CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Annual financial statements for 2015

Zagreb, March 2016

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HBOR

Hrvatska banka za
obnovu i razvitak

Annual Report
of the Croatian Bank for Reconstruction and Development Group
for 2015

March 2016

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HBOR

Hrvatska banka za obnovu i razvitak

STATEMENT OF PERSONS RESPONSIBLE FOR THE PREPARATION OF THE ANNUAL REPORT

To the best of our knowledge, the 2015 Annual Report includes a fair review of the development, operating results and position of the Croatian Bank for Reconstruction and Development and the Group, as well as a description of the principal risks and uncertainties to which the Croatian Bank for Reconstruction and Development and the Group are exposed.

President of the Managing Board	Member of the Managing Board	Member of the Managing Board
Dušan Tomašević	Martina Jus	Goran Filipić

Zagreb, 15th March 2016

MANAGEMENT REPORT FOR 2015

INTRODUCTION

The Annual Report includes the summary of financial information, description of operations and audited Annual Financial Statements with the Independent auditor's report for the year ended 31st December 2015. Revised Financial Statements are shown for the Croatian Bank for Reconstruction and Development Group and the Croatian Bank for Reconstruction and Development.

Legal status

The Annual Report includes the annual financial statements prepared in accordance with the International Financial Reporting Standards and the Accounting Act and audited in accordance with the International Standards on Auditing. The compliance of the Annual Report with the Annual Financial Statements has been confirmed by auditors, pursuant to Article 17 of the Accounting Act.

Exchange rate

For the purpose of converting amounts in foreign currencies into HRK, the following exchange rates of the Croatian National Bank have been applied:

31st December 2015	EUR 1 = HRK 7.635047	USD 1 = HRK 6.991801
31st December 2014	EUR 1 = HRK 7.661471	USD 1 = HRK 6.302107

Abbreviations

In the Annual Report, the Croatian Bank for Reconstruction and Development is referred to as the „Bank" or „HBOR", and the Croatian Bank for Reconstruction and Development Group as the „Group" or the „HBOR Group".

CIP	*Competitiveness and Innovation Framework Programme*
EAPB	*European Association of Public Banks*
EIB	*European Investment Bank*
EIF	*European Investment Fund*
ELTI	*European long-term investors association*
EUR	*Euro*
FGS	*Fondovi za gospodarsku suradnju (Economic Cooperation Funds)*
HAMAG BICRO	*Hrvatska agencija za malo gospodarstvo, inovacije i investicije (Croatian Agency for SMEs, Innovation and Investments)*
HANFA	*Hrvatska agencija za nadzor financijskih usluga (Croatian Financial Services Supervisory Agency)*
HNB	*Hrvatska narodna banka (Croatian National Bank)*
IDFC	*International Development Finance Club*
KfW	*Kreditanstalt für Wiederaufbau*
KN	*Kuna*

MSP	*Small and medium entrepreneurship/Small and medium-sized enterprises*
NEFI	*Network of European Financial Institutions for SMEs*
RH	*Republika Hrvatska (Republic of Croatia)*
Vlada RH	*Vlada Republike Hrvatske (Government of the Republic of Croatia)*

GENERAL INFORMATION

Establishment

HBOR was established on 12th June 1992 by the Act on Hrvatska kreditna banka za obnovu (HKBO). The Bank was renamed Hrvatska banka za obnovu i razvitak (Croatian Bank for Reconstruction and Development) by changes and amendments to the above Act in December 1995. In December 2006, the Croatian Parliament passed a new Act on HBOR, which came into force on 28th December 2006. On 15th February 2013, the Croatian Parliament passed the Act on Amendments to the Act on the Croatian Bank for Reconstruction and Development, whereby the Supervisory Board of HBOR was amended and increased by one member – the Minister of Regional Development and EU Funds, and now consists of ten members.

Hrvatska banka za obnovu i razvitak Group

HBOR is the parent company of the HBOR group that was formed in 2010. The Group consists of the parent company, Hrvatsko kreditno osiguranje d.d. (HKO d.d.) and Poslovni info servis d.o.o. (PIS d.o.o.).

Name	Role within the Group	% of participation	Headquarters	Business activities
Hrvatsko kreditno osiguranje d.d.	Subsidiary company, direct equity participation	100% HBOR	Republic of Croatia	Insurance for company's foreign and domestic short-term receivables, regarding shipments of goods and services
Poslovni info servis d.o.o.	Subsidiary company, indirect equity participation	100% Hrvatsko kreditno osiguranje d.d.	Republic of Croatia	Providing analysis, credit risk assessment and information on creditworthiness

Illustration of the Group structure

Strategic goals of the Bank

In its operations, and within the framework of its powers and authorisations, HBOR promotes systematic, sustainable and balanced economic and social development pursuant to the overall strategic goals of the Republic of Croatia.

Priority activity areas

- Promoting start-ups and the development of SMEs
- Promoting exports
- Developing tourism
- Financing innovation and development of new technologies
- Financing the development of agriculture
- Promoting the EU Funds utilisation
- Financing projects for environmental protection, energy efficiency and renewable energy resources

Breakdown of the most significant financial indicators over the period of five business years

- In HRK million – based on audited data

	2015	2014	2013	2012	2011
Total assets	25,552.8	25,786.0	26,168.2	25,767.2	22,012.9
Gross loans	24,722.8	24,721.4	24,941.6	24,107.0	23,005.9
Total equity	9,664.6	9,431.0	8,888.3	8,110.7	7,340.9
Total income	927.3	926.7	989.1	985.2	958.1
Total expense	(721.0)	(757.5)	(799.8)	(851.2)	(811.0)
Profit	206.3	169.2	189.3	134.0	147.1
Interest income	874.0	905.0	956.7	967.6	897.8
Interest expense	(474.5)	(490.1)	(520.9)	(555.8)	(563.9)
Net interest income	399.5	414.9	435.8	411.8	333.9

Audit

HBOR's separate and consolidated Annual Financial Statements for 2015 were audited by the auditing firm Ernst & Young d.o.o., which expressed its unqualified opinion in an independent auditor's report.

The auditing firm also expressed the opinion that financial information presented in this Annual Report comply with the mentioned financial statements for 2015 in all material respects.

Credit rating as at 31st December 2015

- Ba1 by Moody's
- BB by Standard & Poor's

Regional offices

- Regional office for Slavonia and Baranja
- Regional office for Dalmatia
- Regional office for Istria

- Regional office for Lika
- Regional office for Primorje and Gorski Kotar

Number of employees

On 31st December 2015, there were 342 employees in HBOR.

On 31st December 2015, there were 357 employees in HBOR Group.

CORPORATE GOVERNANCE

Compliance with laws and regulations and adherence to internal rules are the basis of responsible corporate governance and a necessary condition for sustainable business success. HBOR continuously monitors best practices in the field of corporate governance and integrates corporate governance principles in its operations pursuant to sound banking practices.

In accordance with the principles of public business, in the reporting period the financial statements of the Bank and the Group were published on the web sites of HBOR and the Luxembourg Stock Exchange. HBOR's annual financial statements on an unconsolidated and consolidated basis are confirmed by the Supervisory Board and submitted to the Croatian Parliament for approval. HBOR's rating is assessed annually by two international independent rating agencies (Standard & Poor's, Moody's). Pursuant to the Freedom of Information Act, HBOR submits a report on the implementation of this act to the Public Relations Commissioner.

In the reporting period, the duties, responsibilities and powers of the members of the Managing Board and the Supervisory Board were regulated by the Act on HBOR (Official Gazette of the Republic of Croatia, No. 138/06) and by the Act on Amendments to the Act on HBOR (Official Gazette of the Republic of Croatia, No. 25/13) and further elaborated in the By-laws of HBOR. The Managing Board and the Supervisory Board successfully co-operate through open discussions; the timely submission of thorough written reports to the Supervisory Board represents the basis for this co-operation. The Act on HBOR, the By-laws of HBOR and decisions made by the Supervisory Board determine the activities that HBOR may perform only with the prior consent of the Supervisory Board.

The Supervisory Board determines the principles of operating policy and strategy, supervises the business activities of the Bank, adopts HBOR's lending policies, adopts the Annual Financial Statements, and examines the Internal Audit reports and reports drafted by external independent auditors and by the State Audit Office. The Supervisory Board monitors and controls the legality of the business activities of the Managing Board, and appoints and dismisses the President and the members of the Managing Board. In the reporting period, the Supervisory Board consisted of ten members: six ministers in the Government of the Republic of Croatia, three Members of Parliament, and the President of the Croatian Chamber of Economy. In the reporting period, in addition to the Supervisory Board, the Audit Committee, which was established by the Supervisory Board pursuant to the Audit Act, was also active.

The Managing Board of HBOR consists of 3 members, one of whom is the President of the Managing Board. The Managing Board represents HBOR, conducts the Bank's business and administers its assets, and is obliged and authorised to undertake all actions and pass all resolutions it considers necessary for the legal and successful conduct of business. The powers of the Managing Board also include adopting normative acts that determine the manner of operations and the internal organisation of HBOR, adopting loan programmes, making individual loan approval decisions and decisions on other financial transactions, making decisions on the appointment and dismissal of employees with special powers, making decisions on the rights and obligations of employees, and reporting to the Supervisory Board.

For the purpose of ensuring efficient and effective risk management procedures and minimising the risk, the following bodies have been established adjacent to the Managing Board: Asset and Liability Management Committee, Credit Committee, Credit Risk Assessment and Measurement Committee, and the IT System Management Committee.

An internal control system is organised through independent organisational units:

- An independent organisational unit for risk management conducts the identification, measurement, assessment and management of all risks that HBOR is exposed or may be exposed to within the framework of its operations.
- HBOR's Internal Audit, as an independent organisation unit, is in charge of verifying the adequacy of risk management procedures and the internal control system, including risk control function and compliance function, as well as implementing the internal policies and procedures, and activities related to the prevention of money laundering.
- An independent compliance function organizes, coordinates and directs the activities concerning the compliance level of HBOR, advises on matters of compliance, controls measures taken to minimize compliance risk, incorporates information on compliance monitoring, identifies and assesses the risks of compliance and provides regular reports. The main tasks of the compliance function are to limit the non-compliance risk and its possible negative effects and ensure compliance of all business processes with the relevant regulations, and to promote the principles of ethical business.

The Code of Conduct of HBOR prescribes specific values and rules for the prevention of corruption and assurance of professional conduct, and provides for the possibility of filing a report on the grounds of violation of the Code. The report form, an e-mail address for filing reports and the description of the filing are available on HBOR's Internet and intranet sites. The person in charge of compliance monitoring reports annually on reports filed and initiates proceedings in respect of filed reports on the grounds of violation of the Code of Conduct. By the Code of Corporate Governance, the standards of corporate governance and the transparency of HBOR's operations for effective and responsible management of public capital, as well as the activities of special social significance for the development of the Croatian economy are established. In order to achieve the standard of corporate governance, HBOR's Code describes the relationships with governing bodies and stakeholders, as well as the adopted business principles aimed at mitigating the risks of operating in adverse market conditions.

DESCRIPTION OF OPERATIONS OF HBOR GROUP IN 2015

CROATIAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

In 2015, HBOR continued its operations with the aim to promote entrepreneurs' new investments, or to launch a new investment cycle, maintain and improve the liquidity of Croatian business entities. In 2015, HBOR supported 2,589 projects of Croatian business entities through lending, insurance of export receivables and issuing of guarantees in the total amount of HRK 12.4 billion. In comparison with the previous year, HBOR supported 127 percent more projects with a double amount.

ACHIEVED RESULTS

In 2015, lending activity was increased significantly: in the reporting period, 2,285 loans were approved in the total amount of HRK 7.8 billion, of which HRK 7.3 billion relates to newly approved loans, which is more than a double amount in 2014.

The number of approved loans is 2.5 times higher than the amount approved in 2014 and is the largest one in HBOR's operations so far.

During 2015, the volume of loans approved for investments in relation to those for working capital was increased. Out of the total funds approved, 82 percent was approved for capital investments, whereas for working capital 18 percent.

Structure of approved funds by purpose from 2010 to 2015

HBOR extends its loans either directly or via commercial banks. In 2015, the share of directly approved loans was increased to 57 percent. This increase indicates to the fact that HBOR, as the state development bank, continued to assume more risk, which resulted in increased interest of business entities for directly approved HBOR funds necessary for the financing and enhancement of operations, as well as the preservation of existing jobs. Furthermore, according to the data from investment studies on the basis of which loans in this period were approved, the number of newly employed persons in projects supported by HBOR is almost 3.3 thousand and is by 59 percent higher compared to 2014.

Through HBOR funds, projects were supported in the tourism sector, food and beverage industry, agriculture and fisheries, metal processing industry, production of chemicals and chemical products, wood processing and pulp industry, textile and leather industry as well as electrical industry.

Such indicators are a result of number of measures and programmes that HBOR introduced at the end of 2014 and during 2015.

NEW MEASURES AND PROGRAMMES

COOPERATION WITH COMMERCIAL BANKS AND LEASING COMPANIES

Framework loans and cooperation with leasing companies

For the purpose of increasing the availability of favourable loans, at the beginning of 2015 HBOR started to approve loans through framework arrangements with commercial banks and, as a novelty, to cooperate with leasing companies. In 2015, framework loan arrangements were concluded with 9 commercial banks, and cooperation was established with four leasing companies.

Increased margins to commercial banks

In order to encourage the cooperation with commercial banks and the approval of favourable HBOR loan funds to business entities, margins to banks were increased from one to two percentage points for loans approved to small and medium-sized enterprises. The increase in margin to commercial banks entirely burdens HBOR, so that final borrowers of funds do not suffer an increase in interest rates.

Continued implementation of the Risk sharing model with commercial banks

With the aim to encourage commercial banks to increase lending to business sector, HBOR continued the implementation of the Risk Sharing Model, where HBOR and the commercial bank share the risk of repayment of loan proceeds. For large investments (over HRK 9 million) HBOR assumes 50% of the risk and the bank assumes the other 50% for the total loan amount, collateralised in accordance with usual banking practices. For small and medium-sized enterprises, HBOR assumes 40% of the risk for the total loan amount, against a guarantee by HAMAG BICRO without additional security instruments, and a commercial bank assumes 60% of the risk for the total loan amount, collateralised in accordance with its internal regulations. During 2015, the possibility of approving loans for working capital under the Risk sharing model with commercial banks was introduced.

REDUCTION IN INTEREST RATES

For the purpose of enhanced assistance to Croatian business entities to recover from the economic crisis and initiate the economic cycle, HBOR has through several measures reduced its interest rates and in this way gave up a portion of its profit in favour of development of the economy.

Extended application of interim measure of lowering interest rates by one percentage point for new investments

Lowering of interest rates applies to financing new investments in agriculture and fisheries, tourism, industry, energy efficiency and environmental protection projects. Pursuant to this measure, interest rate under this measure can be 2, 3 or 5 percent p.a., depending on the size and former success of entrepreneur, and on the area of investment of loan funds approved until 31st December 2015. Loan repayment periods for such investments are up to 17 years, with a possible grace period of 2 to 5 years. At the end of 2015, this measure was prolonged until 30th June 2016.

Reduced interest rates for start-up exporters

Under the loan programme Pre- and Post-Shipment Export Finance the interest rate was reduced by two percentage points. Start-up exporters are defined as economic operators entering foreign markets for the first time ever, or entering for the first time a foreign market they have not tapped into so far, or introducing a new product and/or service on a foreign market where they are already present. Pursuant to the new changes, such interest rate can be retained by exporters at first revolving of the loan.

Reduced interest rates under the loan programme Economy

Former interest rate under the loan programme Economy was 2, 4 or 6 percent, depending on the area of investment, size and former success of the entrepreneur. During 2015, interest rate of 6 percent was abolished, so interest rate under this programme is currently 2 or 4 percent, or 3 percent if it is the case of an investment to which the interim measure of lowering interest rate is applied.

Prolongation of subsidising interest rates under the Start-Ups and the Youth Entrepreneurship programmes

The possibility of subsidising interest rates by the Ministry of Entrepreneurship and Crafts was prolonged under the mentioned programmes, so that the annual interest rate including the subsidy of the Ministry of Entrepreneurship and Crafts charged to final borrowers equals 2 percent instead of regular 4 percent.

NEW PROGRAMMES AND CHANGES TO THE EXISTING ONES

New loan programmes introduced to facilitate and encourage the absorption of the EU funds

The programmes are intended for public and private sector projects co-financed from the ESI Funds by financing both eligible and ineligible costs under separate tender procedures, which means that the loan funds can be used for financing a complete funding plan. Loan repayment period is up to 17 years and interest rate can be as low as 3 percent. Under these

programmes, lending through commercial banks makes it possible to accept the refund from the EU proceeds as own share in the percentage defined by the commercial bank. For such payment of refund out of the EU proceeds with the objective to reduce the principle, HBOR does not charge the prepayment fee.

Micro-loans with the EU support

The Guarantee Agreement was signed with the European Investment Fund under the CIP Programme, due to which the implementation of the new loan programme Micro-loans with the EU Support was initiated. Owing to the CIP Guarantee Agreement, the new loan programme has facilitated access to funding for micro-entrepreneurs as a result of significantly reduced collateral requirements. In other words, as security for loan repayment, the commercial bank accepts bills of exchange and debentures, and it can also request pledge on property purchased from the proceeds of the loan.

Financing the preparation of project documentation

In the preparation of investment projects, financing the costs of preparation of project and other investment documentation often poses a significant problem for entrepreneurs to complete their funding plan. Therefore, at the end of 2015, HBOR introduced a new loan programme in order to provide to entrepreneurs the funds necessary for the preparation of project and other investment documentation, to support the creation of a stimulating environment for investments and to promote indirectly the development of products and rendering of services intended for the realisation of an investment project. The proceeds of the loan are used for financing the preparation of a conceptual design, investment analysis, list of expenses, environmental impact assessment study, obtaining of zoning, building and occupational permits and other documentation required for the implementation of an investment project. The funds can also be used for the preparation of documentation for projects to be nominated for financing under the Investment Plan for Europe (The Junker plan).

New insurance programme for the collection of export receivables intended for low-volume export transactions and start-up exporters

As an additional measure of export promotion, HBOR adopted a new insurance programme for the collection of export receivables intended for exporters with annual export turnover of up to EUR 2 million and the delay of payment of up to 180 days, regardless of the country of foreign buyers. The Programme is intended for micro entrepreneurs, family businesses and start-ups that begin to sell their products and services in the foreign market, since there are no insurance products for such businesses in the private insurance market. Additional advantages of use of such insurance programme are simple manner of entering into contract, coverage of up to 95% of risk, minimum administrative obligations for the exporter, obtaining of indemnity from HBOR in a short period of time and favourable premium.

Possibility of direct lending under the Tourism and Exports – IBRD programmes introduced

So far, HBOR has financed working capital through commercial banks only, and pursuant to changes introduced during 2015, it is possible to use the direct lending model of HBOR for this purpose under the mentioned programmes.

SMALL AND MEDIUM-SIZED ENTERPRISES – THE MAJORITY BENEFICIARIES OF HBOR's FUNDS

Under all loan programmes, 2,147 loans were extended to small and medium-sized enterprises totalling HRK 3.2 billion, i.e. 94 percent of all approved loans. In comparison with 2014, 51 percent higher loan volume was approved to small and medium-sized enterprises, whereas 195 percent higher number of projects was approved.

In 2015, loans were extended to small and medium-sized enterprises under 26 HBOR loan programmes that are implemented either directly or via commercial banks and leasing companies. Cooperation with leasing companies that was introduced at the beginning of 2015 was particularly well accepted by entrepreneurs, and during 2015, 990 loans in the amount of almost HRK 300 million were approved via leasing companies to small and medium-sized companies. In 2015, 312 projects were supported via framework loans in the amount of HRK 326 million. The significant increase in the number of approvals was also due to the introduced programme Micro-loans with EU support, under which 277 loans in the amount of HRK 38.4 million were approved.

FINANCING OF PROJECTS CO-FINANCED OUT OF THE EU FUNDS

Promoting the use of available proceeds of the EU funds is one of HBOR's priorities. For instance, beside the introduced three new loan programmes that enable quality and favourable completion of the funding plan for EU projects, the recognition of 70 percent of EU grant funds as own share, and the possibility of completion of eligible but also non-eligible project costs or the completion of the entire funding plan of the investment, it is prescribed that the decision on the eligibility of financing must be made within 30 days from the receipt of the entire documentation. Financing is implemented either via commercial banks or through a direct placement on equal terms and conditions for the final borrower.

Under the programmes for the financing of projects co-financed out of the EU funds, in 2015 HBOR approved 53 percent more proceeds than in the previous year, i.e. HRK 706 million for co-financing 128 projects. The majority of projects co-financed out of the EU funds for which HBOR loans were extended relates to small and medium-sized enterprises.

Beside the loan programmes, HBOR offers the possibility of using an advance payment guarantee for its direct borrowers that plan to use an advance payment in their projects with the objective to plan the sufficient liquidity level for the entire project lifetime.

FINANCING OF PROJECTS RELATED TO INFRASTRUCTURE IMPROVEMENT

Directorate for the Public Procurement System gave the opinion that units of local and regional government are not obliged any more to implement a public procurement procedure for loan funds for investments of general interest. Such simpler manner of fund raising enabled a simpler and quicker process of loan implementation, less administration and costs relating to the implementation of public procurement procedure and finally, easier raising of favourable HBOR loan funds. In 2015, loans in the amount of HRK 2.1 billion were approved for projects related to infrastructure and environmental protection improvement, an increase of 156 percent compared to 2014, in which direct lending of HBOR for

infrastructure increased four times. Through these funds, various projects in local communities were supported – from the construction of kindergartens and primary schools to water supply and sewerage infrastructure.

ECONOMIC CO-OPERATION FUNDS

In the second half of 2010, by the Decision of the Government of the Republic of Croatia, HBOR was appointed a qualified investor for participation in the establishment of the Economic Co-operation Funds (ECFs), investing for itself and on behalf of the Government of the Republic of Croatia in each of the ECFs an amount equal to the amount invested in the ECF in question by private investors. The field of investment of ECFs are companies which have their headquarters in the Republic of Croatia and are active exclusively or predominantly in the Republic of Croatia. The envisaged duration of investment is 10 years with the possibility of a maximum extension of up to 2 years. The maximum investment obligation of the Government of the Republic of Croatia towards one ECF amounts to HRK 300 million.

ECFs were established and operated in accordance with the Investment Funds Act (Official Gazette of the Republic of Croatia, No. 150/05), as open-end investment funds of private venture capital. At the beginning of 2011, 5 ECFs were established which met all the prescribed requirements and obtained HANFA's (Croatian Financial Services Supervisory Agency) approval for operation. In July 2013, a new Act on Alternative Investment Funds (Official Gazette of the Republic of Croatia, No. 16/13) came into force, by which the operations of ECFs are prescribed.

Pursuant to the above, in 2014 the ECF management companies carried out the adjustment of former statutory documents, the Prospectus and the By-Laws of the Fund with the Act on Alternative Investment Funds and accompanying Ordinances prescribed by the HANFA regulatory agency.

In 2015, decisions on investment into four projects were made and three investments were implemented in the total amount of HRK 189 million, of which 50 percent relates to the share of the Republic of Croatia. For one investment, funds have not been disbursed yet. Funds were invested into companies active in the tourism and banking sectors. The total number of employees of the companies invested in was 1210.

INVESTMENT PLAN FOR EUROPE

Pursuant to the Decision of the Government of the Republic of Croatia dated 23rd September 2015 HBOR, as the national development bank was entrusted the key activities related to the implementation of the Investment Plan for Europe (The Juncker plan) in the Republic of Croatia.

In the implementation of the Juncker plan, HBOR cooperates with relevant state administration bodies, agencies and other legal entities with public authorities that appointed national coordinators for the support in the implementation of the Juncker plan.

Since the Decision of the Government of the Republic of Croatia and the adoption of the Plan of Activities by the HBOR Managing Board in December 2015, HBOR has initiated a

number of activities with the objective to familiarise domestic investors and key partners with the possibilities and terms and conditions of financing under the Juncker plan.

The respective activities can be divided into four main groups:

1. Activities related to the promotion and familiarisation of domestic stakeholders with the Juncker plan
2. Activities related to the detection of existing private and/or public projects in the Republic of Croatia in an amount exceeding EUR 50 million that can apply for a direct EIB loan under the Juncker plan
3. Activities related to the development of new products of HBOR and the utilisation of instruments available under the Juncker plan
4. Cooperation with EIB and EIF in view of terms and conditions of financing via Juncker plan.

HBOR AS EXPORT BANK AND EXPORT CREDIT AGENCY OF THE REPUBLIC OF CROATIA

By implementing its export finance programmes, HBOR contributes to the increase in competitiveness and value of Croatian exports and improvement of the recognisability and quality of Croatian products and services in the foreign markets.

Within the framework of its export promotion task, HBOR, through its loan programmes, issuing of bank guarantees at the request of an exporter and insurance of export receivables, provides support to exporters in all stages of an export transaction, starting from negotiations until the final payment for an export transaction. HBOR, as the Croatian export bank and export credit agency, developed a system of providing exporters with financial support as other export banks and export-credit agencies in order to provide Croatian exporters with equal competitive conditions in international markets.

Along with the programmes intended for export transactions exclusively, HBOR supports exporters through short-term and long-term credit lines on favourable interest rates. Investment loans are also available to exporters intended for expansion and modernisation of the production, construction of new plants, but also various loans for working capital that are not necessarily tied to export transaction exclusively. The utilisation of such funds is intended to increase the competitiveness of entrepreneurs, which is a precondition for the realisation of successful entry into foreign markets.

In 2015, Croatian exporters were backed by HBOR with the total amount of HRK 8.64 billion: under all loan programmes, exporters were approved 481 loans totalling almost HRK 4.2 billion, and through export credit insurance policies, export turnover insured amounted to HRK 1.35 billion and 48 bank guarantees at the request of exporters issued totalling HRK 2.9 billion. By issuing bank guarantees, HBOR provides support to Croatian exporters when contracting and performing export transactions, especially in cases when commercial banks are not in a position to support export transactions due to the fact that the exporter has reached its limit with them.

By introducing new export credit insurance policy for low volume exporters and start-up exporters and by lowering interest rate for new exporters for proceeds intended for the preparation of products and services for exports, HBOR adjusted its services to low volume exporters or entrepreneurs having an intention to export in order to encourage them and facilitate the internationalisation of their business operations.

EXPORT CREDIT INSURANCE IN 2015

Since 1998, the Croatian Bank for Reconstruction and Development as the Croatian export credit agency for and on behalf of the Republic of Croatia performs export credit insurance against non-market political and commercial risks with the objective to promote the Croatian exports, internationalisation and increase in competitiveness of the Croatian exporters in the foreign markets.

Export credit insurance activities include a number of insurance programmes through which HBOR can insure exporter's receivables for delivered goods and services to foreign buyers, financial loans for pre-shipment or financing buyers abroad, as well as bank guarantees issued for export transactions.

HBOR, as other export credit agencies in the European Union member countries, through its export credit insurance activities tries to support both exports of capital projects in the shipbuilding, energetics, telecommunications, electronic engineering and other sectors of importance for the national economy, and exports of small and medium-sized companies that contributes to additional employment, growth of the Croatian economy, the promotion of Croatian economic interests and internationalisation of Croatian exporters.

HBOR insures the collection of short-term receivables from buyers abroad to exporters, and provides the service of reinsurance of short-term export receivables to private credit insurers for risks that may not be insured in the private insurance market. Through this service, HBOR gives additional impetus to Croatian exports and supplements the lack of supply in the credit insurance market, simultaneously respecting the rules of market competition.

With the objective to provide a complete export credit insurance service, HBOR cooperates with foreign export credit agencies through its participation in the projects in which the Croatian exporters participate with their foreign partners in third markets.

By the Action Plan for the Period 2014 – 2015 adopted by the Government of the Republic of Croatia, HBOR was entrusted with certain activities and measures for the plan implementation. One of the mentioned measures within the framework of activities for the purpose of increasing the competitiveness is the continued issue of insurance policies under the programme for the insurance of bank guarantees issued for the purpose of winning or performing export contracts. Such policies represent one of the important security instruments for banks in order to encourage them to issue necessary guarantees for the conclusion of new, and the execution of the existing contracts of Croatian exporters.

Within the framework of the mentioned measure, in 2015 HBOR continued to support exporters through its Programme for the Insurance of Bank Guarantees, which is promoted in co-operation with commercial banks and HBOR's regional offices.

In 2015, HBOR provided insurance for the Croatian export turnover export in the amount of HRK 1.54 billion, an increase of 50 percent compared to the previous year.

In 2015, HBOR approved coverage to Croatian exporters and banks that support exporters in the total amount of HRK 815.03 million for newly contracted export transactions, of which the most important export transactions were realised in the markets of Monaco, Albania and the Netherlands. Total approvals monitored through the amount of sums insured is by 78 percent higher than compared to 2014.

The most important transactions of Croatian exporters supported by HBOR in 2015 through export credit insurance programmes:

- Construction of the largest sailing vessel in the world for the buyer from Monaco, with an insured sum of HRK 195.87 million under the Buyer Credit Insurance Programme
- Export of pharmaceutical products to the buyers in the Russian Federation, with the total sum insured of HRK 128.27 million under the Programme for the Insurance of Short-Term Export Receivables
- Construction of the transmission line Albania - Kosovo - Lot 1 for the buyer in Kosovo, with an insured sum of HRK 90.44 million under the Buyer Credit Insurance Programme
- Construction of a shallow excavator for the buyer from the Netherlands, with an insured sum of HRK 89.30 million under the Programme for the Insurance of Bank Guarantees for the Purpose of Winning or Performing Export Contracts
- Delivery of telecommunication equipment and services to the buyer in Cuba, with an insured sum of HRK 27.94 million under the Supplier Credit Insurance Programme.

Summary of results by export credit insurance transactions, comparison 2014/2015

Description	2014	2015
Total insured export transaction	HRK 1.02 billion	HRK 1.54 billion
Insurance premium paid	HRK 6.37 million	HRK 22.49 million
Total approved new insurance	HRK 457.45 million	HRK 815.03 million
Paid indemnities to insured parties	HRK 9.01 million	HRK 0.87 million
Recourse collections from debtors	HRK 0.98 million	HRK 0.07 million
Balance of the Guarantee fund as at 31 December[1]	HRK 276.7 million	HRK 310.80 million
Gross exposure as at 31 December	HRK 1.6 billion	HRK 1.86 billion

As at 31st December 2015, gross exposure of HBOR under export credit insurance transactions amounted to HRK 1.86 billion, i.e. an increase of 15 percent compared to 31st December 2014.

The rise in exposure in relation to the previous year is for the major part the result of insurance approvals under the programmes of medium-term and long-term insurance (supplier credit and buyer credit) totalling HRK 309.57 million.

[1] *The Guarantee fund proceeds serve for the performance of export credit insurance transactions, payment of indemnities, coverage of expenses to prevent the occurrence of loss and for the coverage of other expenses of the insurer in the implementation of export credit insurance programmes. The proceeds of the Guarantee fund consist of payments of the Republic of Croatia from the state budget, collected insurance premiums and recourse collected funds under indemnities paid.*

Exposure by year, in HRK billion

In 2015, HBOR through its export credit insurance programmes supported exports of Croatian goods and services to 50 countries.

Approved insurance in 2015, by countries

In the reporting period, the majority of risk coverage was approved for exports towards buyers in Monaco, the Russian Federation and the Netherlands.

INSURANCE PREMIUMS AND INDEMNITIES

In 2015, the total charged insurance premium under export credit insurance transactions amounted to HRK 22.49 million, which is a significant increase in comparison with 2014, when it amounted to HRK 6.37 million. The increase in insurance premium in 2015 is primarily a result of increase in approvals under the medium-term and long-term insurance programmes.

Premiums charged by type of insurance in 2014 and 2015, in HRK thousand

In 2015, 5 indemnities were paid to the insured parties totalling HRK 0.87 million, whereas in the previous year, 14 indemnities were paid totalling HRK 9.01 million. The total amount of indemnities paid in 2015 is by 90 percent lower than the amount of paid indemnities in 2014 and is the lowest amount of paid indemnities in the previous ten years of operations.

The indemnities paid in 2015 are the result of occurrence of the commercial risk of prolonged non-payment by buyers from Serbia, Bosnia and Herzegovina, Macedonia and Italy as well as the bankruptcy of a buyer from Ukraine. The mentioned payments of indemnities relate to the programme of insurance and reinsurance of short-term receivables collection.

The largest amount of indemnities paid in 2015 relates to the indemnities as a result of the bankruptcy of buyers from Ukraine and the non-payment by the buyer from Serbia, due to which HRK 0.71 million were paid, i.e. 81 percent of all indemnities paid in 2015.

SHORT-TERM INSURANCE AND RESINSURANCE OF EXPORT RECEIVABLES

In 2015, HBOR provided insurance of exports of consumer goods in the amount of HRK 918.81 million through its programmes of insurance and reinsurance of short-term export receivables, mostly for exporters engaged in the production of pharmaceutical products, glass package, aluminium products, wood products, and in wholesale trade. The largest export turnover with insurance coverage was realised for buyers in Serbia, the Russian Federation and Bosnia and Herzegovina. The insured turnover in 2015 recorded an increase of 17 percent compared to 2014.

Programme for the Insurance of Export Receivables for Exporters with Annual Export Turnover of up to EUR 2 million that was adopted at the end of 2014 was actively implemented during 2015. The Programme is intended for micro entrepreneurs, family businesses and start-ups that begin to sell their products and services in the foreign market, since there are no insurance products for such businesses in the private insurance market. Additional advantages of use of such insurance programme are simple manner of entering into contract, coverage of up to 95% of risk, minimum administrative obligations for the exporter, obtaining of indemnity from HBOR in a short period of time and favourable premium. In 2015, the total approved insurance amount under this Programme was HRK 5.95 million. Under the Programme, the export of the processing industry was supported for the major part (sanitary facilities, PVC package, other paper and cardboard products, wood products, printing industry etc.).

MEDIUM- AND LONG-TERM INSURANCE

For exports of capital goods and services in 2015, insurance limits in the amount of HRK 370.28 million were approved, which is a significant increase compared to 2014, when insurance limits amounted to HRK 36.75 million.

By the issuance of the insurance policy in the amount of HRK 195.87 million, the risk of repayment of loan to the foreign buyer was assumed, a world-known cruise company from Monaco. The loan was approved by the German KfW Ipex bank for the purpose of purchasing the largest sailing vessel that is built by the Brodosplit Group from Split.

By the insurance policy of HRK 90.44 million, the risk of repayment of loan approved to the buyer in Kosovo was assumed. The purpose of the loan is to finance the construction of the transmission line Albania - Kosovo - Lot 1 carried out by the Croatian exporter Dalekovod d.d.

INSURANCE OF PRE-EXPORT FINANCING LOANS

Through the programme for insurance of the pre-export financing loans, coverage in the amount of HRK 42.16 million was approved for 4 Croatian exporters for the purpose of pre-export financing. On the basis of the approved insurance, HBOR supported exporters in the shipping, textile, metal and IT industries. By the approval of insurance, banks were enabled to finance exporters in the stage of manufacturing goods for exports.

INSURANCE OF BANK GUARANTEES

In 2015, through insurance policies HBOR approved coverage to banks for issuing export bank guarantees in the total amount of HRK 204.39 million, an increase of 43 percent compared to 2014, of which the most important transactions were: construction of a vessel for the buyer in the Netherlands and the construction of two routes of the transmission line to the buyer in Norway. Besides, a prolongation of the guarantee insurance was approved for export transactions of the construction and equipping of a military hospital in Algeria and the construction of a transmission line in Norway.

SOME OF THE PROJECTS SUPPORTED

HBOR supported Brodosplit in the construction of the largest sailing vessel in the world

Original vessel "France II" from 1911

By issuing an insurance policy for the repayment of a loan portion, HBOR supported the Brodosplit Group in the project of construction of the largest cruise sailing vessel in the world for the company Star Clippers Ltd. from Monaco. The successful realisation of this contract with HBOR support will contribute to the sustainable operations of the Brodosplit Group and preservation of its basic activity, and will ensure the presence of Brodosplit on the rising market of sailing vessels and obtaining of important references.

HBOR and EIB provided funds for the development of Airport Dubrovnik

Contract signing with the representatives of EIB and Airport Dubrovnik

The development of Airport Dubrovnik is one of the most significant projects started in 2015. HBOR, in cooperation with EIB, provided EUR 32.5 million. Such projects are of special importance for Croatia because, beside the development of tourism, they have a long-term impact on the increase in employment, infrastructure improvement, further development of the region and finally, the quality of citizens' life.

HBOR supported the construction and equipping of Sheraton Dubrovnik Riviera hotel – one of the largest investments in the Croatian tourism

This is the largest investment in the national tourism supported by HBOR with a loan of HRK 270 million; the opening of the 5-star hotel will contribute to the strengthening of Dubrovnik on the list of top tourist destinations. Hotel has 239 modern rooms

and 11 apartments as well as a number of facilities that make it an attractive destination throughout the whole year. It also has one of the most up-to-date and largest congress centres in Croatia, and Spa and Wellness centre equipped in accordance with the highest standards. The hotel is built in accordance with the highest sustainability and energy efficiency standards and equipped with the most up-to-date systems in the field.

HBOR supported the construction of a tourist boat on the Danube river

HBOR supported the construction of a motor-boat with a capacity of 60 passengers by extending a loan of HRK 1.6 million. The boat is an excellent addition to Vukovar's tourist attractions and will revive historical attractions of cities along the Danube and the Drava rivers. It has been designed as a multimedia centre that will host a number of cultural events. Projects like this one affect directly the attractiveness of tourism, increase in employment and development opportunities.

"Bajadera" sailing on the Danube

Promotion of cattle breeding through the use of the EU grant funds

HBOR supported the project of the family farm Emina Burek for investment into the equipment for the construction of a dunghill that was nominated for a grant from the EU funds. Through the purchase of new equipment and modernisation of production, costs will be reduced, which will additionally affect the operations. Total amount of the investment is HRK 1.4 million, of which HRK 750 thousand has been financed by HBOR loan, whereas HRK 520 thousand are expected to be refunded from the EU funds.

Family farm Emina Burek

FUND RAISING: FAVOURABLE SOURCES OF FINANCE PROVIDED

In order to continue providing favourable funding for projects implemented by majority privately-owned companies that generate revenues from exports, HBOR entered into a EUR 50 million loan contract with Citibank, N.A., London Branch guaranteed by the International Bank for Reconstruction and Development in May 2015.

In June 2015, a EUR 40 million Finance Contract was signed with the European Investment Bank. The loan funds are earmarked for the financing of the Pula General Hospital construction, reconstruction and equipment project, which will contribute to the upgrading of health care services and health care standards as well as to efficient operations through the rendering of modern medical services. The project is planned to be implemented in the period from 2015 to 2018.

In October 2015, HBOR and the European Investment Bank entered into a EUR 10.5 million Finance Contract for the financing of the Dubrovnik Airport project. The objective of the project is to develop tourism in the area of Dubrovnik, alleviate congestion during peak traffic periods, implement environmental protection measures, improve energy efficiency and expand and upgrade airport facilities as required for the safe and smooth operation of the airport. The total value of the investment equals EUR 246.6 million.

