to translate balances in foreign currency on that date:

CHF 1 = HRK 6.368108
USD 1 = HRK 6.302107
EUR 1 = HRK 7.661471

Five year summary and financial highlights

in HRK milion	2014	2013	2012	2011	2010
GROUP					
Income statement and statement of financial position					
Total gross revenue	4,950	5,234	5,468	5,569	5,356
Net interest income	2,231	2,257	2,406	2,480	2,200
Net operating income	3,649	3,726	3,761	3,874	3,555
Net profit for the year	914	821	1,014	1,268	1,022
Total assets	72,707	70,117	72,554	74,154	74,409
Loans and advances to customers	46,943	48,557	49,960	51,398	49,418
Due to customers	51,596	47,729	48,143	47,431	47,054
Shareholders' equity	13,225	12,772	12,788	12,322	11,334
Other data (as per management accounts)					
Return on average equity	6.51%	6.44%	8.14%	10.86%	9.38%
Return on average assets	1.08%	1.07%	1.29%	1.61%	1.35%
Assets per employee	19.8	17.2	17.4	17.9	18.3
Cost income ratio	46.22%	45.41%	43.63%	44.00%	47.45%

in HRK million	2014	2013	2012	2011	2010
BANK					
Income statement and statement of financial position					
Total gross revenue	4,044	4,351	4,489	4,591	4,365
Net interest income	2,124	2,145	2,213	2,268	1,962
Net operating income	2,936	3,039	3,035	3,146	2,789
Net profit for the year	643	615	846	1,136	860
Total assets	68,881	65,617	68,411	67,481	67,352
Loans and advances to customers	44,499	45,106	46,918	46,691	44,585
Due to customers	50,387	46,427	46,973	44,081	43,602
Shareholders' equity	11,660	11,499	11,726	11,194	10,346
Other data (as per management accounts)					
Return on average equity	5.57%	5.30%	7.49%	10.65%	8.61%
Return on average assets	0.88%	0.86%	1.19%	1.61%	1.28%
Assets per employee	20.3	17.7	18.1	19.0	19.4
Cost income ratio	48.01%	46.95%	41.93%	41.96%	46.02%

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 Group and the Bank for the year 2014.

Although this was one of the most challenging year for the banking industry in Croatia since the beginning of the crisis, we in Privredna banka Zagreb dd and its Group managed to perform exceptionally well. 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 accomplices: the parent bank Intesa Sanpaolo S.p.A. and our strategic partner the European Bank for Reconstruction and Development.

Unfortunately, negative macroeconomic trends from the past have not reversed in 2014. Still, after long six years of negative economic growth, 2014 ended up showing more positive aspects than any of the previous years associated with the current crisis. Based on this still fragile yet positive trend, 2015 could be seen as a start of long-awaited recovery. The positive contribution to gross domestic product developments is set to come exclusively from foreign demand. After strong performance in 2014, partly reflecting large one-offs related to EU accession, exports of goods and services are set to increase at a more moderate but stable rate owing expected EU recovery. Although EU recovery lacked momentum in 2014, some new factors brighten the near-term outlook. More precisely, oil prices have declined sharply, the euro has depreciated noticeably, the European Central Bank has decided to accelerate quantitative easing and the European Commission has presented its investment plan. Thus, annual growth in the EU is forecast to accelerate.

Notwithstanding the above, the Croatian banking industry did not benefit much from any of the positive macroeconomic trends observed in 2014. Actually, the last year turned out to be the most challenging year for banks since the beginning of the crisis. 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. Furthermore, the proportion of non-performing loans increased and it seems that it still has not reach its climax. This kind of business environment pushed the banks to focus on risk management and cost control instead of development of new products and services.

Despite such a harsh environment, PBZ Group managed to control risks arising from its transactions far better than our peers do to such a degree that we even experienced a decline in the provisions charge compared to the previous year. 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. Additionally, it is of a vital importance to stress that our methodologies have been thoroughly tested and proven fully adequate by exercising detailed Asset Quality Review performed by joint home-host supervisory team under the European Central Bank's Comprehensive Assessment and Stress Test. 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 4.95 billion. Consolidated net operating income equaled HRK 3.7 billion, whereas net profit recorded HRK 914 million. Our cost/income ratio, an efficiency key measure, closed once again below 50 percent, while the return on average equity reached 6.51 percent. These are all very satisfactory figures consistently representing strong performance throughout the years.

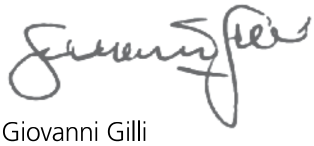
In 2014, the PBZ Group further reinforced its position as one of Croatia's foremost banks in terms of productivity, returns and value creation for its shareholders. We are the second largest group in the country with a strong customer base. Looking ahead, the present economic climate suggests that the respective environment in 2015 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 2014

In 2014 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 2014 the Supervisory Board held four regular meetings and eleven 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 the Executive Committee and Audit Committee, which regularly reported on their work at the meetings of the Supervisory Board. In 2014, 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 2014, Report on the Operation of the Bank and its Subsidiaries and Draft Decision on the Allocation of the Bank's Profit Earned in 2014, 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 Croatia d.o.o., za reviziju, Zagreb, the company that had audited the financial statements for 2014. Since the Supervisory Board has given its consent regarding the Annual Financial Statements and Consolidated Annual Financial Statements of the Bank for 2014, the respective financial statements are considered to have been confirmed by the Management Board and by the Supervisory Board of Privredna banka Zagreb dd 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 dd and its subsidiaries and it agreed that HRK 513,272,592 of the Bank's net profit totaling HRK 642,906,577.82, earned in the year that ended on 31 December 2014, should be distributed by pay-out of dividends (or HRK 27 per share) whereas the remaining amount should be allocated to retained earnings.

Yours faithfully
13 March 2015



Giovanni Gilli
President of the Supervisory Board


Alkars of Sinj

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 2014.

From the banking industry point of view, in spite of the unfavourable real sector environment, the banks' operations proved to be resilient and sound. The prudential policies of both commercial banks and central bank bore fruits – the additional value adjustments required within the asset quality review did not influence significantly the system, considering the abundant level of capitalization where total capital ratio exceeds 21 percent for many years. Further to that, in spite of the hefty burden of loan quality deterioration, financial institutions' net profit marked an increase owing to firm cost control.

In spite of prevailing gloomy macroeconomic conditions, Privredna banka Zagreb dd and its subsidiaries, supported by our strategic partners Intesa Sanpaolo and European Bank for Reconstruction and Development, managed to outperform our peers in many aspects. We were able to accomplish such achievement by executing our predetermined business strategy thus keeping a steady course, also reflecting the resilience of our earnings power in challenging conditions and the strength of customer relations that we have been continuously building.

CONSOLIDATED FINANCIAL RESULTS

The consolidated net profits for 2014 amounted to HRK 914 million, representing an increase of 11 percent compared to 2013. This astonishing result was achieved by perpetual and perennial execution of our conservative and systematic approach towards all risks arising from the business transactions we are involved in. So, despite the influence of negative macroeconomic elements namely incarnating in the banking industry as the increase of non-performing portfolio we managed not only to avoid an increase in loan provisions charge in 2014 but rather to mark a notable decline compared to 2013. Additionally, the positive effect of our in-built-long-lasting conservative approach toward the risk managed to offset yet another negative outcome of the macroeconomic scenario - stagnation of product placements resulting in a decrease in net interest income and net fee and commission income. Furthermore, these 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. It is also important to stress that 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 European Central Bank's Comprehensive Assessment and Stress Test which encompassed most significant European banking groups.

Aligned with the above and in more details, our net interest income remained unchanged, though affected by a decrease in interest income, which was mostly compensated by a stronger decrease in interest expense. These effects were caused by high liquidity on the market and rather re-

CONSOLIDATED FINANCIAL RESULTS (CONTINUED)

strictive and defensive nature of the economic community towards consumption and investments. Net fee and commission income increased by 4 percent. Provisions and impairment losses shrank by 29 percent due to already mentioned adaptation of conservative and realistic approach to provisions' measurement.

As a reflection of such trends, the Group's earnings per share rose from HRK 43.2 in 2013 to HRK 48.1 in 2014. Based on the methodology used for management reporting, the Group's return on average equity in 2014 was 6.51 percent, while return on average assets stood at 1.08 percent. Assets per employee equalled HRK 19.8 million, whereas the cost to income ratio, according to the consolidated financial statements, remained significantly below the 50 percent threshold (46.2 percent).

The balance sheet of the PBZ Group grew by 3.7 percent, amounting to HRK 72.7 billion (in 2013 HRK 70.1 billion). The most significant portion of our assets are loans and advances to customers which experienced a reduction in the outstanding amount by 3.3 percent due to 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 increased within an expected range (by 4.5 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 2014, we experienced an upsurge in customer deposits by 8.1 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. Shareholders' equity grew by 3.5 percent and now stands to HRK 13.2 billion.

The Group's capital management policies and practices, among other tools, are based on an Internal Capital Adequacy Assessment Process. 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 2014 was HRK 643 million, representing an increase of 5 percent compared to the preceding year. Defying the crisis grasp, net interest income was almost unchanged, i.e. reduced only by 1 percent, mostly affected by a decrease of the average volume of the loans placed and a decrease in average interest rates on the asset side, 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. 48 percent) threshold. Although the crisis did take its toll on the profitability, provisions and impairment losses were reduced by 26 percent compared to 2013. 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 sheet increased by 5 percent, reaching a level of HRK 68.9 billion. Considering the total structure of the balance sheet, the relative portion of customer deposits was increased and now amounts to 73.1 percent. The total loan to deposit ratio of the Bank equals 88 percent emphasizing the stability and conservative nature of our ventures.

BRIEFLY ON THE BANK'S SUBSIDIARIES

In 2014, the PBZ Group members coped well with the crisis which resulted in positive financial outcomes. Therefore, PBZ Card achieved a net profit of HRK 222.5 million, PBZ stambena štedionica HRK 17.5 million, PBZ Leasing HRK 10.3 million, PBZ Nekretnine HRK 1 million whereas PBZ Croatia osiguranje, associated company - pension fund management company, earned a profit of HRK 23.1 million. Intesa Sanpaolo Card Zagreb, an associated company established in 2009, earned net profit of HRK 30 million.

OUTLOOK

After six long years of negative economic growth, from the overall macroeconomic point of view, 2014 ended up counting a few more positive numbers than any other year before. Based on this first green shoots 2015 is seen as a start of recovery, muted at the beginning but more promising at the end. Personal consumption decline apparently touched bottom and supported by changes in personal income tax is expected to stagnate or even marginally revive in 2015 even though more dynamic revival will be limited by high unemployment. The positive contribution to gross domestic product developments is set to come exclusively from foreign demand. After strong performance in 2014, partly reflecting large one-offs related to EU accession, exports of goods and services are set to increase at a more moderate but stable rate owing expected EU recovery.
In this environment, economic activity in Croatia is set to stagnate over 2015. The fact that Croatia is lagging behind other EU member states in term of recovery is stressing out the necessity of structural reforms in order to enhance country's competitiveness and to ensure growth that is more dynamic. Under the unfavourable long-term demographics, only dynamic economic growth can ensure stable and sustainable fiscal developments.
Within this framework, we have defined our plans focusing on strengthening our position as fully client oriented providers of financial services. Responsible growth will continue to be our main strategic choice. Needless to say, we will continue to respect all regulatory changes, while focusing on technological developments and changes in business environment in refining our strategy.

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 which 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.

13 March 2015

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


Neretva estuary

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 2014 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 2014 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.

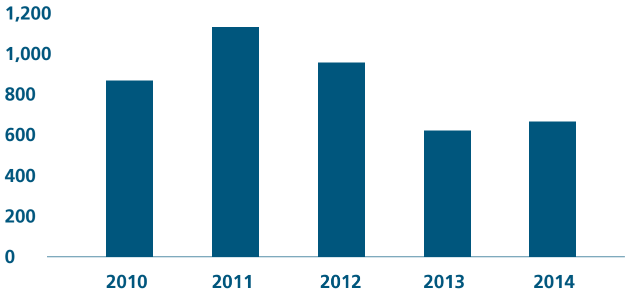
PBZ recorded profit before taxes of HRK 824 million, while net profit for the year of HRK 643 million represents an increase of 4.6 percent compared to the previous year. The higher net profit is primarily the result of lower impairment charge for loans and other impairment losses by 25.8 percent compared to 2013.

The Bank realised gross revenue of HRK 4,044 million, which includes HRK 3,118 million of interest income, HRK 705 million of fees and commissions and HRK 221 million of other income. During 2014, the Bank managed to record net interest income of HRK 2,124 million representing a 1.0 percent decrease 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 591 million which is 9.6 percent above 2013.

In 2013, PBZ recorded a gain from the sale of subsidiary PBZ Invest in amount HRK 156.3 million, which significantly affected the fall of other income in the reporting year. At the same time net trading income and net gains on translation of monetary assets and liabilities increased significantly compared to the 2013 because the Bank during the reporting year invested considerable resources in securities.

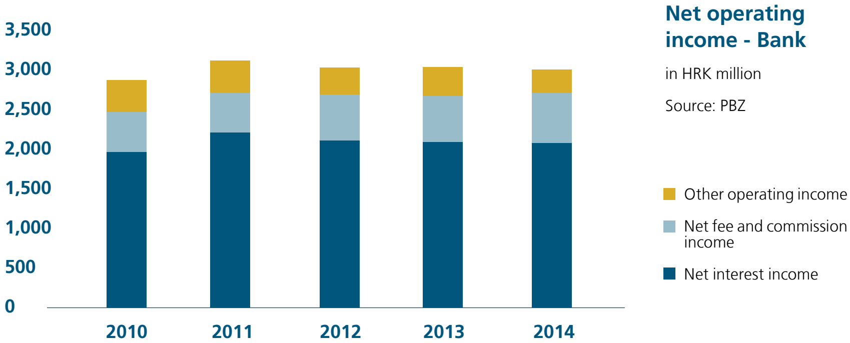
In spite the difficult market conditions, PBZ's management strategy, combining good revenue drive and cost containment, enabled the Bank to record HRK 2,936 million in operating income, 3.4 percent below the year before. More-



Net profit for the year - Bank

in HRK million

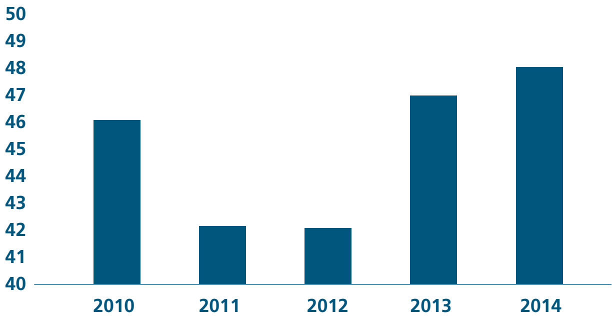
Source: PBZ



Net operating income - Bank

in HRK million

Source: PBZ



Cost income ratio - Bank

in %

Source: PBZ

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

PRIVREDNA BANKA ZAGREB DD (CONTINUED)

over, PBZ in 2014 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 575 million for impairments and loss provisions.

Other operating expenses amounted to HRK 1,411 million, 4.2 percent above 2013. Cost income ratio was 48.0 percent, below the 50 percent threshold, set internally and stable.

For 2014, the Bank recorded a 5 percent increase in total assets, which at year-end amounted to HRK 68,881 million. Loans and advances to customers represent the most significant component of the financial position with 64.6 percent of the total balance. Other important items include financial assets at fair value through profit or loss which represent 8.7 percent of total assets, and loans and advances to banks which represent a 7.5 percent share of the total assets. At the year end, PBZ held HRK 11,966 million of cash and cash equivalents, which indicates the robust liquidity position of the Bank.

Total liabilities amounted to HRK 57,221 million at the end of 2014. Customer deposits are the main source of funding, representing 73.2 percent of total liabilities and equity, 2.4 percentage points above the year before, whereas interest-bearing borrowings represent 6.6 percent of total liabilities and equity of the Bank. Total shareholders' equity at the end of 2014 stood at HRK 11,660 million, 1.4 percent higher than 2013.

PBZ CARD

PBZ Card has had very good business results in 2014, confirming its leading position on the domestic card market and continuing the growth trend in all the major business indicators, regardless of the unfavourable environment and the sixth year of crisis in a row that the Croatian economy finds itself in.

The net operative income for 2014 was HRK 629.6 million or 0.3 percent less in relation to 2013. The total operating business costs for 2014 are HRK 374.4 million, what is 1.1 percent less in relation to previous year. Profit before income taxes amounts to HRK 278.9 million. The net profit in 2014 is 2.4 percent increase in relation to 2013 and amounts to HRK 222.5 million, making PBZ Card the second most profitable segment in the PBZ Group. The PBZ Card total assets on 31 December 2014 were HRK 2,428 million, or an increase of 8.1 percent in relation to the end of 2013.

The aforementioned results met the Company's goals, so that PBZ Card will continue with the business model focused on generating profits with further promotion of card purchases, launching new products and investing in more services with added values for merchants and card members thus retaining the leading position on the market and further strengthening PBZ's position in card business.

PBZ LEASING

PBZ Leasing is Croatian company engaged in lease transactions with clients. The Company had a good year, especially considering the hard economic developments that have significantly influenced the Croatian leasing industry. Its net profit for the year amounted to HRK 10.3 million (previous year HRK 13.8 million). In 2014, the Company realized new leasing placements in the amount of HRK 169 million.

The total portfolio of the Company comprises net fixed assets in operating leases in the amount of HRK 416 million and net receivables from finance leases in the amount of HRK 656 million, at the end of 2014.

The business activities of PBZ Leasing in 2015 will be focused on ensuring balanced and steady growth of its balance sheet. PBZ Leasing is committed to maintain its market share and improve its range of products and services through new selling channels.

PBZ NEKRETNINE

PBZ Nekretnine in 2014 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 realising more than 6.5 thousand appraisals.

During 2015 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 2014 profit before income taxes of PBZ stambena štedionica reached HRK 21.9 million, which represents a HRK 2.3 million increase compared to the year before. Also, net profit in 2014 was HRK 1.8 million higher and amounts HRK 17.5 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 2014. As at 31 December 2014 PBZ

stambena štedionica reached HRK 1,578 million in total assets.
The business activities of PBZ stambena štedionica throughout 2015 will continue to be oriented at keeping those depositors whose savings contracts are about to expire and by attracting new clients, especially given the fact that the Ministry of Finance has stated that it will pay government premiums in amount of 4.9 percent on collected savings in 2015 up to a maximum of paid HRK 5 thousands (therefore HRK 245).
The company also expects a large number of present customers who meet the set criteria to take housing loans in 2015, in accordance with the terms of the contract. Finally, the company will be focused on maintaining targeted profitability levels.

PBZ CROATIA OSIGURANJE

PBZ Croatia osiguranje continues to achieve positive financial results. In 2014 the Company reached net profit of HRK 23.1 million, which is 21.1 percent higher than the result in 2013. At the same time, the cost income ratio stands at 51.82 percent (2013: 60.1 percent). Total assets on 31 December 2014 reached HRK 125 million in spite of the fact that the Company paid a dividend to its owners in the total amount of HRK 19 million.
In 2014 there was no increase in the number of fund members due to the enforcement of the new law that regulates mandatory pension funds (Mandatory Pension Fund Act, Article 100, point 4). Around 7 thousand members with accelerated pension plan left the fund. PBZ Croatia osiguranje ended the year 2014 with nearly 304 thousand members.
PBZ Croatia osiguranje is a well-recognised and highly respectable pension fund management company in Croatia. Its development strategy for 2015 will be oriented at maintaining its status within the general public in the country as well as attracting new members.

INTESA SANPAOLO CARD ZAGREB

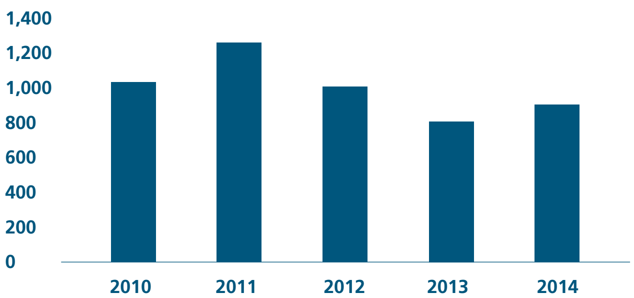
In 2014 the Company has celebrated its 5th anniversary. The year was marked by the continuation of strategic Target Business Architecture development and the implementation of mobile payments. Intesa Sanpaolo Card Zagreb was among the first in the world to introduce Host Card Emulation (hereinafter: HCE) technology with Visa brand and the first in the world to implement HCE with American Express brand.
In 2014 Intesa Sanpaolo Card Zagreb and its subsidiaries recorded profit before income taxes of HRK 39.6 million, while net profit for the year amounted to HRK 30.0 million, which represents increase of 28.6 percent compared to the year before.
Total assets on 31 December 2014 reached HRK 309.3 million, 0.8 percent higher than at the end of 2013.

FINANCIAL HIGHLIGHTS OF THE PBZ GROUP

On a consolidated level the Group recorded profit before income tax expense of HRK 1,159 million, while net profit for the year amounted to HRK 914 million which represents an increase of 11.3 percent compared to the previous year.
By presenting more detailed figures, we may emphasise that in 2014 PBZ Group recorded interest income amounting to HRK 3,270 million, which compared to 2013 represents a decline of 5.9 percent. At the same time, the Group reported HRK 179 million lower interest expenses amounting to HRK 1,039 million, or 14.7 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 2,231 million, which is an annual drop of 1.2 percent.
As for the non-interest operating income, PBZ Group recorded net fee and commission income of HRK 1,132 million, which is 3.9 percent higher than 2013.
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 559 million for impairment losses and provisions.
Other operating expenses of the PBZ Group have recorded a 0.8 percent increase 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 46.2 percent in 2014.
At the end of the reporting period, the balance sheet of the PBZ Group amounted to HRK 72.7 billion. Loans and advances to customers account for 64.6 percent of the Group's assets. At the end of 2014, loans and advances to customers stood at HRK 46.9 billion, which accounts for a decline of HRK 1.6 billion, or 3.3 percent compared

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

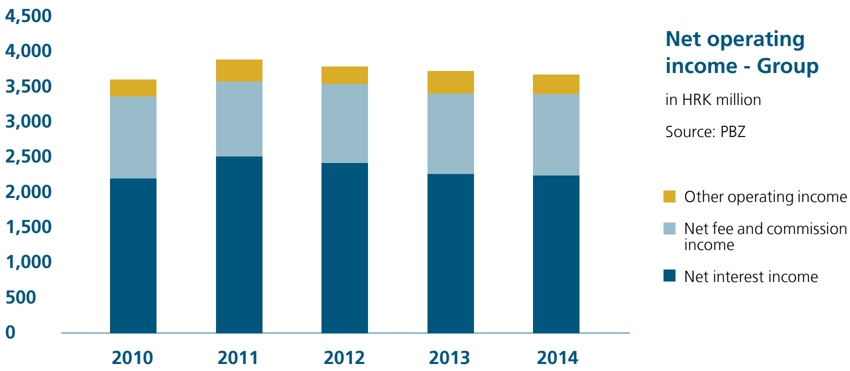
(continued)



Net profit for the year - Group

in HRK million

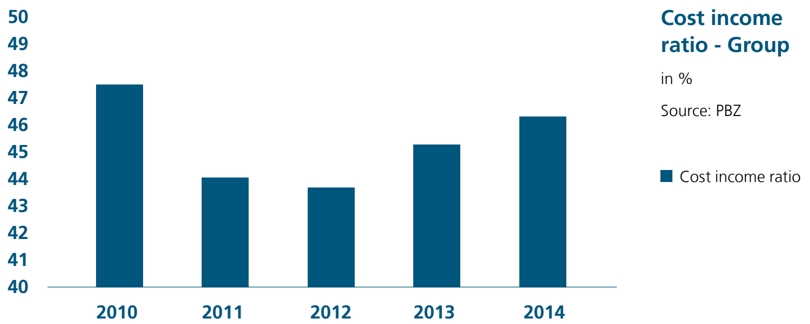
Source: PBZ



Net operating income - Group

in HRK million

Source: PBZ



Cost income ratio - Group

in %

Source: PBZ

Group operating income by business segment (in HRK million)	2014	2013
Banking	2,936	3,039
Card services	630	628
Leasing	95	107
Other financial services	32	33
Non-financial services	10	10
Consolidation adjustments	(54)	(91)
Operating income	**3,649**	**3,726**

FINANCIAL HIGHLIGHTS OF THE PBZ GROUP (CONTINUED)

to last year's figures. Cash and current accounts with banks account for 9.6 percent of the Group's total assets followed by Financial assets initially designated at fair value through profit or loss with a 8.5 percent share in total Group's assets.

On the liabilities and equity side, the total equity has recorded a growth of 3.5 percent reaching a total of HRK 13.2 billion. The deposits from customers of the PBZ Group account for 71.0 percent of the total liabilities and equity and are followed by shareholders' equity with a share of 18.2 percent and interest-bearing borrowings with a share of 6.6 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.

As apparent from the bellow table the banking segment continues to be the strongest contributor to the consolidated operating revenue reaching HRK 2,936 million. The major individual contribution was realised by Privredna banka Zagreb dd. Net profit of the Bank amounted to HRK 643 million (2013: HRK 615 million). Subsidiaries and associates contributed by HRK 272 million (2013: HRK 265 million) to the consolidated net profit of the Group.

Yours faithfully
13 March 2015

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

Oyster gardens in Ston


Harvest

Macroeconomic developments in Croatia in 2014

2014 YEAR-END MORE OPTIMISTIC TOWARDS RECESSION ENDING

After long six years of negative economic growth, 2014 ended up counting a few more positive numbers than any other year before. Based on this first green shoots 2015 is seen as a start of recovery, muted at the beginning but more promising at the end.

Personal consumption decline apparently touched bottom and supported by changes in personal income tax is expected to stagnate or even marginally revive in 2015, even though more dynamic revival will be limited by high unemployment. Domestic demand in general will remain burdened by still absent investment activity and Excessive Deficit Procedure (hereinafter: EDP) related fiscal consolidation – although pre-election year could impose some additional pressures on consolidation path.

The positive contribution to gross domestic product (hereinafter: GDP) developments is set to come exclusively from foreign demand. After strong performance in 2014, partly reflecting large one-offs related to EU accession, exports of goods and services are set to increase at a more moderate but stable rate owing expected EU recovery. Although EU recovery lacked momentum in 2014, some new factors brighten the near-term outlook. More precisely, oil prices have declined sharply, the euro has depreciated noticeably, the European Central Bank (hereinafter: ECB) has decided to accelerate quantitative easing and the European Commission (hereinafter: EC) has presented its investment plan. Thus, annual growth in the EU is forecast to accelerate to 1.7 percent, while growth in the euro area is expected to pick up to 1.3 percent in 2015.

In this environment, economic activity in Croatia is set to stagnate over 2015. The fact that Croatia is lagging behind other EU member states in term of recovery is stressing out the necessity of structural reforms in order to enhance country's competitiveness and to ensure growth that is more dynamic. Under the unfavourable long-term demographics, only dynamic economic growth can ensure stable and sustainable fiscal developments.

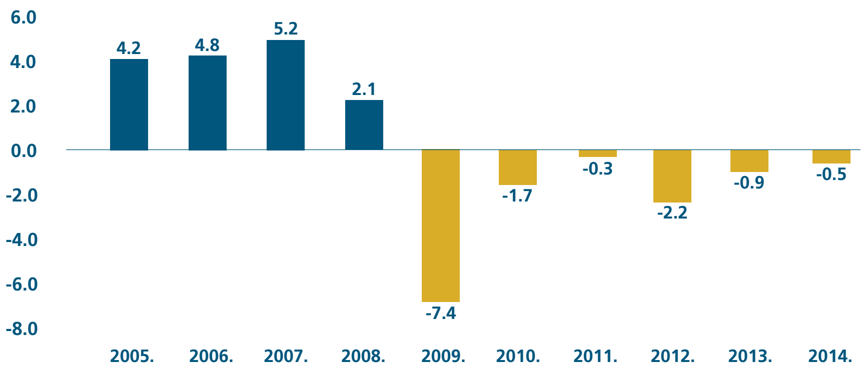
2014 turned out to be the most challenging year for banks since the beginning of the crisis. The trends in banking industry were a true reflection of the prevailing business and consumer pessimism, which caused the shift of the private sector towards aversion to debt and increased inclination to savings. The proportion of non-performing loans soared by over 1.2 pp, but still did not reach its peak. We should witness this in 2015 due to continued deleveraging of the households, on-going corporate sector restructuring and the absence of investment activity. In such a climate, the banks have strongly concentrated on risk management and cost control, which will surely remain in focus in years to follow. Still, after the abrupt sharp appreciation of Swiss franc at the beginning of the year, major topic in 2015 became loans indexed to Swiss franc. The instalments soared over night, and the Government made a decision to temporary fix the exchange rate on retail and small business loans. The denouement of this story will probably take place during the course of the year, as the search for the long-term solution is under way.

