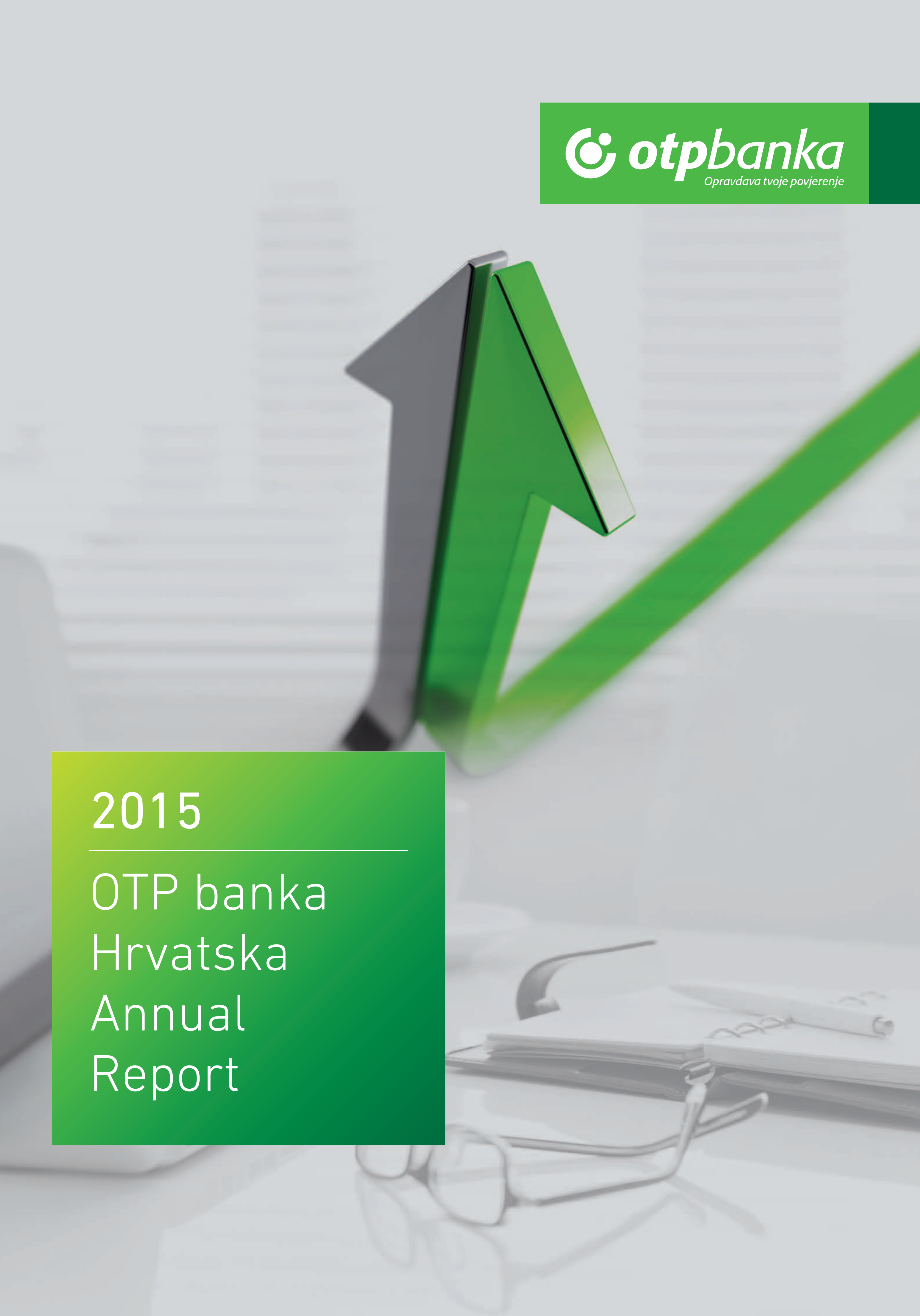


Opravdava tvoje povjerenje

# 2015

# OTP banka Hrvatska Annual Report

OTP BANKA HRVATSKA d.d.

Financial statements and Independent Auditor's report
for the year ended 31 December 2015

# 2015

# OTP banka Hrvatska Annual Report

# CONTENT

MANAGEMENT BOARD REPORT ON THE STATUS OF THE COMPANY

CORPORATE GOVERNANCE CODE

SUMMARY OF THE REMUNERATION POLICY OF THE OTP BANKA HRVATSKA GROUP

RESPONSIBILITIES OF THE MANAGEMENT AND SUPERVISORY BOARDS FOR THE PREPARATION AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF OTP BANKA HRVATSKA dd

# Management Board Report on the status of the company

"Each year provides new opportunities and new challenges, but our core values remain the same. We will enable safe and secure operation of the bank also in 2016, which should yield significantly better results than in 2015. We will leave behind all negative effects and negative atmosphere that was connected to the banking sector and turn to the future. "

*Balázs Békeffy*
President of the Management Board

Dear customers and business partners,

Last year will be remembered by its two contradictory aspects. On one hand, the economy finally began to show positive and promising signs of growth and prosperity, our achievements in terms of performance and profitability were good, and we reached few significant milestones in the life of OTP Group in Croatia. On the other hand, as we marked our 10th anniversary in Croatia, the regulator imposed previously unthinkable measures not only upon us, but upon the entire banking sector.

Nevertheless, let us start with good news first: GDP finally showed growth throughout the whole year, resulting in an expected growth of 1.6%, and with even better outlook for 2016. Export and industrial performance rose for the second year in a row, while one of major business drivers – tourism – reached a new high, which was partially a consequence of the international environment as well. Domestic consumption, encouraged by several decisions of the former Government and by the low oil and fuel prices, also contributed to such growth, joined with positive business atmosphere and expectations. We believe that such trends will continue in 2016, which could be boosted further by active consumption of available EU funds. Nevertheless, the aching problem of the economy - overextension of the Government – has remained. It is expected that the debt/GDP will soar above 87% and the responsibility to find a possible cure for this illness lies with the new Government.

### Bank's results and activities in 2015

In this positive environment the banking sector was hit quite hard with regulatory measures already in January when CHF FX rate was capped at HRK 6.39 for clients with CHF loans in commercial banks, and the second blow followed with the enforced and - to a certain extent - questionable conversion of all CHF loans into EUR. This second measure of the Government included amendments to the Consumer Credit Act that entered into force on 30th September, whereby the banks were imposed the obligation to convert the loans denominated in CHF currency to loans in EUR currency. The measure laid down that all borrowers with CHF loans should be given an option to convert their loans at the exchange rate and other conditions applicable for EUR denominated loans at the time they had contracted those loans. These two measures combined resulted in a total loss for OTP banka Hrvatska d.d. of HRK 253 million, which was weighed down even more heavily by HRK 35 million connected to a lost legal case against Cibalae banka dating back to 1998, prompting the bank to seek legal remedies even outside of Croatia, if necessary. As many as 93% of the clients accepted the conversion within the regulatory deadline, and consequently till the end of January 2016 majority of CHF loans were converted into EUR. Here we should emphasize that the bank was even more flexible than required by the Consumer Credit Act, as it accepted conversion requests also after the deadline set therein.

As for the interest rate environment, it was not favourable for banking operations. Namely, the relevant reference rates, especially the national reference rate (NRR), continued falling and was reflected in downward trends in interest income from both retail and corporate segments. These negative effects turned the actual year's profit into red and the bank closed the financial year with a loss of HRK 79.6 million, as we were able to offset most but not all of the extraordinary losses OTP banka had to suffer. The positive performance stemmed from better than expected operational profitability, partially from released reserves created for CHF lending earlier, an extraordinary positive effect on the tax assets item, i.e. the tax assets resulted from tax loss carryforwards from BPC, realised in 2015, favourable outcome of tax disputes against the Tax Administration in connection with the income tax from previous years (2003, to be exact), and recognition of tax effects of the excess tax amount assessed in 2014 (confirmed in subsequent Tax Administration decision). All in all, the capital strength of the bank remained unquestionable regardless of the market and regulatory turmoil, and the financial year was completed with the capital adequacy ratio at 15.5%, which is well above the minimum requirement set by the Croatian National Bank and covers all necessary capital buffers imposed by the regulator.

Notwithstanding the foregoing, the bank came out from 2015 stronger and larger than ever. It was able to compensate the falling interest income by decreasing the costs of funds, and regardless of all these negative elements, it delivered operating results by 34% higher than a year ago. The better operational performance can also be attributed to the fact that OTP banka Hrvatska completed the legal and organizational integration of Banco Popolare Croatia d.d. and in February 2015 also finalized the layoff programme that began in 2014, during which 150 employees left the integrated bank with incentivised voluntary redundancy packages.

Due to the joint efforts of all the colleagues within the bank, our market shares reached an all-time high in 2015, whereas we closed our financial year with highest ever retail loan and corporate loan market shares, 5.98% and 3.23% respectively. In this period the bank managed to keep its self-financing on an adequate level, total deposits market share was 4.14%, thanks to which both FX and HRK liquidity were adequate throughout the whole year, while the bank kept its loan to deposit ratio well below 100%, namely at 85%.

In addition to market growth, the bank kept its focus on operational improvements especially on digitalization of our services and banking operations. Besides many improvements and projects run in order to fulfil all regulatory requirements and changes, we have introduced online lending by way of Click Loan that provides our existing and future customers with an option of online loan application, with the feedback on eligibility available by e-mail within 30 minutes of applying, and loan disbursement within 24 hours.

We have a new Internet site with a fresh, modern and functional web design enabling better user experience, easier search for desired information, comparison of product and service information, and browsing on different screen sizes: personal computers, tablets and smartphones.

In 2015 we continued our cooperation with the INmusic festival, enabling contactless payments at this event. With our assistance contactless and cashless payment was introduced at all festival locations, which proved to be quite a hit. For that reason, and inspired by large world-famous festivals, we continued with the good work of using new technologies and modern service providing conditions in partnership with the 10th INmusic festival. Taking part in this festival increased bank image awareness and strengthened our position among younger and more dynamic population.

### Corporate social responsibility

Striving to reduce our ecological footprint and seize the full potential of our locations, in 2015 we started the project of solar plants. First, we put into operation the one in Dubrovnik in August 2015. During 2016 we plan to put up two more on our Head Office building in Zadar and the central building in Pula. All the energy obtained through this source will be used for our own requirements at the sites.

OTP banka is among the first larger companies in Croatia producing own power and using it in its offices and branches. With this project we prove yet again that social responsibility is one of the corporate values of our bank.

Every year OTP banka continues investing into the communities it operates in. Once a year it invites tenders for donations as a part of its programme "Green light to... better society", and the commission selecting the eligible projects consists of the Board members and the heads of the core divisions. Only in our public tender in 2015 we chose 40 projects and awarded them the total of HRK 400,000 in donations.

Over the last five years we donated the total of one million and eight hundred thousand kunas for projects focused on improving the quality of life in the respective communities.

As a part of the programme "Green light to knowledge" we decided to provide HRK 500,000 worth of scholarships to 84 students of lower financial standing from the towns of Zadar, Sisak, and Benkovac, and municipalities of Župa dubrovačka, Nuštar, Jakšić and Kneževi Vinogradi. In cooperation with representatives of local governments, OTP banka has been granting scholarships to students of lower financial standing for six consecutive years. So far, it has donated over three and a half million kunas in scholarships and other grants for better schooling conditions and education.

Last year we also donated HRK 50,000 to the Foundation of Dr Ivan Novak, which was established by the town of Čakovec for the purpose of helping students who take part in national and international (knowledge) competitions.

As one of three banks, and one of 85 Croatian companies, OTP banka was assessed for the purpose of measuring the Corporate Social Responsibility Index in 2015, using a specific methodology for the assessment of socially responsible operations, as organised by the Croatian Chamber of the Economy and the Croatian Business Council for Sustainable Development, and the results were comparatively better than the previous year's ones.

## Plans for 2016

Each year provides new opportunities and new challenges, but our core values remain the same. We will enable safe and secure operation of the bank also in 2016, which should yield significantly better results than in 2015. We will leave behind all negative effects and negative atmosphere that was connected to the banking sector and turn to the future. Hence, we expect to offset the negative effects of the regulatory turmoil of last year, whilst maintaining a stable funding basis and increasing both retail and corporate lending market shares even further.

Throughout 2016 we will continue the digitalisation process, but also must not lose sight of support to the functionality of the main systems of the bank. Namely, our main IT system's environment ceases to be supported at the end of 2016, therefore our main focus in the Q1 of 2016 should be enabling continuous support of the most precious system in the Bank. We will achieve this by migration to a new and supported runtime environment, with the pertaining project expected to be completed by May 2016.

The main goals of the digitalisation are development of mobile and internet banking, same as change and improvement of a few support processes. We will introduce fully digitalised operations by launching the e-board scheme. In addition, we are about to complete the digitalisation of personal lending in order to achieve our ultimate goal which is to avail our retail banking clients of fully remote lending processes, where the bank comes to the client and not vice versa.

In April 2016 we will be able to offer our small and medium enterprises an enhanced retail mobile banking solution in accordance with the best practices currently available on the market.

Finally, on my own behalf and on behalf of the Board and the complete OTP Group, I would like to take this opportunity to extend thanks to our customers and business partners for the trust shown. Special thanks is due to our employees for their efforts, understanding and capability to face all the changes that moulded our environment over the past year.

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 1st September 2015. 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  on 21st September 2015.

## 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.

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

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

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

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

The Management Board is also responsible for the preparation and fair presentation of the supplementary information prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 30 May 2008 (Official Gazette 62/08).

The financial statements set out on pages 5 to 79 prepared in accordance with statutory accounting requirements for banks in Croatia, as well as the supplementary information presented on pages 80 to 90 prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 30 May 2008 (Official Gazette 62/08), were authorised by the Management Board on 23 March 2016 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of OTP banka Hrvatska dd:

| | |
|---|---|
| *Balázs Békeffy*<br>President of the<br>Management Board | *Zorislav Vidović*<br>Member of the<br>Management Board |

# Independent auditors' report to the shareholder of OTP banka Hrvatska dd

We have audited the accompanying financial statements of OTP banka Hrvatska dd ("the Bank"), which comprise the statement of financial position as at 31 December 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and 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 requirements for credit institutions in Croatia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for credit institutions in Croatia.

### Other legal and regulatory requirements

Pursuant to the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 30 May 2008 (Official Gazette 62/08), the Management Board of the Bank has prepared the schedules ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2015, and of the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the financial statements. The Schedules and the Reconciliation are presented on pages 80 to 90. The Management Board of the Bank is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements of the Company set out on pages 5 to 79 on which we have expressed an unmodified opinion as set out above.

### Other

The financial statements of the Bank as at and for the year ended 31 December 2014 were audited by other auditors whose report dated 20 March 2015 expressed an unmodified opinion on those financial statements.

