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otpbanka

OTP BANKA HRVATSKA d.d.

Financial statements and Independent auditor's report for the year ended 31 December 2014

Content

Management Board Report on the status of the company

Dear customers and business partners,

Last year yet again we bore witness to a downward trend in the economic activity and adverse macroeconomic indicators. The gross domestic product has been falling for six consecutive years, with personal consumption expenditure and investments significantly contributing to the process. Naturally, in such surroundings – and additionally overcast by a high unemployment rate – the banking sector could not make a step forward in the business operations. The share of non-performing loans in the loan portfolio kept growing and interest margins kept shrinking on account of regulatory measures and market circumstances. Therefore, the banks struggled to maintain their profitability by rationalising and optimising costs, sources and offered product range.

Bank's results and activities in 2014

By and large, our operations in 2014 were influenced by the activities of acquisition and merger of Banco Popolare Croatia d.d. As it happened, at the end of January 2014 the Bank entered into the Agreement for the Sale and Purchase of Banco Popolare Croatia d.d. with the majority owner Banco Popolare Societa Cooperativa from Italy, regulating the acquisition of 170,317 ordinary shares and 16,845 preferred shares, which accounted for 98.37 percent of the shares of Banco Popolare Croatia d.d. Having obtained all the required consents and approvals, the Bank made the actual payment and on 25th April 2014 the transfer of title was registered with the Central Depository and Clearing Company. Subsequently, the Bank made a public offer to the minority shareholders, and the squeeze-out procedure was completed on 12th August 2014 when the Bank was registered with the Central Depository and Clearing Company as the sole owner of all shares of Banco Popolare Croatia d.d. The total sum paid for 100 percent of shares of Banco Popolare Croatia d.d. equalled HRK 108,748,129.84. Following fairly extensive preparations in an unprecedentedly short time frame on 1st December 2014 Banco Popolare Croatia d.d. was legally and technologically merged with the Bank.

A direct financial effect of the acquisition and merger of Banco Popolare Croatia d.d. in 2014 reflected in the negative goodwill income (difference between the acquisition costs and the net worth of the assets of the merged bank) totalling HRK 152.8 million, and also in direct costs generated by the merger and recorded in December 2014.

The largest portion of those costs related to the disposal packages for the employees who were made redundant through rationalisation of operations after the merger. Furthermore, the recorded costs accounted for closure of a certain number of branches in the process of network optimisation, as well as the costs of writing-off of software that was no longer of use to the Bank. Doing all of the above, the Bank created solid foundations for further operations, more cost effective and profitable. Thus positive effects of such measures should be visible already in the next business year.

In these circumstances, OTP banka ended the year 2014 with the net profit of HRK 155.2 million. Even without the extraordinary impacts pertaining to the acquisition and merger process, Bank's results in 2014 exceeded the planned figures both in terms of generated operating income and in terms of lower operating costs.

Last year the interest income suffered an adverse effect of cuts of interest charged on retail loans, which were caused by a drop in the reference interest rate (NRS 1 – average interest on retail deposits) and the overall downward trend of the interest charged on corporate loans and financial assets (securities and deposits with banks). Most of the drop was offset against the savings in interest expenses, that is, lower interest paid on deposits and optimisation of sources. As a result, compared to the previous year the net interest income fell by 3.2 percent. As for the net fee income and FX dealings, they grew compared to the previous year's figures.

The most significant impact on the operating costs was a material increase in disposal packages intended for the employees who were made redundant through rationalisation of operations after the merger. As expected in view of the bad economic situation, a trend of higher provisions for bad loans and judicial disputes continued, all in order to create buffers against any potential future negative impacts on the business operations.

Throughout 2014 the Bank's assets grew from HRK 13.7 billion to HRK 15.8 billion, that is, by 16 percent, where HRK 1.9 billion accounted for the balance sheet of the merged company. Even though most of the growth of the market share and the overall loan and deposit volumes, as well as the growth of the total balance sheet - evident when comparing the 2014 year-end and the 2013 year-end - can be attributed to the merger process, it is still worth noting that throughout the year the Bank boasted of higher rates of lending activity than the ones recorded throughout the sector. Along the same lines, its market position grew stronger. This was especially visible in terms of retail lending - in housing and other loans alike.

Thus, the share of housing loans grew from 4.87% at the beginning of the year to 5.17% at the end of November, only to reach 5.40% of the total market after the merger. The market share of other retail loans equalled 6.21% as at 31/12/2014. As concerned lending to companies, the Bank recorded an increase of its market share as well; from 2.72% as at 31/12/2013 to 2.92% at the end of November 2014, so as at 31/12/2014 the market share equalled 3.10%.

In terms of customers' deposits, at the end of 2014 the Bank held 5.77% of the market. As at the same date the market share in total assets equalled 3.93%.

Throughout the year 2014 the Bank maintained sufficient LCY and FCY liquidity reserves, meeting all the regulatory requirements. Most importantly, the Bank observed the minimum capital adequacy ratio, as set forth by the relevant law and the measures imposed by the regulator (as at 31/12/2014 the capital adequacy ratio with the profit ploughed back equalled 16.5%), thus providing sufficient capital for covering of the capital requirements set for all the risks, and the required capital buffer and the structural systemic risk buffer in the amount laid down by the Croatian National Bank, and all that was achieved despite the fact that the acquisition was financed with own capital, with no increase required.

Committed to enhancing our service quality to meet the highest global standards in banking, OTP banka introduced a new service – arranging meetings in branches via Bank's Internet site. Another novelty introduced last year was an online application for opening of current account, which should avail our customers of easier and faster access to our services. Individuals wishing to become our customers, or the existing customers wishing to open current accounts, can visit our Internet site and send an application for opening of a current account and/or issuing of MasterCard PayPass prepaid card of OTP banka.

Last year OTP banka was a sponsor and a partner of INmusic Festival, where we enabled the festival goers to make cashless and contactless payments with MasterCard PayPass cards of OTP banka. The audience was thus enabled to enjoy concerts and the complementary offer at INmusic without annoying queues. Contactless and cashless payment opportunities will be available again to the audience at this year's - tenth INmusic festival. Having succeeded in this technologically very demanding project, we have been encouraged to keep investing in modern technological solutions.

Corporate social responsibility

OTP banka published its first independent Sustainability Report containing the data for the years 2012 and 2013. The report was drafted in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative, that is, following the indicators stipulated in G4 recommendations. With this publication we became the first bank, and one of the first organisations in Croatia to issue the Sustainability Report in line with GRI G4 guidelines.

The report is intended for all stakeholders in the Bank desiring to learn more about the way OTP banka manages its influence on the economy, society and environment.

In 2014 OTP banka continued awarding donations to organisations that carried out projects important for improving the quality of life in their respective communities. As a part of its programme "Green light to… better society", the Bank invited tenders for donations intended for projects within four different categories: the young, education and science; protection of cultural, historic and traditional heritage and environmental protection; humanitarian projects and sports. We received several hundred applications from all parts of Croatia, and the total of 52 projects were chosen among which the sum of HRK 400,000 was distributed.

In addition to the above, as a part of its programme "Green light to knowledge" in 2014 OTP banka provided over HRK 500,000 worth of scholarships to students of lower financial standing, in cooperation with partnering local communities. For its programme of support to students of lower financial standing, OTP banka received an award called Zlatni indeks 2013 (Golden Student Report), a unique award given by university students to undertakings that actively participated in student life in the preceding year.

Finally, the European Business Awards committee chose OTP banka as the "national champion" in the Employer of the Year category. Representing Croatia in this category OTP banka has made it to the second round where – in addition to the opinion of the expert panel – the winner will be chosen based on the public votes cast through January and February 2015.

Plans for 2015

This year we will remain committed to further development of our products and services, never losing sight of optimisation and rationalisation of our operations in the wake of the integration.

Also in 2015 we will keep a firm focus on retail lending and support to MSEs. For a while now we have been dedicated to the younger population and determined in our orientation towards modern platform-based banking. Welcoming all new projects and jobs, we will nurture our relationships with small and medium enterprises because they are most likely to yield them. We will continue our cooperation on the projects offered by Croatian Bank for Reconstruction and Development (HBOR), the Croatian Agency for Small Business (HAMAG), and regional and local governments. We will take part in funding of large projects and funding models connected to European funds.

Determined to provide our customers an even better service, this year we plan on continuing our investments into the development of the network through renovation and modernisation of our branches and ATMs, in line with the new standards of OTP Group.

Mindful of the above, on my behalf, same as on behalf of the Management Board and the complete OTP Group, I would like to extend my thanks to our customers and business partners for the trust shown. Finally, special thanks is due to our employees for their efforts and contribution to our good business results.

Yours faithfully,

Balázs Békeffy
President of the Management Board

Corporate governance code

By virtue of the provisions of the Companies Act and the views of the Croatian National Bank, the Management Board of OTP banka Hrvatska d.d. by its decision No 2001-118-3.20/14 of 22nd July 2014, adopted the following

Corporate governance code

1. OBJECTIVES AND BASIC PRINCIPLES

OTP banka Hrvatska d.d. (hereinafter: the Bank) as a credit institution is well aware of the importance of a responsible and ethics-based conduct of corporate entities as an essential prerequisite for developing high-quality relations and loyal competition between business partners as well as for efficient functioning of the market.

To this end, the Bank is developing its business activities and acting in accordance with the good corporate management practice. Moreover, it is trying, by way of its business strategy, business policy, key internal acts and business practice, to contribute to transparent and efficient business activities and better-quality relations with its business environment.

Bank's adequate corporate management includes:

1. clear organisational structure with well defined authorisations and responsibilities;
2. efficient activities for establishing, measuring and monitoring of the risks the Bank is or may be exposed to as well as related reporting activities;
3. adequate internal controls mechanisms which also involve prudent administrative and accounting procedures, the strategies and the procedures for a constant assessment and review of the figures, the structure and the distribution of the internal capital required as coverage for current and future risks;
4. fulfilment of general transparency requirements
5. meeting the obligations and the responsibilities towards the shareholders, the employees and other interested parties;
6. safe and stable business activities in accordance with law and regulations.

It is considered that a vital segment of the Bank's identity is responsible management, therefore the Bank's view is that good corporate management is realised not just by fully meeting the regulatory requirements but that is also derives from the corporate culture prevailing in the Bank and personal integrity of all Bank's employees.

Basic corporate management principles of the Bank are the following:

1. transparency of the business activities;
2. clearly elaborated operating procedures;
3. avoidance of the conflict of interest;
4. efficient internal control;
5. efficient responsibilities system.

Any interpretation of the provisions contained herein should be governed primarily by accomplishment of the mentioned objectives and adherence to the mentioned principles.

2. PUBLICATION

In addition to the data the Bank publishes as it is required to do so by laws and other regulations, the Bank shall also publish and thus make available to any interested party, pertinent information on its work and activities which primarily refers to financial statements given that they are the most important and the most complete source of information on the Bank and the Annual Report on the company's status.

If the Bank's shares are listed on the stock exchange and they are traded in on a regulated securities market, the Bank shall:

1. give notice of any change to the rights under issued shares or other issued securities;
2. publish any information it is familiar with in respect of the shares and other securities of the Bank that are owned by any member of the Supervisory Board or the Management Board;
3. make public any other information that may be regarded vital in relation to the Bank, its financial standing, operating results, the ownership structure and management;

4. publish all the information categories clearly and unambiguously and enable any interested party equal and timely access to such information;
5. publish instantly any information that may have an impact on the making of decisions on investments into shares and other securities of the Bank, covering equally the positive and the negative aspects, with a view to allowing the investor to understand and correctly assess the Bank's standing.

Publishing of information is carried out in the manner laid down in law or the Bank's Articles of Association, whereas the Bank also ensures that pieces of information are published on own web pages and over the Internet.

3. BODIES OF THE BANK

The bodies of the Bank ensuring that good corporate management practice is implemented are the ones stated below:

1. General Meeting
2. Supervisory Board
3. Management Board

3.1 General Meeting

The General Meeting is the body of the Bank whereby shareholders exercise their main management rights by passing decisions on the Bank's activities that fall under their competence. The decisions passed by the General Meeting are laid down in law and the Bank's Articles of Association.

General Meetings are called when necessary, but at least once a year, and whenever the interests of the company require so.

General Meetings shall be called by the Management Board.

General Meetings may be called by the Supervisory Board in cases prescribed by law, and whenever the Supervisory Board deems it necessary.

The General Meeting shall also be called if so requested by shareholders who separately or together hold no less than 1/20 (One Twentieth) of the Bank's share capital providing that the Management Board has been notified about the purpose of the General Meeting.

Shareholders decide on their rights and obligations at the General Meeting in accordance with law and the Articles of Association.

Shareholders must meet the conditions prescribed by law and the Articles of Association in order to participate in the work of the General Meeting.

Each share, except for those not carrying the right to vote, entitles the shareholder to one vote, in proportion to the nominal value of each share.

The Bank issues shares made out to a name, and depending on the rights they carry they are either regular or preferential.

The Bank shall treat and accord equal conditions to all shareholders regardless of the number of shares they hold. The Bank shall equally accord same treatment to the investors notwithstanding the nature of the investor i.e. individual or institutional investors.

The General Meeting shall make its decisions by votes given by the shareholders present in person or by proxy at the General Meeting.

The General Meeting shall have a quorum if shareholders representing at least 50% (Fifty per cent) of the total share capital of the Bank are present (either in person or represented by proxy).

The General Meeting shall make decisions by a simple majority of the votes, except when deciding on the matters that require a certain necessary majority determined by law and the Articles of Association.

The right of a shareholder to participate in the General Meeting and exercise his/her voting rights may be realised by proxy, a legal entity or a natural person.

A power of attorney shall be issued and verified in the form prescribed by the Management Board and certified by a Notary Public.

3.2 Supervisory Board

The Supervisory Board shall supervise the management of the Bank. The competence of the Supervisory Board is laid down by law, the Articles of Association and other acts of the Bank.

It has authority to inspect the Bank's business books and all the Bank's documents and assets including cash and securities, which and when it deems necessary.

Supervisory Board members shall act in the Bank's interest, keep business and bank secrets and act with the due care of a good businessman.

The Supervisory Board members shall dedicate sufficient time to their obligations in the Bank and carry out activities based on complete and reliable information, whilst driven by good intentions.

The Supervisory Board shall have 5 members, one of whom is independent. The members of the Supervisory Board are elected by the General Meeting, after obtaining prior approval from the Croatian National Bank. The members of the Supervisory Board shall elect the Chairman and the Deputy of the Supervisory Board among themselves.

The mandate of each Supervisory Board member is three years from the date of the General Meeting at which the member was elected.

The Supervisory Board members can be re-elected.

The Supervisory Board's activities are carried out at its meetings.

The Supervisory Board's meetings are chaired by the Chairman of the Supervisory Board or the Deputy. The Supervisory Board shall make valid decisions if at least 3 (three) members attend the meeting. Each member of the Supervisory Board has one vote.

The Supervisory Board can pass decisions without convening a meeting, if votes are cast by a letter, phone, fax or by using other envisaged technical possibilities for that purpose, if none of the Supervisory Board members objects to such manner of voting.

The Supervisory Board shall have its own Rules of procedure whereby the arrangement of meetings, decision-making process, position of the committees and their authorities shall be governed.

The Management Board can perform particular types of business activities subject to prior consent of the Supervisory Board.

3.2.1 Audit Committee

In accordance with law, the Supervisory Board established the Audit Committee and appointed its members.

The authority of the Audit Committee is laid down in the provisions of the Audit Act and the Credit Institutions Act.

The work of the Audit Committee is laid down in detail in the Rules of procedure of the Audit Committee.

The Audit Committee shall always have uneven number of members.

3.2.2 Remuneration Committee

In accordance with law, the Supervisory Board established the Remuneration Committee and appointed its members.

The authority of the Remuneration Committee is laid down in the provisions of the Credit Institutions Act and the relevant decision of the CNB.

The work of the Remuneration Committee is laid down in detail in the Rules of Conduct of the Remuneration Committee.

3.2.3 Appointment Committee

In accordance with law, the Supervisory Board established the Appointment Committee and appointed its members.

The authority of the Appointment Committee is laid down in the provisions of the Credit Institutions Act.

The work of the Appointment Committee is laid down in detail in the Rules of Conduct of the Appointment Committee.

3.2.4 Risk Committee

In accordance with law, the Supervisory Board established the Risk Committee and appointed its members.

The authority of the Risk Committee is laid down in the provisions of the Credit Institutions Act.

The work of the Risk Committee is laid down in detail in the Rules of Conduct of the Risk Committee.

3.3 MANAGEMENT BOARD

The Management Board is responsible for conducting the Bank's business. The Management Board acts jointly.

The Bank is represented individually and independently by the president of the Management Board and Management Board members. The Bank can be represented by procura holder providing that he/she acts jointly with a Management Board member.

The Management Board consists of 3 (Three) to 5 (Five) members appointed by the Supervisory Board, subject to prior consent of the Croatian National Bank.

Any person who meets the requirements of the Companies Act and the Credit Institutions Act can be appointed a member of the Management Board.

Members of the Management Board are appointed for a period not longer than 5 (Five) years and may be re-elected.

When appointing Management Board members, it shall be attempted that they possess the following characteristics:

- experience in banking operations management
- developed organisational skills
- experience in detection and monitoring of risks and dealing with crisis situations
- knowledge of accounting and finance
- familiarization with Bank's business scope
- understanding of domestic and international money market
- ability to incorporate all the interests within the Bank
- personality that contributes to the realisation of the Bank's objectives
- knowledge of good corporate management practice
- strategic vision.

The Management Board shall unanimously adopt the Rules of Conduct of the Management Board, subject to prior consent of the Supervisory Board.

The scope of the Management Board's activities and responsibilities includes the activities in line with law, the Articles of Association and the Rules of Conduct of the Management Board.

During his/her term of office, no member of the Management Board shall without prior written consent of the Supervisory Board:

a) take or have employment, mandate or engagement with any other company or bank, with an exception of a subsidiary company, in which case the Supervisory Board must be notified by the Management Board in writing at its first meeting following such appointment;

b) in his/her own name and on his/her own behalf directly or indirectly be concerned or interested in business activities which are related to the Bank's business activities;

c) take or have membership in any limited liability company/partnership.

d) directly or indirectly own, conduct, contract, invest or acquire shares, engage or take part in some other way in any business activity or enterprise, which would represent competition to activities of the Bank.

4. RELATIONS BETWEEN THE MANAGEMENT BOARD, THE SUPERVISORY BOARD AND THE COMPANY

The Management Board and the Supervisory Board shall establish the strategic goals and the corporate values of the Bank and familiarize all the employees therewith.

The Management Board shall adopt the strategy and the risk policy, subject to prior consent of the Supervisory Board.

The Bank shall ensure a reasonable, transparent and documented decision-making procedure and see to that assigning of responsibilities and competences within the Bank is clear.

The Bank shall clearly define in writing the powers and key responsibilities of the Management Board, the Supervisory Board, the employees, committees and advisory bodies in the Bank.

The Management Board and the Supervisory Board shall cooperate in the best interest of the Bank as well as negotiate and come to a mutual agreement on the strategic features of the Bank's business activities.

The members of both the Management Board and the Supervisory Board shall avoid conflict of interest or a potential conflict of interest, including also spending of company funds for personal purposes and abuse of power with regard to transactions with related parties.

The Management Board shall timely and in full report to the Supervisory Board on all the facts and circumstances that may have an impact on the business activities, the financial standing and the balance of the Bank's assets and shall grant access to all the required data and the documents necessary to exercise their powers.