Macroeconomic developments in Croatia in 2014

(continued)

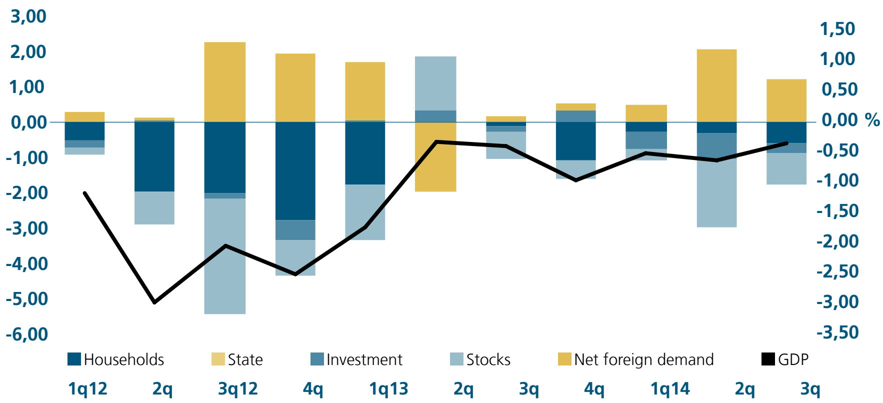
GDP, real growth rates (%)

source: CBS



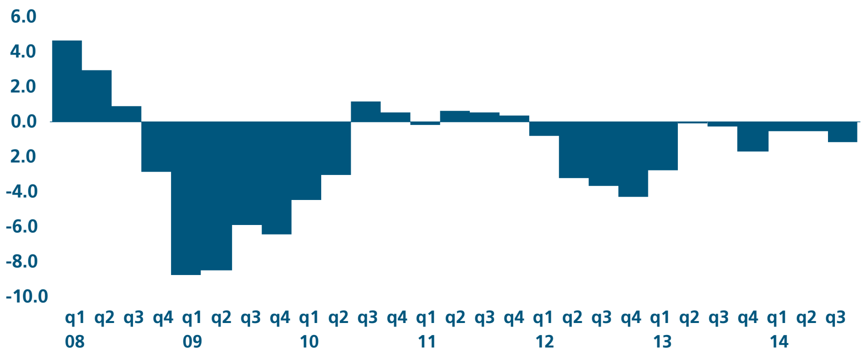
Contribution to quaterly GDP and GDP real growth rates, in pp and %

source: CBS, PBZ



Personal consumption, constant prices, % yoy

source: CBS



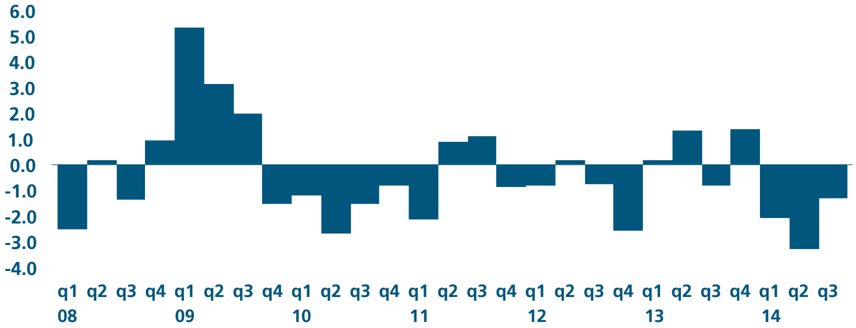
2014 IN REVIEW

Even though 2014 was a sixth consecutive recession year, it has ended up on a more positive note than it has started. Although GDP remained negative, its trajectory slowed down to -0.4 percent year on year. Trend of positive foreign demand contribution to GDP growth that has commenced in 2013 continued in 2014, while domestic demand remained subdued. Private consumption is still facing strong headwinds in terms of high unemployment, deleveraging and negative consumers' expectations. Supported by strong tourist season and deflation impact real retail trade increased by 0.4 percent compared to 2013 however at the level around 16 percent lower than in 2008.

At the end of 2013, European Commission launched the EDP for Croatia. Under the EDP enforced fiscal consolidation, 2014 general government deficit is expected to stand at 5.0 percent of GDP compared to 5.2 percent in 2013. The introduction of new European System of National and Regional Accounts (hereinafter: ESA 2010) methodology also finally revealed the extreme growth in public debt that surpassed 81 percent of GDP in 2014 compared to 36 percent end-2008.

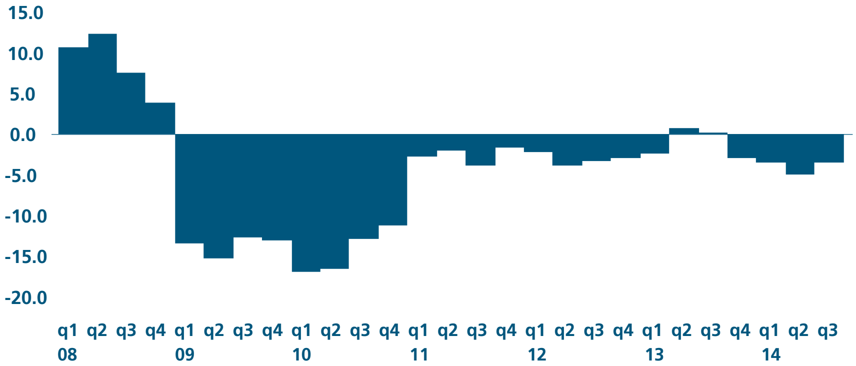
Government consumption, constant prices, % yoy

source: CBS



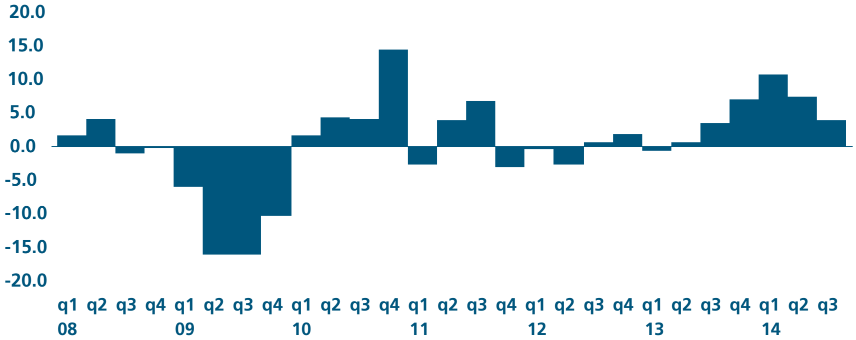
Gross fixed capital formation, constant prices, % yoy

source: CBS



Exports of goods and services, constant prices, % yoy

source: CBS

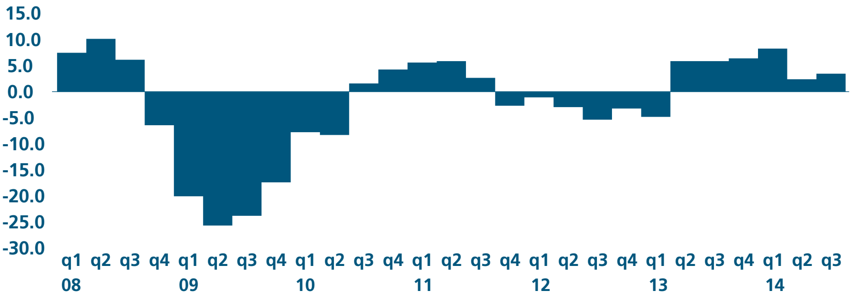


Macroeconomic developments in Croatia in 2014

(continued)

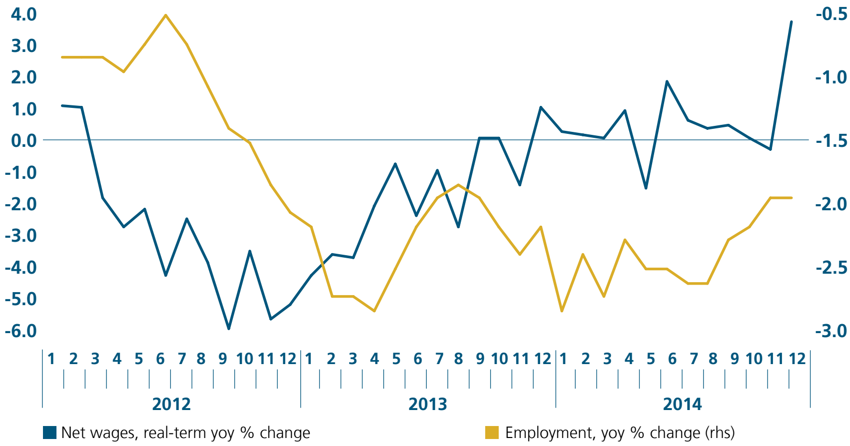
Imports of goods and services, constant prices, % yoy

source: CBS



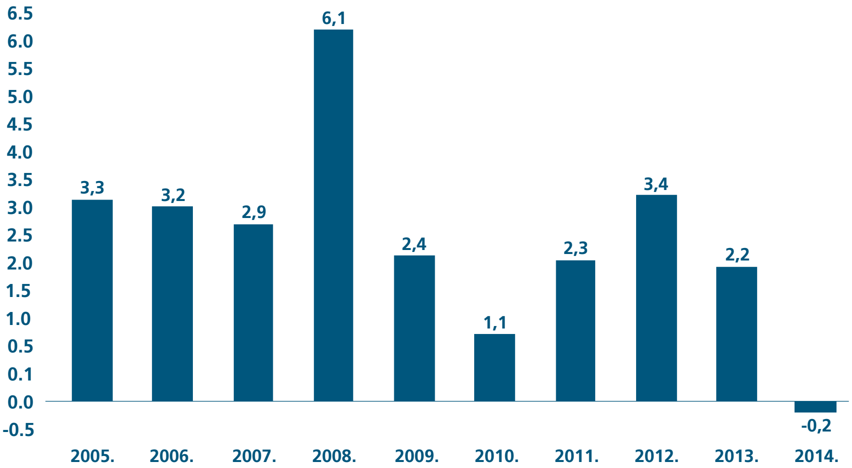
Labour market

source: CBS



Average annual CPI, %

source: CBS, PBZ



2014 IN REVIEW (CONTINUED)

Rise in investments activity recorded over the 2nd and 3rd quarter of 2013 was of a short breath, and 2014 was again marked by negative growth rates in real investment activity. During 2014, the construction works marked an average drop of 6.5 percent in relation to 2013, while in relation to 2008, this drop amounts to a high 42 percent. Inactive real-estate market, a large number of built, but unsold apartments, deleveraging of citizens and lack of both private and public investment are burdens pressing construction activities over the last couple of years.

The goods trade deficit shrank in the first eleven months of 2014 owing to the rise in exports (9.3 percent), which outstripped the rise in imports (4.7 percent) on an annual basis. Detailed data show that the narrow aggregate of exports, excluding ships and oil, had the most significant impact on the annual increase in the overall exports of goods. Exports of goods to EU member states increased by 12 percent while reentrance to Central European Free Trade Agreement market resulted in 12.2 percent increase.

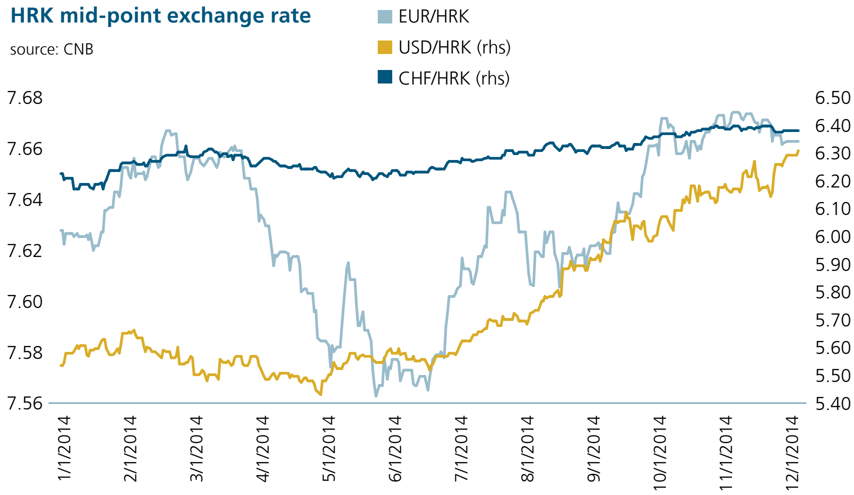
Exports of services also significantly improved compared to previous year, 3rd quarter's +2.9 percent real growth reflected increased arrivals and nights spent by foreign tourists. Importantly favorable trends in tourism continued also over the last quarter and overall annual increase in foreign tourists' arrivals reached 6.1 pecent yoy in 2014.

Sixth year of recession left deep scars on the labour market - number of the employed persons dipped by 2 percent yoy in 2014 and it was lower by 14 percent than in 2008. Unemployment rate declined from 20.3 percent in 2013 to 19.7 percent on account of stricter implementation of unemployment eligibility rules and the emigration. Net wages marked a small real-term growth owing to deflation.

General level of prices moderately declined in 2014 amid feeble domestic demand, predominantly of the households, which are reducing indebtedness and at the same time refraining from consumption due to poor labour market conditions and mounting uncertainties. Global food and oil price drop, fall in the domestic producer prices, as well as *base effect* of EU entry in the second half of 2013 additionally fuelled the downward tendencies.

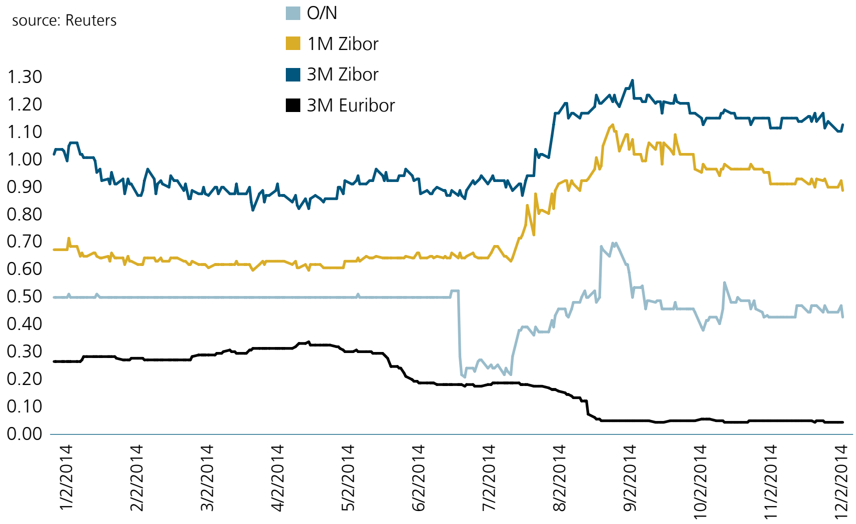
HRK mid-point exchange rate

source: CNB



Zibor, %

source: Reuters



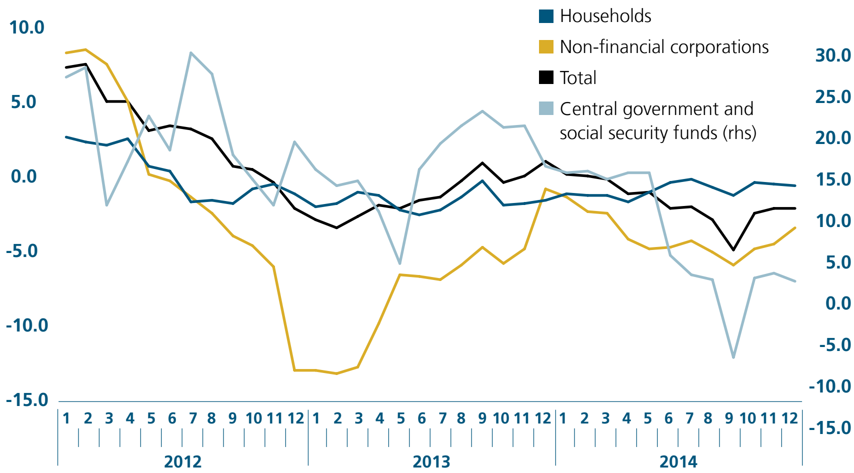
2014 IN REVIEW (CONTINUED)

Consumer price index marked negative annual rates from February until September, eight months in a row. Trend reversed during October and November, but the steep slide in oil prices in December pushed the inflation rate back to the negative territory. Thus, the average inflation rate reached -0.2 percent, 2.4 pp lower than the year before.

Strong corporate demand and increase in interbank trading in an environment of depressed economic activity exerted depreciation pressures on kuna throughout the year, but the CNB intervened only once, in January, selling € 240 million to banks. Average exchange rate in 2014 reached 7.63 kunas to euro, +0.7 percent yoy. Following the movements of the euro on the global markets, kuna lost in value towards both US dollar and Swiss franc. Average exchange rate grew to 5.75 kunas to US$ and 6.28 kunas to CHF.

Loans, yoy % change

source: CNB



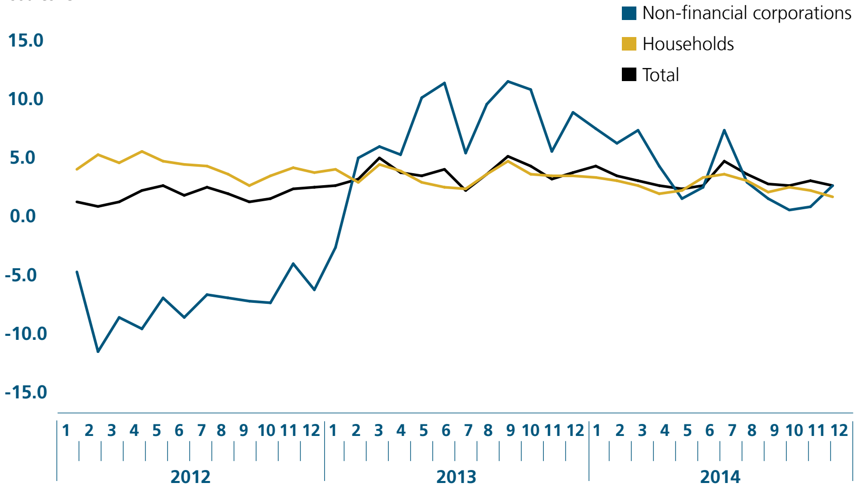
As a result of central banks' expansionary monetary policies, the liquidity both domestic and global was ample, hence the money market rates stayed low. Short-term Zibor slid by 10-20 bps yoy, whereas long-term rates dived by 50-90 bps yoy. Average interest rate on overnight loans amounted to 0.5 percent, 1M stood at 0.7 percent and 3M at 1.0 percent, while 3M Euribor dropped to 0.2 percent.

Lack of positive impulses in the real sector lead to another year of private sector debt shrinking and savings build-up. Total assets of monetary financial institutions grew by a mere 1.0 percent yoy; largest growth on the liability side was recorded by deposits, while on the asset side HRK 5.0 billion high growth of claims (loans and securities) on the central and local government was followed by the almost identical decrease in the claims on private sector. Total loans sank by 2.3 percent yoy, where the fastest rate of decrease was recorded by non-financial corporations (-3.7 percent), followed by central government and social security funds (-1.3 percent) and households (-0.8 percent). Total deposits jumped by 3.2 percent yoy, at the rate of 3.2 percent for non-financial corporations or 2.1 percent for households.

The share of partially recoverable and fully irrecoverable loans in total loans kept on growing on the back of narrowing corporate profits and households' disposable income. Non-performing loans ratio soared from 15.7 percent in 2013 to 16.9 percent in 2014, reaching 12 percent in retail and even 30.5 percent in corporate sector. In spite of the hefty burden of loan quality deterioration, financial institutions gross profit increased 3.5 times yoy in 2014. This is, in addition to a more strict cost control and active resolution of the non-performing loan issue, a result of the base effect; namely, regulatory changes introduced in the last quarter of 2013 sharply cut the profit of the banks, which consequently consolidated their operations and recorded lower provision costs during 2014.

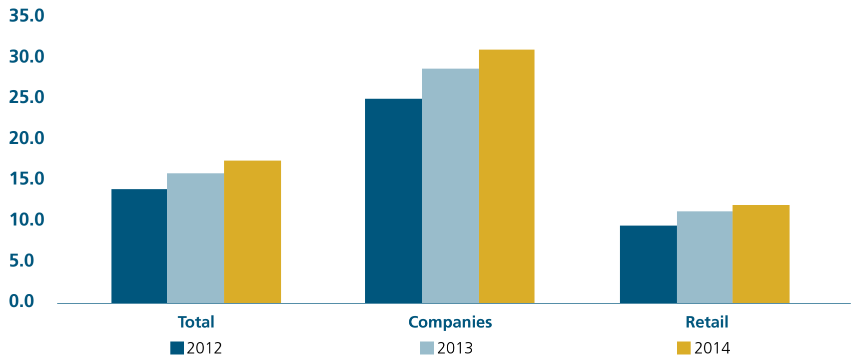
Deposits, yoy % change

source: CNB



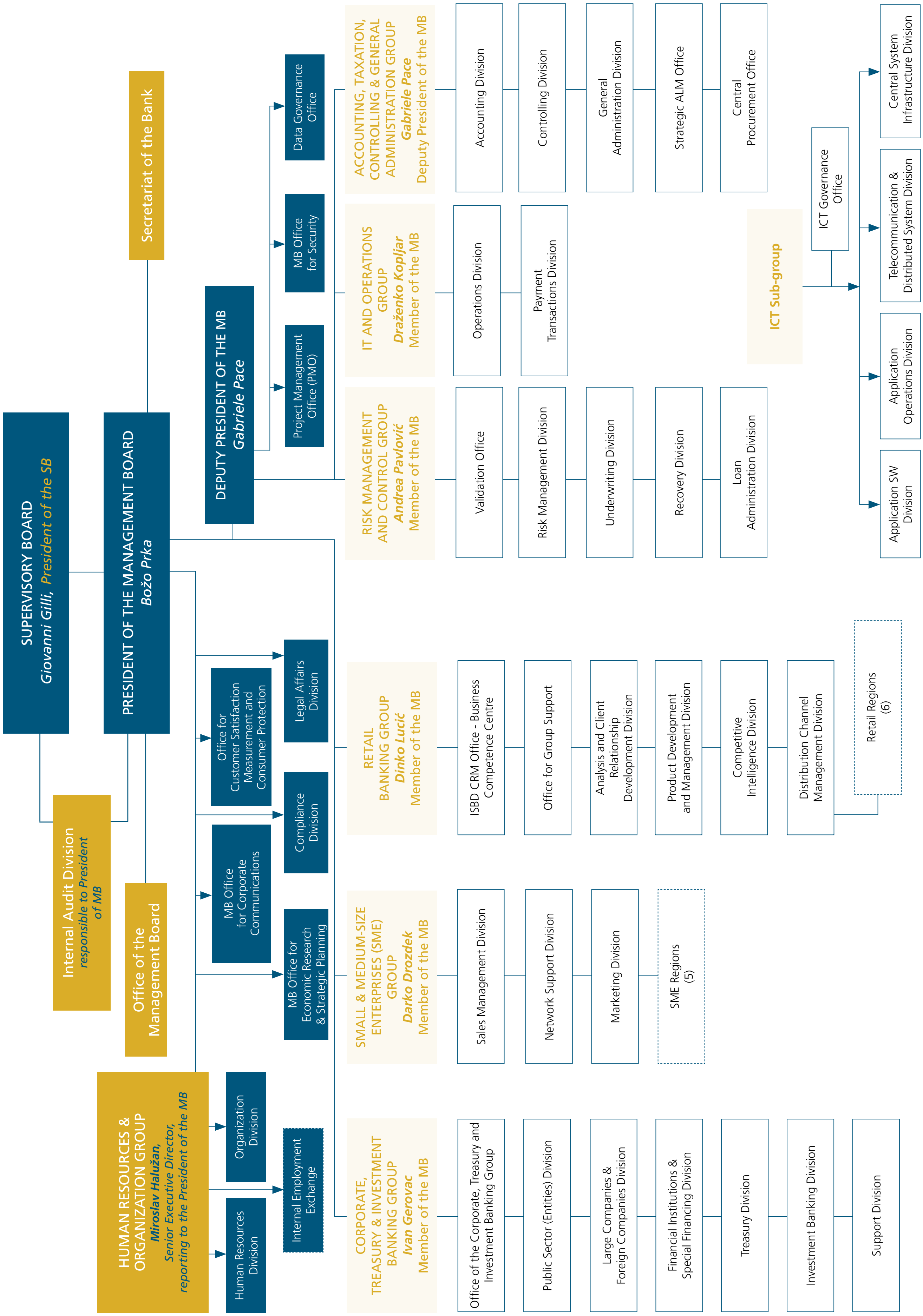
Share of partially recoverable and fully irrecoverable loans in total loans, in %

source: CNB



Cyclicsts

Organisational chart



Nature Park Kopački rit

Business description of the Bank

Privredna banka Zagreb 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 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 the Republic 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, supported by the EBRD through its non-controlling shareholding stake, 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 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 received the Best Bank in Croatia award from Euromoney in 2001, 2002, 2004, 2005, 2007, 2008, 2009 and 2013. 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 it was recognised as the Best Internet Bank in Croatia in the category Best Internet Banks in Croatia and Eastern Europe. Also, in 2014 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 in 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 currently employs some 3,662 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 197 organizational units in 6 regions

and 18 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 678 ATMs have been installed). The number of EFT POS's (point of sale) has reached 28,510.
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. Five years ago PBZ introduced mPBZ, a full range of banking services over the mobilephone, such as paying bills (including 2D barcode scanning - „scan & pay"), checking account balances, forex, 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 is the first bank in Croatia to implement secure e-commerce based on 3D Secure technology (Verified by Visa) and CAP/DPA technology for user authentication. Most recently, PBZ introduced a new innovative service – an Internet channel for distribution of investment banking services, now brokerage services on the domestic stock exchange and as well as custody accounts. 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 nearly 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 (favorable 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.

RETAIL BANKING GROUP (CONTINUED)

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).

Analysis and Client Relationship Development Division

This Division deals in analysis and development models of client relationships as well as supervision and implementa-tion 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-organised 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.
PBZ has thoroughly developed a platform for supporting classic cash and non-cash transactions for corporate clients within the Bank's network. Due to it's wide network of correspondent banks, Privredna banka Zagreb dd offers it's clients fast and affordable services in the area of international payments. Also, PBZ has significantly changed 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. PBZ 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.
Following the adoption of the new organisation of Privredna banka Zagreb dd, the Corporate Banking Group and the Finance Banking Group created the Corporate, Treasury and Investment Banking Group with particular emphasis on banking with large companies, financial institutions and the Government institutions and agencies.

Corporate, Treasury and Investment Banking Group consist of the following divisions: Office of the Corporate, Treasury and Investment Banking Group, Public Sector (Entities) Division, Large Companies and Foreign Companies Division, Financial Institutions and Special Financing Division, Treasury 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, 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.

CORPORATE, TREASURY AND INVESTMENT BANKING GROUP (CONTINUED)

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 co-ordinating 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 co-operation with the Croatian National Bank and the Ministry of Finance, particularly in Anti Money Laundering & Terrorism Financing Prevention).

Financial Institutions and Special Financing Division

The key responsibilities of this Division are establishing, monitoring and promoting a complete range of business relations between the Bank and more than 1,800 domestic and international banks and financial institutions. In order to provide better services to PBZ clients and fully utilize its internal synergies, the Documentary Business (i.e. guarantees and documentary credits) became part of the Financial Institutions and Special Financing Division in 2006.

As part of the special financing services, this Division offers all the Bank's clients tailor made financing solutions including trade and project financing, credit and special arrangements with financial institutions (both domestic and international) as well as with supranational organizations (e.g. EBRD, etc.), buyer's credits for the promotion of Croatian exports, open lines of credit guaranteed by state export agencies, commodity loans for export and import financing. One of the most notable financial services provided by this Division has been arranging and participating in syndicated loan facilities on behalf of the Bank and its clients (PBZ is the market leader in Croatia in arranging syndicated loans). Through this Division PBZ is an active participant in the secondary loan market and forfeiting transactions.

The PBZ's Group funding has also been a part of this Division's responsibilities.

Treasury Division

The Treasury Division is an important, and among the top players on the Croatian market with a broad spectrum of financial solutions for large corporate and institutional investors. The Treasury Division offers a comprehensive range of services, involving transactions on the international and domestic money markets, capital markets, and foreign currency markets and also manages the liquidity of the Bank. The PBZ Treasury Division is a reliable financial partner and has an active role in trading securities issued by the Ministry of Finance, currency and short-term cash derivatives on the money market.

The Treasury Division consists of three sections: Trading, Sales and Money Market.

Trading Department consists of two subunits: securities and foreign exchange. The securities subunit operates with short, medium and long-term debt and owners' financial instruments. The foreign exchange subunit performs transactions with foreign currencies on spot and forward, with options and banknotes. The banknotes segment covers delivering, dispatching, processing and warehousing various shipments of foreign currencies. Privredna banka Zagreb acts on the domestic market as one of the leading banks in this particular banking area.

The money market section is involved in short-term securities, domestic and international T-bills, repo arrangements and deposits. In the foreign exchange section the most important segment of the activities is covered by the Corporate desk. It is mainly oriented towards corporate clients and fulfilling their needs, requirements and demands. It offers best quotations of all treasury products, plus information about exchange rates, interest rates and bond prices.

We are recognised as the market maker in securities, commercial papers, government, municipal and corporate bonds issued on domestic and foreign markets. Considering the above, we can most proudly conclude that as well as participating domestically, as a priority we are focused and open towards the global markets.

