PODRAVSKA BANKA

ANNUAL REPORT 2017

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ZAGREB

REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD AND REPORT OF THE MANAGEMENT BOARD ON THE AFFAIRS OF THE BANK

REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

On behalf of the Supervisory board as well as in my own name I hereby present to you Podravska bank 2017 business results.

During 2017 Podravska bank continued to maintain stability and hold its position in the Croatian financial market.

Positive macroeconomic trends continued in 2017 with further decrease in both general government debt and public debt. Croatian economy grew at a rate of 2,8% with exports of goods and services and personal consumption contributing the most. Positive trend also continued in the labor market with unemployment rate continuing to decline, although part of that decrease is due to emigration.

Tax reform in 2017 had a positive effect on Croatian economy but to further improve on the sustainable growth rates it is necessary to conduct long overdue structural reforms in all areas.

Positive macroeconomic trends resulted in lower government financing cost in the financial markets with expected improvements in credit ratings assigned by credit agencies.

Global economy is currently experiencing a cyclical recovery, reflecting a rebound in investments, production and trade. Global growth is expected to accelerate to 3,1% in 2018 with developing countries contributing the most to that growth. Downside risks to projected global growth are mostly related to political risks and potential implementation of protectionist policies.

Despite harsh and challenging environment Podravska bank has managed to perform well and close the year with net profit of HRK 14.1 million.

By exercising prudent risk management, market diversification and increase in service quality, Podravska bank aims to maintain its position in Croatian banking market.

In addition to intensifying commercial activities as well as optimizing all operation processes and costs, special attention was given to the Treasury business, specifically to investing and trading securities which contributed the most to the overall result of the Bank.

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
Chairman 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 2017.

In 2017, global economic growth accelerated to 3%, mainly as a result of favourable financing conditions, stimulative monetary and fiscal policies, growing confidence in the global markets and the rising prices of raw materials.

Emerging markets played a major role in global growth that is expected to accelerate further and continue being the most significant contributor to global growth in 2018.

In the US, the central bank continued with the tightening of monetary policy and raised the reference interest rate on three occasions during the year. After the latest increase in the reference interest rate in December, it stood at 1.5%. The monetary policy tightening is expected to continue throughout 2018. In the eurozone, such a move of the central bank is still awaited.

In the Republic of Croatia, the first estimates suggest that in 2017 GDP increased 2.8%, along with a growth of all the constituents of the aggregate demand. The components with the largest contributions to GDP growth include the exports of goods and services in addition to the continued growth of personal consumption, which is probably the consequence of the tax reform in 2017 as consumers have more disposable personal income available for spending. Other macroeconomic indicators also showed positive shifts. The registered unemployment rate fell to 11.3% at the end of 2017, in addition to the increase in wages and the rise of inflation of 1.2%.

The decrease in external imbalances continued in 2017, which led the Republic of Croatia out of the Excessive Deficit Procedure in the middle of the year. At the beginning of 2018, this resulted in an improved credit rating for the country by Fitch rating agency. According to the Ministry of Finance estimates, 2017 will be the first year in history in which the government budget surplus has been recorded. The sovereign risk premium for the Republic of Croatia in 2017 was reduced from 222.7 bps to 96.13 bps, with a possible further decrease in the risk level relative to Central and Eastern European (CEE) countries if the credit rating is additionally raised in the course of the year.

The Croatian banking system remains stable, highly capitalised and liquid. Namely, according to unaudited data, the capital adequacy of the system in 2017 recorded over 23%. The Croatian National Bank (CNB) continued to lead a highly expansionary monetary policy, with operations in the open market to ensure short-term liquidity through regular operations, and long-term liquidity through structural operations for the banking sector. At the end of the year, the central bank released a total of HRK 530 million of liquidity with the 5-year maturity through a structural operation. Also, the CNB introduced the pooling collateral management system in September through the pool of eligible assets, which enabled long-term borrowing in kuna with the CNB for the banks based on a broad collateral pool, including short-term securities. In the conditions of high liquidity in the domestic and international markets, interest rates on loans of domestic credit institutions mostly continued to decrease. Favourable financing conditions, consumer confidence, movements in the labour market and the government programme of subsidised housing loans contributed to the acceleration of the annual growth in retail loans, while the growth of corporate loans slowed down in the second half of the year. In the forthcoming period, monetary policy will maintain its expansionary character. Such an environment will favour the maintenance of favourable financing conditions of the domestic sector and the acceleration of credit activity directed at the private sector. Interest rates on long-term retail loans in the period from July to October decreased slightly, on average, compared with the first half of the year and the end of the previous year. This was attributed to the decrease in interest rates on consumer and other loans, while interest rates on housing loans decreased significantly only in October. The cost of short-term retail borrowing also fell moderately. The demand for all types of corporate loans continued to grow, albeit at a slower rate in the third quarter, with the slowdown in the growth of demand being most pronounced among small and medium-sized enterprises.

Throughout 2017, in addition to interest on loans, interest rates on term deposits of individuals fell noticeably.

Despite the continued trend of the decrease in interest rates at the level of the system, and the extraordinary crisis event that affected the entire Croatian economic system, Podravska banka achieved solid performance in 2017.

In 2017, Podravska banka continued enhancing its commercial efforts in the entire territory of Croatia. The Bank followed up on the initiatives to improve and develop products and services 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 with the aim of optimising credit risk management.

In terms of assets, at the end of 2017, the Bank ranked 12th and in terms of total capital, it ranked 10th of a total of 25 banks in Croatia.

At the end of 2017, the Bank's total assets amounted to HRK 3.273 billion, 5.25% lower than in the prior year.

Total deposits from customers increased by 1.8% year-on-year and amounted to HRK 2.416 billion. Retail deposits in the total deposits increased by 1.21% from 31 December 2016. Retail deposits accounted for 77.5% and corporate deposits represented 22.5% of total deposits from customers.

Total gross loans to customers decreased by 7.37%, with retail loans up 14.43%, while corporate loans fell by 16.96%.

The shares of gross loans to individuals and corporate customers in the total gross loans changed from the previous year, with the first having increased by 7 percentage points and accounting for 38%, and the latter decreased, representing 62% of total loans.

The Bank remains highly capitalised considering the risks to which it is exposed, with a regulatory capital rate of 16,75% at the end of 2017.

The regulatory capital at the end of 2017 amounted to HRK 414,3 million.

As regards the capital structure, Core Tier 1 capital amounts to HRK 363,4 million, and Tier 2 capital (comprising subordinated and hybrid instruments – bonds issued by the Bank in prior years) amounts to HRK 50.9 million.

The Bank's operating income amounts to HRK 136.1 million, with the net interest income accounting for 56%, the net fee and commission income representing 17% and the share of other income 27%, which primarily refer to financial revenues. The profit for the year amounts to HRK 14.09 million.

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

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 2017, the Bank continued to work on improving the IT support in all business segments, including qualitative improvements to risk management.

In the year ahead, global economic growth is expected to continue, mostly spurred by emerging economies, while growth in developed countries could slow down moderately or remain at the last year's levels. The policies of central banks are expected to diverge in their approach to increasing their respective reference interest rates, while the Croatian National Bank is expected to continue its expansionary monetary policy and ensure high liquidity levels in the market and keep interest rates low.

In addition, Croatia's GDP is expected to grow further in 2018, driven by higher exports, continued growth in personal consumption, the recovery of investments and the traditionally good performance of the tourist season.

The Croatian Government is expected to continue with the policy of reducing the public debt and the budget deficit and continue with the implementation of necessary reforms. The Croatian banking industry remains stable, highly liquid and well capitalised.

The Bank will seek to strengthen its commercial activities, especially towards the retail segment, but also in the corporate sector, 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 and collections.

As in previous business years, the contribution of the Financial Markets Division will play a key role, mainly by ensuring sufficient liquidity and sources of funding for a continued and stable operation of the Bank. 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 of the Bank's employees for their efforts and commitment.

Mr. Julio Kuruc
President of the Management Board

SPLIT

DESCRIPTION OF BUSINESS OPERATIONS

GLOBAL ECONOMY IN 2017

According to the World Bank estimates, the global economy grew at a rate of 3% in 2017, which is a better performance than the 2.7% forecast in July. It is evident that the global economy, supported by the recovery in investments and trade, is going through a recovery cycle on a global level, which is additionally attributed to an environment of favourable financing conditions, stimulative monetary policies, growing confidence and the rising prices of raw materials. Following the breakout of the crisis, this is the first time that world regions are recording an acceleration of economic growth. More than half of the economies have exceeded the growth estimates of the World Bank from July last year.

It is estimated that developed countries grew at a rate of 2.3% in 2017. This growth was primarily driven by the growth in capital investments and exports, as well as low financing costs. This has all resulted in higher earnings for companies and a rise in business confidence.

On the back of private investments, and despite the fact that the target inflation rate was not achieved, the US grew at an estimated rate of 2.3%, with its economy close to achieving full employment. The American FED initiated the process of monetary policy normalisation and the gradual shrinking of its balance sheet. The tax reform could further boost investments in the private sector in 2018.

The eurozone grew at an estimated rate of 2.4%, or 0.7% higher than the original estimates of the World Bank. Improvement was made in all areas and in all member countries, owing to the policies stimulating the markets and growing global demand. The unemployment rate fell to the lowest level since 2009, with some member countries reporting labour force shortages. Personal incomes did not grow significantly, and the appreciation of the euro might additionally delay achieving the target inflation, which remained below the target level in the past year. In 2018, the eurozone economy is expected to continue growing at the rate of 2.1%, while its additional slowdown to 1.7% is expected in 2019.

The Japanese economy speed up its growth to 1.7%, which was attributed to the gradual recovery of personal consumption and investments with the support of fiscal stimulus.

The growth of developing countries and emerging markets is estimated at 4.3% as a consequence of the strengthening of activities in raw material exporters and continued growth of raw material importers.

China grew at a rate of 6.8% thanks to fiscal stimulus, implemented reforms and better than expected recovery of exports. Inflation increased gradually throughout the year, but remained below the target value.

Brazil and the Russian Federation exited recession following the rise in the prices of raw materials and higher business confidence. The growth of emerging economies is expected to accelerate, primarily driven by stronger demand and the stabilisation of the prices of raw materials. The possible slowdown of the Chinese economy could be offset by the acceleration of growth in other larger economies.

It is estimated that the growth of the global economy should continue at the present rate in the next several years, and possibly accelerate even further in the emerging markets and developing economies on the back of the recovery in the countries exporters of raw materials. The anticipated changes in the educational structure of the global labour force could have a significant impact on the decrease in inequality among countries. A better educated labour force in the emerging and developing economies could have an impact on the reduction of growing inequalities within the individual countries and give rise to knowledge-based technological change. Although global growth could bring some positive surprises in the short term, considerable risks that could slow it down are still present, and they include the rising costs of financing, protectionism and geopolitical tensions.

CROATIAN ECONOMY IN 2017

Monthly statistical indicators available for the fourth quarter of 2017 suggest that economic activity continued to grow, although at a slower pace than in the preceding part of the year. The rise in employment intensified at the beginning of the fourth quarter of 2017, while unemployment continued to decline. Following a stagnation in November, consumer prices dropped by 0.3% on a monthly level in December, while the annual rate of inflation fell to 1.2%. Due to pressures driving the kuna upwards, the CNB continued to purchase foreign exchange from banks in December, which resulted in a historically high amount of free reserves of credit institutions totalling an average of HRK 19.1 billion in December. Corporate and retail loans grew in November and picked up on an annual level. After a steep decline at mid-year, the net external debt of domestic sectors continued to decrease gradually in October. Available fiscal data for the second half of 2017 points to a continued improvement in general government balance. Such developments are reflected in the further drop in the general government debt-to-GDP ratio.

The first GDP estimates suggest that current economic activity continued to grow at the end of 2017, although at a slower pace than in the first nine months of 2017. Industrial production continued to increase on a quarterly level in October and November, reflecting the rise in production in all main industrial groupings. Such developments primarily reflect the growth recorded in industrial production in October, while November saw a decline in industrial production on a monthly level. Construction was up in October from the average of the previous quarter, owing to a noticeable rise in construction works on buildings, while other civil engineering works dropped. On the other hand, following a relatively sharp increase in the first nine months of 2017, real retail trade turnover decreased slightly in October and November on a quarterly level.

The fourth quarter of 2017 saw relatively favourable developments in consumer and business confidence. The results of the Consumer Confidence Survey for the fourth quarter suggest that the consumer confidence indicator improved, and, according to the results of the survey on business expectations, business confidence also grew in construction and services. Confidence in industry and trade subsided, but remained at relatively high levels.

Favourable labour market trends continued in late 2017. The total number of employed persons in the fourth quarter grew noticeably from the average of the preceding quarter, primarily due to the increase in their number in the private sector. At the same time, unemployment continued to decrease as a result of both new employment and the clearings from records for other reasons (failure to comply with legal regulations, registration cancellation and failure to report regularly). Consequently, the registered unemployment rate (according to seasonally adjusted data) fell to 11.7% in November. According to the latest available Labour Force Survey data for the third quarter of 2017, the unemployment rate went down from 11.4% in the second quarter to 10.1%. At the beginning of the fourth quarter, average nominal gross and net wages picked up considerably, primarily driven by the rise in the wages in the public sector and industry. The rise in real wages was less pronounced due to the simultaneous increase in consumer prices.

After stagnating in November, consumer prices fell by 0.3% on a monthly level in December. The most significant contribution to the drop in consumer prices in December came from the seasonal decrease in the prices of clothing, footwear and processed food (cheese, milk, oil and fats). At the same time, the aforementioned price decrease was partially offset by the increase in the prices of tobacco (due to the rise in excises), vegetables and fuels and lubricants for personal transport equipment (caused by the increase in the price of crude oil on the global market). Having grown for the sixth consecutive month, the average price of a barrel of Brent crude oil was 11.4% higher in December than in October. The increase in the price of crude oil on the global market resulted from favourable global economic developments, the agreement between OPEC and Russia on continued through production restrictions and political turmoil in the Middle East. Furthermore, the annual overall CPI inflation rate went down from 1.4% in November to 1.2% in December. The annual growth in the prices of unprocessed and processed food slowed down in the last two months of 2017, whereas the annual increase in the prices of other main CPI components gained pace. Core inflation was stable, remaining at 1.4% in November and December, unchanged from the preceding three months.

At the beginning of the fourth quarter, exports of goods picked up considerably, while imports continued to grow at a slow pace. Total imports of goods in October 2017 rose by 6.7% from the average of the preceding quarter. This may primarily be attributed to the exports of oil and refined petroleum products, while the increase in the exports of the narrow aggregate (excluding oil and ships) was smaller, standing at 2.3%. Favourable results were recorded in, among other categories, the exports of food products, oil seeds and fruits, cork and wood, natural and manufactured gas and wearing apparel. At the same time, imports of goods continued to grow at a rate similar to that recorded in the first three quarters of 2017, increasing by 1.0% due to the imports of oil and refined petroleum products and other transport equipment. In contrast, imports of other goods went down by 1.8%, primarily affected by the decrease in the imports of electricity and natural and industrial gas, food products, capital goods and medical and pharmaceutical products.

The nominal exchange rate of the kuna against the euro remained stable in December, mostly moving within a very narrow range of ±0.1% around the average value of EUR/HRK 7.54. Foreign exchange interventions of the CNB, by which a total of EUR 765.5 million was purchased from banks in December, contributed to the stability of the nominal exchange rate. The exchange rate strengthened to EUR/HRK 7.51 at the end of the month, appreciating by 0.4% from the end of the previous month. The kuna strengthened modestly against most other currencies of the main trading partners, so that the nominal effective kuna exchange rate index at the end of December weakened by 0.3% from the end of November.

Influenced by the expansionary monetary policy of the ECB and the high euro area banking system liquidity, short-term interest rates on the European money market remained in the negative territory until the end of 2017. The overnight interest rate on the euro area banking market, EONIA, ended the month of December at −0.35%, and the six-month EURIBOR at −0.27%. The risk premium of European emerging market countries did not change significantly over the last three months; however, compared with the level recorded at the beginning of the year, the risk premium for Croatia saw the most substantial decrease (of 124 basis points). Standing at 96 basis points at the end of December, the risk premium for Croatia was almost the same as the risk premiums for Bulgaria and Romania.

The liquidity of the domestic financial system aided by the CNB's expansionary monetary policy remained high during the last two months of 2017 as well. A total of HRK 6.1 billion was generated by the purchase of foreign exchange from banks in November and, particularly, December, contributing to the all-time high average surplus kuna liquidity of HRK 19.1 billion in December. As a result of high liquidity, no significant turnover was recorded on the domestic interbank overnight market, and the average interest rate stood at 0.10%. At the same time, the interest rate on one-year kuna T-bills without a currency clause fell to its all-time low of 0.20% in December.

Interest rates on new bank loans to non-financial corporations and individuals fell in October and November 2017. In corporate loans, interest rates on kuna loans for working capital with a currency clause granted for the first time saw the most substantial decline, while in retail loans, interest rates on renegotiated housing loans in domestic currency decreased the most, along with the interest rates on consumer loans in kuna granted for the first time. Interest rates on term deposits increased in October and November, most notably on those of non-financial corporations, due to the change in the structure of term deposits. As a result of the trends described above, the spread between interest rates on loans and deposits shrank in November, with the spread between interest rates on new loans and deposits standing at 5.58 percentage points, and the spread between interest rates on loans and deposits at 4.82 percentage points.

Total loans of monetary institutions to domestic sectors (excluding the central government) increased in November, with their annual rate of growth accelerating to 2.7%. The increase in total loans is primarily attributable to the rise in retail loans and loans to other domestic financial institutions. However, loans to non-financial corporations also grew after declining over the previous three months. The annual growth in loans to non-financial corporations picked up to 2.5% and retail loans to 3.4%. The share of kuna loans in total retail loans continued its long-standing upward trend, reaching almost 48% at the end of November. The nominal stock of loans was 0.6% smaller at the end of November 2017 than at the end of the same month the year before, primarily as a result of the sale of non-performing loans. As for lending to the government, the annual fall of bank loans to the central government accelerated to 5.0% at the end of November.

Despite the drop in December, brought about by the decrease in central government foreign exchange deposits, gross international reserves grew by EUR 2.2 billion or 16.2% over the whole of 2017, totalling EUR 15.7 billion at the end of the year. The rise in reserves in 2017 was primarily driven by the purchase of foreign exchange from banks (EUR 1.8 billion) and the EUR 0.6 billion increase in agreed repo transactions from the end of 2016. Net international reserves grew by EUR 1.6 billion or 12.9% in 2017, totalling EUR 13.7 billion at the year's end.

Net external debt decreased slightly in October 2017, following a considerable decline of EUR 3.4 billion in the third quarter. The net external position of credit institutions continued to improve in October, although at a significantly slower pace than during the summer months. In addition, the central bank also slightly improved its positive net external position, mainly by purchasing foreign exchange from banks. On the other hand, following the strong deleveraging over the preceding part of the year, government external debt saw a marginal increase in October deriving from CBRD (Croatian Bank for Reconstruction and Development) borrowing. Other domestic sectors recorded a slight increase in net external debt to affiliated creditors.

