J&T banka d.d.
(previously Vaba d.d. banka Varaždin)

Annual report for the year 2016

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Introduction

The annual report comprises a summary of operation and key financial indicators, a description of operation and the audited financial statements for the year ended 31 December 2016 together with the Independent Auditor's Report.

Legal status

The Annual Report includes annual financial statements prepared in accordance with accounting legislation applicable to banks in the Republic of Croatia, and audited in accordance with International Standards on Auditing.

The Annual Report has been prepared in accordance with the Accounting Act and Companies Act which requires the Management Board of an entity to report to shareholders at their annual General Assembly.

Abbreviations

In the Annual Report, J&T banka d.d. is referred to as 'the Bank' or 'J&T', the Croatian National Bank as 'CNB', the Republic of Croatia as 'the Government' and the Croatian Bank for Reconstruction and Development as 'CBRD'. Other abbreviations may be used in report are:

F/Ss - financial statements
SFP - statement of financial position
SPL - statement of profit and loss
OCI - other comprehensive income
P&L – profit or loss
SCF - statement of cash-flows
CC – currency clause
GDP – gross domestic product
IAS – International accounting standards
IFRS - International Financial Reporting Standards

In this report, the abbreviations "HRK thousand", "HRK million" or "EUR thousand" and "EUR million" represent thousands and millions of Croatian kunas and euros.

Exchange rates

The following CNB middle exchange rates were used for translation of foreign currencies into Croatian kuna:

31 December 2015	EUR 1 = HRK 7.635047	USD 1 = HRK 6.991801
31 December 2016	EUR 1 = HRK 7.557787	USD 1 = HRK 7.168536

Macroeconomic environment and banking sector in the Republic of Croatia in 2016

Changes in global enviroment

Global economy in 2016 increased by 2.2%, at slowest pace since financial crisis in 2009. Slowdown was most noticeable in developed countries, while countries from emerging markets stopped the negative trends and started with growth. Lower investments in China and the countries raw material exporters had negative influence on world trading activities. Financial markets in 2016 were volatile due to uncertainties regarding BREXIT, US elections and changes in oil prices. Oil prices started to recover during the year and had positive influence on global inflation.

Recovery in Russia and Brazil led to stabilization in growing countries, while on the other hand oil exporting countries still struggle with economics difficulties.

According to World Bank estimates, the world economy should increase by 2.7% in 2017, with negative influence of political uncertainties, stagnation of global trade and slow recovery pace of investments.

Changes in Croatia

Economic activity

Economic movements continued the positive trends from 2015 and led to GDP increase in 2016. According to the first estimate from Croatian Bureau of Statistics GDP for 4Q 2016 increased by 3.4% comparing to the same period last year. For entire 2016 GDP accelerated by 2.9%, what is its largest increase since 2007 when the GDP went up by 5.2%.

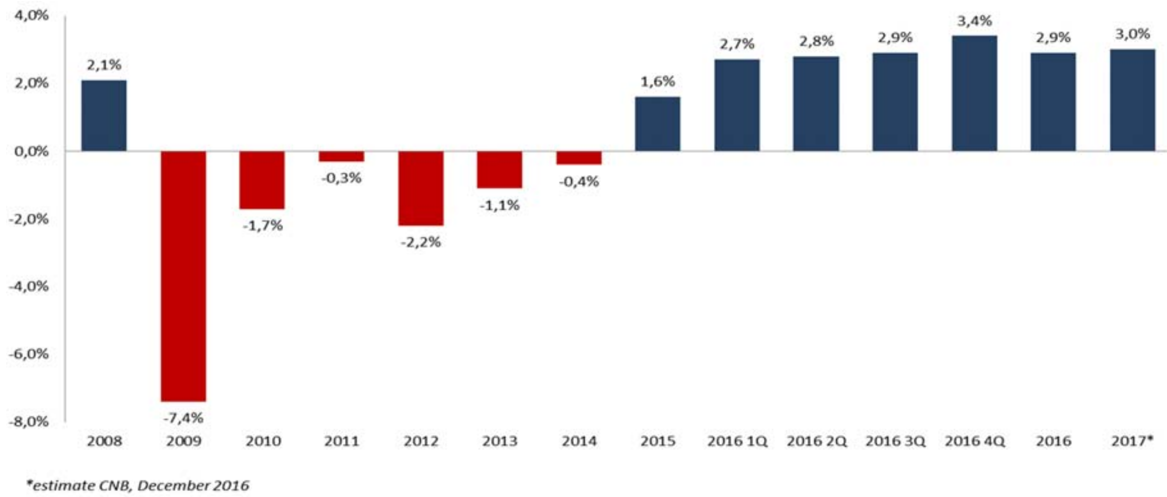
Growth of GDP was primarily influenced by stronger personal consumption, thanks to higher net wages, better situation on labour market, lower energy prices, recovery in lending activities measured by new loan approval and higher propensity to consume.

For to 2017 it is predicted further growth of GDP at the similar pace as in 2016, with personal consumption in main role. Furthermore, specific administrative measures should improve the personal consumption. Wages should increase by 2-3% after tax reform and higher minimum wages for employees as well as increase in salaries in public sector and pension adjustments to the cost of living should support the future growth.

Other expected growth triggers are improvements on labour market, higher lending activity and higher propensity to consume. Besides that, it is expected an increase in usage rate of EU funds which should result with higher investment rate and export orientation.

On the other side, negative effects for GDP are possible from higher oil price and global uncertainties like BREXIT, US-China relations, terroristic threats and banking crisis in Italy.

Graph 1: GDP growth rate



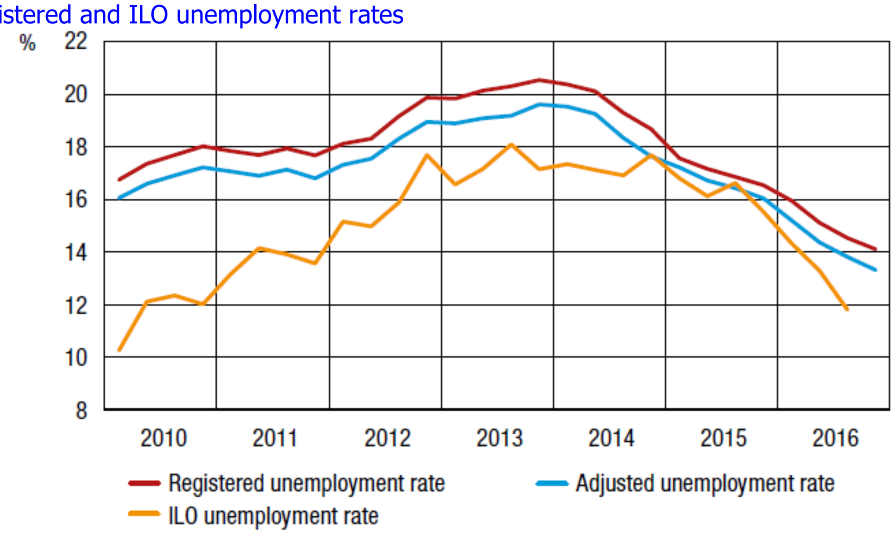
Source: CNB, HGK

Labor market

Employment growth accelerated again in the fourth quarter of 2016. The number of employed persons increased by 0.5% from the previous quarter, with employment growing in all sectors. For the most part, however, this growth reflected the increase in the number of persons employed in service activities of the private sector, with a noticeable contribution of industry. Unemployment continued to decrease during the same period as well but at a weaker intensity than in the first half of 2016. The reduction in the number of unemployed persons was primarily a result of clearings from the records for reasons other than employment. Furthermore, in 2016 more than 60.000 of working age people left Croatia.

The registered unemployment rate, totalling 14.1% in the fourth quarter of 2016 (14.5% in the third quarter), continued decreasing in line with the reduction of the number of the unemployed. The latest results of Workforce Survey for 3Q 2016 confirm the positive movement in unemployment and the unemployment rate by the survey for the period from July to September amounted to 11.8% compared to 13.3% in Q2.

Graph 2: Registered and ILO unemployment rates

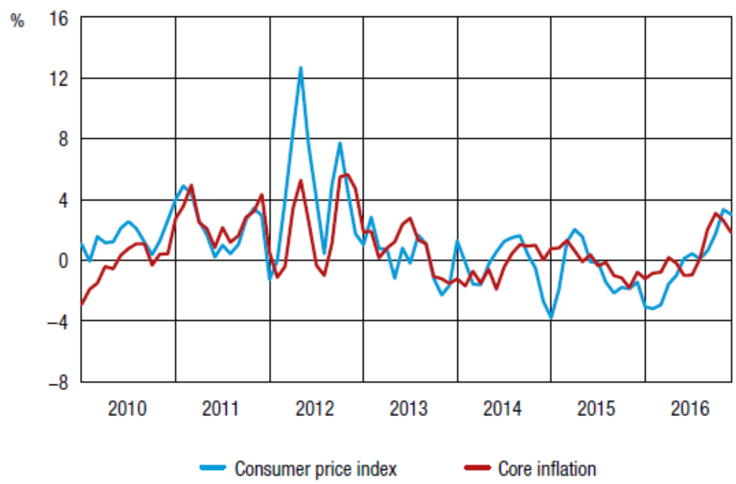


Source: HZZ, EUROSTAT

Inflation

The indicators of current development in inflation were positive over the last few months, increasing for the most part. The increase in the annual consumer price inflation continued in November and December, supported primarily by the strengthening of the inflationary pressures reflected in higher prices of crude oil and other raw materials and an acceleration of inflation in EU countries. In addition, domestic inflationary pressures that arose from the strengthening of personal consumption increased slightly. The annual rate of change in consumer prices thus increased from –0.5% in October to –0.2% in November and 0.2% in December, the prices of energy and food contributed mostly to this increase. The negative contribution of energy to overall inflation went down due to the rise in the prices of refined petroleum products in December caused by the noticeable spike in global crude oil prices but also due to the base effect, i.e. a substantial drop in the price of refined petroleum products late in 2015.

The core consumer price index, increased from 0.2% in October to 0.4% in November and 0.5% in December, primarily due to the rise in the price of tobacco products caused by the increase in excise duties and the increase in the annual rate of change in the price of milk and dairy products, and meat.
Graph 3: Consumer price index and core inflation



Source: DZS, CNB calculations

Personal consumption

Personal consumption is one of the most important components of GDP and makes about 60% of total consumption. During the previous year personal consumption increased as a result of better tourism season and improvements on labor market. Beside the wage increase, stronger personal consumption is result of lower energy prices.
In 2017 it is expected further growth in personal consumption, primarily as a result of higher wages. Furthermore, expected decrease in taxes and lower utility prices should increase consumption in other sectors.

Terms of financing and banking sector

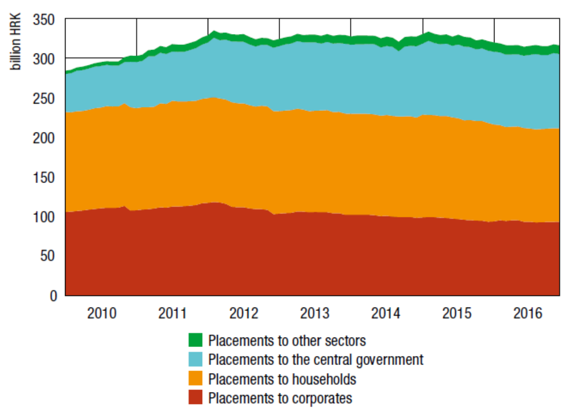
At the end of 2016, euro benchmark interest rates were still very low due to the ECB continuing its expansionary monetary policy.

After the results of the US presidential elections in November, uncertainties in the financial market increased, which contributed to the growth in the average bond yield spread, as well as to the growth of the risk premium for most European countries, including Croatia. The markets stabilized at slightly higher levels of risk premium at the end of the year compared to early November. Croatia's risk premium was thus noticeably lower at the end of 2016 than at the end of 2015, although it remained the highest among its CEE peers.

The downward trend in lending and deposit interest rates continued in the last quarter of 2016. Interest rates on all major types of corporate and retail loans decreased in 2016. Interest rates on housing loans granted for the first time in kuna currency decreased the most, reaching 4.4% in November. As for deposit rates, interest rates on new term deposits from retail, which account for the largest share of total time deposits, declined from 1.67% at the end of 2015 to 0.88% at the end of November 2016. The spread between interest rates on total new loans and deposits was lower in average than in the previous year, while the widening gap between interest rate spreads on loans and deposits was stopped in the second half of the year. Credit institutions' placements to corporates and retail continued to slow increase in the last quarter of 2016. However, since placements to other financial institutions declined in the same period, total placements (excluding the central government) remained almost unchanged.

Positive developments in retail and corporate lending were also visible on an annual level. With regards to retail, placements to this sector increased in 2016 by 0.5%, for the first time in seven years, while placements to corporates increased by 3.1%. Thus, total placements to domestic sectors went up by 1.1% (based on transactions) in 2016. On the other hand, the nominal value of placements was 3.4% lower at the end of 2016 than at the end of 2015, reflecting a partial write-off of loans to retails indexed to the Swiss franc and the sale by banks of their non-performing placements. As part of the conversion of retail loans linked to the Swiss franc, banks wrote off a total of HRK 6.0bn in the period from November 2015 to December 2016, with the balance of these loans dropping from HRK 21.7bn before the conversion to HRK 1.6bn at the end of 2016. The sale of non-performing placements in the first nine months reached HRK 4.2bn, the majority being related to placements to non-financial clients. As for lending to the government, bank placements to the central government also increased in the last quarter of 2016, which was reflected in the annual growth of 3.0% (based on transactions) in 2016.

Graph 4: Structure of credit institution placement



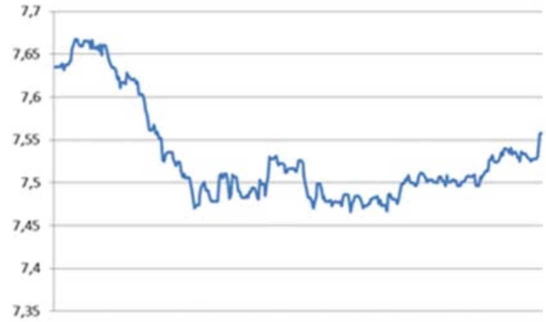
Source: CNB Bulletin

Monetary policy

The monetary policy of the CNB in early 2016 continued to be expansive, with focus on stable exchange rate HRK – EUR. The exchange rate of the HRK against euro was exposed to appreciation pressures at the end of the year. Late in December, following the CNB's interventions, the exchange rate of the HRK against the euro depreciated, amounted to EUR/HRK 7.56, which is by 0.4% higher than at the end of November, i.e. by 1.0% lower than at the end of 2015 when it amounted to EUR/HRK 7.64.

At the entire 2016 level, the CNB purchased EUR 1,018.8m from banks and EUR 125.6m from the Ministry of Finance and sold EUR 277.8m to the European Commission, so its foreign exchange transactions in 2016 resulted in a net purchase of foreign currency of EUR 866.6m which created HRK 6.5bn.

Graph 5: Average FX rate EUR/HRK in 2016



Source: Bloomberg

Management report

VABA Banka d.d. Varaždin changed its name to J&T Bank d.d. as of 1 January 2017. J&T banka d.d. is registered as a public limited liability company at the Commercial Court in Varaždin under registration number (MBS): 50000185, with its registered office in Varaždin, Aleja kralja Zvonimira 1, for the performance of the following activities:

- accepting deposits or other repayable funds from people and approving credits from those funds, for own account;
- accepting deposits and other repayable funds;
- approval of loans and credits, including consumer credits and loans, and mortgage credits and loans, if it is allowed by a special law, and financing commercial activities, including export financing based on discount repurchase and without reimbursement of long-term unmatured claims ensured by financial instruments (forfeiting);
- purchase of receivables with or without recourse (factoring);
- finance lease;
- issuing guarantees and other warrants;
- trading for own account or for the client's account:
    - money market instruments,
    - transferable securities,
    - foreign currencies, including exchange transactions,
    - financial futures and options,
    - currency and interest rate instruments,
- payment services in line with special laws;
- services related to crediting, e.g. collection of data, conducting analyses and providing information on creditworthiness of legal and natural persons who conduct business activities on their own;
- issuing other payment instruments and managing them, in line with a special law, unless provision of these services is not considered provision of payment services in line with special laws;
- renting safe boxes;
- mediation in money market transactions;
- investments and other services and activities in accordance with separate laws regulating capital markets, as follows:
    - trading for own account,
    - bidding or sale of financial instruments without a firm commitment to repurchase,
    - safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash or collateral management,
- carrying out activities related to sale of insurance policies in line with regulations on insurance.

As at 31 December 2016, the Bank operates through 2 branches (Varaždin, Zagreb). Following the change in operating strategy and discountinuing with retail business in 2016, the branches in Slavonski Brod, Nova Gradiška, Pula, Ludbreg, Novi Marof and Čakovec have been closed.

MISSION

Our individual approach to each client and our top quality and professional services, based on the competencies of our employees, creates added value for our clients. This contributes to the growth of our organisation and the improvement of the quality of life of our community. We appreciate the personal contribution of all of our employees whose creativity and knowledge are our greatest values.

VISION

Our vision is to continuously exceed expectations and be the first to innovate and create new values. We want to be a leader in creating world-class financial solutions for our customers and be the best in providing growth and development opportunities to all our employees.

Financial performance

Bank operations in 2016 was marked by changing business strategies and putting the focus on larger corporate clients. Also as part of the change in strategy, Bank was optimizing its business processes, changing the organizational structure of the Bank and undertaking the process of rationalization of the number of employees. Parent company, J&T Banka, Prague a.s. in June 2016 years paid in cash HRK 76 million (7.6 million new ordinary shares) for the recapitalization of the Bank. After the capital increase the total share capital amounts to 307,085,400.00 HRK, and the ownership share of J&T Bank a.s. Prague 82.55%.

In 2016 Bank generated HRK 75.3 million of interest income, while interest expenses amounted to HRK 40.2 million. Net interest income amounted to HRK 35.1 million which is an increase compared to 2015 by HRK 7.5 million.

Net fee and commission income in 2016 amounted to HRK 4.8 million and it is approximately at the same level as the previous year.

Administrative costs and depreciation amounted to HRK 25.88 million, down from HRK 1.73 million compared with the previous year.

Impairment losses of loans to customers of the Bank records value adjustments in the net amount of HRK 68,2 million, while last year amounted to HRK 37,9 million. Impairment in the amount of HRK 20.5 million war recognized against repossessed assets during 2016. Realised losses after impairment amounts to HRK 86.6 million (same period last year, the loss amounted to HRK 50.5 million).

The most significant share of the funding structure of the Bank comprise term deposits of the Bank and they amounted to HRK 1,099.6 million at 31.12.2016. and comprise 71.4% of total sources of funding, while the share capital and reserves of the Bank as at 31.12.2016. amounts to HRK 165.9 million and comprise 10.8% of total sources of funding.

As at 31.12.2016. the Bank's total assets amounted to HRK 1,530.9 million (HRK 1,649.2 million at 31.12.2015.).

The Bank’s retail banking is performed performs through its two branches (Varaždin and Zagreb). In 2016 Bank closed other branches and the client portfolio was moved from closed branches to the remaining two branches.

Retail sector

Retail banking is carried out through 2 branches on domestic market (Varaždin, Zagreb) and on German market, where the regulator BaFin (Die Bundesanstalt für Finanzdienstleistungsaufsicht) permitted the Bank to do business, which enabled providing services of collecting deposits from customers abroad.

During 2016 the Bank has begun the process of transformation of retail, in order to offer clients new level of services. Most of branches were closed and the portfolio moved to central branch in Varaždin or to branch inZagreb.

In line with trends on market, the Bank adjusted interest rates on deposits and loans. As result of that average interest rate on term deposits decreased by 30% during the year, while the interest rates on loans and advances to retail were decreased in line with movement of NRS (national reference rate).

Corporate sector

Due to organizational changes in 2016, the Bank has established Sales Division, which consists of three departments: Corporate Banking Department, Treasury Department and the Department of retail banking, marketing and card services. Corporate Banking Department has taken over the portfolio, business activities and employees of the Corporate Banking Division and currently it is part of the Sales Division, which includes complete salesprocess.

The strategy of the Corporate Banking Department, as well as the Bank, was changed in mid-2016. Since July 2016 the Bank is focused to exposures above 1 million euros. But the Bank will also continue cooperation with existing quality clients with smaller exposures. Clients who had been internally segmented in the Small and Medium Enterprises Department was applied exit strategy with prior announcement to these clients and with special care in order not to jeopardise their business continuity.

The increase in the portfolio of Corporate Banking Department is part of the strategy of the Department, however the change in the strategy to focus on larger exposures resulted with cash outflows of part of the portfolio which resulted with slower increase of portfolio which replacement is expected in 2017.

Treasury activities

Trends in Croatian money markets continued in 2016. The country GDP after growth in 2016, continued to grow in 2016. Monetary policy of Croatian central bank with incentive of negative inflation rates, stayed expansive. Central bank relaxed the way banks maintain foreign currency mandatory reserve releasing banks part of foreign currency liquidity for more flexible liquidity management while announcing the structural repo auction central bank showed that it will support credit activity in domestic currency. Adding to that aggressively expensive monetary policy of ECB, it is clear that money markets interest rates where under strong deflationary influences both in Eurozone and Croatia.

Liquidity in Croatian and Eurozone banking system stayed elevated in 2015. which led to decrease of all benchmark interest rates. For example 6 month EURIBOR rate fell from -0,04 at the beginning of the year all the way to negative -0,221% at the year end. Slow decreasing trend in banking financing costs also continued in HRK and other currencies, and consequently the Croatian banking association 12-month national benchmark banking sector average financing rate (NRS) for Kuna and Euro fell in fourth quarter to 1.01 % and 1.51% respectively.