Members of the Management Board are entitled to remuneration for their work. The Supervisory Board shall sign contracts with members of the Management Board in order to regulate mutual rights and obligations.

Members of the Supervisory Board shall receive reward for their work in the amount decided by the General Meeting. The reward may be different for each member of the Supervisory Board, depending on the duties entrusted to them.

4.1 Conflict of interest

Conflict of interest exists in a member of the Supervisory Board, that is, a member of the Management Board who is not neutral in respect of the matter to be decided or it can be assumed on the grounds of his connection with other companies, persons or deals that his interests and inclinations do not necessarily correspond to Bank's interests.

Members of the Management Board and the Supervisory Board shall not pass decisions based on personal interests or the interests of the persons they are closely involved with.

All the activities the members of the Management Board or the Supervisory Board or their related parties and the Bank or its related parties are engaged in shall be market-based particularly as concerns deadlines, interest, guarantees etc.

All the contracts or agreements between a member of the Supervisory Board or a Management Board member and the Bank are subject to prior consent of the Supervisory Board.

4.2 Prohibition of competition

Members of the Management Board i.e. the Supervisory Board shall not, for own or someone else's account, personally or through third parties carry out the activities under the Bank's scope nor shall they supply advice to the persons that may be deemed Bank's competition.

Moreover, members of the Management Board and the Supervisory Board shall not hold a significant stake in the companies that may be deemed Bank's competitors.

5. INDEPENDENT EXTERNAL AUDITOR

The Bank is aware of the importance and the role of the audit function for the success of the corporate management, the legality and the transparency in the performance of all business processes in the Bank.

One of the important corporate management factors is to contract an independent external auditor, which the Bank must do, with a view to ensuring that financial statements adequately reflect the actual and the overall situation in the Bank.

Before signing of the contract on audit of annual financial statement, or before passing of the decision on appointment of auditor, the external auditor is to deliver to the bank the auditor's independence declaration, in line with the Credit Institutions Act and the Audit Act.

The external auditor shall be deemed any auditor who is not related to the Bank by ownership or interests and does not provide, on its own or through related parties, any other service to the Bank.

The independent external auditor shall, as clearly and unambiguously as possible, give own opinion on whether the financial statements prepared by the Management Board adequately reflect the capital balance and the Bank's financial standing and assets as well as the results for the given period.

6. INTERNAL CONTROLS SYSTEM

The Bank shall ensure an adequate internal controls system which enables it to timely monitor and detect any material risk the Bank is or may be exposed to in the pursuit of its business activities.

The Management Board is responsible for developing and maintaining the system which allows for efficient business activities, adequate risk control, reliability of financial and other non-financial information as well as compliance of the Bank's business activities with laws, regulations and Bank's internal acts.

In addition to the members of the Management Board and the Supervisory Board, employees and all organisational units of the Bank partake in the implementation of the mentioned control measures which are directly or indirectly integrated into the business processes.

In the Bank the internal controls system is realised through three mutually independent functions:

1. risk monitoring function
2. compliance monitoring function
3. internal audit function.

When establishing the mentioned functions the Management Board shall adhere to the following principles:

1. all three functions must be co-independent;

2. all three functions have to be independent from the business processes and activities which give rise to risks;
3. avoiding conflict of interest;
4. each function independently and directly reports on its work to the persons and/or bodies in line with laws, regulations and Bank's internal acts;
5. the Management Board should employ sufficient number of the persons qualified to exercise the mentioned functions.

7. BUSINESS BOOKS AND FINANCIAL STATEMENTS

The Bank keeps business books and other business documentation and records, evaluates assets and liabilities, prepares and publishes annual financial statements and the Annual Report on the company's status as required by applicable regulations and professional standards.

The Bank keeps business books and other business documentation and records by applying a method by way of which it may be checked at any time whether the Bank operates in line with applicable regulations and professional standards.

8. RISKS

The Bank manages risks by implementing the procedures and the methods for detecting, measuring i.e. assessing, controlling and monitoring risks and also by reporting on the risks it is or may be exposed to in its business activities.

The Bank prescribes procedures, criteria and methods for measuring, assessing and managing of risks in its acts, in accordance with statutory regulations, standards and rules of profession.

Risk management includes continuous detection, measuring, assessing and reporting on all materially significant risks the Bank is or may be exposed to.

The risk policy is connected to the Bank's strategy and encompasses defining of the type and the level of risk the Bank is willing to assume in order to reach its business objectives.

The Bank possesses written policies and procedures relating to risk management which are updated and the implementation of which is controlled.

9. TRANSPARENT AND TIMELY REPORTING

The Bank publishes corporate management data and information which are based on statutory regulations and good practice.

The information being published must be true, relevant, timely and available so that all the interested parties' needs are met.

The Bank places special emphasis on transparent and timely reporting to both the Bank's clients and the Bank's shareholders, as well as to any other interested party.

10. STATEMENT ON ADHERING TO THE CORPORATE MANAGEMENT CODE

The Bank's shares are not traded in on a regulated securities market, that is to say, the shares are not listed on the stock exchange.

If the shares of the Bank are listed and traded in on a regulated securities market, the Management Board and the Supervisory Board shall ensure that the Management Board publishes the data laid down in Article 272 p of the Companies Act in a special section of the Annual Report on the company's status.

In accordance with Article 18 of the Accounting Act the Bank shall also introduce into the Annual Report on the company's status an overview of the corporate management rules it applies.

Summary of the remuneration policy of the OTP banka Hrvatska group

Pursuant to the provisions of the Credit Institutions Act and the Decision on Employee Remuneration, by their Decision of 5th December 2014 the Management Board of OTP banka Hrvatska d.d. Zadar adopted the updated Remuneration Policy of the OTP banka Hrvatska Group, which was confirmed by the Remuneration Committee and the Supervisory Board on10th Decmber 2014.

1. Purpose of the Policy

The purpose of the Policy is to recognise, to the extent of risk tolerance within the OTP Group, the efforts of the Bank's management and key executives, as well as of subsidiaries' managers, considering the performance on the level of the Bank and of the Group, and to support this by means of incentives.

2. Scope of the Remuneration Policy

The persons that the Remuneration Policy of the OTP banka Hrvatska Group relates to are the following:

- President and members of the Management Board of OTP banka Hrvatska d.d. and all the presidents of the management boards of the companies within the Bank's Group,

The Supervisory Board shall decide on the persons that the Remuneration Policy of the OTP banka Hrvatska d.d. Group relates to, after consultations and taking into consideration opinion of the Remuneration Committee of OTP banka d.d., the Remuneratioin Committee of the parent bank (via the HR Directorate of the parent bank) and the Supervisory Board of the parent bank .

3. Manner of payment of performance-based remuneration

Considering their management structure, the complexity of their activities and their special market circumstances, the form of performance-based remuneration, which is founded on the principle of proportionality, shall be determined differently for each member of the OTP banka Hrvatska Group:

- In case of credit institutions, payment of performance-based remuneration shall be made by combining cash payment and instruments linked to shares of the parent bank (hereinafter: the shares), where the allocation of shares shall be subject to deferral and retention .
- In case of investment funds and other companies involved on the basis of the scope of their activities, payment of performance-based remuneration shall be made in cash, without a deferral period.

4. Fixed remuneration to performance-based remuneration ratio

With respect to the persons covered by the Remuneration Policy of the OTP banka Hrvatska Group, remuneration shall consist of fixed and variable components. The ratio of those components shall be determined by the Bank's Supervisory Board, after consulting with and taking into consideration the opinion of the Supervisory Board of the parent bank , according to the function, size and complexity of the organization managed.

5. Criteria for performance appraisal

With respect to performance-based remuneration, evaluation of the performance (target, appraisal) in OTP Group members shall differ depending on the nature of respective company's activity. When it comes to OTP Group members belonging to various categories, the key performance appraisal criteria shall be defined as follows:

– In case of **credit institutions**, in addition to RORAC (return on risk-adjusted capital), the ratios applied to measuring of collection/recovery of overdue receivables, revenue figures and individual targets can be used as appraisal criteria;

– In case of **investment funds management companies** - RORAC (return on risk-adjusted capital), calculated as follows: profit/loss of the company / capital requirements proportionate to the managed fund, calculated on the basis of international benchmarks.

Further performance indicators include the market share of the managed funds and the yield of the investment funds measured against the benchmark;

As for other members of OTP Group, the key performance appraisal criteria must ensure strengthening of financial management and market position, creating conditions for growth and sound operations.

6. Determining entitlement to performance-based remuneration

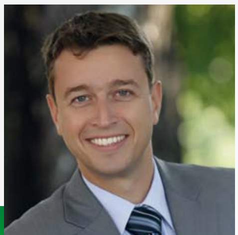
In respect of the year evaluated, the entitlement to performance-based remuneration and the extent thereof must be determined within 45 days following the regular annual General Meeting closing the year in question.

With respect to the persons covered by the Remuneration Policy of the OTP banka Hrvatska Group, the entitlement to performance-based remuneration and its amount shall be determined by the Supervisory Board, after consulting with and taking into consideration the opinion of the HR Directorate of the parent bank, and in case of the president the Management Board – with prior consent of the General Meeting.

7. Principles and rules concerning the payment of performance-based remuneration

- Upon assessing the performance for the year evaluated ("T year"), the amount of performance-based remuneration is broken down to the level of individuals. The amount of performance-based remuneration is determined in consideration of individual performance.
- Performance-based variable remuneration shall be paid out in the form of a cash bonus and shares allocated at preferential rates.
- The number of shares that can be allocated to a single person at preferential rate shall be computed in a way to divide the amount provided for such shares by the value of the preferential rate of a share at the time of performace assessment.
- The value of shares allocated at preferential rates at the time of performance assessment must be determined on the basis of the average daily mean quoted price of the ordinary shares issued by OTP Bank Nyrt, as registered by the Budapest Stock Exchange, on the three business days preceding the date of performance assessment.
- A portion of the share-based remuneration shall be deferred for a period of 3 years, where the rate of deferred payment shall be the same for each year.
- During the entire deferment period the impacts occurring meanwhile in connection with the activity of the persons covered by the Policy shall be considered, and depending on those the amount of the remuneration subject to deferred payment should be reduced as necessary.
- 50% of the non-deferred and deferred portion of shares allocated shall be retained for a period of 1 year.

Responsibility for the Financial Statements



Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with applicable accounting standards, which give a true and fair view of the state of affairs and results of OTP banka Hrvatska d.d. ("Bank") for that period.

After making enquiries, the Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also ensure that the financial statements comply with the Croatian Accounting Law (Official Gazette no. 109/07, 54/13, 121/14). The Management Board is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board:

Balázs Békeffy
President of the
Management Board

Zorislav Vidović
Member of the
Management Board

OTP banka Hrvatska d.d. Zadar
Domovinskog rata 3
23 000 Zadar
Republic of Croatia

20 March 2015

Independent Auditor's report

To the owners of OTP banka Hrvatska d.d.:

We have audited the accompanying financial statements of OTP banka Hrvatska d.d. ("Bank") which comprise the statements of financial position as at 31 December 2014, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Bank'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 Bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Emphasis of the Matter

Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Structure and Content of Annual Financial Statements (Official Gazette No. 62/08, hereinafter: "Decision"), the Bank's management has prepared the forms, as presented in the Appendix to these financial statements on pages 80 to 89, which comprise the statements of financial position as at 31 December 2014, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, as well as the reconciliation to the financial statements. These forms and accompanying reconciliation to the financial statements are the responsibility of the Bank's management, and do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 4 to 79, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements of the Bank.

Branislav Vrtačnik
President of the Management Board and certified auditor

Deloitte.
Deloitte d.o.o.

Zagreb, 20 March 2015

Financial statements

Statement of comprehensi-ve income

For the year ended 31 December 2014

All amounts are expressed in thousands of HRK

	Note	2014.	2013.
Interest and similar income	3	649,945	695,883
Interest and similar expense	3	(245,649)	(278,155)
Net interest income		**404,296**	**417,728**
Fee and commission income	4	154,586	153,719
Fee and commission expense	4	(35,352)	(35,105)
Net fee and commission income		**119,234**	**118,614**
Net trading and valuation gains on financial instruments	5	52,892	33,465
Other operating income	6	161,579	9,810
Net trading and other income		**214,471**	**43,275**
Income before impairment and operating expenses		**738,001**	**579,617**
Impairment losses and provisions, net	8	(150,417)	(133,601)
Operating expenses	7	(422,130)	(365,930)
Profit before tax		**165,454**	**80,086**
Income tax	9a	(10,221)	(15,247)
Net profit for the year		**155,233**	**64,839**
Other comprehensive income			
Items that will not be subsequently reclassified to profit and loss		-	-
Items that may be subsequently reclassified to profit and loss			
Assets available for sale:			
Net change in fair value:			
Gain of financial assets available for sale	**27**	**17,566**	**11,357**
Tax on items taken directly to or transferred from equity	**9c**	**(3,513)**	**(2,272)**
		14,053	**9,085**
Net amount transferred to profit or loss		**-**	**-**
Total other comprehensive income		**14,053**	**9,085**
Total comprehensive income		**169,286**	**73,924**
EARNINGS PER SHARE			
- Basic and diluted (in HRK)	**10**	**37.76**	**15.77**

• The accompanying notes form an integral part of these financial statements.

Statement of financial position

For the year ended 31 December 2014

All amounts are expressed in thousands of HRK

	Note	2014.	2013.
ASSETS			
Cash and balances with the Croatian National Bank	11	2.052.868	1.730.431
Amounts due from other banks	12	752.236	328.958
Financial assets at fair value through profit or loss	13a	13.551	11.530
Amounts due from customers	14	10.506.213	9.101.104
Financial assets available for sale	15	1.926.018	2.007.238
Held-to-maturity investments	16	101.936	101.190
Investments in subsidiaries	17	72.858	72.858
Property, plant and equipment	18	245.593	209.617
Intangible assets	19	31.106	26.782
Goodwill	20	42.966	42.966
Deferred tax assets	9c	5.986	5.244
Other assets	21	69.135	52.771
Total assets		**15.820.466**	**13.690.689**
LIABILITIES			
Amounts due to other banks	22	11.126	20.802
Amounts due to customers	23	12.702.101	10.921.571
Other borrowed funds	24	1.150.921	981.949
Financial liabilities at fair value through profit or loss	13b	20	6.587
Provisions	25	67.096	60.761
Current income tax	9d	-	-
Other liabilities	26	138.014	96.115
Total liabilities		**14.069.278**	**12.087.785**
SHAREHOLDERS' EQUITY			
Share capital	27	822.280	822.280
Share premium		171.260	171.260
Statutory and legal reserves	27	82.228	82.228
Other reserves	27	144.982	130.933
Retained earnings		530.438	396.203
Total shareholders' equity		**1.751.188**	**1.602.904**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		15.820.466	13.690.689

• The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2014

All amounts are expressed in thousands of HRK

	Share capital	Share premium	Legal and statutory reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2013	822.280	171.260	82.228	121.852	331.364	1.528.984
Changes in equity during 2013						
Net profit for the year	-	-	-	-	64.839	64.839
Other comprehensive income	-	-	-	9.085	-	9.085
Total comprehensive income	-	-	-	9.085	64.839	73.924
Dividend paid	-	-	-	-	-	-
Other movements (in the reserve funds for housing units)	-	-	-	(4)	-	(4)
Balance at 31 December 2013	822.280	171.260	82.228	130.933	396.203	1.602.904
Changes in equity during 2014						
Net profit for the year	-	-	-	-	155.233	155.233
Other comprehensive income	-	-	-	14.053	-	14.053
Total comprehensive income	-	-	-	14.053	155.233	169.286
Loss acquired on merger of Banco Popolare Croatia d.d.	-	-	-	-	(20.998)	(20.998)
Other movements (in the reserve funds for housing units)	-	-	-	(4)	-	(4)
Balance at 31 December 2014	822.280	171.260	82.228	144.982	530.438	1.751.188

• The accompanying notes form an integral part of these financial statements.

Cash Flow Statements

For the year ended 31 December 2014

All amounts are expressed in thousands of HRK

	Note	Year ended 31 December	
		2014.	2013.
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxes		165.454	80.086
Adjustments to reconcile profit before taxes to net cash from operating activities			
Net impairment allowance on loans and receivables		140.458	111.878
Provisions for legal actions and off-balance sheet items		9.959	22.814
Depreciation and amortisation		32.268	34.389
Loss acquired on merger of Banco Popolare Croatia d.d.		(20.998)	-
Gain on disposal of property and equipment		(186)	(184)
Interest income		(649.944)	(695.883)
Interest expense		245.591	278.155
Operating income before changes in working capital		(77.398)	(168.745)
(Increase)/decrease in operating assets:			
Obligatory reserves with the CNB		(79.663)	82.234
Amounts due from other banks		93.612	(131.048)
Amounts due from customers		(1.541.802)	(634.002)
Assets at fair value through profit or loss		(8.588)	8.359
Assets available for sale		81.220	(221.687)
Other assets		(20.428)	3.200
Increase/(decrease) in operating liabilities:			
Amounts due to other banks		(9.676)	(275)
Amounts due to customers		1.785.302	259.715
Other liabilities and provisions		63.845	(27.935)
Net cash from operating activities before interest and income taxes paid		286.424	(830.184)
Income tax paid		(21.743)	(25.219)
Interests received		649.679	690.766
Interests paid		(250.363)	(287.051)
Net cash generated from / (used in) operating activities		663.997	(451.688)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of tangible and intangible assets		(22.686)	(27.547)
Disposals of tangible and intangible assets		8.749	342
Tangible and intangible assets acquired on merger of Banco Popolare Croatia d.d.		(58.445)	-
Net Increase in held to maturity investments		(798)	(36.357)
Net cash generated from investing activities		(73.179)	(63.562)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in financial activities		168.972	70.562
Net cash from financing activities		168.972	70.562
Net increase/ (decrease) in cash and cash equivalents		759.790	(444.688)
Cash and cash equivalents at beginning of year		897.263	1.341.951
Cash and cash equivalents at end of year	29	1.657.053	897.263

• The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

Notes to the financial statements

1. GENERAL

The Bank is headquartered in Zadar, Domovinskog rata 3, and is incorporated in the Republic of Croatia as a joint stock company. The Bank provides retail and corporate banking services. The Bank is registered at the Commercial Court in Zadar, with the registered share capital in the amount of HRK 822,279,600 as at 31 December 2014 (2013: HRK 822,279,600).

The Bank's main areas of operation are as follows:

1. Foreign exchange operations in Croatia;
2. Domestic payment transactions;
3. Receipt of all types of deposits;
4. Issuance of all types of loans, opening of letters of credit, issuance of warranties and bank guarantees, and assuming other financial obligations;
5. Bill-of-exchange, cheque and deposit certificate operations for own account or on behalf of the Bank's customers;
6. Services related to securities (including brokerage and custody business);
7. Issuance and management of payment instruments (including cards);
8. Foreign credit operations and payment transactions;
9. Domestic payment operations.

Directors and Management

General Assembly

Viktor Siništaj, President of the General Assembly

Supervisory Board from 31 March 2014

Dr. Antal Pongrácz, president
Szabolcs Annus
Branko Mikša
László Kecskés
Attila Kozsik

Supervisory Board till 30 March 2014

Dr. Antal Pongrácz, president
Szabolcs Annus
Balázs Fábián
Branko Mikša
László Kecskés
Árpád Srankó
Zsolt Szabó
Fülöp Benedek
István Vastag

Management Board (2014 and 2013)

Balázs Békeffy, president
Helena Banjad, member
Zorislav Vidović, member
(Not member from 25 April to 16 December 2014)
Slaven Celić, member

Shareholding structure

The shareholding structure of the Bank is as follows:

	31 December 2014		31 December 2013	
	Paid capital	Ownership %	Paid capital	Ownership %
OTP Bank Nyrt, Hungary	822.280	100,00	822.280	100,00
Total	822.280	100,00	822.280	100,00

All services are provided in the Republic of Croatia.

