BKS Bank d.d.
Annual report and financial statements for 2014.

Rastite s nama.

BKS Bank

CONTENT

Report by the President of the Management Board

On behalf of the Management Board of BKS Bank d.d. Rijeka, it gives me much pleasure to present the basic data of the Report for the year 2014 audited by the international audit company EY.

In the year 2014 the Bank performed profitable business and compared to the 2013, the growth of the Balance sheet and operating results was realized.

In comparison to the previous year, Bank's Balance sheet increased by 6% and as of 31.12.2014 amounted to 1,312,658 thousand HRK. Loans to customers increased by 16% and amounted to 899,470 thousand HRK. Consequently, an increase in net interest income by 9% and growth in non-interest income of 22% was achieved.

Operating result amounted to 10,960 thousand HRK, 35% more than previous year.
After booking of provisions, net profit in the amount of 1,190 thousand HRK was realized.

Considering all the conditions and the macroeconomic environment, we can be satisfied with the results achieved. The year 2014 was another year of recession in the Croatian economy, with the GDP decline of 0.7%, budget deficit of 5% and with growth of public debt, which at the end of 2014 amounted to 82% of GDP.

This multiannual trend of decline in economic activities is becoming increasingly unbearable for the real sector. Number of profitable companies significantly decreased, and the vast majority of firms in difficulties used the Institute of Pre-bankruptcy settlement as a last option before going to bankruptcy.

There was a further fall of the profitability in the banking sector with the growth of non-performing loans, whose share in the total placements to companies already exceeds 30%.

Croatian business expectations for the year 2015 are not very optimistic, but it is envisaged, however, very small, GDP growth (0.2-0.5%), with the gradual recovery of the economy.

Our business policy for 2015, in that situation, remains cautious and conservative, with expected growth of the portfolio and the Bank's Balance sheet by 10%.

Numerous steps to rationalize and reduce operating costs, which will be reflected on the further growth of the operating result of the Bank, have been taken.

During 2014, we have significantly improved the Bank's information system, which allows faster response to changes in our very demanding and turbulent market. This solution has brought new products such as online foreign exchange payments, and faster integration of the SEPA system, which is planned for 2016. Also, we are actively preparing for adjustment to the Basel III.

As far as the internal organization, the optimization of business processes will continue, and in that respect, certain changes in the organization will occur.

We have further improved the Retail banking with the implementation of mobile banking, and significantly simplified the loan approval procedure for residential buildings.

Of course, corporate banking, especially with small and medium entrepreneurs, remains our main market niche. In this segment, we plan to introduce new products, primarily business credit cards and debit card for companies.

All in all, the year 2015 will be yet another challenging year for the Croatian economy, and as well as for our Bank. We are doing everything in order to be prepared for the challenges and together with our owner, BKS Bank AG, Klagenfurt, achieve our primary objectives: moderate growth with stable and profitable business.

Report by the President of the Management Board (continued)

I would like to use this opportunity to thank all our clients and business partners for their trust and successful cooperation, and all the employees for their hard work and dedication during this extremely demanding and challenging year.

Goran Rameša
President of the Management Board

Financial data from profit and loss account

During the course of financial year 2014 the Bank recorded a profit after taxes in amount of HRK 1.2 million.

In 2014 interest income amounted to HRK 56.3 million, which was HRK 4.8 million higher (9.3%) compared to the previous year. This increase in interest income was a predominantly result of the growth of loans to customers. Interest income from loans to customers contributed with 99.7% in the total recorded interest income.

Interest expenses for 2014 amounted to HRK 20.6 million. They consist of interest expenses for deposits from customers amounting to HRK 16.6 million (81%) and interest expenses for interbank loans of HRK 4.0 million. During 2014 corporate clients primarily kept term deposits in HRK and in HRK with FX clauses, while retail clients maintained term deposits in foreign currency.

Net income from fees amounted to HRK 4 million and was for HRK 0.3 million higher if compared to the previous year.

In 2014, total operating income amounted to HRK 42.6 million, while in 2013 operating income amounted to HRK 38.4 million, representing an increase of11%.

Expenses arising from the increase of credit risk related provisions amounted to HRK 8.6 million. In the current year the Bank has no obligation to pay income tax. Profit after tax amounts to HRK 1.2 million, while in 2013 loss after tax amounted to HRK 8.7 million.

Funds sources and obligatory reserve, liquidity and treasury

Sources of funds

The balance sheet total of BKS Bank d.d. Rijeka, reached in 2014 HRK 1,312,658 thousand, which represents an increase of 5.56% compared to the previous year.

The structure of total sources, has involved changes as following: the share of borrowed funds (deposits and loans taken) increased from 83.90% to 84.63%, meaning that own funds (capital, profit and reserves) amount to 15.37% of total funds.

Within borrowed funds, the share of deposits taken and other liabilities increased for 0.68 percentage points to 59.91%, while the secondary sources decreased from 40.8% to 40.1%.

Total deposits compared to prior year have increased by more than HRK 48 million or 7.7%.

Deposits in HRK (EUR linked and HRK denominated) increased by 2.8% to HRK 434 million and their share in the whole deposit portfolio represents 65.27%.

Deposits in foreign currency increased and amount to HRK 231 million.

Corporate deposits dominate with 54%, while retail deposits amount to 46%.

Obligatory reserve, liquidity and treasury

Croatian National Bank continued to pursue an expansive monetary policy to maintain exchange rate stability, keeping high system liquidity. The central bank is trying to ensure as favourable as possible conditions for financing the economy.

CNB Council decided to repeal the 100% allocation of the foreign currency component of the reserve requirement calculated on foreign currency funds received from non-residents and legal persons in a special relationship with a bank. These funds are now included in reserve requirements met by daily balances of liquid claims and are not allocated to a special account with the central bank.

Total calculated obligatory reserve in HRK has scaled up with increase of deposits in range from HRK 70 million in January up to HRK 78.90 million in November. Calculated obligatory reserve in foreign currencies has been minimal in December, due to aforesaid release (EUR 1,075 thousand and USD 516 thousand), and the highest in September for EUR (1,577 thousand) and USD in May (818 thousand).

During the 2014, the Bank’s HRK liquidity was high. The Bank invested excess of liquidity in reserves, particularly in form of shares in investment funds denominated in HRK and in lower volume in loans to other Croatian banks.

Loans to other banks were in average HRK 1 million daily, and the average amount placed in investment funds was about HRK 42 million per day.

In the periods of higher placements to clients, the Bank has borrowed the funds from BKS AG under favorable conditions in the form of the tranche of the Master loan agreement.

Funds sources and obligatory reserve, liquidity and treasury (continued)

Obligatory reserve, liquidity and treasury (continued)

In 2014 the Bank has withdrawn one new tranche from the Master loan agreement.

On 31st December 2014, the total funds withdrawn from BKS AG amounted to EUR 51.5 million.

Foreign currency liquidity was higher than the previous year, and it was maintained at a level which was aligned with the Bank's requirements and applicable regulations.

During 2014 the minimal ratio of receivables and liabilities in foreign currency was higher than minimum requirements. This percentage was between 17.34% and 26.06%

Funds in foreign currencies have been placed to other domestic and foreign banks as short term deposits (EUR 10 million in average). As interest rates on foreign funds were lower than in previous year, the income was consequentially lower than in 2013 (income was EUR 10 thousand).

According to the Bank's internal policy and regulatory requirements, a daily analysis of risk exposure was performed.

In the situations of long or short currency position, the Bank, whenever possible, leveraged the balance by selling or buying foreign currencies on the foreign exchange market with other market participants. As a consequence of these operations the Bank realised a total income of HRK 1,672 thousand, which represents a significant increase compared to the previous year.

Operations with corporate clients

The Bank's business activities also continued during 2014, in accordance with plans and development strategy, by maintaining good relationship with existing clients and by focusing on expansion/acquisition of new clients, within a market segment of medium and large companies, but also within smaller companies’ segment. Considering the condition of the economy and ongoing market crisis that has already been present for several years, goals and strategy remained unchanged and will not significantly alter in the year 2015.

The Bank continues to operate on two locations, Rijeka and Zagreb. The majority of clients and credit portfolio relates to companies from these two regions. Expansion towards other markets, mostly region of Istria, Northern Croatia, Slavonia and Dalmatia is done from these two mentioned locations: Rijeka and Zagreb. Considering the situation on the market, Banks strategy and intention to expand by branching out throughout the Croatian market is currently on standby. The nature of corporate banking, customized, tailor-made service and development of IT sector allowed us also to establish business relationship with dislocated companies, covering the entire territory of Republic of Croatia. As an additional product in IT development in year 2014, international payment operations through e-banking was enabled for all business entities, which completes e-banking offer and enables much more easier international payments in everyday business activities.

Under the authority of the Head of corporate department, corporate department is organized within two regional centres/branches: Rijeka and Zagreb. Zagreb branch is organized as a team of 5 employees – group leader, two corporate account managers and two associates for corporate banking (assistants), while Rijeka has a team of 4 employees – consisted of group leader, two corporate account managers and one associate for corporate banking (assistant).

The total gross corporate portfolio (loans and discounted bills of exchange) on 31 December 2014 amounted in total HRK 865.7 million. The major part refers to loans to customers (short-term and long-term credit lines) amounting HRK 830.4 million or 96% of total corporate portfolio while the remaining part refers to discounted bills of exchange amounting HRK 35.3 million or 4% of total corporate portfolio. The amount of approved loans which were not utilised on 31 December 2014 is HRK 65 million.

The total exposure of documentary business amounts to HRK 38.4 million.

The total portfolio (loans and discounted bills of exchange) during 2014 in relation to 2013 increased by 12%, or HRK 91.7 million.

Growth in loan portfolio was recorded both in Corporate Zagreb (+14% or HRK 74, 7 million) and Corporate Rijeka (+7% or HRK 17 million) compared to 31 December 2013.

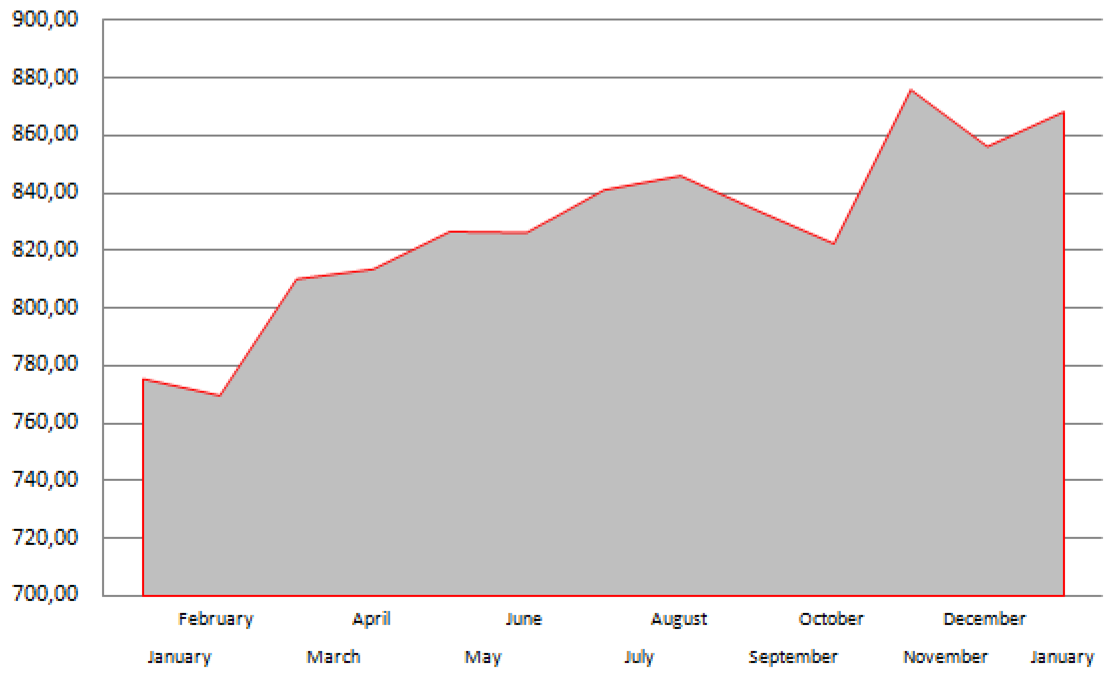
Considering the portfolio of documentary business, decrease was present in Corporate Zagreb and Rijeka, while Rijeka still holds a dominant position (88%).

Out of the total interest income in 2014, revenues from loans to corporate amounted 90%, representing a similar percentage as in previous year (89.5%).

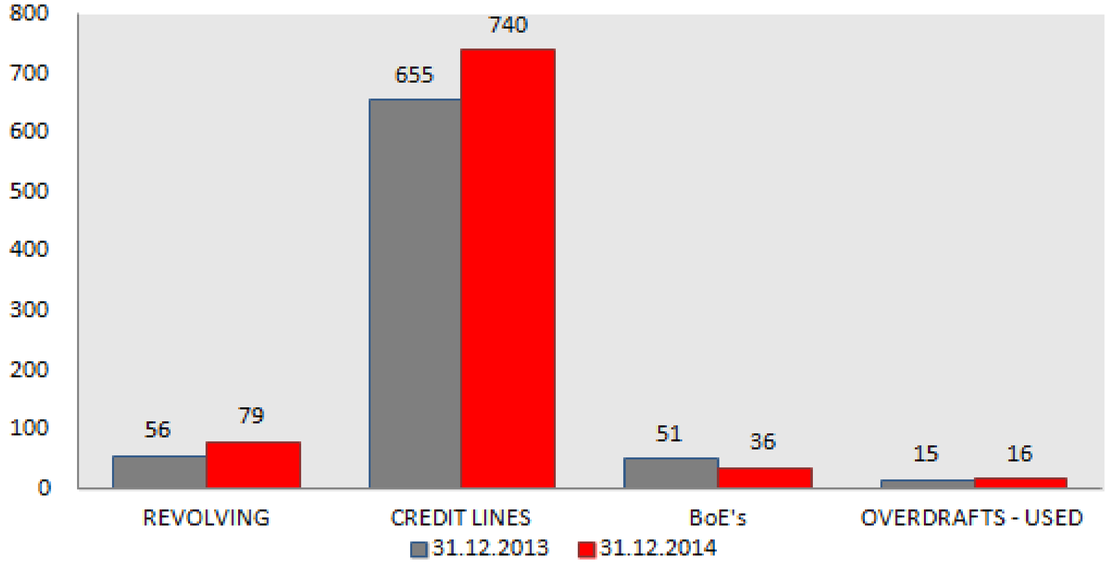
The total amount of deposits of corporate clients on 31 December 2014 amounted to 359 million HRK. HRK 336 million refers to HRK deposits and deposits with currency clause. The remaining portion related to deposits denominated in foreign currencies.

Operations with corporate clients (continued)

Exposure in 2014 (HRK million)



Comparative exposure by products (HRK million)



Operations with corporate clients (continued)

Concentration of risk by economic sector in the portfolio of loans to customers may be presented as follows:

	in HRK thousand					in EUR thousand	
	2014	**%**	**2013**	**%**	**Index 2014/2013**	**2014**	**2013**
Trade and Commerce	247,058	26	213,470	26	116	32,246	27,950
Construction	226,577	24	228,114	28	99	29,573	29,867
Metallurgy	34,623	4	36,700	5	94	4,519	4,805
Transport, warehousing and public services	45,955	5	47,288	6	97	5,998	6,191
Energy	5,830	1	-	-	-	761	-
Shipbuilding	14,675	2	516	-	2,844	1,915	68
Services	199,683	21	143,745	18	139	26,062	18,821
Individuals and unincorporated businesses	107,957	11	82,627	10	131	14,090	10,818
Miscellaneous	55,000	6	54,879	7	100	7,179	7,185
Total	**937,358**	**100**	**807,339**	**100**	**116**	**122,343**	**105,705**

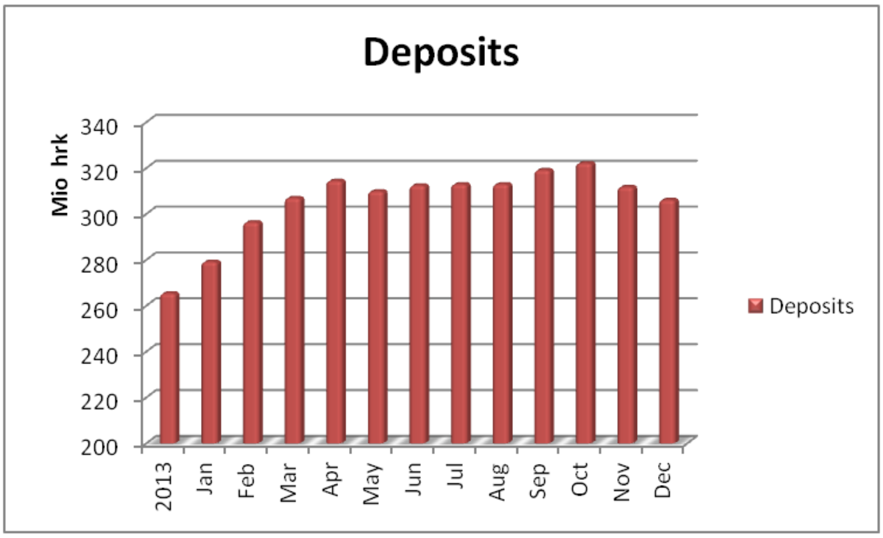
The analysis of exposures presented above shows that the largest proportion of exposures is recorded in the construction and trade industry.