RISK MANAGEMENT

Pursuant to the Act on HBOR, the Bank is obliged to reduce risks in its operations to the lowest level possible by applying the principles of banking operations. In the risk management process, the Bank continuously identifies, assesses, measures, monitors, controls and supervises risks it is or may be exposed to in its operations. The manner, procedures and frequency of measurements and assessments in risk management are prescribed by the Bank's general documents. In the Bank's day-to-day operations, credit risk, liquidity risk, interest rate risk in the banking book, currency risk, operational risk and outsourcing risk are managed through policies, procedures, methodologies, ordinances, limits and controls.

The Bank has a functionally and organisationally separate and independent organisational unit for controlling business risks that is directly responsible to the Managing Board. This organisational unit is responsible for the identification, assessment, measurement, supervision and control of risks the Bank is or may be exposed to in its operations. The Risk Management Unit performs its function also by analysing and giving suggestions and recommendations for adequate management of exposure to credit and non-credit risks, by developing risk-related policies, ordinances, procedures and methodologies, by recommending exposure limits and monitoring the adherence to the adopted exposure limits as well as by risk-related reporting to the Managing Board and the risk management committees.

When assessing and measuring risks, the Bank takes into account historical data, business plans, current and expected market conditions and specific features of the Bank as a special financial institution. The results of measurements/assessments and analyses conducted in the field of risks are reported to the risk management committees, the Managing Board and the Supervisory Board.

A system of limits has been established for the purpose of managing, monitoring and controlling credit risk, liquidity risk, interest rate risk in the banking book and currency risk. The Bank performs sensitivity analyses and scenario analyses by assuming changes in one or more risk factors in regular and stressful circumstances of operations and reports on the results of such analyses to HBOR's bodies in charge. Systems of proactive risk management are continuously developed for the purpose of mitigating potential future risks.

The Managing Board of HBOR is responsible for the implementation of the risk management strategy and for the establishment and implementation of an effective and reliable system for the management of all risks. For the purpose of accomplishing its function, the Managing Board has delegated its powers to four risk management committees:

- Asset and Liability Management Committee – manages liquidity risk, interest rate risk in the banking book and currency risk through the prescribed policies and procedures that regulate this area
- Credit Risk Assessment and Measurement Committee – manages credit risk through the prescribed policies, procedures and other internal documents that are related to credit risk
- HBOR Information System Management Committee – manages the resources of the information system and adequately manages the risks that arise from the use of information technology
- Business Change Management Committee – manages business changes (co-ordination of the procedures for the suggestion, approval, monitoring and implementation of business changes) in order to reduce the risks associated with the implementation of business changes.

The risk management strategy aims to achieve and maintain a good and efficient system of risk management in line with the local and international banking practices and the recommendations of the Croatian National Bank (HNB), the European regulations and the Basel Committee recommendations applicable to HBOR as a special financial institution.

Credit risk

The Bank controls credit risk through credit policies, ordinances and prescribed procedures that determine the internal control systems with an objective to act preventively.

HBOR's Managing Board conducts a conservative credit risk management policy. The credit risk management system represents the most important part of HBOR's business policy and an important factor of its business strategy. Therefore, this area is regulated by a separate document called the Credit Risk Management Procedures that applies to all phases of the credit process (from the development of new banking products, to loan applications, client monitoring and final loan repayments). The Credit Risk Management Procedures represent a comprehensive document comprised of separate methodologies aiming to evaluate various client target groups.

In order to mitigate credit risk and reduce operating costs, the Bank, in accordance with the HBOR Act, on-lends part of its placements via commercial banks that assume the risk of collecting repayments from final borrowers. Generally, all direct placements are secured by mortgages on immovable property, and, if possible, the Bank requires guarantees issued by HAMAG BICRO and also other types of guarantees and warranties. The Bank has determined the required ratio between placement value and collateral value according to the type of collateral, the loan programme, the general terms and conditions of security and the decision of the body in charge.

The Bank's development loan programmes cover the entire territory of the Republic of Croatia with a focus on the areas of special state concern. Credit risk is diversified by geographical regions, activities, sectors and loan programmes. The Bank aims to prevent the excessive concentration of credit risk and, by providing more favourable terms and conditions and creating new loan

programmes (products), to promote the development of less developed regions of the Republic of Croatia in accordance with the state development strategy for individual activities.

Liquidity risk, currency risk and interest rate risk in the banking book

The Bank ensures quality management of liquidity, currency and interest rate risks in the banking book through the Asset and Liability Management Committee. The management of these risks implies a reduction of interest rate risk, currency risk and liquidity risk to the lowest possible level. The majority of the Bank's organisational units are included, directly and indirectly, in the operations of the Asset and Liability Management Committee in order to ensure a high-quality, integrated and comprehensive system for the management of these risks.

Liquidity risk

The basic concepts and principles for managing HBOR's liquidity risk are defined in internal documents as well as in the decisions and conclusions made by the Supervisory Board, the Managing Board and the Asset and Liability Management Committee.

For the purposes of managing liquidity risk, the Bank has established a system of limits. The Bank monitors and verifies that the limits are obeyed. It maintains the necessary level of liquidity reserves, continuously monitors current and planned liquidity and provides sufficient kuna and foreign currency funds necessary for the timely settlement of obligations and disbursements under committed loans and planned commitments. The Bank monitors and strives to achieve compatibility of the existing and planned placements and sources in terms of maturity. The Bank does not take deposits from citizens and is therefore not exposed to wide daily fluctuations in liquidity. The Bank monitors liquidity risk also through scenario analyses and sensitivity analyses both under regular business conditions and under stress. Early warning signals and procedures for liquidity crisis indication or occurrence are determined as well.

Interest rate risk in the banking book

The basic concepts and principles for managing the Bank's interest rate risk are defined in separate internal documents and in the decisions and conclusions made by the Managing Board and the Asset and Liability Management Committee. For the purpose of measuring and monitoring interest rate risk, the Bank analyses the interest rate gap. The interest rate gap is analysed with respect to specific periods in terms of possible changes in interest rates and it illustrates the sensitivity of the Bank to such changes in interest rates. Interest rates are elaborated in detail per currency, type and level of interest rates, and projections of developments in average weighted interest rates on the Bank's sources and placements are prepared. In addition to adjustment of interest rates applied on sources and placements, current market conditions and development projections for basic market indicators are also monitored.

Currency risk

The basic concepts and principles for HBOR's currency risk management are defined in internal documents as well as in the decisions and conclusions made by the Managing Board and the Asset and Liability Management Committee. The methods for the measurement/assessment, monitoring and management of currency risk have been established, the limits and procedures in the case of crisis indication or occurrence have been determined, and the reports necessary for overall currency risk management have been defined.

For the measurement of exposure to currency risk, the Bank monitors the open foreign currency position. In addition to the daily monitoring of the open foreign currency position and the preparing of its development projections, the Bank uses the VAR model as an auxiliary model for the purpose of assessing and measuring currency risk. The Bank regularly reports on the maximum possible losses under major currencies to the bodies in charge. Scenario analyses and sensitivity analyses are conducted both under regular business conditions and under stress.

Operational risk

The basic principles for operational risk management are determined in the umbrella document, the Operational Risk Management Policies. The system structure of management and responsibility has been set up, the approach to the calculation of capital requirements for operational risk has been defined and the reporting system has been established.

HBOR's Information System Management Committee has been formed with the task of monitoring and supervising IT system performance. Its purpose is to manage the IT resources by setting the appropriate level of efficiency and security of IT in order to provide, among other things, appropriate management of risks arising from IT technology utilisation. The supervision of the IT system security is covered by the IT system security control function. Within this function, a system for the management of business continuity has been set up.

Outsourcing risk

The Bank manages the outsourcing risk on the basis of internal documents that are in compliance with the regulations prescribed by the Croatian National Bank applicable to the Bank as a special financial institution. The internal documents that determine the management of this risk determine also the procedures for the outsourcing of activities, the rules for the management of relations with the service providers and the obligation to reduce the risk to the lowest level possible.

The Central records of outsourced activities have been established. Reports on materially significant outsourced activities are submitted to the Managing Board and the Supervisory Board of the Bank on an annual basis.

As at 31 December 2015, HBOR's total portfolio amounted to approximately HRK 33,114.2 million.
Of the total portfolio, 86.6% was classified into the risk category "A", 10.8% was classified into the risk category "B" and 2.6% into the risk category "C".
Approximately 13.4% of the total portfolio was classified into the risk categories "B" and "C" (the so-called "bad" portfolio), a decrease of 1.3 percentage points compared to 2014.

Having in mind the fact that the loans comprised 75% of the total portfolio, there was no significant difference in the quality of total portfolio and total loans. The loans classified into the risk categories "B" and "C" (the so-called bad or non-performing loans) represent 17.5% of total loans (a decrease of 0.7 percentage points compared to 2014).

CONTROL AND AUDIT

The Control and Audit unit is part of HBOR's supervision system. It is in charge of monitoring the overall operations on the basis of the principles of legality and HBOR's internal regulations by applying the internal audit standards. The organisational unit of Control and Audit carries out its tasks independently and determines the manner of operating and reporting as well as preparing its findings, opinions and recommendations on its own. It is administratively responsible to the Managing Board and functionally to the Audit Committee and the Supervisory Board of HBOR, to which reports are submitted quarterly/semi-annually. Based on the audit report and according to the recommendations of the Control and Audit unit, the Managing Board makes the necessary decisions to take corrective measures and activities. The 2015 audit findings together with the status of recommendations given and actions taken were submitted to the Managing Board, the Audit Committee and the Supervisory Board in accordance with the Control and Audit regular reporting scheme.

COMPLIANCE MONITORING FUNCTION

The function of monitoring compliance has been established as an independent and permanent function. Compliance monitoring activities include the identification and assessment of compliance risks to which HBOR is or might be exposed as well as the provision of advice to the Managing Board and other responsible persons on the manner of applying relevant regulations, standards and rules, including the information on the latest news regarding these issues.

The compliance monitoring function evaluates the impacts that the amendments to the relevant regulations will have on the operations of HBOR, it assesses the compliance of new products or new procedures with the relevant laws and regulations and with the amendments to the regulations, provides advice during the preparation of compliance-related training programmes and participates in the management of procedures pertaining to complaints and reported irregularities. The compliance monitoring function submits periodical reports to the Managing Board, the Audit Committee and the Supervisory Board of HBOR.

HUMAN RESOURCES

In 2015, HBOR was awarded the Employer Partner Certificate for continuous 10-year certification of the human resource management process. The Certificate is awarded by Selectio d.o.o. for excellence in human resource management. Continuous certification during the ten years shows that HBOR is on the right path to achieve its goals and that business processes have been created and are being implemented whilst maintaining the highest standards of the profession. In 2015, HBOR recertified its processes and remained the holder of the Certificate.

The goal of the human resource management process is to select quality employees and ensure permanent development of their potential and continuous upgrading of their competences as the only way to achieve excellence in work. Regular processes and activities related to the management of human resources cover the entire career of an employee in the organisation and provide support for the organisation in the area of key issues associated with human resources: employment, management of employees' goals and competences as well as development of employees' skills. After employment, that is carried out on the basis of clear selection criteria, new employees participate in in-house training programmes that are performed by in-house trainers who come from various organisational units with an objective of familiarising new employees with HBOR's activities and the Bank's overall culture. Success at work of all employees is periodically monitored, whereas individual interviews take place on an annual basis. Training and development of competences considered crucial in the activities that are performed by employees are organised through in-house workshops and through participation in individual programmes and trainings organised outside of the Bank that are specifically tailored and considered relevant for their respective jobs.

As at 31 December 2015, there were altogether 342 employees, of which 295, i.e. 86 percent, holding a university degree. The average age of employees was 41. The share of women in the total number of employees was 68 percent and the share of men 32 percent.

Organisational structure of HBOR

OTHER ACTIVITIES

In 2015, HBOR issued a public invitation seeking applications for the award of grants in four categories: the category of humanitarian and human rights protection, the category of culture, heritage and art, the category of environmental protection and the category of education and science. Almost 900 applications were received, of which 20 were supported by HBOR through the awards ranging from HRK 20 to 40 thousand.

In June 2015, HBOR published its sixth Social Responsibility Report, i.e. its report on the manner of and progress in the implementation of the UN Global Compact principles in the area of human rights, labour standards, environment and anti-corruption.

Regional offices

In 2015, regional offices were contacted by 3,622 clients or potential clients seeking information on loan programmes and activities of HBOR, and 62 percent of such contacts resulted in loan approvals.

Type of activities	Number
- Meetings with clients	145
- Meetings with banks	163
- Meetings with partner institutions (LG, HGK, HOK)	121
- Presentations	181
- Info days	42
- Workshops "In 7 Steps to a Loan"	24
- Trade fairs	22
- Client controls	155

International co-operation

HBOR pays special attention to the establishment and maintenance of successful relations with international financial institutions, development banks, export-credit agencies, associations and clubs such as the European Association of Public Banks (EAPB), the Network of European Financial Institutions for SMEs (NEFI), the Banking Association for Central and Eastern Europe (BACEE), the Prague Club, the United Nations Environment Programme Finance Initiative (UNEP FI), the UN Global Compact, the International Development Finance Club (IDFC), numerous bilateral chambers of commerce and, as an establishing member, the European Long Term Investors association (ELTI). Memberships of the above associations are a means for developing business and upgrading knowledge as well as for effectively exchanging best practices and specific expertise among members on fundamental business issues. In November 2015, HBOR hosted the 3rd annual ELTI General Assembly that gathered leaders of the European development institutions. In the margins of the General Assembly, a bilateral meeting was held between the high-ranked representatives of the European Investment Bank (EIB) and HBOR.

In 2015, in co-operation with the Ministry of Finance, activities were continued with regard to the provision of expert assistance to the Exports Credit Group set up by the Council of the EU. In addition, HBOR continued to strengthen the relations with the other government institutions that participate in the boosting of the Croatian exports such as the Ministry of Foreign and European Affairs, the Croatian Chamber of Economy, the Agency for Investments and Competitiveness, the Ministry of Entrepreneurship and Crafts and the Ministry of the Economy. For the purpose of promoting and supporting exporters, HBOR continued co-operation with the Croatian Exporters association, and for the purpose of encouraging the internationalisation of the economy, HBOR joined economic delegations to Russia, Turkmenistan, Slovakia and Kosovo.

In order to improve the competitiveness of the Croatian businessmen, increase exports and upgrade the conditions of business in general, focus was put on the co-operation with foreign embassies in the Republic of Croatia and on already successful co-operation with foreign chambers of commerce in the Republic of Croatia, where, in accordance with the needs of HBOR and Croatian businessmen, the representatives of HBOR participated in the activities of the

respective committees. Furthermore, HBOR increased its efforts in preparing Croatian diplomats for their visits to foreign countries, thus familiarising all participants in the export process with HBOR's products and services.

In October, the 14th International Conference on Export Promotion took place under the auspices of the Government of the Republic of Croatia. The Conference gathered more than 450 representatives of Croatian exporters, domestic and foreign institutions, banks and export-credit agencies who were given an opportunity to exchange knowledge and experience as well as create new contacts and establish co-operation. At the Conference, three workshops were held with an objective of supporting exporters in creating dialogues on issues of relevance for the strengthening of competitiveness and export potential of both themselves and of the entire economy. The workshops covered the following topics: "How to export successfully to the market of the European Union?", "Latest developments in the markets of the Middle East and the Maghreb" and "Strengthening of competitiveness: Juncker's plan for Croatia and other EU initiatives".

Public disclosure of activities

HBOR considers public disclosure of activities to be an important precondition for the credibility of its operations. Special focus is put on providing complete and understandable information to the public about its goals and about the measures for their attainment as well as about the results of its activities by simultaneously following the principle of bank secrecy. Therefore, through various forms of providing information, HBOR regularly informed the public about all its important activities in 2015. In the reporting period, HBOR published 21 press releases informing the public about the operations, attained results, new loan programmes and amendments to the existing ones. All business information can be accessed on HBOR's websites, except for the information subject to the bank secrecy provisions of the Credit Institutions Act. During the reporting year, 28 public procurement procedures were published in the Electronic Public Procurement Classifieds, whereas, since August 2010, all bidding announcements have been published on HBOR's websites: www.hbor.hr. In 2015, two requests for access to information pursuant to the Act on the Right of Access to Information were received.

HRVATSKO KREDITNO OSIGURANJE GROUP

HRVATSKO KREDITNO OSIGURANJE D.D. AND POSLOVNI INFO SERVIS D.O.O.

Hrvatsko kreditno osiguranje d.d. (hereinafter: HKO or the Company) is a joint-stock insurance company specialised exclusively in the insurance of short-term receivables (payment terms up to 1 year) arisen from the sale of goods or services among business entities. The insurance covers political and commercial risks.

In 2015, HKO offered the following insurance products: insurance of export receivables, insurance of domestic receivables and insurance of domestic factoring.

On 26 October 2010, HKO established Poslovni info servis d.o.o. By establishing this company, HKO started to operate as the Hrvatsko kreditno osiguranje Group (hereinafter: the HKO Group) and to prepare its consolidated financials. Within the Group, Poslovni info servis d.o.o. (hereinafter: PIS) is in charge of analysing and assessing credit risks relating to the insurance transactions.

As at 31 December 2015, there were 15 employees in the HKO Group, of which Hrvatsko kreditno osiguranje d.d. employed 12 and PIS 3. Fourteen employees of the HKO Group have a university degree and one employee has secondary school education.

Ownership structure

HKO is 100% owned by the Croatian Bank for Reconstruction and Development.

Management

Legal status, organisation and management of the Company, all other issues important for the operations of the Company as well as all harmonisation issues provided for in the Companies Act and the Insurance Act are determined by the Statutes of the Company.

Company management bodies:

Managing Board
Supervisory Board
Shareholders' Meeting

People authorised to represent

Managing Board

Edvard Ribarić, Chairman of the Managing Board
Ksenija Sanjković, Member of the Managing Board

Authorised Representative

Ružica Adamović

Supervisory Board of HKO

In 2015, the membership of the Supervisory Board of HKO was as follows:
Marko Topić, Chairman of the Supervisory Board
Ante Artuković, Deputy Chairman of the Supervisory Board
Marija Jerkić, Member of the Supervisory Board
Andreja Mergeduš, Member of the Supervisory Board

Poslovni info servis d.o.o.

In 2015, Ružica Adamović performed the function of the Manager of PIS.

HKO Audit Committee

The membership of the Audit Committee of HKO was as follows:
Marija Jerkić, Chairman
Andreja Sekušak, Deputy Chairman
Ante Artuković, Member

Reporting to the supervisory bodies

In 2015, the Company provided regular reports to the supervisory bodies on all relevant facts and changes in the Company pursuant to the Insurance Act, the regulations of the Croatian Financial Services Supervisory Agency and other regulations in force. The Company regularly met all requirements of the supervisory bodies in terms of control of operations and submission of the Company's data.

OPERATIONS IN 2015

In 2015, Hrvatsko kreditno osiguranje d.d. concluded 71 insurance contracts, of which 42 insurance contracts were related to the insurance of export receivables and 29 insurance contracts were related to the insurance of domestic receivables. A total of 2175 credit limits were covered by the insurance, i.e. 0.9 percent more than in the previous year. Within the total structure of limits, 1218 credit limits were related to domestic receivables, and 957 credit limits were related to export receivables towards 54 countries.

EXPOSURE BY COUNTRIES (ACCORDING TO LIMIT AMOUNTS) as at 31 December 2015

The total volume of insured transactions in 2015 amounted to HRK 3,684 million.
In 2015, the total charged premium amounted to HRK 12.17 million, an increase of 12.29 percent on 2014 when it stood at HRK 10.84 million.

In the reporting period, the Company paid 15 indemnities, of which 7 claims were finally liquidated. The total amount of paid indemnities amounted to HRK 2,208 thousand, whereas the amount of Company's recourse collection stood at HRK 21 thousand. Consequently, the Company's amount of total liquidated claims in 2015 equalled HRK 2,187 thousand. The paid indemnities were related to buyers in Austria, Azerbaijan, Italy, Hungary, Macedonia, Germany, Slovenia, Ukraine and Croatia. In 2015, the loss ratio stood at 42.82 percent.

INSURANCE BUSINESS INDICATORS

	2015	2014	2013
Volume of insured receivables (in HRK thousands)	3,684,431	3,129,108	2,669,971
Exposure as at 31 December (in HRK thousands)	1,398,478	1,260,637	902,035
Gross premium charged (in HRK thousands)	12,167	10,836	9,003
Paid indemnities (in HRK thousands)	2,208	2,505	3,110
Number of active limits as at 31 December	2,175	2,156	1,564

Acquisition costs, marketing costs, administration costs and other operating expenses of the HKO Group in 2015 amounted to HRK 6.2 million, whereas, at the Company level, they amounted to HRK 5.3 million.

The business year 2015 is the fifth full year of operations. Prior to consolidation with the parent's financial statements, the HKO Group recorded profit before taxes for the year in the amount of HRK 743 thousand, whereas 2014 ended with a profit of HRK 608 thousand.

As at 31 December 2015, the total assets of the HKO Group amounted to HRK 56.1 million, an increase of 10 percent on the previous year. As at 31 December 2015, the total capital amounted to HRK 36.9 million and technical reserves to HRK 8 million net.

PRINCIPLES OF FINANCIAL REPORTING

The HBOR Group prepares:

1. Separate financial statements of the parent company – Croatian Bank for Reconstruction and Development (HBOR), and
2. Consolidated financial statements that include HBOR and the companies under its control – subsidiary companies.

When preparing and presenting its annual financial statements, the HBOR Group applies the International Financial Reporting Standards (IFRS). Consequently, all data and financial statements for consolidation are prepared by the members of the Group in accordance with the IFRSs.

Financial statements are prepared and presented in order to provide information on the financial position, success in operations and changes in the financial position of HBOR and the HBOR Group in order to enable their users to make appropriate economic decisions.

Financial statements are prepared and presented for the purpose of making information available to their users on a regular basis regarding the financial position, success in operations and changes in the financial position of HBOR and the HBOR Group as well as for giving financial information about how the strategy of HBOR's Group is carried out.

For the purpose of financial reporting and disclosures, the HBOR Group applies the following principles:

- **Transparency in disclosure** in order to enhance its users' understanding of the presented information,
- **Consistency in presentation** within each reporting period and between reporting periods,
- **Simplicity in disclosure** in order to allow the users to gain an easier understanding of the financial position, business performance and changes in financial position, as well as to ease decision-making,
- **Focusing on legal requirements** in order to ensure compliance,
- **Application of the best presentation practices** appropriate to the Group's activities with respect to up-to-date international trends in financial reporting as well as market requirements.

OVERVIEW OF FINANCIAL PERFORMANCE IN 2015

The HBOR Group was formed in 2010. It consists of the Croatian Bank for Reconstruction and Development, as the parent company, and the subsidiary companies: Hrvatsko kreditno osiguranje d.d. and Poslovni info servis d.o.o., which constitute the Hrvatsko kreditno osiguranje Group.

The first consolidated financial statements prepared and presented by HBOR were those prepared for the year 2010.

The financial statements include both HBOR and the Group. The financial statements of the Group consist of the consolidated financial statements of HBOR and its subsidiaries. However, the separate, non-consolidated, financial statements of the parent company are also presented.

The separate and consolidated Annual Financial Statements of HBOR for 2015, which can be found enclosed, have been audited by the audit company Ernst & Young d.o.o. that expressed an unqualified opinion in the Independent Auditor's Report.

In the text to follow, an overview of the financial performance and operations is given separately for the Group and for HBOR as the parent company and the entity subject to this report.

OVERVIEW OF FINANCIAL OPERATIONS OF THE GROUP

Having in mind the size of the subsidiary companies and the volume of their operations compared with the operations of the parent company, their financial data in the first years of the Group are not significant so as to be particularly highlighted within the framework of the consolidated financial statements. Consequently, they do not have a material effect on the consolidated financial statements in comparison with the separate statements of HBOR as the parent company. The Hrvatsko kreditno osiguranje Group represents 0.2 percent of the parent company's assets.

BREAKDOWN OF THE MOST SIGNIFICANT FINANCIAL INDICATORS OF THE GROUP:

HRK million

	2013	2014	2015
Total assets	26,168.2	25,786.0	25,552.8
Gross loans	24,941.6	24,721.4	24,722.8
Total equity	8,888.3	9,431.0	9,664.6
Total income	989.1	926.7	927.3
Total expense	(799.8)	(757.5)	(721.0)
Profit	189.3	169.2	206.3
Interest income	956.7	905.0	874.0
Interest expense	(520.9)	(490.1)	(474.5)
Net interest income	435.8	414.9	399.5

Results of the Group

In 2015, the Group generated profit after tax in the amount of HRK 206.3 million. The recorded profit is by 22% higher as compared to the previous year, and the reasons are stated in the description of HBOR's financial performance.

Pursuant to the provisions of the Act on HBOR, the parent company is exempt from income tax and income tax liabilities arise exclusively from the activities of the other members of the Group.

In 2015, total income on consolidated bases amounted to HRK 927.3 million, whereas total expenses amounted to HRK 721.0 million.

In the structure of income of the Group, the largest portion, i.e. 94%, relates to interest income as a result of operation of the parent company.

The major part of total expenses, i.e. 66%, relates to interest expenses arising from the operations of the parent company.

The consolidated operating expenses in 2015 amounted to HRK 140.9 million and consisted of general and administrative expenses and other operating expenses.

There were 357 employees in the Group on 31 December 2015, whereas there had been 332 employees at the end of 2014.

Assets and liabilities of the Group

Total assets of the Group on consolidated basis amount to HRK 25,552.8 million, a decrease of 1% compared with the beginning of the year. The reasons for such tendency are stated in the description of HBOR's financial performance.

In the structure of assets, the major portion relates to the lending activities of the parent company, i.e. net loans account for 85% of total assets.

Total liabilities and total equity as of 31 December 2015 amount to HRK 25,552.8 million and out of this amount total liabilities amount to HRK 15,888.2 million, i.e. 62%.

In total liabilities and total equity of the Group, the major portion, i.e. 58%, consists of borrowings and bonds payable of the parent company.

At the end of the reporting period, total equity amounted to HRK 9,664.6 million and accounted for 38% of total liabilities and total equity of the Group.

*Financial assets at fair value through profit or loss, Assets held to maturity, Property, plant and equipment and intangible assets, Non-current assets held for sale and Other assets.

OVERVIEW OF FINANCIAL OPERATIONS OF HBOR

The following text gives an overview and description of the significant changes in financial position and operating performance in the reporting year.

Financial performance

In 2015, HBOR generated total income of HRK 917.1 million, expenses of HRK 711.9 million and profit in the amount of HRK 205.2 million. HBOR's profit generated in 2015 rose by HRK 36.9 million compared with the profit generated in 2014, i.e. 22%.

Higher profit in 2015 was mostly a result of a decrease in expenses of HRK 37.8 million. The circumstances that affected the financial result achieved in 2015 compared to the results generated in 2014 are:

- decrease in interest expenses of 15.6 million in relation to 2014,
- increase in net fee income of HRK 8.8 million comparing to 2014 due to stronger guarantee activity in 2015,
- increase in net foreign exchange gains and changes in fair value of HRK 22.8 million in relation to 2014,
- decrease in operating expenses of HRK 22.2 million in relation to 2014.

A detailed description of trends in given for each category separately in the following text.

Net interest income

Net interest income amounted to HRK 398.1 million, a decrease of 4% comparing to the previous reporting year.

Interest income amounted to HRK 872.6 million, a decrease of 3% in relation to prior reporting year. This trend is in the line with the projections and is mostly a result of several following circumstances:

- interest rate reduction measure implemented by HBOR since the beginning of 2012,
- extended loan repayment periods,
- recalculation of interest due to the restructuring of loans and pre-bankruptcy settlements,
- early repayments of loans in 2015.

Particular attention should be drawn to the fact that HBOR, through the measure of reducing interest rates for certain categories of final borrowers and investments in the last four business years, gave up a portion of its profits in order to provide support to Croatian business entities in crisis conditions.

Interest expenses amounted to HRK 474.5 million, a decrease of 3% compared with the previous reporting year mostly as a result of:

- high volume of early repayments of individual borrowings in 2013, 2014 and 2015 totalling HRK 5,326.4 million, and
- utilisation of special financial institutions credit lines under more favourable interest rates.

Considering the described trends in interest income and interest expenses characterised by a decrease in both categories of 3% in 2015 on 2014, net interest margin remained unchanged compared to the previous year and stood at 1.6%.

Net fee income

Net fee income amounted to HRK 18.4 million, an increase of 91% in relation to the previous year as a result of increased fee income from guarantee activities caused by a higher volume of guarantees issued.

In 2015, HBOR approved the volume of HRK 2,927.0 million in guarantees, whereas the volume of guarantees approved in 2014 stood at HRK 173.7 million.

Net gains/(losses) from financial activities

Net gains/(losses) from financial activities are comprised of net foreign exchange gains/(losses) on the principal amount of receivables and liabilities, net revenues or expenditures arising out of the loan contracts with embedded „call option", gains/(losses) arising out of value adjustment of assets stated at fair value through profit or loss and realised gains/(losses) arising out of assets available for sale.

In the reporting period, net gains from financial activities amounted to HRK 21.9 million, whereas, in the previous year, net losses amounted to HRK 0.9 million.

A breakdown of changes in the exchange rate of HRK against the EUR and the USD:

Note:

A = HRK appreciation Dec 31, 2015/Dec 31, 2014 D = HRK depreciation Dec 31, 2015/Dec 31, 2014

Foreign currency and foreign currency indexed assets and sources of funds are converted by HBOR into HRK equivalent value by applying the exchange rate of the Croatian National Bank valid at the reporting date.

Foreign currency revenues and expenditures are converted in accordance with the exchange rate at the transaction date. The resulting foreign exchange gains or losses are recorded in the Statement of Profit or Loss and Other Comprehensive Income in net figures.

Operating expenses

Operating expenses that include general and administrative expenses and other operating expenses stood at HRK 131.8 million, a decrease of 14% compared with the previous year.

The recorded trend is affected by one-off expenses arisen as a result of taking into direct relationship the debtors of Centar banka d.d. in bankruptcy and of the recalculation of restructured loans and pre-bankruptcy settlements as well as, to a lesser extent, of one-off expenses arisen as a result of the expiry of the terms of office of the previous members of the Managing Board that decreased by HRK 28.9 million in the reporting period.

There were 342 employees at the end of 2015 (317 employees at the end of 2014).

Impairment loss and provisions

In accordance with the regulations and internal acts, HBOR determines the amount of impairment loss and provisions and maintains it at the level it considers adequate for the coverage of possible future risks.

In the reporting period, net impairment loss remained at the level recorded in 2014 and stood at HRK 104.9 million. The impairment losses resulted from the assessment of risk inherent to the placements, mostly the placements to clients undergoing bankruptcy or pre-bankruptcy settlement

proceedings, the placements with recorded delays in the settlement of obligations and the restructured placements.

The following presents breakdown of the quality of portfolio:

	Dec 31, 2014		Dec 31, 2015	
	HRK million	Structure (%)	HRK million	Structure (%)
Total gross portfolio	**31,356.7**	**100**	**33,114.2**	**100**
out of which:				
- financial institutions	16,945.2	54	16,006.7	48
- direct borrowers	14,411.5	46	17,107.5	52
Total provisions	**2,994.8**	**100**	**3,075.3**	**100**
out of which:				
- financial institutions	587.4	20	500.1	16
- direct borrowers	2,407.4	80	2,575.2	84
Provisions/Gross portfolio	**10%**	**-**	**9%**	**-**

Significant changes in the financial position

Total assets of HBOR as of 31 December 2015 amounted to HRK 25,540.8 million, a decrease of 1% compared with the beginning of the year. The decrease in assets is mostly due to the maintenance of gross and net loans balance at the last year's level as well as to the loan repayments higher than the withdrawal of loan funds borrowed.

Cash on hand and deposits with other banks

As of 31 December 2015, cash on hand and deposits with other banks amounted to HRK 839.0 million representing 3% of total assets. This item decreased by 37% compared with the previous year as a result of reallocation of liquidity reserve funds into the financial instruments within assets available for sale.

Loans

Total net loans were retained at the last year's level and stood at HRK 21,745.8 million at the end of 2015, representing 85% of total assets.

Total balance of the gross loans amounts to HRK 24,722.8 million and stood at the previous year's level. It has to be emphasized that retaining of gross loans at the level of 2014 was due to the increase in investment loans' share in the total loans approved.

In 2015, HBOR's total lending activity amounted to HRK 7,793.4 million, being the second in volume since HBOR's establishment. Within the framework of the lending activity, investment loans accounted for 82% of total loans approved, whereas in 2014 investment loans accounted for 67% of total loans approved. Such trend affects the slower and the longer dynamics of loan utilisation and consequently the changes in the amount of total gross loan.

In 2015, balance of the gross loans to other customers increased by 10% compared with the beginning of the year mostly due to the disbursements of the approved loans within the loan programmes for tourism and infrastructure investments. Loans to financial institutions decreased by 8% compared with the beginning of the year due to reallocation of liquidity funds into other financial instruments and early repayments.

At the end of 2015, the ratio of gross loans approved through financial institutions and direct placements was 53% : 47%.

Assets available for sale

Assets available for sale were comprised primarily of liquidity reserve funds, further to which assets available for sale were comprised primarily of debt instruments and, to a minor extent, of investments into investment funds and equity instruments.

This item amounted to HRK 2,832.3 million, an increase of 14% compared with the beginning of the year due to the investments of available funds in treasury bills of the Ministry of Finance, investment funds in the Republic of Croatia and bonds of the Republic of Croatia as liquidity reserve instruments.

In 2015, investment in the following instruments of assets available for sale was made:

HRK million

Treasury bills of the Ministry of Finance	1,764.4
Bonds of the Republic of Croatia	424.4
Investments in investment funds in the Republic of Croatia	218.0
Total	**2,406.8**

Investment in subsidiary

This item relates to the investment in the company Hrvatsko kreditno osiguranje d.d. Zagreb, which was founded in 2010 with a 51% share in the equity of the company held by HBOR. The equity of the company amounts to HRK 37.5 million.

In 2012, HBOR acquired the remaining 49% share in the equity of the subsidiary Hrvatsko kreditno osiguranje d.d. through a purchase transaction and thus became the 100% owner of the company. The fee paid for the purchase of the 49% share in the company's equity amounted to EUR 2.3 million, and the payment was made in cash.

This represented a subsequent acquisition of a non-controlling interest and not a business combination and is accounted for as an equity transaction.

Total liabilities

At the end of 2015, total liabilities amounted to HRK 15,878.4 million, which represents 62% of total liabilities and total equity. The major part of total liabilities consists of HBOR's borrowings and bonds payable in the total amount of HRK 14,844.7 million.

Borrowings and bonds payable decreased by 2% compared with the beginning of the year due to orderly and early repayments. Total repayments in 2015 amounted to HRK 1,075.2 million, repayment of borrowings in the amount of HRK 848.3 million and repayment of bonds payable in the amount of HRK 226.9 million.

Of the above mentioned amount, on 15 September 2015, HBOR made an early repayment of principal of the KfW Loan Agreement signed on 18 December 2007 for the purpose of financing micro, small and medium-sized companies in the amount of HRK 35.4 million, together with interest in the amount of HRK 0.1 million.

In 2015, HBOR raised funds for specified purposes from special financial institutions as described in the above chapter: "Fund raising: favourable sources of funds provided".

Total equity

Total equity amounted to HRK 9,662.4 million, representing 38% of total liabilities and total equity.

Total equity is comprised of the capital and the guarantee fund. HBOR's capital is comprised of founder's capital contributed from the budget of the Republic of Croatia, retained earnings from the profits generated in the previous years, other reserves and profits for the current year.

In the reporting period, the amount of HRK 32.9 million was paid-in from the budget of the Republic of Croatia into the founder's capital, and the total amount of capital contributed from the budget of the Republic of Croatia amounted to HRK 6,500.0 million at the end of 2015. The remaining amount to be paid-in to the founder's capital up to the total amount of HRK 7,000.0 million set by the HBOR Act is HRK 500.0 million.

Pursuant to the provisions of the Act on HBOR, the entire profit of the reporting period of the Bank is allocated to reserves.

*Investments in subsidiaries, Property, plant and equipment and intangible assets, Non-current assets held for sale and Other assets.

Responsibility for the Financial Statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, which give a true and fair view of the state of affairs and results of Croatian Bank for Reconstruction and Development, Zagreb ("the Bank") and the Group for that period.

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

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

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

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and the Group and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Bank and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Irena Adžić-Jagodić

Irena Adžić-Jagodić

Accounting Division Executive Director

Dušan Tomašević

President of the Managing Board

Martina Jus

Member of the Managing Board

Goran Filipić

Member of the Managing Board

Zagreb, 15 March 2016

INDEPENDENT AUDITOR'S REPORT

To the owner of the Croatian Bank for Reconstruction and Development:

Report on the Financial Statements

We have audited the accompanying consolidated and separate financial statements ('the financial statements') of Croatian Bank for Reconstruction and Development (the 'Bank') and its subsidiaries (together, the 'Group'), which comprise Consolidated and Separate statement of financial position as at 31 December 2015 and Consolidated and Separate statement of comprehensive income, Consolidated and Separate statement of changes of equity and Consolidated and Separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (as set out on pages 53 to 187).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards as adopted in the European Union, 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.

Auditor's Responsibility

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

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

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

Building a better working world

Independent Auditor's Report (continued)

Opinion

In our opinion, the separate and consolidated financial statements as set out on pages 53 to 187 present fairly, in all material respects, the financial position of the Bank and of the Group as at 31 December 2015, their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

Report on Other Legal and Regulatory Requirements

Management Board of the Bank has prepared Annual report as set out on pages 4 to 49. The Management Board is responsible for the preparation of the Annual report in accordance with the Croatian Accounting Law and for its accuracy. Our responsibility is to perform procedures we consider necessary to reach a conclusion on whether the Annual report is consistent with the audited financial statements. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Bank and the Group. In our opinion, the accounting information presented in the Annual report of the Bank and the Group for the year 2015 is consistent, in all material respects, with the audited financial statements for that year which are presented on pages 53 to 187.

Other Matter

The financial statements of the Bank and the Group for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those separate and consolidated financial statements on 6 March 2015.

Zvonimir Madunić
Member of the Board and certified auditor

Ernst & Young d.o.o., Zagreb
Republic of Croatia
15 March 2016

Financial statements of the Group

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2015

(All amounts are expressed in HRK thousand)

	Notes	2015 HRK '000	2014 HRK '000
Interest income	3	873,997	904,966
Interest expense	4	(474,530)	(490,160)
Net interest income		**399,467**	**414,806**
Fee income	5	21,505	12,562
Fee expense	5	(659)	(650)
Net fee income		**20,846**	**11,912**
Net gains/(losses) on financial operations	6	22,281	(649)
Other income		9,506	9,175
		452,100	**435,244**
Operating expenses	7	(140,875)	(161,917)
Impairment loss and provisions	8	(104,799)	(103,979)
Profit before income tax		**206,426**	**169,348**
Income tax	9	(161)	(120)
Profit for the year		**206,265**	**169,228**
Attributable to:			
Equity holders of the parent		**206,265**	**169,228**

The accompanying accounting policies and notes are an integral part of this Statement of Profit or Loss.