• All amounts are expressed in thousands of HRK

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are summarised below.

2.1 Statement of compliance

These financial statements represent the separate, unconsolidated financial statements of the Bank. The Bank has not prepared consolidated financial statements, which would include the Bank and its subsidiaries (note 17) using the exemption available within International Accounting Standard 27 Consolidated and Separate Financial Statements, as both the Bank and its subsidiary are consolidated within the consolidated financial statements, prepared in accordance with IFRS as adopted by EU, of the ultimate parent, OTP Bank NyRt, Hungary.

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia. The Banking operations in Croatia are subject to the Credit Institutions Act (NN, 117/08, 74/09, 153/09, 108/12) 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 accounting regulations of the CNB are based on International Financial Reporting Standards as adopted by EU. The main difference between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards ("IFRS") is as follows:

The CNB requires banks to recognise impairment losses, through profit and loss, on assets not identified as impaired (including sovereign risk assets) at prescribed rates (excluding assets at fair value through profit or loss and assets available for sale). The Bank has made portfolio based provisions of HRK 106,593 thousand (2013: HRK 90,791 thousand) carried in the statement of financial position in compliance with these regulations, and have recognised an income of HRK 224 thousand in relation to these provisions (2013: income of HRK 8,450 thousand). Although, in accordance with IFRS, such provisions should more properly be presented as an appropriation within equity. In accordance with CNB rules the Bank continues to recognise such provisions as a substitute for existing but unidentified impairment losses calculated in accordance with the requirements of IFRS. The Bank is in the process of compiling the observable historical data in respect of the unidentified losses existing in its various credit risk portfolios at the statement of financial position date, determining the appropriate emergence period over which these losses come to light, and identifying, for each portfolio, the relevant current economic conditions with which the historical data should be adjusted, as a basis for estimating the extent of unidentified losses existing at the statement of financial position date on the basis required by 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. Contrary to IFRS, the amortisation of such discount should be recognised as a reversal of the impairment loss in accordance with local regulations, and not as interest income. 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.

Management expects that unidentified impairment losses estimated on this basis will not exceed those required to be calculated in accordance with the accounting regulations of the CNB.

2.2 Basis of measurement and preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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 consolidated statement of financial position date, as well as amounts of income and expense for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the result of which form the basis for making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the

• All amounts are expressed in thousands of HRK

estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of a possible material adjustment in the next year are discussed in Note 38.

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

These financial statements are prepared in HRK that is Bank functional currency.

2.2.1 Changes in accounting policy and disclosures

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board ("IASB") and adopted by the EU are effective for the current period:

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 "Disclosure of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 27 "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 28 (revised 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" – "Transition Guidance"**, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities"and IAS 27 "Separate Financial Statements" – "Investment Entities"**, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 32 "Financial Instruments: Presentation" – "Offsetting Financial Assets and Financial Liabilities"**, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 "Impairment of Assets" – "Recoverable Amount Disclosures for Non-Financial Assets"**, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – "Novation of Derivatives and Continuation of Hedge"** (effective for annual periods beginning on or after 1 January 2014).

The adoption of these amendments to the existing standards has not led to any changes in the Bank's accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, revisions and amendments of existing standards and interpretations adopted by the EU were in issue by IASB but not yet effective:

- **Amendments to various standards and interpretations "Improvements to IFRSs (cycle 2010 -2012"** resulting from the annual improvement project of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards and interpretations "Improvements to IFRSs (cycle 2011 -2013"** resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 3, IFRS 13 and IAS 40), primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),
- **Amendments to IAS 19 "Employee Benefits"** - "Defined Benefit Plans: Employee Contributions", adopted by the EU on 17 December 2014 (effective

for annual periods beginning on or after 1 February 2015),

- **IFRIC 21 "Levies"**, adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed by the EU for use as at 20 March 2015:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016),
- **IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IFRS 10 "Consolidated Financial Statements" i IAS 28 "Interests in Associates and Joint Ventures"** – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Interests in Associates and Joint Ventures" – "Investment Entities: Applying the Consolidation Exception"** (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 "Joint Arrangements"** – "Accounting for Acquisitions of Interests in Joint Operations" (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 "Presentation of Financial Statements"** – "Disclosure Initiative" (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" i IAS 38 "Intangible Assets"** – "Clarification of Acceptable Methods of Depreciation and Amortisation" (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" i IAS 41 "Agriculture"** - "Agriculture: Bearer Plants" (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 27 "Separate Financial Statements"** - "Equity Method in Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards and interpretations "Improvements to IFRSs (cycle 2010-2014."** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34), primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Bank anticipates that the adoption of these standards, except IFRS 9, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

The Management of the Bank anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

2.3 Functional and presentation currency

Items included in the financial statements of Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Bank financial statements are presented in Croatian HRK ("HRK") which is the Bank's functional and presentation currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

The principal rates of exchange set by the Croatian National Bank and used in the preparation of the Bank's statement of financial position at the reporting dates were as follows:

• All amounts are expressed in thousands of HRK

31 December 2014

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

31 December 2013

1 EUR = 7.637643 HRK
1 CHF = 6.231758 HRK
1 USD = 5.549000 HRK

2.4 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit and loss.

Non-monetary assets and items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated at statement of financial position date. The Bank does not have qualifying cash flow hedges and qualifying net investment hedges as defined in International Accounting Standard 39 "Financial Instruments: Measurement and Recognition" ("IAS 39").

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. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

The Bank has certain assets and liabilities originated in HRK, which are linked to foreign currency with one-way currency clause. In accordance with this clause the Bank has an option to revalue relevant assets by the higher of the foreign exchange rate valid as of the date of maturity and foreign exchange rate valid as of the date of origination of the financial instrument. In the case of relevant liabilities the counterparty has this option.

Due to the specific conditions of the market in the Republic of Croatia the fair value of this option cannot be calculated as forward rates for HRK for periods over 6 months are not available. The Bank therefore values its assets and liabilities governed by such clauses at the higher of the middle rate of the Croatian National Bank valid at the statement of financial position date and foreign exchange rate agreed by the option (rate valid at origination).

2.5 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Bank's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.6 Interest income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Interest income includes coupons earned on fixed income investments and securities and accrued discount and premium on treasury bills and other discounted instruments.

Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income.

2.7 Fee and commission income and expense

Fees and commissions consist mainly of fees on domestic and foreign payments, granted loans and other credit instruments issued by the Bank.

Fees and commissions are generally recognized as income when due.

2.8 Employee benefits

Short-term service benefits

Obligations for contributions to defined contribution pension plans and other short-term benefits are recognised as an expense in the profit and loss as incurred.

Long-term service benefits

The Bank provides employees with jubilee and one-off retirement awards. The obligation and costs of these benefits are determined by using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

2.9 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and

• All amounts are expressed in thousands of HRK

the Bank intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

2.10 Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash, balances with the Croatian National Bank ('CNB'), accounts with other banks and term placements with other banks with residual maturity up to 1 months.

Cash and cash equivalents exclude the obligatory reserves with the CNB, as these funds are not available for the Bank's day to day operations.

2.11 Financial instruments

Classification

The Bank classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, financial assets available for sale, held-to-maturity investments or other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. The management determines the classification of financial instruments upon initial recognition and, where appropriate, reviews this designation at every reporting date. Items are only classified as at fair value through profit or loss upon initial recognition. Items classified as at fair value through profit or loss are not reclassified.

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

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial instruments at fair value through profit or loss include investments in the investment funds as well as derivatives.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when the Bank provides money to a debtor with no intention of trading with the receivable and include amounts due from other banks, loans to and receivables from customers, and the obligatory reserve with the Croatian National Bank. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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 positive

• All amounts are expressed in thousands of HRK

intention and ability to hold to maturity. These include certain debt securities. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

Available-for-sale financial assets are non derivatives that are either designated in this category or not classified in any of the other categories. Financial assets designated as available for sale are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include debt and equity securities and units in open ended investment funds. Fair value is determined in the manner described in note 15. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Bank's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not held for trading or designated at fair value through profit or loss. Other financial liabilities include amounts due to other banks, amounts due to customers and other borrowed funds.

Recognition and derecognition

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

The Bank derecognises financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights on financial assets. This occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired.

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

Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

Initial and subsequent measurement

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

After initial recognition, the Bank measures financial instruments at fair value through profit or loss and available for sale 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. Debt securities that do not have a quoted market price in an active market are stated at cost of investment or indexed cost.

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 financial assets or financial liabilities at fair value through profit or loss are recognised in the profit or loss.

Gains and losses from a change in the fair value of available-for-sale monetary assets are recognised directly in a fair value reserve within equity and are disclosed in the statement of changes in other comprehensive income. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on available-for-sale monetary assets are recognised in the profit or loss. Dividend income is recognised in the profit or loss.

Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses are transferred to the profit or loss.

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

Fair value measurement principles

The fair values of quoted investments are based on current closing bid prices. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Bank establishes fair value by using valuation techniques. These include the use of prices achieved in recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate. The fair value of non-exchange-traded derivatives is estimated at the amount that the Bank would receive or pay to terminate the contract at the statement of financial position date taking into account current market conditions and the current creditworthiness of the counterparties.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Reclassification of financial assets

Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short-term. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

2.12 Impairment of financial assets

Impairment of financial assets identified as impaired

The Bank assesses at each statement of financial position date 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

• All amounts are expressed in thousands of HRK

the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank. 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 profit or loss. 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.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively. Those individually significant assets which are not impaired are included in the basis for collective impairment assessment.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

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 profit or loss.

Financial assets carried at fair value

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of other comprehensive income 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 profit or loss. Impairment losses recognised in the profit or loss on equity securities are not reversed through the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

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 statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

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

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 on- and off-balance sheet credit risk exposures not identified as impaired at rates from 0.80% (2013: 0.80%) in accordance with the accounting regulations of the CNB.

Securities at fair value were excluded from the basis of such calculation at the statement of financial position date.

2.13 Derivative financial instruments

The Bank uses derivative financial instruments to hedge economically its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

In accordance with its treasury policy, the Bank does not hold or issue derivative financial instruments for speculative trading purposes. No derivatives are accounted for as hedging instruments.

All derivatives are classified as financial instruments held for trading, within financial instruments at fair value through profit or loss. Derivative financial instruments including foreign exchange contracts, forward rate agreements and cross currency swaps are

• All amounts are expressed in thousands of HRK

initially recognised in the statement of financial position and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when negative.

Changes in the fair value of derivatives are included in the profit or loss.

2.14 Sale of repurchase agreement

If a financial asset is sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return or if it is loaned under an agreement to return it to the transferor, it is not derecognized, as the Bank retains substantially all the risks and rewards of ownership.

Securities sold under sale and repurchase agreements ('repos') are recorded as assets in the statement of financial position as originally classified or the Group reclassifies the asset on its statement of financial position as a repurchase receivable if the transferee obtains the right to sell or pledge the asset. The corresponding liability towards the counterparty is included in amounts due to banks or amounts due to customers as appropriate.

Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets due from banks or as loans and receivables as appropriate, with the corresponding decrease in cash being included in cash and balances with the Croatian National Bank.

The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

2.15 Tangible and intangible assets

Tangible and intangible assets are stated at cost less accumulated depreciation/amortisation and impairment loss, if any. Land and assets under construction are not depreciated.

Depreciation and amortization are calculated for all assets, except for land and assets under construction, under the straight line method at rates estimated to write off the cost of each asset to their residual values over their estimated useful life as follows:

	2014	2013
Buildings	10-40 years	10-40 years
Computers	4-5 years	4 years
Furniture and equipment	2.5-10 years	2.5-10 years
Motor vehicles	4-5 years	4 years
Intangible assets	1-15 years	3.3-15 years

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Repairs and renewals are charged to the profit or loss when the expenditure is incurred. Improvements are capitalised.

2.16 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. The investment property is subsequently measured at cost less depreciation expense and impairment losses, if for any.

2.17 Impairment of tangible and intangible assets

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

The recoverable amount of property, plant and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is 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.

• All amounts are expressed in thousands of HRK

An impairment loss in respect of goodwill is not reversed.

Non-financial assets other than goodwill 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.

2.18 Financial guarantees

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

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

2.19 Off-balance-sheet commitments

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

2.20 Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation. The Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors at the statement of financial position date. Provisions are discounted to present value where the effect is material.

2.21 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements when the Bank acts in a fiduciary capacity such as nominee, trustee or agent. Fees earned by the Bank for such services are recognised as income when earned.

2.22 Issued share capital

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

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

2.23 Treasury shares

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

2.24 Retained earnings

Any profit for the year is retained after appropriations are transferred to reserves.

2.25 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

• All amounts are expressed in thousands of HRK

2.26 Legal merger of Banco Popolare Croatia d.d.

On 1 December 2014, based on a decision of the majority shareholder, Banco Popolare Croatia d.d. was legally merged into the Bank and ceased to exist as a separate legal entity and operation. The 2014 statement of comprehensive income of the Bank does not include the pre-merger operating results of Banco Popolare Croatia d.d., and the 2013 comparative information was not restated to include Banco popolare Croatia d.d.

The assets and liabilities acquired on the merger were transferred at the carrying amounts at which they were reported in the financial statements of Banco Popolare Croatia d.d. immediately before the merger. The merger was carried out at carrying amounts, as it involved entities under joint control by one and the same company both before and after the merger, and the control is not temporary. The assets, liabilities and equity commponents acquired on the merger are summarized in the table below.

At 1 December 2014 the Bank effected legally the merger of Banco Popolare Croatia d.d. which ceased to exist as a separate legal person. The assets and liabilities acquired by the Bank as a result of the merger were transferred at the carrying amounts at which they were reported in the financial statements of Banco Popolare Croatia d.d. immediately before the merger. Loss acquired on merger of Banco Popolare d.d. was transferred to the equity of OTP banka Hrvatska d.d.

Effect of the legal merger

The effect of the legal merger of Banco Popolare Croatia d.d., effective from 1 December 2014, on the Bank's assets and liabilities was as follows:

	Acquired on the merger
	HRK'000
Acquired assets and liabilities	
Cash and deposits with banks	174.057
Balances with the CNB	284.892
Financial assets available for sale (AFS)	180.782
Loans and receivables	1.189.782
Tangible assets	44.454
Intangible assets	14.501
Tax assets	2.384
Other assets	370
Amounts due to customers	(1.621.645)
Provisions for risks and charges	(10.979)
Trade and other payables	(18.093)
Net identified assets and liabilities	**240.505**

• All amounts are expressed in thousands of HRK

3. NET INTEREST INCOME

	2014	2013
Interest and similar income		
Cash reserves and amounts due from other banks	9.450	5.613
Balances with Croatian National Bank	-	133
Corporate loans	172.901	173.076
Retail loans	412.025	436.732
Debt securities	55.569	80.329
	649.945	**695.883**
Interest and similar expense		
Amounts due to retail customers	199.453	229.380
Amounts due to corporate customers	20.330	24.564
Other borrowed funds and amounts due to other banks	25.199	23.544
Other	667	667
	245.649	278.155

Included within various line items under interest income for the year ended 31 December 2014 is a total of HRK 33,463 thousand (2013: HRK 23,818 thousand) relating to impaired financial assets.

4. NET FEE AND COMMISSION INCOME

(a) Net fee and commission income by source

	2014	2013
Fee and commission income		
Corporate customers	37.357	37.906
Banks	27.038	26.535
Retail customers	90.191	89.278
	154.586	**153.719**
Fee and commission expense		
Corporate customers	16.282	15.781
Banks	19.070	19.324
	35.352	35.105

(b) Net fee and commission income per type of fee

	2014	2013
Fee and commission income		
Loans related fees and commissions	5.342	9.488
Credit card related fees and commissions	38.092	37.797
Domestic payment transaction related fees and commissions	42.057	42.393
Foreign payment transaction related fees and commissions	8.278	7.653
Guarantee related fees and commissions	3.728	3.744
Investment management, brokerage and consultancy fees	1.451	1.362
Package fees charged to individuals	24.191	20.250
Account maintenance fees	10.889	11.566
Other fees and commissions	20.558	19.466
	154.586	**153.719**
Fee and commission expense		
Credit card related charges	12.797	13.630
Domestic payment transaction related charges	7.798	7.381
Foreign payment transaction related charges	9.727	9.723
Other fees and commissions	5.030	4.371
	35.352	35.105

• All amounts are expressed in thousands of HRK

5. NET TRADING AND VALUATION GAINS ON FINANCIAL INSTRUMENTS

	2014	2013
Net gains on foreign currency spot transactions	56.983	50.766
Net gain/(loss) on derivatives	122.763	(28.570)
Net (loss)/gain on translation of foreign currency assets and liabilities	(126.854)	11.269
	52.892	33.465

6. OTHER OPERATING INCOME

	2014	2013
Income from negative Goodwill	152.755	-
Income from litigations	2.004	1.252
Dividend income	60	2.029
Accrued profit under the collective insurance policy	162	67
Gains/(losses) on sale and disposal of property and equipment	186	(18)
Awards from Visa and Mastercard	1.654	840
Sale of written-off inventory	304	287
Write off liabilities	-	218
Income from rentals	3.556	2.101
Income from write-offs of previous years	260	888
Reversal of provision for legal advisors	4	1.117
Other income	634	1.029
	161.579	9.810

On 24 April 2014 the Bank purchased from the owner of Banco Popolare Societa Cooperativa, Italy, 170,317 ordinary shares and 16,845 preference shares accounting for 98.37 percent of the equity of Banco Popolare Croatia d.d. The purchase was registered with the Central Depository and Clearing Company (SKDD) on 25 April 2014. Subsequently, the Bank implemented a Minority Initial Public Offering, and the minority squeeze-out was finalised on 12 August 2014 when the Bank was registered with the SKDD as the owner of 100 percent of all the shares of Banco Popolare. The total consideration paid for 100 percent of shares of Banco Popolare amounted to HRK 108,748 thousand. The net asset value of Banco Popolare Croatia d.d. at the date of acquisition amounted to HRK 261,503 thousand, and the Bank recognised at 1 December 2014, the merger date, income from negative goodwill in the amount of HRK 152,755 thousand.

• All amounts are expressed in thousands of HRK

7. OPERATING EXPENSES

	2014	2013
Staff costs	193.276	156.384
Professional services and cost of material	115.443	107.872
Savings deposit insurance premiums	27.721	25.709
Marketing	17.755	17.970
Amortisation and depreciation	32.268	34.389
Administrative expenses	19.539	19.558
Other taxes and contributions	884	634
Write-off of receivables	554	1.177
Income on closement on dormant accounts	3.338	75
Other costs	11.352	2.162
	422.130	365.930

Staff costs

	2014	2013
Gross salary	118.200	115.048
- Net salaries	*80.919*	*78.866*
- Taxes, surtaxes and contributions	*37.281*	*36.182*
Contributions on salaries	19.864	17.593
Provisions for retirement, jubilees and vacations	967	261
Provisions for severance payments	27.680	-
Provisions for bonuses and rewards to employees	26.565	23.482
	193.276	156.384

At year end, the Bank had 1,255 (2013: 1,023) employees.