Investment Banking Division

As a leader in Croatia, Privredna banka Zagreb d.d. provides it's 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 type of debt (short and long-term) and equity issues. Over the past twelve years, we had organized for 29 Croatian clients total of 204 debt and equity paper issues including government issues of the Republic of Croatia (totalling HRK 85.5 billion), municipal bonds (totalling HRK 256.5 million), corporate bonds (totalling HRK 4.3 billion), commercial papers issues (totalling HRK 5.1 billion) and public offerings (totalling HRK 634.1 million).

Structured finance department provides services directed towards structuring project financing, as well as other activities related to structured transactions, which, amongst other, include the following: designing and executing structured finance transactions; providing support to its clients during creation of optimal financial structure of the project; preparing financial projections of planned projects; identifying risks within the structured transactions and suggesting measures to mitigate those risks; participating in 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, financial restructuring.

The Research department closely cooperates with other departments of the Investment Banking Division and provides a wide spectrum of services connected to 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 readily available through electronic trading systems and prompt reporting of securities transactions.

Privredna banka Zagreb dd is the leading Croatian custody banks offering high quality custody services for investment in domestic and foreign securities. In-debt market knowledge and expertise of our team as well as 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.

Support Division

This Division offers business support to organisational units of the Corporate, Treasury and Investment Banking Group in part to provide relevant information to clients regarding Cash Management service and Internet banking, development of products and services, implementation and monitoring of contracted syndicated loans in which the PBZ is agent and/or participant, preparing internal and external reports arising from the activities of the Group and in cooperation with the Group's business areas involved in the preparation and monitoring of business plan.

SMALL AND MEDIUM-SIZE ENTERPRISES (SME) GROUP

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 over 55 Sinergo desks with 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 65,000 customers - companies, crafts, and enterprises.

Customers can use the largest network of ATMs (Cash-In/Cash-Out), night safes, and EFT POS terminals. In addition, the use of 2D barcodes (utility bills payment), mobile banking, and text message services have turned PBZ into one of the leading providers of payment services.

PBZ is a technological leader and has a pioneering role in terms of introducing the Internet banking services to the domestic market, currently available under labels PBZCOM@NET 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 (EIB, CEB, EBRD, EIF) 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 over 55 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, Taxation, Controlling and General Administration Group led by the Deputy President of the Management Board, 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.

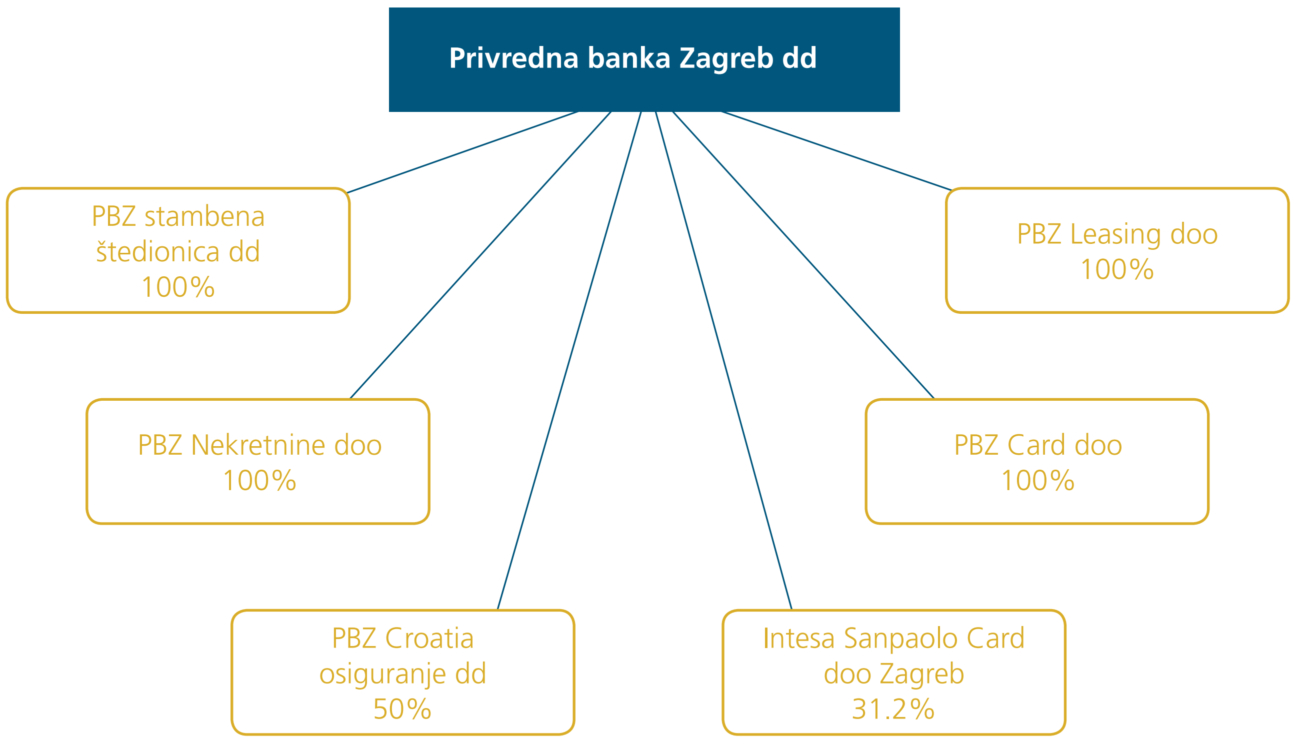
The IT and Operations Group represents a key part of the organisation that serves the entire Bank by providing IT and communications assistance, supporting distribution channels and feeding the system with financial information.

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 Division, Office of the Management Board, Secretariat of the Bank, Human Resources and Organization Group, Legal Affairs Division, Compliance Division, Management Board Office for Corporate Communications, Management Board Office for Economic Research and Strategic Planning, Office for Customer Satisfaction Measurement and Consumer Protection, Project Management Office as well as the Management Board Office for Security and Data Governance Office are integral elements of the overall logistics and support of the business groups and the management.

Pag salt works

The Group



The Privredna banka Zagreb Group is a Croatian based financial services group which provides a full range of retail and corporate banking services to customers in Croatia. At the end of 2014 the Group employs some 4,011 employees and serves over 1.6 million both private and corporate clients in the country. PBZ Group today is a well-organised institution whose market share in the overall banking system stands at 17.3 percent.

On 31 December 2014 the Group consisted of Privredna banka Zagreb and 4 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 charge of credit card business for private cardmembers and companies, and it includes business with merchants, such as signing merchant agreements to accept cards. The Company also offers a complete range of travel services, such as air tickets, hotels, cruises and all inclusive vacation arrangements. The Company's range covers forty American Express cards and MasterCard, Maestro, Visa and Visa Electron products by Privredna banka Zagreb dd, including a rich selection of charge, debit, debit delayed, credit, pre-paid and other cards intended for private cardmembers and companies. PBZ Card's success rests on the great knowledge and experience built over more than forty years of American Express on our market, the leading position of the American Express on the market of charge and revolving credit cards in Croatia, as well as the values of the MasterCard and Visa brands and a strong position of Privredna banka Zagreb as the leading bank in introducing new technologies and card products.

At the end of the last year, taking into account the number of cards, the PBZ Group has had 25.8 percent of the total Croatian active card market, including a leading position on the credit card market with a share of 31.4 percent. The total turnover of users achieved with the American Express, MasterCard and Visa card products of the PBZ Group in 2014 comprised 28.7 percent of the total turnover of the Croatian card market users. That year, the company also retained its leading position in the total number of EFT POS devices, in which it holds approximately 28 percent of the market.

Among the projects involving new, modern technologies, which will also mark the years to come, one should mention the contactless payment project. An integral part of the project is the Visa Inspire debit card – the first Visa card on the Croatian market with the possibility of contactless payment. As an upgrade of the Visa Inspire card, the Visa Inspire Wave 2 Pay sticker was introduced last year. Reduced in format and in the form of a sticker that can be attached to a mobile phone that the clients always have on them, the Inspire Wave 2 Pay sticker offers a faster and simpler way of contactless payment for goods and services both at home and abroad.

In 2014 and by the end of the year, the possibility contactless payment was introduced at 10,400 POS terminals, i.e. 36 percent of the sales network. At the end of the year, the total number of issued Visa Inspire contactless cards amounted to approximately 800,000, while in a little more than half a year from the presentation on the market, a total of 23,400 Visa Inspire Wave 2 Pay Stickers were issued.

PBZ STAMBENA ŠTEDIONICA

PBZ stambena štedionica was founded by Privredna banka Zagreb dd in 2003. Given the large number of our clients interested in housing savings, the company offers four types of savings: Prima, Basic, Golden and Golden Children's savings. At present we have nearly 300 thousand savings contracts which amount to nearly EUR 1.9 billion.

Prima and Basic types are aimed at clients whose goal is to make use of a housing loan with exceptionally favourable interest rates. Golden savings are designed for clients whose first intention is long-term saving. Golden Children's saving is aimed at children under 13. These forms of saving are run with a foreign currency clause in euro whilst deposits are insured in accordance with the Credit institutions act. There is also the possibility of changing the type of savings account whilst saving. Clients have the opportunity to manage their own savings accounts from their own home by means of Internet banking through PBZ365@NET services.

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 169 million.

By the end of 2014, PBZ Leasing made over 4.6 thousand active lease arrangements with customers, which in financial terms reached almost HRK 1.072 billion.

The Group

(continued)

PBZ NEKRETNINE

PBZ Nekretnine is a wholly owned subsidiary of Privredna banka Zagreb dd which engages in property transaction services, construction management and real estate valuation. Privredna banka Zagreb d.d. 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, construction, planning, construction supervision, construction evaluation, appraisal of property value, 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, 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 associates.

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 the new changes in Croatian pension legislation and it is a mutual project of both Privredna banka Zagreb and Croatia osiguranje 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 fund category A, B and C. Following the initial stages of gathering members, PBZ Croatia osiguranje fund categoriy B became one of the three largest compulsory funds in the country. Despite fierce competition on the market, the company's pension funds continued to operate successfully during 2014. In the successful management of its funds, PBZ Croatia osiguranje relies on its positive experience in managing investment funds and association with Gruppo Intesa Sanpaolo asset management.

At this point, the fund has over 304 thousand members and net assets in personal accounts exceeding HRK 10.3 billion, which represents a sound base for the long-term stable and profitable operation of the company.

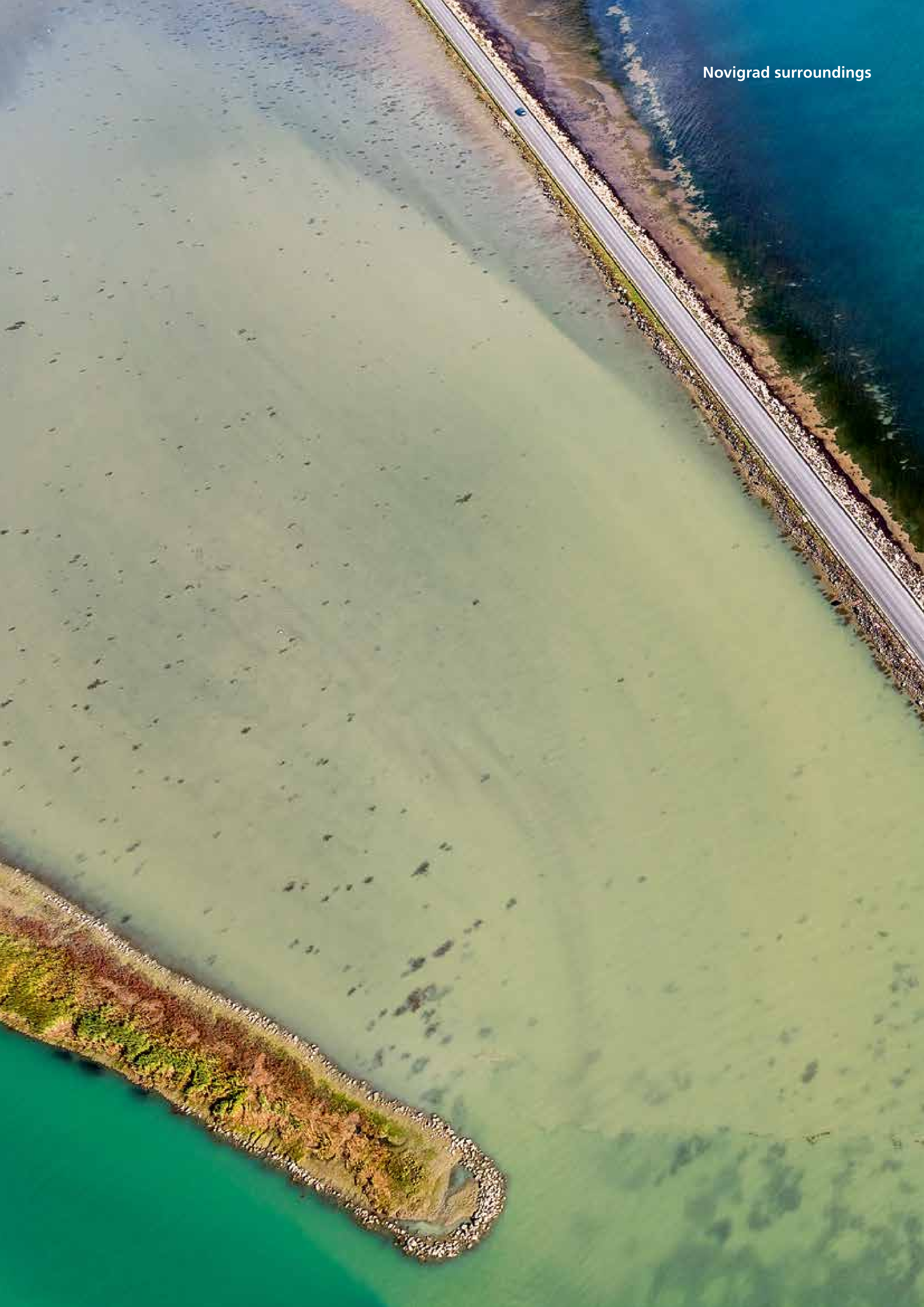
INTESA SANPAOLO CARD DOO ZAGREB

Intesa Sanpaolo Card was established in April 2009 by Intesa Sanpaolo Holding International S.A., Privredna banka Zagreb dd and Banka Koper. As at 31 December 2014, PBZ 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, Banka Koper and Privredna banka Zagreb, 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).



Novigrad surroundings

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 2014.

1. EDUCATION AND PROFESSIONAL DEVELOPMENT

- we have been investing continuously in development of corporate knowledge via the 'PBZ business school' project – in 2014 the 8th generation of students enrolled and the programme counted 228 active attendees
- SME employees completed several specific programs: 'EU funds' workshop- 76 employees; 'Energy efficiency' course - 80 SME employees; 'Cash flow' program - 90 SME Employees; 'Credit analysis' - 26 SME Employees
- over 523 Retail employees completed 'Telephone and written business communication'
- over 447 Retail employees completed 'Chat and video chat business communication'
- 52 employees participated in one of ISBD Managerial courses
- internship programs for students have been started up within the PBZ group; 56 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

- eHR portal: throughout 2014 we continued to upgrade our eHR portal by implementing new functionalities: implementation of electronic sign-up in PBZ Standard, improvement of panel 'Education' (in terms of creating a base of internal education and data entry about internal education); implementation of Reports for ISP through eHR portal; improvement of internal reports according to category of work (cumulative reports on sick leaves, maternity leave, education, etc.); implementation of digital archive; implementation of panel regarding business hours of employees on Managerial portal
- 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
- the organisational climate was measured, which means that we have been keeping up the trend of uninterrupted continuous evaluation of important aspects: satisfaction, dissatisfaction and motivational factors and activities taken in response to the results
- 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 as of 2014 covered all the employees within PBZ group; PBZ Standard has about 2.220 members; fundamental purpose of the Association 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; Association 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.
- 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. 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.

3. NEW INITIATIVES

Enhancement of the project “Doing Good Every Day”

The American Express Red Card with a Heart was presented on the market in 2008. It was established in order to assist projects of exceptional importance for the further growth and development of the community. For each purchase with this card, PBZ Card used to donate 40 lipa to their humanitarian project “Doing Good Every Day” that assisted the project by the Ministry of Health called “Monitoring Children with neurological risks”. The card has no initial fees for the first year and PBZ Card donates 15 kunas from every membership fee of the principal cardmember and 10 kunas from every membership fee of supplementary cardmembers from the second year of use. Other American Express cardmembers may contribute to the project by donating their Membership Rewards points. Besides this, donations are possible on the Internet site www.cinimdobro.hr for all American Express, MasterCard, Maestro and Visa cardmembers, regardless of the issuing bank. Aware of the increasing number of hospitals and various other institutions in need of community assistance, as well as the desire to collect as much as possible and to assist as many hospitals and social institutions as possible, PBZ and PBZ Card decided to additionally strengthen the project “Doing Good Every Day” in 2014. This primarily means a greater contribution of the PBZ Group, so that instead of the 40 lipa for every transaction done with the American Express Red Card with a Heart, the donation is now 1 kuna. Also, the project “Doing Good Every Day” now also assists the project of the Ministry of Social Policy and Youth of the Republic of Croatia called “For a Better Life of Children in Social Welfare Homes”. Collected funds are donated both to the priority projects of the Ministry of Health and the Ministry of Social Policy and Youth in the 50:50 ratio.

The project “Doing Good Every Day” and the American Express Red Card with a Heart have, collected more than 3,9 million kuna, till the end of 2014, donated funds were dispersed to hospitals and institutions all over Croatia, from Vukovar, Virovitica, Čakovec, Zagreb, Karlovac, Rijeka, Split, Dubrovnik and other towns, to purchase necessary equipment.

4. DONATIONS AND SPONSORSHIPS

Privredna banka Zagreb aims to contribute and show its responsibility towards the larger community by sponsoring events and giving donations. In 2014 over HRK 21,9 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.

4.1. Donations

Donations in 2014

Science and education	1.360.748,88 HRK
Sports	2.455.843,68 HRK
Culture	1.619.925,00 HRK
Social solidarity	15.632.482,44 HRK
Other	877.800,00 HRK
Total	**21.946.800,00 HRK**

PBZ actively participates in a series of social projects and supports a great number of humanitarian and social institutions. Among the donations given in 2014 we would like to single out the following ones:

- Donation to the Education Centre Vinko Bek. Education Centre Vinko Bek is a social welfare institution for the education, care and rehabilitation of the blind and visually impaired young children, youth and adults. Altogether 355 people are included in the Center’s operations, including those living at two locations in Zagreb, and the integration in primary and secondary schools all over Croatia.

- Donation to the Psychiatric Hospital Vrapče; PBZ provided all necessary funding for the purchase of a new digital device for evoked potentials and electron urography (EP/EMG device).
- PBZ donated over 5.6 mil HRK for aiding the victims of all the regions that were badly effected by some of the worst flooding in history. Among various donations, a major one went to the Croatian Red Cross for HRK 2.5 million, of which HRK 2 million was aimed for Croatia and HRK 250,000 each for Bosnia and Herzegovina and Serbia. Additional donations went to the Vukovar-Srijem County to help the victims in the flooded areas in the preparation and rejuvenation of the agricultural lands and the replacement of perished livestock, and we also helped the City of Karlovac and many family-run farms in that area.

This year we started a new initiative:

"An opportunity for success"
In accordance with our corporate values and the Bank's orientation towards corporate social responsibility, we allocated funds totaling 1 million HRK for projects we approved that were presented to us through a public tender.
For these donations, with clearly set criteria, terms and conditions, the emphasis was on projects in the areas of:

1. Encouraging excellence (education, talents and development projects)
2. Charity projects (care for persons with special needs, especially healthcare for children)
3. Health and environment protection (projects of improving health services and projects of enhancing protection and environment preservation)
4. Cultures and arts (emphasis on young and unknown artists and artistic groups)

The public tender was opened from March 15th 2014 till April 05th 2014 and in total 658 applications were received.

In each category, an Expert Committee selected three best projects for which donations were granted in accordance with the published Rulebook. A special donation in each category was granted to a project that was voted for by the employees of Privredna banka Zagreb.

4.2. Sponsorships

Sponsorships in 2014

Science and education	480.915,35 HRK
Sports	5.814.213,62 HRK
Culture	922.778,03 HRK
Other	364.120,00 HRK
Total:	**7.582.000,00 HRK**

With its sponsorship policy promoting its brand, PBZ also aims to provide financial support and incentive to a great number of projects pertaining to culture, sports and science thus contributing to the development of these areas of society.

In 2014 we would emphasised cultural sponsorships by supporting various cultural events and institutions:

- **MUSEUM OF ARTS AND CRAFTS** - general sponsorship of the exhibition *The Light of Baroque*, the masterpieces of Il Guercino one of the most important 17th century Italian Baroque painters. This exhibition was organized through an international cooperation between the Museum of Arts and Crafts, the Pinacoteca Civica di Cento, the Italian Cultural Centre in Zagreb, the Italian Embassy in Zagreb the Ministry of Culture of the Republic of Croatia.

- 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. Being the main patron of the Modern Gallery, over the past years PBZ helped purchase new master pieces, paintings and sculptures alike
- Support of various cultural programs and institutions included Croatian National Theatre in Zagreb and Varaždin, City Theatre in Pula , traditional ethnological manifestation "Rapska fjera", Museum of Contemporary art in Rijeka and many others…

5. 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 so as 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 which does business in compliance with laws and regulations.

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

2008	579,854 kg
2009	518,849 kg
2010	503,525 kg
2011	445,471 kg
2012	444,560 kg
2013	432,085 kg
2014	367,837 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 which resulted in a substantial increase in recycled paper usage. We have introduced the additional recycled paper confectionary and some hygienic products.

Recycled paper usage

2011	6.505 kg
2012	105,699 kg
2013	140,103 kg
2014	316,430 kg

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 also, heat recovery ventilation is installed.
As a result of our efforts in that direction since January 2013 we are official Partner in **GreenLight Program**.

Electricity CONSUMPTION (KWH 000)

2009	18,617
2010	18,725
2011	17,529
2012	16,892
2013	16,966
2014	16,114

- In several major buildings (Zagreb, Osijek, Opuzen...) lighting fixtures were replaced with new LED technology, which has a reduction in energy consumption.
- In buildings, where it was needed (Rijeka, Opuzen, Beli Manastir, Kutina..), a number of devices for compensating reactive energy have been installed. With that action PBZ avoids charging unnecessary reactive energy from the supplier of electric energy.
- In the building Radnička cesta 42, Zagreb, locker rooms and showers were installed for staff who come to work by bicycles.
- The main branch building in Rijeka was renovated enabling significant energy savings, better working conditions for employees, as well as the preservation of a cultural heritage building representing contemporary architecture.
- In order to reduce the CO_2 emissions, it is decided to replace the Bank´s cars in the "car pool" with greener cars that meet Euro 5 norm.

Nature park Biokovo

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 Bank's Supervisory Board are appointed on 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

Massimo Malagoli, (Member of the Supervisory Board, Intesa Sanpaolo) – mandate from 2 March 2013

Nóra Kocsis, (Member of the Supervisory Board, EBRD) – repeated mandate from 3 July 2013

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

Previous members in 2014 were also:

György Surányi, (President of the Supervisory Board, Intesa Sanpaolo) – 31 March 2014 (resignation)

Ivan Šramko, (Deputy President of the Supervisory Board, Intesa Sanpaolo) – 29 March 2014 (mandate expired)

AUDIT COMMITTEE

Pursuant to the Articles of Association of Privredna banka Zagreb, 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 rules, worked in the previous year, consisting five members, two of whom were members of the Supervisory Board. During 2014 held six meetings of the Audit Committee. At the meetings were discussed issues within the competence of the Supervisory Board. 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 2014 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

Massimo Malagoli, (Member of the Audit Committee) – mandate from 21 January 2014

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

Previous members in 2014 were also:

Giovanni Bergamini, (President of the Audit Committee) – mandate expired 20 January 2014

Dean Quinn, (Member of the Audit Committee) – mandate expired 24 September 2014.

In 2014, in accordance with the provisions of the new Credit Institutions Act and the legal deadline to 30 June 2014, the Bank as a significant credit institution established three technical committees of the Supervisory Board: Remuneration Committee, Appointment Committee and Risk Committee, which are responsible for Bank and its subsidiaries. Each committee has three members who are appointed from 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 newly established committees have appropriate knowledge, skills and expertise that Croatian regulations required for membership in committees, especially for membership on the Risk Committee. By the end of 2014, all three committees held a meeting at which they discussed issues within their competence in accordance with the law and internal Rules of Procedure of the Supervisory Board.

REMUNERATION COMMITTEE

Massimo Malagoli, President – mandate from 30 June 2014

Giovanni Gilli, Member – mandate from 30 June 2014

Branko Jeren, Member – mandate from 30 June 2014

APPOINTMENT COMMITTEE

Giovanni Gilli, President – mandate from 30 June 2014
Draginja Đurić, Member – mandate from 30 June 2014
Nóra Kocsis, Member – mandate from 30 June 2014

RISK COMMITTEE

Paolo Sarcinelli, President – mandate from 30 June 2014

Christophe Velle, Member – mandate from 30 June 2014

Massimo Malagoli, Member – mandate from 30 June 2014

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 at least twice a month 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) – new mandate from 9 February 2012

Gabriele Pace, (Deputy President of the Management Board responsible for Accounting, Taxation, Controlling and General administration Group, Project Management Office, MB Office for Security, Data Governance Office, Risk management and control Group and IT and Operations Group) – repeated 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, Treasury and Investment Banking Group) – mandate from 9 February 2012

Draženko Kopljar, (Member of the Management Board responsible for the Information Technology and Operations Group) – new mandate from 9 February 2012

Dinko Lucić, (Member of the Management Board responsible for the Retail Banking Group) – new mandate from 9 February 2012

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

Corporate governance

(continued)

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 2014, 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 2014) 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 share-holders 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.

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;
Massimo Malagoli, Member from 2 March 2013;
Nóra Kocsis, Member;
Branko Jeren, Member.
During 2014 mandate in Supervisory Board expired for following members:
György Surányi, President, 31 March 2014 (resignation);
Ivan Šramko, Deputy President, 29 March 2014 (mandate expired).

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.

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 accord-ance 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 (eg. 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 the evaluation of the actions taken by the ma-**

CODE OF CORPORATE GOVERNANCE – ANNUAL QUESTIONNAIRE (continued)

nagement 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)**
Yes.

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.

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 Finan-cial 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 disclosed 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.

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 65 has been approved by the Management Board as confirmed by the signatures below.

The separate and consolidated financial statements set out on pages 72 to 186, which have been prepared in accordance with International Financial Reporting Standards as adopted by EU, as well as the supplementary information on pages 187 to 211 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 29 January 2015 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 2014, 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.

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 2014 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 supplementary forms set out on pages 187 to 211 ("the Supplementary forms"), which comprise an alternative presentation of the statements of financial position as of 31 December 2014, and of the income statements, statements of changes in equity and statements of cash flows for the year then ended, and a reconciliation ("the Reconciliation") of the Supplementary forms with the financial statements as presented on pages 187 to 211. The Management Board of the Bank is responsible for the Supplementary forms and the Reconciliation. The financial information in the Supplementary forms is derived from the financial statements of the Bank and the Group set out on pages 45 to 163 on which we have expressed an opinion as set out above.

Pursuant to legal and regulatory requirements, the Management Board of the Bank has prepared the annual report to shareholders, set out on pages 1 to 66. 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 of the Republic of Croatia. Our responsibility is to express an opinion on the consistency of the information in the annual report with the audited financial statements based on our procedures, which were considered appropriate in accordance with Article 17 of the Accounting Act of the Republic of Croatia. In our opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements, set out on pages 72 to 186.

Zagreb, 13 March 2015

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

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

Financial statements of the Bank and the Group
Income statement

For the year ended 31 December

(in HRK million)	Notes	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
Interest income	5	3,270	3,475	3,118	3,313
Interest expense	5	(1,039)	(1,218)	(994)	(1,168)
Net interest income		**2,231**	**2,257**	**2,124**	**2,145**
Fee and commission income	6a	1,394	1,380	705	683
Fee and commission expense	6b	(262)	(290)	(114)	(144)
Net fee and commission income		**1,132**	**1,090**	**591**	**539**
Dividend income	7	1	1	15	28
Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	8	160	120	154	117
Other operating income	9	125	258	52	210
Total operating income		**3,649**	**3,726**	**2,936**	**3,039**
Impairment losses on loans and advances to customers	20c	(475)	(661)	(498)	(651)
Other impairment losses and provisions	12	(84)	(125)	(77)	(124)
Personnel expenses	10	(798)	(751)	(722)	(679)
Depreciation and amortisation	13	(175)	(183)	(126)	(127)
Other operating expenses	11	(979)	(971)	(689)	(675)
Share of profits from associates	23	21	17	-	-
Profit before income tax		**1,159**	**1,052**	**824**	**783**
Income tax expense	14	(245)	(231)	(181)	(168)
Profit for the year		**914**	**821**	**643**	**615**
Attributable to:		914	821	643	615
Equity holders of the parent		**914**	**821**	**643**	**615**

			in HRK
Basic and diluted earnings per share	49	48.1	43.2

The accompanying accounting policies and notes on pages 80 to 186 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Profit for the year	**914**	**821**	**643**	**615**
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	*36*	*-*	*15*	*-*
Net amount transferred to the income statement	*-*	*16*	*(5)*	*3*
	36	**16**	**10**	**3**
Deferred tax on available-for-sale financial assets (Notes 14e, 14f)	(7)	(3)	(2)	(1)
Other comprehensive income for the year, net of tax	**29**	**13**	**8**	**2**
Total comprehensive income for the year, net of tax	**943**	**834**	**651**	**617**

The accompanying accounting policies and notes on pages 80 to 186 are an integral part of these financial statements.