Retail operations

During 2014 the Bank has continued with process of improvement and development in segment of retail business. The main focus is still collecting deposits as primary funds and at the same time stable growth in area of loan business with special attention to the existing risks on the market as unemployment and general high exposure towards retail individual customers. In addition new tools for monitoring of sales and general bank market pricing were implemented.
In terms of new products - during the year 2014 the Bank introduced mobile banking. The Bank has also intensified its relations to the residential buildings segment.

Deposits

Retail deposits at 31 December 2014 increased to HRK 306 million, representing an increase of 15% compared to 2013. The term deposits of retail customers and residential buildings increased by 10%.



Loans

On 31 December 2014, retail loans amounted to HRK 107 million - this represents an increase of 29% compared to 31 December 2013. The increase is the result of lending to individuals, as well as to co-owners of residential buildings. Successful meeting of the budgeted requirements in 2014 is a result of especially good cooperation with the corporate department and additional engagement of employees in sales.

Human resources

The previous mandate of the President and the Member of the Management Board expired upon the end of the year 2013, and from January 1, 2014, both members entered into a new three-year mandate as the Management Board of the Bank. During the year 2014, for existing members of the Supervisory Board, in accordance with the provisions of the Credit Institutions Act, the procedure of the assessment of adequacy has been performed. Also, the Croatian National Bank issued approval for membership in the Management Board of the Bank, for each member individually, until the expiration of the current mandate.

Also during the year 2014 the regulator continued to harmonize Croatian labour law regulations, and regulations related to the management and supervision of financial institutions with relevant EU legislation. For this reason a number of new regulation rules and amendments to existing laws and bylaws were adopted (the new Labour Act, the Credit Institutions Act, the Decision on employee remuneration, the Decision on the assessment of the suitability of the chairperson of the management board, members of the management board, members of the supervisory board and key function holders in a credit institution, etc.), which directly reflected on the requirement for harmonization of internal policies and regulations with these legislative amendments.

As in the previous years, with our organization and method of operations as well as with the profile, knowledge and competencies of employees, we are trying to keep up with changes in economic and market environment, while respecting the requirements of the regulator and the owner. In accordance with afore-mentioned, during the year 2014 we continued with minor amendments to the internal organization and classification of job positions with associated personnel solutions, primarily directed to further optimization of business processes between the so-called *front* departments and *back-office*. Lower employee turnover during the year has been realised as a consequence of the very restrictive employment plan. Departures of employees (temporary, permanent), in combination with internal transfers and changes on work positions, were used in a way to optimize the needs and retain all existing employees. On the important strategic position of the Head of Retail, we employed a new manager, who will realise long-term strategic goals in the Retail segment and on the entire Bank’s level.

Furthermore, recognizing and respecting the long-term external economic trends and trends within the Group and the Bank, during the year 2014, together with the owners, we have carried out an extensive project with the aim to optimize the operations in the area of payment operations, back-office activities, credit risk management and retail operations. The results and conclusions of this comprehensive analysis should be implemented during the year 2015.

Besides the project mentioned above, during the year 2014, a large number of employees were additionally engaged in the implementation of a new software system for payment operations which, due to its complexity generated the significant additional tasks, but also due to sensitivity and risk of the procedure and it’s possible outcomes, presented and additional requirement and challenge for employees. The project was successfully implemented near the end of the year 2014, thanks to, in large part, to all members of the project team and excellent project management.

Despite the general restrictive measures at the level of the entire Group and the Bank, the significant funding for the education of employees has been provided continuously, and employees themselves, despite the additional engagements, recognize the need for continuous education and investing in personal development. During the year, many employees attended various external professional trainings, primarily for the most relevant areas (such as risk management and risk control, innovations in the labour law and tax regulations, credit institutions law, introduction to the relevant Directives, Regulations and regulatory European standards, etc.). Also, for Supervisory and Management Board members an in-house ‘fit-and-proper’ workshop was organized.

We continue to carry out a long-time developmental educational program in management skills for the heads of organizational units, designed and organized in cooperation with our external long-time associates and specially designed individual coaching programs for new leaders.

We believe that in the upcoming period we will accomplish the same achievements.

Human resources (continued)

Basic descriptive statistics about employees:

- On December 31, 2014 there were 63 employees (Management Board included) - 54 in headquarter in Rijeka and 9 in Branch office in Zagreb
- Gender: 45 female, 18 men
- Average age: 39,86
- Qualification structure

MR	=	Master of science (4 – 6, 5%)
VSS	=	University degree (46 – 73%)
VŠS	=	Two-three years post-secondary school degree; bacc (4 – 6,5%)
SSS	=	Secondary school degree (9 - 14%)

- 60 employed under indefinite period work contract (open-ended work contract); 3 employed under fix-term contract (replacement for employees on maternity/parental leave)

Information technology

During 2014 the Bank worked on the standardization of information technology to provide a faster response to technological change to which it is exposed on a daily basis. A number of improvements to the information systems have been made, including upgrade of internal control systems and introduction of new modules and improvements to the existing solutions thereby increasing automation of business processes and reducing the operational risk.

The Bank has conducted a number of tests and implementations of the Disaster Recovery and „Plan of Business continuity“ that enables to the Bank the continuity in providing services to its customers.

Significant attention during 2014 was given to implementation of the new payment operating system and to the foreign electronic payment transactions module for corporate clients.

Bank corporate management report

Corporate management consists of a set of relations between the Management Board, the Supervisory Board, the managers, the shareholders and all other interested parties. It represents a structure in the framework where the company's goals are defined together with the ways of achieving them and of monitoring the results.

Responsible corporate management in BKS Bank d.d. is a prerequisite for the creation of durable values both for the shareholders and for all the others who are interested in the successful, safe and stable activity of the Bank accompanied by permanent maintenance and strengthening of confidence in the Bank.

As such, the Bank implements both the applicable external and internal regulations, and the rules of its parent company – BKS Bank AG, Klagenfurt, while ensuring that the latter are not contrary to the regulations in force in the Republic of Croatia, and it also monitors the alignment of its organizational structure, to be able to modify, i.e. adjust it promptly.

In addition to fulfilling the regulatory requirements, the Bank shall promote its corporate management by promoting the corporate culture and the awareness of the importance of the corporate management system.

The key principles of corporate management in the Bank are accomplished through:

(1) safeguarding of the shareholders' rights,
(2) establishment of an organizational structure that permits the setting of strategic goals and the affirmation of basic corporative values as well as an adequate infrastructure focused on their realization and monitoring. This is accomplished, among other things, through the monitoring of the business activities by the Supervisory Board and the functioning of the internal controls system.
(3) successful cooperation of the Supervisory Board and the Management Board of the Bank,
(4) setting up of a clear responsibility line within the Bank,
(5) Maintaining good and transparent relations and communication with all banking bodies, employees, management, shareholders, Bank clients and the general public.

The Bank's Management and Supervisory Boards are obliged to ensure the implementation of the corporate management's basic principles. The Bank implements the corporate management principles in the following way:

1. Shareholders and Bank General Assembly

1.1. Shareholders

Shareholders realize their voting right at the General Assembly meeting, and the right to participate goes to all subjects that have been registered as shareholders 15 days before the General Assembly meeting is held.

Each share entitles its holder to one vote, to the dividends and other rights stemming from the law and the Bank Statute.

1.2. General Meeting

The Bank Management Board calls a General Meeting at least once a year.

Ordinary General Meeting shall be called by the Bank Management Board with no delay after the Supervisory Board has examined the annual financial reports, the Bank's Business Report and the draft decision on profit allocation.

Bank corporate management report (continued)

1.2. General Meeting (continued)

The General Meeting takes notice of the Annual financial statements and the Management Board Report regarding the situation in the Bank, and in line with this passes the statement of release, approving the way in which the members of the Bank Management and Supervisory Boards managed the Bank business in the business year in question and also approving the decision on profit allocation.

In line with the law and the Bank Statute, the General Meeting decides on Statute amendments, share capital increases or reductions, appointment and release of the Supervisory Board members and the appointment of an external auditor to audit the Bank's activities.

2. Cooperation between the Bank’s Management Board and Supervisory Board

An efficient cooperation has been established between the Bank Management Board and the Supervisory Board. To this end the Management Board, with the approval of the Supervisory Board, adopts the basic business documents – business strategy, strategy and policy of risk taking and risk managing, the strategy and procedure of internal capital adequacy assessment, IT strategy as well as the budget (financial plan) for the upcoming year. The Management Board reports regularly (through financial reports submitted on a quarterly and a yearly basis) to the Supervisory Board regarding the Bank’s activities and respective budget fulfilment.

In addition to the activities that, by law, need to be approved by the Bank Supervisory Board, the Management Board, in line with the Management Board (MB) By-laws, must obtain approval also for the establishment of new companies and /or for the purchase or sale of shares, for the participation in other legal entities, for the acquisition and the sale of real estate, for the stipulation of contracts of lease of real estate, movables and equipment the duration of which exceeds one year if the annual rental fees exceed the amount of HRK 0.05 million, for investments of the single value exceeding HRK 0.3 million or of the total value in one year above HRK 1 million, for taking loans from a client or related group of clients if the value of one deal i.e. the total value exceeds the amount of HRK 10 million (except for money market and interbank market transactions), for the conclusion of deals causing the exposure towards a single client and the persons related to it in excess of the amounts foreseen by the Bank lending rules, for the definition of the Bank's business policy and strategy, for the definition of the Bank's financial plans, giving of procuration, setting up or cessation of branches or subsidiaries, representative offices, etc.

An important element for a successful cooperation is the presentation of diligently prepared, true and timely reports to the Supervisory Board by the Bank Management Board, in written form – as a rule - on financial plans, risks management, operations that could have an impact on business profitability and Bank liquidity, on the course of business, especially the cash flow and the Bank Balance Sheet as well as on other principled issues of the business activity. At the same time, the Supervisory Board may require any information from the Bank Management Board regarding issues related to the Bank's activity, which have or could have a material impact on its position.

The good cooperation is manifested in the always open debate between the Bank Management Board and the Supervisory Board, as well as among the members in both these bodies.

3. Bank’s Management Board

The Management Board manages the Bank's activity on its own responsibility and represents the Bank before third parties. The Management Board shall act in the Bank's best interest and shall not be guided by personal interests, nor shall it ask or accept any type of benefit from third parties.

Bank corporate management report (continued)

3.1. Competence, structure and remuneration of the Management Board members

Managing activity of the Bank's Management Board ensures in particular that the Bank operates in line with risk management regulations; that the Bank has established appropriately determined, clear and consistent internal relations which provide a clear segregation of duties and responsibilities as well as the prevention of the conflict of interest; that the Bank monitors the risks it is exposed to in its activity; the Management Board reviews the adopted strategy and risk management policies and secures and maintains the adequate level of capital in terms of the risks the Bank is exposed to; ensures the functioning of the control functions and annually examines the adequacy of procedures and the effectiveness of control functions; ensures the undisturbed performance of external and internal audit; it is responsible for compiling of business and other books and business documentation, it is responsible for compilation of accounting documents, it should assess assets and liabilities realistically, draws up financial and other reports in line with accounting rules and standards; it should reports and inform the Croatian National Bank in line with the regulations and it implements the measures set out by the Central Bank.

The Bank's Management Board consists of two members. By law, the minimal number of members is two. One of the members has to be appointed as President of the Management Board. Adequate diversity of the Management Board structure with respect to the number of members and the necessary professional knowledge, the capability and the experience of the members is determined by a Policy of selection and the fulfilment of conditions for Supervisory and Management Board members and key function holders. The members of the Management Board must fulfil all conditions prescribed by the laws which generally regulate operations of companies, all conditions prescribed by the law and by by-laws regulating operations of credit institutions as well as all conditions prescribed by the previously mentioned policy.

Management Board members manage the activity jointly while the single members manage specific business areas. If the Management Board consists of two members, the decisions must be brought unanimously. The Management Board members are in charge and responsible for specific business areas. The Bank is jointly represented by at least two Management Board members or alternatively by one member of the Management Board jointly with one procurator.

The remuneration of the Management Board members consist of an agreed fixed amount and a variable portion (annual reward – bonus) amounting from 0% to a maximum 25% of the individual's annual basic salary. The amount of the annual reward - bonus is determined depending on the performance of the Management Board's member and the Bank's performance in the previous financial year, in accordance with the provisions of the Remuneration Policy and Methodologies for measuring performance. The decision on the amount and period of payment of bonuses and annual awards is passed by the Supervisory Board after receipt of the audited financial statements and assessment of achieved goals for individual members of the Management Board.

3.2. Conflict of interests

The regulations (internal and external) which regulate the conflict of interests are transparently applied and are followed in the Bank in the best possible way.

Pursuant to the mentioned regulations, and particularly pursuant the provisions of the Code of Professional Conduct and the Policy of selection and the fulfilment of conditions for Supervisory and Management Board members and key function holders, pursuant to the MB By-laws as well as the contracts on the managers' rights and obligations, the conflict of interest exists if:

1. The Management Board member or a person related to him/her has an important business relationship with the Bank,

Bank corporate management report (continued)

3.2. Conflict of interests (continued)

2. The Management Board member is at the same time a member of the supervisory board of other credit or financial institution registered with the Register of Companies in the Republic of Croatia, except in cases when this is a subordinated credit or financial institution to the Bank or credit or financial institution belonging to the same group of credit institutions as the Bank

3. Other circumstances point at a conflict of interests.

Furthermore, in line with previously mentioned documents, the Bank`s Management Board members:
(1) must not, without the consent of the Supervisory Board, participate in third parties' operations or partnerships, either directly or indirectly,
(2) must not, either for their own or for some other's account, perform activities falling under the scope of the activity of the Bank (competition ban),
(3) may not be Supervisory Board members of a third company without the consent of the Supervisory Board,
(4) are obliged to report to the Bank`s Supervisory Board any activity whereby a member of the Management Board or next of his kin of first degree acquires or sells - directly or indirectly shares or other securities issued by the Bank,
(5) are obliged to report to the Bank`s Supervisory Board a transaction by which a member of his closest family, directly or indirectly, individually or jointly acquires or releases shares or business interests that exceed or fall below a qualified share.

Pursuant to statutory regulations, any Bank's lending to the Management Board members, to the members of their immediate family, to legal entities related to the Bank's Management Board members is subject to Supervisory Board approval.

In performing their duties Management Board members must not be guided by their personal interests, and they are not allowed to ask or accept any benefit and/or advantage, either for themselves or for any other party, nor to promise or grant any such benefit and/or advantage – on behalf and for account of the Bank - to these parties. Moreover, the Management Board is obliged to undertake all adequate and reasonable measures in order to ensure that members of the Management Board and Bank's employees do not act contrary to the ban on disclosure of confidential information and utilization of privileged information (as prescribed by the Securities Market Act).

3.3. Bank's Management Board Committees

The Bank Management Board may establish various permanent or temporary bodies to assist the Board in the performance of its functions (e.g. ALCO Committee, Real-estate Committee etc.)

4. Bank's Supervisory Board

4.1. Competence, structure and remuneration of the Supervisory Board members

Once a year the Bank Supervisory Board submits to the General Assembly a report on its work.

The Supervisory Board monitors the performance of the Bank's operations and in particular appoints and recalls the members of the Management Board, summons the General Assembly when required, issues the order to the auditor to examine the annual financial statements, confirms the annual financial statements, submits a written report on performed supervision to the General Assembly, represents the Bank in front of the Management Board, issues prior approval

Bank corporate management report (continued)

4.1 Competence, structure and remuneration of the Supervisory Board members (continued)

to the Management Board’s decisions when this is prescribed by law, by the Statute or by the Management Board By-laws. In this way, the Supervisory Board directs Bank' activities and actively supervises business activities.

In line with the Bank's Statute, the Supervisory Board may have at least three, five or seven members as appointed by the Bank's General Assembly, but one of the Supervisory Board members must be an independent member. The adequacy of diversity of the Supervisory Board structure with respect to the number of members and their necessary professional knowledge, the capability and the experience of the members shall be determined by a Policy of selection and the fulfilment of conditions for Supervisory and Management Board members and key function holders. The members of the Supervisory Board must fulfil all conditions prescribed by the law regulating operations of trading companies, all conditions prescribed by law and by-laws regulating operations of credit institutions as well as all conditions prescribed by the mentioned Policy. The Supervisory Board members appoint the president and his deputy among themselves.

The Supervisory Board members may be granted a reward for their work in the Board. The decision in this respect is made by the General Assembly. General Assembly of the Bank has not adopted a decision on the right of the Supervisory Board members on remuneration for their work and therefore, until the General Assembly determines otherwise, the Supervisory Board members do not receive any salary or other form of compensation for their work nor are entitled to profits of the Bank.

4.2. Conflict of interests

All Supervisory Board members are obliged to act in the Bank's best interest and in making decisions they should not be guided by their own profit interests nor may they use their position in order to acquire personal benefits.

Respecting the previously stated internal and external regulations defining prevention of conflict of interest, it shall been deemed that the conflict of interest exists in case when:

1. Supervisory Board member or a person related to him/her has an important business relationship with the Bank,
2. Supervisory Board member is at the same time member of the supervisory or management board of other credit or financial institution or (mixed) financial holding which is not part of the same group of credit institutions as the Bank
3. Other circumstances point at a conflict of interests.

The Supervisory Board members may not point out their membership in the Supervisory Board in public with the purpose of gaining any illicit, personal or professional benefit which may jeopardize Bank's reputation or any other Bank’s interest. They are also compelled to report to the Bank any operation whereby the member or any of their kin of first degree, either directly or indirectly acquires or disposes shares or any other securities issued by the Bank.

The Supervisory Board members shall inform the CNB about the appointment or termination of their role in management or supervisory boards of other legal entities, as well as about any deals based on which they directly or indirectly, individually or jointly (or the members of their immediate family) have acquired shares in the legal entity in a way that they have acquired shares or their shares have fallen below the qualified shareholding.