8. IMPAIRMENT LOSSES AND PROVISIONS, NET

	2014	2013
Impairment of loans receivables, net	136.958	105.787
Impairment of held-to-maturity investments, net	52	199
Impairment of other assets, net	3.322	7.255
Impairment of amounts due to banks, net	126	(59)
Litigation provisions, net	11.423	22.814
Provisions for off-balance sheet items, net	(1.464)	(2.395)
	150.417	133.601

• All amounts are expressed in thousands of HRK

9. TAXATION

(a) Income tax expense recognised in the profit or loss

	2014	2013
Current income tax charge	12.112	19.659
Net deferred tax charge	(1.891)	(4.412)
	10.221	15.247

(b) Reconciliation of the accounting profit and income tax expense at 20%

	2014	2013
Profit before income tax	165.454	80.086
Tax calculated at statutory tax rate of 20% (2013: 20%)	33.091	16.017
Income not subject to tax net of non-tax deductible expenses	4.301	3.721
Utilisation of double-dip benefits	(67)	(79)
Net deferred tax charge	(1.891)	(4.412)
Utilisation of tax losses acquired on merger of Banco Popolare Croatia d.d.	(25.213)	-
Current Income tax charge	10.221	15.247
Effective income tax rate	6,2%	19,0%

(c) Movement in deferred tax asset and (liability)

	Deferred loan origination fees	Unrealised gain/ (losses) on available-for-sale securities	Other	Total
Balance at 1 January 2013	6.302	(3.198)	-	3.104
Charged to profit or loss	301	-	4.111	4.412
Charged to other comprehensive income	-	(2.272)	-	(2.272)
Balance at 31 December 2013	6.603	(5.470)	4.111	5.244
Acquired on merger of Banco Popolare Croatia d.d.	998	-	1.366	2.364
Charged to profit or loss	(1.135)	-	3.026	1.891
Charged to other comprehensive income	-	(3.513)	-	(3.513)
Balance at 31 December 2014	6.466	(8.983)	8.503	5.986

The balance reported under the caption 'Other' comprises HRK 7,275 thousand (2013: HRK 2,794 thousand) of deferred tax assets on provisions for bonuses, salaries to be paid during notice period, termination and other employee benefits, HRK 1,224 thousand (2013: HRK 0) in respect of the losses on revaluation of the commercial properties of BPC, and HRK 4 thousand (2013: HRK 1,317 thousand) in respect of unrealised losses on the measurement of derivatives at fair value.

(d) Current income tax liability

	2014	2013
Current income tax charge	12.112	19.659
Paid income tax charge	(21.743)	(25.219)
Current income tax liability	-	-

The current income tax liability amounts to HRK 0 thousand (2013 HRK 0).

• All amounts are expressed in thousands of HRK

10. EARNING PER SHARE

For the purposes of calculating earnings per share, earnings are calculated as the net profit after tax for the period attributable to ordinary shareholders.

A reconciliation of the profit after tax attributable to ordinary shareholders is provided below.

	31/12/2014	31/12/2013
Profit for the year	155.233	64.839
Profit attributable to ordinary shareholders	155.233	64.839
Weighted average number of shares of 200 HRK each (for basic and diluted earnings per share)	4.111.398	4.111.398
Earnings per ordinary share – basic and diluted (HRK)	**37,76**	**15,77**

11. CASH AND BALANCES WITH THE CROATIAN NATIONAL BANK

	31/12/2014	31/12/2013
Cash in hand	270.884	290.860
Giro account balance	496.128	327.536
Current accounts with foreign banks	157.640	55.447
Current accounts with domestic banks	5.925	12.407
Items in course of collection	890	2.443
Assets included in cash and cash equivalents (Note 29)	**931.467**	**688.693**
Obligatory reserve at Croatian National Bank		
- in HRK	899.236	763.877
- in foreign currency	168.600	146.832
Total obligatory reserve at Croatian National Bank	**1.067.836**	**910.709**
Obligatory treasury bills at the Croatian National Bank	**53.565**	**131.029**
	2.052.868	**1.730.431**

The CNB determines the requirement for banks to hold obligatory reserves, both in the form of amounts required to be deposited with the CNB and in the form of other liquid receivables. The obligatory reserve with the CNB represents the amount required to be deposited with the CNB.

Based on the decision on the purchase records of the obligatory treasury bills at the Croatian National Bank, the Bank subscribed special Obligatory treasury bills which are denominated in HRK, interest-free and are issued on three years with maturity date December 12, 2016. They can be redeemed or re-enrolled to a maximum initially subscribed amount, depending on the movement of a certain prescribed loan portfolio at the end of each month.

The obligatory reserve requirement at 31 December 2014 amounted to 12% (2013: 12%) of HRK and foreign currency denominated deposits, borrowings and issued debt securities.

At 31 December 2014, the required rate of the HRK obligatory reserve with the CNB amounted to 70% (2013: 70%), while the remaining 30% (2013: 30%) must be held in the form of other liquid receivables, excluding cash in the vault and in hand. The percentage includes the part of foreign currency obligatory reserve required to be held in HRK (see below).

Of the total foreign currency obligatory reserve, 60% (2013: 60%) is maintained with the CNB, while the remaining 40% (2013: 40%) must be held in the form of other liquid receivables. The portion of the foreign currency obligatory reserve required to be held in HRK is 75% (2013: 75%), and it is added to the HRK obligatory reserve (see above).

• All amounts are expressed in thousands of HRK

12. AMOUNTS DUE FROM OTHER BANKS

	31/12/2014	31/12/2013
Short-term placements with other banks	334.082	210.672
Loans and advances to other banks in Croatia	26.244	120.002
Reverse repurchase agreements with other banks	393.752	-
	754.078	330.674
Less: impairment allowance	(1.842)	(1.716)
	752.236	328.958

Movements in provisions for impairment for amounts due from other banks for the Bank were as follows:

	2014	2013
Balance as at 1 January	1.716	1.775
Provisions charged	126	(59)
Balance as at 31 December	1.842	1.716

The entire amount of amount due to banks is valued at amortised cost.

13. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

(a) Financial assets at fair value through profit or loss

	31/12/2014	31/12/2013
Units in open-ended investment funds	11.094	10.957
Fair value of derivatives	2.457	573
	13.551	11.530

The units in open-ended investment funds are valued at the net asset value of these funds.

(b) Financial liabilities at fair value through profit or loss

	31/12/2014	31/12/2013
Fair value of derivatives	20	6.587
	20	6.587

The Bank has entered into derivative contracts as noted below.

The Bank uses cross-currency swaps to reduce the currency exposures that are inherent in any banking business. As at 31 December 2014 the Bank has had an receivable for forward SWAP leg in amount of HRK 567,264 thousand in USD currency (2013: HRK 826,160 thousand in USD currency and HRK 374,523 thousand in EUR currency). In addition the Bank has a payable forward SWAP leg as at 31 December 2014 in amount of HRK 463,846 thousand in CHF currency and HRK 100,013 thousand in HUF currency (2013.: HRK 508,888 thousand in CHF currency and HRK 700,083 thousand in HUF).These balances are shown in Bank's off balance. The Bank entered into the derivative agreements with financial institutions which include its related parties.

At 31 December 2014 the Bank did have currency forward contracts, and at 31 December 2013 the Bank did not have any currency forward contracts.

The Bank concluded the derivatives with a domestic commercial bank and one of its corporate clients.

The positive fair value of SWAP and forwards as at 31 December 2014 amounts to HRK 2,457 thousand (2013: HRK 573 thousand), and negative fair value of SWAP in amount of HRK 20 thousand (in 2013: HRK 6,587 thousand).

• All amounts are expressed in thousands of HRK

14. AMOUNTS DUE FROM CUSTOMERS

Analysis by type of product

	31/12/2014	31/12/2013
HRK denominated		
Retail customers	7.397.724	6.039.583
Corporate customers	3.369.488	3.112.023
Foreign currency denominated		
Retail customers	249	12
Corporate customers	990.354	788.550
Total loans	**11.757.815**	**9.940.168**
Less: allowance for impairment	(1.251.602)	(839.064)
	10.506.213	9.101.104

Included within Bank HRK loans are balances linked to foreign currency, such as Euro (EUR), Swiss franc (CHF) and US dollar (USD), which amount to HRK 6,981,486 thousand (2013: HRK 5,934,145 thousand). Repayments of principal and interest payments are determined in foreign currency and paid in the HRK equivalent translated at the foreign exchange rate applicable on the date of payment.

Movements in allowance for impairment were as follows:

	2014	2013
Balance at 1 January	**839.064**	**734.039**
Amounts collected	(13.053)	(49.094)
Acquired on merger of Banco Popolare Croatia d.d.	275.966	-
New provisions made	150.011	154.881
Exchange differences	282	913
Amounts written off	(668)	(1.675)
Balance at 31 December	**1.251.602**	**839.064**

At 31 December 2014, the total gross amount of non-performing loans for the Bank and the Group was HRK 2,170,919 thousand (2013: HRK 1,609,227 thousand).

• All amounts are expressed in thousands of HRK

Concentration of credit risk by industry

Set out below is an overview of the Group's and Bank's concentration by various types of industries (gross amounts before allowance for impairment):

	31/12/2014	31/12/2013
Agriculture, forestry and fisheries	309.570	261.093
Mining	22.917	24.407
Food and beverages	93.467	52.778
Leather and textiles	15.079	8.712
Publishing and printing	8.812	10.365
Non-metal mineral and chemical products	29.402	18.371
Metal-working industry	46.710	42.799
Other manufacturing industries	208.565	213.405
Energy, gas and water supply	34.295	38.157
Construction	1.024.040	789.931
Trade and commerce	559.405	519.956
Hotels and restaurants	487.825	468.934
Transport and communications	298.319	261.560
Financial intermediation	8.730	27.551
Real estate	314.083	359.187
Public administration and defence	653.000	596.280
Education, health and social welfare	163.934	124.091
Other services and social activities	81.689	82.996
Total corporate loans	**4.359.842**	**3.900.573**
Retail customers	**7.397.973**	**6.039.595**
	11.757.815	**9.940.168**
Less: impairment allowance	(1.251.602)	(839.064)
Total loans	10.506.213	9.101.104

15. FINANCIAL ASSETS AVAILABLE FOR SALE

	31/12/2014	31/12/2013
Equity securities	15.289	13.040
Debt securities	1.870.932	1.960.875
Units in open-ended investment funds	39.797	33.323
	1.926.018	2.007.238

Equity securities mostly refer to shares of the Zagreb stock exchange and Visa shares. During 2014, the Bank has sold its 50% share in OTP Consulting d.o.o.

(a) Equity securities

	31/12/2014	31/12/2013
Equity securities at cost		
- unquoted	18.881	16.632
Less: impairment allowance	(3.592)	(3.592)
	15.289	13.040

• All amounts are expressed in thousands of HRK

(b) Debt securities

	31/12/2014	31/12/2013
Quoted		
Bonds of the Ministry of Finance	195.395	122.912
Bonds of foreign governments	1.042.854	639.503
Subtotal: Quoted debt securities	**1.238.249**	**762.415**
Treasury bills of the Ministry of Finance	632.683	499.022
Treasury bills of Hungarian Central Bank	-	699.438
Subtotal: Unquoted debt securities	**632.683**	**1.198.460**
	1.870.932	1.960.875

RHMF-O-203E bonds of the Republic of Croatia were issued in 2010. They are denominated in Croatian HRK with foreign currency clause in EUR and bear interest at a rate of 6,50%, which is paid semi-annually. The bonds mature in 2020 and are quoted on the Zagreb Stock exchange. For all debt securities which are listed on domestic market, fair value is calculated based on the average price offered for the purchase of securities (bid price) on Reuters' website under the label ZAGREB BOND FIXING at 15.30 on that day. The fair value of debt securities not quoted on the Reuters website (ZB fixing), but which are quoted on the domestic market, is determined by reference to the bid price reported by Bloomberg on its website.

RHMF-0-172A bonds of the Republic of Croatia were issued in 2007. They are denominated in Croatian HRK and bear interest at a rate of 4.75%, which is paid semi-annually. The bonds mature in 2017 and are quoted on the Zagreb Stock Exchange. All debt securities which are quoted on the domestic market, fair value is determined using bid price published on Reuters website (ZB fixing).

The bonds of the Hungarian Government were issued in 2006, 2006 and 2008 and are denominated in EUR. They bear interest rate from 3,5% to 5,75% and are paid annually. The bonds mature in 2016, 2017 and 2018 and are quoted on foreign stock exchanges. Fair value of the bond is determined using bid price published on Bloomberg website.

The bonds of the Hungarian Govermnet were issued In 2010 and are denominated in USD. They bear interest rate of 6,25% and are paid semi-annually. The bonds mature in 2020 and are quoted on foreign stock exchange. Fair value of the bonds is determined using bid price published on Bloomberg website.

The Bank has in its portfolio Treasury Bills of the Ministry of Finance with maturities of 91, 182 and 364 days. The T-bills are HRK and EUR denominated, and bear interest at market rates. Treasury bills in HRK during the 2014 Bank also acquired on the secondary market. In 2013 the Bank acquired special-purpose 18-month euro-denominated treasury bills which mature in February 2015.

The treasury bills of the Hungarian Central Bank are Hungarian monetary policy instruments with a two-week maturity, denominated in the Hungarian forint (HUF), with an interest rate being the base rate of the Central Bank. The treasury bills are available for purchase to credit institutions in Hungary, and OTP Bank purchases them in the secondary market. Since 1 August 2014 Hungarian National bank does not issue these bills.

(c) Shares in open-end investment funds

The Bank has investments in open-end investment funds managed by the investment fund manager OTP Invest d.o.o. These are: OTP Balanced Fund,, OTP Index Fund and OTP Euro Cash Fund.

• All amounts are expressed in thousands of HRK

16. HELD TO MATURITY INVESTMENTS

	31/12/2014	31/12/2013
Receivables for Bonds of the Croatian Ministry of Finance	16.792	16.739
Corporate bills of exchange	102.026	101.281
Less: allowance for impairment	(16.882)	(16.830)
	101.936	101.190

Movement in provision of the Bank related to impairment of held to maturity investments:

	2014	2013
Balance at 1 January	16.830	16.631
Provision charged	52	199
Balance at 31 December	16.882	16.830

The receivables for bonds of the Ministry of Finance relates to compensation for flats purchased by the Government of Croatia. Pending the clarification of the terms, the Bank has not recognised accrued interest on these bonds. As the collection of these receivables is trying to be realized through court proceedings, the Management of the Bank is aware that there is uncertainty related to the collection of these receivables because of which value adjustment has been recorded in 2011. The investments held-to-maturity are not traded publicly.

17. INVESTMENTS IN SUBSIDIARIES

Set out below are the operating subsidiaries of the Bank:

Name	Business activity	Effective share	
		31/12/2014	31/12/2013
OTP Invest d.o.o.	Investment fund management	74,33%	74,33%
OTP Nekretnine d.o.o.	Real estate	100%	100%
Kratos nekretnine d.o.o	Real estate	100%	100%
OTP Aventin d.o.o	Real estate	100%	100%

As of 31 December 2014, total investment in subsidiaries was HRK 72,858 thousand (2013: HRK 72,858 thousand). Investment in OTP Nekretnine d.o.o. is HRK 63,170 thousand (2013: HRK 63,170 thousand), OTP Invest d.o.o. HRK 9,648 thousand (2013: HRK 9,648 thousand), Kratos Nekretnine d.o.o. HRK 20 thousand (2013: HRK 20 thousand) and in OTP Aventin d.o.o. HRK 20 thousand (2013: HRK 20 thousand). OTP Aventin was established in 2012 for the purpose of managing real estate acquired from company Pevec in bankruptcy.

The Bank assessed the recoverability of its investments in subsidiaries and determined that there is no impairment on these investments.

The breakdown of total assets, income and the net profit/loss of the subsidiaries is provided below:

	2014			2013		
	Total assets	Total income	Profit /(Loss)	Total assets	Total income	Profit /(Loss)
OTP Nekretnine d.o.o.	69.626	9.910	576	67.351	7.844	274
OTP Invest d.o.o.	3.040	6.291	205	3.017	6.051	452
Kratos nekretnine d.o.o.	265	173	23	262	172	91
OTP Aventin d.o.o.	89.550	4.882	(33.108)	144.371	4.648	(7.124)
	162.481	21.256	(32.304)	215.001	18.715	(6.307)

• All amounts are expressed in thousands of HRK

18. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Other	Assets under construction	Total
Cost:							
At 1 January 2013	253.429	58.654	147.082	2.217	969	15.426	477.777
Transfer from assets under construction	4.048	6.015	11.277	68	-	(21.408)	-
Additions	-	-	-	-		19.775	19.775
Disposals	-	(6.919)	(7.080)	(165)	-	-	(14.164)
At 31 December 2013	257.477	57.750	151.279	2.120	969	13.793	483.388
At 1 January 2014	257.477	57.750	151.279	2.120	969	13.793	483.388
Acquired on merger of Banco Popolare Croatia d.d.	52.047	6.418	33.090	1.000	72	17	92.644
Transfer from assets under construction	4.412	5.687	10.339	-	-	(20.438)	-
Additions	-	-	-	-	-	17.642	17.642
Disposals	(216)	(166)	(16.990)	-	-	-	(17.372)
At 31 December 2014	313.720	69.689	177.718	3.120	1.041	11.014	576.302
Accumulated depreciation/amortisation and impairment							
At 1 January 2013	111.112	49.849	103.952	1.164	-	-	266.077
Charge for the year	6.127	5.130	10.092	423	-	-	21.772
Disposals	-	(6.919)	(7.050)	(109)	-	-	(14.078)
At 31 December 2013	117.239	48.060	106.994	1.478	-	-	273.771
At 1 January 2014	117.239	48.060	106.994	1.478	-	-	273.771
Acquired on merger of Banco Popolare Croatia d.d.	16.802	5.694	25.182	1.000	-	-	48.678
Charge for the year	6.435	4.692	10.887	307	-	-	22.321
Disposals	(79)	(166)	(13.816)	-	-	-	(14.061)
At 31 December 2014	140.397	58.280	129.247	2.785	-	-	330.709
Net book value:							
At 1 January 2014	140.238	9.690	44.285	642	969	13.793	209.617
At 31 December 2014	173.323	11.409	48.471	335	1.041	11.014	245.593

19. INTANGIBLE ASSETS

Cost:	
At 1 January 2013	106.772
Additions	7.722
Disposals	(183)
At 31 December 2013	114.311
Acquired on merger of Banco Popolare Croatia d.d.	30.939
Additions	5.044
Disposals	(10.217)
At 31 December 2014	140.077
Accumulated amortisation	
At 1 January 2013	75.073
Charge for the year	12.617
Disposals	(161)
At 31 December 2013	87.529
Acquired on merger of Banco Popolare Croatia d.d.	16.460
Charge for the year	9.947
Disposals	(4.965)
At 31 December 2014	108.971
Net book value:	
At 31 December 2013	26.782
At 31 December 2014	31.106

• All amounts are expressed in thousands of HRK

20. GOODWILL

Goodwill reported on the Bank's statement of financial position represents goodwill originally arisen on the acquisition of Istarska Bank d.d., Pula and Sisačka Bank d.d. Sisak (which is included in the Bank's accounts following the merger with these banks on 30 June 2002), and Dubrovačka Bank d.d., Dubrovnik (which is included in the Bank's accounts following the merger with this bank on 30 September 2004). The value of goodwill as of 31 December 2014 amounts to HRK 42,966 thousand (2013: HRK 42,966 thousand).