Statement of financial position

As at 31 December

Assets (in HRK million)	Notes	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
Cash and current accounts with banks	15	6,973	4,039	6,973	4,036
Balances with the Croatian National Bank	16	4,748	4,894	4,748	4,894
Financial assets at fair value through profit or loss	17	6,180	4,503	6,020	4,341
Derivative financial assets	18	2	7	2	7
Loans and advances to banks	19	5,096	5,638	5,156	5,694
Loans and advances to customers	20	46,943	48,557	44,499	45,106
Financial assets available for sale	21	491	102	116	102
Held-to-maturity investments	22	177	210	-	-
Investments in subsidiaries and associates	23	142	135	215	215
Intangible assets	24	146	145	90	88
Property and equipment	25	1,179	1,233	702	717
Investment property	26	24	25	11	12
Deferred tax assets	14c	144	156	98	112
Other assets	27	462	422	251	243
Tax prepayments		-	51	-	50
Total assets		**72,707**	**70,117**	**68,881**	**65,617**

The accompanying accounting policies and notes on pages 80 to 186 are an integral part of these financial statements.

As at 31 December

	Notes	GROUP		BANK	
Liabilities (in HRK million)		2014	2013	2014	2013
Current accounts and deposits from banks	28	1,090	930	1,460	1,274
Current accounts and deposits from customers	29	51,596	47,729	50,387	46,427
Derivative financial liabilities	18	1	5	1	5
Interest-bearing borrowings	30	4,774	6,709	4,543	5,679
Other liabilities	31	1,372	1,411	319	320
Accrued expenses and deferred income	32	308	283	190	151
Provisions for liabilities and charges	33	314	264	306	262
Deferred tax liabilities	14d	4	-	1	-
Current tax liability		23	14	14	-
Total liabilities		**59,482**	**57,345**	**57,221**	**54,118**
Equity attributable to equity holders of the parent					
Share capital	35a	1,907	1,907	1,907	1,907
Share premium	35b	1,570	1,570	1,570	1,570
Treasury shares	35c	(76)	(76)	(76)	(76)
Other reserves	35e	369	375	302	308
Fair value reserve	35f	15	(14)	2	(6)
Retained earnings	35g	9,440	9,010	7,955	7,796
Total equity		**13,225**	**12,772**	**11,660**	**11,499**
Total liabilities and equity		**72,707**	**70,117**	**68,881**	**65,617**

The accompanying accounting policies and notes on pages 80 to 186 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December

(in HRK million)	Notes	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
Cash flows from operating activities					
Profit before income tax		1,159	1,052	824	783
Impairment losses on loans and advances to customers	20c	475	661	498	651
Other impairment losses and provisions	12	84	125	77	124
Gain on disposal of property and equipment and intangible assets	9	(3)	(3)	(1)	(2)
Depreciation and amortisation	13	175	183	126	127
Net (gains)/losses from securities at fair value through profit or loss		(1)	4	-	5
Share of profits from associates	23	(21)	(17)	-	-
Net interest income		(2,231)	(2,257)	(2,124)	(2,145)
Gain on disposal of subsidiary	9	-	(133)	-	(156)
Dividend income	7	(1)	(1)	(15)	(28)
		(364)	**(386)**	**(615)**	**(641)**
Decrease/(increase) in operating assets					
Balances with the Croatian National Bank		146	(37)	146	(37)
Loans and advances to banks		444	455	444	428
Loans and advances to customers		1,106	693	117	1,081
Financial assets at fair value through profit or loss and financial assets available for sale		(2,036)	(547)	(1,686)	(467)
Other assets		(26)	13	(8)	(15)
Decrease/(increase) in operating assets		*(366)*	*577*	*(987)*	*990*
Increase/(decrease) in operating liabilities					
Current accounts and deposits from banks		160	203	186	166
Current accounts and deposits from customers		3,987	(204)	4,049	(363)
Other liabilities		(15)	27	29	34
Increase/(decrease) in operating liabilities		*4,132*	*26*	*4,264*	*(163)*
Interest received		3,303	3,512	3,110	3,393
Interest paid		(1,159)	(1,428)	(1,081)	(1,351)
Dividends received		1	1	15	28
Net cash inflow from operating activities before income taxes paid		**5,547**	**2,302**	**4,706**	**2,256**
Income tax paid		(176)	(277)	(104)	(202)
Net cash from operating activities		**5,371**	**2,025**	**4,602**	**2,054**

The accompanying accounting policies and notes on pages 80 to 186 are an integral part of these financial statements.

For the year ended 31 December

(in HRK million)	Notes	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
Cash flows from investing activities					
Purchase of property and equipment and intangible assets	24, 25	(195)	(346)	(113)	(133)
Disposal of property and equipment and intangible assets		75	188	2	3
Redemption of held-to-maturity investments		32	-	-	-
Proceeds from sale of subsidiaries, net of cash disposed	23	-	113	-	113
Net cash used in investing activities		**(88)**	**(45)**	**(111)**	**(17)**
Cash flows from financing activities					
Dividends paid to equity holders of the parent		(490)	(844)	(490)	(844)
Decrease in interest-bearing borrowings		(1,935)	(2,227)	(1,136)	(2,239)
Net cash used in financing activities		**(2,425)**	**(3,071)**	**(1,626)**	**(3,083)**
Net increase/(decrease) in cash and cash equivalents		**2,858**	**(1,091)**	**2,865**	**(1,046)**
Cash and cash equivalents as at 1 January		9,021	10,107	9,074	10,115
Effect of exchange rate fluctuations on cash held		27	5	27	5
Cash and cash equivalents as at 31 December	**36**	**11,906**	**9,021**	**11,966**	**9,074**

The accompanying accounting policies and notes on pages 80 to 186 are an integral part of these financial statements.

Statement of changes in equity

(in HRK million)	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	**Total**
GROUP							
Balance as at 1 January 2014	**1,907**	**1,570**	**(76)**	**375**	**(14)**	**9,010**	**12,772**
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 14f)	-	-	-	-	(7)	-	**(7)**
Transfer of other reserve into retained earnings	-	-	-	(6)	-	6	**-**
Total other comprehensive income	**-**	**-**	**-**	**(6)**	**29**	**6**	**29**
Profit for the year	-	-	-	-	-	914	**914**
Total comprehensive income for the year	**-**	**-**	**-**	**(6)**	**29**	**920**	**943**
Dividends paid	-	-	-	-	-	(490)	**(490)**
Transactions with owners, recorded directly in equity	**-**	**-**	**-**	**-**	**-**	**(490)**	**(490)**
Balance as at 31 December 2014	**1,907**	**1,570**	**(76)**	**369**	**15**	**9,440**	**13,225**
Balance as at 1 January 2013	**1,907**	**1,570**	**(76)**	**375**	**(27)**	**9,039**	**12,788**
Other comprehensive income							
Net amount transferred to the income statement	-	-	-	-	16	-	**16**
Deferred tax on available-for-sale financial assets (Note 14e)	-	-	-	-	(3)	-	**(3)**
Total other comprehensive income	**-**	**-**	**-**	**-**	**13**	**-**	**13**
Profit for the year	-	-	-	-	-	821	**821**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**13**	**821**	**834**
Dividends paid	-	-	-	-	**-**	(844)	**(844)**
Other movements	-	-	-	-	**-**	(6)	**(6)**
Transactions with owners, recorded directly in equity	**-**	**-**	**-**	**-**	**-**	**(850)**	**(850)**
Balance as at 31 December 2013	**1,907**	**1,570**	**(76)**	**375**	**(14)**	**9,010**	**12,772**

The accompanying accounting policies and notes on pages 80 to 183 are an integral part of these financial statements.

(in HRK million)	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	**Total**
BANK							
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 14f)	-	-	-	-	(2)	-	**(2)**
Transfer of other reserve into retained earnings	-	-	-	(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**
Balance as at 1 January 2013	**1,907**	**1,570**	**(76)**	**308**	**(8)**	**8,025**	**11,726**
Other comprehensive income							
Net amount transferred to the income statement	-	-	-	-	3	-	**3**
Deferred tax on available-for-sale financial assets (Note 14e)	-	-	-	-	(1)	-	**(1)**
Total other comprehensive income	**-**	**-**	**-**	**-**	**2**	**-**	**2**
Profit for the year	-	-	-	-	-	615	**615**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**2**	**615**	**617**
Dividends paid	-	-	-	-	-	(844)	**(844)**
Transactions with owners, recorded directly in equity	**-**	**-**	**-**	**-**	**-**	**(844)**	**(844)**
Balance as at 31 December 2013	**1,907**	**1,570**	**(76)**	**308**	**(6)**	**7,796**	**11,499**

The accompanying accounting policies and notes on pages 80 to 183 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. 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 EU ("IFRS").
These separate and consolidated financial statements were authorised for issue by the Management Board on 29 January 2015 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 2014 amounted to EUR 1 = HRK 7.661, CHF 1= HRK 6.368 and USD 1 = HRK 6.302 (31 December 2013: EUR 1 = HRK 7.638, CHF 1= HRK 6.232 and USD 1 = HRK 5.549).

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 4.

e) Disposal of PBZ Invest

The structure of the Group was changed following a Group reorganisation in 2013.
As of 12 February 2013 the Group disposed of all of its investment in PBZ Invest, previously 100% owned by Privredna banka Zagreb dd, to VUB Asset Management from Slovakia (also part of Intesa Sanpaolo Group). As part of the transaction, the Bank acquired a 9.32% shareholding in VUB Asset Management, which was accounted for at fair value on the date of acquisition. Prior to disposal, in the Bank's separate financial statements, investment in PBZ Invest was carried at cost which amounted to HRK 5 million while in the consolidated financial statements, its assets and liabilities were fully consolidated. Following the disposal, the Group lost the control over its investment and consequently derecognised the assets and liabilities of PBZ Invest. Profit arising on disposal was recognised in the income statement. For details, please refer to Note 23.

f) Financial crisis impact

The situation in global financial markets and impact on Croatia

The stabilisation on the public debt market in the Eurozone, the gradual economic recovery in the EU countries, the continued relaxation of the ECB's monetary policy aimed at encouraging bank lending and the easing of uncertainty surrounding the Fed's monetary policy contributed to a relatively favourable macroeconomic and financial environment and a reduction in the global risk premium over 2014.

World output grew by 3.3 percent in 2014 and is expected to gradually pickup to 3.5 percent and 3.7 percent in 2015 and 2016, respectively. Advanced economies performance remains diverse: US growing by 2.4 percent in 2014 but expected to reach 3.6 percent in 2015, while EA slowly emerging from 0.8 percent growth in 2014 to 1.2 percent in 2015.

EU economic performance, most interesting for Croatia as a traditional export market, will benefit from sharp decline in oil prices; noticeable depreciation of euro; the ECB's decision to expand the size and composition of its outright asset purchases by adding sovereign bond purchases, and the European Commission's Investment Plan.

As of 2015, and for the first time since the start of the crisis, GDP is expected to grow in every country in the EU. However, diversity in economic performance is likely to persist since the pace of reform implementation, balance sheet adjustment and deleveraging among banks, the non-bank corporate sector, households and the public sector continue to differ across Member States. Some countries will benefit more than others from the fall in oil prices, depending on the energy intensity of their economies and their energy taxation systems.

The single most important event in Euro area banking industry in 2014 was Asset Quality Review, carried out by the ECB together with the national supervisors. The ECB has conducted a comprehensive assessment in preparation to assume banking supervision within the Single Supervisory Mechanism, which became operational in November 2014. AQR covered 130 banks in the Euro area (including Lithuania) and approximately 82 percent of total bank assets. Overall, the exercise has identified capital shortfalls for 25 banks, totalling €25 billion. The impact on Croatian banks and banking system was limited owing to strong capital buffers (total capital ratio over 21 percent).

The Croatian financial and monetary system in 2014 operated in an environment of low (or even historically lowest) interest rates, reduced costs of funding, ample liquidity and persistent deleveraging. Central bank maintained generous liquidity of the system and allowed only gradual depreciation of kuna towards Euro. Monetary aggregates and assets of MFIs increased modestly, loans of both private sector and central government sank, whereas the inclination towards savings strengthened, resulting with solid rise in deposits.

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.

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 and pre-acquisition profits of the acquired entities.

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 37.

b) 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").

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.

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 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.

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.

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.

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.

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

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

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:

	2014	**2013**
Buildings	40 years	40 years
Office furniture	5 years	5 years
Computers	4 years	4 years
Motor vehicles	5 years	5 years
Equipment and other assets	2 to 10 years	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.

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, 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 42).

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) Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies as set out above to all period presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, with the date of initial application as of 1 January 2014.

i. IFRS 10 Consolidated Financial Statements

ii. IFRS 12 Disclosure of Interest in Other Entities

i. Subsidiaries, including structured entities

As a result of IFRS 10, the Group has changed its accounting policies for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns. In accordance with the provisions of IFRS 10, the Group has reassessed control over structured entities and the entities whose receivables are default. The change did not have impact on the Group's financial statements.

ii. Interest in Other Entities

As a result of IFRS 12, the Group has expanded disclosures about its interests in subsidiaries, associates and involvement in unconsolidated structured entities (Note 23).

hh) 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 2014, 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 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 41) and financial risk management (Note 43).

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 for impairment 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 more than 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 circumstanc-es, 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 41.

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 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 33 the Group and the Bank provided HRK 82 million (2013: HRK 81 million) and HRK 77 million (2013: 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.

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").

The Bank started offering such loans in March 2005 at a time when interest rates applicable to the currency in international markets (such as the London interbank offered rate or LIBOR for CHF) were low in comparison to EUR. EUR is the currency in which retail savings are traditionally made, or to which they are linked, and which by extension is also the currency in which, or linked to which, retail customers have traditionally borrowed when not borrowing purely in local currency.

At loan inception, clients took advantage of these low 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, from 2009 CHF appreciated sharply against HRK (and EUR), which further increased monthly instalments, while CHF LIBOR rates fell markedly. However, at the time, the cost to Croatian banks of borrowing in CHF also reflected a significantly increased country-risk premium. In February 2008 the Bank stopped offering new loans to retail customers in CHF and offered a number of facilities to the existing borrowers aimed at easing their repayment requirements.

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, and in the Bank's case, the Bank has filed an appeal with the High Commercial Court claiming that the ruling was not legally well founded, citing a number of procedural and factual weaknesses. The High Commercial Court on 16th July 2014 issued a decision which partially rejected and partially upheld the above ruling issued by first-instance court. The fist-instance court ruling was dismissed in part which required banks to offer to the consumers the amendments to the contractual provision of the loans effectively denominated in CHF by expressing the principal in local currency in the amount at the date of loan disbursement and by applying the rate of interest applicable at the date of loan origination as a fixed interest rate for the duration of the loan. Also, the High Commercial Court confirmed the legality of the foreign currency revaluation clauses applied in the loan contracts to link their value to CHF. However, the court confirmed the part of the first instance judgment by declaring the contractual provision by which variable interest rate may be changed by the unilateral decision of the bank and which had not been individually negotiated as null and void.

With regards to void and unfair interest rate contractual provision, the second-instance ruling determined that collective interests and rights of consumers were infringed. This ruling is declaratory in nature and therefore the Bank is under no obligation to act upon it. Based on the ruling, it is not possible to make requests for reimbursement or amendments of contractual provisions.

The Bank has sought extraordinary legal remedy – a revision (both regular and extraordinary) which shall be decided by the Supreme Court of the Republic of Croatia, given that the Bank believes that the part of the ruling related to interest rates was not founded in law, since the interest rate variability agreement was allowed at the time. In addition to that, the Bank is convinced that the interest rates charged to its clients were fair. However, there is significant uncertainty related to this legal case and its ultimate outcome can be significantly different than the Bank's expectation.

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.

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 31 January 2015, 198 debtors of the Group have filed an application with the Agency with total balance and off-balance-sheet exposure of HRK 944 million, net of impairment allowance. The impairment allowance accounts for 48.1% of the gross total value of those exposures.

Out of this, for 79 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 278 million, net of impairment allowance.

For 26 clients with net exposure of HRK 77 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.

5 Net interest income

a) Interest income – analysis by source

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Retail	1,911	2,066	1,828	1,948
Corporate	745	778	705	773
Public sector and other institutions	596	603	567	564
Banks	18	28	18	28
	3,270	**3,475**	**3,118**	**3,313**

b) Interest income – analysis by product

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Loans and advances to customers	3,016	3,154	2,904	3,040
Financial assets initially designated at fair value through profit or loss	132	142	131	140
Debt securities classified as loans and receivables	73	141	56	104
Loans and advances to banks	18	27	18	27
Held-to-maturity investments	7	9	-	-
Financial assets available for sale	20	1	5	1
Balances with the Croatian National Bank	-	1	-	1
Financial assets held for trading	4	-	4	-
	3,270	**3,475**	**3,118**	**3,313**

Interest income includes collected interest income from impaired loans of the Group of HRK 260 million (2013: HRK 227 million) and of the Bank of HRK 228 million (2013: HRK 193 million).

c) Interest expense – analysis by recipient

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Retail	824	957	784	917
Banks	137	168	132	158
Public sector and other institutions	40	53	40	53
Corporate	38	40	38	40
	1,039	**1,218**	**994**	**1,168**

d) Interest expense – analysis by product

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Current accounts and deposits from retail customers	824	957	784	917
Interest-bearing borrowings	134	168	111	139
Current accounts and deposits from corporate customers and public sector	77	87	77	88
Current accounts and deposits from banks	4	6	22	24
	1,039	**1,218**	**994**	**1,168**

6 Net fee and commission income

a) Fee and commission income

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Credit cards	803	791	111	95
Payment transactions	332	313	345	324
Customer services	79	80	74	74
Investment management, brokerage and consultancy	50	69	50	69
Customer loans	41	44	40	44
Guarantees	41	34	41	34
Other	48	49	44	43
	1,394	**1,380**	**705**	**683**

b) Fee and commission expense

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Credit cards	193	189	66	63
Payment transactions	33	35	32	35
Bank charges	7	39	7	39
Other	29	27	9	7
	262	**290**	**114**	**144**

7 Dividend income

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Dividends from associates	-	-	14	27
Dividends from other equity securities	1	1	1	1
	1	**1**	**15**	**28**

8 Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Net trading (expense)/income from forward foreign exchange contracts and swaps	(11)	3	(11)	3
Net gain/(loss) from translation of monetary assets and liabilities denominated in foreign currency	32	1	27	(1)
Foreign exchange spot trading	138	120	138	120
Net gains on financial assets held for trading	11	1	10	1
Net losses from securities initially designated at fair value through profit or loss	(10)	(5)	(10)	(6)
	160	**120**	**154**	**117**

9 Other operating income

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Gain on disposal of subsidiary (Note 23)	-	133	-	156
Rental income from investment property and assets under operating lease	47	53	2	2
Net gain on disposal of available-for-sale securities	8	-	8	-
Gain on disposal of property and equipment and intangible assets	3	3	1	2
Other income	67	69	41	50
	125	**258**	**52**	**210**

10 Personnel expenses

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Net salaries	383	379	344	344
Contributions for pension insurance	113	113	101	101
Taxes and surtaxes	95	95	84	85
Contributions for health insurance	85	77	76	69
Other personnel expenses	122	87	117	80
	798	**751**	**722**	**679**

During the year the average number of employees within the Group based on full-time employment equivalence was 3,188 (2013: 3,249) of which the Bank accounted for 2,904 employees (2013: 2,963).

Notes to the financial statements

(continued)

11 Other operating expenses

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Materials and services	469	447	339	331
Deposit insurance premium	112	104	108	100
Rental expenses	50	52	82	84
Indirect and other taxes	17	19	16	17
Other expenses	331	349	144	143
	979	**971**	**689**	**675**

12 Other impairment losses and provisions

		GROUP		BANK	
(in HRK million)	**Notes**	2014	2013	2014	2013
Provisions/(release of provisions) for loans and advances to banks	19b	22	(1)	22	-
Impairment loss on financial assets available for sale	21	1	30	1	30
Provisions for off-balance-sheet items	33	45	21	44	21
Provisions for court cases	33	1	47	-	46
Provisions for other items and other assets	27, 33	15	28	10	27
		84	**125**	**77**	**124**

The impairment loss on financial assets available for sale in the amount of HRK 1 million (2013: HRK 29.7 million) relates to further impairment losses on previously impaired financial assets. Remaining amount of HRK 0.3 million recorded in 2013 relates to financial assets which first became impaired that year.

13 Depreciation and amortisation

		GROUP		BANK	
(in HRK million)	**Notes**	2014	2013	2014	2013
Depreciation of property and equipment	25	132	137	84	83
Amortisation of intangible assets	24	42	45	41	43
Depreciation of investment property	26	1	1	1	1
		175	**183**	**126**	**127**

Depreciation of property and equipment includes HRK 43 million of depreciation of assets under operating lease (2013: HRK 51 million). Depreciation of property and equipment in 2014 also includes HRK 5 million of impairment loss for both the Group and the Bank (2013: nil).

14 Income tax expense

a) Income tax expense recognised in the income statement

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Current income tax charge	236	213	168	149
Net deferred tax charge	9	18	13	19
Income tax expense recognised in the income statement	**245**	**231**	**181**	**168**

14 Income tax expense (continued)

b) Reconciliation of income tax expense

The reconciliation between the accounting profit and income tax expense at 20% is set out below:

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Accounting profit before tax	1,159	1,052	824	783
Tax calculated at rate of 20% (2013: 20%)	232	210	165	157
Tax effects of:				
Non-deductible expenses	20	21	19	17
Tax exempt income	(7)	(12)	(3)	(6)
Consolidation adjustments	-	12	-	-
Total income tax expense	**245**	**231**	**181**	**168**
Effective income tax rate	**21.1%**	**22.0%**	**21.9%**	**21.5%**

c) Deferred tax assets

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Timing differences				
On deferred fees	45	53	40	49
On impairment of real estate	13	8	10	8
On unrealised losses on financial assets at fair value through profit or loss	40	47	40	47
On unrealised losses on available-for-sale financial assets	-	3	-	1
On other items	9	8	8	7
On impairment of loans	37	37	-	-
Deferred tax assets	**144**	**156**	**98**	**112**

d) Deferred tax liabilities

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Timing differences				
On unrealised gains on available-for-sale financial assets	4	-	1	-
Deferred tax liabilities	**4**	**-**	**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 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**

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 2013	**177**	**57**	**7**	**66**	**6**	**3**	**38**
Increase credited to income statement	***44***	*19*	*1*	*8*	*-*	*16*	*-*
Utilisation charged to income statement	***(62)***	*(23)*	*-*	*(27)*	*-*	*(11)*	*(1)*
Net amount charged to income statement	**(18)**	(4)	1	(19)	-	5	(1)
Decrease in other comprehensive income	**(3)**	-	-	-	(3)	-	-
Balance as at 31 December 2013	**156**	**53**	**8**	**47**	**3**	**8**	**37**

14 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 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**

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 2013	**132**	**52**	**7**	**66**	**2**	**5**
Increase credited to income statement	***38***	*19*	*1*	*8*	*-*	*10*
Utilisation charged to income statement	***(57)***	*(22)*	*-*	*(27)*	*-*	*(8)*
Net amount charged to income statement	**(19)**	(3)	1	(19)	-	2
Decrease in other comprehensive income	**(1)**	-	-	-	(1)	-
Balance as at 31 December 2013	**112**	**49**	**8**	**47**	**1**	**7**

f) Movement in deferred tax liabilities

	GROUP	BANK
(in HRK million)	Unrealised gains on available-for-sale financial assets	Unrealised gains on available-for-sale financial assets
Balance as at 1 January 2014	**-**	**-**
Transfer from deferred tax assets	(3)	(1)
Decrease in other comprehensive income	7	2
Balance as at 31 December 2014	**4**	**1**

15 Cash and current accounts with banks

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Cash in hand	1,353	1,401	1,353	1,401
Current accounts with the CNB	4,371	2,535	4,371	2,535
Current accounts with foreign banks	1,238	79	1,238	79
Current accounts with domestic banks	10	18	10	18
Other cash items	1	6	1	3
	6,973	**4,039**	**6,973**	**4,036**

16 Balances with the Croatian National Bank

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Obligatory reserve	4,364	4,227	4,364	4,227
Other deposits with the CNB and CNB bills	384	667	384	667
	4,748	**4,894**	**4,748**	**4,894**

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

The obligatory reserve requirement as at 31 December 2014 amounted to 12% (2013: 12%) of kuna and foreign currency deposits and borrowings.

According to the CNB decision, the funds released in 2013 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.

As at 31 December 2014, the required rate for the part of the obligatory reserve calculated based on kuna liabilities to be deposited with the CNB amounted to 70% (2013: 70%), while the remaining 30% (2013: 30%) had to be held in the form of other liquid receivables. This includes the part of foreign currency obligatory reserve required to be held in HRK.

At least 60% (2013: 60%) of the part of the obligatory reserve based on foreign currency liabilities must be deposited with the CNB, while the remaining 40% (2013: 40%) (or less to the extent that the amount deposited with the CNB exceeds 60%) must be held in the form of other liquid receivables, after adjusting for the obligatory reserve requirement arising from foreign currency funds from non-residents and related parties (which were required to be held in full with the CNB until November 2014 when CNB abolished that requirement). 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.

The obligatory reserve did not earn any interest in 2014 (2013: nil).

17 Financial assets at fair value through profit or loss

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Financial assets held for trading				
Republic of Croatia bonds	64	-	64	-
Equity securities	15	16	15	16
Accrued interest	1	-	1	-
	80	**16**	**80**	**16**
Listed securities	80	16	80	16
	80	**16**	**80**	**16**
Financial assets initially designated at fair value through profit or loss				
Ministry of Finance treasury bills	5,800	4,186	5,741	4,127
Bonds issued by domestic corporate issuers	49	61	49	61
Municipal bonds	49	70	49	70
Equity securities	9	8	9	8
Accrued interest	92	59	92	59
	5,999	**4,384**	**5,940**	**4,325**
Listed securities	109	142	109	142
Unlisted securities	5,890	4,242	5,831	4,183
	5,999	**4,384**	**5,940**	**4,325**
Units in investment funds - quoted	101	103	-	-
	101	**103**	**-**	**-**
Financial assets at fair value through profit or loss	**6,180**	**4,503**	**6,020**	**4,341**

18 Derivatives classified as held for trading

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Assets				
Fair value:				
Forward foreign exchange contracts and swaps	2	7	2	7
	2	**7**	**2**	**7**
Notional amount:				
Forward foreign exchange contracts and swaps	1,562	1,927	1,562	1,927
Other embedded derivatives	20	30	20	30
	1,582	**1,957**	**1,582**	**1,957**
Liabilities				
Fair value:				
Forward foreign exchange contracts and swaps	1	5	1	5
	1	**5**	**1**	**5**
Notional amount:				
Forward foreign exchange contracts and swaps	1,560	1,925	1,560	1,925
Other embedded derivatives	2	5	2	5
	1,562	**1,930**	**1,562**	**1,930**

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.

19 Loans and advances to banks

a) Analysis by type of product

(in HRK million)	GROUP 2014	2013	BANK 2014	2013
Term deposits	4,831	4,715	4,831	4,715
Loans	318	954	378	1,010
	5,149	**5,669**	**5,209**	**5,725**
Impairment allowance	(53)	(31)	(53)	(31)
	5,096	**5,638**	**5,156**	**5,694**

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 1.0% and 2.0% (2013: in the range of 1.1% and 2.1%).

b) Movement in impairment allowance

(in HRK million)	Note	GROUP 2014	2013	BANK 2014	2013
Balance at 1 January		**31**	**32**	**31**	**31**
Net charge/(release) for the year	12	22	(1)	22	-
Balance at 31 December		**53**	**31**	**53**	**31**

c) Geographical analysis

(in HRK million)	GROUP 2014	2013	BANK 2014	2013
Republic of Croatia	384	1,132	444	1,188
Italy	509	1,115	509	1,115
Germany	1,300	918	1,300	918
France	996	817	996	817
Great Britain	96	711	96	711
Austria	361	493	361	493
Switzerland	306	197	306	197
Belgium	545	194	545	194
Other countries	652	92	652	92
	5,149	**5,669**	**5,209**	**5,725**
Impairment allowance	(53)	(31)	(53)	(31)
	5,096	**5,638**	**5,156**	**5,694**

As at 31 December 2014 loans and advances to banks included reverse repurchase agreements in the amount of HRK 140 million for the Group and HRK 201 million for the Bank (2013: HRK 227 million and HRK 284 million respectively). Such agreements were secured with government bonds and treasury bills. For details on sale and repurchase agreements please refer to Note 43(a).