Bank corporate management report (continued)

4.3. Bank Supervisory Board Committees

For the purpose of harmonizing with new legal requirements, during 2014 there were changes within the committees established by the Supervisory Board. The changes were also introduced to increase the efficiency of Supervisory Board, i.e. to ease advising and enabling preparation of decisions under the competence of the Bank Supervisory Board and to enable more efficient monitoring of the implementation of the decisions brought. The Audit Committee's competences have been expanded so it became Risk and Audit Committee; Appointment and Remuneration Committee was established while the Personnel Committee was cancelled due to overlapping of responsibilities with the newly founded Appointment and Remuneration Committee. The Working Committee has continued with its activities without changes.

The Risk and Audit Committee advises the Supervisory Board on the overall current and future risk appetite and strategy; assists in overseeing the implementation of the strategy by senior management; examines whether the prices of liabilities and assets offered to clients take fully into account Bank's business model and risk strategy; examines whether the risk, capital, liquidity as well as the plausibility and expected period of achieving the profit was considered in determination of bonuses; supervises the financial reporting; it monitors the efficiency of the system of internal control, audit and risk control systems; it supervises audit of financial statements, monitors auditors' independence and provides recommendations to the Supervisory Board for the appointment of an independent auditor and performs other tasks in line with statutory regulations.

Appointment and Remuneration Committee regularly assesses the structure, size, composition and functioning of Management and Supervisory Board as well as the professional knowledge, the capability (skills) and the experience of individual Management and Supervisory Board members (as well as of the Management and Supervisory Board as a whole) and informs those boards on the results; reviews the Policy for selection of Management and Supervisory Board members and appointment of senior management and provides recommendations to Management and Supervisory Board; participates in proposing members of the Management and Supervisory Board; prepares the Supervisory Board's decisions relating to remuneration particularly the decision on the total amount of variables for the business year and other similar decisions; continuously, to the extent possible, ensures the absence of domination of individuals or small group of individuals in Management and Supervisory Board decision making in order to protect the Bank as a whole; prepares description of the duties and the necessary conditions for performing these duties for each member of the Management or Supervisory Board as well as the expected level of commitment to fulfilling this duty; determines targeted representation of less represented gender in Supervisory and Management Board and proposes the method of increasing the number of less represented gender and performs other duties specified by regulations.

The Working Committee monitors all loans, assessments and other asset-related commercial activities (assets BKS Bank d.d.). Moreover this committee is responsible for monitoring the Bank's overall activities that are subject to approval of the Supervisory Board.

5. Principle of gender balance at management/supervisory levels

In order to implement the principle of gender balance at management/supervisory levels, the Bank defines (in certain intervals) targeted representation of women (identified as under-represented gender at those levels), as well as a strategy for increasing their numbers in Management and Supervisory Board. In this respect, the Bank encourages professional development and promotion of women which is evident from their number among the senior management as well as from the fact that women are carriers of two of the three control functions. Furthermore, the Bank provides the highly flexible working time models with aim to help women in their balancing of professional and private obligations which enables their career advancement. The current representation of women in the Supervisory Board as well as the fact that female member is at the same time president of the Supervisory Board is considered to be a good starting point for long-term achievement of equal representation of women at management levels.

Bank corporate management report (continued)

6. Internal control system

The internal control system is a system of processes and procedures set up to monitor the Bank's business efficiency, the reliability of its financial information, ensuring adequate risk management system and the compliance with the laws, regulations and best practice, all in order to safeguard Bank's assets.

For this purpose an internal control system has been established in the Bank as a system of procedures and processes for monitoring the efficiency of the Bank's operations, the reliability of financial reporting, ensuring adequate risk management system and adherence to statutory regulations and adequate business practice. This system is structured according to the size, type, scope and complexity of the business activities and in accordance with the Bank’s risk profile. This system is the subject to permanent upgrading and adjustment to the standards of the parent bank.

In addition to the members of the Bank Management Board and of the Supervisory Board, all employees and organizational units of the Bank also take part in the implementation of the mentioned control measures which are integrated either directly or indirectly in the business processes.

The internal control system in the Bank functions, among other, within three mutually independent functions:

(1) the risk control function,
(2) the compliance monitoring function,
(3) the internal audit function,

The activities linked to the prevention of money laundering and the financing of terrorist activities are also performed by the Bank.

A well-established internal controls system enables the Bank a timely monitoring and detection of any materially significant risk to which it may be exposed while performing its activity.

7. Transparent and timely reporting, external and internal communication

The responsibility for communication with public lies with the Management Board.

PR as well as the marketing functions are centralized at BKS Bank AG level, wherefrom public and internal communications are coordinated and managed with the consent of the Management Board. The Bank places special emphasis on public relations and communication with the clients, which are subject to provisions of the Bank’s Code of Conduct, and the Ethics Code adopted by the Croatian Chamber of Commerce.

The Bank's shareholders and the general public receive timely information through the mass media about the Bank's business, the financial results and the material facts that could have an impact on the Bank's capital structure and value. Furthermore, by means of Public disclosure on Bank’s internet web page, the Bank regularly, in line with regulations, publishes indicators of operations that may affect the business decision-making.

The Bank's financial statements are audited on a regular basis by a recognised auditing company.

Bank corporate management report (continued)

7. Transparent and timely reporting, external and internal communication (continued)

In line with the above mentioned, BKS Bank d.d. Rijeka hereby declares that a corporative structure established in the Bank is such that it is adequate to the size, scope and structure of business operations and to the risks to which the Bank is exposed to, and that the Bank is well organized considering its position within BKS Bank AG Group as well as within the environment in which it operates, and that business in 2014 was conducted adhering to the principles and guidelines of corporative management, and such practice will be followed and continue in future as well.

Goran Rameša
President of the Management Board

General data

Bank Bodies	
General Assembly	**Chairman elected among the Supervisory Board members**
Supervisory Board	**Herta Stockbauer, President** **Dieter Vinzenz Krassnitzer, Deputy President** **Josef Morak, member** **Harald Richard Brunner, member** **Ludwig - Hubert Ankele, member**
Management Board	**Goran Rameša, President** **Christian Peter Pettinger, member**

Address:
Mljekarski trg 3, 51000 Rijeka, Croatia

SWIFT :
BFKKHR22

Web :
www.bks.hr

IBAN:
HR57 2488 0011 0111 1111 6

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

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

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

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

The financial statements set out on pages 25 to 84, as well as supplementary information prescribed by a decision of the Croatian National Bank on pages 85 to 91, which is not part of financial statements, were authorised by the Management Board on March, 4th 2015 for issuance to the Supervisory Board and are signed below to signify this.

For and on behalf of BKS Bank d.d.:

Goran Rameša
President of the Management Board

Christian Peter Pettinger
Member of the Management Board

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements ('the financial statements') of BKS Bank d.d. (the 'Bank') which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information (as set out on pages 25 to 84).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting requirements for banks in Republic of Croatia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Independent Auditor's Report (continued)

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Bank as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with statutory accounting requirements for banks in Republic of Croatia.

Other legal and regulatory requirements

1) In accordance with the By-law on the Structure and Content of the Annual Financial Statements (National Gazette no 62/08) (hereinafter „the By-Law), the Bank's management has prepared forms which are presented on pages 85 to 91, and which contain a balance sheet as at 31 December 2014, profit and loss account, statement of changes in equity and cash flow statement for the year then ended together with notes on reconciliation of the forms to the primary financial statements of the Bank. This financial information is the responsibility of the Bank's management and is, pursuant to statutory accounting requirements for banks in Republic of Croatia, not a required part of the financial statements, but is required by the Bylaw. Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited financial statements. In our opinion, based on the procedures performed, the financial information presented in the forms has been properly derived, in all material respects, from the audited financial statements which were prepared in accordance with statutory accounting requirements for banks in Republic of Croatia as presented on pages 25 to 84 and are based on underlying accounting records of the Bank.

2) Management Board of the Bank has prepared Annual report as set out on pages 1 to 21. The Management Board is responsible for the preparation of the Annual report in accordance with the Croatian Accounting Law and for its accuracy. Our responsibility is to perform procedures we consider necessary to reach a conclusion on whether the Annual report is consistent with the audited financial statements. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Bank. In our opinion, the accounting information presented in the Annual report of the Bank for the year 2014 is in consistent, in all material respects, with the audited financial statements for that year which are presented on pages 25 to 84.

Ernst & Young d.o.o.
Zagreb, 4 March 2015

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

(in thousands of HRK)	Note	2014	2013
Income statement			
Interest and similar income	4a	56,261	51,478
Interest expense and similar charges	4c	(20,637)	(18,815)
Net interest income		**35,624**	**32,663**
Fee and commission income	5a	5,280	5,158
Fee and commission expense	5b	(1,323)	(1,453)
Net fee and commission income		**3,957**	**3,705**
Net trading income from dealing in foreign currencies		1,672	819
Net income from investment securities	6	383	568
Other operating income	7	943	610
Operating income		**42,579**	**38,365**
Impairment losses on loans and advances to customers and banks	14b,13	(8,624)	(16,113)
Other impairment losses and provisions	8	(1,327)	(894)
Operating expenses	9	(31,619)	(30,237)
Profit/(loss) before income tax		**1,009**	**(8,879)**
Income tax benefit	10a	181	168
Profit/(loss) for the year after tax		**1,190**	**(8,711)**
Other comprehensive income		**-**	**-**
Total comprehensive income for the year		**1,190**	**(8,711)**

The accompanying accounting policies and other notes on pages 29 to 84 form an integral part of these financial statements.

BKS Bank d.d., RIJEKA

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER

(in thousands of HRK)	Note	31 December 2014	31 December 2013
ASSETS			
Cash and cash equivalents	11	140,484	171,113
Obligatory reserve with the Croatian National Bank	12	89,006	84,393
Financial assets at fair value through profit or loss	15	42,506	42,780
Loans and advances to banks	13	67,191	79,813
Loans and advances to customers	14a	899,470	777,893
Available-for-sale financial assets	16	523	1,076
Held-to-maturity investments	17	35,319	49,269
Other assets	20	10,028	8,334
Property and equipment	18	20,764	21,921
Intangible assets	19	6,140	5,836
Deferred tax assets	10b	1,227	1,046
Total assets		**1,312,658**	**1,243,474**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	21	141	77
Deposits from customers	22	665,382	617,671
Borrowings	23	422,892	402,769
Provisions for liabilities and charges	24	3,328	2,899
Other liabilities	25	19,188	19,521
Total liabilities		**1,110,931**	**1,042,937**
EQUITY			
Issued share capital	26	200,000	200,000
Statutory reserve	27a	537	2,778
Retained (losses)/earnings	27b	1,190	(2,241)
Total equity		**201,727**	**200,537**
Total liabilities and equity		**1,312,658**	**1,243,474**

The accompanying accounting policies and other notes on pages 29 to 84 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

(in thousands of HRK)	**Issued share capital** *(note 26)*	**Statutory reserve** *(note 27)*	**Retained earnings /(losses carried forward)** *(note 27)*	**Total**
Balance at 1 January 2013	**200,000**	**2,778**	**6,470**	**209,248**
Total comprehensive income for the year	-	-	(8,711)	**(8,711)**
Balance at 31 December 2013	**200,000**	**2,778**	**(2,241)**	**200,537**
Balance at 1 January 2014	**200,000**	**2,778**	**(2,241)**	**200,537**
Transfer of loss carried forward to statutory reserve	-	(2,241)	2,241	**-**
Total comprehensive income for the year	-	-	1,190	**1,190**
Balance at 31 December 2014	**200,000**	**537**	**1,190**	**201,727**

The accompanying accounting policies and other notes on pages 29 to 84 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

(in thousands of HRK)	Note	2014	2013
Cash flows from operating activities			
Profit/(Loss)for the year		**1,190**	**(8,711)**
Adjustments for:			
Depreciation and amortisation	9	4,119	4,329
Net foreign exchange loss from translation of monetary assets and liabilities	7	58	348
Impairment losses on loans and advances to customers	13,14b	8,624	16,113
Other impairment losses and provisions	8	1,327	894
Income tax benefit	10a	(181)	(168)
Cash flows from operating activities before changes in operating assets and liabilities		**15,137**	**12,805**
Changes in operating assets and liabilities:			
Net decrease/(increase) in obligatory reserve with the Croatian National Bank		(4,613)	10,616
Net decrease/(increase) in loans and advances to banks		12,792	19,740
Net decrease/(increase) in loans and advances to customers		(130,073)	(47,643)
Net decrease/(increase) in financial assets at fair value		274	2,992
Net decrease/(increase) in other assets		(2,039)	(644)
Net increase/(decrease) in deposits from banks		64	(22,042)
Net increase/(decrease) in deposits from customers		47,711	88,317
Net increase/(decrease) in other liabilities		(551)	3,822
Net cash outflow from operating activities before tax		**(61,298)**	**67,963**
Income tax paid		-	-
Net cash inflow/(outflow) from operating activities		**(61,298)**	**67,963**
Cash flows from investing activities			
Purchase of property and equipment		(403)	(165)
Purchase of intangible assets		(2,929)	(2,535)
Net increase in held-to-maturity investments		13,950	(576)
Net cash outflow from investing activities		**10,618**	**(3,276)**
Cash flows from financing activities			
Net (decrease)/increase in borrowings		20,051	(17,172)
Paid in share capital		-	-
Net cash (outflow)/inflow from financing activities		**20,051**	**(17,172)**
Net increase/(decrease) in cash and cash equivalents		**(30,629)**	**47,515**
Cash and cash equivalents at beginning of year		**171,113**	**123,598**
Cash and cash equivalents at end of year	11	**140,484**	**171,113**
Interest paid		*18,209*	*15,247*
Interest collected		*55,708*	*50,983*

The accompanying accounting policies and other notes on pages 29 to 84 form an integral part of these financial statements.

1. REPORTING ENTITY

BKS Bank d.d., Rijeka (“the Bank”) is a joint stock company incorporated and domiciled in Croatia. The Bank was formerly known as Kvarner banka d.d. Rijeka. The registered office is at Mljekarski trg 3, in Rijeka. The Bank started its activities in April 1993 and its operations include receiving cash deposits, granting loans and making other placements. The Bank is focused on medium-sized companies and sole traders. The Bank is registered at the Commercial Court in Rijeka with authorised share capital in the amount of HRK 200,000 thousand.

2. BASIS OF PREPARATION

A) Accounting framework

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Republic of Croatia.

Banking operations in Croatia are subject to the Credit Institutions Law, in accordance with which the Bank’s financial reporting is regulated by the Croatian National Bank (“the CNB”) which is the central monitoring institution of the banking system in Croatia. These financial statements have been prepared in accordance with these banking regulations.

The financial statements were approved by the Bank's Management Board on 4th March 2015 for approval by the Supervisory Board.

The principal accounting policies applied in the preparation of these financial statements are summarised below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards (“IFRS”), reference may be made to certain Standards in describing the accounting policies of the Bank; unless otherwise stated, these references are to Standards applicable at 31 December 2014. The accounting regulations based on which these financial statements have been prepared differ from IFRS both in terms of presentation and disclosures as well as in terms of recognition and measurement.

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

- The CNB requires banks to recognise impairment losses, in income statement, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets carried at fair value). The Bank has made portfolio-based provisions of HRK 13,194 thousand (2013: HRK 12,441 thousand) carried in the balance sheet in compliance with these regulations, and has recognised a charge against income in respect of such provisions of HRK 753 thousand within the charge for impairment losses for the year (2013: charge of HRK 2,004 thousand). Although, in accordance with IFRS, such provisions should more properly be presented as an appropriation within equity, the Bank continues to recognise such provisions in the statement of comprehensive income as a substitute for existing but unidentified impairment losses calculated in accordance with the requirements of IFRS.
- A further difference between IFRS and the accounting regulations of the CNB relates to the determination of impairment losses by discounting the estimated cash flows of the impaired asset at the instrument’s original effective interest rate. The Bank calculates impairment losses on individually significant items by estimating the future cash flows and discounting these estimated amounts at the instrument’s original effective interest rate. The Bank generally recognises the amortisation of such discounts as a release of impairment allowance rather than as interest income. In certain cases, however, collections are recognised as interest income once impairment losses are fully reversed.
- Additionally the CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognised in accordance with IFRS.

2 BASIS OF PREPARATION (continued)

B) Basis of measurement

The financial statements are prepared on the fair value basis for financial assets at fair value through profit or loss and financial assets available for sale, except those financial assets available for sale 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) Use of estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

Information about judgements made by management in the application of applicable standards that have significant effect on the financial statements and about estimates that have a significant risk of resulting in a material adjustment within the next financial year are included in Note 33.

D) Functional and presentation currency

The financial statements are presented in Croatian kuna (HRK), which is the Bank’s functional and presentation currency. Amounts are rounded to the nearest thousand (unless otherwise stated). As at 31 December 2014 the exchange rates used for translation were HRK 6.3021 for USD 1 and HRK 7.66147 for EUR 1 (31 December 2013: HRK 5.5490 for USD 1 and HRK 7.6376 for EUR 1).

E) Financial crisis impact

The Bank places significant attention on the credit function in order to mitigate the risk of credit portfolio impairment. The impairment allowances and potential losses are regularly monitored.

The Bank has undertaken a number of activities focusing on the quality of the portfolio of its existing clients. This includes constant communication with clients and co-operation in terms of adjustment of terms and dynamics of payment, monitoring of the values of collateral obtained and obtaining of additional collateral from client and from the parent bank.

