PODRAVSKA BANKA

ANNUAL REPORT 2016

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Castle Trakošćan, Hrvatsko zagorje

REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

REPORT OF THE PRESIDENT OF THE SUPERVISORY BOARD

On behalf of the Supervisory board as well as in my own name I hereby present to you Podravska bank 2016 business results.

In spite 2016 being very challenging year for the banking industry Podravska bank has managed to maintain stability and hold its position in the Croatian financial market.

In 2016 Republic of Croatia has managed to decrease both general government debt and public debt in spite of lack of political stability which is necessary requirement for conducting structural reforms. Taking all that into account, Croatian economy managed to grow by 2.6 percent aided by increase in foreign demand and simultaneous increase in domestic demand and investment activities.

Although current trends are positive, lack of structural reforms could impair growth potential in the long term. Fiscal position although more stable when compared to the previous period is still vulnerable, which is the reason why Republic of Croatia still hasn't been assigned investment grade rating by credit agencies.

Developing countries should have largest contribution in 2017 global economy growth which is expected to increase by 2.7 percent. Commodity prices, with emphasis on oil, are expected to increase, while performance of commodity importing and exporting countries is expected to converge. Downside risks to projected global growth are mostly tied to political risks, financial market disturbances and worsening of financing conditions that could potentially manifest should protectionist measures be implemented.

Despite harsh and challenging environment Podravska bank has managed to perform well and close the year with net profit of HRK 26.03 million.

By exercising prudent risk management, market diversification and increase in service quality, Podravska bank aims to maintain its position in Croatian banking market. Last year was determined by increase in activities throughout the commercial network, intensified activities in due debt collection and by rationalization of operating processes and costs.

On behalf of Supervisory board I would like to extend my thanks to the management and all the employees of Podravska bank on their dedication and their contribution in achieving these results. I would also like to express my gratitude to all my colleagues in the Supervisory board, both current and former, on their active endorsement in developing the Bank as well as members of the Risk and Audit Committee on their contribution and advice.

Miljan Todorovic
President of the Supervisory board

REPORT OF THE MANAGEMENT BOARD ON THE AFFAIRS OF THE BANK

The Management Board of Podravska banka d.d. presents the results of its operations for the year 2016.

In 2016, global economic growth decelerated to 2.3 percent, mainly as a result of a stagnating global trade and uncertainty surrounding economic and monetary policies of individual countries as well as political risks associated with the outcome of the US elections and the UK Brexit referendum.

Emerging markets played the major role in global growth and are expected to continue being the most significant growth contributors in 2017 as well.

The USA's central banking system has launched the long expected sharpening of the monetary policy and in December increased the reference rate by 0.25 percentage points. This policy is expected to continue throughout 2017. In the eurozone, such a move by the central bank is still awaited.

In 2016, the GDP of the Republic of Croatia increased 2.9 percent, along with a growth of all the constituents of the aggregate demand, particularly of the country's exports and a strong recovery of personal consumption. Consumer optimism also improved, as consumers should have more disposable personal income available for spending following the tax reform announced for 2017. Other macroeconomic indicators also showed positive shifts, as the registered unemployment rate fell to 14.1 percent at the end of 2016 and salary levels increased, along with the annual inflation rate moving into the positive territory.

The year 2016 featured a continuation of external disbalances, with a pronounced decrease of foreign debt in the GDP, so that the general government debt for 2016 could be much lower than in the prior year. In 2017 this could turn into an improved credit rating and lead Croatia out of the Excessive Deficit Procedure.

The sovereign risk premium in 2016 was reduced from 307.3 bps to 222.7 bps, with indications of a further decrease in the risk relative to Central and Eastern European (CEE) countries.

The Croatian banking system remains stable, highly capitalised and liquid.

The Croatian National Bank has lead a highly expansive monetary policy, with regular reverse-repo deals to ensure short-term liquidity, but also by implementing reverse structured repos injecting almost one billion kunas for banking liquidity purposes, with a maturity of 4 years. The end of 2016 was marked by an increased domestic lending, mainly in the form of corporate loans, with an increase in retail loans for the first time in seven years.

Interest rates on corporate and retail loans fell throughout 2016, with those on new housing loans for retail customers decreasing most notably. Interest rates on retail term deposits also fell considerably, i.e. they halved compared with the prior year. Central government lending increased by 3.0 percent. Non-performing loans in the banking system were 13.8 percent, with a loan loss provision coverage ratio of 63.6 percent. The capital adequacy ratio of the banking system is 22.5 percent.

In such an environment, Podravska banka achieved an extraordinary performance in 2016.

In 2016, Podravska banka continued enhancing its commercial efforts in the entire territory of Croatia. In addition, the Bank followed up on the initiatives to improve and develop products based on the new IT system platform and worked on an ongoing basis at optimising its operating costs. As in the previous years, particular attention was paid to monitoring loans and advances with the aim of optimising credit risk management.

In terms of total assets, the Bank ranked 11th of a total of 26 banks in Croatia in 2016.

At the end of 2016, its total assets amounted to HRK 3.455 billion, 8.58 percent more than in the prior year.

Total deposits increased by 1.1 percent year-on-year and amount to HRK 2.374 billion. The share of retail deposits in the total deposit have increased by 1.8 percent since 31 December 2015, and they account for 78 percent of the total deposits, with corporate deposits representing 22 percent.

Total loans to customers increased by 0.7 percent, with retail loans up 11.3 percent, while corporate loans fell by 3.6 percent.

The shares of loans to individuals and corporate customers of the total loans changed from the previous year, with the first having increased by 3 percentage points and accounting for 31 percent, and the latter representing 69 percent of total loans.

The Bank remains highly capitalised considering the risks to which it is exposed, with a regulatory capital rate of 14.59 percent at the end of 2016.

The year-end share capital and reserves amount to HRK 410 million, which is a 2.3-percent decrease compared to the prior year. As regards the capital structure, Core Tier 1 capital amounts to HRK 333 million, and Tier 2 capital (comprising subordinate and hybrid instruments — bonds issued by the Bank in prior years) amounts to HRK 76.8 million.

Operating income for the year amounts to HRK 151.9 million, with the net interest income accounting for 65.7 percent, the net fee and commission income representing 15.8 percent and the share of other income 18.5 percent.

The profit for the year amounts to HRK 26.03 million.

The key risks affecting the Bank's performance comprise credit risk, liquidity risk, market risk and the operational risk.

The Bank has set up its risk management through a system of implemented policies and procedures, organisation and control mechanisms which include monitoring and managing risk concentrations, validation and assessment as well as the risk appetite by individual business segment.

The risk management system has been designed in accordance with regulatory quantitative and qualitative requirements. The Bank seeks to manage its risk effectively by continuously improving its processes, methodologies, models, controls and systems.

In 2016, the Bank continued to work on improving the IT support in all the business segments as well as for its new sales channels, customer relationship management, treasury management, including qualitative improvements to risk management.

The Bank did not redeem any of its shares during the year. As a result, the Bank held a total of 9,203 treasury shares at 31 December 2016, which represents 1.38 percent of the Bank's share capital.

In the year ahead, we expect the global economic growth to accelerate, mostly spurred by emerging economies, while developed countries may experience more modest growth. Policies of central banks are expected to change, albeit with diverse approaches to increasing the respective reference rates. The Croatian National Bank, on the other hand, is expected to continue its expansive monetary policy and maintain high liquidity in the market as well as keep interest rates low.

In addition, Croatia's GDP is expected to grow in 2017 again, as a result of higher exports, personal consumption, more investments and the traditionally good performance of the tourist season. The fiscal policy remains a strong tool to boost the economic recovery. The Croatian Government is expected to keep on pushing the public debt and the budget deficit down and continue with the implementation of the necessary reforms. The Croatian banking industry remains stable, highly liquid and well capitalised.

Under such circumstances the Bank will seek to strengthen its commercial activities, especially towards the retail segment, but also in the corporate segment, avoiding high concentrations and preferring short-term lending with an adequate collateral coverage. It will also pay the utmost attention to managing risks and potentially risky receivables.

As in previous business years, the role of the Treasury will remain important, mainly by ensuring sufficient liquidity and sources of funding that would enable the Bank's business to remain stable and run smoothly. Apart from managing the securities portfolio and the currency structure, the Financial Markets Division will be involved in the process of developing new products to expand the scope of operations and reduce the Bank's financing cost.

The Bank will remain committed to meeting the needs of its customers and developing its lines of products and services with the aim of maintaining long-term customer relationships.

Finally, I would like to take this opportunity to thank all our customers and business partners for the trust they have placed in us as well as for their cooperation which obliges us to keep on improving our business relationships.

I also wish to thank our shareholders and the members of the Supervisory Board for their exceptional cooperation and support, and all the Bank's employees for their effort and commitment.

Mr. Julio Kuruc
President of the Management Board

Old town, Varaždin

DESCRIPTION OF BUSINESS OPERATIONS

GLOBAL ECONOMY IN 2016

According to the World Bank report, the global economy grew by 2.3 percent in 2016, the slowest growth rate since the start of the post-crisis period. The slow growth is mainly a result of stagnating global trade, a lower level of investments and the uncertainty surrounding economic and monetary policies. Developed economies continued to be affected by slow growth and low inflation, but with an increasing uncertainty regarding future direction of the most developed ones and some of the emerging economies, also in addition to the uncertain outcomes of the US elections and the Brexit referendum. Low, even negative interest rates have significantly curbed the efficiency and reach of the monetary policies and pointed to the need to realign fiscal policies accordingly. Growth of developed economies in 2016 was estimated at 1.6 percent, and expectations for 2017 are of a moderate acceleration to 1.8 percent. The feeble growth was accompanied by weakening trade. On the other hand, the negative implications on emerging markets were mitigated by growth in raw material prices.

According to World Bank estimates, the US reported growth of 1.6 percent in 2016, much below the estimated 2.7 percent at the beginning of the year. The eurozone members reported growth of 1.6 percent, only slightly below the estimated 1.7 percent, and the Japanese economic growth estimate is 1 percent, with a projected additional slowdown in the years to come.

As expected, China's economy decelerated to 6.7 percent, with a further slowdown anticipated in 2017.

Emerging markets reported a growth rate of 3.4 percent, in line with expectations. Some emerging economies experienced an economic slowdown, such as the receding economies of Brazil and Argentina in Latin America, and Turkey, which faced a significant decline in the tourist trade and the activities associated with it. Emerging economies are expected to grow at a considerably faster pace in 2017, which should increase to 4.2 percent and reach 4.7 percent on average in 2018 and 2019.

The global economy could grow at a rate of 2.7 percent, mostly as a result of the expected high growth rates in emerging economies. In addition to the expected increase in raw material prices, crude oil in particular, exporting and importing countries are expected to perform evenly.

Risks that could impair the anticipated global growth rates are mainly the political risks mentioned above, potential disturbances on financial markets and worsened financing terms and conditions as a result of protectionism. On the other hand, continued fiscal incentives to developed economies, the USA in particular, but also in China, could make growth rates rise above the initial estimates.

CROATIAN ECONOMY IN 2016

In late 2016, the favourable economic trends continued. Stronger growth in industrial production and commodity exports was achieved, along with a higher volume of retail trade transactions, whereas construction receded. The trend of increasing year-on-year consumer prices continued, with the index entering the positive area in December. The 2016 monetary trends featured a more intense lending to domestic industries than in the last several years, mainly as a result of the recovering corporate lending and to a lesser extent of retail lending, the latter having increased for the first time after a seven-year period of deleveraging. According to the data available for the second half of the year, favourable fiscal movements continued, and the general government deficit for the whole 2016 could be much lower year-on-year. At the end of October, a lower year-on-year general government debt figure was reported, mainly as a result of a more favourable impact of the relevant exchange rate.

Following a markedly higher investing activity in the third quarter of the year, the monthly indicators revealed positive trends to continue in the last quarter of 2016. Thus, at the end of 2016, industrial production increased by as much as 6.4 percent from the average for the three preceding quarters, approaching pre-crisis levels. Analysed by key groups of industrial activities, the favourable movements in the manufacturing industry are a result of higher production volumes in all GIG constituents, with energy generation reporting the strongest growth. The analysis of data by the National Economic Activity Codes (NKD) also shows widespread growth in industrial production. In addition, retail trade volume, analysed in real terms, continued to increase in the last quarter of 2016 showing growth of as much as 1.3 percent from the previous quarter. On the other hand, the index of the construction works continued to decrease, though at a slower pace. Such movements are a result of intensified construction activity in general, as indicated by strong growth in other development projects in November. When speaking about expected future economic development trends, consumer and business sentiment surveys conducted in late 2016 and early 2017 show a persisting optimism among consumers and businesses regarding the positive trends. Consumer expectations have revealed a particularly marked increase in the optimistic sentiment.

The last quarter of 2016 saw employment increasing again. Thus the number of employees increased by 0.5 percent from the previous quarter, which applies to all activity classes. Still, the increase in the number of employees in services within the private sector is the main contributor, with the manufacturing industry's share being also considerable. In the same period, the unemployment rate continued to decrease, albeit not as fast as in the first half of 2016. Cancellations from unemployment records were the most significant contributing factor of all rather than new employment. In line with the decreasing number of unemployed persons, the registered unemployment rate also decreased and amounted to 14.1 percent in the last quarter of 2016 (14.5 percent in the previous quarter). The most recent Workforce Survey results, available for the third quarter of 2016, also confirm the favourable trends in the area of unemployment. Thus, according to the survey, the unemployment rate from July to September was 11.8 percent as opposed to the 13.3-percent rate observed in the second quarter of the year. In late 2016, salaries increased relatively strongly following a mild decrease in the third quarter of the year. At the same time, the accelerating increase in prices resulted in a slight decrease in the real net salary.

At the end of 2016, the annual inflation measured in terms of consumer prices entered positive territory and amounted to 0.2 percent. The higher inflation is a result of an increase in all key constituents of the consumer price index (except for industrial products) especially of food (including beverages and tobacco) and energy prices. The annual share of the food prices in the total inflation rate increased to 0.4 percentage points in December, and the negative impact of energy prices decreased to -0.2 percentage points. The increase of refinery product prices from December 2016 reflects the movements in crude oil prices on the global market. Namely, the average per-barrel price of Brent oil on the global market increased by around 16 percent from November because of the expected compliance of the OPEC member states and other oil producing countries with the quotas agreed in late November 2016 to reduce production levels. The annual growth rate of the industrial product price decelerated because of a slightly pronounced cheaper seasonal sales of clothes and footwear compared with December 2015. In December, core inflation accelerated slightly (to 0.5 percent from 0.4 percent in November), mainly due to the higher annual rate of change in processed food products, with tobacco prices accounting for the largest share due to higher excise duties.

A much lower foreign trade deficit was observed in October and November 2016 as a result of a considerable increase in exports and a somewhat weaker increase in imports relative to the average figure for the previous quarter. Following the negative trends in the prior quarter, imports increased by as much as 11.5 percent, mostly as a result of higher oil and refinery product exports, whereas the exports of other transport vehicles (mainly ships) decreased. The growth of the narrowed aggregate (6.7%) was highly spread, with a pronounced contribution from medicine and pharmaceutical products, capital goods, electricity, road vehicles and certain food products. At the same time, following the stagnation in the previous quarter, October and November 2016 saw total commodity imports increase by 3.4 percent, mainly due to higher oil and refinery product imports, with the growth of the narrowed aggregate (1.0%) being spurred by boosted capital goods and clothes imports.

In January, the Croatian kuna increased against the euro to reach HRK 7.48 for 1 euro at the end of the month, which is 1.0 percent lower than at the end of December 2016. In January, the Croatian kuna strengthened against other currencies of key trade partners, resulting in the nominal effective rate for the Croatian kuna improving by 1.3 percent from the end of the previous month. This was boosted, in addition to the strengthening of the kuna against the euro, by the domestic currency increasing its value to Yuan (CNY), the Turkish lira (TRY) and the US dollar (USD), mostly due to the strengthening of the euro against the currencies on the global foreign exchange market.

The euro benchmark rates in early 2017 remained at exceptionally low levels as a result of the ECB's highly expansionary monetary policy. In January 2017, the overnight rate on the banking market of the eurozone (EONIA) decreased slightly to –0.35%, and the six-month EURIBOR fell to –0.24%. The risk premiums for European countries on emerging markets, which include Croatia, started to decrease gradually in early 2017 following a temporary sharp increase in November 2016. Despite that, the risk premium for Croatia at the end of January 2017 remained the highest of all the comparable CEE countries.

The conditions prevailing on the domestic money market in early 2017 were impacted by exceptionally high liquidity supported by the CNB's expansionary monetary policy.

After the CNB's strong injection of primary cash following the purchase of foreign currencies from banks in December 2016, the average liquidity surplus reached the record high of 16.4 billion kunas, having increased from 9.2 billion kunas in December 2016. As a result, the weighted average interest rate on overnight deposits in direct interbank trade decreased further to 0.13 percent in January 2017. The interest rate on on-year kuna-denominated treasury bills without a currency protection clause also reached the record low of 0.62 percent.

Interest rates on both corporate and retail loans decreased throughout 2016, but those on investment loans to business, pegged to a foreign currency, fell by more than one percentage point to 3.5 percent at the end of December. 2016 saw a particularly pronounced decrease in interest rates on first housing loans, although they slightly increased towards the end of the year for kuna-denominated housing loans. The 2016 deposit interest rates followed the multiannual declining trend, in particular for new term deposits of individuals, which were 0.81 percent in December 2016, i.e. they had halved compared to a year ago. The difference between interest rates on the total new loans and deposits in 2016 decreased, but was still above six percentage points, whereas the difference between the loan and deposit balances in 2016 remained slightly below five percentage points.

In 2016 the overall movement in total placements was much better than in several previous years. The increase of 1.1 percent (based on transactions) supported further recovery in corporate loans (3.1%) and, to a lesser extent, retail loans, the latter in 2016 experiencing a 0.5-percent increase for the first time in seven years. On the other hand, the balance of placements at the end of 2016 was, in nominal terms, 3.4 percent lower year-on-year, partly reflecting a portion of retail loans tied to the Swiss franc being written off (a total of HRK 6.0 billion in the period from October 2015 to December 2016) and the factoring of bad loans (HRK 4.2 billion in the first nine months of 2016). Loans to the government increased 3.0 percent annually (based on transactions).

In January 2017, the gross balance of foreign-currency reserve funds increased by EUR 1.1 billion (8.0%) from the end of the prior year and reached EUR 14.6 billion. The significant increase was mostly due to a higher volume of concluded repo deals. At the same time, the net available reserve funds increased only slightly (0.1%) and amounted to EUR 12.2 billion at the end of this January.

In October and November 2016, the net foreign debt of the domestic industry sectors increased by EUR 0.6 billion, of which EUR 0.3 billion are attributable to the CNB decreasing the reserve funds as a result of spending the foreign-currency deposit made by the general government with the CNB. Following the intense deleveraging in the summer months of 2016, the net foreign debt of credit institutions increased by EUR 0.2 billion.

The fiscal statistics for the third quarter of 2016 (ESA 2010) indicate a strong fiscal consolidation from the first half of the prior year continuing into 2016. Thus, the total revenue of the general state in the period from July to September increased by 5.3 percent year-on-year, and the expenses for the third quarter increased by 1 percent. Analysed by category, the revenue side shows a strong positive contribution of VAT (as a result of positive trends in tourism), whereas the expense side reveals, in addition to the expected continuing higher spending for employees, a steep increase in subsidies and grants year-on-year, partly attributable to differently scheduled intra-annual disbursements.

Cash data available from the Ministry of finance (GFS 2001) for October 2016 show a continuing fiscal re-alignment occurring at the beginning of the last quarter of 2016.

Thus, according to October's data, revenue increased, while expenditures decreased year-on-year. The unexpectedly successful fiscal performance resulted in amending the State Budget and financial plans of Budget beneficiaries in November, causing the general state budget to report a considerably lower than expected deficit.

The improved fiscal indicators were reflected in the positive responses of two international rating agencies, which revised their expectations regarding Croatia's long-term rating from negative to stable. At the end of October 2016, the general government consolidated gross debt was lower than at the end of October 2015 (due to favourable fiscal trends, but also because of the kuna strengthening against the euro), having decreased to HRK 287.4 billion. As regards the structure of the public debt, a positive shift took place in 2016, as the maturities were extended and the share of the kuna-denominated debt instruments increased. In addition, the state continued to renegotiate the debt at more favourable terms in the second half of the year and maintained liquidity at a high level. Following the record-low interest rate on the most recent issue of a kuna-denominated bond in July 2016, the interest rates on treasury bills issued in the third and fourth quarter of the year remained at exceptionally low levels. A similar trend could be observed on the issue of treasury bills in early 2017.

CROATIAN MACROECONOMIC INDICATORS

	2016	2015	2014	2013
GROSS DOMESTIC PRODUCT, HRK BILLION AT CURRENT PRICES	343.2	333.8	328.1	329.6
GROSS DOMESTIC PRODUCT (GDP), % CHANGE	2.9	1.6	(0.5)	(1.1)
GDP PER CAPITA, IN EUR	10,929	10,435	10,147	10,225
PERSONAL CONSUMPTION, % CHANGE	3.1	1.2	(0.7)	(1.9)
PUBLIC CONSUMPTION, % CHANGE	1.4	0.6	(1.9)	0.3
INVESTMENTS, % CHANGE	4.1	1.6	(3.6)	1.4
EXPORT OF GOODS AND SERVICES, % CHANGE	6.1	9.1	7.3	3.1
IMPORT OF GOODS AND SERVICES, % CHANGE	6.5	8.6	4.3	3.1
INDUSTRIAL PRODUCTION, % CHANGE	5.0	2.7	1.2	(1.8)
UNEMPLOYMENT RATE (ILO) (% OF ACTIVE POPULATION)	14.0	16.5	17.3	17.3
CONSUMER PRICES, % CHANGE	(1.1)	(0.5)	(0.2)	2.2
GENERAL GOVERNMENT BUDGET BALANCE (% GDP)	(1.0)	(4.6)	(5.7)	(5.4)
BALANCE OF PAYMENTS ON CURRENT ACCOUNT (% GDP)	3.7	4.5	0.7	1.0
EXTERNAL DEBT (% GDP)	91.4	103.4	107.9	105.3
CURRENCY EXCHANGE RATE: EUR, YEAR AVERAGE	7.53	7.61	7.63	7.57

Data source: Croatian Bureau of Statistics, CNB, Ministry of Finance, Addiko Economic Research

PRODUCTS AND SERVICES

The Banks seek to respond to the needs of individuals, small enterprises and businesses, as its target customers, by improving its products and investing in the development of new technologies.

Competitiveness and flexibility are the key guidelines followed in providing financial support to customers.

The commercial activities in 2016 showed Podravska banka's strong focus on the retail segment. The on-going monitoring of market trends helped identify positive movements in individuals' consumption (as a result of lifting the tax burden on personal income, the higher GDP, the good tourist season, etc.), which the Bank has recognised as an opportunity.

The Bank seeks to direct its entire operations to meeting customer needs, which implies aligning the products and services on offer with the growing demands of customers by improving the business processes and developing new products and services.

The higher investments in advertising and promotion, innovation in the area of loans, the systematic monitoring of competitors and the modification of terms and conditions of the existing products, along with the education and motivation of the sales staff, have helped reverse the trends, especially in the area of retail loans. Throughout 2016, loans and advances to individuals even grew to levels above the budgeted ones, which has an even greater bearing considering the still absent reversal of the overall trend of decreasing loans and advances to individuals at banking industry level.

The Bank acknowledged the reasons underlying the strategic change and a implemented a shift to the retail sector in the currently higher profitability of the business segment, as well as a higher risk dispersion and a considerable cross-selling potential compared with the opportunities currently offered in the corporate business.

With a richer palette of loan products on offer, especially through improved terms and conditions for loans intended to reschedule debt to other banks, the Bank has acquired a considerable number of new customers with regular income, having thus created product and service cross-selling opportunities based on multi-currency transaction accounts.

2016 was marked by the demand for investment and energy efficiency project funding loans for multi-storey buildings, which the Bank has identified as an additional chance to acquire new customers, both individuals and businesses engaged in residential facility management.

Despite the Bank's lending being still focused on corporate customers, it has plans to further strengthen the retail business trends in 2017.

The Bank reported a moderate increase in retail deposits compared with 2015, which is an excellent sign of customers' loyalty and confidence in the safety of the Bank's activities considering the significantly reduced deposit interest rates.

The Bank also receives deposits from German citizens using an web-based platform it operates together with Raisin GmbH (ex Saving Global GmbH), a market leader in this type of business in the German market. This allows German customers to invest their funds in EU member states through a sophisticated on-line platform. The deposits have a positive impact on the maturity profiles of the Bank's deposits, as German depositors are known to invest the surplus funds in a diversified manner and over longer terms.

Apart from monitoring the funding requirements of individuals, the Bank placed more attention on entrepreneurial banking services and support to the customers in this segment, as well as on monitoring and identifying all quality projects aimed at improving the real sector development and employment in general. Corporate lending remains focused on short-term and self-liquidating instruments (bills of exchange, factoring), while preserving the current portfolio and seeking to acquire customers of other banks with sound creditworthiness. The highly liquid banking system and the strong competition put pressure on interest rates charged on loans to businesses. Therefore, to maintain the interest income levels, it is necessary to win over new clients and markets not yet tackled.

To facilitate access to EU funding, Podravska banka has been cooperating with WYG savjetovanje d.o.o., an entity that provides information to the Bank's customers about current EU funding opportunities as well as the required advice and financial support at all stages, from project application to implementation of EU funded projects.

Moreover, the corporate business remains focused on dispersing the risks, reducing the number and levels of high exposures as well as managing the overall risk concentrations. In doing so, the Bank considered maintaining and improving the loan-to-collateral values as well as obtaining guarantees from other parties, with an emphasis on guarantee programmes offered by the Croatian agency for SME, Innovation and Investments, Hamag-Bicro.

By observing the trends in digitalisation, which is required for better and faster communication with customers, the Bank has been continually improving its application systems and client service systems (m-banking, e-banking, card operations, raising cash in instalments, EFTPOS payments). New technology processes have been implemented to improve customer relationship management, profitability management, sales network management as well as product and service management.