Ministry of Finance data point to continued fiscal adjustment in the second half of 2017. Total general government revenues (GFS 2001 methodology) thus increased by 2.2% in the period from July to September relative to the same period a year earlier, while expenditures remained the same. According to cash basis data for October, the growth in revenues and the stagnation in expenditures continued into the beginning of the last quarter of 2017 as well. Owing to favourable fiscal results, the amendments to the government budget and financial plans of extrabudgetary users from November 2017 considerably decreased the expected general government budget deficit for 2017 according to ESA 2010 methodology, reducing it by 0.7 percentage points to 0.6% of GDP.

At the end of September 2017, consolidated general government debt stood slightly above the level recorded in late 2016, reaching HRK 291.6 billion, while its share in GDP dropped to 81%. The government continued to refinance its liabilities at favourable conditions throughout the second half of 2017, maintaining high liquidity. A foreign bond in the amount of EUR 1.275 billion was issued in November as a part of the financial restructuring of the debt of public enterprises in the road sector, along with a domestic bond in the amount of HRK 5.8 billion. Euro-denominated T-bills in the amount of EUR 1.5 billion were also issued in November with a maturity of 455 days and considerably lower yields than those paid on earlier issues.

CROATIAN MACROECONOMIC INDICATORS

	2017	2016	2015	2014
GROSS DOMESTIC PRODUCT, HRK BILLION AT CURRENT PRICES	363.3	349.4	339.0	331.3
GROSS DOMESTIC PRODUCT (GDP), % CHANGE	2.8	3.2	2.3	(0.1)
GDP PER CAPITA, IN EUR	11,590[1]	11,118	10,596	10,245
PERSONAL CONSUMPTION, % CHANGE	3.8	3.5	1.0	(1.6)
PUBLIC CONSUMPTION, % CHANGE	1.7	1.9	(0.9)	(0.8)
INVESTMENTS, % CHANGE	4.2	5.3	3.8	(2.8)
EXPORTS OF GOODS AND SERVICES, % CHANGE	6.6	5.6	9.4	6.0
IMPORTS OF GOODS AND SERVICES, % CHANGE	8.5	6.2	9.2	3.1
INDUSTRIAL PRODUCTION, % CHANGE	1.4	5.3	2.7	1.2
UNEMPLOYMENT RATE (ILO) (% OF ACTIVE POPULATION)	11.3	13.1	16.2	17.3
CONSUMER PRICES, % OF CHANGE	1.2	(1.1)	(0.5)	(0.2)
GENERAL GOVERNMENT BUDGET BALANCE (% GDP)	0.7[1]	(0.9)	(3.3)	(5.1)
BALANCE OF PAYMENTS ON CURRENT ACCOUNT (% GDP)	3.7	2.5	4.5	2.0
EXTERNAL DEBT (% GDP)	79.9	89.8	101.9	106.9
CURRENCY EXCHANGE RATE: EUR, YEAR AVERAGE	7.46	7.53	7.61	7.63

Data sources: Croatian Bureau of Statistics, Croatian National Bank
[1]Estimate – Addiko Economic Research

DESCRIPTION OF BANK OPERATIONS

PRODUCTS AND SERVICES

The Bank seeks to respond to the requirements and needs of individuals, small enterprises and businesses, as its target customers, by improving its services 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 2017 showed Podravska banka's strong focus on the retail segment. The ongoing 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 for growth.

The Bank seeks to direct its entire operations towards meeting customer needs, which implies aligning the products and services on offer with the growing demand of customers.

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, improving the business processes and developing new products and services along with the education and motivation of the sales staff, have helped reverse the trends, especially in retail loans which grew significantly throughout 2017.

With a richer range 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.

2017 was marked by the demand for tourist loans, investment maintenance and energy efficiency projects 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.

In addition to a continued strengthening of operations with individuals, the Bank has plans to further strengthen the operations with the SME segment of customers in 2018.

The Bank reported a moderate increase in retail deposits compared with 2016, 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 in accordance with the trends present in the market.

The Bank also receives deposits from German citizens using a 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.

The high liquidity of the banking system and the strong competition put pressure on interest rates charged on loans to businesses. Therefore, to maintain the interest income levels, corporate lending remains focused on short-term and self-liquidating instruments, while preserving the current portfolio and seeking to acquire new customers with sound credit worthiness in the entire market of the Bank's operations.

Moreover, the corporate business remains focused on dispersing the risk, 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 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.

To facilitate access to EU funding to its customers, Podravska banka has created the POBA EU Desk. It will provide professional guidance through the complex tender procedure to any interested craftsmen, farmers, SMEs and businesses. If a customer seeks to submit the application for a development project to a tender for the absorption of EU funds, the Bank follows the customer throughout the process – from timely information about the open or expected tenders, to preparing the project application and expert and specialised consultations. Clients can get information about all open tenders for EU funds, as well as about the announced tenders, the possibilities to use grants from EU funds, deadlines for the call for tenders and how to apply for them, etc.

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

DEPOSIT OPERATIONS

In 2017, total deposits increased by 1.81% from the previous year and amounted to HRK 2.42 billion, with retail deposits having increased by 1.21% to HRK 1.87 billion at the end of 2017.

Demand deposits increased by 16.95%, while term deposits decreased by 6.35%. Of the latter, the balance of retail term deposits was lower by 6.67%, and the balance of corporate term deposits fell by 4.61%. A significant increase was reported in demand deposits, both in the retail segment (19.98%) and the corporate segment (11.13%).

TOTAL DEPOSITS FROM CUSTOMERS	AMOUNTS IN HRK '000		CHANGE
	31/12/2017	31/12/2016	2017/2016
RETAIL	1,872,968	1,850,591	1.21%
CORPORATE	543,685	523,059	3.94%
TOTAL DEPOSITS	**2,416,653**	**2,373,650**	**1.81%**

TERM DEPOSITS FROM CUSTOMERS	AMOUNTS IN HRK '000		CHANGE
	31/12/2017	31/12/2016	2017/2016
RETAIL	1,216,305	1,303,271	-6.67%
CORPORATE	227,721	238,730	-4.61%
TOTAL TERM DEPOSITS	**1,444,026**	**1,542,001**	**-6.35%**

DEMAND DEPOSITS FROM CUSTOMERS	AMOUNTS IN HRK '000		CHANGE
	31/12/2017	31/12/2016	2017/2016
RETAIL	656,663	547,320	19.98%
CORPORATE	315,963	284,329	11.13%
TOTAL DEMAND DEPOSITS	**972,626**	**831,649**	**16.95%**

LENDING

The lending operations in 2017, particularly corporate lending, were affected by high competition of banks in the market. This was especially reflected through lower loan interest rates which decreased significantly, and the trend has continued. Despite the complex market situation, Podravska banka actively worked in 2017 on retaining its existing clients, but also increasing its customer base by winning over new sound customers.

In addition, the operations in 2017 were marked by the extraordinary crisis circumstances of the largest corporate group in the country, which were reflected, in general, on the banking market, including on the lending operations of the Bank's corporate clients, which recorded a decrease of 16.96%.

Despite the problems that have affected the entire economy of Croatia and the region, the Bank has turned to other business sectors mainly in the field of energy and the pharmaceutical industry, exporters and operations for which financing is ensured in advance, transactions with the government as the debtor and a disperse policy of exposure in such transactions. In addition to transactions with corporate clients, the Bank initiated activities concerning a stronger focus on small and medium-sized enterprises already in 2017.

The Bank's good cooperation with the Croatian Bank for Reconstruction and Development (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.

2017 saw a satisfactory budget level of line credit utilisation extended in cooperation with HBOR and will continue in 2018 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 2017, 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 Entrepreneurship and Crafts. The Bank also uses the loan programmes under "A credit to success – Measure 1" in cooperation with the Ministry of Entrepreneurship and Crafts and counties, the implementation of which will continue in 2018. Business cooperation also continued in the area of implementing various programmes supported by the Croatian Government, aiming to make the Croatian economy more competitive.

Through 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 economic 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 entrepreneurs' fixed assets and working capital.

The Bank increasingly recognises and engages in the funding of projects, e.g. in the tourism and hotel and restaurant industry, as the indicators of growth and development of tourism in Croatia guarantee success of such projects. In 2017, the Bank continued to engage in the funding of projects, which by their short maturity yield favourable financial results and minimise risk in addition to being covered by government guarantees (HAMAG, HBOR), as well as those of entrepreneurs that meet conditions and are interested in the utilisation of grants from EU funds.

Retail loans increased 14.43% from the prior year, with general-purpose cash loans leading the class.

Throughout the year, along with numerous other improvements, the Bank updated its retail loan product range, especially in terms of interest rates, offered currencies (kuna), maturities and others. The efforts boosted demand and growth above the average of the banking market (4%).

TOTAL LOANS TO CUSTOMERS	AMOUNTS IN HRK '000		CHANGE
	31/12/2017	31/12/2016	2017/2016
TOTAL LOANS, GROSS	1,965,792	2,122,235	-7.37%
TOTAL LOAN PROVISIONS	253,098	237,456	6.59%
TOTAL LOANS, NET OF PROVISIONS	**1,712,694**	**1,884,779**	-9.13%

TOTAL LOANS TO CUSTOMERS, GROSS	AMOUNTS IN HRK '000		CHANGE
	31/12/2017	31/12/2016	2017/2016
RETAIL	741,922	648,348	14.43%
CORPORATE	1,223,870	1,473,887	-16.96%
TOTAL LOANS	**1,965,792**	**2,122,235**	-7.37%

FINANCIAL MARKETS DIVISION

In 2017, the CNB continued to pursue an expansionary monetary policy, which reflected on the maintenance of a very high liquidity level in the financial system of the country. In addition to regular operations through which short-term liquidity was accessible for banks, in November 2017, the CNB also held a structural repo operation releasing a total of HRK 530 million for a period of five years and at an interest rate of 1.20 percent.

The trend of high liquidity reflected on the interest rate decline in the interbank market along the entire curve, so that, when compared with the end of 2016, the one-year ZIBOR reference rate fell from 1.21% to 0.7%, with the overnight ZIBOR falling from 0.48% to 0.31%.

The decline in reference interest rates contributed to an additional decrease in government debt financing cost, and the Ministry of Finance issued one-year kuna-denominated treasury bills at the beginning of 2017, with a yield of 0.64%, and in December, it managed to arrange an issue with a yield of 0.20%.

The Financial Markets Division continued to decrease the interest rate levels and expand the maturities of the sources of funding, mostly by reducing the interest rates on term deposits in the treasury portfolio and utilising the funding mechanisms made available by the Croatian National Bank through structural operations.

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

In 2017, cooperation was continued with Raisin GmbH, a partner company based in Berlin, through which the Bank continued the acceptance of savings from the Republic of Germany.

The year 2018 is expected to see the expansionary monetary policy continue in both Europe and Croatia. The first increase in key interest rates by the European Central Bank is expected only in the second quarter of 2019. For this reason, we do not expect a significant increase in interest rates and yields on bonds within the short term. A moderate growth in yields on government bonds of the highest credit rating is expected by the end of the year as expansionary monetary policy measures are expected to close to an end. If the credit rating of Croatia is raised and becomes investment grade rating, the yield on Croatian government bonds could decline, and positive effects could also be reflected on the stock market through higher liquidity and share prices.

Debt securities account for 44.9% of the total securities portfolio, followed by investments in the units/shares of investment funds, which account for 44.3%, while equity investments make up 10.9% of the total securities portfolio.

At 31 December 2017, the market value of the debt securities portfolio of Podravska banka amounted to HRK 284.6 million, and at 31 December 2016, it was HRK 523.8 million. The currency structure of the portfolio of debt securities shows the prevalence of euro-denominated instruments (57%), followed by kuna-denominated debt securities (38%) and USD- and CHF-denominated instruments with the respective shares of 2% and 3%. By geographic exposure, the majority of the portfolio consists of issuers based in Croatia, followed by those from Western Europe and CEE.

At 31 December 2017, customer assets under custody stood at HRK 988.53 million, of which HRK 426.66 million are funds originating from the Croatian market, assets worth HRK 20.31 million are in the territory of Montenegro, and those in the amount of HRK 541.57 million are other foreign assets.

PAYMENT OPERATIONS

A successful and safe functioning of payment operations (national, cross-border and international), through the Bank's network of branches, ATMs, day-night safety vaults, in the network of FINA branches, through electronic payments, is very important for all of the Bank's customers and payment system participants. A fast, simple and cheaper execution of payment transactions at the Bank has ensured a good quality management of funds on transaction accounts for its customers.

Payment habits are gradually changing thanks to the development of new technologies, such as smartphones. Cash payments are being replaced by contactless payments, online and mobile banking. Podravska banka has been recording continued growth precisely in such payments. The total national payment operations to external customers reached HRK 14 billion, or more than 2.9 million payment orders made. Cross-border and international payment operations of customers in 2017 was worth close to HRK 5 billion, i.e. comprising over 107 thousand payment orders. Thus, the Bank recorded an increase in the balance of total executed payment operations by 9%, and in terms of the number of payment transactions, the increase is 4% from the 2016 balance.

The number of business customers engaging in foreign payment transactions increased 9% compared with 2016.

There was a significantly higher number of foreign payment orders made using POBA*klik*, with an increase of 18%.

The business cooperation with Euroclear Bank Brussels continued successfully in 2017, 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 183 million, an increase of 24% from the previous year when securities worth EUR 147 million were settled.

In Croatia, the Bank was active in the money market, with the payment transactions executed through Central Clearing and Depository Company Inc. worth slightly over HRK 405 million, which is an increase of 17% compared with 2016.

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

In 2017, the Bank initiated the project of adherence to the HRK SDD scheme, by which it will provide its customers with the possibility to use the SEPA direct debit services, either as the payer or as the payee.

BUSINESS NETWORK AND DISTRIBUTION CHANNELS

At the end of 2017, the Bank's sales network consisted of a total of 22 branches spread almost all across the entirety of Croatia.

Apart from the well-developed sales network, the Bank is available to its customers through other distribution channels – POBA*klik*, e-banking and mPOBA, ATMs, day-night safety vaults and EFTPOS terminals.

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 560 installed EFTPOS terminals. In 2017, 737 thousand transactions were executed through the Bank's own EFTPOS terminals, or 1,315 transactions per EFTPOS terminal on average.

The number of the Bank's e-banking service (POBA*klik*) users increased by 6% at the end of 2017 compared with the previous year.

The number of users using mPOBA also increased by 47% from the prior year.

The Bank also offers information to its customers through its Info Centre.

Following all contemporary trends in the distribution 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

On 31 December 2017, Podravska banka had 221 employees, or one percent less than at the end of 2016. The average age of employees was 45, with female employees accounting for 70.0% of the total staff. 46% of the total number of employees have university undergraduate and graduate degrees. The front-office staff account for 59% of the Bank's employees.

The Bank optimises its business processes continually by implementing new software into the existing applications, which in addition to certain organisational changes in the operations results in the improvements of business processes, increased efficiency and optimised operations.

The Bank is committed to continuous education and professional training, achieving this through arranging various forms of in-house training courses and externally organised seminars.

In 2018, 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 2017 profit, amounts to HRK 424.1 million. This represents an increase of HRK 23.2 million, or 5.8% in total capital compared to the prior year.

The Bank's shareholders' equity accounts for 13.4% of the total sources of funding.

At the end of 2017, 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 2017, the Bank held 9,203 treasury shares.

A group of the Bank's foreign equity holders (both private individuals and legal persons), considered to form a whole, held 85.85% of the Bank's shares. No significant changes were recorded in the Bank's shareholder structure in 2017. The Bank's regulatory capital at the end of 2017 amounts to HRK 414,3 million, of which HRK 363,4 million represents Core Tier 1 capital and HRK 50,9 million is Tier 2 capital. Tier 2 capital includes a respective share of subordinated bonds in the amount of HRK 41 million and hybrid bonds in the amount of HRK 10 million issued by the Bank in previous years.

The capital adequacy ratio (CAR) is 16,75%.

PROFIT AND LOSS ACCOUNT

In 2017, the Bank generated a pre-tax profit of HRK 17,400 million, with a net profit for the year of HRK 14,096 million.

Operating income is 10% lower than in the previous year and amounts to HRK 136 million.

Net interest income decreased by 23.7% from the previous year, with a decrease of both interest income and interest expenses. Interest income decreased by 25.6%, and savings were achieved in interest expenses, which decreased 29.7% compared with the expenses of the previous year.

The decline in corporate loans in the course of the year, mainly due to the above reasons and a continued significant trend in the decrease in interest rates mostly attributed to the total decrease in interest income, while in the retail loans segment, the generated interest income was at the level of the previous year.

The lower interest charge was reported in all deposit operations.

Net fee and commission income generated in 2017 stood at HRK 23,160 million, or down by 3% from the previous year. Payment operations charges and charges for trading in securities increased slightly, while at the same time income from lending charges decreased.

Net interest income accounts for 56.0% and net fee and commission income represents 17.0% of the Bank's operating income. Net gains on the sale of available-for-sale securities, net FX trading gains, rental and other income account in aggregate for 27.0% of the total operating income. Other net income of HRK 37 million consists mainly of net realised gains on available-for-sale securities of HRK 26 million and gains from the purchase and sale of foreign currencies of HRK 5 million.

Operating expenses, which include depreciation and amortisation, decreased by 2% compared to the previous year and amount to HRK 95 million.

The impairment and provision charge stood at HRK 24 million for 2017 and increased by 28% from 2016. The costs of provisions on customer loans account for the largest share in the amount of HRK 16 million and impairment costs in the available-for-sale portfolio in the amount of HRK 2.7million.

Based on value assessments, the charges of impairment of foreclosed assets, received instead of outstanding claims and tangible assets of the Bank, amounted to HRK 4.5 million.

Staff costs account for 51%, the costs of materials and services account for 30% and other material costs represent 19% of administrative expenses.

At the end of 2017, the share of provisions in gross loans was 12.9%, while at the end of 2016 it was 11.2%.

GOVERNANCE AND MANAGEMENT

Corporate Governance Code Statement

In accordance with the provisions of Article 272p of the Companies Act, 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 2017 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, 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.

