

REPORT

2014

ANNUAL REPORT

CONTENTS

I HIGHLIGHTS	3
1. GENERAL INFORMATION.....	4
2. MANAGEMENT STRUCTURE AND ORGANISATION	5
3. SPLITSKA BANKA IN THE SOCIETE GENERALE GROUP	7
4. CORPORATE GOVERNANCE IN SOCIETE GENERALE-SPLITSKA BANKA	8
5. RESPONSIBILITY TO EMPLOYEES	10
6. SOCIAL RESPONSIBILITY	11
7. SOCIETE GENERALE-SPLITSKA BANKA SUBSIDIARIES AND ASSOCIATES	12
8. SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR 2014	14
II KEY FINANCIAL INFORMATION	15
III BUSINESS SEGMENTS	19
1. MACROECONOMIC ENVIRONMENT	20
2. RETAIL AND BUSINESS BANKING.....	26
3. CORPORATE BANKING & MARKETS ACTIVITIES.....	29
IV RISK MANAGEMENT	33
1. RISK MANAGEMENT STRUCTURES.....	35
2. RISKS ACCORDING TO THEIR NATURE.....	38
V HUMAN RESOURCES	44

I
HIGHLIGHTS

1. GENERAL INFORMATION

COMPANY NAME

SOCIETE GENERALE – SPLITSKA BANKA d.d.

REGISTERED SEAT

Ruđera Boškovića 16, Split

MAIN BUSINESS ACTIVITIES

- accepting all kinds of deposits
- receiving and granting loans and other placements, including factoring and forfeiting
- issuance of guarantees
- domestic and international payment transactions
- trading in money market instruments, other transferable securities, foreign currencies and derivatives on its own behalf and for its own account or on behalf and for the account of clients
- issuing and managing payment instruments
- securities custody operations
- securities agency and underwriting operations
- insurance agency operations and financial brokerage
- safe deposit box operations.

OWNERSHIP STRUCTURE

SOCIETE GENERALE SA, Paris – 100%

EQUITY

HRK 991,425,800

REGULATORY CAPITAL

HRK 3,217,733,146.11 on 31 December 2014

2. MANAGEMENT STRUCTURE AND ORGANISATION

Managing Board - status on 31st December 2014.

1. Andre-Marc Prudent-Toccanier, Chairman
2. Zvonimir Akrap, Member
3. Nelsi Rončević, Member

Procurator

Tomislav Krpan

Supervisory Board - status on 31st December 2014.

1. Jean-Luc Andre Joseph Parer, Chairman
2. Patrick Pierre Gelin, Deputy Chairman
3. Giovanni Luca Soma, Member

Chairman of the General Assembly

Jean-Luc Andre Joseph Parer

3. SPLITSKA BANKA IN THE SOCIETE GENERALE GROUP

With 160,000 employees in 77 countries and 33 million clients, Societe Generale Group celebrated 150 years of existence in 2014, on the position of one of key European banking market players.

Splitska banka has been one of several large investments of Societe Generale Group in eastern Europe in 2006 as part of its strategy in universal international banking operations.

Fully owned by the Societe Generale Group, Splitska banka is an universal banking Group on the Croatian market, including different product lines besides universal banking business, like leasing, insurance and car fleet management companies.

The strategy of Splitska banka is to continue pursuing a profitable and balanced growth and development strategy and providing ongoing support to its clients, in the country and worldwide through Societe Generale Group network, with following objectives:

- To increase market share by utilising fully network in the north of the country
- To increase revenues by expanding noninterest income sources and product range, like in example Private banking
- To continue ongoing technical optimizations and developments in order to always increase its customer satisfaction, with new internet banking tools for example
- To continue the process of firm and active risk monitoring
- To maintain an adequate level of capitalization in order to support its further development
- To continue with prudent cost control and optimization
- To continue to actively increase its deposit base, by controlling interest cost and decreasing its loan to deposit ratio.

4. CORPORATE GOVERNANCE IN SOCIETE GENERALE- SPLITSKA BANKA

Since its integration into Societe Generale Group, Splitska banka has been introducing the rules and culture of Societe Generale Group into its organisation, while taking into consideration the Croatian legislation.

Societe Generale-Splitska banka is also obligated to implement corporate governance in accordance with regulations and directives of Republic of Croatia and the Croatian National Bank.

The objective of such corporate governance is to respond to contemporary requirements for fair, transparent and responsible corporate governance with emphasis on risk management.

The Credit Institutions Act determines a two-tier governance system for credit institutions in Croatia, where the governance bodies are represented by the Supervisory Board and the Managing Board.

The Supervisory Board supervises the execution of Bank's operations by the Managing Board. It currently consists of three members, appointed and recalled by the General Assembly. Two members are employed with the Societe Generale Group and one member is independent, in accordance with the Croatian legislation. The work of the Supervisory Board is defined by the Rules of Procedure of the Supervisory Board.

The Managing Board is the executive body and it currently consists of three members, appointed and recalled by the Supervisory Board. The Managing Board manages current business affairs of the Societe Generale-Splitska banka in accordance with the law, Articles of Association and other internal regulations. The work of the Managing Board is defined by the Rules of Procedure of the Managing Board.

The regulations, directives and guidelines referred to above define the work methods of the main management structures, which also include other bodies, boards and committees of Societe Generale-Splitska banka. These bodies and boards ensure better supervision of corporate governance and thus complete the corporate governance cycle.

The Societe Generale Group has invested efforts to establish uniform corporate governance in all of its subsidiaries. To this end, the subsidiaries receive instructions on the establishment of various specialised committees depending on the size and structure of subsidiary operations.

The following committees are established in Societe Generale-Splitska banka:

A) Committees reporting to the Supervisory Board:

- Audit Committee
- Compensation and Benefits Committee
- Nomination Committee
- Credit Risks Committee

B) Specialised internal committees:

They assist the Managing Board and ensure better protection from risks to which Societe Generale-Splitska banka is exposed.

- Compliance, Anti-Money Laundering and Operational Risks Committee
- IT Security Committee
- New Products Committee
- Assets and Liabilities Management Committee
- Legal Committee
- Outsourcing Committee
- Committees for different types of credit risks

5. RESPONSIBILITY TO EMPLOYEES

Responsibility to employees is one of the principles of corporate governance.

Societe Generale-Splitska banka is among the region's major employers.

Societe Generale-Splitska banka has renewed its company level collective agreement with the union starting on January 1, 2014.

In 2014, Societe Generale-Splitska banka has continued its practice of providing additional monetary benefits on top of salaries to employees. One of such benefits is provided through the Global Employee Share Ownership Program since 2007, where employees are offered to purchase Societe Generale Group shares at a price lower than the market value.

In 2014, employees also received the 13th salary, holiday grant, Easter bonus, etc.

Employees were also able to use a range of other benefits, as they did previous years, fully financed by Societe Generale-Splitska banka in 2014, such as the regular medical check-up, various sports activities, discounts on tickets for cultural events, etc.

Finally, Societe Generale-Splitska banka also adheres to its Societe Generale Group Code of Conduct signed in which summarises guidelines of corporate governance.

6. SOCIAL RESPONSIBILITY

Societe Generale-Splitska banka is constantly working on improving social and cultural aspects of the community where it operates. These efforts continued also in the year of 2014, which has a special significance for Societe Generale Group and thus also for Splitska banka, as it marks 150 years since the Group was founded. For this anniversary, we wanted to emphasize once again our social responsibility as an important part of our business policy. This is why we launched the „Building Good Deeds Together” project and invited our clients to join in. Their contribution and our own funds made it possible to help renovating the Slava Raškaj Educational Centre in Split and Children’s Hospital Goljak in Zagreb.

We continue to be the biggest corporate sponsor of Croatian National Theatre in Split and one of sponsors of the Split Summer Theatre Festival. In 2014, we were the principal partner of Klovićevi dvori Gallery in Zagreb in the organization of the “French Impressionists” exhibition, and continued to support Exit Theatre in Zagreb and Mimara Museum.

Societe Generale-Splitska banka also invests active efforts in the preservation of the cultural heritage by supporting the organization of traditional events such as the Alka Tournament in Sinj and the Omiš Klapa Music Festival. Societe Generale-Splitska banka supports the promotion of sports by sponsoring or donating to a great number of different sport clubs, including professional ones like the Croatian Football Club Hajduk and by supporting sports activities of young people such as basketball camps, children’s hockey, rugby in Split and many more. In the domain of ecology and environment protection, we have also supported different activities for many years. In 2014, employees of Societe Generale-Splitska banka invested their time and efforts in cleaning Split’s Park Forest Marjan.