DEPOSIT OPERATIONS

In 2016 total deposits increased by 1.05 from the last year and amount to HRK 2.374 billion, with retail deposits having increased by 1.76 percent to HRK 1,851 billion at the end of 2016.

Demand deposits increased by 22.28 percent, but term deposits decreased by 7.60 percent. Of the latter, the balance of retail deposits was lower by 5.40 percent, and the balance of corporate deposits fell by 18.03 percent. A significant increase was reported in demand deposits, both in the retail segment (24.1 percent) and the corporate segment (18.9 percent). The increase in the demand deposits and the decrease in the term deposits of corporate customers is seen as a result of their intensified efforts and improved ability to utilise own funds in developing projects and operations.

TOTAL DEPOSITS	AMOUNTS IN HRK'000		CHANGE
	31.12.2016	31.12.2015	2016/2015
RETAIL	1,850,591	1,818,651	1.76%
CORPORATE	523,059	530,327	-1.37%
TOTAL DEPOSITS	**2,373,650**	**2,348,978**	**1.05%**

TERM DEPOSITS	AMOUNTS IN HRK'000		CHANGE
	31.12.2016	31.12.2015	2016/2015
RETAIL	1,303,269	1,377,615	-5.40%
CORPORATE	238,730	291,256	-18.03%
TOTAL TERM DEPOSITS	**1,541,999**	**1,668,871**	**7.60%**

DEMAND DEPOSITS	AMOUNTS IN HRK'000		CHANGE
	31.12.2016	31.12.2015	2016/2015
RETAIL	547,321	441,036	24.10%
CORPORATE	284,328	239,071	18.93%
TOTAL DEMAND DEPOSITS	**831,640**	**680,107**	**22.28%**

LENDING

The lending operations in 2016, in particular corporate lending, were affected by high competition of banks in the market, especially reflected through lower loan interest rates, which decreased considerably. The trend has continued. Despite the complex market situation, Podravska banka actively worked on retaining its existing clients, but also increasing its customer base by winning over new sound customers.

The efforts were supported by the Bank seeking to implement a policy of reducing its high exposure to single customers, seeking to enhance the collateral and purposefully abandoning certain lending arrangements with no signs of viability in the long run being recognised.

In 2016 more attention was paid to negotiations with customers and structuring loan products to fit the needs of each individual entrepreneur, by acknowledging the desires and capacities of individual customers. This means that, on issuing a new loan or renewing an existing one, details were closely reviewed and agreed to optimise the debt ratio, the maturity profiles and acceptability of collateral for both parties in a given relationship. In this context, the Bank improved its loan-to-collateral value, managing to abandon in a step-by-step and well-thought-out manner those lending arrangements it identified as not viable in the long run.

The Bank's good cooperation with the Croatian development bank (HBOR) continued through a variety of credit lines and programmes aimed at boosting the Croatian economy and supporting good and well-designed projects that will bring new jobs and create added value.

2016 saw a satisfactory budgeted level of line of credit utilisation extended in cooperation with HBOR and will continue in 2017 until the funds are fully used up.

In addition to the programmes of revolving facilities and lines of credit that facilitated the decision-making, the good cooperation with HBOR could also be seen in other programmes structured by the development bank.

In 2016 the Bank achieved a good utilisation record against the budget under the loan programme "A credit to success - Measure 2", implemented in cooperation with the Ministry of Economy, Entrepreneurship and Crafts. Business cooperation continued also in the area of implementing various programmes supported by the Croatian government aiming to make the Croatian economy more competitive.

The inclusion of and support to a variety of crediting programmes in cooperation with government institutions, local government and self-government (the Bjelovar-Bilogora County in implementing credit lines for farmers to co-finance sowing – the Bjelovar Entrepreneur credit line; the Koprivnica-Križevci County in the programmes intended to support local economy development, etc.), the Bank managed to expand a long-term viable customer base and focus on creditworthy customers with good business ideas, i.e. investing in the entrepreneurs' fixed assets and working capital.

A 3.96 percent decrease in loans to corporate customers in 2016 is a result of deleveraging and reduced individual exposures to certain customers as well as of the intended abandonment of certain lending arrangements with no signs of a long-term sustainability.

Loans to customers increased 11.34 percent from the prior year, with general-purpose cash loans leading the class.

Throughout the year, along with numerous other improvements, the Bank regularly updated its retail loan product range, especially in terms of interest rates, offered currencies (kuna), maturities and others. The efforts boosted demand, and more significant effects are expected in 2017.

TOTAL DEPOSITS	AMOUNTS IN HRK'000		CHANGE
	31.12.2016	31.12.2015	2016/2015
TOTAL LOANS, GROSS	2,122,235	2,110,585	0.55%
TOTAL LOAN PROVISIONS	237,456	238,279	-0.35%
TOTAL LOANS, NET OF PROVISIONS	**1,884,779**	**1,872,306**	**0.67%**

TOTAL LOANS	AMOUNTS IN HRK'000		CHANGE
	31.12.2016	31.12.2015	2016/2015
RETAIL	648,348	582,334	11.34%
CORPORATE	1,473,887	1,528,251	-3.56%
TOTAL LOANS	**2,122,235**	**2,110,585**	**0.55%**

FINANCIAL MARKETS DIVISION

In 2016, the trend of high liquidity in the financial system and low interest rates in the money market continued. This was mainly a result of the CNB's expansionary monetary policy and the regular reverse repo auctions, accompanied by four structured reverse repo deals by which it injected a total of HRK 993.4 billion into the domestic liquidity system, with maturities of up to 4 years. As a result, the interest rate decline was more pronounced at the other end of the curve, with the one-year ZIBOR falling from 1.85 from the beginning of 2016 to 1.21.

With such high liquidity and low interest rates, the short-term government debt financing cost decreased, and the Ministry of Finance issued one-year kuna-denominated treasury bills at the beginning of 2016, with a yield of 1.46 percent, and in December of the year it managed to arrange an issue with a yield of 0.65 percent.

Given the continuing high liquidity in the financial system, the Financial Markets Division continued to decrease the interest rate levels and expand the maturities of items on the liability side, mostly by reducing the interest rates on term deposits in its portfolio and utilising the funding mechanisms made available by the Croatian National Bank.

The surplus of the kuna-denominated funds was invested mainly in cash funds, government bonds in the capital market and reverse repo transactions with money-market participants.

In 2016, the Treasury continued to cooperate with SavingGlobal GmbH, a partner company based in Berlin, and managed to expand the line of products by introducing and offering to customers new maturities based on continued acceptance of savings from the Republic of Germany.

In 2017, the expansionary monetary policy of the CNB is expected to continue, with stagnant interest rates and the prevailing high liquidity. Given the expected low yields, mainly on 2016 domestic treasury bills and the low interest rate on short-term money-market borrowings, the Bank will still have a limited pool of opportunities to invest the surplus liquid funds in the money market, with leaves the government bonds, repo transactions with money-market participants, along with the expansion of the domestic equity securities portfolio, as the main target.

The 2017 is expected to see the expansionary monetary policy continue both in Europe and in Croatia. Still, the year should be the last one of the ECB purchasing bonds, provided that the inflation rate is on target and GDP growth in the eurozone accelerates. We expect the yield levels on bonds to remain low and increase slightly in the second half of the year, with the Croatian government bonds potentially bringing a lower yield, should the positive economic trends in the country continue and the country's credit rating improve. In such a scenario, the equity market could also see some positive trends.

Debt securities account for 56.7 percent of the total securities portfolio, followed by investments in the units/shares of investments funds which account for 39.6 percent, while equity investments make up 3.7 percent of the total portfolio.

At 31 December 2016, the market value of the debt securities issued by the Republic of Croatia amounts to HRK 546.3 million, and at 31 December 2015 it was HRK 268.4 million. The currency structure of the portfolio of debt securities shows the prevalence of euro-denominated instruments (50.1%), followed by kuna-denominated debt securities (45.6%) and USD- and CHF-denominated instruments, with the respective shares of 2.6 percent and 1.7 percent. By geographic territory, the majority of the portfolio consists of issuers based in Croatia, followed by those from Western Europe and CEE.

At 31 December 2016, customer assets under custody increased to HRK 1.18 billion, which is a growth of 10.94 percent from the end of the prior year. HRK 723.40 million of the managed funds are funds originating from the Croatian market, assets worth HRK 36.18 million are in the territory of Montenegro, and those in the amount of HRK 421.44 million are other foreign assets.

PAYMENT OPERATIONS

The 2016 payment operations were marked by the successfully implemented SEPA credit scheme into the national and international payments within the EU, introducing new payment channels EuroNks-a and Target 2. The high increase in the number of transactions proves that the new payment operation services and the fees for the services are to the satisfaction of the customers.

The total national payment operations to external customers via HSVP and NKS channels reached over HRK 31 billion, i.e. more than 2.8 million payment orders made at 31 December 2016, meaning that the number of orders increased by 11 percent. Foreign payment operations through SWIFT exceeded HRK 3.1 billion in 2016, comprising over 28 thousand payment orders. The new payment channels, aligned with the EMU payment scheme standards, were used to execute 39 thousand payment orders worth in total over HRK 1.4 billion. Thus, the total balance of foreign payments made increased 59 percent from the 2015 balance and in terms of the number of payment transactions, the increase is 67 percent.

The number of business customers engaging in foreign payment transactions increased 17 percent compared with 2015.

There was a significantly higher number of foreign payment orders made using POBAklik, with an increase of 24 percent.

The business cooperation with Euroclear Bank Brussels continued successfully in 2016, especially in the settlement services and the depositary services involving equity and debt securities from the Bank's portfolio, brokerage and custody services, with the total settlement balance in securities exceeding EUR 147 million, an increase of 53 percent from the previous year. The Bank also reports significant foreign exchange trading volumes involving the US dollar and Swiss franc.

In Croatia, the Bank was active in the money market, with the payment transactions executed through Central Clearing and Depository Company Inc. worth around HRK 346 million, which is an increase of 83 percent compared with 2015.

The Bank also paid attention to payment operation charges and offered its customers the best possible charges, resulting in an increase of the income from payment operations of 3 percent year-on-year.

BUSINESS NETWORK AND SALES CHANNELS

At the end of 2016, the Bank's sales network consisted of a total of 22 branches spread almost all over Croatia.

Apart from the well-developed sales network, the Bank is available to its customers through other sales channels: POBAklik, e-banking and mPOBA, ATMs, day-night safety vaults, EFTPOS terminals and SMS.

All ATMs are equipped with the chip technology which prevents potential abuse and theft of card data.

The Bank's ATM devices accept Maestro, MasterCard, VISA, American Express and Diners Club cards. Apart from the Bank's own ATM network, the Bank offers its customers free-of-charge cash withdrawals at over 1,000 ATMs within the MB NET throughout Croatia. The Bank has 584 installed EFTPOS terminals. In 2016, 562 thousand transactions were executed through the Bank's own ATM network, or 962 transactions per EFTPOS terminal on average.

The number of the Bank's e-banking service (POBAklik) users also increased and reached almost 8,700 users at the end of 2016, representing a continuing growth from year to year. The number of users using mPOBA also increased and reached 1,867, showing a steady growth accompanied with increasing volumes and number of transactions. At the end of 2016, the Bank had a total of 11,000 POBAsms users.

The Bank also offers information to its customers through its Info Centre, which reported an increasing number of calls.

Following the contemporary trends in the sales channels and thanks to the new technology implemented, Podravska banka will continue improving all of its communication and customer follow-up activities at its branches, through the internet, self-service devices, telephone and mobile devices.

ORGANISATION AND STAFF

At 31 December 2016, Podravska banka had 223 employees, with the average age of 44. Female employees account for 68.6 percent of the total staff, and over 46 percent of the total number of employees have university undergraduate and graduate degrees. The front-office staff account for 60 percent of the total staff.

The Bank's development caused certain organisational changes that increased efficiency and optimised the use of the technology and reduced total number of employees of the Bank by 7 percent from 31 December 2015.

The Bank takes care about continuous education and professional training by arranging various forms of in-house training courses and externally organised seminars.

Considerable attention is put on the social status of the employees, which is reflected in the conclusion of a new Collective Agreement.

Although the Bank seeks to ensure all employees use paid annual leave within a calendar year, in accordance with the applicable regulations, the Bank made a provision for unused paid annual leave of its employees in the amount of HRK 390,155.98 at 31 December 2016.

In 2017, the Bank intends to continue investing in the advanced training of its staff and potentially hire competent professionals, mainly in the sales and risk management areas.

CAPITAL

The Bank's shareholders' equity, net of the 2016 profit, amounts to HRK 400.8 million. This represents an increase of 8.5 percent, or HRK 33.5 million, compared to the prior year, resulting mostly from the actual current year profit and the partly covered accumulated losses, as well as an increase in the positive fair value reserve of available-for-sale assets. The Bank's shareholders' equity accounts for 12.4 percent of the total sources of funding.

At 31 December 2016, the share capital amounted to HRK 267.5 million and consisted of 668,749 ordinary shares, each with a par value of HRK 400.00.

At 31 December 2016, the Bank held 9,203 treasury shares, which are carried at cost.

A group of the Bank's foreign equity holders (both private individuals and legal persons), considered to form a whole, held 85.85 percent of the Bank's shares. No changes took place in the Bank's shareholder structure in 2016.

The Bank's regulatory capital at the end of 2016 amounts to HRK 412 million, of which HRK 335 million represents Core Tier 1 capital and HRK 77 million is Tier 2 capital. Tier 2 capital includes subordinated bonds in the amount of HRK 52 million and hybrid bonds in the amount of HRK 25 million issued by the Bank in previous years.

The capital adequacy ratio (CAR) for 2016 is 14.71 percent.

PROFIT AND LOSS ACCOUNT

In 2016 Podravska banka generated a pre-tax profit of HRK 36,897 million, with a net profit for the year of HRK 26,032 million.

Operating income is 14 percent higher than the previous year and amounts to HRK 152 million.

Net interest income increased by 13.4 percent from the prior year, with the actual interest income increasing by 1.1 percent and significant savings being achieved in interest expenses, which decreased by 17.1 percent. The lower interest charge was reported in all the deposit operations other than interbank operations, with the interest expense on term deposits to individuals having the major impact.

Net fee and commission income generated in 2016 is at the level of the previous year.

Net interest income accounts for 65.7 percent of the Bank's operating income, net fee and commission income represents 15.8 percent, and net gains on the sale of available-for-sale securities, net FX trading gains, rental and other income account in aggregate for 18.4 percent of the total operating income. Other net income of HRK 28 million consists mainly of net realised gains on available-for-sale securities of HRK 17 million, HRK 8 million of which are realised gains on the merger of the issuer Visa Europe.

Operating expenses, which include depreciation and amortisation, decreased compared to the previous year and amount to HRK 115 million. The impairment and provision charge decreased by 25 percent from the prior year, mostly as a result of reversal of provisions following the recovery of claims owed by Dalekovod d.d. through an enforcement procedure. The foreclosed assets were appraised, resulting in an impairment charge of HRK 8.5 million.

Staff costs, which decreased by 12 percent, account for 51 percent of total administrative expenses. The costs of materials and services, which decreased by 6 percent, account for 30 percent, and other material costs represent 19 percent of administrative expenses.

At the end of 2016, the share of provisions in gross loans was 11.2 percent and did not change significantly from the prior year's 11.3 percent.

GOVERNANCE AND MANAGEMENT

Corporate Governance Code Statement

Pursuant to the rules of the Zagreb Stock Exchange, the Management and Supervisory Boards of Podravska banka d.d. hereby declare that Podravska banka d.d. applies the Corporate Governance Code developed jointly by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange.

The 2016 Annual Questionnaire is an inseparable part of this Statement and contains responses to the questions and the required explanations.

The information about internal controls and risk management as well as about the Bank's shareholders is provided in the notes to the financial statements.

The rules on the appointment and removal of Management Board members are contained in the Bank's Statute.

The number of the Management Board members is determined by the Supervisory Board, and pursuant to its decision from April 2015, the Management Board consists of four members. The Supervisory Board also adopts decisions regarding proposed members and president of the Management Board who have to meet the requirements specified by the legislation governing banking operations and other relevant regulations.

Once the Croatian National Bank approves the candidates, the Supervisory Board appoints the president and members of the Management Board with a mandate of up to five years, with the possibility of re-appointment. The Supervisory Board may withdraw its decisions appointing a member or the president of the Management Board for a just cause as defined in the applicable legislation.

The authorities of the Bank's Management Board have been defined in the Bank's Statute, and a separate decision has been adopted regarding the segregation of the duties and responsibilities of the Management Board members.

The Management Board of the bank may acquire own shares in an organised market based on an underlying decision of the General Shareholders' Assembly.

Further information about the composition and activities of the Bank's Management and Supervisory Boards is provided in the enclosed Annual Questionnaire.

Rules applicable to amending the Bank's Statute are provided in the Statute. Decisions on such amendments are adopted by the Bank's General Shareholders' Assembly in accordance with the applicable legislation and the Statute by votes representing at least three-quarters of the share capital in a General Shareholders' meeting in which such decision is to be adopted.

Amendments to the Statute may be proposed by the Supervisory Board, the Management Board and the shareholders of the Bank.

In order to protect the interest of all investors, shareholders, customers, employees and other stakeholders, the Bank has implemented high corporate governance standards.

St. Nicholas Fortress, Šibenik archipelago

CORPORATE GOVERNANCE CODE - ANNUAL QUESTIONNAIRE FOR 2016

CORPORATE GOVERNANCE CODE - ANNUAL QUESTIONNAIRE FOR 2016

All the questions contained in this questionnaire relate to the period of one business year to which annual financial statements also relate.

1. **Did the Company accept the application of the Corporate Governance Code or did it accept its own policy of corporate governance?**

   ☑ YES ☐ NO

2. **Did the Company adopt principles of corporate governance within its internal policies?**

   ☑ YES ☐ NO

3. **Does the Company announce within its annual financial reports the compliance with the principles of 'comply or explain'?**

   ☑ YES ☐ NO

4. **Does the Company take into account the interest of all shareholders in accordance with the principles of Corporate Governance Code while making decisions?**

   ☑ YES ☐ NO

5. **Is the company in a cross-shareholding relationship with another company or other companies? (If so, explain)**

   ☐ YES ☑ NO

6. **Does each share of the company have one voting right? (If not, explain)**

   ☑ YES ☐ NO

7. **Does the company treat all shareholders equally? (If not, explain)**

   ☑ YES ☐ NO

8. **Has the procedure for issuing power of attorney for voting at the general assembly been fully simplified and free of any strict formal requirements? (If not, explain)**

   ☑ YES ☐ NO

9. **Has the company ensured that the shareholders of the company who, for whatever reason, are not able to vote at the assembly in person, have proxies who are obliged to vote in accordance with instructions received from the shareholders, with no extra costs for those shareholders? (If not, explain)**

   ☑ YES ☐ NO

10. **Did the management or Management Board of the company, when convening the assembly, set the date for defining the status in the register of shares, which will be relevant for exercising voting rights at the general assembly of the company, by setting that date prior to the day of holding the assembly and not earlier than six days prior to the day of holding the assembly? (If not, explain)**

☑ YES ☐ NO

11. **Was the agenda of the assembly, as well as all relevant data and documentation with explanations relating to the agenda, announced on the website of the company and put at the disposal of shareholders on the company's premises as of the date of the first publication of the agenda? (If not, explain)**

☑ YES ☐ NO

12. **Does the decision on dividend payment or advance dividend payment include information on the date when shareholders acquire the right to dividend payment, and information on the date or period during which the dividend will be paid? (If not, explain)**

☐ YES ☑ NO, there was no dividend payment

13. **Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the date of decision making? (If not, explain)**

☐ YES ☑ NO, please see answer under 12

14. **Were any shareholders favoured while receiving their dividends or advance dividends? (If so, explain)**

☐ YES ☑ NO, please see answer under 12

15. **Are the shareholders allowed to participate and to vote at the general assembly of the company using modern communication technology? (If not, explain)**

☐ YES ☑ NO, there were no requests for such a voting method

16. **Have the conditions been defined for participating at the general assembly by voting through proxy voting (irrespective of whether this is permitted pursuant to the law and articles of association), such as registration for participation in advance, certification of powers of attorney etc.? (If so, explain)**

☑ YES ☐ NO

pre-announcement of the participation within the deadline set by the Statute for a better preparation of the work of the General Assembly, due to the large number of shareholders

17. **Did the management of the company publish the decisions of the general assembly of the company?**

☑ YES ☐ NO

18. **Did the management of the company publish the data on legal actions, if any, challenging those decisions? (If not, explain)**

☐ YES ☑ NO, there were no such legal actions.

PLEASE PROVIDE THE NAMES OF MANAGEMENT BOARD MEMBERS AND THEIR FUNCTIONS:
Julio Kuruc, President, Davorka Jakir, Member, Daniel Unger, Member and Goran Varat, Member

PLEASE PROVIDE THE NAMES OF SUPERVISORY BOARD MEMBERS AND THEIR FUNCTIONS:
Miljan Todorovic - Chairman, Sigilfredo Montinari - Deputy Chairman, Maurizio Dallocchio - Member, Filippo Disertori - Member, Dario Montinari - Member, Dolly Predovic - Member and Antonio Moniaci - Member

19. **Did the Supervisory or Management Board adopt a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board members, regularly and in a timely manner? (If not, explain)**

☐ YES ☑ NO, it meets as needed

20. **Did the Supervisory or Management Board pass its internal code of conduct? (If not, explain)**

☑ YES ☐ NO

21. **Is the Supervisory Board composed of mostly independent members, i.e. are non-executive directors of the Management Board? (If not, explain)**

☐ YES ☑ NO, the majority of the Supervisory Board members derives from the shareholder structure of the Bank.

22. **Is there a long-term succession plan in the company? (If not, explain)**

☑ YES ☐ NO

23. **Is the remuneration received by the members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company's business performance? (If not, explain)**

☑ YES ☐ NO

24. **Is the remuneration to the members of the Supervisory or Management Board determined by a decision of the general assembly or in the articles of association of the company? (If not, explain)**

☑ YES ☐ NO

25. **Have detailed records on all remunerations and other earnings of each member of the Supervisory or Management Board received from the company or from other persons related to the company, including the structure of such remuneration, been made public? (If not, explain)**

☐ YES ☑ NO, aggregated data has been published in the financial statements

26. **Does every member of the Supervisory or Management Board inform the company of each change relating to their acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the company's shares, not later than five trading days, after such a change occurs? (If not, explain)**

☑ YES ☐ NO

27. **Were all transactions involving members of the Supervisory or Management Board or persons related to them and the company and persons related to it clearly presented in reports of the company? (If not, explain)**

☑ YES ☐ NO

28. **Are there any contracts or agreements between members of the Supervisory or Management Board and the company?**

☑ YES ☐ NO

29. **Did they obtain prior approval of the Supervisory or Management Board? (If not, explain)**

☑ YES ☐ NO
if prior approval is necessary

30. **Are important elements of all such contracts or agreements included in the annual report? (If not, explain)**

☑ YES ☐ NO

31. **Did the Supervisory or Management Board establish the appointment committee?**

☐ YES ☑ NO

32. **Did the Supervisory or Management Board establish the remuneration committee?**

☐ YES ☑ NO

33. **Did the Supervisory or Management Board establish the audit committee?**

☑ YES ☐ NO

34. **Was the majority of the committee members selected from the group of independent members of the Supervisory Board? (If not, explain)**

☐ YES ☑ NO, the composition is in accordance with the Credit Institutions Act

35. **Did the committee monitor the integrity of the financial information of the company, especially the correctness and consistency of the accounting methods used by the company and the group it belongs to, including the cri-**

teria for the consolidation of financial reports of the companies belonging to the group? (If not, explain)

☑ YES ☐ NO

36. **Did the committee assess the quality of the internal control and risk management system, with the aim of adequately identifying and publishing the main risks the company is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (If not, explain)**

☑ YES ☐ NO

37. **Has the committee been working on ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (If not, explain)**

☑ YES ☐ NO

38. **If there is no internal audit system in the company, did the committee consider the need to establish it? (If not, explain)**

☑ YES ☐ NO
the Bank has an Internal Audit Department.

39. **Did the committee monitor the independence and impartiality of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company is paying for services provided by external auditors? (If not, explain)**

☑ YES ☐ NO

40. **Did the committee monitor nature and quantity of services other than audit, received by the company from the audit company or from persons related to it? (If not, explain)**

☑ YES ☐ NO

41. **Did the committee prepare rules defining which services may not be provided to the company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (If not, explain)**

☐ YES ☑ NO, this is defined by law

42. **Did the committee analyse the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (If not, explain)**

☑ YES ☐ NO

43. Did the audit committee ensure the submission of high quality information by dependent and associated companies, as well as by third parties (such as expert advisors)? (If not, explain)

☑ YES ☐ NO

44. Was the documentation relevant for the work of the Supervisory Board submitted to all members on time? (If not, explain)

☑ YES ☐ NO

45. Do Supervisory Board or Management Board meeting minutes contain all adopted decisions, accompanied by data on voting results? (If not, explain)

☑ YES ☐ NO

46. Has the Supervisory or Management Board evaluated their work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?

☑ YES ☐ NO

47. Did the company publish a statement on the remuneration policy for the management, Management Board and the Supervisory Board as part of the annual report? (If not, explain)

☐ YES ☑ NO, there is no such legal obligation

48. Is the statement on the remuneration policy for the management or executive directors permanently available on the website of the company? (If not, explain)

☑ YES ☐ NO

49. Is detailed data on all earnings and remunerations received by each member of the management or each executive director from the company published in the annual report of the company? (If not, explain)

☐ YES ☑ NO

the Bank publishes aggregated data on information with related parties as well as the amount of the calculated and recognised amount of Bank's management fee within the annual report prepared in accordance with IFRS, which is published on the Bank's website

50. Are all forms of remuneration to the members of the management, Management Board and Supervisory Board, including options and other benefits of the management, made public, broken down by items and persons, in the annual report of the company? (If not, explain)

☑ YES ☐ NO

51. **Are all transactions involving members of the management or executive directors, and persons related to them, and the company and persons related to it, clearly presented in reports of the company? (If not, explain)**

☑ YES ☐ NO

52. **Does the report to be submitted by the Supervisory or Management Board to the general assembly include, apart from minimum information defined by law, the evaluation of total business performance of the company, of activities of the management of the company, and a special comment on its cooperation with the management? (If not, explain)**

☑ YES ☐ NO

53. **Does the company have an external auditor?**

☑ YES ☐ NO

54. **Is the external auditor of the company related with the company in terms of ownership or interests?**

☐ YES ☑ NO

55. **Is the external auditor of the company providing to the company, him/herself or through related persons, other services?**

☐ YES ☑ NO

56. **Has the company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (If not, explain)**

☐ YES ☑ NO, the audit fee is determined by the contract

57. **Does the company have internal auditors and an internal audit system established? (If not, explain)**

☑ YES ☐ NO

58. **Are the semi-annual, annual and quarterly reports available to the shareholders?**

☑ YES ☐ NO

59. **Did the company prepare the calendar of important events?**

☐ YES ☑ NO, the Bank announces important events on the website

60. **Did the company establish mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it?**

☑ YES ☐ NO

61. Did the company establish mechanisms to ensure supervision of the flow of inside information and possible abuse thereof?