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2015

(All amounts are expressed in HRK thousand)

	2015 HRK '000	2014 HRK '000
Profit for the year	**206,265**	**169,228**
Other comprehensive income		
Items that are not transferred subsequently to profit or loss:		
Unrealized actuarial gain/(losses)	135	(4,669)
Deferred tax – adjustment for previous period	-	(17)
Total items that are not transferred subsequently to profit or loss	**135**	**(4,686)**
Items that may be reclassified subsequently to profit or loss:		
Increase in fair value of assets available for sale	39,381	41,047
Decrease in fair value of assets available for sale	(38,841)	(13,807)
Net foreign exchange on available for sale equity instruments	(73)	115
Transfer of realized gains on assets available for sale to statement of profit or loss	(6,226)	(127)
Transfer of realized losses on assets available for sale to statement of profit or loss	72	1,069
Deferred tax – other comprehensive income	(42)	(134)
Total items that may be reclassified subsequently to profit or loss	**(5,729)**	**28,163**
Other comprehensive income after income tax	**(5,594)**	**23,477**
Total comprehensive income after income tax	**200,671**	**192,705**
Attributable to:		
Equity holders of the parent	**200,671**	**192,705**

The accompanying accounting policies and notes are an integral part of this Statement of Profit or Loss and Other Comprehensive Income.

Consolidated Statement of Financial Position

for the year ended 31 December 2015

(All amounts are expressed in HRK thousand)

	Notes	2015 HRK '000	2014 HRK '000
Assets			
Cash on hand and due from banks	10	482,950	128,789
Deposits with other banks	11	359,397	1,230,588
Loans to financial institutions	12	12,522,652	13,498,201
Loans to other customers	13	9,223,069	8,312,414
Financial assets at fair value through profit or loss	14	3,707	2,152
Assets available for sale	15	2,870,315	2,504,466
Assets held to maturity	16	1,451	1,470
Investments in associates	18	-	-
Property, plant and equipment and intangible assets	19	62,238	66,817
Non-current assets held for sale	20	21,715	34,227
Other assets	21	5,278	6,876
Total assets		**25,552,772**	**25,786,000**
Liabilities			
Deposits	22	236,636	182,896
Borrowings	23	11,478,087	11,604,820
Bonds payable	24	3,366,566	3,609,089
Other liabilities	25	806,939	958,172
Total liabilities		**15,888,228**	**16,354,977**
Equity			
Founder's capital	26	6,926,632	6,893,739
Retained earnings and reserves		2,475,862	2,306,634
Other reserves		43,283	48,877
Profit for the year		206,265	169,228
Total equity attributable to equity holders of the parent		**9,652,042**	**9,418,478**
Guarantee fund	27	12,502	12,545
Total equity		**9,664,544**	**9,431,023**
Total liabilities and total equity		**25,552,772**	**25,786,000**

The accompanying accounting policies and notes are an integral part of this Statement of Financial Position.

Consolidated Statement of Cash Flows

for the year ended 31 December 2015

(All amounts are expressed in HRK thousand)

	Notes	2015 HRK '000	2014 HRK '000
Operating activities			
Profit before income tax		206,426	169,348
Adjustments to reconcile to net cash from and used in operating activities:			
Depreciation		7,654	6,994
Income tax		203	271
Impairment loss and provisions		104,799	103,979
Accrued interest		(21,226)	23,945
Deferred fees		6,773	(198)
Operating profit before working capital changes		*304,629*	*304,339*
Changes in operating assets and liabilities:			
Net decrease/(increase) in deposits with other banks, before provision for impairment		879,939	(984,916)
Net decrease in loans to financial institutions, before provision for impairment		1,053,188	642,528
Net (increase) in loans to other customers, before provision for impairment		(1,074,727)	(439,471)
Net (gain) on financial assets at fair value through profit or loss		(83)	(30)
Net realized (gain)/losses on assets available for sale		(6,154)	942
(Increase) of discount in assets available for sale, assets held to maturity and bonds payable		(16,584)	(17,277)
Net (increase) in non-current assets held for sale		-	(383)
Net (increase)/decrease in other assets, before provision for impairment		(504)	8,156
Net increase in deposits from banks and companies		53,740	16,120
Net (decrease) in other liabilities, before provisions		(168,600)	(149,496)
Net cash provided by/(used in) operating activities		**1,024,844**	**(619,488)**
Investment activities			
(Purchase) of financial assets at fair value through profit or loss		(24,417)	(13,760)
Sale of financial assets at fair value through profit or loss		22,928	13,062
Net (purchase) of assets available for sale		(2,430,713)	(2,128,491)
Sale of assets available for sale		2,094,325	1,219,991
(Purchase) of assets held to maturity		-	(965)
Collection of assets held to maturity when due		-	1,071
Net (purchase) of property, plant and equipment and intangible assets		(3,075)	(8,597)
Net cash (used in) investment activities		**(340,952)**	**(917,689)**
Financing activities			
Increase in founder's capital		32,893	350,000
Increase in borrowings – withdrawn funds		769,062	2,507,475
(Decrease) in borrowings – repayments of principal		(848,277)	(3,136,291)
(Decrease) in bonds payable – repayment		(226,915)	(227,873)
Net cash (used in) financing activities		**(273,237)**	**(506,689)**
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(53,374)	39,645
Net effect		**(53,374)**	**39,645**
Net increase/(decrease) in cash and cash equivalents		357,281	(2,004,221)
Balance as of 1 January, before provisions		129,462	2,133,683
Net increase/(decrease) in cash		357,281	(2,004,221)
Balance as of 31 December, before provisions	**10**	**486,743**	**129,462**
Additional note - Operational cash flows			
Interest paid		481,715	460,622
Interest received		685,868	661,752

The accompanying accounting policies and notes are an integral part of this Statement of Cash Flows.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2015

(All amounts are expressed in HRK thousand)

	Founder`s capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Net profit for the year HRK '000	Total equity HRK '000
Balance as of 1 January 2014	**6,543,739**	**2,117,372**	**25,400**	**189,262**	**8,875,773**
Profit for the year	-	-	-	169,228	**169,228**
Other comprehensive income	-	-	23,477	-	**23,477**
Total comprehensive income	-	-	23,477	169,228	**192,705**
Capital paid-in from the State Budget (Note 26)	350,000	-	-	-	**350,000**
Transfer of profit 2013 to retained earnings	-	189,262	-	(189,262)	-
Balance as of 31 December 2014	**6,893,739**	**2,306,634**	**48,877**	**169,228**	**9,418,478**
Profit for the year	-	-	-	206,265	206,265
Other comprehensive income	-	-	(5,594)	-	(5,594)
Total comprehensive income	-	-	(5,594)	206,265	**200,671**
Capital paid-in from the State Budget (Note 26)	32,893	-	-	-	**32,893**
Transfer of profit 2014 to retained earnings	-	169,228	-	(169,228)	-
Balance as of 31 December 2015	**6,926,632**	**2,475,862**	**43,283**	**206,265**	**9,652,042**

The accompanying accounting policies and notes are an integral part of this Statement of Changes in Equity.

Financial statements of the Bank

Unconsolidated Statement of Profit or Loss

for the year ended 31 December 2015

(All amounts are expressed in HRK thousand)

	Notes	2015 HRK '000	2014 HRK '000
Interest income	3	872,609	903,566
Interest expense	4	(474,530)	(490,160)
Net interest income		**398,079**	**413,406**
Fee income	5	19,112	10,320
Fee expense	5	(659)	(650)
Net fee income		**18,453**	**9,670**
Net gains/(losses) on financial operations	6	21,868	(918)
Other income		3,520	4,248
		441,920	**426,406**
Operating expenses	7	(131,840)	(154,049)
Impairment loss and provisions	8	(104,852)	(104,014)
Profit before income tax		**205,228**	**168,343**
Income tax	2	-	-
Profit for the year		**205,228**	**168,343**
Attributable to:			
Equity holders of the parent		**205,228**	**168,343**

The accompanying accounting policies and notes are an integral part of this Statement of Profit or Loss.

Unconsolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015

(All amounts are expressed in HRK thousand)

	2015 HRK '000	2014 HRK '000
Profit for the year	**205,228**	**168,343**
Other comprehensive income		
items that are not transferred subsequently to profit or loss:		
Unrealized actuarial gain/(losses)	135	(4,669)
Deferred tax – adjustment for previous period	-	-
Total items that are not transferred subsequently to profit or loss	**135**	**(4,669)**
Items that may be reclassified subsequently to profit or loss:		
Increase in fair value of assets available for sale	37,754	40,052
Decrease in fair value of assets available for sale	(37,830)	(13,584)
Net foreign exchange on available for sale equity instruments	(73)	115
Transfer of realized gains on assets available for sale to statement of profit or loss	(5,819)	(24)
Transfer of realized losses on assets available for sale to statement of profit or loss	72	1,069
Total items that may be reclassified subsequently to profit or loss	**(5,896)**	**27,628**
Other comprehensive income after income tax	**(5,761)**	**22,959**
Total comprehensive income after income tax	**199,467**	**191,302**
Attributable to:		
Equity holders of the parent	**199,467**	**191,302**

The accompanying accounting policies and notes are an integral part of this Statement of Profit or Loss and Other Comprehensive Income.

Unconsolidated Statement of Financial Position

as of 31 December 2015

(All amounts are expressed in HRK thousand)

	Notes	2015 HRK '000	2014 HRK '000
Assets			
Cash on hand and due from banks	10	482,708	128,656
Deposits with other banks	11	356,351	1,213,434
Loans to financial institutions	12	12,522,652	13,498,201
Loans to other customers	13	9,223,069	8,312,414
Assets available for sale	15	2,832,323	2,483,134
Investments in subsidiaries	17	36,124	36,124
Investments in associates	18	-	-
Property, plant and equipment and intangible assets	19	62,083	66,533
Non-current assets held for sale	20	21,715	34,227
Other assets	21	3,751	4,329
Total assets		**25,540,776**	**25,777,052**
Liabilities			
Deposits	22	236,636	182,896
Borrowings	23	11,478,087	11,604,820
Bonds payable	24	3,366,566	3,609,089
Other liabilities	25	797,040	950,117
Total liabilities		**15,878,329**	**16,346,922**
Equity			
Founder's capital	26	6,926,632	6,893,739
Retained earnings and reserves		2,476,903	2,308,560
Other reserves		41,182	46,943
Profit for the year		205,228	168,343
Capital		**9,649,945**	**9,417,585**
Guarantee fund	27	12,502	12,545
Total equity		**9,662,447**	**9,430,130**
Total liabilities and total equity		**25,540,776**	**25,777,052**

The accompanying accounting policies and notes are an integral part of this Statement of Financial Position.

Unconsolidated Statement of Cash Flows

for the year ended 31 December 2015

(All amounts are expressed in HRK thousand)

	Notes	2015 HRK '000	2014 HRK '000
Operating activities			
Profit before income tax		205,228	168,343
Adjustments to reconcile to net cash from and used in operating activities:			
Depreciation		7,475	6,834
Impairment loss and provisions		104,852	104,014
Accrued interest		(21,089)	23,746
Deferred fees		6,773	(198)
Operating profit before working capital changes		*303,239*	*302,739*
Changes in operating assets and liabilities:			
Net decrease/(increase) in deposits with other banks, before provision for impairment		865,968	(991,289)
Net decrease in loans to financial institutions, before provision for impairment		1,053,188	642,528
Net (increase) in loans to other customers, before provision for impairment		(1,074,727)	(439,471)
Net realized (gain) on assets available for sale		(5,747)	1,045
(Increase) of discount in assets available for sale and bonds payable		(16,835)	(17,348)
Net (increase) in non-current assets held for sale		-	(383)
Net (increase)/decrease in other assets, before provision for impairment		(1,224)	7,668
Net increase in deposits from banks and companies		53,740	16,120
Net (decrease) in other liabilities, before provisions		(170,393)	(151,105)
Net cash provided by/(used in) operating activities		**1,007,209**	**(629,496)**
Investment activities			
Net (purchase) of assets available for sale		(2,406,810)	(2,116,711)
Sale of assets available for sale		2,086,420	1,217,491
Net (purchase) of property, plant and equipment and intangible assets		(3,025)	(8,487)
Net cash (used in) investment activities		**(323,415)**	**(907,707)**
Financing activities			
Increase in founder's capital		32,893	350,000
Increase in borrowings – withdrawn funds		769,062	2,507,475
(Decrease) in borrowings – repayments of principal		(848,277)	(3,136,291)
(Decrease) in bonds payable – repayment		32,893	(227,873)
Net cash (used in) financing activities		**(273,237)**	**(506,689)**
Effect of foreign currency to cash and cash equivalents			
Net foreign exchange		(53,385)	39,677
Net effect		**(53,385)**	**39,677**
Net increase/(decrease) in cash and cash equivalents		357,172	(2,004,215)
Balance as of 1 January, before provisions		129,329	2,133,544
Net increase/(decrease) in cash		357,172	(2,004,215)
Balance as of 31 December, before provisions	**10**	**486,501**	**129,329**
Additional note - Operational cash flows			
Interest paid		481,715	460,622
Interest received		684,330	659,938

The accompanying accounting policies and notes are an integral part of this Statement of Cash Flows.

Unconsolidated Statement of Changes in Equity
for the year ended 31 December 2015

(All amounts are expressed in HRK thousand)

	Founder`s capital HRK '000	Retained earnings and reserves HRK '000	Other reserves HRK '000	Net profit for the year HRK '000	Total equity HRK '000
Balance as of 1 January 2014	**6,543,739**	**2,119,402**	**23,984**	**189,158**	**8,876,283**
Profit for the year	-	-	-	168,343	**168,343**
Other comprehensive income	-	-	22,959	-	**22,959**
Total comprehensive income	-	-	22,959	168,343	**191,302**
Capital paid-in from the State Budget (Note 26)	350,000	-	-	-	**350,000**
Transfer of profit 2013 to retained earnings	-	189,158	-	(189,158)	**-**
Balance as of 31 December 2014	**6,893,739**	**2,308,560**	**46,943**	**168,343**	**9,417,585**
Profit for the year	-	-	-	205,228	**205,228**
Other comprehensive income	-	-	(5,761)	-	**(5,761)**
Total comprehensive income	-	-	(5,761)	205,228	**199,467**
Capital paid-in from the State Budget (Note 26)	32,893	-	-	-	**32,893**
Transfer of profit 2014 to retained earnings	-	168,343	-	(168,343)	**-**
Balance as of 31 December 2015	**6,926,632**	**2,476,903**	**41,182**	**205,228**	**9,649,945**

The accompanying accounting policies and notes are an integral part of this Statement of Changes in Equity.

1. General information

1.1. Group:

The Croatian Bank for Reconstruction and Development ("HBOR" or "the Bank") is the parent company of the Croatian Bank for Reconstruction and Development Group ("Group") that operates in the Republic of Croatia. The Group primarily performs banking activities and, to the lesser extent, insurance activities and credit risk assessment activities. These Financial Statements include unconsolidated and consolidated financial statements of the Bank and the Group.

The legal address of the Bank is Strossmayerov trg 9, Zagreb, Croatia.

The Group was formed in 2010, the Bank's subsidiary companies are Hrvatsko kreditno osiguranje d.d. and Poslovni info servis d.o.o. that constitute the Hrvatsko kreditno osiguranje Group ("HKO Group").

On 2 September 2014, pursuant to the decision of the Commercial court in Zagreb, HKO decreased the equity of the subsidiary for the purpose of covering losses from operations in 2010, 2011 and 2012, from the amount of HRK 2,000 thousand to HRK 1,800 thousand.

Further, by the decision of the Commercial court in Zagreb dated 5 Match 2015, the equity of Poslovni info servis d.o.o. was reduced from the amount of HRK 1,800 thousand to HRK 300 thousand in the register of companies by returning a portion of contribution to Hrvatsko kreditno osiguranje d.d.. This status change does not have an influence on the structure and mutual relations between the members of the Group.

Croatian Bank for Reconstruction and Development is the 100% owner of HKO.

The legal address of the HKO Group is Zagreb, Bednjanska 12.

As of 31 December 2015, the Group had 357 employees (31 December 2014: 332 employees).

1.2. Bank:

The Croatian Bank for Reconstruction and Development ("HBOR" or "the Bank") was established on 12 June 1992 under the Act on the Croatian Credit Bank for Reconstruction ("HKBO"). In December 1995, the Bank changed its name to Croatian Bank for Reconstruction and Development. The founder and 100% owner of HBOR is the Republic of Croatia.

The Republic of Croatia guarantees HBOR's liabilities unconditionally, irrevocably and on first call, without issuing any particular guarantee. The responsibility of the Republic of Croatia as guarantor for HBOR's liabilities is joint and unlimited.

With the Act on the Croatian Bank for Reconstruction and Development passed in December 2006, HBOR's founding capital was HRK 7 billion, the payment schedule of which is determined by the State budget.

As of 31 December 2015, there were 342 employees at the Bank (31 December 2014: 317 employees).

1. General information (continued)

1.2. Bank (continued):

1.2.1. Activities of the Bank:

The principal activities of the Bank comprise the following:

- financing of reconstruction and development of the Croatian economy,
- financing of infrastructure,
- promoting exports,
- providing support to the development of SMEs,
- promoting environmental protection, and
- providing domestic goods and services export insurance against non-market risks for and on behalf of the Republic of Croatia.

HBOR may perform other financial activities according to the decisions of the Government of the Republic of Croatia if, in their opinion, it is in the best interest of the Republic of Croatia.

1.3. Bodies of the Bank and the Group:

During 2015, the Supervisory Board members were as follows:

- Boris Lalovac, MSc, Minister of Finance – ex officio President of the Supervisory Board,
- Ivan Vrdoljak, Minister of Economy – ex officio Vice President of the Supervisory Board,
- Branko Grčić, Prof. DSc, Deputy Prime Minister and Minister of Regional Development and EU Funds,
- Tihomir Jakovina, Minister of Agriculture,
- Darko Lorencin, Minister of Tourism,
- Gordan Maras, Minister of Entrepreneurship and Crafts,
- Luka Burilović, President of the Croatian Chamber of Economy, ex officio Member of the Supervisory Board,
- Dragica Zgrebec, Deputy Speaker of the Croatian Parliament,
- Srđan Gjurković, MSc, Member of the Croatian Parliament,
- Ivan Šuker, Member of the Croatian Parliament.

Pursuant to the Act on Croatian Bank for Reconstruction and Development, the Supervisory Board consists of six ministers of the Government of the Republic of Croatia. The minister in charge of finances, the minister in charge of the economy and the minister in charge of regional development and EU funds are obligatory members of the Supervisory Board, whereas other three ministers are appointed to the Supervisory Board by the Government of the Republic of Croatia among the ministers in charge of tourism, agriculture, environmental protection and construction or entrepreneurship and craft. The Croatian Parliament appoints three members of the Supervisory Board and their permanent deputies among the members of the Croatian Parliament. The President of the Croatian Chamber of Economy is ex officio member of the Supervisory Board.

By the formation of the new government of the Republic of Croatia on 22 January 2016, the term of office of the members of the Supervisory Board expired.

1. General information (continued)

1.3. Bodies of the Bank and the Group (continued):

MANAGING BOARD

In 2015, members of the Managing Board were as follows:

- Dušan Tomašević, President of the Managing Board (since 23 March 2015),
- Vladimir Kristijan, President of the Managing Board (revoked from office on 22 March 2015),
- Martina Jus, Member of the Managing Board,
- Goran Filipić, Member of the Managing Board.

Audit Committee:

In 2015, members of the Audit Committee were as follows:

- Tihomir Domazet, Prof. DSc, President of the Audit Committee,
- Srđan Gjurković, MSc, Member of the Croatian Parliament, Vice President of the Audit Committee,
- Ante Artuković, Executive Director of HBOR's Analysis Division, Member of the Audit Committee.

1. General information (continued)

1.4. Current economic situation and its impact on the Bank

So far, the economic situation in the Republic of Croatia has not had a significant impact on the financial position and performance of the Bank. The Bank monitors closely the credit, liquidity, interest rate and foreign exchange risk on a regular basis. The highest exposure of credit portfolio is the one towards banks, which minimizes the level of credit risk due to strictly regulated banking sector by the central bank. However, in 2015, there is a tendency of increased direct exposures to other customers.

In 2016, positive trends are expected due to the forecasts of the expected GDP growth of 1.8%* in 2015 as compared to the previous year, according to the European Commission forecasts, further growth of 2.1%* is expected in 2016. However, the consequences of the economic situation will probably further impact certain industries (i.e. construction, processing industries, real estate sector) and the ability of some customers to meet their loan obligations.

For that reason, the Managing Board maintains its expectations for an increase in loan restructuring applications as it was the case during the last five business years. The initiation of pre-bankruptcy settlement procedures has been decelerated and in the forthcoming period their implementation is rather certain. The main objectives of the regulation related to the pre-bankruptcy settlements are to enable any debtor that became illiquid and/or insolvent to make financial restructuring, and to provide to creditors more favourable terms and conditions of settlement of their receivables than those that would have been realised if a bankruptcy procedure had been initiated against such debtor. However, in case of non-compliance with the pre-bankruptcy settlement procedures, there is a risk that new bankruptcies may occur, which might consequently influence the amount of provisions for impairment losses in 2016, including the evaluation of the collateral received.

It is to expect that mentioned would impact the operations of the banks in 2016, especially relating to their willingness to undertake the risks by taking into consideration the requirements of the extensive banking regulatory reform.

In 2016, HBOR will further implement financing through the risk sharing models with commercial banks started in 2012 in proportion 50% : 50% for large projects, and in proportion 60% commercial bank and 40% HBOR for small and medium-sized entrepreneurships, partially trying to mitigate potential procyclicality by the banking system. Due to mentioned trends there are expectations for the strengthening of the interest for and the implementation of these financing models in which HBOR shares direct exposure and bears risk towards the customer, together with the commercial bank.

The Bank has sufficient funds and high level of liquidity for financing planned loan activities, meeting obligations and liabilities and maintaining required level of liquidity.

** Source: European Commission web pages: Economic outlook for the Republic of Croatia dated 4 February 2016 – the commission publishes macroeconomic forecasts for the EU and member countries three times in a year – each spring (May), autumn (November) and winter (February). Such forecasts are prepared by the Directorate General for Economic and Financial Affairs (ECFIN).*

2. Summary of significant accounting policies

2.1. Accounting policies

Principal accounting policies applied when preparing these financial statements are summarized below. Accounting policies were consistently applied to all periods presented in these financial statements.

Basis of accounting

The Bank and the Group maintain their accounting records in HRK in accordance with Croatian law and the accounting principles and practices observed by financial institutions in the Republic of Croatia.

Statement of compliance

These consolidated and unconsolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by International Accounting Standards Board ("IASB") and endorsed by the EU.

Basis of financial statements presentation

The financial statements are prepared under the historical cost convention, with an exception of certain financial assets and financial liabilities that are measured and stated at fair value, as it can be seen in the following text:

items	Measurement basis
Financial assets at fair value through profit or loss	Fair value
Assets available for sale	Fair value

The financial statements are prepared on an accrual and a going concern basis.

Reporting currency

The financial statements of the Bank and the Group are prepared in Croatian Kuna (HRK) as the functional and reporting currency of the Bank and the Group.

Amounts presented are rounded to a nearest thousand, unless otherwise stated.

The effective exchange rate of HRK as of 31 December 2015 was HRK 7,635047 per 1 Euro and HRK 6,991801 per 1 United States dollar (31 December 2014: HRK 7.661471 per 1 Euro and HRK 6.302107 per 1 United States dollar), unless otherwise contracted.

Basis of consolidation

The financial statements include the Bank and the Group. The financial statements of the Group include the consolidated financial statements of the Bank and its subsidiary companies. Unconsolidated financial statements of the parent company are also stated.

Subsidiary companies

Subsidiary companies are all those companies that are controlled by the Bank.

Subsidiary companies are included into consolidated financial statements in accordance with the full consolidation method from the moment when the actual control is transferred to the Bank. The consolidation ceases from the moment they are sold or liquidated, i.e. from the moment when the control is lost.

2. Summary of significant accounting policies (continued)

2.1. Accounting policies (continued)

Basis of consolidation (continued)

Subsidiary companies (continued)

With the beginning of application of new definition of control according to IFRS 10 Consolidated Financial Statements, the Group made a re-assessment of control and relations within the Group. The scope and substance of control are unchanged in the context of new requirements and definitions.

Investments in subsidiary companies are stated at investment cost, i.e. in accordance with the cost method.

When preparing data and consolidated financial statements, the amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated, and intragroup balances and transactions, revenues and expenditures as well as unrealised gains and losses are eliminated in full.

The accounting policies of subsidiary companies are in line with those of the parent company in order to ensure comparability at the level of the Group.

The acquisition of subsidiaries is accounted by using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed and equity instruments issued in exchange for control over the acquiree. Acquisition costs incurred are expensed and included in operating costs.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent's ownership interests in them. Non-controlling interests in the net assets consist of the amount of those non-controlling interests at the date of the initial recognition of investment in the subsidiary company and the non-controlling interests' share of changes in equity since the date of acquisition of the interest. Losses incurred by a subsidiary company will be allocated between controlling and non-controlling interests even if losses exceed the non-controlling equity investment in the subsidiary.

Subsequent acquisition of a non-controlling interest is not a business combination and is accounted for as an equity transaction.

For measurement of changes in relative interests of the parent and non-controlling interest in the subsidiary on the date of acquisition, the Group used the approach of taking into account the proportionate share of the acquiree's identifiable net assets. The amount of positive movements in the parent equity is recognised in other reserves.

When the subsidiary company ceases to meet the criteria of this definition, and it has still not become an associated company, such investment will be recognized pursuant to the International Accounting Standard 39 – Financial Instruments: Recognition and Measurement from the date when the company ceases to be a subsidiary company. In such case, the carrying amount of investment shall be deemed an investment cost on initial measurement pursuant to IAS 39.

Associated companies

Associates are all those companies, in which the Group has directly or indirectly (e.g. through subsidiaries) a significant influence, i.e. is entitled to participate in decisions on the financial and operating policies of the investee, but does not have control of those policies. The Group has significant influence if holds, directly or indirectly 20 % or more of the voting power of the investee. In 2013 the Group aligned its accounting policies with the amended and newly adopted standards IAS 28 Investments in Associates and Joint Ventures and IFRS 10 Consolidated financial statements and re-assessed the existence and the level of the influence in the existing investments in associates. The existence and the level of the influence are unchanged.

2. Summary of significant accounting policies (continued)

2.1. Accounting policies (continued)

Basis of consolidation (continued)

Associated companies (continued)

Investments in associated companies are recognised using the equity method in the consolidated financial statements, i.e. at acquisition cost in the non-consolidated financial statements of the parent company.

Unrealized gains on transactions with associated companies are eliminated to the extent of the Group's interest in such companies. Unrealised losses are eliminated in the same way as unrealised gains, but only if there are no indications of investment value impairment.

The operating results of associated companies are included into the consolidated financial statements until the date when the investment in the company is sold, i.e. until the date when the parent company loses its significant influence over the related company.

When the associated company ceases to meet the criteria of this definition, such investment shall be recognised pursuant to the International Accounting Standard 39 – Financial Instruments: Recognition and Measurement from the date when the company ceases to be an associated company. In such case, the carrying amount of investment shall be deemed an investment cost on initial measurement pursuant to IAS 39.

Fair value measurement

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date in the principal or the most advantageous market under current market conditions.

Basic price is an exit price, regardless of whether that price is directly observable or estimated using another valuation technique.

At initial recognition, when an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price).

The fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

If another IFRS requires or permits an entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the Group shall recognize the resulting gain or loss in profit or loss unless that IFRS specifies otherwise.

For measuring fair value the Group is maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The Group selects inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability.

If an asset or a liability measured at fair value has a bid price and an ask price (e.g. an input from a dealer market), the Group uses the price within the bid-ask spread as the most representative of fair value.

2. Summary of significant accounting policies (continued)

2.1. Accounting policies (continued)

Fair value measurement (continued)

Pursuant to aforesaid, the carrying amounts of cash and balances with the Croatian National Bank approximately present their fair values.

The estimated fair value of deposits approximates their carrying amounts since all deposits mature up to 90 days.

Loans and advances to banks and other customers are presented net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. The interests subsidies that are recognized as deferred income in discounted amounts are presented within other liabilities are taken into account in estimating fair value. The fair value of HRK loans with one-way currency clause is assessed as described under the "Foreign currency transactions and foreign currency clause" paragraph.

The Bank's long-term borrowings have no quoted market price, and their fair value is estimated as the present value of future cash flows, discounted at interest rates in effect at the Statement of Financial Position date for new borrowings of a similar nature and with a similar remaining maturity. As the Bank's long term borrowings mostly bear variable interest, the Bank estimates that its carrying amount is reasonable approximation of fair value.

The fair value of bonds issued by HBOR on 31 December 2015 is stated in Note 24 and is presented by using level 2 inputs that are observable at Bloomberg service on the basis of mid-rate of Bloomberg Generic (BGN) prices.

BGN or Bloomberg Generic price is the simple average price that includes indicative prices and executable prices. The mid-rate is the average between the quoted "ask" price and the "bid" price.

The Group takes care of the fair value hierarchy presentation that comprises of three levels of inputs to valuation techniques used to measure fair value as follows:

	Level 1	**Level 2**	**Level 3**
Inputs:	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.	Unobservable inputs for the asset or liability or adjusted market inputs.

The Group discloses transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer occurred.

2. Summary of significant accounting policies (continued)

2.1. Accounting policies (continued)

Interest income and expense

Interest income and expense are recognized in the statement of profit or loss and other comprehensive income when earned or incurred. Interest income and expense are recognized in the statement of profit or loss and other comprehensive income for all interest-bearing instruments on an accrual basis using the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or on a shorter period, where appropriate. Interest income includes coupons earned on fixed income investments.

Loan origination fees, together with estimated related costs, are deferred and proportionally recognized as an adjustment to the effective yield on the loan over the term of loan.

Notional interest is recognized on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value and are recognized in the statement of profit or loss.

Fee and commission income

Fee and commission income is comprised mainly of fees receivable from companies for guarantees granted and other services rendered by the Group, together with commissions for managing funds for and on behalf of legal entities and fees for foreign and domestic payment transactions. Fees and commissions are generally recognized in the period when the related service is rendered.

Fees on issued financial/payment guarantees are deferred and are proportionally recognized and reported in the statement of profit or loss and other comprehensive income over the term of guarantee.

Fee and commission income of non-interest income character (loan management fees for and on behalf of other parties, payment transaction fees, other fees of non-interest type) are recognized in the statement of profit or loss as they incur.

Employee benefits

Pursuant to local legislation, the Group is obliged to pay contributions to the State Pension and Health Insurance Funds. This obligation relates to full-time employees and provides for paying contributions as certain percentages determined on the basis of the gross salary as follows:

	2015	2014
Contributions for state health insurance fund	15.00%	15.00%
Contributions for employment fund	1.60%	1.60%
Special contribution for employment of disabled persons	0.20%	0.20%
Contribution for health protection at work	0.50%	0.50%

2. Summary of significant accounting policies (continued)

2.1. Accounting policies (continued)

Employee benefits (continued)

The Group is also obliged to withhold and pay contributions from gross pay on behalf of the employees to the State Pension Fund and Mandatory Pension Fund.

The Group does not have pension arrangements separate from the state pension system of the Republic of Croatia. This system requires that current contributions by the employer be calculated as a percentage of current gross salary payments; these expenses are charged to the statement of profit or loss and other comprehensive income in the period the related compensation is earned by the employee. The contributions on behalf of employees and on behalf of the employer are charged to expense in the period to which they relate. The Group calculates and pays required personal income tax and surtax on personal income tax from gross salary for each employee.

The Group recognizes provisions for other liabilities towards employees when there is a contractual obligation or practice in the past based on which the obligation has arisen. Further, the Group recognizes the liabilities for accumulated vacation allowances based on unutilised vacation days as of the date of the financial statements.

Foreign currency transactions and foreign currency clause

Assets and liabilities expressed in foreign currencies are converted into HRK at the exchange rates quoted by the Croatian National Bank at the Statement of Financial Position date or at the contract exchange rates. Income and expense arising in foreign currencies are converted at the rate of exchange on the transaction date. The resulting foreign exchange gains and losses are recorded in the Statement of Profit or Loss and Other Comprehensive Income.

The Bank has assets originated in HRK and linked to a foreign currency with a one-way currency clause. Due to this clause, the Bank has the option to revalue the asset using a foreign exchange rate, if beneficial for the Bank valid as of the date of maturity, compared to the foreign exchange rate valid as of the date of origination of asset.

Changes arising from one-way currency clause contracts, based on which the value of receivables and liabilities denominated in a functional currency is changed with regard to the respective contract foreign currency (embedded derivatives – weighted exchange rate) imply changes in the fair value of embedded derivatives.

The Bank has assets originated in HRK that are linked to a foreign currency with two-way currency clause. These assets are translated to HRK as if they were originated in foreign currency.

The principal rates of exchange set forth by the Croatian National Bank and used in the preparation of the financial statements at the reporting dates were as follows:

31 December 2015	EUR 1 = HRK 7.635047	USD 1 = HRK 6.991801
31 December 2014	EUR 1 = HRK 7.661471	USD 1 = HRK 6.302107

2. Summary of significant accounting policies (continued)

2.1. Accounting policies (continued)

Taxation

Based on Article 9 of the Act on the HBOR, the parent company is exempt from income tax.

Income tax liabilities arise exclusively from the activities of the other members of the Group.

Income tax is charged on taxable profits in accordance with tax regulations and at the statutory tax rate.

Income tax expense is comprised of current and deferred tax. The amount of the income tax is reported in the statement of profit or loss and other comprehensive income except for the income tax that relates to the items that are recognised directly in equity and reserves when income tax is recognised in equity and reserves.

Current tax is the expected tax payable charged on the taxable amount of profits for the year by applying the tax rates in effect at the reporting date and all tax liability adjustments for previous periods.

The amount of deferred tax is calculated by applying the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities recorded for reporting purposes and the amounts used for tax calculation purposes. Deferred tax is calculated at the tax rates that are expected to apply on temporary differences when remunerated or settled in accordance with the valid regulations.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax liabilities are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefits will be realisable.

Deferred tax assets and liabilities are not discounted; they are recognised as long-term assets and/or long-term liabilities.

Cash and cash equivalents

For the purposes of the cash flows reporting, cash and cash equivalents comprise cash and current accounts with the Croatian National Bank and other banks less provisions for impairment and un-collectable amounts.

Financial instruments

Financial assets and financial liabilities presented in the Statement of Financial Position include cash and cash equivalents, debt instruments, trade and other accounts receivable and payable, long-term loans and leases, deposits and investments.

The Group classifies its own financial instruments into following categories:

- financial assets at fair value through profit or loss,
- available-for-sale financial assets,
- held-to-maturity financial assets,
- loans and receivables.

2. Summary of significant accounting policies (continued)

2.1. Accounting policies (continued)

Financial instruments (continued)

Financial instruments are classified into the above categories pursuant to the intention at acquisition. Classification of financial instruments at initial recognition and accounting principles of their measurement are prescribed by accounting policies brought by the Managing Board.

The principal difference among the categories relates to the measurement approach of financial assets and the recognition of their fair values in the financial statements that is described in the text below.

All securities held by the Group are recognized using settlement date accounting and are initially measured at cost and directly attributable transaction costs when investments are not recognised at fair value through the statement of profit or loss. The Bank does not make acquisitions of financial instruments and investments to attain gain from short term trading activities.

a) Financial assets at fair value through profit or loss

The above category is divided into two sub-categories: financial instruments held for trading purposes and those initially classified by the management into this category that are not traded actively.

Upon initial recognition, financial assets carried at fair value through profit or loss are accounted for and presented at fair value which corresponds to the quoted prices or amounts obtained by the application of acceptable valuation models. When measuring the fair value of shares in cash investment funds, the price that is applied is the price of the share in the fund as of a given date acquired from the investment fund management company. The Group includes unrealized gains and losses in 'Net gains/(losses) on financial operations'.

b) Available-for-sale financial assets

Assets available for sale are financial assets designated as available for sale or not classified as either held to maturity or carried at fair value through profit or loss or loans and receivables.

Financial assets classified as assets available for sale are provided for the purposes of maintaining liquidity reserves or for the purpose of placement of available funds until their further placement in long-term loans. In the available-for-sale assets portfolio, investments in long-term securities and in other financial instruments are recorded, as well as equity instruments with the intention to hold over 90 days that are held for an unlimited period and shares in investment funds that the Bank intends to held for a period of over 30 days.

Subsequent to initial recognition, available-for-sale financial assets are re-measured at fair value based on quoted prices or amounts derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt instruments is estimated using various valuation techniques including the use of present value of future cash flows and mathematical models, while the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer.

2. Summary of significant accounting policies (continued)

2.1. Accounting policies (continued)

Financial instruments (continued)

b) Available-for-sale financial assets (continued)

For available for sale assets, unrealized gains and losses arising from changes in fair value are recognized directly in other comprehensive income, until their disposal or impairment, at which time the realized gain or loss is included in the statement of profit or loss.

Impairment losses on assets available for sale are presented in the statement of profit or loss. If the fair value of an equity instrument subsequently increases, the increase will be recognized in other comprehensive income, and will not be subsequently reversed in the statement of profit or loss. Impairment losses recognized in statement of profit or loss for debt instruments are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition.

When a decline in the fair value of available-for-sale financial assets has been recognized in other comprehensive income and there is an objective evidence that the asset is impaired according to IAS 39 provisions, the cumulative loss that has been recognized in other comprehensive income shall be reclassified from other comprehensive income to statement of profit or loss as a reclassification adjustment, even though the financial asset has not been derecognized.

The objective evidence on impairment loss on certain investment in an equity instrument includes information on significant adverse changes with impact on the technological, market, economic or legal conditions of operation of the issuer and indicates that the cost of investment in debt instruments cannot be recovered.

Significant or prolonged decline in the fair value of investments into debt instruments below their cost is also an objective evidence of impairment.

Interest earned whilst holding available for sale instruments is accrued on a daily basis and is reported as 'Interest income' in the statement of profit or loss.

Foreign exchange gains/(losses) related to available for sale equity instruments held in foreign currency are recognized together with fair value gains and losses in other comprehensive income until the financial asset is sold. Foreign exchange gains/(losses) related to available-for-sale debt instruments in foreign currency are reported in the statement of profit or loss.

2. Summary of significant accounting policies (continued)

2.1. Accounting policies (continued)

Financial instruments (continued)

c) Held-to-maturity financial assets

Investments held-to-maturity are financial assets with fixed or identifiable payments and fixed maturities for which the Group has the intent and ability to hold to maturity. This portfolio generally comprises instruments issued for a period exceeding one year, such as bonds, bills of exchange etc.

Financial assets held to maturity are initially recognised at fair value, increased by transaction costs. After initial recognition, assets held to maturity are measured and stated at amortized investment cost, i.e. acquisition cost (nominal value of purchased securities increased/decreased by a discount/premium and transaction costs) adjusted by amortized discount/premium.

Interest earned is recognized as interest receivable on the date of settlement and is not HBOR's income.

The Group assesses on a regular basis whether there is any objective evidence that an investment held-to-maturity may be impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount, which is equal to the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When an impairment of assets is identified, the Group recognizes provisions through the statement of profit or loss under 'Impairment loss and provisions'.

d) Loans to financial institutions and other customers

Amounts paid-out by HBOR in providing funds directly to the borrower at drawdown are categorized as loans to customers and are carried at amortized cost derived from using the effective interest method and adjusted for possible impairment.