## KPMG Croatia d.o.o.

Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lucica 2a
10000 Zagreb
Croatia

Zagreb, 23 March 2016

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

*Goran Horvat*
Director, Croatian Certified Auditor

# FINANCIAL STATEMENTS

# Statement of comprehensive income

For the year ended 31 December

All amounts are expressed in thousands of HRK

| | Note | 2015 | 2014 |
|---|---|---|---|
| Interest and similar income | 3 | 722,790 | 649,945 |
| Interest and similar expense | 3 | (226,276) | (245,649) |
| **Net interest income** | | **496,514** | **404,296** |
| Fee and commission income | 4 | 163,972 | 154,586 |
| Fee and commission expense | 4 | (40,489) | (35,352) |
| **Net fee and commission income** | | **123,483** | **119,234** |
| Net trading and valuation gains on financial instruments | 5 | 56,120 | 52,892 |
| Other operating income | 6 | 18,812 | 161,579 |
| **Net trading and other income** | | **74,932** | **214,471** |
| **Income before impairment and operating expenses** | | **694,929** | **738,001** |
| Impairment losses and provisions, net | 8 | (416,406) | (150,417) |
| Personnel expenses | 7a | (178,729) | (193,276) |
| Other operating expenses | 7 | (248,810) | (228,854) |
| **(Loss) / Profit before tax** | | **(149,016)** | **165,454** |
| Income tax | 9a | 69,427 | (10,221) |
| **(Loss) / profit for the year** | | **(79,589)** | **155,233** |
| **Other comprehensive income:** | | | |
| **Items that will not be subsequently transferred to profit and loss** | | - | - |
| **Items that are or may be subsequently transferred to profit and loss** | | | |
| Fair value reserve for available-for-sale assets | | | |
| *Net change in fair value* | | | |
| Net change in fair value on available-for-sale financial assets, net of realised amount | 27 | 32,279 | 17,566 |
| Deferred tax | 9c | (6,455) | (3,513) |
| | | **25,824** | **14,053** |
| **Total other comprehensive income** | | **25,824** | **14,053** |
| **Total comprehensive (loss)/income** | | **(53,765)** | **169,286** |
| **EARNINGS PER SHARE** | | | |
| **- Basic and diluted (in HRK)** | 10 | - | 37.76 |

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

# Statement of financial position

### As at 31 December

All amounts are expressed in thousands of HRK

| | Note | 2015 | 2014 |
|---|---|---|---|
| ASSETS | | | |
| Cash and balances with the Croatian National Bank | 11 | 1,993,247 | 2,052,868 |
| Loans and advances to banks | 12 | 766,579 | 752,236 |
| Financial assets at fair value through profit or loss | 13a | 35,857 | 13,551 |
| Loans and advances to customers | 14 | 10,508,073 | 10,506,213 |
| Financial assets available for sale | 15 | 1,884,868 | 1,926,018 |
| Held-to-maturity investments | 16 | 143,537 | 101,936 |
| Investments in subsidiaries | 17 | 59,842 | 72,858 |
| Property, plant and equipment | 18 | 246,577 | 245,593 |
| Intangible assets | 19 | 32,202 | 31,106 |
| Goodwill | 20 | 42,966 | 42,966 |
| Deferred tax assets | 9c | 51,357 | 5,986 |
| Other assets | 21 | 73,707 | 74,754 |
| Total assets | | 15,838,812 | 15,826,085 |
| LIABILITIES | | | |
| Amounts due to other banks | 22 | 22,098 | 11,126 |
| Amounts due to customers | 23 | 12,526,462 | 12,702,101 |
| Other borrowed funds | 24 | 1,176,638 | 1,150,921 |
| Financial liabilities at fair value through profit or loss | 13b | 4,157 | 20 |
| Provisions | 25 | 282,768 | 67,096 |
| Other liabilities | 26 | 128,948 | 143,633 |
| Total liabilities | | 14,141,071 | 14,074,897 |
| SHAREHOLDERS' EQUITY AND RESERVES | | | |
| 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 | 170,801 | 144,982 |
| Retained earnings | | 451,172 | 530,438 |
| Total shareholders' equity and reserves | | 1,697,741 | 1,751,188 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY AND RESERVES | | 15,838,812 | 15,826,085 |

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

# Statement of changes in equity

**For the year ended 31 December**

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 2014 | 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. (note 2.30) | - | - | - | - | (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 |
| Balance at 1 January 2015 | 822,280 | 171,260 | 82,228 | 144,982 | 530,438 | 1,751,188 |
| Changes in equity during 2015 | | | | | | |
| Loss for the year | - | - | - | - | (79,589) | (79,589) |
| Other comprehensive income | - | - | - | 25,824 | - | 25,824 |
| Total comprehensive income | - | - | - | 25,824 | (79,589) | (53,765) |
| Gain acquired on merger of part of OTP Nekretnine (note 2.31) | - | - | - | - | 323 | 323 |
| Other movements (in the reserve funds for housing units) | - | - | - | (5) | - | (5) |
| Balance at 31 December 2015 | 822,280 | 171,260 | 82,228 | 170,801 | 451,172 | 1,697,741 |

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

# Cash flow statements

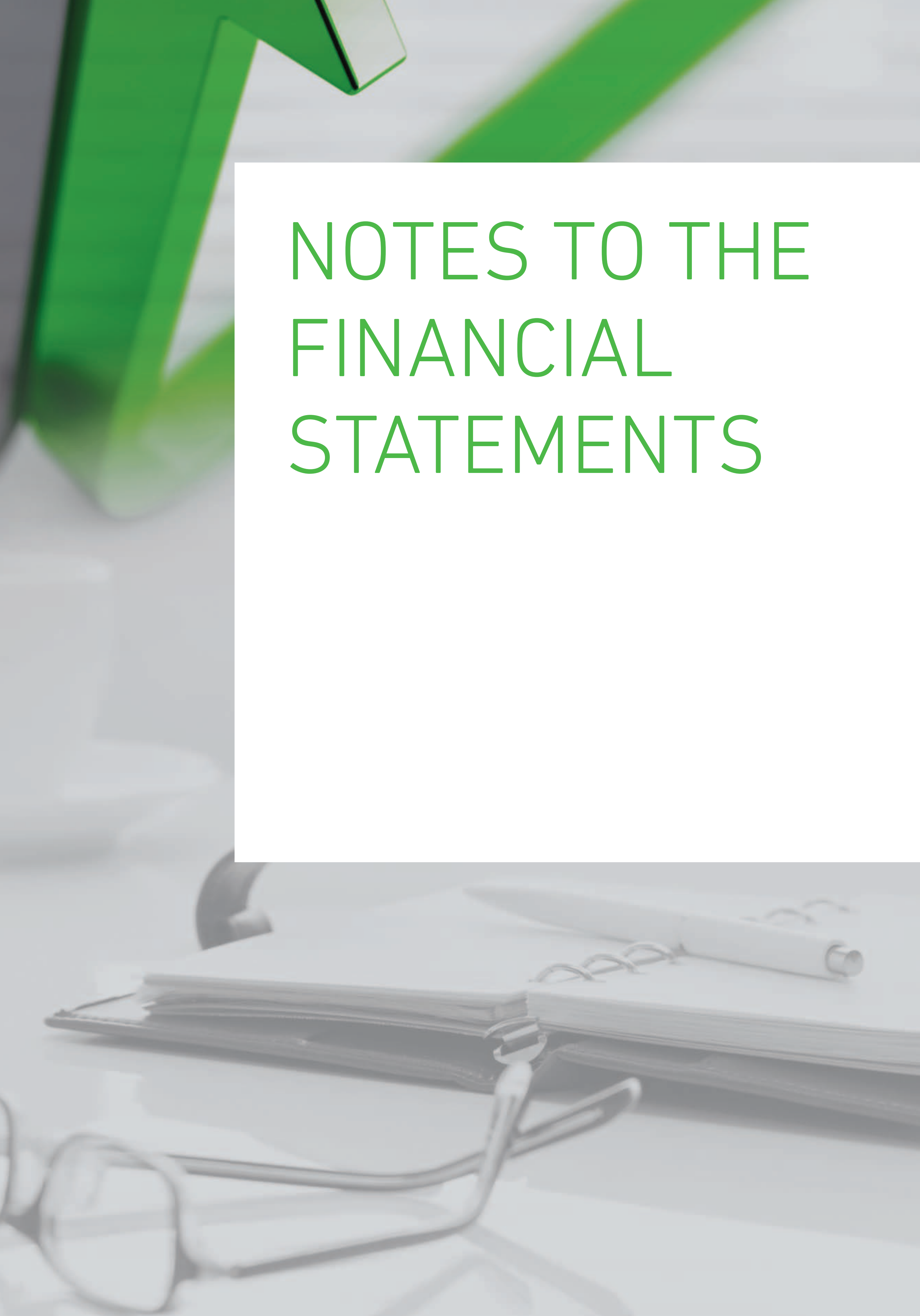
**For the year ended 31 December**

All amounts are expressed in thousands of HRK

| | Note | 2015 | 2014 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| **Profit before income tax** | | **(149,016)** | **165,454** |
| **Adjustments to reconcile profit before taxes to net cash from operating activities** | | | |
| Net impairment allowance on loans and receivables | | 146,270 | 140,458 |
| Provisions for legal actions and off-balance sheet items | | 26,136 | 9,959 |
| Provisions for conversions CHF loans | | 244,000 | - |
| Depreciation and amortisation | | 35,914 | 32,268 |
| Negative goodwill | | - | (152,755) |
| Loss acquired on merger of OTP Faktoring | | 2,946 | - |
| Gain on disposal of property and equipment | | (94) | (186) |
| Interest income | | (722,790) | (649,944) |
| Interest expense | | 226,255 | 245,591 |
| Profit from sale of AFS assets | | (204) | - |
| | | **(190,583)** | **(209,155)** |
| *Operating income before changes in working capital* | | | |
| *(Increase)/decrease in operating assets:* | | | |
| Obligatory reserves with the CNB | | 74,464 | 48,258 |
| Loans and advances to banks | | (57) | 93,612 |
| Loans and advances to customers | | (145,933) | (352,020) |
| Assets at fair value through profit or loss | | (18,169) | (8,588) |
| Assets available for sale | | 73,628 | 262,002 |
| Other assets | | 1,037 | (17,674) |
| *Increase/(decrease) in operating liabilities:* | | | |
| Amounts due to other banks | | 5,475 | (9,676) |
| Amounts due to customers | | (175,639) | 163,657 |
| Other liabilities | | (15,358) | 52,866 |
| Provisions | | (54,464) | (18,093) |
| *Net cash from operating activities before interest and income taxes paid* | | *(445,599)* | *5,189* |
| Income tax paid | | 22,694 | (21,743) |
| Interests received | | 717,662 | 649,679 |
| Interests paid | | (242,442) | (250,363) |
| **Net cash generated from / (used in) operating activities** | | **52,315** | **382,762** |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of tangible and intangible assets | | (28,231) | (13,427) |
| Disposals of tangible and intangible assets | | 1,916 | - |
| Acquisition of Banco Popolare Croatia d.d. | | - | (108,748) |
| Increase of investment into securities held to maturity | | (41,543) | (797) |
| **Net cash generated from investing activities** | | **(67,858)** | **(122,972)** |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| **Net cash from financing activities** | | **41,904** | **168,972** |
| Cash and cash equivalents acquired on merger of OTP Faktoring | | 2,868 | - |
| Cash and cash equivalents acquired on merger of Banco Popolare Croatia d.d. | | - | 331,028 |
| **Net increase in cash and cash equivalents** | | **29,229** | **759,790** |
| **Cash and cash equivalents at beginning of year** | | **1,657,053** | **897,263** |
| **Cash and cash equivalents at end of year** | 29 | **1,686,282** | **1,657,053** |

• The accompanying notes form an integral part of these 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 2015 (2014: 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

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

#### Management Board

Balázs Békeffy, President
Helena Banjad, Member
Zorislav Vidović, Member
Slaven Celić, Member

### Shareholding structure

The shareholding structure of the Bank is as follows:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | 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 Financial Reporting Standard 10 *Consolidated 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, 159/2013, 19/2015, 102/2015) 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 106,269 thousand (2014: HRK 106,593 thousand) carried in the statement of financial position in compliance with these regulations, and have recognised an income of HRK 324 thousand in relation to these provisions (2014: HRK 224 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 has been continuously developing the mentioned model and the assumptions used.

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.

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.

### 2.2 Basis of measurement and preparation

The financial statements have been prepared on the amortised or historical cost basis except for certain fixed assets and financial instruments that are measured at fair value. 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 reporting 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 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.

• All amounts are expressed in thousands of HRK

## 2.3 Business combinations

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

**Acquisitions on or after 1 January 2010**
The Bank measures goodwill at the acquisition date as:

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

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

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Bank incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

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

**Acquisition of entities under common control**
Business combinations arising from transfers of interests in entities that are under the control of the shareholder that ultimately controls the Bank are accounted for using book value accounting at the date of acquisition. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the financial statements of the acquired entities. The components of equity of the acquired entities are added to the same components within Bank's equity except for issued capital. The consolidated financial statements reflect the results of the included entities for the shown periods during which the entities were under common control of the seller, regardless of the time when the acquisition took place.

## 2.4 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 kuna ("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:

| **31 December 2015** |
| --- |
| 1 EUR = 7.635047 HRK |
| 1 CHF = 7.059683 HRK |
| 1 USD = 6.991801 HRK |

| **31 December 2014** |
| --- |
| 1 EUR = 7.661471 HRK |
| 1 CHF = 6.368108 HRK |
| 1 USD = 6.302107 HRK |

## 2.5 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 the reporting 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 reporting date and foreign exchange rate agreed by the option (rate valid at origination).

## 2.6 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.

## 2.7 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.

## 2.8 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.

## 2.9 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.

**Liability for bonus payments**
A liability for bonus payments is recognised for the amount expected to be paid under short-term cash bonus plans if the Bank has a present legal obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably

### 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.

## 2.10 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 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 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.

## 2.11 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 banks with original maturity up to three 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

## 2.12 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 other than:

- those that the Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the Bank upon initial recognition designates as available for sale; or
- those for which the Bank may not recover substantially all of the initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans and receivables arise when the Bank provides money to a debtor with no intention of trading with the receivable and include loans and advances to banks, loans 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 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

• All amounts are expressed in thousands of HRK

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.

Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available for-sale investments are measured at fair value after initial recognition.

#### Other financial liabilities

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

## 2.13 Impairment of financial assets

**Impairment of financial assets carried at amortised cost**

The Bank assesses at each reporting 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 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 about the following loss events:

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

If there is objective evidence that an impairment loss on loans and receivables or held-to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' 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

• All amounts are expressed in thousands of HRK

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.

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

**Financial assets carried at fair value**

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of 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 reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

An impairment loss is calculated as the difference between the carrying amount of the financial asset and the present value of expected future cash receipts discounted by the current market interest rate for similar financial assets. Impairment losses on such instruments, recognised in the 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% (2014: 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 reporting date.

## 2.14 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 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.

## 2.15 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 loans and advances 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.

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.

## 2.16 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:

| | 2015 | 2014 |
|---|---|---|
| Buildings | 40 years | 40 years |
| Computers | 4-5 years | 4-5 years |
| Furniture and equipment | 2.5-10 years | 2.5-10 years |
| Motor vehicles | 4-5 years | 4-5 years |
| Intangible assets | 1-15 years | 1-15 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.

## 2.17 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.

## 2.18 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 reporting 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.

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.

## 2.19 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

• All amounts are expressed in thousands of HRK

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.

## 2.20 Investments in subsidiaries

Investments in subsidiaries are accounted at cost less impairment in the separate financial statements of the Bank.

## 2.21 Interest-bearing borrowings

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

## 2.22 Current accounts and deposits from banks and customers

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

## 2.23 Foreclosed assets

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the cost of the related loans and advances and the current fair value of such assets. Generally, the Bank attempts to sell such foreclosed assets, and only exceptionally uses them for own requirements.

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

## 2.24 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.

## 2.25 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 reporting date. Provisions are discounted to present value where the effect is material.

## 2.26 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.

## 2.27 Issued share capital

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

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

## 2.28 Retained earnings

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

## 2.29 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

## 2.30 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.

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 components 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. in the amount of HRK 20,998 thousand.

### 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 | 180,782 |
| Loans and receivables | 1,189,782 |
| Tangible assets | 43,966 |
| Intangible assets | 14,479 |
| Tax assets | 2,384 |
| Other assets | 370 |
| Amounts due to customers | (1,621,645) |
| Provisions for risks and charges | (6,828) |
| Trade and other payables | (21,734) |
| Net identified assets and liabilities | 240,505 |
| Negative goodwill | (152,755) |
| Less: carrying value of the investment in the subsidiary | (108,748) |
| Net identifiable liability added to the Bank | (20,998) |
| Merger of subsidiary– decrease in reserves of the Bank | |
| Post-acquisition losses | (20,998) |

## 2.31 Divestiture and Takeover of OTP Nekretnine d.o.o.

On 10th February 2015 OTP banka Hrvatska d.d. and OTP Nekretnine d.o.o. entered into the Divestiture and Takeover Agreement, based on which the Commercial Court in Zadar passed a Resolution on status change and divestiture of the company OTP Nekretnine d.o.o. of 27th March 2015.

The takeover of the company was carried out at the carrying amount, given that it involved the entities under joint control, where such control is not temporary. The assets, liabilities, capital and reserves acquired on the takeover are summarised in the table below.

The assets and liabilities acquired by the Bank upon takeover were recognised at the carrying amount, and they were reported in balance sheet of OTP Nekretnine immediately before the takeover.