For the purpose of impairment testing, goodwill was allocated to three business units (Business Centres) of the Bank that can be viewed separately in the context of creating new value.

In determining the need to recognise impairment, the Bank applies four approaches which are as follows: the net present value of future assets; the present value of future net interest income; the present value of future operating income; and the analysis of the actual operating results from the point of acquisition until the reporting date.

The present value of discounted future cash flows was determined for each cash-generating unit.

The future period is taken to correspond with the period covered by the Strategic Plan, which comprises minimum three following years. Discounted cash flows were compared with the carrying amounts. The discount rate applied is the expected return on equity as defined in the Strategic Plan.

The Bank assessed the recoverability of the goodwill and determined that there is no impairment on goodwill as of 31 December 2014 and 2013.

21. OTHER ASSETS

	31/12/2014	31/12/2013
Accrued fees and commissions	18.015	15.543
Accounts receivable	25.596	18.377
Foreclosed assets	13.021	5.919
Receivables in respect of credit card operations	20.140	20.878
Prepaid expenses	9.894	5.560
Other	4.136	4.839
	90.802	**71.116**
Less: impairment allowance	(21.667)	(18.345)
	69.135	52.771

Movements in provisions for impairment for other assets for the Bank were as follows:

	2014	2013
Balance as at 1 January	**18.345**	**11.090**
Provision charged	3.322	7.255
Balance as at 31 December	21.667	18.345

The majority of the provisions relate to fees receivable which are fully impaired following the expiry of a 90-day period.

• All amounts are expressed in thousands of HRK

22. AMOUNTS DUE TO OTHER BANKS

	31/12/2014	31/12/2013
Demand deposits		
HRK denominated	1.450	61
Foreign currency denominated	9.676	2.065
Time deposits		
Foreign currency denominated	-	18.676
	11.126	20.802

23. AMOUNTS DUE TO CUSTOMERS

	31/12/2014	31/12/2013
Retail customers		
Demand deposits		
HRK denominated	1.157.571	1.002.360
Foreign currency denominated	1.513.027	1.299.557
Time deposits		
HRK denominated	1.515.288	1.370.075
Foreign currency denominated	7.032.558	5.938.683
Corporate customers		
Demand deposits		
HRK denominated	648.211	482.945
Foreign currency denominated	309.252	237.611
Time deposits		
HRK denominated	249.456	258.050
Foreign currency denominated	272.386	330.646
Current accounts and deposits of subsidiaries	4.352	1.644
	12.702.101	10.921.571

24. OTHER BORROWED FUNDS

	31/12/2014	31/12/2013
Domestic creditors:		
CBRD	1.148.117	940.037
Ministry of Finance	2.802	2.802
Other	2	3
Foreign creditors:		
Government agencies	-	39.107
Commercial banks	-	-
	1.150.921	981.949

(a) Amounts due to the Croatian Bank for Reconstruction and Development (the "CBRD")
Other funds borrowed from CBRD are designated for approving loans to end users – corporate and retail customers – under the SME, in accordance with programme supported by the CBRD, at an average interest rate of 2.22% (2013: 2.26%).

(b) Amounts due to government agencies
The major portion of this debt relates to the debt to the Deutsche Investitions und Entwicklungsgeselschaft (the "DEG"). The loan was approved for a period of 6 years, at a variable interest rate (6-month EURIBOR + 1.3%); these funds are included in the Bank's supplementary capital in accordance with CNB regulations. The entire loan was due on 15 November 2014 and it was returned in full amount.

(c) Amounts due to the Croatian Ministry of Finance
This liability refers to the liability toward Ministry of Finance transferred from Dubrovačka banka and relates to interest based on "old" foreign currency savings.

• All amounts are expressed in thousands of HRK

25. PROVISIONS

a) Analysis of provisions

	31/12/2014	31/12/2013
Provisions for off-balance sheet items	8.773	10.183
Litigation provision	58.323	50.578
	67.096	60.761

b) Movements in provisions for risks and charges

Provisions for off-balance sheet items

	2014	2013
Balance at 1 January	10.183	12.578
Additional provisions established	-	-
Acquired on merger of Banco Popolare Croatia d.d.	54	-
Amounts released	(1.464)	(2.395)
Balance at 31 December	8.773	10.183

Litigation provisions

	2014	2013
Balance at 1 January	50.578	53.807
Additional provisions established	11.423	22.814
Acquired on merger of Banco Popolare Croatia d.d.	6.828	-
Amounts utilised	(10.506)	(26.043)
Balance at 31 December	58.323	50.578

Litigation provision relates to the legal led against the Bank, i.e. where the Bank is the defendant. Bank has provided for these legal cases where it is expected that outcome of the legal case will result in an outflow from the Bank of resources embodying economic benefits.

26. OTHER LIABILITIES

	31/12/2014	31/12/2013
Provisions for retirement benefits, jubilees and vacation days	10.543	8.678
Provisions for termination benefits and salaries during the notice period	27.680	-
Bonuses to employees	22.795	14.462
Amounts due to suppliers	19.557	12.328
Salaries and contributions payable	14.913	11.437
Due to State agency for deposit insurance and bank rehabilitation for saving deposits insurance	7.866	6.882
Deferred expenses	1.691	1.258
Provisions for payments of deposits previously recognised as income	3.631	-
Liabilities under credit card operations	3.226	7.766
Tax–liability from previous years	2.307	6.711
Liability for undistributed cash	7.089	11.899
Received advances	1.170	896
Value-added tax liability	1.982	1.049
Liabilities under opening accounts	2.850	2.753
Other liabilities	10.714	9.996
	138.014	96.115

Provisions for retirement benefits, jubilees and vacation days

Beginning balance 1/1/2013	8.938
Expense from new provisions (net)	(260)
Balance as at 31/12/2013	8.678
Expense from new provisions (net)	967
Acquired on merger of Banco Popolare Croatia d.d.	898
Balance as at 31/12/2014	10.543

• All amounts are expressed in thousands of HRK

27. SHAREHOLDERS' EQUITY

Share capital

As at 31 December 2014 the share capital of the Bank comprised 4.111.398 ordinary shares (2013: 4,111,398 ordinary shares), with a par value of HRK 200 each, which amounts to HRK 822,280 thousand of the Bank's share capital (2013: HRK 822,280 thousand). All the ordinary shares are ranked equally and carry one vote per share.

No dividend was paid during 2014 and 2013.

Reserves

	31/12/2014	31/12/2013
Legal reserve	41.114	41.114
Statutory reserve	41.114	41.114
Total legal and statutory reserves	**82.228**	**82.228**
Fair value reserve	35.930	21.877
General banking risks reserve	105.819	105.819
Other reserves	3.233	3.237
Total other reserves	**144.982**	**130.933**

Movements within the reserves related to fair valuation was as follows:

	2014	2013
Balance as at 1 January	**21.877**	**12.792**
Increase in reserves	21.256	11.964
Decrease in reserves	(3.690)	(607)
Taxes	(3.513)	(2.272)
Balance as at 31 December	**35.930**	**21.877**

Legal and statutory reserves

A legal reserve has been formed in accordance with Croatian law, which requires 5% of the profit for the year to be transferred to this reserve until it reaches 5% of issued share capital. The legal reserve, in the amount of up to 5% of issued share capital, can be used for covering current and prior year losses. In addition, in accordance with the Bank's internal regulations, an additional reserve equivalent to the legal reserve has been created in an amount of up to 5% of the share capital to cover impairment losses, payment of dividend on preference shares and for the same purposes as legal reserve.

Reserve for general banking risks

According to earlier CNB regulations the Bank was obliged to create a reserve for general banking risks if the increase of relevant on- and off-balance-sheet exposure at the statement of financial position date exceeds 15% of the exposure at the prior year end.

The general banking risk reserve is not transferrable to retained earnings or other reserves, or otherwise distributable until the expiry of a consecutive three-year period from the period in which the Bank has recorded an annual growth over 15%. As the period of three years passed in year 2011, the Bank can use the mentioned reserve as it could with retained earnings.

Fair value reserve

The fair value reserve records unrealised gains and losses on changes in the fair value of financial assets available for sale, net of deferred tax.

Other reserves

Other reserves at Group mainly represent revaluation reserve related to properties that have been transferred to investment properties.The revaluation of these properties occurred prior to the transfer.

Retained earnings

Retained earnings include accumulated profits from prior years.

• All amounts are expressed in thousands of HRK

28. CONTINGENCIES AND COMMITMENTS

Presented below are contractual amounts of the Bank's off-balance-sheet financial instruments:

	31/12/2014	31/12/2013
Payment guarantees	41.537	71.026
Performance guarantees	71.234	69.903
Letters of credit	20.290	20.341
Approved unused loans	963.614	968.565
Other	-	550
	1.096.675	1.130.385

29. CASH AND CASH EQUIVALENTS

For the purposes of cash flow statements, cash and cash equivalent comprise the following balances with maturities of up to 90 days:

	31/12/2014	31/12/2013
Cash and cash equivalents (excluding mandatory reserve with Croatian National Bank – Note 11)	931.467	688.693
Amounts due from other banks	725.586	208.570
	1.657.053	897.263

30. CAPITAL RISK MANAGEMENT

The Croatian National Bank ("the CNB"), as the Bank's key regulator, determines and supervises capital requirements for the Bank as a whole. The amount of capital allocated to individual operations is based primarily on regulatory requirements. The allocation of capital to specific activities is performed independent of individuals in charge of those activities.

Although the maximisation of return on the risk-weighted capital is the key basis used in determining the allocation of capital within the Bank to individual activities, it is not the only basis in the decision-making process. Synergies with other activities, availability of the Management Board and other resources, as well as the alignment of the activities with the Bank's strategic goals in the long run. The directors review regularly the Bank's policies for managing and allocating capital.

The capital adequacy ratio is determined as the ratio between the regulatory capital and the risk-weighted assets, risk exposures,the overall uncovered FX exposure to the currency risk and operational risk. The Bank has included in its calculation of capital adequacy its net profit for 2014, that it plans on transferring to retained earnings.

The Bank's regulatory capital amounts to HRK 1,638,434 thousand (2013: HRK 1,508,821 thousand) and consists entirely of the Common Equity Tier 1 capital. The capital adequacy ratio is 16.5 % (2013: 16.7 %).

The minimum capital adequacy ratio for banks in the Republic of Croatia is 8 % (2013: 12 %), whereas the CNB determined the Capital Adequacy Ratio to be 10.03 %, which, increased by the capital protection buffer (2.5 %) and the structural systemic risk buffer (1.5 %), amounts to 14.03 %.

• All amounts are expressed in thousands of HRK

31. CREDIT RISK

The Bank take on exposure to credit risk, which is the risk upon credit approval that the counterparty will be unable to pay amounts in full when due. The Bank structure the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The exposure to credit risk for all assets exposed to credit risk is limited by the carrying amount of that asset in the statement of financial position. The exposure to credit risk of derivatives which relate to foreign currency is equal to total of positive current market contract value and potential counterparty risk exposure. Additionally, the Bank is exposed to credit risk on off-balance-sheet items, including undrawn commitments to extend credit guarantees and letters of credit. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these ending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	31/12/2014	31/12/2013
ASSETS		
Cash and balances at Croatian National Bank	1.781.094	1.437.128
Loans and receivables from other banks	752.236	328.958
Loans and receivables to customers	10.506.213	9.101.104
corporate	4.359.842	3.900.581
retail	7.397.973	6.039.595
less: provision for losses	(1.251.602)	(839.072)
Held to maturity investments	101.936	101.190
Other assets	63.843	42.329
Total assets	13.205.322	11.010.709

The table below shows the maximum exposure to credit risk for the components of the off balance:

	31/12/2014	31/12/2013
Guarantees	133.061	161.270
Credit and other liabilities	963.614	969.115
	1.096.675	1.130.385

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

• All amounts are expressed in thousands of HRK

Concentration of assets and liabilities related to the Croatian state and its institutions

	Note	31/12/2014	31/12/2013
Current account with the Croatian National Bank	11	496.128	327.536
Obligatory reserve with the Croatian National Bank	11	1.067.836	910.709
Obligatory treasury bills with the Croatian National Bank	11	53.565	131.029
Ministry of Finance – Treasury bills	15b	632.683	499.022
Ministry of Finance bonds	15b	195.395	122.912
Loans provided by Croatian Bank for Reconstruction and Development and Government		599.223	581.752
Other assets		11.422	5.756
Current income tax payable	9d	-	-
Other liabilities		(10.952)	(8.584)
		3.045.300	2.570.132

Concentration of assets based on geographical division

At 31 December 2014	Croatia	Hungary	Austria	Switzerland	USA	Germany	Great Britain	Other	Total
Assets									
Cash and balances with the Croatian National Bank	1.895.228	4.612	-	7.023	82.295	46.568	3.950	13.192	2.052.868
Amounts due from other banks	26.244	463.078	130.000	112.162	-	-	17.102	3.650	752.236
Financial assets at fair value through profit or loss	11.115	2.436	-	-	-	-	-	-	13.551
Amounts due from customers	10.502.800	40	-	-	-	915	638	1.820	10.506.213
Financial assets available for sale	871.190	1.042.855	-	-	11.891	-	-	82	1.926.018
Held-to-maturity investments	101.936	-	-	-	-	-	-	-	101.936
Investments in subsidiaries	72.858	-	-	-	-	-	-	-	72.858
Tangible and intangible assets	319.665	-	-	-	-	-	-	-	319.665
Deferred tax assets	5.986	-	-	-	-	-	-	-	5.986
Other assets	66.921	39	7	8	35	84	478	1.563	69.135
	13.873.943	1.513.060	130.007	119.193	94.221	47.567	22.168	20.307	15.820.466

At 31 December 2013	Croatia	Hungary	Switzerland	Great Britain	Germany	USA	Other	Total
Assets								
Cash and balances with the Croatian National Bank	1.674.984	12.989	703	6.574	16.419	6.322	12.440	1.730.431
Amounts due from other banks	160.002	33.046	107.554	20.393	-	-	7.963	328.958
Financial assets at fair value through profit or loss	10.957	573	-	-	-	-	-	11.530
Amounts due from customers	9.101.058	40	-	-	-	-	6	9.101.104
Financial assets available for sale	659.323	1.338.941	-	-	-	8.892	82	2.007.238
Held-to-maturity investments	101.190	-	-	-	-	-	-	101.190
Investments in subsidiaries	72.858	-	-	-	-	-	-	72.858
Tangible and intangible assets	279.365	-	-	-	-	-	-	279.365
Deferred tax assets	5.244	-	-	-	-	-	-	5.244
Other assets	51.305	16	9	655	66	25	695	52.771
	12.116.286	1.385.605	108.266	27.622	16.485	15.239	21.186	13.690.689

• All amounts are expressed in thousands of HRK

Concentration of assets related to risk groups

At 31 December 2014	Assets classified in A risk group	Assets classified in B risk group	Assets classified in C risk group	Assets not classified in risk groups	Value adjustment	Total
Assets						
Cash and balances with the Croatian National Bank	1.781.094	-	-	271.774	-	2.052.868
Amounts due from other banks	752.087	1.067	924	-	(1.842)	752.236
Financial assets at fair value through profit or loss	-	-	-	13.551	-	13.551
Amounts due from customers	9.507.138	1.654.164	596.513	-	(1.251.602)	10.506.213
Financial assets available for sale	-	-	-	1.926.018	-	1.926.018
Held-to-maturity investments	101.936	-	16.882	-	(16.882)	101.936
Investments in subsidiaries	-	-	-	72.858	-	72.858
Tangible and intangible assets	-	-	-	319.665	-	319.665
Deferred tax assets	-	-	-	5.986	-	5.986
Other assets	62.069	5.612	17.829	5.292	(21.667)	69.135
Total assets	12.204.324	1.660.843	632.148	2.615.144	(1.291.993)	15.820.466

At 31 December 2013	Assets classified in A risk group	Assets classified in B risk group	Assets classified in C risk group	Assets not classified in risk groups	Value adjustment	Total
Assets						
Cash and balances with the Croatian National Bank	1.437.128	-	-	293.303	-	1.730.431
Amounts due from other banks	328.815	1.043	816	-	(1.716)	328.958
Financial assets at fair value through profit or loss	-	-	-	11.530	-	11.530
Amounts due from customers	8.275.659	1.279.572	384.937	-	(839.064)	9.101.104
Financial assets available for sale	-	-	-	2.007.238	-	2.007.238
Held-to-maturity investments	101.190	-	16.830	-	(16.830)	101.190
Investments in subsidiaries	-	-	-	72.858	-	72.858
Tangible and intangible assets	-	-	-	279.365	-	279.365
Deferred tax assets	-	-	-	5.244	-	5.244
Other assets	40.392	5.130	15.152	10.442	(18.345)	52.771
Total assets	10.183.184	1.285.745	417.735	2.679.980	(875.955)	13.690.689

• All amounts are expressed in thousands of HRK

32. MARKET RISK

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on their financial positions and cash flows.

The table below provides an analysis of the Bank's main currency exposures. The remaining currencies are shown within 'Other currencies.' The Bank monitors their foreign exchange (FX) position for compliance with the regulatory requirements of the Croatian National Bank established in respect of limits on open positions. Measuring the open positions of the Bank includes monitoring the value at risk limit for the Bank. Other currencies also include CHF linked.

The Bank has made VaR analysis (Value at Risk). This analysis is defined as worst possible scenario in time frame in normal market conditions. For the calculation, 10 days frame is taken and reliability of 99%. Possibility that the Bank will lose more that VaR calculated in normal market conditions is 1%. VaR calculated as of 31 December 2014 is HRK 56 thousand (2013: HRK 92 thousand).