With our efforts and donations, we demonstrated that Societe Generale-Splitska banka is a company that truly strives to be a part of society and environment where it operates. In such way, we go beyond strict business limits, because we believe that the quality of life of people around us is also our concern.

7. SOCIETE GENERALE- SPLITSKA BANKA SUBSIDIARIES AND ASSOCIATES

Several companies owned by the Societe Generale Group have been established in Croatia.

With the assistance of Societe Generale-Splitska banka and other associated companies, Societe Generale Group intends to develop all groups of products which can support retail and corporate banking operations (insurance products, leasing...).

1. Société Générale Osiguranje d.d.

Société Générale Osiguranje d.d. was established in March 2009. The ownership share of Societe Generale-Splitska banka is 49% as of 31 December 2014.

This company started operations and is developing a comprehensive range of life insurance products intended for retail and corporate clients.

Thus, Société Générale Osiguranje has developed and will continue developing new life insurance products in connection with loans, bank accounts, deposits and life insurance products with savings elements, as well as other products suitable to expand the product and service offer of Societe Generale-Splitska banka.

2. SG Leasing d.o.o.

Societe Generale Leasing d.o.o. was established in July 2008. Today, it is fully owned by Societe Generale-Splitska banka.

S.G. Leasing deals with the financial and operating leasing and with other activities related to leasing.

The Company operates through three sales channels: the direct channel, the vendor channel and the Societe Generale-Splitska banka channel.

Assets most commonly financed by leasing include: transport vehicles, civil engineering equipment and tools, industry equipment, so-called „high“ technology, aircraft, vessels and real estate for business clients.

3. SB NEKRETNINE d.o.o.

SB Nekretnine d.o.o. was established in August 2003. It is fully owned by Societe Generale-Splitska banka.

Its main business activity is preparing real estate valuation studies for real property provided as loan collateral to Societe Generale-Splitska banka, including on-site identification of the real property, legal status check and market value assessment.

SB Nekretnine also checks basic documents which ensure the legality of the real property in the area and an acceptable legal status for valuation purposes. This implies the control of validity and conformity of the following documents: ownership certificates, copies of cadastral plans, cadastre records, location permits, construction permits or inspection certificates, zoning certificates, etc. In addition, SB Nekretnine provides financial supervision of the construction of major objects financed by Societe Generale-Splitska banka.

SB Nekretnine enables faster and better quality service in the process of real estate valuation for the purpose of loan collateralisation.

4. Other matters

Societe Generale-Splitska banka also owns insignificant business interests in other companies.

8. SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR 2014

Based on the General Assembly decision of 10 April 2015, Societe Generale-Splitska banka paid dividend to the Bank's shareholders from profit made in 2014, in the amount of HRK 189,699,045.18.

At the same General Assembly it was decided to amend the Articles of association and extend the term of office of Managing Board Members to a maximum of five years, instead of previous four.

The Supervisory Board appointed one new Managing Board Member, subject to obtaining consent of the Croatian National Bank. The Supervisory Board also renewed mandates of the Chairman and one Managing Board Member for the next five years.

As part of the regular annual review process, the Supervisory Board assessed the remaining Managing Board Member to be suitable for further performance of his function.

II KEY FINANCIAL INFORMATION

Capital

With its Capital Adequacy Ratio of 18.95% on standalone basis at the end of 2014, Societe Generale-Splitska banka remains above the regulatory requirement.

	(in million HRK)	
	2014	2013
Paid Share Capital	991	491
Premium on shares issued	419	419
Legal Reserves	223	223
Other Reserves	65	53
Retained Earnings	1,897	2,200
Shareholder's Equity - total	3,595	3,386

	(in HRK)	
	2014	2013
Net Assets per Share	362.7	689.1
Earnings per Share	23	6.9
Return on assets	0.66%	0.12%

Balance sheet key positions		
	(in million HRK)	
	2014	2013
Cash & placements to banks & the CNB	7,632	6,496
Loans & advances to customers	17,209	17,412
Financial assets held for trading	87	-
Financial assets available to sale	3,384	2,930
Investment in subsidiaries & associates	36	36
Tangible & intangible assets	256	280
Tax receivables & differed taxes	56	99
Other assets & derivatives & investment property	88	70
TOTAL ASSETS	28,748	27,323
Current accounts & deposits from banks	169	199
Borrowings	4,337	4,995
Deposits from customers	20,213	17,774
Provisions, derivatives & other liabilities	434	525
Subordinated loans	-	444
Total shareholders equity	3,595	3,386
TOTAL LIABILITIES	28,748	27,323

Due to the ongoing weak market situation, Societe Generale-Splitska banka has managed to keep its loan portfolio stable, slightly down by 1,2% compared to 2013.

On the Liabilities side, Societe Generale-Splitska banka continues with its measures to diversify funding sources in co-operation with international financial institutions. We have managed to increase our deposits from clients in 2014 by additional 13,7%, by keeping prudential management of pricing and managing to decrease cost despite volume impact.

Our total assets have increased by 5,2% compared to 2013.

Income statement key positions		
	(in million HRK)	
	2014	2013
Net interest income	714	641
Net fee and commission income	247	248
Net trading & other income	117	129
Net banking income	1,078	1,018
Overhead Expenses	(645)	(645)
Provision and Impairments	(184)	(362)
Profit before tax	249	11
Income taxes	(59)	23
NET PROFIT	190	34

After a challenging year of 2013, mainly driven by prudential risk management, 2014 saw significant improvement in all positions.

Net Interest Income increased by 11,4% in comparison to 2013, Fees remained flat on the same 2013 level, which led to NBI increase of 5,9%.

By keeping operational expenses flat after several years of decrease, and through significant improvement of the cost of risk by 49,2%, Societe Generale-Splitska banka has managed to increase profit before tax from 11 million in 2013 to 249 million in 2014, which led to the increase of net profit from 34 million in 2013 to 190 million in 2014.

Expectations over next 3 years

During the Business Plan 2015 - 2017 preparation in autumn 2014 Societe Generale-Splitska banka expected almost flat GDP in 2015, with moderate growth of up to 1.5% over 2016 and 2017 and stable inflation rate of 2.5% on the annual level.

On the banking industry level we expect decrease of total loans by 1% in 2015, followed by moderate growth of 1% in 2016 and 2% in 2017.

Customer deposits are expected to grow by 1% per annum.

Societe Generale-Splitska banka continues with the universal banking model principle, with the goal to fully utilise our network in the north, increase our market share, further decrease operating expenses and the loan to deposit ratio.

Having all of the above in mind, Societe Generale-Splitska banka expects its total assets to remain stable in the period for CAGR (Compound Annual Growth Rate).

Customer loans on gross level will increase by 2% and customer deposits are expected to remain flat

On the P&L level Societe Generale-Splitska banka projected a 6% increase in Net Interest Income over the 3 year period, increase in fees by 4%, leading to an expected increase in Net Banking Income by 5%.

Societe Generale-Splitska banka continues with prudent cost optimization which will lead to full stagnation of OPEX over the next 3 years of -1%.

Due to continuous proactive risk management, as well as provisioning policies applied so far and portfolio cleaning, the Bank projected a decrease of net Cost of risk by 8% CAGR over the next 3 years.

All of the mentioned facts are projected to lead to significant average increase of Gross Operating Income by 24% in the future budgeted period.