☑ YES ☐ NO

62. Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the company or outside, shortcomings in the application of rules or ethical norms within the company?

☐ YES ☑ NO

63. Did the management of the company hold meetings with interested investors, in the last year?

☐ YES ☑ NO

64. Do all the members of the management, Management Board and Supervisory Board agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely truthful?

☑ YES ☐ NO

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 TOGETHER WITH THE INDEPENDENT AUDITOR`S REPORT

RESPONSIBILITIES OF THE MANAGEMENT AND SUPERVISORY BOARD FOR THE PREPARATION AND APPROVAL OF FINANCIAL STATEMENTS

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

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

The Management Board prepares the annual report, together with the annual financial statements, and forwards them to the Supervisory Board for approval. After this approval, the annual report and financial statements are adopted by the Management Board and the Supervisory Board and are referred to the General Assembly.

The financial statements of the Bank, set out on pages 9 to 88, were authorised by the Management Board on 26 April 2017 for issue to the Supervisory Board, in witness thereof they are signed as provided below.

The financial statements were approved by the Bank's Management Board on 26 April 2017 and signed by:

JULIO KURUC	DAVORKA JAKIR	DANIEL UNGER	GORAN VARAT
PRESIDENT OF THE MANAGEMENT BOARD	MEMBER OF THE MANAGEMENT BOARD	MEMBER OF THE MANAGEMENT BOARD	MEMBER OF THE MANAGEMENT BOARD

Koprivnica, 26 April 2017

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of PODRAVSKA BANKA d.d.

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of PODRAVSKA BANKA d.d. (Bank) which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, the statement of changes in shareholder's equity and the statement of cash flows for the year then ended, and notes to the financial statements, incluing a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Basis for Opinion
We conducted our audit in accordance with the Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
The key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

Impairment losses on loans to customers
Please refer to Note 2 on pages 23 and 30 respectively for the accounting policies and estimates relevant for impairment of loans to customers and to Note 14 on page 42 for the breakdown of the loans to customers.

Loan impairment is considered to be a key audit matter, as the assessment process is complex and involves significant management judgment as well as the use of subjective assumptions.

The valuation of a loan depends on the credit risk associated with a particular customer. If there is objective evidence that a loan might not be recovered in full or in accordance with the contractual terms, i.e. when there is significant doubt as to the payment of interest or repayment of principal, or evidence of breach of the contractual terms, the credit risk and the value of such a loan are assessed individually. The Management Board applies judgment in estimating the inputs it considers relevant for the purpose of calculating loan impairment losses, which include, but are not limited to the financial position of the customer, the period of realisation and the value of the collateral as of the date of the projected realisation, the expected cash flows as well as current local and global economic conditions.

The Bank recognises specific provisions for identified loan impairment losses, in accordance with the statutory accounting requirements for banks in Croatia and the Decision of the Croatian National Bank on the Classification of Placements and Off-balance Sheet Liabilities of Credit Institutions (Croatian Official Gazette "Narodne novine" no 71/14) (hereinafter: "the CNB Decision").

How our audit addressed the key audit matters
During our audit we gained an understanding of the Bank's provisioning process and considered the adequacy of the policies, procedures and of the duties and responsibilities of the Bank's staff over the process so that we could modify our audit procedures to reflect the risks associated with the loan loss provisions.

Our procedures were focused, among others, on the following items:

Specific provisions for identified loan impairment losses:
We have analysed the loan population in order to identify our focus areas. We selected a sample of loans considering, but not limited to, credit risk degrees and changes in the degrees, the number of days past due and the probability of default (customers in the process of pre-bankruptcy settlement, restructured loans, etc.).

On the selected loan sample, we have performed substantive procedures to determine whether the loans are properly classified as well as any need to recognise specific provision for impairment losses in accordance with the CNB Decision and International Accounting Standard 39 "Financial Instruments: Recognition and Measurement".

Furthermore, we have assessed the assumptions of the Management Board regarding the recoverability of the carrying amounts of the loans, the values of collateral as well as its estimates regarding further repayment of the loans and the recovery rates. In some cases we relied on our own judgment to assess the inputs into the process of calculating the impairment losses and compared our own calculation of the loan loss impairment with the one performed by the Bank. We have reviewed the financial positions of the clients involved in the loan sample and enquired about any breaches of contracts and/or changes from the original terms and conditions. We have also considered the impact of the current local and global economic conditions, the price trends for the relevant assets and other factors that may affect the recoverability of the sampled loans.

Collectively identified impairment losses
We have gained an understanding of the Bank's credit risk assessment process and methodology, the provisioning process and inputs to the calculation of collective impairment losses on loans in order to evaluate the overall adequacy of the collective impairment level.

The Bank applies CNB requirements for identifying impairment losses on fully recoverable placements on a collective basis. We have re-performed the calculation done by the Management Board and compared it against the CNB requirement of 1 percent of the overall exposure, in relative terms.

Impairment of repossessed assets

Please refer to Note 2 on page 26 for the relevant accounting policies and Note 20 on page 53 containing a breakdown of other assets, including repossessed assets.

Pursuant to International Financial Reporting Standards, the Management Board has to perform, for each reporting period, a review to identify any indications of impairment of repossessed assets and adjust their value of the assets accordingly.

Repossessed assets are assets taken over by the Bank as result of customers' inability to settle their credit obligations. The payment security instruments consist mainly of business/commercial facilities or residential properties. As the prices of such properties are largely affected by the economic conditions prevailing on the market, the Management Board must continuously re-assess whether the carrying amounts of the repossessed assets are reasonable. This involves significant amount of management's judgement as the estimates for impairment are based on independent valuations, which are often made for properties for which limited market information is available and significant judgement has to be applied in selecting the proper valuation method. Therefore, it is sometimes challenging for the valuation experts to choose a proper methodology which is adequate.

At 31 December 2016 the carrying amount of the repossessed properties was estimated at HRK 36,267 thousand (the gross carrying amount being HRK 44,846 thousand). In 2016, based on new valuations performed by independent valuation experts, the Bank recognised impairment losses on the repossessed assets in the amount of HRK 8,579 thousand as a result of changes in the key assumptions underlying the estimates from the prior period.

How our audit addressed the key audit matters

During our audit we applied several procedures to test the value of the investments and the recoverable amount of the repossessed assets. Our procedures included assessing the adequacy of the valuation methodology applied, checking the accuracy and completeness of the data from the subledgers of the Bank as well as the reconciliation with the General Ledger, verifying the existence of the title to the repossessed assets, identifying any potential indications of impairment and, where possible, making a comparison with observable market prices.

Other matters

The financial statements of the Bank for the year ended 31 December 2015 were audited by another auditor whose report dated 29 April 2016 expressed an unmodified opinion on those statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Report of the Management Board on the Bank's Operations and Condition in 2016 and the Statement on Application of the Corporate Governance Code, which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Report of the Management Board on the Bank's Operations and Condition in 2016 includes required disclosures as set out in the Article 21 of the Accounting Act and whether the Statement on Application of the Corporate Governance Code includes the information specified in the Article 22 of the Accounting Act.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1. Information included in Report of the Management Board on the Bank's Operations and Condition in 2016, in all material respects, consistent with the attached financial statements for the year,

2. Report of the Management Board on the Bank's Operations and Condition in 2016 has been prepared, in all material respects, in accordance with Article 21 of the Accounting Act,

3. Statement on Application of the Corporate Governance Code has been prepared, in all material aspects, in accordance with the Article 22, paragraph 1, items 3 and 4 of the Accounting Act, and includes also the information from Article 22, paragraph 1, point 2, 5, and 6 of the same Act.

Based on the knowledge and understanding of the Bank and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information. We have nothing to report in this respect.

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud

or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Pursuant to the Decision of the Croatian National Bank on the Form and Content of the Bank Annual Financial Statements (Official Gazette No 62/08, hereinafter: "the Decision") the Bank's management has prepared the forms, as presented in the Appendix to these financial statements on pages 89 to 97, which comprise the balance sheet as at 31 December 2016, the income statement, the statement of changes in equity and the statement of cash flow for the year then ended, together with reconciliation to the financial statements. These forms and the accompanying reconciliation to the financial information are the responsibility of the Bank's management and, do not represent components of the financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 9 to 88, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements.

The engagement partner on the audit resulting in this independent auditor's report is Branislav Vrtačnik.

Branislav Vrtačnik
President of the Management Board and certified auditor
26th April 2017
Deloitte d.o.o.
Zagreb, Republic of Croatia

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

IN HRK THOUSANDS	NOTES	2016	2015
INTEREST AND SIMILAR INCOME	3	148,973	147,347
INTEREST AND SIMILAR EXPENSE	3	(49,107)	(59,253)
NET INTEREST INCOME		**99,866**	**88,094**
FEE AND COMMISSION INCOME	4	37,703	38,252
FEE AND COMMISSION EXPENSE	4	(13,710)	(14,254)
NET FEE AND COMMISSION INCOME		**23,993**	**23,998**
OTHER OPERATING INCOME, NET	5	28,048	21,064
OPERATING INCOME		**151,907**	**133,156**
IMPAIRMENT LOSSES AND PROVISIONS	6	(18,755)	(25,195)
ADMINISTRATIVE EXPENSES	7	(87,729)	(95,305)
DEPRECIATION AND AMORTISATION	8	(8,526)	(9,059)
PROFIT BEFORE TAXATION		**36,897**	**3,597**
INCOME TAX EXPENSE	9	(10,865)	(296)
NET PROFIT FOR THE YEAR		**26,032**	**3,301**
OTHER COMPREHENSIVE INCOME			
NET INCREASE IN THE FAIR VALUE OF AVAILABLE-FOR-SALE ASSETS	15	9,032	8,212
DEFERRED TAX RECOGNISED IN EQUITY	9	(1,541)	(1,642)
OTHER COMPREHENSIVE INCOME THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS IN THE FUTURE		**7,491**	**6,570**
OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN THE FUTURE		**-**	**-**
TOTAL COMPREHENSIVE INCOME AFTER TAX		**33,523**	**9,871**
EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS	**10**	**HRK 38.93**	**HRK 4.94**

The accompanying accounting policies and notes on pages 49 to 112 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016

IN HRK THOUSANDS	NOTES	31 DECEMBER 2016	31 DECEMBER 2015
ASSETS			
CASH AND AMOUNTS DUE FROM BANKS	11	223,653	320,609
BALANCES WITH THE CROATIAN NATIONAL BANK	12	188,116	206,024
PLACEMENTS WITH OTHER BANKS	13	29,641	87,590
LOANS TO CUSTOMERS	14	1,884,779	1,872,306
FINANCIAL ASSETS AVAILABLE FOR SALE	15	962,606	469,160
FINANCIAL ASSETS HELD TO MATURITY	16	-	38,573
INTANGIBLE ASSETS	17	45,281	46,785
PROPERTY AND EQUIPMENT	18	67,605	80,671
DEFERRED TAX ASSETS	9	1,138	6,210
OTHER ASSETS	20	51,763	53,621
TOTAL ASSETS		**3,454,582**	**3,181,549**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
AMOUNTS DUE TO OTHER BANKS	21	143,746	91,171
AMOUNTS DUE TO CUSTOMERS	22	2,373,650	2,348,978
OTHER BORROWED FUNDS	23	317,254	177,626
OTHER LIABILITIES	24	59,487	34,432
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	25	3,782	4,076
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	26	129,790	131,916
TOTAL LIABILITIES		**3,027,709**	**2,788,199**
SHARE CAPITAL			
SHARE CAPITAL	27	267,500	267,500
SHARE PREMIUM		3,015	3,015
TREASURY SHARES		(11,082)	(11,082)
RESERVES	28	156,287	148,796
PROFIT / (LOSS) FOR THE YEAR		26,032	3,301
ACCUMULATED LOSS		(14,879)	(18,180)
TOTAL SHAREHOLDERS' EQUITY		**426,873**	**393,350**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**3,454,582**	**3,181,549**

The accompanying accounting policies and notes on pages 49 to 112 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

IN HRK THOUSANDS	NOTES	2016	2015
PROFIT FOR THE YEAR BEFORE TAX	**9**	**36,897**	**3,597**
ADJUSTED BY:			
DEPRECIATION AND AMORTISATION	8	8,526	9,059
NET INCOME ON DISPOSAL OF NON-CURRENT TANGIBLE ASSETS	5	(207)	(360)
NET INCOME ON THE SALE OF REPOSSESSED ASSETS	5	(10)	(1,176)
INCREASE IN PROVISIONS FOR LOANS AND OTHER PROVISIONS	6	18,755	25,195
DIVIDEND INCOME	5	(794)	(990)
NET FOREIGN EXCHANGE GAIN FROM ISSUED HYBRID INSTRUMENTS		(1,336)	(447)
PROFIT FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS		**61,831**	**34,878**
CHANGES IN OPERATING ASSETS			
NET (INCREASE)/DECREASE IN BALANCES WITH THE CROATIAN NATIONAL BANK		17,907	(6,193)
NET INCREASE IN LOANS TO CUSTOMERS		(20,742)	(68,231)
NET DECREASE / (INCREASE) IN PLACEMENTS WITH BANKS		26,720	(8,789)
NET (INCREASE) / DECREASE IN OTHER ASSETS		(8,136)	6,163
(INCREASE) / DECREASE IN OTHER LIABILITIES		25,055	(18,742)
INCREASE / (DECREASE) IN AMOUNTS DUE TO OTHER BANKS		52,574	(14,709)
INCREASE IN DEPOSITS FROM CUSTOMERS		24,672	92,914
INCOME TAXES PAID		-	(114)
NET CASH FROM OPERATIONS		**179,881**	**17,177**
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASES OF PROPERTY AND EQUIPMENT	17,18	(1,971)	(6,291)
DISPOSAL OF PROPERTY AND EQUIPMENT		1,320	1,205
PURCHASES OF FINANCIAL ASSETS AVAILABLE FOR SALE		(486,349)	(14,715)
DIVIDENDS RECEIVED		794	990
ACQUIRING INVESTMENTS THAT ARE HELD TO MATURITY		38,573	50,323
SALE OF REPOSSESSED ASSETS		729	5,200
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES		**(446,904)**	**36,712**
CASH FLOWS FROM FINANCING ACTIVITIES			
RECEIPTS FROM BORROWED FUNDS		139,628	66,567
(REPAYMENTS) / PROCEEDS FROM ISSUED BONDS		(790)	800
NET CASH INFLOW FROM FINANCING ACTIVITIES		**138,838**	**67,367**
NET CASH (PAID) / RECEIVED		**(128,185)**	**121,256**
CASH AT THE BEGINNING OF THE PERIOD	**11**	**375,978**	**254,722**
CASH AT THE END OF THE PERIOD	**11**	**247,793**	**375,978**

The accompanying accounting policies and notes on pages 49 to 112 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

IN HRK THOUSANDS	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	CAPITAL GAINS	RESERVES	RETAINED EARNINGS/ (LOSSES)	PROFIT FOR THE YEAR	TOTAL
BALANCE AT 1 JANUARY 2015	**267,500**	**3,015**	**(11,082)**	**4,802**	**137,425**	**(3,788)**	**(14,393)**	**383,479**
PROFIT FOR THE YEAR	-	-	-	-	-	-	3,301	3,301
OTHER COMPREHENSIVE INCOME	-	-	-	-	6,569	-	-	6,569
ALLOCATION OF THE 2014 LOSS	-	-	-	-	-	(14,393)	14,393	-
BALANCE AT 31 DECEMBER 2015	**267,500**	**3,015**	**(11,082)**	**4,802**	**143,994**	**(18,180)**	**3,301**	**393,350**
PROFIT FOR THE YEAR	-	-	-	-	-	-	26,032	26,032
OTHER COMPREHENSIVE INCOME	-	-	-	-	7,491	-	-	7,491
ALLOCATION OF 2015 PROFIT	-	-	-	-	-	3,301	(3,301)	-
BALANCE AT 31 DECEMBER 2016	**267,500**	**3,015**	**(11,082)**	**4,802**	**151,486**	**(14,879)**	**26,032**	**426,873**

The accompanying accounting policies and notes on pages 49 to 112 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

Podravska banka d.d., Koprivnica (the "Bank") was incorporated in the Republic of Croatia and registered as a joint stock company at the Commercial Court in Bjelovar on 12 July 1995. The registered seat of the Bank is in Koprivnica, Opatička 3.

Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards as adopted by the European Union, reference may be made to certain Standards in describing the accounting policies of the Bank; unless otherwise stated, these references are to Standards applicable at 31 December 2016.

2. BASIC ACCOUNTING POLICIES

Statement of compliance

These financial statements are prepared in accordance with the statutory accounting requirements for banks in the Republic of Croatia. The Bank's operations are subject to the Credit Institutions Act, under which the Bank's financial reporting is regulated by the Croatian National Bank (the "CNB"), the central institution for overseeing the banking system in Croatia. These financial statements are prepared in accordance with the above-mentioned banking regulations.

The financial statements are prepared on the fair value basis for derivative financial instruments, trading assets and liabilities, other financial assets and liabilities at fair value through profit or loss, and financial and non-financial assets available for sale, except for those for which a reliable measure of fair value is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost.

The financial statements are intended for general use and information; they are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

Pursuant to the amended CNB Decision on the classification of placements and off-balance sheet liabilities of credit institutions effective since 1 October 2013, the CNB has defined minimum levels of provisions for impairment losses on certain exposures individually identified as impaired that may differ from the impairment loss provisions calculated in accordance with International Financial Reporting Standards (IFRSs).

The Bank calculates impairment losses as the present value of expected future cash flows using the original effective interest rate of an instrument as the discount rate, in accordance with International Financial Reporting Standards. The CNB requires presenting the amortisation of the discount in the profit and loss account as a change in impairment losses on loans and receivables from customers and other assets rather than as interest income, as specified by International Financial Reporting Standards.

Interest in suspense represents accrued interest past due on assets individually identified as impaired. At the point of reclassification, the Bank recognises impairment losses for the full amount of outstanding interest in the profit and loss account, suspends any further recognition in the statement of financial position and continues to account for the interest as an off-balance sheet item until it is recovered. Such an accounting treatment is not compliant with IAS 18 "Revenue" and IAS 39 "Financial Instruments: Recognition and Measurement" which require interest income on impaired financial assets to be recognised using the effective interest method.

Pursuant to the applicable CNB Decision governing the obligation to recognise provisions for legal actions against a credit institution, minimum levels of provisions are defined that a credit institution should recognise for this purpose. According to the Decision, a credit institution has to classify a legal action into a risk group and, depending on the probability of losing the case, form appropriate provisions. In certain circumstances, the levels of the provisions specified by the CNB may differ from the provisions calculated in accordance with IFRSs.

Standards and Interpretations effective in the current period

Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards issued by the International Accounting Standards Board as well as new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) are effective in the current reporting period:

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** – Investment Entities: Applying the Consolidation Exception, adopted by the European Union on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations – adopted by the European Union on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 "Presentation of Financial Statements"** – Disclosure Initiative – adopted by the European Union on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** – Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the European Union on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** – Agriculture: Bearer Plants –adopted by the European Union on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 19 "Employee Benefits"** – Defined Benefit Plans: Employee Contributions – adopted by the European Union on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- **Amendments to IAS 27 "Separate Financial Statements"** – Equity Method in Separate Financial Statements – adopted by the European Union on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to various standards "Improvements to IFRSs from the 2010-2012 Cycle"** resulting from the annual IFRS improvement project (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the European Union on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015),

- **Amendments to various standards "Improvements to IFRSs from the 2012-2014 Cycle"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19, and IAS 34) primarily with a view to removing inconsistencies and clarifying wording – adopted by the European Union on 15 December 2015 (applicable to annual periods beginning on or after 1 January 2016).

The adoption of the amendments to the existing Standards and Interpretations has not lead to any material changes to the Bank's financial statements.

Amendments to the existing standards issued by IASB and adopted by the European Union, but not yet effective

At the date of authorising these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the European Union (EU) are not yet effective:

- **IFRS 9 "Financial Instruments"**, adopted by the EU on 22 December 2016 (effective for annual periods beginning on or after 1 January 2018).

  IFRS 9 "Financial Instruments" published in July 2014, effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted, replaces IAS 39 "Financial Instruments: Recognition and Measurement" and contains the requirements for classification and measurement, impairment methodology, derecognition and general hedge accounting.

  Classification and Measurement – IFRS 9 introduces a new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments.

  Impairment – IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses.

  Hedge Accounting – IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity.

- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

New Standards and amendments to the existing Standards issued by IASB, but not yet adopted by the EU

At present, the IFRSs as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use by the EU as of the date of publication of these financial statements (the effective dates stated below are for the IFRSs in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016); – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 "Insurance contracts"** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time).

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded).

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to IAS 7 "Statement of Cash Flows"** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 12 "Income Taxes"** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IAS 40 "Investment Property"** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),

- **Amendments to various standards "Improvements to IFRSs from the 2014-2016 Cycle"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The Bank anticipates that the adoption of IFRS 9 may have a material impact on the amounts presented in the financial statements of the Bank.

In the context of the classification and measurement, the Bank is considering the options of defining its business models and other IFRS 9 requirements based on the identified gaps and activities for closing the gaps.

In the area of impairment, the Bank plans to start working on defining the expected credit loss (ECL) calculation methodology and models to be applied in modelling risk parameters, which include all parameters required to develop projections of future factors.

The quantitative impact will be determined in the course of 2017. The impact of the new impairment requirements will depend on the ECL calculation methodology and modelling of risk parameters based on expected credit losses.

Functional and presentation currency

These financial statements are presented in Croatian kuna (HRK), as the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

At 31 December 2016 the exchange rate of the Croatian kuna against 1 euro and 1 US dollar was HRK 7.557787 and HRK 7.168536, respectively (31 December 2015: HRK 7.635047 to EUR 1 and HRK 6.991801 to USD 1).

Changes in presentation or classification of the items in the financial statements

Where necessary, comparative information has been reclassified for the purpose of comparability with the amounts and other disclosures for the current financial year.

On 31 December 2016, the Bank carried out certain adjustments relating to the previous periods in the statement of cash flows. The total amount of reclassification amounts to HRK 3,597 thousand, relating to the purchase and sale of property and equipment, net increase in other assets and liabilities and net increase in loans to customers.

2.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Bank's principal accounting policies is set out below.

Basis of accounting

The Bank maintains its accounting records in Croatian kuna (HRK) in accordance with the legal requirements for accounting of banks in the Republic of Croatia.

Interest and similar income and expenses

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

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

When loans become impaired, they are written down to their recoverable amounts, and interest income thereafter is carried off the balance sheet by applying the interest rate used to discount the future cash flows for the purpose of measuring the recoverable amount. Other fees are recognised as income when earned. Dividend income is recognised after dividends are declared.

Fee and commission income

Fees and commission income comprises mainly fees for loans and guarantees issued and for other services provided by the Bank, together with commissions for managing funds on behalf of legal and natural persons and fees for foreign and domestic payment transactions.

Fees and commission income is recognised when the related service is rendered. Loan origination fees for loans which are likely of being drawn down, are deferred and recognised as an adjustment to the effective yield on the loan.

Operating income

Operating income includes net interest income, net fee and commission income, foreign exchange trading gains, realised gains on securities classified as assets available for sale, net foreign exchange translation gains (with reference to middle exchange rates), gains from disposal of property and equipment, dividends received and other income from operations.

Foreign currencies

Income and expenses on transactions denominated in foreign currencies are translated to Croatian kunas at the official exchange rates effective at the transaction dates. Monetary assets and liabilities denominated in a foreign currency are translated at the middle exchange rate of the CNB in effect at the last day of the accounting period. Gains and losses resulting from the foreign currency translation are included in the statement of profit or loss for the year to which they relate.

The Bank has assets and liabilities originated in Croatian kunas, which are linked to a foreign currency with one-way currency clause. The clause provides the Bank the option to remeasure the underlying assets at the higher of the foreign exchange rate valid as of the date of maturity and the foreign exchange rate valid as of the date of origination of the financial instrument. In case of a liability linked to this clause, the counterparty has this option. Due to the specifics of the market in the Republic of Croatia the fair value of this option cannot be calculated, as forward rates for the Croatian kuna for periods over 9 months are not available. Therefore, the Bank revalues such assets and liabilities at the higher of the middle rate of the Croatian National Bank valid at the reporting date and the rate specified in the contractual foreign exchange option.

Staff costs

The Bank recognises a provision for bonuses when there is a contractual obligation or past practice that gives rise to such a constructive obligation. Furthermore, the Bank recognises accrued benefits on the basis of annual vacation days outstanding at the reporting date.

Personnel social contributions

Under the national legislation, the Bank has the obligation to pay contributions into pension and health insurance plans (funds). This obligation applies for all employees working under employment contracts and requires employers to pay the contributions determined on the basis of the gross salary as follows:

	2016	2015
PENSION CONTRIBUTIONS	20%	20%
HEALTH INSURANCE CONTRIBUTIONS	15%	15%
CONTRIBUTIONS FOR THE STATE EMPLOYMENT BUREAU	1.7%	1.7%
INJURIES AT WORK	0.5%	0.5%

The Bank is also obliged to withhold the contributions from the gross salaries on behalf of the employees.