At 31 December 2014	EUR	EUR currency clause	Total EUR	USD	HRK	Other currencies	Total
Assets							
Cash and balances with the Croatian National Bank	98.231	-	98.231	259.220	1.660.550	34.867	2.052.868
Amounts due from other banks	199.372	-	199.372	181.005	156.245	215.614	752.236
Financial assets at fair value through profit or loss	-	-	-	-	13.551	-	13.551
Amounts due from customers	973.313	6.191.501	7.164.814	49.832	2.711.131	580.436	10.506.213
Financial assets available for sale	1.050.630	115.862	1.166.492	156.705	602.821	-	1.926.018
Held-to-maturity investments	-	-	-	-	101.936	-	101.936
Investments in subsidiaries	-	-	-	-	72.858	-	72.858
Tangible and intangible assets	-	-	-	-	319.665	-	319.665
Deferred tax assets	-	-	-	-	5.986	-	5.986
Other assets	1.161	-	1.161	109	67.658	207	69.135
Total assets	**2.322.707**	**6.307.363**	**8.630.070**	**646.871**	**5.712.401**	**831.124**	**15.820.466**
Liabilities							
Amounts due to other banks	9.291	-	9.291	272	1.450	113	11.126
Amounts due to customers	7.651.121	17.426	7.668.547	1.212.994	3.557.083	263.477	12.702.101
Other borrowed funds	-	932.021	932.021	-	218.900	-	1.150.921
Financial liabilities at fair value through profit or loss	-	-	-	-	20	-	20
Provisions	-	-	-	-	67.096	-	67.096
Other liabilities and current income tax liability	3.999	1.135	5.134	831	131.928	121	138.014
Total liabilities	**7.664.411**	**950.582**	**8.614.993**	**1.214.097**	**3.976.477**	**263.711**	**14.069.278**
Net FX position	(5.341.704)	5.356.781	15.077	(567.226)	1.735.924	567.413	1.751.188

At 31 December 2013							
Total assets	**1.616.428**	**5.303.424**	**6.919.852**	**264.450**	**5.029.490**	**1.476.897**	**13.690.689**
Total liabilities	**6.513.801**	**775.489**	**7.289.290**	**1.093.054**	**3.436.913**	**268.528**	**12.087.785**
Net FX position	(4.897.373)	4.527.935	(369.438)	(828.604)	1.592.577	1.208.369	1.602.904

• All amounts are expressed in thousands of HRK

At 31 December 2013	EUR	EUR currency clause	Total EUR	USD	HRK	Other currencies	Total
Assets							
Cash and balances with the Croatian National Bank	85.549	-	85.549	162.854	1.454.180	27.848	1.730.431
Amounts due from other banks	138	-	138	48.172	165.302	115.346	328.958
Financial assets at fair value through profit or loss	-	-	-	-	11.530	-	11.530
Amounts due from customers	787.072	5.155.816	5.942.888	44.465	2.479.623	634.128	9.101.104
Financial assets available for sale	742.900	147.608	890.508	8.892	408.400	699.438	2.007.238
Held-to-maturity investments	-	-	-	-	101.190	-	101.190
Investments in subsidiaries	-	-	-	-	72.858	-	72.858
Tangible and intangible assets	-	-	-	-	279.365	-	279.365
Deferred tax assets	-	-	-	-	5.244	-	5.244
Other assets	769	-	769	67	51.798	137	52.771
Total assets	1.616.428	5.303.424	6.919.852	264.450	5.029.490	1.476.897	13.690.689
Liabilities							
Amounts due to other banks	20.078	-	20.078	559	60	105	20.802
Amounts due to customers	6.449.598	37.090	6.486.688	1.091.737	3.077.578	265.568	10.921.571
Other borrowed funds	39.133	737.321	776.454	-	202.693	2.802	981.949
Financial liabilities at fair value through profit or loss	-	-	-	-	6.587	-	6.587
Provisions	-	-	-	-	60.761	-	60.761
Other liabilities and current income tax liability	4.992	1.078	6.070	758	89.234	53	96.115
Total liabilities	6.513.801	775.489	7.289.290	1.093.054	3.436.913	268.528	12.087.785
Net FX position	(4.897.373)	4.527.935	(369.438)	(828.604)	1.592.577	1.208.369	1.602.904

At 31 December 2012							
Total assets	1.448.924	5.326.715	6.775.639	383.291	4.566.995	1.578.062	13.303.987
Total liabilities	6.525.453	749.837	7.275.290	1.131.716	3.081.345	286.652	11.775.003
Net FX position	(5.076.529)	4.576.878	(499.651)	(748.425)	1.485.650	1.291.410	1.528.984

• All amounts are expressed in thousands of HRK

Interest rate risk

Interest rate sensitivity of assets and liabilities

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprise to a market rate of interest before maturity, the next reprising date. It is the policy of the Bank to manage the exposure to fluctuations in net interest income arising from changes in interest rates by the degree of reprising mismatch in the statement of financial position. Those assets and liabilities that do not have contractual maturity date or are not interest bearing are grouped in the 'Non-interest-bearing' category. Earnings will also be affected by the currency of the assets and liabilities. The Bank has a significant proportion of interest earning assets and interest-bearing liabilities denominated in or linked to foreign currency. A significant portion of loans and receivables from customers presented as at fixed rate relates to corporate loans where the Bank has the right to change the interest rates, but in practice has not done so to date.

The Bank has calculated the impact of a 200 bp change in interest rates, in which case the economic value would change to 0.03% percent of the regulatory capital (2013: 2.90%).

At 31 December 2014	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest-bearing	Total
Assets						
Cash and balances with the Croatian National Bank	163.564	-	-	-	1.889.304	2.052.868
Amounts due from other banks	691.197	17.498	-	43.541	-	752.236
Financial assets at fair value through profit or loss	-	-	-	-	13.551	13.551
Amounts due from customers	6.048.792	1.362.545	1.746.255	1.301.478	47.143	10.506.213
Financial assets available for sale	101.385	389.663	294.143	1.079.010	61.817	1.926.018
Held-to-maturity investments	100.736	300	900	-	-	101.936
Investments in subsidiaries	-	-	-	-	72.858	72.858
Tangible and intangible assets	-	-	-	-	319.665	319.665
Deferred tax assets	-	-	-	-	5.986	5.986
Other assets	-	-	-	-	69.135	69.135
Total assets	**7.105.674**	**1.770.006**	**2.041.298**	**2.424.029**	**2.479.459**	**15.820.466**
Liabilities						
Amounts due to other banks	11.126	-	-	-	-	11.126
Amounts due to customers	3.689.713	1.525.978	7.379.091	31.151	76.168	12.702.101
Other borrowed funds	6.391	156.083	127.567	857.450	3.430	1.150.921
Financial liabilities at fair value through profit or loss	-	-	-	-	20	20
Provisions	-	-	-	-	67.096	67.096
Other liabilities and current income tax liability	-	-	-	-	138.014	138.014
Total liabilities	**3.707.230**	**1.682.061**	**7.506.658**	**888.601**	**284.728**	**14.069.278**
On-balance-sheet interest rate gap	**3.398.444**	**87.945**	**(5.465.360)**	**1.535.428**	**2.194.731**	**1.751.188**

• All amounts are expressed in thousands of HRK

At 31 December 2013	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest-bearing	Total
Assets						
Cash and balances with the Croatian National Bank	42.269	-	-	-	1.688.162	1.730.431
Amounts due from other banks	105.391	82.786	-	140.393	388	328.958
Financial assets at fair value through profit or loss	-	-	-	-	11.530	11.530
Amounts due from customers	6.048.310	861.884	1.219.522	922.829	48.559	9.101.104
Financial assets available for sale	1.061.742	109.914	332.628	439.297	63.657	2.007.238
Held-to-maturity investments	40.357	1.378	59.455	-	-	101.190
Investments in subsidiaries	-	-	-	-	72.858	72.858
Tangible and intangible assets	-	-	-	-	279.365	279.365
Deferred tax assets	-	-	-	-	5.244	5.244
Other assets	-	-	-	-	52.771	52.771
Total assets	**7.298.069**	**1.055.962**	**1.611.605**	**1.502.519**	**2.222.534**	**13.690.689**
Liabilities						
Amounts due to other banks	18.671	-	-	-	2.131	20.802
Amounts due to customers	3.158.515	1.330.879	6.325.605	24.726	81.846	10.921.571
Other borrowed funds	2.505	103.489	148.797	722.468	4.690	981.949
Financial liabilities at fair value through profit or loss	-	-	-	-	6.587	6.587
Provisions	-	-	-	-	60.761	60.761
Other liabilities and current income tax liability	-	-	-	-	96.115	96.115
Total liabilites	**3.179.691**	**1.434.368**	**6.474.402**	**747.194**	**252.130**	**12.087.785**
On-balance-sheet interest rate gap	4.118.378	(378.406)	(4.862.797)	755.325	1.970.404	1.602.904

The table below summarises the average effective interest rate at year-end for monetary financial instruments.

	31/12/2014	Interest rate %	31/12/2013	Interest rate %
Cash and balances with the Croatian National Bank	2.052.868	0,0	1.730.431	0,0
Amounts due from other banks	752.236	1,2	328.958	1,0
Loans and other financial assets created by the Bank	10.506.213	6,6	9.101.104	6,3
Held-to-maturity investments	101.936	7,8	101.190	7,7
Financial assets available for sale	1.926.018	2,3	2.007.238	3,2
	15.339.271		**13.268.921**	
Amounts due to other banks	11.126	0,0	20.802	0,7
Amounts due to customers	12.702.101	1,9	10.921.571	2,1
Other borrowed funds	1.150.921	2,2	981.949	2,2
	13.864.148		11.924.322	

• All amounts are expressed in thousands of HRK

33. LIQUIDITY RISK

The Bank is exposed to daily calls on their available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdown's, guarantees and from margin and other calls on cash-settled derivatives. 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 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 table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date.

At 31 December 2014	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Unidentified	Total
Assets							
Cash and balances with the Croatian National Bank	1.400.633	143.064	382.752	61.446	64.973	-	2.052.868
Amounts due from other banks	725.992	-	-	26.244	-	-	752.236
Financial assets at fair value through profit or loss	13.551	-	-	-	-	-	13.551
Amounts due from customers	1.266.193	438.098	1.176.222	2.216.442	5.409.258	-	10.506.213
Financial assets available for sale	123.295	389.663	294.143	769.621	349.296	-	1.926.018
Held-to-maturity investments	100.779	295	862	-	-	-	101.936
Investments in subsidiaries	-	-	-	-	-	72.858	72.858
Tangible and intangible assets	-	-	-	-	-	319.665	319.665
Deferred tax assets	-	-	-	-	-	5.986	5.986
Other assets	56.114	-	13.021	-	-	-	69.135
Total assets	**3.686.557**	**971.120**	**1.867.000**	**3.073.753**	**5.823.527**	**398.509**	**15.820.466**
Liabilities							
Amounts due to other banks	11.126	-	-	-	-	-	11.126
Amounts due to customers	4.943.645	1.701.769	4.552.904	730.913	772.870	-	12.702.101
Other borrowed funds	6.485	32.608	133.488	289.588	688.752	-	1.150.921
Financial liabilities at fair value through profit or loss	20	-	-	-	-	-	20
Provisions	-	-	-	-	-	67.096	67.096
Other liabilities and current income tax liability	138.014	-	-	-	-	-	138.014
Total liabilities	**5.099.290**	**1.734.377**	**4.686.392**	**1.020.501**	**1.461.622**	**67.096**	**14.069.278**
Net liquidity gap	**(1.412.733)**	**(763.257)**	**(2.819.392)**	**2.053.252**	**4.361.905**	**331.413**	**1.751.188**

At 31 December 2013							
Total assets	**4.249.312**	**807.421**	**1.703.246**	**2.200.850**	**4.372.394**	**357.466**	**13.690.689**
Total liabilities	**4.513.639**	**1.758.127**	**4.817.847**	**180.118**	**139.513**	**678.541**	**12.087.785**
Net liquidity gap	**(264.327)**	**(950.706)**	**(3.114.601)**	**2.020.732**	**4.232.881**	**(321.075)**	**1.602.904**

• All amounts are expressed in thousands of HRK

At 31 December 2013	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Unidentified	Total
Assets							
Cash and balances with the Croatian National Bank	1.179.197	145.533	394.542	6.166	4.993	-	1.730.431
Amounts due from other banks	105.779	82.786	-	120.000	20.393	-	328.958
Financial assets at fair value through profit or loss	11.530	-	-	-	-	-	11.530
Amounts due from customers	1.642.573	360.174	1.128.252	1.813.866	4.156.239	-	9.101.104
Financial assets available for sale	1.223.023	217.745	114.883	260.818	190.769	-	2.007.238
Held-to-maturity investments	40.358	1.183	59.650	-	-	-	101.190
Investments in subsidiaries	-	-	-	-	-	72.857	72.858
Tangible and intangible assets	-	-	-	-	-	279.365	279.365
Deferred tax assets	-	-	-	-	-	5.244	5.244
Other assets	46.852	-	5.919	-	-	-	52.771
Total assets	**4.249.312**	**807.421**	**1.703.246**	**2.200.850**	**4.372.394**	**357.466**	**13.690.689**
Liabilities							
Amounts due to other banks	20.802	-	-	-	-	-	20.802
Amounts due to customers	4.388.425	1.735.148	4.664.958	53.413	20.100	59.527	10.921.571
Other borrowed funds	1.710	22.979	152.889	126.705	119.413	558.253	981.949
Financial liabilities at fair value through profit or loss	6.587	-	-	-	-	-	6.587
Provisions	-	-	-	-	-	60.761	60.761
Other liabilities and current income tax liability	96.115	-	-	-	-	-	96.115
Total liabilities	**4.513.639**	**1.758.127**	**4.817.847**	**180.118**	**139.513**	**678.541**	**12.087.785**
Net liquidity gap	**(264.329)**	**(950.706)**	**(3.114.601)**	**2.020.732**	**4.232.881**	**(321.073)**	**1.602.904**

At 31 December 2012							
Total assets	**4.274.461**	**550.811**	**2.083.120**	**1.862.976**	**4.170.292**	**362.327**	**13.303.987**
Total liabilities	**4.227.571**	**1.595.358**	**4.987.548**	**405.104**	**493.037**	**66.385**	**11.775.003**
Net liquidity gap	**46.890**	**(1.044.547)**	**(2.904.428)**	**1.457.872**	**3.677.255**	**295.942**	**1.528.984**

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

• All amounts are expressed in thousands of HRK

34. OPERATIONAL RISK

Operational risk is the probability of loss resulting from inadequately defined or improperly executed business process, human error, inappropriate system operation or as a result of external factors. The Bank's activities in the area of managing operational risk are in line with the applicable regulations and good operational risk management practice, and are regularly revised to reflect any changes therein. The Operational Risk Management Rules and the Operational Risk Management Guidelines as well as the Guidelines for Operational Risk Self-assessment constitute the framework for managing operational risk at the Bank.

The Bank has a Business Continuity Plan that defines the system supporting the continuity of operations in cases where they become temporarily discontinued as a result of an exceptional event.

Operational risks are managed centrally: the responsibility for managing operational risks rests with the managers and staff in charge of those organisational units in which operational risks are inherent to the activities performed by those units. They best understand, control and monitor the processes taking place in their organisational units and their duty is to ensure that the processes they manage follow appropriate procedures and are safe from the aspect of incurrence of operational risks. Operational risk management activities that are a joint responsibility of all the Bank's organisational units include the following: identification, measurement, assessment and analysis, as well as control and monitoring operational risk that arise. The Division for Quantitative Analysis, Market and Operational Risks operates as an independent unit within the Operational Risk Management Department and is responsible for suggesting the set-up of the operational risk management environment and the rules governing this area, for collecting data about losses caused by operational risks, informing the Bank's Management Board regularly on operational risk events, as well as for providing assistance and support to all the Bank's organisational units in understanding the structured approach to managing operational risks. In line with the decentralised operational risk management methodology, the owners of each of the processes at the Bank have the obligation to co-operate closely in assessing the risks inherent in those processes (self-assessment) or to assess those risks against the guidelines provided by the Division for Quantitative Analysis, Market and Operational Risks. In order to obtain a full view of the Bank's exposure to the risk, an Operational Risk Management Committee has been established.

The Bank applies a simplified approach in determining the capital requirements for operational risk.

• All amounts are expressed in thousands of HRK

35. RELATED PARTY TRANSACTIONS

The Bank is the parent of the OTP Bank Group. The Bank considers that it has an immediate related party relationship with its key shareholders and their subsidiaries; its subsidiaries and associates; the investment funds managed by one of its subsidiaries, OTP Invest; Supervisory Board members, Management Board members; close family members of Management Board; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures" (the "IAS 24").

Outstanding balances at the year-end and relating expense and income for the year are as follows:

	31/12/2014		31/12/2013	
	Receivables	Payables	Receivables	Payables
OTP Bank Nyrt. Hungary	466.407	1.761	46.617	6.623
OTP Nekretnine d.o.o.	28	3.692	4	1.311
OTP Invest d.o.o.	78	503	39	399
Kratos nekretnine d.o.o.	-	26	-	30
OTP Aventin d.o.o.	19.062	131	52.994	96
Poslovno savjetovanje 2013 d.o.o. (before OTP Consulting d.o.o.)	-	28	3	330
OTP Leasing d.d.	1.863	8.413	322	8.063
OTP Faktoring d.o.o.	-	2.781	-	923
	487.438	17.335	99.979	17.775

	2014		2013	
	Income	Expenses	Income	Expenses
OTP Bank Nyrt Hungary	129.132	2.891	2.282	31.275
OTP Nekretnine d.o.o.	25	1.899	2.024	2.106
OTP Invest d.o.o.	300	14	299	2
Kratos nekretnine d.o.o.	61	-	3	-
OTP Aventin d.o.o.	1.978	-	1.622	340
Poslovno savjetovanje 2013 d.o.o. (before OTP Consulting d.o.o.)	2	1	2	5
OTP Leasing d.d.	337	1.926	341	2.306
OTP Faktoring d.o.o.	9	4.531	48	2.644
	131.844	11.262	6.621	38.678

Remuneration paid to key management personnel amounted to HRK 5,224 thousand and relates to short-term employee benefits (2013: HRK 6,293 thousand). Included in key management personnel are Management Board members.

Remuneration paid to Supervisory Board members amounted to HRK 1,123 thousand (2013: HRK 1,152 thousand).

• All amounts are expressed in thousands of HRK

36. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Bank manages funds on behalf of third parties placed mainly as loans between enterprises through the Bank as agent. These assets are accounted for separately from those of the Bank and no liability falls on the Bank in connection with these transactions. The Bank charges a fee for these services.

At 31 December 2014, Funds managed by the Bank as an agent on behalf of third parties amounted to HRK 62,909 thousand (2013: HRK 74,573 thousand). Additionally, assets under the management of OTP Invest, a subsidiary of the Bank, amounted to HRK 649,421 thousand (2013: HRK 533,382 thousand).

37. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial instruments is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's-length transaction, where available. Fair value is based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where quoted market prices are not readily available, fair value is estimated using alternative techniques, or financial assets are measured at cost, amortised cost or indexed cost.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

• All amounts are expressed in thousands of HRK

	31/12/2014				31/12/2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss								
Non-derivative financial assets	11.094	-	-	11.094	10.957	-	-	10.957
Other derivative financial assets	-	2.457	-	2.457	-	573	-	573
Available-for-sale financial assets								
Equity securities	11.891	-	3.398	15.289	8.892	-	4.148	13.040
Debt securities	1.085.741	785.191	-	1.870.932	659.100	1.301.775	-	1.960.875
Units in open-ended investment funds	39.797	-	-	39.797	33.323	-	-	33.323
Total	1.148.523	787.648	3.398	1.939.569	712.272	1.302.348	4.148	2.018.768
Financial liabilities at fair value through profit or loss								
Other derivative financial liabilities	-	20	-	20	-	6.587	-	6.587
Total	-	20	-	20	-	6.587	-	6.587

There were no transfers between Level 1, Level 2 and Level 3 in the period.

Some of the Bank's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobserva-ble inputs to fair value
	31 December 2014	31 December 2013				
Fair value through profit and loss – open-end investment fund shares	11.094	10.957	Level 1	Quoted selling fund share price	Not applicable	Not applicable
Fair value through profit and loss – derivatives	Assets 2,457 and liabilities 30	Assets 573 Liabilities 6,587	Level 2	The fair value denominated in the original currency is retrieved from Kondor after 14:30 hours and multiplied by the middle exchange rate of the CNB to determine the countervalue in kunas. Kondor determines the present value by discounting the agreed future cash flows in the original currencies.	Not applicable	Not applicable
Available for sale assets – Equity securities	11.891	8.892	Level 1	Price quoted on a stock exchange – closing price on the last day in the month	Not applicable	Not applicable
Available for sale assets – Equity securities	3.398	4.148	Level 3	Measured at cost – tested for impairment	Not applicable	Not applicable
Available for sale assets – Government bonds	1.085.741	659.100	Level 1	Quoted price on a stock exchange – bid price at 15:30 on the last day in the month	Not applicable	Not applicable
Available for sale assets – Treasury bills of MF denominated in HRK and in foreign currency	632.683	499.022	Level 2	Valuation at prices calculated using interpolation of last auctions prices	Not applicable	Not applicable
Available for sale assets – Treasury bills of MF denominated in foreign currency	152.508	103.295	Level 2	Measured at cost and amortized till maturity	Not applicable	Not applicable
Available for sale assets – Treasury bills of CB of EU	-	699.438	Level 2	Measured at cost – the maturity is within 14 days	Not applicable	Not applicable
Available for sale assets – open-end investment fund shares	39.797	103.315	Level 1	Quoted selling price issued by the fund	Not applicable	Not applicable

• All amounts are expressed in thousands of HRK

Movements in level 3 financial instruments measured at fair value

The level of the fair value hierarchy of financial instruments is determined at the beginning of each reporting period. The following table shows a reconciliation of the opening and closing amounts of level 3 financial assets and liabilities which are recorded at fair value:

31 December 2014	Available for sale unlisted shares	Other	Total
Opening balance	4.148	-	4.148
Total gains or losses:			
- in profit or loss	-	-	-
- in other comprehensive income	-	-	-
Purchases	-	-	-
Sale of shares in OTP Consulting d.o.o.	750	-	750
Disposals/settlements	-	-	-
Closing balance	3.398	-	3.398

Financial instruments not measured at fair value

The Management Board consider that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

38. 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.