2. BASIS OF PREPARATION (continued)

F) The accounting policies adopted are consistent with those of the previous financial year, except for the following standards and amendments to IFRS effective as of 1 January 2014:

- *IAS 28 Investments in Associates and Joint Ventures (Revised)*
- *IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities*
- *IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosures of Interests in Other Entities*
- *IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*
- *IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets*
- *IFRIC Interpretation 21: Levies*

The above standards and amendments did not have significant impact on the Bank's financial position or performance.

Standard issued and/or amended not yet effective and not early adopted:

IFRS 9 Financial Instruments – Classification and measurement

The standard is applied for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final phase of IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The standard has not yet been endorsed by the EU. In upcoming periods the Bank will assess the impact of the standard on profitability and financial statements of the Bank.

IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2017. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The standard has not been yet endorsed by the EU. In upcoming periods the Bank will assess the impact of the standard on profitability and financial statements of the Bank.

Certain other standards issued and/or amended which are not yet effective and which were not early adopted:

IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortization

The ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendment has not yet been endorsed by the EU.

2 BASIS OF PREPARATION (continued)

IAS 19 Employee benefits (Amended): Employee Contributions

Amendment is relevant for contributions from employees or third parties to defined benefit plans which had no effect on Bank's financial statements.

IFRS 11 Joint arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations *(the amendment has not yet been endorsed by the EU)*

IFRS 14 Regulatory Deferral Accounts *(this standard has not yet been endorsed by the EU)*

The IASB has issued the ***Annual Improvements to IFRSs 2010 – 2012 Cycle***, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015 and the Bank does not expect significant impact on performance or financial statements out of these amendments. The following standards were amended:

- *IFRS 2 Share-based Payment*
- *IFRS 3 Business combinations*
- *IFRS 8 Operating Segments*
- *IFRS 13 Fair Value Measurement*
- *IAS 16 Property Plant & Equipment*
- *IAS 24 Related Party Disclosures*
- *IAS 38 Intangible Assets*

The IASB has also issued the ***Annual Improvements to IFRSs 2011 – 2013 Cycle***, which is also a collection of amendments to IFRSs. These amendments are also effective for annual periods beginning on or after 1 February 2015 and the Bank does not expect significant impact on performance or financial statements out of these amendments. The following standards were amended:

- *IFRS 3 Business Combinations*
- *IFRS 13 Fair Value Measurement*
- *IAS 40 Investment Properties*

Annual Improvements to IFRSs 2012 – 2014 Cycle were also issued by the IASB. These amendments are effective for annual periods beginning on or after 1 January 2016 but they have not yet been endorsed by the EU. In upcoming periods the Bank will assess impact, if any on its financial performance and financial statements.

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*
- *IFRS 7 Financial Instruments: Disclosures:*
- *IAS 19 Employee Benefits*
- *IAS 34 Interim Financial Reporting*

IAS 1: Disclosure Initiative (Amendment)

The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The narrow-focus amendments to IAS clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. These amendments have not yet been endorsed by the EU and in upcoming periods the Bank will assess their impact on financial statements, if any.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies have been consistently applied to all periods presented in these financial statements.

3.1 Interest income and expense

Interest income and expense are recognised in the income statement as accrued for all interest-bearing financial instruments measured at amortised cost, using the effective interest rate method, i.e. the rate that discounts estimated future cash flows to net present value over the life of the underlying contract.

Interest income and expense also include fee and commission income and expense in respect of loans and advances to customers or borrowings from other banks, premium or discount amortisation, and other differences between the initial carrying amount of an interest-bearing financial instrument and its value at maturity, recognised on an effective interest basis.

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 expected life of the financial instrument. 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, the Bank 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.

3.2 Fee and commission income and expense

Fees and commissions mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit and fees for credit risk analysis services, and are recognised in the income statement upon performance of the relevant service, unless they have been included in the effective interest calculation.

Loan commitment fees for loans 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 where draw down is not probable are recognised over the term of the commitment. Other service fees are recognised based on the applicable service contracts.

3.3 Net trading income from dealing in foreign currencies

This category includes spreads earned from foreign exchange trading.

3.4 Net income from investment securities

This category includes gains and losses from disposals of available-for-sale financial assets and financial assets at fair value through profit or loss, and dividend income.

Dividend income on equity securities is credited to the income statement when the right to receive the dividend is established. There was no dividend income recognised in 2014 and 2013.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Foreign currency translation

Transactions in foreign currencies are translated into HRK at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into HRK at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates ruling at the dates when the fair values were determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated at the balance sheet date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. The translation differences are recognised in the income statement as part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within operating expenses in the income statement.

3.6 Employee benefits

Defined pension contributions

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

Provisions for retirement benefits and jubilee awards

In calculating provisions for retirement benefits and jubilee awards, the Bank discounts expected future cash outflows in respect of these liabilities using the discount rate which, in opinion of the Bank's management, best represents the time value of money.

3.7 Lease payments

Payments made by the Bank as lessee under operating leases are recognised in statement of comprehensive income on a straight-line basis over the term of the lease.

3.8 Financial instruments

Classification

The Bank classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, loans and receivables and other financial liabilities carried at amortised cost. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of financial instruments upon initial recognition and, where appropriate, re-evaluates this designation at every reporting date.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

A) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets which are classified as held for trading or on initial recognition designated by the Bank as at fair value through profit or loss. The Bank does not apply hedge accounting.

As stated above this category has two sub-categories: financial instruments held for trading, and those designated by management as at fair value through profit or loss at inception. Trading assets are those assets that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

The Bank designates financial assets at fair value through profit or loss when either:

- the assets 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 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 investments in investment fund units.

At the reporting date the Bank had no financial liabilities measured at fair value through profit or loss.

B) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are 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 or foreign exchange rates. Available-for-sale financial assets include equity securities.

C) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the intention and ability to hold to maturity. These include Ministry of Finance treasury bills and corporate bills of exchange.

D) Loans and receivables

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

E) Other financial liabilities

Other financial liabilities comprise all financial liabilities of the Bank which are not held for trading or designated at fair value through profit or loss. After initial measurement all such Bank's financial liabilities are subsequently measured at amortised cost.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

Recognition and derecognition

Purchases and sales of financial instruments held to maturity, available for sale and financial assets at fair value through profit or loss are recognised on the settlement date, which is the date when the financial instrument is delivered to or transferred from the Bank. Loans and receivables and other financial liabilities are recognised when funds are disbursed to customers and when funds are received from lenders.

The Bank derecognises financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have been realised, surrendered, expired or when the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass–through’ arrangement and has transferred substantially all the risks and rewards of the asset.

The Bank derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Bank will cease recognising the liability and will immediately recognise a new financial liability, with new terms and conditions.

Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial asset or financial liability which is not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issuance of financial liability.

After initial recognition, the Bank measures financial assets at fair value through profit or loss and available-for-sale financial assets 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 and held-to-maturity investments and other financial liabilities are measured at amortised cost using the effective interest method.

Gains and losses

Gains and losses arising from a change in the fair value of the financial assets at fair value through profit or loss are recognised in the income statement.

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

Dividend income is recognised in the income statement. Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses on the instrument are transferred to the income statement.

Gains or losses arising from financial instruments carried at cost or amortised cost may also be recognised in the income statement when a financial instrument is derecognised or when its value is impaired.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

Fair value measurement principles

The fair values of quoted investments are based on current closing bid prices.

Impairment of financial assets

Impairment of financial assets identified as impaired

A) Financial assets carried at amortised cost

At each reporting date the Bank assesses whether there is objective evidence that a financial asset or group of financial assets 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 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 Bank 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 by a borrower;
III) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that it would not otherwise consider;
IV) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
V) the disappearance of an active market for the financial asset because of financial difficulties; or
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 with 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 been 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 and receivable 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.

Impairment of financial assets identified as impaired

Financial assets are tested for impairment on an individual basis. Those individually significant assets which are not impaired are included in the basis for collective impairment assessment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's rating process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively linked 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 a loan is uncollectible, it is written off against the related impairment allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as a reversal of impairment losses in the income statement.

Renegotiated loans
Where possible, the bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. 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 impairment assessment, calculated using the loan's original effective interest rate.

B) Financial assets carried at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity or debt 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. 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. Impairment losses recognised in the income statement on equity securities are not subsequently reversed through the income statement, but all value increases until the final sales are recognised in equity.

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 profit or loss. Changes in impairment provisions attributable to the time value of money are reflected as a component of interest income. The Bank had no financial assets carried at fair value classified as available for sale at the balance sheet date.

C) Financial assets carried at cost

These include equity securities classified as available for sale for which there is no reliable fair value. The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If such indication exists, impairment loss is recognised in income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

Impairment of financial assets not identified as impaired

In addition to the above described impairment losses on financial assets identified as impaired, the Bank recognises impairment losses, in income, on all on- and off-balance-sheet credit risk exposures not identified as impaired using the rate of 1% in accordance with the specific accounting regulations of the Croatian National Bank.

Specific instruments

A) Debt securities

Debt securities are classified as held-to-maturity investments.

B) Loans and advances to banks

Loans and advances to banks are classified as loans and receivables.

C) Loans and advances to customers

Loans and advances to customers are classified as loans and receivables and are presented net of impairment allowances to reflect the estimated recoverable amounts.

D) Equity securities

Equity securities are classified as available for sale and are stated at cost, less impairment, in the absence of any reliable measure of fair value. There is no active market for these instruments.

E) Investments in investment funds

Investments in investment funds are classified as financial assets at fair value through profit or loss and are carried at current fair value. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business

F) Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non–restricted current accounts with central banks and amounts due from banks available on demand or with an original maturity of three months or less.

G) Interest-bearing borrowings

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

H) Current accounts and deposits from banks and customers

Current accounts and deposits are classified as other liabilities and initially measured at fair value less transaction costs, and subsequently measured at amortised cost (using the effective interest method).

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Financial instruments (continued)

Offsetting of financial instruments

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

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

3.9 Property and equipment

Property and equipment are tangible items that are held for use in the supply of services or for administrative purposes. Property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land and assets under development are not depreciated. Depreciation of all other tangible assets is recognised in income statement on a straight-line basis over their estimated useful lives as follows:

Buildings	40 years
IT equipment	4 years
Office furniture and other equipment	5-10 years

Depreciation methods and the assets' useful lives are reassessed, and adjusted if appropriate, at each reporting date. 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

3.10 Intangible assets

Intangible assets acquired by the Bank are measured at cost less accumulated amortisation and impairment losses.

Expenditure on development activities are capitalised if all of the requirements of International Accounting Standard 38 "*Intangible Assets*" are satisfied. Intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

Software	4 years
Leasehold improvements	5 years or during the lease period

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Assets acquired in lieu of uncollected receivables

The Bank regularly assesses the marketability of assets acquired in lieu of uncollected receivables and only marketable assets, the value of which can be measured reliably, are recognised as assets in the statement of financial position. The Bank's intention is mainly to sell such assets, however, in certain limited cases they may end up being used or rented out by the Bank if there is no demand for sale.

3.12 Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to other comprehensive income items, in which case it is recognised in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or non-current liabilities.

3.13 Impairment of property and equipment and intangible assets

Assets that have an indefinite useful life are not subject to amortisation and depreciation and are tested at least annually for impairment. At the balance sheet date the Bank did not have such assets. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets still not brought into use are reviewed at each reporting date. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Provisions for liabilities and charges

Provisions are recognised when the Bank 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, or as required by the law in the case of provisions for unidentified impairment of off-balance-sheet credit risk exposures, as previously referred to in Note 3.8 *"Financial instruments"*.

Provisions for liabilities and charges are maintained at the level which the Bank's management considers sufficient for absorption of incurred 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.

Provisions are released only for items 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.

3.15 Issued share capital

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

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

3.16 Retained earnings

Any profit or loss for the year is included in retained earnings. Appropriations from retained earnings such as dividends and transfers to other reserves are recognised when approved by shareholders.

3.17 Off-balance-sheet commitments and contingent liabilities

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

3.18 Managed funds for and on behalf of third parties

The Bank manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Bank's assets and are excluded from the balance sheet. For the services rendered the Bank charges a fee.

NOTE 4 – NET INTEREST INCOME

	2014	2013
	(in thousands of HRK)	
a) Interest and similar income – analysis by source		
Companies	49,861	44,437
Individuals	5,633	4,570
State and public sector	175	1,392
Banks and other financial institutions	168	353
Other	424	726
	56,261	**51,478**
b) Interest and similar income – analysis by product		
Loans and advances to customers	52,549	47,180
Debt securities and bills of exchange	3,544	3,945
Loans and advances to banks and other financial institutions	168	353
	56,261	**51,478**

	2014	2013
	(in thousands of HRK)	
c) Interest expense and similar charges – analysis by source		
Individuals	9,322	6,154
Companies	6,995	8,561
Banks	3,995	4,089
State and other	325	11
	20,637	**18,815**
d) Interest expense and similar charges – analysis by product		
Deposits from individuals	9,322	6,154
Deposits from companies and other organisations	7,320	8,572
Borrowings and deposits from banks	3,995	4,089
	20,637	**18,815**

NOTE 5 – NET FEE AND COMMISSION INCOME

	2014	2013
	(in thousands of HRK)	
a) Fee and commission income		
Domestic payment transactions	3,426	3,456
Guarantees and letter of credits given	974	1,071
International payment transactions	877	616
Other	3	15
	5,280	**5,158**
b) Fee and commission expense		
Domestic payment transactions	1,260	1,376
International payment transactions	63	77
	1,323	**1,453**

NOTE 6 – NET INCOME FROM INVESTMENT SECURITIES

	2014	2013
	(in thousands of HRK)	
Realised gain on disposal of financial assets at fair value through profit or loss	383	568
	383	**568**

NOTE 7 – OTHER OPERATING INCOME

	2014	2013
	(in thousands of HRK)	
Recharged operating expenses to BKS AG	600	463
Net foreign exchange loss from translation of monetary assets and liabilities	(58)	(348)
Other income	401	495
	943	**610**

NOTE 8 – OTHER IMPAIRMENT LOSSES AND PROVISIONS

	2014	2013
	(in thousands of HRK)	
Increase/(release)in provisions for off-balance-sheet exposures (Note 24)	(56)	304
Increase in provisions for severance payments and jubilee awards (Note 24)	485	61
Impairment loss on other assets (Note 20)	345	329
Impairment loss on available for sale financial assets (Note 16)	553	200
	1,327	**894**

NOTE 9 – OPERATING EXPENSES

	2014	2013
	(in thousands of HRK)	
Personnel expenses	14,559	13,330
Software maintenance costs	4,583	4,219
Professional services and material costs	4,234	3,855
Depreciation and amortisation	4,119	4,329
Rent expenses	1,322	1,152
Administration and marketing expenses	1,060	1,347
Savings deposit insurance expenses	901	1,054
Other	841	951
	31,619	**30,237**

Personnel expenses include HRK 2,301 thousand (2013: HRK 2,115 thousand) of defined pension contributions payable into obligatory pension plans. Contributions are calculated as a percentage of employees' gross salaries.

During 2014, the Bank had 63 employees in average (2013: 62 employees).

NOTE 10 – INCOME TAX

a) Income tax recognised in the income statement

	2014	2013
	(in thousands of HRK)	
Current tax	-	-
Deferred tax	181	168
Income tax benefit	**181**	**168**

b) Movement in deferred tax asset

	2013	Charged to income statement	2014
		(in thousands of HRK)	
Deferred tax assets			
Provisions for severance payments and jubilee awards and unused holiday accrual	368	94	462
Deferred fee and interest income	678	87	765
Total deferred tax assets	**1,046**	**181**	**1,227**

	2012	Charged to income statement	2013
		(in thousands of HRK)	
Deferred tax assets			
Provisions for severance payments and jubilee awards and unused holiday accrual	352	16	368
Deferred fee and interest income	526	152	678
Total deferred tax assets	**878**	**168**	**1,046**

NOTE 10 – INCOME TAX (continued)

c) Reconciliation of the profit before tax and income tax expense

The reconciliation between tax expense and profit before tax is shown as follows:

	2014	2013
	(in thousands of HRK)	
Profit/(loss) before income tax	1,009	(8,879)
Income tax at 20% (2013: 20%)	202	(1,776)
Non-deductible expenses	1,180	802
Tax exempt income	(755)	(553)
Utilisation of tax losses b/f	(579)	-
Other	(48)	-
Income tax	**-**	**(1,527)**
Effective income tax rate	-	-

d) Tax losses carried forward

A tax loss may be carried forward for five years subsequent to the year in which it was incurred by the Bank. The availability of tax losses available for offset against taxable income in future periods, calculated at the tax rate of 20% enacted at the reporting date, subject to review by Ministry of Finance, is as follows:

	2014	2013
	(in thousands of HRK)	
No more than 1 year	-	-
No more than 2 years	-	-
No more than 3 years	(172)	-
No more than 4 years	(1,527)	(751)
No more than 5 years	-	(1,527)
Total net tax losses carried forward not recognised as deferred tax asset	**(1,699)**	**(2,278)**

The deferred tax asset in respect of tax losses carried forward is not recognised as it is not known with sufficient degree of certainty whether there will be enough taxable base available in near future for the utilisation.

NOTE 11 – CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
	(in thousands of HRK)	
Current accounts with other banks	90,418	101,392
Current accounts with the Croatian National Bank	45,924	63,348
Cash in hand	4,142	6,373
	140,484	**171,113**

NOTE 12 – OBLIGATORY RESERVE WITH THE CROATIAN NATIONAL BANK

	31 December 2014	31 December 2013
	(in thousands of HRK)	
Obligatory reserve		
- in kuna	77,518	69,315
- in foreign currency	11,488	15,078
	89,006	**84,393**

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 of 31 December 2014 amounted to 12% (in 2013: 12%) of kuna and foreign currency deposits, borrowings and issued debt securities.