20 Loans and advances to customers

a) Analysis by type of customer

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Retail customers	27,800	27,630	25,020	25,093
Corporate customers	15,163	16,174	14,504	15,372
Public sector and other institutions	7,415	7,403	8,169	7,521
Debt securities	1,091	1,658	817	870
	51,469	**52,865**	**48,510**	**48,856**
Impairment allowance	(4,255)	(3,997)	(3,744)	(3,444)
Deferred interest and fees recognised as an adjustment to the effective yield	(271)	(311)	(267)	(306)
	46,943	**48,557**	**44,499**	**45,106**

Debt securities of the Group and the Bank include HRK 321 million (2013: HRK 916 million) and HRK 52 million (2013: HRK 144 million), respectively, of Croatian bonds reclassified from available-for-sale financial assets in 2009, as well as HRK 626 million (2013: 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 21 and 41(c).

b) Analysis by sector

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Individuals	27,800	27,630	25,020	25,093
Construction	5,002	5,287	4,800	5,069
Public administration and defence	4,425	4,270	4,425	4,270
Wholesale and retail trade	3,500	3,578	3,333	3,369
Manufacturing	2,565	2,718	2,467	2,610
Energy products and water supplies	1,147	1,290	1,145	1,286
Hotels and restaurants	1,502	1,160	1,483	1,124
Professional, scientific and technical services	927	1,103	890	1,065
Transport and communication	1,608	1,061	1,540	1,051
Real estate, renting and business services	605	874	570	813
Agriculture, forestry and fishing	637	801	630	794
Other	1,751	3,093	2,207	2,312
	51,469	**52,865**	**48,510**	**48,856**
Impairment allowance	(4,255)	(3,997)	(3,744)	(3,444)
Deferred interest and fees recognised as an adjustment to the effective yield	(271)	(311)	(267)	(306)
	46,943	**48,557**	**44,499**	**45,106**

Loans and advances to customers also include finance lease receivables. For a more detailed analysis of finance lease receivables please refer to Note *38 Leases*.

20 Loans and advances to customers (continued)

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

(in HRK million)

	Retail		Corporate		Public sector and other institutions		
	Specific	IBNR	Specific	IBNR	Specific	IBNR	Total
GROUP							
Balance at 1 January 2014	**1,792**	**169**	**1,591**	**380**	**45**	**20**	**3,997**
Net charge in the income statement	**212**	**36**	**237**	**33**	**(36)**	**(7)**	**475**
Amounts written off	(132)	-	(97)	-	-	-	**(229)**
Foreign exchange gain	8	-	4	-	-	-	**12**
Balance at 31 December 2014	**1,880**	**205**	**1,735**	**413**	**9**	**13**	**4,255**
Balance at 1 January 2013	**1,709**	**182**	**1,398**	**354**	**35**	**31**	**3,709**
Net charge in the income statement	**220**	**(13)**	**429**	**26**	**10**	**(11)**	**661**
Amounts written off	(129)	-	(233)	-	-	-	**(362)**
Foreign exchange loss	(8)	-	(3)	-	-	-	**(11)**
Balance at 31 December 2013	**1,792**	**169**	**1,591**	**380**	**45**	**20**	**3,997**

(in HRK million)

	Retail		Corporate		Public sector and other institutions		
	Specific	IBNR	Specific	IBNR	Specific	IBNR	**Total**
BANK							
Balance at 1 January 2014	**1,413**	**133**	**1,459**	**377**	**44**	**18**	**3,444**
Net charge in the income statement	**195**	**36**	**239**	**67**	**(36)**	**(3)**	**498**
Amounts written off	(132)	-	(78)	-	-	-	**(210)**
Foreign exchange gain	8	-	4	-	-	-	**12**
Balance at 31 December 2014	**1,484**	**169**	**1,624**	**444**	**8**	**15**	**3,744**
Balance at 1 January 2013	**1,324**	**144**	**1,293**	**346**	**35**	**29**	**3,171**
Net charge in the income statement	**228**	**(11)**	**405**	**31**	**9**	**(11)**	**651**
Amounts written off	(131)	-	(237)	-	-	-	**(368)**
Foreign exchange loss	(8)	-	(2)	-	-	-	**(10)**
Balance at 31 December 2013	**1,413**	**133**	**1,459**	**377**	**44**	**18**	**3,444**

20 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 5,197 million (2013: HRK 5,251 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 assets with a carrying value of HRK 39 million and HRK 3 million, respectively (2013: HRK 47 million and HRK 30 million respectively). The repossessed collateral, which the Group is in the process of selling, is disclosed as foreclosed assets within Other assets (Note 27). In general, the Group does not occupy repossessed properties for business use.

21 Financial assets available for sale

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Debt securities	395	21	20	21
Equity securities	96	81	96	81
	491	**102**	**116**	**102**

a) Available-for-sale debt securities

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Corporate debt securities	20	20	20	20
Republic of Croatia bonds	373	-	-	-
	393	**20**	**20**	**20**
Accrued interest	2	1	-	1
	395	**21**	**20**	**21**
Listed securities	395	21	20	21
	395	**21**	**20**	**21**

b) Available-for-sale equity securities

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Listed securities	14	10	14	10
Unlisted securities	82	71	82	71
	96	**81**	**96**	**81**

21 Financial assets available for sale (continued)

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 41(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.

		GROUP		BANK
(in HRK million)	2014	2013	2014	2013
Cost/fair value at acquisition	128	116	128	116
Impairment losses	(46)	(45)	(46)	(45)
Carrying value of unlisted equity securities carried at cost	**82**	**71**	**82**	**71**

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

	Note	(in HRK million)
Balance at 1 January 2013		**15**
Impairment loss charged to income statement	12	30
Balance at 31 December 2013		**45**
Impairment loss charged to income statement	12	1
Balance at 31 December 2014		**46**

The Group holds 29% (2013: 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.
As disclosed in Note 23, as part of the disposal transaction of PBZ Invest, the Group acquired 9.32% of shareholding in VUB Asset Management, which was classified as financial assets available for sale.

22 Held-to-maturity investments

		GROUP		BANK
(in HRK million)	2014	2013	2014	2013
Republic of Croatia bonds	174	206	-	-
Accrued interest	3	4	-	-
	177	**210**	-	-

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 from 4.25% to 5.38% and mature from 2015 to 2019.

23 Investments in subsidiaries and associates

		GROUP		BANK
(in HRK million)	2014	2013	2014	2013
Consolidated subsidiaries	-	-	177	177
Associates accounted for under the equity method by the Group and at cost by the Bank	142	135	38	38
	142	**135**	**215**	**215**
Movements				
Balance at 1 January	**135**	**151**	**215**	**220**
Share of profits from associates	21	17	-	-
Receipt of dividend	(14)	(27)	-	-
Sale of PBZ Invest	-	-	-	(5)
Other movements	-	(6)	-	-
Balance at 31 December	**142**	**135**	**215**	**215**

Notes to the financial statements

(continued)

23 Investments in subsidiaries and associates (continued)

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

	COUNTRY	NATURE OF BUSINESS	2014 holding %	2013 holding %
CONSOLIDATED SUBSIDIARIES				
PBZ Card doo	Croatia	card services	100	100
PBZ Leasing doo	Croatia	leasing	100	100
PBZ Invest doo	Croatia	asset management	-	*
PBZ Nekretnine doo	Croatia	real estate agency	100	100
PBZ stambena štedionica dd	Croatia	housing savings bank	100	100
ASSOCIATES				
PBZ Croatia osiguranje dd	Croatia	pension management	50	50
Intesa Sanpaolo Card Zagreb doo	Croatia	card services	31	31

*As disclosed later in this Note, as at 12 February 2013, the Group disposed of its investments in PBZ Invest.

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)	2014 PBZ Croatia osiguranje	2013 Intesa Sanpaolo Card Zagreb	2014 PBZ Croatia osiguranje	2013 Intesa Sanpaolo Card Zagreb
Associates' statement of financial position				
Current assets	124	161	120	134
Non-current assets	1	148	-	172
Current liabilities	(6)	(35)	(5)	(49)
Non-current liabilities	(3)	(3)	(3)	(2)
Net assets of associates'	**116**	**271**	**112**	**255**
Attributable to PBZ Group	**58**	**84**	**56**	**79**
Associates' income statements				
Revenue	55	295	53	296
Expenses	(32)	(265)	(34)	(273)
Profit	**23**	**30**	**19**	**23**
Attributable to PBZ Group	**12**	**9**	**10**	**7**

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.

Disposal of PBZ Invest

As of 12 February 2013 the Group disposed of all of its investment in PBZ Invest, previously 100% owned by Privredna banka Zagreb dd to VUB Asset Management from Slovakia (also part of Intesa Sanpaolo Group). Following disposal, the Group lost control over PBZ Invest and consequently derecognised its assets and liabilities from the consolidated financial statements.

In the Bank's financial statements, investment in PBZ Invest was carried at cost which amounted to HRK 5 million. As part of the transaction, the Bank acquired a 9.32% shareholding in VUB Asset Management, which was accounted for at fair value on the date of acquisition. The Bank initially classified those investments in VUB Asset Management as financial assets available for sale.

The carrying values of assets and liabilities of PBZ Invest, at the date that preceded the disposal, were as follows:

(in HRK million)	11 February 2013
Loans and advances to banks	27
Other assets	5
Other liabilities	(4)
Net identifiable assets of PBZ Invest	**28**

The following table represents gain on disposal recorded in income statement of the Bank and the Group:

(in HRK million)	GROUP	BANK
Proceeds from disposal of PBZ Invest	161	161
Net identifiable assets/cost of PBZ Invest at the date of disposal	(28)	(5)
Gain on disposal of PBZ Invest	**133**	**156**
Income tax on gain on disposal	(27)	(31)
Gain on disposal of PBZ Invest, net of tax	**106**	**125**
Proceeds from disposal		
Consideration received in cash	113	113
Acquired equity securities in VUB Asset Management	48	48

Notes to the financial statements

(continued)

24 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 2013	**69**	**422**	**5**	**3**	**499**
Additions	-	-	-	29	**29**
Disposals	-	(7)	-	-	**(7)**
Transfer into use	-	28	-	(28)	**-**
Balance at 31 December 2013	**69**	**443**	**5**	**4**	**521**
Additions	-	-	-	43	**43**
Disposals	-	(1)	-	-	**(1)**
Transfer into use	-	42	-	(42)	**-**
Balance at 31 December 2014	**69**	**484**	**5**	**5**	**563**
Accumulated amortisation					
Balance at 1 January 2013	**-**	**333**	**4**	**-**	**337**
Charge for the year	-	45	-	-	**45**
Disposals	-	(6)	-	-	**(6)**
Balance at 31 December 2013	**-**	**372**	**4**	**-**	**376**
Charge for the year	-	41	1	-	**42**
Disposals	-	(1)	-	-	**(1)**
Balance at 31 December 2014	**-**	**412**	**5**	**-**	**417**
Carrying value					
Balance at 31 December 2013	**69**	**71**	**1**	**4**	**145**
Balance at 31 December 2014	**69**	**72**	**-**	**5**	**146**

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	Assets acquired but not brought into use	Total
BANK				
Acquisition cost				
Balance at 1 January 2013	**14**	**388**	**2**	**404**
Additions	-	-	29	**29**
Disposals	-	(7)	-	**(7)**
Transfer into use	-	28	(28)	**-**
Balance at 31 December 2013	**14**	**409**	**3**	**426**
Additions	-	-	43	**43**
Disposals	-	(1)	-	**(1)**
Transfer into use	-	41	(41)	**-**
Balance at 31 December 2014	**14**	**449**	**5**	**468**
Accumulated amortisation				
Balance at 1 January 2013	**-**	**301**	**-**	**301**
Charge for the year	-	43	-	**43**
Disposals	-	(6)	-	**(6)**
Balance at 31 December 2013	**-**	**338**	**-**	**338**
Charge for the year	-	41	-	**41**
Disposals	-	(1)	-	**(1)**
Balance at 31 December 2014	**-**	**378**	**-**	**378**
Carrying value				
Balance at 31 December 2013	**14**	**71**	**3**	**88**
Balance at 31 December 2014	**14**	**71**	**5**	**90**

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.

Notes to the financial statements

(continued)

25 Property and equipment

(in HRK million)	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Leasehold improve-ments	Assets acquired but not brought into use	Total
GROUP							
Acquisition cost							
Balance at 1 January 2013	**1,180**	**430**	**233**	**438**	**233**	**31**	**2,545**
Additions	-	-	-	-	-	317	**317**
Transfer to investment property	(4)	-	-	-	-	-	**(4)**
Disposals	(135)	(19)	(90)	(47)	(4)	(18)	**(313)**
Transfer into use	171	15	34	23	7	(250)	**-**
Balance at 31 December 2013	**1,212**	**426**	**177**	**414**	**236**	**80**	**2,545**
Additions	-	-	-	-	-	152	**152**
Transfer to foreclosed assets	-	-	(5)	-	-	-	**(5)**
Disposals	(23)	(14)	(80)	(35)	(7)	(17)	**(176)**
Transfer into use	51	25	46	25	9	(156)	**-**
Balance at 31 December 2014	**1,240**	**437**	**138**	**404**	**238**	**59**	**2,516**
Accumulated depreciation							
Balance at 1 January 2013	**276**	**371**	**109**	**339**	**209**	**-**	**1,304**
Charge for the year	35	27	31	31	13	-	**137**
Disposals	(2)	(18)	(59)	(46)	(4)	-	**(129)**
Balance at 31 December 2013	**309**	**380**	**81**	**324**	**218**	**-**	**1,312**
Charge for the year	30	22	27	40	8	-	**127**
Impairment	5	-	-	-	-	-	**5**
Disposals	(5)	(14)	(44)	(34)	(7)	-	**(104)**
Disposals	-	-	(3)	-	-	-	**(3)**
Balance at 31 December 2014	**339**	**388**	**61**	**330**	**219**	**-**	**1,337**
Carrying value							
Balance at 31 December 2013	**903**	**46**	**96**	**90**	**18**	**80**	**1,233**
Balance at 31 December 2014	**901**	**49**	**77**	**74**	**19**	**59**	**1,179**

Real estate, furniture and other equipment and motor vehicles of the Group include assets leased under operating leases with a carrying value of HRK 415.7 million (2013: HRK 435.4 million).
During the year, the Group reclassified motor vehicles in the gross amount of HRK 5 million and depreciation of 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 74 million for the Group and HRK 7 million for the Bank (2013: HRK 70 million and HRK 7 million, respectably).

(in HRK million)	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Leasehold improve-ments	Assets acquired but not brought into use	Total
BANK							
Acquisition cost							
Balance at 1 January 2013	**826**	**395**	**10**	**333**	**231**	**4**	**1,799**
Additions	-	-	-	-	-	104	**104**
Transfer to investment property	(4)	-	-	-	-	-	**(4)**
Disposals	(1)	(12)	(1)	(41)	(4)	-	**(59)**
Transfer into use	8	10	-	20	7	(45)	**-**
Balance at 31 December 2013	**829**	**393**	**9**	**312**	**234**	**63**	**1,840**
Additions	-	-	-	-	-	70	**70**
Disposals	(7)	(14)	(4)	(25)	(7)	-	**(57)**
Transfer into use	20	25	-	21	8	(74)	**-**
Balance at 31 December 2014	**842**	**404**	**5**	**308**	**235**	**59**	**1,853**
Accumulated depreciation							
Balance at 1 January 2013	**265**	**346**	**8**	**273**	**207**	**-**	**1,099**
Charge for the year	25	19	1	25	13	-	**83**
Disposals	(1)	(12)	(1)	(41)	(4)	-	**(59)**
Balance at 31 December 2013	**289**	**353**	**8**	**257**	**216**	**-**	**1,123**
Charge for the year	21	21	-	29	8	-	**79**
Impairment	5	-	-	-	-	-	**5**
Disposals	(6)	(14)	(4)	(25)	(7)	-	**(56)**
Balance at 31 December 2014	**309**	**360**	**4**	**261**	**217**	**-**	**1,151**
Carrying value							
Balance at 31 December 2013	540	40	1	55	18	63	**717**
Balance at 31 December 2014	**533**	**44**	**1**	**47**	**18**	**59**	**702**

26 Investment property

(in HRK million)	GROUP	BANK
Acquisition cost		
Balance at 1 January 2013	**40**	**26**
Transfer from property and equipment	4	4
Balance at 31 December 2013	**44**	**30**
Balance at 31 December 2014	**44**	**30**
Accumulated depreciation		
Balance at 1 January 2013	**18**	**17**
Charge for the year	1	1
Balance at 31 December 2013	**19**	**18**
Charge for the year	1	1
Balance at 31 December 2014	**20**	**19**
Carrying value		
Balance at 31 December 2013	**25**	**12**
Balance at 31 December 2014	**24**	**11**

The estimated fair value of investment property held by the Group as at 31 December 2014 amounted to HRK 41 million (2013: HRK 41 million) and for the Bank HRK 20 million (2013: HRK 19 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.

The property rental income earned by the Group and Bank from its investment property, all of which was leased out under operating leases, amounted to HRK 4.7 million (2013: HRK 4.7 million) and HRK 2 million (2013: HRK 2 million) respectively, and was presented within other operating income (Note 9).

27 Other assets

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Receivables from card business	195	183	65	59
Receivables from debtors	8	9	1	1
Foreclosed assets	145	101	65	63
Accrued fees	56	58	85	71
Advance payments	13	25	11	25
Prepaid expenses	21	28	17	25
Receivables in course of collection	4	7	1	3
Other assets	114	94	89	69
	556	**505**	**334**	**316**
Impairment	(94)	(83)	(83)	(73)
	462	**422**	**251**	**243**

Movement in impairment

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Balance at 1 January	**83**	**55**	**73**	**46**
Net charge for the year	11	28	10	27
Balance at 31 December	**94**	**83**	**83**	**73**

Movement in impairment on other assets is presented as part of Provisions for other items and other assets (Note 12).

28 Current accounts and deposits from banks

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Term deposits	86	515	435	823
Demand deposits	1,004	415	1,025	451
	1,090	**930**	**1,460**	**1,274**

29 Current accounts and deposits from customers

a) Analysis by term

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Term deposits	33,218	31,890	31,921	30,799
Demand deposits	18,378	15,839	18,466	15,628
	51,596	**47,729**	**50,387**	**46,427**

b) Analysis by source

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Retail deposits	39,678	38,594	38,388	37,298
Corporate deposits	8,055	6,070	8,136	6,064
Public sector and other institutions	3,863	3,065	3,863	3,065
	51,596	**47,729**	**50,387**	**46,427**

30 Interest-bearing borrowings

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Domestic borrowings	1,544	1,513	1,544	1,513
Foreign borrowings	3,230	5,196	2,999	4,166
	4,774	**6,709**	**4,543**	**5,679**

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 1.5 billion (2013: 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.

31 Other liabilities

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Payables to suppliers	1,059	1,103	40	38
Items in the course of settlement and other liabilities	220	228	192	208
Salaries and other personnel costs	93	80	87	74
	1,372	**1,411**	**319**	**320**

32 Accrued expenses and deferred income

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Accrued expenses	227	201	172	131
Deferred income	81	82	18	20
	308	**283**	**190**	**151**

33 Provisions for liabilities and charges

(in HRK million)	Total	Provisions for off-balance-sheet items	Provisions for court cases	Provisions for other items
GROUP				
Balance as at 1 January 2014	**264**	**180**	**81**	**3**
Net charge in the income statement	50	45	1	4
Balance as at 31 December 2014	**314**	**225**	**82**	**7**
Balance as at 1 January 2013	**204**	**159**	**36**	9
Net charge in the income statement	68	21	47	-
Provisions used during the year	(8)	-	(2)	(6)
Balance as at 31 December 2013	**264**	**180**	**81**	**3**

33 Provisions for liabilities and charges (continued)

(in HRK million)	Total	Provisions for off-balance-sheet items	Provisions for court cases	Provisions for other items
BANK				
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**
Balance as at 1 January 2013	**204**	**162**	**33**	**9**
Net charge in the income statement	67	21	46	-
Provisions used during the year	(8)	-	(2)	(6)
Foreign exchange gain	(1)	(1)	-	-
Balance as at 31 December 2013	**262**	**182**	**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 12).
Provision for off-balance-sheet items relates to specific and collective provisions on credit-related contingencies as disclosed in Note 34.
As at 31 December 2014 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 2014 in the amount of HRK 82 million (31 December 2013: HRK 81 million) and HRK 77 million (31 December 2013: HRK 77 million), for the Group and the Bank, respectively.

34 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 225 million for the Group and HRK 226 million for the Bank (2013: HRK 180 million and HRK 182 million respectively) is sufficient to cover risks due to the default of the respective counterparties (refer to Note 33). The aggregate amounts of outstanding guarantees, letters of credit and other commitments at the end of the year were as follows:

		GROUP		BANK
(in HRK million)	2014	2013	2014	2013
Undrawn lending commitments	8,563	8,231	8,628	8,368
Performance guarantees	1,979	1,499	1,979	1,499
Kuna payment guarantees	369	288	369	288
Foreign currency payment guarantees	553	283	553	283
Foreign currency letters of credit	224	200	224	200
Factoring and forfaiting	3	35	3	35
Other contingent liabilities	4	16	4	16
	11,695	**10,552**	**11,760**	**10,689**

On 31 December 2014 the Group and the Bank had long-term commitments as lessees in respect of rent for business premises and equipment lease agreements expiring between 2015 and 2019. The future minimum commitments for each of the next five years are presented below:

(in HRK million)	2014	2015	2016	2017	2018	2019	Total
GROUP							
Premises	47	48	48	48	48	48	**240**
	47	**48**	**48**	**48**	**48**	**48**	**240**
BANK							
Premises	70	71	71	72	72	73	**359**
Equipment	13	13	13	12	12	12	**62**
	83	**84**	**84**	**84**	**84**	**85**	**421**

Notes to the financial statements

(continued)

35 Share capital

a) Issued share capital

Issued share capital as at 31 December 2014 amounted to HRK 1,907 million (31 December 2013: HRK 1,907 million). The total number of authorised registered shares at 31 December 2014 was 19,074,769 (2013: 19,074,769) with a nominal value of HRK 100 per share (2013: 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.
The ownership structure as at 31 December 2014 and 31 December 2013 was as follows:

	REGISTERED SHARES			
		31 December 2014		31 December 2013
	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership
Intesa Sanpaolo Holding International	14,609,532	76.6%	14,609,532	76.6%
EBRD	3,981,990	20.9%	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 2014 the share price of the Bank's ordinary shares quoted on the Zagreb Stock Exchange was HRK 548.98 (31 December 2013: HRK 435).
On 31 December 2014, the President of the Management Board Mr Božo Prka held 361 shares (31 December 2013: 241) of Privredna banka Zagreb dd, and of the other members of the Management Board, Mr Ivan Gerovac held 120 shares (31 December 2013: 120) and Mr Draženko Kopljar held 108 shares (31 December 2013: 108).

b) Share premium

The Bank recognises share premium in an amount of HRK 1,570 million (31 December 2013: HRK 1,570 million) representing the excess of the paid-in amount over the nominal value of the issued shares.

c) Treasury shares

During 2013 and 2014 there were no movements in treasury shares.

d) Own shares held as collateral

The Bank holds 2,719 (31 December 2013: 2,719) of its own shares as collateral for loans to third parties.

e) 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.

e) Other reserves (continued)

Treasury share reserve

During 2014 the Bank did not purchase any treasury shares on the open market for its own purposes.

f) 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 2014 the accumulated gain on fair value reserve amounted to HRK 15 million (31 December 2013: accumulated loss of HRK 14 million) and HRK 2 million (31 December 2013: accumulated loss of HRK 6 million) for the Group and the Bank, respectively.

g) Retained earnings

Retained profits are generally available to shareholders, subject to their approval.
The amount of dividends distributed to equity holders during 2014 in respect of 2013 is HRK 25.80 (2013 in respect of 2012: HRK 44.40) per share.

h) Non-distributable reserves

Management considers that the fair value reserve and other reserves may not be distributed to shareholders. As at 31 December 2014 non-distributable reserves amount to HRK 384 million (31 December 2013: HRK 361 million) and HRK 304 million (31 December 2013: HRK 302 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 2014 amounted to 1.26% (2013: 1.17%) and 0.93% (2013: 0.94%) for the Group and the Bank, respectively.

36 Cash and cash equivalents

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

	Note		GROUP		BANK
(in HRK million)		2014	2013	2014	2013
Cash and current accounts with banks	15	6,973	4,039	6,973	4,036
Loans and advances to banks with maturity of up to 90 days		4,933	4,982	4,993	5,038
		11,906	**9,021**	**11,966**	**9,074**

37 Managed funds for and on behalf of third parties

		GROUP		BANK
(in HRK million)	2014	2013	2014	2013
Assets under custody	6,716	5,303	6,716	5,303
Assets under custody - investment funds	1,840	1,677	1,840	1,677
Assets under portfolio management	777	940	777	940
	9,333	**7,920**	**9,333**	**7,920**

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 10,647 million as at 31 December 2014 (31 December 2013: HRK 9,626 million). These funds are held by a custody bank which is not a member of the Group.

38 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 2014 amounted to HRK 655.9 million (31 December 2013: HRK 798.4 million) which is included within loans and advances to customers (Note 20) in the Group financial statements. The carrying value of leased property and equipment under operating lease as at 31 December 2014 amounted to HRK 415.7 million (31 December 2013: HRK 435.4 million) and are classified within property and equipment (Note 25).

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 2014	Present value of payments 2014	Minimum payments 2013	Present value of payments 2013
Less than one year	320	284	263	326
Between one and five years	379	295	480	309
More than five years	298	228	448	313
Gross investment in finance lease	**997**	**807**	**1,191**	**948**
Unearned finance income	(190)	-	(243)	-
	807	**807**	**948**	**948**
Less: Impairment allowance	(151)	(151)	(150)	(150)
Net investment in finance lease	**656**	**656**	**798**	**798**

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

(in HRK million)	2014	2013
Less than one year	169	162
Between one and five years	175	199
More than five years	201	212
	545	**573**

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

39 Related party transactions

The parent company of Privredna banka Zagreb dd and its subsidiaries is Intesa Sanpaolo Holding International which holds 76.6% of the Bank's share capital as at 31 December 2014. The ultimate controlling party is Intesa Sanpaolo S.p.A., a bank incorporated in Italy. The remaining shareholders are the European Bank for Reconstruction and Development (20.9%) and shareholders of publicly held shares (2.2%).
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 2014	**8**	**1,115**	**-**	**1**
Changes during the year	(1)	(606)	-	25
Balance at 31 December 2014	**7**	**509**	**-**	**26**
Interest income for the year ended 31 December 2014	**-**	**-**	**-**	**1**
Interest income for the year ended 31 December 2013	-	1	-	-
Deposits and loans received				
Balance at 1 January 2014	**33**	**400**	**47**	**3,956**
Changes during the year	(1)	(295)	19	(538)
Balance at 31 December 2014	**32**	**105**	**66**	**3,418**
Interest expense for the year ended 31 December 2014	**(1)**	**(2)**	**-**	**(97)**
Interest expense for the year ended 31 December 2013	(1)	(1)	(1)	(114)
Contingent liabilities and commitments at 31 December 2014	**1**	**6**	**6**	**32**
Contingent liabilities and commitments at 31 December 2013	2	1	34	26
Fees and other income for the year ended 31 December 2014	**-**	**1**	**-**	**27**
Fees and other income for the year ended 31 December 2013	1	1	1	50
Fees and other expense for the year ended 31 December 2014	**-**	**(4)**	**(48)**	**(2)**
Fees and other expense for the year ended 31 December 2013	-	(2)	(47)	(4)

(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 2014	**8**	**210**	**1,115**	**-**	**-**
Changes during the year	(1)	636	(606)	-	25
Balance at 31 December 2014	**7**	**846**	**509**	**-**	**25**
Interest income for the year ended 31 December 2014	**-**	**14**	**-**	**-**	**1**
Interest income for the year ended 31 December 2013	-	9	1	-	-
Deposits and loans received					
Balance at 1 January 2014	**33**	**356**	**400**	**47**	**2,810**
Changes during the year	(1)	107	(295)	19	(375)
Balance at 31 December 2014	**32**	**463**	**105**	**66**	**2,435**
Interest expense for the year ended 31 December 2014	**(1)**	**(18)**	**(2)**	**-**	**(62)**
Interest expense for the year ended 31 December 2013	(1)	(19)	(1)	(1)	(78)
Contingent liabilities and commitments at 31 December 2014	**1**	**66**	**6**	**6**	**32**
Contingent liabilities and commitments at 31 December 2013	2	142	1	34	26
Lease expense for the year ended 31 December 2014	**-**	**(18)**	**-**	**-**	**-**
Lease expense for the year ended 31 December 2013	-	(20)	-	-	-
Fees and other income for the year ended 31 December 2014	**-**	**60**	**1**	**-**	**27**
Fees and other income for the year ended 31 December 2013	1	41	1	1	50
Fees and other expense for the year ended 31 December 2014	**-**	**(33)**	**(4)**	**(48)**	**(2)**
Fees and other expense for the year ended 31 December 2013	-	(31)	(2)	(47)	(4)

No provisions were recognised in respect of deposits and loans given to related parties as at 31 December 2014 (31 December 2013: nil).

39 Related party transactions (continued)

Annual key management remuneration:

(in HRK million)	2014	2013
GROUP		
Personnel compensation (gross)	27	27
Bonuses	7	12
Contributions to pension insurance	2	3
	36	**42**

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 2014 was 20 (31 December 2013: 21) and 19 (31 December 2013: 20), respectively.

All bonuses in 2014 and 2013 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 2014	31 December 2013	31 December 2014	31 December 2013
Awards granted	475,981	505,242	9	8

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

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%. It is not practical for the Bank to disclose comparative information for 2013 due to different rules and requirements which were legally prescribed during 2013.

41 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.