Impairment losses on loans and receivables

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 to and receivables from corporate and retail customers (summarised in note 14), and as provisions for liabilities and charges arising from off-balance-sheet risk exposure to customers, mainly in the form of undrawn lending commitments, guarantees, letters of credit and unused credit card limits (summarised in note 25). 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.

Summary of impairment losses on customers	Notes	31/12/2014	31/12/2013
Impairment allowance on loans to and receivables from customers	14	1.251.602	839.064
Provisions for off-balance-sheet exposures	25	8.773	10.183
		1.260.375	849.247

• All amounts are expressed in thousands of HRK

The Bank first assesses whether objective evidence of impairment exists individually for assets that are individually significant (mainly corporate exposures) and collectively for assets that are not individually significant (mainly retail exposures). 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.

The Bank takes into consideration the combined effect of several events when assessing impairment and uses its experienced judgement 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.

At the year end, the gross value of specifically impaired loans to and receivables from customers, and the rate of impairment loss recognised, was as follows:

	31/12/2014			31/12/2013		
	Corporate	Retail	Total	Corporate	Retail	Total
Gross value of Exposure of impaired loans	1.066.397	1.104.522	2.170.919	889.943	719.284	1.609.227
Impairment rate	42,76%	56,15%	49,57%	32.23%	57,61%	43,62%

Each additional increase of one percentage point in the impairment rate on the gross portfolio at 31 December 2014 would lead to the recognition of an additional impairment loss of HRK 21,709 thousand for the Bank (2013 HRK 16,092 thousand).

The Bank has recognised an impairment allowance calculated on a portfolio basis in accordance with the range of impairment loss rates of minimum 0.80% if there is developed internal methodology, or at least 1.00% if there is no developed an internal methodology prescribed by the CNB, to be calculated on all credit risk exposures except those carried at fair value through profit or loss and available for sale portfolio, including off-balance-sheet amounts (including undrawn lending and credit card commitments) and sovereign risk. Amounts assessed as impaired are excluded from this calculation.

The amount of impairment allowance at 31 December 2014 calculated on a portfolio basis in accordance with local regulations amounted to HRK 106,593 thousand (2013 HRK 90,791 thousand) of the relevant on- and off-balance-sheet exposure for the Bank. The total of these portfolio based impairment losses amounted to 0.80% (2013: 0.80%) of eligible loans to and receivables from customers and commitments and contingencies of the Bank respectively, in both cases net of amounts individually assessed as impaired.

At the minimum rate prescribed by the CNB, portfolio based impairment losses would be HRK 26,639 thousand (2013: HRK 22,697 thousand) higher than the amount recognised by the Bank.

• All amounts are expressed in thousands of HRK

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. In making this judgement, the Bank evaluates among other factors, the nominal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

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.

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.

Regulatory requirements

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

Legal actions

In the ordinary course of business, the Bank is subject to various legal actions and complaints, the outcome of which is uncertain. As of 31 December 2014, based on the advice of legal counsel, management created provisions for the related risks amounting to HRK 58,323 thousand (2013: HRK 50,578 thousand).

39. EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

On 12 February 2015 the Bank was registered as the sole shareholder of OTP Faktoring based on the decision of the Commercial Court in Zadar. The Bank acquired the company from a Hungarian factoring company, a member of the OTP Group. OTP Faktoring was engaged in the collection of bad debt for the Bank. In the meantime, the Bank has insourced the factoring activities as part of a new organisational unit, so that the acquiree no longer performs its registered activity and is intended to be merged into the Bank.

Following the adoption of the Act amending the Consumer Credit Act in late January 2015, the Croatian Government has determined that all CHF-denominated loans be repaid over the next one year at an exchange rate of 6.39 kunas against one Swiss franc, as a result of which the Bank incurred a loss in the amount of HRK 9 million. The loss was recognised in January 2015 without any financial impact on the 2014 financial statements.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements are signed by and approved for issuing by the Management Board of OTP banka Hrvatska d.d. Zadar on 20 March 2015.

Balázs Békeffy
President of the
Management Board

Zorislav Vidović
Member of the
Management Board

• All amounts are expressed in thousands of HRK

Appendix to the financial statements

Statements of comprehensive income

Pursuant to the Croatian Accounting Law, Croatian National Bank issued the Decision on structure and contents of annual financial statement of the banks.

The following tables present financial statements in accordance to the above mentioned decision.

For the year ended 31 December 2014

All amounts are expressed in thousands of HRK

	2014	2013
1. Interest income	650.049	696.281
2. (Interest expenses)	(274.671)	(304.111)
3. Net interest income	**375.378**	**392.170**
4. Commission and fee income	154.591	153.720
5. (Commission and fee expenses)	(35.351)	(35.104)
6. Net commission and fee income	**119.240**	**118.616**
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-
8. Gain/(loss) from trading activities	179.747	22.196
9. Gain/(loss) from embedded derivatives	17	33
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	136	260
11. Gain/(loss) from financial assets available for sale	-	-
12. Gain/(loss) from financial assets held to maturity	-	-
13. Gain/(loss) from hedging transactions	-	-
14. Income from investments in subsidiaries, affiliated companies and joint ventures	-	-
15. Income from other equity investments	60	2.029
16. Gain/(loss) from foreign exchange differences	(125.399)	11.997
17. Other income	161.162	6.709
18. Other expenses	(47.351)	(44.701)
19. General and administrative expenses, depreciation and amortization	(358.520)	(318.411)
20. Net income before value adjustments and provisions for losses	**304.470**	**190.898**
21. Expenses from value adjustments and provisions for losses	(139.016)	(110.812)
22. Profit/(loss) before tax	**165.454**	**80.086**
23. Income tax	(10.221)	(15.247)
24. Current year profit/(loss)	**155.233**	**64.839**
25. Earnings per share	37,76	15,77
26. Current year profit/(loss)	**155.233**	**64.839**
27. Distributable to the parent company shareholders	**155.233**	**64.839**
28. Minority participation	**-**	**-**

Statement of financial position

For the year ended 31 December 2014

All amounts are expressed in thousands of HRK

Assets	2014	2013
1. Cash and deposits with the CNB	**1.889.303**	**1.662.577**
1.1. Cash	271.774	293.303
1.2. Deposits with the CNB	1.617.529	1.369.274
2. Deposits with banking institutions	495.757	276.670
3. Treasury bills of Ministry of Finance and treasury bills of the CNB	632.683	499.022
4. Securities and other financial instruments held for trading	-	-
5. Securities and other financial instruments available for sale	1.271.425	1.490.172
6. Securities and other financial instruments held to maturity	101.935	101.190
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	11.094	10.957
8. Derivative financial assets	2.922	1.074
9. Loans to financial institutions	29.098	120.062
10. Loans to other clients	10.911.273	9.098.473
11. Investments in subsidiaries, affiliated companies and joint ventures	72.858	73.608
12. Repossessed assets	13.021	5.919
13. Tangible and intangible assets (minus depreciation and amortization)	250.260	216.745
14. Interests, fees and other assets	232.021	215.177
A. Total assets	**15.913.650**	**13.771.646**
Liabilities and equity		
1. Borrowings from financial institutions	1.149.956	942.861
2. Deposits	12.614.618	10.839.401
2.1. Deposits on giro-accounts and current accounts	1.793.131	1.463.410
2.2. Savings deposits	1.825.854	1.539.317
2.3. Term deposits	8.995.633	7.836.674
3. Other borrowings	-	-
3.1. Short-term borrowings	-	-
3.2. Long-term borrowings	-	-
4. Derivative financial liabilities and other trading financial liabilities	352	7.036
5. Issued debt securities	-	-
6. Issued subordinated instruments	-	39.051
7. Issued Subordinated debt	-	-
8. Interests, fees and other liabilities	397.536	340.393
B. Total liabilities	**14.162.462**	**12.168.742**
1. Share capital	989.607	989.607
2. Current year gain/loss	155.233	64.839
3. Retained earnings/(loss)	375.206	331.365
4. Legal reserves	41.114	41.114
5. Statutory and other capital reserves	145.114	148.632
6. Unrealised gain /(loss) from available for sale fair value adjustment	44.914	27.347
C. Total equity	**1.751.188**	**1.602.904**
D. Total liabilities and equity	**15.913.650**	**13.771.646**
8. Total equity	**1.751.188**	**1.602.904**
9. Equity distributable to parent company shareholders	**1.751.188**	**1.602.904**
10. Minority participation	**-**	**-**

Statement of Changes in Equity

For the year ended 31 December 2014

All amounts are expressed in thousands of HRK

Change in equity	Share capital	Legal statutory and other reserves	Retained earnings/ (losses)	Current year profit/loss	Unrealised gain/(losses) from available for sale financial assets fair value adjustement	Total capital and reserves
1. Balance at 1 January 2014	**989.607**	**189.746**	**331.365**	**64.839**	**27.347**	**1.602.904**
2. Changes of Accounting policies and error corrections						
3. Restated balance at 1 January 2014 (1+2)	**989.607**	**189.746**	**331.365**	**64.839**	**27.347**	**1.602.904**
4. Sale of financial assets available for sale	-	-	-	-	-	-
5. Fair value changes of financial assets available for sale	-	-	-	-	-	-
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	-	-
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-
8. Net gains/losses directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	14.053	14.053
9. Current year gain/(loss)	-	-	-	155.233	-	155.233
10. Total income and expenses recognised for the current year 2014	**-**	**-**	**-**	**155.233**	**14.053**	**169.286**
11. Increase/ (decrease) in share capital	-	-	-	-	-	-
12. Buying/(sale) of treasury shares	-	-	-	-	-	-
13. Other changes	-	(3.518)	43.841	(64.839)	3.514	(21.002)
14. Transfer to reserves	-	-	-	-	-	-
15. Dividends paid	-	-	-	-	-	-
16. Distribution of profit (14+15)	**-**	**-**	**-**	**-**	**-**	**-**
17. Balance at 31 December 2014 (3+10+11+12+13+16)	**989.607**	**186.228**	**375.206**	**155.233**	**44.914**	**1.751.188**

All amounts are expressed in thousands of HRK

Change in equity	Share capital	Legal statutory and other reserves	Retained earnings/ (losses)	Current year profit/loss	Unrealised gain/(losses) from available for sale financial assets fair value adjustement	Total capital and reserves
1. Balance at 1 January 2013	989.607	192.021	231.293	100.072	15.991	1.528.984
2. Changes of Accounting policies and error corrections						
3. Restated balance at 1 January 2013 (1+2)	989.607	192.021	231.293	100.072	15.991	1.528.984
4. Sale of financial assets available for sale	-	-	-	-	-	-
5. Fair value changes of financial assets available for sale	-	-	-	-	11.357	11.357
6. Tax on items directly recognised or transferred from capital and reserves	-	-	-	-	(2.272)	(2.272)
7. Other gains or losses directly recognised in capital and reserves	-	-	-	-	-	-
8. Net gains/losses directly recognised in capital and reserves (4+5+6+7)	-	-	-	-	9.085	9.085
9. Current year gain/(loss)	-	-	-	64.839	-	64.839
10. Total income and expenses recognised for the current year 2013	-	-	-	64.839	9.085	73.924
11. Increase/ (decrease) in share capital	-	-	-	-	-	-
12. Buying/(sale) of treasury shares	-	-	-	-	-	-
13. Other changes	-	(2.275)	100.072	(100.072)	2.271	(4)
14. Transfer to reserves	-	-	-	-	-	-
15. Dividends paid	-	-	-	-	-	-
16. Distribution of profit (14+15)	-	-	-	-	-	-
17. Balance at 31 December 2013 (3+10+11+12+13+16)	989.607	189.746	331.365	64.839	27.347	1.602.904

Cash flow statement

For the year ended 31 December 2014

All amounts are expressed in thousands of HRK

	2014	2013
Operating activities		
1.1. Gain/(loss) before tax	165.454	80.086
1.2. Value adjustments and provisions for losses	139.016	110.812
1.3. Depreciation and amortization	32.268	34.389
1.4. Net unrealised (gain)/loss from financial assets and liabilities at fair value through profit and loss	-	-
1.5. Gain/(loss) from tangible assets sale	(186)	(184)
1. Operating cash flow before operating assets movements	336.552	225.103
2.1. Deposits with CNB	(79.663)	(48.796)
2.2. Treasury bills of Ministry of Finance and treasury bills of CNB	(133.661)	(188.764)
2.3. Deposits with banking institutions and loans to financial institutions	393.640	(11)
2.4. Loans to other clients	(1.856.212)	(630.751)
2.5. Securities and other financial instruments held for trading	(1.985)	3.770
2.6. Securities and other financial instruments available for sale	236.314	(32.779)
2.7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	-	-
2.8. Other operating assets	(22.948)	(12.889)
2. Net (increase)/decrease in operating assets	(1.464.515)	(910.220)
Increase/(decrease) in operating liabilities		
3.1. Demand deposits	329.720	115.485
3.2. Savings and term deposits	1.445.496	136.141
3.3. Derivative financial liabilities and other trading liabilities	(6.684)	4.605
3.4. Other liabilities	66.611	2.099
3. Net increase/(decrease) in operating liabilities	1.835.143	258.330
4. Net cash flow form operating activities before profit tax paying	707.180	(426.787)
5. Paid profit tax	(21.743)	(25.219)
6. Net inflows/(outflows) of cash from operating activities	685.437	(452.006)
Investing activities		
7.1. Receipts from sale/(payments for purchasing) tangible and intangible assets	(72.699)	(34.655)
7.2. Receipts from sale /(payments for buying) investments in subsidiaries, affiliated companies and joint ventures	750	(375)
7.3. Receipts from collection/(payments for buying) securities and other financial instruments held to maturity	(744)	(32.349)
7. Net cash flow from investing activities	(72.693)	(67.379)
Financial activities		
8.1. Net increase/(decrease) in borrowings	207.095	74.226
8.2. Net increase/(decrease) in issued debt securities	-	-
8.3. Net increase/(decrease) in subordinated and Subordinated debt	(39..051)	471
8.4. Receipts from issued share capital	-	-
8.5. (Dividends paid)	-	-
8.6. Other receipts/(payments) from financial activities	(20.998)	-
8. Net cash flow from financial activities	147.046	74.697
9. Net increase/(decrease) in cash and cash equivalents	759.790	(444.688)
10. Cash and cash equivalents at the beginning of the year	1.657.053	897.263
11. Cash and cash equivalents at the end of the year	897.263	1.341.951

Comparative statements

As data in financial statements prepared in accordance with the Croatian National Bank ("CNB") decision are classified differently from those in financial statements prepared according to the statutory accounting requirements for banks in Croatia the following tables present comparatives.

Comparative statements of comprehensive income for 2014 and 2013

All amounts are expressed in thousands of HRK

	Croatian National Bank decision 2014	Accounting Requirements for banks in Croatia for 2014	Difference 2014	Croatian National Bank decision 2013	Accounting Requirements for banks in Croatia for 2013	Difference 2013
1. Interest income	650.049	649.945	104	696.281	695.883	398
2. (Interest expenses)	(274.671)	(245.649)	(29.022)	(304.111)	(278.155)	(25.956)
3. Net interest income	**375.378**	**404.296**	**(28.918)**	**392.170**	**417.728**	**(25.558)**
4. Commission and fee income	154.591	154.586	5	153.720	153.719	1
5. (Commission and fee expenses)	(35.351)	(35.352)	1	(35.104)	(35.105)	1
6. Net commission and fee income	**119.240**	**119.234**	**6**	**118.616**	**118.614**	**2**
7. Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures	-	-	-	-	-	-
8. Gain/(loss) from trading activities	179.747	179.747	-	22.196	22.196	-
9. Gain/(loss) from embedded derivatives	17	-	17	33	-	33
10. Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss	136	-	136	260	-	260
11. Gain/(loss) from financial assets available for sale	-	-	-	-	-	-
12. Gain/(loss) from financial assets held to maturity	-	-	-	-	-	-
13. Gain/(loss) from hedging transactions	-	-	-	-	-	-
14. Income from investments in subsidiaries, affiliated companies and joint ventures	-	-	-	-	-	-
15. Income from other equity investments	60	-	60	2.029	-	2.029
16. Gain/(loss) from foreign exchange differences	(125.399)	(126.854)	1.455	11.997	11.269	728
17. Other income	161.162	161.579	(417)	6.709	9.810	(3.101)
18. Other expenses	(47.351)	-	(47.351)	(44.701)	-	(44.701)
19. General and administrative expenses, depreciation and amortization	(358.520)	(422.130)	63.610	(318.411)	(365.930)	47.519
20. Net income before value adjustments and provisions for losses	**304.470**	**315.872**	**(11.402)**	**190.898**	**213.687**	**(22.789)**
21. Expenses from value adjustments and provisions for losses	(139.016)	(150.418)	11.402	(110.812)	(133.601)	22.789
22. Profit/(loss) before tax	**165.454**	**165.454**	**-**	**80.086**	**80.086**	**-**
23. Income tax	(10.221)	(10.221)	-	(15.247)	(15.247)	-
24. Current year profit/(loss)	**155.233**	**155.233**	**-**	**64.839**	**64.839**	**-**
25. Earnings per share	37,76	37,76	-	15,77	15,77	-
26. Current year profit/(loss)	155.233	155.233	-	64.839	64.839	-

Reconciliations between the statement of comprehensive income items disclosed in the Annual Report and those specified by the CNB Decision relate to the following categories:

Reconciliation notes to the 2014 Statements of comprehensive income

The difference in the total interest income reported CNB accounting requirements for banks in the Republic of Croatia versus the Annual Report relates to net foreign exchange difference relating to interest income, which is presented in Annual report with item "Net profit or loss from trading in foreign currencies, securities and translation of foreign-currency denominated assets and liabilities".

The difference in the total interest expenses reported CNB accounting requirements for banks in the Republic of Croatia versus the Annual Report relates to savings deposit insurance premiums, which were included in "Operating expenses" in the Annual Report as well as to the position "Net profit or loss from trading in foreign currencies, securities and translation of foreign-currency denominated assets and liabilities".

The items "Trading gains/losses", "Gains/losses on derivatives" and "Gains/losses on exchange differences" are presented separately under the CNB bank accounting requirements, whereas in the Annual Report they have been included in "Net proft or loss from trading in foreign currencies, securities and translation of foreign-currency denominated assets and liabilities".

Items "Profit/(loss) on assets not actively traded and measured at FVTPL", "Income from other equity investments", "Other income" and "Extraordinary income" are presented separately, as provided by the CNB accounting requirements for banks, whereas in the Annual Report they are aggregated under "Other operating income".