III BUSINESS SEGMENTS

1. MACROECONOMIC ENVIRONMENT

International outlook

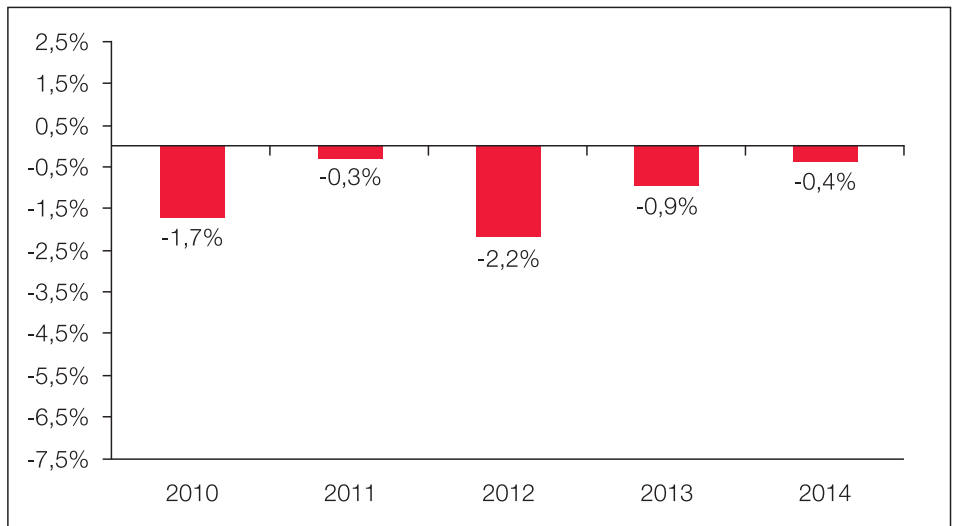
2014 was marked generally by more positive economic trends especially among the most developed countries. Recovery in US economy proved to have a sustainable character resulting in gradual abolishment of unconventional monetary stimulus from FED. Furthermore, Euro area recorded GDP growth in 2014 (0.9%) with improvement visible in peripheral countries (Spain, Greece). However, Euro area faced risks of deflationary pressures during 2014 which resulted in rising market expectations regarding additional monetary stimulus within EMU. Additional risks for global economy came from deteriorating geopolitical situation during 2014, namely sanctions towards Russia which resulted in capital outflow and depreciation pressures in Russia. Creation of banking union represents one of the most significant processes of integration within EMU and EU. A milestone in the process of creating the banking union was certainly the implementation of Directive 2014/59/EU (May 2014) of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and Asset Quality Review conducted during 2014.

Gross domestic product (GDP)

In 2014, the Croatian economic activity shrunk for the sixth consecutive year as GDP decreased by 0.4% in real terms. As in previous years, domestic consumption (-1.0%) and capital investments (-4.0%) continue to represent the most significant barrier to recovery. More favourable external environment, mainly due to recovery in EU, supported higher demand from foreign markets. Unfortunately, the growth of merchandise exports and tourist revenues from abroad could only mitigate GDP decrease since economy continues to rely mostly on domestic demand. GDP figures for 2014 prove that Croatia is lagging behind in recovery process in comparison with other EU member states from CEE region, which is a result of the unfavourable GDP structure, lack of structural reforms and weak international competitiveness.

GDP, real annual change, %

Source: CBS

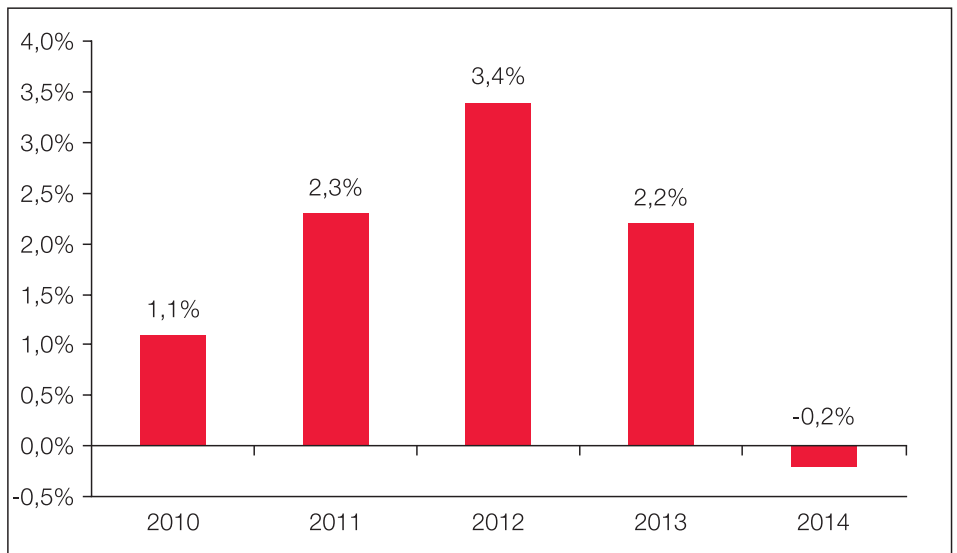


Prices

During 2014 consumer prices decreased by 0.2% and deflationary pressures continued at the start of 2015. Prices went down as result of EU accession which lifted any remaining barriers for entering the domestic market and concerning some specific sectors (for instance, the food-processing industry). Later in 2014, EU sanctions to Russia and dropping crude oil prices contributed to the price slump. The drop in prices had a positive impact on real increase of retail trade. However, it also resulted in pressures on turnover and profitability decrease in the corporate sector, as well as lower budget revenues.

CPI, annual change, average, %

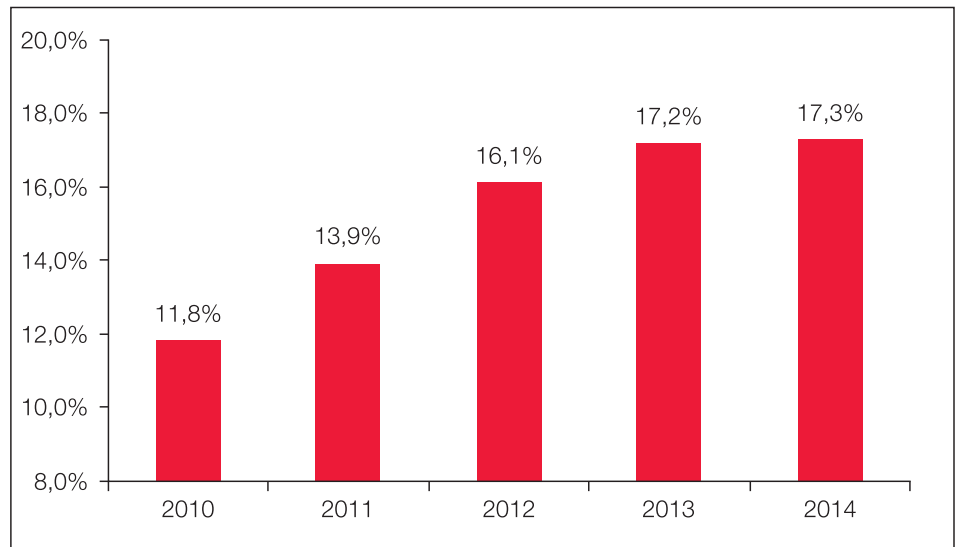
Source: CBS



Labour market

Unfavourable trends on the domestic labour market continued during 2014 although the number of unemployed persons and the registered unemployment rate decreased. However, decrease in unemployment rate was accompanied by lower employment suggesting that labour force decreased as well. Registered unemployment rate in 2014 averaged 19.7% while in 2013 it amounted to 20.3%. However, the average ILO survey unemployment rate stagnated during 2014 and amounted 17.3%. During 2014 average net salary was HRK 5,533 which accounts for a nominal annual increase of 0.3%. Due to deflationary pressures, the average net salary increased by 0.5% in real terms during 2014.

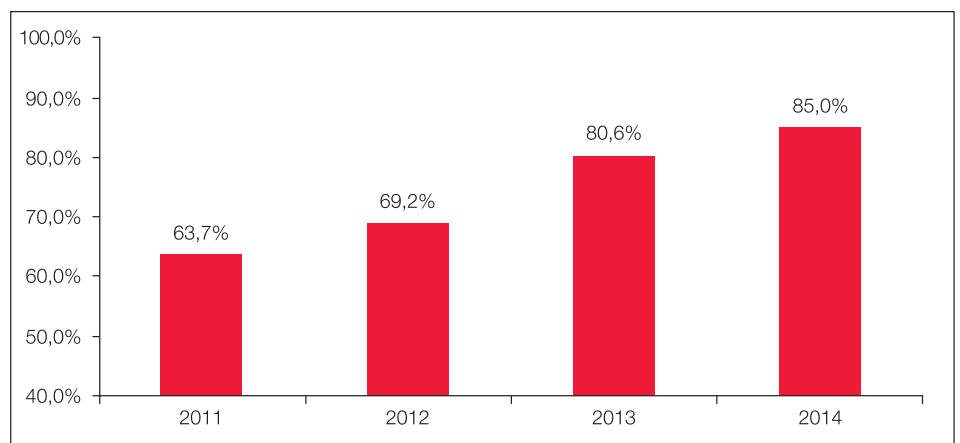
ILO survey unemployment rate, average, %
Source: CBS



Public finance

Due to excessive budget deficit Croatia entered the excessive deficit procedure (the corrective arm of the Stability and Growth Pact). In a meantime, harmonization of statistics and high budget deficit resulted with breach of public debt threshold of 60% of GDP. In 2014, the general government deficit remained high (5.7% of