The contributions on behalf of the employees and the employer on salaries are charged to expenses in the period in which they arise (see Note 7).

In the normal course of operations, the Bank makes payments, through salary deductions, to mandatory pension funds on behalf of its employees, as required by law. All contributions paid to the mandatory pension funds are included in the payroll costs when accrued. The Bank has no other pension scheme and consequently no further obligations in respect of employee pensions. In addition, the Bank has no obligation to provide any post-employment benefits to its employees.

Taxation

The corporate income tax payable is provided on taxable profits for the year at the currently applicable rate. Deferred taxes are determined using the balance sheet liability method. Deferred income tax reflects the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases used for calculating the income tax. Deferred tax assets and deferred tax liabilities are determined using the tax rates expected to be applied to taxable profit in the years in which the underlying temporary difference is expected to reverse, and the liability to be settled or the asset realised.

Deferred tax assets and liabilities are recognised regardless of when a timing difference is expected to reverse. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Bank re-assesses unrecognised deferred tax assets and the appropriateness of carrying amount of the tax assets.

The Bank pays corporate income tax by applying a tax rate of 20% to taxable profits, in accordance with the Profit Tax Act.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with maturities less than 90 days, including cash, balances on current accounts as well as loans and advances to other banks.

Financial instruments

The Bank's financial assets and financial liabilities reported on the statement of financial position include cash and cash equivalents, marketable securities, accounts receivable and payable, long-term loans, deposits and investments. The accounting methods applied to these instruments are disclosed in the corresponding accounting policies.

The Bank recognises financial assets and liabilities on its statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument.

The Bank's financial assets are categorised into portfolios in accordance with the Bank's intent on the acquisition and pursuant to the Bank's investment strategy.

Financial assets and liabilities are classified as "Financial assets at fair value through profit or loss", "Held to maturity", "Assets available for sale" or as "Loans and receivables". The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements, as described further below.

Regular way transactions with financial instruments are accounted for in the statement of financial position at the settlement date. Under the settlement date accounting, the underlying asset or liability is not recognised until the settlement date, and the changes in the fair value of the underlying asset or liability are recognised starting from the trade date.

The Bank recognises financial assets and financial liabilities initially at their fair value plus, except for financial assets at fair value through profit and loss, transaction costs directly attributable to the acquisition or delivery of a financial asset or a financial liability.

Financial assets at fair value through profit or loss

Financial instruments included in this portfolio are those held for trading, which have been acquired to generate profits from short-term fluctuations in prices or brokerage fees, or are securities included in a portfolio with a pattern of short-term profit taking.

Such instruments are initially recognised at cost and subsequently measured at fair value, which is based on the quoted bid prices in an active market.

Held-to-maturity assets

Financial instruments included in this portfolio are non-derivative financial assets with fixed or determinable payments and fixed maturities, where the Management Board has both the intent and the ability to hold to maturity. All held-to-maturity financial instruments are carried at amortised cost less any provision for impairment. Interest earned from held-to-maturity financial instruments is reported as interest income and recognised based on the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

The Bank assesses on a regular basis whether there is any objective evidence that an asset 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 amortised 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 asset is identified to be impaired, the Bank recognises a provision in the statement of profit or loss.

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been, had the impairment not been recognised.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available for sale; or (c) those for which the Bank may not recover substantially all of its initial investment, due to credit deterioration, which shall be classified as available for sale. This portfolio comprises loans provided to customers.

Loans and receivables are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees incurred in securing a loan, are treated as part of the cost of the transaction as well as fees received from customers. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loan and as such adjust the interest income.

Impairment of financial assets

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans computed at initial recognition. An allowance for loans individually identified as impaired is assessed by reference to the credit standing and performance of the borrower and takes into account the value of any collateral or third-party guarantees. In determining the objective evidence of impairment, the Bank applies the following criteria: delinquency in contractual payments of principal or interest, cash flow difficulties experienced by the borrower, breach of loan covenants or conditions, indications of bankruptcy or winding down proceedings and deterioration of the borrower's competitive position. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics (grouped by institutional sector, purpose and economic activity) and collectively assesses them for impairment.

The level of collective impairment (value adjustment) of A graded placements is determined as minimum 1% of the total balance of placements graded A (placements for which objective evidence of impairment of their value on an individual basis has not been identified). Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Fully irrecoverable placements of the Bank are those originating on a disputable legal basis and other receivables from which no cash flows can be expected allowing the settlement of the debt to the bank because of a particularly poor property status and financial position of the debtor and a lack of any eligible instrument of collateral. Placements graded C (placements for which objective evidence has been identified about their total impairment, completely irrecoverable placements) that are fully adjusted are reported on the balance sheet until legal steps in connection with the extinguishment of the debtor's liability are completed.

Individually and collectively determined impairment losses are charged to the Bank's statement of profit or loss for the period in which the losses are identified and recognised in the amount of the prescribed loss percentage, with the balance credited to the impairment allowance for placements to which the losses relate on the asset side of the balance sheet.

If, following the reassessment, the amount of the loss increases, the increase is charged to the Bank's expenses for the period in which the losses are identified. If the loss subsequently decreases, the decrease is credited to the previously charged impairment loss in the statement of profit or loss, as well as charged to the impairment allowance account on the asset side of the balance sheet.

Placements reclassified from the A category into a B (placements for which objective evidence has been identified about the partial adjustment of their value, or partially recoverable placements) or C category on the basis of accrued interest income are fully impaired, but remain carried on the balance sheet until the underlying receivables are collected or written off.

Interest income accrued on partly recoverable placements is reported as an off-balance sheet item and recognised in the statement of profit or loss when collected.

The Bank classifies placements assessed as partly recoverable into the following B sub-categories depending on the loss percentage: into B-1 (placements with losses identified up to maximum 30 percent of the principal amount), into B-2 (placements with identified losses ranging from over 30 percent up to 70 percent of the principal amount); into B-3 (placements with identified losses exceeding 70 percent, but less than 100 percent of the principal amount). Balances estimated to be fully irrecoverable are classified into the risk category C.

Assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. This portfolio comprises equity and debt securities.

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 securities is estimated using the present value of future cash flows and the fair value of unquoted equity instruments is estimated using applicable price/earnings or price/cash flow ratios refined to reflect specific circumstances of the issuer. Financial assets are derecognised when the rights to receive cash flows from a financial asset have expired or where the Bank has substantially transferred all risks and rewards of ownership of the asset.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment. For available-for-sale assets, gains and losses arising from changes in fair value are recognised directly in equity under the caption "Other reserves", until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period.

At each statement of financial position date, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity or debt investments classified as available for sale, any significant (i.e. above 30 percent of the cost of purchase) or prolonged (over 12 months) decrease in their fair value below the cost is taken into account in determining whether an asset has been impaired. If such indication exists, the cumulative loss on impairment of a financial asset available for sale is determined as the difference between the cost and the current fair value of the asset is transferred from other comprehensive income and recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available for sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss. Interest earned whilst holding available-for-sale securities is accrued on a monthly basis using the effective interest rate method and reported as interest income in the statement of profit or loss. Foreign exchange differences related to available-for-sale equity instruments held in a foreign currency are reported together with fair value gains and losses in equity until the financial asset is sold. Foreign exchange differences related to available-for-sale debt instruments held in foreign currency are reported in income statements.

Dividends on securities available for sale are recognised when declared and the dividends receivable are included in the statement of financial position under the line item 'Other assets' and in the statement of profit or loss within 'Other operating income'. Upon payment of the dividend, the receivable is offset against the collected cash.

Foreclosed assets

Occasionally, by means of the enforcement procedure, the Bank acquires assets in exchange for outstanding receivables. Foreclosed assets are classified on the balance sheet as other assets held for sale. The Bank acquires the ownership of such assets on the basis of a ruling on award. The assets are recognised at cost of acquisition, i.e. the net recoverable amount, depending on what is less. Foreclosed assets are reviewed for impairment on an annual basis. An impairment loss is determined as the difference between the carrying amount of an asset and its recoverable amount and recognised in the profit or loss for the period in which the loss is determined. The recoverable amount is the fair value of an asset less costs to sell the asset. Fair values of those assets are determined on the basis of independent market value appraisal performed by a licensed appraiser or based on a tentative agreement on the sale of property.

The Bank does not depreciate assets classified as held for sale. Impairment losses on subsequent measurement of non-current assets are recognised in profit or loss. Gains on subsequent increases in the fair value of assets previously impaired are recognised in profit or loss following the sale. The Bank derecognises an asset held for sale when it is sold. Gains and losses on the sale of assets held for sale are recognised in profit or loss.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. All of the Bank's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they have arisen.

An investment property is derecognised upon disposal or when the investments property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) is included in profit or loss in the period in which the property is derecognised.

Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are included in the financial statements and the liability to the counterparty is included in amounts due to customers. Securities purchased under agreements to resell them (reverse repo) are recognised as amounts due from banks or loans to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and permanent impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from the disposal is included in the statement of profit or loss. The initial cost of property and equipment comprises its purchase price, including customs duties and non-refundable taxes and any costs directly attributable to bringing an asset to its working condition and location for its intended use. Expenditures incurred after an item of property or equipment has been put into use, such as repairs and maintenance, are normally charged to profit or loss in the period in which the expenditure is incurred. Assets under construction include those properties and equipments that are in progress and are carried at cost. The cost includes the cost of construction and other direct costs. Assets under development are not depreciated until they are completed and put into use and classified into the appropriate category of property and equipment. Property and equipment are depreciated on a straight-line basis over the useful life of the assets, which is as follows:

	2016	2015
BUILDINGS	40	40
FURNITURE	5	5
COMPUTERS	4	4
MOTOR VEHICLES	5	5
EQUIPMENT AND OTHER ASSETS	2 – 10	2 – 10

Land is not depreciated. The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end. The carrying amounts of property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Intangible assets

Intangible assets are recognised initially at cost. Intangible assets are recognised if it is probable that the future economic benefits attributable to an asset will flow to the Bank and the cost of the asset can be measured reliably. Subsequent to initial recognition, intangible assets are recognised at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed in each reporting period.

Intangible assets are amortised over the periods of 5 to 15 years (software). The amortisation period and amortisation method are reviewed at least at each year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in an asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Impairment of non-financial assets

Property, 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. Where the carrying amount of an asset exceeds its recoverable amount, an impairment loss for items of property and equipment and intangibles carried at cost is recognised in the statement of profit or loss and, for assets carried at revalued amounts, it is treated as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same asset. The recoverable amount is the higher of an asset's net selling price and its value in use.

Goodwill

Goodwill has arisen on the acquisition of Požeška banka and was calculated and posted on the takeover date, acquisition of the subject. An impairment loss is assessed annually for possible losses. Testing for impairment is carried out using the cost method of capital - CAPM (Capital Asset Pricing Model), which includes both general and specific risks. For the purpose of the impairment testing, goodwill is allocated to each cash-generating unit arisen on the acquisition from which future benefits are expected. The organisational (cash-generating) units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that such an organisational unit may be impaired.

Where the recoverable amount of a unit is below its carrying amount, the impairment loss is first allocated to reduce the carrying amount of the goodwill allocated to that unit and then proportionally to all other organisational units generating cash. Any gain or loss on remeasurement at fair value is included in profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Provisions for contingent liabilities

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

Managed funds

The Bank manages a significant amount of assets on behalf of third parties and charges a fee for the services. These assets are not included in the Bank's statement of financial position (see Note 29).

Dividend policy

The Bank has a policy to pay dividends to its shareholders based on the audited annual results. No dividends were paid in 2016 and 2015.

2.2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Judgements

The Bank makes certain judgments and estimates about uncertain events, including estimates and judgments concerning the future. Such accounting assumptions and estimates are regularly reviewed and are based on past experience and other factors, such as the expected course of future events based on reasonable current assumptions in the given circumstances, but which nevertheless represent sources of uncertainty. In applying the Bank's accounting policies, the key areas of judgement made by the Management Board, other than those involving estimates, having the most significant impact on the amounts reported in the financial statements are as follows.

Held-to-maturity assets

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as Assets held to maturity (Note 16). The classification requires significant judgement. In making this judgement, the Bank evaluates its positive intent and ability to hold such investments to maturity. If the Bank fails to hold these investments to maturity for reasons other than specific circumstances (such as selling an insignificant amount relative to the total amount of investments held to maturity close to maturity), the entire class is classified as available for sale and measured at fair value instead of amortised cost.

Estimating uncertainty

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provisions for impairment losses on loans and receivables

The Bank regularly reviews its loans and receivables (Note 14) to assess whether there is objective evidence of impairment. The Bank uses its experience-based judgement to estimate the amount of any impairment loss where a borrower is in financial difficulties and there is little historical data available about borrowers with similar characteristics. Similarly, the Bank estimates changes in future cash flows based on the relevant observable data indicating that there has been 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. Management uses estimates based on 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-based judgement to revise the relevant observable data in accordance with the current circumstances.

Litigation provisions

Provisions (Note 25) are recognised when the Bank has a present legal or constructive 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 a reliable estimate of the amount of the obligation can be made. Management maintains provisions at the level it considers sufficient to cover the estimated losses and determines the sufficiency of provisions by reviewing individual items receivable, the current legal circumstances, as well as other relevant factors.

Provisions for employee benefits

Provisions for employee benefits are based on the Bank's Employee Benefit Policy and the related internal rules, which constitute a framework defining the basic principles and rules applying to employee benefits. The by-laws define the general requirements for benefits that apply to all employees as well as specific requirements applicable only to certain qualifying employees, as well as the components, types and ratios of fixed and variable benefit components. Variable benefits include bonuses, individual awards, incentives for the overall performance as well as similar payments, awarded in cash or as financial instruments. The obligations arising from employee benefits are recognised in the period in which the related service is rendered and at amounts expected to be paid.

Income tax expense

The Bank's profit is subject to corporate income tax in Croatia. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional tax liabilities will arise. If the ultimate outcome of the tax issues differs from the initially determined tax liability, any difference will be reflected in the provisions for the income tax as well as deferred taxes in the period in which the additional tax assessment is determined. Calculations supporting the tax returns are subject to audit and approval by the local tax authorities.

3. INTEREST AND SIMILAR INCOME AND EXPENSES

IN HRK THOUSANDS	2016	2015
INTEREST INCOME		
CORPORATE CUSTOMERS	83,283	85,257
INDIVIDUALS	40,736	39,177
SECURITIES	16,412	13,065
BANKS	921	1,186
PUBLIC AND OTHER SECTORS	7,621	8,662
	148,973	**147,347**
INTEREST EXPENSE		
CORPORATE CUSTOMERS	(6,986)	(11,161)
INDIVIDUALS	(29,358)	(38,433)
BANKS	(8,193)	(7,423)
PUBLIC AND OTHER SECTORS	(4,570)	(2,236)
	(49,107)	(59,253)
NET INTEREST INCOME	**99,866**	**88,094**

Interest income also includes deferred fees on loans in the total amount of HRK 12,341 thousand (2015: HRK 10,835 thousand), which are recognised by applying the effective interest rate method.

IN HRK THOUSANDS	2016	2015
INTEREST INCOME ON:		
PARTLY RECOVERABLE LOANS	18,066	5,263
FULLY IRRECOVERABLE LOANS	851	1,734
	18,917	**6,997**

In an enforcement procedure led by the Bank against Dalekovod d.d., as the debtor, the Bank recovered HRK 54 million of receivables. Of the total amount, HRK 13,917 thousand represent interest owed and collected.

4. FEE AND COMMISSION INCOME AND EXPENSE

IN HRK THOUSANDS	2016	2015
FEE AND COMMISSION INCOME		
PAYMENT TRANSACTION RELATED FEES AND COMMISSIONS	14,357	13,941
CARD-RELATED FEES AND COMMISSIONS	14,490	15,072
FEES AND COMMISSIONS FROM LENDING OPERATIONS	2,993	3,165
FEES AND COMMISSIONS ON SECURITIES TRADING	1,318	1,231
OTHER FEE AND COMMISSION INCOME	4,545	4,843
	37,703	38,252
FEE AND COMMISSION EXPENSE		
CASH OPERATION FEES AND COMMISSIONS	(4,352)	(4,852)
PAYMENT OPERATION CHARGES	(2,334)	(2,334)
INTERBANK SERVICE FEES	(499)	(585)
OTHER FEE AND COMMISSION EXPENSES	(6,525)	(6,483)
	(13,710)	(14,254)
NET FEE AND COMMISSION INCOME	**23,993**	**23,998**

Other fee and commission income consists mainly of fees collected on the Bank's counters from customers for the payments made and amounts to HRK 2,358 thousand (2015: HRK 2,500 thousand).

5. OTHER OPERATING INCOME, NET

IN HRK THOUSANDS	2016	2015
FOREIGN EXCHANGE TRADING GAINS	5,481	6,255
REFUND OF COURT COSTS	1,840	1,497
NET REALISED GAINS ON THE SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	16,900	8,410
DIVIDEND INCOME	794	990
RENTAL INCOME	1,873	1,874
NET GAINS ON DISPOSAL OF PROPERTY AND EQUIPMENT	207	360
NET GAINS ON THE SALE OF FORECLOSED ASSETS	10	1,176
INCOME ON SUBSEQUENT COLLECTION OF BALANCES RECEIVABLE PREVIOUSLY WRITTEN OFF	4	6
NET FX DIFFERENCES ON RETRANSLATION AT THE MIDDLE EXCHANGE RATE	386	(587)
OTHER INCOME	553	1,083
	28,048	**21,064**

6. IMPAIRMENT LOSSES AND PROVISIONS

IN HRK THOUSANDS	2016	2015
PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS (NOTE 14D)	(8,269)	(24,378)
IMPAIRMENT OF EQUITY SECURITIES (NOTES 15E)	(1,936)	(196)
PROVISIONS FOR GUARANTEES AND CONTINGENT LIABILITIES (NOTE 25)	369	(209)
IMPAIRMENT OF OTHER ASSETS (NOTE 20)	(265)	(452)
IMPAIRMENT OF FORECLOSED ASSETS (NOTE 20)	(8,579)	-
PROVISIONS FOR LEGAL CASES (NOTE 25)	(75)	40
	(18,755)	**(25,195)**

7. ADMINISTRATIVE EXPENSES

IN HRK THOUSANDS	2016	2015
STAFF COSTS	44,466	50,292
COST OF MATERIAL AND SERVICES	26,841	28,679
RENTAL COSTS	7,597	8,675
DEPOSIT INSURANCE PREMIUMS	5,747	5,143
TAXES AND CONTRIBUTIONS	1,169	1,198
OTHER EXPENSES	1,909	1,318
	87,729	**95,305**

Other expenses include advertising and promotion, sponsorships, donations and other costs.

Staff costs

IN HRK THOUSANDS	2016	2015
NET SALARIES	23,219	26,121
PENSION INSURANCE COSTS	6,120	6,849
HEALTH INSURANCE COSTS	5,243	5,900
OTHER COMPULSORY CONTRIBUTIONS	769	865
TAXES AND SURTAXES	5,621	6,354
PROVISIONS FOR EMPLOYEE BENEFITS	1,728	(138)
OTHER STAFF COSTS	1,766	4,341
	44,466	**50,292**

At 31 December 2016, the Bank had 223 employees (2015: 240 employees).

8. DEPRECIATION AND AMORTISATION

IN HRK THOUSANDS	2016	2015
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 18)	5,291	5,675
DEPRECIATION OF LEASEHOLD IMPROVEMENTS (NOTE 18)	524	495
AMORTISATION (NOTE 17)	2,711	2,889
	8,526	**9,059**

9. INCOME TAX EXPENSE

Corporate income tax is determined by applying the rate of 20% (2015: 20%) to taxable profits.

Tax returns are not final and are subject to review and audit for at least a three-year period. The Management Board believes that tax obligations have been adequately provided for in these financial statements.

The tax expense comprises the following:

IN HRK THOUSANDS	2016	2015
CURRENT TAX EXPENSE	7,334	-
DEFERRED TAX	3,531	296
TAX EXPENSE	**10,865**	**296**

The reconciliation between accounting profit and taxable profit is set out below:

IN HRK THOUSANDS	2016	2015
PROFIT BEFORE TAXATION	**36,897**	**3,597**
STATUTORY TAX RATE	20%	20%
EXPECTED TAX AT THE RATE OF 20%	**7,379**	**719**
TEMPORARY DIFFERENCES		
UNREALISED LOSSES FROM FINANCIAL ASSETS	(32)	(23)
DEFERRED LOAN ORIGINATION FEES	(4,317)	662
PROVISIONS FOR PAYMENTS TO EMPLOYEES	1,750	-
REALISED LOSSES – FINALISED LIQUIDATION	-	(3,120)
REALISED LOSSES – SALE OF FORECLOSED ASSETS (INVESTMENTS)	(17)	-
IMPAIRMENT OF FORECLOSED ASSETS	8,579	-
LOSSES ON AFS SECURITIES	2,017	-
NET TEMPORARY DIFFERENCES	**7,980**	**(2,481)**
PERMANENT DIFFERENCES		
TAX EFFECT OF NON-TAXABLE INCOME	**(794)**	**(982)**
DIVIDENDS RECEIVED	(794)	(982)
EFFECT OF TAX NON-DEDUCTIBLE EXPENSES	**9,306**	**1,379**
ENTERTAINMENT AND TRANSPORT	473	339
DEPRECIATION ABOVE THE PRESCRIBED AMOUNTS	177	190
INTEREST FROM RELATED-PARTY RELATIONSHIPS	-	130
WRITTEN-OFF RECEIVABLES	8,476	628
OTHERS	180	92
NET PERMANENT DIFFERENCES	**8,512**	**397**
TAXABLE PROFIT	**53,389**	**1,513**
TAX BASE	**36,670**	**(16,719)**
TAX RATE	20%	20%
INCOME TAX PAYABLE	7,334	-
CURRENT TAX EXPENSE	**7,334**	**-**
DEFERRED TAX EXPENSE	**3,531**	**296**
TOTAL TAX EXPENSE	**10,865**	**296**
EFFECTIVE TAX RATE	**19.88%**	**-**
TAX LOSSES BROUGHT FORWARD	(16,719)	(18,233)
TAX LOSS FOR THE YEAR	-	-
UTILISED DURING THE YEAR	16,719	1,513
TAX LOSSES AVAILABLE FOR CARRY FORWARD	-	(16,719)

At 31 December 2016, the Bank had no unused tax losses (2015: HRK 16,719 thousand).

Movements in deferred tax assets and tax liabilities are presented below:

2016

IN HRK THOUSANDS	OPENING BALANCE	TAX CHARGED TO PROFIT OR LOSS	RECOGNISED IN EQUITY	CLOSING BALANCE
LOSSES FROM FINANCIAL ASSETS	601	(66)	-	535
LOSSES ON OTHER INVESTMENTS	43	1,537	-	1,580
DEFERRED LOAN ORIGINATION FEES	1,653	(942)	-	711
FINANCIAL ASSETS AVAILABLE FOR SALE	(843)	-	(1,541)	(2,384)
IMPAIRMENT OF FINANCIAL ASSETS	-	363	-	363
PROVISIONS FOR LEGAL ACTIONS – INTEREST	20	(2)	-	18
PROVISIONS FOR PAYMENTS TO EMPLOYEES	-	315	-	315
TAX LOSS	3,344	(3,344)	-	-
LOSSES ON AFS SECURITIES	1,392	(1,392)	-	-
	6,210	**(3,531)**	**(1,541)**	**1,138**

2015

IN HRK THOUSANDS	OPENING BALANCE	TAX CHARGED TO PROFIT OR LOSS	RECOGNISED IN EQUITY	CLOSING BALANCE
LOSSES FROM FINANCIAL ASSETS	606	(5)	-	601
LOSSES ON OTHER INVESTMENTS	43	-	-	43
DEFERRED LOAN ORIGINATION FEES	1,522	132	-	1,653
FINANCIAL ASSETS AVAILABLE FOR SALE	799	-	(1,642)	(843)
IMPAIRMENT OF FINANCIAL ASSETS	623	(623)	-	-
PROVISIONS FOR LEGAL ACTIONS – INTEREST	20	-	-	20
TAX LOSS	3,143	201	-	3,344
LOSSES ON AFS SECURITIES	1,392	-	-	1,392
	8,148	**(296)**	**(1,642)**	**6,210**

The deferred tax assets and deferred tax liabilities are recognised by applying a rate of 18 percent (2015: 20%).

The effects of the change in the tax rate from 20 percent to 18 percent amount to HRK 705 thousand and are recognised as a charge to profit or loss, while HRK 84 thousand are included as an increase to other comprehensive income.

10. EARNINGS PER SHARE

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

	2016	2015
PROFIT FOR THE YEAR (IN HRK'000)	26,032	3,301
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR THE YEAR	668,749	668,749
EARNINGS PER SHARE (IN KUNAS) – BASIC AND DILUTED	**38.93**	**4.94**

11. CASH AND AMOUNTS DUE FROM BANKS

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
GIRO ACCOUNT WITH THE CROATIAN NATIONAL BANK	110,771	148,803
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	50,943	113,512
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	7,781	10,690
CASH IN HAND	41,616	35,063
OTHER ITEMS	12,542	12,541
	223,653	**320,609**

The provision i.e. allowance for cash and balances with other banks classified into the risk group A amounts to HRK 2,036 thousand and is included in the total provisions for impairment (Note 14 – Loans to customers).

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
GIRO ACCOUNT WITH THE CROATIAN NATIONAL BANK	110,771	148,803
CASH EQUIVALENTS – TERM DEPOSITS WITH OTHER BANKS (NOTE 13)	24,141	55,369
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	50,943	113,512
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	7,781	10,690
CASH IN HAND	41,616	35,063
OTHER ITEMS	12,541	12,541
	247,793	**375,978**

12. BALANCES WITH THE CROATIAN NATIONAL BANK

The obligatory reserve represents the amount of liquid assets banks are required to place with the Croatian National Bank. The obligatory reserve is calculated every second Wednesday of the month on certain average balances of liabilities from the previous month. The calculation base includes the daily average balance of received loans and deposits, issued debt securities, hybrid and subordinated instruments and other financial liabilities, along with certain deductible items. The obligatory reserve allocation rate of 12% remained unchanged throughout 2015 and 2016.