Although spread between Croatian and benchmark German bonds slightly grew, widespread reduction in European yields led to further decline in Croatian sovereign bond yield so the yield on longest domestic bond indexed to EUR ended the year at around 2.8%. HRK yields more or less performed similarly.

In 2016, the decreasing trend of annual average foreign exchange rate of EUR against HRK continued. Kuna marked a growth in value against EUR in last two years. In 2016 average rate was 7.53 which was lower than the value of the rate in 2014. when it was around 7.61.

Having macro environment in mind and despite growth in balance sheet and business activity, all through the year the Bank held high portion of liquid assets in its balance sheet at the same time constantly reducing its financing cost.

In 2015. the Bank had 660 thousand Kuna of securities trading income, and in 2016 this income was 4,3 million Kuna. Fx gains amounted to 2,89 million Kuna in 2016, which is by 1 million lower than in 2015, due to lower volume on FX Market.

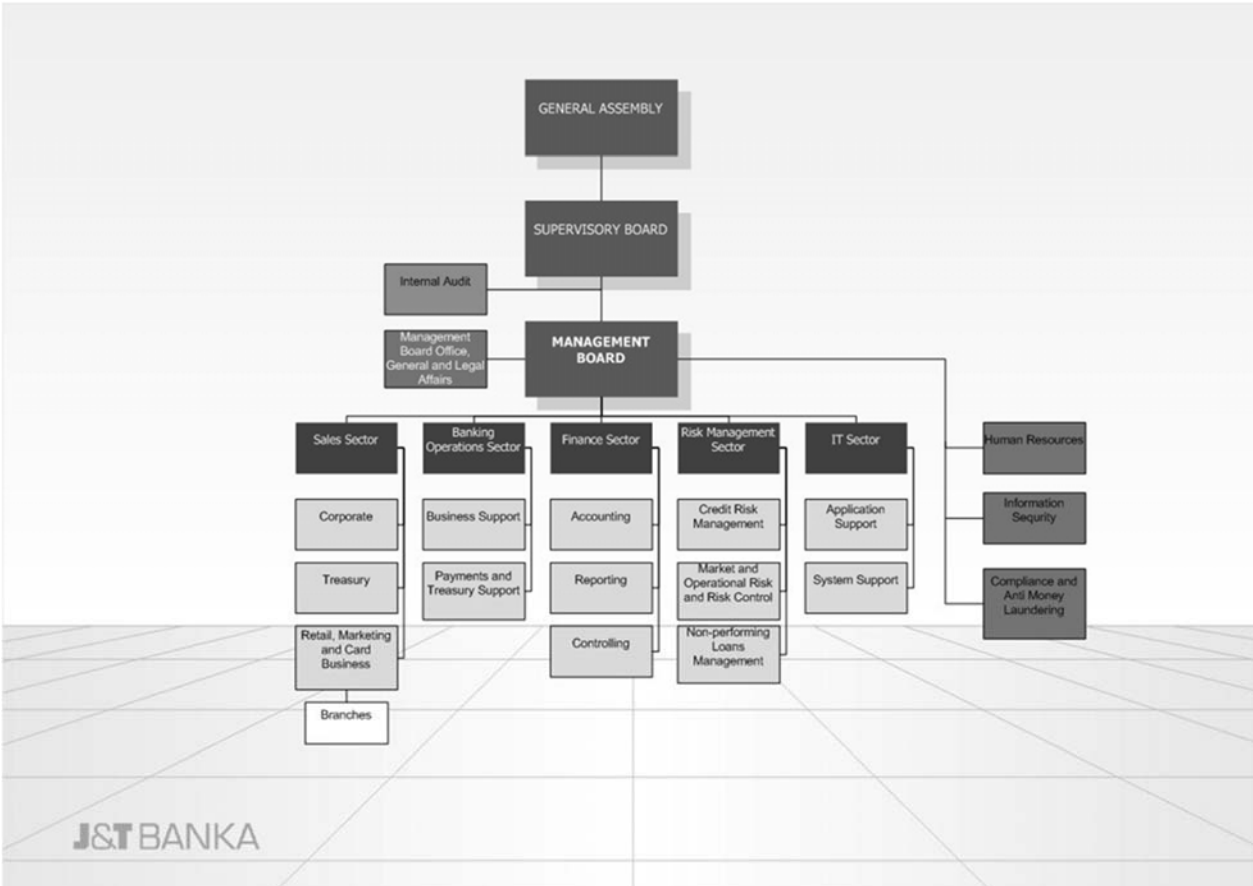
Employees and organizational structure

Bank's business took place during the year 2016 in Bank's headquarters at the address Aleja kralja Zvonimira 1 in Varaždin and in 7 branches: in Nova Gradiška, Slavonski Brod, Zagreb, Pula, Čakovec, Ludbreg and Novi Marof. During 2017 all branches except Varaždin and Zagreb were closed. On December 31 2016 Bank employed 116 employees (148 employees, December 31 2015).

In line with organizational changes and reduced number of employees the Bank introduced new, lower organizational structure. The main changes are:

- Non-performing Loans Management Sector has been united with Risk Management Sector, as it was before 31.12.2015;
- Risk Control Department has been moved from Finance Sector to jurisdiction of Risk Management Sector, i.e Market and Operational Risk Division. New department has been renamed into Market and Operational Risk and Risk Control;
- Retail Sector and Corporate Sector has become part of new organizational unit, Sales sector. In the same time, SME Division and other sector from ex-Retail sector have been canceled;
- Operations and Procurement Department has moved under responsibility of Management Board Office, General and Legal affairs. Part of responsibilities related with asset management is now under Risk Management Sector;
- Responsibilities of Marketing department are now under Sales Sector, Retail, Marketing and Card Business Department.

Organizational scheme



IT development

Most activities in application development during 2016 were focused on adaptation of OLBIS system (especially Internet banking – EnterVaba) as well as fulfilling legislative and regulatory demands and reports. OLBIS (Online Bank Information System) is an integral bank information system, which now consolidates all application modules of 'core' system, as well as full regulatory reporting.

During 2016 several significant modules were implemented or processed:

- SEPA project
- Internet banking retail – upgrade and redesign
- Internet banking corporate – buying and selling of currencies, foreign currency orders
- HROK report – corporate
- Finishing reports (DAB, DPDO, SPP, VR, …)
- Changes of visual identity in applications and reports due to change of name of the Bank
- Finishing program authority due to organizational changes in the Bank

In regulatory reporting segment the FINREP reports in accordance with IFRS, ALMM reports, reports LE (large exposure) and LCR forms (Liquid coverage) were implemented. Also, the group forms 'Stable sources of financing' and 'Financial leverage' of COREP reports according to the new rules were updated.

In the segment of reporting the owner, ALMM reports to the J&T methodology were implemented.

In infrastructural segment, the most significant and most sensitive change was the replacement of the entire IT server infrastructure. Client infrastructure replacement has been continued (outdated personal computers), and inventory and disposal of written-off and defective equipment was conducted.

In the second half of the year, the bulk of activities was focused on the support of organizational changes (closing of branches and physical relocation of employees in a central location), DR test was performed and the implementation of the new BC test was supported. Also, implementation of isolated access to SWIFT network was performed, to increase security level in that business segment, due to increased global security attacks on SWIFT network.

In organizational segment, the biggest emphasis was on the reorganization of work after the rationalization of the number of employees, and the abolition of Department of business analysis. During 2016 4 employees left the Department Until possible new employment, for larger jobs or projects external associates or companies will be used as needed.

Internal controls system and internal audit

The internal controls system is a set of processes and procedures set up to adequately control risks, monitor efficiency and performance of the Bank's operations, the reliability of its financial and other information, and compliance with regulations, internal acts, standards and codes in order to ensure the stability of the Bank's operations.

In accordance with the Credit Institutions Act and the Decision on the internal controls system, the Bank established an internal controls system comprising the following:

1. appropriate organisational structure;
2. organisational culture;
3. adequate control activities and segregation of duties;
4. appropriate internal controls integrated into business processes and activities of the credit institution;
5. appropriate administrative and accounting procedures;
6. activities within the scope of the control functions of the credit institution.

The Bank prescribed and established adequate control activities and segregation of duties, adequate internal controls and appropriate administrative and accounting procedures carried out in course of the Bank's regular operations.

In accordance with provisions of laws and by-laws, the Bank established three control functions independent of the business processes and activities in which risk occurs, i.e. which the functions monitor and supervise. These are:

1. the risk control function;
2. the compliance monitoring function;
3. the internal audit function.

The risk control function ensures the Bank's compliance with risk management strategies and policies by performing risk analysis, monitoring risk, reporting risk-related information to the Management Board and other persons, and participating in the preparation, application and monitoring of the functionality of risk management methods and models. It also carries out the evaluation of the Bank's internal capital adequacy and controls the preparation of the Bank's recovery plan.

The compliance monitoring function ensures the compliance of the Bank's operations with relevant regulations, standards and codes and internal acts. The compliance monitoring function is responsible for: determining and assess compliance risks to which the Company is or might be exposed; advising the Management Board and other responsible persons on the application of relevant legislation, standards and rules; assessing the effects that changes to relevant regulation will have on the Bank's operations; verifying the compliance of new products and procedure with relevant legislations and regulations as well as with related amendments; serving as advisor in the preparation of compliance-related training programmes.

The internal audit function, as part of the internal controls system, assesses and evaluates the following: adequacy and efficiency of the internal controls system; adequacy and efficiency of risk management and risk assessment methodologies; efficiency and reliability of the compliance monitoring function; system for informing the Management Board and key management; adequacy and reliability of the accounting records system and financial statements; strategies and procedures for assessing internal capital adequacy; reliability of the reporting system and the timeliness and accuracy of reports set out in the Credit Institutions Act; asset safeguarding; collection system and validity of information that is made public. It also reviews the IT system and performs all other tasks needed to achieve the objectives of internal audit.

Each control function prepares reports in line with their tasks and established operational work plans, in accordance with provisions of the Credit Institutions Act and regulations and decisions issued based thereon.

Financial reporting control system

The Bank has ensured the internal control systems of the accounting system and financial reporting, risk management system and the reliability of the information system covering all the major Bank's activities. In addition, the Bank hired an external auditor and has applied previous, current and subsequent financial supervision of the financial reporting and decision making process.

The accounting system, based on the International Accounting Standards and the International Financial Reporting Standards prescribed by the Accounting Policies of the Bank, is regulated by the Accounting Rules that define rights, obligations and responsibilities of all the participants, including the obligation of ongoing monitoring, while the functioning of the other systems is governed by special standard regulations.

The Bank's internal control system includes efficient direct monitoring through integrated procedures and processes set for monitoring the efficiency of the Bank's operations, reliability of financial reports and compliance with the laws and by-laws. The Bank's internal control system is established through parallel operating of three mutually independent functions: (a) risk control function, (b) compliance monitoring function, and (c) internal audit function.

Research and development

The Bank capitalizes intangible assets. Intangible assets include internally developed software of total capitalised value of HRK 15.3 million. The Bank uses software in its business, and it is transferred to use in 2015.

Expenditure related to the development of software is capitalised when it meets the criteria outlined in IAS 38 Intangible Assets.

Information relating to treasury shares repurchase

The Bank has no treasury shares as at 31 December 2016.

Subsidiaries information

The Bank has no subsidiaries.

Development plan

In 2017 the Bank plans to replace significant share of retail deposits with credit line from parent company, in order to reduce financing costs. Until the end of 2017 50% of assets will be financed from credit line, while the rest will be covered from retail and corporate deposits. Result of that will be lower financing costs and cheaper loans for clients, due to the fact that arranged credit line has lower interest rate than current price of deposits (interest rate + deposit insurance).

The Bank's focus in upcoming period will be primarily on domestic market, with a targeted portfolio share of 60%. Even though the focus will remain on domestic market, regional structure of portfolio will change. The Bank plans to acquire clients with headquarters in the coastal counties and to reduce financing of clients from Eastern Croatia. Clients in central and north Croatia will retain its position and the Bank will continue to operate there on the same level. Furthermore, the Bank plans to exit on foreign markets, i.e to approach to the clients from another European countries (with limited exposure to non-EU countries).

Focus will remain focused on corporate clients, primarily from growing end export oriented businesses and other sectors where the client satisfies the conditions set by the Bank. Furthermore, the Bank has exit strategy towards the retail clients and SME. New loans will not be approved to them and current exposure will be reduced in mid-term.

Comparative advantages of the Bank over the competition are :

- individual approach to the clients/projects;
- high level of competence and international experience (synergy effects with the Group) in structuring the complex projects;
- tailor-made services in accordance with client's needs;
- flexibility and proactivity in finding solutions, considering the Board is placed in Varaždin/Zagreb which significantly speeds up decision making at a high level;

Risk management

The most significant types of financial risk to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk include foreign exchange risk, interest rate risk and risk of changes in market prices of equity and debt securities.

An integrated risk management system is being developed and constantly upgraded on the Bank level by introducing policies and procedures for risk assessment, measurement, control and management, and for determining the risk exposure limits compliant with the legal framework and the Bank's risk profile.

Credit risk

The Bank is exposed to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of a client or third party or when issuing guarantees. The risk of default which occurs in financial instrument transactions with certain parties is constantly monitored. To manage credit risk, the Bank deals with clients of good credit standing and obtains security instruments in order to, as a rule, secure the repayment of placement by two independent instruments (cash flow and collateral).

Credit risk is managed in line with the Bank's policies. Credit exposure toward a portfolio or specific groups is regularly reviewed in accordance with established limits. The competent bodies of the Bank responsible for approving limits are regularly informed of limit utilisation. The Credit Committee approves all material increases in credit exposure and issues all decisions related to credit risk.

Liquidity risk

Liquidity risk arises in the funding of the Bank's activities and in the management of its positions.

The Bank has access to different sources of funding. Funds are collected through a variety of instruments, including different type of deposit, borrowings, dependent liabilities, including deposits, borrowings and equity. The Bank is systematically working on defining the procedures and business processes that efficiently monitor liquidity risk by detecting and monitoring changes in funding in order to achieve business objectives set in accordance with the overall business strategy of the Bank.

The Bank adapts its business activities related to liquidity risk in accordance with legal provisions and internal policies for maintaining liquidity reserves, matching assets and liabilities and limit control, and with targeted liquidity ratios and contingency plans. The Treasury manages liquidity reserves on a daily basis and ensure that all of the client's needs are successfully met.

Market risk

Market risk management entails position and foreign exchange risk management. In order to manage position risk defined as the risk of loss arising from the change in the price of a financial instrument, a limit system has been established according to the type of financial instrument and issuer. Limit utilisation is monitored on a daily basis.

Foreign exchange risk, defined as loss arising from the change in exchange rates of a relevant foreign currency due to the currency gap in the balance sheet, is managed by the Bank on a daily basis in accordance with legal provisions related to the open foreign exchange position.

Interest rate risk represents the sensitivity of the Bank's financial position to movements in interest rates. The Bank's operations are influenced by interest rate risk to the extent that interest-bearing assets and liabilities mature or their interest rates change at different points in time or in different amounts.

Operational risk

Operational risk exists in every segment of the Bank's operations, requiring knowledge and continuous monitoring of all business processes. The organisational model of the operational risk management process is conceived at the level of centralised and decentralised functions of operational risk management. It is carried out in accordance with legal provisions, Basel guidelines and internal acts (policies, procedures and methodologies for operational risk management).

In the context of managing operational risk of the information system, IS security management entails a series of periodic activities whose aim is to reduce operational risk of the Bank's information system, or, more precisely, to implement control mechanisms, improve business processes and harmonise with legislation in order to reduce damages that vulnerabilities can cause in the Bank's information system.

In order to manage operational risk, the Bank ensured adequate information system and IS risk management, management of risks related to outsourcing, compliance risk management and going concern management, as well as ensured an appropriate AML/CFT system.

Policies for managing financial risks are described in detail in Notes to the Annual Report for the year 2016.

For and on behalf of J&T banka d.d. Varaždin:

J&T BANKA d.d.

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Ivica Božan, President of the Management Board

Petar Rajković, Member of the Management Board

Statement on the implementation of corporate governance code

During December 2009, the Bank's Management and Supervisory Boards have adopted the Code of Corporate Governance of Vaba d.d. banka Varaždin, which established high standards and methods of quality corporate governance (hereinafter: the Code). The Code is published on the Bank's official web site (www.jtbanka.hr).

In every matter that is not regulated by the Code, the Bank applies Code of Corporative Governance made by the Zagreb Stock Exchange and the Croatian Financial Services Supervisory Agency „CFSSA", to the extent applicable to the Bank.

In accordance with the Companies Act, Article 272 p, the Management Board announces that the Bank has voluntarily applied the recommendations of both Codes during 2016, with exception to certain sections (as explained in details within annual questionnaire in the Code delivered along with the annual report to Zagreb Stock Exchange for the publication).

Management Board governs the Bank and its assets. Accordingly, the Board is obliged and authorized to take any necessary actions and decisions required for successful management of the Bank, all within valid framework of the Companies Act and Credit Institutions Act.

In accordance with the Bank's Articles of Association, the Management Board consists of two members at least and three members at the most, and the Supervisory Board decides on the number of members of the Management Board. Currently the Management Board consists of two members. The Supervisory Board appoints Members and the President of the Management Board for the period of a maximum of 5 years, with the possibility of reappointment, and upon the approval of CNB. Internal Policy of suitability assessment process of the President and Member of the Management Board in more detail defines criteria and processes of assessment of the Management Board members which are applied upon their appointment to the position, as well as continuously during their mandate.

The Supervisory Board can recall its decision on appointment of the Member of the Management Board or of the President of the Management Board in the case of relevant reason in accordance with relevant regulation.

Members of the Management Board who have performed their function during 2016 were as follows:

- Mr. Ivica Božan, president of the Management Board
- Ms. Monika Cereova, vice-president of the Management Board (until 15 July 2016)
- Mr. Petar Rajković, member of the Management Board (since 13 July 2016)

Supervisory Board on 31 December 2016 had six members on a 4 year mandate, and can be re-elected. At least one of the Supervisory Board members has to be independent, and during 2016 that member was Mr. Željko Filipović. Shareholder J&T banka a.s., in accordance with the Article 256, paragraph 2 of the Credit Institutions Act, has the right to appoint 2 (two) members of the Supervisory Board until it is the owner of 25% of the Bank's shares at the minimum. Stated right the shareholder used at the end of 2016 by reaching the decision on appointment of Mr. Július Strapek to the position of the Member of Supervisory Board for the mandate period of next 4 years, starting from the last day of existing mandate, i.e. from 27 February 2017.

A Member of the Supervisory Board can be appointed only if an individual has knowledge and experience in banking or economics or scientific research, which would guarantee proper and duly performance of his duties. In addition, Member of the Supervisory Board cannot be an individual in contrary to the conditions specified by the law. Internal Policy for suitability assessment process of the Supervisory Board members, defines in more detail criteria and processes of assessment of suitability of the Supervisory Board members which are applied upon their appointment to the position, as well as continuously during their mandate.

The authorities of the Supervisory Board are set out in the Bank's Articles of Association in accordance with the applicable regulations within Companies Act and Credit Institutions Act.

Members of the Supervisory Board of the Bank during 2016 were as follows:

- Mr. Július Strapek, president of the Supervisory Board (performed the function of the president until 24 November 2016)
- Mr. Željko Filipović
- Mr. Igor Kováč, since 24 November 2016 performs the function of the President of the Supervisory Board
- Mr. Ivo Enenkl
- Mr. Juraj Lalík
- Mr. Patrik Tkáč

Information on the composition and activities of the Management Board and Supervisory Board and their committees is provided within the Annual Questionnaire within the Code of Corporate Governance.

The procedure of making amendments to the Articles of Association is defined in Article 57 of the Articles of Association, providing that the Articles of Association can be changed with the decision of General Assembly in accordance with the regulation and this Articles of Association, whereas Supervisory Board is entitled to amend Articles of Association merely in order to adapt or to refine the content of Articles of Association.

The Management Board is entitled to issue new shares of the Bank based on the statutory provisions on „approved capital". Issue of new shares is subject to approval by the bank's Supervisory Board and can be made during the period of 5 years, commencing from the date of entry of amendments into the Court register, in accordance with the Decision of the General Assembly from 1 June 2016. The Management Board can make decisions to increase Bank's share capital by making cash contribution and by issuing new shares, but total increase of share capital cannot exceed half of the nominal amount of the Bank's share capital at the date of decision on amendment of the Articles of Association. Management Board upon approval of the Supervisory Board is entitled to exclude shareholders' priority in the process of issue of shares based on this provision. Furthermore, Management Board with approval of the Supervisory Board decides on rights arising from ownership of shares and condition of their issue.

Main shareholders of the Bank with share capital exceeding 2% of total share capital as at 31 December 2016 were as follows:

Surname and name / Shorten company name of the shareholder / owner	Security indicator	Number of shares	% of share in share capital
J&T BANKA a.s.	BPBA-R-B	25,350,000	82,55%
PBZ D.D./ALTERNATIVE UPRAVLJANJE d.o.o.	BPBA-R-B	3,571,429	11,63%

Share capital of the Bank was increased in July 2016, in accordance with the provisions from Articles of Association on „approved capital" through payment of HRK 76.000.000,00 on behalf of the largest shareholder J&T Banka a.s. After this, new share capital amounts HRK 307.085.400,00, and stated shareholder holds 25.350.000 shares in total, indicated as BPBA-R-B, i.e. share in total share capital of 82,55%.

Finance Sector/The Bank makes annual report and delivers financial data for statistical and other purposes and implements their public announcement in accordance with the Accounting Act.

In accordance with the regulation, Internal Audit implements:

- evaluation of regularity and reliability of accounting evidence and financial reports system,

- verification of reliability of the system of reporting and timeliness and accuracy of reports prescribed by the Credit Institutions Act, regulations reached in accordance with this Act and other regulations

- evaluation of system of collecting and validity of publicly announced information in accordance with the chapter XIV of the Credit Institutions Act.