Public debt, % of GDP, eop
Sources: EC, CBS



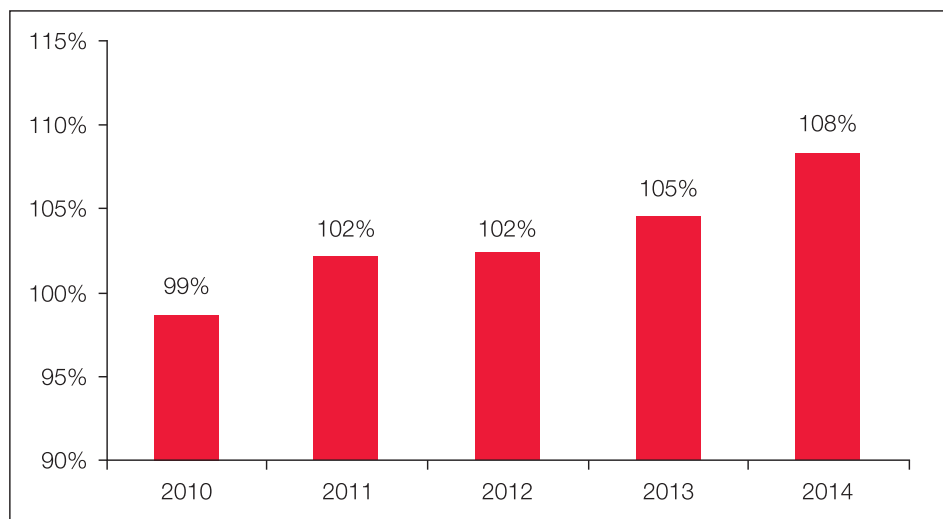
GDP). The large budget gap and nominal decrease of GDP led to increase of public debt to 85% of GDP at the end of 2014. During last year, market conditions for refinancing remained favourable despite high fiscal risks due to expectations of additional monetary stimulus from ECB.

External sector

From high structural current account deficit typical for transition economies before global financial crisis, Croatia recorded current account surplus in 2013 (0.8 of GDP) and 2014 (0.7% of GDP). Lower import activity as result of weak domestic demand had the most significant impact on narrowing the external imbalances. Furthermore, increase of tourist revenues from abroad and favourable trends in international trade of goods after EU accession also contributed to the current account surplus.

During 2014, foreign debt continued to increase, as accompanied by changes in structure by domestic sectors. The government continued to increase its external debt, while banks reduced their foreign liabilities due to their focus on domestic deposits and lower funding needs. Since decrease of nominal GDP was recorded in 2014, foreign debt increased to above 108% of GDP.

Foreign debt, % of GDP, eop
Sources: CNB, CBS

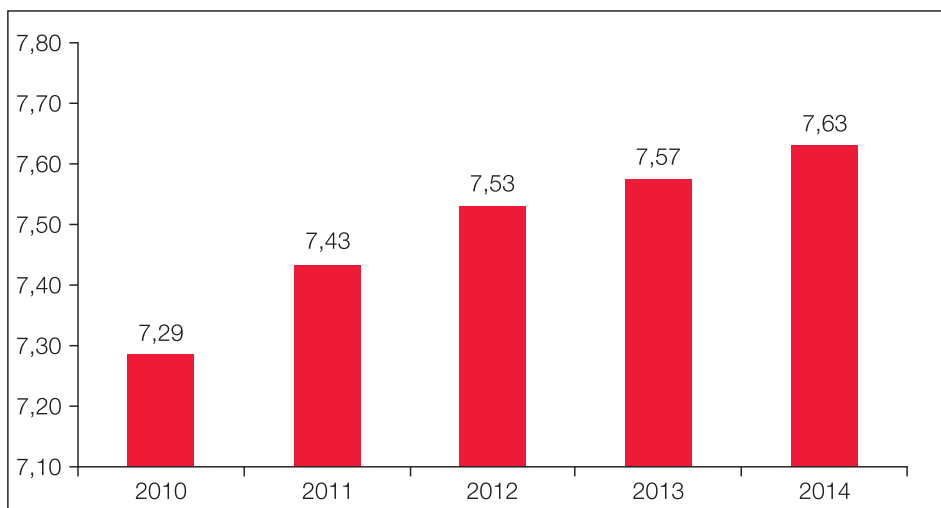


FX rate

The trend of mild and expected depreciation of domestic currency continued throughout 2014 as the average EUR/HRK mid-rate was HRK 7.63 per euro. Such mild nominal depreciation in a deflationary environment had a positive impact on price competitiveness of Croatian exporters, but also mitigated some of imported pressure on price decrease. Depreciation pressures in recent years were mainly the result of external deleveraging of the private sector, while government borrowing in FC and lower external imbalances, namely the current account surplus, had the opposite impact.

EUR/HRK CNB's mid-rate, average

Sources: CNB



Banking sector

At the end of 2014 28 banks and 5 building societies operated on the domestic market with total assets of around 120% of GDP. According to the latest available data for the end of Q3 2014, 90% of total banking assets were foreign-owned, suggesting a high level of competition on the domestic market. At the same time, two state-owned banks had 5.3% of total assets. During last year, credit activity remained low and the outstanding value of the total credit portfolio was 2.3% lower at the end of 2014, accompanied by decreased activity in the retail and corporate sector. In the corporate segment, structural issues and high placement risk limited the perspectives for growth of credit activity. Deleveraging continued in the retail segment as consumer optimism remained low. During 2014, total deposits continued to increase and were 1.2% higher at the end of year. As in previous years, the most significant increase was recorded in segment of retail deposits due to lack of investment alternatives and stimulating interest rates in a period of extremely low yields.

Main macroeconomic indicators

Sources: CNB, CBS, MoF, EC,
Eurostat, SGSB

	2009	2010	2011	2012	2013	2014
Population in Million	4,4	4,4	4,3	4,3	4,3	4,3
Real GDP growth, %	-7,4%	-1,7%	-2,8%	-2,2%	-0,9%	-0,4%
Inflation rate, avg, %	2,4%	1,1%	2,3%	3,4%	2,2%	-0,2%
Nominal GDP growth, %	-3,6%	-0,1%	2,4%	1,2%	1,3%	-0,6%
Nominal GDP, HRK bn	331,0	328,0	332,6	330,5	330,1	328,9
Nominal GDP, EUR bn	45,1	45,0	44,7	43,9	43,6	43,1
GDP/Capita, EUR	10.181	10.175	10.427	10.280	10.175	10.063
Current Account, EUR mn	-3.081	-847	-376	-219	431	150
Current Account,% of GDP	-6,8%	-1,9%	-0,8%	-0,5%	1,0%	0,3%
Foreign debt, EUR bn	44,6	46,5	45,7	44,9	45,6	46,6
Foreign debt, % of GDP	97,7%	98,6%	102,2%	102,4%	104,6%	108,1%
Budget balance, % of GDP	-	-6,4%	-7,7%	-5,6%	-5,2%	-5,5%
Public debt, % of GDP	-	45,0%	59,9%	64,4%	75,7%	81,5%
Unemployment rate (ILO), average %	9,1%	11,8%	13,9%	16,1%	17,2%	17,3%
EUR/HRK FX rate, average	7,34	7,29	7,43	7,53	7,57	7,63

2. RETAIL AND BUSINESS BANKING

Retail banking

During 2014, the branch network rationalization project successfully continued and the total number of the Bank's points of sale across Croatia is now 108. During this process, certain branches moved to new locations which are more adequate and more accessible to clients, all in accordance with the service level improvement strategy implemented in 2014.

Simultaneously with this process of branch network rationalization, Societe Generale-Splitska banka implemented activities to enhance its client relationship with the purpose of getting to know them better, i.e. of recognizing their needs by using the best business practices.

In 2014 retail savings recorded strong growth despite the fact that economic situation was and still is extremely difficult.

Total retail deposits increased by 4.65% and end-of-year balance of deposits amounted to HRK 12,439 million.

In order to optimize the requirements of its clients related to safety and investment and to simplify personal finance management, Societe Generale-Splitska banka continued to develop a range of products enabling clients to select the most favourable savings solution, depending on their wishes.

This especially refers to our young clients for whom a special account for young people was created, along with a contemporary design of the related cards.

Additionally, with the increase of transparency Societe Generale-Splitska banka stopped offering fixed term deposits with variable interest rate and defined its fixed term deposits offer exclusively with fixed interest rate.

Special emphasis had to be given to the improvement in the offer for private banking clients, for whom PB Club was developed, representing the highest level of offer for the most valuable clients of Societe Generale-Splitska banka. By introducing structured products, Societe Generale-Splitska banka has entered a new phase in the development of relationship with its most valuable clients.