The amount of the subsidized interest provided for the final user under the Programme of Preferential Financing through HBOR's Loan Programmes is presented as deferred interest income in other liabilities and released over the term of the loan and is shown in the statement of profit or loss on a time basis during the repayment of the loan applying effective interest rate method.

All loans and advances are recognized when cash is paid-out to borrowers.

Provision for impairment is performed if there is objective evidence that HBOR will not be able to collect all amounts due. The Managing Board of HBOR determines the adequacy of the provision based upon analysis of various factors, the structure of the loan portfolio and past experience (see Note 31.2. Risk management – Credit risk).

2. Summary of significant accounting policies (continued)

2.1. Accounting policies (continued)

Financial instruments (continued)

d) Loans to financial institutions and other customers (continued)

The amount of the provision is the difference between the carrying and recoverable amounts of the balance outstanding, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the effective interest rate.

The loan loss provision is also assessed on portfolio basis covering losses where there is objective evidence that possible losses are present, specifically identified in components of the loan portfolio at the Statement of Financial Position date. These have been estimated based upon historical patterns of losses (in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate).

If there is no objective evidence that an impairment loss has been incurred, whether it is significant or not, the financial asset is classified into the group of assets with similar credit risk characteristics and all assets from this group are subject to joint estimation for the purpose of a collective evaluation of impairment. Contracted cash flows and historical loss experience for assets with similar credit risk characteristics are subject to collective evaluation of expected cash flows.

When a loan is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries of these loans are recognized in the statement of profit or loss and other comprehensive income.

Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets in the Statement of Financial Position under 'Loans to financial institutions'. Interest earned in the period from the purchase until the resale of the security is accrued on a daily basis and reported as 'Interest income' in the statement of profit or loss and other comprehensive income.

At the end of 2015, the Group's REPO deals amounted to HRK 606,930 thousand (31 December 2014: HRK 1,515,684 thousand) collateralized by securities in the amount of HRK 645,673 thousand (31 December 2014: HRK 1,616,159 thousand).

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are initially recognized and subsequently measured at acquisition cost. Depreciation is charged using the linear method, by applying the annual rates ranging from 3.03% to 33.3% to the cost of assets over their estimated useful lives.

2. Summary of significant accounting policies (continued)

2.1. Accounting policies (continued)

Property, plant and equipment and intangible assets (continued)

Estimated useful lives are as follows:

	2015	2014
	years	years
Buildings	33	33
Computers	3	3
Furniture and Equipment	5 - 8	5 - 8
Vehicles	3	3
Other assets and investments not mentioned	5	5
Intangible Assets	3 - 5	3 - 5

Depreciation is not charged on property, plant and equipment and intangible assets in the course of construction, until they are available for use. Repairs and maintenance are expensed in the statement of profit or loss and other comprehensive income as incurred. Expenditure that increases the future economic benefits of existing tangible and intangible assets (improvements) is capitalized.

Impairment of assets

An assessment of financial assets is made at the reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset and any impairment loss, based on the net present value of future anticipated cash flows including anticipated recoveries from guarantees and collateral instruments, discounted by the original effective interest rate, is recognized in the statement of profit or loss.

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the statement of profit or loss and other comprehensive income for items of property, plant and equipment and intangible assets carried at cost. The recoverable amount is the higher of an asset's net selling price and its value in use.

Non-current assets held for sale

Non-current assets held for sale consist of property, plant and equipment that the Group acquired in settlement of uncollected receivables. The Group expects that the carrying amount of these assets will be recovered principally through a sale transaction rather than through continuing use.

This category of assets is initially stated at fair value less estimated expected costs to sell.

The Group measures these assets at the lower of its carrying amount and fair value (determined by an independent assessor) less estimated expected costs to sell.

Depreciation on these assets is not charged.

2. Summary of significant accounting policies (continued)

2.1. Accounting policies (continued)

Non-current assets held for sale (continued)

The Bank recognises an impairment provision for any initial or subsequent partial write-off of these assets up to the fair value less costs to sell. It recognises a gain for any subsequent increase in fair value of assets less costs to sell up to the amount of cumulative impairment provision that has been recognised.

Impairment provisions are recognized in the statement of profit or loss and other comprehensive income, as well as gains/losses upon subsequent measurement and on sale of the non-current assets.

The cases in which due to more difficult circumstances of sale because of objective circumstances and events beyond the Bank's control, the sale will not be completed in the planned period, or the period necessary for the conclusion of sale should be prolonged even after the period of one year, and a decision of an authorised body on giving up the sale or the plan of sale has not been made, and the activities are further undertaken to find a buyer and there is enough evidence that the Bank has remained consistent with the plan of sale of such type of assets, do not exclude that the assets are still classified as non-current assets held-for-sale.

Bank's borrowings and bonds payable

Financial liabilities of the Bank and the Group arise from received loans and securities issued.

Financial liabilities are initially recognized at fair value, adjusted by transaction costs. After initial recognition, financial liabilities are measured at amortized cost determined using the effective interest rate method.

Financial liabilities are stated in the contracted currency translated to Kuna at the middle exchange rate of the Croatian National Bank, contract exchange rate or determined rate arising from business and financial transactions based on documentation.

The Group recognises interest expense related to borrowings and bonds payable in the statement of profit or loss.

Government grants

Interest for the borrowers qualifying for subsidized interest under the Programme of Preferential Financing through HBOR's Loan Programmes, the Financing Model for the Reconstruction and Modernisation of the Fishing Fleet, the Loan Programme for the Financing of Female Entrepreneurship and investments into entrepreneurial zones, the loans approved to young and/or start-up entrepreneurs is subsidized by the Republic of Croatia – the Ministry of Finance, Ministry of the Economy, the Ministry of Agriculture, the Ministry of Maritime Affairs, Transport and Infrastructure and the Ministry of Entrepreneurship and Crafts and the Environmental Protection and Energy Efficiency Fund during the entire loan repayment period.

The discounted amount of the interest subsidies provided for the final user is presented as deferred interest income in other liabilities and is recognized in the statement of profit or loss and other comprehensive income on a time basis during the repayment of the loan. Consequently, loans are measured at amortized cost by using interest rate without taking into account the effects of subsidies contributed by the State.

2. Summary of significant accounting policies (continued)

2.1. Accounting policies (continued)

Guarantees and other loan related commitments

In the ordinary course of business, the Bank issues financial guarantees, including letters of credit that are recorded off-balance sheet. Financial guarantee contracts are initially measured at their fair values. Subsequent to initial recognition, guarantees are measured at fair value at the higher of the amount of the obligation under the contract and the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Contingent liabilities under guarantees are, to the extent of 83%, collateralized by the guarantees and deposits or the liability was taken over by the Republic of Croatia. Letters of credit are entirely covered by deposits.

Provisions for commitments upon undrawn loans and issued guarantees are maintained at a level considered as adequate by the Managing Board in order to absorb potential losses.

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

Segment reporting

The Segment is a unique component of the Group and its operations are the supply of products or services (business segment) or the supply of products or services within a certain business environment (geographical segment) subject to unique risks and benefits, different from the ones in other segments.

The general format of business segments is based on the decision of the Managing Board and the stated segments are in line with financial statements which are prepared in accordance with the International Financial Reporting Standards.

The Group has identified three main segments: banking activities, insurance activities and other activities.

Since the Group predominantly operates in the Republic of Croatia, there are no secondary (geographical) segments.

Managed funds for and on behalf of third parties

The Bank manages significant assets for and on behalf of the Ministry of Finance, Ministry of the Economy, Ministry of Entrepreneurship and Crafts, Ministry of Maritime Affairs, Transport and Infrastructure, Ministry of Agriculture, Ministry of Regional Development and EU Funds, Environmental Protection and Energy Efficiency Fund, Vodovod i kanalizacija d.o.o., Split and the Croatian Agency for SMEs, Innovation and Investments ("HAMAG-BICRO"), that are used for the financing of reconstruction and development programmes.

These amounts do not represent assets of HBOR and are excluded from the Bank's Statement of financial position but are recorded separately from the Bank's operations.

Revenues and expense relating to this business activity are charged to third parties, and the Bank does not have other liabilities nor bears any risks. For services provided within the framework of some of the programmes, the Bank charges a fee, whereas other programmes are performed by the Bank free of charge (see Note 29).

2. Summary of significant accounting policies (continued)

2.1. Accounting policies (continued)

2.2. Significant accounting judgments and estimates

For the preparation of financial statements in accordance with IFRS's, the Managing Board is required to give estimations and make assumptions that influence the reported balances of assets and liabilities and to disclose contingent amounts of assets and liabilities at the date of financial statements, and present income and expense for the reporting period. As a result of uncertainties which inherent in business activities, some items in the financial statements cannot be measured with precision but can only be estimated. The procedure of estimation includes the judgements based on latest reliable information available at the reporting date, so that actual amounts may differ from those estimated.

The changes in accounting estimates are adjustments of the carrying amount of some assets or liabilities or the pattern of consumption during useful life arising through the estimation of the current situation and expected future benefits and obligations associated with these assets and liabilities.

The use of reasonable estimations is essential part of the preparation of financial statements and does not undermine their reliability.

The changes in accounting estimates occur if there are changes in circumstances based on which the estimation was based as a result of new information or more experience. The changes in estimates do not relate to prior periods and is not the correction of an error.

In the process of applying the Bank's accounting policies, the management has made judgments and estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

a) Fair value of financial instruments

If there is no active market for a certain financial instrument, or if for any other reason the fair value of financial assets and financial liabilities presented in the Statement of Financial Position cannot be reliably measured by the market price, the Group determines the fair value by using various valuation techniques including the use of mathematical models. The input data for these models are taken from other recognizable markets where possible, but if it is not possible, there is a certain degree of judgment required in determining fair values.

b) Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed in Note 2.1. Fair value measurement and 32 Fair value of financial assets and financial liabilities .

c) Loan impairment provisions

The Bank regularly monitors its loans and receivables to assess impairment. The Bank uses its experience of judgments to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are several available sources of historical data relating to similar borrowers.

Similarly, the Bank estimates changes in future cash flows using the data indicating an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

2. Summary of significant accounting policies (continued)

2.2. Significant accounting judgments and estimates (continued)

c) Loan impairment provisions (continued)

The management uses estimates based on the historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experience and judgment to adjust available data for a group of loans or receivables according to current market conditions.

d) Provisions for legal cases

The Group performs a risk classification of legal cases taking into consideration the legal basis of the claim, prior legal practice, opinions of relevant in-house lawyers, opinions of the outsourced attorneys and the Bank's own experience.

The Group makes provisions for legal cases in proportion with the total amount and estimated likelihood of not winning the case. In estimating provisions, the Bank takes into account the due legal process in the Republic of Croatia, which allows a multiple appeal procedure in certain cases.

Provisions for costs arising from initiated legal proceedings are reversed in the period in which legally valid sentence, arbitration award or settlement in the conciliation proceedings was made, pursuant to the procedures of monitoring legal cases against HBOR.

e) Provisions for retirement and jubilee benefits

In calculating provisions for retirement and jubilee benefits, the Group discounts expected future cash flows in respect of the liabilities, using discount rates that, in the opinion of the Bank's management, best represent the time value of the money.

Provisions for regular retirement and jubilee benefits are calculated and determined by a licensed actuary. Unrealised actuarial gains/(losses) arising from the calculation of provisions are stated within the framework of other comprehensive income so that net assets or liability may reflect the entire value of deficit or surplus planned.

2. Summary of significant accounting policies (continued)

2.3. Adoption of new and amended International financial reporting standards

The following amendments to IFRSs have been applied in the current year and have affected presentation and disclosures in these financial statements.

New and amended International Financial Reporting Standards effective in the reporting period with the assessment of impact on the financial statements:

- Annual Improvements 2010-2012 (effective for periods beginning not later than from the start of the first financial year beginning on 1 February 2015 or later, adopted in the European Union on 17 December 2014) – primary with a view to removing inconsistencies and clarifying wording pertaining to:
    - IFRS 2 Share-based Payment – definition of "vesting condition",
    - IFRS 3 Business Combinations – accounting for contingent consideration in a business combination,
    - IFRS 8 Operating Segments – aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets,
    - IFRS 13 Fair Value Measurement – measuring short-term receivables and payables,
    - IAS 16 Property, Plant and Equipment – proportionate restatement of accumulated depreciation application in revaluation method,
    - IAS 24 Related Party Disclosures – clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. The entity obtaining the services from the management entity shall disclose in its financial statements the costs arisen as a result of obtained management services.
    - IAS 38 Intangible Assets – revaluation method.
- Annual Improvements 2011-2013 (effective for periods beginning on or after 1 January 2015, adopted in the European Union on 18 December 2014) – primary with a view to removing inconsistencies and clarifying wording pertaining to:
    - IFRS 1 First-time Adoption of IFRSs – clarification of meaning of "effective IFRSs",
    - IFRS 3 Business Combinations – regulates the exclusion of joint ventures from the scope of this standard,
    - IFRS 13 Fair Value Measurement – extends the portfolio exception to all contracts accounted for within the scope of IFRS 9 / IAS 39,
    - IAS 40 Investment Property – clarifies the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when determining whether a specific transaction represents the acquisition of an asset or a business combination.

    The above amendments do not affect the financial statements of the Group.

2. Summary of significant accounting policies (continued)

2.3. Adoption of new and amended International financial reporting standards (continued)

New and amended International Financial Reporting Standards effective in the reporting period with the assessment of impact on the financial statements (continued):

- Amended IAS 19 Employee Benefits (effective for periods beginning not later than from the start of the first financial year beginning on 1 February 2015 or later, adopted in the European Union on 17 December 2014) – Defined Benefit Plans: Employee Contributions. The amendment permits the recognition of contributions from employees as a reduction of service cost in the period in which the related service is rendered if the amount of contributions is independent of the number of years of service or employment. This amendment does not affect the financial statements of the Group.
- New interpretation - IFRIC 21 Levies (effective for periods beginning not later than from the start of the first financial year beginning on 1 January 2015, adopted in the European Union on 13 June 2014). This interpretation relates to IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event, known as an obligating event. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Interpretation is applicable to all levies except outflows within the scope of other standards (e.g. IAS 12 Income Taxes) fines and other penalties due to law violation. This amendment does not affect the financial statements of the Group, and should such obligations arise, the Group shall appropriately apply the interpretation.

Below, an overview of adopted standards that are not effective in the reporting period is given. The Group shall apply standards that are applicable to its operations when they become effective.

a) *New and amended International Financial Reporting Standards that become effective after the reporting period and are adopted in the European Union:*

- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 23 November 2015) – Agriculture: Bearer Plants, amending the existing standard pertaining to the bearer biological assets. These amendments will not affect the Group after the initial application.
- Amendments to IFRS 11 Joint Arrangements (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 24 November 2015) amending the provisions of the existing Standard and clarifying accounting for acquisitions of interests in joint operations.

  The above amendments will not affect the Group after the initial application.

2. Summary of significant accounting policies (continued)

2.3. Adoption of new and amended international financial reporting standards (continued)

a) New and amended International Financial Reporting Standards that become effective after the reporting period and are adopted in the European Union (continued):

- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 2 December 2015) amending the existing Standard and clarifying acceptable methods of depreciation and amortization of long-term tangible and intangible assets. The Amendments aim to clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

  The above amendments will not affect the Group after the initial application

- Annual Improvements 2012-2014 (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 15 December 2015) – primary with a view to removing inconsistencies and clarifying wording pertaining to:

  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal,
  - IFRS 7 Financial Instruments: Disclosures
    - Servicing contracts – additional guidance pertaining to the application of paragraph 42C of IFRS 7 relating to servicing contracts,
    - Applicability of the amendments to IFRS 7 to condensed interim financial statements – no disclosures are required in condensed interim financial statements pertaining to the offsetting of financial assets and financial liabilities until required by IAS 34 Interim Financial Reporting.
  - IAS 19 Employee Benefits – Discount rate: regional market issue – high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid,
  - IAS 34 Interim Financial Reporting – Disclosure of information "elsewhere in the interim financial report" – clarifies the meaning of the term and its application.

  The Group shall consider possible effects of the above amendments in the light of its business model.

- Amendments to IAS 1 Presentation of Financial Statements (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 18 December 2015) – under the Disclosure Initiative. The amendments are design to serve as further incentive to companies by encouraging them to apply professional judgement in determining information to disclose in their financial statements and to clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

  The Group shall apply expert judgement in accordance with its business model.

2. Summary of significant accounting policies (continued)

2.3. Adoption of new and amended International financial reporting standards (continued)

a) New and amended International Financial Reporting Standards that become effective after the reporting period and are adopted in the European Union (continued):

- Amendments to IAS 27 Separate Financial Statements (effective for periods beginning on or after 1 January 2016, adopted in the European Union on 18 December 2015) allow the use of the equity method in separate financial statements to account for investments in subsidiaries, joint ventures and associates.

  The parent has aligned its accounting policies with the stated changes and amendments to IAS 27 that have been applied from 1 January 2016 onwards. Taking into account the Group's existing organisation and business model, these amendments does not and will not affect the financial statements.

b) New and amended International Financial Reporting Standards that become effective after the reporting period, and that have not been adopted in the European Union yet:

- IFRS 9 Financial instruments - in July 2014, the final wording of the new IFRS 9 Financial Instruments (effective for periods beginning on or after 1 January 2018, but has not been adopted in the European Union yet), that shall from the date of its effectiveness completely replace IAS 39 Financial Instruments: Recognition and Measurement, and contains requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting in general.

  Classification and measurement of financial assets and financial liabilities – all recognised financial assets that is currently within the scope of IAS 39, shall from the date of application of IFRS 9 be measured either at amortised cost or at fair value.

  Impairment – IFRS 9 introduces a new expected loss impairment model according to which the occurrence of a credit loss is no longer necessary to recognise impairment. The entities recognise the annual expected credit loss or the expected credit loss throughout the lifetime of a financial instrument, depending on whether the credit risk has increased significantly since initial recognition. Any measurement of expected credit losses shall reflect the probability of outcome, incorporate the time value of money and be based on reasonable and supportable information.

  Hedge accounting – IRFS 9 introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

  The Group shall not apply IFRS 9 in the period before its obligatory application. In the period until its application, the Group shall assess and quantify possible effects.

2. Summary of significant accounting policies (continued)

2.3. Adoption of new and amended International financial reporting standards (continued)

b) New and amended International Financial Reporting Standards that become effective after the reporting period and that have not been adopted in the European Union yet (continued):

- New IFRS 14 Regulatory Deferral Accounts – transitional standard (effective for periods beginning on or after 1 January 2016, but has not been adopted in the European Union yet) that refers to first-time adopters of IFRS currently recognising the deferral accounts in accordance with its previous generally accepted accounting principles, to enable them to continue so when they adopt IFRS. The disclosures are also prescribed identifying the nature of, and risk associated with, the rate regulation.

  The new IFRS shall not affect the Group after the initial application.

- New IFRS 15 Revenue from Contracts with Customers (effective for periods beginning on or after 1 January 2018 but has not been adopted in the European Union yet) establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. After its effective date, it will supersede the following standards and interpretations: IAS 18 Revenues; IAS 11 Construction Contracts; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the Construction of Real Estate; IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services.
  The core principle of IFRS 15 is for companies to recognise revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard establishes a five-step model framework that will be applied to revenues generated from contracts with customers irrespective of the type of transaction or activity as follows: identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognise revenues when (or as) the entity satisfies a performance obligation. However, the standard does not apply to financial instruments and other contractual rights or obligations within the scope of IAS 39 Financial Instruments: Recognition and Measurement, i.e. IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures, insurance contracts within the scope of IFRS 4 Insurance Contracts, and consequently it will not affect the Group after the initial application

- Amended IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (application deferred for an indefinite period) dealing with the sale or contribution of assets between an investor and its associate or joint venture in the way that, in a transaction involving an associate or a joint venture, the extend of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

  The Group shall apply the above amendments if such a transaction arises in the period after the start of the standard application.

2. Summary of significant accounting policies (continued)

2.3. Adoption of new and amended International financial reporting standards (continued)

b) New and amended International Financial Reporting Standards that become effective after the reporting period and that have not been adopted in the European Union yet (continued):

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures (effective for periods beginning on or after 1 January 2016 but have not been adopted in the European Union yet) - Investment Entities – provide an exemption from the consolidation with an objective of clarifying the requirements when accounting for investment entities and provide relief in particular circumstances.

  The above new IFRS will not affect the Group after the initial application.

- New IFRS 16 Leases (effective for periods beginning on or after 1 January 2019 but have not been adopted in the European Union yet) – sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions.

  The above new IFRS will not affect significantly the Group after the initial application.

3. Interest income

Interest income by borrowers:

	Group		Bank	
	2015	2014	2015	2014
	HRK '000	HRK '000	HRK '000	HRK '000
Public sector	72,478	65,060	71,392	64,274
State-owned companies	43,503	30,903	43,503	30,903
Foreign companies	5,100	2,924	5,100	2,924
Domestic companies	356,283	376,735	356,259	376,724
Domestic financial institutions	313,120	357,391	312,842	356,788
Foreign financial institutions	940	295	940	295
Penalty interest	23,616	9,871	23,616	9,871
Other	58,957	61,787	58,957	61,787
	873,997	**904,966**	**872,609**	**903,566**

Interest income by type of facility:

	Group		Bank	
	2015	2014	2015	2014
	HRK '000	HRK '000	HRK '000	HRK '000
Interest on loans				
- financial institutions	313,479	358,780	313,479	358,780
- other customers	510,699	504,875	510,699	504,875
	824,178	863,655	824,178	863,655
Investments in securities	48,582	40,325	47,444	39,515
Deposits	1,236	984	987	396
Due from domestic banks	1	2	-	-
	873,997	**904,966**	**872,609**	**903,566**

The difference between interest income and interest received or collected (see Statement of Cash Flows) mostly relates to the income in respect to interest subsidies inflows that are recorded upon payment. The discounted amount of the interest subsidies provided for the final user is presented as deferred interest income (see Note 25 Other liabilities) and is recognized in the statement of profit or loss and other comprehensive income on a time basis during the repayment of the loan. Interest income earned on this basis in 2015 amounts to HRK 162,451 thousand (31 December 2014: HRK 209,255 thousand).

Further, the difference between interest income and interest collected relates to the amount of loan fees and accrued interest. Loan fees are collected after origination of the loan, but their recognition in the statement of profit or loss and other comprehensive income is performed using effective interest rate method. Accrued interest is recognized in the statement of profit or loss and other comprehensive income on a time basis.

4. Interest expense

Interest expense by type of payee:

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Domestic financial institutions	10,655	16,856	10,655	16,856
Foreign financial institutions	463,875	473,304	463,875	473,304
	474,530	**490,160**	**474,530**	**490,160**

Interest expense by type of facility:

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Borrowings	289,793	293,908	289,793	293,908
Debt securities	184,737	196,252	184,737	196,252
	474,530	**490,160**	**474,530**	**490,160**

The difference between interest expense and interest paid (see the Statement of Cash Flows) mostly relates to the changes in the amount of the interest accrued in relation to the prior year and the amortization of discount for issued debt securities.

5. Net fee income

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Fee income:				
From issued guarantees	11,991	2,821	11,991	2,821
From managed funds for and on behalf of third parties	6,666	6,956	6,666	6,961
From payment operations	350	368	350	368
Reinsurance commission income	2,393	2,247	-	-
Other	105	170	105	170
	21,505	**12,562**	**19,112**	**10,320**
Fee expense	(659)	(650)	(659)	(650)
Net fee income	**20,846**	**11,912**	**18,453**	**9,670**

6. Net gains/(losses) on financial operations

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Net foreign exchange gains/(losses) on foreign currency assets:				
Cash on hand, accounts at banks and due from banks	(7,104)	2,874	(7,052)	2,759
Loans given to financial institutions and other customers	(31,227)	38,053	(31,227)	38,053
Financial assets at fair value through profit or loss	1	2	-	-
Assets held to maturity	(5)	3	-	-
Assets available for sale	(634)	1,653	(624)	1,625
Other	297	682	297	683
	(38,672)	43,267	(38,606)	43,120
Net foreign exchange gains/(losses) on foreign currency liabilities:				
Deposits	(1,842)	(3,351)	(1,842)	(3,351)
Borrowings and issued long-term securities	55,942	(40,439)	55,942	(40,439)
Other	616	786	627	797
	54,716	(43,004)	54,727	(42,993)
Net foreign exchange gains/(losses) on foreign currency assets and liabilities	16,044	263	16,121	127
Gains on assets at fair value through profit or loss and realized (losses)/gains on assets available for sale	6,237	(912)	5,747	(1,045)
Net gains/(losses) on financial operations	**22,281**	**(649)**	**21,868**	**(918)**

7. Operating expenses

Operating expenses can be shown as follows:

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
General and administrative expenses:				
Employee expenses	82,641	82,005	79,472	79,080
Depreciation	7,654	6,994	7,475	6,834
Administration expenses	12,750	9,394	12,519	9,190
Material and services	29,780	27,353	28,078	25,757
	132,825	125,746	127,544	120,861
Other expenses:				
Taxes and contributions	663	552	658	547
Other expenses	7,387	35,619	3,638	32,641
	8,050	36,171	4,296	33,188
	140,875	**161,917**	**131,840**	**154,049**

Other expenses of the Group presented contain changes in technical reserves:

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Change in the claims provision	3,373	578	-	-
Change in the claims provision, reinsurer's share	(1,892)	341	-	-
Expenses of insurance operations	**1,481**	**919**	**-**	**-**

The most significant part of provisions for losses relates to the IBNR provision, the method of calculation of which was changed as compared to the previous year. The expected loss quota method was used for the gross amount and for the reinsurance share. Further to this, this provision increased both in the gross amount and in the reinsurance share in comparison with the previous year.

8. Impairment loss and provisions

The provision for impairment losses on placements may be summarized as follows:

	Group		Bank	
	2015	**2014**	**2015**	**2014**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Impairment losses on cash on hand and due from financial institutions	3,120	(17,912)	3,120	(17,912)
Impairment losses on deposits with other banks	(8,702)	10,046	(8,702)	10,046
Impairment losses on loans to financial institutions	(81,637)	(102,040)	(81,637)	(102,040)
Impairment losses on loans to other customers and interest	162,645	226,252	162,645	226,252
Impairment losses on non-current assets held for sale	12,512	376	12,512	376
Impairment losses on assets available for sale	(807)	(2,338)	(807)	(2,338)
Impairment losses on other assets	248	98	270	206
Total increase in provision for impairment losses on assets	87,379	114,482	87,401	114,590
Provision for guarantees and commitments	20,809	(16,997)	20,809	(16,997)
Other provisions	(3,389)	6,494	(3,358)	6,421
Total increase/(decrease) in provision for guarantees and commitments and other provisions	17,420	(10,503)	17,451	(10,576)
Total increase of provisions	**104,799**	**103,979**	**104,852**	**104,014**

9. income tax

Based on Article 9 of the Act on the HBOR, the parent company is exempt from income tax. Income tax liabilities arise exclusively from the activities of the other members of the Group.

		Group
	2015	**2014**
	HRK '000	**HRK '000**
Recognised in the Statement of Profit or Loss		
Deferred tax income/(expenditure)	(161)	(120)
Income tax	**(161)**	**(120)**
Income tax reconciliation		
Profit/(loss) before tax	**1,197**	**1,004**
Income tax at 20% rate	(149)	(122)
Non-deductible expense	(34)	(34)
Tax-exempt income	22	36
Income tax recognised in the Statement of Profit or Loss	**(161)**	**(120)**
Recognised in the Statement of Profit or Loss and Other Comprehensive Income		
Deferred tax income/(expenditure)	(42)	(151)
Income tax recognised in the Statement of Profit or Loss and Other Comprehensive income	**(42)**	**(151)**
Deferred tax assets/(liabilities) throughout the year	**(203)**	**(271)**

10. Cash on hand and due from banks

	Group		Bank	
	2015 HRK 000	2014 HRK 000	2015 HRK 000	2014 HRK 000
Account with the Croatian National Bank	107,353	62,007	107,353	62,007
Due from domestic banks in foreign currency	900	90	900	90
Due from foreign banks in foreign currency	378,248	67,232	378,248	67,232
Due from domestic banks in HRK	242	133	-	-
	486,743	129,462	486,501	129,329
Provisions for impairment losses	(3,793)	(673)	(3,793)	(673)
	482,950	**128,789**	**482,708**	**128,656**

Due from foreign banks in foreign currency includes the amount drawn from a loan tranche approved by the International Bank for Reconstruction and Development (IBRD) under the credit line „Croatia Export Finance Intermediation Loan Project" and amounts to EUR 8,759 thousand (31 December 2014: EUR 3,759 thousand).

The movements in the provision for impairment losses on amounts due from banks may be summarized as follows:

	Group		Bank	
	2015 HRK 000	2014 HRK 000	2015 HRK 000	2014 HRK 000
Balance as at 1 January	673	18,585	673	18,585
Increase of provision for impairment losses on amounts due from banks	3,120	-	3,120	-
Release of provision for impairment losses on amounts due from banks	-	(17,912)	-	(17,912)
Balance as at 31 December	**3,793**	**673**	**3,793**	**673**

11. Deposits with other banks

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Deposits with foreign banks	305,402	1,149,221	305,402	1,149,221
Deposits with domestic banks	57,466	93,586	54,466	76,615
Accrued interest	239	193	193	10
	363,107	1,243,000	360,061	1,225,846
Provisions for impairment losses	(3,710)	(12,412)	(3,710)	(12,412)
	359,397	**1,230,588**	**356,351**	**1,213,434**

The movements in the provision for impairment losses on deposits with other banks may be summarized as follows:

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Balance as of 1 January	12,412	2,366	12,412	2,366
Increase of provision for impairment losses on deposits with other banks	-	10,046	-	10,046
Release of provision for impairment losses on deposits with other banks	(8,702)	-	(8,702)	-
Balance as of 31 December	**3,710**	**12,412**	**3,710**	**12,412**

12. Loans to financial institutions

Loans to financial institutions, net of provision for impairment losses, may be summarized as follows:

	Group		Bank	
	2015	2014	2015	2014
	HRK '000	HRK '000	HRK '000	HRK '000
Loans due within one year	3,596,750	4,691,797	3,596,750	4,691,797
Loans due in over one year	9,450,338	9,419,087	9,450,338	9,419,087
Accrued interest	14,043	19,819	14,043	19,819
Deferred recognition of loan origination fees	(66,533)	(68,311)	(66,533)	(68,311)
	12,994,598	14,062,392	12,994,598	14,062,392
Provisions for impairment losses	(471,946)	(564,191)	(471,946)	(564,191)
	12,522,652	**13,498,201**	**12,522,652**	**13,498,201**

In 2015, HBOR established cooperation with leasing companies (non-banking financial institutions) that is based on framework loans approved to leasing companies for the financing of small and medium-sized enterprises through financial leasing.

The movements in the provision for impairment losses on loans to financial institutions may be summarized as follows:

	Group		Bank	
	2015	2014	2015	2014
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as of 1 January	564,191	862,779	564,191	862,779
Increase of provision for impairment losses on loans to financial institutions	94,621	36,764	94,621	36,764
Release of provision for impairment losses on loans to financial institutions	(176,258)	(138,804)	(176,258)	(138,804)
Net foreign exchange gains/(losses) on provision for impairment losses	(1,055)	753	(1,055)	753
Provisions transferred from loans to other customers	-	307	-	307
Provisions transferred to loans to other customers	(9,553)	(197,608)	(9,553)	(197,608)
Balance as of 31 December	**471,946**	**564,191**	**471,946**	**564,191**

Transfer of provisions to loans to other customers relates to the transfer of provisions of Nava banka d.d. Zagreb in bankruptcy proceedings (in 2014, Centar banka d.d. Zagreb in bankruptcy proceedings) to final borrowers for placements taken over by HBOR into a direct creditor-debtor relationship.

12. Loans to financial institutions (continued)

Loans to financial institutions, net of provision for impairment losses, by purpose of the loan programme may be summarized as follows:

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Loan programme for reconstruction and development of the economy	3,244,064	3,755,781	3,244,064	3,755,781
Export financing	3,612,334	3,766,853	3,612,334	3,766,853
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	1,681,125	1,607,359	1,681,125	1,607,359
Loan programme for small and medium-sized enterprises	3,526,036	3,372,857	3,526,036	3,372,857
Loan programme for war-torn and demolished housing and business facilities	11,599	13,350	11,599	13,350
Other	971,930	1,594,684	971,930	1,594,684
Accrued interest	14,043	19,819	14,043	19,819
Deferred recognition of loan fees	(66,533)	(68,311)	(66,533)	(68,311)
	12,994,598	14,062,392	12,994,598	14,062,392
Provisions for impairment losses	(471,946)	(564,191)	(471,946)	(564,191)
	12,522,652	**13,498,201**	**12,522,652**	**13,498,201**

Average interest rates for total loans to financial institutions are stated at 1.22% (31 December 2014: 1.38%) and for loans under HBOR loan programmes excluding the liquidity reserve at 1.21% (31 December 2014: 1.37%).

Average interest rates reflect the ratio of interest income generated from the mentioned placements and average assets.

Item "Other" refers to reverse REPO agreements in the total amount of HRK 606,930 thousand (31 December 2014: HRK 1,515,684 thousand). The above placements are collateralized by securities in the amount of HRK 645,673 thousand (31 December 2014: HRK 1,616,159 thousand).

13. Loans to other customers

Loans to other customers, net of provision for impairment losses, may be summarized as follows:

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Domestic companies	8,721,759	8,219,652	8,721,759	8,219,652
State-owned companies	1,353,314	881,088	1,353,314	881,088
Public sector	678,730	666,361	678,730	666,361
Foreign companies	232,742	111,673	232,742	111,673
Non-profit institutions	5,972	12,201	5,972	12,201
Other	768,720	799,632	768,720	799,632
Accrued interest	69,086	55,397	69,086	55,397
Deferred recognition of loan origination fees	(102,098)	(86,982)	(102,098)	(86,982)
	11,728,225	10,659,022	11,728,225	10,659,022
Provisions for impairment losses	(2,505,156)	(2,346,608)	(2,505,156)	(2,346,608)
	9,223,069	**8,312,414**	**9,223,069**	**8,312,414**

The movements in the provision for impairment losses on loans to other customers may be summarized as follows:

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Balance as of 1 January	2,346,608	1,942,851	2,346,608	1,942,851
Increase of provision for impairment losses on loans to other customers and interest	333,586	418,453	333,586	418,453
Release of provision for impairment losses on loans to other customers and interest	(170,885)	(191,832)	(170,885)	(191,832)
Net foreign exchange gains/(losses) on provision for impairment losses	(3,244)	2,694	(3,244)	2,694
Collection of off-balance sheet receivables	(56)	(369)	(56)	(369)
Provisions transferred from off-balance sheet	56	369	56	369
Acquisition of immovable property	-	(6,827)	-	(6,827)
Write-offs	(10,462)	(16,032)	(10,462)	(16,032)
Provisions transferred to loans to financial institutions	-	(307)	-	(307)
Provisions transferred from loans to financial institutions	9,553	197,608	9,553	197,608
Balance as of 31 December	**2,505,156**	**2,346,608**	**2,505,156**	**2,346,608**

Provisions transferred from loans to financial institutions in the amount of HRK 9,553 thousand (31 December 2014: HRK 197,608 thousand) relates to the transfer of provisions of Nava banka d.d. Zagreb in bankruptcy proceedings (in 2014 Centar banka d.d. Zagreb in bankruptcy proceedings), to final borrowers for placements taken over by HBOR into a direct creditor-debtor relationship.

13. Loans to other customers (continued)

The movements in the provision for impairment losses on loans to other customers may be summarized as follows (continued):

Value adjustment of loans to other customers was reduced by the amount of HRK 10,462 thousand relating to interest written off in the pre-bankruptcy settlement procedures in the amount of HRK 1,635 thousand, the principal written off due to the bankruptcy proceedings in the amount of HRK 8,827 thousand, removal of debtors from the court register as well as the partial obligation settlement.

Loans to other customers, net of provision for impairment losses, may be summarized by loan programme as follows:

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Loan programme for reconstruction and development of the economy	3,807,190	3,917,545	3,807,190	3,917,545
Export financing	3,254,161	2,413,843	3,254,161	2,413,843
Loan programme for reconstruction and development of infrastructure in the Republic of Croatia	2,513,074	2,118,092	2,513,074	2,118,092
Loan programme for small and medium-sized enterprises	2,115,820	2,145,435	2,115,820	2,145,435
Other	70,992	95,692	70,992	95,692
Accrued interest	69,086	55,397	69,086	55,397
Deferred recognition of loan origination fees	(102,098)	(86,982)	(102,098)	(86,982)
	11,728,225	10,659,022	11,728,225	10,659,022
Provisions for impairment losses	(2,505,156)	(2,346,608)	(2,505,156)	(2,346,608)
	9,223,069	**8,312,414**	**9,223,069**	**8,312,414**

Average interest rates on loans to other customers are stated at 1.99% (31 December 2014: 1.94%).

Average interest rates reflect the ratio of interest income from generated the mentioned placements and average assets.