Risk control function regularly monitors capital indicators, liquidity indicators, quality of loan portfolio based on available financial reports and regularly reports higher management, Management Board and Audit Committee on given indicators.

Through continuous business and implementation of controls over operational risks, systems of internal controls in processes are continuously developed and built, providing the quality base of information, which is used as base for financial reports.

During 2016, the Audit Committee was performing its duties, consisted of the following members:

- Mr. Branko Tomašković, president
- Mr. Július Strapek, member
- Mr. Juraj Lalik, member

Audit Committee assists the Supervisory Board in performing the function of business supervision, and especially of the following tasks:

– Monitors the procedure of financial reporting,

– Monitors the efficiency of internal control system, internal audit and risk management system,

– Supervises the implementation of annual financial and consolidated report,

– Monitors the independence of independent auditors of auditing company which performs audit, especially contracts on additional services,

– Gives recommendations to the General Assembly regarding selection of independent auditor or auditing company,

– Discusses the plans and annual report of internal audit and on significant issues regarding this area of business.

Beside the Audit Committee, the Supervisory Board in the performing function of supervision follows and assess the work of internal audit and gives recommendations for improvement of its work quality and makes the recommendations for the use of available resources with the purpose of establishing quality system of internal controls which will timely identify the risks to which the Bank is exposed to, with the aim of effective risk management.

Responsibilities of the Management Board and Supervisory Board for the preparation and approval of the annual report

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

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

The Management Board is also responsible for the preparation and content of the Management report and the Statement on the implementation of corporate governance code,in accordance with the Croatian Accounting Act.

The Management Board is also responsible for the preparation and fair presentation of the supplementary information prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 27 March 2017 (Official Gazette 30/17).

The Management Board is responsible for the submission of the Annual report to the Supervisory Board together with the annual financial statements, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The financial statements set out on pages 27 to 100, Management report on pages 7 to 16, Statement on the implementation of corporate governance code on pages 17 to 19 as well as supplementary information to the Croatian National Bank which is not part of financial statements set out on pages 101 to 116 were authorised by the Management Board on 28 April 2017 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of J&T banka d.d.:

J&T BANKA d.d.

3

Ivica Božan, President of the Management Board

Petar Rajković, Member of the Management Board

Independent Auditor's Report to the shareholders of J&T banka d.d.

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of J&T banka d.d. ("the Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements referred to above give a true and fair view of the financial position of the Bank as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with accounting requirements for credit institutions in Croatia.

Basis for Qualified Opinion

In 2016, the Bank recognized specific impairment losses in the amount of HRK 69,944 thousand in respect of loans and advances to customers. The above-mentioned losses related in part to the exposures for which objective evidence of impairment already existed as at 31 December 2015 and for which respective impairment loss should have been recognized in the prior periods. In addition, as at 31 December 2016, the Bank recognized a HRK 21,208 thousand impairment loss on foreclosed assets, also in part related to impairment already existing as at 31 December 2015. It was impracticable for us to quantify the effects of the above matters on the reported amounts of loans and advances to customers, foreclosed assets and accumulated losses as at 31 December 2015, and also on the amounts of impairment losses, interest income and net loss for the years ended 31 December 2016 and 31 December 2015.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Matter

The financial statements of the Bank as at and for the year ended 31 December 2015 were audited by another auditor who expressed a qualified opinion on those statements on 31 March 2016 due to their disagreement as to the adequacy of the impairment losses in respect of loans and advances to customers.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of 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, and we do not provide a separate opinion on these matters.

Impairment losses on loans and advances
As at 31 December 2016, gross loans and advances to customers amount to HRK 1,014 million, impairment allowance amounts to HRK 203 million and impairment loss recognised in the income statement amounts to HRK 68 million (31 December 2015: gross loans and advances to customers: HRK 1,013 million, impairment allowance: HRK 138 million and impairment loss recognised in the income statement: HRK 38 million). Refer to page 36 (Significant accounting policies), page 71 (Significant accounting estimates and judgements), page 47 (credit risk section) and page 76 (note 11 Loans and advances to customers).

<table>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Impairment allowances on loans and advances to customers represent management's best estimate of the losses incurred within the loan portfolios at the reporting date. The area is considered by us to be a key audit matter as the determination of the appropriate amounts of impairment losses requires the application of significant judgement and use of subjective assumptions by management.

Specific impairment allowances for individually significant exposures (those in excess of HRK 200 thousand, individually) are determined on an individual basis by means of a discounted cash flows analysis. The process involves a high level of subjectivity and reliance on a number of significant assumptions, including those in respect of the probable sale proceeds and minimum period for collateral disposal, as well as specific guidance of the CNB regarding minimum haircuts to be applied on the estimated value of collateral.

Specific impairment allowance for individually non-significant exposures are assessed collectively for impairment. The collective provisioning model is using the minimum loss rates prescribed by the CNB based on the days in arrears.

For assets not specifically identified as impaired (including sovereign risk) the Bank recognises the provision at the rates prescribed by the CNB (general allowance).</td><td>Our procedures included, among others:

• testing of the design and operating effectiveness of the controls over the Bank's determination of loan impairment and the estimation of provisions against such assets. The controls tested included, among others, those over:
- calculation of days in arrears;
- timely identification of impaired loans and classification into appropriate risk grades based on the requirements of the CNB;
- collateral valuation estimates.
• for individually significant exposures, selecting a sample of loans and advances, focusing on those with largest amounts and high-risk, such as watchlisted, restructured or rescheduled exposures and non-performing loans with low provision coverage. For the items selected:
– assessing whether objective evidence of impairment existed by reference to the loan files and through discussions with the risk management personnel and the Management Board;
– where impairment triggers were identified, testing the estimation of the future expected cash flows including the amounts expected from realisation of the collateral held. This involved, but was not limited to (i) assessing the competence and objectivity of, as well as work performed by, external experts engaged by the Bank to fair value the collateral, (ii) considering whether appropriate collateral valuation methodologies and assumptions were used, with the assistance of our valuation specialists, and (iii) where more appropriate assumptions could be made in respect of haircuts to collateral and time to dispose, independently recalculating the provision on that basis and comparing the results to the Bank's assessment in order to assess whether there was any indication of an error or management bias;
– assessing whether the specific CNB provisioning requirements were complied with.
• for individually non-significant exposures specifically identified as impaired, on a portfolio basis, testing whether the Bank applied the minimum loss rates prescribed with the CNB based on days in arrears;
• with respect to assets not specifically identified as impaired, independently recomputing the Bank's estimation of the general allowance.</td></tr>
</table>

Going concern basis of accounting
Refer to page 34 (Basis of preparation).

The key audit matter	How the matter was addressed in our audit
The Bank's financial statements are prepared on a going concern basis. In 2016, the Bank reported net loss in the amount of HRK 86,568 thousand (2015: net loss of HRK 50,476 thousand), and as at 31 December 2016 had accumulated losses of HRK 168,162 thousand (31 December 2015: accumulated losses of HRK 81,594 thousand). Due to the significant losses reported in the preceding periods, since 2014 the Bank has received several capital injections from the majority shareholder in order to maintain its capital adequacy ratio at least at the minimum level required by the CNB. As disclosed in Note 4.1.5, the Bank's capital adequacy ratio as at 31 December 2016 amounted to 15.02%. Although the Bank's capital adequacy ratio as at 31 December 2016 is above the CNB's minimum level, continuing losses without adequate capital support may further erode the capital base. The above factors were identified by the Bank as events and conditions that may cast significant doubt on its ability to continue as a going concern. The Bank's going concern assessment was based on profit and loss forecasts, as well as liquidity plans which in management's view support the assertion that the Bank will have sufficient resources and adequate capital ratios to continue for a period of at least 12 months from the reporting date. The preparation of these forecasts and projections incorporated a number of assumptions and significant judgment. The Bank's going concern assessment is also based on the expected continued support from the majority shareholder in a form of further capital injections or subordinated loans which may be used in order to strengthen the capital base. Management concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. Note 2 f) to the financial statements further explains how the judgment was formed by the management. The Bank's use of the going concern basis of accounting is a key audit matter due to the associated extent of uncertainty, and consequently, high level of judgment required in evaluating the Bank's plans for future actions and their financial impact.	Our procedures included, among others: • discussing with the management board members their plans for future actions in relation to the going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances; • comparing the Bank's profit and loss forecast for the current year to the current year's outcomes to assess the quality of management's forecasting process; • evaluating the Bank's financial performance forecasts provided to us in support of the management's use of the going concern basis of accounting, by comparing those projections with historical outcomes and assessing the planned measures to be implemented by the Bank to secure more cost effective sources of financing; specifically challenging the key assumptions and judgements with most significant impact on these forecasts, including, among others: - forecast of interest and similar income; - expected loan impairment losses. • obtaining a letter of financial support provided to the Bank by its majority shareholder, J&T Bank A.S., and also assessing the majority shareholder's capacity to provide such further support by reviewing the majority shareholder's latest financial statements and making related inquiries of the group auditor; • considering whether any additional facts or information have become available since the date on which the Bank made its assessment; • evaluating whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about the events or conditions that had been identified that may cast significant doubt on the entity's ability to continue as a going concern.

Impairment of foreclosed assets
As at 31 December 2016, foreclosed assets amount to HRK 28.5 million, (31 December 2015: HRK 53.7 million), while impairment loss recognised during 2016 amount to HRK 21.2 million (2015: HRK 0.5 million). Refer to page 45 (Significant accounting policies), page 71 (Significant accounting estimates and judgements) and page 79 (note 14 Other assets).

The key audit matter	How the matter was addressed in our audit
Foreclosed assets relate to real estate acquired in lieu of uncollected loans and advances to customers. The assets are classified by the Bank as inventories and carried at their net realisable value. The Bank's intention is generally to dispose of such assets by means of a sale. In assessing the net realisable value of foreclosed assets, generally represented by their fair value less costs to sell, the Bank engaged external appraisers. These experts use a number of different approaches to estimate the value of the property, depending on the type of property. These may include: the comparable sales approach, as well as the cost or income method (based on the discounted cash flow model). The determination of the net realisable value of foreclosed assets requires the application of significant judgement and use of subjective assumptions by management, mainly relating to revenue growth discount rates, comparable sales prices and rent prices, Due to the above factors, as well as the fact that significant impairment losses were recognised during the year, we consider this area to be a key audit matter.	Our procedures included, among others: • updating our understanding of Bank's approach to the determination of the recoverable amounts of repossessed real estate; • assisted by our own valuation specialists, assessing the external appraisers' valuation reports, by challenging the key assumptions and judgements used, for all foreclosed properties held by the Bank as at 31 December 2016. This involved, but was not limited to: – assessing the competence and objectivity of, as well as work performed by, external experts engaged by the Bank to fair value the assets; – considering whether appropriate valuation methodologies and assumptions were used by reference to the market practice and the requirements of relevant accounting standards, including the assessment of the internal consistency, inputs and sources used by experts and the mathematical accuracy of the relevant models; – evaluating the reasonableness of key assumptions applied in the valuation models (including, where applicable, those relating to rental income, revenue growth and discount rates) against market data; – where available, independently assessing the prices realised from the observable market transaction for similar assets.

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 auditors' report thereon.

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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

With respect to the Management report and the Statement of implementation of corporate governance code, we have also performed the procedures required by the Article 20 of the Croatian Accounting Act. These procedures include considering whether the Annual report includes the disclosures required by Articles 21, 22 and 24 of the Croatian Accounting Act and obtaining evidence regarding specified information provided in the Management Reports and the Statement of implementation of corporate governance.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedures above, in our opinion:

- The information given in the Management Report and the relevant sections of the Statement of implementation of corporate governance code, which contain the information referred to in Article 22, paragraph 1, items 3 and 4, and Article 24, paragraph 2 of the Croatian Accounting Act (hereinafter, "extracts of the Statement of implementation of corporate governance code") for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- The Management Report and the extracts of the Statement of implementation of corporate governance have been prepared, in all material respects, in accordance with the applicable legal requirements of the Croatian Accounting Act;
- The Statement on implementation of corporate governance code includes the information required by Article 22 paragraph 1, items 2, 5, 6 and 7 of the Croatian Accounting Act.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give true and fair view in accordance with statutory accounting requirements for credit institutions in Croatia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' 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 auditors' 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 International Standards on Auditing 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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 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 auditors' 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 Structure and Content of the Annual Financial Statements of credit institutions, dated 27 March 2017 (Official Gazette 30/17), the Management Board of the Bank has prepared the schedules set out on pages 101 to 106 ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2016, and of the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the financial statements, presented on pages 107 to 116. The Management Board of the Bank is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements of the Bank set out on pages 27 to 100 on which we have expressed a qualified opinion as previously set out.

Engagement partner in the audit that resulted in the Auditor's Report is Katarina Kecko.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
Croatia

Zagreb, 28 April 2017

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

Katarina Kecko
Director, Croatian Certified Auditor

KPMG Croatia
d.o.o. za reviziju
Eurotower, 17. kat
Ivana Lučića 2a, 10000 Zagreb
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Statement of financial position as at 31 December 2016

[HRK'000] BALANCE SHEET	Notes	Restated 1 January 2015	Restated 31 December 2015	31 December 2016
ASSETS				
Amounts with the Croatian National Bank	6	162,563	174,237	175,421
Cash and accounts with banks	7	215,924	262,906	184,849
Placements with other banks	8	2,635	1,099	478
Financial assets available for sale	9	193,803	130,430	253,981
Held-to-maturity financial assets	10	30,032	120,380	15,190
Loans and advances to customers	11	650,605	870,244	805,813
Property and equipment	12	18,714	17,335	18,565
Intangible assets	13	17,675	16,664	14,756
Other assets	14	50,504	55,902	61,896
TOTAL ASSETS		**1,342,455**	**1,649,197**	**1,530,949**
LIABILITIES				
Deposits from customers	15	1,145,526	1,385,184	1,240,172
Borrowings	16	37,894	54,919	61,952
Subordinated debt	17	26,489	22,905	47,133
Provisions for liabilities and charges	18	969	1,281	1,601
Other liabilities	19	7,846	8,161	13,505
Deferred tax liability	30 c)	-	-	725
TOTAL ASSETS		**1,218,724**	**1,472,450**	**1,365,088**
EQUITY				
Share capital	20.1	128,585	231,085	307,085
Share premium	20.2	21,435	21,435	21,435
Other reserves	20.3	3,787	3,787	3,792
Fair value reserve	20.4	1,042	2,034	1,711
Accumulated loss	20.5	(31,118)	(81,594)	(168,162)
TOTAL EQUITY		**123,731**	**176,747**	**165,861**
TOTAL LIABILITIES AND EQUITY		**1,342,455**	**1,649,197**	**1,530,949**

The significant accounting policies and other notes on pages 32 to 100 form an integral part of these financial statements.

Income statement

[HRK'000] INCOME STATEMENT	Notes	Restated 2015	2016
Interest and similar income	21	68,879	75,302
Interest and similar charges	22	(41,271)	(40,177)
Net interest income		**27,608**	**35,125**
Fee and commission income	23	6,629	7,161
Fee and commission expense	24	(1,808)	(2,386)
Net fee and commission income		**4,821**	**4,775**
Net realised gains from financial assets available for sale	25	660	4,345
Net foreign exchange gains	26	4,649	3,355
Other income	27	4,711	3,409
Trading and other income		**10,020**	**11,109**
Personnel expenses	28a	(23,295)	(23,109)
Depreciation, amortisation and impairment of goodwill	12, 13	(4,250)	(4,813)
Other administrative expenses	28b	(23,363)	(21,067)
Impairment losses and provisions	29	(42,017)	(88,588)
LOSS BEFORE TAX		**(50,476)**	**(86,568)**
Income tax expense	30	-	-
LOSS FOR THE YEAR		**(50,476)**	**(86,568)**
LOSS PER SHARE (in HRK)	**31**	**(2.83)**	**(3.26)**

The significant accounting policies and other notes on pages 32 to 100 form an integral part of these financial statements.

Statement of comprehensive income

[HRK'000]	Restated 2015	2016
Loss for the year	**(50,476)**	**(86,568)**
Net change in fair value on financial assets available for sale	992	403
Deferred tax on financial assets available for sale	-	(725)
Other comprehensive income / (loss) net of tax	**992**	**(323)**
TOTAL COMPREHENSIVE LOSS	**(49,484)**	**(86,891)**

The significant accounting policies and other notes on pages 32 to 100 form an integral part of these financial statements.

Statement of changes in equity for 2016

[HRK'000]	Notes	Share capital	Share Premium	Other reserves	Fair value reserve	Accumulated loss	Total
Balance at 1 January 2015, restated		**128,585**	**21,435**	**3,787**	**1,042**	**(31,118)**	**123,731**
Loss for the year		-	-	-	-	(50,476)	(50,476)
Change in fair value on financial assets available for sale, net of realized amounts and deferred tax		-	-	-	992	-	992
Total comprehensive loss		**-**	**-**	**-**	**992**	**(50,476)**	**(49,484)**
Transactions with owners, recorded directly in equity							
Increase in share capital	20.1	102,050	-	-	-	-	102,050
Balance at 31 December 2015, restated		**231,085**	**21,435**	**3,787**	**2,034**	**(81,594)**	**176,747**
Loss for the year		-	-	-	-	(86,568)	(86,568)
Change in the fair value on available-for-sale financial assets, net of realized amounts and deferred tax		-	-	-	(323)	-	(323)
Total comprehensive loss		-	-	-	**(323)**	**(86,568)**	**(86,891)**
Transactions with owners, recorded directly in equity							
Increase in share capital	20.1	76,000	-	-	-	-	76,000
Other movements	20.5	-	-	5	-	-	5
Balance at 31 December 2016		**307,085**	**21,435**	**3,792**	**1,711**	**(168,162)**	**165,861**

The significant accounting policies and other notes on pages 32 to 100 form an integral part of these financial statements.

Statement of cash flows for 2016

[HRK'000]	Notes	Restated 2015	2016
Cash flow from operating activities			
Loss before tax		(50,476)	(86,568)
Adjustments:			
- Depreciation, amortization of and impairment of goodwill	12, 13	4,250	4,813
- Impairment losses and provisions	29	42,017	88,588
- Net interest income		(27,608)	(35,125)
- Realised gains less losses from securities available for sale	25	(660)	(4,345)
		(32,477)	**(32,637)**
Changes in operating assets and liabilities			
Net increase in loans and advances to customers		(257,974)	(6,652)
Net decrease in placements with other banks		1,536	621
Net (increase)/decrease in obligatory reserves		(4,974)	15,295
Net increase in other assets		(8,274)	(27,959)
Net increase /(decrease) in deposits from customers		242,252	(142,327)
Increase in other liabilities and provisions		268	5,343
Movements in operating assets and liabilities		**(27,166)**	**(155,679)**
Interest received		71,412	77,209
Interest paid		(43,711)	(42,598)
Income tax paid		-	-
Net cash outflow from operating activities		**(31,942)**	**(153,705)**
Purchase of/(receipts from) investment funds		1,290	(34,499)
Purchased of debt securities		-	(92,542)
Proceeds from debt securities		61,588	9,223
(Purchase of)/redemption of held-to-maturity financial investments		(91,049)	105,703
Acquisition of property and equipment and intangible assets		(1,860)	(2,755)
Net cash outflow from investing activities		**(30,031)**	**(14,870)**
Receipts from borrowings		20,634	31,481
Repayment of borrowings		(3,895)	(24,671)
Proceeds from issue of share capital		102,500	76,000
Increase / (decrease) in subordinated debt		(3,584)	24,187
Net cash inflow from financing activities		**115,655**	**106,997**
Net increase/(decrease) in cash and cash equivalents		53,682	(61,578)
Cash and cash equivalents at the beginning of the year		273,932	327,614
Cash and cash equivalents at the end of the year		**327,614**	**266,036**

The significant accounting policies and other notes on pages 32 to 100 form an integral part of these financial statements.

Notes to the financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

General information

J&T banka d.d. ("the Bank") Member of the J&T Finance Grouphe bank, dated back to 1994, when the Brodsko-posavska banka d.d. was incorporated in Slavonski brod, and in 2005, to build upon the tradition of the former Varaždinska banka, it changed its name on December 27, 2004 to Vaba d.d. banka Varaždin and relocated to Varaždin.

Quality of Vaba d.d. Bank was recognized by the Czech bank J&T a.s. and in June 2014, recapitalised the bank with HRK 75 million and increased the Bank's capital to HRK 128.6 million. During 2015, J&T has further invested in the Bank's capital and the share capital was increased to HRK 231 million. During 2016, another increase of the share capital of the Bank was conducted in the amount of HRK 76 million by the majority shareholder of the Bank - J&T Bank a.s. so the new share capital amounts to HRK 307,1 million, and J & T Banka a.s. holds a total of 25,350,000 shares tags BPBA-R-B or equity of 82.55%.

From 1 Januray 2017 the Bank started operating under the name J&T banka d.d.

These financial statements were approved by the Board on 28 April 2017 for submission to the Supervisory Board.

I. Basis of presentation

(a) Statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia. The Bank's operations in Croatia are subject to the Credit Institutions Act, in accordance with which the Bank's financial reporting is regulated by the Croatian National Bank (the CNB) which is the central regulatory institution of the banking system in Croatia.

The principal accounting policies applied in the preparation of these financial statements are summarised below. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards (IFRS), reference may be made to certain Standards in describing the accounting policies of the Bank; unless otherwise stated, these references are to Standards as adopted in the European Union as at 31 December 2016.