As of 31 December 2014, the required rate of maintenance of the kuna obligatory reserve 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. These ratios include the part of foreign currency obligatory reserve required to be held in HRK (see below).

At least 60% (2013: 60%) of the obligatory reserve calculated on foreign currency liabilities must be deposited with the CNB, while the remaining 40% (2013: 40%) (or less to the extent that the amount deposited with the CNB exceeds 60%) must be held in the form of other liquid receivables, after adjusting for the obligatory reserve requirement arising from foreign currency funds from non-residents and related parties (which is required to be held in full with the CNB). Since 14 January 2009, 75% of the obligatory reserve arising from foreign currency is required to be held in HRK and is added to the kuna part of the obligatory reserve.

NOTE 13 – LOANS AND ADVANCES TO BANKS

	31 December 2014	31 December 2013
	(in thousands of HRK)	
Foreign banks	66,655	79,699
Domestic banks	4,342	4,218
Impairment allowance	(3,806)	(4,104)
	67,191	**79,813**

The movements in impairment allowances for loans and advances to banks:

	2014	2013
	(in thousands of HRK)	
Balance at 1 January	**4,104**	**264**
Impairment losses	128	3,840
Reversal of impairment losses	-	-
Movement of impairment allowance recognised in income statement	***128***	***3,840***
Amounts written - off	*(426)*	-
Balance at 31 December	**3,806**	**4,104**

NOTE 14 – LOANS AND ADVANCES TO CUSTOMERS

a) Analysis by recipient

	31 December 2014	31 December 2013
	(in thousands of HRK)	
Companies and similar organisations	830,395	724,696
Individuals and unincorporated businesses	106,963	82,643
Total loans	**937,358**	**807,339**
Portfolio based allowance for unidentified losses	(12,160)	(11,351)
Impairment allowance for identified losses	(25,728)	(18,095)
Total impairment allowance	**(37,888)**	**(29,446)**
	899,470	**777,893**
Total impairment allowance as a percentage of gross loans and advances to customers	4.04%	3.65%

b) Movements in impairment allowance for loans and advances to customers:

	2014	2013
	(in thousands of HRK)	
Balance at 1 January	**29,446**	**17,418**
Impairment losses	10,342	15,616
Reversal of impairment losses	(1,846)	(3,343)
Impairment losses on loans and advances to customers recognised in the income statement	**8,496**	**12,273**
Amounts written off	(54)	(245)
Balance at 31 December	**37,888**	**29,446**

NOTE 15 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2014	31 December 2013
	(in thousands of HRK)	
Investments in investment funds, quoted	42,506	42,780
	42,506	**42,780**

NOTE 16 – AVAILABLE–FOR–SALE FINANCIAL ASSETS

	31 December 2014	31 December 2013
	(in thousands of HRK)	
Unlisted equity securities	2,083	2,083
Impairment allowance	(1,560)	(1,007)
	523	**1,076**

Movement in impairment allowance for available-for-sale investment securities:

	2014	2013
	(in thousands of HRK)	
Balance at 1 January	**1,007**	**807**
Charge for the year (note 8)	553	200
Balance at 31 December	**1,560**	**1,007**

NOTE 17 – HELD–TO–MATURITY INVESTMENTS

	31 December 2014	31 December 2013
	(in thousands of HRK)	
Unlisted		
Corporate bills of exchange	35,319	49,269
	35,319	**49,269**

NOTE 18 – PROPERTY AND EQUIPMENT

(in thousands of HRK)	Buildings	IT equipment	Office furniture and other equipment	Other	Assets acquired but not brought into use	TOTAL
Cost						
At 1 January 2014	**26,164**	**5,067**	**4,672**	**337**	**12**	**36,252**
Additions	-	138	193		6	**337**
Transfers from asset under construction	-	-	-	-	-	-
Disposals	-	-	(66)	-	-	**(66)**
At 31 December 2014	**26,164**	**5,205**	**4,799**	**337**	**18**	**36,523**
Accumulated depreciation and impairment losses						
At 1 January 2014	**6,251**	**4,408**	**3,594**	**78**	**-**	**14,331**
Charge for the year	654	342	487	11	-	**1,494**
Disposals	-	-	(66)	-	-	**(66)**
At 31 December 2014	**6,905**	**4,750**	**4,015**	**89**	**0**	**15,759**
Carrying value						
1 January 2014	**19,913**	**659**	**1,078**	**259**	**12**	**21,921**
31 December 2014	**19,259**	**455**	**784**	**248**	**18**	**20,764**
Cost						
At 1 January 2013	**26,157**	**5,456**	**4,720**	**337**	**40**	**36,710**
Additions	-	159	6	-	-	165
Transfers from asset under construction	7	-	28	-	(28)	7
Disposals	-	(548)	(82)	-	-	(630)
At 31 December 2013	**26,164**	**5,067**	**4,672**	**337**	**12**	**36,252**
Accumulated depreciation and impairment losses						
At 1 January 2013	5,598	4,604	3,229	71	-	13,502
Charge for the year	653	352	447	7	-	1,459
Disposals	-	(548)	(82)	-	-	(630)
At 31 December 2013	**6,251**	**4,408**	**3,594**	**78**	**-**	**14,331**
Carrying value						
1 January 2013	**20,559**	**852**	**1,491**	**266**	**40**	**23,208**
31 December 2013	**19,913**	**659**	**1,078**	**259**	**12**	**21,921**

Depreciation charge for the year is included within operating expenses in the income statement (Note 9).

NOTE 19 – INTANGIBLE ASSETS

(in thousands of HRK)	Software	Leasehold improvements	Assets acquired but not yet brought into use	TOTAL
Cost				
At 1 January 2014	**24,669**	**1,709**	**1,383**	**27,761**
Additions	2,929	-	-	**2,929**
Transfers	1,299	-	(1,299)	**-**
At 31 December 2014	**28,897**	**1,709**	**84**	**30,690**
Accumulated amortisation and impairment losses				
At 1 January 2014	**20,326**	**1,599**	-	**21,925**
Charge for the year	2,581	44	-	**2,625**
At 31 December 2014	**22,907**	**1,643**	-	**24,550**
Carrying value				
1 January 2014	**4,343**	**110**	**1,383**	**5,836**
31 December 2014	**5,990**	**66**	**84**	**6,140**

Cost				
At 1 January 2013	**23,407**	**1,709**	**110**	**25,226**
Additions	1,262	-	1,273	2,535
Transfers	-	-	-	
At 31 December 2013	**24,669**	**1,709**	**1,383**	**27,761**
Accumulated amortisation and impairment losses				
At 1 January 2013	**17,769**	**1,286**	**-**	**19,055**
Charge for the year	2,557	313	-	**2,870**
At 31 December 2013	**20,326**	**1,599**	**-**	**21,925**
Carrying value				
1 January 2013	**5,638**	**423**	**110**	**6,171**
31 December 2013	**4,343**	**110**	**1,383**	**5,836**

Amortisation charge for the year is included within operating expenses in the income statement (Note 9).

NOTE 20 – OTHER ASSETS

	31 December 2014	31 December 2013
	(in thousands of HRK)	
Accrued interest – due	6,116	6,039
Accrued interest – not yet due	4,367	3,891
Property in lieu of uncollected receivables (real estate)	2,450	693
Accrued fees	447	622
Other	669	863
	14,049	**12,108**
Impairment allowance against accrued interest	(3,866)	(3,514)
Impairment allowance against accrued fees	(155)	(260)
	(4,021)	**(3,774)**
	10,028	**8,334**

The movements in impairment allowances for other assets are as follows:

	2014	2013
	(in thousands of HRK)	
Balance at 1 January	**3,774**	**3,445**
Reversal of impairment losses	(302)	(404)
Impairment losses	647	733
Movement of impairment allowance recognised in income statement (note 8)	***345***	***329***
Amounts written off	(98)	-
Balance at 31 December	**4,021**	**3,774**

Net movement of impairment allowance on other assets is recognised within “Other impairment losses and provisions” in the income statement (Note 8).

NOTE 21 – DEPOSITS FROM BANKS

	31 December 2014	31 December 2013
	(in thousands of HRK)	
Current accounts	141	77
	141	**77**

NOTE 22 – DEPOSITS FROM CUSTOMERS

	31 December 2014	31 December 2013
	(in thousands of HRK)	
Companies and similar organisations		
- current accounts	54,584	67,513
- term deposits	304,671	284,783
Individuals and unincorporated businesses		
- current accounts and demand deposits	86,403	72,134
- term deposits	219,724	193,241
	665,382	**617,671**

NOTE 23 – BORROWINGS

In accordance with their terms, borrowings from the Croatian Bank for Reconstruction and Development ("HBOR") are used to fund loans to customers for eligible construction and development projects at preferential interest rates.

Borrowings from Croatian Bank for Reconstruction and Development

Currency	Principal '000	Maturity	Interest rate	31 December 2014	31 December 2013
HRK (EUR currency clause)	1,590	2019	2.00%	4,872	2,429
HRK (EUR currency clause)	209	2014	2.00%	-	53
HRK (EUR currency clause)	680	2017	1.78%	1,362	1,961
HRK (EUR currency clause)	334	2018	2.75%	1,280	1,596
HRK (EUR currency clause)	276	2020	3.00%	1,215	1,422
HRK (EUR currency clause)	993	2020	2.23%	5,706	6,636
HRK (EUR currency clause)	275	2016	5.00%	1,055	1,446
HRK	12,058	2016	5.00%	-	6,531
HRK (EUR currency clause)	104	2016	3.00%	319	477
HRK (EUR currency clause)	239	2018	3.00%	1,406	1,819
HRK (EUR currency clause)	44	2019	2.00%	281	336
HRK	2,520	2026	1.00%	2,520	-
HRK (EUR currency clause)	980	2026	3.00%	7,508	-
HRK	850	2027	1.00%	802	-
				28,326	**24,706**

Borrowings from foreign banks - BKS Bank AG Klagenfurt, Austria

Currency	Principal '000	Maturity	Interest rate	31 December 2014	31 December 2013
EUR	-	2014	Euribor + 0.58%	-	248,223
EUR	30,000	2015	Euribor + 0.58%	229,844	84,014
EUR	9,500	2016	Euribor + 0.58%	72,785	45,826
EUR	2,000	2017	Euribor + 0.58%	15,323	-
EUR	5,000	2018	Euribor + 0.58%	38,307	-
EUR	5,000	2019	Euribor + 0.58%	38,307	-
				394,566	**378,063**

Total borrowings	**422,892**	**402,769**

The amount of undrawn borrowing facilities from BKS AG available on the balance sheet date 31 December 2014 is HRK 256,659 thousand (31 December 2013: HRK 266,250 thousand). Maturity is not defined and the cancellation period is 5 days (if certain terms are fulfilled).

NOTE 24 – PROVISIONS FOR LIABILITIES AND CHARGES

(in thousands of HRK)	Portfolio based provision for off-balance sheet exposures	Provision for identified off-balance sheet exposures	Total provisions for off-balance sheet exposures	Provisions for severance payments and jubilee awards	Total
Balance at 1 January 2014	**1,091**	**-**	**1,091**	**1,808**	**2,899**
Net increase/(release) in income statement	(56)	-	(56)	485	429
Balance at 31 December 2014	**1,035**	**-**	**1,035**	**2,293**	**3,328**
Balance at 1 January 2013	**787**	**-**	**787**	**1,747**	**2,534**
Net increase/(release) in income statement	304	-	304	61	365
Balance at 31 December 2013	**1,091**	**-**	**1,091**	**1,808**	**2,899**

Net increase/decrease in provisions for liabilities and charges is recognised within “Other impairment losses and provisions” in the income statement (Note 8).

NOTE 25 – OTHER LIABILITIES

	31 December 2014	**31 December 2013**
	(in thousands of HRK)	
Interest payable – not yet due	15,757	13,150
Accrued salary expenses	1,218	1,030
Payables to suppliers	522	1,152
Payments in advance by customers	394	2,465
Unused holiday accrual	209	177
Fees payable	90	113
Items in transfer	85	192
Interest payable – due	83	262
Other liabilities	830	980
	19,188	**19,521**

NOTE 26 – ISSUED SHARE CAPITAL

	Total share capital
	(in thousands of HRK)
As at 1 January 2014	200,000
Increase in share capital	-
As at 31 December 2014	**200,000**

As at 31 December 2014 registered, subscribed and fully paid-in capital comprises 2,000,000 ordinary shares (2013: 2,000,000 ordinary shares) with a nominal value of HRK 100 each (2013: HRK 100).

The shareholder structure of the Bank is:

	At 31 December 2014		**At 31 December 2013**	
	Number of shares issued	**%**	**Number of shares issued**	**%**
BKS Bank AG, Klagenfurt	2,000,000	100.00	2,000,000	100.00
Total	2,000,000	100.00	2,000,000	100.00

Dividends

Dividends payable are recognised as a liability after having been approved at the Annual General Meeting. During 2014 and 2013 there were no dividend payments.

NOTE 27 – OTHER RESERVES, FAIR VALUE RESERVE AND RETAINED EARNINGS

a) Statutory reserve

A statutory reserve has been created in accordance with Croatian law, which requires 5% of the total comprehensive income for the year to be transferred into this reserve until the reserve reaches 5% of issued share capital. The statutory reserve, in the amount of up to 5% of issued share capital, can be used for the coverage of current and prior year losses.

b) Retained earnings

Retained earnings comprise accumulated net profits and net losses of prior years.

NOTE 28 – CONCENTRATION OF ASSETS AND LIABILITIES

The significant amount of assets and liabilities of the Bank are concentrated on amounts due from and to the Republic of Croatia and to related parties of Republic of Croatia, as follows:

	Note	31 December 2014	31 December 2013
		(in thousands of HRK)	
Current accounts with the Croatian National Bank	11	45,924	63,348
Obligatory reserve with the Croatian National Bank	12	89,006	84,393
Accrued interest and other assets		28	349
Decreased by:			
Borrowings from Croatian bank for reconstruction and development	23	(28,326)	(24,706)
Other liabilities		(641)	(570)
		105,991	**122,814**

As at 31 December 2014 total exposure to the Republic of Croatia amounted to 8.07% of total assets (2013: 9.88%).

NOTE 29 – MANAGED FUNDS FOR AND ON BEHALF OF THIRD PARTIES

The Bank manages a number of loans on behalf of third parties in return for a fee. These assets are not the Bank's assets and are not recognised on the Bank's balance sheet.

Managed funds for and on behalf of third parties are as follows:

	31 December 2014	31 December 2013
	(in thousands of HRK)	
Assets		
Loans and advances to customers		
- individuals and unincorporated businesses	33	38
Interest receivable	4	8
	37	**46**
Liabilities		
Deposits from local government	38	38
Interest payable	8	8
	46	**46**

NOTE 30 – CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings

As of 31 December 2014 there were four legal proceedings outstanding against the Bank. in management opinion which was supported by external legal advice, no provision was recognised in financial statements.

Off-balance-sheet exposure

The following table indicates the contractual amounts of the Bank's off-balance-sheet financial instruments:

	31 December 2014	31 December 2013
	(in thousands of HRK)	
Guarantees and letters of credit	38,387	53,742
Commitments for facilities not withdrawn	65,097	55,312
	103,484	**109,054**

NOTE 31 – RELATED PARTY TRANSACTIONS

As at 31 December 2014 the sole shareholder of the Bank was Bank für Kaernten und Steiermark AG, Klagenfurt, Austria (“BKS Bank AG”) who has multiple shareholders (there is no single majority shareholder with prevailing voting interest). The Bank considers that it has an immediate related party relationship with BKS Bank AG and its shareholders, subsidiaries and associates; the Supervisory and Management Board members and the Head of Corporate Department and the Zagreb Branch Director (“key management personnel”); close family members of key management personnel; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members.

The Bank enters into a number of transactions with related parties in the normal course of business.

Parent bank

The Bank obtains borrowings and deposits and also places deposits and holds current accounts with the parent bank. As of 31 December 2014 the Bank had borrowings from the parent bank in the amount of HRK 394,566 thousand (2013: HRK 378,063 thousand) and deposits from the parent bank in the amount of HRK 141 thousand (2013: HRK 77 thousand). Total interest payable to the parent bank as at 31 December 2014 amounts to HRK 236 thousand (2013: HRK 430 thousand). During 2014, the Bank recorded HRK 2,843 thousand (2013: HRK 2,786 thousand) of interest expense, fee expenses in the amount of HRK 10 thousand (2013: HRK 79 thousand) and net foreign exchange loss in the amount of HRK 856 thousand (2013: HRK 4,587 thousand) in respect of borrowings and deposits received from the parent bank.

In addition, as of 31 December 2014 the Bank held current accounts with the parent bank in the amount of HRK 44,734 thousand (2013: HRK 29,063 thousand). Total interest receivable from the parent bank as at 31 December 2014 is zero (2013: HRK 11 thousand).

In addition, the Bank recognised other income of HRK 540 thousand (2013: HRK 445 thousand), of which HRK 53 thousand (2013: HRK 35 thousand) was receivable as at 31 December 2014, and other expense of HRK 16 thousand (2013: HRK 448 thousand).

Related companies

BKS Leasing Croatia d.o.o. is a related company which has deposits with the Bank in the amount of HRK 184,614 thousand as of 31 December 2014 (2013: HRK 159,052 thousand) per which the Bank recorded interest payable at the end of 2014 in the amount of HRK 8,979 thousand (2013: HRK 6,207 thousand). In 2014 the Bank recorded interest expense in the amount of HRK 3,538 thousand (2013: HRK 3,252 thousand) in relation to deposits placed by BKS Leasing Croatia d.o.o., and other expense in the amount of HRK 116 thousand (2013: HRK 78 thousand).