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

		2014					2013	
(in HRK million)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
GROUP								
Derivative financial assets	-	2	-	**2**	-	7	-	**7**
Financial assets held for trading	80	-	-	**80**	16	-	-	**16**
Financial assets initially designated at fair value through profit or loss	110	5,890	100	**6,100**	111	4,243	133	**4,487**
Financial assets available for sale	389	-	20	**409**	10	-	21	**31**
Financial assets	**579**	**5,892**	**120**	**6,591**	**137**	**4,250**	**154**	**4,541**
Derivative financial liabilities	-	1	-	**1**	-	5	-	**5**
Financial liabilities	**-**	**1**	**-**	**1**	**-**	**5**	**-**	**5**
BANK								
Derivative financial assets	-	2	-	**2**	-	7	-	**7**
Financial assets held for trading	80	-	-	**80**	16	-	-	**16**
Financial assets initially designated at fair value through profit or loss	9	5,831	100	**5,940**	8	4,127	131	**4,266**
Financial assets available for sale	14	-	20	**34**	10	-	20	**30**
Financial assets	**103**	**5,833**	**120**	**6,056**	**34**	**4,191**	**154**	**4,379**
Derivative financial liabilities	-	1	-	**1**	-	5	-	**5**
Financial liabilities	**-**	**1**	**-**	**1**	**-**	**5**	**-**	**5**

Equity securities whose fair value cannot be measured reliably and are carried at cost less impairment, are not presented in the fair value hierarchy.

During the year 2014, 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).

41 Fair values of financial assets and liabilities (continued)

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

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 3.5%. 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.

(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**
Balance at 1 January 2013	**227**	**21**	**227**	**21**
Total gains/(losses):	(2)	-	(2)	-
in profit or loss	*(2)*	-	*(2)*	-
Settlements	(92)	-	(92)	-
Balance at 31 December 2013	**133**	**21**	**133**	**21**

There were no transfers from or to Level 3 in 2014 and 2013.

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.

(in HRK million)	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
GROUP					
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	-	5,095	-	5,095	5,096
Loans and advances to customers	-	43,198	3,718	46,916	46,943
Held to maturity investments	179	-	-	179	177
Liabilities					
Current accounts and deposits from banks	-	1,090	-	1,090	1,090
Current accounts and deposits from customers	-	52,031	-	52,031	51,596
Interest-bearing borrowings	-	4,847	-	4,847	4,774

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
GROUP					
31 DECEMBER 2013					
Assets					
Cash and current accounts with banks	-	-	4,039	4,039	4,039
Balances with CNB	-	-	4,894	4,894	4,894
Loans and advances to banks	-	5,561	-	5,561	5,638
Loans and advances to customers	-	45,262	3,596	48,858	48,557
Held to maturity investments	210	-	-	210	210
Liabilities					
Current accounts and deposits from banks	-	927	-	927	930
Current accounts and deposits from customers	-	47,888	-	47,888	47,729
Interest-bearing borrowings	-	6,746	-	6,746	6,709

Notes to the financial statements

(continued)

41 Fair values of financial assets and liabilities (continued)

b) Financial instruments not measured at fair value (continued)

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
BANK					
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	-	5,155	-	5,155	5,156
Loans and advances to customers	-	41,120	3,372	44,492	44,499
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	-	4,613	-	4,613	4,543

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
BANK					
31 DECEMBER 2013					
Assets					
Cash and current accounts with banks	-	-	4,036	4,036	4,036
Balances with CNB	-	-	4,894	4,894	4,894
Loans and advances to banks	-	5,617	-	5,617	5,694
Loans and advances to customers	-	41,980	3,419	45,399	45,106
Liabilities					
Current accounts and deposits from banks	-	1,271	-	1,271	1,274
Current accounts and deposits from customers	-	46,624	-	46,624	46,427
Interest-bearing borrowings	-	5,679	-	5,679	5,679

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 reprice regularly. As such, the management believes that their carrying values approximate their fair values.

Notes to the financial statements

(continued)

41 Fair values of financial assets and liabilities (continued)

c) 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 fair values of those assets are derived using the model as described above.

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.

	GROUP			BANK		
(in HRK million)	Amounts reclassified	Carrying amount	Fair value	Amounts reclassified	Carrying amount	Fair value
31 December 2014						
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
31 December 2013						
Financial assets reclassified from held for trading to loans and receivables	1,903	626	665	1,903	626	665
Financial assets reclassified from available for sale to loans and receivables	1,418	916	939	381	144	146

The following table presents gains and losses recognised in the income statement in 2014 and 2013 on assets reclassified to the loans and receivables category:

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Financial assets reclassified from held for trading to loans and receivables				
Interest income	39	43	39	43
Amortisation of discount	10	11	10	11
Financial assets reclassified from available for sale to loans and receivables				
Interest income	19	46	3	10
Amortisation of discount	10	16	4	6
Amortisation of fair value reserve	(8)	(15)	(3)	(2)

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.

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Financial assets reclassified from held for trading to loans and receivables				
Fair value gains which would have been recognised in net trading income and net gains and losses on translation of monetary assets and liabilities	17	6	17	6
Financial assets reclassified from available for sale to loans and receivables				
Fair value losses which would have been recognised in other comprehensive income	(9)	(18)	(1)	(3)

42 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. Since the Group operates predominantly in Croatia, there are no secondary (geographical) segments.
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, 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.
In 2014 the Bank changed the methodology of allocation of segmental income and expense. Information for 2013 has not been changed since restating the comparative information for 2013 is not practicable.

(in HRK million)	Corporate banking	Retail banking	Finance banking	Central Structure	PBZ Card	Other subsidiaries	Managerial financial statements	Reconciliation to financial statements	Financial statements
GROUP									
As of and for the year ended 31 December 2014									
Net interest income	572	1,250	297	5	60	44	2,228	3	**2,231**
Net commission income/(expense)	260	298	33	-	535	9	1,135	(3)	**1,132**
Net profit/(loss) from trading and dividend and other operating income	30	(46)	46	10	(156)	76	(40)	326	**286**
Operating income	**862**	**1,502**	**376**	**15**	**439**	**129**	**3,323**	**326**	**3,649**
Operating expenses	(397)	(854)	(76)	-	(166)	(73)	(1,566)	(365)	**(1,931)**
Operating profit	**465**	**648**	**300**	**15**	**273**	**56**	**1,757**	**(39)**	**1,718**
Impairments	(351)	(226)	1	(28)	6	(16)	(614)	55	**(559)**
Profit before tax	**114**	**422**	**301**	**(13)**	**279**	**40**	**1,143**	**16**	**1,159**
Income tax expense	-	-	-	(181)	(56)	(8)	(245)	-	**(245)**
Profit after tax	**114**	**422**	**301**	**(194)**	**223**	**32**	**898**	**16**	**914**
Segment assets	24,806	26,273	21,336	2,298	2,900	3,091	80,704	(8,139)	**72,565**
Investments in associates	-	-	-	142	-	-	142	-	**142**
Total segment assets	**24,806**	**26,273**	**21,336**	**2,440**	**2,900**	**3,091**	**80,846**	**(8,139)**	**72,707**
Total segment liabilities	**21,417**	**40,648**	**1,002**	**629**	**1,674**	**2,718**	**68,088**	**(8,606)**	**59,482**
Capital expenditure	1	16	-	98	2	-	117	-	**117**

Notes to the financial statements

(continued)

42 Financial information by segment (continued)

(in HRK million)	Corporate banking	Retail banking	Finance banking	Central Structure	PBZ Card	Other subsidiaries	Managerial financial statements	Reconci-liation to financial statements	Financial state-ments
GROUP									
As of and for the year ended 31 December 2013									
Net interest income	476	606	304	759	60	46	2,251	6	**2,257**
Net commission income/(ex-pense)	240	229	55	15	546	12	1,097	(7)	**1,090**
Net profit/(loss) from trading and dividend and other opera-ting income	33	(48)	27	22	(184)	103	(47)	426	**379**
Operating income	**749**	**787**	**386**	**796**	**422**	**161**	**3,301**	**425**	**3,726**
Operating expenses	(357)	(832)	(77)	(12)	(153)	(79)	(1,510)	(378)	**(1,888)**
Operating profit	**392**	**(45)**	**309**	**784**	**269**	**82**	**1,791**	**47**	**1,838**
Impairments	(497)	(203)	110	(67)	3	(24)	(678)	(108)	**(786)**
Profit before tax	**(105)**	**(248)**	**419**	**717**	**272**	**58**	**1,113**	**(61)**	**1,052**
Income tax expense	21	52	(81)	(160)	(55)	(8)	(231)	-	**(231)**
Profit after tax	**(84)**	**(196)**	**338**	**557**	**217**	**50**	**882**	**(61)**	**821**
Segment assets	24,396	26,372	17,965	2,213	2,731	3,195	76,872	(6,890)	**69,982**
Investments in associates	-	-	-	135	-	-	135	-	**135**
Total segment assets	**24,396**	**26,372**	**17,965**	**2,348**	**2,731**	**3,195**	**77,007**	**(6,890)**	**70,117**
Total segment liabilities	**18,536**	**39,599**	**1,374**	**680**	**1,728**	**2,893**	**64,810**	**(7,465)**	**57,345**
Capital expenditure	-	9	-	133	3	-	145	-	**145**

(in HRK million)	Corporate banking	Retail banking	Finance banking	Central Stru-cture	Managerial financial statements	Reconci-liation to financial statements	Financial statements
BANK							
As of and for the year ended 31 December 2014							
Net interest income	572	1,250	297	5	2,124	-	**2,124**
Net commission income	260	298	33	-	591	-	**591**
Net profit/(loss) from trading and dividend and other opera-ting income	30	(46)	46	10	40	181	**221**
Operating income	**862**	**1,502**	**376**	**15**	**2,755**	**181**	**2,936**
Operating expenses	(397)	(854)	(76)	-	(1,327)	(210)	**(1,537)**
Operating profit	**465**	**648**	**300**	**15**	**1,428**	**(29)**	**1,399**
Impairments	(351)	(226)	1	(28)	(604)	29	**(575)**
Profit before tax	**114**	**422**	**301**	**(13)**	**824**	**-**	**824**
Income tax expense	-	-	-	(181)	(181)	-	**(181)**
Profit after tax	**114**	**422**	**301**	**(194)**	**643**	**-**	**643**
Total segment assets	**24,806**	**26,273**	**21,336**	**2,298**	**74,713**	**(5,832)**	**68,881**
Total segment liabilities	**21,417**	**40,648**	**1,002**	**629**	**63,696**	**(6,475)**	**57,221**
Capital expenditure	1	16	-	98	115	-	**115**

42 Financial information by segment (continued)

(in HRK million)	Corporate banking	Retail banking	Finance banking	Central Stru-cture	Managerial financial statements	Reconci-liation to financial statements	Financial statements
BANK							
As of and for the year ended 31 December 2013							
Net interest income	476	606	304	759	2,145	-	**2,145**
Net commission income	240	229	55	15	539	-	**539**
Net profit/(loss) from trading and dividend and other operating income	33	(48)	27	22	34	321	**355**
Operating income	**749**	**787**	**386**	**796**	**2,718**	**321**	**3,039**
Operating expenses	(357)	(832)	(77)	(12)	(1,278)	(203)	**(1,481)**
Operating profit	**392**	**(45)**	**309**	**784**	**1,440**	**118**	**1,558**
Impairments	(497)	(203)	110	(67)	(657)	(118)	**(775)**
Profit before tax	**(105)**	**(248)**	**419**	**717**	**783**	**-**	**783**
Income tax expense	21	52	(81)	(160)	(168)	-	**(168)**
Profit after tax	**(84)**	**(196)**	**338**	**557**	**615**	**-**	**615**
Total segment assets	**24,396**	**26,372**	**17,965**	**2,348**	**71,081**	**(5,464)**	**65,617**
Total segment liabilities	**18,536**	**39,599**	**1,374**	**680**	**60,189**	**(6,071)**	**54,118**
Capital expenditure	-	9	-	133	142	-	**142**

43 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 34.

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.

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.

43 Financial risk management policies (continued)

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 before the effect of mitigation through collateral agreements.

	Notes		GROUP		BANK
(in HRK million)		2014	2013	2014	2013
Cash and current accounts with banks (excluding cash in hand)	15	5,620	2,638	5,620	2,635
Balances with the Croatian National bank	16	4,748	4,894	4,748	4,894
Debt securities at fair value through profit or loss	17	6,055	4,376	5,996	4,317
Derivative financial assets	18	2	7	2	7
Loans and advances to banks	19	5,096	5,638	5,156	5,694
Loans and advances to customers	20	46,943	48,557	44,499	45,106
Financial assets available for sale	21	491	102	116	102
Held-to-maturity investments	22	177	210	-	-
Other assets (excluding foreclosed assets and prepaid expenses)	27	296	293	169	155
Tax prepayments		-	51	-	50
Total		**69,428**	**66,766**	**66,306**	**62,960**
Contingent liabilities and commitments	34	11,695	10,552	11,760	10,689
Total credit risk exposure		**81,123**	**77,318**	**78,066**	**73,649**

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.

The maximum credit exposure to any individual client or counterparty (including related parties, but excluding the Republic of Croatia and the Croatian National Bank) as of 31 December 2014 was HRK 1,345 million (2013: HRK 1,832 million) before taking into account of collateral or other credit enhancements.

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.

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 2013, refinanced corporate portfolio of the Group and the Bank has grown in volume by 32.5% in 2014, amounting to HRK 1,333 million (2013: HRK 1,006 million). The refinanced portfolio provisions coverage as of 31 December 2014 was 50% (2013: 50.01%). The refinanced individuals portfolio has grown in volume by 44.4% in 2014, amounting to HRK 1,969 million (2013: HRK 1,360 million), with a portfolio provisions coverage of 36.1%.

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

	GROUP		BANK	
(in HRK million)	2014	2013	2014	2013
Loans and advances to customers				
Neither past due nor impaired	40,740	41,994	39,298	39,568
Past due but not impaired	3,387	3,847	2,724	2,953
Impaired	7,342	7,024	6,488	6,335
Gross	**51,469**	**52,865**	**48,510**	**48,856**
Specific impairment allowance	(3,624)	(3,428)	(3,116)	(2,916)
IBNR	(631)	(569)	(628)	(528)
Net of impairment allowance	**47,214**	**48,868**	**44,766**	**45,412**

43 Financial risk management policies (continued)

a) Credit risk (continued)

Loans and advances to customers past due nor 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.

(in HRK million)	up to 15 days	16 to 30 days	31 to 90 days	91 to 180 days	more than 180 days	Total
GROUP 2014						
Loans and advances to corporate customers						
Government and municipalities	-	-	4	-	-	**4**
Enterprises	140	200	306	1	-	**647**
of which:						
Micro enterprises	2	11	53	1	-	**67**
Small enterprises	9	10	80	-	-	**99**
Mid enterprises	119	101	29	-	-	**249**
Large corporate	10	78	144	-	-	**232**
Others	-	-	17	-	-	**17**
Total	**140**	**200**	**327**	**1**	**-**	**668**
Loans and advances to retail customers						
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	330	98	65	1	1	**495**
Total	**671**	**470**	**1.166**	**271**	**141**	**2,719**

(in HRK million)	up to 15 days	16 to 30 days	31 to 90 days	91 to 180 days	more than 180 days	Total
GROUP 2013						
Loans and advances to corporate customers						
Government and municipalities	-	2	16	-	-	**18**
Enterprises	225	177	672	1	-	**1,075**
of which:						
Micro enterprises	4	8	73	1	-	**86**
Small enterprises	10	18	152	-	-	**180**
Mid enterprises	161	151	266	-	-	**578**
Large corporate	50	-	181	-	-	**231**
Others	1	-	5	-	-	**6**
Total	**226**	**179**	**693**	**1**	**-**	**1,099**

(in HRK million)	up to 15 days	16 to 30 days	31 to 90 days	91 to 180 days	more than 180 days	Total
Loans and advances to retail customers						
Housing loans	160	207	658	156	110	**1,291**
Mortgage loans	7	20	82	15	4	**128**
Car loans	2	5	14	-	-	**21**
Non-purpose loans	134	125	221	25	3	**508**
Quick loans	17	5	36	2	-	**60**
Overdrafts	13	9	10	2	2	**36**
Refinancing	9	22	90	40	22	**183**
Others	351	98	72	-	-	**521**
Total	**693**	**491**	**1,183**	**240**	**141**	**2,748**

43 Financial risk management policies (continued)

a) Credit risk (continued)

Loans and advances to customers past due nor impaired (continued)

(in HRK million)	up to 15 days	16 to 30 days	31 to 90 days	91 to 180 days	more than 180 days	Total
BANK 2014						
Loans and advances to corporate customers						
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**
Total	**40**	**100**	**327**	**1**	**-**	**468**
Loans and advances to retail customers						
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**
Total	**348**	**387**	**1,109**	**271**	**141**	**2,256**

(in HRK million)	up to 15 days	16 to 30 days	31 to 90 days	91 to 180 days	more than 180 days	Total
BANK 2013						
Loans and advances to corporate customers						
Government and municipalities	-	2	16	-	-	**18**
Enterprises	74	26	566	1	-	**667**
of which:						
Micro enterprises	4	8	73	1	-	**86**
Small enterprises	10	18	152	-	-	**180**
Mid enterprises	10	-	160	-	-	**170**
Large corporate	50	-	181	-	-	**231**
Others	1	-	5	-	-	**6**
Total	**75**	**28**	**587**	**1**	**-**	**691**
Loans and advances to retail customers						
Housing loans	160	207	658	156	110	**1,291**
Mortgage loans	7	20	82	15	4	**128**
Car loans	2	5	14	-	-	**21**
Non-purpose loans	134	125	221	25	3	**508**
Quick loans	17	5	36	2	-	**60**
Overdrafts	13	9	10	2	2	**36**
Refinancing	9	22	90	40	22	**183**
Others	9	16	10	-	-	**35**
Total	**351**	**409**	**1,121**	**240**	**141**	**2,262**

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.

43 Financial risk management policies (continued)

a) Credit risk (continued)

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 for a short period of time after which the Group decides either to transfer the exposures to standard monitoring or to individually impaired category.

		GROUP		BANK
(in HRK million)	2014	2013	2014	2013
Loans and advances to corporate customers				
Standard monitoring	17,903	18,158	19,224	18,252
Special monitoring	871	1,303	871	1,303
Loans and advances to retail customers				
Standard monitoring	21,966	22,533	19,203	20,013
Total	**40,740**	**41,994**	**39,298**	**39,568**

Loans and advances to customers that are past due and 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:

		GROUP		BANK
(in HRK million)	2014	2013	2014	2013
Loans and advances to corporate customers				
Government and municipalities	41	25	41	25
Enterprises	3,574	3,395	3,199	3,184
of which:				
Micro enterprises	594	592	594	592
Small enterprises	725	610	725	610
Mid enterprises	1,134	1,246	759	1,035
Large corporate	1,121	947	1,121	947
Others	263	308	263	308
Loans and advances to retail customers				
Housing loans	846	865	846	865
Mortgage loans	172	185	172	185
Car loans	22	38	22	38
Non-purpose loans	446	564	446	564
Quick loans	119	164	119	164
Overdrafts	106	126	106	126
Refinancing	1,236	832	1,236	832
Others	517	522	38	44
Total gross amount	**7,342**	**7,024**	**6,488**	**6,335**
Specific impairment allowance	(3,624)	(3,428)	(3,116)	(2,916)
Net amount	**3,718**	**3,596**	**3,372**	**3,419**

The fair value of collateral that the Group and the Bank hold in respect of loans determined to be impaired as of 31 December 2014 amounts to HRK 7,780 million (31 December 2013: HRK 8,716 million).

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 tables below present exposures to loans and advances to customers broken down by internal risk grades for management reporting purposes as at 31 December 2014 and 31 December 2013. The amounts provided are gross of specific or collective provisions.

		2014		2013
(in HRK million)	Loans and advances to customers	Impairment allowance	Loans and advances to customers	Impairment allowance
GROUP				
Performing loans	44,127	631	45,841	569
Non-performing loans	7,342	3,624	7,024	3,428
Doubtful loans	*3,960*	*2,644*	*3,456*	*2,284*
Substandard loans	*2,576*	*632*	*3,216*	*1,052*
Restructured loans	*603*	*290*	*143*	*28*
Past due impaired	*203*	*58*	*209*	*64*
	51,469	**4,255**	**52,865**	**3,997**
BANK				
Performing loans	42,022	628	42,521	528
Non-performing loans	6,488	3,116	6,335	2,916
Doubtful loans	*3,376*	*2,176*	*2,863*	*1,820*
Substandard loans	*2,383*	*618*	*3,203*	*1,039*
Restructured loans	*603*	*290*	*143*	*28*
Past due impaired	*126*	*32*	*126*	*29*
	48,510	**3,744**	**48,856**	**3,444**

Impairment allowance for performing graded loans relates to IBNR for loans and advances to customers.
Impairment allowance as a percentage of gross loans and advances to customers amounted to 8.3% (2013: 7.6%) for the Group and 7.7% (2013: 7.1%) for the Bank. The increase in the rate of impairment allowance in 2014 reflects the effect of the continued difficult economic environment.
For the purpose of management's monitoring, the Group internally classifies exposures and identifies non-performing exposures based on IFRS and guidelines of the parent bank, using both objective and subjective criteria.

43 Financial risk management policies (continued)

a) Credit risk (continued)

Loans and advances to customers per internal risk classification (continued)

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;
- Restructured: exposures where a bank renegotiates the original terms of a debt due to deterioration of the borrower's creditworthiness (for example by granting a payment moratorium or by decreasing the debt or the in-terest). If such renegotiation results in a loss, the exposure is classified as restructured;
- Substandard: exposures to borrowers which are experiencing financial or economic difficulties that are expected to be overcome in a reasonable period of time;
- Doubtful: exposures to borrowers being effectively insolvent (although not yet legally) or in comparable status, regardless of any loss forecasts made by the bank;
- Past due: exposures other than those classified as doubtful, substandard or restructured that are past due for more than 90 days on a continuous basis above the established threshold;

Offsetting financial assets and financial liabilities

The disclosures set out below 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 embed-ded 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 2014 derivative financial instruments with positive fair value amounted to HRK 2 million (2013: HRK 7 million), and derivative financial instruments with negative fair value amounted to HRK 1 million (2013: HRK 5 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.

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.

	GROUP		BANK	
(in HRK million)	2013	2012	2013	2012
Receivables from reverse sale and repurchase agreements related to:	**159**	**242**	**220**	**299**
- loans and advances to banks	*140*	*227*	*201*	*284*
- loans and advances to customers	*19*	*15*	*19*	*15*
Fair value of collateral accepted in respect of the above	169	239	235	297
Payables under sale and repurchase agreements	**-**	**382**	**-**	**382**
- interest-bearing borrowings	-	*382*	-	*382*
Carrying amount of collateral provided in respect of the above relating to:	-	371	-	371
- financial assets at fair value through profit and loss	-	-	-	-
- debt securities classified as loans and receivables	-	*371*	-	*371*

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 controlled and maintained daily. The Treasury department manages liquidity reserves daily, ensuring also the fulfilment of all customer needs.

43 Financial risk management policies (continued)

b) Liquidity risk (continued)

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 (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 policy;
- *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% (2013: 17%) of foreign currency liabilities in short-term assets. The actual figures were as follows:

2014	%	2013	%
"17% ratio" (at year end)	21.08	"17% ratio" (at year end)	18.02
Average	19.64	Average	18.06
Maximum	25.15	Maximum	20.94
Minimum	17.45	Minimum	17.49

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.

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:

- VaR Methodology and Backtesting;
- 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).

Notes to the financial statements

(continued)

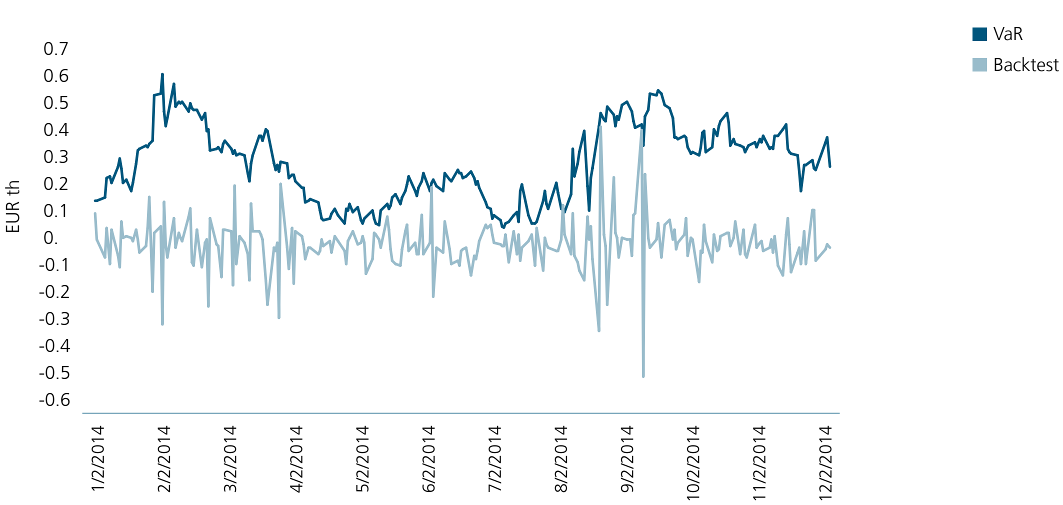
43 Financial risk management policies (continued)

c) Market risk (continued)

VaR is calculated at PBZ Group level, however due to the fact that trading book only relates to Bank in table below only VaR for Bank is reported.

(in HRK million)	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					
2013 – 2 January	366	62	2,177	(759)	**1,846**
2013 – 31 December	294	31	2,282	(350)	**2,257**
2013 – Average daily	327	104	2,335	(431)	**2,335**
2013 – Lowest	267	9	198	(166)	**308**
2013 – Highest	391	784	6,561	(1,160)	**6,576**
Note: historical simulation used for VaR calculations					

Chart below presents Bank's Total VaR movements in 2014 and corresponding backtest values:



Due to the fact that main contributor for the Total VaR is FX Open position, in 2014 Total VaR changed in line with movement of FX Open position. During 2014, VaR was within prescribed limits and none of limit breaches were observed. In accordance with confidence level of VaR model, in period of one year at least 2 backtest breaches are expected, while in 2014 four backtest were observed of which three 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 2014 and 31 December 2013 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.

Currency (in HRK million)	FX Open position 31 December 2014*	10% Move Up	**Scenario 2014** 10% Move Down	FX Open position 31 December 2013*	10% Move Up	**Scenario 2013** 10% Move Down
GROUP						
EUR	**480**	48	(48)	**1,307**	131	(131)
CHF	**(13)**	(1)	1	**(13)**	(1)	1
USD	**9**	1	(1)	**3**	-	-
Other	**5**	1	(1)	**9**	1	(1)

** Positive amounts represent long FX position while negative amounts represent short FX Position.*

43 Financial risk management policies (continued)

c) Market risk (continued)

Currency risk (continued)

Currency (in HRK million)	FX Open position 31 December 2014*	10% Move Up	**Scenario 2014** 10% Move Down	FX Open position 31 December 2013*	10% Move Up	**Scenario 2013** 10% Move Down
BANK						
EUR	**619**	62	(62)	**664**	66	(66)
CHF	**(13)**	(1)	1	**(13)**	(1)	1
USD	**7**	1	(1)	**3**	-	-
Other	**5**	1	(1)	**9**	1	(1)

* Positive amounts represent long FX position while negative amounts represent short FX Position.

Currency risk is further analysed in Note 46.

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 2014. 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 2014	*Change at 31 December 2014* interest income	interest expenses	net interest income	*Change at 31 December 2013* net interest income	net interest income	net interest income
GROUP	+25	114.0	(79.9)	34.1	93.4	(56.2)	37.2
	+50	227.9	(160.1)	67.8	186.9	(112.5)	74.4
BANK	+25	111.5	(77.1)	34.4	90.0	(53.6)	36.4
	+50	223.0	(154.5)	68.5	180.1	(107.2)	72.9

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 44.

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.

44 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 Croatian Bank for Reconstruction and Development (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 a 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.