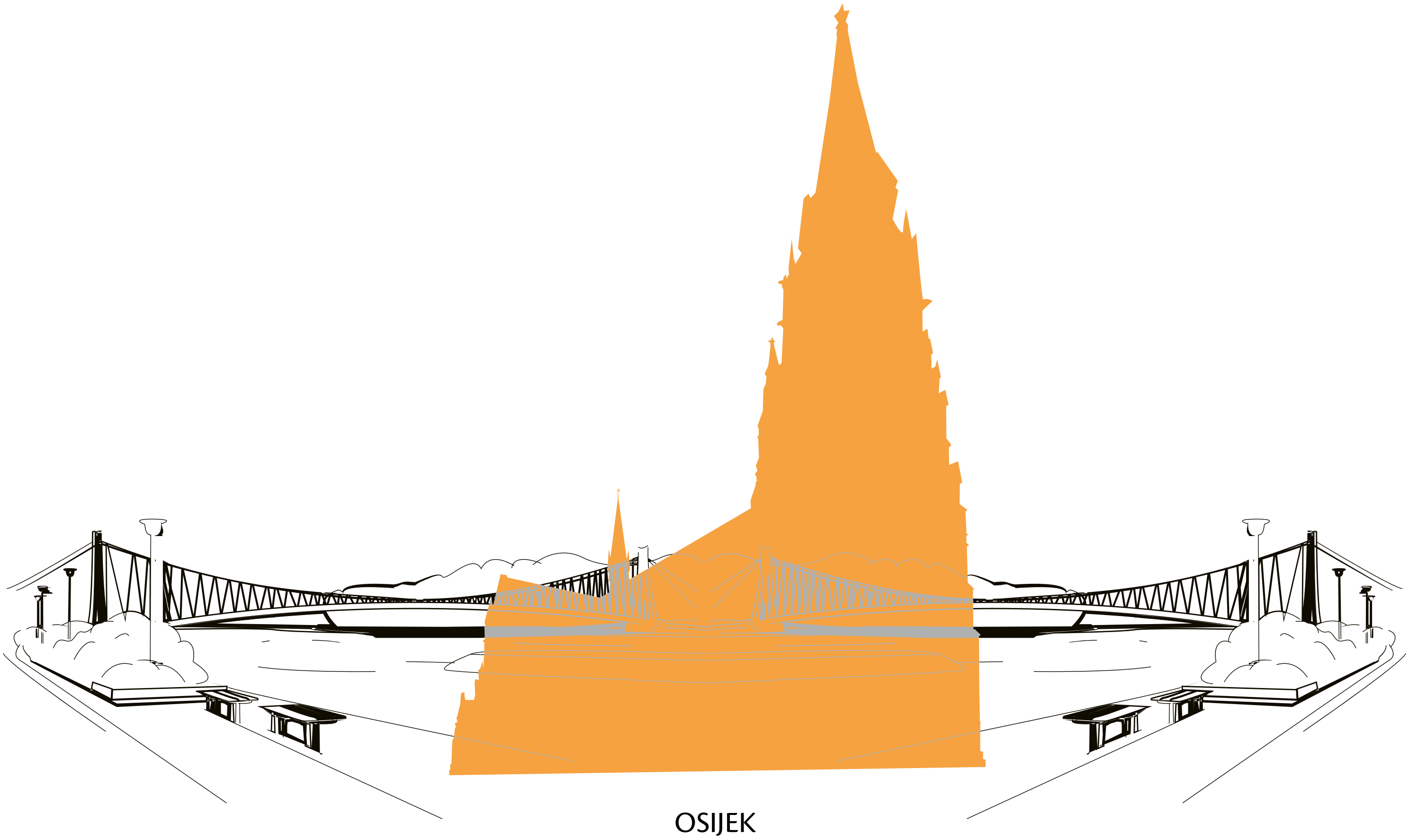
Once the Croatian National Bank approves the candidates, the Supervisory Board appoints the president and members of the Management Board with a mandate of up to five years, with the possibility of re-appointment. The Supervisory Board may withdraw its decisions appointing the president or a member of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

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.



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CORPORATE GOVERNANCE CODE - ANNUAL QUESTIONNAIRE FOR 2017

CORPORATE GOVERNANCE CODE - ANNUAL QUESTIONNAIRE FOR 2017

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

1. **Has the company accepted implementation of the code of corporate governance of the Zagreb Stock Exchange?**

   ☑ YES ☐ NO

2. **Does the company have its own code of corporate governance?**

   ☐ YES ☑ NO

3. **Have any principles of the code of corporate governance been adopted as part of the company's internal policies?**

   ☑ YES ☐ NO

4. **Does the company disclose harmonization with the principles of corporate governance in its annual financial statements?**

   ☑ 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. **Are there cases of different treatment of any shareholders?? (If so, 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 6 days prior to the day of holding the assembly? (If not, explain)

☑ YES ☐ NO

11. **Were 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 were no dividend payments.

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 refer to the answer under 12

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

☐ YES ☑ NO

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 was no need for such participation

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

participation in advance within statutory deadline in order to efficiently prepare for the general meeting, taking into account large number of participants

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 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, Antonio Moniaci – Member, Michele Calcaterra Borri – Member and Ezio Simonelli - 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, meetings are organized as needed

20. **Did the Supervisory or Management Board pass its internal code of conduct?**

☑ YES ☐ NO

21. **Does the company have any independent members on its Supervisory or Management Board? (if not, please explain)**

☑ YES ☐ NO

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 management or each executive director received from the company or from other persons related to the company, including the structure of such remuneration, been made public (in annual financial statements)? (If not, explain)**

☐ YES ☑ NO, aggregate data was published under special note in the Annual report

26. **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 (in annual financial statements)? (If not, explain)

☐ YES ☑ NO, General assembly Decision which defines their remunerations is made publicly available

27. **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 promptly and no later than three business days, after such a change occurs? (If not, explain)**

☑ YES ☐ NO

28. **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

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

☑ YES ☐ NO

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

☑ YES ☐ NO

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

☑ YES ☐ NO

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

☐ YES ☑ NO

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

☐ YES ☑ NO

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

☑ YES ☐ NO

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

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

36. **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 criteria for the consolidation of financial reports of the companies belonging to the group? (If not, explain)**

☑ YES ☐ NO

37. **Did the audit 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

38. **Has the audit 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

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

☐ YES ☑ NO, the Bank has formed its own internal audit function

40. **Did the audit 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

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

☑ YES ☐ NO

42. **Did the audit 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

43. **Did the audit 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

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. Is detailed data on all earnings and are 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 related parties as well as data on calculated and acknowledged remuneration amounts for the management of the Bank in its annual report which is made in accordance with IFRS and published on the website of the Bank

48. 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

49. 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

50. 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

51. Does the company have an external auditor?

☑ YES ☐ NO

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

☐ YES ☑ NO

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

☐ YES ☑ NO

54. 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, audit charges are defined by the contract

55. Does the company have internal auditors?

☑ YES ☐ NO

56. Does the company have an internal audit system in place? (If not, explain)

☑ YES ☐ NO

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

☑ YES ☐ NO

58. Did the company prepare the calendar of important events?

☐ YES ☑ NO, the Bank announces important events by web

59. 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

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

☑ YES ☐ NO

61. 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? (if yes, explain)

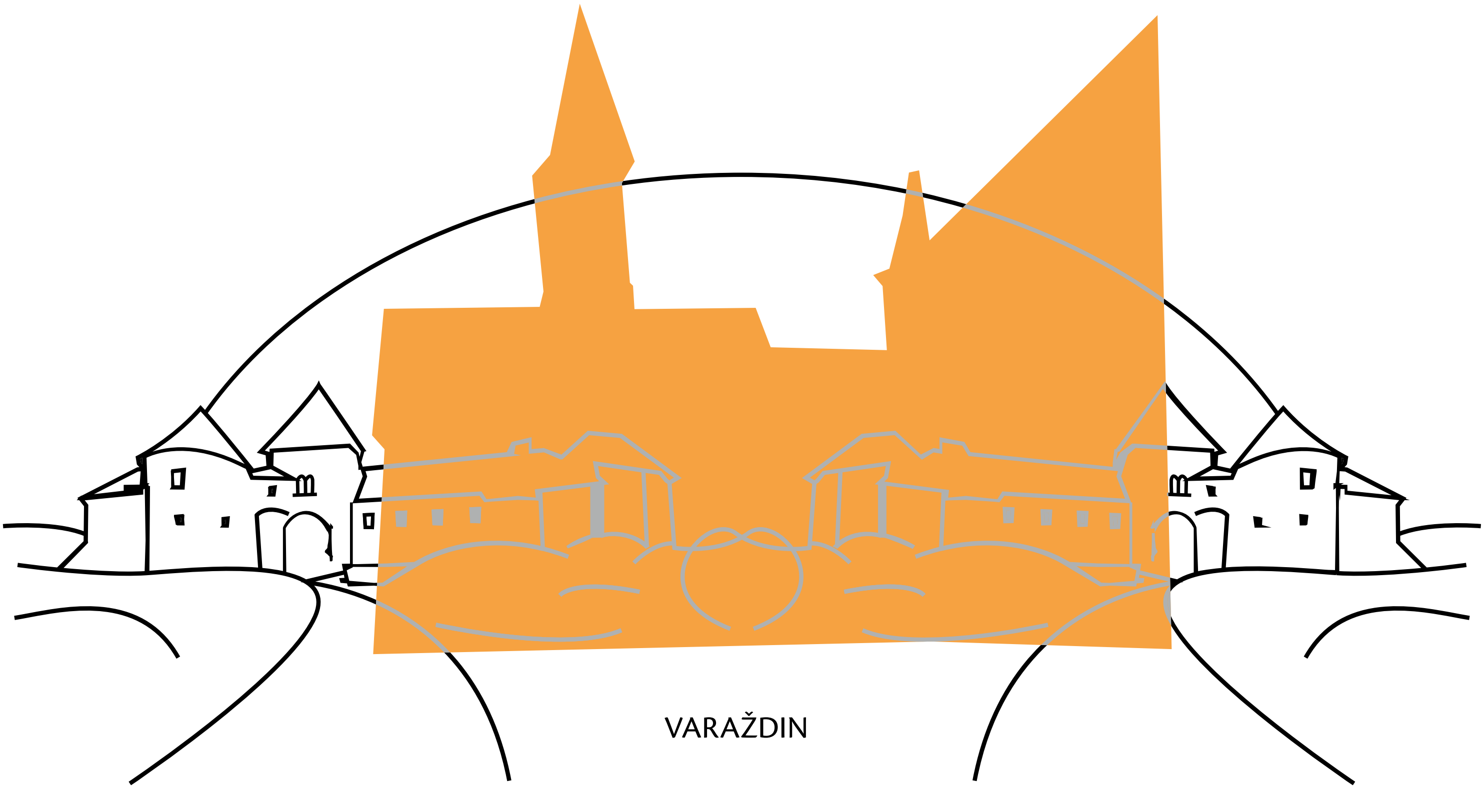
☐ YES ☑ NO

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

☐ YES ☑ NO

63. 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 2017 TOGETHER WITH THE INDEPENDENT AUDITOR`S REPORT

RESPONSIBILITIES OF THE MANAGEMENT AND SUPERVISORY BOARDS FOR THE PREPARATION AND APPROVAL OF ANNUAL 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 applying them consistently; for making 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 determine the annual report, together with the annual financial statements, and forward to the Supervisory Board for approval of these. After the approval of the Supervisory Board, the annual and financial statements are determined by the Management Board and the Supervisory Board then are referred to the General Assembly.

The financial statements of the Bank, set out on pages 9 to 91, were authorised by the Management Board on 19 April 2018 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 19 April 2018 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, 19 April 2018

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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 comprises of the statement of financial position as at December 31, 2017, 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, including 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, 2017, and its financial performance and 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 page 29 for the accounting policies and estimates relevant for loans to customers and to Note 14 on page 48 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 judgement 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 recognizes both specific and collective 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 41/14, 28/17) ("CNB Decision").

How our audit addressed the key audit matter
During our audit we updated our 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:

- Testing of internal controls was performed over:
    - Approval of provision calculation and recording of provisions;
    - Automated DPD counter;
    - Effective interest rate calculation.
- We have analysed the loan population of the Bank in order to disaggregate and identify our focus areas. We have 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.).
- For the selected loan sample, we have performed substantive procedures (test of details) to determine:
    - Whether the loans are properly classified in accordance with the CNB Decision;
    - If there is a 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;
- We have checked completeness and accuracy of the breakdown related to collective impairment;
- We have recalculated Management's calculation to assess that the Bank maintained a minimum of 1% of Portfolio Risk Provisions on total loan exposure for performing loans (class A as per CNB's Decision).

Impairment and classification of Land and buildings, Repossessed assets and Investment properties

Please refer to Note 2 on pages 32, 33 and 34 for the relevant accounting policies and Notes 16, 18 and 20 on pages 55, 58 and 59 respectively containing a breakdown of Investment properties, Land and Buildings and Repossessed assets (''Properties").

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 Properties and adjust their value of the assets accordingly.

In addition, the Management Board has to assess the purpose of Properties in the Bank's portfolio and classify them in accordance with the intended use (for example use for own purposes, rent or a potential sale) following the requirements of International Accounting Standards.

Repossessed assets are assets taken over by the Bank as result of customers' inability to settle their credit obligations (mainly related to business/commercial facilities and residential real estate). Investment properties are properties held either for rent or potential appreciation of price in the future, while Land and buildings represent assets which the Bank uses to maintain its core business operations (HQ premises and branches). As the values of Properties are largely affected by the economic conditions prevailing on the market, the Management Board must continuously re-assess whether the carrying amounts of Properties are reasonable. If they identify impairment indicators, carrying amounts of Properties should be decreased to be in line with reasonable values. This involves significant amount of management's judgement as the estimates for impairment are mostly based on independent valuations, which are often done for properties with very limited market. Therefore, it is sometimes challenging for the valuation experts to choose a proper methodology which is adequate.

At 31 December 2017 the carrying amount of Repossessed assets was estimated at HRK 8,769 thousand, the carrying amount of Land and buildings was HRK 49,552 thousand, while the carrying amount of Investment properties was HRK 36,780. Based on the new valuations performed by independent valuation experts, the Bank recognised impairment losses across all categories in the total amount of HRK 4,037 thousand as a result of changes in the key assumptions underlying the estimates from the prior period.

How our audit addressed the key audit matter

During our audit we applied several procedures to test classification and the recoverable amount of the Properties. Our procedures included the following:

- Assessing the adequacy of the valuation methodology applied;
- Checking the accuracy and completeness of the data from the sub-ledgers of the Bank as well as the reconciliation with the General Ledger;

- Verifying the existence of the title to the Properties, identifying any potential indications of impairment and, where possible, making a comparison with observable market prices
- Verifying the purpose of Properties by obtaining and performing tests of details over the list of branches and properties given for rent.

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.

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 Management Report and the Corporate Governance Statement, which are included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report and the Corporate Governance Statement include required disclosures as set out in the Articles 21 and 22 of the Accounting Act and whether the Corporate Governance Statement 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:

a) Information included in the Management Report is, in all material respects, consistent with the attached financial statements,
b) The Management Report has been prepared, in all material respects, in accordance with the Article 21 of the Accounting Act,
c) Corporate Governance Statement 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, 6 and 7.

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 Banks'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 Banks's financial reporting process.

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 Banks'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 94 to 102, which comprise the balance sheet as at 31 December 2017, 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 93, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements.

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and the Council and the Audit Act

We were appointed as the statutory auditor of the Bank by the shareholders on General Assembly Meeting held on 23 June 2017 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 2 years and covers period 1 January 2016 to 31 December 2017.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Bank on 26 April 2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Bank and its controlled undertakings, and which have not been disclosed in the Annual Report.

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

Marina Tonžetić	Sanja Petračić
Member of the Board	Certified auditor

Deloitte d.o.o.
26 April 2018
Radnička cesta 80,
10 000 Zagreb,
Croatia

STATEMENT OF OTHER COMPREHENSIVE INCOME AS OF 31 DECEMBER 2017

IN HRK THOUSANDS	NOTES	2017	2016
INTEREST AND SIMILAR INCOME	3	110,775	148,973
INTEREST AND SIMILAR EXPENSE	3	(34,540)	(49,107)
NET INTEREST INCOME		**76,235**	**99,866**
FEE AND COMMISSION INCOME	4	37,238	37,703
FEE AND COMMISSION EXPENSE	4	(14,078)	(13,710)
NET FEE AND COMMISSION INCOME		**23,160**	**23,993**
OTHER OPERATING INCOME, NET	5	36,712	28,048
OPERATING INCOME		**136,107**	**151,907**
IMPAIRMENT LOSSES AND PROVISIONS	6	(24,061)	(18,755)
ADMINISTRATIVE EXPENSES	7	(87,808)	(87,729)
DEPRECIATION AND AMORTISATION	8	(6,838)	(8,526)
PROFIT BEFORE TAXATION		**17,400**	**36,897**
INCOME TAX EXPENSE	9	(3,304)	(10,865)
NET PROFIT FOR THE YEAR		**14,096**	**26,032**
OTHER COMPREHENSIVE INCOME			
NET (DECREASE)/INCREASE IN THE FAIR VALUE OF AVAILABLE-FOR-SALE ASSETS	15	(3,401)	9,032
DEFERRED TAX RECOGNISED IN EQUITY	9	612	(1,541)
OTHER COMPREHENSIVE (LOSS)/INCOME THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS IN THE FUTURE		**(2,789)**	**7,491**
OTHER COMPREHENSIVE INCOME THAT IS NOT RECLASSIFIED TO PROFIT OR LOSS IN THE FUTURE		**-**	**-**
TOTAL COMPREHENSIVE INCOME AFTER TAX		**11,307**	**33,523**
EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS	**10**	**HRK 21,08**	**HRK 38.93**

The accompanying accounting policies and notes on pages 51 to 115 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

IN HRK THOUSANDS	NOTES	31 DECEMBER 2017	31 DECEMBER 2016
ASSETS			
CASH AND AMOUNTS DUE FROM BANKS	11	574,998	223,653
BALANCES WITH THE CROATIAN NATIONAL BANK	12	188,657	188,116
PLACEMENTS WITH OTHER BANKS	13	17,186	29,641
LOANS TO CUSTOMERS	14	1,712,694	1,884,779
FINANCIAL ASSETS AVAILABLE FOR SALE	15	624,860	962,606
INVESTMENT PROPERTY	16	36,780	-
INTANGIBLE ASSETS	17	44,063	45,281
PROPERTY AND EQUIPMENT	18	54,046	67,605
DEFERRED TAX ASSETS	9	1,880	1,138
NON-CURRENT ASSETS HELD FOR SALE	19	2,577	-
OTHER ASSETS	20	15,400	51,763
TOTAL ASSETS		**3,273,141**	**3,454,582**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
AMOUNTS DUE TO OTHER BANKS	21	38,901	143,746
AMOUNTS DUE TO CUSTOMERS	22	2,416,653	2,373,650
OTHER BORROWED FUNDS	23	204,111	317,254
OTHER LIABILITIES	24	41,867	59,487
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	25	4,397	3,782
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	26	129,032	129,790
TOTAL LIABILITIES		**2,834,961**	**3,027,709**
SHARE CAPITAL			
SHARE CAPITAL	27	267,500	267,500
SHARE PREMIUM		3,015	3,015
TREASURY SHARES		(11,082)	(11,082)
RESERVES	28	164,651	156,287
PROFIT / (LOSS) FOR THE YEAR		14,096	26,032
ACCUMULATED LOSS		-	(14,879)
TOTAL SHAREHOLDERS' EQUITY		**438,180**	**426,873**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**3,273,141**	**3,454,582**

The accompanying accounting policies and notes on pages 51 to 115 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