The accounting regulations based on which these financial statements have been prepared differ from IFRS both in terms of presentation as well as in terms of recognition and measurement. We draw attention to the following differences between the accounting regulations of the CNB and the recognition and measurement requirements of IFRS as adopted by the EU:

- The CNB requires banks to recognise impairment losses, in the income statement, on all financial assets not identified as impaired (including sovereign risk assets and excluding assets not carried at fair value) at prescribed rates. In accordance with these requirements, the Bank had a portfolio-based allowance in the amount of 10.6 million (2015.: HRK 13.9 million) recorded in the balance sheet and has recognized income in the amount of 3.3 million, within (2015.: loss of 4.4 million). The Bank continues to recognize such impaired losses and allowances as a substitute for existing but unidentified impairment losses calculated in accordance with IAS 39. According to local requirements a prescribed portfolio-based allowance should be recognized at a minimum of 0.80% of eligible assets if the bank uses internally developed model to calculate these allowance, or at least 1% if it does not. The Bank has no internally developed model and therefore portfolio-based allowances are calculated as 1% of the eligible assets.
- In accordance with local regulation, interest income on non-performing loans is recognised on a cash basis, as opposed to IAS 39, which prescribes recognition of interest income on impaired exposures through unwiding of discount.

Notes to the financial statements (continued)

2. Basis of presentation (continued)

(a) Statement of compliance (continued)

- In accordance with local regulations, the Bank recognises provisions for court cases incorporating the likelihood of the loss into measurement of the provision (i.e. if the likelihood of the loss is estimated to be 10%, the provision will be calculated as 10% of the potential loss), which is contrary to IFRS, which prescribes recognition of the full amount of potential loss, once it is probable that the court case will be lost. IFRS does not require a provision to be made if it is not probable that the court case will be lost.
- Although the Bank calculates impairment losses on corporate lending as the present value of expected cash flows, discounted at the instrument's original effective interest rate. As opposed to IFRS, the amortization of such discount is recognized at a reversal of the impairment loss in accordance with local regulations, instead of interest income.
- The CNB prescribes some specific requirements for impairment of loans and receivables such as: prescribed minimum hair-cuts and minimum realisation period in calculating specific impairment allowances where the collection is expected from collateral, minimum loss rates on unsecured exposures based on the number of overdue days etc. which may result with different impairment loss than those that would be recognised in accordance with IFRS.
- Additional, in accordance with market practice, the Bank does not disclose the reporting segments presumed by IFRS 8 "Operating Segments". Furthermore, the classification of bills of exchange note not quoted on an active market as held to maturity, as well as investments in leasehold improvements as intangible assets, is in accordance with market practice, and opposed to IFRS.

(b) Basis of preparation

The financial statements are prepared on a fair value basis for available for sale assets. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost.

(c) Use of estimates and judgments

In preparing the financial statements, the Management Board has made judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the result of which form the basis for making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by the management in application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of a possible material adjustment in the next year are discussed in Note 5.

(d) Functional and presentation currency

The Bank's financial statements are presented using the currency of the primary economic environment in which the Bank operates (the functional currency), Croatian kuna (HRK). Amounts are rounded to the nearest thousand.

The exchange rates of currencies, in which the majority of the Bank's assets and liabilities are denominated, are used for the translation of the Bank's assets and liabilities and as at 31 December 2016 they were as follows: EUR 1 = HRK 7.558 (2015: EUR 1 = HRK 7.635) and USD 1 = HRK 7.168 (2015: USD 1 = HRK 6.992).

Notes to the financial statements (continued)

2. Basis of presentation (continued)

(e) Changes in presentation or classification of items within the financial statements

Where necessary, comparative information has been reclassified to achieve consistency with amounts presented in the current financial year amounts and other disclosures. To review the reclassification, please see Note 39.

(f) Going concern

In 2016, the Bank realized a loss of HRK 87 million (31 December 2015: loss of HRK 50 million) and as at 31 December 2016 it had accumulated losses of HRK 168 million (31 December 2015: HRK 82 million). Due to significant losses, the Bank has had several capital injections by the majority owner since 2014 in order to maintain the capital adequacy prescribed by the CNB. In the case of further operating losses, there is a risk of capital inadequacy and non-compliance with other regulatory limits, in which case the going concern of the Bank would depend on the financial support and capital increase by the parent company.

As disclosed in Note 4.1.5., common equity capital adequacy as at 31 December 2016 amounts to 15.02% and is above the minimum rate prescribed by the CNB as is total capital adequacy which amounts to 19.76%. Furthermore, the Bank has the support of a majority owner who is willing to further increase the share capital of the Bank or provided subordinated loans if needed. Also, the Bank's Management believes that the preparation of financial statements on the basis of going concern is further confirmed by the fact that in the first quarter of 2017, the Bank achieved operating profit of HRK 4,15 million and that the planned profit for the year 2017 is net profit in the amount of HRK 0.5 million.

Notes to the financial statements (continued)

3. Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these financial statements.

(a) Interest income and expense

Interest income and expense are recognised in the income statement as they accrue for all interest-bearing financial instruments, including those measured at amortised cost, at fair value through profit or loss and available for sale, using the effective interest rate method. Such income and expense is presented as interest and similar income or interest expense and similar charges in the income statement. Interest income and expense also includes fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortisation, and other differences between the initial carrying amount of an interest-bearing financial instrument and its value at maturity, recognised on a linear basis. Income and expense on all assets and liabilities held for trading is recognised as interest income and expense.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank does not consider future credit losses.

(b) Fee and commission income and expense

Fee and commission income and expense arise on financial services provided by the Bank and received by the Bank, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by the Bank. Fee and commission income and expense are recognised in the income statement when the related service is performed.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part for itself, or has retained a part at the same effective interest rate as other participants. Portfolio and other management service fees are recognised based on the applicable service contracts upon completion of the service.

Investment management fees related to investment services are recognised on an accrual basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

(c) Dividend income

Dividend income from equity securities is recognised in the income statement when the rights to receive the dividend are established.

(d) Net realised gains from financial assets available for sale

Net realized gains on available-for-sale securities include realized gains and losses on financial instruments available for sale.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(e) Net foreign exchange gains

Net gains from foreign exchange include unrealised and realised gains and losses arising from spot dealings in foreign currencies.

(f) Foreign currencies

Foreign currency transactions are translated into HRK using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate prevailing at that date.

Foreign currency differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into HRK at the foreign exchange rate prevailing at the date on which their fair value was determined.

Non-monetary assets and items that are carried at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not re-translated.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are separated between exchange rate differences arising from changes in the amortized cost of securities and other changes in the net book value of the security. Foreign exchange differences are recognized in the income statement as part of exchange gains or losses on the sale of monetary assets and liabilities. Foreign exchange differences on non-monetary financial assets, as equity securities classified as available for sale, are included within other comprehensive income.

(g) Financial instruments

i) <u>Classification</u>

The Bank classifies its financial instruments into the following categories: financial assets at fair value through profit or loss, loans and receivables, available for sale, held to maturity or financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. The Management Board determines the classification of financial instruments at initial recognition.

Financial assets and financial liabilities at fair value through profit or loss

This category comprises two subcategories: financial instruments held for trading, and those designated by the Management Board as at fair value through profit or loss at inception. The Bank designates financial assets and liabilities at fair value through profit or loss when:

- the assets and liabilities are managed, evaluated and reported internally on a fair value basis,
- the designation eliminates or significantly reduces an accounting inconsistency which would otherwise arise, or
- the asset and liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

As at 31 December 2016, the Bank had no financial assets and financial liabilities at fair value through profit or loss (2015: nil).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money to a debtor with no intention of trading with the receivable and include loans and receivables from banks, loans and receivables from customers, obligatory reserve with CNB and various other receivables.

Held-to-maturity financial instruments

Held-to-maturity financial instruments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank's Management Board has the positive intention and ability to hold to maturity. Mentioned category includes corporate bills of exchange.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

i) Classification (continued)

Available-for-sale financial assets

This category comprises non-derivative financial assets which are defined as available for sale or not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or prices of equity securities.

Available-for-sale financial assets include debt and equity securities, shares in investment funds and shares in a private equity venture fund.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss. Other financial liabilities include demand deposits and deposits from financial institutions and clients and other liabilities.

ii) Recognition and derecognition

Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders. Regular purchases of financial assets available-for-sale and held-to-maturity financial assets are recognised on the settlement date.

The Bank derecognises financial instruments (in full or in part) when the contractual rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights to such financial instruments. This occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired. The Bank derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Bank will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

iii) Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank measures financial instruments at fair value through profit or loss and available-for-sale financial assets at their fair value, without any deduction for selling costs. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment.

Loans and receivables and held-to-maturity investments and financial liabilities not designated at fair value through profit or loss are measured at amortised cost.

iv) Gains and losses

Gains or losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in the income statement.

Gains or losses arising from a change in the fair value of available-for-sale monetary assets are recognised directly in the other comprehensive income. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount on available-for-sale monetary assets are recognised in the income statement. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in other comprehensive income.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

iv) Gains and losses (continued)

Upon sale or other derecognition of available-for-sale financial assets, any cumulative gains or losses on the instrument are transferred to the income statement. Gains or losses may also be recognised in the income statement when a financial instrument is derecognised or when its value is impaired. Dividend income is recognised in the income statement.

v) Determination of fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability also reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The Bank recognises the transfer between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is entirely supported by observable market data.

The fair value of non-trading derivatives is estimated at the amount that the Bank would receive or pay to terminate the contract on the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

vi) Impairment of financial assets

Specific impairment of assets identified as impaired

a) Financial assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence for impairment of an individual financial asset or group of financial assets that are not stated at fair value through profit or loss. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data, that comes to the attention of the Bank, about the following loss events:

i. significant financial difficulty of the borrower;
ii. a breach of contract, such as a default or delinquency in interest or principal payments;
iii. the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that it would not otherwise consider;
iv. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
v. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for the individual financial assets in the group.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets (continued)

All individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively. Financial assets which are not identified as impaired are subsequently included in the basis for collective impairment assessment. Loans and advances to customers and investments held to maturity that are not individually significant are collectively tested for impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (including amounts recoverable from collaterals) discounted at the financial asset's original effective interest rate. If a loan and receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract at the time when the asset becomes initially impaired. The loss is recognised in the income statement.

For the purposes of a collective evaluation of impairment of individually non-significant exposures, the amount of the loss is measured in line with the relevant CNB regulations.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized in the income statement, the amount of the reversal is recognised in the income statement.

When a loan is uncollectible, it is written off against the related impairment allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as a reversal of impairment losses in the income statement.

When possible, the Bank implements loan restructuring rather than initiate enforcement action. This may include the extension of repayment period and other changes in credit conditions. After changing conditions, any further impairment calculation is made with the original effective interest rate applicable prior to changing conditions. The management continuously monitors restructured loans with regards to the fulfillment of the new conditions and security of future payments. These loans are subject to further regular testing of impairment on an individual or group basis using the original effective interest rate.

b) Financial assets carried at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is subsequently recognised in other comprehensive income.

c) Impairment of assets not identified as impaired

In addition to the above described impairment losses on assets identified as impaired, the Bank recognises impairment losses in the income statement, on the balance sheet and off balance sheet credit risk exposures not identified as impaired at the rate of 1.00% in accordance with the accounting regulations of CNB.

Debt securities carried at fair value and classified as available for sale were excluded from the basis of such calculation at the reporting date.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vii) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(h) Specific financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, on giro accounts, placements with other banks with original maturities of three months or less, and items in the course of collection.

Derivative financial instruments

In accordance with its investment policy, the Bank does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied.

Derivative financial instruments are initially recognised at fair value which is the value of the consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on the discounted cash flow. All derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is considered to represent an embedded derivative. Unless it is inconsistent with the requirements of the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the primary contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealised gains and losses recognised in the income statement, unless there is no reliable measure of their fair value.

Treasury bills and debt securities

Treasury bills and debt securities that the Bank holds for short-term gain purposes are classified as available-for-sale assets, and are carried at fair value. The Bank uses treasury bills for liquidity purposes.

Equity securities and investments in investment and other funds

Equity securities and investments in open-ended and close-ended investment funds are classified as available-for-sale assets.

Placements with banks

Placements with banks are classified as loans and receivables and are carried at amortised cost less impairment losses.

Current accounts and deposits from banks

Current accounts and deposits from banks are classified as other liabilities and stated at amortised cost.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(h) Specific financial instruments (continued)

Deposits from customers

Deposits are classified as other liabilities and initially measured at fair value plus transaction costs, and subsequently stated at the amortised costs using the effective interest method.

Loans and advances to customers

Loans and advances to customers are presented net of impairment losses to reflect the estimated recoverable amounts.

Borrowings

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

Sale and repurchase agreements

The Bank enters into purchases and sales of investments under agreements to resell or repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to such commitments to resell them at future dates are not recognised in the statement of financial position. The amounts paid are recognised as loans to either banks or customers, collateralised by the underlying security from the repurchase agreement. Securities sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of investments are reported as collateralised liabilities to either banks or customers.

The difference between the sale and repurchase consideration is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.

Financial guarantee

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded in off-balance-sheet accounts and primarily comprise guarantees, letters of credit, undrawn loan commitments and credit-card limits. Such financial commitments are recorded in the Bank’s statement of financial position if and when they become payable.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, being the premium received, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee becomes probable), depending on which amount is higher. Financial guarantees are included within other liabilities.

(i) Income tax

Income tax is based on taxable income for the year and comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(i) Income tax (continued)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which the carrying value of assets and liabilities is expected to be recovered or settled based on tax rates enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would arise from the manner in which the Bank expects, at the reporting date, to recover or settle the net carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the balance sheet. Deferred tax assets are recognised only to the extent that it is probable that they could be utilised as a tax benefit. At each balance sheet date, the Bank reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

(j) Property and equipment

Property and equipment are tangible items that are held for use in the supply of services or for administrative purposes.

Recognition and measurement

Property and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes the cost that is directly attributable to the acquisition of assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.
Land and assets under construction are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

Buildings	33 years
IT equipment	5 years
Furniture and equipment	7-15 years
Motor vehicles	4 years
Other assets	10 years

Residual values are not taken into account. Depreciation methods and estimated useful lives are reassessed at the each reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount, and are included in the income statement.

(k) Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairment. Expenditure on development activities is recognised as intangible assets if all of the requirements of IAS 38 "*Intangible Assets*" are met. Amortisation is provided on the straight-line basis over the estimated useful lives of intangible assets. Costs associated with maintaining intangible assets are recognised as an expense as incurred.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(k) Intangible assets (continued)

Intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	5 years
Software	5 years
Applicative software developed by the Bank	10 years
Licences	5 years

(l) Impairment of non-financial assets

The recoverable amount of property and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

All non-financial assets previously impaired, are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation/depreciation, if no impairment had been recognised.

(m) Provisions for liabilities and charges

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and 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, or as required by law in the case of provisions for unidentified impairment of off-balance-sheet credit risk exposures, as previously referred to in Note 3 (g) 'Financial Instruments'.

Provisions for liabilities and charges are maintained at a level which the Bank's Management Board believes is adequate to absorb probable future losses. The Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of various categories of transactions and other relevant factors. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If an outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

(n) Operating lease

Leases where the Bank has substantially all the risks and rewards of ownership, are classified as finance leases. At the reporting date, the Bank did not have any financial leases neither as a lessee nor lessor. Other leases are operating leases. Bank leases office space for conducting its business activities. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(o) Employee benefits

Pension obligations

The Bank pays contributions to state-owned institutions and obligatory pension funds managed by privately owned management companies, in accordance with legal requirements or by individual choice. The Bank has no further payment obligations once the contributions have been paid. Pension contributions are recognised as staff costs in the income statement as they accrue.

Other employee benefits

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory termination benefits, are recorded as the net present value of the liability for defined benefits at the reporting date. The projected discounted present value unit method is used for the calculation of the present value of the liability, using discount rates that, in the opinion of the Bank's Management Board, best represent the time value of money.

Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(p) Equity

Issued share capital represents the nominal value of paid-up ordinary shares classified as equity and is denominated in HRK. The premium on the issued shares presents the surplus of the fair value above the nominal value of the issued shares.

Accumulated losses

Accumulated losses include losses from previous periods and loss for the year.

Loss per share

The Bank presents basic loss per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Treasury shares

Acquisition of treasury shares is carried out in the cases provided by the Companies Act, primarily in order to eliminate possible damage. Purchased treasury shares are stated at cost of purchase. The difference realized through the sale of treasury shares at the cost above the cost of acquisition is shown in favor of the capital gains account, and the difference realized below the cost of acquisition represents a capital loss.

(q) Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded in off-balance-sheet records and primarily comprise guarantees, letters of credit and undrawn revolving loan commitments. Such financial commitments are recorded in the Bank’s balance sheet if and when they become payable

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(r) Foreclosed assets

Foreclosed assets are stated at lower of the net recoverable value of property and the value of the related receivables. The Management Board has estimated that the carrying value of these assets approximates their market value.

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the cost of the related loans and advances and the current fair value of such assets. The Bank's intention is mainly to sell such assets, which, however, in certain limited cases may end up being used by the Bank.

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

(s) Standards, interpretations and amendments to published standards that are not yet effective

A number of new standards, amendments to standards and interpretations have been issued by the International Accounting Standards Board and IFRS Interpretations Committee but are effective for the accounting period ending 31 December 2016 and / or were not adopted by the European Union a and have not been applied in preparation of these financial statements. The one new standard potentially relevant to the Company is IFRS 9 Financial Instruments, which is discussed below.

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option are recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

- the remaining amount of change in the fair value is presented in profit or loss.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(s) Standards, interpretations and amendments to published standards that are not yet effective (continued)

Classification of financial assets and financial liabilities (continued)

Preparation of the operational rules for the implementation of the assessment of business models and models for future monitoring of the portfolio, subject to the application of rules mentioned above is in progress.

Based on the Bank's initial assessment, this standard is not expected to have a material impact on the classification of financial assets and financial liabilities of the Company.

This is because effect of financial instruments currently classified as financial assets value available for sale will continue to be measured through other comprehensive income as the business model for most of those debt financial instruments is collection of contractual cash flows and repurchase.

Based on the assessment, the classification of financial assets that are now classified at amortised cost will generally remain unchanged, in line with the business model of „holding to collect contractual cash flows".

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The actual impact of adopting IFRS 9 on the Bank's financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future.

The Bank cannot estimate the impairment losses in the scope of the IFRS 9 impairment model because the Bank has not yet finalised the impairment methodologies that it will apply under IFRS 9.

Hedge Accounting

The Bank does not apply hedge accounting therefore, changes in the new standard related to hedge accounting does not affect the Bank's financial statements.

Notes to the financial statements (continued)

4. RISK MANAGEMENT

4.1 Internal assessment of risk of the Bank's operations

This section provides details regarding the Bank's exposure to risk and describes the methods used by the management to identify, measure and manage risks in order to safeguard capital. The most significant types of financial risk to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk.

For the most significant risks, the Bank adopted strategies and policies which include objectives and basic principles of risk assumption and management, define its risk profile and risk appetite and the compliance of the Bank's risk profile and the level of capital.

The Bank has established a risk management system appropriate to the nature, scope and complexity of the business, and the risk profile of the Bank, which includes an adequate strategy, policy and other internal regulations for risk management, organisational structure with defined authorities and responsibilities for risk management, risk management process and system of internal controls. The Bank regularly monitors and checks the risk management system and identifies and assesses the risks to which it is or expects to be exposed in its operations.

4.1.1 Credit risk

The Bank is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties. Credit risk can be defined as a risk of financial loss of the Bank by a counterparty failing to discharge its obligation.

The Bank manages its credit risk exposure in accordance with the legislative requirements and regulations of the Croatian National Bank, as well as in accordance with its internal procedures. The Bank has established a system for monitoring its entire loan portfolio. The Credit Committee, the Supervisory Board and the Audit Committee are regularly informed of the quality of the portfolio. The analysis of the loan portfolio includes, at a minimum, an analysis of risk categories, overdue days and total exposure. The loan portfolio report is prepared by the Risk Management Sector. Based on the analysis results, decisions are made on the Bank's strategy toward the counterparty, group of related parties, certain industry or economic sector, geographical region, risk product type, certain type of collateral, etc.

The credit risk management policy and strategy is an umbrella document, i.e. a framework for managing credit risk, which is complemented with procedures, instructions and other documents that define the following in more detail:

- credit risk appetite,
- clear lines of authority and responsibility,
- way of assumption, overcoming and management of credit risk,
- defining the credit process and establishing a system of control and reporting of credit risk exposure,
- methodology for determining credit worthiness, measurement and assessment of credit risk for the duration of the repayment / validity of risky products,
- procedures for controlling and monitoring credit risk, including the establishment of exposure limits,
- maximum exposure limits regarding risk products with common risk factors,
- procedures and measures for approval of deviations from the application of existing policies, in case such deviations should occur and
- stress testing as a preparation of the Bank for possible crisis situations.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit risk assessment

The process of credit risk assessment of placements comprises the following:

- debtors' creditworthiness,
- timely settlement of due installments and
- collateral quality.

Creditworthiness is assessed for each loan application, and thereafter, as a minimum once a year subsequent to the delivery of the annual financial statements by the clients to which the Bank is exposed.

Monitoring of placements and contingent liabilities includes continuous assessment as to whether elements exist which would indicate a deterioration of the customer's financial position or an increase in risk due to the decrease of collateral value.

Credit risk management during 2016 was complex and largely influenced by macroeconomic trends, as well as efforts to ensure the collection of non performing receivables by implementing restructuring and/or rescheduling measures. This is in the effort to reconcile the customers' ability to pay in accordance with prevailing market conditions by way of overall restructuring of the debtors' operations or financial position. This should ultimately lead to a better settlement of liabilities to the Bank and improve the liquidity of customers in order to ensure business stability and sustainability over the long term.

Classification of placements into risk categories

The process and criteria for the classification of placements into risk categories and calculation of impairment is defined by the CNB's regulations.

The Bank classifies its loan exposures into two groups: small loan portfolio (group of related exposures below HRK 200 thousand) and individualy significant exposures (group of related exposures above HRK 200 thousand). Small loan portfolio is assessed for impairment based on the ageing of overdue amounts, while individually significant placements are individually assessed for impairement, as it was earlier described in Note 3 g) v).