As at 31 December 2014 (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
GROUP						
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	2,556	2,904	160	218	**6,180**
Derivative financial assets	-	-	-	-	2	**2**
Loans and advances to banks	3,168	1,779	12	137	-	**5,096**
Loans and advances to customers	4,861	15,701	14,428	9,780	2,173	**46,943**
Financial assets available for sale	-	-	-	393	98	**491**
Held-to-maturity investments	-	-	157	17	3	**177**
Investments in associates	-	-	-	-	142	**142**
Intangible assets	-	-	-	-	146	**146**
Property and equipment	-	-	-	-	1,179	**1,179**
Investment property	-	-	-	-	24	**24**
Deferred tax assets	-	-	-	-	144	**144**
Other assets	-	-	-	-	462	**462**
Total assets	**13,990**	**20,036**	**17,501**	**10,487**	**10,693**	**72,707**
Liabilities						
Current accounts and deposits from banks	1,057	-	13	20	-	**1,090**
Current accounts and deposits from customers	22,055	5,860	14,951	8,036	694	**51,596**
Derivative financial liabilities	-	-	-	-	1	**1**
Interest-bearing borrowings	219	2,728	568	1,215	44	**4,774**
Other liabilities	-	-	-	-	1,372	**1,372**
Accrued expenses and deferred income	-	-	-	-	308	**308**
Provisions for liabilities and charges	-	-	-	-	314	**314**
Deferred tax liabilities	-	-	-	-	4	**4**
Current tax liability	-	-	-	-	23	**23**
Total liabilities	**23,331**	**8,588**	**15,532**	**9,271**	**2,760**	**59,482**
Interest sensitivity gap	**(9,341)**	**11,448**	**1,969**	**1,216**	**7,933**	**13,225**

As at 31 December 2013 (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
GROUP						
Assets						
Cash and current accounts with banks	2,632	-	-	-	1,407	**4,039**
Balances with the Croatian National Bank	-	-	-	-	4,894	**4,894**
Financial assets at fair value through profit or loss	-	1,170	2,593	554	186	**4,503**
Derivative financial assets	-	-	-	-	7	**7**
Loans and advances to banks	4,912	70	40	616	-	**5,638**
Loans and advances to customers	5,402	13,612	20,780	6,458	2,305	**48,557**
Financial assets available for sale	-	-	-	20	82	**102**
Held-to-maturity investments	3	33	-	170	4	**210**
Investments in associates	-	-	-	-	135	**135**
Intangible assets	-	-	-	-	145	**145**
Property and equipment	-	-	-	-	1,233	**1,233**
Investment property	-	-	-	-	25	**25**
Deferred tax assets	-	-	-	-	156	**156**
Other assets	-	-	-	-	422	**422**
Tax prepayments	-	-	-	-	51	**51**
Total assets	**12,949**	**14,885**	**23,413**	**7,818**	**11,052**	**70,117**
Liabilities						
Current accounts and deposits from banks	843	8	48	31	-	**930**
Current accounts and deposits from customers	19,413	6,250	15,960	5,525	581	**47,729**
Derivative financial liabilities	-	-	-	-	5	**5**
Interest-bearing borrowings	1,411	3,533	583	1,163	19	**6,709**
Other liabilities	-	-	-	-	1,411	**1,411**
Accrued expenses and deferred income	-	-	-	-	283	**283**
Provisions for liabilities and charges	-	-	-	-	264	**264**
Current tax liability	-	-	-	-	14	**14**
Total liabilities	**21,667**	**9,791**	**16,591**	**6,719**	**2,577**	**57,345**
Interest sensitivity gap	**(8,718)**	**5,094**	**6,822**	**1,099**	**8,475**	**12,772**

44 Interest rate risk (continued)

As at 31 December 2014 (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
BANK						
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	3,166	1,777	73	140	-	**5,156**
Loans and advances to customers	4,866	15,535	14,500	9,414	184	**44,499**
Financial assets available for sale	-	-	-	20	96	**116**
Investments in subsidiaries and associates	-	-	-	-	215	**215**
Intangible assets	-	-	-	-	90	**90**
Property and equipment	-	-	-	-	702	**702**
Investment property	-	-	-	-	11	**11**
Deferred tax assets	-	-	-	-	98	**98**
Other assets	-	-	-	-	251	**251**
Total assets	**13,993**	**19,858**	**17,427**	**9,735**	**7,868**	**68,881**
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	2,500	568	1,215	40	**4,543**
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**	**8,302**	**15,532**	**8,426**	**1,546**	**57,221**
Interest sensitivity gap	**(9,422)**	**11,556**	**1,895**	**1,309**	**6,322**	**11,660**

As at 31 December 2013 (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
BANK						
Assets						
Cash and current accounts with banks	2,632	-	-	-	1,404	**4,036**
Balances with the Croatian National Bank	-	-	-	-	4,894	**4,894**
Financial assets at fair value through profit or loss	-	1,160	2,544	554	83	**4,341**
Derivative financial assets	-	-	-	-	7	**7**
Loans and advances to banks	4,968	70	40	616	-	**5,694**
Loans and advances to customers	5,498	12,494	20,773	6,094	247	**45,106**
Financial assets available for sale	-	-	-	20	82	**102**
Investments in subsidiaries and associates	-	-	-	-	215	**215**
Intangible assets	-	-	-	-	88	**88**
Property and equipment	-	-	-	-	717	**717**
Investment property	-	-	-	-	12	**12**
Deferred tax assets	-	-	-	-	112	**112**
Other assets	-	-	-	-	243	**243**
Tax prepayments	-	-	-	-	50	**50**
Total assets	**13,098**	**13,724**	**23,357**	**7,284**	**8,154**	**65,617**
Liabilities						
Current accounts and deposits from banks	879	8	48	339	-	**1,274**
Current accounts and deposits from customers	19,166	6,200	15,661	4,839	561	**46,427**
Derivative financial liabilities	-	-	-	-	5	**5**
Interest-bearing borrowings	1,435	2,450	583	1,196	15	**5,679**
Other liabilities	-	-	-	-	320	**320**
Accrued expenses and deferred income	-	-	-	-	151	**151**
Provisions for liabilities and charges	-	-	-	-	262	**262**
Total liabilities	**21,480**	**8,658**	**16,292**	**6,374**	**1,314**	**54,118**
Interest sensitivity gap	**(8,382)**	**5,066**	**7,065**	**910**	**6,840**	**11,499**

45 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	
(in HRK million)	2014 %	2013 %	2014 %	2013 %
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	2.41	3.12	2.47	3.14
Loans and advances to banks	0.25	0.46	0.25	0.46
Loans and advances to customers	5.96	6.18	6.19	6.41
Current accounts and deposits from customers	1.83	2.23	1.79	2.20
Current accounts and deposits from banks and interest-bearing borrowings	2.00	2.01	2.05	2.04

46 Currency risk (continued)

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.

As at 31 December 2014 (in HRK million)	EUR and EUR linked	CHF and CHF linked	USD and USD linked	Other currencies	HRK	Total
GROUP						
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	-	-	-	5,674	**6,180**
Derivative financial assets	-	-	-	-	2	**2**
Loans and advances to banks	2,401	-	2,124	262	309	**5,096**
Loans and advances to customers	29,099	3,209	373	-	14,262	**46,943**
Financial assets available for sale	375	-	-	-	116	**491**
Held-to-maturity investments	177	-	-	-	-	**177**
Investments in associates	-	-	-	-	142	**142**
Intangible assets	-	-	-	-	146	**146**
Property and equipment	-	-	-	-	1,179	**1,179**
Investment property	-	-	-	-	24	**24**
Deferred tax assets	-	-	-	-	144	**144**
Other assets	24	-	8	-	430	**462**
Total assets	**34,528**	**3,264**	**2,592**	**533**	**31,790**	**72,707**
Liabilities						
Current accounts and deposits from banks	173	43	27	67	780	**1,090**
Current accounts and deposits from customers	31,258	680	2,507	450	16,701	**51,596**
Derivative financial liabilities	-	-	-	-	1	**1**
Interest-bearing borrowings	2,215	1,761	3	-	795	**4,774**
Other liabilities	50	4	35	2	1,281	**1,372**
Accrued expenses and deferred income	2	-	-	-	306	**308**
Provisions for liabilities and charges	37	-	12	-	265	**314**
Deferred tax liabilities	-	-	-	-	4	**4**
Current tax liability	-	-	-	-	23	**23**
Total liabilities	**33,735**	**2,488**	**2,584**	**519**	**20,156**	**59,482**
Net position	**793**	**776**	**8**	**14**	**11,634**	**13,225**

46 Currency risk (continued)

As at 31 December 2013 (in HRK million)	EUR and EUR linked	CHF and CHF linked	USD and USD linked	Other currencies	HRK	Total
GROUP						
Assets						
Cash and current accounts with banks	368	84	71	65	3,451	**4,039**
Balances with the Croatian National Bank	730	-	-	-	4,164	**4,894**
Financial assets at fair value through profit or loss	513	-	-	-	3,990	**4,503**
Derivative financial assets	-	-	-	-	7	**7**
Loans and advances to banks	2,353	-	1,829	427	1,029	**5,638**
Loans and advances to customers	31,901	3,449	252	-	12,955	**48,557**
Financial assets available for sale	-	-	-	-	102	**102**
Held-to-maturity investments	210	-	-	-	-	**210**
Investments in associates	-	-	-	-	135	**135**
Intangible assets	-	-	-	-	145	**145**
Property and equipment	-	-	-	-	1,233	**1,233**
Investment property	-	-	-	-	25	**25**
Deferred tax assets	-	-	-	-	156	**156**
Other assets	22	-	10	-	390	**422**
Tax prepayments	-	-	-	-	51	**51**
Total assets	**36,097**	**3,533**	**2,162**	**492**	**27,833**	**70,117**
Liabilities						
Current accounts and deposits from banks	146	69	22	60	633	**930**
Current accounts and deposits from customers	30,264	705	2,108	396	14,256	**47,729**
Derivative financial liabilities	-	-	-	-	5	**5**
Interest-bearing borrowings	3,633	2,349	2	-	725	**6,709**
Other liabilities	72	-	23	1	1,315	**1,411**
Accrued expenses and deferred income	5	4	-	-	274	**283**
Provisions for liabilities and charges	29	1	16	1	217	**264**
Current tax liability	-	-	-	-	14	**14**
Total liabilities	**34,149**	**3,128**	**2,171**	**458**	**17,439**	**57,345**
Net position	**1,948**	**405**	**(9)**	**34**	**10,394**	**12,772**

As at 31 December 2014 (in HRK million)	EUR and EUR linked	CHF and CHF linked	USD and USD linked	Other currencies	HRK	Total
BANK						
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	2,463	-	2,124	262	307	**5,156**
Loans and advances to customers	28,444	3,209	373	-	12,473	**44,499**
Financial assets available for sale	-	-	-	-	116	**116**
Investments in subsidiaries and associates	-	-	-	-	215	**215**
Intangible assets	-	-	-	-	90	**90**
Property and equipment	-	-	-	-	702	**702**
Investment property	-	-	-	-	11	**11**
Deferred tax assets	-	-	-	-	98	**98**
Other assets	19	-	6	-	226	**251**
Total assets	**33,378**	**3,264**	**2,590**	**533**	**29,116**	**68,881**
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	1,983	1,761	3	-	796	**4,543**
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	**32,431**	**2,488**	**2,584**	**519**	**19,199**	**57,221**
Net position	**947**	**776**	**6**	**14**	**9,917**	**11,660**

46 Currency risk (continued)

As at 31 December 2013 (in HRK million)	EUR and EUR linked	CHF and CHF linked	USD and USD linked	Other currencies	HRK	Total
BANK						
Cash and current accounts with banks	368	84	71	65	3,448	**4,036**
Balances with the Croatian National Bank	730	-	-	-	4,164	**4,894**
Financial assets at fair value through profit or loss	513	-	-	-	3,828	**4,341**
Derivative financial assets	-	-	-	-	7	**7**
Loans and advances to banks	2,410	-	1,829	427	1,028	**5,694**
Loans and advances to customers	29,293	3,449	252	-	12,112	**45,106**
Financial assets available for sale	-	-	-	-	102	**102**
Investments in subsidiaries and associates	-	-	-	-	215	**215**
Intangible assets	-	-	-	-	88	**88**
Property and equipment	-	-	-	-	717	**717**
Investment property	-	-	-	-	12	**12**
Deferred tax assets	-	-	-	-	112	**112**
Other assets	15	-	9	-	219	**243**
Tax prepayments	-	-	-	-	50	**50**
Total assets	**33,329**	**3,533**	**2,161**	**492**	**26,102**	**65,617**
Liabilities						
Current accounts and deposits from banks	392	69	22	60	731	**1,274**
Current accounts and deposits from customers	28,950	705	2,108	396	14,268	**46,427**
Derivative financial liabilities	-	-	-	-	5	**5**
Interest-bearing borrowings	2,604	2,349	2	-	724	**5,679**
Other liabilities	44	-	23	1	252	**320**
Accrued expenses and deferred income	5	4	-	-	142	**151**
Provisions for liabilities and charges	29	1	16	1	215	**262**
Total liabilities	**32,024**	**3,128**	**2,171**	**458**	**16,337**	**54,118**
Net position	**1,305**	**405**	**(10)**	**34**	**9,765**	**11,499**

47 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 2014 and 31 December 2013.

As at 31 December 2014 (in HRK million)	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
GROUP						
Liabilities						
Current accounts and deposits from banks	1,028	-	-	21	46	**1,095**
Current accounts and deposits from customers	21,751	5,982	15,529	9,146	242	**52,650**
Derivative financial liabilities	1	-	-	-	-	**1**
Interest-bearing borrowings	60	37	477	3,643	952	**5,169**
Other liabilities*	1,798	24	102	35	62	**2,021**
Total undiscounted financial liabilities	**24,638**	**6,043**	**16,108**	**12,845**	**1,302**	**60,936**
Off-balance sheet contingent liabilities and commitments						
Undrawn lending commitments	385	556	2,392	1,175	4,055	**8,563**
Other contingent liabilities	477	360	1,305	786	204	**3,132**
Total undiscounted off-balance sheet contingent liabilities and commitments	**862**	**916**	**3,697**	**1,961**	**4,259**	**11,695**
As at 31 December 2013						
Liabilities						
Current accounts and deposits from banks	820	31	49	29	4	**933**
Current accounts and deposits from customers	18,853	6,378	15,942	7,408	215	**48,796**
Derivative financial liabilities	5	-	-	-	-	**5**
Interest-bearing borrowings	495	994	1,241	3,479	944	**7,153**
Other liabilities*	1,773	15	40	14	130	**1,972**
Total undiscounted financial liabilities	**21,946**	**7,418**	**17,272**	**10,930**	**1,293**	**58,859**
Off-balance sheet contingent liabilities and commitments						
Undrawn lending commitments	616	379	1,924	1,288	4,024	**8,231**
Other contingent liabilities	250	244	1,055	634	138	**2,321**
Total undiscounted off-balance sheet contingent liabilities and commitments	**866**	**623**	**2,979**	**1,922**	**4,162**	**10,552**

* Other liabilities include other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability.

47 Liquidity risk (continued)

Analysis of financial liabilities by remaining undiscounted contractual maturities (continued)

As at 31 December 2014 (in HRK million)	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
BANK						
Liabilities						
Current accounts and deposits from banks	1,077	-	325	23	46	**1,471**
Current accounts and deposits from customers	21,813	5,922	15,215	8,149	275	**51,374**
Derivative financial liabilities	1	-	-	-	-	**1**
Interest-bearing borrowings	60	97	418	3,629	648	**4,852**
Other liabilities*	626	18	105	35	46	**830**
Total undiscounted financial liabilities	**23,577**	**6,037**	**16,063**	**11,836**	**1,015**	**58,528**
Off-balance sheet contingent liabilities and commitments						
Undrawn lending commitments	450	556	2,392	1,175	4,055	**8,628**
Other contingent liabilities	477	360	1,305	786	204	**3,132**
Total undiscounted off-balance sheet contingent liabilities and commitments	**927**	**916**	**3,697**	**1,961**	**4,259**	**11,760**
As at 31 December 2013						
Liabilities						
Current accounts and deposits from banks	856	31	49	359	4	**1,299**
Current accounts and deposits from customers	18,605	6,327	15,632	6,634	253	**47,451**
Derivative financial liabilities	5	-	-	-	-	**5**
Interest-bearing borrowings	492	75	1,133	3,635	665	**6,000**
Other liabilities*	557	3	29	14	130	**733**
Total undiscounted financial liabilities	**20,515**	**6,436**	**16,843**	**10,642**	**1,052**	**55,488**
Off-balance sheet contingent liabilities and commitments						
Undrawn lending commitments	757	379	1,920	1,288	4,024	**8,368**
Other contingent liabilities	250	244	1,055	634	138	**2,321**
Total undiscounted off-balance sheet contingent liabilities and commitments	**1,007**	**623**	**2,975**	**1,922**	**4,162**	**10,689**

* Other liabilities include other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability.

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 2014 and 31 December 2013. 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.

As at 31 December 2014 (in HRK million)	Less than 12 months	Over 12 months	Total
GROUP			
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	6,019	161	**6,180**
Derivative financial assets	2	-	**2**
Loans and advances to banks	4,955	141	**5,096**
Loans and advances to customers	14,413	32,530	**46,943**
Financial assets available for sale	98	393	**491**
Held-to-maturity investments	160	17	**177**
Investments in associates	-	142	**142**
Intangible assets	-	146	**146**
Property and equipment	-	1,179	**1,179**
Investment property	-	24	**24**
Deferred tax assets	-	144	**144**
Other assets	351	111	**462**
Total assets	**32,971**	**39,736**	**72,707**
Liabilities			
Current accounts and deposits from banks	1,028	62	**1,090**
Current accounts and deposits from customers	32,581	19,015	**51,596**
Derivative financial liabilities	1	-	**1**
Interest-bearing borrowings	565	4,209	**4,774**
Other liabilities	1,372	-	**1,372**
Accrued expenses and deferred income	293	15	**308**
Provisions for liabilities and charges	236	78	**314**
Deferred tax liabilities	-	4	**4**
Current tax liability	23	-	**23**
Total liabilities	**36,099**	**23,383**	**59,482**
Net expected maturity gap	**(3,128)**	**16,353**	**13,225**

47 Liquidity risk (continued)

Maturity analysis of assets and liabilities (continued)

As at 31 December 2013 (in HRK million)	Less than 12 months	Over 12 months	Total
GROUP			
Assets			
Cash and current accounts with banks	4,039	-	**4,039**
Balances with the Croatian National Bank	-	4,894	**4,894**
Financial assets at fair value through profit or loss	3,941	562	**4,503**
Derivative financial assets	7	-	**7**
Loans and advances to banks	4,987	651	**5,638**
Loans and advances to customers	17,530	31,027	**48,557**
Financial assets available for sale	82	20	**102**
Held-to-maturity investments	36	174	**210**
Investments in associates	-	135	**135**
Intangible assets	-	145	**145**
Property and equipment	-	1,233	**1,233**
Investment property	-	25	**25**
Deferred tax assets	-	156	**156**
Other assets	313	109	**422**
Tax prepayments	51	-	**51**
Total assets	**30,986**	**39,131**	**70,117**
Liabilities			
Current accounts and deposits from banks	899	31	**930**
Current accounts and deposits from customers	28,379	19,350	**47,729**
Derivative financial liabilities	5	-	**5**
Interest-bearing borrowings	2,508	4,201	**6,709**
Other liabilities	1,411	-	**1,411**
Accrued expenses and deferred income	270	13	**283**
Provisions for liabilities and charges	133	131	**264**
Current tax liability	14	-	**14**
Total liabilities	**33,619**	**23,726**	**57,345**
Net expected maturity gap	**(2,633)**	**15,405**	**12,772**

As at 31 December 2014 (in HRK million)	Less than 12 months	Over 12 months	Total
BANK			
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	5,015	141	**5,156**
Loans and advances to customers	12,545	31,954	**44,499**
Financial assets available for sale	96	20	**116**
Investments in subsidiaries and associates	-	215	**215**
Intangible assets	-	90	**90**
Property and equipment	-	702	**702**
Investment property	-	11	**11**
Deferred tax assets	-	98	**98**
Other assets	180	71	**251**
Total assets	**30,669**	**38,212**	**68,881**
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	569	3,974	**4,543**
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	**34,989**	**22,232**	**57,221**
Net expected maturity gap	**(4,320)**	**15,980**	**11,660**

Notes to the financial statements
(continued)

47 Liquidity risk (continued)

Maturity analysis of assets and liabilities (continued)

As at 31 December 2013 (in HRK million)	Less than 12 months	Over 12 months	Total
BANK			
Assets			
Cash and current accounts with banks	4,036	-	**4,036**
Balances with the Croatian National Bank	-	4,894	**4,894**
Financial assets at fair value through profit or loss	3,779	562	**4,341**
Derivative financial assets	7	-	**7**
Loans and advances to banks	5,043	651	**5,694**
Loans and advances to customers	14,893	30,213	**45,106**
Financial assets available for sale	82	20	**102**
Investments in subsidiaries and associates	-	215	**215**
Intangible assets	-	88	**88**
Property and equipment	-	717	**717**
Investment property	-	12	**12**
Deferred tax assets	-	112	**112**
Other assets	172	71	**243**
Tax prepayments	50	-	**50**
Total assets	**28,062**	**37,555**	**65,617**
Liabilities			
Current accounts and deposits from banks	935	339	**1,274**
Current accounts and deposits from customers	27,777	18,650	**46,427**
Derivative financial liabilities	5	-	**5**
Interest-bearing borrowings	1,683	3,996	**5,679**
Other liabilities	320	-	**320**
Accrued expenses and deferred income	138	13	**151**
Provisions for liabilities and charges	131	131	**262**
Total liabilities	**30,989**	**23,129**	**54,118**
Net expected maturity gap	**(2,927)**	**14,426**	**11,499**

48 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 2014	GROUP			BANK		
(in HRK million)	Assets	Liabilities	Off balance sheet liabilities	Assets	Liabilities	Off balance sheet liabilities
Geographic region						
Republic of Croatia	66,381	52,452	11,003	62,557	51,130	11,107
Other European Union members	5,481	5,392	619	5,480	4,454	581
Other countries	845	1,638	73	844	1,637	72
	72,707	**59,482**	**11,695**	**68,881**	**57,221**	**11,760**
Industry sector						
Citizens	25,758	39,678	5,289	23,370	38,388	5,288
Finance	20,302	7,908	131	19,605	6,962	129
Government	14,795	1,716	207	13,867	1,707	207
Commerce	3,047	2,442	658	2,896	2,438	658
Tourism	1,460	788	157	1,433	784	157
Agriculture	596	444	81	579	444	81
Other sectors	6,749	6,506	5,172	7,131	6,498	5,240
	72,707	**59,482**	**11,695**	**68,881**	**57,221**	**11,760**
As at 31 December 2013						
Geographic region						
Republic of Croatia	65,170	49,759	9,824	60,671	47,577	9,962
Other European Union members	4,370	6,069	580	4,369	5,024	580
Other countries	577	1,517	148	577	1,517	147
	70,117	**57,345**	**10,552**	**65,617**	**54,118**	**10,689**
Industry sector						
Citizens	27,630	37,298	5,183	25,093	37,298	5,180
Finance	14,399	9,266	40	13,819	8,005	180
Government	13,243	1,316	160	12,174	1,298	160
Commerce	3,300	1,086	561	3,083	1,081	561
Tourism	1,184	324	12	1,138	321	12
Agriculture	877	187	76	855	186	76
Other sectors	9,484	7,868	4,520	9,455	5,929	4,520
	70,117	**57,345**	**10,552**	**65,617**	**54,118**	**10,689**

49 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 (2013: 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.

	2014	2013
GROUP		
Profit attributable to equity holders of the Bank (in HRK million)	914	821
Weighted average number of ordinary shares	19,010,096	19,010,096
Basic and diluted earnings per share (in HRK per share)	48.1	43.2

50 Subsequent events

a) Proposed dividends

At its meeting held on 29 January 2015, the Management Board of the Bank proposed a dividend of HRK 27.00 per share. The total amount to be distributed to the shareholders amounts to HRK 513 million. The Supervisory Board gave its consent to the proposed distribution, which should be approved on the following General Assembly meeting.

b) Consumer Protection Law amendment

As of 15 January 2015, the Swiss National Bank removed the cap it had in place to prevent the Swiss franc from rising too high against the euro, which affected immediate increase in average CHF/HRK rate from 6.39 to 7.39.

In January 2015 and in February 2015 the Government of the Republic of Croatia issued the amendments to the Consumer Protection Law and the amendments to the Credit Institution Act stipulating administrative foreign exchange rate of 6.39 kuna per CHF on all instalments that fall due in the following 12 months for all loans linked to CHF that are in regular repayment scheme and that the financial institutions will bear the cost of the exchange rate freeze. The amendment had no effect on 2014 financial statements of the Group, while the impact on 2015 financial statements is estimated not to be material.

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"

	GROUP		BANK	
(in HRK million)	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Assets				
Cash and deposits with the Croatian National Bank	10,473	8,836	10,473	8,833
Cash	*1,354*	*1,407*	*1,354*	*1,404*
Deposits with the Croatian National Bank	*9,119*	*7,429*	*9,119*	*7,429*
Deposits with banking institutions	6,079	4,812	6,079	4,812
Ministry of Finance treasury bills and the Croatian National Bank bills	5,800	4,186	5,741	4,127
Securities and other financial instruments held for trading	79	16	79	16
Securities and other financial instruments available for sale	489	101	116	101
Securities and other financial instruments held to maturity	174	206	-	-
Securities and other financial instruments at fair value through profit or loss which are not actively traded	208	242	107	139
Derivative financial assets	2	7	2	7
Loans to financial institutions	265	923	325	979
Loans to other clients	46,752	48,349	44,310	44,900
Investments in subsidiaries, associates and joint ventures	142	135	215	215
Foreclosed assets	146	101	65	63
Tangible assets (net of depreciation)	1,179	1,233	702	717
Interest, fees and other assets	919	970	667	708
Total assets	**72,707**	**70,117**	**68,881**	**65,617**

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Balance sheet" (continued)

(in HRK million)	GROUP 31 December 2014	31 December 2013	BANK 31 December 2014	31 December 2013
Liabilities				
Loans from financial institutions	4,763	6,693	4,533	5,666
Short-term loans	*49*	*423*	*49*	*423*
Long-term loans	*4,714*	*6,270*	*4,484*	*5,243*
Deposits	52,250	48,253	51,411	47,295
Giro account and current account deposits	*11,832*	*9,316*	*11,945*	*9,363*
Savings deposits	*7,546*	*6,935*	*7,542*	*6,712*
Term deposits	*32,872*	*32,002*	*31,924*	*31,220*
Other loans	-	-	-	-
Short-term loans	-	-	-	-
Long-term loans	-	-	-	-
Derivative financial liabilities and other financial liabilities held for trading	1	5	1	5
Debt securities issued	-	-	-	-
Short-term debt securities issued	-	-	-	-
Long-term debt securities issued	-	-	-	-
Subordinated instruments issued	-	-	-	-
Hybrid instruments issued	-	-	-	-
Interest, fees and other liabilities	2,468	2,394	1,276	1,152
Total liabilities	**59,482**	**57,345**	**57,221**	**54,118**
Equity				
Share capital	1,907	1,907	1,907	1,907
Current year profit/(loss)	914	821	643	615
Retained earnings/(loss)	8,526	8,189	7,312	7,181
Legal reserves	138	137	134	134
Statutory reserves and other capital reserves	1,725	1,732	1,662	1,668
Unrealised gains/(losses) on value adjustments of financial assets available for sale	15	(14)	2	(6)
Total equity	**13,225**	**12,772**	**11,660**	**11,499**
Total liabilities and equity	**72,707**	**70,117**	**68,881**	**65,617**

The balance sheet form is prepared in accordance with the CNB Decision on the Structure and Content of Annual Financial Statements for Banks.

Balance sheet reconciliation as at 31 December 2014

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB.