### Effect of the legal merger

The effect of the legal merger of a portion of OTP Nekretnine d.o.o. effective as of 27th March 2015 on the Bank's assets and liabilities was as follows:

| | Acquired on the merger |
|---|---|
| | HRK '000 |
| Acquired assets and liabilities | |
| Tangible assets | 11,462 |
| Trade debtors | 330 |
| Trade and other creditors | (7) |
| Net identified assets and liabilities | 11,785 |
| Less: carrying value of the investment in the subsidiary | (11,462) |
| Net identified assets added to the Bank | 323 |
| Merger of subsidiary– increase in reserves of the Bank | |
| Post-acquisition retained earnings | 323 |

## 2.32 Legal merger of OTP Faktoring d.o.o.

Based on the decision of Commercial Court in Zadar on 10th April 2015 OTP Faktoring was legally merged into the Bank and ceased to exist as a separate legal entity. The merger was effected at the carrying amount, as the merger involved the entities under joint control, and the control is not temporary. The assets, liabilities, capital and reserves acquired on the merger are summarized in the table below. 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 OTP Faktoring immediately before the merger. The difference between the acquiring costs (HRK 1 thousand) and the acquired net assets of the company (which was negative – HRK 2,947 thousand) was recognised as cost after the merger.

• All amounts are expressed in thousands of HRK

### Effect of the legal merger

The effect of the legal merger of OTP Faktoring, effective from 10 April 2015, 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 | 2,868 |
| Tangible assets | 121 |
| Other assets | 229 |
| Amounts owed to banks | (5,498) |
| Amounts owed to employees, suppliers, and other liabilities | (667) |
| Net identified assets and liabilities | (2,947) |
| Post-merger expense (note 7) | (2,948) |

Post-merger expense of OTP Faktoring in the amount of HRK 2,948 thousands is presented in Note 7 Other operating expenses.

## 3. NET INTEREST INCOME

| | 2015 | 2014 |
|---|---|---|
| Interest and similar income | | |
| Cash reserves and loans and advances to banks | 10,073 | 9,450 |
| Corporate loans | 171,949 | 172,901 |
| Retail loans | 489,865 | 412,025 |
| Debt securities | 50,902 | 55,569 |
| Other | 1 | - |
| | 722,790 | 649,945 |
| Interest and similar expense | | |
| Amounts due to retail customers | 182,562 | 199,453 |
| Amounts due to corporate customers | 16,693 | 20,330 |
| Other borrowed funds and amounts due to other banks | 27,000 | 25,199 |
| Other | 21 | 667 |
| | 226,276 | 245,649 |

Included within various line items under interest income for the year ended 31 December 2015 is a total of HRK 45,656 thousand (2014: HRK 33,457 thousand) related to collected interest income from impaired financial assets.



• All amounts are expressed in thousands of HRK

## 4. NET FEE AND COMMISSION INCOME

### a) Net fee and commission income by source

| | 2015 | 2014 |
|---|---|---|
| **Fee and commission income** | | |
| Corporate customers | 38,167 | 37,357 |
| Banks | 28,495 | 27,038 |
| Retail customers | 97,310 | 90,191 |
| | **163,972** | **154,586** |
| **Fee and commission expense** | | |
| Corporate customers | 16,114 | 16,282 |
| Banks | 24,375 | 19,070 |
| | 40,489 | 35,352 |

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

| | 2015 | 2014 |
|---|---|---|
| **Fee and commission income** | | |
| Loans related fees and commissions | 4,054 | 5,342 |
| Credit card related fees and commissions | 39,001 | 38,092 |
| Domestic payment transaction related fees and commissions | 42,110 | 42,057 |
| Foreign payment transaction related fees and commissions | 9,903 | 8,278 |
| Guarantee related fees and commissions | 3,373 | 3,728 |
| Investment management, brokerage and consultancy fees | 1,688 | 1,451 |
| Package fees charged to individuals | 27,194 | 24,191 |
| Account maintenance fees | 14,076 | 10,889 |
| Other fees and commissions | 22,573 | 20,558 |
| | **163,972** | **154,586** |
| **Fee and commission expense** | | |
| Credit card related charges | 16,856 | 12,797 |
| Domestic payment transaction related charges | 7,152 | 7,798 |
| Foreign payment transaction related charges | 10,444 | 9,727 |
| Other fees and commissions | 6,037 | 5,030 |
| | 40,489 | 35,352 |

## 5. NET TRADING AND VALUATION GAINS ON FINANCIAL INSTRUMENTS

| | 2015 | 2014 |
|---|---|---|
| Net gains on foreign currency spot transactions | 65,897 | 56,983 |
| Net gain on disposal of available-for-sale securities | 204 | - |
| Net gain on derivatives | 18,105 | 122,763 |
| Net loss on translation of foreign currency assets and liabilities | (28,086) | (126,854) |
| | 56,120 | 52,892 |

• All amounts are expressed in thousands of HRK

## 6. OTHER OPERATING INCOME

| | 2015 | 2014 |
|---|---|---|
| Income from negative Goodwill | - | 152,755 |
| Income from litigations | 13,680 | 2,004 |
| Dividend income | 69 | 60 |
| Accrued profit under the collective insurance policy | 27 | 162 |
| Gains on sale and disposal of property and equipment | 94 | 186 |
| Awards from Visa and MasterCard | 750 | 1,654 |
| Sale of written-off inventory | 617 | 304 |
| Income from rentals | 2,739 | 3,556 |
| Income from write-offs from previous years | 232 | 260 |
| Reversal of provision for legal advisors | 6 | 4 |
| Other income | 598 | 634 |
| | 18,812 | 161,579 |

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% 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% 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.

As for the income generated by court disputes, most of it related to two disputes against the Republic of Croatia that were finalised during 2015, where the first one was connected to assessment of the income tax base for the year 2003, and the second to the value added tax levied on the factoring transaction whereby the receivables from the debtor Pevec in bankruptcy d.d. had been sold to the subsidiary OTP Aventin d.o.o.

## 7. OTHER OPERATING EXPENSES

| | 2015 | 2014 |
|---|---|---|
| Professional services and cost of material | 122,033 | 115,443 |
| Savings deposit insurance premiums | 31,385 | 27,721 |
| Marketing | 19,676 | 17,755 |
| Amortisation and depreciation | 35,914 | 32,268 |
| Administrative expenses | 22,914 | 19,539 |
| Other taxes and contributions | 4,638 | 884 |
| Write-off of receivables | 1,960 | 554 |
| Expenses on dormant accounts | - | 3,338 |
| Other costs | 7,342 | 11,352 |
| Expense on merger of OTP Faktoring (note 2.32) | 2,948 | - |
| | 248,810 | 228,854 |

### a) Personnel expenses:

| | 2015 | 2014 |
|---|---|---|
| Gross salary | 133,747 | 118,200 |
| *- Net salaries* | *93,001* | *80,919* |
| *- Taxes, surtaxes and contributions* | *40,746* | *37,281* |
| Contributions on salaries | 23,076 | 19,864 |
| Provisions for retirement, jubilees and vacations (note 26) | (1,173) | 967 |
| Provisions for severance payments | 1,132 | 27,680 |
| Provisions for bonuses and rewards to employees | 21,947 | 26,565 |
| | 178,729 | 193,276 |

At year end, the Bank had 1,157 (2014: 1,255) employees.



• All amounts are expressed in thousands of HRK

## 8. IMPAIRMENT LOSSES AND PROVISIONS, NET

| | 2015 | 2014 |
|---|---|---|
| Impairment of loans and receivables, net (note 14) | 149,201 | 136,958 |
| (Release of impairment allowance)/ impairment of held-to-maturity investments, net (note 16) | (58) | 52 |
| (Release of impairment allowance)/impairment of other assets, net (note 21) | (4,527) | 3,322 |
| Impairment of loans and advances to banks, net (note 12) | 100 | 126 |
| Provision for court cases, net (note 25) | 26,637 | 11,423 |
| Release of provisions for off-balance sheet items, net (note 25) | (501) | (1,464) |
| Impairment of investment in subsidiary - OTP Invest (note 17) | 1,554 | - |
| Provisions for over-paid amounts and conversions of CHF loans (note 25) | 244,000 | - |
| | 416,406 | 150,417 |

## 9. TAXATION

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

| | 2015 | 2014 |
|---|---|---|
| Current income tax (credit)/charge | (17,600) | 12,112 |
| Net deferred tax credit | (51,827) | (1,891) |
| | (69,427) | 10,221 |

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

| | 2015 | 2014 |
|---|---|---|
| **(Loss)/Profit before income tax** | **(149,016)** | **165,454** |
| Tax calculated at statutory tax rate of 20% (2014: 20%) | - | 33,091 |
| Recognition of tax overpaid in 2014 | (12,111) | - |
| Paid-in tax refund for profits from the earlier years | (5,489) | - |
| Income not subject to tax, net of non-tax deductible expenses | - | 4,301 |
| Utilisation of double-dip benefits | - | (67) |
| Deferred tax assets from interim differences | 2,236 | (1,891) |
| Deferred tax assets from tax loss in 2015 | (28,359) | - |
| Recognition of tax assets from tax loss in the earlier years, acquired on merger of OTP Faktoring d.d. | (491) | - |
| Recognition of tax assets from tax loss in the earlier years, acquired on merger of Banco Popolare Croatia d.d. | (25,213) | - |
| Utilisation of tax losses | - | (25,213) |
| **Current Income tax charge** | **(69,427)** | **10,221** |
| Effective income tax rate | - | 6.2% |

In its tax calculations for the year 2014 the Bank has not included the goodwill amounting to HRK 152,755 thousand, nor added the tax losses of Banco Popolare Croatia d.d. dating back to 2009, as non-taxable items. However, it was corrected subsequently when filing the tax return for the year 2014, so the Bank had no income tax liability and was entitled to a refund of the income tax advance paid in 2015, which was included into the income generated from the current income tax. Therefore, the entire tax loss carryforward of Banco Popolare Croatia (dating back to 2013 and 2014) in the amount of HRK 126,065 thousand was recognised as deferred tax assets in the year 2015.

• All amounts are expressed in thousands of HRK

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

| | Deferred loan origination fees | Unrealised gain/ (losses) on available-for-sale securities | Other | Tax losses | Total |
|---|---|---|---|---|---|
| **Balance at 1 January 2014** | **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 1 January 2015** | **6,466** | **(8,983)** | **8,503** | **-** | **5,986** |
| Charged to profit or loss | (1,786) | - | (452) | 54,064 | 51,826 |
| Charged to other comprehensive income | - | (6,455) | - | - | (6,455) |
| Balance at 31 December 2015 | 4,680 | (15,438) | 8,051 | 54,064 | 51,357 |

The balance reported under the caption "Other" comprises HRK 5,856 thousand (2014: HRK 7,275 thousand) of deferred tax assets on provisions for bonuses, salaries to be paid during notice period, termination and other employee benefits, HRK 1,363 thousand (2014: HRK 1,224 thousand) in respect of the losses on revaluation of the commercial properties and other properties, and HRK 831 thousand (2014: HRK 4 thousand) in respect of unrealised losses on the measurement of derivatives at fair value.

### (d) Tax losses

The Bank is a taxpayer under the laws and regulations of the Republic of Croatia. The tax loss carryforward expires after five years and is subject to reconciliation further to the findings of the supervision carried out by the Ministry of Finance of the Republic of Croatia.

| | 2015 |
|---|---|
| Tax losses carried forward (acquired on merger of Banco Popolare Croatia d.d.) | 126,065 |
| Tax losses acquired on merger of OTP Faktoring d.o.o. | 2,455 |
| Tax losses of the current year | 141,798 |
| **Total tax losses available for carryforward** | **270,318** |
| Tax effect of tax losses available for carryforward (at the rate of 20%) | 54,064 |
| Amount not recognised as deferred tax assets | - |
| Recognised deferred tax assets | 54,064 |

As at 31 December 2015 the unused tax losses available for deduction from future profit amounted to HRK 270,318 thousand (2014: HRK 0). Based on the mentioned losses, the Bank recognised the deferred tax assets in the amount of HRK 54,064 thousand (2014: HRK 0), as it's considered that the future amount of taxable profits will be adequate to utilise the recognised deferred taxes.

The tax losses carried forward as at 31st December 2015 will be expiring as follows:

| | 2015 |
|---|---|
| In under 5 years | 142,111 |
| In under 4 years | 43,283 |
| In under 3 years | 83,758 |
| In under 2 years | 1,166 |
| In under 1 year | - |
| Total tax loss carried forward | 270,318 |

## 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 December 2015 | 31 December 2014 |
|---|---|---|
| (Loss)/Profit for the year | (79,589) | 155,233 |
| (Loss)/Profit attributable to ordinary shareholders | (79,589) | 155,233 |
| 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 |



• All amounts are expressed in thousands of HRK

## 11. CASH AND BALANCES WITH THE CROATIAN NATIONAL BANK

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Cash in hand | 293,774 | 270,884 |
| Giro account balance | 535,981 | 496,128 |
| Current accounts with foreign banks | 108,851 | 157,640 |
| Current accounts with domestic banks | 6,463 | 5,925 |
| Items in course of collection | 1,241 | 890 |
| **Assets included in cash and cash equivalents (note 29)** | **946,310** | **931,467** |
| Obligatory reserve at Croatian National Bank | | |
| *- in HRK* | 888,609 | 899,236 |
| *- in foreign currency* | 158,328 | 168,600 |
| **Total obligatory reserve at Croatian National Bank** | **1,046,937** | **1,067,836** |
| **Obligatory treasury bills at the Croatian National Bank** | **-** | **53,565** |
| | 1,993,247 | 2,052,868 |

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.

By a CNB Decision of October 2015, the obligation of subscription of treasury bills was rescinded.

The obligatory reserve requirement at 31 December 2015 amounted to 12% (2014: 12%) of HRK and foreign currency denominated deposits, borrowings and issued debt securities.

At 31 December 2015, the required rate of the HRK obligatory reserve with the CNB amounted to 70% (2014: 70%), while the remaining 30% (2014: 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% (2014: 60%) is maintained with the CNB, while the remaining 40% (2014: 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% (2014: 75%), and it is added to the HRK obligatory reserve (see above).

## 12. LOANS AND ADVANCES TO BANKS

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Short-term placements with banks | 392,765 | 334,082 |
| Loans and advances to banks in Croatia | 26,244 | 26,244 |
| **Reverse repurchase agreements with banks** | **349,512** | **393,752** |
| | 768,521 | 754,078 |
| Less: impairment allowance | (1,942) | (1,842) |
| | 766,579 | 752,236 |

Movements in provisions for impairment for loans and advances to banks were as follows:

| | 2015 | 2014 |
|---|---|---|
| Balance as at 1 January | 1,842 | 1,716 |
| Net charge (note 8) | 100 | 126 |
| Balance as at 31 December | 1,942 | 1,842 |

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

• All amounts are expressed in thousands of HRK

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

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

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Notional amount | Fair value | Notional amount | Fair value |
| Units in open-ended investment funds managed by related party (quoted) | | 32,210 | | 11,094 |
| Cross-currency swaps | 1,240,569 | 3,621 | 567,264 | 2,436 |
| Foreign exchange forwards | 7,662 | 26 | 21,482 | 21 |
| | 1,248,231 | 35,857 | 588,746 | 13,551 |

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 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Notional amount | Fair value | Notional amount | Fair value |
| Cross-currency swaps | 1,240,367 | 4,132 | 563,860 | 13 |
| Foreign exchange forwards | 7,661 | 25 | 21,480 | 7 |
| | 1,248,028 | 4,157 | 585,340 | 20 |

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. 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 2015 the Bank have currency forward contracts.

The Bank concluded the derivatives with a domestic commercial bank and investment funds.

## 14. LOANS AND ADVANCES TO CUSTOMERS

### Analysis by type of product

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **HRK denominated** | | |
| Retail customers | 7,468,687 | 7,397,724 |
| Corporate customers | 3,428,547 | 3,369,488 |
| **Foreign currency denominated** | | |
| Retail customers | 207 | 249 |
| Corporate customers | 1,004,735 | 990,354 |
| **Total loans** | **11,902,176** | **11,757,815** |
| Less: Impairment allowance | (1,394,103) | (1,251,602) |
| | 10,508,073 | 10,506,213 |

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 6,787,918 thousand (2014: HRK 6,981,486 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.

Deferred front-end fee income is included into net loans and amounts to HRK 31,787 thousand (2014: HRK 39,964 thousand).