Items "Other expenses", "Extaordinary expenses" and "General and administrative expenses and depreciation" are presented separately, as provided by the CNB accounting requirements for banks, whereas in the Annual Report they are aggregated under "Operating expenses".

Comparatives for Statement of financial position as at 31 December 2014 and 2013

For the year ended 31 December 2014

All amounts are expressed in thousands of HRK

Assets	Croatian National Bank decision 2014	Accounting Requirements for banks in Croatia for 2014	Difference 2014	Croatian National Bank decision 2013	Accounting Requirements for banks in Croatia for 2013	Difference 2013
1. Cash and deposits with the CNB	1.889.303	2.052.868	(163.565)	1.662.577	1.730.431	(67.854)
1.1. Cash	271.774	931.467	(659.693)	293.303	688.693	(395.390)
1.2. Deposits with the CNB	1.617.529	1.121.401	496.128	1.369.274	1.041.738	327.536
2. Deposits with banking institutions	495.757	752.236	(256.479)	276.670	328.958	(52.288)
3. Treasury bills of Ministry of Finance and treasury bills of the CNB	632.683	-	632.683	499.022	-	499.022
4. Securities and other financial instruments held for trading	-	-	-	-	-	-
5. Securities and other financial instruments available for sale	1.271.425	1.926.018	(654.593)	1.490.172	2.007.238	(517.066)
6. Securities and other financial instruments held to maturity	101.935	101.936	(1)	101.190	101.190	-
7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss	11.094	13.551	(2.457)	10.957	11.530	(573)
8. Derivative financial assets	2.922	-	2.922	1.074	-	1.074
9. Loans to financial institutions	29.098	-	29.098	120.062	-	120.062
10. Loans to other clients	10.911.273	10.506.213	405.060	9.098.473	9.101.104	(2.631)
11. Investments in subsidiaries, affiliated companies and joint ventures	72.858	72.858	-	73.608	72.858	750
12. Repossessed assets	13.021	-	13.021	5.919	-	5.919
13. Tangible and intangible assets (minus depreciation and amortization)	250.260	319.665	(69.405)	216.295	279.365	(63.070)
14. Deferred tax assets	-	5.986	(5.986)	-	5.245	(5.245)
15. Interests, fees and other assets	232.021	69.135	162.886	215.177	52.770	162.407
A. Total assets	15.913.650	15.820.466	93.184	13.771.196	13.690.689	80.507

Comparatives for Statement of financial position as at 31 December 2014 and 2013

For the year ended 31 December 2014

All amounts are expressed in thousands of HRK

Liabilities and equity	Croatian National Bank decision 2014	Accounting Requirements for banks in Croatia for 2014	Difference 2014	Croatian National Bank decision 2013	Accounting Requirements for banks in Croatia for 2013	Difference 2013
1. Borrowings from financial institutions	1.149.956	1.150.921	(965)	942.861	981.949	(39.088)
2. Deposits	12.614.618	-	12.614.618	10.839.401	-	10.839.401
2.1. Deposits on giro-accounts and current accounts	1.793.131	-	1.793.131	1.463.410	-	1.463.410
2.2. Savings deposits	1.825.854	-	1.825.854	1.539.317	-	1.539.317
2.3. Term deposits	8.995.633	-	8.995.633	7.836.674	-	7.836.674
3. Other borrowings	-	-	-	-	-	-
3.1. Short-term borrowings	-	-	-	-	-	-
3.2. Long-term borrowings	-	-	-	-	-	-
4.Due to other banks and deposits from customers	-	11.126	(11.126)	-	20.802	(20.802)
5. Due to customers	-	12.702.101	(12.702.101)	-	10.921.571	(10.921.571)
6. Derivative financial liabilities and other trading financial liabilities	352	20	332	7.036	6.587	449
8. Issued subordinated instruments	-	-	-	39.051	-	39.051
9. Financial liabilities through fair value	-	-	-	-	-	-
10. Provisions	-	67.096	(67.096)	-	60.761	(60.761)
11. Deferred tax liabilities	-	-	-	-	-	-
12. Income tax liabilities	-	-	-	-	-	-
13. Interest, fees and other liabilities	397.536	138.014	259.521	340.393	96.115	244.278
B. Total liabilities	14.162.462	14.069.278	93.184	12.168.742	12.087.785	80.957
1. Share capital	989.607	822.280	167.327	989.607	822.280	167.327
Share premium	-	171.260	(171.260)	-	171.260	(171.260)
2. Current year gain/loss	155.233	-	155.233	64.839	-	64.839
3. Retained earnings/(loss)	375.206	530.438	(155.233)	331.365	396.203	(64.838)
4. Legal reserves	41.114	-	41.114	41.114	-	41.114
Statutory and other capital reserves	-	82.228	(82.228)	-	82.228	(82.228)
5. Statutory and other capital reserves	145.114	-	145.114	148.632	-	148.632
Other reserves	-	144.982	(144.982)	-	130.933	(130.933)
6. Unrealised gain /(loss) from available for sale fair value adjustment	44.914	-	44.914	27.347	-	27.347
C. Total equity	1.751.188	1.751.188	-	1.602.904	1.602.904	-
D. Total liabilities and equity	15.913.650	15.820.466	93.184	13.771.646	13.690.689	80.957

Reconciliations between the statement of financial position items disclosed in the Annual Report and those specified by the CNB Decision relate to the following categories:

Reconciliation notes to the 2014 Statement of financial position

Assets

Items “Cash and deposits with the CNB” and “Deposits and receivables from banking institutions” are presented separately, as provided by the CNB accounting requirements for banks, whereas in the Annual Report they are captured under “Loans and receivables from other banks”, “Mandatory reserve with the CNB” and “Loans to other banks”.

The Treasury Bills of the Ministry of Finance and of the Croatian National Bank are presented separately, in accordance with the CNB accounting requirements for banks in the Republic of Croatia, whereas in the Annual Report, they are reported under “Financial assets available for sale”. Securities and other financial instruments not actively traded and carried at FVTPL are presented separately under the CNB accounting requirements for banks, whereas in the Annual Report they are included in “Financial assets at fair value through profit or loss”.

Foreclosed assets are presented separately, in accordance with the CNB accounting requirements for banks in the Republic of Croatia, whereas in the Annual Report they are included in “Other assets”.

Deferred tax assets are presented within item “Interest, fees and other assets” in accordance with the CNB accounting requirements for banks in the Republic of Croatia, whereas in the Annual report they are presented separately.

Accrued interest and fees due and not yet due as well as intangible assets are presented under the CNB accounting requirements for banks in the Republic of Croatia within “Interest, fees and other assets”, whereas in the Annual Report they are presented separately, i.e. the interest is presented together with the principal due and not yet due and the related securities.

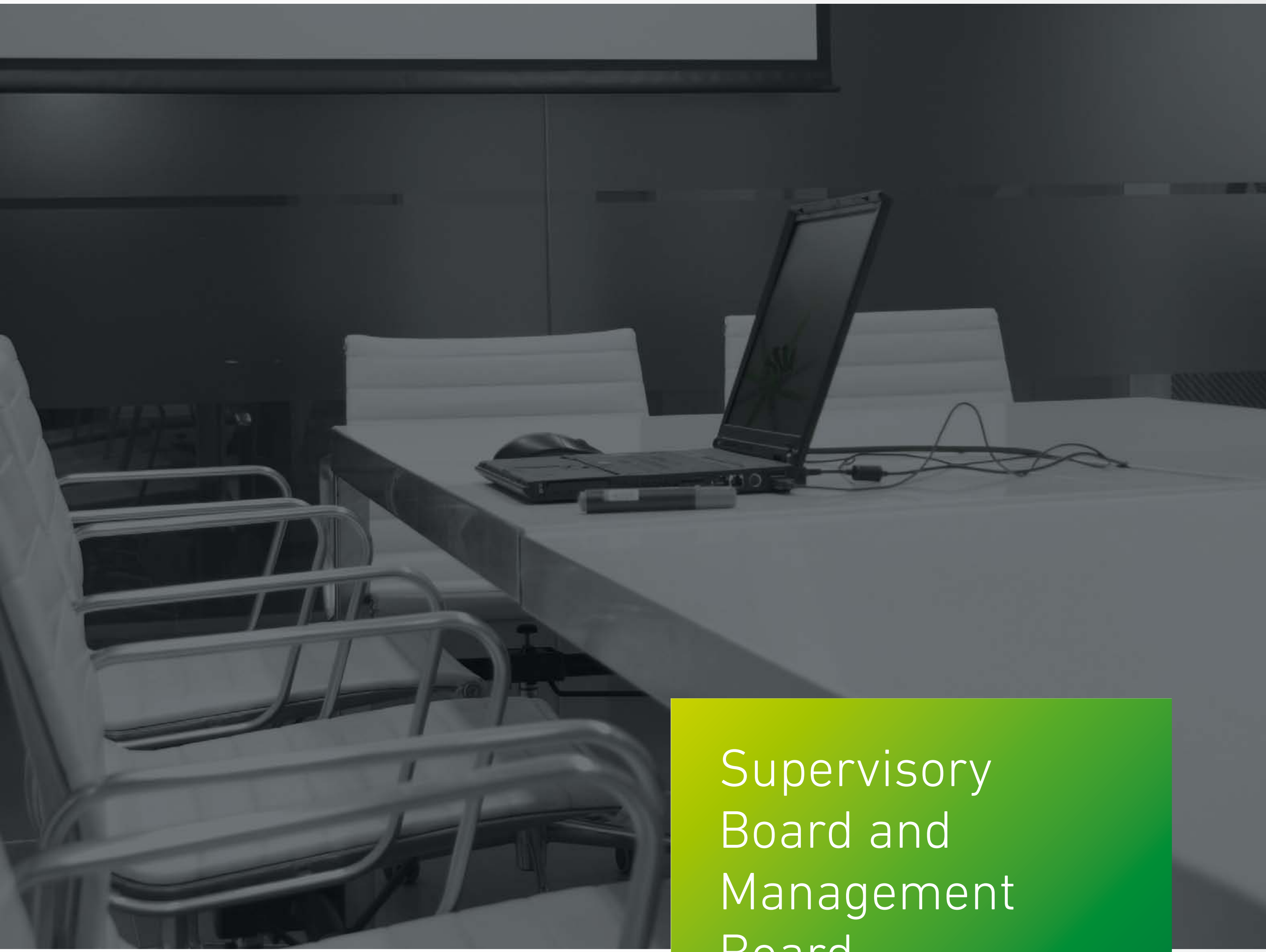
Liabilities and equity

In accordance with the CNB accounting requirements for banks in the Republic of Croatia, short-term and long-term loans from financial institutions, other short-term and long-term loans and issued subordinated debt instruments are items to be presented separately, whereas in the Annual Report they are included under “Other borrowed funds”.

Under the CNB accounting requirements for banks in the Republic of Croatia, balances on current and giro accounts, savings and term deposits are presented separately, whereas in the Annual Report they are included in “Amounts due to other banks” and “Amounts due to customers”.

In accordance with the CNB accounting requirements for banks in the Republic of Croatia, provisions, deferred tax liabilities and current income tax are included in “Interest, fees and other liabilities”, whereas they are presented separately in the Annual Report.

Accrued interest due and not yet due are presented in the Annual Report under the related principal due and not yet due, whereas under the CNB accounting requirements for banks in the Republic of Croatia they are included in “Interest, fees and other liabilities”.



Supervisory Board and Management Board

Supervisory Board

Dr. Antal Pongrácz
Chairman of the Supervisory Board of
OTP banka Hrvatska d.d.

Dr. Antal Pongrácz, Chairman of the Supervisory Board, was born in 1946. He holds a PhD in Economic Sciences. Early in his career he worked as an analyst and later on as a manager at the Revenue Directorate, but also held various positions in the Hungarian Ministry of Finance. He was also the first Deputy Chairman of the State Office for Youth and Sports. He came to OTP Bank for the first time in 1988 and was the first Deputy CEO of OTP Bank until 1990. Between 1991 and 1994 he was the CEO, then the Chairman and CEO of the European Commercial Bank Rt., between 1994 and 1998 he was the Chairman and CEO of Szerencsejáték Rt, then from 1998-99 he served as CEO of Hungarian flagship carrier Malév. Since 2001 he has been the executive director of OTP Bank's Staff Division. He has been a member of OTP Bank's Board of Directors since 2002 and the Deputy Chairman since June 2009.

Szabolcs Annus
Deputy chairman of the Supervisory Board of
OTP banka Hrvatska d.d.

Szabolcs Annus was born in 1976. He graduated from the Budapest University in economic studies and completed postgraduate degree in banking. He has been with OTP Bank since 2000, first as a controller, then advisor in Staff Division and head of Group-level Coordination Department shortly thereafter. Since 2007 he has been holding the position of a country manager for Romania, and since September 2008 he has also been in charge of Bank Group Supervision Department. Since 2007 he has been a member of various supervisory boards. Between 2007 and 2008 he was the SB chairman at OTP Travel, since 2007 he has been an SB member of OTP bank Romania. He was also a member of the Board in Portfolio Venture Capital Fund Management Company during 2010, and has been an SB member since October 2010. In addition, he has been a member of the Board of OTP Building Society since 2011.

Branko Mikša

Member of the Supervisory Board of
OTP banka Hrvatska d.d.

Branko Mikša was born in 1947 in Đurmanec, Croatia. He graduated in 1970 and gained his masters degree in 1973 from the Faculty of Economics, University of Zagreb. From 1970 to 1991 he worked at Pliva holding various positions from an associate to the head of the supply chain, export director and marketing director. In 1991 and 1992 he was the director of Pliva Handels GmbH in Germany, while in 1992 and 1993 he held the position of the Minister of Trade and Tourism in the Croatian Government. From 1993 to 1996 he was the Mayor of Zagreb, while from 1996 to 1999 he returned to Pliva Handels GmbH in Germany. Since 1999 he has been the Deputy President of the Supervisory Board of Agrokor d.d. and advisor to the President of the Agrokor Group. He has been an independent member of the Supervisory Board since 29 September 2011.

László Kecskés

Member of the Supervisory Board of
OTP banka Hrvatska d.d.

László Kecskés graduated from the Financial Accounting College and began his career as the Manager of Kecskés and Co. accounting and tax-consultant company. After two years he transferred to the position of the Chief Manager at Intertia Accountant Trustee, where he remained until 1994 when he became an auditor in OTP Bank. In 1996 he became the Deputy Head of the Banking Operation Audit Department and obtained the position of the General Director in 2001. Since April 2007 he has been the Managing Director of the OTP Bank Internal Audit Directorate.

Attila Kozsik
Member of the Supervisory Board of
OTP banka Hrvatska d.d.

Attila Kozsik was born in 1975. He graduated from the University of Budapest, in economics and got his a postgraduate degree in finance. He also holds a Certified European Financial Analyst (CEFA) diploma. Mr Kozsik started his career as a controlling expert at Citibank, followed by the position of a consultant at the company PriceWaterhouseCoopers. He arrived at OTP banka in 2002 as the manager of the Analysis and Control Section, whereas in 2009 he became the senior manager in the Core Strategy and Analyses Department. Between March and September 2010 he was the CFO and member of the Executive Committee of OTP banka Serbia, whereas from October 2010 to July 2013 he was the CFO at the commercial bank AD Podgorica, Montenegro, where he has been a member of the Management Board since October 2013. Since August 2013 he has been the director – consultant to the Deputy CEO at OTP banka.

Balázs Fábián
Member of the Supervisory Board of
OTP banka Hrvatska d.d.

Balázs Fábián was member of the Supervisory Board until 30 March 2014.

Árpád Srankó
Member of the Supervisory Board of
OTP banka Hrvatska d.d.

Árpád Srankó was member of the Supervisory Board until 30 March 2014.

Zsolt Szabó
Member of the Supervisory Board of
OTP banka Hrvatska d.d.

Zsolt Szabó was member of the Supervisory Board until 30 March 2014.

Fülöp Benedek
Member of the Supervisory Board of
OTP banka Hrvatska d.d.

Fülöp Benedek was member of the Supervisory Board until 30 March 2014.

István Vastag
Member of the Supervisory Board of
OTP banka Hrvatska d.d.

István Vastag was member of the Supervisory Board until 30 March 2014.

Management Board

Balázs Békeffy

President of the Management Board of
OTP banka Hrvatska d.d.

Balázs Békeffy, president of the Management Board of OTP banka d.d., was born in 1977 in Budapest. He graduated from the Budapest University of Economics, and gained specialised education at professional schools in Moscow and Sweden. He started his career in a subsidiary of the Swiss-based pharmaceutical and research company Novartis Seeds, and afterwards worked with the audit company PricewaterhouseCoopers as a consultant at Corporate Finance Services. He joined OTP Bank in March 2003, as a senior project manager in charge of bank acquisitions. In March 2006, he was appointed head of the Operations Division within OTP banka Hrvatska, and in September 2006 he was appointed Management Board member. He was appointed Management Board president in September 2011, and is in charge of Operations, IT, Human Resources, Legal Affairs, Compliance and Security and Internal Audit.

Zorislav Vidović

Member of the Management Board of
OTP banka Hrvatska d.d.

Zorislav Vidović, member of the Management Board of OTP banka d.d., was born in 1964 in Šibenik. He graduated from the Faculty of Economics at the University of Zagreb in 1988. In the period from 1988 to 1990 he held a job in the Finance Section of the company Kepol Zadar. At the end of 1990 he joined Dalmatinska banka where he was assigned to the Assets and Lending Division and in 1992 he earned his broker's license. From 1997 to 2002 he held the position of the director of the Treasury Department. He was a member of the Management Board since 1 April 2002 until 24 April 2014, when he was appointed president of the Management Board of Banco Popolare Croatia. On 16 December 2014 he was appointed member of the Management Board of OTP banka in charge of the Treasury, Finance, Corporate Banking and Group Governance system.

Helena Banjad

Member of the Management Board of
OTP banka Hrvatska d.d.

Helena Banjad, member of the Management Board of OTP banka d.d., was born in 1955 in Zadar. She graduated from the Faculty of Economics at the University of Zagreb in 1978. She started her career in the development department of Pliva pharmaceutical company in Zagreb, and in 1981 took a job in Zadar, working in the foreign trade unit of a chemical company. She joined Dalmatinska banka in 1990, and left the Bank for a company offering financial services, where she worked from 1993 to 1995. Her jobs with the Bank included running the international market and managing f/x liquidity (1990 to 1993), correspondent banking and procurement of funds from international markets (1995 to 1998), and since 1998 she has been heading the Risk Management Division. In the period from 2002 to 2004 she held the position of the Management Board member in charge of risks. She was appointed Management Board member in August 2011, and the supervision over credit, market and operational risks remains within her competence.

Slaven Celić

Member of the Management Board of
OTP banka Hrvatska d.d.

Slaven Celić, member of the Management Board of OTP banka d.d., was born in Šibenik in 1967. He graduated from the Faculty of Economics at the University of Split in 1992. Before joining the Bank at the end of 1997 he taught the economics courses in a secondary school in Šibenik. His first job in Dalmatinska banka was that of a senior loan and deposit administration officer, followed by the position of a relationship manager in the Corporate Banking Division, which he held from 2001 to 2004. He was promoted to the position of the manager of the Business Unit Šibenik in March 2004, only to be fast tracked to the position of the head of the Retail Banking Division in May the same year. He was appointed Management Board member in September 2012, and is in charge of the Retail Banking, and Marketing and Corporate Communications.

OTP banka Hrvatska Business Network

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