14. Financial assets at fair value through profit or loss

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Shares in investment funds recognised at fair value through profit or loss	3,707	2,152	-	-
Balance as at 31 December	**3,707**	**2,152**	**-**	**-**

15. Assets available for sale

	Group		Bank	
	2015	2014	2015	2014
	HRK '000	HRK '000	HRK '000	HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Ministry of Finance of the Republic of Croatia	679,617	396,670	644,532	377,763
Financial institution bonds	930	522	-	-
Corporate bonds	396	395	-	-
Treasury bills of the Ministry of Finance of the Republic of Croatia	1,418,963	1,347,756	1,418,963	1,347,756
Accrued interest	14,441	8,435	13,862	8,130
	2,114,347	**1,753,778**	**2,077,357**	**1,733,649**
Unlisted debt instruments:				
Corporate bonds	2,320	-	1,551	-
Accrued interest	31	-	30	-
	2,351	**-**	**1,581**	**-**
Equity instruments:				
Unlisted equity instruments:				
Investments in shares of foreign legal entities	26	26	26	26
Investments in financial institutions shares	161	161	161	161
Shares of foreign financial institutions – EIF (Note 28)	24,420	23,477	24,420	23,477
Investments in company's shares	23,834	24,641	23,834	24,641
Provision for impairment losses	(23,834)	(24,641)	(23,834)	(24,641)
	24,607	**23,664**	**24,607**	**23,664**
Investments in investment funds:				
Shares classified as assets available for sale	729,010	727,024	728,778	725,821
	729,010	**727,024**	**728,778**	**725,821**
Balance as at 31 December	**2,870,315**	**2,504,466**	**2,832,323**	**2,483,134**

The movements in the provision for impairment losses on assets available for sale may be summarized as follows:

	Group		Bank	
	2015	2014	2015	2014
	HRK '000	HRK '000	HRK '000	HRK '000
Balance as at 1 January	24,641	26,979	24,641	26,979
Increase of provisions for impairment losses on assets available for sale	4,594	1,490	4,594	1,490
Reversal of provisions for impairment losses on assets available for sale	(5,401)	(3,828)	(5,401)	(3,828)
Balance as at 31 December	**23,834**	**24,641**	**23,834**	**24,641**

15. Assets available for sale (continued)

The following text contains investment breakdown:

	Date of issue	Date of maturity	Interest rate (%)	Group 2015 HRK '000	Group 2014 HRK '000	Bank 2015 HRK '000	Bank 2014 HRK '000
Debt instruments:							
Listed debt instruments:							
Bonds of the Republic of Croatia indexed to foreign currency:							
RHMF-O-19BA	29.11.2004	29.11.2019.	5.375	51,273	52,756	47,883	47,089
RHMF-O-227E	22.7.2011.	22.7.2022.	6.5	169,365	171,261	169,365	171,261
RHMF-O-247E	10.7.2013.	10.7.2024.	5.75	17,238	12,614	12,188	12,179
RHMF-O-157A	14.7.2005.	14.7.2015.	4.25	-	1,855	-	-
RHMF-O-203E	5.3.2010.	5.3.2020.	6.5	884	-	-	-
Bonds of the Republic of Croatia in foreign currency:							
XS0645940288	8.7.2011.	9.7.2018.	5.875	58,159	59,194	58,159	59,194
XS0776179656	27.4.2012.	27.4.2017.	6.25	14,476	13,365	14,476	13,365
XS1117298916	11.3.2015.	11.3.2025.	3.0	48,455	-	48,455	-
Bonds of the Republic of Croatia in HRK:							
RHMF-O-167A	22.7.2011.	22.7.2016.	5.75	139,066	37,452	139,066	37,452
RHMF-O-172A	8.2.2007.	8.2.2017.	4.75	103,396	605	102,800	-
RHMF-O-187A	10.7.2013.	10.7.2018.	5.25	42,712	44,667	37,415	37,223
RHMF-O-17BA	25.11.2010.	25.11.2017.	6.25	4,839	544	-	-
RHMF-O-15CA	15.12.2005.	15.12.2015.	5.25	-	517	-	-
RHMF-O-203A	5.3.2010.	5.3.2020.	6.75	2,974	1,840	-	-
RHMF-O-257A	9.7.2015.	9.7.2025.	4.5	8,755	-	-	-
RHMF-O-26CA	14.12.2015.	14.12.2026.	4.25	18,025	-	14,725	-
Financial institution bonds in HRK:							
RIBA-O-17BA	23.11.2012.	23.11.2017.	5.88	525	522	-	-
Financial institution bonds indexed to foreign currency:							
RIBA-O-177A	18.7.2011.	18.7.2017.	6.5	405	-	-	-
Corporate bonds indexed to foreign currency:							
JRLN-O-17AA	24.10.2012.	24.10.2017.	6.5	396	395	-	-
Treasury bills in HRK up to 182 days			0.5	-	129,668	-	129,668
Treasury bills in HRK up to 364 days			0.5 - 1.5	963,968	1,181,960	963,968	1,181,960
Treasury bills in foreign currency to 364 days			0.38 - 0.40	190,612	-	190,612	-
Treasury bills in foreign currency up to 546 days			1.95	264,383	36,128	264,383	36,128
Accrued interest				14,441	8,435	13,862	8,130
				2,114,347	**1,753,778**	**2,077,357**	**1,733,649**
Unlisted debt instruments:							
Corporate bonds indexed to foreign currency:							
LNGU-O-31AE	24.7.2015.	15.10.2031.	4.5	1,551	-	1,551	-
Corporate bonds in HRK:							
JDGL-O-20CA	21.12.2015.	21.12.2020.	5.81	769	-	-	-
Accrued interest				31	-	30	-
				2,351	-	**1,581**	-
Equity instruments:							
Unlisted equity instruments:							
Investments in shares of foreign legal entities in foreign currency				26	26	26	26
Investments in financial institutions' shares				161	161	161	161
Investments in shares of foreign financial institutions in foreign currency				24,420	23,477	24,420	23,477
Investments in companies' shares				23,834	24,641	23,834	24,641
Provisions for impairment losses				(23,834)	(24,641)	(23,834)	(24,641)
				24,607	**23,664**	**24,607**	**23,664**
Investments in investments funds in the Republic of Croatia				**729,010**	**727,024**	**728,778**	**725,821**
Total				**2,870,315**	**2,504,466**	**2,832,323**	**2,483,134**

15. Assets available for sale (continued)

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-19BA) issued with foreign currency clause on 29 November 2004 are repayable over 15 years with an interest rate of 5.375%. As of 31 December 2015, the value of these outstanding bonds for the Group amounted to HRK 51,273 thousand (31 December 2014: HRK 52,756 thousand) and for the Bank HRK 47,883 thousand (31 December 2014: HRK 47,089 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-227E) issued with foreign currency clause on 22 July 2011 are repayable over 11 years with an interest rate of 6.5%. As of 31 December 2015, the value of these outstanding bonds amounted to HRK 169,365 thousand (31 December 2014: HRK 171,261 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-247E) issued with foreign currency clause on 10 July 2013 are repayable over 11 years with an interest rate of 5.75%. As of 31 December 2015, the value of these outstanding bonds for the Group amounted to HRK 17,238 thousand (31 December 2014: HRK 12,614 thousand) and for the Bank HRK 12,188 (31 December 2014: HRK 12,179 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-157A) issued with foreign currency clause on 14 July 2005 are repayable over 10 years with an interest rate of 4.25%. The bonds were deemed upon maturity on 14 July 2015 (31 December 2014: HRK 1,855 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-203E) issued with foreign currency clause on 5 March 2010 are repayable over 10 years with an interest rate of 6.5%. As of 31 December 2015, the value of these outstanding bonds amounted to HRK 884 thousand (31 December 2014: HRK 0 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (XS0645940288) issued in foreign currency on 8 July 2011 are repayable over 7 years with an interest rate of 5.875%. As of 31 December 2015, the value of these outstanding bonds amounted to HRK 58,159 thousand (31 December 2014: HRK 59,194 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (XS0776179656) issued in foreign currency on 27 April 2012 are repayable over 5 years with an interest rate of 6.25%. As of 31 December 2015, the value of these outstanding bonds amounted to HRK 14,476 thousand (31 December 2014: HRK 13,365 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (XS1117298916) issued in foreign currency on 11 March 2015 are repayable over 10 years with an interest rate of 3.0%. As of 31 December 2015, the value of these outstanding bonds amounted to HRK 48,455 thousand (31 December 2014: HRK 0 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-167A) issued in kuna on 22 July 2011 are repayable over 5 years with an interest rate of 5.75%. As of 31 December 2015, the value of these outstanding bonds amounted to HRK 139,066 thousand (31 December 2014: HRK 37,452 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-172A) issued in kuna on 8 February 2007 are repayable over 10 years with an interest rate of 4.75%. As of 31 December 2015, the value of these outstanding bonds for the Group amounted to HRK 103,396 thousand (31 December 2014: HRK 605 thousand) and for the Bank HRK 102,800 (31 December 2014: HRK 0 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-187A) issued in kuna on 10 July 2013 are repayable over 5 years with an interest rate of 5.25%. As of 31 December 2015, the value of these outstanding bonds for the Group amounted to HRK 42,712 thousand (31 December 2014: HRK 44,667 thousand) and for the Bank HRK 37,415 thousand (31 December 2014: HRK 37,223 thousand).

15. Assets available for sale (continued)

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-17BA) issued in kuna on 25 November 2010 are repayable over 7 years with an interest rate of 6.25%. As of 31 December 2015, the value of these outstanding bonds amounted to HRK 4,839 thousand (31 December 2014: HRK 544 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-15CA) issued in kuna on 15 December 2005 are repayable over 10 years with an interest rate of 5.25%. The bonds were deemed upon maturity on 15 December 2015 (31 December 2014: HRK 517 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-203A) issued in kuna on 5 March 2010 are repayable over 10 years with an interest rate of 6.75%. As of 31 December 2015, the value of these outstanding bonds amounted to HRK 2,974 thousand (31 December 2014: HRK 1,840 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-257A) issued in kuna on 9 July 2015 are repayable over 10 years with an interest rate of 4.5%. As of 31 December 2015, the value of these outstanding bonds amounted to HRK 8,755 thousand (31 December 2014: HRK 0 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-26CA) issued in kuna on 14 December 2015 are repayable over 11 years with an interest rate of 4.25%. As of 31 December 2015, the value of these outstanding bonds for the Group amounted to HRK 18,025 thousand and for the Bank HRK 14,725 (31 December 2014: HRK 0 thousand).

Financial institution bonds (RIBA-O-17BA) issued in kuna on 23 November 2012 and are repayable over 5 years with an interest rate of 5.88%. As of 31 December 2015, the value of these outstanding bods amounted to HRK 525 thousand (31 December 2014: HRK 522 thousand).

Financial institution bonds (RIBA-O-177A) issued with foreign currency clause on 18 July 2011 and are repayable over 5 years with an interest rate of 6.5%. As of 31 December 2015, the value of these outstanding bods amounted to HRK 405 thousand (31 December 2014: HRK 0 thousand).

Corporate bonds (JRLN-O-17AA) issued with foreign currency clause on 24 October 2012 and are repayable over 5 years with an interest rate of 6.5%. As of 31 December 2015, the value of these outstanding bods amounted to HRK 396 thousand (31 December 2014: HRK 395 thousand).

Corporate bonds (LNGU-O-31AE) issued with foreign currency clause on 24 July 2015 and are repayable over 16 years with an interest rate of 4.5%. As of 31 December 2015, the value of these outstanding bods amounted to HRK 1,551 thousand (31 December 2014: HRK 0 thousand). By the Agreement on Transfer of Bonds of the company Lanište d.o.o. concluded on 10 September 2015 between HBOR and Ingra d.d., 203,078 bonds issued by the company Lanište d.o.o. were transferred for the settlement of HBOR's claims (fees for issued counter-guarantees and other receivables), and pursuant to the pre-bankruptcy settlement concluded between Ingra and the creditor in the pre-bankruptcy settlement procedure. In the settlement procedure, it was established that HBOR's claim would be settled by transfer of bonds. The bonds of the company Lanište d.o.o. are not listed.

Corporate bonds (JDGL-O-20CA) issued with foreign currency clause on 21 December 2015 and are repayable over 5 years with an interest rate of 5.81%. As of 31 December 2015, the value of these outstanding bods amounted to HRK 769 thousand (31 December 2014: HRK 0 thousand). The bond of the company Jadran – Galenski laboratorij d.d. was not listed on the official market of the Zagreb Stock Exchange until the end of 2015.

15. Assets available for sale (continued)

In 2007, HBOR made acquisitions of five shares of the European Investment Fund (EIF), and on 15 July 2014 it made acquisitions of three more shares of EIF that were as of 31 December 2015 stated under Assets available for sale in the total amount of HRK 24,420 thousand (31 December 2014: HRK 23,477 thousand). The payment made represents 20% of the nominal amount of purchased shares and the other 80% makes a contingent liability towards EIF. On 31 December 2015 this contingent liability was EUR 6.4 million (31 December 2014: EUR 6.4 million) (Note 28).

The General Meeting, acting on a proposal from the Board of Directors, may require payment of the subscribed but not paid capital to the extent required for the Fund to meet its liabilities towards its creditors. Such payment shall be effected within 90 days from the decision of the General Meeting.

Corporate shares comprise shares in capital of the company for the production of agricultural products, Vinka d.d., and of the shipyard company Brodogralište Viktor Lenac d.d., Rijeka. The shares were acquired within restructuring measures for those companies in exchange for a portion of receivables. In March 2010, when all preconditions were met, HBOR's receivables were partly turned into an equity share in the company Vinka d.d., Vinkovci amounting to HRK 16,725 thousand, representing a 5.1823% of the equity share belonging to HBOR in the company's equity.

HBOR effected a 100% impairment of value for the complete amount of the equity share since it was estimated uncollectable.

In 2011, however, owing to an increase in capitalisation, the percentage of HBOR's share in the company's equity was changed to 0.9365%. The shares of the company Vinka d.d., Vinkovci (LPVC-R-B) are not listed.

Upon the commencement of bankruptcy proceedings of the company Brodogradilište Viktor Lenac d.d. in December 2003, HBOR effected a 100% impairment of value for the complete amount of receivables from the company, since they were estimated uncollectable, and the receivables were classified as bad and doubtful receivables.

On the conclusion of the bankruptcy proceedings in April 2008, the equity of the shipyard company was divided into 12,407,813 common shares in the nominal value of HRK 10.00 per share, issued in the procedure of conclusion of the bankruptcy proceedings by registration of rights – receivables in cash. HBOR registered a part of recognized receivables in the amount of HRK 13,673 thousand from the bankruptcy proceedings into the equity of the debtor, by which the Bank acquired 11.0194% of the equity of the company. The conversion of a portion of receivables into the equity in the above mentioned amount has been recorded and stated with a 100% value adjustment, transferred from off-balance sheet.

In 2011, owing to an increase in capitalisation, the percentage of HBOR's share in the company's equity was changed to 8.1321%. The shares of the company (VLEN-R-B) were listed in 2008 at the Zagreb Stock Exchange, and trade started in May 2009. Quoted price per share as of 31 December 2015 amounted to HRK 5.20 (31 December 2014: HRK 5.79 per share).

Pursuant to the decision of the subsidiary's management dated 30 September 2015 and 18 December 2015 shares in investment funds were classified as assets available for sale.

16. Assets held to maturity

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Debt instruments:				
Listed debt instruments:				
Bonds of the Ministry of finance of the Republic of Croatia	1,437	1,455	-	-
Accrued interest	14	15	-	-
Balance as at 31 December	**1,451**	**1,470**	**-**	**-**

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-203E) issued with foreign currency clause on 5 March 2010 are repayable over 10 years with an interest rate of 6.5%. As of 31 December 2015, the value of these outstanding bonds amounted to HRK 488 thousand (31 December 2014: HRK 495 thousand).

Bonds of the Ministry of Finance of the Republic of Croatia (RHMF-O-19BA) issued with foreign currency clause on 29 November 2004 are repayable over 15 years with an interest rate of 5.375%. As of 31 December 2015, the value of these outstanding bonds amounted to HRK 949 thousand (31 December 2014: HRK 960 thousand).

17. Investments in subsidiaries

As at 31 December 2015, the Bank's subsidiaries are as follows:

Consolidated company	Activity	Ownership 2015	Ownership 2014	Investment 2015	Investment 2014
Direct share					
Hrvatsko kreditno osiguranje d.d. Zagreb, Republic of Croatia	Providing insurance for company's foreign and domestic short-term receivables regarding shipments of goods and services	100%	100%	36,124	36,124
Total				**36,124**	**36,124**

Result of the subsidiary has been disclosed in Appendix – Financial performance of the HKO Group.

18. Investments in associates

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Investments in associates	23,687	23,687	23,687	23,687
Value adjustments	(23,687)	(23,687)	(23,687)	(23,687)
	-	-	-	-

Investments in associates were carried out within a Program of investments in the equity of companies – small and medium sized entrepreneurs or pursuant to single decisions of authorized bodies of HBOR. The investments were made for a period ranging from 4 to 6 years with the right of HBOR to sell the shares after the contracted term of holding an equity stake.

	Line of business	% ownership in 2015	% ownership in 2014
Bila boja d.o.o., Grohote, in bankruptcy	Production of plastic products	17.96%	17.96%
THC d.o.o., Obrovac	Production of metal products	38.45%	38.45%
Tri D Drvo d.o.o., Vrhovine, in bankruptcy	Wood processing, production of wood products	26.00%	26.00%
Pounje d.d., Hrvatska Kostajnica	Textile industry – clothes production	13.55%	13.55%
Metal-Sint Oklaj d.d., Oklaj	Metal industry sintered products and composed material production	40.84%	40.84%

The value of investment was 100% adjusted in prior years due to assessed non-recoverability of the investment.

19. Property, plant and equipment and intangible assets

Group 2015	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Cost							
At 31 December 2014	**77,102**	**12,008**	**15,518**	**1,440**	**106,068**	**24,840**	**130,908**
Additions	-	-	-	3,090	3,090	-	3,090
Transfer from assets not yet ready for use	-	102	76	(3,634)	(3,456)	3,456	-
Disposals and write-offs	-	(487)	(505)	-	(992)	(685)	(1,677)
Returned to service	-	67	44	-	111	-	111
At 31 December 2015	**77,102**	**11,690**	**15,133**	**896**	**104,821**	**27,611**	**132,432**
Accumulated depreciation							
At 31 December 2014	**23,473**	**7,357**	**11,759**	**-**	**42,589**	**21,502**	**64,091**
Transfer from/to	-	4	(4)	-	-	-	-
Depreciation for 2015	2,336	1,944	1,054	-	5,334	2,320	7,654
Disposals and write-offs	-	(481)	(495)	-	(976)	(686)	(1,662)
Returned to service	-	67	44	-	111	-	111
At 31 December 2015	**25,809**	**8,891**	**12,358**	**-**	**47,058**	**23,136**	**70,194**
Net book value at 31 December 2015	**51,293**	**2,799**	**2,775**	**896**	**57,763**	**4,475**	**62,238**
Net book value at 31 December 2014	**53,629**	**4,651**	**3,759**	**1,440**	**63,479**	**3,338**	**66,817**

19. Property, plant and equipment and intangible assets (continued)

Group 2014	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Cost							
At 31 December 2013	**77,102**	**16,334**	**13,562**	**1,388**	**108,386**	**22,667**	**131,053**
Additions	-	-	-	8,667	8,667	-	8,667
Transfer from assets not yet ready for use	-	3,978	2,464	(8,615)	(2,173)	2,173	-
Disposals and write-offs	-	(8,304)	(508)	-	(8,812)	-	(8,812)
At 31 December 2014	**77,102**	**12,008**	**15,518**	**1,440**	**106,068**	**24,840**	**130,908**
Accumulated depreciation							
At 31 December 2013	**21,137**	**14,005**	**11,514**	-	**46,656**	**19,183**	**65,839**
Depreciation for 2014	2,336	1,643	696	-	4,675	2,319	6,994
Disposals and write-offs	-	(8,291)	(451)	-	(8,742)	-	(8,742)
At 31 December 2014	**23,473**	**7,357**	**11,759**	**-**	**42,589**	**21,502**	**64,091**
Net book value at 31 December 2014	**53,629**	**4,651**	**3,759**	**1,440**	**63,479**	**3,338**	**66,817**
Net book value at 31 December 2013	**55,965**	**2,329**	**2,048**	**1,388**	**61,730**	**3,484**	**65,214**

19. Property, plant and equipment and intangible assets (continued)

Bank 2015	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Cost							
At 31 December 2014	**77,102**	**11,660**	**15,294**	**1,440**	**105,496**	**24,224**	**129,720**
Additions	-	-	-	3,040	3,040	-	3,040
Transfer from assets not ready for use	-	71	62	(3,584)	(3,451)	3,451	-
Disposals and write-offs	-	(487)	(505)	-	(992)	(685)	(1,677)
Returned to service	-	67	44	-	111	-	111
At 31 December 2015	**77,102**	**11,311**	**14,895**	**896**	**104,204**	**26,990**	**131,194**
Accumulated depreciation							
At 31 December 2014	**23,473**	**7,098**	**11,634**	**-**	**42,205**	**20,982**	**63,187**
Transfer from/to	-	4	(4)	-	-	-	-
Depreciation for 2015	2,336	1,887	1,022	-	5,245	2,230	7,475
Disposals and write-offs	-	(481)	(495)	-	(976)	(686)	(1,662)
Returned to service	-	67	44	-	111	-	111
At 31 December 2015	**25,809**	**8,575**	**12,201**	**-**	**46,585**	**22,526**	**69,111**
Net book value at 31 December 2015	**51,293**	**2,736**	**2,694**	**896**	**57,619**	**4,464**	**62,083**
Net book value at 31 December 2014	**53,629**	**4,562**	**3,660**	**1,440**	**63,291**	**3,242**	**66,533**

19. Property, plant and equipment and intangible assets (continued)

Bank 2014	Buildings	Computers	Furniture, equipment and vehicles	Property, plant and equipment and intangible assets not ready for use	Total property, plant and equipment	Intangible assets	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Cost							
At 31 December 2013	**77,102**	**16,044**	**13,384**	**1,388**	**107,918**	**22,056**	**129,974**
Additions	-	-	-	8,557	8,557	-	8,557
Transfer from assets not ready for use	-	3,919	2,418	(8,505)	(2,168)	2,168	-
Disposals and write-offs	-	(8,303)	(508)	-	(8,811)	-	(8,811)
At 31 December 2014	**77,102**	**11,660**	**15,294**	**1,440**	**105,496**	**24,224**	**129,720**
Accumulated depreciation							
At 31 December 2013	**21,137**	**13,790**	**11,407**	**-**	**46,334**	**18,760**	**65,094**
Depreciation for 2014	2,336	1,598	678	-	4,612	2,222	6,834
Disposals and write-offs	-	(8,290)	(451)	-	(8,741)	-	(8,741)
At 31 December 2014	**23,473**	**7,098**	**11,634**	**-**	**42,205**	**20,982**	**63,187**
Net book value at 31 December 2014	**53,629**	**4,562**	**3,660**	**1,440**	**63,291**	**3,242**	**66,533**
Net book value at 31 December 2013	**55,965**	**2,254**	**1,977**	**1,388**	**61,584**	**3,296**	**64,880**

20. Non-current assets held for sale

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Non-current assets held for sale	49,469	50,036	49,469	50,036
Provisions for impairment losses	(27,754)	(15,809)	(27,754)	(15,809)
	21,715	**34,227**	**21,715**	**34,227**

In 2015, there were no acquisitions of non-current assets held for sale (2014: HRK 0 thousand, with acquisition value and provisions of HRK 6,948 thousand, of which HRK 6,590 thousand relates to the acquisition value and provisions for buildings of companies undergoing pre-bankruptcy settlement procedures, whereas HRK 358 thousand relates to the acquisition value and provisions for acquired land plot).

In 2015, a sale of non-current assets held for sale took place in the total amount of HRK 152 thousand, of which: the land plot in the amount of HRK 4 thousand and buildings in the amount of HRK 148 thousand. In 2014, there was no sale of the above assets.

The fair value of non-current assets held for sale at the beginning of the reporting period stood at HRK 44,042 thousand and the end of the reporting period at HRK 29,080 thousand.

The movements in the provision for impairment losses on non-current assets held for sale may be summarized as follows:

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Balance as of 1 January	15,809	8,485	15,809	8,485
Increase of provisions for impairment losses on non-current assets held for sale	12,571	520	12,571	520
Decrease of provisions for impairment losses on non-current assets held for sale	(59)	(144)	(59)	(144)
Written off impairment for non-current assets held for sale	(567)	-	(567)	-
Return on provisions at taking over	-	6,948	-	6,948
Balance as of 31 December	**27,754**	**15,809**	**27,754**	**15,809**

21. Other assets

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Receivables from customers	2,078	2,076	2,078	2,076
Fees receivable	1,224	826	1,224	826
Prepaid expenses	1,022	1,383	1,022	1,383
Premium receivables	673	1,512	-	-
Receivables for reinsurance commissions	461	423	-	-
Receivables for risk assessment fees	115	152	-	-
Deferred tax assets	230	383	-	-
Other assets	3,516	3,914	3,456	3,823
	9,319	**10,669**	**7,780**	**8,108**
Provisions for impairment losses	(4,041)	(3,793)	(4,029)	(3,779)
	5,278	**6,876**	**3,751**	**4,329**

The movements in the provision for impairment losses on other assets may be summarized as follows:

	Group		Bank	
	2015 HRK 000	2014 HRK 000	2015 HRK 000	2014 HRK 000
Balance as at 1 January	3,793	3,926	3,779	3,804
Increase of provision for impairment losses on other assets	993	1,058	986	888
Release of provision for impairment losses on other assets	(709)	(960)	(700)	(682)
Collection of off-balance sheet receivable items	(36)	-	(16)	-
Provisions transferred from off-balance sheet	36	-	16	-
Acquisition of immovable property	-	(14)	-	(14)
Write-offs	(36)	(217)	(36)	(217)
Balance as of 31 December	**4,041**	**3,793**	**4,029**	**3,779**

22. Deposits

	Group		Bank	
	2015 HRK '000	**2014 HRK '000**	**2015 HRK '000**	**2014 HRK '000**
Bank deposits	26,921	916	26,921	916
Foreign currency regular accounts of companies	6	-	6	-
Foreign currency account of the Ministry of Finance of the Republic of Croatia	32,195	30,073	32,195	30,073
Foreign currency special purpose accounts of the companies	111,512	20,261	111,512	20,261
Deposits by local authorities and state funds	-	54,877	-	54,877
Deposits by state institutions	53,870	75,814	53,870	75,814
Other deposits	12,132	955	12,132	955
	236,636	**182,896**	**236,636**	**182,896**

The foreign currency account of the Ministry of Finance of the Republic of Croatia relates to the Export Insurance Guarantee Fund comprising of reinsurance premiums paid for export insurance operations of HRK 18,252 thousand (31 December 2014: HRK 17,505 thousand), grant funds provided by the Global Environment Facility (GEF) aimed at the Renewable Energy Resources Project of HRK 7,650 thousand (31 December 2014: HRK 6,896 thousand), the grant funds provided by the GEF aimed at the Programme of issuing bank guarantees for energy efficiency projects within the Energy Efficiency Project of HRK 6,293 thousand (31 December 2014: HRK 5,672 thousand), all managed by HBOR for and on behalf of the Republic of Croatia.

Demand deposits by State institutions relate to the Bank's operations carried out for and on behalf of the Ministry of Finance, the Ministry of the Economy, the Ministry of Maritime Affairs, Transport and Infrastructure, the Ministry of Agriculture, the Ministry of Regional Development and EU Funds, the company Vodovod i kanalizacija d.o.o., Split.

Foreign currency special purpose accounts of the companies relate to the inflow of funds and disposition of the advance payment funds paid to the company's account in relation to the issued guarantees of HBOR for the repayment of advance for export transactions. The funds of the advance are used exclusively for the specified purpose of implementation of an export contract, with the consent of HBOR.

HBOR does not pay interest on the above deposits.

23. Borrowings

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Balance as of 1 January	11,572,516	12,169,761	11,572,516	12,169,761
New borrowings	769,062	2,507,475	769,062	2,507,475
Repayments	(848,277)	(3,136,291)	(848,277)	(3,136,291)
Net foreign exchange gains/(losses)	(39,505)	31,571	(39,505)	31,571
	11,453,796	11,572,516	11,453,796	11,572,516
Accrued interest	67,573	68,932	67,573	68,932
Deferred recognition of borrowing origination fees	(43,282)	(36,628)	(43,282)	(36,628)
Balance as of 31 December	**11,478,087**	**11,604,820**	**11,478,087**	**11,604,820**

Interest rates on borrowings ranged from 0.88% fixed per annum to variable interest rates on the International money market (EURIBOR) increased by 0.30 percentage points annually.

The Bank is subject to different financial covenants arising from contracts. During 2015 and as at 31 December 2015, the Bank was in compliance with all the required contractual financial covenants.

Average interest rates on borrowings are 1.13% (31 December 2014: 1.13%).

Average interest rates represent ratio of interest expenses on borrowings and average liabilities and equity.

24. Bonds payable

The book value of bonds includes interest.

Group and Bank	Effective interest rate %	Fair value 2015 HRK '000	Net book value 2015 HRK '000	Fair value 2014 HRK '000	Net book value 2014 HRK '000
Bonds EUR 150 million	4.836	235,410	229,023	470,597	459,582
Bonds EUR 250 million	5.076	1,959,077	1,906,811	1,981,410	1,912,140
Bonds EUR 150 million	6.37	1,263,814	1,129,466	1,203,119	1,130,318
Accrued interest		-	101,852	-	107,724
Deferred recognition of bond payable origination fees		-	(586)	-	(675)
		3,458,301	**3,366,566**	**3,655,126**	**3,609,089**

The fair value of bonds issued by HBOR is presented by using level 2 inputs corroborated by the market and observable at Bloomberg service on the basis of the mid-rate of Bloomberg Generic prices (BGN).

Average interest rates on bonds payable are 0.72% (31 December 2014: 0.76%).

24. Bonds payable (continued)

Average interest rates represent ratio of interest expenses on bonds payable and average liabilities and equity.

According to the Agreement between HBOR and Deutsche Bank AG London (as lead manager), HBOR issued bonds on 11 July 2006 of EUR 150,000 thousand (HRK 229,023 thousand as of 31 December 2015 and HRK 459,582 thousand as at 31 December 2014) with a maturity period of 10 years and a fixed interest rate of 4.807% and amortized repayment in the period from 2012 to 2016. Interest is paid annually, in arrears. Bonds are listed in London Stock Exchange quotation.

According to the Agreement between HBOR and UBS Investment Bank and Deutsche Bank AG London (as joint lead managers), HBOR issued bonds on 14 June 2007 of EUR 250,000 thousand (HRK 1,906,811 thousand as at 31 December 2015 and HRK 1,912,140 thousand as at 31 December 2014) with maturity period of 10 years and fixed interest rate of 5.0%. Interest is paid annually, in arrears. Bonds are listed in Luxembourg Stock Exchange quotation.

According to the Agreement between HBOR and Deutsche Bank AG London Branch and J.P. Morgan Securities PLC (as joint lead managers), HBOR issued bonds on 13 August 2013 of EUR 150,000 thousand (HRK 1,129,466 thousand as at 31 December 2015 and HRK 1,130,318 thousand as at 31 December 2014) with maturity period of 6 years and 9 months and fixed interest rate of 6.0%. Interest is paid annually, in arrears. The bonds were listed on the Luxembourg Stock Exchange on 25 August 2015 and were delisted from the Vienna Stock Exchange on 29 September 2015.

25. Other liabilities

	Group		Bank	
	2015 HRK '000	2014 HRK '000	2015 HRK '000	2014 HRK '000
Deferred recognition of interest income	528,866	684,718	528,866	684,718
Liabilities in respect of subsidized interest	118,576	126,123	118,576	126,123
Provisions for guarantees and commitments	62,785	42,551	62,785	42,551
Provisions for other liabilities	71,726	75,250	71,511	75,004
Accrued salaries	6,664	6,597	6,515	6,457
Liabilities to suppliers	1,040	6,908	925	6,734
Liabilities for prepaid receivables	3,995	4,726	3,995	4,726
Deferrable premium	2,189	1,804	-	-
Provisions for claims	4,028	2,912	-	-
Provisions for return premiums	407	57	-	-
Liabilities to re-insurers	1,602	1,663	-	-
Deferred tax liabilities	218	177	-	-
Other liabilities	4,843	4,686	3,867	3,804
	806,939	**958,172**	**797,040**	**950,117**

Liabilities in respect of subsidized interest represent advances taken in respect of interest subsidies on loans, which are provided for final customers at a lower interest rate in accordance with the following programmes implemented by HBOR for and on behalf of the Republic of Croatia (see Note 29). These liabilities include:

- HRK 117,229 thousand in respect of the Programme of Preferential Financing through HBOR's Loan Programmes (31 December 2014: HRK 122,286 thousand),
- HRK 40 thousand in respect of the Financing Model for the Reconstruction and Modernisation of the Fishing Fleet (31 December 2014: HRK 0 thousand),
- HRK 0 thousand (31 December 2014: HRK 457 thousand) in respect of the Loan Programme for the Financing of Female Entrepreneurship,
- HRK 1,307 thousand (31 December 2014: HRK 3,361 thousand) in respect of the Loan Programme for the Financing of Youth Entrepreneurship,
- HRK 0 thousand (31 December 2014: HRK 19 thousand) in respect of the Environmental Protection and Energy Efficiency Fund.

25. Other liabilities (continued)

Deferred recognition of interest income of HRK 528,866 thousand (31 December 2014: HRK 684,718 thousand) consists of state subsidies for interest in respect of loans which are provided and drawn down by final borrowers at lower interest rates (see Note 2) but are not yet in repayment stage, amounting to HRK 25,717 thousand (31 December 2014: HRK 47,015 thousand), and in respect of those already in repayment stage amounting to HRK 503,149 thousand (31 December 2014: HRK 637,703 thousand) (see Note 2).

Provisions for guarantees and commitments represent the best estimation of the outflow for settlement of the outstanding liabilities at the Statement of Financial Position date and are determined in accordance with IAS 37 – Provisions, contingent liabilities and contingent assets.

Out of the total provisions for guarantees and commitments, HRK 20,636 thousand relates to financial institutions (31 December 2014: HRK 10,124 thousand), HRK 29,387 thousand relates to domestic companies (31 December 2014: HRK 23,669 thousand), HRK 1,737 thousand relates to state-owned companies (31 December 2014: HRK 5,795 thousand), HRK 10,430 thousand relates to the public sector (31 December 2014: HRK 2,640 thousand), HRK 232 thousand relates to others liabilities (31 December 2014: HRK 323 thousand) and HRK 363 thousand to foreign legal entities (31 December 2014: HRK 0 thousand).

Movements in the provision for guarantees, commitments and other liabilities may be summarized as follows:

	Group		Bank	
	2015 HRK '000	**2014 HRK '000**	**2015 HRK '000**	**2014 HRK '000**
Balance as at 1 January	42,551	60,385	42,551	60,385
Increase in provision for guarantees and commitments	58,665	33,868	58,665	33,868
Release in provision for guarantees and commitments	(37,856)	(50,865)	(37,856)	(50,865)
Net foreign exchange gains/(losses) on provision for impairment losses	(575)	(837)	(575)	(837)
Provision for guarantees and commitments	**62,785**	**42,551**	**62,785**	**42,551**
Balance as at 1 January	75,250	64,087	75,004	63,914
Increase in provision for other liabilities	14,835	12,301	14,619	12,054
Release in provision for other liabilities	(18,224)	(5,807)	(17,977)	(5,633)
Unrealized actuarial gain/(losses)	(135)	4,669	(135)	4,669
Provisions for other liabilities	**71,726**	**75,250**	**71,511**	**75,004**
Balance as at 31 December	**134,511**	**117,801**	**134,296**	**117,555**

25. Other liabilities (continued)

In 2015, provisions for other liabilities for the Group totalled HRK 71,726 thousand (31 December 2014: HRK 75,250 thousand) and for the Bank stood at HRK 71,511 thousand (31 December 2014: HRK 75,004 thousand). The total amount of provisions for other liabilities was comprised of HRK 27,625 thousand for court proceedings initiated against the Bank (31 December 2014: HRK 37,150 thousand), HRK 21,858 thousand for liabilities for the Group and for the Bank based on benefits defined in accordance with IAS 19 Employee Benefits (31 December 2014: HRK 20,807 thousand), and in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets HRK 22,243 thousand for provisions for other liabilities for the Group (31 December 2014: HRK 17,293 thousand) and HRK 22,028 thousand for the Bank (31 December 2014: HRK 17,047 thousand).

The latest actuarial assessment of present value of liabilities based on defined benefits as at 31 December 2015 was performed by a certified actuary. The model took into account mortality and discount rate, and the calculations for every employee considered age, gender, years of service, expected mortality and discount rate, i.e. the long-run sustainable yield rate on bonds.

As in 2014, the applied discount rate that represents the yield rate on bonds sustainable in the long run is 5.5%.

Unrealised actuarial gains/(losses) arising from the calculation of provisions are stated within the framework of other comprehensive income so that net assets or liability may reflect the entire value of deficit or surplus planned.

26. Founder's capital and reserves

Under the HBOR Act, the prescribed founder's capital should amount to HRK 7,000,000 thousand, paid from the State Budget and from other sources as specified by separate laws.

The schedule of annual amounts of payment and the time schedule of payments out of the State Budget into the capital is not set in advance, but is determined by the Croatian Parliament as part of the process of adoption of the State Budget of the Republic of Croatia.

Within its Accounting policies, the Group has set out its objectives of capital management, category of capital managed by the Bank as well as measuring and assessing the policies for capital management. Capital management is described and presented in Note 34.

Founder's capital of the subsidiary Hrvatsko kreditno osiguranje d.d. amounts to HRK 37,500 thousand and is 100% owned by the Bank, and the founder's capital of the company Poslovni info servis d.o.o. amounts to HRK 300 thousand and is 100% owned by Hrvatsko kreditno osiguranje d.d. The capital of both companies is subscribed and paid in full.

27. Guarantee fund

Group and Bank	HRK '000
Balance as of 1 January 2014	**12,506**
Net foreign exchange	39
Balance as of 31 December 2014	**12,545**
Net foreign exchange	(43)
Balance as of 31 December 2015	**12,502**

The Guarantee fund, of HRK 12,502 thousand and HRK 12,545 thousand as of 31 December 2015 and 2014 respectively, relates to funds of the guarantee fund from Deutsche Investitions- und Entwicklungsgesellschaft (DEG) in respect of a financial contribution (granted funds) for the account of the German Government, which are used for covering contingent losses on guarantees issued for loans granted under the Programme for financing business start-ups in Croatia. The funds of the Guarantee fund are unconditionally contributed and have no maturity. The funds of the Guarantee fund give the Government of the Federal Republic of Germany neither controlling rights nor a right to a share of the operating results of the Group.

28. Guarantees and commitments

In its regular activities, the Group contracts various commitments and contingent liabilities. The purpose of these instruments is to ensure that the funds are available to a customer when required.

These obligations contain credit risk and are therefore part of the overall risk of the Group although they are not recognised in the Statement of financial position.

Group and Bank

	2015 HRK '000	2014 HRK '000
Guarantees issued in HRK	4,352	2,427
Guarantees issued in foreign currency	1,062,639	589,005
Issued bills of exchange	-	11,518
Undrawn loans	3,397,517	1,951,280
EIF – subscribed, not called up capital (Note 15)	48,864	49,034
Open letters of credit in foreign currency	-	7,046
Other irrevocable contingent liabilities	339	339
	4,513,711	2,610,649
Provisions for guarantees and commitments	(62,785)	(42,551)
	4,450,926	**2,568,098**

28. Guarantees and commitments (continued)

Guarantees

Issued guarantees and open letters of credit represent the liability to the Bank to make payments on behalf of customers if the customer is unable to honour its commitments towards third parties or in the event of a specific act, generally related to the export or import of goods and other purposes specified in the contracts with the customers. Guarantees and letters of credit bear the same credit risk as loans.

Bank guarantees are, to the extent of 83%, collateralized by the guarantees, deposits and bank guarantees or the liability was taken over by the Republic of Croatia. Letters of credit are entirely covered by deposits (Note 22).

Commitments upon undrawn loans

The Bank has an obligation to disburse funds for loans and revolving loans upon committed undrawn loans. The expiry date of disbursement or other termination clause is determined by the contract. Disbursements are exercised in several withdrawals, depending on the purpose of the loan, phase of the project or documentation needed for disbursement. Since commitments may expire without being drawn upon, the total contractual amounts do not necessarily represent future cash outflows.

Committed undrawn loans include less potential credit risk than loans, since most commitments depend upon meeting specific terms and conditions by the customers in order to use the funds. The Bank monitors the terms to maturity of loan commitments.

Other irrevocable contingent liabilities

Other irrevocable contingent liabilities relate to HBOR's obligation based on the Agreement concluded on 24 January 2014 with HBOR – Export Credit Insurance performing transactions for and on behalf of the Republic of Croatia. Pursuant to this Agreement, HBOR shall, in case of disposal of the real estate taken over and the recovery from debtors in a pre-bankruptcy settlement, provided that certain conditions have been fulfilled, pay the recovered funds to the Guarantee fund of the Export Credit Insurance.