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

Key management personnel

In 2014, the total remuneration of the Management Board was HRK 1,541 thousand (2013: HRK 1,510 thousand) and of other key management personnel was HRK 1,595 thousand (2013: HRK 1,040 thousand) and consisted of short-term benefits only. Included in these benefits, in 2014 the Bank recorded pension contributions into obligatory pension funds for Management Board in the amount of HRK 239 thousand (2013: HRK 227 thousand) and to other key management in the amount of HRK 291 thousand (2013: HRK 192 thousand). During 2014, bonuses to the key management personnel in the amount of HRK 137 thousand have been accrued while no bonuses have been recognized in the year 2013.

The Bank has granted loans to key management personnel in the amount of HRK 2,620 thousand (2013: HRK 1,274thousand) as at 31 December 2014. As a result, during 2014 the Bank recorded interest income in the amount of HRK 70 thousand (2013: HRK 64 thousand).

The Bank also has deposits from key management personnel in the amount of HRK 2,528 thousand as at 31 December 2014 (2013: HRK 2,379 thousand) on which it has recorded interest expense in the amount of HRK 87 thousand during 2014 (2013: HRK 116 thousand).

Companies under the significant influence of key management personnel and their close family members and Supervisory Board members

Mr Goran Rameša, President of the Management Board, is also the President of the Supervisory Board of the company Rapska plovidba d.d., Rab, therefore the Bank considers this entity to be a related party. The Bank has granted loans to Rapska plovidba d.d., Rab in the amount of HRK 10,564 thousand (2013: HRK 10,128 thousand) and has recorded interest income in the amount of HRK 687 thousand during 2014 (2013: HRK 616 thousand). The Bank also has deposits from Rapska plovidba d.d. in the amount of HRK 42 thousand (2013: HRK 89 thousand) and as a result has recorded interest expense in the amount of HRK 1 thousand (2013: HRK 7 thousand).

Other companies under the significant influence of key management personnel are Konto d.o.o., Darin d.o.o. and BKS Nekretnine d.o.o. The Bank has deposits from Konto d.o.o., Darin d.o.o. and BKS Nekretnine d.o.o. The Bank also provides payment transaction services to these companies.

No fees to Supervisory Board members were paid during 2014 and 2013.

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

Key transactions with immediate related parties and related amounts arising from transactions with immediate related parties were as follows:

2014	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
Key shareholder				
BKS Bank AG, Klagenfurt	44,787	394,943	540	3,735
Other related companies				
BKS Leasing Croatia d.o.o.	9	193,593	89	4,331
Drei –Banken-EDV Gmbh	-	56	-	343
Key management personnel				
Management Board				
Short-term benefits (bonuses, salaries and fees)	-	-	-	1,541
Loans and deposits	-	2,312	59	83
Other key management personnel				
Short-term benefits (bonuses, salaries and fees)	-	-	-	1,595
Loans and deposits	2,620	216	78	5
Companies under the significant influence of key management personnel and their close family members and Supervisory Board members				
Rapska plovidba d.d., Rab	10,564	42	696	1
Other	-	434	5	1
Total	**57,980**	**591,596**	**1,467**	**11,635**

2013	Assets HRK'000	Liabilities HRK'000	Income HRK'000	Expense HRK'000
Key shareholder	29,110	378,570	445	7,901
BKS Bank AG, Klagenfurt				
Other related companies				
BKS Leasing Croatia d.o.o.	9	165,260	92	5,154
Key management personnel				
Management Board				
Short-term benefits (bonuses, salaries and fees)	-	118	-	1,510
Loans and deposits	-	2,297	1	114
Other key management personnel				
Short-term benefits (bonuses, salaries and fees)	-	86	-	1,040
Loans and deposits	1,274	82	63	2
Companies under the significant influence of key management personnel and their close family members and Supervisory Board members				
Rapska plovidba d.d., Rab	10,218	89	616	7
Other	-	178	5	1
	40,611	**546,680**	**1,222**	**15,729**

Total

NOTE 32– FINANCIAL RISK MANAGEMENT

This section provides details of the Bank's exposure to risks and describes the methods used by management to identify, measure and manage risks in order to safeguard its capital. The major risks to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

An integrated system of risk management is being established by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Bank and monitoring their implementation. Methodologies and models for managing operational risk are being developed.

a) Credit risk

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

The risk that counterparties to financial instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank deals with counterparties of good credit standing, and when appropriate, obtain collateral.

In addition to the carrying amounts of the assets in the statement of financial position, the Bank is exposed to off-balance-sheet credit risk through commitments to extend credit and guarantees issued (refer to Note 30).

Exposure to credit risk is managed in accordance with the Bank's policies. Credit exposures to portfolios and individual client/group exposures are reviewed on a regular basis taking into account set limits. Any proposed substantial increases in credit exposure are reviewed by an appropriate decision-making level. The Management Board is regularly informed of all significant changes in quantity and quality of the portfolio, including proposed impairment losses. Credit risk assessment is continuously monitored and reported, thus enabling the early identification of impairment in the credit portfolio. The Management Board believes that the Bank continually applies prudent methods in the process of credit risk assessment.

A significant part of credit risk exposures is secured with collateral in the form of cash, guarantees, mortgages and other forms of security.

Geographic concentrations of assets, liabilities and off balance sheet items

	31 December 2014			**31 December 2013**		
(in HRK thousand)	**Assets**	**Liabilities**	**Off-bs exposure**	**Assets**	**Liabilities**	**Off-bs exposure**
Croatia	1,165,080	663,381	103,484	1,071,616	617,078	109,154
European Union	147,578	437,002	-	171,858	423,303	-
Other	-	10,548	-	-	2,556	-
	1,312,658	**1,110,931**	**103,484**	**1,243,474**	**1,042,937**	**109,054**

NOTE 32– FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Industry segmentation of loans and advances:

(in thousands of HRK)	31 December 2014	%	31 December 2013	%
Gross balances before impairment allowances				
Trade and commerce	247,058	26	213,470	26
Construction	226,577	24	228,114	28
Metallurgy	34,623	4	36,700	5
Transport, warehousing and public services	45,955	5	47,288	6
Energy	5,830	1	-	-
Shipbuilding	14,675	2	516	0
Services	199,683	21	143,745	18
Individuals and unincorporated businesses	107,957	11	82,627	10
Miscellaneous	55,000	6	54,879	7
	937,358	**100**	**807,339**	**100**

The following table shows maximum exposure to credit risk relating to balance sheet assets and off-balance sheets items

(in thousands of HRK)	Note	31 December 2014	31 December 2013
ASSETS			
Current accounts with CNB and other banks (cash in hand excluded)	11	136,342	164,740
Obligatory reserve with the Croatian National Bank	12	89,006	84,393
Loans and advances to banks	13	67,191	79,813
Loans and advances to customers	14a	899,470	777,893
Financial assets at fair value through profit or loss	15	42,506	42,780
Held-to-maturity investments	17	35,319	49,269
Accrued interest and fees, net	20	6,909	6,778
Total credit risk exposed assets		**1,276,743**	**1,205,666**
OFF-BALANCE SHEET			
Guarantees and letters of credit	30	38,387	53,742
Commitments for facilities not withdrawn	30	65,097	55,312
		103,484	**109,054**

NOTE 32– FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

The above table represents the maximum direct credit risk exposure of the Bank as at 31 December 2014 and 31 December 2013, without taking into account of any collateral held or other credit enhancements attached and exposure to investment funds investing in debt instruments. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

Total collaterals available to reduce the credit risk as at 31 December 2014 and 31 December 2013:

(in HRK thousands)	**31 December 2014**	**31 December 2013**
Real estates	1,784,244	1,919,173
Deposits	98,785	103,423
Shares	-	-
Guarantees	58,534	60,993
Other	11,370	1,957
Total	**1,952,933**	**2,085,546**

Impairment losses

(in thousands of HRK)	**31 December 2014**		**31 December 2013**	
CNB rating	**Loans**	**Impairment allowance for identified losses**	**Loans**	**Impairment allowance for identified losses**
A	880,832	-	749,686	-
B	43,946	13,148	51,134	11,576
C	12,580	12,580	6,519	6,519
	937,358	**25,728**	**807,339**	**18,095**

The rate of impairment allowance on the non-performing loan portfolio (CNB Ratings B and C) is 45.52% (2013: 31.39%).

Total impairment allowance for loans and receivables is HRK 37,888 thousand (2013: HRK 29,446 thousand) of which HRK 25,728 thousand (2013: HRK 18,095 thousand), disclosed in the table above, represents specific impairment allowance and the remaining amount of HRK 12,160 thousand (2013: HRK 11,351 thousand) represents the general provision calculated on a portfolio basis for on-balance sheet exposures. The analysis by performance of loans and advances to customers net of specific impairment allowances is as follows:

NOTE 32– FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Loans and advances to individuals and unincorporated business	**31 December 2014**	**31 December 2013**
	(in thousands of HRK)	
Gross		
Not due and not impaired	104,701	80,330
Not due and impaired	711	239
Due but not impaired	127	131
Due and impaired	1,424	1,943
	106,963	82,643
Impairment allowance for identified losses	(1,420)	(908)
Net loans and advances to individuals and unincorporated business	**105,543**	**81,735**

Loans and advances to companies	**31 December 2014**	**31 December 2013**
	(in thousands of HRK)	
Gross		
Not due and not impaired	753,702	659,467
Not due and impaired	14,226	11,377
Due but not impaired	22,302	9,758
Due and impaired	40,165	44,094
	830,395	724,696
Impairment allowance for identified losses	(24,308)	(17,187)
Net loans and advances to companies	**806,087**	**707,509**

NOTE 32– FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

The table below represents the aging structure of past due but not impaired loans:

	Less than 1 month	1 to 3 months	3-12 months	> 12 months	Total
31 December 2014					
Companies	3,516	17,928	858	-	22,302
Individuals	16	62	48	1	127
Total	**3,532**	**17,990**	**906**	1	**22,429**
31 December 2013					
Companies	5,206	3,360	1,192	-	9,758
Individuals	110	20	1	-	131
Total	**5,316**	**3,380**	**1,193**	**-**	**9,889**

b) Liquidity risk

Liquidity risk arises in the general funding of the Bank’s activities and in the management of maturity positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate timeframe. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees and other cash settled calls. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Management Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Bank manages liquidity reserves daily, ensuring also accomplishment of all customer needs.

NOTE 32– FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date, except for the obligatory reserve which is presented as maturing within one month. In addition, financial assets at fair value through profit or loss are presented as maturing within one month, and available-for-sale financial assets are presented as maturing in over 3 years.

(in thousands of HRK)	Up to 1 month	1-3 months	3-12 months	1 - 3 years	Over 3 years	Total
As at 31 December 2014						
ASSETS						
Cash and cash equivalents	140,484	-	-	-	-	140,484
Obligatory reserve with CNB	89,006	-	-	-	-	89,006
Loans and advances to banks	44,436	22,755	-	-	-	67,191
Loans and advances to customers	200,475	53,142	152,108	154,497	339,248	899,470
Financial assets at fair value through profit or loss	42,506	-	-	-	-	42,506
Available-for-sale financial assets	-	-	-	-	523	523
Held-to-maturity investments	1,204	3,289	30,826	-	-	35,319
Property and equipment	-	-	-	-	20,764	20,764
Intangible assets	-	-	-	-	6,140	6,140
Deferred tax assets	-	-	-	1,227	-	1,227
Other assets	9,176	125	709	18	-	10,028
Total assets	**527,287**	**79,311**	**183,643**	**155,742**	**366,675**	**1,312,658**
LIABILITIES AND EQUITY						
Deposits from banks	141	-	-	-	-	141
Deposits from customers	161,431	75,399	281,417	62,576	84,559	665,382
Borrowings	478	589	233,431	97,521	90,801	422,820
Provisions for liabilities and charges	-	1,035	-	-	2,293	3,328
Other liabilities	4,971	3,887	8,233	1,453	715	19,259
Total equity	-	-	-	-	201,728	201,728
Total liabilities and equity	**167,021**	**80,910**	**523,081**	**161,550**	**380,096**	**1,312,658**
Net liquidity gap	**360,266**	**(1,599)**	**(339,438)**	**(5,808)**	**(13,421)**	**-**

NOTE 32 – FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

(in thousands of HRK)	Up to 1 month	1-3 months	3-12 months	1 - 3 years	Over 3 years	Total
As at 31 December 2013						
ASSETS						
Cash and cash equivalents	171,113	-	-	-	-	171,113
Obligatory reserve with CNB	84,393	-	-	-	-	84,393
Loans and advances to banks	60,337	19,476	-	-	-	79,813
Loans and advances to customers	102,926	35,866	182,328	122,419	334,354	777,893
Financial assets at fair value through profit or loss	42,780	-	-	-	-	42,780
Available-for-sale financial assets	-	-	-	-	1,076	1,076
Held-to-maturity investments	4,473	770	41,924	2,102	-	49,269
Property and equipment	-	-	-	-	21,921	21,921
Intangible assets	-	-	-	-	5,836	5,836
Deferred tax assets	-	-	-	1,046	-	1,046
Other assets	7,612	244	478	-	-	8,334
Total assets	**473,634**	**56,356**	**224,730**	**125,567**	**363,187**	**1,243,474**
LIABILITIES AND EQUITY						
Deposits from banks	77	-	-	-	-	77
Deposits from customers	157,736	77,888	255,290	40,039	86,718	617,671
Borrowings	559	27,761	228,634	139,762	5,999	402,715
Provisions for liabilities and charges	-	1,091	-	-	1,807	2,898
Other liabilities	7,238	4,120	6,866	709	642	19,575
Total equity	-	-	-	-	200,538	200,538
Total liabilities and equity	**165,610**	**110,860**	**490,790**	**180,510**	**295,704**	**1,243,474**
Net liquidity gap	**308,024**	**(54,504)**	**(266,060)**	**(54,943)**	**67,483**	**-**

NOTE 32– FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Analysis of the financial liabilities

The table below presents the maturity structure of the undiscounted liabilities taking into account the earliest possible repayment date. The Bank's financial liabilities without contracted maturity are treated as on demand liabilities.

31 December 2014

(in HRK thousand)	**Less than 1 month**	**1 to 3 months**	**3-12 months**	**1 to 3 years**	**More than 3 years**	**Total**
Financial liabilities						
Deposits from credit institutions	141	-	-	-	-	141
Deposits from customers	161,465	75,743	287,585	69,309	96,053	690,155
Borrowings	615	1,136	235,918	100,571	93,472	431,712
Total financial liabilities	162,221	76,879	523,503	169,880	189,525	1,122,008

31 December 2013

(in HRK thousand)	**Less than 1 month**	**1 to 3 months**	**3-12 months**	**1 to 3 years**	**More than 3 years**	**Total**
Financial liabilities						
Deposits from credit institutions	77	-	-	-	-	77
Deposits from customers	158,801	82,365	268,395	47,618	101,705	658,884
Borrowings	761	28,043	231,312	143,024	6,528	409,668
Total financial liabilities	159,639	110,408	499,707	190,642	108,233	1,068,629

NOTE 32– FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

The contractual maturity structure of the Bank's contingent liabilities and commitments

	Less than 1 month	1 to 3 months	3-12 months	1 to 3 years	More than 3 years	Total
31 December 2014						
Guarantees	8,582	7,635	10,638	9,763	1,769	38,387
Letters of credit	-	-	-	-	-	-
Revolving loans	12,247	-	-	-	-	12,247
Other frame loans	52,850	-	-	-	-	52,850
Total 2014	**73,679**	**7,635**	**10,638**	**9,763**	**1,769**	**103,484**
31 December 2013						
Guarantees	9,091	12,323	23,363	7,009	1,650	53,436
Letters of credit	-	306	-	-	-	306
Revolving loans	11,033	-	-	-	-	11,033
Other frame loans	44,279	-	-	-	-	44,279
Total 2013	**64,403**	**12,629**	**23,363**	**7,009**	**1,650**	**109,054**

NOTE 32 – FINANCIAL RISK MANAGEMENT (continued)

c) Currency risk

The Bank 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 regularly, in accordance with legislation and internally set limits, for each currency and for the total balance sheet denominated in or linked to foreign currency.

The Bank manages its currency risk by setting principles and limits for foreign currency exposures and monitoring against these limits. The Bank directs its business activities towards trying to minimise the gap between assets and liabilities denominated in or linked to foreign currency, and maintaining the daily business activities within daily potential loss limits.

In measuring foreign currency exposure, the Bank relies on regulations prescribed by the CNB. In calculating the capital requirement for currency risk the standard method has been used in accordance with the CNB regulation on capital adequacy.

Due to the insignificant difference between financial assets and financial liabilities denominated and linked to EUR the sensitivity of change in HRK/EUR is not significant at the end of 2014 and 2013.