Of the total balance of the calculated obligatory reserve funds, 75% are included in the kuna-denominated reserve funds. The Bank has the obligation to allocate to a separate mandatory reserve account with the CNB, 70 percent of the total kuna-denominated reserve funds. These funds are maintained at the level of the average balance on the settlement account and on the negative balance reserve account at the National Clearing System. Since the beginning of 2016, banks are no longer required to allocate obligatory reserve funds denominated in foreign currency, but have to maintain at least 2 percent of the FX obligatory reserve funds on their own euro-denominated accounts with the CNB.

The obligatory reserve balances with the Croatian National Bank are not interest-bearing.

The allowance for the obligatory reserve balances classified into the risk group A amounts to HRK 1,881 thousand and is included in the total provisions for impairment (Note 14 – Loans to customers).

13. BALANCES WITH OTHER BANKS

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
TERM DEPOSITS	24,141	55,369
REVERSE REPO LOANS	5,500	32,221
	29,641	**87,590**
LESS: PROVISION FOR LOAN IMPAIRMENT	-	-
	29,641	**87,590**

Term deposits with other banks amount to HRK 24,141 thousand and represent term deposits with foreign financial institutions bearing interest a rate of 2.75% annually (2015: up to 2.75%).

Reverse repo loans in the amount of HRK 5,500 thousand (2015: HRK 32,221 thousand) were granted to domestic customers based on bonds of the Croatian Ministry of Finance with the ticker ISIN HRRHMFO203A8.

The provision recognised on a collective basis for balances with other banks classified into the risk group A amounts to HRK 296 thousand and is included in the total provisions for impairment (Note 14 – Loans to customers).

Movements in the impairment provision:

IN HRK THOUSANDS	2016	2015
AT 1 JANUARY	-	600
AMOUNTS WRITTEN-OFF	-	(600)
AT 31 DECEMBER	**-**	**-**

The provision for impairment and write-offs for the year 2015 relates to domestic banks in bankruptcy.

Geographical analysis

The analysis includes term deposits and current accounts (Note 11) with foreign banks:

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
ITALY	23,032	28,248
UNITED STATES OF AMERICA	21,483	11,175
BELGIUM	18,862	50,807
GERMANY	4,078	38,855
AUSTRALIA	1,713	2,266
GREAT BRITAIN	1,398	1,412
SPAIN	1,008	903
AUSTRIA	842	2,133
SLOVENIA	827	375
MONTENEGRO	803	1,222
CANADA	765	350
SWEDEN	203	112
DENMARK	68	22
	75,082	**137,880**

14. LOANS TO CUSTOMERS

a) Analysis by type of customer

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
RETAIL CUSTOMERS		
- HRK DENOMINATED, INCLUDING LOANS WITH A CURRENCY CLAUSE	622,746	556,946
- FOREIGN-CURRENCY DENOMINATED	25,602	25,388
	648,348	**582,334**
CORPORATE CUSTOMERS		
- HRK DENOMINATED, INCLUDING LOANS WITH A CURRENCY CLAUSE	1,309,513	1,315,966
- FOREIGN-CURRENCY DENOMINATED	164,374	212,285
	1,473,887	**1,528,251**
	2,122,235	**2,110,585**
LESS: PROVISION FOR LOAN IMPAIRMENT	(237,456)	(238,279)
	1,884,779	**1,872,306**

The total balance of the provisions for impairment includes impairment provisions based on a collective assessment for the risk group A in the amount of HRK 18,938 thousand, of which HRK 14,878 thousand relate to loans to customers, HRK 1,881 thousand to obligatory reserve funds, HRK 1,795 thousand to cash and demand deposits with other banks, HRK 296 thousand to balances with other banks and HRK 87 thousand to other assets.

b) Analysis by sector

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
RETAIL CUSTOMERS	648,348	582,334
WHOLESALE AND RETAIL TRADE	541,786	471,722
PROCESSING AND MANUFACTURING	236,547	206,684
FOOD AND BEVERAGE PRODUCTION	151,949	201,301
CONSTRUCTION	70,439	117,231
AGRICULTURE AND FORESTRY	122,712	109,942
HOTELS AND RESTAURANTS	82,998	80,110
ENERGY, GAS AND WATER SUPPLY	13,807	73,671
REAL ESTATE OPERATIONS	41,826	63,011
TRANSPORT, STORAGE, COMMUNICATIONS	29,185	33,812
OTHER SECTORS	182,638	170,767
	2,122,235	**2,110,585**
LESS: PROVISION FOR LOAN IMPAIRMENT	(237,456)	(238,279)
	1,884,779	**1,872,306**

c) Movements in the principal of partly recoverable (substandard) and fully irrecoverable (non-performing) loans

BANK	2016		2015	
IN HRK THOUSANDS	PARTLY RECOVERABLE (SUBSTANDARD) LOANS	FULLY IRRECOVERABLE (BAD) LOANS	PARTLY RECOVERABLE (SUBSTANDARD) LOANS	FULLY IRRECOVERABLE (BAD) LOANS
BALANCE AT 1 JANUARY	**273,681**	**150,404**	**222,240**	**130,027**
RECLASSIFIED FROM FULLY RECOVERABLE LOANS	29,864	467	84,033	2,469
RECLASSIFIED FROM FULLY IRRECOVERABLE LOANS	115	(115)	2	(2)
RECLASSIFIED FROM PARTLY RECOVERABLE LOANS	(9,162)	9,162	(15,523)	15,523
RECLASSIFIED TO FULLY RECOVERABLE LOANS	(4,413)	(404)	(2,947)	(98)
AMOUNTS COLLECTED	(57,401)	(4,708)	(14,594)	(1,874)
AMOUNTS WRITTEN-OFF	(8,623)	(631)	(639)	(657)
TRANSFERRED ON THE MERGER	-	-	1,109	5,016
OTHER CHANGES	1,366	584	-	-
BALANCE AT 31 DECEMBER	**225,427**	**154,759**	**273,681**	**150,404**

At 31 December 2016, the gross principal amount of non-performing loans was HRK 154,759 thousand (2015: HRK 150,404 thousand). In 2016, HRK 4,708 thousand of such non-performing loans was recovered (2015: HRK 1,874 thousand). In 2016, HRK 12,745 thousand of loans to legal persons and sole traders were renegotiated (2015: HRK 54,131 thousand).

In 2016, a significant balance of partly recoverable loans was recovered, the majority of which, HRK 40 million, represent a balance partly recovered through enforcement initiated by the Bank against Dalekovod d.d.

Other movements reflect new loans issued and reclassified to partly recoverable (substandard) or fully irrecoverable in 2016.

d) Provisions for losses

IN HRK THOUSANDS	2016	2015
BALANCE AT 1 JANUARY	**238,279**	**212,268**
INCREASE IN THE IMPAIRMENT PROVISION	97,214	91,168
AMOUNTS COLLECTED	(87,472)	(67,240)
EXCHANGE DIFFERENCES	(1,473)	450
AMOUNTS WRITTEN-OFF	(9,092)	(1,111)
TRANSFERRED ON THE MERGER	-	2,744
BALANCE AT 31 DECEMBER	**237,456**	**238,279**

The Bank manages its exposure to credit risk by applying a variety of control measures: regular assessment using agreed credit criteria, diversification of sector risk to avoid concentration in a single industry. Where required, the Bank also obtains acceptable collateral to reduce the level of credit risk.

15. FINANCIAL ASSETS AVAILABLE FOR SALE

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
TREASURY BILLS OF THE REPUBLIC OF CROATIA	22,478	-
BONDS	523,816	268,353
UNITS/SHARES IN INVESTMENT FUNDS	380,609	156,710
EQUITY SECURITIES	42,529	52,280
	969,432	**477,343**
IMPAIRMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE	(6,826)	(8,184)
	962,606	**469,159**

Investments in debt securities are shown as follows:

a) Treasury bills of the Republic of Croatia

IN HRK THOUSANDS	2016	2015
BALANCE AT 1 JANUARY	**-**	**-**
PURCHASES	22,775	-
AMOUNTS COLLECTED	(249)	-
FAIR VALUE MEASUREMENT	(48)	-
BALANCE AT 31 DECEMBER	**22,478**	**-**

b) Bonds

IN HRK THOUSANDS	2016	2015
BALANCE AT 1 JANUARY	**268,353**	**278,856**
PURCHASES	762,076	374,904
SOLD / COLLECTED	(526,094)	(389,027)
REALISED GAINS	7,727	4,003
CHANGE IN THE FAIR VALUE	11,754	(383)
BALANCE AT 31 DECEMBER	**523,816**	**268,353**

The table below presents the Bank's bonds i.e. debt instrument portfolio structure:

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
BONDS OF DOMESTIC ISSUERS		
- CROATIAN MINISTRY OF FINANCE	229,171	132,351
- FINANCIAL INSTITUTIONS	13,131	5,276
- NON-FINANCIAL INSTITUTIONS	58,893	42,831
	301,195	**180,458**
BONDS OF FOREIGN ISSUERS		
- FOREIGN GOVERNMENT BONDS	88,175	49,356
- FINANCIAL INSTITUTIONS	123,319	16,427
- NON-FINANCIAL INSTITUTIONS	11,127	22,112
	222,621	**87,895**
	523,816	**268,353**

Investments in debt securities are shown as follows:

c) Units/shares in investment funds

IN HRK THOUSANDS	2016	2015
BALANCE AT 1 JANUARY	**156,710**	**126,964**
PURCHASES	289,142	146,378
SOLD / COLLECTED	(69,640)	(120,683)
REALISED GAINS	121	4,170
CHANGE IN THE FAIR VALUE	4,276	(119)
BALANCE AT 31 DECEMBER	**380,609**	**156,710**

d) Equity securities

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
LISTED SECURITIES	33,550	43,853
UNLISTED SECURITIES	8,979	8,427
	42,529	**52,280**
IMPAIRMENT OF EQUITY SECURITIES	(6,826)	(8,184)
TOTAL	**35,703**	**44,096**

Movements in equity securities during the year

IN HRK THOUSANDS	2016	2015
BALANCE AT 1 JANUARY	**44,096**	**40,609**
PURCHASES	31,626	31,690
DISPOSALS	(36,891)	(34,033)
REALISED GAINS	9,052	237
CHANGE IN THE FAIR VALUE	(6,950)	8,713
AMOUNTS WRITTEN-OFF	(3,294)	(3,120)
IMPAIRMENT OF EQUITY SECURITIES	(1,936)	-
BALANCE AT 31 DECEMBER	**35,703**	**44,096**

The table below presents the Bank's equity instrument portfolio structure:

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
EQUITY SECURITIES OF DOMESTIC ISSUERS		
- FINANCIAL INSTITUTIONS	521	530
- NON-FINANCIAL INSTITUTIONS	23,784	29,161
	24,305	**29,691**
EQUITY SECURITIES OF FOREIGN ISSUERS		
- FINANCIAL INSTITUTIONS	14,595	17,521
- NON-FINANCIAL INSTITUTIONS	3,629	5,068
	18,224	**22,589**
	42,529	**52,280**
IMPAIRMENT OF EQUITY SECURITIES	(6,826)	(8,184)
	35,703	**44,096**

e) Fair value reserve from financial assets available for sale

TYPE OF SECURITIES IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
BY SECURITY TYPE:		
DEBT SECURITIES	6,638	(5,069)
UNITS/SHARES IN INVESTMENT FUNDS	6,596	2,321
EQUITY SECURITIES	15	6,965
DEFERRED TAX (NOTE 9)	(2,385)	(843)
TOTAL FAIR VALUE RESERVE	**10,864**	**3,374**

Movements in the fair value reserve

IN HRK THOUSANDS	2016	2015
BALANCE AT 1 JANUARY	3,374	(3,195)
CHANGE IN THE FAIR VALUE OF DEBT SECURITIES	11,706	(384)
CHANGE IN THE FAIR VALUE OF UNITS/SHARES IN INVESTMENT FUNDS	4,276	(118)
CHANGE IN THE FAIR VALUE OF EQUITY SECURITIES	(6,950)	8,713
DEFERRED TAX RECOGNISED IN EQUITY (NOTE 9)	(1,542)	(1,642)
BALANCE AT 31 DECEMBER	10,864	3,374

Movements in the impairment of financial assets available for sale

IN HRK THOUSANDS	2016	2015
BALANCE AT 1 JANUARY	8,184	11,305
ADDITIONS	1,936	117
DECREASE	-	(117)
AMOUNTS WRITTEN-OFF	(3,294)	(3,121)
BALANCE AT 31 DECEMBER	6,826	8,184

16. FINANCIAL ASSETS HELD TO MATURITY

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
BONDS OF FOREIGN FINANCIAL INSTITUTIONS	-	38,573
	-	38,573

Movements in assets held to maturity

IN HRK THOUSANDS	2016	2015
BALANCE AT 1 JANUARY	38,573	88,896
PURCHASES	24,417	70,158
AMOUNTS COLLECTED	(62,990)	(120,481)
BALANCE AT 31 DECEMBER	-	38,573

17. INTANGIBLE ASSETS

IN HRK THOUSANDS	SOFTWARE	GOODWILL	ASSETS UNDER DEVELOPMENT	TOTAL INTANGIBLE ASSETS
COST OR VALUATION				
BALANCE AT 1 JANUARY 2015	**14,698**	**16,867**	**29,093**	**60,658**
ADDITIONS	211	-	1,335	1,546
TRANSFER FROM ASSETS UNDER DEVELOPMENT	29,907	-	(29,907)	-
TRANSFERRED ON THE MERGER	207	-	-	207
DISPOSALS AND RETIREMENTS	(207)	-	-	(207)
BALANCE AT 31 DECEMBER 2015	**44,815**	**16,867**	**522**	**62,204**
ADDITIONS	1,805	-	97	1,902
TRANSFER FROM ASSETS UNDER DEVELOPMENT	-	-	(571)	(571)
DISPOSALS AND RETIREMENTS	(124)	-	-	(124)
BALANCE AT 31 DECEMBER 2016	**46,496**	**16,867**	**48**	**63,411**
AMORTISATION				
BALANCE AT 01 JANUARY 2015	**12,530**	**-**	**-**	**12,530**
CHARGE FOR THE YEAR	2,889	-	-	2,889
TRANSFERRED ON THE MERGER	204	-	-	204
DISPOSALS AND RETIREMENTS	(204)	-	-	(204)
BALANCE AT 31 DECEMBER 2015	**15,419**	**-**	**-**	**15,419**
CHARGE FOR THE YEAR	2,711	-	-	2,711
DISPOSALS AND RETIREMENTS	-	-	-	-
BALANCE AT 31 DECEMBER 2016	**18,130**	**-**	**-**	**18,130**
NET BOOK VALUE				
BALANCE AT 31 DECEMBER 2016	**28,366**	**16,867**	**48**	**45,281**
BALANCE AT 31 DECEMBER 2015	**29,396**	**16,867**	**522**	**46,785**

Goodwill has been allocated to the cash generating units acquired on the merger of Požeška Banka d.d. The recoverable amount of the cash generating units is determined on the basis of profitability calculation. For the purposes of calculation, cash flow forecasts have been developed on the basis of financial projection over a time horizon of five years. The discount rate applied to determine the value in use was 11.5 percent (2015: 12.8%) and the long-term growth rate was 2 percent (2015: 2%).

The planned budgeted gross margin has been determined on the basis of past experience and the expected market development. The discount rate applied reflects the specific risks of the relevant business segment.

The Bank carries out stress tests on individual inputs used in determining the value in use, with three scenarios. The specific scenario in which the discount rate equals the used rate, while anticipated profitability is 50 percent lower as a result of lower interest and fee income and the interest and fee expenses increase simultaneously by 20 percent, and the systemic scenario uses an increase of the discount rate increases to 13.7 percent due to the worsening of the credit rating of the Republic of Croatia. There is also a mixed scenario in which the anticipated profitability is lower and the macroeconomic indicators and the credit rating of the state are worse those applied in the specific and systemic scenarios.

The test results are provided below:

	AT 31.12.2016	SPECIFIC SCENARIO	SYSTEMIC SCENARIO	MIXED SCENARIO
INVESTMENT COST	43,465	43,465	43,465	43,465
TOTAL PRESENT VALUE	82,004	47,772	66,095	38,450
LESS: IMPAIRMENT	**-**	**-**	**-**	**(5,015)**

The stress test results in the specific and systemic scenarios are positive, while the mixed scenario implies opposite assumptions in order to achieve a negative result. The test has shown that the recoverable amount of the cash generating unit exceeds its carrying amount and that no impairment should be recognised.

18. PROPERTY AND EQUIPMENT

IN HRK THOUSANDS COST OR VALUATION	LAND AND BUILDINGS	FURNITURE AND EQUIPMENT	MOTOR VEHICLES	IT EQUIPMENT	LEASEHOLD IMPROVEMENTS AND LONG-TERM LEASES	ASSETS UNDER DEVELOPMENT	TOTAL
BALANCE AT 01 JANUARY 2015	**122,215**	**45,773**	**2,965**	**32,590**	**10,156**	**-**	**213,699**
ADDITIONS	60	2,275	1,684	14	218	-	4,251
TRANSFERRED ON THE MERGER	-	153	134	-	-	-	287
DISPOSALS AND RETIREMENTS	(89)	(574)	(2,112)	-	-	-	(2,775)
BALANCE AT 31 DECEMBER 2015	**122,186**	**47,627**	**2,671**	**32,604**	**10,374**	**-**	**215,462**
ADDITIONS	16	454	-	56	104	11	641
TRANSFER TO OTHER ASSETS	(8,903)	-	-	-	-	-	(8,903)
DISPOSALS AND RETIREMENTS	(1,697)	(171)	(134)	(2,439)	-	-	(4,441)
BALANCE AT 31 DECEMBER 2016	**111,602**	**47,910**	**2,537**	**30,221**	**10,478**	**11**	**202,759**
DEPRECIATION							
BALANCE AT 1 JANUARY 2015	**48,146**	**42,775**	**2,514**	**29,203**	**8,120**	**-**	**130,758**
CHARGE FOR THE YEAR	2,325	1,063	317	1,970	495	-	6,170
TRANSFERRED ON THE MERGER	-	153	134	-	-	-	287
DISPOSALS AND RETIREMENTS	(89)	(574)	(1,761)	-	-	-	(2,424)
BALANCE AT 31 DECEMBER 2015	**50,382**	**43,417**	**1,204**	**31,173**	**8,615**	**-**	**134,791**
CHARGE FOR THE YEAR	2,296	1,338	337	1,321	523	-	5,815
TRANSFER TO OTHER ASSETS	(2,000)	-	-	-	-	-	(2,000)
DISPOSALS AND RETIREMENTS	(708)	(171)	(134)	(2,439)	-	-	(3,452)
BALANCE AT 31 DECEMBER 2016	**49,970**	**44,584**	**1,407**	**30,055**	**9,138**	**-**	**135,154**
NET BOOK VALUE							
AT 31 DECEMBER 2016	**61,632**	**3,326**	**1,130**	**166**	**1,340**	**11**	**67,605**
AT 31 DECEMBER 2015	**71,804**	**4,210**	**1,467**	**1,431**	**1,759**	**-**	**80,671**

The Bank has no tangible assets pledged as collateral for deposits for accepted deposits or other assets (2015: no tangible assets were pledged as collateral for corporate deposits).

20. OTHER ASSETS

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
FORECLOSED ASSETS	44,846	44,506
ACCRUED FEES AND COMMISSIONS	5,861	5,845
PREPAID EXPENSES	2,189	2,336
OTHER PREPAYMENTS	784	1,001
INCOME TAX RECEIVABLE	3,622	3,622
OTHER ASSETS	8,807	1,993
	66,109	**59,303**
LESS: PROVISION FOR LOAN IMPAIRMENT	(14,346)	(5,682)
	51,763	**53,621**

The provision recognised on a collective basis for A-graded other assets amounts to HRK 87 thousand and is included in the total provisions for impairment (Note 14 – Loans to customers).

Foreclosed property and equipment are not used for the purposes of the Bank and amount to HRK 36,067 thousand at 31 December 2016 (31 December 2015: HRK 44,289 thousand). In 2016, on the subsequent measurement of foreclosed assets held for sale, an impairment was recognised in the total amount of HRK 8,579 thousand (2015: -).

A part of the foreclosed assets held for sale with a net book value of HRK 11,579 thousand has been rented out under underlying lease contracts without any clauses restricting generation of future property maintenance costs (water, electricity, maintenance, etc.) until the property is sold as a whole. A portion of the foreclosed assets held for sale with a net book value of HRK 14,703 thousand has been leased out for a limited period of time, with an option to purchase the property at a pre-defined price.

Movements in the provision for potential losses on other assets are as follows:

IN HRK THOUSANDS	2016	2015
BALANCE AT 1 JANUARY	**5,682**	**5,417**
IMPAIRMENT OF OTHER ASSETS	1,245	1,381
AMOUNTS COLLECTED	(975)	(932)
EXCHANGE DIFFERENCES	(5)	3
AMOUNTS WRITTEN-OFF	(163)	(187)
SALE OF FORECLOSED ASSETS	(17)	-
IMPAIRMENT OF FORECLOSED ASSETS	8,579	-
BALANCE AT 31 DECEMBER	**14,346**	**5,682**

21. AMOUNTS DUE TO OTHER BANKS

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
DEMAND DEPOSITS, FX DENOMINATED	38,066	6,038
TERM DEPOSITS OF DOMESTIC AND FOREIGN BANKS, FX DENOMINATED	22,675	85,133
TERM DEPOSITS OF DOMESTIC BANKS, KUNA-DENOMINATED	83,005	-
	143,746	**91,171**

The interest rates on term deposits of domestic and foreign banks received in a foreign currency range from 0.10% to 0.15% (2015: from 0.30% to 1.00%). The interest rates on term deposits of domestic banks range from 0.25% to 0.55% (2015: 0.30% to 1.00%).

22. AMOUNTS DUE TO CUSTOMERS

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
RETAIL CUSTOMERS		
DEMAND DEPOSITS		
- KUNA-DENOMINATED	307,027	262,290
- FOREIGN-CURRENCY DENOMINATED	240,293	178,746
TERM DEPOSITS		
- KUNA-DENOMINATED	360,041	359,669
- FOREIGN-CURRENCY DENOMINATED	943,230	1,017,946
TOTAL RETAIL DEPOSITS	**1,850,591**	**1,818,651**
CORPORATE		
DEMAND DEPOSITS		
- KUNA-DENOMINATED	241,638	216,646
- FOREIGN-CURRENCY DENOMINATED	42,691	22,425
TERM DEPOSITS		
- KUNA-DENOMINATED	209,709	239,497
- FOREIGN-CURRENCY DENOMINATED	29,021	51,759
TOTAL LOANS TO LEGAL PERSONS	**523,059**	**530,327**
TOTAL DEPOSITS FROM CUSTOMERS	**2,373,650**	**2,348,978**

23. OTHER BORROWED FUNDS

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
BORROWINGS FROM HBOR (CROATIAN DEVELOPMENT BANK)	211,770	177,626
REPO LOANS FROM THE CNB, KUNA-DENOMINATED	30,477	-
REPO LOANS OF DOMESTIC BANKS, KUNA-DENOMINATED	75,007	-
	317,254	**177,626**

The HBOR loans are intended for extending loans to legal and natural persons in accordance with the HBOR SME, Tourist Trade and Agriculture Promotion Programme.

Repo loans comprise loans for which the Bank has pledged securities as collateral, with the obligation to repurchase them at a certain future date. In 2016, the Bank had only one repo loan arrangement entered into with the Croatian National Bank, with an interest rate of 1.80% annually, and entered into two short-term repo loans with domestic banks, with the interest rates of 0.40% and 0.65% respectively.

For all three repo loans, the Bank has pledged the bonds of the Ministry of Finance of Republic of Croatia as security.

24. OTHER LIABILITIES

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
ITEMS IN COURSE OF PAYMENT UNDER GIVEN LOANS	27,072	20,979
OTHER KUNA-DENOMINATED LIABILITIES	11,837	2,369
CURRENT TAX LIABILITY	7,334	-
LIABILITIES TO EMPLOYEES	3,158	3,353
PROVISIONS FOR TERMINATION AND SIMILAR BENEFITS TO EMPLOYEES	2,140	412
TRADE PAYABLES	2,066	3,210
ITEMS IN COURSE OF PAYMENT UNDER RECEIVED FUNDS	1,754	698
PREPAID DEPOSIT INSURANCE PREMIUMS	1,444	1,342
ITEMS IN COURSE OF SETTLEMENT	1,085	1,103
OTHER FX DENOMINATED LIABILITIES	779	26
ACCRUED FEES AND COMMISSIONS	702	824
DIVIDENDS PAYABLE	116	116
	59,487	**34,432**

25. PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES

a) Analysis

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
PROVISIONS FOR FRAME LOANS	2,760	2,978
PROVISIONS FOR GUARANTEES	488	590
PROVISIONS FOR LITIGATIONS	365	290
PROVISIONS FOR UNCOVERED LETTERS OF CREDIT	18	93
PROVISIONS FOR OTHER CONTINGENT LIABILITIES	151	125
	3,782	**4,076**

b) Movements in provisions

IN HRK THOUSANDS	2016	2015
BALANCE AT 1 JANUARY	**4,076**	**3,907**
ADDITIONAL PROVISIONS MADE WITH RESPECT TO CREDIT RISK	10,200	11,877
DECREASE IN THE BALANCE OF PROVISIONS DURING THE YEAR WITH RESPECT TO CREDIT RISK	(10,569)	(11,668)
INCREASE/(DECREASE) IN PROVISIONS FOR LITIGATIONS	75	(40)
BALANCE AT 31 DECEMBER	**3,782**	**4,076**

26. ISSUED HYBRID AND SUBORDINATED INSTRUMENTS

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	129,790	131,117
ISSUED BONDS	-	800
	129,790	**131,917**

On 22 August 2011 the Bank subscribed hybrid instruments by issuing bonds with a ticker symbol PDBA-O-188A. ISIN: HRPDBAO188A5. These are non-materialised registered bonds equivalent to HRK 10 million, issued originally in 1-euro denomination. The interest rate is fixed and amounts to 7% per annum, payable on a semi-annual basis. The principal is due on a one-off basis in 2018.