After calculating the required impairment, the Bank allocates placements to risk groups depending on the level of the calculated loss (in accordance with the CNB Regulations).

1. **Risk category A** – newly approved placements upon initial approval and placements that the Bank estimates are fully recoverable – with no impairment losses on individual basis (Category A placements are subject to the impairment allowance for unidentified losses on a collective basis).

2. **Risk category B** – partly recoverable placements – **risk category B**, which are classified into three subcategories, depending on the percentage of the impairment losses recognized in relation to the nominal carrying amount:

   B1 – losses ranging from 1% to 30.00%,

   B2 – losses ranging from 30.01% to 70.00%,

   B3 – losses ranging from 70.01% to 99.99%.

3. **Risk category C** - non-recoverable placements with recognized impairment losses of 100%.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Assets exposed to credit risk

The Bank's primary exposure to credit risk arises from loans to and receivables to customers. The amount of credit exposure in this regard, and as well as for held-to-maturity securities recognised at amortised cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to credit risk arising from off-balance-sheet items, through commitments arising from unused facilities and guarantees issued. Credit risk is also considered for exposures to banks, and for other assets not carried at fair value where the credit risk is not the primary impairment risk. The table below presents the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is presented net of impairment allowance before the effect of mitigation through collateral agreements.

[HRK'000]	Notes	31 December 2015 (Restated)	31 December 2016
Amounts with the Croatian National Bank	6	174,237	175,421
Placements with other banks	8	1,099	478
Gyro accounts with banks	7	239,065	168,211
Financial assets available for sale	9	127,414	216,466
Held-to-maturity financial assets	10	120,380	15,190
Loans and advances to customers	11	870,244	805,813
Other assets	14	1,776	33,130
Total assets exposed to credit risk		**1,534,215**	**1,414,709**
Guarantees		16,099	14,962
Letters of credit		3,708	6,361
Credit lines		94,371	45,856
Other off-balance-sheet items		16	-
Total off-balance-sheet exposure to credit risk	34	**114,194**	**67,179**
Total credit exposure		**1,648,409**	**1,481,888**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

The table below classifies the Bank's financial assets into different categories depending on the quality of the financial assets.

[HRK'000] As at 31 December 2016	Neither past due nor impaired Standard and sub-standard grades	Past due but not impaired	Individually impaired	Total
ASSETS				
Amounts with the Croatian National Bank	175,421	-	-	175,421
Placements with other banks	478	-	-	478
Gyro accounts with banks	168,211	-	-	168,211
Financial assets available for sale	216,466	-	-	216,466
Held-to-maturity financial assets	14,887	100	203	15,190
Loans and advances to customers	377,526	212,456	215,831	805,813
Other assets	33,130	-	-	33,130
Off-balance-sheet exposures	56,523	10,084	572	67,179
TOTAL	**1,042,642**	**222,640**	**216,034**	**1,481,888**

[HRK'000] As at 31 December 2015	Neither past due nor impaired Standard and sub-standard grades	Past due but not impaired	Individually impaired	Total
ASSETS				
Amounts with the Croatian National Bank	174,237	-	-	174,237
Placements with other banks	1,099	-	-	1,099
Gyro accounts with banks	239,065	-	-	239,065
Financial assets available for sale	127,414	-	-	127,414
Held-to-maturity financial assets	118,749	250	1,381	120,380
Loans and advances to customers	566,042	168,461	135,741	870,244
Other assets	1,776	-	-	1,776
Off-balance-sheet exposures	101,334	10,554	2,306	114,194
TOTAL	**1,329,716**	**179,265**	**139,428**	**1,648,409**

Overdue loans and advances to customers which are not impaired are loans for which interest or principal payments have been due, but the Bank believes that the impairment is not appropriate taking into account the level of collateral, the available collateral and / or the stage of collection of amounts owed to the Bank.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Past due not impaired exposures

An ageing analysis of loans and advances to customers past due but not impaired is shown below.The amounts in the table below include gross receivables based on maturity of both past due and not past due principal, on an individual basis, including past due but uncollected interests. The total amount of individual placement is allocated to the maturity class of the oldest uncollected receivable, relating to either principal or the interest.

							31.12.2016
in HRK 000	**Overdue up to 30 days**	**Overdue 31-90 days**	**Overdue 91-180 days**	**Overdue 181-365 days**	**Overdue 1-2 years**	**Overdue more than 2 years**	**Total**
Loans to and receivables to customers -retail	7,386	3,110	-	-	-	-	**10,496**
Loans to and receivables to customers - corporate	77,641	120,405	3,914	-	-	-	**201,960**
Held to maturity financial assets	100	-	-	-	-	-	**100**
Off-balance-sheet exposures	60	10,024	-	-	-	-	**10,084**
Total	**85,187**	**133,539**	**3,914**	**-**	**-**	**-**	**222,640**

							31.12.2015 (Restated)
in HRK 000	**Overdue up to 30 days**	**Overdue 31-90 days**	**Overdue 91-180 days**	**Overdue 181-365 days**	**Overdue 1-2 years**	**Overdue more than 2 years**	**Total**
Loans to and receivables to customers -retail	7,014	20,543	210	512	-	-	**28,279**
Loans to and receivables to customers - corporate	64,942	72,492	1,467	1,253	28	-	**140,182**
Held to maturity financial assets	250	-	-	-	-	-	**250**
Off-balance-sheet exposures	-	762	9.792	-	-	-	**10,554**
Total	**72,206**	**93,035**	**11,469**	**1,765**	**28**	**-**	**179,265**

The exposure is presented before the effect of mitigation through collateral agreements. Management consideres that these exposures are fully recoverable.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

The Bank determines the impairment of loans and advances to customers if there is objective evidence that the event that caused the impairment has occurred since the moment of initial recognition and that the event has an impact on future cash flows from the asset. The age structure of impaired loans and advances to customers is shown in the table below:

in HRK 000	Not due	Overdue up to 30 days	Overdue 31-90 days	Overdue 91-180 days	Overdue 181-365 days	Overdue 1-2 years	Overdue more than 2 years	31.12.2016 Total
Loans to and receivables to customers -retail	1,574	42	10	2,397	12,523	410	3,163	**20,119**
Loans to and receivables to customers - corporate	50,464	32,517	10,789	21,694	26,148	10,616	43,484	**195,712**
Held to maturity financial assets	-	-	-	-	-	-	203	**203**
Off-balance-sheet exposures	-	-	-	50	-	522	-	**572**
Total	**52,038**	**32,559**	**10,799**	**24,141**	**38,671**	**11,548**	**46,850**	**216,606**

in HRK 000	Not due	Overdue up to 30 days	Overdue 31-90 days	Overdue 91-180 days	Overdue 181-365 days	Overdue 1-2 years	Overdue more than 2 years	31.12.2015 Restated Total
Loans to and receivables to customers -retail	-	-	-	1,624	1,213	304	4,874	**8,015**
Loans to and receivables to customers - corporate	18,385	506	23,277	4,287	2,652	34,207	44,412	**127,726**
Held to maturity financial assets	-	-	-	-	-	732	649	**1,381**
Off-balance-sheet exposures	-	-	-	428	1,720	152	6	**2,306**
Total	**18,385**	**506**	**23,277**	**6,339**	**5,585**	**35,395**	**49,941**	**139,428**

Analysis of due amounts is based on the highest delay category per individual exposures. Not due individually impaired loans relate to restructured loans retained in category impaired after restructuring.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

The table below shows financial assets exposed to credit risk classified into risk groups in accordance with the CNB's classification of placements.

[000 HRK]	31.12.2016					
	Gross	Identified losses	Impairment losses on collective basis	Impairement total	Impairment / gross	Net
	1	2	3	4 = 2 + 3	5 = 4 / 1	6 = 1 - 4
ASSETS						
Amounts with the Croatian National Bank	175,421	-	-	-	*0.00%*	175,421
A	175,421	-	-	-	*0.00%*	175,421
Placements with other banks	478	-	-	-	*0.00%*	478
A	478	-	-	-	*0.00%*	478
Current accounts with banks	168,211	-	-	-	*0.00%*	168,211
A	168,211	-	-	-	*0.00%*	168,211
Financial assets available for sale	216,466	-	-	-	*0.00%*	216,466
A	216,466	-	-	-	*0.00%*	216,466
Held-to-maturity financial assets	16,832	1,491	151	1,642	*9.76%*	15,190
A	15,139	-	151	151	*1.00%*	14,988
B	1,589	1,387	-	1,387	*87.29%*	202
C	104	104	-	104	*100.00%*	-
Loans and advances to customers	1,008,817	193,217	9,787	203,004	*20.12%*	805,813
A	599,768	-	9,787	9,787	*1.63%*	589,981
B1	160,388	6,545	-	6,545	*4.08%*	153,843
B2	109,296	60,354	-	60,354	*55.22%*	48,942
B3	92,761	79,714	-	79,714	*85.93%*	13,047
C	46,604	46,604	-	46,604	*100.00%*	-
Retail	162,247	15,622	2,078	17,700	*10.91%*	144,547
A	126,505	-	2,078	2,078	*1.64%*	124,427
B1	17,718	1,758	-	1,758	*9.92%*	15,960
B2	9,345	5,856	-	5,856	*62.66%*	3,489
B3	3,257	2,586	-	2,586	*79.40%*	671
C	5,422	5,422	-	5,422	*100.00%*	-
Corporate	846,570	177,595	7,709	185,304	*21.89%*	661,266
A	473,263	-	7,709	7,709	*1.63%*	465,554
B1	142,67	4,787	-	4,787	*3.36%*	137,883
B2	99,951	54,498	-	54,498	*54.53%*	45,453
B3	89,504	77,128	-	77,128	*86.17%*	12,376
C	41,182	41,182	-	41,182	*100.00%*	-
Other assets	62,280	29,150	-	29,150	*46.80%*	33,130
A	33,130	-	-	-	*0.00%*	33,130
B	-	-	-	-	*0.00%*	-
C	29,150	29,150	-	29,150	*100.00%*	-
TOTAL	**1,648,505**	**223,858**	**9,938**	**233,796**	***14,18%***	**1,414,709**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

[000 HRK]	Restated 31.12.2015					
	Gross	Identified losses	Impairment losses on collective basis	Impairement total	Impairment / gross	Net
	1	2	3	4 = 2 + 3	5 = 4 / 1	6 = 1 - 4
ASSETS						
Amounts with the Croatian National Bank	174,237	-	-	-	*0.00%*	174,237
A	174,237	-	-	-	*0.00%*	174,237
Placements with other banks	1,099	-	-	-	*0.00%*	1,099
A	1,099	-	-	-	*0.00%*	1,099
Current accounts with banks	239,065	-	-	-	*0.00%*	239,065
A	239,065	-	-	-	*0.00%*	239,065
Financial assets available for sale	127,414	-	-	-	*0.00%*	127,414
A	127,414	-	-	-	*0.00%*	127,414
Held-to-maturity financial assets	122,878	1,296	1,202	2,498	*2.03%*	120,38
A	120,201	-	1,202	1,202	*1.00%*	118,999
B	2,573	1,192	-	1,192	*46.32%*	1,381
C	104	104	-	104	*100.00%*	-
Loans and advances to customers	1,007,892	126,028	11,620	137,648	*13.66%*	870,244
A	746,123	-	11,620	11,620	*1.56%*	734,503
B1	52,282	5,412	-	5,412	*10.35%*	46,870
B2	161,030	68,434	-	68,434	*42.50%*	92,596
B3	2,201	5,926	-	5,926	*269.24%*	(3,725)
C	46,256	46,256	-	46,256	*100.00%*	-
Retail	174,611	13,968	2,392	16,360	*9.37%*	158,251
A	152,628	-	2,392	2,392	*1.57%*	150,236
B1	2,438	298	-	298	12.19%	2,140
B2	10,799	1,043	-	1,043	9.66%	9,756
B3	1,398	5,279	-	5,279	377.61%	(3,881)
C	7,348	7,348	-	7,348	*100.00%*	-
Corporate	833,281	112,060	9,228	121,288	*14.56%*	711,993
A	593,495	-	9,228	9,228	*1.55%*	584,267
B1	49,845	5,115	-	5,115	*10.26%*	44,730
B2	150,230	67,390	-	67,390	*44.86%*	82,840
B3	803	647	-	647	*80.57%*	156
C	38,908	38,908	-	38,908	*100.00%*	-
Other assets	31,928	30,152	-	30,152	*94.44%*	1,776
A	1,776	-	-	-	*0.00%*	1,776
B	-	-	-	-	*0.00%*	-
C	30,152	30,152	-	30,152	*100.00%*	-
TOTAL	**1,704,513**	**157,476**	**12,822**	**170,298**	***9.97%***	**1,534,215**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Collateral and other credit enhancements held

In terms of credit risk mitigation the Bank's policy is to require suitable collateral to be provided by customers prior to the disbursement of approved loans. As a rule, the Bank approves a facility if there are two independent and viable repayment sources – cash flows generated by the borrower's activity and security instruments/collateral.

In general, a quality security instrument is an instrument with characteristics that provide a reasonable estimate of the Bank's ability to recover its receivables secured by that instrument (in case of its activation), through market or court mechanisms, within a reasonable period of time. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its regular review of the adequacy of the allowance for impairment losses.

Based on the applicable acts, Bank's standard collateral instruments are, in addition to promissory notes and bills of exchange: bank guarantees, real estate and movable asset pledges/fiduciary rights, fiduciary/pledge rights on shares and shares in open-ended investment funds, fiduciary/pledge rights on equity interests in a company, assignment of receivables from companies and government, guarantees of guarantee agencies and cash deposits.

A significant part of the corporate portfolio is secured by mortgages over different types of property. The liquidity of the real-estate market has an effect on the recoverability of assets and its timing in cases where, due to borrowers financial difficulties, the Bank relies on collateral for collection.

The valuation of property and movable assets is performed by certified valuers included in the list of the Bank's certified valuers. The collateral value is revised based on common business practices and market movements.

Restructuring of loans and receivables

The Bank will perform restructuring of a placement if it considers the restructuring to be adequate from the aspect of future anticipated ability of the Debtor for regular repayment of the restructured liability. Change of initially contracted terms, due to deterioration of any criteria, is considered to be restructuring. It is considered that a placement has been restructured if the interest rate is decreased, interest due is decreased or written-off, the amount of principal is modified, repayment schedule is changed, new placement is approved to refinance the previous one (directly or indirectly), or any other initially contracted terms is changed, in relation to the worsening of the debtors financial position. Restructuring of placements resulting with a decrease of initially contracted Debtor's liabilities, is considered to be an evidence of loss. The Bank has set up a system for identification and subsequent monitoring of restructured placements, i.e. special registries have been established to identify and monitor restructured placements. Restructured placement which was classified in risk category A before restructuring, is classified at least in risk category B1. Restructured placement which was classified in one of the sub-categories of the risk category B before restructuring, is classified after restructuring in that same risk category of lower. Re-classifying a restructured placement into a risk category of higher level of risk is performed at the time restructuring is done, or at latest during the next quarterly assessment of risk categorization. At each re-classification, the placement can be classified each 12 months into a risk category of lower level of risk, providing that regular collection of the restructured placement has taken place, in a period of at least 12 months.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk

Market risk is defined as the risk that the fair value or future cashflows of a financial instruments will fluctuate as a result of changes in market prices. It includes: interest rate risk, foreign exchange risk and positional risk.

The Risk Management Sector calculates: market risk exposure, market risk limits and capital requirements for exposure to market risks.

The Risk Management Sector reports daily to the Treasury Department on the usage of market risk exposure limits and reports to the Asset and Liability Management Committee monthly.

4.1.2.1 Foreign exchange risk

Foreign exchange operations of the Bank are subject to risks due to changes in inter-currency relationships, as well as changes in foreign currency rates in relation to the domestic currency. The Bank monitors changes in the foreign currency sub-ledger on a daily basis by monitoring the relationship between the financial assets and liabilities in foreign currency, in accordance with CNB regulations on the open foreign exchange position.

The Bank uses the open foreign exchange position (gap analysis) to measure and report exposure to currency risk in accordance with the methodology prescribed by the Croatian National Bank. The operational management of the foreign currency position within the prescribed limits is the responsibility of the Treasury Department, which has the ability to propose measures to eliminate the currency gap through a reduction or increase in placements and deposits with a currency clause, selling or buying currency or through arbitration - selling one currency for another.

The Risk Management Sector controls the compliance with limits on a daily basis, and monthly reports to the Asset and Liability Management Committee on foreign exchange risk exposure.

The exposure in currencies other than EUR and HRK is below 5% of assets per single currency. Banks assets in other currencies include cash and deposits with other banks. In addition, the Bank has exposure to the USD through US treasury bills in the available for sale portfolio. Regarding other currencies, most of them refer to deposits in US dollar and swiss francs.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

Foreign exchange risk analysis

The Bank manages currency risk through a range of measures, including a currency clause, which has the same effect as denominating assets in HRk in other currencies.

[HRK'000]	31 December2016			
	HRK	EUR and EUR linked	Other foreign currencies	Total
ASSETS				
Amounts with the Croatian National Bank	175,421	-	-	175,421
Placements with other banks	-	478	-	478
Cash and accounts with banks	12,529	152,719	19,601	184,849
Financial assets available for sale	106,419	128,942	18,620	253,981
Held-to-maturity financial assets	15,19	-	-	15,190
Loans and advances to customers	223,069	582,744	-	805,813
Property and equipment	18,565	-	-	18,565
Intangible assets	14,756	-	-	14,756
Other assets	34,34	27,556	-	61,896
UKUPNO IMOVINA	**600,289**	**892,439**	**38,221**	**1,530,949**
LIABILITIES				
Deposits from customers	368,655	833,498	38,019	1,240,172
Borrowings	43,757	18,195	-	61,952
Subordinated debt	20,000	27,133	-	47,133
Provisions for liabilities and charges	1,505	51	45	1,601
Other liabilities	11,392	1,752	361	13,505
Deffered tax liability	725	-	-	725
TOTAL LIABILITIES	**446,034**	**880,629**	**38,425**	**1,365,088**
CURRENCY GAP	**154,255**	**11,810**	**(204)**	**165,861**

[HRK'000]	31 December 2015, restated			
	HRK	EUR and EUR linked	Other foreign currencies	**Total**
ASSETS				
Amounts with the Croatian National Bank	157,953	-	16,284	174,237
Placements with other banks	-	1,099	-	1,099
Cash and accounts with banks	12,893	224,503	25,510	262,906
Financial assets available for sale	40,452	89,978	-	130,430
Held-to-maturity financial assets	84,088	36,292	-	120,380
Loans and advances to customers	259,302	610,942	-	870,244
Property and equipment	17,335	-	-	17,335
Intangible assets	16,664	-	-	16,664
Other assets	55,897	4	1	55,902
UKUPNO IMOVINA	**644,584**	**962,818**	**41,795**	**1,649,197**
LIABILITIES				
Deposits from customers	425,804	917,861	41,519	1,385,184
Borrowings	28,736	26,183	-	54,919
Subordinated debt	-	22,905	-	22,905
Provisions for liabilities and charges	1,210	71	-	1,281
Other liabilities	5,340	2,119	702	8,161
TOTAL LIABILITIES	**461,090**	**969,139**	**42,221**	**1,472,450**
CURRENCY GAP	**183,494**	**(6,321)**	**(426)**	**176,747**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

Sensitivity of profit and loss to exchange rate fluctuations

The tables below show the open position in EUR, the currency in which the Bank had the most significant exposures on 31 December 2016 and 31 December 2015. Open positions in foreign currency represent net exposure in foreign currency for balance sheet positions. The analysis shows the impact of reasonably possible foreign currency exchange rates on the profit and loss account, while all other variables remain the same. The negative amounts shown in the table reflect the possible net decrease in profit, while the positive amounts reflect the possible net increase in profit.

The Bank's analysis of the 10% lower exchange rate of the kuna against the EUR was made on 31st of December 2016. The table below shows the currency position at the end of 2016 and the net effect on the income statement. The positive figure shows a decrease in loss in the case of depreciation of the kuna against the EUR by 10%. In the case of a 10% appreciation of the kuna against the EUR, the impact on the profit and loss account would be negative.

2016.		HRK'000
	EUR	Other currencies
Open currency position	11,810	(204)
% change	10%	10%
Net P/L effect	1,181	(20)

2015.		HRK'000
	EUR	Other currencies
Open currency position	(6,321)	(426)
% change	10%	10%
Net P/L effect	(632)	(43)

4.1.2.2 Price risk

Price risk is the risk of loss arising from changes in the price of a financial instrument. Primary exposure to positional risk comes from shares in investment funds. Considering these investments mainly relate to cash funds where no significant fluctuations in value, the management has assessed the price risk as low. The Bank has minor investment to one alternative fund which is not significant.

4.1.2.3 Interest rate risk

The Bank's operations are subject to the risk of loss which arises from potential interest rate fluctuations which affect positions in the Bank's records.

In line with prudential interest rate risk management, the Bank defines responsibilities in accordance with generally accepted standards and defined limits for maintaining an acceptable level of economic capital and achieving satisfactory financial results.

For placements with corporate clients, the majority of placements and deposits are initially contracted at variable interest rate in accordance with the Bank's policies, except when, for competitive reasons, fixed interest rates are contracted.

The Bank uses the following internal models for the measurement of interest rate risk exposure:

1. repricing gap analysis,
2. standard interest shock method.

According to the Decision on interest rate management in the Bank's records, the Risk Management Sector reports on interest rate exposure on a quarterly basis in accordance with regulatory requirements. For each reporting period in 2016, the economic value of capital in relation to liable capital was in line with regulatory requirements.