• All amounts are expressed in thousands of HRK

Movements in impairment allowance were as follows:

| | 2015 | 2014 |
|---|---|---|
| **Balance at 1 January** | **1,251,602** | **839,064** |
| Collection of amounts previously provided | (33,444) | (13,053) |
| Increase in impairment losses | 182,645 | 150,011 |
| **Impairment losses recognised in the income statement (note 8)** | **149,201** | **136,958** |
| Acquired on merger of Banco Popolare Croatia d.d. | - | 275,966 |
| Foreign exchange differences | (472) | 282 |
| Amounts written off | (6,228) | (668) |
| Balance at 31 December | 1,394,103 | 1,251,602 |

At 31 December 2015, the total gross amount of non-performing loans for the Bank was HRK 2,337,528 thousand (2014: HRK 2,250,677 thousand).

### Concentration of credit risk by industry

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

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Agriculture, forestry and fisheries | 357,164 | 309,570 |
| Mining | 20,140 | 22,917 |
| Food and beverages | 127,337 | 93,467 |
| Leather and textiles | 12,002 | 15,079 |
| Publishing and printing | 12,380 | 8,812 |
| Non-metal mineral and chemical products | 23,573 | 29,402 |
| Metal-working industry | 45,205 | 46,710 |
| Other manufacturing industries | 218,238 | 208,565 |
| Energy, gas and water supply | 29,706 | 34,295 |
| Construction | 909,940 | 1,024,040 |
| Trade and commerce | 549,752 | 559,405 |
| Hotels and restaurants | 491,341 | 487,825 |
| Transport and communications | 136,143 | 298,319 |
| Financial intermediation | 16,129 | 8,730 |
| Real estate | 353,155 | 314,083 |
| Public administration and defence | 873,829 | 653,000 |
| Education, health and social welfare | 151,173 | 163,934 |
| Other services and social activities | 106,075 | 81,689 |
| ***Total corporate loans*** | ***4,433,282*** | ***4,359,842*** |
| **Retail customers** | **7,468,894** | **7,397,973** |
| | **11,902,176** | **11,757,815** |
| Less: impairment allowance | (1,394,103) | (1,251,602) |
| Total loans | 10,508,073 | 10,506,213 |

### CHF loan conversion

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

At the very beginning, the borrowers had the advantage of lower interest rates for CHF. However, from 2006 CHF LIBOR rate started to increase, which resulted in increase of interest rates for such loans. In addition, first in 2009, and then again in 2015, CHF appreciated sharply against HRK (and EUR) which caused a further increase in monthly instalments, while the CHF LIBOR rate fell considerably.

On 22 September 2015 a new Act Amending the Consumer Credit Act was passed (hereinafter referred to as the Amended Act), which regulated, by way of a permanent measure, the conversion of CHF loans into EUR. The Amended Act entered into force on 30th September 2015. In line with the Amended Act, the CHF loan conversion has been carried out in a way to level out the position of the borrowers having CHF denominated loans as if their loans had been denominated in EUR, and the position of borrowers having loans in HRK indexed to CHF as if they had had loans in HRK indexed to EUR. Further to the Amended Act, the banks had a time limit of 45 days to deliver loan conversion calculations to their respective customers, with the balance of 30th September 2015, whilst the consumers were given 30 days to accept the conversion. No deadline was specified for the actual conversion, once it has been accepted.

The total loss recognised as the result of the conversion is HRK 244,000 thousands and is presented in Provisions for overpaid amounts and conversion of CHF loans, in note 8.

• All amounts are expressed in thousands of HRK

The table below shows the number of loan accounts and the carrying amount of loans included into conversion prior to conversion, and the number of accounts and the carrying amount of loans of the borrowers who accepted the conversion, and details on losses:

| | 30 September 2015 prior to conversion | | Clients who accepted the conversion until 31 December 2015 | | Loss on conversion |
|---|---|---|---|---|---|
| | Number of loan contract | Carrying value | Number of loan contract | Carrying value at 30 September 2015 (prior conversion) | |
| Neither past due nor impaired | 1,414 | 448,679 | 1,390 | 446,341 | |
| Past due but not impaired | 283 | 105,686 | 274 | 103,263 | |
| Impaired | 268 | 113,712 | 158 | 70,786 | |
| Gross | | 668,077 | | 620,390 | 244,000 |
| Specific impairment allowance | | (51,104) | | (25,247) | |
| Net of specific impairment allowance | | 616,973 | | 595,143 | 244,000 |

Out of the loans where the clients accepted the conversion, as shown in the above table, by the reporting date, the conversion has already been completed for eight loan contracts, where the total gross carrying value equalled HRK 2,712 thousand, whilst the conversion of the remaining loans is still in process. The effect of CHF loan conversion is presented in note 25 Provisions.

## 15. FINANCIAL ASSETS AVAILABLE FOR SALE

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Equity securities | 46,734 | 15,289 |
| Debt securities | 1,793,537 | 1,870,932 |
| Units in open-ended investment funds | 44,597 | 39,797 |
| | 1,884,868 | 1,926,018 |

Equity securities mostly refer to shares of the Zagreb stock exchange and Visa shares.

Increase in value of equity securities available for sale is mostly related to the revaluation of VISA Europe shares, due to the announced acquisition by Visa Inc.

During 2014, the Bank has sold its 50% share in OTP Consulting d.o.o.

### (a) Equity securities

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Equity securities at cost | | |
| - unlisted | 50,326 | 18,881 |
| Less: impairment allowance | (3,592) | (3,592) |
| | 46,734 | 15,289 |

### (b) Debt securities

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Listed | | |
| Bonds of the Ministry of Finance | 150,110 | 42,887 |
| Bonds of foreign governments | 1,170,791 | 1,042,854 |
| *Subtotal: Listed debt securities* | *1,320,901* | *1,085,741* |
| Treasury bills of the Ministry of Finance | 472,636 | 785,191 |
| *Subtotal: Unlisted debt securities* | *472,636* | *785,191* |
| | 1,793,537 | 1,870,932 |



• All amounts are expressed in thousands of HRK

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. The fair value of debt securities is determined by reference to the bid price reported by Bloomberg on its website.

RHMF-O-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. The fair value is determined by reference to the bid price reported by Bloomberg on its website.

RHMF-O-187A bonds of the Republic of Croatia were issued in 2013. They are denominated in Croatian HRK and bear interest at a rate of 5.25%, which is paid semi-annually. The bonds mature in 2018 and are quoted on the Zagreb Stock Exchange. The fair value is determined by reference to the bid price reported by Bloomberg on its website.

RHMF-O-17BA bonds of the Republic of Croatia were issued in 2010. They are denominated in Croatian HRK and bear interest at a rate of 6.25%, which is paid semi-annually. The bonds mature in 2017 and are quoted on the Zagreb Stock Exchange. The fair value is determined by reference to the bid price reported by Bloomberg on its website.

The bonds of the Hungarian Government were issued in 2006, 2007 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 Government 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 364 days. The T-bills are HRK denominated, and bear interest at market rates. Treasury bills in HRK during the 2015. 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.

### (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.

## 16. HELD-TO-MATURITY INVESTMENTS

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Receivables for Bonds of the Croatian Ministry of Finance | 16,734 | 16,792 |
| Corporate bills of exchange | 143,627 | 102,026 |
| Less: impairment allowance | (16,824) | (16,882) |
| | 143,537 | 101,936 |

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

| | 2015 | 2014 |
|---|---|---|
| Balance at 1 January | 16,882 | 16,830 |
| (Release of provision)/provision charged | (58) | 52 |
| Balance at 31 December | 16,824 | 16,882 |

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.

• All amounts are expressed in thousands of HRK

## 17. INVESTMENTS IN SUBSIDIARIES

Set out below are the operating subsidiaries of the Bank:

| Name | Business activity | Effective share | | | |
|---|---|---|---|---|---|
| | | 31 December 2015 | 31 December 2014 | 31 December 2015 | 31 December 2014 |
| OTP Invest d.o.o. | Investment fund managemen | 74.33% | 74.33% | 9,648 | 9,648 |
| OTP Nekretnine d.o.o. | Real estate | 100% | 100% | 51,708 | 63,170 |
| Kratos nekretnine d.o.o. | Real estate | 100% | 100% | 20 | 20 |
| OTP Aventin d.o.o. | Real estate | 100% | 100% | 20 | 20 |
| | | | | 61,396 | 72,858 |
| | | | | (1,554) | - |
| | | | | 59,842 | 72,858 |

OTP Aventin was established in 2012 for the purpose of managing real estate acquired from company Pevec in bankruptcy.

Investment in subsidiary OTP Invest d.o.o., was impaired in the amount of HRK 1,554 thousand during 2015 (2014: 0).

Investments in OTP Nekretnine were reduced due to divestiture and takeover of a portion of the company by the Bank (note 2.31: Accounting Policies).

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Balance as at 1 January | 72,858 | 72,858 |
| Takeover of a part of OTP Nekretnine | (11,462) | - |
| Less: impairment allowance | (1,554) | - |
| | 59,842 | 72,858 |

Movement impairment of investments in subsidiaries:

| | 2015 | 2014 |
|---|---|---|
| Balance at 1 January | - | - |
| Provision charged | 1,554 | - |
| Balance at 31 December | 1,554 | - |

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

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Total assets | Total income | Profit /(Loss) | Total assets | Total income | Profit /(Loss) |
| OTP Nekretnine d.o.o. | 56,511 | 10,840 | 285 | 69,627 | 9,910 | 576 |
| OTP Invest d.o.o. | 3,779 | 7,156 | 499 | 3,040 | 6,303 | 205 |
| Kratos nekretnine d.o.o. | 355 | 173 | 75 | 259 | 178 | 23 |
| OTP Aventin d.o.o. | 72,822 | 8,524 | (10,977) | 89,550 | 6,570 | (33,108) |
| | 133,467 | 26,693 | (10,118) | 162,476 | 22,961 | (32,304) |

Information about the total assets, income and net operating results of OTP Nekretnine, Kratos nekretnine d.o.o. and OTP Aventin d.o.o. as of the date of issuance of these financial statements is unaudited.

On 1 March 2016 the Commercial Court in Zadar passed a decision on the merger of Kratos nekretnine d.o.o. with OTP Aventin d.o.o.



• 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 2014 | 257,477 | 57,750 | 151,279 | 2,120 | 969 | 13,793 | 483,388 |
| Acquired on merger of subsidiary | 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 |
| At 1 January 2015 | 313,720 | 69,689 | 177,718 | 3,120 | 1,041 | 11,014 | 576,302 |
| Acquired on merger of subsidiary and OTP Faktoring | 11,470 | 135 | 159 | - | - | - | 11,764 |
| Transfer from assets under construction | 933 | 4,805 | 8,590 | 334 | - | (14,662) | - |
| Additions | - | - | - | - | - | 14,770 | 14,770 |
| Disposals | - | (3,823) | (14,699) | (402) | - | - | (18,924) |
| At 31 December 2015 | 326,123 | 70,806 | 171,768 | 3,052 | 1,041 | 11,122 | 583,912 |
| Accumulated depreciation/amortisation and impairment | | | | | | | |
| At 1 January 2014 | 117,239 | 48,060 | 106,994 | 1,478 | - | - | 273,771 |
| Acquired on merger of subsidiary and OTP Faktoring | 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 |
| At 1 January 2015 | 140,397 | 58,280 | 129,247 | 2,785 | - | - | 330,709 |
| Acquired on merger of subsidiary | 1 | 129 | 51 | - | - | - | 181 |
| Charge for the year | 7,561 | 5,948 | 10,976 | 207 | - | - | 24,692 |
| Additions / Disposals | 4 | (3,823) | (14,026) | (402) | - | - | (18,247) |
| At 31 December 2015 | 147,963 | 60,534 | 126,248 | 2,590 | - | - | 337,335 |
| Net book value: | | | | | | | |
| At 1 January 2015 | 173,323 | 11,409 | 48,471 | 335 | 1,041 | 11,014 | 245,593 |
| At 31 December 2015 | 178,160 | 10,272 | 45,520 | 462 | 1,041 | 11,122 | 246,577 |

## 19. INTANGIBLE ASSETS

| | |
|---|---|
| Cost: | |
| At 1 January 2014 | 114,311 |
| Acquired on merger of subsidiary | 30,939 |
| Additions | 5,044 |
| Disposals | (10,217) |
| At 31 December 2014 | 140,077 |
| At 1 January 2015 | 140,077 |
| Additions | 13,463 |
| Disposals | (5,427) |
| At 31 December 2015 | 148,113 |
| Accumulated amortisation | |
| At 1 January 2014 | 87,529 |
| Acquired on merger of subsidiary | 16,460 |
| Charge for the year | 9,947 |
| Disposals | (4,965) |
| At 31 December 2014 | 108,971 |
| At 1 January 2015 | 108,971 |
| Charge for the year | 11,222 |
| Disposals | (4,282) |
| At 31 December 2015 | 115,911 |
| Net book value: | |
| At 31 December 2014 | 31,106 |
| At 31 December 2015 | 32,202 |

• 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 2015 amounts to HRK 42,966 thousand (2014: 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 2015 and 2014.

## 21. OTHER ASSETS

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Accrued fees and commissions | 21,977 | 18,015 |
| Accounts receivable | 18,888 | 25,596 |
| Foreclosed assets | 14,634 | 13,021 |
| Receivables in respect of credit card operations | 19,441 | 20,140 |
| Prepaid expenses | 11,255 | 15,513 |
| Other | 4,652 | 4,136 |
| | **90,847** | **96,421** |
| Less: impairment allowance | (17,140) | (21,667) |
| | 73,707 | 74,754 |

Movements in impairment for other assets were as follows:

| | 2015 | 2014 |
|---|---|---|
| **Balance at 1 January** | **21,667** | **18,345** |
| (Release)/charge for the year | (4,527) | 3,322 |
| Balance at 31 December | 17,140 | 21,667 |

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

## 22. AMOUNTS DUE TO OTHER BANKS

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Demand deposits** | | |
| HRK denominated | 286 | 1,450 |
| Foreign currency denominated | 21,812 | 9,676 |
| | 22,098 | 11,126 |



• All amounts are expressed in thousands of HRK

## 23. AMOUNTS DUE TO CUSTOMERS

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Retail customers** | | |
| Demand deposits | | |
| HRK denominated | 1,381,090 | 1,157,571 |
| Foreign currency denominated | 1,863,597 | 1,513,027 |
| Time deposits | | |
| HRK denominated | 1,401,390 | 1,515,288 |
| Foreign currency denominated | 6,299,937 | 7,032,558 |
| | **10,946,014** | **11,218,444** |
| **Corporate customers** | | |
| Demand deposits | | |
| HRK denominated | 782,775 | 648,211 |
| Foreign currency denominated | 314,225 | 309,252 |
| Time deposits | | |
| HRK denominated | 233,821 | 249,456 |
| Foreign currency denominated | 242,980 | 272,386 |
| Current accounts and deposits of subsidiaries | 6,647 | 4,352 |
| | **1,580,448** | **1,483,657** |
| | 12,526,462 | 12,702,101 |

## 24. OTHER BORROWED FUNDS

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Domestic creditors:** | | |
| CBRD | 1,173,833 | 1,148,117 |
| Ministry of Finance | 2,802 | 2,802 |
| Other | 3 | 2 |
| | 1,176,638 | 1,150,921 |

**(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.

**(b) 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.

## 25. PROVISIONS

### a) Analysis of provisions

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Provisions for off-balance sheet items | 8,272 | 8,773 |
| Provisions for court cases | 32,472 | 58,323 |
| Provisions for over-paid amounts and conversions of CHF loans | 242,024 | - |
| | 282,768 | 67,096 |

Loss pertaining to CHF loan conversion was explained under note 14.

### b) Movements in provisions for risks and charges

Provisions for off-balance sheet items

| | 2015 | 2014 |
|---|---|---|
| **Balance at 1 January** | **8,773** | **10,183** |
| Acquired on merger of Banco Popolare Croatia d.d. | - | 54 |
| Amounts released | (501) | (1,464) |
| Balance at 31 December | 8,272 | 8,773 |

• All amounts are expressed in thousands of HRK

### Litigation provisions

| | 2015 | 2014 |
|---|---|---|
| **Balance at 1 January** | **58,323** | **50,578** |
| Net charge to income statement | 26,637 | 11,423 |
| Acquired on merger of Banco Popolare Croatia d.d. | - | 6,828 |
| Amounts used during the year | (52,488) | (10,506) |
| **Balance at 31 December** | **32,472** | **58,323** |

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.