The innovative savings offer was complemented by a loan offer which was adapted to the market situation. All innovations from this part of business operations were followed by a series of marketing actions at the national level.

Societe Generale-Splitska banka focused especially on increased transparency towards clients by maintaining its offer of loans with fixed interest rate and euro currency clause, or HRK loans. In this way, interest and currency risk were eliminated, with special emphasis on cash and car loans with fixed interest rate (EUR, HRK).

Societe Generale-Splitska banka also prepared a special loan product for pensioners, as well as a special credit line for tourism, i.e. the Bank offered private

accommodation owners a new loan to prepare for the tourist season. All of this contributed to the Bank's accomplishment of its objectives in such difficult conditions and to the improvement of the Bank's loan operations and market share.

Total loans outstanding on 31 December 2014 amounted to HRK 8,759 million, with total sale of HRK 1,681 million.

Societe Generale-Splitska banka also enables its clients to use other products and services in a simple and accessible way.

It is necessary to highlight the focus on a diversified client offer, especially in the part related to account operations and service packages.

The increasing trend in the number of packages continued, which was 140,907 at the end of 2014, accounting for a growth of 5.4% compared to 2013.

Thanks to the growth in the number of packages, increase was recorded for all products included in the packages, such as authorized overdraft and Internet banking, resulting in a strong increase of income in this segment of business activity.

In difficult business conditions and deep crisis with negative card trends both in domestic and foreign markets, Societe Generale-Splitska banka recorded growth of card operations with increase in the volume of transactions by 3.7% and in the number of transactions by 5.96%.

During 2014 we introduced new products in the cards segment, namely debit cards for payment in instalments, and an additional card (card with deferred payment) for payment in instalments.

The Bank's attempts to be as close to its clients as possible were obvious in the area of maintenance, reallocation and increase of ATM network which, at the end of year, consisted of 250 ATMs. Besides the wish to get the ATMs as close to clients as possible, a new service called DCC – dynamic currency conversion was developed.

Societe Generale-Splitska banka also cooperated with its partners (SG Osiguranje, HOK osiguranje, Triglav osiguranje, Western Union, Wüstenrot, ZB Invest) with the purpose of increasing the sale of products in the domain of non-interest income.

Business Customers Department

Business customers include companies, crafts, associations and a series of non-profit institutions and represent significant part of the economic potential. Therefore, it is a very important segment in the business operations of Societe Generale-Splitska banka.

At the end of 2014, Societe Generale-Splitska banka had 19,700 active clients in the segment of small entrepreneurs and crafts.

Prompt and readily available service is of utmost importance in this segment. Therefore, the Relationship Managers (RMs) are at the clients' disposal in spe-

cialized BC centres and in 60 branches across Croatia. In branches without a dedicated RM, clients will be serviced by Heads of Branch, who are also competent for working with business clients. In 2014 Societe Generale-Splitska banka maintained the number of 110 Relationship Managers and Heads of Branch with BC portfolio, at the same level as in previous years.

Taking into account the close link between private and business spheres of clients from this segment, services and products that we offer are adjusted accordingly.

- Through the complete banking service of PACKAGE M, L and XL – intended for entrepreneurs, clients enjoy a number of benefits both for their company/business and for their personal needs.
- E-COMMERCE – card acceptance service for online sale of products and services of our clients.
- Credit lines intended and customized for specific entrepreneur segments with respect to their activity. We would like to highlight the tourist season preparation loan, the Blic loan, loan based on POS turnover etc.
- Due to the economic crisis, which had a significant impact on the business of this segment, we have introduced and refreshed special credit lines with subsidized interest rates contracted with local government units and with HBOR loans.
- As interest for EU funds increased in 2014, Societe Generale-Splitska banka established the EU Desk to provide assistance and good quality information to its clients related to projects based on EU funds.

Through high-class client approach, the volume of the Bank's activities in this segment recorded a significant increase, which is evident from several main indicators in 2014:

- 2,239 new clients with their transactions
- Stable number of active clients, compared to 2013, according to their account transactions
- Decrease in balance sheet exposure by slightly less than 9% compared to 2013
- Increase in the balance of deposits by more than 10% compared to 2013
- In 2014, the bank recorded a fee income in the amount of HRK 16,6 billion from card operations through the POS network, as well as turnover in the amount of HRK 648 billion. Compared to 2013, income increased by 6%, while turnover and the number of transactions increased by 9%.

Despite the stable number of active clients, business accounts of clients, especially in the segment of small entrepreneurs, are increasingly blocked due to the crisis and its consequences.

3. CORPORATE BANKING & MARKETS ACTIVITIES

Corporate Banking & Markets continued with activities of portfolio diversification and maturity structure optimization in 2014. Its traditionally strong corporate banking position in Dalmatia and in the segment of large & international corporate was complemented by increasing market presence in the midsize corporate segment in the rest of Croatia and increased activity in servicing the needs of state-owned companies.

The result of these efforts is evident in the growth of the Corporate Banking portfolio and the volume of deposits of legal entities.

The gross portfolio of the division amounted to HRK 14,1 billion on 31 December 2014, accounting for a 4.3% increase yoy. At the same time, corporate deposits increased by impressive 31%. However, it should be noted that such increase was not generated by a higher average rate of such liabilities; on the contrary, the average cost of deposits was significantly reduced in 2014 compared to 2013.

Structurally, the largest growth was achieved in the large corporate segment and the midsize corporate segment in the north of Croatia. As for the latter, it should be noted that the increase also resulted in better portfolio quality as risk was reduced through targeted desistance from financially weaker clients in favour of segments and companies with healthier financial indicators.

Besides these structural improvements, the exposure maturity structure also partly changed so that the volume of long-term loans increased in absolute terms and percentage-wise.

In addition to this, promoting comprehensive relationships with clients was a key element of our corporate business strategy in 2013. This trend continued in 2014 with emphasis on increased use of banking services in segments such as payments or documentary business. Our presence in the large corporate segment further increased through unique corporate products available on the global operations level of Societe Generale Group.

Summing up our future intentions, the optimum combination of organic growth and profitability, together with promoting relationship banking, remains the key motto of corporate banking in Societe generale-Splitska banka for the years to come.

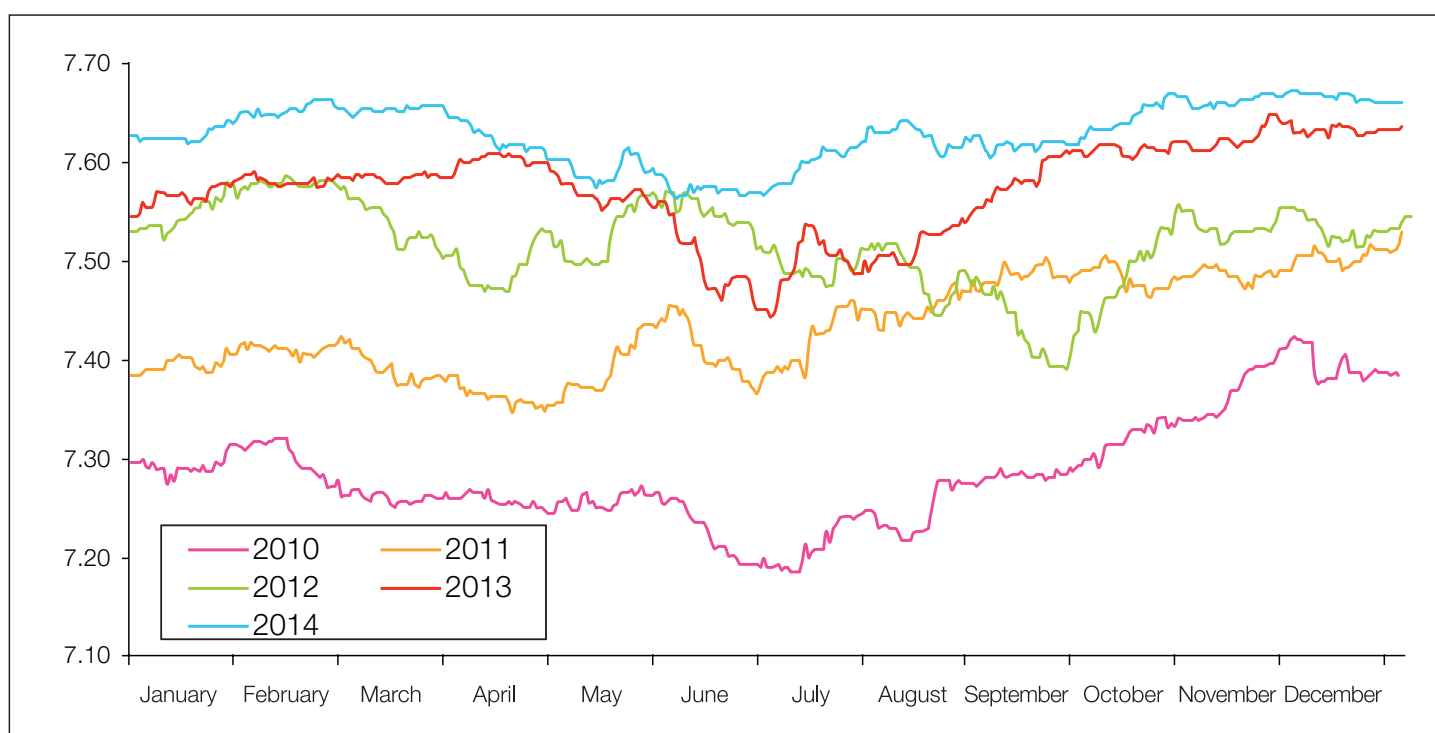
FX Market

The domestic FX market was marked by relatively low volatility in 2014 with the EUR/HRK market exchange rate ranging between 7.56 and 7.68 and the CNB