29. Managed funds for and on behalf of third parties

The Group manages funds on behalf of and for the account of the Ministry of Finance, the Ministry of the Economy, the Ministry of Entrepreneurship and Crafts, the Ministry of Maritime Affairs, Transport and Infrastructure, the Ministry of Agriculture, the Ministry of Regional Development and EU Funds, the Environmental Protection and Energy Efficiency Fund, the company Vodovod i kanalizacija d.o.o., Split and the Croatian Agency for SMEs, Innovation and Investment ("HAMAG-BICRO"), that are mainly used for various reconstruction and development programmes. These assets are separated from the Group's assets. The income and expense relating to these transactions are charged to the beneficiary, and the Group does not have any other liabilities. The Group charges a fee for part of the services and part of the services are performed free of charge depending on the contract with the customer and taking into account that the stated amounts are insignificant for the Group.

Agency business funds per individual programmes amount to:

Group and Bank

Programme	2015 HRK '000	2014 HRK '000
Development and Reconstruction of Rural Housing	34,878	55,842
Employment of Former Soldiers	326,783	380,531
Emergency Reconstruction Project (loan IBRD 3760 - HR)	40	79
Municipal Environmental Infrastructure Investment Program – MEIP	843,298	833,298
Collection of receivables under HAMAG-BICRO guarantees	226	244
Insurance of export transactions	312,883	278,454
Programme of Preferential Financing through HBOR's Loan Programmes	117,229	122,286
Programme for Regional Development of the Republic of Croatia - loans	13,375	15,799
Financing Model for the Reconstruction and Modernisation of the Fishing Fleet - Ministry of the Economy	-	21,540
Financing Model for the Reconstruction and Modernisation of the Fishing Fleet - Ministry of Maritime Affairs, Transport and Infrastructure	-	21,540
Financing Model for the Reconstruction and Modernisation of the Fishing Fleet - Ministry of Agriculture	-	31,479
Financing Model for the Reconstruction and Modernisation of the Fishing Fleet - Ministry of Agriculture - interest subsidy	40	-
Renewable Energy Resources Project	25,240	23,898
VIK – EKO account A – dedicated water charge	541,867	537,347
VIK – EKO account B – VAT	148,475	148,424
Environmental Protection and Energy Efficiency Fund - interest-rate subsidies	-	19
Programme of Issuing Bank Guarantees for Energy Efficiency Projects – IBRD	6,293	5,672
Financing the Establishment of Fishing Infrastructure – Ministry of Maritime Affairs, Transport and Infrastructure	46,665	46,665
Model of financing investment in the adjustment of fishing fleet and investment in fishing boats – Ministry of Agriculture	13,090	13,090
Loan Programme for the Financing of Female Entrepreneurship – Ministry of Entrepreneurship and Crafts – interest subsidy	-	457
Loan Programme for the Financing of Youth Entrepreneurship – Ministry of Entrepreneurship and Crafts - interest subsidy	1,307	3,361
Transactions related to investments in the Economic Co-operation Funds*	462,961	378,144
	2,894,650	**2,918,169**

*The fair value of net assets value of the Economic Co-operation Funds in 2015 is recognised on the basis of the latest available data and does not represent the final fair value, whereas, in 2014, the amount was recognised in accordance with the audited financial statements.

30. Related-party transactions

Related parties are companies that directly or indirectly, through one or more intermediaries, control, or are controlled by, the reporting company.

The majority of related-party transactions relate to the transactions with the Republic of Croatia, the 100% owner of the Bank and state-owned companies over which the Republic of Croatia has the controlling influence. All transactions stated were carried out under usual/regular conditions of the Bank.

As of 31 December 2015 and 31 December 2014, balances arising from transactions with related parties, including the Bank's key management personnel, include the following:

a) Related-party transactions

Group	Exposure	Liabilities	Income	Expense	Exposure	Liabilities	Income	Expense
	2015 HRK '000	2015 HRK '000	2015 HRK '000	2015 HRK '000	2014 HRK '000	2014 HRK '000	2014 HRK '000	2014 HRK '000
Owner	2,388,181	183,488	56,669	428	2,084,298	183,885	52,609	223
Government funds, executive authorities and agencies	1,086,167	22,737	13,686	8,299	350,612	40,839	12,780	1,100
State-owned companies	1,513,557	7	45,104	2,242	1,401,869	3	29,331	12,862
Associates	9	-	706	90	144	-	600	-
Other intra-group transactions	-	-	-	71	-	-	-	-
Key management personnel	5,749	-	174	11	4,704	-	162	-
Total	**4,993,663**	**206,232**	**116,339**	**11,141**	**3,841,627**	**224,727**	**95,482**	**14,185**

Bank	Exposure	Liabilities	Income	Expense	Exposure	Liabilities	Income	Expense
	2015 HRK '000	2015 HRK '000	2015 HRK '000	2015 HRK '000	2014 HRK '000	2014 HRK '000	2014 HRK '000	2014 HRK '000
Owner	2,388,181	183,488	56,669	428	2,084,298	183,885	52,609	223
Government funds, executive authorities and agencies	1,048,914	22,528	11,512	7,520	329,499	40,602	11,135	140
State-owned companies	1,513,155	4	45,085	2,174	1,401,868	-	29,331	12,798
Subsidiary companies	36,124	-	-	-	36,124	-	5	-
Associates	9	-	706	90	144	-	600	-
Key management personnel	5,476	-	165	11	4,400	-	152	-
Total	**4,991,859**	**206,020**	**114,137**	**10,223**	**3,856,333**	**224,487**	**93,832**	**13,161**

Exposures include loans to other customers, available-for-sale assets, assets held to maturity, other assets and off-balance sheet exposure relating to guarantees, letters of credit and commitments.

Liabilities include deposits and other liabilities.

Income includes interest income, fee income, other income and reversal of impairment losses and provisions.

Expense includes impairment losses and provisions and other expense.

30. Related-party transactions (continued)

b) Collateral received

	Group		Bank	
	2015	**2014**	**2015**	**2014**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
The Republic of Croatia	2,842,985	1,742,326	2,751,832	1,647,387
State agencies	646,430	615,551	646,430	615,551
Total	**3,489,415**	**2,357,877**	**3,398,262**	**2,262,938**

Collateral received relates to first-class collateral instruments received as security for HBOR's placements comprising the Republic of Croatia guarantees, HAMAG-BICRO guarantees, insurance policies of export transactions against political and/or commercial risks and statutory guarantees in cases when the Republic of Croatia or other state executive body guarantees the liabilities of certain borrowers pursuant to provisions of certain laws. HBOR issues reinsurance policies for and on behalf of the Republic of Croatia, i.e. covers a proportional part (quota reinsurance) of political and commercial risks of export loans and receivables arising from export of goods and services. The reinsurer covers all non-marketable (non-market) risks underwritten by the Insurer or Hrvatsko kreditno osiguranje d.d. in the percentage ranging from 30% to 90% of an insured amount.

c) Salaries of key management personnel

Salaries include compensation paid for regular work, annual vacation, national holidays, paid leave, sick leave, jubilee awards and payments under contractual agreements. In 2015, salaries for the Group amounted to HRK 9,992 thousand (31 December 2014: HRK 14,204 thousand), and for the Bank HRK 8,600 thousand (31 December 2014: HRK 12,949 thousand).

Remuneration for the work of the members of the Supervisory Board in 2015 amounted to HRK 190 thousand for the Group (31 December 2014: HRK 281 thousand) and for the Bank HRK 136 thousand (31 December 2014: HRK 281 thousand) and it relates to the HBOR Supervisory Board member eligible for remuneration and members of supervisory boards at associates and subsidiaries who were appointed by HBOR. Further to the Managing Board decision, since September 2014, remunerations for the work of the members of the *supervisory board at subsidiary and associates that operate with losses have been suspended. The mentioned* Decision has been annulled by the Decision of the Managing Board dated 20th April 2015.

31. Risk management

31.1. Introduction

Based on the Act on the Croatian Bank for Reconstruction and Development, the Bank is obliged to mitigate business risks directed by the principles of banking operations.

In the process of risk management, the Bank identifies, estimates, measures, monitors, masters and controls the risks to which it is or might be exposed in the course of business and reports about them to the bodies in charge. By the mentioned procedures, appropriate internal documents and adequate organisational structure, a comprehensive and complete risk management system is provided.

The most significant risks the Bank is exposed to: credit risk, liquidity risk, interest rate risk and foreign exchange risk, operational risk and outsourcing risk. These risks are managed daily in accordance with the policies, procedures, methodologies and limit systems as well as decisions/conclusions of the Supervisory Board, the Managing Board and the risk management committees.

The Bank implements the sensitivity analyses and scenario analyses, provided that one or several risk factors are changed in regular or stressful circumstances, and the systems of pro-active risk management are continuously developed for the purpose of reducing possible future risks.

Risk management structure

The Supervisory Board is responsible for monitoring the appropriateness and effectiveness of the risk management process in the Bank. The Supervisory Board adopts HBOR's Risk Management Strategy that lays out the main principles and standards of risk management and defines the tendency towards risk-taking.

The Managing Board of the Bank is responsible for implementing the risk management strategy and establishing an effective and reliable risk management system. In order to accomplish its task, the Managing Board delegated their risk management authority to four committees.

Risk management committees

- **Assets and Liabilities Management Committee (ALCO)** – manages liquidity risk, interest rate risk and currency risk within the framework of the Liquidity Risk Management Procedures, the Currency Risk Management Procedures and the Interest Rate Risk Management Procedures, the Assets and Liabilities Management Procedures as well as other documents of the Bank that regulate this area.
- **Credit Risk Evaluation and Measurement Committee** – manages credit risk within the framework set through accepted Loan Policies, Credit Risk Management Procedures, methodologies, ordinances and other internal acts that cover issues related to credit risk.
- **HBOR Information System Management Committee** – manages the resources of the information system and adequately manages the risks that result from the use of information technology.
- **Business Change Management Committee** – manages business changes (co-ordination of procedures for the suggestion, approval, monitoring and implementation of business changes) in order to reduce risks associated with the implementation of business changes.

31. Risk management (continued)

31.1. Introduction (continued)

Risk Management Unit

The Risk Management unit is organised as a functionally and organizationally separate and independent organizational unit for the control of business risks, which is directly responsible to the Managing Board. This organisational unit is responsible for defining, evaluating or measuring, monitoring and controlling the risks to which the Bank is exposed in the course of its business.

The Risk Management unit carries out its role by performing risk analyses and evaluations or measurements, developing risk management procedures and methodologies, supervising and monitoring of their application, recommending and controlling the accepted exposure limits, giving suggestions and recommendations for adequate risk management as well as reporting to the bodies in charge.

The risk management strategy is directed towards achieving and maintaining the system that would provide quality and efficiency in risk management complied with domestic and international banking practices and Croatian National Bank, European regulations and Basel Committee recommendations applicable to the Bank as a special financial institution.

Organizational Unit for Control and Audit

Control and audit is organized as a separate organizational unit, functionally and organizationally independent from the activities subject to its audit and other organizational units of HBOR. The Control and Audit unit is responsible to the Managing Board, Supervisory Board and Audit committee. The Control and Audit unit verifies the application and efficiency of the procedures and methodologies for risk management. Their role is achieved through testing of the risk management system according to the principles of operational stability, including managing IT resources and other associated technologies.

Organisational unit State Aid and Compliance Department

The Bank has established an organisational unit called State Aid and Compliance Department that is in charge of the activities covered by the function responsible for monitoring compliance and harmonisation of HBOR's operations with the state aid rules.

The compliance monitoring function has been established in the Legal and General Affairs and Compliance Division as an independent and permanent function.

The compliance monitoring function is in charge of monitoring and controlling the following risks: legal and regulatory risks (the risk of disobedience of the laws, legislation and professional practice in effect), sanction risk (the risk of court, administrative or disciplinary sanctions and/or measures resulting from breaches of law, legislation, rules, standards and/or contractual obligations) and reputational risk.

Risk measurement and reporting systems

When assessing or measuring risk, the Bank takes into account historical data, business plans, current and expected market conditions and the specific characteristics of the Bank as a special financial institution. The results of risk assessments or measurements, analyses carried out and stress test are presented at the meetings of the Risk Management Committee, the Managing Board and the Supervisory Board. For the purpose of risk monitoring and control, systems of limits are introduced for the management of credit risk, liquidity risk, interest rate risk and currency risk.

Bodies in charge are systematically reported on the quality of the loan portfolio, high exposure and the highest permissible exposure, regulatory capital adequacy, collection of receivables and risk placements, changes in internal ratings of commercial banks and measures taken in case of rating deterioration, a number of liquidity status indicators and projections of open foreign currency positions, possible losses by significant currencies, interest rate gap, projections of average weighted rates for Bank sources and placements, etc. The reporting dynamics and the risk measurement and assessment methodologies are prescribed by the Bank's internal documents.

31. Risk management (continued)

31.2. Credit risk

The Bank controls credit risk by way of credit policies, ordinances and prescribed procedures for the management of this risk that determine internal control systems aiming to act preventively.

The credit risk management system is a crucial part of the Bank's business policy and it is an important strategic factor of business conduct, and therefore this area is regulated by a separate act - Credit risk management procedures, that are applied in all phases of the credit process (from the development of new bank products or from the credit application, monitoring of the client's business operations until the final loan repayment).

Credit risk management procedures are included in a comprehensive document comprised of separate methodologies aimed at the evaluation of business operations of different targeted groups of clients:

- Credit risk evaluation methodologies which encompass:
    - Credit rating evaluation methodologies,
    - Methodologies for the analysis of clients who keep their business records in accordance with the Income Tax Act,
    - Methodologies for the analysis of business monitoring of clients who keep their business records in accordance with the Income Tax Act,
    - Methodologies for the evaluation of the risk inherent to the branch of activity,
    - Methodologies for the quarterly monitoring of clients' business,
    - Methodologies for the evaluation and selection of leasing companies,
    - Collateral evaluation methodologies,
- Credit scoring methodology,
- Methodology for evaluation and selection of banks,
- Methodology for evaluation and selection of foreign banks.

In the case of direct clients, the Bank uses the Credit risk evaluation methodology (for loans over HRK 1,500 thousand) or the Credit scoring methodology (for loans below HRK 1,500 thousand) to determine creditworthiness. The Credit scoring methodology is used to determine creditworthiness of clients that belong to the "small portfolio" and contains five scoring models: placements up to HRK 300 thousand to companies, crafts businesses and farmers, placements to start-ups up to HRK 300 thousand placements from HRK 300 thousand to HRK 1,500 thousand to companies, placements to start-ups from HRK 300 thousand to HRK 1,500 thousand and placements from HRK 300 thousand to HRK 1,500 thousand for all other entrepreneurs.

Pursuant to the HBOR Act, the Bank on-lends part of its placements via commercial banks or leasing companies. The assessment of commercial banks is based on the Methodology for the Evaluation and Selection of Banks and the Methodology for the Evaluation and Selection of Foreign Banks, whereas the assessment of leasing companies is based on the Methodologies for the Evaluation and Selection of Leasing Companies.

The Bank controls related party risk on the occasion of direct credit approval and for the duration of a business relationship when it is requested from the clients to state their related parties. The information thereby gathered is verified and the type and nature of intra-relationship is determined as well as the existence of a group of related parties and the occurrence of the influence of the improvement or worsening of economic and financial conditions of one related party to the economic or financial position of the related party.

The Bank, as a developmental financial institution, supports growth and development of the Croatian economy through investment. For this reason, the clients mainly approach the Bank with applications for credit financing of investment projects. In order to minimize risk and objectively estimate economic sustainability of the project as well as a return on investment, the Bank is constantly improving existing organizational and technical solutions, reports and internal acts and proposes new organization regulations and implementation instructions.

31. Risk management (continued)

31.2. Credit risk (continued)

By continuous monitoring and evaluation of the clients' businesses, the Bank makes an effort to identify difficulties in their operation on a timely basis. For clients with difficulties, the Bank tries to find appropriate ways to collect receivables by considering the possibilities of alternative repayment terms with a view to continue the production process and employment increase. Special emphasis is placed on identifying and monitoring reasons for bad debts, and procedures for prevention are built in operational procedures with a view to decreasing the share of high risk placements of the Bank.

Also, large exposure limits as well as highest amount of credit risk exposure toward single client and his related parties and risk concentration limits (exposures according to the branches of activity) were determined.

31. Risk management (continued)

31.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure

The table below shows the highest gross credit risk exposures existing in the Statement of Financial Position and in Guarantees and commitments as of the reporting date, before the effect of mitigation through collateral received:

		Group		Bank
	Gross highest exposure 2015	Gross highest exposure 2014	Gross highest exposure 2015	Gross highest exposure 2014
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and due from banks	482,939	128,786	482,697	128,653
Deposits with other banks	359,397	1,230,588	356,351	1,213,434
Loans to financial institutions	12,522,652	13,498,201	12,522,652	13,498,201
Loans to other customers	9,223,069	8,312,414	9,223,069	8,312,414
Financial assets at fair value through profit or loss	3,707	2,152	-	-
Assets available for sale	2,870,315	2,504,466	2,832,323	2,483,134
Assets held to maturity	1,451	1,470	-	-
Other assets	3,575	4,790	2,278	2,626
Total	**25,467,105**	**25,682,867**	**25,419,370**	**25,638,462**
Guarantees and commitments				
Guarantees issued in HRK	4,303	2,399	4,303	2,399
Issued guarantees in foreign currency	1,042,484	571,328	1,042,484	571,328
Issued bills of exchange	-	11,403	-	11,403
Open letters of credit in foreign currency	-	6,976	-	6,976
Undrawn loans	3,354,940	1,926,623	3,354,940	1,926,623
EIF – subscribed, not called up capital	48,864	49,034	48,864	49,034
Other irrevocable contingent liabilities	335	335	335	335
Total	**4,450,926**	**2,568,098**	**4,450,926**	**2,568,098**
Total credit risk exposure	**29,918,031**	**28,250,965**	**29,870,296**	**28,206,560**

31. Risk management (continued)

31.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

The Bank, with its developmental loan programmes, covers the entire Republic of Croatia with a special emphasis on special concern areas, hill or mountain areas and the islands. Credit risk is diversified across geographical areas and developmental credit programmes. Through development of new loan programmes (products), the Bank takes into account concentration of credit risk with a view to evenly develop all areas of the Republic of Croatia.

Through financing of different sectors by stimulating production and development with the purpose of developing the Croatian economy, the Bank is creating a better base for repayment of loans and minimization of risk.

As of 31 December 2015, the highest credit exposure of the Group to one debtor equalled HRK 2,764,572 thousand (31 December 2015: HRK 2,941,353 thousand), and of the Bank HRK 2,763,386 thousand (31 December 2014: HRK 2,934,297 thousand) without considering the effect of mitigation through collateral received. The collateral policy is disclosed further in Note 31.2.

As a special financial institution, the Bank performs its development role by granting loans to final borrowers via commercial banks with which it has entered into co-operation agreements. Since the exposure towards some of the banks has reached the maximum permitted level, the Bank, in order to be able to continue performing its development role and make the loans accessible to as many final borrowers as possible, has an approval from the Supervisory Board for an increase in the exposure towards the banks and their associated entities that have, in accordance with HBOR's internal methodology, been assigned a high rating. The exposure level is maintained by using all instruments and techniques available for mitigating HBOR's exposure towards the banks.

This exposure increase approved by the Supervisory Board was used by the Bank for further operating activities carried out with two banks.

31. Risk management (continued)

31.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

Concentration of assets and guarantees and commitments, according to geographical segments, before the effect of mitigation through collateral received, is as follows:

Group 2015	Republic of Croatia HRK '000	EU countries HRK '000	Other countries HRK '000	Total HRK '000
Assets				
Cash on hand and due from banks	108,473	301,999	72,467	482,939
Deposits with other banks	56,864	302,533	-	359,397
Loans to financial institutions	12,522,528	-	124	12,522,652
Loans to other customers	8,997,934	-	225,135	9,223,069
Financial assets at fair value through profit or loss	3,707	-	-	3,707
Assets available for sale	2,845,869	24,446	-	2,870,315
Assets held to maturity	1,451	-	-	1,451
Other assets	3,025	550	-	3,575
Total	**24,539,851**	**629,528**	**297,726**	**25,467,105**
Guarantees and commitments				
Guarantees issued in HRK	3,099	1,204	-	4,303
Issued guarantees in foreign currency	1,042,484	-	-	1,042,484
Undrawn loans	3,319,026	-	35,914	3,354,940
EIF – subscribed, not called up capital	-	48,864	-	48,864
Other irrevocable contingent liabilities	335	-	-	335
Total	**4,364,944**	**50,068**	**35,914**	**4,450,926**
Total credit risk exposure	**28,904,795**	**679,596**	**333,640**	**29,918,031**

31. Risk management (continued)

31.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

Concentration of assets and guarantees and commitments, according to geographical segments, before the effect of mitigation through collateral received (continued):

Group 2014	Republic of Croatia HRK '000	EU countries HRK '000	Other countries HRK '000	Total HRK '000
Assets				
Cash on hand and due from banks	62,226	65,080	1,480	128,786
Deposits with other banks	92,851	1,137,737	-	1,230,588
Loans to financial institutions	13,497,828	-	373	13,498,201
Loans to other customers	8,210,321	-	102,093	8,312,414
Financial assets at fair value through profit or loss	2,152	-	-	2,152
Assets available for sale	2,480,963	23,503	-	2,504,466
Assets held to maturity	1,470	-	-	1,470
Other assets	4,255	535	-	4,790
Total	**24,352,066**	**1,226,855**	**103,946**	**25,682,867**
Guarantees and commitments				
Guarantees issued in HRK	1,797	602	-	2,399
Issued guarantees in foreign currency	571,328	-	-	571,328
Issued bills of exchange	-	11,403	-	11,403
Open letters of credit in foreign currency	6,976	-	-	6,976
Undrawn loans	1,926,623	-	-	1,926,623
EIF – subscribed, not called up capital	-	49,034	-	49,034
Other irrevocable contingent liabilities	335	-	-	335
Total	**2,507,059**	**61,039**	**-**	**2,568,098**
Total credit risk exposure	**26,859,125**	**1,287,894**	**103,946**	**28,250,965**

31. Risk management (continued)

31.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

Concentration of assets and guarantees and commitments, according to geographical segments, before the effect of mitigation through collateral received (continued):

Bank 2015	Republic of Croatia	EU countries	Other countries	Total
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and due from banks	108,231	301,999	72,467	482,697
Deposits with other banks	53,818	302,533	-	356,351
Loans to financial institutions	12,522,528	-	124	12,522,652
Loans to other customers	8,997,934	-	225,135	9,223,069
Assets available for sale	2,807,877	24,446	-	2,832,323
Other assets	2,221	57	-	2,278
Total	**24,492,609**	**629,035**	**297,726**	**25,419,370**
Guarantees and commitments				
Guarantees issued in HRK	3,099	1,204	-	4,303
Issued guarantees in foreign currency	1,042,484	-	-	1,042,484
Undrawn loans	3,319,026	-	35,914	3,354,940
EIF – subscribed, not called up capital	-	48,864	-	48,864
Other irrevocable contingent liabilities	335	-	-	335
Total	**4,364,944**	**50,068**	**35,914**	**4,450,926**
Total credit risk exposure	**28,857,553**	**679,103**	**333,640**	**29,870,296**

31. Risk management (continued)

31.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

Concentration of assets and guarantees and commitments, according to geographical segments, before the effect of mitigation through collateral received (continued):

Bank 2014	Republic of Croatia	EU countries	Other countries	Total
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and due from banks	62,093	65,080	1,480	128,653
Deposits with other banks	75,697	1,137,737	-	1,213,434
Loans to financial institutions	13,497,828	-	373	13,498,201
Loans to other customers	8,210,321	-	102,093	8,312,414
Assets available for sale	2,459,631	23,503	-	2,483,134
Other assets	2,568	58	-	2,626
Total	**24,308,138**	**1,226,378**	**103,946**	**25,638,462**
Guarantees and commitments				
Guarantees issued in HRK	1,797	602	-	2,399
Issued guarantees in foreign currency	571,328	-	-	571,328
Issued bills of exchange	-	11,403	-	11,403
Open letters of credit in foreign currency	6,976	-	-	6,976
Undrawn loans	1,926,623	-	-	1,926,623
EIF – subscribed, not called up capital	-	49,034	-	49,034
Other irrevocable contingent liabilities	335	-	-	335
Total	**2,507,059**	**61,039**	**-**	**2,568,098**
Total credit risk exposure	**26,815,197**	**1,287,417**	**103,946**	**28,206,560**

31. Risk management (continued)

31.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

Concentration of assets and guarantees and commitments, according to industry, before and after the effect of mitigation through collateral received, is as follows:

Group	Gross highest exposure 2015 HRK '000	Net highest exposure 2015 HRK '000	Gross highest exposure 2014 HRK '000	Net highest exposure 2014 HRK '000
Financial intermediation and insurance	15,448,725	-	16,311,161	-
Water and electric supply and other infrastructure	1,327,987	1,014,914	1,351,068	1,048,696
Tourism	2,615,100	188,306	2,092,517	36,556
Transport, warehousing and connections	1,589,312	202,870	1,244,400	31,440
Shipbuilding	1,213,286	349,937	793,095	333,670
Agriculture and fishery	602,769	120,446	635,068	151,005
Food industry	779,282	301,795	695,024	154,032
Construction industry	1,300,797	120,178	625,504	174,564
Other industry	462,418	128,268	560,657	173,893
Public administration	2,100,572	2,100,572	1,742,587	1,742,587
Education	29,101	22,928	51,533	45,982
Manufacture of basic metals and fabricated metal products, except machinery and equipment	241,181	49,443	256,836	36,233
Manufacture of chemicals and chemical products	47,936	20,360	63,688	27,360
Manufacture of other non-metallic mineral products	294,210	33,444	302,891	587
Pharmaceutical industry	602,278	1,904	328,499	162,348
Other	1,263,077	100,433	1,196,437	330,105
Total credit risk exposure	**29,918,031**	**4,755,798**	**28,250,965**	**4,449,058**

31. Risk management (continued)

31.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

Concentration of assets and guarantees and commitments, according to industry, before and after the effect of mitigation through collateral received, is as follows:

Bank	Gross highest exposure 2014 HRK '000	Net highest exposure 2014 HRK '000	Gross highest exposure 2014 HRK '000	Net highest exposure 2014 HRK '000
Financial intermediation and insurance	15,440,062	-	16,289,520	-
Water and electric supply and other infrastructure	1,327,987	1,014,914	1,351,068	1,048,696
Tourism	2,615,100	188,306	2,092,517	36,556
Transport, warehousing and connections	1,588,911	202,469	1,244,000	31,041
Shipbuilding	1,213,286	349,937	793,095	333,670
Agriculture and fishery	602,769	120,446	635,066	151,002
Food industry	779,209	301,722	694,843	153,851
Construction industry	1,300,685	120,066	625,396	174,456
Other industry	462,180	128,030	560,376	173,613
Public administration	2,063,320	2,063,320	1,721,474	1,721,474
Education	29,101	22,928	51,533	45,982
Manufacture of basic metals and fabricated metal products, except machinery and equipment	241,164	49,426	256,815	36,212
Manufacture of chemicals and chemical products	47,908	20,332	63,655	27,327
Manufacture of other non-metallic mineral products	294,166	33,399	302,862	558
Pharmaceutical industry	601,449	1,075	328,150	161,999
Other	1,262,999	100,356	1,196,190	329,858
Total credit risk exposure	**29,870,296**	**4,716,726**	**28,206,560**	**4,426,295**

Concentration of assets and guarantees and commitments according to industry for both years has been compiled in accordance with the National Classification of Activities 2007 („NKD 2007").

In the preparation of the Note, a combined approach is applied, which takes into consideration business activities of a debtor, retains the names of activities different from those in the National Classification of Activities and unites similar business activities.

31. Risk management (continued)

31.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

The fair value of collateral for the Group in 2015 amounted to HRK 25,162,233 thousand (31 December 2014: HRK 23,801,907 thousand) and for the Bank HRK 25,153,570 thousand (31 December 2014: HRK 23,780,265 thousand).

In the total net highest exposure of the Bank in 2014, the credit risk of HRK 3,394,974 thousand (31 December 2014: HRK 3,095,525 thousand) is not covered with ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 408,096 thousand (31 December 2014: HRK 472,311 thousand), from local (regional) authorities of HRK 348,089 thousand (31 December 2014: HRK 241,220 thousand), state-owned companies for whose commitments the Republic of Croatia guarantees jointly and unconditionally of HRK 248,878 thousand (31 December 2014: HRK 255,489 thousand), government funds of HRK 2,860 thousand (31 December 2014: HRK 4,471 thousand), government bonds and Treasury bills of the Ministry of Finance of HRK 2,077,357 thousand (31 December 2014: HRK 1,733,649 thousand). In addition, an amount of HRK 309,694 thousand (31 December 2014: HRK 388,385 thousand) relates to receivables from a majority state-owned company (controlling influence).

Part of the placements with net exposure relates to placements provisionally and partially covered with collateral and the further increase in exposure has been stopped pending the submission of the full collateral necessary for compliance with the requested collateral coverage ratio.

Financial intermediation includes mainly commercial banks; the operation and collateral quality for placements with commercial banks is described further in Note 31.2 under Collateral for placements with commercial banks.

31. Risk management (continued)

31.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

Credit risk exposure by internal credit rating:

Internal credit rating	Historical default rate (%) 2015	Historical default rate (%) 2014	Group 2015 HRK '000	Group 2014 HRK '000	Bank 2015 HRK '000	Bank 2014 HRK '000
A	1.66%	2.07%	28,279,955	26,367,120	28,232,220	26,322,715
B	34.91%	33.43%	1,638,076	1,883,845	1,638,076	1,883,845
C	94.05%	93.16%	-	-	-	-
	Total		29,918,031	28,250,965	29,870,296	28,206,560

Credit risk assessment internal methodology

For the evaluation of various target groups of clients, the Bank has prescribed internal methodologies. They represent the guidelines for decisions on approval of loans, guarantees and letters of credit and one of criteria for determination of the placement risk category.

The methodology for evaluation of credit ratings is applied when determining the creditworthiness of clients in the case of direct placements over HRK 1,500 thousand. It comprises two main evaluation areas: client evaluation and project/investment evaluation and the combination of these two evaluations. All evaluation areas consist of three basic parts: financial, non-financial analysis and correction of evaluation based on currency-induced credit risk (VIKR) for placements in foreign currency or in kuna indexed to foreign currency.

Methodologies of credit scoring are used during credit risk evaluation for all direct placements below HRK 1,500 thousand where the Bank is exposed to credit risk. The quality and value of collateral for the placement are a part of the credit scoring procedure.

Methodologies for the analysis of clients who keep their business records in accordance with the Income Tax Act (commitments) are applied on the occasion of determining the creditworthiness of clients in the case of direct lending for placements above HRK 1,500 thousand together with the evaluation of the project based on the Methodology for the evaluation of credit ratings (project evaluation).

The Methodology for evaluation and selection of banks and the Methodology for evaluation and selection of foreign banks are used for evaluation of domestic and foreign banks. The methodologies include the estimation of the financial risk (quantitative evaluation), the estimation of business risks for banks analysed (qualitative evaluation) and the estimation of reputation risk.

The result of application of the above methodologies is the rating of the client.

31. Risk management (continued)

31.2. Credit risk (continued)

Concentration of risk and maximum credit risk exposure (continued)

Impairment loss and provisions

The Bank forms provisions for identified losses in accordance with International Financial Reporting Standards and internal rules. Forming provisions is under the competence of the Credit risk evaluation and measurement committee.

Provisioning on an individual basis

Provisioning on an individual basis represents impairment of partly recoverable and irrecoverable investments (risk groups "B" and "C"). Allocation of placements on an individual basis into risk groups is performed by the following criteria:

- creditworthiness,
- debtors' regularity of repayment upon maturity, and
- quality of placement collateral.

Placements that represent the portfolio of small loans are classified by the criteria of regular repayment upon maturity. The Bank does not determine the present value of discounted cash flows for partially recoverable placements where the expected inflow is expected within one year of the financial statements date.

Provisioning on a collective basis

Provisions on a collective basis are formed for fully recoverable placements or placements and commitments allocated in risk group "A". Allocation of debtors within the risk group is performed according to industry risk factor, geographical affiliation, type and the debtor's foreign currency alignment.

Regardless of other classification criteria, investments which are at least 80% covered by first class collateral are allocated in risk group "A".

The Managing Board of HBOR believes that the policies and procedures of forming provisions are adequate and that they ensure sufficient provisions for losses.

31. Risk management (continued)

31.2. Credit risk (continued)

Credit risk quality according to type of financial assets

Credit risk analysis, before and after the effect of mitigation through collateral received according to the type of financial assets on positions of assets and guarantees and commitments by internal credit rating, is as follows:

Group 2015	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets								
Cash on hand and due from banks	482,939	-	-	482,939	-	-	-	-
Deposits with other banks	359,397	-	-	359,397	-	-	-	-
Loans to financial institutions	12,020,367	502,285	-	12,522,652	-	-	-	-
Loans to other customers	8,128,497	1,094,572	-	9,223,069	1,835,366	21,359	-	1,856,725
Financial assets at fair value through profit or loss	3,707	-	-	3,707	-	-	-	-
Assets available for sale	2,870,315	-	-	2,870,315	2,115,754	-	-	2,115,754
Assets held to maturity	1,451	-	-	1,451	1,451	-	-	1,451
Other assets	3,528	47	-	3,575	2,957	47	-	3,004
Total	**23,870,201**	**1,596,904**	**-**	**25,467,105**	**3,955,528**	**21,406**	**-**	**3,976,934**
Guarantees and commitments								
Guarantees issued in HRK	4,303	-	-	4,303	1,797	-	-	1,797
Issued guarantees in foreign currency	1,002,815	39,669	-	1,042,484	366,105	-	-	366,105
Undrawn loans	3,353,437	1,503	-	3,354,940	410,627	-	-	410,627
EIF – subscribed, not called up capital	48,864	-	-	48,864	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	**4,409,754**	**41,172**	**-**	**4,450,926**	**778,864**	**-**	**-**	**778,864**
Total credit risk exposure	**28,279,955**	**1,638,076**	**-**	**29,918,031**	**4,734,392**	**21,406**	**-**	**4,755,798**

31. Risk management (continued)

31.2. Credit risk (continued)

Credit risk quality according to type of financial assets (continued)

Credit risk analysis, before and after the effect of mitigation through collateral received according to the type of financial assets on positions of assets and guarantees and commitments by internal credit rating, is as follows (continued):

Group 2014	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets								
Cash on hand and due from banks	128,786	-	-	128,786	-	-	-	-
Deposits with other banks	1,230,588	-	-	1,230,588	-	-	-	-
Loans to financial institutions	13,043,594	454,607	-	13,498,201	-	-	-	-
Loans to other customers	6,935,721	1,376,693	-	8,312,414	2,167,387	42,015	-	2,209,402
Financial assets at fair value through profit or loss	2,152	-	-	2,152	-	-	-	-
Assets available for sale	2,504,466	-	-	2,504,466	1,753,253	-	-	1,753,253
Assets held to maturity	1,470	-	-	1,470	1,470	-	-	1,470
Other assets	4,740	50	-	4,790	4,171	50	-	4,221
Total	**23,851,517**	**1,831,350**	**-**	**25,682,867**	**3,926,281**	**42,065**	**-**	**3,968,346**
Guarantees and commitments								
Guarantees issued in HRK	2,399	-	-	2,399	1,798	-	-	1,798
Issued guarantees in foreign currency	521,703	49,625	-	571,328	311,724	-	-	311,724
Issued bills of exchange	11,403	-	-	11,403	-	-	-	-
Open letters of credit in foreign currency	6,976	-	-	6,976	-	-	-	-
Undrawn loans	1,923,753	2,870	-	1,926,623	166,855	-	-	166,855
EIF – subscribed, not called up capital	49,034	-	-	49,034	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	**2,515,603**	**52,495**	**-**	**2,568,098**	**480,712**	**-**	**-**	**480,712**
Total credit risk exposure	**26,367,120**	**1,883,845**	**-**	**28,250,965**	**4,406,993**	**42,065**	**-**	**4,449,058**

31. Risk management (continued)

31.2. Credit risk (continued)

Credit risk quality according to type of financial assets (continued)

Credit risk analysis, before and after the effect of mitigation through collateral received according to the type of financial assets on positions of assets and guarantees and commitments by internal credit rating, is as follows (continued):

Bank 2015	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets								
Cash on hand and due from banks	482,697	-	-	482,697	-	-	-	-
Deposits with other banks	356,351	-	-	356,351	-	-	-	-
Loans to financial institutions	12,020,367	502,285	-	12,522,652	-	-	-	-
Loans to other customers	8,128,497	1,094,572	-	9,223,069	1,835,366	21,359	-	1,856,725
Assets available for sale	2,832,323	-	-	2,832,323	2,078,937	-	-	2,078,937
Other assets	2,231	47	-	2,278	2,153	47	-	2,200
Total	**23,822,466**	**1,596,904**	**-**	**25,419,370**	**3,916,456**	**21,406**	**-**	**3,937,862**
Guarantees and commitments								
Guarantees issued in HRK	4,303	-	-	4,303	1,797	-	-	1,797
Issued guarantees in foreign currency	1,002,815	39,669	-	1,042,484	366,105	-	-	366,105
Undrawn loans	3,353,437	1,503	-	3,354,940	410,627	-	-	410,627
EIF – subscribed, not called up capital	48,864	-	-	48,864	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	**4,409,754**	**41,172**	**-**	**4,450,926**	**778,864**	**-**	**-**	**778,864**
Total credit risk exposure	**28,232,220**	**1,638,076**	**-**	**29,870,296**	**4,695,320**	**21,406**	**-**	**4,716,726**

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,084,770 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 175,285 thousand, local (regional) authorities of HRK 348,089 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 248,878 thousand and the government funds of HRK 2,824 thousand. An additional amount of HRK 309,694 thousand relates to receivables from majority state-owned companies (controlling influence).

The amount of assets available for sale and held to maturity is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 2,114,454 thousand for the Group and HRK 2,077,357 thousand for the Bank.

31. Risk management (continued)

31.2. Credit risk (continued)

Credit risk quality according to type of financial assets (continued)

Other assets of HRK 1,117 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

The amount of HRK 231,396 thousand relates to a guarantee issued in foreign currency, for which the liability was assumed by the Republic of Croatia.