### Provisions for over-paid amounts and conversions of CHF loans

| | 2015 | 2014 |
|---|---|---|
| **Balance at 1 January** | - | - |
| Net charge to income statement | 244,000 | - |
| Conversions completed by year end | (947) | - |
| Reduction due to exchange rate cap | (1,029) | - |
| **Balance at 31 December** | **242,024** | **-** |

## 26. OTHER LIABILITIES

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Provisions for retirement benefits, jubilees and vacation days | 9,370 | 10,543 |
| Provisions for termination benefits and salaries during the notice period | 1,132 | 27,680 |
| Bonuses to employees | 24,361 | 22,795 |
| Amounts due to suppliers | 27,173 | 25,176 |
| Salaries and contributions payable | 13,397 | 14,913 |
| Due to State agency for deposit insurance and bank rehabilitation for saving deposits insurance | 7,851 | 7,866 |
| Deferred expenses | 1,617 | 1,691 |
| Provisions for payments of deposits previously recognised as income | 3,780 | 3,631 |
| Liabilities under credit card operations | 4,501 | 3,226 |
| Tax–liability from previous years | 2,307 | 2,307 |
| Liabilities for undistributed cash | 8,432 | 7,089 |
| Received advances | 1,412 | 1,170 |
| Value-added tax liability | 2,620 | 1,982 |
| Liabilities under opening accounts | 3,202 | 2,850 |
| Liabilities for tax on interest on deposits | 1,201 | - |
| Other liabilities | 16,592 | 10,714 |
| | **128,948** | **143,633** |

### Provisions for retirement benefits, jubilees and unused holiday

| | |
|---|---|
| **Opening balance 1 January 2014** | **8,678** |
| Provisions charged (net) | 967 |
| Acquired on merger of Banco Popolare Croatia d.d. | 898 |
| **Balance at 31 December 2014** | **10,543** |
| Release of provisions | (1,173) |
| **Balance at 31 December 2015** | **9,370** |



• All amounts are expressed in thousands of HRK

## 27. SHAREHOLDERS' EQUITY AND RESERVES

### Share capital

As at 31 December 2015 the share capital of the Bank comprised 4.111.398 ordinary shares (2014: 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 (2014: HRK 822,280 thousand). All the ordinary shares are ranked equally and carry one vote per share.

No dividend was paid during 2015 and 2014.

### Reserves

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Legal reserve | 41,114 | 41,114 |
| Statutory reserve | 41,114 | 41,114 |
| **Total legal and statutory reserves** | **82,228** | **82,228** |
| Fair value reserve | 61,754 | 35,930 |
| General banking risks reserve | 105,819 | 105,819 |
| Other reserves | 3,228 | 3,233 |
| Total other reserves | 170,801 | 144,982 |

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

| | 2015 | 2014 |
|---|---|---|
| **Balance at 1 January** | **35,930** | **21,877** |
| Increase in reserves | 37,133 | 21,256 |
| Decrease in reserves | (4,854) | (3,690) |
| Taxes | (6,455) | (3,513) |
| Balance at 31 December | 61,754 | 35,930 |

**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 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 reporting 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 December 2015 | 31 December 2014 |
|---|---|---|
| Payment guarantees | 41,845 | 41,537 |
| Performance guarantees | 95,820 | 71,234 |
| Letters of credit | 4,677 | 20,290 |
| Undrawn lending commitments | 889,324 | 963,614 |
| Other | 2,372 | - |
| | 1,034,038 | 1,096,675 |

## 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 December 2015 | 31 December 2014 |
|---|---|---|
| Cash and cash equivalents (excluding mandatory reserve with Croatian National Bank (note 11)) | 946,310 | 931,467 |
| Loans and advances to banks | 739,972 | 725,586 |
| | 1,686,282 | 1,657,053 |

## 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's regulatory capital amounts to HRK 1,557,558 thousand (2014: HRK 1,638,434 thousand) and consists entirely of the Common Equity Tier 1 capital. The capital adequacy ratio is 15.5 % (2014: 16.5 %). The amount regulatory capital and capital adequacy ratio for the year 2015 until the day of issuance of these financial statements is unaudited.

Regulatory capital and capital adequacy ratios were calculated in line with the requirements of the European Banking Authority (hereinafter: EBA) and CNB national discretions calculated for the Bank (until the day of issuance of these financial statements, the information on regulatory capital, risk weighted assets and other risk elements are unaudited), are as follows:



• All amounts are expressed in thousands of HRK

## Regulatory capital (unaudited)

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Share capital | 822,280 | 822,280 |
| Share premium | 171,260 | 171,260 |
| Retained earnings (included loss for the 2015) | 451,172 | 530,442 |
| Other reserves | 191,196 | 191,196 |
| Deductions in accordance with EBA regulation | (78,350) | (76,744) |
| **Common equity Tier I** | **1,557,558** | **1,638,434** |
| Additional Tier I capital | - | - |
| **Tier I capital** | **1,557,558** | **1,638,434** |
| Tier II capital | - | - |
| **Regulatory capital (unaudited)** | **1,557,558** | **1,638,434** |
| Risk weighted assets (unaudited) | 10,022,648 | 9,905,785 |
| **Common equity Tier I ratio** | **15.5%** | **16.5%** |
| **Tier I ratio** | **15.5%** | **16.5%** |
| Capital adequacy ratio | 15.5% | 16.5% |

## 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 December 2015 | 31 December 2014 |
|---|---|---|
| Assets | | |
| Cash and balances at Croatian National Bank | 1,699,473 | 1,781,984 |
| Loans and receivables from banks | 766,579 | 752,236 |
| Financial assets at fair value through profit or loss | 3,647 | 2,457 |
| Loans and receivables to customers | 10,508,073 | 10,506,213 |
| Corporate | 4,433,282 | 4,359,842 |
| Retail | 7,468,894 | 7,397,973 |
| Less: impairment allowance | (1,394,103) | (1,251,602) |
| Debt securities available for sale | 1,793,537 | 1,870,932 |
| Held to maturity investments | 143,537 | 101,936 |
| Other assets | 49,232 | 63,843 |
| Total assets | 14,964,078 | 15,079,601 |

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

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Guarantees | 142,342 | 133,061 |
| Credit and other liabilities | 891,696 | 963,614 |
| | 1,034,038 | 1,096,675 |

The above table represents the maximum exposure of the Bank to credit risk at 31 December 2015 and 2014, 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 December 2015 | 31 December 2014 |
|---|---|---|---|
| Current account with the Croatian National Bank | 11 | 535,981 | 496,128 |
| Obligatory reserve with the Croatian National Bank | 11 | 1,046,937 | 1,067,836 |
| Obligatory treasury bills with the Croatian National Bank | 11 | - | 53,565 |
| Ministry of Finance – Treasury bills | 15b | 472,636 | 785,191 |
| Ministry of Finance bonds | 15b, 16 | 150,110 | 42,887 |
| Loans provided by Croatian Bank for Reconstruction and Development and Government | | 796,474 | 599,223 |
| Other assets | | 6,440 | 11,422 |
| Other borrowed funds | | (1,176,638) | (1,150,921) |
| Other liabilities | | (10,629) | (10,952) |
| | | 1,821,311 | 1,894,379 |

## Concentration of assets based on geographical division

| At 31 December 2015 | Croatia | Hungary | Austria | Switzerland | Germany | Great Britain | USA | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | | |
| Cash and balances with the Croatian National Bank | 1,884,396 | 6,211 | - | 15,059 | 55,556 | 4,037 | 1,452 | 26,536 | 1,993,247 |
| Loans and advances to banks | 26,247 | 414,558 | 180,004 | 126,514 | - | 18,996 | - | 260 | 766,579 |
| Financial assets at fair value through profit or loss | 32,236 | 3,621 | - | - | - | - | - | - | 35,857 |
| Loans and advances to customers | 10,502,756 | 45 | - | - | 929 | - | - | 4,343 | 10,508,073 |
| Financial assets available for sale | 670,659 | 1,170,791 | - | - | - | 27,729 | 15,607 | 82 | 1,884,868 |
| Held-to-maturity investments | 143,537 | - | - | - | - | - | - | - | 143,537 |
| Investments in subsidiaries | 59,842 | - | - | - | - | - | - | - | 59,842 |
| Tangible and intangible assets | 321,745 | - | - | - | - | - | - | - | 321,745 |
| Deferred tax assets | 51,357 | - | - | - | - | - | - | - | 51,357 |
| Other assets | 72,079 | 36 | 12 | 13 | 130 | 579 | 62 | 796 | 73,707 |
| | 13,764,854 | 1,595,262 | 180,016 | 141,586 | 56,615 | 51,341 | 17,121 | 32,017 | 15,838,812 |

| 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 |
| Loans and advances to 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 |
| Loans and advances to customers | 10,502,800 | 40 | - | - | - | 915 | 638 | 1,820 | 10,506,213 |
| Financial assets available for sale | 871,191 | 1,042,854 | - | - | 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 | 72,540 | 39 | 7 | 8 | 35 | 84 | 478 | 1,563 | 74,754 |
| | 13,879,563 | 1,513,059 | 130,007 | 119,193 | 94,221 | 47,567 | 22,168 | 20,307 | 15,826,085 |



• All amounts are expressed in thousands of HRK

## Concentration of assets related to risk groups

| At 31 December 2015 | Assets classified in A risk group | Assets classified in B risk group | Assets classified in C risk group | Assets not classified in risk groups | Impairment allowance | Total |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and balances with the Croatian National Bank | 1,699,474 | - | - | 293,773 | - | 1,993,247 |
| Loans and advances to banks | 766,423 | 1,076 | 1,022 | - | (1,942) | 766,579 |
| Financial assets at fair value through profit or loss | - | - | - | 35,857 | - | 35,857 |
| Loans and advances to customers | 9,564,648 | 1,656,209 | 681,319 | - | (1,394,103) | 10,508,073 |
| Financial assets available for sale | - | - | - | 1,884,868 | - | 1,884,868 |
| Held-to-maturity investments | 143,537 | - | 16,824 | - | (16,824) | 143,537 |
| Investments in subsidiaries | - | - | - | 59,842 | - | 59,842 |
| Tangible and intangible assets | - | - | - | 321,745 | - | 321,745 |
| Deferred tax assets | - | - | - | 51,357 | - | 51,357 |
| Other assets | 49,037 | 5,595 | 13,301 | 22,914 | (17,140) | 73,707 |
| Total assets | 12,223,119 | 1,662,880 | 712,466 | 2,670,356 | (1,430,009) | 15,838,812 |

| 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 | Impairment allowance | Total |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and balances with the Croatian National Bank | 1,781,984 | - | - | 270,884 | - | 2,052,868 |
| Loans and advances to banks | 752,087 | 1,067 | 924 | - | (1,842) | 752,236 |
| Financial assets at fair value through profit or loss | - | - | - | 13,551 | - | 13,551 |
| Loans and advances to 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 | 10,911 | (21,667) | 74,754 |
| Total assets | 12,205,214 | 1,660,843 | 632,148 | 2,619,873 | (1,291,993) | 15,826,085 |

## Loans and advances to customers: analysis by risk category

| Risk groups | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Loans and advances to customers | Impairment allowance | Loans and advances to customers | Impairment allowance |
| A | 9,564,648 | 97,997 | 9,507,138 | 97,819 |
| B1 | 743,922 | 78,377 | 841,260 | 102,923 |
| B2 | 713,017 | 369,837 | 692,293 | 351,667 |
| B3 | 199,270 | 166,573 | 120,611 | 102,680 |
| C | 681,319 | 681,319 | 596,513 | 596,513 |
| Total | 11,902,176 | 1,394,103 | 11,757,815 | 1,251,602 |

## Loans and advances to customers: analysis by performance

| | Retail customers | | Corporate entities | |
|---|---|---|---|---|
| | 31 December 2015 | 31 December 2014 | 31 December 2015 | 31 December 2014 |
| Neither past due nor impaired | 6,280,112 | 6,218,051 | 3,227,931 | 3,224,507 |
| Past due but not impaired | 23,076 | 26,329 | 33,529 | 38,251 |
| Impaired | 1,165,706 | 1,153,593 | 1,171,822 | 1,097,084 |
| Gross | 7,468,894 | 7,397,973 | 4,433,282 | 4,359,842 |
| Specific impairment allowance | (787,251) | (716,470) | (606,852) | (535,132) |
| Net | 6,681,643 | 6,681,503 | 3,826,430 | 3,824,710 |

• 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 requirements of the analysis the Bank applies the variance – co-variance method, with the time horizon of 10 days and using the data for the last year (250 business days) and with the reliability level of 99%. The Bank's chances of suffering losses larger than the VaR calculated under usual market conditions equal to 1%. According to the calculation as at 31 December 2015 VaR was HRK 87 thousand (as at 31 December 2014: HRK 56 thousand). Minimum VaR in 2015 equalled HRK 26 thousand, and the maximum was HRK 3,757 thousand, whilst the average amounted to HRK 314 thousand.

When calculating internal capital requirements for currency risk, the Bank decided to further enhance the standardized approach by using the historical method of Value-at-Risk. Taking into account the shortcomings of the variance-covariance method: the yields are not normally distributed (mainly due to fat tails), they are not time independent, there are volatility clustering and leverage effects etc., so the Bank decided to use the historical method VaR, which is resilient to the mentioned issues.

For the purpose of calculation of daily VaR, the Bank applied the historical VaR method under the following assumptions:

- reliability interval of 99%
- 10-day holding period:
- time horizon is 250 business days
- daily open currency positions are applied as a basis for calculation

As part of verification of the internal capital requirement for currency risk, we also carried out the back-testing and established that over the last 250 days the limits were exceeded on 2 occasions.

| At 31 December 2015 | EUR | EUR currency clause | Total EUR | USD | CHF | HRK | Other currencies | Total |
|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | |
| Cash and balances with the Croatian National Bank | 277,806 | - | 277,806 | 9,510 | 20,694 | 1,650,037 | 35,200 | 1,993,247 |
| Loans and advances to banks | 38,313 | - | 38,313 | 44,911 | 28 | 207,248 | 476,079 | 766,579 |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 35,857 | - | 35,857 |
| Loans and advances to customers | 986,819 | 6,015,858 | 7,002,677 | 52,440 | 581,314 | 2,871,607 | 35 | 10,508,073 |
| Financial assets available for sale | 1,061,710 | 19,707 | 1,081,417 | 303,432 | - | 500,019 | - | 1,884,868 |
| Held-to-maturity investments | - | - | - | - | - | 143,537 | - | 143,537 |
| Investments in subsidiaries | - | - | - | - | - | 59,842 | - | 59,842 |
| Tangible and intangible assets | - | - | - | - | - | 321,745 | - | 321,745 |
| Deferred tax assets | - | - | - | - | - | 51,357 | - | 51,357 |
| Other assets | 586 | - | 586 | 134 | 8 | 72,934 | 45 | 73,707 |
| **Total assets** | **2,365,234** | **6,035,565** | **8,400,799** | **410,427** | **602,044** | **5,914,183** | **511,359** | **15,838,812** |
| Liabilities | | | | | | | | |
| Amounts due to other banks | 21,181 | - | 21,181 | 520 | 30 | 286 | 81 | 22,098 |
| Amounts due to customers | 7,043,075 | 8,103 | 7,051,178 | 1,386,493 | 133,550 | 3,797,269 | 157,972 | 12,526,462 |
| Other borrowed funds | - | 913,917 | 913,917 | - | - | 262,721 | - | 1,176,638 |
| Financial liabilities at fair value through profit or loss | - | 4,157 | 4,157 | - | - | - | - | 4,157 |
| Provisions | - | - | - | - | - | 282,768 | - | 282,768 |
| Other liabilities | 7,975 | 1,376 | 9,351 | 872 | 9 | 118,301 | 415 | 128,948 |
| **Total liabilities** | **7,072,231** | **927,553** | **7,999,784** | **1,387,885** | **133,589** | **4,461,345** | **158,468** | **14,141,071** |
| Net FX position | (4,706,997) | 5,108,012 | 401,015 | (977,458) | 468,455 | 1,452,838 | 352,891 | 1,697,741 |



• All amounts are expressed in thousands of HRK

| At 31 December 2014 | EUR | EUR currency clause | Total EUR | USD | CHF | HRK | Other currencies | Total |
|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | |
| Cash and balances with the Croatian National Bank | 98,231 | - | 98,231 | 259,220 | 13,017 | 1,660,550 | 21,850 | 2,052,868 |
| Loans and advances to banks | 199,372 | - | 199,372 | 181,005 | 25 | 156,245 | 215,589 | 752,236 |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 13,551 | - | 13,551 |
| Loans and advances to customers | 973,313 | 6,191,501 | 7,164,814 | 49,832 | 579,629 | 2,711,131 | 807 | 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 | 123 | 73,277 | 84 | 74,754 |
| **Total assets** | **2,322,707** | **6,307,363** | **8,630,070** | **646,871** | **592,794** | **5,718,020** | **238,330** | **15,826,085** |
| Liabilities | | | | | | | | |
| Amounts due to other banks | 9,291 | - | 9,291 | 272 | 27 | 1,450 | 86 | 11,126 |
| Amounts due to customers | 7,651,121 | 17,426 | 7,668,547 | 1,212,994 | 127,874 | 3,557,083 | 135,603 | 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 | 3,999 | 1,135 | 5,134 | 831 | 8 | 137,547 | 113 | 143,633 |
| **Total liabilities** | **7,664,411** | **950,582** | **8,614,993** | **1,214,097** | **127,909** | **3,982,096** | **135,802** | **14,074,897** |
| **Net FX position** | (5,341,704) | 5,356,781 | 15,077 | (567,226) | 464,885 | 1,735,924 | 102,528 | 1,751,188 |

• 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.