middle exchange rate averaging HRK 7.63 for one euro. The first quarter was marked by rising exchange rate trends due to increased demand for foreign currency from the corporate and banking industry. After the exchange rate exceeded the level of HRK 7.66, liquidity was partly withdrawn from the system as a result of CNB's foreign exchange intervention (EUR 240.2 million). Weakening of the domestic currency stopped in the second quarter with the tourist pre-season and increased FX inflows.

Despite the inflow of foreign currency from tourist activity, the peak tourist season has not brought the expected seasonal strengthening of kuna against euro because of additional provisions of banks and high kuna liquidity in the system which kept the exchange rate at relatively high levels. Moreover, with the exception of the first half of July, the EUR/HRK market rate did not fall below the level of 7.60. Mild depreciation pressures continued in the last quarter of 2014 and the end of the year saw the EUR/HRK rate at HRK 7.66 for one euro.

EUR/HRK exchange rate 2014
Sources: CNB



Izvor: Bloomberg

Money market

2014 was characterised by very high liquidity of the banking system. Compared to 2013, there were almost no significant changes. With constant surplus of liquidity and the offer well above the weak demand for kuna, the interest rate charges by CNB for kuna overnight deposits of business banks remained at 0%. Interest rates on short-term kuna deposits are on constantly low levels, ranging from 0.1% to 0.5% for terms O/N to 2W. There is almost no demand for longer terms. Activities of the banking industry focus mainly on T-Bill auctions and new bond issues of the Croatian Ministry of Finance.

Yields on T-Bills for almost all maturities are constantly slightly declining. We thus saw the yield on 182-day bills at 1.2% at the beginning of 2014 and dropping to 0.6% by the end of the year. The yield on one-year bills decreased from 2.4% at the beginning of the year to 1.5% at the end of the year.

We had three bond issues in 2014: in February, the 3rd tranche of EUR currency clause bond maturing in 2019 in the amount of EUR 500 million with a yield of 5.12% and the 2nd tranche of the EUR 650 million bond maturing in 2024 with a yield of 5.77%, then in May the issue of EUR 1,250 billion Eurobond maturing in 2022 with a yield of 4.017% and finally in December the issue of the HRK 3,250 billion bond maturing in 2018 with a yield of 3.64%.

Capital market 2014

In keeping with the generally stagnating economy in Croatia, the domestic capital market recorded no significant developments in 2014. Overall trade turnover increased slightly by 2.4% compared to 2013. Equity turnover, which accounts for 79.2% of the overall stock exchange turnover, decreased by minimal 0.4%, while bond exchange turnover grew at the rate of 65.1%. Key stock exchange indices recorded opposite developments on the annual level: CROBEX weakened by 2.7% while the narrower CROBEX 10 strengthened by 0.6%. Opposite developments support the assumption that in the absence of good news investors mostly turned to domestic blue chip equities that constitute CROBEX 10.

Under given conditions, the Brokerage department of Societe generale-Splitska banka still made a step forward in almost all business segments. Its turnover was HRK 134,01 million, which is 3.68% more than last year. In the same period, the number of new clients increased thanks to the fact that we kept the leading position among brokerage service providers on the local level. The market value of ownership position in securities registered with Societe generale-Splitska banka was nearly HRK 250 million at the end of 2014, representing a solid base for optimism in the forthcoming period. We also expect new positive developments from trading on foreign market, a service introduced in 2014 by the Societe generale-Splitska banka Brokerage department.

Securities Services

Through its Securities Services Department, Societe Generale-Splitska banka keeps the leading position in providing of custody and depositary services for very reputable names from the international and domestic financial industry (banks/ Global Custodians, insurance companies, brokers, domestic UCITs, AIFs, SPVs and pension funds) with over EUR 6,04 billion of assets under custody, providing custody service on over 60 world's markets and with market share of 45,92% in depositary business (figures at December 2014).

The commitment to the custody and depositary business has been confirmed by a number of valuable prizes of which we could mention Top rated status by Global Custodian magazine continuously received for the past ten years.

The Securities Services Department is an integral part of Societe Generale Securities Services (SGSS) the 2nd largest global custodian in Europe.

IV RISK MANAGEMENT

In general, risk management includes activities and approaches focusing on the protection of Societe Generale-Splitska banka property and revenues, as well as the protection from the risks of loss, especially incidental or unexpected risks. The purpose of risk management is to increase the transparency of risk in order to facilitate the managing and decision making processes. The strategies of the Bank's risk management are to protect the financial strength and reputation of Societe Generale-Splitska banka, while ensuring that the capital is well developed to support business activities and grow shareholder value.

The objective of risk management is to reduce different risks related to a pre-determined domain to a level acceptable to Societe Generale-Splitska banka. It may refer to numerous types of threats caused by environment, technology, humans, organizations and politics. Societe Generale-Splitska banka manages all significant types of risk, i.e. credit, market, interest and liquidity risks, as well as legal and operational risk. Risk management of Societe Generale-Splitska banka takes into account the management standards of the Societe Generale Group, together with regulatory norms.

1. RISK MANAGEMENT STRUCTURES

All bodies and departments involved in risk management

Supervisory Board

The role of the Supervisory Board is to oversee and advise the Managing Board, by rendering advice at the request of the Managing Board and on its own initiative.

Managing Board

The Managing Board establishes and monitors risk strategy of the Bank's activity. Risk management relies on specific committees on the one hand and the organization of several departments on the other hand.

Risk committees

The evolution of all important risks for Societe Generale-Splitska banka is monitored by various committees:

- Corporate Credit Risk Committee
- Retail Credit Risk Committee
- Assets & Liabilities Management Committee (interest, market and liquidity risk)
- Operational Risks and Compliance Committee

Risk Management Division

The main mission of the Risk Management Division linked to the CEO, is to contribute to developing the Bank's business and returns through the implementation of an efficient risk management process.

The role of the Risk Management Division is to contribute to the development and profitability of Societe Generale-Splitska banka by providing a robust and efficient risk management framework.

In the conduct of its functions, it operates independently of the business entities and works closely with the core businesses which have overall accountability for the transactions which they initiate.

Risk Management Division:

- participates in defining lending policies which are aligned with specific business objectives and risk exposures of the various Business lines
- is responsible for identifying and monitoring Societe Generale Group risk exposures
- defines and approves methods and procedures for the analysis, approval and monitoring of risk
- verifies the efficiency of credit risk rating systems used within Societe Generale-Splitska banka

- ensures that risk information systems are fit for their purpose
- assists in the appraisal of risk exposures by issuing recommendations in respect of transactions proposed by the heads of business lines
- is responsible for coordinating risk portfolios, monitoring cross-disciplinary risks and anticipating levels of risk provisioning
- performs periodic reporting on the nature and scale of risk exposures to General Management, the Board of Directors and banking sector supervisory agencies.

Permanent control department

Permanent control department is established on April 1, 2011 based on the Managing Board decision, and includes risk control function operations in the following segments: outsourcing and new product implementation, operational risks, permanent supervision, anti-money laundering and compliance.

Beside the Permanent control department, identification, measurement, supervision and controlling the risk to which Societe Generale-Splitska banka is exposed or to which it could be exposed in its operations is conducted in Risk Management Division and the Information Security Department.

Heads of organisation units that perform the risk control operations evaluate the adequacy of the risk management system and monitor the overall risk exposure. This risk control function is based on the Credit Institutions Act and the Decision on the Internal Control Systems.