IN HRK THOUSANDS	NOTES	2017	2016
PROFIT FOR THE YEAR BEFORE TAX	**9**	**17,400**	**36,897**
ADJUSTED BY:			
DEPRECIATION AND AMORTISATION	8	6,838	8,526
NET INCOME ON DISPOSAL OF NON-CURRENT TANGIBLE ASSETS	5	(120)	(207)
NET INCOME ON THE SALE OF REPOSSESSED ASSETS	5	(495)	(10)
INCREASE IN PROVISIONS FOR LOANS AND OTHER PROVISIONS	6	24,061	18,755
DIVIDEND INCOME	5	(688)	(794)
NET FOREIGN EXCHANGE GAIN FROM ISSUED HYBRID INSTRUMENTS		(781)	(1,336)
PROFIT FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS		**46,215**	**61,831**
CHANGES IN OPERATING ASSETS			
NET (INCREASE)/DECREASE IN BALANCES WITH THE CROATIAN NATIONAL BANK		(540)	17,907
NET (DECREASE) / INCREASE IN LOANS TO CUSTOMERS		156,022	(20,742)
NET DECREASE IN PLACEMENTS WITH BANKS		1,449	26,720
NET (INCREASE) IN OTHER ASSETS		(5,097)	(8,136)
(INCREASE) / DECREASE IN OTHER LIABILITIES		(5,599)	25,055
(DECREASE) / INCREASE IN AMOUNTS DUE TO OTHER BANKS		(104,845)	52,574
INCREASE IN DEPOSITS FROM CUSTOMERS		43,003	24,672
INCOME TAXES PAID		(12,020)	-
NET CASH FROM OPERATIONS		**118,588**	**179,881**
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASES OF PROPERTY AND EQUIPMENT	18	(560)	(1,330)
PURCHASE OF INTANGIBLE ASSETS	17	(1,315)	(641)
DISPOSAL OF PROPERTY AN EQUIPMENT		593	-
PURCHASE / (DISPOSAL) OF FINANCIAL ASSETS AVAILABLE FOR SALE		331,680	(486,349)
DIVIDENDS RECEIVED		688	794
DUE INVESTMENTS THAT ARE HELD TO MATURITY		-	38,573
SALE OF REPOSSESSED ASSETS		3,786	729
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		**334,872**	**(446,904)**
CASH FLOWS FROM FINANCING ACTIVITIES			
RECEIPTS FROM BORROWED FUNDS		(113,143)	139,628
(REPAYMENTS) / PROCEEDS FROM / FOR ISSUED BONDS		23	(790)
NET CASH INFLOW FROM FINANCING ACTIVITIES		**(113,120)**	**138,838**
NET CASH (PAID) / RECEIVED		**(128,185)**	**128,185**
CASH AT THE BEGINNING OF THE PERIOD	**11**	**247,793**	**375,978**
CASH AT THE END OF THE PERIOD	**11**	**588,133**	**247,793**

The accompanying accounting policies and notes on pages 51 to 115 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

IN HRK THOUSANDS	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	CAPITAL GAINS	RESERVES	RETAINED EARNINGS/ (LOSSES)	PROFIT FOR THE YEAR	TOTAL
BALANCE AT 1 JANUARY 2016	**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**	**151,485**	**(14,879)**	**26,032**	**426,873**
PROFIT FOR THE YEAR	-	-	-	-	-	-	14,096	14,096
OTHER COMPREHENSIVE INCOME	-	-	-	-	(2,789)	-	-	(2,789)
ALLOCATION OF 2016 PROFIT	-	-	-	-	11,153	14,879	(26,032)	-
BALANCE AT 31 DECEMBER 2017	**267,500**	**3,015**	**(11,082)**	**4,802**	**159,849**	**-**	**14,096**	**438,180**

The accompanying accounting policies and notes on pages 51 to 115 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017.

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 amortized 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 institution 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.

Suspended interest 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 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.

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

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

- **Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative** – adopted by EU on 6 November 2017 (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** – adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IFRS 12 due to "Improvements to IFRSs (cycle 2014 - 2016)" 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** – adopted by the EU on 7 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not led to any material changes in the Company's financial statements.

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **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),
- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (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** – adopted by the EU on 27 February 2018 (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** – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation** – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).
- **Amendments to IAS 40 "Investment Property" - Transfers of Investment Property** – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 -2016)" 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** – adopted by the EU on 7 February 2018 (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"** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The Company has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates.The Company anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Company in the period of initial application, except for IFRS 9 as described below.

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 25 April 2018 (the effective dates stated below is for IFRS 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 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **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 deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsisten-**

cies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

The Company anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Company in the period of initial application. [If the impact is significant, it should be disclosed; alternatively, the impact (or its absence) should be added to the respective standard or interpretation].

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Company's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the balance sheet date.

IFRS 9 Financial instruments

Regulatory requirements
The new accounting standard IFRS 9, published in July 2014 by IASB and endorsed by European Union Regulation no. 2067/2016, as of 1 January 2018 amends IAS 39, that regulated classification and measurement of financial assets up to 31 December 2017. IFRS 9 covers 3 different areas: classification and measurement of financial assets, impairment and hedge accounting.

Related to the first area, IFRS 9 requires that classification of financial assets is determined by business model assessment on one side and cash flow characteristics on the other side.

IFRS 9 provides three business models:
- Business model "hold to collect": Financial assets acquired or originated with intention to hold to collect cash flows are measured at amortised cost provided SPPI test is passed,
- Business model "hold to collect and sell": Financial assets acquired or originated with the intention to hold to collect or sell are measured at fair value through other comprehensive income provided SPPI test is passed,
- Other business models not meeting criteria of first two business models (including financial instruments held for trading): Other financial assets not acquired or originated to be held in previous two models are measured at fair value through profit or loss.

Classification and measurement of financial instruments. Financial assets could be classified in first two models and measured at amortised cost or fair value through other comprehensive income provided cash flows arising from these instruments represent principal and interest on principal (i.e. "solely payments of principal and interest" – SPPI test). Equity instruments are always classified in other business model and are always measured at fair value through profit or loss, unless Entity chooses irrevocable option of measurement at fair value through other comprehensive income (at date of initial recognition) for equity instruments not held for trading. In this case, reserves recognized in other comprehensive income would not be transferred to profit or loss, even upon derecognition.

In the area of classification and measurement of financial liabilities, IFRS 9 does not introduce significant changes compared to previous standard.

Impairment of financial assets. For financial assets measured at amortised cost and fair value through other comprehensive income (except equity instruments), expected credit loss model is introduced, replacing current incurred loss model with purpose of timely recognition of credit losses. IFRS 9 requires measurement of 12-month expected credit losses for financial assets allocated to Stage 1. i.e. for financial assets for which significant increase in credit risk has not occurred since initial recognition and for which objective evidence of impairment have not been identified. 12-month expected credit loss is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. For Stage 2 financial assets (significant increase in credit risk since initial recognition) and Stage 3 financial assets, lifetime expected credit loss is calculated, representing the expected credit losses that result from all possible default events over the expected life of a financial instrument. Calculation of expected credit losses for financial assets with objective evidence of impairment has not changed significantly compared to IAS 39.

To be more precise, the introduction of new requirements includes:

- Allocation of performing financial assets to different credit risk groups ("staging"), for which 12-month expected credit losses (Stage 1) or lifetime expected credit losses (Stage 2) are calculated if significant increase in credit risk occurred,
- Allocation of non-performing financial assets to Stage 3, for which lifetime expected credit losses are calculated,
- Incorporation of forward-looking macroeconomic information in expected credit losses calculation.

Implementation project

Considering prevailing effect of changes introduced by IFRS 9 on business, organization and the reporting process, the Bank has, in 2017, started a project focusing on research of different areas of Standard, definitions of Standard's quantitative and qualitative effect and identification and implementation of information system and technology changes required for compliance with and effective application of Standard within Bank.

A work group, responsible for the development and implementation of internal IFRS 9 framework has been established. The mentioned project, currently in its final phase, is focused on support and monitoring of activities related to First Time Adoption effect and on implementation of new information system measures, with emphasis on the assurance of consistent application of new rules imposed by Standard.

Before the preliminary analysis of the projects main activities, general decisions made by the Bank in areas of application of new requirements, disclosure of effect of impairment requirements on regulatory capital and comparative balances information availability should be mentioned:

- On 12 December 2017, European Parliament and Council issued Regulation EU 2017/2395 "Transitional requirements for mitigating IFRS 9 impact on regulatory capital" amending Regulation 575/2013 by introducing article 474 "Adoption of IFRS 9", enabling banks to decrease IFRS 9 effect on regulatory capital in transition period of 5 years (from March 2018 to December 2022) by gradually including in CET1 downward amount of effect itself. The Bank opted for a "static approach", that would be applied on effect resulting from IAS 39 and IFRS 9 difference, i.e. instant recognition of effects in profit or loss,

- Considering initial application requirements, the Bank has adopted option provided in paragraph 7.2.15 of IFRS 9, points E1 and E2 of IFRS 1 "Initial application of IFRS", that, not omitting retrospective application of new requirements, comparative information disclosure is not required in financial statements upon initial application of Standard.

In the following paragraphs, a brief analysis of Project and final phase activities performed is described, related to main areas mentioned above.

Classification and measurement
To meet IFRS 9 requirements regarding business models (risk management) and cash flow characteristics, SPPI test methods were defined, including formalization of business models by responsible departments and Management Board of the Bank.

The SPPI test methodology has been determined and analysis of existing portfolio of securities and loans has been performed for the purpose of identification of adequate classification at the date of the initial application of Standard.

For debt instruments measured at amortised cost and classified in IAS 39 available-for-sale category, exhaustive tests of cash flows characteristics have been performed for the purpose of identification of characteristics that could result in the failing of the SPPI test, leading to measurement of such assets at fair value through profit or loss. Based on mentioned analysis, there are no debt instruments failing SPPI tests in the Bank's portfolio.

For the loan portfolio, relevant analysis was performed taking into consideration significance of the portfolio, homogeneity and business department. Accordingly, different approaches have been used for retail and corporate portfolio resulting in conclusion that there are no instruments failing the SPPI test. Hence, for the loan portfolio, there is also no impact on the initial application.

Regarding business model assessment, the process of business model definition was also finalised in accordance with IFRS 9 requirements. For the "hold to collect" business model, thresholds were determined for the purpose of identification of allowed frequent, but not significant sale (individually and collectively) or infrequent, but significant sale of financial assets. Additionally, parameters have been set to enable identification of sale as a result of increased credit risk that is compliant with this model. For financial assets currently classified as available-for-sale, the adoption of the business model "hold to collect and sell" has been defined.

Generally, current management of loans to retail and corporate customers complies with "hold to collect" business model requirements.

For equity instruments classified currently as the IAS 39 available-for-sale category for which fair value through other comprehensive income option is chosen, general criteria have been also set to ensure consistent classification.

Impairment
Impairment activities cover the following areas:
- Assessment of credit quality position changes are defined for financial assets measured at amortised cost or fair value through other comprehensive income;
- Significant credit risk criteria for the purpose of accurate allocation of performing exposures to Stage 1 or 2 have been defined. On the other side, considering partially or fully irrecoverable exposures and harmonization of existing account-

ing and regulatory definition, mentioned exposures are considered identical compared to Stage 3 classification rules;

- Internal model methodology for expected credit loss calculation has been developed and validated to ensure proper calculation of 12-month expected credit losses (Stage 1) and lifetime expected credit losses (Stages 2 and 3).

In accordance with Standard requirements regarding credit risk monitoring, analysis of credit risk quality of each exposure has been done to enable identification of significant increase in credit risk since the initial recognition and resulting allocation in Stage 2. Also, criteria for transfer from Stage 2 to Stage 2 has been set. In other words, each exposure is analysed separately on the reporting date by comparing credit risk on reporting date with credit risk on initial recognition to determine if Stage 2 criteria allocations have been met.

For exposures allocated to Stage 3, methodology set by “Decision on classification of exposures to risk groups and on credit loss calculation methodology” (OG 114/2017) is relevant.

Supervisory bodies have approved new methodology of the measurement of financial instruments, including impairment methodology in accordance with the new Standard.

Impact on information system

Rational and efficient processes of implementation of new requirements imposed by IFRS 9 in areas of Classification and measurement and Impairment, resulted in activities that directly affect IS area. For that purpose, special analysis was conducted to identify major impacted areas. Based on the analysis, relevant application architecture has been focused on, with identified programs and procedures currently in their final phase.

System adjustments that were set as the goal for harmonization with new requirements in areas of classification and measurement, credit risk measurement, accounting and disclosure related to implementation of existing functionalities needed for this purpose and for integration of new applications necessary for more efficient and more effective management in these areas.

As a preliminary step, applications responsible for improvement in credit risk assessment and monitoring were identified and implemented (internal rating model, “watch list”, expected credit loss calculation), including necessary adjustments and improvement to ensure preventive measures for the purpose of monitoring potential allocation to Stage 2 and identification of consistent and timely credit losses with regards to actual credit risk. Similar analysis and adjustments are defined and are in their final phase of implementation considering accounting application and disclosure application.

IFRS 9 first time adoption process

The Bank started the Project of development and implementation of internal IFRS 9 framework in the second half of 2017. Within the mentioned project, the availability and quality of data needed for IFRS 9 was identified, new credit rating models were developed, term PD structure models were developed, LGD models were developed, CCF models were developed and ECL models were developed, along with classification and allocation algorithms for significant increase in credit risk identification. Also, new application architecture has been developed to enable calculation of IFRS 9 parameters.

FTA effects
Based on the information above, the initial application of IFRS 9's effect on Bank's assets as of 1 January 2018 is described below.

Financial impact is neutral.

Considering performing exposures, increase/decrease of impairment is the result of combined effects:
- Allocation of part of performing exposures to Stage 2 based on pre-defined allocation criteria resulting in lifetime expected credit loss calculation – **effect of adoption of the new standard** and
- Change in expected credit loss amounts for Stage 1 exposures compared to incurred credit losses, calculated in accordance with IAS 39 requirements, resulting from change in fundamental methodologies (calculation of PD and LGD parameters) – **effect of implementation of new methodology for credit risk measurement**

Note: Since the full availability of data and application functionalities necessary for standardized calculation of credit risk parameters was not technically supported up to date of financial statements, for the initial application effect estimation, simplified methodology based on standard methodology coming into production on 31 March 2018, has been utilised. Estimation of effects represents best approximation (expert simulation) of new Standard requirements' effect, based on default rates, non-performing exposures coverage ratios and average tenors from previous periods for standard client segments wherefore, during 2018 (upon complete system support for ECL calculation) further adjustments of impairment are expected. These changes would be, as remainder of IFRS 9 effect, successively recognized at the expense of Bank's result until the end of the year.

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 2017 the exchange rate of the Croatian kuna against 1 euro and 1 US dollar was HRK 7.513648 and HRK 6.269733 respectively (31 December 2016: HRK 7.557787 to EUR 1 and HRK 7.168536 to USD 1).

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 (by 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 a one-way currency clause. The clause provides the Bank with 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:

	2017	2016
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 from and 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 apply 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 the carrying amount of the tax assets.

The Bank pays corporate income tax by applying a tax rate of 18% 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 recognizes 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 recognized, subject to the restriction that the carrying amount of the investment at the date that the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognized.

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. 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 recognized, are not included in a collective assessment of impairment. Fully irrecoverable placements of the Bank are those that originate 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 a maximum of 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 the 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 any 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 recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognized 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 the 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, ie 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 the 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 increase 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 Banks'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 arise.

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 from 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.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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 equipment 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, 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:

	2017	2016
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

An impairment loss is assessed annually for possible losses. Testing for impairment is carried out using the cost method of capital - CAPM model (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 the 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 recognized 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 2017 and 2016.

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 difficulty 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 basis 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 financial instruments. The obligations arising from the 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	2017	2016
INTEREST INCOME		
CORPORATE CUSTOMERS	50,620	83,283
INDIVIDUALS	40,155	40,736
SECURITIES	13,792	16,412
BANKS	510	921
PUBLIC AND OTHER SECTORS	5,698	7,621
	110,775	**148,973**
INTEREST EXPENSE		
CORPORATE CUSTOMERS	(4,516)	(6,986)
INDIVIDUALS	(19,718)	(29,358)
BANKS	(7,683)	(8,193)
PUBLIC AND OTHER SECTORS	(2,623)	(4,570)
	(34,540)	**(49,107)**
NET INTEREST INCOME	**76,235**	**99,866**

Interest income also includes deferred fees on loans in the total amount of HRK 5,194 thousand (2016: HRK 12,341 thousand), which are recognised by applying the effective interest rate method.

IN HRK THOUSANDS	2017	2016
INTEREST INCOME ON:		
PARTLY RECOVERABLE LOANS	5,146	18,066
FULLY IRRECOVERABLE LOANS	683	851
	5,829	**18,917**

4. FEE AND COMMISSION INCOME AND EXPENSE

IN HRK THOUSANDS	2017	2016
FEE AND COMMISSION INCOME		
PAYMENT TRANSACTION RELATED FEES AND COMMISSIONS	14,635	14,357
CARD-RELATED FEES AND COMMISSIONS	14,459	14,490
FEES AND COMMISSIONS FROM LENDING OPERATIONS	2,497	2,993
FEES AND COMMISSIONS ON SECURITIES TRADING	1,399	1,318
OTHER FEE AND COMMISSION INCOME	4,248	4,545
	37,238	**37,703**
FEE AND COMMISSION EXPENSE		
CASH OPERATION FEES AND COMMISSIONS	(3,891)	(4,352)
PAYMENT OPERATION CHARGES	(2,609)	(2,334)
INTERBANK SERVICE FEES	(460)	(499)
CARD-RELATED FEES	(4,527)	(4,111)
OTHER FEE AND COMMISSION EXPENSES	(2,591)	(2,414)
	(14,078)	**(13,710)**
NET FEE AND COMMISSION INCOME	**23,160**	**23,993**

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 2,376 thousand (2016: HRK 2,358 thousand).