Assets

(in HRK milion)

GROUP / **CNB schedules**	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	Total assets
															per IFRS
Cash and deposits with the Croatian National Bank	5,725	4,748	-	-	-	-	-	-	-	-	-	-	-	-	10,473
Cash	*1,354*	-	-	-	-	-	-	-	-	-	-	-	-	-	*1,354*
Deposits with the Croatian National Bank	*4,371*	*4,748*	-	-	-	-	-	-	-	-	-	-	-	-	*9,119*
Deposits with banking institutions	1,248	-	-	-	4,831	-	-	-	-	-	-	-	-	-	6,079
Ministry of Finance treasury bills and the Croatian National Bank bills	-	-	5,800	-	-	-	-	-	-	-	-	-	-	-	5,800
Securities and other financial instruments held for trading	-	-	79	-	-	-	-	-	-	-	-	-	-	-	79
Securities and other financial instruments available for sale	-	-	-	-	-	-	489	-	-	-	-	-	-	-	489
Securities and other financial instruments held to maturity	-	-	-	-	-	-	-	174	-	-	-	-	-	-	174

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2014 (continued)

Assets (continued)

(in HRK milion) per IFRS

GROUP CNB schedules	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	IInvestments in associates	Intangible assets	Property and equipment	Investment property	Deferred tax assets	Other assets	Total assets
Securities and other financial instruments at fair value through profit or loss which are not actively traded	-	-	208	-	-	-	-	-	-	-	-	-	-	-	208
Derivative financial assets	-	-	-	2	-	-	-	-	-	-	-	-	-	-	2
Loans to financial institutions	-	-	-	-	265	-	-	-	-	-	-	-	-	-	265
Loans to other clients	-	-	-	-	-	46,752	-	-	-	-	-	-	-	-	46,752
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	-	142	-	-	-	-	-	142
Foreclosed assets	-	-	-	-	-	-	-	-	-	-	-	-	-	146	146
Tangible assets (net of depreciation)	-	-	-	-	-	-	-	-	-	-	1,179	-	-	-	1,179
Interest, fees and other assets	-	-	93	-	-	191	2	3	-	146	-	24	144	316	919
Total assets	**6,973**	**4,748**	**6,180**	**2**	**5,096**	**46,943**	**491**	**177**	**142**	**146**	**1,179**	**24**	**144**	**462**	**72,707**

Liabilities

(in HRK milion) — per IFRS

GROUP CNB schedules	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	Total liabilities
Loans from financial institutions	-	-	-	4,763	-	-	-	-	-	4,763
Short-term loans	-	-	-	*49*	-	-	-	-	-	*49*
Long-term loans	-	-	-	*4,714*	-	-	-	-	-	*4,714*
Deposits	1,090	51,160	-	-	-	-	-	-	-	52,250
Giro account and current account deposits	*1,004*	*10,828*	-	-	-	-	-	-	-	*11,832*
Savings deposits	-	*7,546*	-	-	-	-	-	-	-	*7,546*
Term deposits	*86*	*32,786*	-	-	-	-	-	-	-	*32,872*
Other loans	-	-	-	-	-	-	-	-	-	-
Short-term loans	-	-	-	-	-	-	-	-	-	-
Long-term loans	-	-	-	-	-	-	-	-	-	-
Derivative financial liabilities and other financial liabilities held for trading	-	-	1	-	-	-	-	-	-	1
Debt securities issued	-	-	-	-	-	-	-	-	-	-
Short-term debt securities issued	-	-	-	-	-	-	-	-	-	-
Long-term debt securities issued	-	-	-	-	-	-	-	-	-	-
Subordinated instruments issued	-	-	-	-	-	-	-	-	-	-
Hybrid instruments issued	-	-	-	-	-	-	-	-	-	-
Interest, fees and other liabilities	-	436	-	11	1,372	308	314	4	23	2,468
Total liabilities	**1,090**	**51,596**	**1**	**4,774**	**1,372**	**308**	**314**	**4**	**23**	**59,482**

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2014 (continued)

Equity

per IFRS

(in HRK million)	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	**Total equity**
GROUP							
CNB schedules							
Share capital	1,907	-	-	-	-	-	**1,907**
Current year profit/(loss)	-	-	-	-	-	914	**914**
Retained earnings/(loss)	-	-	-	-	-	8,526	**8,526**
Legal reserves	-	-	-	138	-	-	**138**
Statutory reserves and other capital reserves	-	1,570	(76)	231	-	-	**1,725**
Unrealised gains/(losses) on value adjustments of financial assets available for sale	-	-	-	-	15	-	**15**
Total equity	**1,907**	**1,570**	**(76)**	**369**	**15**	**9,440**	**13,225**

Assets

(in HRK milion) | per IFRS

BANK / CNB schedules	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	Total assets
Cash and deposits with the Croatian National Bank	5,725	4,748	-	-	-	-	-	-	-	-	-	-	-	**10,473**
Cash	*1,354*	-	-	-	-	-	-	-	-	-	-	-	-	**1,354**
Deposits with the Croatian National Bank	*4,371*	*4,748*												**9,119**
Deposits with banking institutions	1,248	-	-	-	4,831	-	-	-	-	-	-	-	-	**6,079**
Ministry of Finance treasury bills and the Croatian National Bank bills	-	-	5,741	-	-	-	-	-	-	-	-	-	-	**5,741**
Securities and other financial instruments held for trading	-	-	79	-	-	-	-	-	-	-	-	-	-	**79**
Securities and other financial instruments available for sale	-	-	-	-	-	-	116	-	-	-	-	-	-	**116**
Securities and other financial instruments held to maturity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

Appendix 1 - Supplementary forms required by local regulation
(continued)

Balance sheet reconciliation as at 31 December 2014 (continued)

Assets (continued)

(in HRK milion)

BANK													per IFRS	
CNB schedules	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	Total assets
Securities and other financial instruments at fair value through profit or loss which are not actively traded	-	-	107	-	-	-	-	-	-	-	-	-	-	**107**
Derivative financial assets	-	-	-	2	-	-	-	-	-	-	-	-	-	**2**
Loans to financial institutions	-	-	-	-	325	-	-	-	-	-	-	-	-	**325**
Loans to other clients	-	-	-	-	-	44,310	-	-	-	-	-	-	-	**44,310**
Investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	215	-	-	-	-	-	**215**
Foreclosed assets	-	-	-	-	-	-	-	-	-	-	-	-	65	**65**
Tangible assets (net of depreciation)	-	-	-	-	-	-	-	-	-	702	-	-	-	**702**
Interest, fees and other assets	-	-	93	-	-	189	-	-	90	-	11	98	186	**667**
Total assets	**6,973**	**4,748**	**6,020**	**2**	**5,156**	**44,499**	**116**	**215**	**90**	**702**	**11**	**98**	**251**	**68,881**

Liabilities

(in HRK milion) per IFRS

BANK CNB schedules	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	Total liabilities
Loans from financial institutions	-	-	-	4,533	-	-	-	-	-	**4,533**
Short-term loans	-	-	-	*49*	-	-	-	-	-	**49**
Long-term loans	-	-	-	*4,484*	-	-	-	-	-	**4,484**
Deposits	1,460	49,951	-	-	-	-	-	-	-	**51,411**
Giro account and current account deposits	*1,024*	*10,921*	-	-	-	-	-	-	-	**11,945**
Savings deposits	-	*7,542*	-	-	-	-	-	-	-	**7,542**
Term deposits	*436*	*31,488*	-	-	-	-	-	-	-	**31,924**
Other loans	-	-	-	-	-	-	-	-	-	**-**
Short-term loans	-	-	-	-	-	-	-	-	-	**-**
Long-term loans	-	-	-	-	-	-	-	-	-	**-**
Derivative financial liabilities and other financial liabilities held for trading	-	-	1	-	-	-	-	-	-	**1**
Debt securities issued	-	-	-	-	-	-	-	-	-	**-**
Short-term debt securities issued	-	-	-	-	-	-	-	-	-	**-**
Long-term debt securities issued	-	-	-	-	-	-	-	-	-	**-**
Subordinated instruments issued	-	-	-	-	-	-	-	-	-	**-**
Hybrid instruments issued	-	-	-	-	-	-	-	-	-	**-**
Interest, fees and other liabilities	-	436	-	10	319	190	306	1	14	**1,276**
Total liabilities	**1,460**	**50,387**	**1**	**4,543**	**319**	**190**	**306**	**1**	**14**	**57,221**

Appendix 1 - Supplementary forms required by local regulation

(continued)

Balance sheet reconciliation as at 31 December 2014 (continued)

Equity

							per IFRS
(in HRK million)	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	**Total equity**
BANK							
CNB schedules							
Share capital	1,907	-	-	-	-	-	**1,907**
Current year profit/(loss)	-	-	-	-	-	643	**643**
Retained earnings/(loss)	-	-	-	-	-	7,312	**7,312**
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	-	-	-	-	2	-	**2**
Total equity	**1,907**	**1,570**	**(76)**	**302**	**2**	**7,955**	**11,660**

Form "Income statement"

		GROUP		BANK
(in HRK million)	2014	2013	2014	2013
Interest income	3,270	3,475	3,118	3,313
(Interest expenses)	(1,039)	(1,218)	(994)	(1,168)
Net interest income	**2,231**	**2,257**	**2,124**	**2,145**
Income from fees and commissions	1,394	1,380	705	683
(Expenses on fees and commissions)	(262)	(290)	(114)	(144)
Net income from fees and commissions	**1,132**	**1,090**	**591**	**539**
Gains/(losses) from investments in subsidiaries, associates and joint ventures	21	17	-	-
Gains/(losses) from trading activities	11	1	10	1
Gains/(losses) from embedded derivatives	-	-	-	-
Gains/(losses) from financial assets at fair value through profit or loss and not traded	(10)	(5)	(10)	(6)
Gains/(losses) from activities related to assets available for sale	8	-	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	-	-	14	27
Income from other equity investments	1	1	1	1
Gains/(losses) from exchange differences	159	124	154	122
Other income	117	258	44	210
Other expenses	(493)	(505)	(334)	(327)
General administrative expenses and depreciation	(1,459)	(1,400)	(1,203)	(1,154)
Net operating income before value adjustments and loss provisions	**1,718**	**1,838**	**1,399**	**1,558**
Impairment expenses	(559)	(786)	(575)	(775)
Profit/(loss) before taxes	**1,159**	**1,052**	**824**	**783**
Income tax	(245)	(231)	(181)	(168)
Current year profit/(loss)	**914**	**821**	**643**	**615**

The income statement 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)

Income statement reconciliation for the year ended 31 December 2014

(in HRK milion)

GROUP CNB schedules	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	Impairment losses on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortisation	Other operating expenses	Share of profits from associates	Income tax expense	per IFRS Profit for the year
Interest income	3,270	-	-	-	-	-	-	-	-	-	-	-	-	-	**3,270**
(Interest expenses)	-	(1,039)	-	-	-	-	-	-	-	-	-	-	-	-	**(1,039)**
Income from fees and commissions	-	-	1,394	-	-	-	-	-	-	-	-	-	-	-	**1,394**
(Expenses on fees and commissions)	-	-	-	(262)	-	-	-	-	-	-	-	-	-	-	**(262)**
Gains/(losses) from investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	21	-	**21**
Gains/(losses) from trading activities	-	-	-	-	-	11	-	-	-	-	-	-	-	-	**11**
Gains/(losses) from embedded derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Gains/(losses) from financial assets at fair value through profit or loss and not traded	-	-	-	-	-	(10)	-	-	-	-	-	-	-	-	**(10)**
Gains/(losses) from activities related to assets available for sale	-	-	-	-	-	-	8	-	-	-	-	-	-	-	**8**
Gains/(losses) from activities related to assets held to maturity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

(in HRK milion) per IFRS

GROUP CNB schedules	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	Impairment losses on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	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	-	-	-	-	1	-	-	-	-	-	-	-	-	-	**1**
Gains/(losses) from exchange differences	-	-	-	-	-	159	-	-	-	-	-	-	-	-	**159**
Other income	-	-	-	-	-	-	117	-		-	-	-	-	-	**117**
Other expenses	-	-	-	-	-	-	-	-	-	-	-	(493)	-	-	**(493)**
General administrative expenses and depreciation	-	-	-	-	-	-	-	-	-	(798)	(175)	(486)	-	-	**(1,459)**
Impairment expenses	-	-	-	-	-	-	-	(475)	(84)	-	-	-	-	-	**(559)**
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	(245)	**(245)**
Current year profit/ (loss)	**3,270**	**(1,039)**	**1,394**	**(262)**	**1**	**160**	**125**	**(475)**	**(84)**	**(798)**	**(175)**	**(979)**	**21**	**(245)**	**914**

Appendix 1 - Supplementary forms required by local regulation

(continued)

Income statement reconciliation for the year ended 31 December 2014

(in HRK milion)

BANK **CNB schedules**	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	Impairment losses on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortisation	Other operating expenses	Income tax expense	per IFRS **Profit for the year**
Interest income	3,118	-	-	-	-	-	-	-	-	-	-	-	-	**3,118**
(Interest expenses)	-	(994)	-	-	-	-	-	-	-	-	-	-	-	**(994)**
Income from fees and commissions	-	-	705	-	-	-	-	-	-	-	-	-	-	**705**
(Expenses on fees and commissions)	-	-	-	(114)	-	-	-	-	-	-	-	-	-	**(114)**
Gains/(losses) from investments in subsidiaries, associates and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Gains/(losses) from trading activities	-	-	-	-	-	10	-	-	-	-	-	-	-	**10**
Gains/(losses) from embedded derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Gains/(losses) from financial assets at fair value through profit or loss and not traded	-	-	-	-	-	(10)	-	-	-	-	-	-	-	**(10)**
Gains/(losses) from activities related to assets available for sale	-	-	-	-	-	-	8	-	-	-	-	-	-	**8**
Gains/(losses) from activities related to assets held to maturity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

per IFRS

BANK / **CNB schedules**	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income and net gains/(losses) on translation of monetary assets and liabilities	Other operating income	Impairment losses on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	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	-	-	-	-	14	-	-	-	-	-	-	-	-	**14**
Income from other equity investments	-	-	-	-	1	-	-	-	-	-	-	-	-	**1**
Gains/(losses) from exchange differences	-	-	-	-	-	154	-	-	-	-	-	-	-	**154**
Other income	-	-	-	-	-	-	44	-	-	-	-	-	-	**44**
Other expenses	-	-	-	-	-	-	-	-	-	-	-	(334)	-	**(334)**
General administrative expenses and depreciation	-	-	-	-	-	-	-	-	-	(722)	(126)	(355)	-	**(1,203)**
Impairment expenses	-	-	-	-	-	-	-	(498)	(77)	-	-	-	-	**(575)**
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	(181)	**(181)**
Current year profit/ (loss)	**3,118**	**(994)**	**705**	**(114)**	**15**	**154**	**52**	**(498)**	**(77)**	**(722)**	**(126)**	**(689)**	**(181)**	**643**

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Cash flow statement"

		GROUP		BANK
(in HRK million)	2014	2013	2014	2013
Cash flow from operating activities				
Profit/(loss) before tax	1,159	1,052	824	783
Impairment losses	559	786	575	775
Depreciation and amortization	175	183	126	127
(Gains)/losses from sale of tangible assets	(3)	(3)	(1)	(2)
Unrealised (gains)/losses on securities at fair value through profit or loss	(1)	4	-	5
Other (gains)/losses	(1)	14	(15)	11
Cash flow from operating activities before changes in operating assets	**1,888**	**2,036**	**1,509**	**1,699**
(Increase)/decrease in operating assets				
Deposits with the Croatian National Bank	146	(37)	146	(37)
Ministry of Finance treasury bills and Croatian National Bank bills	(1,615)	(704)	(1,614)	(703)
Deposits with banking institutions and loans to financial institutions	444	450	444	426
Loans to other clients	1,123	770	91	1,129
Securities and other financial instruments held for trading	(52)	3	(52)	3
Securities and other financial instruments available for sale	(358)	(38)	(8)	(49)
Securities and other financial instruments at fair value through profit or loss which are not actively traded	25	145	22	237
Other operating assets	169	173	95	88
Net (increase)/decrease in operating assets	**(118)**	**762**	**(876)**	**1,094**
Increase/(decrease) in operating liabilities				
Demand deposits	2,517	1,045	2,583	950
Savings and term deposits	1,480	(1,206)	1,534	(1,281)
Derivative financial liabilities and other liabilities held for trading	(4)	1	(4)	1
Other liabilities	(222)	(354)	(99)	(252)
Net increase/(decrease) in operating liabilities	**3,771**	**(514)**	**4,014**	**(582)**
Net cash flow from operating activities	**5,541**	**2,284**	**4,647**	**2,211**
(Income tax paid)	(176)	(277)	(104)	(202)
Net inflow/(outflow) of cash from operating activities	**5,365**	**2,007**	**4,543**	**2,009**

(in HRK million)	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
Investing activities				
Cash receipts from/(payments to acquire) tangible and intangible assets	(121)	(151)	(70)	(123)
Cash receipts from the disposal of/(payments for the investment in) subsidiaries, associates and joint ventures	-	113	-	113
Cash receipts from sales of/(cash payments to acquire) securities and other financial instruments held until maturity	32	-	-	-
Dividends received	1	1	15	28
Other receipts from/(payments for) investments	-	-	-	-
Net cash flow from investing activities	**(88)**	**(37)**	**(55)**	**18**
Financing activities				
Net increase/(decrease) in received loans	(1,929)	(2,217)	(1,133)	(2,229)
Net increase/(decrease) in issued debt securities	-	-	-	-
Net increase/(decrease) in subordinated and hybrid instruments	-	-	-	-
Proceeds from issue of share capital	-	-	-	-
(Dividends paid)	(490)	(844)	(490)	(844)
Other proceeds/(payments) from financing activities	-	-	-	-
Net cash flow from financing activities	**(2,419)**	**(3,061)**	**(1,623)**	**(3,073)**
Net increase/(decrease) in cash and cash equivalents	**2,858**	**(1,091)**	**2,865**	**(1,046)**
Effect of foreign exchange differences on cash and cash equivalents	27	5	27	5
Net increase/(decrease) in cash and cash equivalents	**2,885**	**(1,086)**	**2,892**	**(1,041)**
Cash and cash equivalents at the beginning of the year	**9,021**	**10,107**	**9,074**	**10,115**
Cash and cash equivalents at the end of the year	**11,906**	**9,021**	**11,966**	**9,074**

Appendix 1 - Supplementary forms required by local regulation (continued)

Cash flow statement reconciliation for the year ended 31 December 2014

(in HRK million)	GROUP CNB schedules	GROUP per IFRS	GROUP Differences	BANK CNB schedules	BANK per IFRS	BANK Differences
CASH FLOW FROM OPERATING ACTIVITIES						
Profit (loss) before tax	1,159	1,159	-	824	824	-
Impairment losses	559	-	559	575	-	575
Impairment losses on loans and advances to customers	-	475	(475)	-	498	(498)
Other impairment losses and provisions	-	84	(84)	-	77	(77)
Depreciation and amortization	175	175	-	126	126	-
(Gains)/losses from sale of tangible assets	(3)	(3)	-	(1)	(1)	-
Unrealised (gains)/losses on securities at fair value through profit or loss	(1)	(1)	-	-	-	-
Other (gains)/losses	(1)	-	(1)	(15)	-	(15)
Share of profit from associates	-	(21)	21	-	-	-
Net interest income	-	(2,231)	2,231	-	(2,124)	2,124
Gain on disposal of subsidiary	-	-	-	-	-	-
Dividend income	-	(1)	1	-	(15)	15
Cash flow from operating activities before changes in operating assets	**1,888**	**(364)**	**2,252**	**1,509**	**(615)**	**2,124**
(Increase)/decrease in operating assets						
Deposits with the Croatian National Bank	146	146	-	146	146	-
Ministry of Finance treasury bills and Croatian National Bank bills	(1,615)	-	(1,615)	(1,614)	-	(1,614)
Deposits with banking institutions and loans to financial institutions	444	-	444	444	-	444
Loans and advances to banks	-	444	(444)	-	444	(444)
Loans to other clients	1,123	1,106	17	91	117	(26)
Securities and other financial instruments held for trading	(52)	-	(52)	(52)	-	(52)
Securities and other financial instruments available for sale	(358)	-	(358)	(8)	-	(8)
Securities and other financial instruments at fair value through profit or loss which are not actively traded	25	-	25	22	-	22
Financial assets held for trading and financial assets available for sale	-	(2,036)	2,036	-	(1,686)	1,686
Other operating assets	169	-	169	95	-	95
Other assets	-	(26)	26	-	(8)	8
Net (increase)/decrease in operating assets	**(118)**	**(366)**	**248**	**(876)**	**(987)**	**111**
Increase/(decrease) in operating liabilities						
Demand deposits	2,517	-	2,517	2,583	-	2,583
Savings and time deposits	1,480	-	1,480	1,534	-	1,534
Current accounts and deposits from banks	-	160	(160)	-	186	(186)
Current accounts and deposits from customers	-	3,987	(3,987)	-	4,049	(4,049)
Derivative financial liabilities and other liabilities held for trading	(4)	-	(4)	(4)	-	(4)
Other liabilities	(222)	(15)	(207)	(99)	29	(128)
Net increase/(decrease) in operating liabilities	**3,771**	**4,132**	**(361)**	**4,014**	**4,264**	**(250)**
Interest received	-	3,303	(3,303)	-	3,110	(3,110)
Interest paid	-	(1,159)	1,159	-	(1,081)	1,081
Dividends received	-	1	(1)	-	15	(15)
Net cash flow from operating activities	**5,541**	**5,547**	**(6)**	**4,647**	**4,706**	**(59)**
(Income tax paid)	(176)	(176)	-	(104)	(104)	-
Net inflow (outflow) of cash from operating activities	**5,365**	**5,371**	**(6)**	**4,543**	**4,602**	**(59)**

(in HRK million)	GROUP CNB schedules	GROUP per IFRS	GROUP Differences	BANK CNB schedules	BANK per IFRS	BANK Differences
INVESTING ACTIVITIES						
Cash receipts from/(payments to acquire) tangible and intangible assets	(121)	-	(121)	(70)	-	(70)
Purchase of property and equipment and intangible assets	-	(195)	195	-	(113)	113
Cash receipts from the disposal of/ (payments for the investment in) subsidiaries, associates and joint ventures	-	-	-	-	-	-
Disposal of property and equipment and intangible assets	-	75	(75)	-	2	(2)
Cash receipts from sales of/(cash payments to acquire) securities and other financial instruments held until maturity	32	32	-	-	-	-
Dividends received	1	-	1	15	-	15
Other receipts from/(payments for) investments	-	-	-	-	-	-
Net cash flow from investing activities	**(88)**	**(88)**	**-**	**(55)**	**(111)**	**56**
Financing activities						
Net increase/(decrease) in received loans	(1,929)	(1,935)	6	(1,133)	(1,136)	3
Net increase/(decrease) in issued debt securities	-	-	-	-	-	-
Net increase/(decrease) in subordinated and hybrid instruments	-	-	-	-	-	-
Proceeds from issue of share capital	-	-	-	-	-	-
(Dividends paid)	(490)	(490)	-	(490)	(490)	-
Other proceeds/(payments) from financing activities	-	-	-	-	-	-
Net cash flow from financing activities	**(2,419)**	**(2,425)**	**6**	**(1,623)**	**(1,626)**	**3**
Net increase/(decrease) in cash and cash equivalents	**2,858**	**2,858**	**-**	**2,865**	**2,865**	**-**
Effect of foreign exchange differences on cash and cash equivalents	27	27	-	27	27	-
Net increase/(decrease) in cash and cash equivalents	**2,885**	**2,885**	**-**	**2,892**	**2,892**	**-**
Cash and cash equivalents at the beginning of the year	**9,021**	**9,021**	**-**	**9,074**	**9,074**	**-**
Cash and cash equivalents at the end of the year	**11,906**	**11,906**	**-**	**11,966**	**11,966**	**-**

Appendix 1 - Supplementary forms required by local regulation

(continued)

Cash flow statement reconciliation for the year ended 31 December 2014 (continued)

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.

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 2014	**1,907**	**(76)**	**1,945**	**8,189**	**821**	**(14)**	**-**	**12,772**
Changes in accounting policies and correction of errors	-	-	-	-	-	-	-	**-**
Closing balance as at 1 January 2014	**1,907**	**(76)**	**1,945**	**8,189**	**821**	**(14)**	**-**	**12,772**
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	-	-	-	-	914	-	-	**914**
Total current year income and expenses	**-**	**-**	**-**	**-**	**914**	**29**	**-**	**943**
Increase/(decrease) of share capital	-	-	-	-	-	-	-	**-**
(Purchase)/sale of treasury shares	-	-	-	-	-	-	-	**-**
Other changes	-	-	-	-	-	-	-	**-**
Transfer to reserves	-	-	(6)	337	(331)	-	-	**-**
Dividend payments	-	-	-	-	(490)	-	-	**(490)**
Profit distribution	**-**	**-**	**(6)**	**337**	**(821)**	**-**	**-**	**(490)**
Closing balance as at 31 December 2014	**1,907**	**(76)**	**1,939**	**8,526**	**914**	**15**	**-**	**13,225**

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	Minority interest	Total equity
GROUP								
Balance as at 1 January 2013	**1,907**	**(76)**	**1,945**	**8,025**	**1,014**	**(27)**	**-**	**12,788**
Changes in accounting policies and correction of errors	-	-	-	-	-	-	-	-
Closing balance as at 1 January 2013	**1,907**	**(76)**	**1,945**	**8,025**	**1,014**	**(27)**	**-**	**12,788**
Sale of available-for-sale financial assets	-	-	-	-	-	-	-	-
Changes in fair value of the portfolio of available-for-sale financial assets	-	-	-	-	-	-	-	-
Tax on items recognised directly or transferred from equity	-	-	-	-	-	(3)	-	(3)
Other gains and losses recognised directly in equity	-	-	-	-	-	16	-	16
Net gains (losses) recognised dire-ctly in equity	**-**	**-**	**-**	**-**	**-**	**13**	**-**	**13**
Current year profit/loss	-	-	-	-	821	-	-	821
Total current year income and expenses	**-**	**-**	**-**	**-**	**821**	**13**	**-**	**834**
Increase/(decrease) of share capital	-	-	-	-	-	-	-	-
(Purchase)/sale of treasury shares	-	-	-	-	-	-	-	-
Other changes	-	-	-	(6)	-	-	-	(6)
Transfer to reserves	-	-	-	170	(170)	-	-	-
Dividend payments	-	-	-	-	(844)	-	-	(844)
Profit distribution	**-**	**-**	**-**	**170**	**(1,014)**	**-**	**-**	**(844)**
Closing balance as at 31 December 2013	**1,907**	**(76)**	**1,945**	**8,189**	**821**	**(14)**	**-**	**12,772**

(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	-	-	-	-	-	15	**15**
Tax on items recognised directly or transferred from equity	-	-	-	-	-	(2)	**(2)**
Other gains and losses recognised directly in equity	-	-	-	-	-	3	**3**
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**	**(615)**	**-**	**(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)

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 2013	**1,907**	**(76)**	**1,878**	**7,179**	**846**	**(8)**	**11,726**
Changes in accounting policies and correction of errors	-	-	-	-	-	-	**-**
Closing balance as at 1 January 2013	**1,907**	**(76)**	**1,878**	**7,179**	**846**	**(8)**	**11,726**
Sale of available-for-sale financial assets	-	-	-	-	-	-	**-**
Changes in fair value of the portfolio of available-for sale financial assets	-	-	-	-	-	-	**-**
Tax on items recognised directly or transferred from equity	-	-	-	-	-	(1)	**(1)**
Other gains and losses recognised directly in equity	-	-	-	-	-	3	**3**
Net gains (losses) recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**2**	**2**
Current year profit/loss	-	-	-	-	615	-	**615**
Total current year income and expenses	**-**	**-**	**-**	**-**	**615**	**2**	**617**
Increase/(decrease) of share capital	-	-	-	-	-	-	**-**
(Purchase)/sale of treasury shares	-	-	-	-	-	-	**-**
Other changes	-	-	-	-	-	-	**-**
Transfer to reserves	-	-	-	2	(2)	-	**-**
Dividend payments	-	-	-	-	(844)	-	**(844)**
Profit distribution	**-**	**-**	**-**	**2**	**(846)**	**-**	**(844)**
Closing balance as at 31 December 2013	**1,907**	**(76)**	**1,878**	**7,181**	**615**	**(6)**	**11,499**

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

For the year ended 31 December

	GROUP		BANK	
(in EUR million)	2014	2013	2014	2013
Interest income	429	459	409	437
Interest expense	(136)	(161)	(130)	(154)
Net interest income	**293**	**298**	**279**	**283**
Fee and commission income	183	182	92	90
Fee and commission expense	(34)	(38)	(15)	(19)
Net fee and commission income	**149**	**144**	**77**	**71**
Dividend income	-	-	2	4
Net trading income and net loss on translation of monetary assets and liabilities	21	16	20	15
Other operating income	16	34	7	28
Total operating income	**479**	**492**	**385**	**401**
Personnel expenses	(63)	(87)	(65)	(86)
Impairment losses on loans and advances to customers	(11)	(17)	(10)	(16)
Other impairment losses and provisions	(105)	(99)	(95)	(90)
Depreciation and amortisation	(23)	(24)	(17)	(17)
Other operating expenses	(128)	(128)	(90)	(89)
Share of profits from associates	3	2	-	-
Profit before income tax	**152**	**139**	**108**	**103**
Income tax expense	(32)	(31)	(24)	(22)
Profit for the year	**120**	**108**	**84**	**81**
Attributable to:				
Equity holders of the parent	120	135	84	113
	120	**135**	**84**	**113**

The income statement items were translated from the measurement currency (HRK) to the Euro at the average exchange rate in 2014 (1 EUR = 7.630014 HRK) and in 2013 (1 EUR = 7.573548 HRK).

Statement of financial position

As at 31 December

(in EUR million)	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
Assets				
Cash and current accounts with banks	910	529	910	528
Balances with the Croatian National Bank	620	641	620	641
Financial assets at fair value through profit or loss	807	590	786	568
Derivative financial assets	-	1	-	1
Loans and advances to banks	665	738	673	745
Loans and advances to customers	6,127	6,357	5,808	5,906
Financial assets available for sale	64	13	15	13
Held-to-maturity investments	23	27	-	-
Investments in subsidiaries and associates	19	18	28	28
Intangible assets	19	19	12	12
Property and equipment	154	162	92	94
Investment property	3	3	1	2
Deferred tax assets	19	20	13	15
Other assets	60	55	33	31
Tax prepayments	-	7	-	7
Total assets	**9,490**	**9,180**	**8,991**	**8,591**

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 2014 (1 EUR = 7.661471 HRK) and as at 31 December 2013 (1 EUR = 7.637643 HRK).

Statement of financial position

(continued)

As at 31 December

(in EUR million)	GROUP 2014	GROUP 2013	BANK 2014	BANK 2013
Liabilities				
Current accounts and deposits from banks	142	122	191	167
Current accounts and deposits from customers	6,734	6,248	6,576	6,077
Derivative financial liabilities	-	1	-	1
Interest-bearing borrowings	623	878	593	744
Other liabilities	179	185	42	42
Accrued expenses and deferred income	40	37	25	20
Provisions for liabilities and charges	41	35	40	34
Deferred tax liabilities	1	-	-	-
Current tax liability	3	2	2	-
Total liabilities	**7,763**	**7,508**	**7,469**	**7,085**
Equity attributable to equity holders of the parent				
Share capital	250	250	250	250
Share premium	206	206	206	206
Treasury shares	(10)	(10)	(10)	(10)
Other reserves	48	48	39	40
Fair value reserve	2	(2)	-	(1)
Retained earnings	1,231	1,180	1,037	1,021
Total equity	**1,727**	**1,672**	**1,522**	**1,506**
Total liabilities and equity	**9,490**	**9,180**	**8,991**	**8,591**

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 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 **Davor Rostuhar**
Printing **Gama Grafit** • Edition **400**

Annual Report 2014 in pdf version is available for download on
www.pbz.hr