Changes in net interest income arises from changes in interest rates that are variable by the Management Board's decision.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

The Bank manages with interest rate risk by using the following measures:

- whenever possible contracting loans and advances with variable interest rate, except when it comes to competitiveness than fixed interest rate are concracted
- ensuring the maturity matching of fixed and variable interest rates
- using internal limits for timely detecting excessive exposure to interest rate risk
- regular revision of interest rates on loans and advances and funding sources

Measuring exposure to interest rate risk

The Bank measures the exposure to interest rate risk both from the profit perspective and the perspective of the economic value of capital.

When calculating the effect of interest rate change on net interest income, the Bank uses the standard interest shock on net interest income for a 12-month period. The simulation is based on parallel movements in all interest rates, an increase by 2 percentage points for HRK and an increase by 1 percentage point for EUR and all other currencies. Parallel increase of all interest rates would affect on increase of net interest income by HRK 1,006 thousand (2015: decrease of HRK 1,923 thousand) which is 1.91% (2015: -3,84%) of planned net interest margin.

Interest rate risk stress test

The Market and Operational Risk Department performs stress test at least once a year. Given that changes in interest rate have adverse effects on earnings and their economic value, the Bank performs stress tests taking into account the earnings perspective, i.e. the effect of stress events on the net interest income, and the economic value perspective, i.e. the effect of stress events on the Bank's economic value. The results of stress tests are presented at the meeting of the Banks' Asset and Liability Management Committee.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

Interest rate gap analysis

The following tables present the Bank's financial assets and financial liabilities analysed according to repricing periods determined as the earlier of the remaining contractual maturity and the contractual repricing.

[HRK'000]	31 December 2016							
	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Non interest bearing	Total	Fixed interest rate
FINANCIAL ASSETS								
Amounts with the Croatian National Bank	-	-	-	-	-	175,421	175,421	-
Placements with other banks	478	-	-	-	-	-	478	478
Cash and accounts with banks	168,211	-	-	-	-	16,638	184,849	-
Financial assets available for sale	7,168	18,208	35,718	33,670	119,173	40,044	253,981	235,569
Held-to-maturity financial assets	14,065	544	482	-	-	99	15,190	15,091
Loans and advances to customers	173,945	75,900	452,927	42,062	55,482	5,497	805,813	166,925
Other assets	-	-	-	-	-	33,130	33,130	-
TOTAL FINANCIAL ASSETS	**363,867**	**94,652**	**489,127**	**75,732**	**174,655**	**270,829**	**1,468,862**	**418,063**
FINANCIAL LIABILITIES								
Deposits from customers	105,777	339,772	574,314	171,056	32,769	16,484	1,240,172	882,732
Borrowings	5,449	3,766	11,932	6,548	33,680	577	61,952	61,375
Subordinated debt	-	-	22,673	-	24,419	41	47,133	24,418
Other liabilities	-	-	-	-	-	13,505	13,505	-
Deffered tax liability	-	-	-	-	-	725	725	-
TOTAL FINANCIAL LIABILITIES	**111,226**	**343,538**	**608,919**	**177,604**	**90,868**	**31,332**	**1,363,487**	**968,525**
INTEREST GAP	**252,641**	**(248,886)**	**(119,792)**	**(101,872)**	**83,787**	**239,497**	**105,375**	**(550,462)**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

[HRK'000]	31 December 2015, restated							
	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Non interest bearing	Total	Fixed interest rate
FINANCIAL ASSETS								
Amounts with the Croatian National Bank	-	-	-	-	-	174,237	174,237	-
Placements with other banks	434	-	-	-	-	665	1,099	434
Cash and accounts with banks	239,065	-	-	-	-	23,841	262,906	-
Financial assets available for sale	-	4,625	-	39,686	81,555	4,564	130,430	125,861
Held-to-maturity financial assets	4,132	97,218	18,664	-	-	366	120,380	120,014
Loans and advances to customers	112,569	83,920	544,349	67,374	53,648	8,384	870,244	173,800
Other assets	-	-	-	-	-	1,776	1,776	-
TOTAL FINANCIAL ASSETS	**356,200**	**185,763**	**563,013**	**107,060**	**135,203**	**213,833**	**1,561,072**	**420,109**
FINANCIAL LIABILITIES								
Deposits from customers	131,317	142,479	924,391	156,642	11,070	19,285	1,385,184	991,823
Borrowings	8,989	7,077	26,559	11,940	-	354	54,919	54,565
Subordinated debt	-	-	22,905	-	-	-	22,905	-
Other liabilities	-	-	-	-	-	8,161	8,161	-
TOTAL FINANCIAL LIABILITIES	**140,306**	**149,556**	**973,855**	**168,582**	**11,070**	**27,800**	**1,471,169**	**1,046,388**
INTEREST GAP	**215,894**	**36,207**	**(410,842)**	**(61,522)**	**124,133**	**186,033**	**89,903**	**(626,279)**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk

Liquidity risk arises through the general funding of the Bank's activities and in the management of its positions. The main categories of liquidity risk to which the Bank is exposed are:

- inability to settle liabilities as a result of the maturity gap between cash inflow and outflow - structural liquidity risk, and
- risk of being unable to sell or acquire liquid instruments on the market in an appropriate time frame and at a reasonable price - financial instruments liquidity risk.

Liquidity risk management is conducted in compliance with regulatory requirements and is defined by the following internal acts:

- liquidity risk management policy,
- liquidity stress test procedure,
- procedure for the Bank's liquidity management,
- liquidity risk (crisis) plan.

Internal acts are proposed by the Risk Management Sector and approved by the Bank's Management Board. In accordance with changes, the Risk Management Sector proposes revisions of internal acts.

The key purpose of the liquidity policy is to ensure that the Bank operates in a way to achieve an optimal balance between the Bank's safety and shareholders return on investment. The framework for appropriate liquidity risk management comprises the following: liquidity management strategy approved by the Management Board within budget and strategic plans; efficient supervision by the Asset and Liability Management Committee and the Management Board; clearly defined responsibilities and operations in line with agreed limits; management of assets and liabilities by matching their maturities; an established evaluation system of all current and future inflows and outflows; liabilities structure management, specifically in monitoring the concentration of large deposits; sustained development of liquidity stress tests; assessment of access to financial markets and available funds under usual and stressed conditions; and a crisis plan.

As part of its business activities the Bank monitors liquidity risk and complies with relevant regulations, the following measures are part of liquidity risk management:

- monitoring that minimum 17% of foreign currency liabilities is held as short-term foreign currency assets,
- monitoring liquidity reserve requirements in HRK,
- monitoring liquidity reserve requirements in foreign currency,
- minimum liquidity ratio.

The purpose of managing liquidity funds is the compliance with the regulatory minimum by maintaining the minimum cost of liquidity funds.

The Bank uses the following models for liquidity risk measurement:

- financial and structural indicators,
- deposit concentration,
- cash flow notice and projection system, and
- liquidity stress tests.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

The Bank raises funds using a broad range of instruments including deposits, borrowings, subordinated debt and share capital. The Bank continuously assesses its liquidity risk by identifying and monitoring changes in the level of funding required to achieve business goals and strategic targets. Diverse funds enable flexibility, decrease dependence on a single source of funding and enable straightforward management of financing costs.

Liquidity stress test

Liquidity stress tests are performed based on the analysis of different scenarios, i.e. the assessment of effects of simultaneous changes in several different factors of risk on the financial position of the Bank in clearly defined stress circumstances. In order to prepare for a possible impact on liquidity, the Bank performs liquidity stress tests adapted to business size and characteristics, strategic goals and plans, the internal Bank's organisation and its environment, to ensure sufficient liquidity funding. The aim of the liquidity stress test is to recognise a situation and to prepare the Bank's relevant functions for a prompt reaction in the case of a liquidity crisis. The development of the liquidity stress test represents the Bank's internal policy and good practice for liquidity management. The stress test relates to the change in value of certain parameters that have an impact on the financial and liquidity position of the Bank and determining the effects of said impact of these parameters on the entire business.

The stress scenario is arbitrarily selected and approved by the Risk Management Sector. Two scenarios are selected, at a minimum, one including the Bank's specific factors and the other including market factors. Different combinations of the factors are possible as well.

The selection of scenarios is usually affected by:

- current market movements;
- other movements historically significant for the Bank's liquidity;
- future predictions based on available information significant for the Bank's liquidity.

Upon selection of the stress scenario, the Treasury Department analyses the scenario or performs the sensitivity analysis, depending on whether one or more factors on the financial position of the Bank are analysed. The Risk Management Sector and the Treasury Sector report the results of the stress tests to the Asset and Liability Management Committee.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

Maturity analysis

The tables below present the assets and liabilities of the Bank based on the remaining contractual maturity as of 31st December 2016 and 31st December 2015. Despite the maturity mismatch of assets and liabilities, the expected cash flows on a particular financial asset and liability differ significantly from the contractual cash flows. The Bank expects that demand deposits will not significantly oscillate and will not be withdrawn immediately. Assets and liabilities presented below are based on the Bank's carrying values.

[HRK'000]	31. December 2016					
	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Total
FINANCIAL ASSETS						
Amounts with the Croatian National Bank	81,187	-	94,234	-	-	175,421
Placements with other banks	478	-	-	-	-	478
Cash and accounts with banks	184,849	-	-	-	-	184,849
Financial assets available for sale	46,204	18,879	36,055	33,670	119,173	253,981
Held-to-maturity financial assets	14,164	544	482	-	-	15,190
Loans and advances to customers	185,361	76,473	118,387	200,172	225,420	805,813
Other assets	31,273	-	-	-	1,857	33,130
TOTAL FINANCIAL ASSETS	**543,516**	**95,896**	**249,158**	**233,842**	**346,450**	**1,468,862**
FINANCIAL LIABILITIES						
Deposits from customers	231,801	151,664	535,415	285,246	36,046	1,240,172
Borrowings	9,161	-	8,693	9,244	34,854	61,952
Subordinated debt	-	-	-	-	47,133	47,133
Other liabilities	4,995	8,306	204	-	-	13,505
Deferred tax liabilities	-	-	725	-	-	725
TOTAL FINANCIAL LIABILITIES	**245,957**	**159,970**	**545,037**	**294,490**	**118,033**	**1,363,487**
MATURITY GAP	**297,559**	**(64,074)**	**(295,879)**	**(60,648)**	**228,417**	**105,375**
OFF- BALANCE SHEET						
Guarantees	594	1,320	11,516	1,351	181	14,962
Letters of credit	5,196	1,165	-	-	-	6,361
Overdrafts	16,417	11,085	4,265	3,996	10,093	45,856
TOTAL OFF-BALANCE SHEET	**22,207**	**13,570**	**15,781**	**5,347**	**10,274**	**67,179**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1.3 Liquidity risk (continued)

[HRK'000]	31. December 2015 (Restated) Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Total
FINANCIAL ASSETS						
Amounts with the Croatian National Bank	64,708	-	109,529	-	-	174,237
Placements with other banks	1,099	-	-	-	-	1,099
Cash and accounts with banks	262,906	-	-	-	-	262,906
Financial assets available for sale	91	8,894	204	39,687	81,554	130,430
Held-to-maturity financial assets	4,498	97,219	18,663	-	-	120,380
Loans and advances to customers	163,848	122,754	155,014	135,469	293,159	870,244
Other assets	1,157	-	482	-	137	1,776
TOTAL FINANCIAL ASSETS	**498,307**	**228,867**	**283,892**	**175,156**	**374,850**	**1,561,071**
FINANCIAL LIABILITIES						
Deposits from customers	244,318	145,737	711,079	269,815	14,235	1,385,184
Borrowings	9,343	7,077	26,559	11,940	-	54,919
Subordinated debt	-	-	-	-	22,905	22,905
Other liabilities	5,269	1,278	1,086	528	-	8,161
TOTAL FINANCIAL LIABILITIES	**258,930**	**154,092**	**738,724**	**282,283**	**37,140**	**1,471,169**
MATURITY GAP	**239,377**	**74,775**	**(454,832)**	**(107,128)**	**337,710**	**89,903**
OFF- BALANCE SHEET						
Guarantees	7,444	-	7,790	682	183	16,099
Letters of credit	3,708	-	-	-	-	3,708
Overdrafts	50,184	420	5,353	20	38,394	94,371
Other off-balance items	16	-	-	-	-	16
TOTAL OFF-BALANCE SHEET	**61,352**	**420**	**13,143**	**702**	**38,577**	**114,194**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1.3 Liquidity risk (continued)

Analysis of undiscounted cash flows of financial liabilities by remaining contracted amounts.

31. December2016.	Less than 1 month	1 – 3 month	3 – 12 month	1 – 3 years	Over 3 years	Undiscounted	Carrying values
Deposits to costumers	231,810	151,771	538,142	291,193	38,579	1,251,495	1,240,172
Borowings	9,171	-	5,057	9,808	40,736	64,772	61,952
Subordinated debt	-	-	-	-	65,043	65,043	47,133
Provisions for liabilities and charges	-	735	672	-	194	1,601	1,601
Other liablities	4,995	8,306	204	-	-	13,505	13,505
Differed tax liabilities	-	-	725	-		725	725
Total undiscounted financial liabilities	**245,976**	**160,812**	**544,800**	**301,001**	**144,552**	**1,397,141**	**1,365,088**
Off Balance-sheet	**22,207**	**13,570**	**15,781**	**5,347**	**10,274**	**67,179**	**67,179**

31.December 2015.	Less than 1 month	1 – 3 month	3 – 12 month	1 – 3 years	Over 3 years	Undiscounted	Carrying values
Deposits to costumers	244,328	145,855	714,589	275,742	15,380	1,395,894	1,385,184
Borowings	9,353	7,113	26,802	12,647	-	55,915	54,919
Subordinated debt	-	-	-	-	31,220	31,220	22,905
Provisions for liabilities and charges	-	-	-	-	1,281	1,281	1,281
Other liabilities	5,269	1,278	1,086	528	-	8,161	8,161
Total undiscounted financial liabilities	**258,950**	**154,246**	**742,477**	**288,917**	**47,881**	**1,492,471**	**1,472,450**
Off Balance-sheet	**61,352**	**420**	**13,143**	**702**	**38,577**	**114,194**	**114,194**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.4 Operational risk

Operational risk is defined as the risk of loss due to inadequate or incorrect processes, human or internal system errors or events caused by external factors (natural disasters, fire, flood, attack, changes of legislation, embezzlement).

Operational risk management is conducted in compliance with regulatory requirements and is defined by the following internal acts:

- policy on operational risk management
- procedure on operational risk management
- methodology for operational risk management
- directive on reporting of operational losses and operational risks

When measuring operational risk exposure, based on the consequences of a risk event, the Bank distinguishes the following:
Loss from operational risk, which represents operational losses affecting the balance sheet and assuming the known amount of losses in the Bank's records.
Significant operational risk, which is present in business processes and has not resulted in operational losses, but there is a possibility of future operational losses resulting from it.

Operational risk assessment is performed through Self Risk Assessment for every business process of the Bank. Self Risk Assessment is performed on a yearly basis for every business process of the Bank using event-based questionnaires prepared in accordance with Basel guidelines. Based on collected data, each reported event which could result in operational risk is quantified and classified into a risk category. For events for which risks are high and very high, the business processes owners, in coordination with the Risk Management Sector, propose actions for reducing exposure to operational risk by using methods for reduction of effects, i.e. damages and the probability of occurrence or by transferring the risk to a counterparty. The Risk Management Sector reports the results of the Self Risk Assessment to the Management Board once a year.

The Risk Management Sector reports to the Management Board quarterly on recorded operational losses, i.e. events which resulted in losses recorded in the Bank's records due to exposure to operational risk. The report on operational losses contains, at a minimum, data on amounts of losses, recovered amounts, unrecovered amounts, operational losses per type of event and cause, and share of different organisational units of the Bank in operational losses.

4.1.5 Capital adequacy

The basic parameters of the capital management policy are given by the Credit Institutions Act and the Regulation (EU) no. 575/2013.

The basic objectives of capital management mean ensuring the following:

– the going concern assumption and
– meeting the regulatory and capital adequacy requirements

The total capital ratio as at 31 December 2016 was set at a minimum of 8%, while based on CNB's Decision for the Bank this amount was increased by an additional 2.5%, while keeping a protective layer for the preservation of ordinary capital in the amount of 2.5% and a protective layer for structural system risk of 1.5%.
Total capital is determined as a category of capital that is managed by the Bank, and must be at least at a level that ensures the adequacy of capital sufficient to cover the capital requirements and to ensure minimum prescribed capital adequacy ratio. Total capital is calculated in accordance with the prescribed subordinate acts of CNB and Regulation (EU) no. 575/2013.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.5 Capital adequacy (continued)

(HRK 000) CAPITAL ADEQUACY	2016
TIER 1 CAPITAL	**147,532**
TIER 1 CAPITAL – COMMON EQUITY	**147,532**
Capital instruments eligible as CET1 Capital	307,085
Retained earnings	(168,162)
Accumulated other comprehensive profit	(1,611)
Other reserves	25,228
(-) Goodwill	-
(-) Other intagible assets	(14,756)
Other transitional adjustments to CET 1 Capital	(251)
TIER 1 CAPITAL - ADDITIONAL	**-**
TIER 2 CAPITAL	46,473
TOTAL REGULATORY CAPITAL	**194,005**
RISK WEIGHTED ASSETS	
Credit risk weighted asstes	909,900
Exposure for operational risk	72,092
Exposure for market risk (position, FX, commodities)*	-
TOTAL RISK WEIGHTED ASSETS	**981,992**
COMMON EQUITY TIER 1 CAPITAL RATIO	**15.02%**
TIER 1 CAPITAL	**15.02%**
TOTAL CAPITAL RATIO	**19.76%**

* Currency risk exposure is below 2% of the regulatory capital and the Bank is not required to calculate the capital requirements for market risk

During July 2016, the increase in share capital was performed in accordance with the provisions of the Statute in the amount of HRK 76 million by the majority shareholder of the Bank - J&T Bank a.s., as result, new share capital amounts to HRK 307 million.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.6 Concentration risk

Concentration risk is every individual, direct or indirect exposure toward one counterparty or group of related parties or group of exposures connected by common risk factors such as industry, geographical area, operations or goods, i.e. application of techniques for credit risk reduction, which can cause such losses which could jeopardise the Bank's going concern.
The Bank analyses and reports on concentration risk present both on the asset side of the balance sheet, i.e. loan portfolio, as well as on the equity and liabilities side of the balance sheet, i.e. source of funds.

The Bank analyses concentration risk on the basis of each individual, direct or indirect exposure toward one counterparty or group of related parties and has regulated the identification of related parties by internal acts, determining the following:

1) control, i.e. relationship between the parent company and its subsidiary or similar relationship between any legal or natural person and the company, and
2) economical and financial ties.

This relationship is established mainly on the basis of information/data received from the client, but also by checking other available sources. Groups of related parties are formed and reported by the Credit Risk Management Department within the Risk Management Sector. Groups of related parties are entered into the Registry of Related Parties as the comprehensive database for related parties.

The Bank actively manages the diversification of the loan portfolio and limits the concentration limits, thus adjusting the structure and quality of the loan portfolio or reducing the credit risk.

For the purpose of defining the Bank's exposure to risk, limits for certain types of exposure are determined, depending on the geographical location of the debtor, the activity, the type of placements and the method of repayment of the placements.

In order to maintain a diversified and stable base of financing and to avoid becoming overly dependent on only certain sources, concentration is monitored for the following:

- clients or groups of related parties whose deposits comprise more than 2% of the Bank's total liabilities
- deposits from companies and other financial institutions: 10 biggest deponents with term deposits in relation to total deposits from legal persons and financial institutions; 10 biggest deponents in relation to total deposits
- retail deposits: 10 biggest deponents from the retail sector in relation to total retail deposits and 100 biggest deponents from the retail sector in relation to total deposits.

The Risk Management Sector reports the concentration risk to Management Board, Credit Committee and the Asset and Liability Management Committee on a monthly basis.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.6 Concentration risk (continued)

Concentration risk is also monitored on a sector basis, as shown in the following table where the numbers are presented on a gross basis:

GROSS EXPOSURE (HRK)	2016.	%	2015.	%
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	24,945	2,54%	14,118	1,44%
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	61,335	6,25%	35,818	3,65%
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	2,311	0,24%	2,468	0,25%
FINANCIAL AND INSURANCE ACTIVITIES	69,485	7,08%	138,740	14,13%
CONSTRUCTION	66,422	6,77%	76,459	7,79%
INFORMATION AND COMMUNICATION	27,618	2,82%	3,228	0,33%
PUBLIC ADMINISTRATION AND DEFENCE; COMPULSORY SOCIAL SECURITY	15,841	1,61%	13,581	1,38%
EDUCATION	144	0,01%	299	0,03%
WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	10,061	1,03%	12,561	1,28%
OTHER SERVICE ACTIVITIES	8,204	0,84%	8,940	0,91%
AGRICULTURE, FORESTRY AND FISHING	30,312	3,09%	42,443	4,32%
REAL ESTATE ACTIVITIES	15,766	1,61%	14,755	1,50%
MANUFACTURING	242,089	24,68%	249,505	25,42%
TRANSPORTATION AND STORAGE	22,512	2,29%	1,040	0,11%
MINING AND QUARRYING	275	0,03%	365	0,04%
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	89,693	9,14%	73,988	7,54%
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	150,953	15,39%	134,071	13,66%
ARTS, ENTERTAINMENT AND RECREATION	8,839	0,90%	21	0,00%
RETAIL	134,155	13,68%	159,305	16,23%
TOTAL	**980,959**	**100,00%**	**981,705**	**100,00%**

The population segment in the table shown differs from the one shown in Note 11, which, in addition to individuals, includes craftsmen.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. Significant judgments made in determining the most appropriate methodology for estimating the fair value of foreclosed assets and financial instruments carried at fair value are also described below. This and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment losses on loans and receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. In accordance with CNB regulations, the need for impairment of the Bank's on and off-balance-sheet credit risk exposure is assessed at least quarterly. Impairment losses are made mainly against the carrying value of loans and advances to corporate and retail customers (summarised in Note 11). The Bank also recognises provisions arising from off-balance-sheet exposure to credit risk to customers, mainly in the form of undrawn loan commitments and guarantees (as summarised in Note 34).