5. OTHER OPERATING INCOME, NET

IN HRK THOUSANDS	2017	2016
NET REALISED GAINS ON THE SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	26,272	16,900
FOREIGN EXCHANGE TRADING GAINS	5,496	5,481
RENTAL INCOME	1,987	1,873
REFUND OF COURT COSTS	1,446	1,840
DIVIDEND INCOME	688	794
NET GAINS ON THE SALE OF FORECLOSED ASSETS	495	10
NET GAINS ON DISPOSAL OF PROPERTY AND EQUIPMENT	120	207
INCOME ON SUBSEQUENT COLLECTION OF RECEIVABLE PREVIOUSLY WRITTEN OFF	6	4
NET FX DIFFERENCES ON RETRANSLATION AT THE MIDDLE EXCHANGE RATE	(978)	386
OTHER INCOME	1,180	553
	36,712	**28,048**

6. IMPAIRMENT LOSSES AND PROVISIONS

IN HRK THOUSANDS	2017	2016
PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS (NOTE 14D)	(16,064)	(8,269)
IMPAIRMENT OF DEBT SECURITIES AVAILABLE-FOR-SALE	(457)	-
IMPAIRMENT OF EQUITY SECURITIES (NOTES 15E)	(2,207)	(1,936)
(PROVISIONS)/REVERSAL OF PROVISIONS FOR GUARANTEES AND CONTINGENT LIABILITIES (NOTE 25)	(683)	369
IMPAIRMENT OF OTHER ASSETS (NOTE 20)	(186)	(265)
IMPAIRMENT OF FORECLOSED ASSETS (NOTE 20)	(1,261)	(8,579)
IMPAIRMENT OF INVESTMENT PROPERTIES (NOTE 16)	(2,776)	-
IMPAIRMENT OF NON-CURRENT ASSETS HELD FOR SALE (NOTE 19)	(495)	-
REVERSAL OF PROVISIONS/(PROVISIONS) FOR LEGAL CASES (NOTE 25)	68	(75)
	(24,061)	**(18,755)**

7. ADMINISTRATIVE EXPENSES

IN HRK THOUSANDS	2017	2016
STAFF COSTS	44,595	44,466
COST OF MATERIAL AND SERVICES	26,594	26,841
RENTAL COSTS	7,903	7,597
DEPOSIT INSURANCE PREMIUMS	5,475	5,747
TAXES AND CONTRIBUTIONS	1,347	1,169
OTHER EXPENSES	1,894	1,909
	87,808	**87,729**

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

Staff costs

IN HRK THOUSANDS	2017	2016
NET SALARIES	25,292	23,219
PENSION INSURANCE COSTS	6,246	6,120
HEALTH INSURANCE COSTS	5,595	5,243
OTHER COMPULSORY CONTRIBUTIONS	847	769
TAXES AND SURTAXES	5,756	5,621
REVERSAL OF PROVISIONS/(PROVISIONS) FOR EMPLOYEE BENEFITS	(134)	1,728
OTHER STAFF COSTS	993	1,766
	44,595	**44,466**

At 31 December 2017 the Bank had 221 employees (2016: 223 employees).

8. DEPRECIATION AND AMORTISATION

IN HRK THOUSANDS	2017	2016
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 18)	3,856	5,291
DEPRECIATION OF LEASEHOLD IMPROVEMENTS (NOTE 18)	449	524
AMORTISATION (NOTE 17)	2,533	2,711
	6,838	**8,526**

9. INCOME TAX EXPENSE

Corporate income tax is determined by applying the rate of 18% (2016: 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	2017	2016
CURRENT TAX EXPENSE	3,435	7,334
DEFERRED TAX	(131)	3,531
TAX EXPENSE	3,304	10,865

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

IN HRK THOUSANDS	2017	2016
PROFIT BEFORE TAXATION	17,400	36,897
STATUTORY TAX RATE	18%	20%
EXPECTED TAX AT THE RATE OF 20%	3,132	7,379
TEMPORARY DIFFERENCES		
UNREALISED LOSSES FROM FINANCIAL ASSETS	-	(32)
DEFERRED LOAN ORIGINATION FEES	816	(4,317)
PROVISIONS FOR PAYMENTS TO EMPLOYEES	-	1,750
REALISED LOSSES – FINALISED LIQUIDATION	-	-
REALISED LOSSES – SALE OF FORECLOSED ASSETS (INVESTMENTS)	(1,220)	(17)
IMPAIRMENT OF FORECLOSED ASSETS	2,879	8,579
LOSSES ON AFS SECURITIES	-	2,017
REVERSAL OF PROVISIONS FOR EMPLOYEE PAYMENTS	(1,750)	-
NET TEMPORARY DIFFERENCES	**725**	**7,980**
PERMANENT DIFFERENCES		
TAX EFFECT OF NON-TAXABLE INCOME	**(535)**	**(794)**
DIVIDENDS RECEIVED	(535)	(794)
EFFECT OF TAX NON-DEDUCTIBLE EXPENSES	**1,490**	**9,306**
ENTERTAINMENT AND TRANSPORT	447	473
DEPRECIATION ABOVE THE PRESCRIBED AMOUNTS	177	177
INTEREST FROM RELATED-PARTY RELATIONSHIPS	-	-
WRITTEN-OFF RECEIVABLES	657	8,476
OTHERS	209	180
NET PERMANENT DIFFERENCES	**955**	**8,512**
TAXABLE PROFIT	19,080	53,389
TAX BASE	19,080	36,670
TAX RATE	18%	20%
INCOME TAX PAYABLE	3,435	7,334
CURRENT TAX EXPENSE	**3,435**	**7,334**
DEFERRED TAX (INCOME)/EXPENSE	**(131)**	**3,531**
TOTAL TAX EXPENSE	**3,304**	**10,865**
EFFECTIVE TAX RATE	**19.74%**	**19.88%**
TAX LOSSES BROUGHT FORWARD	-	(16,719)
TAX LOSS FOR THE YEAR	-	-
UTILISED DURING THE YEAR	-	16,719
TAX LOSSES AVAILABLE FOR CARRY FORWARD	-	-

At 31 December 2017 and 31 December 2016 the Bank had no unused tax losses.

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

2017

IN HRK THOUSANDS	OPENING BALANCE	CHARGED TO PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	CLOSING BALANCE
LOSSES FROM FINANCIAL ASSETS	535	-	-	535
LOSSES ON OTHER INVESTMENTS	1,580	299	-	1,879
DEFERRED LOAN ORIGINATION FEES	711	147	-	858
FINANCIAL ASSETS AVAILABLE FOR SALE	(2,384)	-	612	(1,772)
IMPAIRMENT OF FINANCIAL ASSETS	363	-	-	363
PROVISIONS FOR LEGAL CASES – INTEREST	18	-	-	18
PROVISIONS FOR PAYMENTS TO EMPLOYEES	315	(315)	-	-
TAX LOSS	-	-	-	-
LOSSES ON AFS SECURITIES	-	-	-	-
	1,138	**131**	**612**	**1,881**

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 CASES – 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**

The deferred tax assets and deferred tax liabilities are recognised by applying a rate of 18 percent (2016: 18%).

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.

	2017	2016
PROFIT FOR THE YEAR (IN HRK'000)	14,096	26,032
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR THE YEAR	668,749	668,749
EARNINGS PER SHARE (IN KUNAS) – BASIC AND DILUTED	21.08	38.93

11. CASH AND AMOUNTS DUE FROM BANKS

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
GIRO ACCOUNT WITH THE CROATIAN NATIONAL BANK	374,595	110,771
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	112,068	50,943
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	30,328	7,781
CASH IN HAND	45,574	41,616
OTHER ITEMS	12,433	12,542
	574,998	**223,653**

The provision i.e. allowance for cash and balances with other banks classified into the risk group A amounts to HRK 5,294 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 2017	31 DECEMBER 2016
GIRO ACCOUNTS WITH THE CROATIAN NATIONAL BANK	374,595	110,771
CASH EQUIVALENTS – TERM DEPOSITS WITH OTHER BANKS (NOTE 13)	13,135	24,141
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	112,068	50,943
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	30,328	7,781
CASH IN HAND	45,574	41,616
OTHER ITEMS	12,433	12,541
	588,133	**247,793**

12. BALANCES WITH THE CROATIAN NATIONAL BANK

The obligatory reserve represents the amount of liquid assets that banks are required to place with the Croatian National Bank. The obligatory reserve is calculated every second Wednesday in a 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 2016 and 2017.

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. Banks do not allocate obligatory reserve, 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 1,887 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 2017	31 DECEMBER 2016
TERM DEPOSITS	13,135	24,141
REVERSE REPO LOANS	4,051	5,500
	17,186	**29,641**
LESS: PROVISION FOR LOAN IMPAIRMENT	-	-
	17,186	**29,641**

Term deposits with other banks amount to HRK 13,135 thousand and represent term deposits with foreign financial institutions bearing interest a rate of 2.75% annually (2016: up to 2.75%).

Reverse repo loans in the amount of HRK 4,050 thousand (2016: HRK 5,500 thousand) were granted to domestic customers based on bonds of the Croatian Ministry of Finance with the ticker ISIN XS0997000251.

The provision recognised on a collective basis for balances with other banks classified into the risk group A amounts to HRK 172 thousand (2016: HRK 296 thousand) and is included in the total provisions for impairment (Note 14 – Loans to customers).

Geographical analysis

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

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
BELGIUM	47,517	18,862
AUSTRIA	19,868	842
GERMANY	17,208	4,078
MONTENEGRO	14,320	803
UNITED STATES OF AMERICA	7,093	21,483
AUSTRALIA	2,540	1,713
CANADA	1,957	765
SLOVENIA	708	827
ITALY	329	23,032
SWEDEN	241	203
DENMARK	153	68
SPAIN	133	1,008
GREAT BRITAIN	-	1,398
	112,067	**75,082**

14. LOANS TO CUSTOMERS

a) Analysis by type of customer

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
RETAIL CUSTOMERS		
- HRK DENOMINATED, INCLUDING LOANS WITH A CURRENCY CLAUSE	718,514	622,746
- FOREIGN-CURRENCY DENOMINATED	23,408	25,602
	741,922	**648,348**
CORPORATE CUSTOMERS		
- HRK DENOMINATED, INCLUDING LOANS WITH A CURRENCY CLAUSE	1,080,087	1,309,513
- FOREIGN-CURRENCY DENOMINATED	143,783	164,374
	1,223,870	**1,473,887**
GROSS LOANS TO CUSTOMERS	**1,965,792**	**2,122,235**
LESS: PROVISION FOR LOAN IMPAIRMENT	(253,098)	(237,456)
NET LOANS TO CUSTOMERS	**1,712,694**	**1,884,779**

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 22,052 thousand, of which HRK 14,672 thousand relates to loans to customers, HRK 1,887 thousand to obligatory reserve funds, HRK 5,294 thousand to cash and demand deposits with other banks, HRK 172 thousand to balances with other banks and HRK 28 thousand to other assets.

b) Analysis by sector

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
RETAIL CUSTOMERS	741,922	648,348
WHOLESALE AND RETAIL TRADE	448,344	541,786
PROCESSING AND MANUFACTURING	233,424	236,547
AGRICULTURE AND FORESTRY	127,536	122,712
CONSTRUCTION	72,822	70,439
REAL ESTATE OPERATIONS	67,272	41,826
HOTELS AND RESTAURANTS	66,116	82,998
FOOD AND BEVERAGE PRODUCTION	53,350	151,949
TRANSPORT, STORAGE, COMMUNICATIONS	34,768	29,185
ENERGY, GAS AND WATER SUPPLY	23,063	13,807
OTHER SECTORS	97,175	182,638
	1,965,792	**2,122,235**
LESS: PROVISION FOR LOAN IMPAIRMENT	(253,098)	(237,456)
	1,712.694	**1,884,779**

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

BANK		2017		2016
IN HRK THOUSANDS	PARTLY RECOVERABLE (SUBSTANDARD) LOANS	FULLY IRRECOVERABLE (BAD) LOANS	PARTLY RECOVERABLE (SUBSTANDARD) LOANS	FULLY IRRECOVERABLE (BAD) LOANS
BALANCE AT 1 JANUARY	**225,427**	**154,759**	**273,681**	**150,404**
RECLASSIFIED FROM FULLY RECOVERABLE LOANS	107,872	1,173	29,864	467
RECLASSIFIED FROM FULLY RECOVERABLE LOANS	3	(3)	115	(115)
RECLASSIFIED FROM PARTLY RECOVERABLE LOANS	(4,913)	4,913	(9,162)	9,162
RECLASSIFIED TO FULLY RECOVERABLE LOANS	(938)	(60)	(4,413)	(404)
AMOUNTS COLLECTED	(22,105)	(4,447)	(57,401)	(4,708)
AMOUNTS WRITTEN-OFF	-	(422)	(8,623)	(631)
OTHER CHANGES	-	-	1,366	584
BALANCE AT 31 DECEMBER	**305,346**	**155,913**	**225,427**	**154,759**

At 31 December 2017, the gross principal amount of non-performing loans was HRK 155,913 thousand (2016: HRK 154,759 thousand). In 2017, HRK 4,447 thousand of such

non-performing loans was recovered (2016: HRK 4,708 thousand). In 2017 HRK 47,347 thousand of loans to legal persons and sole traders were renegotiated (2016: HRK 12,745 thousand).

d) Provisions for losses

IN HRK THOUSANDS	2017	2016
BALANCE AT 1 JANUARY	**237,456**	**238,279**
INCREASE IN THE IMPAIRMENT PROVISION	70,579	97,214
AMOUNTS COLLECTED	(52,444)	(87,472)
EXCHANGE DIFFERENCES	(2,071)	(1,473)
AMOUNTS WRITTEN-OFF	(422)	(9,092)
BALANCE AT 31 DECEMBER	**253,098**	**237,456**

The Bank manages its exposure to credit risk by applying a variety of control measures: regular assessment using agreed credit criteria and diversification of sector risks to avoid concentration in a single industry are two examples. 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 2017	31 DECEMBER 2016
TREASURY BILLS OF THE REPUBLIC OF CROATIA	-	22,478
BONDS	284,628	523,816
UNITS/SHARES IN INVESTMENT FUNDS	280,774	380,609
EQUITY SECURITIES	68,949	42,529
	634,351	**969,432**
IMPAIRMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE	(9,491)	(6,826)
	624,860	**962,606**

Investments in debt securities are shown as follows:

a) Treasury bills of the Republic of Croatia

IN HRK THOUSANDS	2017	2016
BALANCE AT 1 JANUARY	**22.478**	**-**
PURCHASES	1.155	22,775
AMOUNTS COLLECTED	(23.681)	(249)
FAIR VALUE CHANGE	48	(48)
BALANCE AT 31 DECEMBER	**-**	**22,478**

b) Bonds

IN HRK THOUSANDS	2017	2016
BALANCE AT 1 JANUARY	523,816	268,353
PURCHASES	785,166	762,076
SOLD / COLLECTED	(1,039,249)	(526,094)
REALISED GAINS	19,773	7,727
CHANGE IN THE FAIR VALUE	(4,878)	11,754
IMPAIRMENT	(457)	-
BALANCE AT 31 DECEMBER	284,171	523,816

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

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
BONDS OF DOMESTIC ISSUERS		
- CROATIAN MINISTRY OF FINANCE	109,454	229,171
- FINANCIAL INSTITUTIONS	2,736	13,131
- NON-FINANCIAL INSTITUTIONS	31,207	58,893
	143,397	301,195
BONDS OF FOREIGN ISSUERS		
- FOREIGN GOVERNMENT BONDS	31,253	88,175
- FINANCIAL INSTITUTIONS	92,973	123,319
- NON-FINANCIAL INSTITUTIONS	17,005	11,127
	141,231	222,621
	284,628	523,816
IMPAIRMENT	(457)	-
	284,171	523,816

Investments in debt securities are shown as follows:

c) Units/shares in investment funds

IN HRK THOUSANDS	2017	2016
BALANCE AT 1 JANUARY	380,609	156,710
PURCHASES	290,445	289,142
SOLD / COLLECTED	(394,670)	(69,640)
REALISED GAINS	7,361	121
CHANGE IN THE FAIR VALUE	(2,971)	4,276
BALANCE AT 31 DECEMBER	280,774	380,609

d) Equity securities

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
LISTED SECURITIES	62,532	33,550
UNLISTED SECURITIES	6,417	8,979
	68,949	**42,529**
IMPAIRMENT OF EQUITY SECURITIES	(9,033)	(6,826)
TOTAL	**59,916**	**35,703**

Movements in equity securities during the year:

IN HRK THOUSANDS	2017	2016
BALANCE AT 1 JANUARY	**35,703**	**44,096**
PURCHASES	54,934	31,626
DISPOSALS	(32,053)	(36,891)
REALISED (LOSS) / GAINS	(862)	9,052
CHANGE IN THE FAIR VALUE	4,401	(6,950)
AMOUNTS WRITTEN-OFF	0	(3,294)
IMPAIRMENT OF EQUITY SECURITIES	(2,207)	(1,936)
BALANCE AT 31 DECEMBER	**59,916**	**35,703**

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

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
EQUITY SECURITIES OF DOMESTIC ISSUERS		
- FINANCIAL INSTITUTIONS	691	521
- NON-FINANCIAL INSTITUTIONS	27,814	23,784
	28,505	**24,305**
EQUITY SECURITIES OF FOREIGN ISSUERS		
- FINANCIAL INSTITUTIONS	13,158	14,595
- NON-FINANCIAL INSTITUTIONS	27,286	3,629
	40,444	**18,224**
	68,949	**42,529**
IMPAIRMENT OF EQUITY SECURITIES	(9,033)	(6,826)
	59,916	**35,703**

e) Fair value reserve from financial assets available for sale

TYPE OF SECURITIES IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
BY SECURITY TYPE:		
DEBT SECURITIES	1,807	6,638
UNITS/SHARES IN INVESTMENT FUNDS	3,626	6,596
EQUITY SECURITIES	4,416	15
DEFERRED TAX (NOTE 9)	(1,773)	(2,385)
TOTAL FAIR VALUE RESERVE	**8,076**	**10,864**

Movements in the fair value reserve

IN HRK THOUSANDS	2017	2016
BALANCE AT 1 JANUARY	**10,864**	**3,374**
CHANGE IN THE FAIR VALUE OF DEBT SECURITIES	(4,831)	11,706
CHANGE IN THE FAIR VALUE OF UNITS/SHARES IN INVESTMENT FUNDS	(2,971)	4,276
CHANGE IN THE FAIR VALUE OF EQUITY SECURITIES	6,608	(6,950)
ACCUMULATED FAIR VALUE CHANGE TRANSFERRED TO PROFIT OR LOSS AS IMPAIRMENT	(2,207)	-
DEFERRED TAX RECOGNISED IN EQUITY (NOTE 9)	612	(1,542)
BALANCE AT 31 DECEMBER	**8,075**	**10,864**

Movements in the impairment of financial assets available for sale

IN HRK THOUSANDS	2017	2016
BALANCE AT 1 JANUARY	**6,826**	**8,184**
ADDITIONS	2,757	1,936
DECREASE	(92)	-
AMOUNTS WRITTEN-OFF	-	(3,294)
BALANCE AT 31 DECEMBER	**9,491**	**6,826**

16. INVESTMENT PROPERTY

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
RECLASSIFIED FROM OTHER ASSETS	30,672	-
RECLASSIFIED FROM PROPERTY AND EQUIPMENT	20,131	-
ACCUMULATED DEPRECIATION	(3,888)	-
	46,915	**-**
IMPAIRMENT OF INVESTMENT PROPERTY	(10,135)	-
	36,780	**-**

IN HRK THOUSANDS	2017	2016
BALANCE AT 1 JANUARY	**-**	**-**
RECLASSIFICATION OF OTHER ASSETS	2,776	-
RECLASSIFICATION OF PROPERTY AND EQUIPMENT	7,359	-
BALANCE AT 31 DECEMBER	**10,135**	**-**

Investment property relates to repossessed assets and own assets that are not used for business operations and that are leased without constraining clauses with for the purpose of earning income from assets and saving maintenance costs. Operating costs related to leased assets are charged to lessees. Subsequent measurement of repossessed assets resulted in a total impairment amount of HRK 2,776 thousand.