On 23 December 2013 the Bank subscribed subordinated instruments by issuing bonds with a ticker symbol PDBA-O-21CA, ISIN: HRPDBAO21CA3. These are non-materialised registered bonds equivalent to HRK 6.9 million, issued originally in 1-euro denomination. The interest rate is fixed and amounts to 6.5% per annum, payable on a semi-annual basis. The principal is due on a one-off basis in 2021.

On 29 April 2015, the Bank issued bonds with a ticker symbol PDBA-O-164A, ISIN: HR-PDBAO164A6 in the total amount in kuna countervalue of EUR 103 thousand, with the interest rate of 2.5% per year, maturing on a one-off basis on 29 April 2016, which were paid on maturity.

27. SHARE CAPITAL

The share capital consists of ordinary shares. The total number of ordinary shares in issue at the end of 2016 was 668,749 ordinary shares (2015: 668,749 ordinary shares) with a nominal value of HRK 400.00 per share.

At 31 December 2016, the Bank held 9,203 treasury shares which it carries at cost (2015: 9,203 treasury shares).

The key shareholders of the Bank at 31 December were as follows:

		2016		2015
IN HRK THOUSANDS	NUMBER OF SHARES	ORDINARY SHARES, IN%	NUMBER OF SHARES	ORDINARY SHARES, IN%
ANTONIA GORGONI	66,278	9.91	66,278	9.91
LORENZO GORGONI	66,002	9.87	66,002	9.87
ASSICURAZIONI GENERALI S.P.A.	63,791	9.54	63,791	9.54
CERERE S.P.A. TRIESTE	63,735	9.53	63,735	9.53
MILJAN TODOROVIC	55,731	8.33	55,731	8.33
SIGILFREDO MONTINARI	38,529	5.76	38,529	5.76
DARIO MONTINARI	38,526	5.76	38,526	5.76
ANDREA MONTINARI	38,515	5.76	38,515	5.76
PIERO MONTINARI	38,515	5.76	38,515	5.76
GIOVANNI SEMERARO	27,494	4.11	27,494	4.11
MIROSLAV BLAŽEV	26,011	3.89	25,509	3.81
MARIO GORGONI	20,670	3.09	20,670	3.09
OTHER SHAREHOLDERS (INDIVIDUALLY BELOW 3%)	124,952	18.69	125,454	18.77
	668,749	**100.00**	**668,749**	**100.00**

28. RESERVES

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
LEGAL RESERVES	118,687	118,686
RESERVES FOR OWN SHARES	16,830	16,830
GENERAL BANKING RISK RESERVE	5,104	5,104
NON-DISTRIBUTABLE RESERVES	**140,621**	**140,620**
CAPITAL GAINS ON TRADING IN TREASURY SHARES	4,802	4,802
FAIR VALUE RESERVE	10,864	3,374
DISTRIBUTABLE RESERVES	**15,666**	**8,176**
	156,287	**148,796**

Under the Croatian Companies Act, the Bank is required to allocate part of the net profit to a non-distributable legal reserve until the reserve funds reach 5% of the share capital or more if specified by the Bank's statute. The general banking risk reserve was allocated in accordance with the CNB regulations out of the net profits for 2006. The general banking risk reserve funds may be allocated upon the expiry of three consecutive years in which the Bank's exposure has been increasing at a rate below 15% annually. Other reserves are distributable only with the approval by the General Shareholders' Assembly.

Both the distributable and non-distributable reserves of the Bank have been determined and presented in these financial statements in accordance with Croatian regulations and decisions of the Croatian National Bank.

29. FUNDS MANAGED FOR AND ON BEHALF OF THIRD PARTIES AND CUSTODY SERVICES

The Bank manages funds on behalf of third parties, both individuals and other persons. Those funds are accounted for separately from those of the Bank. Income and expenses arising from these funds are credited and charged to third parties, and the Bank has no liabilities with respect to these transactions. The Bank charges a fee for these services.

Assets and liabilities on loans managed for and on behalf of third parties can be presented as follows:

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
ASSETS		
LOANS TO INDIVIDUALS	12,841	13,381
CORPORATE LOANS	994	1,135
CASH	600	614
TOTAL ASSETS	**14,435**	**15,130**
LIABILITIES		
FINANCIAL INSTITUTIONS	3,552	3,940
PUBLIC SECTOR	2,351	2,573
CORPORATE	8,532	8,617
TOTAL LIABILITIES	**14,435**	**15,130**

The Bank provides security custody services on behalf of third parties. The values of the instruments held in the Bank's custody are shown below:

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
VALUE OF FINANCIAL INSTRUMENTS	1,181,031	1,064,557

30. CONTINGENT LIABILITIES AND COMMITMENTS

Litigations

At 31 December 2016 there were several litigations outstanding against the Bank. Based on the Management's estimate, a provision for potential losses on the litigations has been made in the amount of HRK 365 thousand (2015: HRK 290 thousand).

Total outstanding amounts under guarantees, letters of credit and undrawn loans i.e. lending commitments at the year-end were as follows:

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
COMMITMENTS – UNDRAWN LOANS	152,235	177,928
COMMITMENTS – UNDRAWN FRAME LOANS ON TRANSACTION ACCOUNTS	135,323	129,796
GUARANTEES	48,786	59,011
FX LETTERS OF CREDIT	1,847	9,354
	338,281	**376,089**

The primary purpose of commitments and contingencies is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans.

Future minimum payments under operating leases are as follows:

IN HRK THOUSANDS	31 DECEMBER 2016	31 DECEMBER 2015
UP TO 1 YEAR	4,134	4,336
FROM 2 TO 5 YEARS	7,510	11,764
OVER 5 YEARS	463	1,067
TOTAL	**12,107**	**17,167**

Upon the expiry of the lease term, the lease agreements are renewable at the market price.

31. RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Such transactions are made in the ordinary course of business at market terms and conditions, and market interest rates. In considering each possible related party relationship, the substance of the relationship is considered, and not merely the legal form.

In 2015 the Bank acquired POBA faktor d.o.o. in a statutory merger, in which it held the entire ownership interest in the amount of HRK 4,770 thousand and which was discontinued as of 30 June 2015, and then merged into the parent.

Pursuant to the Merger Agreement, the Bank assumed all the assets and liabilities of POBA faktor d.o.o. with the effect as of 1 July 2015, which at 30 June 2015 included the following:

IN HRK THOUSANDS	31.12.2016	30.06.2015
TOTAL ASSETS	-	11,290
TOTAL NET ASSETS	-	4,398
NET PROFIT FOR THE YEAR	-	272

Transactions carried out with POBA faktor d.o.o. in 2015 are presented in the table below.

IN HRK THOUSANDS	2016	2015
INTEREST AND FEE INCOME	-	207
RENTAL COSTS	-	20
TOTAL INCOME	**-**	**227**
SERVICE COSTS	-	927
INTEREST AND SIMILAR EXPENSE	-	379
TOTAL EXPENSES	**-**	**1,306**

Transactions with other parties related with the Bank are presented the following table:

IN HRK THOUSANDS	KEY MANAGEMENT PERSONNEL AND THEIR RELATED PERSONS		SUPERVISORY BOARD	
	2016	**2015**	**2016**	**2015**
LOANS				
BALANCE AT BEGINNING OF THE YEAR	3,187	2,758	23,019	23,352
ADDITIONS	(1,071)	429	24	(333)
BALANCE AT THE END OF THE YEAR	**2,116**	**3,187**	**23,043**	**23,019**
REALISED INTEREST INCOME	106	138	1,551	1,307
DEPOSITS RECEIVED				
BALANCE AT BEGINNING OF THE YEAR	5,953	7,338	704	600
INCREASE / (DECREASE) DURING THE YEAR	(223)	(1,385)	(644)	104
BALANCE AT THE END OF THE YEAR	**5,730**	**5,953**	**60**	**704**
REALISED INTEREST EXPENSE	161	167	-	1

Management remuneration

IN HRK THOUSANDS	2016	2015
GROSS SALARIES AND OTHER SHORT-TERM BENEFITS	13,966	12,563

The Management Board consists of four members. The gross salaries and other short-term benefits comprise the total payroll costs and benefits in kind provided to the members of the Management Board, the Bank's officers holding general power of attorney as well as provisions for bonuses and fees to the Supervisory Board members.

The provisions for bonuses to the management for the year 2016 amount to HRK 1,750 thousand (no such provisions were made in 2015). The fees to the members of the Supervisory Board for the year 2016 amount to HRK 2,107 thousand (2015: HRK 1,866 thousand).

32. FINANCIAL RISK MANAGEMENT OBJECTIVES

This note provides details of the Bank's exposure to financial risks and describes the methods used by the Management to control the risk.

The Bank's operations expose it to various types of financial risks. These operations include analysing, assessing, accepting and managing a certain level of risk, or a combination of risks. Assuming risk is a fundamental feature of financial operations, with risks being inherent to the business. The Bank's aim is to achieve an appropriate balance between the risk and return, whilst minimising potential negative effects on its financial performance.

Risk management policies have been designed to identify and analyse those risks in order to define appropriate limits and controls, and to monitor those risks and limit compliance by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect any changes in its markets, products and best practices. The most significant types of financial risks to which the Bank is exposed are the credit risk, liquidity risk, market risk and operational risk. The market risk includes the currency risk, interest rate risk and equities and debt securities price risk. Limits are set for all the risk types. The methodology and models for managing the operational risk have been developed.

Credit risk

The Bank takes on exposure to credit risk, which may be defined as the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. Major changes in the economy or the status of an industry in which the portfolio is concentrated, may lead to losses not provided for at the reporting date. Therefore, the Management Board manages its exposure to credit risk with a high level of prudence. The exposure to credit risk arises primarily in respect of loans and advances, debt and other securities. Credit risk is also present in off-balance sheet financial arrangements, such as commitments to extend credit and guarantees issued. Credit risk management is the responsibility of the Credit Risk Management Division, and risk control is the responsibility of the Risk Management Division.

Credit risk is managed in accordance with policies, procedures and other internal guidelines. The Bank has defined its Credit policy as a set of measures for allocating loan funds to loan applicants with the aim of sound and prudent credit risk management, by ensuring standardised lending principles and goals and setting them as a general rule and reliable guidance in making every decision to lend. The credit policy defines the focus of considerations to be made in performing credit operations. If a proposal to extend a loan departs from the credit policy, the final decision is made by the Bank's Management Board.

The structure of loans over a certain period is defined by the Credit Policy. Loans are structured by type of customer, or groups of customers, type or group of products, by sector and industry. In addition, the policy contains limits set for individual placements in accordance with the guidelines of the Croatian National Bank. Given that loans are approved using the "four eye" principle, it is very unlikely that a loan authorised by overriding the procedures might remain undetected.

The Credit Policy defines and sets out policies and procedures for extending loans to legal persons and individuals. Credit risk is reviewed on an ongoing basis and reported on regularly to promptly identify any indication of impairment in the loan portfolio. The Bank applies prudent methods and models in the process of assessing credit risk.

Loans are classified into the following three main groupings, in accordance with the regulations of the Croatian National Bank:

- Fully recoverable (performing) loans – A Risk Group – subject to collective assessment
- Partly recoverable (substandard) loans – B Risk Group – subject to individual assessment
- Fully irrecoverable (bad) loans – C Risk Group – subject to individual assessment.

Each group can be further classified into sub-categories, and such further classification is mandatory for partly recoverable (substandard) and fully irrecoverable (bad) loans.

Loans are classified into the groupings by the criteria specified in the applicable Decision of the Croatian National Bank and the Bank's internal decisions. In assessing each individual customer, the Bank considers the credit rating of the borrower, the past debt service history and the collateral obtained for loans, guarantees and other placements.

The Bank reviews the risk assessment of its loans and advances on a quarterly basis. Based on the risk assessment and the risk groupings as defined by the Decision on the Internal Loan Classification System, the required level of provision is determined for every individual debtor impaired or type of placement. The final decision on the required level of provisions for identified potential losses is made by the Bank's Management Board.

Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and managing its positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates, and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including different types of deposits, borrowings, subordinated liabilities including deposits, borrowings and equity. Liquidity risk is continually assessed by identifying and monitoring changes in the level of funding required to meet business goals and targets set in terms of the overall Bank's strategy. In addition, the Bank holds a portfolio of liquid assets as a part of its liquidity risk management.

The Bank adjusts its business activities related to liquidity risk according to regulatory and internal policies for maintenance of liquidity reserves, by matching liabilities and assets, monitoring compliance with the externally and internally set limits, preferred liquidity ratios and contingency planning procedure. The Financial Markets Division manages liquidity reserves daily and ensures meeting customer needs in a satisfactory way.

Concentration indicators indicate the concentration in the deposit portfolio (top 100 individual and corporate depositors in the total deposits), which is regularly reported to the Bank's Management Board on a monthly level.

In addition to the regulatory requirements set out above, the Bank has the obligation to monitor the structural indicators of the liquidity and concentration levels, which have been set in the internal regulations of the Bank.

The structural liquidity level indicators reflect the correlations between certain items of assets and liabilities such as: the ratio of total loans to total deposits received; the ratio of total loans to total assets; the ratio of liquid assets to total deposits received; the ratio of total loans to total liabilities.

Market risk

The majority of available-for-sale instruments are subject to market risk, which is the risk that an instrument may be impaired as a result of future changes in market conditions. Market risks represent potential effects of external factors on the value of assets, liabilities and off-balance sheet items of the Bank. Changes in market rates imply all changes in interest rates, exchange rates, prices of financial instruments, indices or other market factors that affect the value of financial instruments. The instruments are recognised at fair value, and all changes in market conditions directly affect the revaluation reserves. The Bank manages its instruments traded on the market in response to changing market conditions.

Limits are defined in accordance with the Bank's requirements and strategy, and the senior management risk policy guidance. The exposure to market risk is formally managed within the risk limits approved by the Management Board and revised at least annually.

Key liquidity data about the liquidity positions in the local and foreign currency is provided to the Bank's Management Board and senior management on a daily basis, with a focus on the most significant fluctuations in interest and foreign exchange rates. The Financial Markets Division provides weekly reports on currency risk exposure to the Management Board. In addition, the Risk Management Division reports to the Management Board the overall currency risk exposure on a monthly basis.

In managing its market risks, the Bank resorts to various risk protection strategies. Value-at-risk (VaR) methodology is applied to the Bank's open foreign currency position to estimate the maximum potential losses on the basis of certain assumptions regarding various changes in market conditions. The methodology defines the maximum loss that the Bank may suffer with a confidence level of 99 percent based on 260 days. However, this approach does not preclude the occurrence of losses beyond the defined limits in case of major changes in market terms and conditions.

Currency risk

The Bank manages the risk of fluctuations in the relevant foreign currency exchange rates that may affect its financial position and cash flows. The currency risk is monitored on the overall balance sheet level in terms of foreign exchange open positions, as specified by applicable legislation, as well as by internal limits on a daily basis.

The currency position is monitored daily through the report on the open foreign currency positions in accordance with the CNB requirements. For the purposes of analysing the currency risk exposure, the Risk Management Division prepares regular management reports. The overall exposure by a foreign currency position is reflected in the prescribed percentages.

Interest rate risk
The interest rate risk represents the sensitivity of the Bank's financial position to movements in interest rates. Interest rate risk arises as a result of mismatched maturities or repricing of assets, liabilities and off-balance sheet instruments in a given period.

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that the interest-bearing assets and liabilities mature or reprice at different times or in differing amounts. In case of the floating rate, the assets and liabilities are also exposed to the basis risk, which is the difference in repricing characteristics of the various floating rate indices.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. The exposure to interest rate risk is monitored and measured using repricing gap analysis that reflects the sensitivity to changes in interest rates, the net interest income and economic value of equity. When market interest rates are consistent with the Bank's business strategy, risk management activities are aimed at optimising the net interest income and economic value of equity.

Interest rate risk is reported through an interest rate gap report by which the Management Board approves internally set limits for individual time horizons. The Bank's Management Board and Asset and Liability Committee control and manage the interest rate risk by involving all organisational units that operatively apply the prescribed interest rates.

Equity and debt security price risk
Equity and debt security price risk is the risk that equity and debt security prices will fluctuate, affecting the fair value of the underlying investments and other derived financial instruments. The primary exposure to equity price risk arises from the available-for-sale equity securities.

Derivative financial assets and liabilities
The Bank enters into derivative financial assets and liabilities primarily to satisfy the needs and requirements of the customers. Derivative financial assets and liabilities used by the Bank include a one-way foreign currency clause.

Operational risk
The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but excludes strategic and reputation risk.

Operational risk management falls within the area of competence of the Risk Management Division and includes collection of data, preparation of reports and analyses of the current and potential operational risk events and the underlying root causes, as well as providing information that will allow the operational risk to be managed effectively.

Operational risk events are aggregated in a single database using a web application.

According to the Basel II guidelines and EU Directives, there are three operational risk assessment methods, which are as follows:

- Basic Indicator Approach (BIA)
- Standardised Approach (SA)
- Advanced Measurement Approach (AMA).

The Bank has opted to adopt the Basic Indicator Approach (BIA).

For the purpose of ensuring independent control and analysis of the risk, the Risk Management Division monitors the operational risk exposure by reference to the defined internal by-laws and standards, collecting operational risk data (risk events, key risk indicators, sensitivity analyses), proposing measures to reduce and/or avoid operational risk, monitoring of and reporting about the Bank's operational risk profile, participating in the implementation of new products and significant changes, organising operational risk training and providing regular operational risk exposure reports to the Bank's Management Board, the Operational Risk Board and senior management.

The purpose and main principles of taking-on and managing operational risk as well as the Bank's operational risk appetite are defined in the Operational Risk Management Policy and other internal by-laws of the Bank.

For the purpose of protection against operational risk, the Bank has developed a risk map and implemented an operational risk monitoring system. Given the nature of operational risk, the controls are performed by comparing the losses against the risk assessment. The risk assessment is defined using an internal methodology or by reference to operational risk losses. Key risk indicators are monitored on an ongoing basis.

Capital management

Since 1 January 2014, credit institutions in the Republic of Croatia have been engaged in prudential calculations and reporting pursuant to Capital Requirements Regulation (EU) No. 575/2013 (CRR), Directive 2013/36/EU (CRD IV), technical standards and other relevant regulations prescribed by the European Banking Authority (EBA) and the Croatian National Bank. The Bank has successfully managed capital to cover the risks arising from its operations and meet all the capital requirements set by the Croatian National Bank and the European Banking Authority. At 31 December 2016, the total capital adequacy ratio is 14.71 percent, and the Tier 1 capital i.e. Common Equity Tier 1 (CET1) capital ratio amounts to 11.97 percent.

Based on the capital adequacy levels, the Bank meets all of the limits prescribed in Article 92 of Directive (EU) No. 575/2013 of the European Parliament and of the Council dated 26 June 2013 on prudential requirements for credit institutions and investment funds and amending Directive (EU) No. 648/2012 (EU Official Journal L 176/2013), according to which institutions must meet the following capital requirements:

(a) a Common Equity Tier 1 capital ratio of 4.5 percent;

(b) a Tier 1 capital ratio of 6 percent;

(c) a total capital ratio of 8 percent.

Furthermore, the Bank's capital includes the capital conservation buffer which, pursuant to Article 117 of the Credit Institutions Act (Official Gazette No. 159/2013) amounts to 2.5 percent, and the structural systemic risk buffer of 1.5 percent based on the Decision on the application of the structural systemic risk buffer (Official Gazette 61/2014).

Included in the Common Equity Tier 1 capital are the share capital, the share premium, accumulated other comprehensive income, other and general banking risk reserve funds. Items deducted from the capital are accumulated losses, intangible assets and purchased own (treasury) shares.

Supplementary (Tier 2) capital items include debt securities issued by the Bank, specifically, subordinated bonds in the amount of HRK 52,002 thousand (2015: HRK 52,764 thousand) as well as issued hybrid bonds in the amount of HRK 24,793 thousand (2015: HRK 40,349 thousand).

IN HRK THOUSANDS	2016	2015
REGULATORY CAPITAL		
CORE TIER 1 CAPITAL	334,962	327,047
COMMON EQUITY TIER 1 CAPITAL	334,962	327,047
TIER 2 CAPITAL	76,794	93,114
TOTAL REGULATORY CAPITAL	**411,756**	**420,161**
CAPITAL ADEQUACY RATIO IN %	**14.71%**	**16.06%**
MINIMUM CAPITAL ADEQUACY RATIO IN %	**8.00%**	**8.00%**

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions, i.e. an exit price regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability that market participants would consider when pricing the asset or liability at the measurement date.

Furthermore, for the purposes of financial reporting, fair value measurements were classified into Level 1, Level 2 or Level 3 inputs, by reference to the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement, which are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

Fair value of financial assets other than those at fair value

The tables below analyse the carrying amounts and fair values of the financial assets and liabilities not carried at fair value in the Bank's statement of financial position.

	CARRYING AMOUNT		FAIR VALUE	
	31 DECEMBER 2016	31 DECEMBER 2015	31 DECEMBER 2016	31 DECEMBER 2015
FINANCIAL ASSETS				
BALANCES WITH OTHER BANKS	29,641	87,590	29,671	87,590
LOANS TO CUSTOMERS	1,884,779	1,872,306	1,886,216	1,876,807
FINANCIAL ASSETS HELD TO MATURITY	-	38,573	-	38,484
FINANCIAL LIABILITIES				
AMOUNTS DUE TO OTHER BANKS	143,746	91,171	143,744	91,171
AMOUNTS DUE TO CUSTOMERS	2,373,650	2,348,978	2,384,245	2,352,926
OTHER BORROWED FUNDS	317,254	177,626	317,254	177,626

Placements with other banks include deposits with and loans to other banks. Since these are short-term assets that are highly marketable and liquid, it has been estimated that their carrying amounts and fair values do not differ.

Loans to customers are recognised in the statement of financial position at amortised cost. The fair values of amounts utilised under approved overdrafts on current accounts and loans granted at a variable interest rate have been estimated to approximate the carrying amounts. The fair value of loans granted at fixed interest rates is determined as the present value of expected future cash flows, discounted by applying the average interest rate of Croatian banks (on new loans) for the appropriate type of loan. The fair value of loans for which provisions for impairment are recognised is determined on a net basis as the amount of loans net of provisions.

Amounts due to banks include short-term deposits accepted from other banks. Since these are short-term liabilities that are highly marketable and liquid, it has been estimated that their carrying amounts and fair values do not differ.

Amounts due to customers include demand and term deposits of individuals and legal persons (i.e. retail and corporate deposits). The fair value of demand deposits, where the fair value represents the amount payable at the reporting date, and of variable-rate term deposits is estimated to approximate the carrying amounts. The fair value of fixed-rate terms deposit has been determined as the future cash flows discounted by applying the average interest rate of Croatian banks for new deposits for the appropriate type of deposits.

Other borrowed funds comprise mainly long-term loans from HBOR and, to a lesser extent, short-term loans received, with their carrying amounts estimated not to differ significantly from their fair values.

The following table provides an analysis of financial instruments measured subsequently at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

2016 IN HRK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS AVAILABLE FOR SALE				
EQUITY SECURITIES	397,924	-	18,388	416,312
DEBT SECURITIES	499,956	2,058	44,280	546,294
TOTAL	**897,880**	**2,058**	**62,667**	**962,606**

2015 IN HRK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS AVAILABLE FOR SALE				
EQUITY SECURITIES	184,637	-	16,169	200,806
DEBT SECURITIES	258,352	-	10,002	268,354
TOTAL	**442,989**	**-**	**26,171**	**469,160**

The Level 3 fair value measurements include the securities of companies Bilokalnik d.d., Industrogradnja d.d., Spin Valis d.d., HROK d.o.o., Central Clearing and Depository Company Inc., Tržište novca d.d., S.W.I.F.T Belgium, Centralna depozitarna agencija ad Podgorica, Franck d.d., Oroplet d.d. in bankruptcy, Zavarovalnica Sava, VISA Inc, Treasury Bills of the Republic of Croatia and Atlas banka a.d., Podgorica, which are carried at the model or cost.

Level 2 fair value measurements include debt securities of Privatbank Commercial Bank PJSCU, and Level 3 debt securities include those of Hrvatska pošta d.d., Jadrolinija d.d. and Jadran Galenski labaratorij d.d., which are measured at the model or cost. During the year, the bonds of Privatbank Commercial Bank PJSCU were reclassified from Level 1 to Level 2 fair value measurements, whereas the bonds of Hrvatska pošta d.d. and Jadrolinija d.d. were reclassified from Level 1 to Level 3. As regards equity securities, the shares of the Zagreb Stock Exchange were reclassified from Level 3 to Level 1.

Fair value measurement

FINANCIAL ASSETS AND FINANCIAL LIABILITIES	FAIR VALUE AT (IN HRK'000)		FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)
	31.12.2016	31.12.2015			
EQUITY SECURITIES	397,924	184,637	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	N/A
EQUITY SECURITIES	18,388	16,169	LEVEL 3	VALUATION BASED ON COMPANY VALUE ESTIMATES (DCF METHOD, MARKET MULTIPLIERS METHOD, MARKET VALUE METHOD)	DISCOUNT RATE 7.9% – 10.4% LONG-TERM GROWTH RATE 2% – 3%
TOTAL EQUITY SECURITIES:	**416,312**	**200,806**			
DEBT SECURITIES	499,956	258,352	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	N/A
DEBT SECURITIES	2,058	-	LEVEL 2	VALUATION ACCORDING TO THE SIMILAR ASSETS (TREASURY BILLS AND COMMERCIAL BILLS ARE ADJUSTED TO PRICES FROM THE MOST RECENT AUCTION OF TREASURY BILLS)	N/A
DEBT SECURITIES	44,280	10,002	LEVEL 3	VALUATION BY USING THE EFFECTIVE INTEREST RATE (NO PRICE AND/OR MARKET AVAILABLE FOR THESE SECURITIES, ILLIQUID SECURITIES)	N/A
TOTAL DEBT SECURITIES:	**546,294**	**268,354**			
TOTAL SECURITIES	**962,606**	**469,160**			

34. INTEREST RATE RISK

The tables below provide the Bank's interest rate sensitivity position at 31 December 2016 and 2015 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of other items.