The Bank first assesses whether objective evidence of impairment exists individually for assets that are individually significant (mainly corporate exposures) and collectively for assets that are not individually significant (mainly retail exposures).

The Bank estimates impairment losses in cases where it judges that the observable data indicates the likelihood of a measurable decrease in the estimated future cash flows of the asset or portfolio of assets. Such evidence includes delinquency in payments or other indications of financial difficulty of borrowers; and adverse changes in the economic conditions in which borrowers operate or in the value or enforceability of security, where these changes can be correlated with defaults.

Impairment allowance on assets individually assessed for impairment is based on the management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collective impairment for the group of homogenous assets that are not individually significant is established taking into account ageing analysis and loss rates prescribed by the CNB.

The Bank also seeks to recognise impairment losses which are known to exist at the reporting date, but which have not yet been specifically identified. In estimating unidentified impairment losses existing in collectively assessed portfolios the Bank uses the rate of 1.00% which is in the rate prescribed by the CNB for application to all credit risk exposures except those carried at fair value, including off-balance-sheet exposure to credit risk and Croatian sovereign debt.

Impairment losses estimated on a portfolio basis as at 31 December 2016 amounted to HRK 10.6 million (in 2015: HRK 13.9 million) of the relevant on- and off-balance-sheet exposure. The total of the portfolio-based impairment loss amounted to 1.00% of performing balance and off-balance-sheet exposure to credit risk.

The Management Board believes that both individual and collective impairment losses and allowances are sufficient.

Valuation of foreclosed assets

The Bank occasionally acquires land and properties in settlement of certain loans and advances. Real estate is stated at the lower of the carrying value of the related loans and advances at the date of settlement and the net realisable value of such assets. When assessing the valuation of foreclosed assets, the Bank engages chartered surveyors, and subsequently reviews them and compares them with the carrying amount. Gains or losses on disposal are recognised in the income statement.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of a taxpayer's records.

The Bank did not recognise deferred tax asset on tax losses carried forward due to history of recurring past losses.

Legal disputes

The Bank conducts individual assessments of all legal disputes initiated against the Bank. The initial assessment is conducted by the Bank's Legal Department, and if necessary engage the external legal counsel while the Management Board makes the final decision on the risk group and provision amount.

As at 31 December 2016, the Bank is a defendant in a total of 4 legal disputes, all of which are civil proceedings. In the two civil cases there is a first instance judgment rendered in favor of the Bank, while in one case the court of appeal upheld the first instance judgment rendered in favor of the Bank.

As of 31 December 2016, the Management created a provision for the legal cases in the amount of HRK 122 thousand (2015: HRK 120 thousand). The above amounts represents the Bank's best estimate of loss in respect of legal cases, although the actual outcome can be significantly different. It is not practicable for the management to estimate the financial impact of changes to the assumptions based on which management assesses the need for provisions.

Regulatory requirements

The CNB is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

Internally developed software-determination of capitalisation criteria and estimated useful life

Intangible assets include internally developed software of total capitalised value of HRK 15.3 million. The Bank uses software in its business, and it is transferred to use in 2015.

Expenditure related to the development of software is capitalised when it meets the criteria outlined in IAS 38 Intangible Assets. Such assets are then linearly amortised over their useful economic life of 10 years. The Bank's management assesse the remaining useful life of the software at each reporting date.

There is judgement involved in determining an appropriate framework to consider which expenditure requires capitalisation and which should be expensed. Note 13 of the financial statements provides details of the amounts capitalised.

Notes to the financial statements (continued)

6. AMOUNTS WITH THE CROATIAN NATIONAL BANK

[HRK'000]	31.12.2015 (Restated)	31.12.2016
Giro accounts with CNB	**64,708**	**81,187**
in HRK	64,708	81,187
in foreign currency	-	-
Obligatory reserve with CNB	**109,529**	**94,234**
in HRK	93,245	94,234
in foreign currency	16,284	-
TOTAL	**174,237**	**175,421**

Banks are obliged to calculate obligatory reserve in HRK and foreign currency at a rate which, as at 31 December 2016, accounted for 12% of HRK and foreign currency funds (31 December 2015: 12%).

The part of the obligatory reserve calculated in HRK is increased by 75% (31 December 2015: 75%) of the calculated obligatory reserve on eligible foreign currency funding sources. 70% of the obligatory reserve should be deposited into a special account held with the CNB, while the rest may be maintained in eligible liquid assets.

After reduction by 75% (31 December 2015: 75%) which is added to obligatory reserve requirement calculated in HRK, the remainder of 25% of obligatory reserve calculated in foreign currency is maintained in foreign currency. Foreign currency obligatory reserve calculated on the basis of foreign currency funds from non-residents and foreign funds received from legal entities in a special relationship with the bank amounts 100% (31 December 2015: 100%) and can be maintained in eligible liquid assets (in 2015 the percentage of mandatory allocation of the remaining foreign currency obligatory reserve was 60% (allocation of funds can be in Euro and U.S. dollar) and the remaining part could be maintained in eligible liquid assets).

The Croatian National Bank does not pay any interest on the obligatory reserve funds.

Notes to the financial statements (continued)

7. CASH AND ACCOUNTS WITH OTHER BANKS

[HRK'000]	Restated 31 December 2015	31 December 2016
Cash in hand	**23,841**	**16,638**
in HRK	12,893	12,529
in foreign currency	10,948	4,109
Giro accounts with other banks	**239,065**	**168,211**
in HRK	166,349	84,279
in foreign currency	72,716	83,932
TOTAL	**262,906**	**184,849**

8. PLACEMENTS WITH OTHER BANKS

[HRK'000]	Restated 31 December 2015	31 December 2016
Short-term	**-**	**478**
with domestic banks	-	478
Long-term	**434**	**-**
with domestic banks	434	-
Guarantee deposits	**665**	**-**
with foreign banks	665	-
TOTAL	**1,099**	**478**

Notes to the financial statements (continued)

9. FINANCIAL ASSETS AVAILABLE FOR SALE

[HRK'000]	Restated 31 December 2015	31 December 2016
Debt securities	**125,866**	**213,938**
Bonds of the Croatian Ministry of Finance	105,525	168,665
Treasury bills of the Croatian Ministry of Finance	-	18,831
Foreign government treasury bills	7,641	18,620
Corporate bonds	1,096	-
Foreign corporate bonds	11,604	7,822
Of which:		
- listed	118,225	176,487
- not listed	7,641	37,451
Shares in investment funds	**3,016**	**37,515**
Of which:		
- Listed	3,016	37,515
Accrued interest	**1,548**	**2,528**
not past due	1,548	2,528
TOTAL	**130,430**	**253,981**

10. HELD-TO-MATURITY FINANCIAL ASSETS

[HRK'000]	Restated 31 December 2015	31 December 2016
Debt securities	**122,214**	**16,237**
Bills of exchange	122,214	16,237
Accrued interest	**664**	**595**
past due	664	595
Allowance for impairment	**(2,498)**	**(1,642)**
identified losses - bills of exchange	(633)	(897)
identified losses - accrued interest	(663)	(594)
unidentified losses on collective basis	(1,202)	(151)
TOTAL	**120,380**	**15,190**

Movement in impairment allowance against financial investments held to maturity	Restated 2015 HRK 000	2016 HRK 000
Balance at 1 January	**1,797**	**2,498**
(Release of impairment allowance) / impairment recognized in the income statement - identified losses (Note 29)	(214)	538
Impairment / (Release of impairment allowance) recognized in the income statement - unidentified losses (Note 29)	915	(1,051)
Write off and reversal	-	(343)
Balance at 31 December	**2,498**	**1,642**

Notes to the financial statements (continued)

11. LOANS AND ADVANCES TO CUSTOMERS

[HRK'000]	Restated 31 December 2015	31 December 2016
Gross loans	**981,705**	**980,959**
retail	172,491	159,179
corporate	809,214	821,780
Interest receivables	**31,732**	**33,339**
Allowance for impairment	**(137,648)**	**(203,004)**
identified losses - gross loans	(102,680)	(165,375)
identified losses - past due interest receivables	(23,348)	(27,842)
unidentified losses on a collective basis	(11,620)	(9,787)
Deffered income from fees	**(5,545)**	**(5,481)**
TOTAL	**870,244**	**805,813**

[HRK'000] Movements in impairment allowance	2016 Identified losses	Provisions on collective basis	TOTAL
Changes in provisions			
Balance at 1 January	**126,028**	**11,620**	**137,648**
Increase/(decrease) in impairment allowance	70,085	(1,833)	**68,252**
Collected impaired interest	(56)	-	**(56)**
Impairment losses recognized in the income statement (Note 29)	70,029	(1,833)	**68,196**
Write-offs and other movements	(2,840)	-	**(2,840)**
At 31 December 2016	**193,217**	**9,787**	**203,004**

[HRK'000] Movements in impairment allowance	Restated 2015 Identified losses	Provisions on collective basis	TOTAL
Balance at 1 January	**126,776**	**8,494**	**135,270**
(Decrease)/increase in impairment allowance	34,823	3,126	**37,949**
Impairment losses recognized in the income statement (Note 29)	34,823	3,126	**37,949**
Write-offs and other movements	(35,571)	-	**(35,571)**
At 31 December 2015	**126,028**	**11,620**	**137,648**

For impairment allowances on collective basis, the Bank uses a 1% rate on the balance and off-balance sheet exposures subject to credit risk for which impairment is not yet recognized.

Impairment allowance on loans and advances to customers include impairment allowance on a group basis on placements with banks.

Notes to the financial statements (continued)

12. PROPERTY AND EQUIPMENT

2016 [HRK'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
At 1 January 2016, restated	**19,667**	**7,795**	**10,316**	**1,373**	**24**	**39,175**
Additions	-	9	-	62	1,797	1,868
Transfer from and to foreclosed assets	1,057	-	-	-	-	1,057
Write-offs and disposals	-	(1,175)	(574)	(44)	-	(1,793)
Transfers	-	1,650	148	-	(1,798)	-
At 31 December 2016	**20,724**	**8,279**	**9,890**	**1,391**	**23**	**40,307**
Accumulated depreciation						
At 1 January 2016, restated	**5,119**	**6,946**	**9,038**	**737**	**-**	**21,840**
Transfer from and to foreclosed assets	(323)	-	-	-	-	(323)
Charge for the year	579	674	551	177	-	1,981
Write-offs and disposals	-	(1,175)	(544)	(37)	-	(1,756)
At 31 December 2016	**5,375**	**6,445**	**9,045**	**877**	**-**	**21,742**
Net carrying value	**15,349**	**1,834**	**845**	**514**	**23**	**18,565**

Restated 2015 [HRK'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
At 1 January 2015, restated	**19,667**	**9,123**	**11,062**	**1,503**	**8**	**41,363**
Additions	-	232	114	357	16	719
Disposals/Write-offs	-	(1,560)	(860)	(487)	-	(2,907)
At 31 December 2015, restated	**19,667**	**7,795**	**10,316**	**1,373**	**24**	**39,175**
Accumulated depreciation						
At 1 January 2015, restated	**4,536**	**7,820**	**9,210**	**1,083**	**-**	**22,649**
Charge for the year	583	667	663	126	-	2,039
Disposals/Write-offs	-	(1,541)	(835)	(472)	-	(2,848)
At 31 December 2015, restated	**5,119**	**6,946**	**9,038**	**737**	**-**	**21,840**
Net carrying value, restated	**14,548**	**849**	**1,278**	**636**	**24**	**17,335**

To increase the value of buildings and land, there was a reclassification of part of foreclosed assets for the personal use of the Bank, while the equipment has been decreased due to sale of assets from the closed branches during the year.

Notes to the financial statements (continued)

13. INTANGIBLE ASSETS

2016 [HRK'000]	Internally generated software	Leasehold improvements	Licences	Goodwill	Assets under construction	Total
Cost						
At 1 January 2016, restated	**14,844**	**9,614**	**5,745**	**2,300**	**2,629**	**35,132**
Additions	-	2	-	-	923	925
Transfer into use	1,806	-	246	-	(2,052)	-
Disposals/Write-offs	-	(3,665)	(6)	-	-	(3,671)
At 31 December 2016	**16,650**	**5,951**	**5,985**	**2,300**	**1,500**	**32,386**
Accumulated amortisation						
At 1 January 2016, restated	**2,654**	**9,262**	**5,172**	**1,380**	**-**	**18,468**
Charge for the year	1,535	148	229	-	-	1,912
Impairment	-	-	-	920	-	920
Disposals/Write-offs	-	(3,664)	(6)	-	-	(3,670)
At 31 December 2016	**4,189**	**5,746**	**5,395**	**2,300**	**-**	**17,630**
Net carrying value	**12,461**	**205**	**590**	**-**	**1,500**	**14,756**

Restated 2015 [HRK'000]	Internally generated software	Leasehold improvements	Licences	Goodwill	Assets under construction	Total
Cost						
At 1 January 2015, restated	**1,308**	**9,614**	**5,521**	**2,300**	**15,198**	**33,941**
Additions	-	-	-	-	1,200	1,200
Transfer into use	13,544	-	225	-	(13,769)	-
Disposals/Write-offs	(8)	-	(1)	-	-	(9)
At 31 December 2015, restated	**14,844**	**9,614**	**5,745**	**2,300**	**2,629**	**35,132**
Accumulated amortisation						
At 1 January 2015, restated	**1,308**	**9,090**	**4,948**	**920**	**-**	**16,266**
Charge for the year	1,354	172	225	-	-	1,751
Impairment	-	-	-	460	-	460
Disposals/Write-offs	(8)	-	(1)	-	-	(9)
At 31 December 2015, restated	**2,654**	**9,262**	**5,172**	**1,380**	**-**	**18,468**
Net carrying value, restated	**12,190**	**352**	**573**	**920**	**2,629**	**16,664**

The most significant movement in intangible assets relates to the application software in their own development. The Bank in 2016 transferred to the use of HRK 1.8 million application software under construction of the bank, and in 2015 transferred HRK 13.54 million.

Notes to the financial statements (continued)

14. OTHER ASSETS

[HRK'000] OTHER ASSETS	Restated 31 December 2015	31 December 2016
Other assets	**86,054**	**91,046**
Fees receivable	634	1,894
Prepaid expenses	456	265
Other receivables	31,294	60,386
Collateral repossessed	53,670	28,501
Impairement allowance	**(30,152)**	**(29,150)**
TOTAL	**55,902**	**61,896**

On the position of other receivables, the most significant item are receivables for a court dispute amounting to HRK 28.8 million at 31 December 2016, for which value adjustments were carried out in the same amount, and receivables for previously allocated assets under a sales contract in the amount of HRK 27.5 million, which was collected by the Bank on 4 January 2017.

A) *Impairment of foreclosed assets*

Collateral repossessed relate to land and real estate acquired in lien of uncollected loans to customers. They are stated at lower of cost of the related loans and advances and their bet realizable value.

During the year, the Bank carried out impairment of foreclosed assets in the amount of HRK 21,208 thousand shown in Note 29 (2015: HRK 499 thousand).

B) *Movements in provisions for other assets*

[HRK'000] MOVEMENT IN IMPAIREMENT ALLOWANCE FOR OTHER ASSETS	Restated 2015	2016
At 1 January	**27,642**	**30,152**
Increase/decrease (Note 29)	2,510	(623)
Write-offs	-	(379)
At 31 December	**30,152**	**29,150**

Notes to the financial statements (continued)

15. DEPOSITS FROM CUSTOMERS

[HRK'000]	Restated 31 December 2015	31 December 2016
Demand deposits	**110,596**	**124,453**
retail	44,192	44,243
in HRK	*27,441*	*24,461*
in foreign currency	*16,751*	*19,782*
corporate	66,404	80,210
in HRK	*56,077*	*60,025*
in foreign currency	*10,327*	*20,185*
Term deposits	**1,255,780**	**1,099,596**
retail	1,094,062	875,319
in HRK	*247,776*	*204,575*
in foreign currency	*846,286*	*670,744*
corporate	161,718	224,277
in HRK	*97,927*	*78,084*
in foreign currency	*63,791*	*146,193*
Accrued interest	**18,808**	**16,123**
TOTAL	**1,385,184**	**1,240,172**

16. BORROWINGS

[HRK'000]	Restated 31 December 2015	31 December 2016
Short-term	**41,356**	**16,685**
from banks	34,357	16,685
in HRK	*23,000*	*13,000*
in foreign currency	*11,357*	*3,685*
from other financial institutions	6,999	-
in foreign currency	*6,999*	-
Long-term	**13,209**	**44,690**
from banks	13,209	44,690
in HRK	*5,503*	*30,233*
in foreign currency	*7,706*	*14,457*
Accrued interest	**354**	**577**
TOTAL	**54,919**	**61,952**

Borrowings contain agreed repurchase agreements (repos) totaling to HRK 35,503 thousand (2015: HRK 27,943 thousand) – Note 40.

Notes to the financial statements (continued)

17. SUBORDINATED DEBT

[HRK'000]	Restated 31 December 2015	31 December 2016
Subordinated debt	**22,905**	**47,092**
in HRK	-	20,000
in foreign currency	22.905	27,092
Accrued interest	**-**	**41**
TOTAL	**22,905**	**47,133**

In July 2014 subordinated debt contract was signed, based on which J&T Banka, Prague, has made payment in the amount of EUR 3 million, or equivalent of HRK 22.9 million, at an interest rate of Euribor 12M + 7% per annum for a period of 10 year. During 2016, a new subordinated debt contract was signed, based on which J&T Bank Prague injected additional new funds of HRK 20 million at an interest rate of 8.8% for a period of seven years.

The subordinated debt was also collected from retail customers in the total amount of EUR 584 thousand equivalent in HRK 4.4 million with a fixed interest rate of 5% and a term of 5 years.

Subordinated debt is included in the additional capital of the Bank and is amortized for the purposes of calculating capital adequacy.

18. PROVISIONS FOR LIABILITIES AND CHARGES

[HRK'000]	Restated 31 December 2015	31 December 2016
Provisions for legal disputes	120	122
Provisions for termination benefits and similar liabilities to employees	-	735
Provisions for contingent liabilities	1,161	744
TOTAL	**1,281**	**1,601**

The movement in provisions for liabilities and charges is presented below:

[HRK'000]	Restated 2005	2016
At 1st January	**923**	**1,281**
Increase/decrease in the income statement		
- Increase in provisions for legal disputes (Note 29)	-	2
- Provisions for termination benefits and similar liabilities to employees (note 29)	-	735
- Release of provisions for contingent liabilities (Note 29)	358	(417)
Provisions used during the year	-	-
At 31 December	**1,281**	**1,601**

Notes to the financial statements (continued)

19. OTHER LIABILITIES

[HRK'000] OTHER LIABILITIES	Restated 31 December 2015	31 December 2016
Trade payables	380	510
Liabilities for salaries, deductions from salaries, taxes	1,957	1,641
Deferred income	-	400
Other liabilities	5,824	10,954
TOTAL	**8,161**	**13,505**

In other liabilities, the most significant amount relates to payments received which relates to factoring, received before the maturity date in the amount of HRK 6.5 million.

20. EQUITY

20.1. Share capital

[HRK'000]	Restated 31 December 2015	31 December 2016
Share capital	231,085	307,085
TOTAL	**231,085**	**307,085**

31 December 2016	Number of shares	Ownership share (%)
J&T BANKA A.S. (1/1)	25,350,000	82.55
PBZ DD/ALTERNATIVE UPRAVLJANJE d.o.o. (1/1)	3,571,429	11.63
Other shareholders	1,787,111	5.82
TOTAL	**30,708,540**	**100.00**

31 December 2015	Number of shares	Ownership share (%)
J&T BANKA A.S. (1/1)	17,750,000	76.81
PBZ DD/ALTERNATIVE UPRAVLJANJE d.o.o.(1/1)	3,571,429	15.46
Other shareholders	1,787,111	7.73
TOTAL	**23,108,540**	**100.00**

The Bank’s shares are listed on the Zagreb Stock Exchange. As at 31 December 2016 the share price of the Bank’s ordinary shares quoted on the Zagreb Stock Exchange was HRK 8.50 (31 December 2015: HRK 5.54).

By the decision of shareholders, in July 2016, based on provisions of the Statute of the so-called authorized capital, there was an increase in share capital by the amount of HRK 76,000,000.00 by the majority shareholder of the Bank - J&T Bank a.s., through the issuance of 7,600,000 new shares so that the new share capital amounts to HRK 307,085,400.00 and no capital gain or loss has been realized.

During February 2015, an increase of the Bank's share capital was made under the provisions of the Statute of the so-called authorized capital by the amount of HRK 37,500,000.00 approved by the majority shareholder of the Bank - J & T banka., and by September, another capital increase of the Bank was carried out, also based on the provisions of the Statute of the so-called authorized capital with the payment of an amount of HRK 65,000,000.00 by the same shareholder, so that the share capital on 31 December 2015 amounts to HRK 231,085,400.00.

Ordinary shares carry voting rights at shareholders’ meetings, subject to a minimum shareholding of one share. The Bank does not have preference shares.

Notes to the financial statements (continued)

20. EQUITY (continued)

20.2 Premium on issued shares

The premium on the issued shares was formed in previous periods as a result of the recapitalization of the Bank above the nominal value of the subscribed capital.

20.3 Other reserves

[HRK'000]	Restated 31 December 2015	31 December2016
Reserves for treasury shares	2,552	2,557
Legal reserves	1,235	1,235
	3,787	**3,792**

Other reserves comprise of legal reserves and treasury shares reserves.

Legal reserve

The bank is obliged to form a legal reserve by allocating 5% of net profit for the year, until reserves reach 5% of the share capital. The legal reserve may be used to cover losses of previous years if the losses are not covered by current profit for the year or if no other reserves are available.