The organization structure in Societe Generale-Splitska banka makes a clear distinction between the business function and the risk management, monitoring and control function.

The objective of the risk control function of Societe Generale-Splitska banka is sustained working on establishment and improvement of overall and efficient risk control system, that is proportional to the type, scope and complexity of services provided by Societe Generale-Splitska banka and is in accordance with the risk profile of the Bank and Societe Generale Group, taking into account regulatory requests by the Croatian National Bank.

Risk control function assesses the adequacy and effectiveness of risk management system and proposes measures for proper risk management with the aim of their reduction. Risk control function shall not participate in business processes in which a risk occurs.

Compliance function is established within Compliance and AML department which is part of Permanent control department.

The aim of the compliance function is to check the compliance of the Bank's internal regulations with the applicable laws, regulations and professional standards based on annual work plan, identification and risk assessment of non-compliance,

preparation of reports on compliance, monitoring of regulations and professional standards, consulting the management and Managing Board, participation in the preparation of educational programs in order to inform all employees with the procedures and rules for compliance monitoring.

Internal audit

The Internal Audit Department reports directly to the Managing Board and its work is monitored and approved by the Supervisory Board and Audit Committee.

The Internal Audit Department regularly reviews processes and procedures related to risk management. It also makes recommendations to improve business and decision making processes.

ALM Department

The ALM Department is responsible for structural risks (interest rate, exchange rate and liquidity risks) management:

- keeping risk exposure within given limits,
- making proposals for appropriate exposure coverage,
- implementing the decisions related to risk management.

The general activities of ALM Department are undertaken in order to:

- provide sufficient liquidity as is necessary to ensure that Societe Generale-Splitska banka is fully equipped to meet all its current obligations while complying with legal guidelines,
- deliver effective ALM services and support to the various departments of Societe Generale-Splitska banka and to other Societe Generale Group entities.

The Assets and Liabilities Management Committee (ALCO) is responsible for the management of market and structural risks. It meets at least six times per year and consists of Board Members and the heads of the ALM, Market Risk and Credit Risk departments.

Market Risk Control Department

The Market Risk Control Department is an organizational part of the Risk Management Division and is responsible for:

- the evaluation, measuring and control of market risks occurring in Societe Generale-Splitska banka;
- the development, creation and establishment of procedures, rules, methods and instruments for risk evaluation and control;
- taking part in the set-up and changes of interbanking limits and daily monitoring of the limit utilization level.

2. RISKS ACCORDING TO THEIR NATURE

The major risk to which Societe Generale-Splitska banka is exposed is credit risk. However, liquidity risk, market risk and operational risk are also carefully monitored.

Credit risk

Societe Generale-Splitska banka is exposed to credit risk which represents the risk of a counterparty being unable to fully settle liabilities as due. Societe Generale-Splitska banka classifies credit risk by defining limits on the amount of credit risk expected to occur in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed by obtaining collateral and corporate or personal guarantees.

The Credit Risk Department has the objective to increase security through risk control and minimisation. The focus is to work on risk analyses through risk identification and evaluation, measures to increase security through the decrease and prevention of risk.

Liquidity risk

The policy of managing cash flows with the objective of balancing cash receipts and cash payments is a part of the Bank's broad assets and liabilities management policy. To ensure a satisfactory level of liquidity reserves, Societe Generale-Splitska banka thoroughly implements a cash flow monitoring and planning process and forecasts future liquidity needs taking into account changes in the economic, statutory and other conditions of the Bank's operations. Such planning encompasses the identification of known, expected and prospective cash outflows and the development of strategies to satisfy the Bank's needs for funds in certain currencies.

The Bank's strategy, with the objective of meeting expected and unexpected cash needs, includes action planning and contingency planning (in case of global and local crisis). The Bank's planned activities (especially regarding credit activity control) are being constantly adapted to the market situation, taking into account the structure of assets and liabilities and the maximum liquidity reserve level.

To comply with statutory and internal regulations and decisions, implement the security and stability principle and achieve the planned business profitability, Societe Generale-Splitska banka uses a liquidity risk measurement and reporting system.

REGULATORY REQUIREMENTS REGARDING LIQUIDITY

A. Reserve requirements

Societe Generale-Splitska banka is obliged to calculate and maintain kuna and foreign currency obligatory reserves. The basis for the calculation is the average balances during the month of current accounts and deposits, subordinated liabilities, borrowings and repurchase agreements.

Since December 2013, Societe Generale-Splitska banka is obliged to allocate minimal reserve requirement in the amount of 12% of eligible base as outlined above. In addition, part of the kuna liquidity of Societe Generale-Splitska banka is placed in obligatory treasury bills that are repurchased by Croatian National Bank on a monthly basis in the amount of 50 % of the achieved increase in certain loans placed to domestic non-financial companies during observed time period. The final maturity of enrolled obligatory treasury bills is three years (12 December 2016) while Croatian National Bank does not pay any remuneration on them.

The required minimum rate of maintenance of the kuna obligatory reserve with the CNB amounts to 70%. Remaining 30% of the reserve requirements is to be maintained by the average daily balance in the settlement account and in the account for coverage of the negative balance in the clearing account within the National Clearing System. This includes also the part of the foreign currency obligatory reserve required to be held in HRK (see below).

60% of the foreign currency obligatory reserve is required to be held with the CNB, while the remaining 40% may be held in the form of other liquid receivables. 75% of the foreign currency obligatory reserve is required to be held in HRK and this portion is added on kuna obligatory reserve (see above).

B. Liquidity ratio 17% in 2014

According to the Decision on the Minimum Required Amount of Foreign Currency Claims, Societe Generale-Splitska banka is obliged to daily maintain the prescribed level of the ratio between certain foreign currency assets and foreign currency liabilities.

Since March 2011, minimum prescribed ratio between certain foreign currency claims and foreign currency liabilities amounts to 17%.

C. Minimum liquidity coefficient

According to the Decision on the Liquidity Risk Management, the CNB prescribed minimal quantitative and qualitative requirements for managing liquidity of Societe Generale-Splitska banka.

Based on this requirement the minimum liquidity coefficient of Societe Generale-Splitska banka up to one week and up to one month should be minimum 1 on the daily basis:

- Minimum liquidity coefficient up to one week is the ratio of actual and estimated cash inflows (readily marketable assets included) and actual and estimated cash outflows up to the first seven calendar days following the reporting date.
- Minimum liquidity coefficient up to one month is the ratio of actual and estimated cash inflows (readily marketable assets included) and actual and estimated cash outflows up to the thirtieth calendar day following the reporting date.

Respective Minimum liquidity coefficient should be calculated and maintained separately for:

- HRK (including inflows and outflows repayable at foreign currency clause),
- all convertible currencies combined.

Market risks

Market risks represents the effects of external influences on the value of the Bank's assets, liabilities and off-balance sheet positions caused by price fluctuations or, as the case may be, movements on financial markets. Market risk, thus defined, consists of the following:

- Interest rate risk and
- Currency risk.

A. Value at risk

The Value at risk (VaR) is the maximum expected loss of the trading portfolio with a 99% level of confidence and one-day holding period. Historical simulation is used to calculate the VaR: the profit/loss of the portfolio is computed based on 250 market scenarios (according to each scenario) and the VaR represents the 99% quantile of the calculated Income statement result array. Scenarios are generated based on historical data (historical movements of market factors). Societe Generale-Splitska banka determines VaR for the following risk factors: interest rate and foreign exchange rate.

Societe Generale-Splitska banka has an established VaR warning level on the trading portfolio level, which includes the effects of all market factors, and calculates the contribution of each individual market factor. Data about the VaR indicator for the trading book is shown in the table below:

(in million HRK)			
2014	Interest rate	Foreign exchange rate	VaR total
End of year	0.10	0.04	0.13
Average	0.04	0.15	0.17
Maximum value	0.10	0.31	0.33
Minimum value	0.00	0.01	0.01

B. Fixed income trading limits

According to internal rules, fixed income securities issued by the Croatian Government and denominated in kuna or euro represent the only instrument with permitted interest rate risk exposure in the trading book (note: the trading book

in this sense refers to positions intended for active trading, i.e. managed by the Trading Department). The following limits are applicable to the above portfolio:

- Total securities volume limit,
- 10 bp yield shift broken down into pillars
- Individual purchase holding limit and

PomThrough the above measures, the Bank's trading in securities is aimed at active position management with the purpose of profit optimization, taking into account the Bank's conservative risk appetite.