17. INTANGIBLE ASSETS

IN HRK THOUSANDS	SOFTWARE	GOODWILL	ASSETS UNDER DEVELOPMENT	TOTAL INTANGIBLE ASSETS
COST OR VALUATION				
BALANCE AT 1 JANUARY 2016	**44,815**	**16,867**	**522**	**62,204**
ADDITIONS	1,234	-	97	1,331
TRANSFER FROM ASSETS UNDER DEVELOPMENT	571	-	(571)	(571)
DISPOSALS AND WRITE-OFFS	(124)	-	-	(124)
BALANCE AT 31 DECEMBER 2016	**46,496**	**16,867**	**48**	**63,411**
ADDITIONS	1,315	-	-	1,315
TRANSFER FROM ASSETS UNDER DEVELOPMENT	24	-	(24)	-
DISPOSALS AND WRITE-OFFS	-	-	-	-
BALANCE AT 31 DECEMBER 2017	**47,835**	**16,867**	**24**	**64,726**
AMORTISATION				
BALANCE AT 1 JANUARY 2016	**15,419**	**-**	**-**	**15,419**
CHARGE FOR THE YEAR	2,711	-	-	2,711
DISPOSALS AND RETIREMENTS	-	-	-	-
BALANCE AT 31 DECEMBER 2016	**18,130**	**-**	**-**	**18,130**
CHARGE FOR THE YEAR	2,533	-	-	2,533
DISPOSALS AND WRITE-OFFS	-	-	-	-
BALANCE AT 31 DECEMBER 2017	**20,663**	**-**	**-**	**20,663**
NET BOOK VALUE				
BALANCE AT 31 DECEMBER 2017	**27,172**	**16,867**	**24**	**44,063**
BALANCE AT 31 DECEMBER 2016	**28,366**	**16,867**	**48**	**45,281**

Goodwill has been allocated to the cash generating units acquired through the acquisition 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 10.0% (2016: 11.5%) and the long-term growth rate was 2% (2016: 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 55 percent lower as a result of lower interest and fee income and the interest and fee expenses increase simultaneously by 30 percent, and the systemic scenario uses an increase of the discount rate increases to 11.8 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.

Goodwill has arisen since the acquisition of Požeška banka and was calculated and posted on the takeover date, acquisition of the subject.

The test results are provided below:

	31 DECEMBER 2017	SPECIFIC SCENARIO	SYSTEMIC SCENARIO	COMBINED SCENARIO
INVESTMENT COST	43,465	43,465	43,465	43,465
TOTAL PRESENT VALUE	94,506	48,369	76,664	39,228
LESS: IMPAIRMENT	-	-	-	(4,237)

	31 DECEMBER 2016	SPECIFIC SCENARIO	SYSTEMIC SCENARIO	COMBINED 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 combined 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

COST OR VALUATION IN HRK THOUSANDS	LAND AND BUILDINGS	FURNITURE AND EQUIPMENT	MOTOR VEHICLES	IT EQUIPMENT	LEASEHOLD IMPROVEMENTS AND LONG-TERM LEASES	ASSETS UNDER CONSTRUCTION	TOTAL
BALANCE AT 1 JANUARY 2016	**122,186**	**47,627**	**2,671**	**32,604**	**10,374**	**-**	**215,462**
ADDITIONS	16	454	-	56	104	11	641
TRANSFERRED TO OTHER ASSETS	(8,903)	-	-	-	-	-	(8,903)
DISPOSALS AND WRITE-OFFS	(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**
ADDITIONS	-	309	-	253	-	-	562
TRANSFERRED TO INVESTMENT PROPERTY	(11,228)	-	-	-	-	-	(11,228)
DISPOSALS AND WRITE-OFFS	(1,101)	-	-	(8)	-	-	(1,109)
BALANCE AT 31 DECEMBER 2017	**99,273**	**48,219**	**2,537**	**30,466**	**10,478**	**11**	**190,984**
DEPRECIATION							
BALANCE AT 1 JANUARY 2016	**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
TRANSFERRED TO OTHER ASSETS	(2,000)	-	-	-	-	-	(2,000)
DISPOSALS AND WRITE-OFFS	(708)	(171)	(134)	(2,439)	-	-	(3,452)
BALANCE AT 31 DECEMBER 2016	**49,970**	**44,584**	**1,407**	**30,055**	**9,138**	**-**	**135,154**
CHARGE FOR THE YEAR	2,264	1,142	366	114	449	-	4,305
TRANSFERRED TO INVESTMENT PROPERTY	(1,888)	-	-	-	-	-	(1,888)
DISPOSALS AND RETIREMENTS	(625)	-	-	(8)	-	-	(633)
BALANCE AT 31 DECEMBER 2017	**49,721**	**45,726**	**1,743**	**30,161**	**9,587**	**-**	**136,938**
NET BOOK VALUE							
AT 31 DECEMBER 2017	**49,552**	**2,493**	**794**	**305**	**891**	**11**	**54,046**
AT 31 DECEMBER 2016	**61,632**	**3,326**	**1,130**	**166**	**1,340**	**11**	**67,605**

The Bank has no tangible assets pledged as collateral for deposits for accepted deposits or other assets in 2017 and 2016.

19. NON-CURRENT ASSETS HELD FOR SALE

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
ASSETS HELD FOR SALE	3,072	-
	3,072	**-**
IMPAIRMENT OF ASSETS HELD FOR SALE	(495)	-
	2,577	**-**

IN HRK THOUSANDS	2017	2016
BALANCE AT 1 JANUARY	**-**	**-**
IMPAIRMENT	495	-
BALANCE AT 31 DECEMBER	**495**	**-**

Non-current assets held for sale relate to repossessed assets. Part of the repossessed assets with a net book value of HRK 342 thousand is leased without constraining clauses for the purpose of saving maintenance costs (water, electricity, maintenance and similar) until day of sale. Subsequent measurement resulted in total impairment of HRK 495 thousand. Assets are advertised by intermediary real estate agencies with whom the Bank has signed Contracts on intermediation. Sale is expected within one year.

20. OTHER ASSETS

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
FORECLOSED ASSETS	10,230	44,846
ACCRUED FEES AND COMMISSIONS	5,684	5,861
PREPAID EXPENSES	2,652	2,189
OTHER PREPAYMENTS	716	784
INCOME TAX RECEIVABLES	1,523	3,622
ASSETS TRANSFERRED FROM PROPERTY AND EQUIPMENT	-	6,903
OTHER ASSETS	1,688	8,807
	22,493	**66,109**
LESS: IMPAIRMENT	(7,093)	(14,346)
	15,400	**51,763**

The provision recognised on a collective basis for A-graded other assets amounts to HRK 28 thousand (2016: 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 8,769 thousand at 31 December 2017 (31 December 2016: HRK 36,067 thousand). In 2017, the Bank has reclassified part of its foreclosed assets portfolio to investment property and to non-current assets held for sale, based on purpose.

Subsequent measurement of foreclosed assets resulted in total impairment amount of HRK 1,261 thousand in 2017 (2016: HRK 8,579 thousand).

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

IN HRK THOUSANDS	2017	2016
BALANCE AT 1 JANUARY	**14,346**	**5,682**
IMPAIRMENT OF OTHER ASSETS	1,138	1,245
AMOUNTS COLLECTED	(949)	(975)
EXCHANGE DIFFERENCES	(3)	(5)
AMOUNTS WRITTEN-OFF	(121)	(163)
SALE OF FORECLOSED ASSETS	(1,220)	(17)
IMPAIRMENT OF FORECLOSED ASSETS	1.261	8,579
RECLASSIFICATION OF ASSETS	(7,359)	-
BALANCE AT 31 DECEMBER	**7,093**	**14,346**

21. AMOUNTS DUE TO OTHER BANKS

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
DEMAND DEPOSITS, FX DENOMINATED	14,399	38,066
DEMAND DEPOSITS, HRK DENOMINATED	1	-
TERM DEPOSITS OF DOMESTIC AND FOREIGN BANKS, FX DENOMINATED	24,501	22,675
TERM DEPOSITS OF DOMESTIC BANKS, HRK DENOMINATED	-	83,005
	38,901	**143,746**

The interest rates on foreign currency term deposits range from 0.15% to 0.25% (2016: from 0.10% to 0.15%). In 2017, the Bank does not have term deposits in HRK from banks (2016: interest rates range from 0.25% to 0.55%).

22. AMOUNTS DUE TO CUSTOMERS

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
RETAIL CUSTOMERS		
DEMAND DEPOSITS		
- HRK DENOMINATED	371,863	307,027
- FOREIGN-CURRENCY DENOMINATED	284,801	240,293
TERM DEPOSITS		
- HRK DENOMINATED	344,838	360,041
- FOREIGN-CURRENCY DENOMINATED	871,467	943,230
TOTAL RETAIL DEPOSITS	**1,872,969**	**1,850,591**
CORPORATE		
DEMAND DEPOSITS		
- HRK DENOMINATED	262,946	241,638
- FOREIGN-CURRENCY DENOMINATED	53,017	42,691
TERM DEPOSITS		
- HRK DENOMINATED	198,151	209,709
- FOREIGN-CURRENCY DENOMINATED	29,570	29,021
TOTAL LOANS TO LEGAL PERSONS	**543,684**	**523,059**
TOTAL DEPOSITS FROM CUSTOMERS	**2,416,653**	**2,373,650**

23. OTHER BORROWINGS

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
BORROWINGS FROM HBOR (CROATIAN DEVELOPMENT BANK)	143,033	211,770
REPO LOANS FROM THE CNB, HRK DENOMINATED	61,078	30,477
REPO LOANS OF DOMESTIC BANKS, HRK DENOMINATED	-	75,007
	204,111	**317,254**

The HBOR loans are utilised 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 2017, the Bank has two repo loan arrangements entered into with the Croatian National Bank, with an interest rate of 1.20% and 1.80% respectively. As of 31 December 2017, the Bank does not have repo loan agreements with domestic banks (2016: interest rates were 0.40% and 0.65% respectively).

For all the 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 2017	31 DECEMBER 2016
ITEMS IN COURSE OF PAYMENT UNDER GIVEN LOANS	21,968	27,072
OTHER HRK DENOMINATED LIABILITIES	3,783	11,837
CURRENT INCOME TAX LIABILITY	551	7,334
LIABILITIES TO EMPLOYEES	7,050	3,158
PROVISIONS FOR TERMINATION AND SIMILAR PAYMENTS TO EMPLOYEES	256	2,140
TRADE PAYABLES	2,851	2,066
ITEMS IN COURSE OF PAYMENT FROM RECEIVED FUNDS	1,498	1,754
PREPAID DEPOSIT INSURANCE PREMIUMS	1,396	1,444
ITEMS IN COURSE OF SETTLEMENT	1,259	1,085
OTHER FX DENOMINATED LIABILITIES	250	779
ACCRUED FEES AND COMMISSIONS	891	702
DIVIDENDS PAYABLE	114	116
	41,867	**59,487**

25. PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES

a) Analysis

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
PROVISIONS FOR FRAME LOANS	3,415	2,760
PROVISIONS FOR GUARANTEES	527	488
PROVISIONS FOR LEGAL CASES	297	365
PROVISIONS FOR UNCOVERED LETTERS OF CREDIT	20	18
PROVISIONS FOR OTHER CONTINGENT LIABILITIES	138	151
	4,397	**3,782**

b) Movements in provisions

IN HRK THOUSANDS	2017	2016
BALANCE AT 1 JANUARY	**3,782**	**4,076**
ADDITIONAL PROVISIONS MADE WITH RESPECT TO CREDIT RISK	10,983	10,200
DECREASE IN THE BALANCE OF PROVISIONS DURING THE YEAR WITH RESPECT TO CREDIT RISK	(10,300)	(10,569)
(DECREASE) / INCREASE IN PROVISIONS FOR LEGAL CASES	(68)	75
BALANCE AT 31 DECEMBER	**4,397**	**3,782**

26. ISSUED HYBRID AND SUBORDINATED INSTRUMENTS

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	129,032	129,790
ISSUED BONDS	-	-
	129,032	**129,790**

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 denominations. The interest rate is fixed and amounts to 7% per annum, payable on a semi-annual basis. The principal is due 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 denominations. The interest rate is fixed and amounts to 6.5% per annum, payable on a semi-annual basis. The principal is due in 2021.

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 (2016: 668,749 ordinary shares) with a nominal value of HRK 400.00 per share. At 31 December 2017, the Bank held 9,203 treasury shares which it carries at cost (2016: 9,203 treasury shares).

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

		2017		2016
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	26.011	3.81
MARIO GORGONI	20,670	3.09	20,670	3.09
OTHER SHAREHOLDERS (INDIVIDUALLY BELOW 3%)	124,952	18.69	125,952	18.69
	668,749	**100.00**	**668,749**	**100.00**

28. RESERVES

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
LEGAL RESERVES	129,839	118,687
RESERVES FOR OWN SHARES	16,830	16,830
GENERAL BANKING RISK RESERVE	5,104	5,104
NON-DISTRIBUTABLE RESERVES	**151,773**	**140,621**
CAPITAL GAINS ON TRADING IN TREASURY SHARES	4,802	4,802
FAIR VALUE RESERVE	8,076	10,864
DISTRIBUTABLE RESERVES	**12,878**	**15,666**
	164,651	**156,287**

Under the Croatian Companies Act, the Bank is required to allocate part of the net vprofit 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. These 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 2017	31 DECEMBER 2016
ASSETS		
LOANS TO INDIVIDUALS	11,986	12,841
CORPORATE LOANS	874	994
CASH	573	600
TOTAL ASSETS	**13,433**	**14,435**

LIABILITIES		
FINANCIAL INSTITUTIONS	8,484	3,552
PUBLIC SECTOR	2,763	2,351
CORPORATE	2,186	8,532
TOTAL LIABILITIES	**13,433**	**14,435**

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 2017	31 DECEMBER 2016
VALUE OF FINANCIAL INSTRUMENTS	997,499	1,181,031

30. CONTINGENT LIABILITIES AND COMMITMENTS

a) Legal cases

At 31 December 2017 there were several legal cases 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 297 thousand (2016: HRK 365 thousand).

b) Guarantees, letters of credit and undrawn frame loans commitments

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 2017	31 DECEMBER 2016
COMMITMENTS – UNDRAWN LOANS	216,665	152,235
COMMITMENTS – UNDRAWN FRAME LOANS ON TRANSACTION ACCOUNTS	136,565	135,323
GUARANTEES	58,113	48,876
FX LETTERS OF CREDIT	1,984	1,847
	413,327	**338,281**

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.

c) Operating lease

Future minimum payments under operating leases are as follows:

IN HRK THOUSANDS	31 DECEMBER 2017	31 DECEMBER 2016
UP TO 1 YEAR	4.278	4,134
FROM 2 TO 5 YEARS	8.343	7,510
OVER 5 YEARS	2.146	463
TOTAL	**14.767**	**12,107**

Upon the expiry of the lease term, the lease agreements are renewable at the market price. The Bank has operating lease agreements for business premises, vehicles vand equipment. In the operating lease expense structure, the most significant share relates to business premises operating lease cost in amount of HRK 3,932 thousand (2016: HRK 3,799 thousand).

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.

Transactions with key management personnel and related persons are presented the following table:

IN HRK THOUSANDS	KEY MANAGEMENT PERSONNEL AND THEIR RELATED PERSONS		SUPERVISORY BOARD	
	2017	2016	2017	2016
LOANS				
BALANCE AT BEGINNING OF THE YEAR	**2,116**	**3,187**	**23,043**	**23,019**
INCREASE DURING THE YEAR	(95)	(1,071)	(236)	24
BALANCE AT THE END OF THE YEAR	**2,021**	**2,116**	**22,807**	**23,043**
REALISED INTEREST INCOME	**67**	**106**	**1,431**	**1,551**
DEPOSITS RECEIVED				
BALANCE AT BEGINNING OF THE YEAR	**5,730**	**5,953**	**60**	**704**
INCREASE / (DECREASE) DURING THE YEAR	771	(223)	283	(644)
BALANCE AT THE END OF THE YEAR	**6,501**	**5,730**	**343**	**60**
REALISED INTEREST EXPENSE	103	161	-	-

Management remuneration

IN HRK THOUSANDS	2017	2016
GROSS SALARIES AND OTHER SHORT-TERM BENEFITS	15,693	13,966

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 2017 amount to HRK 1,330 thousand (2016: HRK 1,750 thousand). The remuneration to the members of the Supervisory Board for the year 2016 amount to HRK 3,646 thousand (2016: HRK 2,107 thousand).

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

IN HRK THOUSANDS	2017	2016
DUE FROM BANKS		
OPENING BALANCE	803	1,222
INCREASE / (DECREASE) DURING YEAR	13,517	(419)
CLOSING BALANCE	14,320	803
DUE TO BANKS AND LIABILITIES FROM ISSUED HYBRID AND SUBORDINATED INSTRUMENTS		
OPENING BALANCE	46.873	15.828
INCREASE / (DECREASE) DURING YEAR	(30.693)	31.045
CLOSING BALANCE	16.180	46.873

	2017	2016
INTEREST INCOME	7	-
FEE AND COMMISSION INCOME	418	675
TOTAL INCOME	**425**	**675**
INTEREST EXPENSE	970	980
FEE AND COMMISSION EXPENSE	3	2
TOTAL EXPENSE	**973**	**982**

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 risks, liquidity risks, market risks and operational risks. 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 the 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 procedures. The Financial Markets Division manages liquidity reserves daily and makes sure to respond to 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 basis.

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 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 16.75 percent, and the Tier 1 capital i.e. Common Equity Tier 1 (CET1) capital ratio amounts to 14.69 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 is 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 41,319 thousand (2016: HRK 52,002 thousand) as well as issued hybrid bonds in the amount of HRK 9,629 thousand (2016: HRK 24,793 thousand).

IN HRK THOUSANDS	2017	2016
REGULATORY CAPITAL		
CORE TIER 1 CAPITAL	363,351	334,962
COMMON EQUITY TIER 1 CAPITAL	363,351	334,962
TIER 2 CAPITAL	50,947	76,794
TOTAL REGULATORY CAPITAL	**414,298**	**411,756**
CAPITAL ADEQUACY RATIO IN %	**16.75%**	**14.71%**
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 take into account 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 2017	31 DECEMBER 2016	31 DECEMBER 2017	31 DECEMBER 2016
FINANCIAL ASSETS				
BALANCES WITH OTHER BANKS	17,186	29,641	17,179	29,671
LOANS TO CUSTOMERS	1,712,694	1,884,779	1,714,629	1,886,216

FINANCIAL LIABILITIES				
AMOUNTS DUE TO OTHER BANKS	38,901	143,746	38,883	143,744
AMOUNTS DUE TO CUSTOMERS	2,416,653	2,373,650	2,422,685	2,384,245
OTHER BORROWINGS	204,111	317,254	210,631	317,254

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.

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 borrowings 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.

2017

IN HRK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS AVAILABLE FOR SALE				
EQUITY SECURITIES	325,368	-	14,864	340,232
DEBT SECURITIES	282,945	1,683	-	284,628
TOTAL	**608,313**	**1,683**	**14,864**	**624,860**

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**	**62,668**	**962,606**

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, Franck d.d., Oroplet d.d. in bankruptcy, VISA Inc 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.