IN HRK THOUSANDS AT 31 DECEMBER 2016	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON-INTEREST BEARING	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	223,653	223,653
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	188,116	188,116
BALANCES WITH OTHER BANKS	5,500	24,141	-	-	-	29,641
LOANS TO CUSTOMERS	1,251,396	189,441	330,960	93,013	19,969	1,884,779
FINANCIAL ASSETS AVAILABLE FOR SALE	2,253	1,881	117,185	424,975	416,312	962,606
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	-	-	-
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	-	-
INTANGIBLE ASSETS	-	-	-	-	45,281	45,281
PROPERTY AND EQUIPMENT	-	-	-	-	67,605	67,605
DEFERRED TAX ASSETS	-	-	-	-	1,138	1,138
OTHER ASSETS	-	-	-	-	51,763	51,763
TOTAL ASSETS	**1,259,149**	**215,463**	**448,145**	**517,988**	**1,013,837**	**3,454,582**
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	128,629	15,117	-	-	-	143,746
AMOUNTS DUE TO CUSTOMERS	988,289	299,663	764,455	321,179	64	2,373,650
OTHER BORROWED FUNDS	78,269	23,432	22,448	193,105	-	317,254
OTHER LIABILITIES	-	-	-	-	59,487	59,487
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	3,782	3,782
HYBRID INSTRUMENTS ISSUED	-	1,796	57	127,937	-	129,790
TOTAL LIABILITIES	**1,195,187**	**340,008**	**786,960**	**642,221**	**63,333**	**3,027,709**
EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	156,287	156,287
PROFIT FOR THE YEAR	-	-	-	-	26,032	26,032
RETAINED EARNINGS/ (ACCUMULATED LOSSES)	-	-	-	-	(14,879)	(14,879)
TOTAL SHAREHOLDERS' EQUITY	**-**	**-**	**-**	**-**	**426,873**	**426,873**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,195,187**	**340,008**	**786,960**	**642,221**	**490,206**	**3,454,582**
NET INTEREST EXPOSURE	**63,962**	**(124,545)**	**(338,815)**	**(124,233)**	**523,631**	**-**

IN HRK THOUSANDS AT 31 DECEMBER 2015	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON-INTEREST BEARING	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	320,609	320,609
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	206,024	206,024
BALANCES WITH OTHER BANKS	64,634	22,956	-	-	-	87,590
LOANS TO CUSTOMERS	1,546,007	148,144	104,156	71,083	2,916	1,872,306
FINANCIAL ASSETS AVAILABLE FOR SALE	9,986	1,473	9,668	247,226	200,807	469,160
FINANCIAL ASSETS HELD TO MATURITY	652	-	37,921	-	-	38,573
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	-	-
INTANGIBLE ASSETS	-	-	-	-	46,785	46,785
PROPERTY AND EQUIPMENT	-	-	-	-	80,671	80,671
DEFERRED TAX ASSETS	-	-	-	-	6,210	6,210
OTHER ASSETS	-	-	-	-	53,621	53,621
TOTAL ASSETS	**1,621,279**	**172,573**	**151,745**	**318,309**	**917,643**	**3,181,549**
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	69,217	21,954	-	-	-	91,171
AMOUNTS DUE TO CUSTOMERS	920,687	314,420	921,415	192,456	-	2,348,978
OTHER BORROWED FUNDS	4,545	24,321	37,957	110,803	-	177,626
OTHER LIABILITIES	-	-	-	-	34,432	34,432
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	-	-	-	-	4,076	4,076
HYBRID INSTRUMENTS ISSUED	-	1,906	884	129,126	-	131,916
TOTAL LIABILITIES	**994,449**	**362,601**	**960,256**	**432,385**	**38,508**	**2,788,199**
EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	148,796	148,796
PROFIT FOR THE YEAR	-	-	-	-	3,301	3,301
RETAINED EARNINGS/ (ACCUMULATED LOSSES)					(18,180)	(18,180)
TOTAL SHAREHOLDERS' EQUITY	**-**	**-**	**-**	**-**	**393,350**	**393,350**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**994,449**	**362,601**	**960,256**	**432,385**	**431,858**	**3,181,549**
NET INTEREST EXPOSURE	**626,830**	**(190,028)**	**(808,511)**	**(114,076)**	**485,785**	**-**

In 2016, the weighted effective interest rates on loans to customers stood at 6.45% (2015: 6.87%).

In 2016, the weighted effective interest rates on deposits received from customers stood at 1.47% (2015: 2.03%).

The table below presents the sensitivity of the Bank's assets and liabilities at variable interest rates to changes in the interest rates. The growth assumptions were derived from the actual growth or decline in the interest rates in 2016 and 2015. A change in the interest rates has a direct impact on the net interest income. By applying the same percentages to simulate a decline in interest rates, the result would be an interest expense in the same amount.

IN HRK THOUSANDS	ASSUMED INCREASE IN INTEREST RATE	IMPACT ON THE 2016 PROFIT OR LOSS	IMPACT ON THE 2015 PROFIT OR LOSS
ASSETS	5%, RELATIVE	3,120	4,074
LIABILITIES	5% RELATIVE	(829)	(798)
IMPACT ON THE NET INTEREST INCOME		**2,291**	**3,276**

35. CURRENCY RISK

The Bank manages its exposure to currency risk through a variety of measures, including the use of a currency clause, which has the same effect as denominating HRK assets in other currencies.

IN HRK THOUSANDS AT 31 DECEMBER 2016	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	33,442	31,813	18,973	84,228	139,425	223,653
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	188,116	188,116
BALANCES WITH OTHER BANKS	24,141	-	-	24,141	5,500	29,641
LOANS TO CUSTOMERS	961,871	8,040	-	969,911	914,868	1,884,779
FINANCIAL ASSETS AVAILABLE FOR SALE	391,060	18,252	10,724	420,036	542,570	962,606
FINANCIAL ASSETS HELD TO MATURITY	-	-	-	-	-	-
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	-	-
INTANGIBLE ASSETS	-	-	-	-	45,281	74,508
PROPERTY AND EQUIPMENT	-	-	-	-	67,605	67,605
DEFERRED TAX ASSETS	-	-	-	-	1,138	1,138
OTHER ASSETS	35	-	-	35	51,763	51,763
TOTAL ASSETS	**1,410,549**	**58,105**	**29,697**	**1,498,351**	**1,956,231**	**3,454,582**
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	33,504	27,238	-	60,742	83,004	143,746
AMOUNTS DUE TO CUSTOMERS	1,209,205	32,092	26,804	1,268,101	1,105,549	2,373,650
OTHER BORROWED FUNDS	40,274	-	-	40,274	276,980	317,254
OTHER LIABILITIES	2,448	22	17	2,487	57,000	59,487
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	396	27	-	423	3,359	3,782
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	129,790	-	-	129,790	-	129,790
TOTAL LIABILITIES	**1,415,617**	**59,379**	**26,821**	**1,501,817**	**1,525,892**	**3,027,709**
EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	156,287	156,287
PROFIT FOR THE YEAR	-	-	-	-	26,032	26,032
RETAINED EARNINGS / (ACCUMULATED LOSSES)	-	-	-	-	(14,879)	(14,879)
TOTAL SHAREHOLDERS' EQUITY	**-**	**-**	**-**	**-**	**26,032**	**426,873**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,415,617**	**59,379**	**26,821**	**1,501,817**	**1,952,765**	**3,454,582**
NET FX EXPOSURE	**(5,068)**	**(1,274)**	**2,876**	**(3,466)**	**3,466**	**-**

IN HRK THOUSANDS AT 31 DECEMBER 2015	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	94,439	14,957	25,826	135,222	185,387	320,609
BALANCES WITH THE CROATIAN NATIONAL BANK	22,623	-	-	22,623	183,401	206,024
BALANCES WITH OTHER BANKS	52,843	1,395	-	54,238	33,352	87,590
LOANS TO CUSTOMERS	1,041,957	7,850	-	1,049,807	822,499	1,872,306
FINANCIAL ASSETS AVAILABLE FOR SALE	198,895	31,403	1,713	232,011	237,149	469,160
FINANCIAL ASSETS HELD TO MATURITY	38,573	-	-	38,573	-	38,573
INVESTMENTS IN SUBSIDIARIES	-	-	-	-	-	-
INTANGIBLE ASSETS	-	-	-	-	46,785	46,785
PROPERTY AND EQUIPMENT	-	-	-	-	80,671	80,671
DEFERRED TAX ASSETS	-	-	-	-	6,210	6,210
OTHER ASSETS	22	-	-	22	53,599	53,621
TOTAL ASSETS	**1,449,352**	**55,605**	**27,539**	**1,532,496**	**1,649,053**	**3,181,549**
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	69,545	21,626	-	91,171	-	91,171
AMOUNTS DUE TO CUSTOMERS	1,227,530	33,755	23,762	1,285,047	1,063,931	2,348,978
OTHER BORROWED FUNDS	25,983	-	-	25,983	151,643	177,626
OTHER LIABILITIES	777	17	19	813	33,619	34,432
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	335	74	-	409	3,667	4,076
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	131,916	-	-	131,916	-	131,916
TOTAL LIABILITIES	**1,456,086**	**55,472**	**23,781**	**1,535,339**	**1,252,860**	**2,788,199**
EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	148,796	148,796
PROFIT FOR THE YEAR	-	-	-	-	3,301	3,301
RETAINED EARNINGS / (ACCUMULATED LOSSES)	-	-	-	-	(18,180)	(18,180)
TOTAL SHAREHOLDERS' EQUITY	**-**	**-**	**-**	**-**	**397,900**	**385,286**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,456,086**	**55,472**	**23,781**	**1,535,339**	**1,646,210**	**3,181,549**
NET FX EXPOSURE	**(6,734)**	**133**	**3,758**	**(2,843)**	**2,843**	**-**

The table below details the sensitivity of the Bank's net assets to an upward change of the mid-point exchange rate of the CNB i.e. an increase in the relevant exchange rate and its impact on profit or loss, showing a summary amount of the simplified increase in all currencies by 2%. By applying the same assumed percentage to a decrease in the mid-point exchange rate of the CNB, there would be the same but opposite impact on profit or loss by currency on a net principle i.e. the sum of the effects for all currencies would result in an expense for 2016 and an income for 2016. The change in the interest rates would be reflected through the income statement as foreign exchange gains or losses.

CURRENCY AT 31 DECEMBER 2016	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	IMPACT ON PROFIT OR LOSS	IMPACT ON PROFIT OR LOSS	IMPACT ON PROFIT OR LOSS
IN HRK THOUSANDS		ASSETS	LIABILITIES	NET
ASSETS	2.00%	29,967	-	29,967
LIABILITIES	2.00%	-	30,036	30,036
NET ASSETS / (LIABILITIES)		**29,967**	**30,036**	**(69)**

CURRENCY AT 31 DECEMBER 2015 YEAR	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	IMPACT ON PROFIT OR LOSS	IMPACT ON PROFIT OR LOSS	IMPACT ON PROFIT OR LOSS
IN HRK THOUSANDS		ASSETS	LIABILITIES	NET
ASSETS	2.00%	30,421	-	30,421
LIABILITIES	2.00%	-	30,707	30,707
NET ASSETS / (LIABILITIES)		**30,421**	**30,707**	**(286)**

36. LIQUIDITY RISK

IN HRK THOUSANDS AT 31 DECEMBER 2016	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 3 YEARS	OVER 3 YEARS	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	223,653	-	-	-	-	223,653
BALANCES WITH THE CROATIAN NATIONAL BANK	188,116	-	-	-	-	188,116
BALANCES WITH OTHER BANKS	5,500	24,141	-	-	-	29,641
LOANS TO CUSTOMERS	247,425	252,171	604,677	334,630	445,876	1,884,779
FINANCIAL ASSETS AVAILABLE FOR SALE	418,565	1,881	117,184	191,609	233,367	962,606
FINANCIAL ASSETS	**1,083,259**	**278,193**	**721,861**	**526,239**	**679,243**	**3,288,795**
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	128,629	15,117	-	-	-	143,746
AMOUNTS DUE TO CUSTOMERS	986,275	300,494	765,696	303,262	17,923	2,373,650
OTHER BORROWED FUNDS	78,269	23,432	22,448	52,605	140,500	317,254
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	1,796	57	75,680	52,257	129,790
FINANCIAL LIABILITIES	**1,193,173**	**340,839**	**788,201**	**431,547**	**210,680**	**2,964,440**
CUMULATIVE GAP	**(109,914)**	**(62,646)**	**(66,340)**	**94,692**	**468,563**	**324,355**

IN HRK THOUSANDS AT 31 DECEMBER 2015	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 3 YEARS	OVER 3 YEARS	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	320,609	-	-	-	-	320,609
BALANCES WITH THE CROATIAN NATIONAL BANK	206,024	-	-	-	-	206,024
BALANCES WITH OTHER BANKS	64,634	22,956	-	-	-	87,590
LOANS TO CUSTOMERS	379,112	255,136	463,480	365,369	409,209	1,872,306
FINANCIAL ASSETS AVAILABLE FOR SALE	201,547	1,507	18,880	113,719	133,507	469,160
FINANCIAL ASSETS HELD TO MATURITY	652	-	37,921	-	-	38,573
FINANCIAL ASSETS	**1,172,578**	**279,599**	**520,281**	**479,088**	**542,716**	**2,994,262**
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	69,217	21,954	-	-	-	91,171
AMOUNTS DUE TO CUSTOMERS	917,161	314,704	922,583	179,354	15,176	2,348,978
OTHER BORROWED FUNDS	4,545	24,322	37,956	53,239	57,564	177,626
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	1,907	884	76,360	52,765	131,916
FINANCIAL LIABILITIES	**990,923**	**362,887**	**961,423**	**308,953**	**125,505**	**2,749,691**
CUMULATIVE GAP	**181,655**	**98,367**	**(342,775)**	**(172,640)**	**244,571**	**244,571**

37. CREDIT RISK

a) Overall exposure to credit risk – on-balance sheet and off-balance sheet

IN HRK THOUSANDS AT 31 DECEMBER 2016	GROSS PLACEMENTS	SPECIFIC PROVISIONS (INDIVIDUAL ASSESSMENT)	PORTFOLIO-BASED PROVISIONS (COLLECTIVE ASSESSMENT)	NET AMOUNT
A. BALANCE SHEET EXPOSURE				
BALANCES WITH THE CROATIAN NATIONAL BANK	188,116	-	-	188,116
BALANCES WITH OTHER BANKS	29,641	-	-	29,641
ASSETS AVAILABLE FOR SALE	969,432	(6,826)	-	962,606
LOANS TO CUSTOMERS				
- FULLY RECOVERABLE (PERFORMING)	1,742,049	-	(18,938)	1,723,111
- PARTLY RECOVERABLE (SUBSTANDARD)	225,427	(63,759)	-	161,668
- FULLY IRRECOVERABLE (BAD)	154,759	(154,759)	-	-
TOTAL BALANCE SHEET EXPOSURE	**3,309,424**	**(225,344)**	**(18,938)**	**3,065,142**
B. OFF-BALANCE SHEET EXPOSURE				
CLIENTS				
- FULLY RECOVERABLE (PERFORMING)	338,166	-	(3,382)	334,784
- PARTLY RECOVERABLE (SUBSTANDARD)	110	(30)	-	80
- FULLY IRRECOVERABLE (BAD)	5	(5)	-	-
TOTAL OFF-BALANCE SHEET EXPOSURE	338,281	(35)	(3,382)	334,864
TOTAL EXPOSURE (A+B)	**3,647,705**	**(225,379)**	**(22,320)**	**3,400,006**

IN HRK THOUSANDS AT 31 DECEMBER 2015	GROSS PLACEMENTS	SPECIFIC PROVISIONS (INDIVIDUAL ASSESSMENT)	PORTFOLIO-BASED PROVISIONS (COLLECTIVE ASSESSMENT)	NET AMOUNT
A. BALANCE SHEET EXPOSURE				
BALANCES WITH THE CROATIAN NATIONAL BANK	206,024	-	-	206,024
BALANCES WITH OTHER BANKS	87,590	-	-	87,590
ASSETS AVAILABLE FOR SALE	458,959	(1,226)	-	457,733
HELD-TO-MATURITY ASSETS	38,573	-	-	38,573
LOANS TO CUSTOMERS				
- FULLY RECOVERABLE (PERFORMING)	1,687,663	-	(22,240)	1,665,423
- PARTLY RECOVERABLE (SUBSTANDARD)	272,519	(65,636)	-	206,883
- FULLY IRRECOVERABLE (BAD)	150,403	(150,403)	-	-
TOTAL BALANCE SHEET EXPOSURE	**2,901,731**	**(217,265)**	**(22,240)**	**2,662,226**
B. OFF-BALANCE SHEET EXPOSURE				
CLIENTS				
- FULLY RECOVERABLE (PERFORMING)	375,469	-	(3,755)	371,714
- PARTLY RECOVERABLE (SUBSTANDARD)	603	(14)	-	589
- FULLY IRRECOVERABLE (BAD)	17	(17)	-	-
TOTAL OFF-BALANCE SHEET EXPOSURE	**376,089**	**(31)**	**(3,755)**	**372,303**
TOTAL EXPOSURE (A+B)	**3,277,820**	**(217,296)**	**(25,995)**	**3,034,529**

b) Outstanding receivables

Outstanding receivables comprise amounts with unimpaired principal, determined on the level of the individual placement, including outstanding interest. Other receivables past due comprise outstanding balances, the collection of which is still in progress.

IN HRK THOUSANDS AT 31 DECEMBER 2016	PAST DUE UP TO 30 DAYS	PAST DUE FROM 31 TO 90 DAYS	PAST DUE FROM 91 TO 180 DAYS	PAST DUE FROM 181 TO 365 DAYS	PAST DUE BETWEEN 1 AND 2 YEARS	PAST DUE BETWEEN 2 AND 3 YEARS	PAST DUE BEYOND 3 YEARS
LOANS TO CUSTOMERS							
INDIVIDUALS	5,105	752	955	1,727	4,235	3,294	45,848
CORPORATE CUSTOMERS	9,335	2,223	9,715	13,763	15,053	15,910	144,454
PUBLIC AND OTHER SECTORS	233	10	1	-	-	-	355
OTHER RECEIVABLES PAST DUE	3,379	1,403	2,290	359	458	632	6,054
TOTAL PAST DUE UNCOLLECTED RECEIVABLES	**18,052**	**4,388**	**12,961**	**15,849**	**19,746**	**19,836**	**196,711**

IN HRK THOUSANDS AT 31 DECEMBER 2015	PAST DUE UP TO 30 DAYS	PAST DUE FROM 31 TO 90 DAYS	PAST DUE FROM 91 TO 180 DAYS	PAST DUE FROM 181 TO 365 DAYS	PAST DUE BETWEEN 1 AND 2 YEARS	PAST DUE BETWEEN 2 AND 3 YEARS	PAST DUE BEYOND 3 YEARS
LOANS TO CUSTOMERS							
INDIVIDUALS	5,512	1,080	1,983	2,682	4,046	3,345	44,558
CORPORATE CUSTOMERS	9,255	1,938	5,193	6,279	21,877	6,894	180,933
PUBLIC AND OTHER SECTORS	202	5	1	-	2	3	356
OTHER RECEIVABLES PAST DUE	1,527	231	7,279	164	726	901	5,686
TOTAL PAST DUE RECEIVABLES	**16,496**	**3,255**	**14,456**	**9,124**	**26,651**	**11,142**	**231,533**

c) Coverage by collateral

IN HRK THOUSANDS AT 31 DECEMBER 2016	DEPOSIT	MORTGAGE ON RESIDENTIAL PROPERTY	MORTGAGE ON COMMERCIAL PROPERTY	OTHER SECURITY INSTRUMENTS	NO INSTRUMENT OF COLLATERAL
A. BALANCE SHEET EXPOSURE					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	188,116
BALANCES WITH OTHER BANKS	-	-	-	5,742	23,899
LOANS TO CUSTOMERS	34,023	169,796	422,068	96,132	1,162,760
ASSETS AVAILABLE FOR SALE	-	-	-	-	962,606
TOTAL BALANCE SHEET EXPOSURE	**34,023**	**169,796**	**422,068**	**101,874**	**2,337,381**
B. OFF-BALANCE SHEET EXPOSURE					
CLIENTS	11,102	4,267	13,405	-	309,506
TOTAL OFF-BALANCE SHEET EXPOSURE	**11,102**	**4,267**	**13,405**	**-**	**309,506**
TOTAL EXPOSURE (A+B)	**45,125**	**174,063**	**435,473**	**101,874**	**2,646,887**

IN HRK THOUSANDS AT 31 DECEMBER 2015	DEPOSIT	MORTGAGE ON RESIDENTIAL PROPERTY	MORTGAGE ON COMMERCIAL PROPERTY	OTHER SECURITY INSTRUMENTS	NO INSTRUMENT OF COLLATERAL
A. BALANCE SHEET EXPOSURE					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	206,024
BALANCES WITH OTHER BANKS	-	-	-	31,899	55,691
LOANS TO CUSTOMERS	25,151	164,308	382,233	74,867	1,225,747
ASSETS AVAILABLE FOR SALE	-	-	-	-	469,160
HELD-TO-MATURITY ASSETS	-	-	-	-	38,573
TOTAL BALANCE SHEET EXPOSURE	**25,151**	**164,308**	**382,233**	**106,766**	**1,995,195**
B. OFF-BALANCE SHEET EXPOSURE					
CLIENTS	7,212	4,390	21,124	132	343,231
TOTAL OFF-BALANCE SHEET EXPOSURE	**7,212**	**4,390**	**21,124**	**132**	**343,231**
TOTAL EXPOSURE (A+B)	**32,363**	**168,698**	**403,357**	**106,898**	**2,338,426**

d) Provision ratio in loans to customers

	2016		2015	
IN HRK THOUSANDS	LOANS TO CUSTOMERS (%)	PROVISION RATIO IN LOANS (%)	LOANS TO CUSTOMERS (%)	PROVISION RATIO IN LOANS (%)
FULLY RECOVERABLE LOANS (PERFORMING)	82.09	1.09	79.96	1.32
PARTLY RECOVERABLE (SUBSTANDARD)	10.62	28.28	12.91	24.08
FULLY IRRECOVERABLE (BAD)	7.29	100.0	7.13	100.00
TOTAL	**100.00**		**100.00**	

38. RISK OF PRICE FLUCTUATIONS

Equity and debt financial instrument price risk represents the sensitivity of the portfolio of available-for-sale securities to fluctuations in market prices, which affects the profit or loss as well as the revaluation reserve within the Bank's equity.

IN HRK THOUSANDS	ASSUMED PRICE CHANGE	IMPACT OF PRICE INCREASE ON REVALUATION RESERVES
AT 31 DECEMBER 2016	**3%**	**28,878**
AT 31 DECEMBER 2015	**3%**	**14,075**

39. CONCENTRATIONS OF ASSETS AND LIABILITIES

There is a significant concentration of the Bank's assets to the Republic of Croatia, which is analysed as follows:

IN HRK THOUSANDS	2016	2015
BONDS OF THE REPUBLIC OF CROATIA	229,171	132,351
OBLIGATORY RESERVES AND TREASURY NOTES WITH THE CROATIAN NATIONAL BANK	188,116	206,024
GIRO ACCOUNT WITH THE CROATIAN NATIONAL BANK	110,771	148,803
TREASURY BILLS OF THE REPUBLIC OF CROATIA	22,478	-
OTHER CASH RESERVE FUNDS	10,000	10,000
OTHER ASSETS	5,676	7,276
DEPOSITS RECEIVED	(40)	(41)
CURRENT TAX LIABILITY	(7,334)	-
	558,838	**504,413**

The Bank's indirect exposure to the Republic of Croatia as at 31 December in respect of loans and other exposures is as follows:

IN HRK THOUSANDS	2016	2015
OTHER LOANS	22,982	21,499
CUSTOMER LOANS GUARANTEED BY THE STATE	21,487	19,115
STATE AGENCY FOR DEPOSIT INSURANCE AND BANK REHABILITATION	(1,444)	(1,342)
DEPOSITS RECEIVED	(27,905)	(76,591)
OTHER LIABILITIES	(34,892)	(1,447)
	(231,542)	**(216,468)**

40. EVENTS AFTER THE BALANCE SHEET DATE

In 2017, as of the date of approval of these financial statements, the credit rating of a group of debtors representing individually a significant exposure for the Bank deteriorated. Based on the regular assessment of the quality of the placements and given that the future cash flows are assessed by reference to the value of the underlying instruments of collateral, which are sufficient to cover the contractually agreed amount, the Bank expects the entire amount to be recovered.

41. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Management Board on 26 April 2017 and were signed on its behalf by:

JULIO KURUC	DAVORKA JAKIR	DANIEL UNGER	GORAN VARAT
PRESIDENT OF THE MANAGEMENT BOARD	MEMBER OF THE MANAGEMENT BOARD	MEMBER OF THE MANAGEMENT BOARD	MEMBER OF THE MANAGEMENT BOARD

ABOUT THE BANK

BANK'S MANAGEMENT AND ORGANISATIONAL STRUCTURE

The Bank's operations are supervised by the Supervisory Board and managed by the Management Board.