NOTE 32 – FINANCIAL RISK MANAGEMENT (continued)

c) Currency risk (continued)

Assets and liabilities are analysed by currency as follows:

(in thousands of HRK)	EUR	EUR linked	USD	Other currencies	HRK	Total
As at 31 December 2014						
ASSETS						
Cash and cash equivalents	84,776	-	5,351	1,981	48,376	140,484
Obligatory reserve with CNB	8,236	-	3,252	-	77,518	89,006
Loans and advances to banks	67,191	-	-	-	-	67,191
Loans and advances to customers	45,605	735,169	-	-	118,696	899,470
Financial assets at fair value through profit or loss	-	-	-	-	42,506	42,506
Available-for-sale financial assets	12	-	-	-	511	523
Held-to-maturity investments	-	-	-	-	35,319	35,319
Property and equipment	-	-	-	-	20,764	20,764
Intangible assets	-	-	-	-	6,140	6,140
Deferred tax assets	-	-	-	-	1,227	1,227
Other assets	598	3,821	-	-	5,609	10,028
Total assets	**206,418**	**738,990**	**8,603**	**1,981**	**356,666**	**1,312,658**
LIABILITIES AND EQUITY						
Deposits from banks	-	-	-	-	141	141
Deposits from customers	220,853	261,023	8,538	1,721	173,247	665,382
Borrowings	394,566	25,004	-	-	3,250	422,820
Provisions for liabilities and charges	-	-	-	-	3,328	3,328
Other liabilities	3,819	9,496	79	2	5,863	19,259
Total equity	-	-	-	-	201,728	201,728
Total liabilities and equity	**619,238**	**295,523**	**8,617**	**1,723**	**387,557**	**1,312,658**
Net foreign exchange position	**(412,820)**	**443,467**	**(14)**	**258**	**(30,891)**	**-**

NOTE 32 – FINANCIAL RISK MANAGEMENT (continued)

c) Currency risk (continued)

(in thousands of HRK)	EUR	EUR linked	USD	Other currencies	HRK	Total
As at 31 December 2013						
ASSETS						
Cash and cash equivalents	100,472	-	2,745	1,603	66,293	171,113
Obligatory reserve with CNB	10,861	-	4,217	-	69,315	84,393
Loans and advances to banks	79,813	-	-	-	-	79,813
Loans and advances to customers	45,377	593,358	-	-	139,158	777,893
Financial assets at fair value through profit or loss	-	-	-	-	42,780	42,780
Available-for-sale financial assets	12	-	-	-	1,064	1,076
Held-to-maturity investments	-	-	-	-	49,269	49,269
Property and equipment	-	-	-	-	21,921	21,921
Intangible assets	-	-	-	-	5,836	5,836
Deferred tax assets	-	-	-	-	1,046	1,046
Other assets	451	3,442	1	-	4,440	8,334
Total assets	**236,986**	**596,800**	**6,963**	**1,603**	**401,122**	**1,243,474**
LIABILITIES AND EQUITY						
Deposits from banks	-	-	-	-	77	77
Deposits from customers	186,895	237,523	6,838	1,481	184,934	617,671
Borrowings	378,063	18,130	-	-	6,522	402,715
Provisions for liabilities and charges	-	-	-	-	2,898	2,898
Other liabilities	3,262	6,728	141	1	9,443	19,575
Total equity	-	-	-	-	200,538	200,538
Total liabilities and equity	**568,220**	**262,381**	**6,979**	**1,482**	**404,412**	**1,243,474**
Net foreign exchange position	**(331,234)**	**334,419**	**(16)**	**121**	**(3,290)**	**-**

NOTE 32– FINANCIAL RISK MANAGEMENT (continued)

d) Interest rate risk

In the course of its business operations, the Bank is exposed to interest rate risk to the extent to which its interest-earning assets and interest-bearing liabilities mature or their interest rates change at various times and in various amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in re-pricing characteristics of the various floating rate indices, and different types of interest. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies.

The majority of loans to and receivables from companies and individuals and deposits from companies and individuals are at variable interest rates.

Sensitivity is calculated for significant financial assets (loans and advances to customers) and financial liabilities (deposits and from customers and borrowings) which bear variable interest rates at year end. No sensitivity was calculated for held-to-maturity investments since they bear interest at a fixed rate and are carried at amortised cost.

Sensitivity is calculated to reflect possible changes of average interest's rate applicable on underlying financial assets and financial liabilities. Should the average interest rate on interest-earning assets and interest bearing liabilities increase/decrease by 1 percentage point with all other variables held constant, the Bank's after tax profit for the year would be HRK 410 thousand (2013: HRK 1,084 thousand) lower/higher.

NOTE 32– FINANCIAL RISK MANAGEMENT (continued)

d) Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risks. The tables are management's estimate of the interest rate risk for the Bank as of 31 December 2014 and 31 December 2013 and are not necessarily indicative of the positions at other times but provide some indication of the sensitivities of the Bank's earnings to movements in interest rates. Earnings will also be affected by the currency of the assets and liabilities and equity. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates:

(in thousands of HRK)	Up to 1 month	1-3 months	3-12 months	1 -3 years	Over 3 years	Non-interest bearing	Total	Fixed interest
As at 31 December 2014								
ASSETS								
Cash and cash equivalents	45,026	-	-	-	-	95,458	140,484	-
Obligatory reserve with CNB	-	-	-	-	-	89,006	89,006	-
Loans and advances to banks	44,436	22,755	-	-	-	-	67,191	67,191
Loans and advances to customers	842,789	101	4,109	831	51,640	-	899,470	57,678
Financial assets at fair value through profit or loss	-	-	-	-	-	42,506	42,506	-
Available-for-sale financial assets	-	-	-	-	-	523	523	-
Held-to-maturity investments	1,204	3,289	30,826	-	-	-	35,319	35,319
Property and equipment	-	-	-	-	-	20,764	20,764	-
Intangible assets	-	-	-	-	-	6,140	6,140	-
Deferred tax assets	-	-	-	-	-	1,227	1,227	-
Other assets	-	-	-	-	-	10,028	10,028	-
Total assets	**933,455**	**26,145**	**34,935**	**831**	**51,640**	**265,652**	**1,312,658**	**160,188**
LIABILITIES AND EQUITY								
Deposits from banks	141	-	-	-	-	-	141	-
Deposits from customers	392,212	34,665	128,839	53,803	55,545	318	665,382	342,690
Borrowings	422,820	-	-	-	-	-	422,820	-
Provisions for liabilities and charges	-	-	-	-	-	3,328	3,328	-
Other liabilities	-	-	-	-	-	19,259	19,259	-
Total equity	-	-	-	-	-	201,728	201,728	-
Total liabilities and equity	**815,173**	**34,665**	**128,839**	**53,803**	**55,545**	**224,633**	**1,312,658**	**342,690**
Interest sensitivity gap	**118,282**	**(8,520)**	**(93,904)**	**(52,972)**	**(3,905)**	**41,019**	**-**	**(182,502)**

NOTE 32– FINANCIAL RISK MANAGEMENT (continued)

d) Interest rate risk (continued)

(in thousands of HRK)	Up to 1 month	1-3 months	3-12 months	1 -3 years	Over 3 years	Non-interest bearing	Total	Fixed interest
As at 31 December 2013								
ASSETS								
Cash and cash equivalents	4,397	-	-	-	-	166,716	171,113	-
Obligatory reserve with CNB	-	-	-	-	-	84,393	84,393	-
Loans and advances to banks	60,337	19,476	-	-	-	-	79,813	79,813
Loans and advances to customers	725,551	115	1,036	579	50,612	-	777,893	59,153
Financial assets at fair value through profit or loss	-	-	-	-	-	42,780	42,780	-
Available-for-sale financial assets	-	-	-	-	-	1,076	1,376	-
Held-to-maturity investments	4,473	770	41,924	2,102	-	-	49,269	49,269
Property and equipment	-	-	-	-	-	21,921	21,921	-
Intangible assets	-	-	-	-	-	5,836	5,836	-
Deferred tax assets	-	-	-	-	-	1,046	1,046	-
Other assets	-	-	-	-	-	8,334	8,334	-
Total assets	**794,758**	**20,361**	**42,960**	**2,681**	**50,612**	**332,102**	**1,243,474**	**188,235**

(in thousands of HRK)	Up to 1 month	1-3 months	3-12 months	1 -3 years	Over 3 years	Non-interest bearing	Total	Fixed interest
LIABILITIES AND EQUITY								
Deposits from banks	77	-	-	-	-	-	77	-
Deposits from customers	363,470	30,916	128,592	38,412	55,556	725	617,671	454,960
Borrowings	402,715	-	-	-	-	-	402,715	-
Provisions for liabilities and charges	-	-	-	-	-	2,898	2,898	-
Other liabilities	-	-	-	-	-	19,575	19,575	-
Total equity	-	-	-	-	-	200,538	200,538	-
Total liabilities and equity	**766,262**	**30,916**	**128,592**	**38,412**	**55,556**	**223,736**	**1,243,474**	**454,960**
Interest sensitivity gap	**28,496**	**(10,555)**	**(85,632)**	**(35,731)**	**(4,944)**	**108,366**	**-**	**(266,725)**

NOTE 32– FINANCIAL RISK MANAGEMENT (continued)

e) Price risk

Price risk is the possibility that prices will fluctuate, affecting the fair value of investments and other instruments that derive their value from a particular investment. The primary exposure to price risk arises from the Bank's holding of investments in units in investment funds.

Should the prices of investment funds at 31 December 2014 increase/decrease by 5% with all other variables held constant, the Bank's after tax profit for the year would be HRK 2,125 thousand (2013: HRK 2,139 thousand) higher/lower.

f) Operational risk

Operational risk is the possibility of financial loss due to errors, breaches, terminations or damages caused by internal processes, employees of the Bank, systems as well as by events caused by external factors. Operational risk is defined as legal and compliance risk but not strategic and reputational risk.

The Bank is exposed to operational risk in all segments of its activities. The Bank seeks to manage its operational risk in accordance with defined principles, with the final purpose being to mitigate or avoid operational risk. Methodologies and models for managing operational risk are being developed.

g) Capital adequacy

The amount of capital allocated by individual activity is based primarily on regulatory requirements. The procedure of capital allocation for specific activities is performed independently from responsible personnel for certain activities.

The rate of capital adequacy is calculated as the ratio between guarantee capital and the sum of credit-risk-weighted assets, exposure to market risks (currency risk) and operational risk and the estimated exposure of the open foreign exchange position to currency risk.

Regulatory capital and capital adequacy ratio according to CNB requirements (as of the date of issuance of these financial statements 31 Dec 2014 information is unaudited):	**31 December 2014**	**31 December 2013**
	(in thousands of HRK)	
GUARANTEE CAPITAL		
Ordinary share capital and reserves	200,537	200,427
Supplementary capital	-	-
Deductions	(7,367)	(1,293)
Total guarantee capital	**193,170**	199,134
Risk weighted assets (unaudited)		
Credit-risk-weighted assets and other risk exposures	1,089,756	928,016
CREDIT- RISK- WEIGHTED ASSETS AND OTHER RISK EXPOSURES	**1,089,756**	**928,016**
Capital adequacy ratio	17.73%	21.46%
Minimum prescribed for the Bank	14.25%	12.00%

NOTE 33 – ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio 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.

a) Impairment losses on loans and advances to customers

The Bank monitors the creditworthiness of its customers on an ongoing basis. In accordance with regulations, the need for impairment of the Bank's on- and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying value of loans and advances to corporate and retail customers (summarised in Note 14b), and as provisions arising from off-balance-sheet risk exposure to customers, mainly in the form of undrawn lending commitments, guarantees and letters of credit (summarised in Note 24). Impairment losses are also considered for credit risk exposures to banks, and for other assets not carried at fair value, where the primary risk of impairment is not credit risk.

A summary of impairment allowances on exposures to customers is presented below:

	Note	**31 December 2014**	**31 December 2013**
		(in thousands of HRK)	
Impairment allowance on loans and advances to customers	14b	37,888	29,446
Provisions for off-balance-sheet exposures	24	1,035	1,091
		38,923	**30,537**

Financial assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment exists. However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics. These portfolios are then assessed collectively for impairment.

The Bank estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers and adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of security, where these changes can be correlated with defaults.

NOTE 33 – ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

The Bank takes into consideration the combined effect of several events when assessing impairment and uses its experienced judgment in cases where the observable data required to estimate impairment is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the Bank also has regard to the ranges of specific impairment loss rates prescribed by the CNB.

The Bank has recognised an impairment allowance calculated on a portfolio basis in accordance with the range of impairment loss rates of 1% prescribed by the CNB to be calculated on all credit risk exposures except those carried at fair value through profit or loss, including off-balance-sheet amounts (including undrawn lending commitments) and sovereign risk. Amounts assessed as impaired are excluded from this calculation.

b) Impairment of available-for-sale equity investments

The Bank 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. This determination of what is significant or prolonged requires judgement. The impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows.

c) Held-to-maturity investments

The Bank follows the guidance of IAS 39 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 Bank evaluates its intention and ability to hold such investments to maturity.

d) Taxation

The Bank 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.

NOTE 33 – ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

e) Regulatory requirements

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

f) Litigation and claims

The Bank performs individual assessment of all court cases. The initial assessment is made by the Bank's Legal Department. The Bank is a defendant in four smaller lawsuits of immaterial value that have arisen in the course of the Bank's ordinary business. Management is of the opinion that the final outcome of these court cases will be in the Bank's favour, therefore no provision has been made.

NOTE 34 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Financial assets at fair value through profit or loss are measured at their current fair value.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted price (unadjusted) in an active market;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the financial assets, either directly (for example prices) or indirectly (for example derived from prices);
- Level 3: inputs for assets are not based on observable market data (for example valuation techniques using significant unobservable inputs).

	Level 1	Level 2	Level 3	Total
31 December 2014				
Financial assets at fair value through profit or loss				
Investment funds	42,506	-	-	**42,506**
31 December 2013				
Financial assets at fair value through profit or loss				
Investment funds	42,780	-	-	**42,780**

NOTE 34 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

During 2014 and 2013 there have been no transfers of assets between Level 1 and Level 2 of the fair value hierarchy and there have been no any transfers to or from Level 3

Financial assets available for sale are measured at cost less impairment. Loans and receivables and held-to-maturity assets are measured at amortised cost less impairment.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments which are not already recorded at fair value in the financial statements:

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

Loans and advances

The carrying value of loans with variable interest rate approximates their fair value. It is not practicable to calculate the fair value of the Bank's portfolio of fixed rate loans. However, as the Bank has a limited portfolio of loans and advances with both fixed rate and longer term maturity, management believes that the fair value of loans and advances is not significantly different from their carrying value at the balance sheet date (not taking into account general provisions as required by the CNB and expected future losses).

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values. The carrying value of the Bank's deposits which are given with variable rate, being market rate, approximates their fair value. It is not practicable to calculate the fair value of deposits with fixed interest rates, however, since these deposits are with short term maturity the Bank believes that their fair value is not significantly different to their carrying value.

Borrowings

Most of the Bank's long-term debt has no quoted market prices. It is not practicable for the Bank to estimate the fair value of this debt.

NOTE 35 – OPERATING LEASES

The Bank leases offices for business purposes under operating leases. The lease is cancellable, runs for an initial period of five years and does not include contingent rental expenses.

During 2014, the Bank recognised HRK 1,322 thousand as an expense in the income statement in respect of operating leases (2013: HRK 1,152 thousand) (Note 9).

Schedules prepared in accordance with CNB decision

a) *Balance sheet*

Assets	**31 December 2014**	**31 December 2013**
		(in thousands of HRK)
1. Cash and deposits with CNB		
1.1. Cash	4,142	6,373
1.2. Accounts and deposits with CNB	134,929	147,741
2. Deposits with banks	157,609	181,206
3. Treasury bills of Ministry of finance and Treasury bills of CNB	-	-
4. Securities and other financial instruments classified as held for trading	-	-
5. Securities and other financial instruments classified as available for sale	523	1,076
6. Securities and other financial instruments classified as held to maturity	35,319	49,269
7. Securities and other financial instruments not actively traded but measured at fair value through profit or loss	42,506	42,780
8. Derivative financial assets	-	-
9. Loans and advances to banks	-	-
10. Loans and advances to customers	899,470	777,893
11. Investments in subsidiaries. associates and joint ventures		-
12. Foreclosed assets	2,450	693
13. Property and equipment (net of depreciation)	20,764	21,920
14. Interest, fees and other assets	14,946	14,523
Total assets	**1,312,658**	**1,243,474**

Schedules prepared in accordance with CNB decision (continued)

a) Balance sheet (continued)

Liabilities and equity	**31 December 2014**	**31 December 2013**
	(in thousands of HRK)	
1. Borrowings from financial institutions		
1.1. Short term borrowings	107,261	106,927
1.2. Long term borrowings	315,559	295,788
2. Deposits		
2.1. Deposits on gyro and current accounts	138,181	118,814
2.2. Savings deposits	2,670	20,853
2.3. Term deposits	524,395	478,024
3. Other borrowings		
3.1. Short term borrowings	-	-
3.2. Long term borrowings	-	-
4. Derivative and other trading financial liabilities not actively traded		
5. Issued debt securities	-	-
5.1. Short term issued debt securities		
5.2. Long term issued debt securities	-	-
6. Issued subordinated instruments	-	-
7. Issued hybrid instruments	-	-
8. Interest. fees and other liabilities	22,864	22,531
Total liabilities	**1,110,931**	**1,042,937**
Equity		
1. Share capital	200,000	200,000
2. Profit/(Loss) for the year	1,190	(8,711)
3. Retained earnings	-	6,470
4. Legal reserves	537	2,778
5. Statutory and other equity reserves	-	-
6. Unrealised gain/(loss) on fair value measurement of available-for-sale financial assets	1	-
Total equity	**201,727**	**200,537**
Total liabilities and equity	**1,312,658**	**1,243,474**