The Bank has calculated the impact of a 200 bp change in interest rates, in which case the economic value would change to 0.98% of the regulatory capital (2014: 0.03%).

| At 31 December 2015 | 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 | 115,314 | - | - | - | 1,877,933 | 1,993,247 |
| Loans and advances to banks | 740,336 | - | 26,243 | - | - | 766,579 |
| Financial assets at fair value through profit or loss | - | - | - | - | 35,857 | 35,857 |
| Loans and advances to customers | 5,984,264 | 643,092 | 1,511,334 | 2,324,906 | 44,477 | 10,508,073 |
| Financial assets available for sale | 79,729 | 203,433 | 465,687 | 1,044,688 | 91,331 | 1,884,868 |
| Held-to-maturity investments | 895 | - | 142,642 | - | - | 143,537 |
| Investments in subsidiaries | - | - | - | - | 59,842 | 59,842 |
| Tangible and intangible assets | - | - | - | - | 321,745 | 321,745 |
| Deferred tax assets | - | - | - | - | 51,357 | 51,357 |
| Other assets | - | - | - | - | 73,707 | 73,707 |
| **Total assets** | **6,920,538** | **846,525** | **2,145,906** | **3,369,594** | **2,556,249** | **15,838,812** |
| Liabilities | | | | | | |
| Amounts due to other banks | 22,098 | - | - | - | - | 22,098 |
| Amounts due to customers | 6,832,813 | 1,573,602 | 4,023,240 | 31,439 | 65,368 | 12,526,462 |
| Other borrowed funds | 2,617 | 165,969 | 132,560 | 871,189 | 4,303 | 1,176,638 |
| Financial liabilities at fair value through profit or loss | - | - | - | - | 4,157 | 4,157 |
| Provisions | - | - | - | - | 282,768 | 282,768 |
| Other liabilities | - | - | - | - | 128,948 | 128,948 |
| **Total liabilities** | **6,857,528** | **1,739,571** | **4,155,800** | **902,628** | **485,544** | **14,141,071** |
| On-balance-sheet interest rate gap | 63,010 | (893,046) | (2,009,894) | 2,466,966 | 2,070,705 | 1,697,741 |

| 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 |
| Loans and advances to banks | 691,197 | 17,498 | - | 43,541 | - | 752,236 |
| Financial assets at fair value through profit or loss | - | - | - | - | 13,551 | 13,551 |
| Loans and advances to 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 | - | - | - | - | 74,754 | 74,754 |
| **Total assets** | **7,105,674** | **1,770,006** | **2,041,298** | **2,424,029** | **2,485,078** | **15,826,085** |
| 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 | - | - | - | - | 143,633 | 143,633 |
| **Total liabilities** | **3,707,230** | **1,682,061** | **7,506,658** | **888,601** | **290,347** | **14,074,897** |
| 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

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

| | 31 December 2015 | Interest rate (%) | 31 December 2014 | Interest rate (%) |
|---|---|---|---|---|
| Cash and balances with the Croatian National Bank | 1,993,247 | 0.0 | 2,052,868 | 0.0 |
| Loans and advances to banks | 766,579 | 1.0 | 752,236 | 1.2 |
| Loans and advances to customers | 10,508,073 | 6.0 | 10,506,213 | 6.6 |
| Held-to-maturity investments | 143,537 | 7.9 | 101,936 | 7.8 |
| Financial assets available for sale | 1,884,868 | 2.4 | 1,926,018 | 2.3 |
| | 15,296,304 | | 15,339,271 | |
| Amounts due to other banks | 22,098 | 0.0 | 11,126 | 0.0 |
| Amounts due to customers | 12,526,462 | 1.3 | 12,702,101 | 1.9 |
| Other borrowed funds | 1,176,638 | 2.1 | 1,150,921 | 2.2 |
| | 13,725,198 | | 13,864,148 | |

## 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 reporting date to the contractual maturity date.

| At 31 December 2015 | 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 | 1,406,300 | 139,915 | 361,693 | 63,024 | 22,315 | - | 1,993,247 |
| Loans and advances to banks | 740,335 | - | - | 26,244 | - | - | 766,579 |
| Financial assets at fair value through profit or loss | 35,857 | - | - | - | - | - | 35,857 |
| Loans and advances to customers | 1,069,234 | 421,232 | 1,411,016 | 2,099,573 | 5,507,018 | - | 10,508,073 |
| Financial assets available for sale | 191,260 | 193,901 | 438,798 | 775,347 | 285,562 | - | 1,884,868 |
| Held-to-maturity investments | 895 | - | 142,642 | - | - | - | 143,537 |
| Investments in subsidiaries | - | - | - | - | - | 59,842 | 59,842 |
| Tangible and intangible assets | - | - | - | - | - | 321,745 | 321,745 |
| Deferred tax assets | - | - | - | - | - | 51,357 | 51,357 |
| Other assets | 59,073 | - | 14,634 | - | - | - | 73,707 |
| **Total assets** | **3,502,954** | **755,048** | **2,368,783** | **2,964,188** | **5,814,895** | **432,944** | **15,838,812** |
| Liabilities | | | | | | | |
| Amounts due to other banks | 22,098 | - | - | - | - | - | 22,098 |
| Amounts due to customers | 5,503,726 | 1,674,062 | 4,327,602 | 754,072 | 267,000 | - | 12,526,462 |
| Other borrowed funds | 5,631 | 33,922 | 141,788 | 326,250 | 669,047 | - | 1,176,638 |
| Financial liabilities at fair value through profit or loss | 4,157 | - | - | - | - | - | 4,157 |
| Provisions | - | - | - | - | - | 282,768 | 282,768 |
| Other liabilities | 128,948 | - | - | - | - | - | 128,948 |
| **Total liabilities** | **5,664,560** | **1,707,984** | **4,469,390** | **1,080,322** | **936,047** | **282,768** | **14,141,071** |
| **Net liquidity gap** | **(2,161,606)** | **(952,936)** | **(2,100,607)** | **1,883,866** | **4,878,848** | **150,176** | **1,697,741** |

• All amounts are expressed in thousands of HRK

| 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 |
| Loans and advances to banks | 725,992 | - | - | 26,244 | - | - | 752,236 |
| Financial assets at fair value through profit or loss | 13,551 | - | - | - | - | - | 13,551 |
| Loans and advances to 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 | 61,733 | - | 13,021 | - | - | - | 74,754 |
| **Total assets** | **3,692,176** | **971,120** | **1,867,000** | **3,073,753** | **5,823,527** | **398,509** | **15,826,085** |
| 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 | 143,633 | - | - | - | - | - | 143,633 |
| **Total liabilities** | **5,104,909** | **1,734,377** | **4,686,392** | **1,020,501** | **1,461,622** | **67,096** | **14,074,897** |
| **Net liquidity gap** | **(1,412,733)** | **(763,257)** | **(2,819,392)** | **2,053,252** | **4,361,905** | **331,413** | **1,751,188** |

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.

## 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, including the legal risk.

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 constitute the framework for managing operational risk at the Bank.

The Bank has a Business Continuity Plan and the Crisis Communication Manual that define 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, process and procedure management, as well as monitoring of any operational risk that may arise.

The Quantitative Analysis, Market and Operational Risks Department operates as an independent unit within the Risk Management Division 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,



• All amounts are expressed in thousands of HRK

analysing, documenting and informing 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 must consistently identify and assess operational risks, followed by establishing and taking of measures for managing of such defined risks that arise in the areas and processes they are responsible for.

In order to obtain a full view of the Bank's exposure to the risk, the Operational Risk Management Committee has been established.

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

## 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 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Receivables | Payables | Receivables | Payables |
| OTP bank Nyrt Hungary | 421,039 | 4,724 | 466,407 | 1,761 |
| OTP Nekretnine d.o.o. | 25 | 5,236 | 28 | 3,692 |
| OTP Invest d.o.o. | 138 | 865 | 78 | 503 |
| Kratos nekretnine d.o.o. | - | 111 | - | 26 |
| OTP Aventin d.o.o. | 72,041 | 442 | 19,062 | 131 |
| Poslovno savjetovanje 2013 d.o.o. | - | - | - | 28 |
| OTP Leasing d.d. | 1,914 | 14,738 | 1,863 | 8,413 |
| Cresco d.o.o.. | - | 6 | - | - |
| | 495,157 | 26,122 | 487,438 | 14,554 |

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Income | Expenses | Income | Expenses |
| OTP bank Nyrt Hungary | 30,552 | 1,790 | 129,132 | 2,891 |
| OTP Nekretnine d.o.o. | 52 | 1,286 | 25 | 1,899 |
| OTP Invest d.o.o. | 193 | 1 | 300 | 14 |
| Kratos nekretnine d.o.o. | 1 | - | 61 | - |
| OTP Aventin d.o.o. | 6,693 | 2,731 | 1,978 | - |
| Poslovno savjetovanje 2013 d.o.o. | 1 | - | 2 | 1 |
| OTP Leasing d.d. | 368 | 1,222 | 337 | 1,926 |
| Cresco d.o.o. | 1 | - | - | - |
| | 37,861 | 7,030 | 131,835 | 6,731 |

OTP Faktoring d.o.o. was integrated with OTP banka d.d. in February 2015, whilst Cresco d.o.o. was taken over by OTP Nekretnine d.o.o. in November 2015.

Remuneration paid to key management personnel amounted to HRK 6,713 thousand and relates to short-term employee benefits (2014: HRK 5,224 thousand).

Included in key management personnel are Management Board members.

Remuneration paid to Supervisory Board members amounted to HRK 873 thousand (2014: HRK 1,123 thousand).

## 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.

• All amounts are expressed in thousands of HRK

At 31 December 2015. Funds managed by the Bank as an agent on behalf of third parties amounted to HRK 68,720 thousand (2014: HRK 71,334 thousand). Additionally, assets under the management of OTP Invest, a subsidiary of the Bank, amounted to HRK 643,142 thousand (2014: HRK 649,421 thousand) and the Bank acts as the depositary and custodian of those funds. Furthermore, the Bank acts as a custodian for the assets of other clients in the amount of HRK 308,129 thousand (2014: HRK 0).

## 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),

| | 31 December 2015 | | | | 31 December 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 32,210 | - | - | 32,210 | 11,094 | - | - | 11,094 |
| Other derivative financial assets | - | 3,647 | - | 3,647 | - | 2,457 | - | 2,457 |
| **Available-for-sale financial assets** | | | | | | | | |
| Equity securities | 15,607 | - | 31,127 | 46,734 | 11,891 | - | 3,398 | 15,289 |
| Debt securities | 1,320,901 | 472,636 | - | 1,793,537 | 1,085,741 | 785,191 | - | 1,870,932 |
| Units in open-ended investment funds | 44,597 | - | - | 44,597 | 39,797 | - | - | 39,797 |
| **Total** | **1,413,315** | **476,283** | **31,127** | **1,920,725** | **1,148,523** | **787,648** | **3,398** | **1,939,569** |
| **Financial liabilities at fair value through profit or loss** | | | | | | | | |
| Other derivative financial liabilities | - | 4,157 | - | 4,157 | - | 20 | - | 20 |
| **Total** | - | 4,157 | - | 4,157 | - | 20 | - | 20 |

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



• All amounts are expressed in thousands of HRK

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 unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| | 31 December 2015 | 31 December 2014 | | | | |
| Fair value through profit and loss – open-end investment fund shares | 32,210 | 11,094 | Level 1 | Quoted selling fund share price | Not applicable | Not applicable |
| Fair value through profit and loss – derivatives | Assets 3,647 and liabilities 4,157 | Assets 2,457 and liabilities 20 | 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 counter value in kuna, 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 | 15,607 | 11,891 | 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 | 31,127 | 3,398 | Level 3 | Measured at cost – tested for impairment | Not applicable | Not applicable |
| Available for sale assets – Government bonds | 1,320,901 | 1,085,741 | Level 1 | Quoted price on a stock exchange – bid price at 14:00 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 | 321,703 | 632,683 | 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 | 150,933 | 152,508 | Level 2 | Measured at cost and amortized till maturity | Not applicable | Not applicable |
| Available for sale assets – open-end investment fund shares | 44,597 | 39,797 | Level 1 | Quoted selling price issued by the fund | Not applicable | Not applicable |

**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 2015 | Available for sale unlisted shares | Total |
|---|---|---|
| Opening balance | 3,398 | 3,398 |
| Total gains or losses: | | |
| - in profit or loss | - | - |
| - in other comprehensive income | 27,729 | 27,729 |
| Closing balance | 31,127 | 31,127 |

**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.

• All amounts are expressed in thousands of HRK

### 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 | Note | 31 December 2015 | 31 December 2014 |
|---|---|---|---|
| Impairment allowance on loans to and receivables from customers | 14 | 1,394,103 | 1,251,602 |
| Provisions for off-balance-sheet exposures | 25 | 8,272 | 8,773 |
| | | 1,402,375 | 1,260,375 |

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 December 2015 | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | Corporate | Retail | Total | Corporate | Retail | Total |
| Gross value of Impaired loans | 1,171,822 | 1,165,706 | 2,337,528 | 1,097,084 | 1,153,593 | 2,250,677 |
| Impairment rate | 47.76% | 63.17% | 55.45% | 44.44% | 57.76% | 51.26% |

Each additional increase of one percentage point in the impairment rate on the gross portfolio at 31 December 2015 would lead to the recognition of an additional impairment loss of HRK 22,635 thousand for the Bank (2014 HRK 21,709 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 2015 calculated on a portfolio basis in accordance with local regulations amounted to HRK 106,269 thousand (2014 HRK 106,593 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% (2014: 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 highest minimum rate prescribed by the CNB, portfolio based impairment losses would be HRK 26,546 thousand (2014: HRK 26,639 thousand) higher than the amount recognised by the Bank.

### 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



• All amounts are expressed in thousands of HRK

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 2015, based on the advice of legal counsel, management created provisions for the related risks amounting to HRK 32,472 thousand (2014: HRK 58,323 thousand).

## 39. EVENTS AFTER THE REPORTING DATE

On 1st March 2016 the Commercial Court in Zadar passed a decision on the merger of Kratos nekretnine d.o.o. with OTP Aventin d.o.o.

Both companies had been fully owned by the Bank before the status change, the Bank has remained the sole owner of OTP Aventin after the status change.

Further to the mentioned decision, the company Kratos nekretnine d.o.o. ceased to exist as at 29th February 2016, and all the rights and obligations of this company have been transferred to OTP Aventin as its legal successor.