C. Currency risk

Currency risk is the risk that arises from the changes in foreign exchange rates, causing a fluctuation of a financial instrument. For every currency position, limits have been set by the Board. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The strategy of Societe Generale-Splitska banka is to maintain as low as possible the currency risk and open position of the Bank. Thus, in 2014 the currency position of Societe Generale-Splitska banka remained in average at 2.62 % of total capital.

Operational risk

By operational risk, Societe Generale-Splitska banka refers to the risk of losses resulting from weakness or anomaly which can be attributed to procedures, personnel or internal systems, unpredictable external events, including risks of non-compliance. Societe Generale-Splitska banka also includes the reputational risk in this definition.

Societe Generale-Splitska banka uses the standardized approach for calculation of the capital adequacy for operational risk.

Operational risk is inherent to all of Bank's products, activities, procedures and systems.

Operational risk awareness is an integral part of managerial responsibilities at all levels of management.

The results and the development reached by the identification and assessment of the operational risk as well as the existing real losses based on the operational risk are presented quarterly to the Operational Risk and Compliance Committee. The purpose of operational risk management is to monitor and control operational risks through the use of specific operational risk practices and applications.

Tools that provide an understanding of the information gathered and the implementation of appropriate corrective measures are used in operational risk management. Evaluation of operational risk is based on quantitative and qualitative system:

A. Collection of data on operational risk events

In accordance with the internal regulations of Societe Generale-Splitska banka, all losses arising from operational activities must be reported to the Permanent Control department. Operational risk events are categorized through 49 sub-categories

and should be accompanied by a detailed description. Control and knowledge of operational risk is not only a collection of events associated with the loss. All operational risk events, including gains and events without financial impact, provide important information about the continuity of processes that support the activities of Societe Generale-Splitska banka and enable the identification of weaknesses or technical malfunctions that need to be rectified.

Significant operational risk is the risk of events that could result in a significant potential loss (above EUR 100,000), or a significant loss (above EUR 10,000) or undetectable financial consequences (including reputational risk).

B. Key risk indicator monitoring (KRI)

Key risk indicator monitoring (KRI) is designed to enable up a proactive and advanced risk management. KRI indicators give early warning of future operating losses through regular manifestation of trends. Key risk indicators makes an objective and quantifiable data that enables an assessment of one or more key risks and allows for more efficient management of such risks.

Objective and quantifiable data can be easily reproduced, documented and is auditable.

In practice, key risk indicators represent statistical data and / or different metrics that can provide insight into the Bank's risk position. These indicators are reviewed on a periodic basis (monthly or quarterly) to alert Societe Generale-Splitska banka to changes that may indicate the occurrence of the risk.

C. Risk control self assessment (RCSA)

RCSA aims to identify and measure the Bank's exposure to various operational risks so that they can be defined and transparent presented and prepare for correction and monitoring (intrinsic risks and residual risks, i.e. taking into account the quality of risk prevention and control system).

Depending on changes in risk profile, RCSA is carried out at the request of IBFS / SEG, i.e. at the discretion of the Bank's Managing Board. Change in organizational structure, information system and various external events can significantly change the risk profile.

D. Permanent Supervision

Permanent supervision represents the basis of the internal control and operational risk prevention system. It consists of measures which are continuously implemented to ensure the accuracy, safety and validity of transactions performed on the operational level by the Bank's employees.

The goal of permanent supervision is detecting errors and improving safety and procedures processing. Understanding and proper implementation of permanent supervision allows continuous and effective risk control.

Permanent supervision relies on risks identification induced by all Banks' activities. The overall objective is to create a secured environment, mainly through dedicated controls, whose target is to mitigate and even manage the occurrence of risks identified. Permanent supervision has to be implemented all over the departments whose operations are specified as sensitive (procedures / processes / accounts) and involves all levels of management.

Consequently, the safety of all the Bank's activities is strengthened and the operational quality and service quality improved.

Business continuity management (BCM)

The goal of Business Continuity Management (BCM) is to ensure that Societe Generale-Splitska banka (the Bank and local subsidiaries) could continue to work (provide essential services and info to clients, partners and regulators) after disaster, with minimum casualties, material and reputational damage.

BCM Strategy is aligned with business strategy of Societe Generale-Splitska banka, Business impact analysis (BIA) conclusions and risk assessment. Vital and critical activities (selected during BIA) have to be recovered first, at acceptable operational level, inside defined timeframe, using available human and technical resources. The Strategy establishes priorities among activities, defines Business Continuity objectives and identifies resources necessary to ensure the resumption of selected activities (BCSR).

BC Plan has focus on resuming vital and critical business activities in case of disaster, and refers to specific operational recovery procedures by business units/ departments (process owners), locations and disaster scenarios.

Procedures contain operational details for recovery. Documents include contacts of key persons (inside and outside of the Bank), back-up locations in case of disaster, descriptions of critical processes and steps for their (efficient) recovery.

Societe Generale-Splitska banka implemented a number of solutions to ensure continuity of operations - e.g. IT DR centre, business recovery centres...

Solutions and measures described in documentation are tested regularly by scenarios. Tests are done according to annual test plan – periodically by business lines, departments and/or ICT systems (starting with activities with higher priorities).

Business continuity management in Societe Generale-Splitska banka is aligned with Croatian laws and regulations, Societe Generale Group rules and directives, international standards and best practices.

BCM mechanisms (resources, documentation and solutions) have been continuously improved according to test results, and in case of changes in business and/or ICT environments.

Chairman of the Managing Board (CEO) is BCM sponsor and Crisis Director.

V
HUMAN RESOURCES

The Human Resources Department consists of functional teams: Finance, Administration, Training Team and Development Team.

Mission of the human resources department is:

- Support the business strategy of Societe Generale-Splitska banka in achieving short-term and long-term objectives.
- Ensure means to employees in order to align their competences with the Bank's organisation and objectives, constant increase of efficiency and building of commitment
- Ensure quality processes in the domain of human resources management, including: employment, motivation and reward systems, career development and mobility, identifying and keeping talent and key professionals, development of professional and personal competencies, establishing adequate corporate culture and climate, internal communications, development of new tools and systems, efficient administrative and financial functions of the department.

As of 31st December 2014, Societe Generale-Splitska banka had 1441 employees of an average age of 40. Overall, 70 % of employees are female and 30 % are male. 42 % of employees have secondary school education, while 58 % hold a university degree (2 and 4 year university in total).

In 2014, in total Societe Generale-Splitska banka received approximately 2,800 job applications. 19% of all applicants were invited to take part in a selection procedure, and 14% of those invited to selection process were employed.

Societe Generale-Splitska banka expects its future employees to be client oriented, motivated and responsible individuals able to contribute to the accomplishment of the Bank's objectives and the creation of added value by their competence, quality work and professionalism. We expect flexibility and innovativeness, readiness to learn and support colleagues in their work and development.

The Human Resources Depart takes active part, in cooperation with the management, in the development of careers of its employees through internal interviews aimed at identifying their expectations. Employees also had an interview on work performance and development plans with their superiors (supported by web-based tool). This process ensures two-way communication between the manager and the employees.

Societe Generale-Splitska banka has a market-competitive material reward system, both in terms of basic salary and variable bonus payments, and in terms of the employee benefit package. The best employees, whose performance translates into an above-average contribution to the accomplishment of the Bank's objectives and who demonstrate desirable behaviours, are candidates for receiving additional bonuses through the variable reward system.

To motivate professional excellence and ensure long-term rewards, Societe Generale-Splitska banka has implemented the Global Employee Share Ownership Program, which makes it possible for every employee to buy Societe Generale Group shares at a discounted rate. A total of 46% of Bank's employees are Group shareholders.

In order to understand better the corporate culture, Societe Generale-Splitska banka conducts employee satisfaction survey in order to identify and to improve different aspects of organisation according to opinion of employees.

In the domain of employee training, we are facing a twofold challenge: to contribute to the achievement of business strategies and objectives through adequate, professional forms of training, on the one hand, and to support all employees in an ongoing process of personal skills and specific know-how development through annual training programs, on the other hand.

The employees thus take part in various forms of training (with focus on risk culture and customer service) to strengthen professional and technical knowledge, build sales and personal skills and learn foreign languages.

In 2014, a total of 21,590 training hours were held and 95% of employees had at least one training during the year.

Societe Generale-Splitska banka pays special attention to the social dialog with workers' representatives with whom, through applicable collective agreement, regulates the guaranteed material and non-material rights of all employees.

SOCIETE GENERALE – SPLITSKA BANKA d.d.

André-Marc Prudent-Toccanier
Chairman of the Managing Board

Tomislav Krpan
Secretary General & Procurator