31. Risk management (continued)

31.2. Credit risk (continued)

Credit risk quality according to type of financial asset (continued)

Credit risk analysis, before and after the effect of mitigation through collateral received according to the type of financial assets on positions of assets and guarantees and commitments by internal credit rating, is as follows (continued):

Bank 2014	Gross exposure of portfolio of risk group A	Gross exposure of portfolio of risk group B	Gross exposure of portfolio of risk group C	Gross exposure of total portfolio	Net exposure of portfolio of risk group A	Net exposure of portfolio of risk group B	Net exposure of portfolio of risk group C	Net exposure of total portfolio
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets								
Cash on hand and due from banks	128,653	-	-	128,653	-	-	-	-
Deposits with other banks	1,213,434	-	-	1,213,434	-	-	-	-
Loans to financial institutions	13,043,594	454,607	-	13,498,201	-	-	-	-
Loans to other customers	6,935,721	1,376,693	-	8,312,414	2,167,387	42,015	-	2,209,402
Assets available for sale	2,483,134	-	-	2,483,134	1,733,649	-	-	1,733,649
Other assets	2,576	50	-	2,626	2,482	50	-	2,532
Total	**23,807,112**	**1,831,350**	**-**	**25,638,462**	**3,903,518**	**42,065**	**-**	**3,945,583**
Guarantees and commitments								
Guarantees issued in HRK	2,399	-	-	2,399	1,798	-	-	1,798
Issued guarantees in foreign currency	521,703	49,625	-	571,328	311,724	-	-	311,724
Issued bills of exchange	11,403	-	-	11,403	-	-	-	-
Open letters of credit in foreign currency	6,976	-	-	6,976	-	-	-	-
Undrawn loans	1,923,753	2,870	-	1,926,623	166,855	-	-	166,855
EIF – subscribed, not called up capital	49,034	-	-	49,034	-	-	-	-
Other irrevocable contingent liabilities	335	-	-	335	335	-	-	335
Total	**2,515,603**	**52,495**	**-**	**2,568,098**	**480,712**	**-**	**-**	**480,712**
Total credit risk exposure	**26,322,715**	**1,883,845**	**-**	**28,206,560**	**4,384,230**	**40,065**	**-**	**4,426,295**

In the total net highest exposure of the Group and the Bank, the amount of loans to other customers of HRK 1,152,034 thousand is not covered by ordinary collateral, but it relates to receivables and received funds from the Republic of Croatia of HRK 262,487 thousand, local (regional) authorities of HRK 241,220 thousand, public companies for whose liabilities the Republic of Croatia guarantees jointly and unconditionally of HRK 255,489 thousand and the government funds of HRK 4,453 thousand. An additional amount of HRK 388,385 thousand relates to receivables from majority state-owned companies (controlling influence).

The amount of assets available for sale and held to maturity is not covered by ordinary collateral but it relates to government bonds and treasury bills of the Ministry of Finance of HRK 1,754,324 thousand for the Group and HRK 1,733,649 thousand for the Bank.

31. Risk management (continued)

31.2. Credit risk (continued)

Credit risk quality according to type of financial asset (continued)

Other assets of HRK 938 thousand are not covered by ordinary collateral, but relate to receivables from the Republic of Croatia and the government funds.

The amount of HRK 208,570 thousand relates to a guarantee issued in foreign currency, for which the liability was assumed by the Republic of Croatia.

31. Risk management (continued)

31.2. Credit risk (continued)

Credit risk quality according to type of financial asset (continued)

Credit risk quality according to the gross exposure of the type of financial assets on positions of assets and guarantees and commitments by risk category:

Group 2015	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and due from banks	482,939	-	-	482,939
Deposits with other banks	359,397	-	-	359,397
Loans to financial institutions	11,958,892	61,475	502,285	12,522,652
Loans to other customers	7,875,356	253,141	1,094,572	9,223,069
Financial assets at fair value through profit or loss	3,707	-	-	3,707
Assets available for sale	2,870,315	-	-	2,870,315
Assets held to maturity	1,451	-	-	1,451
Other assets	2,529	999	47	3,575
Total	**23,554,586**	**315,615**	**1,596,904**	**25,467,105**
Guarantees and commitments				
Guarantees issued in HRK	4,303	-	-	4,303
Issued guarantees in foreign currency	1,002,815	-	39,669	1,042,484
Undrawn loans	3,353,437	-	1,503	3,354,940
EIF – subscribed, not called up capital	48,864	-	-	48,864
Other irrevocable contingent liabilities	335	-	-	335
Total	**4,409,754**	**-**	**41,172**	**4,450,926**
Total credit risk exposure	**27,964,340**	**315,615**	**1,638,076**	**29,918,031**

31. Risk management (continued)

31.2. Credit risk (continued)

Credit risk quality according to type of financial asset (continued)

Credit risk quality according to the gross exposure of the type of financial assets on positions of assets and guarantees and commitments by risk category (continued):

Group *2014*	Gross exposure neither past due nor *impaired*	Gross exposure past due not impaired	Gross exposure individually impaired	Total
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and due from banks	128,786	-	-	128,786
Deposits with other banks	1,230,588	-	-	1,230,588
Loans to financial institutions	12,984,004	59,590	454,607	13,498,201
Loans to other customers	6,737,889	197,832	1,376,693	8,312,414
Financial assets at fair value through profit or loss	2,152	-	-	2,152
Assets available for sale	2,504,466	-	-	2,504,466
Assets held to maturity	1,470	-	-	1,470
Other assets	2,452	2,288	50	4,790
Total	**23,591,807**	**259,710**	**1,831,350**	**25,682,867**
Guarantees and commitments				
Guarantees issued in HRK	2,399	-	-	2,399
Issued guarantees in foreign currency	521,703	-	49,625	571,328
Issued bills of exchange	11,403	-	-	11,403
Open letters of credit in foreign currency	6,976	-	-	6,976
Undrawn loans	1,923,753	-	2,870	1,926,623
EIF – subscribed, not called up capital	49,034	-	-	49,034
Other irrevocable contingent liabilities	335	-	-	335
Total	**2,515,603**	**-**	**52,495**	**2,568,098**
Total credit risk exposure	**26,107,410**	**259,710**	**1,883,845**	**28,250,965**

31. Risk management (continued)

31.2. Credit risk (continued)

Credit risk quality according to type of financial asset (continued)

Credit risk quality according to the gross exposure of the type of financial assets on positions of assets and guarantees and commitments by risk category (continued):

Bank 2015	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and due from banks	482,697	-	-	482,697
Deposits with other banks	356,351	-	-	356,351
Loans to financial institutions	11,958,892	61,475	502,285	12,522,652
Loans to other customers	7,875,356	253,141	1,094,572	9,223,069
Assets available for sale	2,832,323	-	-	2,832,323
Other assets	1,633	598	47	2,278
Total	**23,507,252**	**315,214**	**1,596,904**	**25,419,370**
Guarantees and commitments				
Guarantees issued in HRK	4,303	-	-	4,303
Issued guarantees in foreign currency	1,002,815	-	39,669	1,042,484
Undrawn loans	3,353,437	-	1,503	3,354,940
EIF – subscribed, not called up capital	48,864	-	-	48,864
Other irrevocable contingent liabilities	335	-	-	335
Total	**4,409,754**	**-**	**41,172**	**4,450,926**
Total credit risk exposure	**27,917,006**	**315,214**	**1,638,076**	**29,870,296**

31. Risk management (continued)

31.2. Credit risk (continued)

Credit risk quality according to type of financial asset (continued)

Credit risk quality due to the gross exposure of the type of financial assets on positions of assets and guarantees and commitments by risk category (continued):

Bank 2014	Gross exposure neither past due nor impaired	Gross exposure past due not impaired	Gross exposure individually impaired	Total
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Cash on hand and due from banks	128,653	-	-	128,653
Deposits with other banks	1,213,434	-	-	1,213,434
Loans to financial institutions	12,984,004	59,590	454,607	13,498,201
Loans to other customers	6,737,889	197,832	1,376,693	8,312,414
Assets available for sale	2,483,134	-	-	2,483,134
Other assets	864	1,712	50	2,626
Total	**23,547,978**	**259,134**	**1,831,350**	**25,638,462**
Guarantees and commitments				
Guarantees issued in HRK	2,399	-	-	2,399
Issued guarantees in foreign currency	521,703	-	49,625	571,328
Issued bills of exchange	11,403	-	-	11,403
Open letters of credit in foreign currency	6,976	-	-	6,976
Undrawn loans	1,923,753	-	2,870	1,926,623
EIF – subscribed, not called up capital	49,034	-	-	49,034
Other irrevocable contingent liabilities	335	-	-	335
Total	**2,515,603**	**-**	**52,495**	**2,568,098**
Total credit risk exposure	**26,063,581**	**259,134**	**1,883,845**	**28,206,560**

31. Risk management (continued)

31.2. Credit risk (continued)

Credit risk quality according to type of financial asset (continued)

Aging analysis of past due but not impaired loans per class of financial asset:

Group 2015	*Up to 15* days	*16 to 30* days	*31 to 60* days	*61 to 90* days	Over 90 days	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Loans to financial institutions	5,733	4,823	8,588	33,853	8,478	61,475
Loans to other customers	118,913	15,466	11,209	8,959	98,594	253,141
Other assets	272	169	168	377	13	999
Total	**124,918**	**20,458**	**19,965**	**43,189**	**107,085**	**315,615**

Group 2014	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Loans to financial institutions	7,538	25,822	12,055	13,831	344	59,590
Loans to other customers	133,118	274	1,559	11,145	51,736	197,832
Other assets	201	84	327	216	1,460	2,288
Total	**140,857**	**26,180**	**13,941**	**25,192**	**53,540**	**259,710**

31. Risk management (continued)

31.2. Credit risk (continued)

Credit risk quality according to type of financial asset (continued)

Bank 2015	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Loans to financial institutions	5,733	4,823	8,588	33,853	8,478	61,475
Loans to other customers	118,913	15,466	11,209	8,959	98,594	253,141
Other assets	124	11	85	365	13	598
Total	**124,770**	**20,300**	**19,882**	**43,177**	**107,085**	**315,214**

Bank 2014	Up to 15 days	16 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Loans to financial institutions	7,538	25,822	12,055	13,831	344	59,590
Loans to other customers	133,118	274	1,559	11,145	51,736	197,832
Other assets	18	6	134	94	1,460	1,712
Total	**140,674**	**26,102**	**13,748**	**25,070**	**53,540**	**259,134**

Since the amount of past due but not impaired receivables of the subsidiary company is immaterial, the following text contains the breakdown of changes in past due but not impaired loans of the parent company.

From total due and not impaired loans to financial institutions in 2015, an amount of HRK 56,829 thousand or 92% relates to not executed extensions of revolving loans under framework contracts within the export credit financing programme and the manufacturing financing programme.

If the total amount of due and not impaired loans to financial institutions is reduced by the debt of financial institutions under the export credit finance programme and the manufacturing financing programme, the remaining debt equals HRK 4,646 thousand.

From total due and not impaired loans to other customers in 2015, an amount of HRK 118,913 thousand or 47% relates to delays of up to 15 days, of which the amount of HRK 9,306 thousand, i.e. 8%, was guaranteed by the Republic of Croatia.

From total due and not impaired loans to financial institutions in 2014, an amount of HRK 53,100 i.e. 89%, relates to not executed extensions of revolving loans under framework contracts within the export credit financing programme and the manufacturing financing programme.

If the total amount of due and not impaired loans to financial institutions is reduced by the debt of financial institutions under the export credit finance programme, the remaining debt equals HRK 6,490 thousand.

From total due and not impaired loans to other customers in 2014, an amount of HRK 113,118 thousand or 67% relates to delays of up to 15 days, of which the amount of HRK 309 thousand, i.e. less than 1%, was guaranteed by the Republic of Croatia.

31. Risk management (continued)

31.2. Credit risk (continued)

Collateral and other instruments

Collateral for the Bank's placements are:

1. obligatory (bills of exchange and promissory notes),
2. ordinary (property, ships, airplanes, bank guarantees, guarantees from the Republic of Croatia, guarantees from the local (regional) authorities, guarantees from HAMAG-BICRO (Croatian Agency for SMSs, Innovation and Investment), insurance policy from political and/or commercial risks), and
3. other collateral (movable property, bills of exchange or guarantees form other companies with solid creditworthiness, fiduciary or pledge of companies' equity instruments, repossession of cash receivables or assignment for collectible receivables, deposit repossession, restriction of transferability on insurance policy of assets and/or person, pledge on a trademark, etc.).

All Bank placements have to be secured with obligatory collateral. The Bank secures placements by property transfer or mortgage (sub-mortgage) on real estate/movables.

Acceptable standard and other collateral are classified according to quality in five groups. The evaluation of collateral is based on quality, estimated based on marketability, documentation and possibility of supervision by the Bank as well as the possibility of enforced collection. Only the acceptable collateral is evaluated while the sixth group of collateral is unacceptable.

When deciding on loan approval, weak creditworthiness cannot be replaced by quality collateral, except when the insurance instruments are first class instruments: guarantees from the Republic of Croatia, guarantees of local/regional authorities (JLPS), guarantees from HAMAG-BICRO, insurance policy against political and/or commercial risks and when the Republic of Croatia, JLPS or other government bodies guarantee for clients implicitly (through legal acts).

Collateral for placements with commercial banks

For the purpose of mitigation of credit risk and reduction of business costs, and in compliance with the Act on the Croatian Bank for Reconstruction and Development, the Bank approves part of its placements with commercial banks. As collateral for placements approved to final customers through commercial banks, the Bank uses mandatory collateral from commercial banks. The commercial bank is obliged to deliver them based on the Mutual business cooperation agreement, but not for each individual placement to the final customer based on that Agreement. In the individual contracts for placements to the final customers, the use of obligatory collateral delivered with the Agreement on mutual business cooperation is contracted. As the commercial bank takes on the risk of default by the final customer, it is given the option to contract sufficient collateral with the final customer.

Where the loan is approved through a commercial bank, depending on the commercial bank's internal rating, the Bank contracts a sub-mortgage. In this case, either the commercial bank transfers the ownership over the collateral, while the Bank takes a mortgage over the same collateral, or the commercial bank forms a mortgage on the collateral, while the Bank takes a sub-mortgage on the same collateral.

31. Risk management (continued)

31.2. Credit risk (continued)

Collateral and other instruments (continued)

Collateral for placements with commercial banks (continued)

By signing the Agreement on mutual business cooperation, a transfer of any claims the commercial bank may have towards the final customer is made to HBOR. Pursuant to the Agreement, the commercial bank authorises HBOR to unilaterally inform the bank in written form that, in the case of the commercial bank's insolvency or threat of liquidation, untimely repayments or default on the commitments agreed in the individual contract on interbank loan or actual (insolvent or regular) liquidation, the Bank assumes the receivable towards the final customer from the commercial bank, with the effect of assignment of receivables instead of contract fulfilment.

Additionally, based on the Agreement on mutual business cooperation and based on the said unilateral statement, the commercial bank authorises HBOR to transfer ownership over all collateral that the bank had agreed with the final customer on the particular placement, without having to obtain any additional approvals or permissions from the bank.

From the moment of the assignment, the final customer is obliged to make all payments related to the assigned receivable directly to HBOR. Should the commercial bank receive any payments in the name of collection of receivables per particular placement, the bank is obliged to immediately transfer the funds to HBOR.

Collateral for direct placements

All direct placements are mainly secured with a mortgage over real estate and, if that is possible, the Bank obtains as security against credit risk a guarantee from HAMAG-BICRO, a guarantee from the local (regional) authority, a guarantee from the Republic of Croatia, etc.

The Bank has the right to verify the appraisal of the collateral value and such a confirmed appraisal is considered as the final collateral value.

Depending on the type of collateral, the credit programme, the general terms of insurance or the decision of an authorised body, the Bank has determined the necessary ratio of placements and collateral.

For real estate, the necessary ratio between the amount of placement and the appraised value of the real estate is 1:1.3 except for investments on islands, in areas of special concern and hill or mountain areas, where the ratio is 1:1.2. For movable property, the necessary ratio between the amount of placement and the appraised value of the movable is 1:2.

31. Risk management (continued)

31.2. Credit risk (continued)

Collateral and other instruments (continued)

The Bank continuously monitors the value of the collateral by verification/statistical evaluation. Monitoring of the value of mortgaged real estate is performed once a year for business real estate, and every three years for residential buildings. The Bank has formed a special organizational unit for:

- evaluation and verification of already appraised and offered collateral (real estate and movables),
- technical and technological analysis of investment projects, and
- financial supervision over the withdrawal of loan funds for the purpose of the construction of the investment project.

In the event that it is not possible for the Bank to collect from regular operations, the Bank starts collection from the collateral at its disposal. This encompasses initiating collection from the obligatory collateral, then from first-class, unconditional collateral payable on first demand and then from the mortgage or fiduciary ownership of the real estate or movable property, including their repossession with a view to decreasing or fully settling the Bank's receivables. The Bank does not use repossessed assets for business purposes.

Collateral for placements under the risk-sharing models

In the case of risk-sharing models, collateral is created by commercial banks depending on the type of the model:

- in accordance with their own internal documents and good banking practices, and, consequently, HBOR's documents and collateral ratios prescribed in them do not apply,
- or collateral is created by commercial banks and HBOR for their respective shares in the loan in accordance with their own documents, decisions and/or procedures.

31. Risk management (continued)

31.3. Liquidity risk

Liquidity risk management includes the assessment and measurement of the risk, the performance of stress tests, the establishing of limits and the monitoring of limit utilisation, the determining of procedures, responsibilities and accountabilities for all organisational units that participate in the management of liquidity risk both in ordinary and crisis business conditions.

In order to manage liquidity risk, the Bank maintains the adequate level of liquidity reserve, continuously monitors current and planned liquidity, ensures HRK and foreign currency funds necessary for timely settlement of liabilities and for disbursements of approved loans and planned loan approvals.

The Bank's liquidity reserve is set in the amount of at least 10% of net assets.

Managing short term liquidity encompasses the monitoring and managing of daily liquidity, particularly on the basis of the limits established for investing in instruments aimed at the maintenance of liquidity reserve, the monitoring and managing of cash flow mismatch for the next 5 weeks and for 1-year period for the purpose of timely determining the activities targeted at the accomplishment of business plans and simultaneously maintaining the established liquidity reserve level.

By long term liquidity risk management, the Bank manages the mismatch between contracted and planned placements and their sources of funding in the period over one year, within the framework of which guidelines/resolutions/decisions on further activities are made by bodies in charge on the basis of long-term inflow and outflow projections as well as based on the relationship between the funding requirements of the Bank and the availability of funding sources.

Within the framework of stress tests, the Bank considers internal and external risk factors, and the results of such tests are reported to the Asset and Liability Management Committee and the Managing Board.

Liquidity risk management is ensured by the established system of limits and a regular review of their sufficiency, reporting to the competent authorities on the projected size of available resources and liquidity *reserves in the short and long term, which also represent* the basis for making conclusions by the Asset and Liability Management Committee/decisions by the Managing Board about activities ensuring business continuity within the prescribed limits.

The Bank does not hold deposits of citizens and is therefore not exposed to significant daily fluctuations in liquidity.

31. Risk management (continued)

31.3. Liquidity risk (continued)

The table below provides an analysis of total assets and total liabilities and equity as of 31 December 2015 and 31 December 2014 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Group 2015	Up to 1 month HRK '000	1 - 3 months HRK '000	3 - 12 months HRK '000	1 - 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Assets						
Cash on hand and due from banks	482,950	-	-	-	-	482,950
Deposits with other banks	205,177	-	154,220	-	-	359,397
Loans to financial institutions*	1,121,029	589,597	1,751,518	3,498,533	5,561,975	12,522,652
Loans to other customers	1,384,857	198,848	735,810	1,659,884	5,243,670	9,223,069
Financial assets at fair value through profit or loss	3,707	-	-	-	-	3,707
Assets available for sale	2,856,268	13,976	71	-	-	2,870,315
Assets held to maturity	-	10	4	-	1,437	1,451
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	62,238	62,238
Non-current assets held for sale	-	888	-	3,415	17,412	21,715
Other assets	3,175	1,057	504	-	542	5,278
Total assets (1)	**6,057,163**	**804,376**	**2,642,127**	**5,161,832**	**10,887,274**	**25,552,772**
Liabilities						
Deposits	112,993	-	5	101,555	22,083	236,636
Borrowings	74,834	195,163	1,527,267	2,499,200	7,181,623	11,478,087
Bonds payable	-	101,852	227,073	1,908,762	1,128,879	3,366,566
Other liabilities	169,362	36,280	120,393	223,958	256,946	806,939
Total liabilities	**357,189**	**333,295**	**1,874,738**	**4,733,475**	**8,589,531**	**15,888,228**
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,475,862	2,475,862
Other reserves	-	-	-	-	43,283	43,283
Net profit for the year	-	-	-	-	206,265	206,265
Total equity attributable to equity holders of the parent	**-**	**-**	**-**	**-**	**9,652,042**	**9,652,042**
Guarantee fund	-	-	-	-	12,502	12,502
Total equity	**-**	**-**	**-**	**-**	**9,664,544**	**9,664,544**
Total liabilities and total equity (2)	**357,189**	**333,295**	**1,874,738**	**4,733,475**	**18,254,075**	**25,552,772**
Net assets/liabilities (1) – (2)	**5,699,974**	**471,081**	**767,389**	**428,357**	**(7,366,801)**	**-**
Net cumulative assets/liabilities	**5,699,974**	**6,171,055**	**6,938,444**	**7,366,801**	**-**	**-**

The items with undefined maturity are included in terms over 3 years.

** Receivables of HRK 606,930 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of HRK 9,400 thousand was placed in the 1 up to 3 months maturity category.*

31. Risk management (continued)

31.3. Liquidity risk (continued)

Group 2014	Up to 1 month HRK '000	1 - 3 months HRK '000	3 - 12 months HRK '000	1 - 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Assets						
Cash on hand and due from banks	128,789	-	-	-	-	128,789
Deposits with other banks	-	461,965	768,623	-	-	1,230,588
Loans to financial institutions*	1,194,961	1,258,149	2,047,979	3,586,451	5,410,661	13,498,201
Loans to other customers	1,102,271	224,907	1,139,824	1,629,008	4,216,404	8,312,414
Financial assets at fair value through profit or loss	2,152	-	-	-	-	2,152
Assets available for sale	2,496,172	8,176	118	-	-	2,504,466
Assets held to maturity	-	10	5	-	1,455	1,470
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	66,817	66,817
Non-current assets held for sale	-	-	14,333	8,369	11,525	34,227
Other assets	4,430	1,377	646	40	383	6,876
Total assets (1)	**4,928,775**	**1,954,584**	**3,971,528**	**5,223,868**	**9,707,245**	**25,786,000**
Liabilities						
Deposits	162,229	-	17,529	2,452	686	182,896
Borrowings	33,099	175,993	522,485	2,917,511	7,955,732	11,604,820
Bonds payable	-	107,724	229,791	2,141,931	1,129,643	3,609,089
Other liabilities	178,840	44,337	149,782	261,693	323,520	958,172
Total liabilities	**374,168**	**328,054**	**919,587**	**5,323,587**	**9,409,581**	**16,354,977**
Equity						
Founder's capital	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	2,306,634	2,306,634
Other reserves	-	-	-	-	48,877	48,877
Net profit for the year	-	-	-	-	169,228	169,228
Total equity attributable to equity holders of the parent	-	-	-	-	**9,418,478**	**9,418,478**
Guarantee fund	-	-	-	-	12,545	12,545
Total equity	-	-	-	-	**9,431,023**	**9,431,023**
Total liabilities and total equity (2)	**374,168**	**328,054**	**919,587**	**5,323,587**	**18,840,604**	**25,786,000**
Net assets/liabilities (1) – (2)	**4,554,607**	**1,626,530**	**3,051,941**	**(99,719)**	**(9,133,359)**	**-**
Net cumulative assets/liabilities	**4,554,607**	**6,181,137**	**9,233,078**	**9,133,359**	**-**	**-**

The items with undefined maturity are included in terms over 3 years.

** Receivables of HRK 1,515,684 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of HRK 660,074 thousand was placed in the 1 up to 3 months maturity category.*

31. Risk management (continued)

31.3. Liquidity risk (continued)

The table below provides an analysis of total assets and total liabilities and equity as of 31 December 2015 and 31 December 2014 placed into relevant maturity groupings based on the remaining period as at the Statement of Financial Position date related to the contractual maturity date, as follows:

Bank 2015	Up to 1 month HRK '000	1 - 3 months HRK '000	3 - 12 months HRK '000	1 - 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Assets						
Cash on hand and due from banks	482,708	-	-	-	-	482,708
Deposits with other banks	205,177	-	151,174	-	-	356,351
Loans to financial institutions*	1,121,029	589,597	1,751,518	3,498,533	5,561,975	12,522,652
Loans to other customers	1,384,857	198,848	735,810	1,659,884	5,243,670	9,223,069
Assets available for sale	2,818,431	13,892	-	-	-	2,832,323
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	62,083	62,083
Non-current assets held for sale	-	888	-	3,415	17,412	21,715
Other assets	2,528	410	501	-	312	3,751
Total assets (1)	**6,014,730**	**803,635**	**2,639,003**	**5,161,832**	**10,921,576**	**25,540,776**
Liabilities						
Deposits	112,993	-	5	101,555	22,083	236,636
Borrowings	74,834	195,163	1,527,267	2,499,200	7,181,623	11,478,087
Bonds payable	-	101,852	227,073	1,908,762	1,128,879	3,366,566
Other liabilities	168,827	34,611	116,993	218,297	258,312	797,040
Total liabilities	**356,654**	**331,626**	**1,871,338**	**4,727,814**	**8,590,897**	**15,878,329**
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,476,903	2,476,903
Other reserves	-	-	-	-	41,182	41,182
Net profit for the year	-	-	-	-	205,228	205,228
Capital	**-**	**-**	**-**	**-**	**9,649,945**	**9,649,945**
Guarantee fund	-	-	-	-	12,502	12,502
Total equity	**-**	**-**	**-**	**-**	**9,662,447**	**9,662,447**
Total liabilities and total equity (2)	**356,654**	**331,626**	**1,871,338**	**4,727,814**	**18,253,344**	**25,540,776**
Net assets/liabilities (1) – (2)	**5,658,076**	**472,009**	**767,665**	**434,018**	**(7,331,768)**	**-**
Net cumulative assets/liabilities	**5,658,076**	**6,130,085**	**6,897,750**	**7,331,768**	**-**	**-**

The items with undefined maturity are included in terms over 3 years.

** Receivables of HRK 606,930 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of HRK 9,400 thousand was placed in the 1 up to 3 months maturity category.*

31. Risk management (continued)

31.3. Liquidity risk (continued)

Bank 2014	Up to 1 month HRK '000	1 - 3 months HRK '000	3 - 12 months HRK '000	1 - 3 years HRK '000	Over 3 years HRK '000	Total HRK '000
Assets						
Cash on hand and due from banks	128,656	-	-	-	-	128,656
Deposits with other banks	-	454,943	758,491	-	-	1,213,434
Loans to financial institutions*	1,194,961	1,258,149	2,047,979	3,586,451	5,410,661	13,498,201
Loans to other customers	1,102,271	224,907	1,139,824	1,629,008	4,216,404	8,312,414
Assets available for sale	2,475,004	8,130	-	-	-	2,483,134
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	66,533	66,533
Non-current assets held for sale	-	-	14,333	8,369	11,525	34,227
Other assets	3,151	492	646	40	-	4,329
Total assets (1)	**4,904,043**	**1,946,621**	**3,961,273**	**5,223,868**	**9,741,247**	**25,777,052**
Liabilities						
Deposits	162,229	-	17,529	2,452	686	182,896
Borrowings	33,099	175,993	522,485	2,917,511	7,955,732	11,604,820
Bonds payable	-	107,724	229,791	2,141,931	1,129,643	3,609,089
Other liabilities	178,323	42,564	144,790	260,007	324,433	950,117
Total liabilities	**373,651**	**326,281**	**914,595**	**5,321,901**	**9,410,494**	**16,346,922**
Equity						
Founder's capital	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	2,308,560	2,308,560
Other reserves	-	-	-	-	46,943	46,943
Net profit for the year	-	-	-	-	168,343	168,343
Capital	**-**	**-**	**-**	**-**	**9,417,585**	**9,417,585**
Guarantee fund	-	-	-	-	12,545	12,545
Total equity	**-**	**-**	**-**	**-**	**9,430,130**	**9,430,130**
Total liabilities and total equity (2)	**373,651**	**326,281**	**914,595**	**5,321,901**	**18,840,624**	**25,777,052**
Net assets/liabilities (1) – (2)	**4,530,392**	**1,620,340**	**3,046,678**	**(98,033)**	**(9,099,377)**	**-**
Net cumulative assets/liabilities	**4,530,392**	**6,150,732**	**9,197,410**	**9,099,377**	**-**	**-**

The items with undefined maturity are included in terms over 3 years.

** Receivables of HRK 1,515,684 thousand relate to reverse REPO agreements. The maturity of part of receivables was prolonged after the Statement of Financial Position date, and an amount of HRK 660,074 thousand was placed in the 1 up to 3 months maturity category.*

31. Risk management (continued)

31.3. Liquidity risk (continued)

The table below indicates the remaining contractual maturity of financial liabilities of the Group in undiscounted amounts:

Group 2015	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits	112,993	-	5	101,555	22,083	236,636
Borrowings	102,360	176,106	1,736,070	3,160,537	8,796,440	13,971,513
Bonds payable	-	-	402,237	2,141,631	1,266,310	3,810,178
Other liabilities	169,362	36,280	120,393	223,958	256,946	806,939
Total	**384,715**	**212,386**	**2,258,705**	**5,627,681**	**10,341,779**	**18,825,266**

Group 2014	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits	162,229	-	17,529	2,452	686	182,896
Borrowings	62,363	158,809	737,350	3,682,846	9,748,723	14,390,091
Bonds payable	-	-	416,610	2,482,423	1,336,502	4,235,535
Other liabilities	178,840	44,337	149,782	261,693	323,520	958,172
Total	**403,432**	**203,146**	**1,321,271**	**6,429,414**	**11,409,431**	**19,766,694**

31. Risk management (continued)

31.3. Liquidity risk (continued)

The table below indicates the remaining contractual maturity of financial liabilities of the Bank in undiscounted amounts:

Bank 2015	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits	112,993	-	5	101,555	22,083	236,636
Borrowings	102,360	176,106	1,736,070	3,160,537	8,796,440	13,971,513
Bonds payable	-	-	402,237	2,141,631	1,266,310	3,810,178
Other liabilities	168,827	34,611	116,993	218,297	258,312	797,040
Total	**384,180**	**210,717**	**2,255,305**	**5,622,020**	**10,343,145**	**18,815,367**

Bank 2014	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Financial liabilities						
Deposits	162,229	-	17,529	2,452	686	182,896
Borrowings	62,363	158,809	737,350	3,682,846	9,748,723	14,390,091
Bonds payable	-	-	416,610	2,482,423	1,336,502	4,235,535
Other liabilities	178,323	42,564	144,790	260,007	324,433	950,117
Total	**402,915**	**201,373**	**1,316,279**	**6,427,728**	**11,410,344**	**19,758,639**

31. Risk management (continued)

31.4. Market risk

Management of market risks at the Bank implies the reduction of interest rate risk and the currency risk to a minimal level.

31.4.1. Interest rate risk

The interest rate risk management at the Bank implies the management of interest rate risk in the Bank's book. As development and export special financial institution, the Bank does not perform trading activities.

For the purpose of measurement and monitoring of interest rate risk, the Bank carries out interest rate gap analysis. Interest rate gap is calculated for certain periods according to the possibilities of interest rate changes (fixed or floating rates) and presents the sensitivity of the Bank to the changes in interest rates. Interest rates are structured per currency, type and value, and projections of average weighted interest rates for Bank's funds and placements are made.

Based on the mentioned reports, the sensitivity of Bank's statement of profit or loss and other comprehensive income to possible interest rate fluctuations is monitored simultaneously with the endeavours to match the interest bearing total assets, total liabilities and equity. In this way, the Bank reduces its market movement sensitivity as well as its sensitivity to reference interest rates fluctuations. Furthermore, current market conditions and movements in forecasted market indicators are also monitored.

The Bank continuously analyses net interest rate margins by preparing projections on the basis of selected scenarios and among other things, assesses the impact of the change in interest rates by Bank's loan programmes, change in interest reference rates and change in prices of fund sources. The result of the analyses performed are reported to the ALCO and the Managing Board with the aim to act proactively and insure further operations in accordance with the set of limits established for the purpose of risk management.

As a special financial institution, the Bank is not profit driven and, consequently, does not use derivative instruments. The use of derivatives is allowed for the purpose of position hedging only.

31. Risk management (continued)

31.4. Market risk (continued)

31.4.1. Interest rate risk (continued)

The following tables demonstrate the sensitivity of Group to a reasonable possible change in interest rates as of 31 December 2015 and 2014 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter.

Assets and liabilities on which interest is not charged are placed into the non-interest bearing category.

The tables below demonstrate the estimation of Group's interest rate risk exposure as of 31 December 2015 and 2014 which may not be indicative for the positions in other periods.

Group 2015	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Non-Interest bearing	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets							
Cash on hand and due from banks	242	-	-	-	-	482,708	482,950
Deposits with other banks	204,986	-	154,174	-	-	237	359,397
Loans to financial institutions	1,114,347	1,075,199	1,915,320	3,233,354	5,170,599	13,833	12,522,652
Loans to other customers	1,442,435	620,953	1,008,086	1,195,079	4,908,612	47,904	9,223,069
Financial assets at fair value through profit or loss	-	-	-	-	-	3,707	3,707
Assets available for sale	2,102,226	-	-	-	-	768,089	2,870,315
Assets held to maturity	-	-	-	-	1,437	14	1,451
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	62,238	62,238
Non-current assets held for sale	-	-	-	-	-	21,715	21,715
Other assets	-	-	-	-	-	5,278	5,278
Total assets (1)	**4,864,236**	**1,696,152**	**3,077,580**	**4,428,433**	**10,080,648**	**1,405,723**	**25,552,772**

31. Risk management (continued)

31.4. Market risk (continued)

31.4.1. Interest rate risk (continued)

Group 2015	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Non-interest bearing	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Liabilities							
Deposits	-	-	-	-	-	236,636	236,636
Borrowings	74,834	127,590	1,531,085	2,495,382	7,181,623	67,573	11,478,087
Bonds payable	-	-	227,073	1,908,762	1,128,879	101,852	3,366,566
Other liabilities	-	-	-	-	-	806,939	806,939
Total liabilities	**74,834**	**127,590**	**1,758,158**	**4,404,144**	**8,310,502**	**1,213,000**	**15,888,228**
Equity							
Founder's capital	-	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	-	2,475,862	2,475,862
Other reserves	-	-	-	-	-	43,283	43,283
Net profit for the year	-	-	-	-	-	206,265	206,265
Total equity attributable to equity holders of the parent	**-**	**-**	**-**	**-**	**-**	**9,652,042**	**9,652,042**
Guarantee fund	-	-	-	-	-	12,502	12,502
Total equity	**-**	**-**	**-**	**-**	**-**	**9,664,544**	**9,664,544**
Total liabilities and total equity (2)	**74,834**	**127,590**	**1,758,158**	**4,404,144**	**8,310,502**	**10,877,544**	**25,552,772**
Net assets/liabilities (1) – (2)	**4,789,402**	**1,568,562**	**1,319,422**	**24,289**	**1,770,146**	**(9,471,821)**	**-**

31. Risk management (continued)

31.4. Market risk (continued)

31.4.1. Interest rate risk (continued)

Group 2014	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Non-interest bearing	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets							
Cash on hand and due from banks	133	-	-			128,656	128,789
Deposits with other banks	-	461,926	768,469	-	-	193	1,230,588
Loans to financial institutions	1,188,129	1,818,144	2,375,582	3,176,882	4,919,883	19,581	13,498,201
Loans to other customers	1,037,542	665,649	1,409,609	1,308,090	3,851,832	39,692	8,312,414
Financial assets at fair value through profit or loss	-	-	-	-	-	2,152	2,152
Assets available for sale	1,769,007	-	-	-	-	735,459	2,504,466
Assets held to maturity	-	-	-	-	1,455	15	1,470
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	66,817	66,817
Non-current assets held for sale	-	-	-	-	-	34,227	34,227
Other assets	-	-	-	-	-	6,876	6,876
Total assets (1)	**3,994,811**	**2,945,719**	**4,553,660**	**4,484,972**	**8,773,170**	**1,033,668**	**25,786,000**

31. Risk management (continued)

31.4. Market risk (continued)

31.4.1. Interest rate risk (continued)

Group 2014	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Non-interest bearing	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Liabilities							
Deposits	-	-	-	-	-	182,896	182,896
Borrowings	33,099	107,061	1,445,818	2,828,586	7,121,324	68,932	11,604,820
Bonds payable	-	-	229,791	2,141,931	1,129,643	107,724	3,609,089
Other liabilities	-	-	-	-	-	958,172	958,172
Total liabilities	**33,099**	**107,061**	**1,675,609**	**4,970,517**	**8,250,967**	**1,317,724**	**16,354,977**
Equity							
Founder's capital	-	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	-	2,306,634	2,306,634
Other reserves	-	-	-	-	-	48,877	48,877
Net profit for the year	-	-	-	-	-	169,228	169,228
Total equity attributable to equity holders of the parent	**-**	**-**	**-**	**-**	**-**	**9,418,478**	**9,418,478**
Guarantee fund	-	-	-	-	-	12,545	12,545
Total equity	**-**	**-**	**-**	**-**	**-**	**9,431,023**	**9,431,023**
Total liabilities and total equity (2)	**33,099**	**107,061**	**1,675,609**	**4,970,517**	**8,250,967**	**10,748,747**	**25,786,000**
Net assets/liabilities (1) – (2)	**3,961,712**	**2,838,658**	**2,878,051**	**(485,545)**	**522,203**	**(9,715,079)**	**-**

31. Risk management (continued)

31.4. Market risk (continued)

31.4.1. Interest rate risk (continued)

The following tables demonstrate the sensitivity of HBOR to a reasonable possible change in interest rates as of 31 December 2015 and 2014 on the basis of known dates of changes in prices of assets and liabilities to which floating and fixed interest rates are applied. Periods of interest rates changes are determined on the basis of residual maturity and contracted period when interest rates change, depending on which is shorter.

Assets and liabilities on which interest is not charged are placed into the non-interest bearing category.

The tables below demonstrate the estimation of HBOR's interest rate risk exposure as of 31 December 2015 and 2014 which may not be indicative for the positions in other periods.