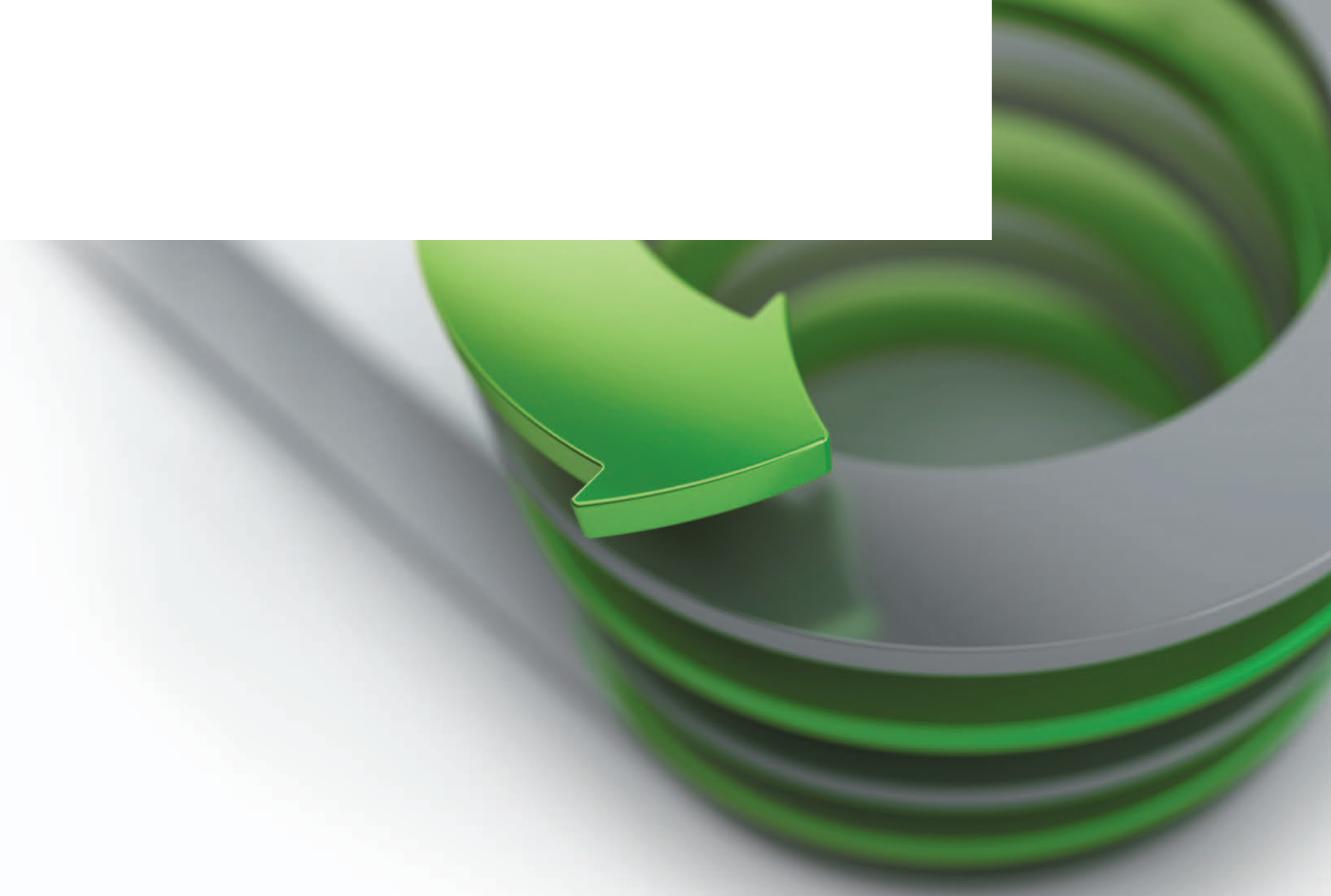
There were no other events after the reporting date with effect on Bank's financial statements.

*Balázs Békeffy*
President of the
Management Board

*Zorislav Vidović*
Member of the
Management Board

• All amounts are expressed in thousands of HRK

# APPENDIX – SUPPLEMENTARY FORMS REQUIRED BY LOCAL REGULATION



# Income Statement

Pursuant to the Croatian Accounting Law, Croatian National Bank issued the Decision on the Structure and Content of Annual Financial Statement (Official Gazzete 62/08).

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

**For the year ended 31 December**

All amounts are expressed in thousands of HRK

| | 2015 | 2014 |
|---|---|---|
| 1. Interest income | 721,084 | 650,049 |
| 2. (Interest expenses) | (258,254) | (274,671) |
| **3. Net interest income** | **462,830** | **375,378** |
| 4. Commission and fee income | 163,977 | 154,591 |
| 5. (Commission and fee expenses) | (40,489) | (35,351) |
| **6. Net commission and fee income** | **123,488** | **119,240** |
| 7. Gains/(losses) from investments in subsidiaries, associates and joint ventures | (1,554) | - |
| 8. Gains/(losses) from trading activities | 87,449 | 179,747 |
| 9. Gains/(losses) from embedded derivatives | (3,450) | 17 |
| 10. Gains/(losses) from financial assets not traded on active markets at fair value through profit and loss | 116 | 136 |
| 11. Gain/(loss) from financial assets available for sale | 204 | - |
| 12. Gains/(losses) from financial assets held to maturity | - | - |
| 13. Gains/(losses) from hedging transactions | - | - |
| 14. Income from investments in subsidiaries, associates and joint ventures | - | - |
| 15. Income from other equity investments | 70 | 60 |
| 16. Gains/(losses) from foreign exchange differences | (26,261) | (125,399) |
| 17. Other income | 18,395 | 161,162 |
| 18. Other expenses | (303,943) | (47,351) |
| 19. General and administrative expenses, depreciation and amortization | (362,850) | (358,520) |
| **20. Net income before value adjustments and provisions for losses** | **(5,506)** | **304,470** |
| 21. Expenses from value adjustments and provisions for losses | (143,510) | (139,016) |
| **22. Profit/(loss) before tax** | **(149,016)** | **165,454** |
| 23. Income tax | 69,427 | (10,221) |
| **24. Current year profit/(loss)** | **(79,589)** | **155,233** |
| 25. Earnings per share | - | 37.76 |
| **26. Current year profit/(loss)** | **(79,589)** | **155,233** |
| **27. Distributable to the parent company shareholders** | **(79,589)** | **155,233** |
| **28. Minority participation** | **-** | **-** |

# Statement of financial position

### As at 31 December

All amounts are expressed in thousands of HRK

| Assets | 2015 | 2014 |
|---|---|---|
| 1. Cash and deposits with the CNB | 1,877,933 | 1,889,303 |
| 1.1. Cash | 295,015 | 271,774 |
| 1.2. Deposits with the CNB | 1,582,918 | 1,617,529 |
| 2. Deposits with banking institutions | 506,118 | 495,757 |
| 3. Treasury bills of Ministry of Finance and treasury bills of the CNB | 321,703 | 632,683 |
| 4. Securities and other financial instruments held for trading | - | - |
| 5. Securities and other financial instruments available for sale | 1,536,234 | 1,271,425 |
| 6. Securities and other financial instruments held to maturity | 143,537 | 101,935 |
| 7. Securities and other financial instruments that are not traded on active markets at fair value through profit and loss | 32,210 | 11,094 |
| 8. Derivative financial assets | 3,834 | 2,922 |
| 9. Loans to financial institutions | 36,638 | 29,098 |
| 10. Loans to other clients | 10,861,577 | 10,911,273 |
| 11. Investments in subsidiaries, associates and joint ventures | 59,842 | 72,858 |
| 12. Foreclosed assets | 14,634 | 13,021 |
| 13. Tangible assets (minus depreciation) | 251,293 | 250,260 |
| 14. Interests, fees and other assets | 272,450 | 232,021 |
| A. Total assets | 15,918,003 | 15,913,650 |
| Liabilities and equity | | |
| 1. Borrowings from financial institutions | 1,176,708 | 1,149,956 |
| 2. Deposits | 12,453,597 | 12,614,618 |
| 2.1. Deposits on giro-accounts and current accounts | 2,159,291 | 1,793,131 |
| 2.2. Savings deposits | 2,173,846 | 1,825,854 |
| 2.3. Term deposits | 8,120,460 | 8,995,633 |
| 3. Other borrowings | - | - |
| 3.1. Short-term borrowings | - | - |
| 3.2. Long-term borrowings | - | - |
| 4. Derivative financial liabilities and other trading financial liabilities | 4,283 | 352 |
| 5. Issued debt securities | - | - |
| 6. Issued subordinated instruments | - | - |
| 7. Issued hybrid instruments | - | - |
| 8. Interests, fees and other liabilities | 585,674 | 397,536 |
| B. Total liabilities | 14,220,262 | 14,162,462 |
| 1. Share capital | 989,607 | 989,607 |
| 2. Current year profit/(loss) | (79,589) | 155,233 |
| 3. Retained earnings/(loss) | 530,762 | 375,206 |
| 4. Legal reserves | 41,114 | 41,114 |
| 5. Statutory and other capital reserves | 138,654 | 145,114 |
| 6. Unrealised gains /(losses) on value adjustments of financial assets available for sale | 77,193 | 44,914 |
| C. Total equity | 1,697,741 | 1,751,188 |
| D. Total liabilities and equity | 15,918,003 | 15,913,650 |
| 8. Total equity | 1,697,741 | 1,751,188 |
| 9. Equity distributable to parent company shareholders | 1,697,741 | 1,751,188 |
| 10. Minority participation | - | - |

# Statement of changes in equity

### For the year ended 31 December

All amounts are expressed in thousands of HRK

| | Share capital | Legal statutory and other reserves | Retained earnings/ (losses) | Current year profit/(loss) | Unrealised gain/ (losses) on value adjustments of financial assets available for sale | Total equity |
|---|---|---|---|---|---|---|
| **1. Balance at 1 January 2015** | **989,607** | **186,228** | **375,206** | **155,233** | **44,914** | **1,751,188** |
| 2. Changes in accounting policies and error corrections | - | - | - | - | - | - |
| **3. Closing balance at 1 January 2015** | **989,607** | **186,228** | **375,206** | **155,233** | **44,914** | **1,751,188** |
| 4. Sale of financial assets available for sale | - | - | - | - | (204) | (204) |
| 5. Fair value changes of financial assets available for sale | - | - | - | - | 32,483 | 32,483 |
| 6. Tax on items directly recognised or transferred from equity | - | - | - | - | (6,455) | (6,455) |
| 7. Other gains or losses directly recognised in equity | - | - | - | - | - | - |
| 8. Net gains/losses directly recognised in equity | - | - | - | - | 25,824 | 25,824 |
| 9. Current year profit/(loss) | - | - | - | (79,589) | - | (79,589) |
| **10. Total income and expenses recognised for the current year 2015** | **-** | **-** | **-** | **(79,589)** | **25,824** | **(53,765)** |
| 11. Increase/ (decrease) of share capital | - | - | - | - | - | - |
| 12. (Purchase)/sale of treasury shares | - | - | - | - | - | - |
| 13. Other changes | - | (6,460) | 155,233 | (155,233) | 6,455 | (5) |
| 14. Transfer to reserves | - | - | - | - | - | - |
| 15. Reserves acquired on merger of OTP Nekretnine | - | - | 323 | - | - | 323 |
| 16. Dividends paid | - | - | - | - | - | - |
| **17. Distribution of profit** | **-** | **-** | **323** | **-** | **-** | **323** |
| **18. Balance at 31 December 2015** | **989,607** | **179,768** | **530,762** | **(79,589)** | **77,193** | **1,697,741** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **1. Balance at 1 January 2014** | **989,607** | **189,746** | **331,365** | **64,839** | **27,347** | **1,602,904** |
| 2. Changes in accounting policies and error corrections | - | - | - | - | - | - |
| **3. Closing balance at 1 January 2014** | **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 | - | - | - | - | 17,566 | 17,566 |
| 6. Tax on items directly recognised or transferred from equity | - | - | - | - | (3,513) | (3,513) |
| 7. Other gains or losses directly recognised in equity | - | - | - | - | - | - |
| 8. Net gains/losses directly recognised in equity | - | - | - | - | 14,053 | 14,053 |
| 9. Current year profit/(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. (Purchase)/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** | **-** | **-** | **-** | **-** | **-** | **-** |
| **17. Balance at 31 December 2014** | **989,607** | **186,228** | **375,206** | **155,233** | **44,914** | **1,751,188** |

# Cash flow statement

**For the year ended 31 December**

All amounts are expressed in thousands of HRK

| | 2015 | 2014 |
|---|---|---|
| Operating activities | | |
| 1.1. Profit/(loss) before tax | (149,016) | 165,454 |
| 1.2. Value adjustments and provisions for losses | 143,511 | 139,016 |
| 1.3. Depreciation and amortization | 35,914 | 32,268 |
| 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 | (94) | (186) |
| 1.6. Other (gains) / losses | - | (152,755) |
| **1. Operating cash flow before operating assets movements** | **30,315** | **183,797** |
| 2.1. Deposits with the Croatian National Bank | 74,464 | 48,257 |
| 2.2. Treasury bills of Ministry of Finance and treasury bills of CNB | 310,980 | 12,542 |
| 2.3. Deposits with banking institutions and loans to financial institutions | (8) | (7) |
| 2.4. Loans to other clients | (151,106) | (272,783) |
| 2.5. Securities and other financial instruments held for trading | (22,028) | (1,985) |
| 2.6. Securities and other financial instruments available for sale | (232,529) | 270,893 |
| 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 | (35,397) | (20,194) |
| **2. Net (increase)/decrease in operating assets** | **(55,624)** | **36,723** |
| Increase/(decrease) in operating liabilities | | |
| 3.1. Demand deposits | 366,160 | 246,257 |
| 3.2. Savings and term deposits | (527,181) | (4,081) |
| 3.3. Derivative financial liabilities and other trading liabilities | 3,931 | (6,684) |
| 3.4. Other liabilities | 228,911 | 38,048 |
| **3. Net increase/(decrease) in operating liabilities** | **71,821** | **273,540** |
| **4. Net cash flow from operating activities before profit tax paying** | **46,512** | **494,060** |
| 5. Income tax paid | 22,694 | (21,743) |
| **6. Net inflows/(outflows) of cash from operating activities** | **69,206** | **472,317** |
| Investing activities | | |
| 7.1. Receipts from sale/(payments to acquire) tangible and intangible assets | (38,466) | (14,254) |
| 7.2. Receipts from sale /(payments for the) investments in subsidiaries, affiliated companies and joint ventures | 13,016 | 750 |
| 7.3. Receipts from collection/(payments to acquire) securities and other financial instruments held to maturity | (41,602) | (744) |
| 7.4. Dividends received | - | - |
| 7.5. Other receipts / (payments) from investing activities | - | (108,748) |
| **7. Net cash flow from investing activities** | **(67,052)** | **(122,996)** |
| Financial activities | | |
| 8.1. Net increase/(decrease) in borrowings | 26,752 | 118,491 |
| 8.2. Net increase/(decrease) in issued debt securities | - | - |
| 8.3. Net increase/(decrease) in subordinated and hybrid instruments | - | (39,051) |
| 8.4. Receipts from issued share capital | - | - |
| 8.5. (Dividends paid) | - | - |
| 8.6. Other receipts/(payments) from financial activities | 323 | 331,029 |
| **8. Net cash flow from financial activities** | **27,075** | **410,469** |
| **9. Net increase/(decrease) in cash and cash equivalents** | **29,229** | **759,790** |
| **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** | **1,686,282** | **1,657,053** |

# Comparative statements

## Comparative statements of comprehensive income for 2015

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.