Supervisory Board

Miljan Todorovic, Chairman
Sigilfredo Montinari, Deputy Chairman
Maurizio Dallocchio, Member
Filippo Disertori, Member
Antonio Moniaci, Member
Dario Montinari, Member
Dolly Predovic, Member

Management Board

Julio Kuruc, President
Davorka Jakir, Member
Daniel Unger, Member
Goran Varat, Member

Chief Executive Officer

Moreno Marson

Units

Internal Audit Unit – Krunoslav Vnučec
Risk Control Unit – Vesna Laloš
Compliance Unit – Mario Brajnić
Head of Information System Security – Vladimir Vojvodić
Risk Management Unit – Renata Vinković
Legal Affairs – Krunoslav Grošić
Administration and HR Management Unit – Božana Kovačević
Accounting and Reporting Unit – Željka Artner Pavković

Divisions/Departments

Financial Markets Division – Goran Varat
Corporate Customers Division – Daniel Unger
Retail Customers Division – Sanda Fuček Šanjić
Payment & Back Office Division – Snježana Pobi
Development Division – Sanda Fuček Šanjić
Operations & Support Department – Marko Žigmund

Legend

Commercial Centre

• Branches

RETAIL CENTRES

Commercial Centre Zagreb

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Zagreb, Trg Petra Preradovića 3,
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Commercial Centre Koprivnica

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tel. 072 655 242, fax. 072 655 239

Koprivnica, Trg Eugena Kumičića 11,
tel. 072 655 330, fax. 072 655 339

Koprivnica, Ivana Meštrovića bb,
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Gola, Trg kardinala A. Stepinca 6b,
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Đelekovec, P. Kvakana bb,
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Legrad, Trg Svetog Trojstva bb,
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Commercial Centre Bjelovar

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Grubišno Polje, 77. samostalnog bataljuna ZNG 1,
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Veliki Grđevac, Kralja Tomislava 26,
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Križevci, I. Z. Dijankovečkog 2,
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Commercial Centre Požega

Požega, Republike Hrvatske 1b,
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Pleternica, Ivana Šveara 4,
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Kutjevo, Kralja Tomislava 2,
tel. 072 655 780, fax. 072 655 789

Osijek, Kapucinska 38,
tel. 072 655 790, fax. 072 655 799

Commercial Centre Rijeka

Rijeka, Ivana Zajca 18,
tel. 072 655 660, fax. 072 655 669

Commercial Centre Split

Split, Ulica slobode 33,
tel. 072 655 630, fax. 072 655 639

Zadar, Stjepana Radića 2f,
tel. 072 655 650, fax. 072 655 659

Commercial Centre Varaždin

Varaždin, Trg slobode 2,
tel. 072 655 600, fax. 072 655 609

Ludbreg, Petra Zrinskog 32,
tel. 072 655 620, fax. 072 655 629

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info@poba.hr

APPENDIX 1
SUPPLEMENTARY REPORTS
FOR THE CROATIAN NATIONAL BANK

Pursuant to the Croatian Accounting Act, the Croatian National Bank adopted the Decision on Structure and Contents of Annual Financial Statements of Banks (Official Gazette No. 62/08). Set out in the tables below are the financial statements prepared in accordance with the Regulation.

PROFIT AND LOSS ACCOUNT

		2016 UNAUDITED HRK 000	2015 UNAUDITED HRK 000
1	INTEREST INCOME	148,815	147,239
2	INTEREST EXPENSE	(54,756)	(64,386)
3	**NET INTEREST INCOME**	**94,059**	**82,853**
4	FEE AND COMMISSION INCOME	37,702	38,250
5	FEE AND COMMISSION EXPENSES	(13,710)	(14,253)
6	**NET FEE AND COMMISSION INCOME**	**23,992**	**23,997**
7	GAINS/(LOSSES) ON INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	-	-
8	TRADING GAINS/(LOSSES)	5,481	6,255
9	GAINS/(LOSSES) ON EMBEDDED DERIVATIVES	-	-
10	GAINS / (LOSSES) ON ASSETS AT FVTPL NOT ACTIVELY TRADED	-	-
11	GAINS / (LOSSES) ON AFS ASSETS	16,775	8,196
12	GAINS / (LOSSES) ON HTM ASSETS	-	-
13	GAINS/(LOSSES) ON HEDGING RELATIONSHIPS	-	-
14	GAINS ON INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	-	-
15	GAINS ON OTHER EQUITY INVESTMENTS	794	990
16	FOREIGN EXCHANGE GAINS / (LOSSES)	573	(488)
17	OTHER INCOME	4,530	6,032
18	OTHER EXPENSES	(8,646)	(7,920)
19	GENERAL ADMINISTRATIVE EXPENSES AND DEPRECIATION	(81,986)	(91,304)
20	**NET PROFIT FROM OPERATIONS BEFORE IMPAIRMENT AND PROVISIONS FOR LOSSES**	**55,572**	**28,611**
21	IMPAIRMENT LOSSES AND PROVISIONS	(18,675)	(25,015)
22	**PROFIT/(LOSS) BEFORE TAXATION**	**36,897**	**3,596**
23	INCOME TAX EXPENSE	(10,865)	(295)
24	**PROFIT/(LOSS) FOR THE YEAR**	**26,032**	**3,301**
25	EARNINGS PER SHARE	38.93	4.94

INCOME STATEMENT SUPPLEMENT

	2016 HRK 000	2015 HRK 000
PROFIT /(LOSS) FOR THE YEAR	-	-
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	-	-
MINORITY INTEREST	-	-

BALANCE SHEET

		2016 UNAUDITED HRK 000	2015 UNAUDITED HRK 000
ASSETS			
1	CASH AND DEPOSITS WITH THE CNB	350,670	400,095
	1.1 CASH	41,783	35,269
	1.2 DEPOSITS WITH THE CNB	308,887	364,826
2	DEPOSITS WITH CREDIT INSTITUTIONS (BANKS)	82,796	179,519
3	TREASURY BILLS OF THE MINISTRY OF FINANCE AND OF THE CNB	22,478	-
4	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
5	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	1,184,399	622,035
6	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	85,390	118,340
7	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AT FVTPL THAT ARE NOT ACTIVELY TRADED	-	-
8	DERIVATIVE FINANCIAL ASSETS	-	-
9	LOANS TO FINANCIAL INSTITUTIONS	5,529	32,204
10	LOANS AND ADVANCES TO OTHER CUSTOMERS	1,530,612	1,620,307
11	INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	-	-
12	FORECLOSED ASSETS	36,067	44,289
13	TANGIBLE AND INTANGIBLE ASSETS (NET OF DEPRECIATION/AMORTISATION)	119,870	127,535
14	INTEREST, FEES AND OTHER ASSETS	39,155	37,225
A.	**TOTAL ASSETS**	**3,456,966**	**3,181,549**
LIABILITIES AND EQUITY			
1	LOANS FROM FINANCIAL INSTITUTIONS	316,578	177,390
	1.1 SHORT-TERM BORROWINGS	122,918	17,404
	1.2 LONG-TERM BORROWINGS	193,660	159,986
2	DEPOSITS	2,493,457	2,413,281
	2.1 BALANCES ON GIRO AND CURRENT ACCOUNTS	553,125	454,152
	2.2 SAVINGS DEPOSITS	309,055	227,601
	2.3 TERM DEPOSITS	1,631,277	1,731,528
3	OTHER LOANS	-	-
	3.1 SHORT-TERM BORROWINGS	-	-
	3.2 LONG-TERM BORROWINGS	-	-
4	DERIVATIVE FINANCIAL AND OTHER LIABILITIES HELD FOR TRADING	-	-
5	ISSUED DEBT SECURITIES	-	786
	5.1 SHORT-TERM DEBT SECURITIES ISSUED	-	-
	5.2 LONG-TERM DEBT SECURITIES ISSUED	-	786
6	ISSUED SUBORDINATED INSTRUMENTS	52,231	52,765
7	HYBRID INSTRUMENTS ISSUED	75,578	76,350
8	INTEREST, FEES AND OTHER LIABILITIES	91,523	66,889
B. TOTAL LIABILITIES		**3,029,367**	**2,787,461**
EQUITY			
1	SHARE CAPITAL	259,433	259,433
2	PROFIT/(LOSS) FOR THE YEAR	26,032	3,301
3	RETAINED EARNINGS/(ACCUMULATED LOSSES)	(14,880)	(18,181)
4	LEGAL RESERVES	118,687	118,687
5	STATUTORY AND OTHER CAPITAL RESERVES	25,077	26,630
6	UNREALISED GAINS/LOSSES ON REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	13,250	4,218
C.	**TOTAL EQUITY**	**427,599**	**394,088**
D.	**TOTAL LIABILITIES AND EQUITY**	**3,456,966**	**3,181,549**

BALANCE SHEET SUPPLEMENT

	2016 HRK 000	2015 HRK 000
TOTAL EQUITY	-	-
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	-	-
MINORITY INTEREST	-	-

STATEMENT OF CASH FLOWS

		UNAUDITED 2016 HRK 000	UNAUDITED 2015 HRK 000
OPERATING ACTIVITIES			
1.1	PROFIT/(LOSS) BEFORE TAXATION	36,897	3,596
1.2	IMPAIRMENT ALLOWANCE AND PROVISIONS FOR LOSSES	18,675	25,015
1.3	DEPRECIATION AND AMORTISATION	8,526	9,059
1.4	NET UNREALISED (GAINS)/LOSSES ON FINANCIAL ASSETS AND LIABILITIES AT FVTPL	-	-
1.5	GAINS/(LOSSES) ON SALE OF TANGIBLE ASSETS	(206)	(360)
1.6	OTHER (GAINS)/LOSSES		-
1	**OPERATING CASH FLOWS BEFORE CHANGES IN OPERATING ASSETS**	**63,892**	**37,310**
2.1	DEPOSITS WITH THE CNB	17,907	(6,193)
2.2	TREASURY BILLS OF THE MINISTRY OF FINANCE AND TREASURY NOTES OF THE CNB	(22,478)	-
2.3	DEPOSITS WITH BANKING INSTITUTIONS AND LOANS TO FINANCIAL INSTITUTIONS	26,675	(8,757)
2.4	LOANS AND ADVANCES TO OTHER CUSTOMERS	81,224	(120,447)
2.5	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
2.6	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	(556,849)	56,978
2.7	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AT FVTPL THAT ARE NOT ACTIVELY TRADED	-	-
2.8	OTHER OPERATING ASSETS	(12,396)	12,052
2	**NET (INCREASE)/DECREASE IN OPERATING ASSETS**	**(465,917)**	**(66,367)**
INCREASE/(DECREASE) IN OPERATING LIABILITIES			
3.1	DEMAND DEPOSITS	98,973	50,762
3.2	SAVINGS AND TERM DEPOSITS	(18,796)	28,632
3.3	DERIVATIVE FINANCIAL AND OTHER LIABILITIES HELD FOR TRADING	-	-
3.4	OTHER LIABILITIES	24,991	(20,606)
3	**NET INCREASE/(DECREASE) IN OPERATING LIABILITIES**	**105,168**	**58,788**
4	**NET CASH FLOW FROM OPERATIONS BEFORE INCOME TAX**	**(296,857)**	**29,731**
5	INCOME TAXES PAID	-	(114)
6	**NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES**	**(296,857)**	**29,617**
INVESTING ACTIVITIES			
7.1	PROCEEDS FROM SALE/(PAYMENTS FOR PURCHASES) OF TANGIBLE AND INTANGIBLE ASSETS	(1,791)	(5,544)
7.2	PROCEEDS FROM SALE OF/(PAYMENTS FOR PURCHASES OF) INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	-	-
7.3	PROCEEDS FROM SALE OF/(PAYMENTS TO ACQUIRE) SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	32,932	29,372
7.4	DIVIDENDS RECEIVED	794	990
7.5	OTHER RECEIPTS/(PAYMENTS) FROM INVESTING ACTIVITIES	(357)	(66)
7	**NET CASH FROM INVESTING ACTIVITIES**	**31,578**	**24,852**
FINANCING ACTIVITIES			
8.1	NET INCREASE/(DECREASE) IN BORROWINGS	139,189	66,447
8.2	NET INCREASE/(DECREASE) OF ISSUED DEBT SECURITIES	(786)	786
8.3	NET INCREASE/(DECREASE) IN SUBORDINATED AND HYBRID INSTRUMENTS	(1,307)	(447)
8.4	PROCEEDS FROM ISSUE OF SHARE CAPITAL	-	-
8.5	(DIVIDENDS PAID)	-	-
8.6	OTHER RECEIPTS/(PAYMENTS) FROM FINANCING ACTIVITIES	-	-
8	**NET CASH FROM FINANCING ACTIVITIES**	**137,096**	**66,786**
9	**NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS**	**(128,183)**	**121,255**
10	**CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR**	**375,977**	**254,722**
11	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**	**247,793**	**375,977**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	SHARE CAPITAL UNAUDITED	TREASURY SHARES UNAUDITED	LEGAL, STATUTORY AND OTHER RESERVES UNAUDITED	RETAINED EARNINGS/ (ACCUMULATED LOSS) UNAUDITED	CURRENT YEAR PROFIT/(LOSS) UNAUDITED	UNREALISED GAIN/ LOSSES FROM REMEASUREMENT AVAILABLE OF AVAILABLE-FOR-SALE FINANCIAL ASSETS UNAUDITED	MINORITY INTEREST UNAUDITED	TOTAL CAPITAL AND RESERVES UNAUDITED
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
1 BALANCE AT 1 JANUARY 2016	**270,515**	**(11,082)**	**146,161**	**(18,181)**	**3,301**	**3,374**	**-**	**394,088**
2 EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS								
3 RESTATED BALANCE AT 1 JANUARY OF THE CURRENT YEAR	**270,515**	**(11,082)**	**146,161**	**(18,181)**	**3,301**	**3,374**	**-**	**394,088**
4 SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	-
5 FAIR VALUE CHANGES OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	9,032	-	9,032
6 TAX ON ITEMS RECOGNISED DIRECTLY IN OR TRANSFERRED FROM CAPITAL AND RESERVES	-	-	-	-	-	(1,541)	-	(1,541)
7 OTHER GAINS OR LOSSES DIRECTLY RECOGNISED IN EQUITY	-	-	-	-	-	-	-	-
8 NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES	**-**	**-**	**-**	**-**	**-**	**7,491**	**-**	**7,491**
9 CURRENT YEAR PROFIT/ (LOSS)	-	-	-	-	26,032	-	-	26,032
10 TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR	**-**	**-**	**-**	**-**	**26,032**	**6,570**	**-**	**33,523**
11 INCREASE/ (DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	-
12 PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	-
13 OTHER CHANGES	-	-	(12)	3,301	(3,301)	-	-	(12)
14 TRANSFER TO RESERVES	-	-	-	-	-	-	-	-
15 DIVIDENDS PAID	-	-	-	-	-	-	-	-
16 ALLOCATION OF PROFIT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
17 BALANCE AT 31.12.2016	**270,515**	**(11,082)**	**146,149**	**(14,880)**	**26,032**	**10,865**	**-**	**427,599**

	Share capital Unaudited	Treasury shares Unaudited	Legal, statutory and other reserves Unaudited	Current year profit/(loss) Unaudited	Unrealised gain / losses from remeasurement available of available-for-sale financial assets Unaudited	Minority interest Unaudited	Total capital and reserves Unaudited	Current year profit/(loss) Unaudited
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
1 BALANCE AT 1 JANUARY 2015	**270,515**	**(11,082)**	**146,172**	**(12,614)**	**-**	**(8,761)**	**-**	**384,230**
2 EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS	-	-	1	(5,567)	-	5,566	-	-
3 RESTATED BALANCE AT 1 JANUARY OF THE CURRENT YEAR	**270,515**	**(11,082)**	**146,173**	**(18,181)**	**-**	**(3,195)**	**-**	**384,230**
4 SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	-
5 FAIR VALUE CHANGES OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	8,212	-	8,212
6 TAX ON ITEMS RECOGNISED DIRECTLY IN OR TRANSFERRED FROM CAPITAL AND RESERVES	-	-	-	-	-	(1,642)	-	(1,642)
7 OTHER GAINS OR LOSSES DIRECTLY RECOGNISED IN EQUITY	-	-	-	-	-	-	-	-
8 NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES	**-**	**-**	**-**	**-**	**-**	**6,570**	**-**	**6,570**
9 CURRENT YEAR PROFIT/(LOSS)	-	-	-	-	3,301	-	-	3,301
10 TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR	**-**	**-**	**-**	**-**	**3,301**	**6,570**	**-**	**9,871**
11 INCREASE/ (DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	-
12 PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	-
13 OTHER CHANGES	-	-	(12)	-	-	(1)	-	(13)
14 TRANSFER TO RESERVES	-	-	-	-	-	-	-	-
15 DIVIDENDS PAID	-	-	-	-	-	-	-	-
16 ALLOCATION OF PROFIT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
17 BALANCE AT 31.12.2015	**270,515**	**(11,082)**	**146,161**	**(18,181)**	**3,301**	**3,374**	**-**	**394,088**

As the data in the financial statements prepared in accordance with the Croatian National Bank ("CNB") Decision is classified differently from that in the financial statements prepared according to the statutory accounting requirements for banks in Croatia, set out below are the reconciliation schedules presenting the comparative disclosures.

Comparative disclosures of the profit and loss account for the years ended 31 December 2016 and 31 December 2015:

	2016 CROATIAN NATIONAL BANK DECISION UNAUDITED HRK 000	2016 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA HRK 000	2016 DIFFERENCE HRK 000	2015 CROATIAN NATIONAL BANK DECISION UNAUDITED HRK 000	2015 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA HRK 000	2015 DIFFERENCE HRK 000
INTEREST AND SIMILAR INCOME	148,815	148,973	(158)	147,239	147,347	(108)
INTEREST AND SIMILAR EXPENSE	(54,756)	(49,107)	(5,649)	(64,386)	(59,253)	(5,133)
NET INTEREST INCOME	**94,059**	**99,866**	**(5,807)**	**82,853**	**88,094**	**(5,241)**
FEE AND COMMISSION INCOME	37,702	37,703	(1)	38,250	38,252	(2)
FEE AND COMMISSION EXPENSE	(13,710)	(13,710)	-	(14,253)	(14,254)	1
NET FEE AND COMMISSION INCOME	**23,992**	**23,993**	**(1)**	**23,997**	**23,998**	**(1)**
NET TRADING GAIN	5,481	5,481	-	6,255	6,255	-
GAIN/(LOSS) FROM EMBEDDED DERIVATIVES	-	-	-	-	-	-
GAIN/(LOSS) FROM ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	-	-
GAIN/(LOSS) FROM FINANCIAL ASSETS AVAILABLE FOR SALE	16,775	16,900	(125)	8,196	8,410	(214)
INCOME FROM OTHER INVESTMENTS IN EQUITY SECURITIES	794	794	-	990	990	-
NET FOREIGN EXCHANGE DIFFERENCES	573	386	187	(488)	(587)	99
OTHER OPERATING INCOME	**4,530**	**4,487**	**43**	**6,032**	**5,996**	**36**
TOTAL OTHER INCOME	28,153	28,048	105	20,985	21,064	(79)
GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(81,986)	(96,255)	14,269	(91,304)	(104,364)	13,060
IMPAIRMENT ALLOWANCE AND PROVISIONS	(18,675)	(18,755)	80	(25,015)	(25,195)	180
OTHER OPERATING EXPENSES	(8,646)	-	(8,646)	(7,920)	-	(7,920)
TOTAL OTHER EXPENSES	**(109,307)**	**(115,010)**	**5,703**	**(124,239)**	**(129,559)**	**5,320**
TOTAL OTHER EXPENSES	**36,897**	**36,897**	**-**	**3,596**	**3,597**	**(1)**
INCOME TAX EXPENSE	(10,865)	(10,865)	-	(295)	(296)	1
NET PROFIT FOR THE YEAR	**26,032**	**26,032**	**-**	**3,301**	**3,301**	**-**
EARNINGS PER SHARE (IN HRK)	HRK 38.93	HRK 38.93		HRK 4.94	HRK 4.94	

The difference of HRK 158 thousand (2015: HRK 108 thousand) for the year ended 31 December 2016 on the line item "Interest and similar income" relates to exchange differences on interest income.

The difference of HRK 5,649 thousand (2015: HRK 5,113 thousand) on the line item "Interest and similar expense" relates mainly to savings deposit insurance premiums, which amount to HRK 5,747 thousand (2015: HRK 5,143 thousand) and are presented in the audited income statement under the line item "General and administrative expenses". Other differences relate to the reclassification of exchange differences on interest expense to the net foreign exchange gains in the amount of HRK 98 thousand (2015: HRK 10 thousand).

The difference in the "Other non-interest income" item, except for exchange differences, refers to the reclassification of collected written off debts from impairment in other operating income in the amount of HRK 4 thousand (HRK 6 thousand).

The difference in the "General and administrative expenses" item, except for the reclassification of interest and other non-interest expenses, refers to the reclassification of amortisation from general administrative expenses in the amount of HRK 8,525 thousand (2015: HRK 9,059 thousand) in the extracted position depreciation and amortisation.

Differences in "Other non-interest expenses" are the result of the reclassification of provisions for legal cases from other expenses to the cost of provision in the amount of HRK 75 thousand (2015: HRK 40 thousand) and other non-interest expenses in the amount of HRK 8,571 thousand (2015: HRK 7,960 thousand) in general and other administrative expenses.

The difference in the "Other business expenses" item refers to the reclassification of other non-interest expenses in the amount of HRK 8,646 thousand (2015: HRK 7,920 thousand) in the "General and other administrative expenses" item.

Comparatives for the unconsolidated balance sheet ended 31 December 2016 and 31 December 2015:

	2016 UNDER CNB DECISION UNAUDITED HRK 000	2016 ACCOUNTING REQUIREMENTS FOR BANKS HRK 000	2016 DIFFERENCE HRK 000	2015 UNDER CNB DECISION UNAUDITED HRK 000	2015 ACCOUNTING REQUIREMENTS FOR BANKS HRK 000	2015 DIFFERENCE HRK 000
ASSETS						
CASH AND DEPOSITS WITH THE CROATIAN NATIONAL BANK	350,670	411,769	(61,099)	400,095	526,633	(126,538)
TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	22,478	-	22,478	-	-	-
FINANCIAL ASSETS AVAILABLE FOR SALE	1,184,399	962,606	221,793	622,035	469,160	152,875
FINANCIAL ASSETS HELD TO MATURITY	85,390	-	85,390	118,340	38,573	79,767
PLACEMENTS WITH AND LOANS TO OTHER BANKS	88,325	29,641	58,684	211,723	87,590	124,133
LOANS AND RECEIVABLES	1,530,612	1,884,779	(354,167)	1,620,307	1,872,306	(251,999)
INVESTMENT IN SUBSIDIARIES	-	-	-	-	-	-
REPOSSESSED ASSETS	36,067	-	36,067	44,289	-	44,289
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	119,870	112,886	6,984	127,535	127,456	79
DEFERRED TAX ASSETS	1,138	1,138	-	6,210	6,210	-
OTHER ASSETS	38,017	51,763	(13,746)	31,015	53,621	(22,606)
TOTAL ASSETS	**3,456,966**	**3,454,582**	**2,384**	**3,181,549**	**3,181,549**	**-**
LIABILITIES						
DUE TO OTHER BANKS AND DEPOSITS FROM CUSTOMERS	2,810,035	2,834,650	(24,615)	2,590,671	2,617,775	(27,104)
PROVISIONS FOR LIABILITIES AND CHARGES	3,417	3,782	(365)	3,786	4,076	(290)
OTHER LIABILITIES	88,106	59,487	28,619	63,103	34,432	28,671
TOTAL LIABILITIES	**2,901,558**	**2,897,919**	**3,639**	**2,657,560**	**2,656,283**	**1,277**
HYBRID AND SUBORDINATED INSTRUMENTS	127,809	129,790	(1,981)	129,901	131,916	(2,015)
SHAREHOLDERS' EQUITY						
SHARE CAPITAL	267,500	267,500	-	267,500	267,500	-
SHARE PREMIUM	3,015	3,015	-	3,015	3,015	-
TREASURY SHARES	(11,082)	(11,082)	-	(11,082)	(11,082)	-
NET PROFIT FOR THE YEAR	26,032	26,032	-	3,301	3,301	-
RETAINED EARNINGS/(LOSS)	(14,880)	(14,879)	(1)	(18,181)	(18,180)	(1)
UNREALISED GAIN/(LOSS) FROM FAIR VALUE ADJUSTMENT OF AVAILABLE FOR SALE FINANCIAL ASSETS	13,250	-	13,250	4,218	0	4,218
RESERVES	143,764	156,287	(12,523)	145,317	148,796	(3,479)
TOTAL EQUITY	**427,599**	**426,873**	**726**	**394,088**	**393,350**	**738**
TOTAL LIABILITIES AND EQUITY	**3,456,966**	**3,454,582**	**2,384**	**3,181,549**	**3,181,549**	**-**

The most significant differences on balance positions arise from different classification of interest receivables and interest payables. In the balance sheet, according to the CNB Decision on the structure and content of annual financial statements of banks, interest receivables and interest payables are presented in “Other assets” and “Other liabilities”, while in the balance sheet, in accordance with statutory accounting requirements for banks in Croatia, they are presented in the positions of assets and liabilities to which they relate.

Assets

Cash on current accounts with domestic and foreign banks as well as other deposits in the total amount of HRK 181,870 thousand (2015: HRK 285,339 thousand) are presented in the audited financial statements under the line-item “Cash and balances with banks”, whereas under the CNB Decision they are included in “Deposits with banking institutions”.

In the audited statements, placements with customers represent placements on the basis of discounted bills of exchange and receivables from factoring in the total amount of HRK 338,655 thousand (2015: HRK 237,977 thousand) are included in the line item “Loans to customers”, whereas under the CNB Decision they are presented according to the portfolio of financial assets in which they are classified, as follows: HRK 253,265 thousand of discounted bills are included into available-for-sale financial assets (2015: HRK 157,558 thousand) and HRK 85,390 thousand of factoring is reclassified into financial assets held to maturity portfolio (2015: HRK 80,419 thousand).

Repossessed i.e., foreclosed assets are reported under the CNB Decision separately, while in the audited accounts they have been included within “Other assets” in the amount of HRK 36,067 thousand (2015: 44,289 thousand). Small inventories of HRK 82 thousand (2015: HRK 79 thousand) are presented in the audited accounts within “Other assets”, whereas under the CNB Decision they are included in “Property, plant and equipment, and intangible assets”.

Deferred tax assets of HRK 1,138 thousand (2015: HRK 6,210 thousand) are reported separately in the audited accounts, whereas according to the reporting requirements of the CNB they are included within “Other assets”, while deferred tax liabilities of HRK 2,384 thousand are included within “Other liabilities”.

Liabilities and equity

According to the CNB Decision, “Other liabilities” include provisions for legal cases, which have been presented separately in the audited accounts in the amount of HRK 365 thousand (2015: HRK 290 thousand), whereas in the audited accounts they are reported as part of the provisions for liabilities and expenses.

According to the CNB requirements, the position “Statutory and other capital reserves” includes reserves of HRK 727 thousand (2015: HRK 738 thousand), formed in respect of flats with tenancy rights not sold, which are included in the audited accounts within “Other liabilities”.