Bank 2015	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Non-interest bearing	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets							
Cash on hand and due from banks	-	-	-	-	-	482,708	482,708
Deposits with other banks	204,986	-	151,174	-	-	191	356,351
Loans to financial institutions	1,114,347	1,075,199	1,915,320	3,233,354	5,170,599	13,833	12,522,652
Loans to other customers	1,442,435	620,953	1,008,086	1,195,079	4,908,612	47,904	9,223,069
Assets available for sale	2,065,045	-	-	-	-	767,278	2,832,323
Investments in subsidiaries	-	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	62,083	62,083
Non-current assets held for sale	-	-	-	-	-	21,715	21,715
Other assets	-	-	-	-	-	3,751	3,751
Total assets (1)	**4,826,813**	**1,696,152**	**3,074,580**	**4,428,433**	**10,079,211**	**1,435,587**	**25,540,776**

31. Risk management (continued)

31.4. Market risk (continued)

31.4.1. Interest rate risk (continued)

Bank 2015	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Non-interest bearing	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Liabilities							
Deposits	-	-	-	-	-	236,636	236,636
Borrowings	74,834	127,590	1,531,085	2,495,382	7,181,623	67,573	11,478,087
Bonds payable	-	-	227,073	1,908,762	1,128,879	101,852	3,366,566
Other liabilities	-	-	-	-	-	797,040	797,040
Total liabilities	**74,834**	**127,590**	**1,758,158**	**4,404,144**	**8,310,502**	**1,203,101**	**15,878,329**
Equity							
Founder's capital	-	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	-	2,476,903	2,476,903
Other reserves	-	-	-	-	-	41,182	41,182
Net profit for the year	-	-	-	-	-	205,228	205,228
Capital	**-**	**-**	**-**	**-**	**-**	**9,649,945**	**9,649,945**
Guarantee fund	-	-	-	-	-	12,502	12,502
Total equity	**-**	**-**	**-**	**-**	**-**	**9,662,447**	**9,662,447**
Total liabilities and total equity (2)	**74,834**	**127,590**	**1,758,158**	**4,404,144**	**8,310,502**	**10,865,548**	**25,540,776**
Net assets/liabilities (1) – (2)	**4,751,979**	**1,568,562**	**1,316,422**	**24,289**	**1,768,709**	**(9,429,961)**	**-**

31. Risk management (continued)

31.4. Market risk (continued)

31.4.1. interest rate risk (continued)

Bank 2014	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Non-interest bearing	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets							
Cash on hand and due from banks	-	-	-	-	-	128,656	128,656
Deposits with other banks	-	454,938	758,486	-	-	10	1,213,434
Loans to financial institutions	1,188,129	1,818,144	2,375,582	3,176,882	4,919,883	19,581	13,498,201
Loans to other customers	1,037,542	665,649	1,409,609	1,308,090	3,851,832	39,692	8,312,414
Assets available for sale	1,749,183	-	-	-	-	733,951	2,483,134
Investments in subsidiaries	-	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	-	66,533	66,533
Non-current assets held for sale	-	-	-	-	-	34,227	34,227
Other assets	-	-	-	-	-	4,329	4,329
Total assets (1)	**3,974,854**	**2,938,731**	**4,543,677**	**4,484,972**	**8,771,715**	**1,063,103**	**25,777,052**

31. Risk management (continued)

31.4. Market risk (continued)

31.4.1. Interest rate risk (continued)

Bank 2014	Up to 1 month	1 - 3 months	3 - 12 months	1 - 3 years	Over 3 years	Non-interest bearing	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Liabilities							
Deposits	-	-	-	-	-	182,896	182,896
Borrowings	33,099	107,061	1,445,818	2,828,586	7,121,324	68,932	11,604,820
Bonds payable	-	-	229,791	2,141,931	1,129,643	107,724	3,609,089
Other liabilities	-	-	-	-	-	950,117	950,117
Total liabilities	**33,099**	**107,061**	**1,675,609**	**4,970,517**	**8,250,967**	**1,309,669**	**16,346,922**
Equity							
Founder's capital	-	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	-	2,308,560	2,308,560
Other reserves	-	-	-	-	-	46,943	46,943
Net profit for the year	-	-	-	-	-	168,343	168,343
Capital	**-**	**-**	**-**	**-**	**-**	**9,417,585**	**9,417,585**
Guarantee fund	-	-	-	-	-	12,545	12,545
Total equity	**-**	**-**	**-**	**-**	**-**	**9,430,130**	**9,430,130**
Total liabilities and total equity (2)	**33,099**	**107,061**	**1,675,609**	**4,970,517**	**8,250,967**	**10,739,799**	**25,777,052**
Net assets/liabilities (1) – (2)	**3,941,755**	**2,831,670**	**2,868,068**	**(485,545)**	**520,748**	**(9,676,696)**	**-**

31. Risk management (continued)

31.4. Market risk (continued)

31.4.1. Interest rate risk (continued)

Total assets, total liabilities and equity on the basis of a possibility of changes in interest rates (fixed or variable):

	Group		Bank	
	2015	2014	2015	2014
	HRK '000	HRK '000	HRK '000	HRK '000
Assets				
Fixed interest rate assets	22,176,481	22,405,395	22,134,621	22,367,012
Variable interest rate assets	1,970,568	2,346,937	1,970,568	2,346,937
Non-interest bearing	1,405,723	1,033,668	1,435,587	1,063,103
Total assets	**25,552,772**	**25,786,000**	**25,540,776**	**25,777,052**
Liabilities				
Fixed interest rate liabilities	14,667,593	14,095,724	14,667,593	14,095,724
Variable interest rate liabilities	7,635	941,529	7,635	941,529
Non-interest bearing	10,877,544	10,748,747	10,865,548	10,739,799
Total liabilities and total equity	**25,552,772**	**25,786,000**	**25,540,776**	**25,777,052**

31. Risk management (continued)

31.4. Market risk (continued)

31.4.1. interest rate risk (continued)

Sensitivity analysis

Assumptions used in preparing the interest risk sensitivity analysis relate to possible changes in reference interest rates in order to assess the hypothetical effect on HBOR's profit.

Volatility of reference interest rates for 2015 has been determined using the standard deviation method on the daily changes of the reference interest rates linked to EUR and USD. On the basis of the above volatility, possible changes in reference interest rates linked to EUR and USD have been established and used in the sensitivity analysis.

The analysis presents the sensitivity of interest rates to reasonably expected changes in basis points. All other variables remain constant.

The sensitivity of profit is influenced by hypothetical changes in interest rates during a period of one year based on interest bearing assets and liabilities with a variable interest rate.

Currency	Increase in b.p. in 2015	Effect on profit in 2015	Increase in b.p. in 2014	Effect on profit in 2014
		HRK '000		HRK '000
EUR	+40	7,237	+3	424
USD	+11	161	-	-

Currency	Decrease in b.p. in 2015	Effect on profit in 2015	Decrease in b.p. in 2014	Effect on profit in 2014
		HRK '000		HRK '000
EUR	-40	(7,237)	-3	(424)
USD	-11	(161)	-	-

** Sensitivity analysis has not been performed for the items with reference interest rates linked to USD as at 31 December 2014 since such items are not a constituent element of the Bank's assets and liabilities.*

31. Risk management (continued)

31.4. Market risk (continued)

31.4.2. Currency risk

By the internal documents, the Bank has established the methods for the assessment, i.e. measurement, monitoring, management and control of the currency risk, as well as the limits and proceedings both in cases indicating to a crisis and in crisis conditions. Responsibilities and accountabilities have been determined for those organisational units of the Bank that participate in the currency risk management as well as reports necessary for comprehensive perception of this risk.

Exposure to currency risk is monitored daily on the basis of the total open foreign currency position and on the basis of the open foreign currency positions in significant currencies. In addition to the daily monitoring of open foreign currency positions, the projections of their developments are also prepared. The projections of the developments in the open foreign currency positions provide the basis for the Asset and Liability Management Committee to adopt guidelines and resolutions and for the Management Board to make decisions in order to secure the timely undertaking of activities aiming to maintain the Bank's operations within the established currency risk management limits. For the measurement/assessment of currency risk, the Bank uses VaR model as an auxiliary model and regularly reports to the bodies in charge on maximum possible losses on significant currencies.

The Bank performs stress tests under the assumption of extensive appreciation/depreciation of HRK against significant currencies and reports on test results to the ALCO and the Managing Board.

31. Risk management (continued)

31.4. Market risk (continued)

31.4.2. Currency risk (continued)

Total assets, total liabilities and equity as of 31 December 2015 and 31 December 2014 in HRK and foreign currencies can be shown as follows:

Group 2015	USD HRK '000	EUR HRK '000	Other foreign currencies HRK '000	Total foreign currencies HRK '000	HRK HRK '000	Total HRK '000
Assets						
Cash on hand and due from banks	72,536	302,044	775	375,355	107,595	482,950
Deposits with other banks	-	350,813	5,538	356,351	3,046	359,397
Loans to financial institutions	-	6,951,331	-	6,951,331	5,571,321	12,522,652
Loans to other customers	152,223	5,325,845	-	5,478,068	3,745,001	9,223,069
Financial assets at fair value through profit or loss	-	2,690	-	2,690	1,017	3,707
Assets available for sale	14,629	1,073,568	-	1,088,197	1,782,118	2,870,315
Assets held to maturity	-	1,451	-	1,451	-	1,451
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	62,238	62,238
Non-current assets held for sale	-	-	-	-	21,715	21,715
Other assets	-	495	-	495	4,783	5,278
Total assets (1)	**239,388**	**14,008,237**	**6,313**	**14,253,938**	**11,298,834***	**25,552,772**
Liabilities						
Deposits	75,197	89,531	6,135	170,863	65,773	236,636
Borrowings	-	10,731,184	-	10,731,184	746,903	11,478,087
Bonds payable	-	3,366,566	-	3,366,566	-	3,366,566
Other liabilities	95	8,541	9,960	18,596	788,343	806,939
Total liabilities	**75,292**	**14,195,822**	**16,095**	**14,287,209**	**1,601,019**	**15,888,228**
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,475,862	2,475,862
Other reserves	-	-	-	-	43,283	43,283
Net profit for the year	-	-	-	-	206,265	206,265
Total equity attributable to equity holders of the parent	**-**	**-**	**-**	**-**	**9,652,042**	**9,652,042**
Guarantee fund	-	12,502	-	12,502	-	12,502
Total equity	**-**	**12,502**	**-**	**12,502**	**9,652,042**	**9,664,544**
Total liabilities and total equity (2)	**75,292**	**14,208,324**	**16,095**	**14,299,711**	**11,253,061**	**25,552,772**
Net assets/liabilities (1) – (2)	**164,096**	**(200,087)**	**(9,782)****	**(45,773)**	**45,773**	**-**

** Amounts linked to a one-way currency clause represent HRK 347,235 thousand.*

*** Reported gap is a result of provisions made for issued foreign currency guarantees in other foreign currencies stated under "Other liabilities".*

31. Risk management (continued)

31.4. Market risk (continued)

31.4.2. Currency risk (continued)

Group 2014	USD HRK '000	EUR HRK '000	Other foreign currencies HRK '000	Total foreign currencies HRK '000	HRK HRK '000	Total HRK '000
Assets						
Cash on hand and due from banks	1,259	64,756	634	66,649	62,140	128,789
Deposits with other banks	-	1,220,490	-	1,220,490	10,098	1,230,588
Loans to financial institutions	-	7,749,703	-	7,749,703	5,748,498	13,498,201
Loans to other customers	8,830	4,051,064	-	4,059,894	4,252,520	8,312,414
Financial assets at fair value through profit or loss	-	1,551	-	1,551	601	2,152
Assets available for sale	13,503	526,771	-	540,274	1,964,192	2,504,466
Assets held to maturity	-	1,470		1,470	-	1,470
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	66,817	66,817
Non-current assets held for sale	-	-	-	-	34,227	34,227
Other assets	-	476	-	476	6,400	6,876
Total assets (1)	**23,592**	**13,616,281**	**634**	**13,640,507**	**12,145,493***	**25,786,000**
Liabilities						
Deposits	23,987	27,722	39	51,748	131,148	182,896
Borrowings		10,857,919	-	10,857,919	746,901	11,604,820
Bonds payable	-	3,609,089	-	3,609,089	-	3,609,089
Other liabilities	-	8,461	12,444	20,905	937,267	958,172
Total liabilities	**23,987**	**14,503,191**	**12,483**	**14,539,661**	**1,815,316**	**16,354,977**
Equity						
Founder's capital	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	2,306,634	2,306,634
Other reserves	-	-	-	-	48,877	48,877
Net profit for the year	-	-	-	-	169,228	169,228
Total equity attributable to equity holders of the parent	**-**	**-**	**-**	**-**	**9,418,478**	**9,418,478**
Guarantee fund	-	12,545	-	12,545	-	12,545
Total equity	**-**	**12,545**	**-**	**12,545**	**9,418,478**	**9,431,023**
Total liabilities and total equity (2)	**23,987**	**14,515,736**	**12,483**	**14,552,206**	**11,233,794**	**25,786,000**
Net assets/liabilities (1) – (2)	**(395)**	**(899,455)**	**(11,849)****	**(911,699)**	**911,699**	**-**

** Amounts linked to a one-way currency clause represent HRK 470,325 thousand.*

*** Reported gap is a result of provisions made for issued foreign currency guarantees in other foreign currencies stated under "Other liabilities".*

31. Risk management (continued)

31.4. Market risk (continued)

31.4.2. *Currency risk (continued)*

Total assets, total liabilities and equity as of 31 December 2015 and 31 December 2014 in HRK and foreign currencies can be shown as follows:

Bank 2015	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash on hand and due from banks	72,536	302,044	775	375,355	107,353	482,708
Deposits with other banks	-	350,813	5,538	356,351	-	356,351
Loans to financial institutions	-	6,951,331	-	6,951,331	5,571,321	12,522,652
Loans to other customers	152,223	5,325,845	-	5,478,068	3,745,001	9,223,069
Assets available for sale	14,629	1,063,164	-	1,077,793	1,754,530	2,832,323
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	62,083	62,083
Non-current assets held for sale	-	-	-	-	21,715	21,715
Other assets	-	-	-	-	3,751	3,751
Total assets (1)	**239,388**	**13,993,197**	**6,313**	**14,238,898**	**11,301,878***	**25,540,776**
Liabilities						
Deposits	75,197	89,531	6,135	170,863	65,773	236,636
Borrowings	-	10,731,184	-	10,731,184	746,903	11,478,087
Bonds payable	-	3,366,566	-	3,366,566	-	3,366,566
Other liabilities	-	1,795	9,917	11,712	785,328	797,040
Total liabilities	**75,197**	**14,189,076**	**16,052**	**14,280,325**	**1,598,004**	**15,878,329**
Equity						
Founder's capital	-	-	-	-	6,926,632	6,926,632
Retained earnings and reserves	-	-	-	-	2,476,903	2,476,903
Other reserves	-	-	-	-	41,182	41,182
Net profit for the year	-	-	-	-	205,228	205,228
Capital	**-**	**-**	**-**	**-**	**9,649,945**	**9,649,945**
Guarantee fund	-	12,502	-	12,502	-	12,502
Total equity	**-**	**12,502**	**-**	**12,502**	**9,649,945**	**9,662,447**
Total liabilities and total equity (2)	**75,197**	**14,201,578**	**16,052**	**14,292,827**	**11,247,949**	**25,540,776**
Net assets/liabilities (1) – (2)	**164,191**	**(208,381)**	**(9,739)****	**(53,929)**	**53,929**	**-**

** Amounts linked to a one-way currency clause represent HRK 347,235 thousand.*

*** Reported gap is a result of provisions made for issued foreign currency guarantees in other foreign currencies stated under "Other liabilities".*

31. Risk management (continued)

31.4. Market risk (continued)

31.4.2. Currency risk (continued)

Bank 2014	USD	EUR	Other foreign currencies	Total foreign currencies	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Assets						
Cash on hand and due from banks	1,259	64,756	634	66,649	62,007	128,656
Deposits with other banks	-	1,213,434	-	1,213,434	-	1,213,434
Loans to financial institutions	-	7,749,703	-	7,749,703	5,748,498	13,498,201
Loans to other customers	8,830	4,051,064	-	4,059,894	4,252,520	8,312,414
Assets available for sale	13,503	517,573	-	531,076	1,952,058	2,483,134
Investments in subsidiaries	-	-	-	-	36,124	36,124
Investments in associates	-	-	-	-	-	-
Property, plant and equipment and intangible assets	-	-	-	-	66,533	66,533
Non-current assets held for sale	-	-	-	-	34,227	34,227
Other assets	-	-	-	-	4,329	4,329
Total assets (1)	**23,592**	**13,596,530**	**634**	**13,620,756**	**12,156,296***	**25,777,052**
Liabilities						
Deposits	23,987	27,722	39	51,748	131,148	182,896
Borrowings	-	10,857,919	-	10,857,919	746,901	11,604,820
Bonds payable	-	3,609,089	-	3,609,089	-	3,609,089
Other liabilities	-	3,089	12,407	15,496	934,621	950,117
Total liabilities	**23,987**	**14,497,819**	**12,446**	**14,534,252**	**1,812,670**	**16,346,922**
Equity						
Founder's capital	-	-	-	-	6,893,739	6,893,739
Retained earnings and reserves	-	-	-	-	2,308,560	2,308,560
Other reserves	-	-	-	-	46,943	46,943
Net profit for the year	-	-	-	-	168,343	168,343
Capital	**-**	**-**	**-**	**-**	**9,417,585**	**9,417,585**
Guarantee fund	-	12,545	-	12,545	-	12,545
Total equity	**-**	**12,545**	**-**	**12,545**	**9,417,585**	**9,430,130**
Total liabilities and total equity (2)	**23,987**	**14,510,364**	**12,446**	**14,546,797**	**11,230,255**	**25,777,052**
Net assets/liabilities (1) – (2)	**(395)**	**(913,834)**	**(11,812)****	**(926,041)**	**926,041**	**-**

** Amounts linked to a one-way currency clause represent HRK 470,325 thousand.*

*** Reported gap is a result of provisions made for issued foreign currency guarantees in other foreign currencies stated under "Other liabilities".*

31. Risk management (continued)

31.4. Market risk (continued)

31.4.2. Currency risk (continued)

Sensitivity analysis

Sensitivity analysis of the Bank's total assets and total liabilities to fluctuations in foreign exchange rates is carried out for those foreign currencies that represent Bank's significant currencies as at the reporting date.

An assumption of reasonably possible fluctuations in EUR exchange rates against HRK was used in the foreign currency risk sensitivity analysis, with the other variables remaining stable, in order to assess the hypothetical effect on HBOR's profit as of 31 December 2015.

Volatility of the exchange rate EUR/HRK, determined using the standard deviation method on the changes of the foreign exchange rate EUR/HRK, equalled 1.9% in 2015 (31 December 2014: 1.0%).

The effect of the assumed changes in the foreign exchange rate EUR/HRK by total asset, total liabilities and equity items denominated or indexed to EUR on HBOR's profits is stated below.

	Change in currency rate in % 2015	Effect on profit in 2015 HRK' 000	Change in currency rate in % 2014	Effect on profit in 2014 HRK' 000
EUR	+1.9%	6,823	+1.0%	(786)
EUR	-1.9%	(6,056)	-1.0%	1,001

31.5. Operational risk

The Bank has established a framework for operational risk management that is, to a considerable extent, aligned with regulations prescribed by the Croatian National Bank applicable to the Bank's business and good banking practices in the area of risk management and that was introduced in 2012.

The basic principles of operational risk management were identified in the umbrella act, Operational Risk Management Policies which prescribes the elements of the system for management of these risks, which include identifying, measuring, assessing, controlling and monitoring operational risk. A structure of management and accountability in the system has been set up, an approach for the calculation of capital requirements for operational risk has been determined and a reporting system has been established.

A particular feature of operational risk compared to other types of risk is reflected in the presence of this risk throughout the entire organisation and the management of this risk in all organisational parts of the Bank.

Monitoring of operational risks is supported by a software solution that enables recording of operational risk events.

Overall evaluation of operational risk is performed through the Operational Risk Map, which identifies and evaluates operational risk the Bank is exposed to, in order to identify further risk mastering measures.

31. Risk management (continued)

31.5. Operational risk (continued)

The operational risk is assessed also on the occasion of introducing new products and business changes and on the occasion of outsourcing business activities.

The Bank is trying to minimise the operational risk by active monitoring, management and control of operational risk exposures.

The Committee for the management of information system of HBOR was established in order to monitor IT system performance with the purpose of IT resources management by setting the appropriate level of efficiency and security of IT for providing, among other things, appropriate management of risks arising from IT technology utilisation. Considering the significant level of operational risk arising from IT utilisation, the Bank has established a function for the control of IT system security. Within this function, a system for the management of business continuity was established in 2013 for the purpose of ensuring the recovery of operations and limiting the adverse effects in the case of significantly impaired or discontinued operations.

31.6. Outsourcing risk

The aim of outsourcing is to reduce the operating costs, to achieve a higher level of services and to use the professional know-how of service providers in the performance of daily activities.

The Bank manages the outsourcing risk on the basis of internal documents that are in compliance with the regulations prescribed by the Croatian National Bank and good banking practices applicable to the Bank's business.

In addition to the management of this risk, the internal documents determine also the procedures for the outsourcing of activities to the service providers, the rules for the management of relations with the service providers and the obligation to reduce the risk to the lowest level possible.

Central records of outsourced activities have been established and reports on materially significant outsourced activities are submitted to the Managing Board and the Supervisory Board of the Bank on an annual basis.

32. Fair value of financial assets and financial liabilities

The accounting policy on fair value measurements is discussed in Note 2.

32.1. Fair value of financial assets and financial liabilities initially recognized and measured at fair value

The Group measures certain financial assets and financial liabilities at fair value at the end of each reporting period:

Group			2015			2014
			HRK '000			HRK '000
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss						
Shares in investment funds recognised at fair value through profit or loss	3,707	-	-	-	2,152	-
Total financial assets at fair value through profit or loss	**3,707**	**-**	**-**	**-**	**2,152**	**-**
Assets available for sale:						
Debt instruments:						
Listed debt instruments:						
Bonds of the Ministry of Finance of the Republic of Croatia	679,617	-	-	396,670	-	-
Financial institution bonds	930	-	-	522	-	-
Corporate bonds	396	-	-	395	-	-
Treasury bills of the Ministry of Finance of the Republic of Croatia	-	1,418,963	-	1,347,756	-	-
Accrued interest	14,441	-	-	8,435	-	-
Total debt instruments	**695,384**	**1,418,963**	**-**	**1,753,778**	**-**	**-**
Equity instruments:						
Investment in shares of foreign companies	-	26	-	-	26	-
Investment in financial institutions shares	-	161	-	-	161	-
Shares of foreign financial institutions – EIF	-	24,420	-	-	23,477	-
Corporate shares	-	-	-	-	-	-
Total equity instruments	**-**	**24,607**	**-**	**-**	**23,664**	**-**
Investments in investment funds:						
Shares classified as assets available for sale	729,010	-	-	-	727,024	-
Total investments in investment funds	**729,010**	**-**	**-**	**-**	**727,024**	**-**
Total assets available for sale	**1,424,394**	**1,443,570**	**-**	**1,753,778**	**750,688**	**-**

32. Fair value of financial assets and financial liabilities (continued)

32.1. Fair value of financial assets and financial liabilities initially recognized and measured at fair value (continued)

Bank	2015 HRK '000			2014 HRK '000		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets available for sale						
Debt instruments:						
Listed debt instruments:						
Bonds of the Ministry of Finance of the Republic of Croatia	644,532	-	-	377,763	-	-
Treasury bills of the Ministry of finance of the Republic of Croatia	-	1,418,963	-	1,347,756	-	-
Accrued interest	13,862	-	-	8,130	-	-
Total debt instruments	**658,394**	**1,418,963**	**-**	**1,733,649**	**-**	**-**
Equity instruments:						
Investment in shares of foreign companies	-	26	-	-	26	-
Investment in financial institutions shares	-	161	-	-	161	-
Shares of foreign financial institutions – EIF	-	24,420	-	-	23,477	-
Corporate shares	-	-	-	-	-	-
Total equity instruments	**-**	**24,607**	**-**	**-**	**23,664**	**-**
Investments in investment funds:						
Shares classified as assets available for sale	728,778	-	-	-	725,821	-
Total investments in investment funds	**728,778**	**-**	**-**	**-**	**725,821**	**-**
Total assets available for sale	**1,387,172**	**1,443,570**	**-**	**1,733,649**	**749,485**	**-**

Debt securities whose fair value cannot be measured reliably and are carried at acquisition cost are not presented in the fair value hierarchy.

32. *Fair value of financial assets and financial liabilities (continued)*

32.2. Fair value of financial assets and financial liabilities carried at amortized cost

The Managing Board estimates that their carrying amounts of financial assets and financial liabilities carried at amortized cost are a reasonable approximation of fair value. The fair value of bonds payable that is determined by using adjusted observable prices is presented in Note 24 as disclosed in Note 2.

33. Reporting by segments

General information on segments is given in relation to business segments of the Group.

Since the Group does not allocate administrative costs and interest by segments, the profitability of segments is not presented.

Assets and liabilities by segments are presented in net terms, i.e. gross after impairment and provisioning, and before the effect of mitigation through collateral received.

Business operations of segments are divided in terms of organisation and management. Each segment as a whole provides various products and services and operates in various markets.

Business segments:

The Group has following business segments:

Segment:	**Business activities of the segment include:**
Banking activities	Financing reconstruction and development of the Croatian economy, financing of infrastructure, export promotion, support for the development of small and medium-sized companies, environmental protection, and export credit insurance of Croatian goods and services against non-market risks for and on behalf of the Republic of Croatia.
Insurance activities	Insurance of foreign and domestic short-term receivables of business entities relating to deliveries of goods and services
Other	Preparation of analyses, credit risk assessment and providing information on creditworthiness

33. Reporting by segments (continued)

2015	Banking activities HRK '000	Insurance activities HRK '000	Other activities HRK '000	Unallocated HRK '000	Total HRK '000
Net interest income	398,079	1,388	-	-	399,467
Net fee income	18,453	1,366	1,027	-	20,846
Net income/(expenses) from financial operations	21,868	379	34	-	22,281
Net premiums earned	-	5,933	-	-	5,933
Other income	3,520	69	286	(302)	3,573
Income from operating activities	**441,920**	**9,135**	**1,347**	**(302)**	**452,100**
Operating costs	(131,840)	(5,332)	(1,186)	303	(138,055)
Impairment loss and provisions	(104,852)	51	2	-	(104,799)
Expenses for insured cases	-	(1,167)	-	-	(1,167)
Net change in provisions	-	(1,481)	-	-	(1,481)
Other expenses	-	(172)	-	-	(172)
Operating expenses	**(236,692)**	**(8,101)**	**(1,184)**	**303**	**(245,674)**
Profit/(loss) before income tax	**205,228**	**1,034**	**163**	**1**	**206,426**
Income tax	-	(129)	(32)	-	(161)
Profit/(loss) for the year	**205,228**	**905**	**131**	**1**	**206,265**
Assets of segment	25,540,776	48,043	612	(36,659)	25,552,772
Total assets	**25,540,776**	**48,043**	**612**	**(36,659)**	**25,552,772**
Liabilities of segment	15,878,329	9,828	103	(32)	15,888,228
Total equity and guarantee fund	9,662,447	716	209	1,172	9,664,544
Total liabilities and total equity	**25,540,776**	**10,544**	**312**	**1,140**	**25,552,772**

Intra-group transactions are presented under "Unallocated".

For the purposes of this Note, Net income/(expense) from financial operations is reported as an income item, regardless the actual realization, to enable comparison of the amounts stated in the Statement of profit or loss and other comprehensive income.

The Group decided to apply a simple approach of stating operating segments by taking into consideration the main business model of each member of the Group as previously described in this Note.

33. Reporting by segments (continued)

2014	Banking activities HRK '000	Insurance activities HRK '000	Other activities HRK '000	Unallocated HRK '000	Total HRK '000
Net interest income	413,406	1,400	-	-	414,806
Net fee income	9,670	1,287	960	(5)	11,912
Net income/(expenses) from financial operations	(918)	227	42	-	(649)
Net premiums earned	-	4,899	-	-	4,899
Other income	4,248	44	283	(299)	4,276
Income from operating activities	**426,406**	**7,857**	**1,285**	**(304)**	**435,244**
Operating costs	(154,049)	(4,860)	(1,219)	305	(159,823)
Impairment loss and provisions	(104,014)	37	(2)	-	(103,979)
Expenses for insured cases	-	(1,116)	-	-	(1,116)
Net change in provisions	-	(919)	-	-	(919)
Other expenses	-	(59)	-	-	(59)
Operating expenses	**(258,063)**	**(6,917)**	**(1,221)**	**305**	**(265,896)**
Profit/(loss) before income tax	**168,343**	**940**	**64**	**1**	**169,348**
Income tax	-	(108)	(12)	-	(120)
Profit/(loss) for the year	**168,343**	**832**	**52**	**1**	**169,228**
Assets of segment	25,777,052	45,030	2,078	(38,160)	25,786,000
Total assets	**25,777,052**	**45,030**	**2,078**	**(38,160)**	**25,786,000**
Liabilities of segment	16,346,922	7,919	168	(32)	16,354,977
Total equity and guarantee fund	9,430,130	(389)	110	1,172	9,431,023
Total liabilities and total equity	**25,777,052**	**7,530**	**278**	**1,140**	**25,786,000**

Intra-group transactions are presented under "Unallocated"

34. Capital management

The primary objectives of the Bank's capital management are to ensure the presumptions of going concern and to respect regulatory and contracted demands imposed by creditors regarding a certain capital adequacy level.

The Bank has identified own funds as a manageable capital category.

Own funds have to be, at every moment, at least at the level of share capital or at the level that ensures that the capital adequacy ratio is at least 8%, and that is sufficient for covering capital requirements regarding business risks.

Own funds consist of original own funds (Tier 1) and additional own funds (Tier 2), and is calculated in accordance with bank regulations in the Republic of Croatia.

The Bank has determined measures for the implementation and monitoring of the capital management policy as follows:

- At the reporting date, own funds have to be at least at the level of founder's capital for the reporting period.
- The capital adequacy ratio at the reporting date has to be at the level prescribed for the banks in the Republic of Croatia as well as at the level stated within regular financial covenants determined in loan contracts and contracts with special financial institutions that HBOR has concluded as a borrower.

The calculation of the capital adequacy ratio is performed in line with the regulations prescribed for the banks in the Republic of Croatia and does not significantly differ from international banking practice.

		Group		**Bank**
	2015	**2014**	**2015**	**2014**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Original own funds – Tier 1	9,609,800	9,371,527	9,608,763	9,370,642
Additional own funds – Tier 2	302,203	287,980	302,203	287,980
Total own funds	**9,912,003**	**9,659,507**	**9,910,966**	**9,658,622**
Risk weighted assets	12,798,794	11,726,372	12,830,126	11,755,029
Capital requirements for currency risk	696,133	108,376	681,095	88,625
Total capital requirements	**13,494,927**	**11,834,748**	**13,511,221**	**11,843,654**
	%	%	%	%
Capital ratio (Tier 1)	**71.21**	**79.19**	**71.12**	**79.12**
Capital adequacy ratio	**73.45**	**81.62**	**73.35**	**81.55**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Own funds needed for ensuring capital adequacy according to regulatory requirements	**1,079,594**	**946,780**	**1,080,898**	**947,492**

Minimum capital adequacy ratio at the end of 2015 was 8% (31 December 2014: 8%).

34. Capital management (continued)

Due to the extensive changes in the existing support application for the Bank's operations, the Managing Board has prolonged a transitional period for the implementation and testing of new applications and the use will begin with respect to the first reporting period after the implementation of the software solution for the calculation of the adequacy ratio of own funds. Until then, the capital adequacy and exposure calculations will be made in the existing manner.

The Managing Board of the Group does not expect any adverse effects on the level of capital adequacy as a result of application of the new regulations for credit institutions, taking into account that the bank's capital adequacy ratio at the end of 2015 was 9 times higher than the prescribed one. This was primarily due to the model of operation and its orientation to the lending operations.

35. Earnings per share

Pursuant to the HBOR Act, the equity capital of the Bank consists of one share in the company that may not be divided, transferred or pledged and is owned solely by the Republic of Croatia.

For the purpose of calculation of earnings per share, earning is presented as net profit after taxation.

36. Events after the reporting period date

By the formation of the new Government of the Republic of Croatia on 22 January 2016, the term of office of the Members of the Supervisory Board of HBOR expired.

The new Supervisory Board of HBOR is in the process of being constituted. At its 6th meeting held on 4 March 2016, the Government of the Republic of Croatia made a decision on the appointment of Mr Zdravko Marić, Minister of Finance, as new ex officio President of the Supervisory Board. Mr Tomislav Panenić, Minister of the Economy, was appointed new ex officio Vice President of the Supervisory Board. Mr Tomislav Tolušić, Minister of Regional Development and EU Funds, was appointed new ex officio Member of the Supervisory Board. Mr Anton Kliman, Mr Davor Romić and Mr Darko Horvat were appointed new Members of the Supervisory Board from among the ministers in the Government of the Republic of Croatia. The Croatian Parliament shall appoint three Members of the Supervisory Board and their permanent deputies from among the Members of the Croatian Parliament.

36.2. Litigation

After the reporting period, on 07 January 2016 the Managing Board was received on a newly initiated litigation against the Bank, with the estimated litigation duration of at least five years, or until 07 January 2021, respectively. The litigation is allocated into risk group B, with an estimated outflow of 40% of the entire litigation amount.

The entire amount of litigation is established in the amount of HRK 87,747 thousand and as at 07 January 2016 the future amount of expected cash outflows under this litigation amounts to HRK 35,099 thousand, which by discounting has been reduced to the current value of expected future cash outflows, or provisioning for the respective litigation in the amount of HRK 22,048 thousand, which will affect the financial statements in the course of 2016, respectively.

36.3. Fund raising

On 17 February 2016, HBOR concluded the Finance Contract in the amount of EUR 150,000 thousand with the European Investment Bank. The funds are intended for the financing of mid-cap companies in the industry, services, tourism and other sectors, as well as public and private companies investing in knowledge-based, infrastructure and environmental projects. This Contract is a part of the framework of EUR 800 million for the financing of small and medium-sized companies and mid-caps that was signed between HBOR and EIB on 24 March 2014.

Appendix - financial performance of the HKO Group
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2015
(All amounts are expressed in HRK thousand)

	2015 HRK '000	2014 HRK '000
Premium earned		
Gross premium written	12,167	10,836
Premium impairment allowance originated and reserved on collection	20	106
Gross outward reinsurance premium	(5,849)	(5,476)
Net premium written	**6,338**	**5,466**
Changes in the gross unearned premium reserve	(558)	(588)
Changes in the gross unearned premium reserve, reinsurer's share	173	128
Net premium earned	**5,953**	**5,006**
Fee and commission income	2,393	2,247
Net investment income	1,812	1,680
Other operating income	52	28
Net income	**10,210**	**8,961**
Gross expense for returned premiums	(372)	(155)
Reinsurer's share	200	96
Gross reserve for returned premiums	(588)	5
Reinsurer's share	238	(9)
Net expense and reserve for returned premiums	**(522)**	**(63)**
Claims incurred	(2,187)	(2,349)
Claims incurred, reinsurer's share	1,020	1,233
Change in the claims provision	(2,785)	(583)
Change in the claims provision, reinsurer's share	1,654	(332)
Net claims incurred	**(2,298)**	**(2,031)**
Marketing and provision expenses	(708)	(611)
Administrative expenses	(5,313)	(4,942)
Other operating expenses	(161)	(299)
Net exchange differences other than those on financial instruments	(11)	(11)
Profit before income tax	**1,197**	**1,004**
Income tax	(161)	(120)
Profit/(loss) for the year	**1,036**	**884**
Other comprehensive income		
Items that are not transferred subsequently to profit or loss:		
Deferred tax – adjustment for previous period	-	(17)
Total items that are not transferred subsequently to profit or loss	**-**	**(17)**
Items that may be reclassified subsequently to profit or loss:		
Gains on revaluation of financial assets available for sale	1,626	995
Decrease in the fair value of financial assets available for sale	(1,011)	(223)
Transfer of realized gains on asset available for sale to statement of profit or loss	(405)	(104)
Deferred tax	(42)	(133)
Total items that may be reclassified subsequently to profit or loss:	**168**	**535**
Other comprehensive income after income tax	**168**	**518**
Total comprehensive income after income tax	**1,204**	**1,402**
Attributable to:		
Equity holders of the parent	1,204	1,402

Appendix - financial performance of the HKO Group
Statement of Financial Position
for the year ended 31 December 2015

(All amounts are expressed in HRK thousand)

	2015 HRK '000	2014 HRK '000
Assets		
Non-current assets		
Property and equipment	148	193
Intangible assets	9	94
Held to maturity investments	1,451	1,470
Deferred tax	230	383
Total non-current assets	**1,838**	**2,140**
Current assets		
Investments available for sale	37,993	21,332
Investments at fair value through profit or loss	3,707	2,152
Deposits with banks	3,047	17,154
Receivables from insurance operations	1,133	1,935
Other receivables	164	230
Cash and cash equivalents	242	133
Total current assets	**46,286**	**42,936**
Total assets	**48,124**	**45,076**
Equity and liabilities		
Equity		
Share capital	37,500	37,500
Accumulated losses	(1,184)	(2,068)
Other reserves	874	706
Profit for the year	1,036	884
Total equity	**38,226**	**37,022**
Technical provisions		
Gross technical provisions	14,827	10,897
Technical provisions, reinsurer's share	(8,156)	(6,091)
	6,671	**4,806**
Current liabilities		
Liabilities from insurance operations	1,603	1,663
Other liabilities	1,624	1,585
Total liabilities	**3,227**	**3,248**
Total equity and liabilities	**48,124**	**45,076**

Appendix - financial performance of the HKO Group
Statement of Cash Flows
for the year ended 31 December 2015
(All amounts are expressed in HRK thousand)

	2015 HRK '000	2014 HRK '000
Operating activities		
Profit before income tax	1,197	1,004
Adjustments to reconcile to net cash from and used in operating activities:		
Depreciation	180	161
Impairment loss and provisions	(53)	(35)
Income tax	161	120
Accrued interest	(139)	199
Operating profit before working capital changes	*1,346*	*1,449*
Changes in operating assets and liabilities:		
Net decrease in deposits with other banks	13,920	6,487
Net realized (gain) on assets available for sale	(406)	(104)
Decrease of discount in assets available for sale and assets held to maturity	251	71
Net gain on financial assets at fair value through profit or loss	(84)	(29)
Premium receivables	822	731
Net (increase) in other assets	(143)	(346)
Net decrease of assets and liabilities from insurance operations	(59)	150
Net increase in technical provisions	1,865	1,379
Net increase in other liabilities	69	336
Net cash provided by operating activities	**17,581**	**10,124**
Investment activities		
Net (purchase) of financial assets at fair value through profit or loss	(24,417)	(13,760)
Net sale of financial assets at fair value through profit or loss	22,928	13,062
Net (purchase) of assets available for sale	(23,903)	(11,780)
Net sale of assets available for sale	7,905	2,500
(Purchase) of assets held to maturity	-	(965)
Collection of assets held to maturity when due	-	1,071
Net (purchase) of property, plant and equipment and intangible assets	(50)	(110)
Net cash (used in) investment activities	**(17,537)**	**(9,982)**
Effect of foreign currency to cash and cash equivalents		
Net foreign exchange	65	(148)
Net effect	**65**	**(148)**
Net increase/(decrease) in cash and cash equivalents	109	(6)
Balance as of 1 January	133	139
Net increase/(decrease) in cash	109	(6)
Balance as of 31 December	**242**	**133**

Appendix - financial performance of the HKO Group
Statement of Changes in Equity
for the year ended 31 December 2015
(All amounts are expressed in HRK thousand)

	Share capital HRK '000	Accumulated losses HRK '000	Other reserves HRK '000	Profit/(loss) for the year HRK '000	Total equity attributable to the equity holders of the Company HRK '000	Total equity HRK '000
Balance as of 1 January 2014	**37,500**	**(2,155)**	**171**	**104**	**35,620**	**35,620**
Profit for the year	-	-	-	884	**884**	**884**
Other comprehensive income	-	(17)	535	-	**518**	**518**
Total comprehensive income	-	(17)	535	884	**1,402**	**1,402**
Transfer of profit 2013 to retained earnings	-	104	-	(104)	**-**	**-**
Balance as of 31 December 2014	**37,500**	**(2,068)**	**706**	**884**	**37,022**	**37,022**
Profit for the year	-	-	-	1,036	**1,036**	**1,036**
Other comprehensive income	-	-	168	-	**168**	**168**
Total comprehensive income	-	-	168	1,036	**1,204**	**1,204**
Transfer of profit 2014 to retained earnings	-	884	-	(884)	**-**	**-**
Balance as of 31 December 2015	**37,500**	**(1,184)**	**874**	**1,036**	**38,226**	**38,226**