**For the year ended 31 December**

All amounts are expressed in thousands of HRK

| | Croatian National Bank decision 2015 | Accounting Requirements for banks in Croatia for 2015 | Difference 2015 |
|---|---|---|---|
| Interest income | 721,084 | 722,790 | (1,706) |
| (Interest expenses) | (258,254) | (226,276) | (31,978) |
| **Net interest income** | **462,830** | **496,514** | **(33,684)** |
| Commission and fee income | 163,977 | 163,972 | 5 |
| (Commission and fee expenses) | (40,489) | (40,489) | - |
| **Net commission and fee income** | **123,488** | **123,483** | **5** |
| Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures | (1,554) | - | (1,554) |
| Gain/(loss) from trading activities | 87,449 | - | 87,449 |
| Gain/(loss) from embedded derivatives | (3,450) | - | (3,450) |
| Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss | 116 | - | 116 |
| Gain/(loss) from financial assets available for sale | 204 | - | 204 |
| Gain/(loss) from financial assets held to maturity | - | - | - |
| Gain/(loss) from hedging transactions | - | - | - |
| Income from investments in subsidiaries, affiliated companies and joint ventures | - | - | - |
| Income from other equity investments | 70 | - | 70 |
| Gain/(loss) from foreign exchange differences | (26,261) | - | (26,261) |
| Net trading and valuation gains on financial instruments | - | 56,120 | (56,120) |
| Other income | 18,395 | 18,812 | (417) |
| Other expenses | (303,943) | - | (303,943) |
| General and administrative expenses, depreciation and amortization | (362,850) | - | (362,850) |
| **Net income before value adjustments and provisions for losses** | **(5,506)** | **694,929** | **(700,435)** |
| Expenses from value adjustments and provisions for losses | (143,510) | (416,406) | 272,896 |
| Personnel expenses | - | (178,729) | 178,729 |
| Other operating expenses | - | (248,810) | 248,810 |
| **Profit/(loss) before tax** | **(149,016)** | **(149,016)** | **-** |
| Income tax | 69,427 | 69,427 | - |
| **Current year profit/(loss)** | **(79,589)** | **(79,589)** | **-** |
| Earnings per share | - | - | - |
| Current year profit/(loss) | (79,589) | (79,589) | - |

# Comparative statements

## Comparative statements of comprehensive income for 2014

**For the year ended 31 December**

All amounts are expressed in thousands of HRK

| | Croatian National Bank decision 2014 | Accounting Requirements for banks in Croatia for 2014 | Difference 2014 |
|---|---|---|---|
| Interest income | 650,049 | 649,945 | 104 |
| (Interest expenses) | (274,671) | (245,649) | (29,022) |
| **Net interest income** | **375,378** | **404,296** | **(28,918)** |
| Commission and fee income | 154,591 | 154,586 | 5 |
| (Commission and fee expenses) | (35,351) | (35,352) | 1 |
| **Net commission and fee income** | **119,240** | **119,234** | **6** |
| Gain/(loss) from investments in subsidiaries, affiliated companies and joint ventures | - | - | - |
| Gain/(loss) from trading activities | 179,747 | - | 179,747 |
| Gain/(loss) from embedded derivatives | 17 | - | 17 |
| Gain/(loss) from financial assets not traded on active markets at fair value through profit and loss | 136 | - | 136 |
| Gain/(loss) from financial assets available for sale | - | - | - |
| Gain/(loss) from financial assets held to maturity | - | - | - |
| Gain/(loss) from hedging transactions | - | - | - |
| Income from investments in subsidiaries, affiliated companies and joint ventures | - | - | - |
| Income from other equity investments | 60 | - | 60 |
| Gain/(loss) from foreign exchange differences | (125,399) | - | (125,399) |
| Net trading and valuation gains on financial instruments | - | 52,892 | (52,892) |
| Other income | 161,162 | 161,579 | (417) |
| Other expenses | (47,351) | - | (47,351) |
| General and administrative expenses, depreciation and amortization | (358,520) | - | (358,520) |
| **Net income before value adjustments and provisions for losses** | **304,470** | **738,001** | **(433,531)** |
| Expenses from value adjustments and provisions for losses | (139,016) | (150,417) | 11,401 |
| Personnel expenses | - | (193,276) | 193,276 |
| Other operating expenses | - | (228,854) | 228,854 |
| **Profit/(loss) before tax** | **165,454** | **165,454** | **-** |
| Income tax | (10,221) | (10,221) | - |
| **Current year profit/(loss)** | **155,233** | **155,233** | **-** |
| Earnings per share | 37,76 | 37,76 | - |
| Current year profit/(loss) | 155,233 | 155,233 | - |

## Reconciliations between the statement of comprehensive income items disclosed in the statutory financial statements and those specified by the CNB Decision relate to the following categories:

### Income statement reconciliation for the year ended 31 December 2015

Differences between the statement of comprehensive income dislosed in the statutory financial statements, and those prescribed by the CNB Decision relate to the following categories:

The difference in the total interest income reported in the CNB accounting requirements for banks corporated to the statutory financial statements relates to net foreign exchange difference relating to interest income, which is presented in statutory financial statements within "Net trading and valuation gains on financial instruments".

The difference in the total interest expenses reported in the CNB accounting requirements for banks corporated to the statutory financial statements relates to savings deposit insurance premiums, which is presented in "Operating expenses" in the statutory financial statements as and in "Net trading and valuation gains on financial instruments ".

The items "Gains/(losses) from trading activities", "Gains/losses from embedded derivatives" and "Gains/losses from foreign exchange differences" are presented separately under the CNB bank accounting requirements, whereas in the statutory financial statements they have been presented in "Net trading and valuation gains on financial instruments".

Items "Profit/(loss) on assets not actively traded and measured at FVTPL", "Income from other equity investments", "Other income" are presented separately, in accordance with the CNB accounting requirements for banks, while in statutory financial statements they are presented in under "Other operating income".

Items "Other expenses" and "General and administrative expenses and depreciation" are presented separately, in the CNB, while in the statutory financial statements they are presented under "Personnel expenses" and "Other operating expenses".

# Comparative statements

## Comparatives for Statement of financial position as at 31 December 2015 and 2014

**For the year ended 31 December**

All amounts are expressed in thousands of HRK

| Assets | Croatian National Bank decision 2015 | Accounting Requirements for banks in Croatia for 2015 | Difference 2015 | Croatian National Bank decision 2014 | Accounting Requirements for banks in Croatia for 2014 | Difference 2014 |
|---|---|---|---|---|---|---|
| Cash and deposits with the CNB | 1,877,933 | - | 1,877,933 | 1,889,303 | - | 1,889,303 |
| Cash | 295,015 | - | 295,015 | 271,774 | - | 271,774 |
| Deposits with the CNB | 1,582,918 | - | 1,582,918 | 1,617,529 | - | 1,617,529 |
| Deposits with banking institutions | 506,118 | - | 506,118 | 495,757 | - | 495,757 |
| *Cash and balances with the Croatian National Bank* | - | *1,993,247* | *(1,993,247)* | - | *2,052,868* | *(2,052,868)* |
| *Loans and advances to banks* | - | *766,579* | *(766,579)* | - | *752,236* | *(752,236)* |
| Treasury bills of Ministry of Finance and treasury bills of the CNB | 321,703 | - | 321,703 | 632,683 | - | 632,683 |
| Securities and other financial instruments held for trading | - | - | - | - | - | - |
| Securities and other financial instruments available for sale | 1,536,234 | 1,884,868 | (348,634) | 1,271,425 | 1,926,018 | (654,593) |
| Securities and other financial instruments held to maturity | 143,537 | 143,537 | - | 101,935 | 101,936 | (1) |
| Securities and other financial instruments that are not traded on active markets at fair value through profit and loss | 32,210 | - | 32,210 | 11,094 | - | 11,094 |
| *Financial assets at fair value through profit or loss* | - | *35,857* | *(35,857)* | - | *13,551* | *(13,551)* |
| Derivative financial assets | 3,834 | - | 3,834 | 2,922 | - | 2,922 |
| Loans to financial institutions | 36,638 | - | 36,638 | 29,098 | - | 29,098 |
| Loans to other clients | 10,861,577 | - | 10,861,577 | 10,911,273 | - | 10,911,273 |
| *Loans and advances to customers* | - | *10,508,073* | *(10,508,073)* | - | *10,506,213* | *(10,506,213)* |
| Investments in subsidiaries, affiliated companies and joint ventures | 59,842 | 59,842 | - | 72,858 | 72,858 | - |
| Repossessed assets | 14,634 | - | 14,634 | 13,021 | - | 13,021 |
| Tangible assets (minus depreciation) | 251,293 | 246,577 | 4,716 | 250,260 | 245,593 | 4,667 |
| *Intangible assets* | - | *32,202* | *(32,202)* | - | *31,106* | *(31,106)* |
| *Goodwill* | - | *42,966* | *(42,966)* | - | *42,966* | *(42,966)* |
| *Deferred tax assets* | - | *51,357* | *(51,357)* | - | *5,986* | *(5,986)* |
| Interests, fees and other assets | 272,450 | - | 272,450 | 232,021 | - | 232,021 |
| *Other assets* | - | *73,707* | *(73,707)* | - | *74,754* | *(74,754)* |
| A. Total assets | 15,918,003 | 15,838,812 | 79,191 | 15,913,650 | 15,826,085 | 87,565 |

# Comparative statements

## Comparatives for Statement of financial position as at 31 December 2015 and 2014

**For the year ended 31 December**

All amounts are expressed in thousands of HRK

| Liabilities and equity | Croatian National Bank decision 2015 | Accounting Requirements for banks in Croatia for 2015 | Difference 2015 | Croatian National Bank decision 2014 | Accounting Requirements for banks in Croatia for 2014 | Difference 2014 |
|---|---|---|---|---|---|---|
| Borrowings from financial institutions | 1,176,708 | - | 1,176,708 | 1,149,956 | - | 1,149,956 |
| Deposits | 12,453,597 | - | 12,453,597 | 12,614,618 | - | 12,614,618 |
| Deposits on giro-accounts and current accounts | 2,159,291 | - | 2,159,291 | 1,793,131 | - | 1,793,131 |
| Savings deposits | 2,173,846 | - | 2,173,846 | 1,825,854 | - | 1,825,854 |
| Term deposits | 8,120,460 | - | 8,120,460 | 8,995,633 | - | 8,995,633 |
| Other borrowings | - | - | - | - | - | - |
| Short-term borrowings | - | - | - | - | - | - |
| Long-term borrowings | - | - | - | - | - | - |
| *Amounts due to other banks* | - | *22,098* | *(22,098)* | - | *11,126* | *(11,126)* |
| *Amounts due to customers* | - | *12,526,462* | *(12,526,462)* | - | *12,702,101* | *(12,702,101)* |
| *Other borrowed funds* | - | *1,176,638* | *(1,176,638)* | - | *1,150,921* | *(1,150,921)* |
| Derivative financial liabilities and other trading financial liabilities | 4,283 | - | 4,283 | 352 | - | 352 |
| *Financial liabilities at fair value through profit or loss* | - | *4,157* | *(4,157)* | - | *20* | *(20)* |
| Issued subordinated instruments | - | - | - | - | - | - |
| Financial liabilities through fair value | - | - | - | - | - | - |
| *Provisions* | - | *282,768* | *(282,768)* | - | *67,096* | *(67,096)* |
| Interest, fees and other liabilities | 585,674 | - | 585,674 | 397,536 | - | 397,536 |
| *Other liabilities* | - | *128,948* | *(128,948)* | - | *143,633* | *(143,633)* |
| **B. Total liabilities** | **14,220,262** | **14,141,071** | **79,191** | **14,162,462** | **14,074,897** | **87,565** |
| Share capital | 989,607 | 822,280 | 167,327 | 989,607 | 822,280 | 167,327 |
| *Share premium* | - | *171,260* | *(171,260)* | - | *171,260* | *(171,260)* |
| Current year profit/loss | (79,589) | - | (79,589) | 155,233 | - | 155,233 |
| Retained earnings/(loss) | 530,762 | 451,172 | 79,590 | 375,206 | 530,438 | (155,233) |
| Legal reserves | 41,114 | - | 41,114 | 41,114 | - | 41,114 |
| *Statutory and legal reserves* | - | *82,228* | *(82,228)* | - | *82,228* | *(82,228)* |
| Statutory and other capital reserves | 138,654 | - | 138,654 | 145,114 | - | 145,114 |
| *Other reserves* | - | *170,801* | *(170,801)* | - | *144,982* | *(144,982)* |
| Unrealised gain /(loss) from available for sale fair value adjustment | 77,193 | - | 77,193 | 44,914 | - | 44,914 |
| **C. Total equity** | **1,697,741** | **1,697,741** | **-** | **1,751,188** | **1,751,188** | **-** |
| D. Total liabilities and equity | 15,918,003 | 15,838,812 | 79,191 | 15,913,650 | 15,826,085 | 87,565 |

# 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:

## Statement of financial position reconciliation as at 31 December 2015

### Assets

Items “Cash and deposits with the CNB” and “Deposits with banking institutions” are presented separately, in accordance with the CNB accounting requirements for banks, while in the statutory financial statements they are presented in “Loans and advances to banks” and “Cash and balances with the Croatian National Bank”.

The Treasury Bills of the Ministry of Finance and of the Croatian National Bank are presented separately, in the CNB schedules, while in the Statutory financial statements, they are presented in “Financial assets available for sale”. Securities and other financial instruments not actively traded and carried at FVTPL are presented separately in the CNB schedules, while in the statutory financial statements they are presented in “Financial assets at fair value through profit or loss”.

Foreclosed assets are presented separately, in accordance with the CNB accounting requirements for banks, while in the statutory financial statements they are presented in “Other assets”.

Deferred tax assets are presented within item “Interest, fees and other assets” in accordance with the CNB accounting requirements for banks, while in the statutory financial statements is presented separately.

Accrued interest and fees due and not yet due as well as intangible assets are presented in the CNB schedule in “Interest, fees and other assets”, while in the statutory financial statements 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, loans from financial institutions, other short-term and long-term loans and issued subordinated debt instruments are presented separately, while in the statutory financial statements they are presented in “Other borrowed funds”.

In the CNB schedules, balances on current and giro accounts, savings and term deposits are presented separately, while in the statutory financial statements they are included in “Amounts due to other banks” and “Amounts due to customers”.

In accordance with the CNB accounting requirements for banks, provisions and current income tax are included in “Interest, fees and other liabilities”, while in the statutory financial statements they are presented separately.

Accrued interest due and not yet due are presented in the statutory financial statements together with the related principal due and not yet due, while in the CNB schedule they are presented in “Interest, fees and other liabilities”.

According to the CNB accounting requirements for banks, the position of “Issued share capital” includes the share capital of the bank and the capital gain/loss on the share issue. In the statutory financial statements these items are in the positions “Issued share capital“ and “Share premium“. These positions also include the capital gain/loss from treasury shares, while in the CNB schedule it is presented in “Statutory and other reserves“.

In addition, according to the CNB accounting requirements for banks, the positions of “Current year profit/loss“ and the “Retained earnings/loss“ are presented in position “Retained earnings/loss“ in the statutory financial statements.

“Legal reserves“ are presented in a separate position in the CNB schedule, while in the statutory financial statements they are presented together with the statutory reserves in the position “Legal and statutory reserves“.

In the CNB schedule, the “Statutory and other reserves” include statutory reserves, other reserves originating from profit after tax, and tax on the items directly recognised or transferred from the equity. The position “Other reserves” in the statutory financial statements contains other reserves originating from profit after tax and the value adjustment of unrealised gain /loss from financial assets available for sale.

In the CNB schedule, the value adjustment of unrealised gain /loss from financial assets available for sale is presented as a separate position.

# CURRICULUM VITAE OF SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS

# Curriculum vitae of Supervisory Board Members

## *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.

# Curriculum vitae of Management Board Members

*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

# Retail offices and ATMs

**OTP banka Hrvatska d.d.**
Zadar, Domovinskog rata 3
Tel: + 385 (0) 72 201 555
Fax: +385 (0) 72 201 950
Swift: OTPV HR 2X
Web: www.otpbanka.hr
E-mail: info@otpbanka.hr

## GROUP

**OTP Invest d.o.o.**
Zagreb, Petrovaradinska 1
Tel: + 385 (0) 72 201 092
Fax: + 385 (1) 75 28 087
Web: www.otpinvest.hr
E-mail: info@otpinvest.hr

**OTP Nekretnine d.o.o.**
Zadar, Domovinskog rata 3
Zadar, Domovinskog rata 3
Tel: + 385 (0) 72 201 666
Fax: +385 (0) 72 201 967
Web: www.otpnekretnine.hr
E-mail: info@otpnekretnine.hr

**OTP Leasing d.d.**
Zagreb, Avenue Center,
Avenija Dubrovnik 16/V
Tel: + 385 (1) 66 66 700
Fax: + 385 (1) 66 66 701
Web: www.otpleasing.hr
E-mail: otpleasing@otpleasing.hr