During 2017, Hrvatska pošta d.d. and Jadran Galenski laboratorij d.d. bonds 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 DECEMBER 2017	31 DECEMBER 2016			
EQUITY SECURITIES	325,368	397,924	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	N/A
EQUITY SECURITIES	14,864	18,388	LEVEL 3	IMPAIRMENT TEST (ILLIQUID SHARES) OR COST VALUATION CONSIDERING IMMATERIAL INVESTMENT	N/A
TOTAL EQUITY SECURITIES:	**340,232**	**416,312**			
DEBT SECURITIES	282,945	499,956	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	N/A
DEBT SECURITIES	1,683	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	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:	**284,628**	**546,294**			
TOTAL SECURITIES	**624,860**	**962,606**			

Movement of financial assets in Level 3

2017	UNLISTED SHARES AVAILABLE FOR SALE
	'000 HRK
OPENING BALANCE	**62,667**
TOTAL LOSSES	(203)
ACQUISITION OF ASSETS	-
DISPOSAL OF ASSETS	(3,321)
MATURED ASSETS	(22,478)
RECLASSIFIED FROM LEVEL 3	(21,801)
CLOSING BALANCE	**14,864**

34. INTEREST RATE RISK

The tables below provide the Bank's interest rate sensitivity position at 31 December 2017 and 2016 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of other items.

AT 31 DECEMBER 2017 IN HRK THOUSANDS	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	-	-	-	-	574,998	574,998
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	188,657	188,657
BALANCES WITH OTHER BANKS	4,508	12,678	-	-	-	17,186
LOANS TO CUSTOMERS	1,194,635	106,515	197,929	213,615	-	1,712,694
FINANCIAL ASSETS AVAILABLE FOR SALE	6,409	1,683	15,082	260,996	340,690	624,860
TOTAL ASSETS	**1,205,552**	**120,876**	**213,011**	**474,611**	**1,104,345**	**3,118,395**
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	21,916	15,028	-	1,957	-	38,901
AMOUNTS DUE TO CUSTOMERS	1,124,131	300,224	733,226	259,072	-	2,416,653
OTHER BORROWINGS	673	22,056	17,185	164,197	-	204,111
HYBRID INSTRUMENTS ISSUED	-	-	77,023	52,009	-	129,032
TOTAL LIABILITIES	**1,146,720**	**337,308**	**827,434**	**477,235**	**-**	**2.788,697**
NET INTEREST EXPOSURE	**58,832**	**(216,432)**	**(614,423)**	**(2,624)**	**1,104,345**	**329,698**

AT 31 DECEMBER 2016 IN HRK THOUSANDS	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON-INTEREST BEARING	TOTAL
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
TOTAL ASSETS	**1,259,149**	**215,463**	**448,145**	**517,988**	**659,934**	**3,288,795**
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 BORROWINGS	78,269	23,432	22,448	193,105	-	317,254
HYBRID INSTRUMENTS ISSUED	-	1,796	57	127,937	-	129,790
TOTAL LIABILITIES	**1,195,187**	**340,008**	**786,960**	**642,221**	**64**	**2,964,440**
NET INTEREST EXPOSURE	**63,962**	**(124,545)**	**(338,815)**	**(124,233)**	**659,870**	**324,355**

In 2017, the weighted effective interest rates on loans to customers stood at 5.51% (2016: 6.45%).

In 2017, the weighted effective interest rates on deposits received from customers stood at 0.88% (2016: 1.47%).

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 2017 and 2016. 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 2017 PROFIT OR LOSS	IMPACT ON 2016 PROFIT OR LOSS
ASSETS	5% RELATIVE	1,761	3,120
LIABILITIES	5% RELATIVE	(649)	(829)
IMPACT ON THE NET INTEREST INCOME		**1,112**	**2,291**

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.

AT 31 DECEMBER 2017 IN HRK THOUSANDS	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	199,764	10,987	30,206	240,957	334,041	574,998
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	188,657	188,657
BALANCES WITH OTHER BANKS	13,135	-	-	13,135	4,051	17,186
LOANS TO CUSTOMERS	913,718	8,737	-	922,455	790,239	1,712,694
FINANCIAL ASSETS AVAILABLE FOR SALE	259,783	8,497	8,255	276,535	348,325	624,860
INTANGIBLE ASSETS	-	-	-	-	44,063	44,063
PROPERTY AND EQUIPMENT	-	-	-	-	54,046	54,046
DEFERRED TAX ASSETS	-	-	-	-	1,880	1,880
INVESTMENT PROPERTY	-	-	-	-	36,780	36,780
NON-CURRENT ASSETS HELD FOR SALE	-	-	-	-	2,577	2,577
OTHER ASSETS	23	-	-	23	15,377	15,400
TOTAL ASSETS	**1,386,423**	**28,221**	**38,461**	**1,453,105**	**1,820,036**	**3,273,141**
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	33,438	1,189	4,273	38,900	1	38,901
AMOUNTS DUE TO CUSTOMERS	1,190,250	28,714	31,126	1,250,090	1,166,563	2,416,653
OTHER BORROWINGS	34,378	-	-	34,378	169,733	204,111
OTHER LIABILITIES	2,390	14	16	2,420	39,447	41,867
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	236	4	-	240	4,157	4,397
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	129,032	-	-	129,032	-	129,032
TOTAL LIABILITIES	**1,389,724**	**29,921**	**35,415**	**1,455,060**	**1,379,901**	**2,834,961**
EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	164,651	164,651
PROFIT FOR THE YEAR	-	-	-	-	14,096	14,096
RETAINED EARNINGS / (ACCUMULATED LOSSES)	-	-	-	-	-	-
TOTAL SHAREHOLDERS' EQUITY	**-**	**-**	**-**	**-**	**438,180**	**438,180**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,389,724**	**29,921**	**35,415**	**1,455,060**	**1,818,081**	**3,273,141**
NET FX EXPOSURE	**(3,301)**	**(1,700)**	**3,046**	**(1,955)**	**1,955**	**-**

AT 31 DECEMBER 2016 IN HRK THOUSANDS	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
INTANGIBLE ASSETS	-	-	-	-	45,281	45,281
PROPERTY AND EQUIPMENT	-	-	-	-	67,605	67,605
DEFERRED TAX ASSETS	-	-	-	-	1,138	1,138
OTHER ASSETS	35	-	-	35	51,728	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 BORROWINGS	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	**-**	**-**	**-**	**-**	**426,873**	**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**	**-**

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 2017 and an income for 2017. The change in the interest rates would be reflected through the income statement as foreign exchange gains or losses.

CURRENCY AT 31 DECEMBER 2017	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%	29,062	-	29,062
LIABILITIES	2.00%	-	29,101	29,101
NET ASSETS / (LIABILITIES)		**29,062**	**29,101**	**(39)**

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)**

36. LIQUIDITY RISK

AT 31 DECEMBER 2017 IN HRK THOUSANDS	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 MONTH TO 3 YEARS	OVER 3 YEARS	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	574,998	-	-	-	-	574,998
BALANCES WITH THE CROATIAN NATIONAL BANK	188,657	-	-	-	-	188,657
BALANCES WITH OTHER BANKS	4,508	12,678	-	-	-	17,186
LOANS TO CUSTOMERS	298,240	158,788	368,727	382,920	504,019	1,712,694
FINANCIAL ASSETS AVAILABLE FOR SALE	340,689	1,683	15,082	104,599	162,807	624,860
FINANCIAL ASSETS	**1,407,092**	**173,149**	**383,809**	**487,519**	**666,826**	**3,118,395**
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	21,916	15,028	-	1,957	-	38,901
AMOUNTS DUE TO CUSTOMERS	1,121,365	300,224	734,028	230,966	30,070	2,416,653
OTHER BORROWED FUNDS	673	22,056	17,185	69,703	94,494	204,111
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	-	77,023	-	52,009	129,032
FINANCIAL LIABILITIES	**1,143,954**	**337,308**	**828,236**	**302,626**	**176,573**	**2,788,697**
CUMULATIVE GAP	**263,138**	**(164,159)**	**(444,427)**	**184,893**	**490,253**	**329,698**

AT 31 DECEMBER 2016 IN HRK THOUSANDS	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 MONTH 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**

37. CREDIT RISK

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

IN HRK THOUSANDS AT 31 DECEMBER 2017	GROSS EXPOSURE	SPECIFIC PROVISIONS (INDIVIDUAL ASSESSMENT)	PORTFOLIO-BASED PROVISIONS (COLLECTIVE ASSESSMENT)	NET EXPOSURE
A. BALANCE-SHEET EXPOSURE				
BALANCES WITH THE CROATIAN NATIONAL BANK	188,657	-	-	188,657
BALANCES WITH OTHER BANKS	17,186	-	-	17,186
ASSETS AVAILABLE FOR SALE	634,351	(9,491)	-	624,860
LOANS TO CUSTOMERS				
- FULLY RECOVERABLE (PERFORMING)	1,504,533	-	(22,052)	1,482,481
- PARTLY RECOVERABLE (SUBSTANDARD)	305,346	(75,133)	-	230,213
- FULLY IRRECOVERABLE (BAD)	155,913	(155,913)	-	-
TOTAL BALANCE SHEET EXPOSURE	**2,805,986**	**(240,537)**	**(22,052)**	**2,543,397**
B. OFF-BALANCE SHEET EXPOSURE				
CLIENTS				
- FULLY RECOVERABLE (PERFORMING)	413.247	-	(4.079)	409.168
- PARTLY RECOVERABLE (SUBSTANDARD)	74	(14)	-	60
- FULLY IRRECOVERABLE (BAD)	7	(7)	-	-
TOTAL OFF-BALANCE SHEET EXPOSURE	**413.328**	**(21)**	**(4.079)**	**409.228**
TOTAL EXPOSURE (A+B)	**3.219.314**	**(240.558)**	**(26.131)**	**2.952.625**

IN HRK THOUSANDS AT 31 DECEMBER 2016	GROSS EXPOSURE	SPECIFIC PROVISIONS (INDIVIDUAL ASSESSMENT)	PORTFOLIO-BASED PROVISIONS (COLLECTIVE ASSESSMENT)	NET EXPOSURE
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**

b) Past due but unpaid 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 2017	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	5,915	785	951	1,576	2,399	3,505	46,658
CORPORATE CUSTOMERS	5,132	3,244	6,490	67,788	23,152	14,447	155,423
PUBLIC AND OTHER SECTORS	195	8	-	-	1	-	353
OTHER RECEIVABLES PAST DUE	2,269	28	82	23	1,844	400	6,461
TOTAL PAST DUE BUT UNPAID RECEIVABLES	**13,511**	**4,065**	**7,523**	**69,387**	**27,396**	**18,352**	**208,895**

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 RECEIVABLES	**18,052**	**4,388**	**12,961**	**15,849**	**19,746**	**19,836**	**196,711**

c) Coverage by collateral

IN HRK THOUSANDS AT 31 DECEMBER 2017	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	-	-	-	-	188,657
BALANCES WITH OTHER BANKS	-	-	-	4,011	13,176
LOANS TO CUSTOMERS	25,086	214,201	424,138	65,746	982,549
ASSETS AVAILABLE FOR SALE	-	-	-	-	627,536
TOTAL BALANCE SHEET EXPOSURE	**25,086**	**214,201**	**424,138**	**69,757**	**1,811,918**
B. OFF-BALANCE SHEET EXPOSURE					
CLIENTS	8,834	5,725	15,046	50	383,672
TOTAL OFF-BALANCE SHEET EXPOSURE	**8,834**	**5,725**	**15,046**	**50**	**383,672**
TOTAL EXPOSURE (A+B)	**33,920**	**219,926**	**439,184**	**69,807**	**2,195,590**

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**

d) Provision ratio in loans to customers

IN HRK THOUSANDS	2017 LOANS TO CUSTOMERS (%)	2017 PROVISION RATIO IN LOANS (%)	2016 LOANS TO CUSTOMERS (%)	2016 PROVISION RATIO IN LOANS (%)
FULLY RECOVERABLE LOANS (PERFORMING)	76.54	1.47	82.09	1.09
PARTLY RECOVERABLE (SUBSTANDARD)	15.53	24.61	10.62	28.28
FULLY IRRECOVERABLE (BAD)	7.93	100.0	7.29	100.0
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 2017	3%	18,476
AT 31 DECEMBER 2016	3%	28,878

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	2017	2016
BONDS OF THE REPUBLIC OF CROATIA	374,594	110,771
OBLIGATORY RESERVES AND TREASURY NOTES WITH THE CROATIAN NATIONAL BANK	188,657	188,116
REPUBLIC OF CROATIA BONDS	109,454	229,171
OTHER CASH RESERVE FUNDS	10,000	10,000
DEFERRED TAX ASSETS/LIABILITIES	1,880	(727)
CURRENT TAX ASSETS/LIABILITIES	972	(3,200)
OTHER ASSETS	232	1,542
REPUBLIC OF CROATIA TREASURY BILLS	-	22,478
DEPOSITS RECEIVED	(40)	(40)
OTHER LIABILITIES	(65)	-
CNB REPO LOAN AGREEMENTS	(61,078)	(30,477)
	624,606	**527,634**

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	2017	2016
OTHER LOANS	26,831	22,982
CUSTOMER LOANS GUARANTEED BY THE STATE	15,570	21,487
STATE AGENCY FOR DEPOSIT INSURANCE AND BANK REHABILITATION	(1,396)	(1,444)
DEPOSITS RECEIVED	(6,760)	(4,415)
OTHER LIABILITIES	(44,428)	(27,905)
BORROWINGS FROM HBOR	(143,033)	(211,770)
	(153,216)	**(201,065)**

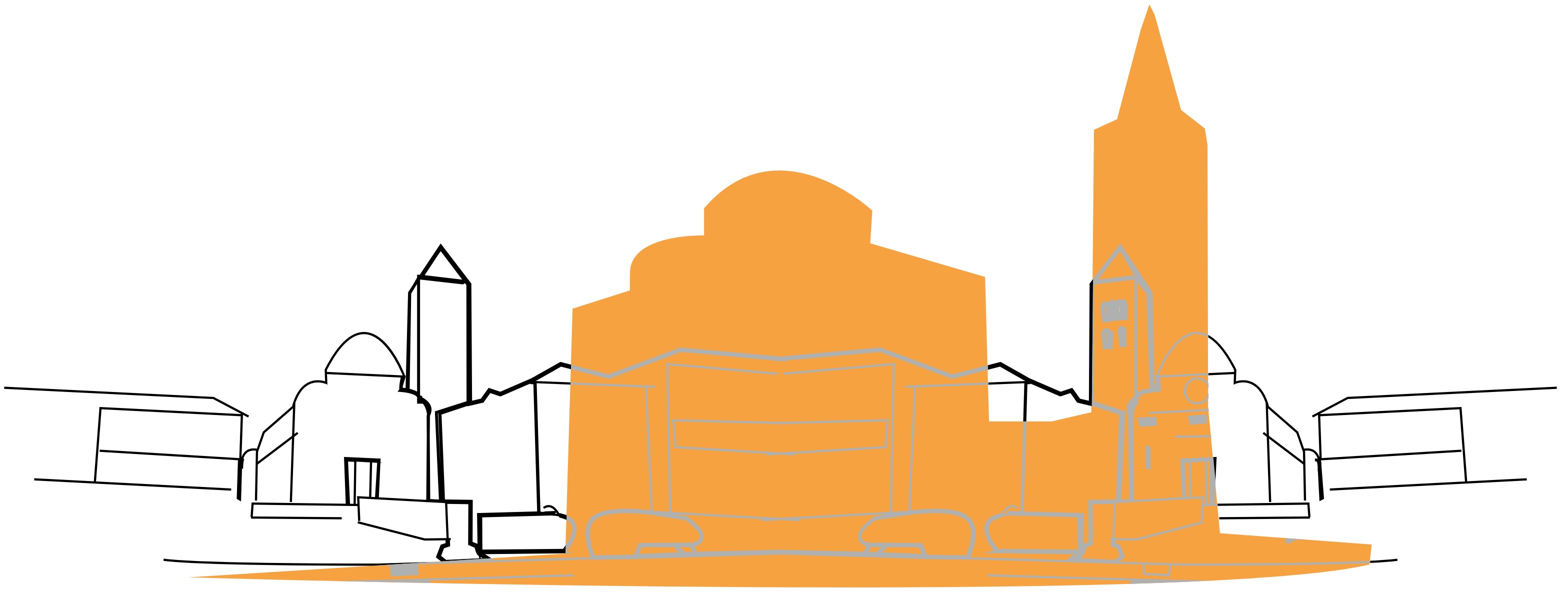
40. EVENTS AFTER THE BALANCE SHEET DATE

Based on the Management Board's opinion, in 2018 up to date of approval of financial statements, there were no business events that significantly affect regular business of the Bank.

41. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Management Board on 19 April 2018 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



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ABOUT THE BANK

THE 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
Michele Calcaterra Borri, Member
Maurizio Dallocchio, Member
Filippo Disertori, Member
Antonio Moniaci, Member
Dario Montinari, Member
Dolly Predovic, Member
Ezio Simonelli, 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
Legal Affairs – Krunoslav Grošić
Administration and HR Management Unit – Božana Kovačević

Divisions

Financial Markets Division – Goran Varat
Corporate Customers Division – Daniel Unger
Retail Customers Division – Sanda Fuček Šanjić
Risk Management Division – Renata Vinković
Operations & Support Division – Snježana Pobi
Development Division – Sanda Fuček Šanjić

Legend

Commercial Centre

Branches

RETAIL CENTRES

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

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Đurđevac, Stjepana Radića 16,
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Commercial Centre Požega

Požega, Republike Hrvatske 1b,
tel. 072 655 700, fax. 072 655 709

Pleternica, Ivana Šveara 4,
tel. 072 655 770, fax. 072 655 779

Kutjevo, Kralja Tomislava 2,
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Osijek, Kapucinska 38,
tel. 072 655 790, fax. 072 655 799

Commercial Centre Rijeka

Rijeka, Ivana Zajca 18,
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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,
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Ludbreg, Petra Zrinskog 32,
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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

		2017 UNAUDITED HRK 000	2016 UNAUDITED HRK 000
1	INTEREST INCOME	110,451	148,815
2	INTEREST EXPENSE	(39,900)	(54,756)
3	**NET INTEREST INCOME**	70,551	94,059
4	FEE AND COMMISSION INCOME	37,239	37,702
5	FEE AND COMMISSION EXPENSES	(14,078)	(13,710)
6	**NET FEE AND COMMISSION INCOME**	23,161	23,992
7	GAINS/(LOSSES) ON INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	-	-
8	TRADING GAINS/(LOSSES)	5,496	5,481
9	GAINS/(LOSSES) ON EMBEDDED DERIVATIVES	-	-
10	GAINS / (LOSSES) ON ASSETS AT FVTPL NOT ACTIVELY TRADED	26,385	-
11	GAINS / (LOSSES) ON AFS ASSETS	-	16,775
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	688	794
16	FOREIGN EXCHANGE GAINS / (LOSSES)	(883)	573
17	OTHER INCOME	5,229	4,530
18	OTHER EXPENSES	(6,353)	(8,646)
19	GENERAL ADMINISTRATIVE EXPENSES AND DEPRECIATION	(82,750)	(81,986)
20	**NET PROFIT FROM OPERATIONS BEFORE IMPAIRMENT AND PROVISIONS FOR LOSSES**	41,524	55,572
21	IMPAIRMENT LOSSES AND PROVISIONS	(24,124)	(18,675)
22	**PROFIT/(LOSS) BEFORE TAXATION**	17,400	36,897
23	INCOME TAX EXPENSE	(3,304)	(10,865)
24	**PROFIT/(LOSS) FOR THE YEAR**	**14,096**	**26,032**
25	EARNINGS PER SHARE	21.08	38.93

INCOME STATEMENT SUPPLEMENT

	2017 HRK 000	2016 HRK 000
PROFIT /(LOSS) FOR THE YEAR	-	-
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	-	-
MINORITY INTEREST	-	-

BALANCE SHEET

		2017 UNAUDITED HRK 000	2016 UNAUDITED HRK 000
ASSETS			
1	CASH AND DEPOSITS WITH THE CNB	618,871	350,670
	1.1 CASH	45,620	41,783
	1.2 DEPOSITS WITH THE CNB	573,251	308,887
2	DEPOSITS WITH CREDIT INSTITUTIONS (BANKS)	155,515	82,796
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	719,490	1,184,399
6	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	106,059	85,390
7	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AT FVTPL THAT ARE NOT ACTIVELY TRADED	-	-
8	DERIVATIVE FINANCIAL ASSETS	-	-
9	LOANS TO FINANCIAL INSTITUTIONS	4,050	5,529
10	LOANS AND ADVANCES TO OTHER CUSTOMERS	1,498,730	1,530,612
11	INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	-	-
12	FORECLOSED ASSETS	33,536	36,067
13	TANGIBLE AND INTANGIBLE ASSETS (NET OF DEPRECIATION/ AMORTISATION)	112,786	119,870
14	INTEREST, FEES AND OTHER ASSETS	24,104	39,155
A	**TOTAL ASSETS**	**3,273,141**	**3,456,966**
LIABILITIES AND EQUITY			
1	LOANS FROM FINANCIAL INSTITUTIONS	203,018	316,578
	1.1 SHORT-TERM BORROWINGS	77,523	122,918
	1.2 LONG-TERM BORROWINGS	125,495	193,660
2	DEPOSITS	2,430,796	2,493,457
	2.1 BALANCES ON GIRO AND CURRENT ACCOUNTS	609,701	553,125
	2.2 SAVINGS DEPOSITS	365,388	309,055
	2.3 TERM DEPOSITS	1,455,707	1,631,277
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	-	-
	5.1 SHORT-TERM DEBT SECURITIES ISSUED	-	-
	5.2 LONG-TERM DEBT SECURITIES ISSUED	-	-
6	ISSUED SUBORDINATED INSTRUMENTS	51,926	52,231
7	HYBRID INSTRUMENTS ISSUED	75,136	75,578
8	INTEREST, FEES AND OTHER LIABILITIES	73,342	91,523
B.	**TOTAL LIABILITIES**	**2,834,218**	**3,029,367**
EQUITY			
1	SHARE CAPITAL	259,433	259,433
2	PROFIT/(LOSS) FOR THE YEAR	14,096	26,032
3	RETAINED EARNINGS/(ACCUMULATED LOSSES)	-	(14,880)
4	LEGAL RESERVES	129,839	118,687
5	STATUTORY AND OTHER CAPITAL RESERVES	25,707	25,077
6	UNREALISED GAINS/LOSSES ON REVALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	9,848	13,250
C.	**TOTAL EQUITY**	**438,923**	**427,599**
D.	**TOTAL LIABILITIES AND EQUITY**	**3,273,141**	**3,456,966**

BALANCE SHEET SUPPLEMENT

IN HRK THOUSANDS	2017 HRK 000	2016 HRK 000
TOTAL EQUITY	-	-
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT	-	-
MINORITY INTEREST	-	-

STATEMENT OF CASH FLOWS

		2017 UNAUDITED HRK 000	2016 UNAUDITED HRK 000
OPERATING ACTIVITIES			
1.1	PROFIT/(LOSS) BEFORE TAXATION	17,400	36,897
1.2	IMPAIRMENT ALLOWANCE AND PROVISIONS FOR LOSSES	24,124	18,675
1.3	DEPRECIATION AND AMORTISATION	6,838	8,526
1.4	NET UNREALISED (GAINS)/LOSSES ON FINANCIAL ASSETS AND LIABILITIES AT FVTPL	-	-
1.5	GAINS/(LOSSES) ON SALE OF TANGIBLE ASSETS	(615)	(206)
1.6	OTHER (GAINS)/LOSSES		
1	**OPERATING CASH FLOWS BEFORE CHANGES IN OPERATING ASSETS**	**47,747**	**63,892**
2.1	DEPOSITS WITH THE CNB	(540)	17,907
2.2	TREASURY BILLS OF THE MINISTRY OF FINANCE AND TREASURY NOTES OF THE CNB	22,478	(22,478)
2.3	DEPOSITS WITH BANKING INSTITUTIONS AND LOANS TO FINANCIAL INSTITUTIONS	1,479	26,675
2.4	LOANS AND ADVANCES TO OTHER CUSTOMERS	21,817	81,224
2.5	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	-	-
2.6	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	453,316	(556,849)
2.7	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AT FVTPL THAT ARE NOT ACTIVELY TRADED	-	-
2.8	OTHER OPERATING ASSETS	10,153	(12,396)
2	**NET (INCREASE)/DECREASE IN OPERATING ASSETS**	**508,703**	**(465,917)**
INCREASE/(DECREASE) IN OPERATING LIABILITIES			
3.1	DEMAND DEPOSITS	56,576	98,973
3.2	SAVINGS AND TERM DEPOSITS	(119,238)	(18,796)
3.3	DERIVATIVE FINANCIAL AND OTHER LIABILITIES HELD FOR TRADING	-	-
3.4	OTHER LIABILITIES	(6,827)	24,991
3	**NET INCREASE/(DECREASE) IN OPERATING LIABILITIES**	**(69,489)**	**105,168**
4	**NET CASH FLOW FROM OPERATIONS BEFORE INCOME TAX**	**486,961**	**(296,857)**
5	INCOME TAXES PAID	(12,020)	-
6	**NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES**	**474,941**	**(296,857)**
INVESTING ACTIVITIES			
7.1	PROCEEDS FROM SALE/(PAYMENTS FOR PURCHASES) OF TANGIBLE AND INTANGIBLE ASSETS	(421)	(1,791)
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	(20,708)	32,932
7.4	DIVIDENDS RECEIVED	688	794
7.5	OTHER RECEIPTS/(PAYMENTS) FROM INVESTING ACTIVITIES	146	(357)
7	**NET CASH FROM INVESTING ACTIVITIES**	**(20,295)**	**31,578**
FINANCING ACTIVITIES			
8.1	NET INCREASE/(DECREASE) IN BORROWINGS	(113,560)	139,189
8.2	NET INCREASE/(DECREASE) OF ISSUED DEBT SECURITIES	-	(786)
8.3	NET INCREASE/(DECREASE) IN SUBORDINATED AND HYBRID INSTRUMENTS	(746)	(1,307)
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**	**(114,306)**	**137,096**
9	**NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS**	**340,340**	**(128,183)**
10	**CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR**	**247,793**	**375,977**
11	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**	**588,133**	**247,793**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

		SHARE CAPITAL UNAUDITED HRK 000	TREASURY SHARES UNAUDITED HRK 000	LEGAL, STATUTORY AND OTHER RESERVES UNAUDITED HRK 000	RETAINED EARNINGS/ (ACCUMULATED LOSS) UNAUDITED HRK 000	CURRENT YEAR PROFIT/(LOSS) UNAUDITED HRK 000	UNREALISED GAIN/ LOSSES FROM REMEASUREMENT AVAILABLE OF AVAILABLE-FOR-SALE FINANCIAL ASSETS UNAUDITED HRK 000	MINORITY INTEREST UNAUDITED HRK 000	TOTAL CAPITAL AND RESERVES UNAUDITED HRK 000
1	**BALANCE AT 1 JANUARY 2017**	**270,515**	**(11,082)**	**146,149**	**(14,880)**	**26,032**	**10,865**	**-**	**427,599**
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)**	**146,149**	**(14,880)**	**26,032**	**10,865**	**-**	**427,599**
4	SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	-	-	-
5	FAIR VALUE CHANGES OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	-	(3,401)	-	(3,401)
6	TAX ON ITEMS RECOGNISED DIRECTLY IN OR TRANSFERRED FROM CAPITAL AND RESERVES	-	-	-	-	-	612	-	612
7	OTHER GAINS OR LOSSES DIRECTLY RECOGNISED IN EQUITY	-	-	-	-	-	-	-	
8	**NET GAINS/LOSSES RECOGNISED DIRECTLY IN CAPITAL AND RESERVES**	**-**	**-**	**-**	**-**	**-**	**(2,789)**	**-**	**(2,789)**
9	CURRENT YEAR PROFIT/(LOSS)	-	-	-	-	14,096	-	-	14,096
10	**TOTAL INCOME AND EXPENSES RECOGNISED FOR THE CURRENT YEAR**	**-**	**-**	**-**	**-**	**14,096**	**(2,789)**	**-**	**11,307**
11	INCREASE/ (DECREASE) IN SHARE CAPITAL	-	-	-	-	-	-	-	-
12	PURCHASE/(SALE) OF TREASURY SHARES	-	-	-	-	-	-	-	-
13	OTHER CHANGES	-	-	16	-	-	-	-	16
14	TRANSFER TO RESERVES	-	-	11,152	14,880	(26,032)	-	-	-
15	DIVIDENDS PAID	-	-	-	-	-	-	-	-
16	**ALLOCATION OF PROFIT**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
17	**BALANCE AT 31.12.2017**	**270,515**	**(11,082)**	**160,333**	**-**	**14,096**	**8,076**	**-**	**438,923**

		Share capital unaudited HRK 000	Treasury shares unaudited HRK 000	Legal, statutory and other reserves unaudited HRK 000	Retained earnings/ (accumulated loss) unaudited HRK 000	Current year profit/(loss) unaudited HRK 000	Unrealised gain/ losses from remeasurement available of available-for-sale financial assets unaudited HRK 000	Minority interest unaudited HRK 000	Total capital and reserves unaudited 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**	**7,491**	**-**	**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**

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 2017 and 31 December 2016:

	2017 CROATIAN NATIONAL BANK DECISION UNAUDITED HRK 000	2017 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA HRK 000	2017 DIFFERENCE HRK 000	2016 CROATIAN NATIONAL BANK DECISION UNAUDITED HRK 000	2016 ACCOUNTING REQUIREMENTS FOR BANKS IN CROATIA HRK 000	2016 DIFFERENCE HRK 000
INTEREST AND SIMILAR INCOME	110,451	110,775	(324)	148,815	148,973	(158)
INTEREST AND SIMILAR EXPENSE	(39,900)	(34,540)	(5,360)	(54,756)	(49,107)	(5,649)
NET INTEREST INCOME	**70,551**	**76,235**	**(5,684)**	**94,059**	**99,866**	**(5,807)**
FEE AND COMMISSION INCOME	37,239	37,238	1	37,702	37,703	(1)
FEE AND COMMISSION EXPENSE	(14,078)	(14,078)	-	(13,710)	(13,710)	-
NET FEE AND COMMISSION INCOME	**23,161**	**23,160**	**1**	**23,992**	**23,993**	**(1)**
NET TRADING GAIN	5,496	5,496	-	5,481	5,481	-
GAIN/(LOSS) FROM EMBEDDED DERIVATIVES	-	-	-	-	-	-
GAIN/(LOSS) FROM ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	-	-
GAIN/(LOSS) FROM FINANCIAL ASSETS AVAILABLE FOR SALE	26,385	26,272	113	16,775	16,900	(125)
INCOME FROM OTHER INVESTMENTS IN EQUITY SECURITIES	688	688	0	794	794	-
NET FOREIGN EXCHANGE DIFFERENCES	(883)	(978)	95	573	386	187
OTHER OPERATING INCOME	5,229	5,234	(5)	4,530	4,487	43
TOTAL OTHER INCOME	**36,915**	**36,712**	**203**	**28,153**	**28,048**	**105**
GENERAL AND ADMINISTRATIVE EXPENSES, DEPRECIATION AND AMORTISATION	(82,750)	(94,646)	11,896	(81,986)	(96,255)	14,269
IMPAIRMENT ALLOWANCE AND PROVISIONS	(24,124)	(24,061)	(63)	(18,675)	(18,755)	80
OTHER OPERATING EXPENSES	(6,353)	-	(6,353)	(8,646)	-	(8,646)
TOTAL OTHER EXPENSES	**(113,227)**	**(118,707)**	**5,480**	**(109,307)**	**(115,010)**	**5,703**
TOTAL OTHER EXPENSES	**17,400**	**17,400**	**-**	**36,897**	**36,897**	**-**
INCOME TAX EXPENSE	(3,304)	(3,304)	-	(10,865)	(10,865)	-
NET PROFIT FOR THE YEAR	**14,096**	**14,096**	**-**	**26,032**	**26,032**	**-**
EARNINGS PER SHARE (IN HRK)	**38.93 HRK**	**38.93 HRK**		**38.93 HRK**	**38.93 HRK**	

The difference of HRK 324 thousand (2016: HRK 158 thousand) for the year ended 31 December 2017 on the line item “Interest and similar income” relates to exchange differences on interest income.

The difference of HRK 5,360 thousand (2016: HRK 5,649 thousand) on the line item “Interest and similar expense” relates mainly to savings deposit insurance premiums, which amount to HRK 5,475 thousand (2016: HRK 5,747 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 115 thousand (2016: HRK 98 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 6 thousand (2016: HRK 4 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 6,838 thousand (2016: HRK 8,525 thousand) in the extracted position depreciation and amortisation.

Differences in “Other non-interest expenses” are the result of the reversal of provisions for legal cases from other expenses to the cost of provision in the amount of HRK 68 thousand (2016: HRK 75 thousand) and other non-interest expenses in the amount of HRK 6,421 thousand (2016: HRK 8,571 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 6,353 thousand (2016: HRK 8,646 thousand) in the “General and other administrative expenses” item.

Comparatives for the unconsolidated balance sheet ended 31 December 2017 and 31 December 2016:

	2017 UNDER CNB DECISION UNAUDITED HRK 000	2017 ACCOUNTING REQUIREMENTS FOR BANKS HRK 000	2017 DIFFERENCE HRK 000	2016 UNDER CNB DECISION UNAUDITED HRK 000	2016 ACCOUNTING REQUIREMENTS FOR BANKS HRK 000	2016 DIFFERENCE HRK 000
ASSETS						
CASH AND DEPOSITS WITH THE CROATIAN NATIONAL BANK	618,871	763,655	(144,784)	350,670	411,769	(61,099)
TREASURY BILLS OF MINISTRY OF FINANCE AND TREASURY BILLS OF THE CNB	-	-	-	22,478	-	22,478
FINANCIAL ASSETS AVAILABLE FOR SALE	719,490	624,860	94,630	1,184,399	962,606	221,793
FINANCIAL ASSETS HELD TO MATURITY	106,059	-	106,059	85,390	-	85,390
PLACEMENTS WITH AND LOANS TO OTHER BANKS	159,565	17,186	142,379	88,325	29,641	58,684
LOANS AND RECEIVABLES	1,498,730	1,712,694	(213,964)	1,530,612	1,884,779	(354,167)
INVESTMENT IN SUBSIDIARIES	-	-	-	-	-	-
REPOSSESSED ASSETS	33,536	-	33,536	36,067	-	36,067
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	112,786	98,109	14,677	119,870	112,886	6,984
DEFERRED TAX ASSETS	1,880	1,880	-	1,138	1,138	-
OTHER ASSETS	-	36,780	(36,780)	38,017	51,763	(13,746)
TOTAL ASSETS	**-**	**2,577**	**(2,577)**	**3,456,966**	**3,454,582**	**2,384**
LIABILITIES						
DUE TO OTHER BANKS AND DEPOSITS FROM CUSTOMERS	2,633,814	2,659,665	(25,851)	2,810,035	2,834,650	(24,615)
PROVISIONS FOR LIABILITIES AND CHARGES	4,100	4,397	(297)	3,417	3,782	(365)
OTHER LIABILITIES	69,242	41,867	27,375	88,106	59,487	28,619
TOTAL LIABILITIES	2,707,156	2,705,929	1,227	2,901,558	2,897,919	3,639
HYBRID AND SUBORDINATED INSTRUMENTS	127,062	129,032	(1,970)	127,809	129,790	(1,981)
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	14,096	14,096	-	26,032	26,032	-
RETAINED EARNINGS/(LOSS)	-	-	-	(14,880)	(14,879)	(1)
UNREALISED GAIN/(LOSS) FROM FAIR VALUE ADJUSTMENT OF AVAILABLE FOR SALE FINANCIAL ASSETS	9,848	-	9,848	13,250	-	13,250
RESERVES	155,546	164,651	(9,105)	143,764	156,287	(12,523)
TOTAL EQUITY	**438,923**	**438,180**	**743**	**427,599**	**426,873**	**726**
TOTAL LIABILITIES AND EQUITY	**3,273,141**	**3,273,141**	**-**	**3,456,966**	**3,454,582**	**2,384**

The most significant differences on balance positions arise from different classifications 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 529,378 thousand (2016: HRK 181,870 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 204,207 thousand (2016: HRK 338,655 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 98,148 thousand of discounted bills are included into available-for-sale financial assets (2016: HRK 253,265 thousand) and HRK 106,059 thousand of factoring is reclassified into financial assets held to maturity portfolio (2015: HRK 85,390 thousand).

Card related receivables in the total amount of HRK 24,759 thousand (2016: HRK 24,340 thousand) are disclosed within Other assets in accordance with the CNB Decision. While in audited the report they are disclosed within the loan line.

Repossessed i.e., foreclosed assets are reported under the CNB Decision separately, while in the audited accounts they have been included, based on purpose, within "Investment property" in the amount of HRK 22,190 thousand (2016: -), within "Non-current assets held for sale" in the amount of HRK 2,577 thousand (2016: -) and within "Other assets" in amount of HRK 8,769 thousand (2016: HRK 36,067 thousand).. Small inventories of HRK 87 thousand (2016: HRK 82 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".

Liabilities and equity

According to the CNB Decision, "Other liabilities" includes provisions for legal cases, which have been presented separately in the audited accounts in the amount of HRK 297 thousand (2016: HRK 365 thousand), whereas in the audited accounts they are reported as part of the provisions for liabilities and expenses.

In the audited accounts, "Other reserves" in amount of HRK 164,561 thousand (2016: HRK 156,287 thousand) include unrealised gain/loss on fair value adjustment of financial assets available-for-sale in the amount of HRK 9,848 thousand (2016: HRK 13,250 thousand) and reserves in the amount of HRK 155,546 thousand (2016: HRK 143,764 thousand), while these items are separately disclosed in accordance with CNB requirements.

According to the CNB requirements, the position "Statutory and other capital reserves" includes reserves of HRK 743 thousand (2016: HRK 727 thousand), formed in respect of flats with tenancy rights not sold, which are included in the audited accounts within "Other liabilities".