Schedules prepared in accordance with CNB decision (continued)

b) Income statement for the year ended 31 December

	2014	2013
	(in thousands of HRK)	
1. Interest income	56,252	51,473
2. (Interest expense)	(21,586)	(19,502)
3. Net interest income	**34,666**	**31,971**
4. Fee and commission income	5,299	5,160
5. (Fee and commission expense)	(1,323)	(1,453)
6. Net fee and commission income	**3,976**	**3,707**
7. Gain/(Loss) from investments in subsidiaries. associates and joint ventures	-	-
8. Gain/(Loss) from trading activities	1,672	819
9. Gain/(Loss) from embedded derivatives	-	-
10. Gain/(Loss) from assets not actively traded but measured as at fair value through profit or loss	383	568
11. Gain/(Loss) from financial assets classified as available for sale	(553)	-
12. Gain/(Loss) from financial assets classified as held to maturity		-
13. Gain/(Loss) arising from hedging transactions	-	-
14. Income from investments in subsidiaries. associates and joint ventures	-	-
15. Income from other equity investments	-	-
16. Gain/(Loss) from foreign exchange differences	(13)	(238)
17. Other income	992	958
18. Other expenses	-	-
19. General administrative expenses and depreciation	(31,205)	(29,665)
20. Net income from business activities before impairment losses and provisions	**9,918**	**8,120**
21. Impairment losses and provisions	(8,909)	(16,999)
22. Profit/(Loss) before tax	**1,009**	**(8,879)**
23. Income tax	181	168
24. Profit/(Loss) for the year	**1,190**	**(8,711)**

Schedules prepared in accordance with CNB decision (continued)

c) Cash flow statement for the year ended 31 December

	2014	2013
	(in thousands of HRK)	
Operating activities		
1.1. (Loss)/Profit before taxation	1,009	(8,879)
1.2. Impairment losses and provisions	9,951	17,007
1.3. Depreciation and amortisation	4,119	4,329
1.4. Net unrealised (gain)/loss from financial assets classified as fair value through profit or loss	-	-
1.5. (Gain)/loss from disposal of tangible assets	-	-
1.6. Other (gains)/losses	58	348
1. Cash flows from operating activities before changes in operating assets (1.1. to 1.6.)	**15,137**	**12,805**
2.1. Deposits with CNB	(4,613)	10,616
2.2. Treasury bills of Ministry of finance and treasury bills of CNB	-	-
2.3. Deposits with banks and loans and advances to financial institutions	12,792	19,740
2.4. Loans and advances to customers	(130,073)	(47,643)
2.5. Securities and other financial instruments classified as held for trading	-	-
2.6. Securities and other financial instruments classified as available for sale	-	-
2.7. Securities and other financial instruments not actively traded but measured at fair value through profit or loss	274	2,992
2.8. Other operating assets	(2,039)	(644)
2. Net (increase)/decrease of operating assets (2.1 to 2.8.)	**(123,659)**	**(14,939)**
Increase/(decrease) of operating liabilities		
3.1. A vista deposits	19,587	10,553
3.2. Savings and term deposits	28,188	55,722
3.3. Derivative financial liabilities and other trading liabilities		
3.4. Other liabilities	(551)	3,822
3. Net increase/(decrease) of operating liabilities (3.1. to 3.4.)	**47,224**	**70,097**
4. Net cash flow from operating activities before tax (1+2+3)	(61,298)	67,963
5. Income tax paid		
6. Net inflow/(outflow) of cash from operating activities (4-5)	**(61,298)**	**67,963**
Investment activities		
7.1. Proceeds from disposal/(consideration paid) of/for tangible and intangible assets	(3,332)	(2,700)
7.2. Proceeds from disposal/(consideration paid) of/for investments in subsidiaries. associates and joint ventures	-	-
7.3. Proceeds from disposal/(consideration paid) of/for financial assets and other financial instruments classified as held to maturity	13,950	(576)
7.4. Dividends received	-	-
7.5. Other inflow/(outflow) from investment activities		
7. Net cash flow from investment activities (7.1. to 7.5)	**10,618**	**(3,276)**

Schedules prepared in accordance with CNB decision (continued)

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

Financing activities		
8.1. Net increase/(decrease) of borrowings	20,051	(17,172)
8.2. Net increase/(decrease) of issued debt securities	-	-
8.3. Net increase/(decrease) of subordinated and hybrid instruments	-	-
8.4. Inflow from share capital issue	-	-
8.5. (Dividend paid)	-	-
8.6. Other inflow/(outflow) from financing activities	-	-
8. Net cash flow from financing activities (8.1. to 8.6.)	**20,051**	**(17,172)**
9. Net increase/(decrease) of cash and cash equivalents (6+7+8)	**(30,629)**	**47,515**
10. Effect of foreign exchange differences on cash and cash equivalents	-	-
11. Net increase/(decrease) of cash and cash equivalents (9+10)	**30,629**	**47,515**
12. Cash and cash equivalents at the beginning of the year	**171,113**	**123,598**
13. Cash and cash equivalents at the end of the year	**140,484**	**171,113**

Schedules prepared in accordance with CNB decision (continued)

d) Statement of changes in equity

	In thousands of HRK	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (losses)	Profit/ (Loss) for the year	Unrealised loss/gain on measurement of financial assets available for sale	Minority interest	Total
1,	**Balance at 1 January 2014**	**200,000**	**-**	**2,778**	**6,470**	**(8,711)**	**-**	**-**	**200,537**
2,	Change of accounting policies and correction of errors	-	-	-	-	-	-	-	-
3,	**Restatement of balance at 1 January of current year (1+2)**	**200,000**	**-**	**2,778**	**6,470**	**(8,711)**	**-**	**-**	**200,537**
4,	Disposal of financial assets available for sale	-	-	-	-	-	-	-	-
5,	Change of fair value of available for sale portfolio	-	-	-	-	-	-	-	-
6,	Tax on items directly recognised in equity	-	-	-	-	-	-	-	-
7,	Other gains and losses directly recognised in equity	-	-	-	-	-	-	-	-
8,	**Net gains/losses recognised directly in equity (4+5+6+7)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
9,	Profit/(loss) for the year	-	-	-	-	**1,190**	-	-	**1,190**
10,	**Total recognised income and expenses for the year (8+9)**	**-**	**-**	**-**	**-**	**1,190**	**-**	**-**	**1,190**
11,	Increase/decrease of share capital	-	-	-	-	-	-	-	-
12,	Increase/decrease of treasury shares	-	-	-	-	-	-	-	-
13,	Other changes	-	-	-	-	-	-	-	-
14,	Transfers to reserves	-	-	(2,241)	(6,470)	8,711	-	-	-
15,	Payment of dividends	-	-	-	-	-	-	-	-
16,	**Profit distribution (14+15)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
17,	**Balance at 31 December 2014 (3+10+11+12+13+16)**	**200,000**	**-**	**537**	**-**	**1,190**	**-**	**-**	**201,727**

Schedules prepared in accordance with CNB decision (continued)

d) Statement of changes in equity

	In thousands of HRK	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (losses)	Profit/ (Loss) for the year	Unrealised loss/gain on measurement of financial assets available for sale	Minority interest	Total
1,	**Balance at 1 January 2013**	**200,000**	**-**	**2,778**	**6,470**	**-**	**-**	**-**	**209,248**
2,	Change of accounting policies and correction of errors	-	-	-	-	-	-	-	-
3,	**Restatement of balance at 1 January of current year (1+2)**	**200,000**	**-**	**2,778**	**6,470**	**-**	**-**	**-**	**209,248**
4,	Disposal of financial assets available for sale	-	-	-	-	-	-	-	-
5,	Change of fair value of available for sale portfolio	-	-	-	-	-	-	-	-
6,	Tax on items directly recognised in equity	-	-	-	-	-	-	-	-
7,	Other gains and losses directly recognised in equity	-	-	-	-	-	-	-	-
8,	**Net gains/losses recognised directly in equity (4+5+6+7)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
9,	Profit/(loss) for the year	-	-	-	-	(8,711)	-	-	**(8,711)**
10,	**Total recognised income and expenses for the year (8+9)**	**-**	**-**	**-**	**-**	**(8,711)**	**-**	**-**	**(8,711)**
11,	Increase/decrease of share capital	-	-	-	-	-	-	-	-
12,	Increase/decrease of treasury shares	-	-	-	-	-	-	-	-
13,	Other changes	-	-	-	-	-	-	-	-
14,	Transfers to reserves	-	-	-	-	-	-	-	-
15,	Payment of dividends	-	-	-	-	-	-	-	-
16,	**Profit distribution (14+15)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
17,	**Balance at 31 December 2013 (3+10+11+12+13+16)**	**200,000**	**-**	**2,778**	**6,470**	**(8,711)**	**-**	**-**	**200,537**

BKS Bank d.d., RIJEKA

Supplementary information prescribed by a decision of the Croatian National Bank

Reconciliation between financial statements and schedules per decision of CNB – Balance sheet (assets) as at 31 December 2014

Financial statements	Total HRK '000	Current accounts CNB 1	Current accounts with other banks 2	Foreclosed assets 4	Loans and advances to customers 5	PPE 6	Intangible assets 7	Other assets 8	Deferred tax assets 9	Total HRK '000	CNB prescribed schedules
											1. Cash and deposits with CNB
Cash reserves	140,484	(45,923)	(90,418)	-	-	-	-	-	-	4,142	1.1 Cash
Obligatory reserve with the Croatian National Bank	89,006	45,923		-	-	-	-	-	-	134,929	1.2. Accounts and deposits with CNB
				-	-	-	-	-	-		
Loans and advances to banks	67,191	-	90,418	-	-	-	-	-	-	157,609	2. Deposits with banks
		-	-	-	-	-	-	-	-	-	3.Treasury bills of Ministry of finance and Treasury bills of CNB
			-	-	-	-	-	-	-	-	
Loans and advances to customers	899,470	-	-	-	(899,470)	-	-	-	-	-	4.Securities and other financial instruments classified as held for trading
			-		-	-	-	-	-	-	
Available for sale financial assets	523	-	-	-	-	-	-	-	-	523	5.Securities and other financial instruments classified as available for sale
				-	-	-	-	-	-	-	
Held to maturity investments	35,319	-	-	-		-	-	-	-	35,319	6.Securities and other financial instruments classified as held to maturity
				-	-	-	-	-	-	-	
Financial assets at fair value through profit or loss	42,506	-	-	-	-	-	-	-	-	42,506	7.Securities and other financial instruments not actively traded but measured at fair value through profit or loss
		-	-	-	-	-	-	-	-	-	8. Derivative financial assets
		-	-	-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	-	-	9.Loans and advances to banks
		-	-	-	-	-	-	-	-	-	
		-	-	-	899,470	-	-	-	-	899,470	10.Loans and advances to customers
		-	-	-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	-	-	11. Investments in subsidiaries, associates and joint ventures
		-	-	2,450	-	-	-	-	-	2,450	12. Foreclosed assets
		-	-	-	-	-	-	-	-	-	
		-	-	-	-	20,764	-	-	-	20,764	13. Property and equipment (net of depreciation)
		-	-	-	-	-	-	-	-	-	
		-	-	-	-	.	6,140	7,579	1,227	14,946	14. Interest, fees and other assets
		-	-	-	-	.	-	-	-	-	
Property and equipment	20,764	-	-	-	-	(20,764)	-	-	-	-	
		-	-	-	-		-	-	-	-	
Intangible assets	6,140	-	-	-	-	-	(6.140)	-	-	-	
		-	-	-	-	-		-	-	-	
Deferred tax assets	1,227	-	-	-	-	-	-	-	(1.227)	-	
		-	-	-	-	-	-	-	-	-	
Other assets	10,028	-	-	(2,450)	-	-	.	(7,579)	-	-	
		-	-	-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	-	-	
Total assets	**1,312,658**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,312,658**	**Total assets**

Supplementary information prescribed by a decision of the Croatian National Bank

Reconciliation between financial statements and schedules per decision of CNB - Balance sheet (liabilities and equity) as at 31 December 2014

Financial statements LIABILITIES	Total HRK '000	Deposits from banks 1	Deposits from customers 2	Interest, fees and other liabilities 3	Fee deferral 4	Other liabilities	Total HRK '000	CNB prescribed schedules
Borrowings	**422,892**	-	-	-	(72)	-	**422,820**	**1. Borrowings from financial institutions**
					-	-	107,261	1.1. Short term borrowings
					-	-	315,559	1.2. Long term borrowings
Deposits from banks	141	(141)	-	-	-	-	-	
Deposits from customers	665,382	-	(665,382)	-	-	-	-	
	-	141	665,382	.	-	(277)	**665,246**	**2. Deposits**
	-	-	-	.	-	-	138,181	2.1. Deposits on gyro and current accounts
	-	-	-	.	-	-	2,670	2.2. Savings deposits
	-	-	-	.	-	-	524,395	2.3. Term deposits
	-	-	-	.	-	-	-	**3. Other borrowings**
	-	-	-	.	-	-	-	3.1. Short term borrowings
	-	-	-	.	-	-	-	3.2. Long term borrowings
	-	-	-	.	-	-	-	4. Derivative and other financial liabilities not actively traded
	-	-	-	.	-	-	-	**5. Issued debt securities**
	-	-	-	.	-	-	-	5.1. Short term issued debt securities
		-	-	.	-	-	-	5.2. Long term issued debt securities
Provisios for liabilities and charges	3,328	-	-	(3,328)	-	-	-	6. Issued subordinated instruments
		-	-	-	-	-	-	7. Issued hybrid instruments
Other liabilities	19,188	-	-	3,328	72	277	22,864	8. Interest, fees and other liabilities
Total liabilities	**1,110,931**	**-**	**-**	**-**	**-**	**-**	**1,110,931**	**Total liabilities**

Financial statements EQUITY AND RESERVES	Total HRK '000	Statutory reserve 1	Profit for the year 2	Retained earnings 3	Total HRK '000	CNB prescribed schedules
Issues share capital	200,000	-	-	-	200,000	1. Share capital
		-	1,190	-	1,190	2. Profit/(loss) for the year
Statutory reserve	537	(537)	-	-	**-**	3. Retained earnings (losses)
		537	-	-	**537**	4. Legal reserves
Reserve for general banking risks	-	-	-	-	**-**	5. Statutory and other equity reserves
	-	-	-	-		6. Unrealised gain/(loss) on fair value measurment of available-for-sale financial assets
Retained earnings	1,190	-	(1,190)	-		
Total equity and reserves	**201,727**		**-**	**-**	**201,727**	**Total equity and reserves**

BKS Bank d.d., RIJEKA

Supplementary information prescribed by a decision of the Croatian National Bank

Reconciliation between financial statements and schedules per decision of CNB – Income statement for the year ended 31 December 2014

Financial statements	Total HRK '000	Gain on disposal of financial assets not actively traded 1	Movement in provision for off balance sheet exposure, severance payments and jubilee awards, interests and fees 2	Foreign currencies exchange differences 3	Impairment losses on loans and advances to customers 4	Savings deposits insurance 5	Transfer of administration costs 6	Other transfer of costs	Total HRK '000		CNB prescribed schedules
Interest and similar income	56,261	-	-	-	-	-	-	(9)	56,252	1	Interest income
Interest expense and similar charges	(20,637)	-	-	(49)	-	(901)	-		(21,586)	2	(Interest expense)
Net interest income	**35,624**	-	-	-	-	-	-	-	**34,666**	**3**	**Net interest income**
Fee and commission income	5,280	-	-	-	-	-	-	19	5.299	4	Fee and commission income
Fee and commission expense	(1,323)	-	-	-	-	-	-	-	(1.323)	5	(Fee and commission expense)
Net fee and commission income	**3,957**	-	-	-	-	-	-	-	**3.976**	**6**	**Net fee and commission income**
		-	-	-	-	-	-	-		7	Gain/(Loss) from investments in subsidiaries, associates and joint ventures
Net trading income from dealing in foreign currencies	1,672	-	-	-	-	-	-	-	1,672	8	Gain/(Loss) from trading activities
		-	-	-	-	-	-	-	-	9	Gain/(Loss) from embedded derivatives
		383	-	-	-	-	-	-	383	10	Gain/(Loss) from assets not actively traded but measured at fair value through profit or loss
		-	(553)	-	-	-	-	-	(553)	11	Gain/(Loss) from financial assets classified as available for sale
		-	-	-	-	-	-	-	-	12	Gain/(Loss) from financial assets classified as held to maturity
		-	-	-	-	-	-	-	-	13	Gain/(Loss) arising from hedging transactions
		-	-	-	-	-	-	-	-	14	Income from investments in subsidiaries, associates and joint ventures
		-	-	-	-	-	-	-	-	15	Income from other equity investments
		-	-		-	-	-	(13)	(13)	16	Gain/(Loss) from foreign exchange differences
			-		-		-				
Net income from investment securities	383	(383)	-	-	-	-	-	-	-		
Other operating income	943	-	-	49	-	-	-	-	992	17	Other income
Operating income	**42,579**	-	-	-	-	-	-	-			
									-	18	Other expenses
	-	-	-	-	-	-	(30,718)	(487)	(31,205)	19	General administrative expenses and depreciation
	-	-	-	-	-	-	-	-			
	-	-	-	-	-	**-**	**-**	**-**	**9,918**	**20**	**Net income from business activities before impairment losses and provisions**
			-								
	-	-	774	-	(8,624)	-	-	489	(8,909)	21	Impairment losses and provisions
Impairment losses on loans and advances to customers	(8,624)	-	-	-	8,624	-	-	-	-		
Other impairment lossed and provisions	(1,327)	-	1,327	-	-	-		-	-		
Operating expenses	(31.619)	-	-	-	-	901	30,718	-	-		
Profit before income tax	**1,009**	-	-	-	-	**-**	**-**	**-**	**1,009**	**22**	**Profit/(Loss) before tax**
Income tax benefit/(expense)	181	-	-	-	-	-	-	-	181	23	Income tax
Profit for the year	**1,190**	-	-	-	-	**-**	**-**	**-**	**1,190**	**24**	**Profit/(Loss) for the year**