Treasury share reserve

The reserve for treasury shares is the result of previous ownership over its own shares, subsequently sold with net profit.

20.4 Fair value reserve

The fair value reserve includes unrealised gains and losses on changes in the fair value of available-for-sale financial assets.

20.5 Accumulated loss

The transferred loss includes accrued losses from previous years.

Notes to the financial statements (continued)

21. INTEREST AND SIMILAR INCOME

[HRK'000]	Restated 2015	2016
Analysis by product	**68,879**	**75,302**
Loans and advances to customers	56,388	64,467
Deposits	19	3
Debt securities	12,450	10,830
Other	22	2
Analysis by source	**68,879**	**75,302**
Retail	12,826	13,557
Corporate	45,953	50,692
State and public sector	4,919	6,460
Financial institutions	1,149	482
Other	4,032	4,111

22. INTEREST AND SIMILAR CHARGES

[HRK'000]	Restated 2015	2016
Analysis by product	**41,271**	**40,177**
Deposits from customers	37,917	35,027
Borrowings	1,300	1,530
Subordinated debt	1,735	2,851
Analysis by source	**41,271**	**40,177**
Retail	35,962	33,273
Corporate	1,635	1,556
State and public sector	174	86
Financial institutions	3,127	4,454
Other	373	808

23. FEE AND COMMISSION INCOME

[HRK'000]	Restated 2015	2016
Payment transactions	**4,261**	**4,054**
Letters of credit and guarantee fees	**837**	**775**
Early repayment fees	**753**	**348**
Brokerage fees	**-**	**1,449**
Other	**778**	**535**
TOTAL	**6,629**	**7,161**

Notes to the financial statements (continued)

24. FEE AND COMMISSION EXPENSE

[HRK'000]	2015	2016
Payment transactions	1,152	1,307
Credit cards	171	270
Other	656	809
TOTAL	1,808	2,386

25. NET REALISED GAINS FROM FINANCIAL ASSETS AVAILABLE FOR SALE

[HRK'000]	2015	2016
Realised	660	4,345
Bonds	604	4,342
Investment funds	56	3
TOTAL	660	4,345

26. NET FOREIGN EXCHANGE GAINS

[HRK'000]	Restated 2015	2016
Net gains / (losses) from translation of monetary assets and liabilities	637	465
Net gains / (losses) from trading with foreign currencies	4,012	2,890
TOTAL	4,649	3,355

Notes to the financial statements (continued)

27. OTHER INCOME

[000 HRK]	Restated 2015	2016
Rental of premises	757	1,055
Use of official cars	250	62
Collection of written off and the transfer of receivables	2,201	331
Income from disposal of tangible and intangible assets	1,007	934
Release of accrued expenses from previous years	302	793
Other	194	235
TOTAL	4,711	3,409

28. GENERAL AND ADMINISTRATIVE EXPENSES

a) Personnel expenses

[HRK'000]	Restated 2015	2016
Personnel expenses	23,295	23,109
- *Net salaries*	*12,698*	*12,448*
- *Contributions on and from salaries*	*7,056*	*6,864*
- *Taxes and surtaxes*	*2,841*	*2,717*
- *Other personnel expenses*	*700*	*1,080*
TOTAL	23,295	23,109

As at 31 December 2016, the Bank had 116 employees (31 December 2015: 148 employees).

b) Other administrative expenses

[HRK'000]	Restated 2015	2016
Services	12,741	11,899
Costs of deposit insurance	3,296	4,072
Material and other costs	1,979	1,846
Representation, grants and sponsorship	1,321	737
Other administrative expenses	550	476
Car and other transportation expenses	464	344
Business trip	297	274
Extraordinary expenses	176	41
Taxes, contributions, fees	2,539	1,378
UKUPNO	23,363	21,067

In other administrative expenses, under the cost of intellectual services, the cost of audit is included. The contracted audit fees in 2016 amounted to HRK 272 thousand + VAT (2015 HRK 249 thousand + VAT + HRK 12.5 thousand expenses).

According to the Deposit Insurance Act and the Methodology for the calculation of the risk level of individual credit institutions in the Republic of Croatia, premiums for deposit insurance is calculated as the product of the premium base, premium rate (0.32% annually) and the level of risk (for J&T Bank 3.99%).

Notes to the financial statements (continued)

29. IMPAIRMENT LOSSES AND PROVISIONS

[HRK'000] IMPAIRMENT LOSSES AND PROVISIONS	Restated 2015	2016
Specifically identified losses	**37,119**	**69,944**
Impairment of loans and advances to customers (Note 11)	34,823	70,029
Impairment of financial investments held to maturity (Note 10)	(214)	538
Other receivables (Note 14)	2,510	(623)
Impairment/(release of impairment) for unidentified losses	**4,399**	**(3,301)**
Impairment of loans and advances to customers (Note 11)	3,126	(1,833)
Impairment of financial investments held to maturity (Note 10)	915	(1,051)
Provisions for off-balance-sheet exposure to credit (Note 18)	358	(417)
Other provisions	**499**	**21,945**
Provisions for court cases (Note 18)	-	2
Provisions for termination benefits (Note 18)	-	735
Impairment of foreclosed assets (Note 14a)	499	21,208
TOTAL	**42,017**	**88,588**

30. INCOME TAX

a) Income tax expense recognised in the income statement

[HRK'000]	Restated 2015	2016
Current income tax expense	-	-
Deferred income tax	-	-
TOTAL	**-**	**-**

b) Reconciliation of accounting profit and current income tax liability

[HRK'000]	Restated 2015	2016
Accounting loss before tax	**(50,476)**	**(86,568)**
Income tax at 20% (2015: 20%)	**(10,095)**	**(17,314)**
Non-deductible expenses	4,355	9,192
Non-taxable income	(2,744)	(3,556)
Tax at 20% after reconciliations	**(8,484)**	**(11,678)**
Tax losses caried forward not recognised as DTA	**8,484**	**11,678**
Income tax in the income statement	**-**	**-**
Effective tax rate	**-**	**-**

Notes to the financial statements (continued)

30 INCOME TAX (CONTINUED)

The availability of tax losses in future periods, subject to change by the Ministry of Finance, are as follows:

[HRK'000]	31 December 2016
No later than 1 year	8,139
No later than 2 year	105,472
No later than 3 year	7,594
No later than 4 year	42,422
No later than 5 year	58,383
Total tax losses carried forward not recognised as deferred tax assets	**222,010**

On the reporting date the Bank did not recognise any deferred tax asset in respect of tax losses carried forward on the grounds of uncertainty as to whether sufficient future taxable profits will be available to utilise those losses before their expiry.

At the year end the Bank had unrecognised deferred tax assets arising on temporary differences relating to deferred fees in total amount of HRK 987 thousand.

c) Deferred tax liability on the basis of financial assets available for sale

The Bank has recognised deferred tax liability for unrealized gains on available-for-sale financial assets in the amount of HRK 725 thousand (2015: HRK 0).

[HRK '000] CHANGES IN DEFERRED TAX LIABILITIES	2016
Balance as at 1 January	-
Recognised deferred tax liability in other comprehensive income	725
Balance as at 31 December	**725**

Notes to the financial statements (continued)

31. BASIC AND DILUTED LOSS PER SHARE

For the purpose of calculating loss per share, losses are calculated as the loss for the period attributable to shareholders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares in circulation during the year after deducting the number of ordinary treasury shares.

Since there is no effect of options, convertible bonds or similar effects, the weighted average number of ordinary shares used to calculate diluted earnings per share was the same as the one used to calculate basic earnings per share. The bank has no preference shares.

	2015	2016
Loss for the year [HRK'000]	(50,476)	(86,568)
Weighted average number of shares	17,825,663	26,514,004
BASIC AND DILUTED LOSS PER SHARE	**(2.83)**	**(3.26)**

	2015	2016
Number of shares as at January 1	12,858,540	23,108,540
Recapitalization 10.2.2015	3,328,767	-
Recapitalization 30.9.2015	1,638,356	-
Recapitalization 20.7.2016	-	3,405,464
Weighted average number of shares as at December 31	**17,825,663**	**26,514,004**

Notes to the financial statements (continued)

32. CONCENTRATION OF ASSETS AND LIABILITIES

The table below represents the concentration of the Bank's assets and liabilities towards the state and state-owned institutions.

[HRK'000]	Notes	Restated 31 December 2015	31 December 2016
Giro account with CNB	6	64,708	81,187
Obligatory reserve with CNB	6	109,529	94,234
Bonds issued by the Ministry of Finance	9	105,525	187,495
Borrowings from Croatia Bank for Reconstruction and Development		(19,932)	(26,375)
TOTAL		**259,830**	**336,542**

33. CASH AND CASH EQUIVALENTS

[HRK'000]	Notes	Restated 31 December 2015	31 December 2016
Cash and gyro accounts with banks	7	262,906	184,849
Giro account with CNB	6	64,708	81,187
TOTAL		**327,614**	**266,036**

34. CONTINGENCIES

[HRK'000]	Restated 31 December 2015	31 December 2016
Guarantees	**16,099**	**14,962**
in HRK	16,099	14,962
in foreign currency	-	-
Letters of credit	**3,708**	**6,361**
in foreign currency	3,708	6,361
Revolving facility	**94,371**	**45,856**
in HRK	91,918	43,566
in foreign currency	2,453	2,290
Other off-balance-sheet items	**16**	**-**
in foreign currency	16	-
TOTAL	**114,194**	**67,179**

As at 31 December 2016, the Bank recognised provisions for unidentified off-balance-sheet risks arising from the issue of guarantees, letters of credit and undrawn lending commitments in the amount of HRK 672 thousand (2015: HRK 1.142 thousand).

Notes to the financial statements (continued)

35. RELATED PARTY TRANSACTIONS

The majority owner of the Bank is J&T Banka A.S. based in the Czech Republic and the ultimate parent is J&T Finance Group. The majority owner as at 31 December 2016 owned 82.55% of the Bank's shares (31 December 2015: 76.81%). With the recapitalization in 2015 and 2016 and the subordinated debt, the Bank had other banking transactions with its majority owner during the year which resulted with revenue and expenses for the year, as well as assets and liabilities at year-end.

The second largest shareholder as at 31 December 2016 is Alternative d.o.o. owning 11.63% of the shares. The remaining 5.82% of the shares are traded publicly. The Bank considers its related parties are their key shareholders, their direct or indirect subsidiaries, members of the Supervisory Board and the Management Board and other management (together "key management"), close family members of key management, jointly controlled companies or companies under significant influence of the Management board members and members of their immediate families, in accordance with the definition given in the International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

As at 31 December 2016, the Bank has liabilities to key shareholders in respect of assets on current accounts and liabilities for services rendered.

For key management personnel in 2016 (none in 2015), in addition to regular income (salary), no other payments were carried out. The Bank does not have a remuneration policy in 2016 (none in 2015).

Related party transactions for the year ended 31 December 2016 and 31 December 2015 were as follows:

[HRK'000]	2015				2016			
	exposure	liabilities	revenue	expenses	exposure	liabilities	revenue	expenses
J&T Banka A.S.								
Other income	-	-	-	-	-	-	1,452	-
Received deposits								
Gyro accounts	-	-	-	-	-	13,095	-	-
Subordinated debt	-	22,905	-	1,735	-	42,673	-	2,670
Other liabilities	-	941	-	-	-	361	-	-
Total	**-**	**23,846**	**-**	**1,735**	**-**	**56,129**	**1,452**	**2,670**
Key management personnel								
Loans to and receivables from customers	1,960	-	103	-	1,846	-	87	-
Received deposits	-	438	-	2	-	1,376	-	7
Compensation to key management personnel	-	-	-	5,148	-	-	-	5,252
Total	**1,960**	**438**	**103**	**5,150**	**1,846**	**1,376**	**87**	**5,259**

Notes to the financial statements (continued)

36. AVERAGE EFECTIVE INTEREST RATES

Average interest rates calculated based on the weighted average for each category of interest-earning assets and interest-bearing liabilities, are presented below:

	2015	2016
Assets		
Amounts with the Croatian National Bank	-	-
Cash and accounts with banks	0.28%	0.27%
Financial assets available for sale	3.70%	2.99%
Held-to-maturity financial assets	8.61%	9.37%
Placements with other banks	0.28%	0.32%
Loans and advances to customers	7.93%	7.32%
Liabilities		
Deposits from customers	3.17%	2.48%
Borrowings	2.62%	2.33%
Subordinated debt	7.50%	7.60%

37. OPERATING LEASE COMMITMENTS

Future minimum lease payments at undiscounted amounts under non-cancellable operating leases where the Bank is the lessee are the following:

[HRK ‘000]	31 December 2015	31 December 2016
Up to 1 year	3,915	2,884
From 1 to 5 years	10,899	7,710
Over 5 years	-	-
	14,814	10,594

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged or a liability settled on normal market conditions. Financial asset available for sale are carried at fair value.

Financial instruments measured at fair value

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

There were no transfers between levels in 2016 and 2015.

Notes to the financial statements (continued)

38. FAIR VALUE OF FINANCIAL INSTRUMENTS(continued)

Financial instruments measured at fair value (continued)

2016 Financial assets	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total HRK '000
Financial assets available for sale				
Local government bonds	168,665	-	-	168,665
Local government treasury bill	-	18,831	-	18,831
Foreign corporate bonds	7,822	-	-	7,822
Foreign treasury bills	-	18,620	-	18,620
Closed investment funds	-	-	2,886	2,886
Cash funds	34,629	-	-	34,629
Total financial assets	**211,116**	**37,451**	**2,886**	**251,453**

2015, restated Financial assets	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total HRK '000
Financial assets available for sale				
Local government bonds	105,525	-	-	105,525
Local corporate bonds	1,096	-	-	1,096
Foreign corporate bonds	11,604	-	-	11,604
Foreign treasury bills	-	7,641	-	7,641
Closed investment funds	-	-	3,016	3,016
Total financial assets	**118,225**	**7,641**	**3,016**	**128,882**

The table below shows the reconciliation of initial and final financial instruments at level 3 of the fair value hierarchy.

	Financial assets available for sale
As at 1 January 2016	**3,016**
Total profit/(loss):	(130)
recognized in the income statement	-
recognized in the statement of comprehensive income	(130)
Buy	-
Sell	-
Settlements	-
As at 31 December 2016	**2,886**

During 2016 there was no transfer from level 3 or in level 3 fair value hierarchy.

Financial instruments classified in level 3 refer to investments in alternative investment funds that are valued on the basis of the NAV published in the audited financial statements.

Notes to the financial statements (continued)

38. FAIR VALUE OF FINANCIAL ASSETS (continued)

Financial instruments measured at fair value (continued)

The tables below present the fair value of financial instruments that are not carried at fair value for the Bank, allocated by the hierarchy of fair value levels with respect to the input data used in the valuation process.

When discounting cash flows of assets or liabilities, the Bank uses weighted average monthly interest rates on loans and advances, ie deposits.

In assessing fair value, the Bank uses the following methods:

Cash and accounts with banks, amounts with the Croatian National Bank

The carrying values of accounts with banks and amounts with the central bank approximate to their fair values, given the short maturity of these assets.

Placements with other banks

The estimated fair value of placements with banks represents the discounted amount of future cash flow receipts. Due to their short-term character, their fair value approximates to their carrying value.

Loans and advances to customers

Fair value is based on a discounted cash flows using currently applicable interest rates on loans for similar terms or similar credit characteristics. Most of the Bank's loan portfolio is approved at a variable interest rate. Using the discounting method of cash flows and interest (assuming that the loan is repayable according to the agreed terms and taking into account the existing losses on specific provisions), there is a difference between the fair value of the loan portfolio and the carrying amount, resulting from higher interest rates of the Bank than those on the market. The fair value of loans to non-repayable customers is estimated on the basis of a discounted cash flow analysis or the estimated value of the underlying security instrument.

Given that the insignificant portion of loans and advances to customers contracted at a fixed interest rate or the one deviating from the market, the Bank considers that the fair value of loans and advances to customers corresponds to their carrying value. The estimated fair value of loans and advances to customers represents the discounted amount of expected future cash receipts. Expected future cash inflows are discounted using the market interest rate. The estimated fair value of non-performing loans includes significant management estimates and is therefore classified into level 3 of the fair value hierarchy, while the preforming portion of the loans and advances to customers is allocated to level 2, as the parameters available on the market are used for the assessment.

Notes to the financial statements (continued)

38. FAIR VALUE OF FINANCIAL ASSETS (continued)

Financial instruments not carried at fair value

Financial investments held to maturity

The fair value of financial investments held to maturity, according to the Management Board, approximates their carrying value, given that these are short – term instruments. They relate to bills of exchange with maturities up to 12 months.

Deposits from banks and customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable as at the balance sheet date. The fair values of term deposits at variable interest rates approximate their carrying values as at the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using rates currently applied to deposits of similar remaining maturities. According to the discounted cash flows, it is concluded that the fair value does not differ significantly from carrying value. Most of the customers' deposits with fixed interest rates become due within one year and consequently their fair value does not significantly differ from their carrying value.

Borrowings

Due to its short-term nature, the carrying value approximates the fair value.

Subordinated debt

Considering that there are no similar investment on the market, the management believes that the carrying value of subordinated debt approximate its fair value.

Financial instruments not valued at fair value:

	31 December 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS				
Accounts with the CNB and credit institutions	343,632	343,632	413,302	413,302
Placements with other banks	478	478	1,099	1,099
Loans and advances to customers	805,813	840,647	870,244	904,304
Held-to-maturity financial assets	15,190	15,190	120,380	120,380
Total financial assets	**1,165,113**	**1,199,947**	**1,405,025**	**1,439,085**
Deposits from customers	1,240,172	1,240,890	1,385,184	1,385,722
Borrowings	61,952	61,952	54,919	54,919
Subordinated debt	47,133	47,133	22,905	22,905
Total financial liabilities	**1,349,257**	**1,349,975**	**1,463,008**	**1,463,546**

Notes to the financial statements (continued)

39. Restatement of previously presented amounts (continued)

Note a)

In previous years, the Bank presented short-term placements with the banks in the category placements with the CNB. The presentation was changed in 2016 and it is presented within the positions of cash and accounts with banks. This reclassification resulted with a decrease of amounts with the CNB by HRK 23,842 thousand at 31 December 2015 (as at 1 January 2015: HRK 28,561 thousand) as compared to the previously published amounts and with an increase of cash and accounts with banks by HRK 23,842 thousand at 31 December 2015 (1 January 2015: HRK 28,561 thousand)

Note b)

In previous years, the Bank presented cash in hand as part of Placements with other banks. In 2016 the Bank decided to present separately the cash and current accounts from banks. To achieve consistency, cash in hand is presented as part of Cash and accounts with banks. This reclassification has resulted in a changed presentation:

- Placements with other banks in the amount of HRK 239,065 thousand at 31 December 2015 (1 January 2015: HRK 187,363 thousand) and
- Cash and accounts with banks in the amount of HRK 239,065 thousand at 31 December 2015 (1 January 2015: HRK 187,363 thousand).

Note c)

In previous years, the Bank presented accrued interest on financial assets available for sale within other assets. In 2016, the Bank decided to present accrued interest along with the related instruments. The bank changed its presentation in 2014 and allocated accrued interest to the relevant asset category.

Note d)

In 2016 the Bank decided to present deferred fees on loans as part of loans and advances to customers. Deferred fees arising from loans that form an integral part of the effective interest rate were previously disclosed within other liabilities in the amount of HRK 5,545 thousand at 31 December 2015 (1 January 2015: HRK 3,433 thousand). To achieve consistency, deferred fees were reclassified to loans and advances to customers in the amount of HRK 5,545 thousand at 31 December 2015 (1 January 2015: HRK 3,433 thousand).

Note e)

In 2016 the Bank has reviewed its assets under properties and equipment in order to determine whether it satisfy the criteria to be classified in accordance with IAS 16. Based on the analysis preformed, the Bank concluded that property and equipment contain certain assets which are acquired for uncollected receivables and consequently does not satisfy the classification as property and equipment. The Bank has changed the presentation in 2015 and presented those assets as part of other assets. This reclassification resulted in a decrease in property and equipment by HRK 40,739 thousand at 31 December 2015 (1 January 2015: HRK 21,495 thousand).

Notes to the financial statements (continued)

39. Restatement of previously presented amounts (continued)

Note f)

In previous years, the Bank has presented the share premium as part of other reserves in the Equity and Reserves. The Bank decided to present share premium separately in 2016. To achieve consistency, the amounts as at 31 December 2015 were restated to achieve consistency. This reclassification resulted in the decrease of other reserves for HRK 21,435 thousand as at 31 December 2015 (1 January 2015: HRK 21,435 thousand) and increase in the share premium by the same amount.

Note g)

In previous years, the Bank presented personnel expenses as part of general and administrative costs. The Bank has changed its presentation in 2015 to show personnel expenses in a separate position. The remaining amount of general and administrative costs in 2015 is presented under Other operating expenses. In 2015, the Bank presented the provision for inactive accounts from the general and administrative expenses position in the amount of HRK 9 thousand as part of impairment allowance and provisions.

Note h)

In previous years, the Bank included the impairment of foreclosed assets in amortization and impairment of goodwill in the amount of HRK 499 thousand. The Bank has changed the presentation in 2015 in order to present the impairment of foreclosed assets under the position Impairment allowance and provisions.

In 2015, the Bank also changed the presentation of the movement in provisions for liabilities and charges from a separate position within the position of Impairment expenses and provisions in the amount of HRK 349 thousand.

Notes to the financial statements (continued)
39. Restatement of previously presented amounts (continued))

HRK '000	Notes	Previously presented	Effect of reclassification	Restated 31 December 2015	Previously presented	Effect of reclassification	Restated 1 January 2015
ASSETS							
Amounts with the CNB	a)	198,079	(23,842)	174,237	191,124	(28,561)	162,563
Placements with other banks	b)	240,165	(239,064)	1,099	189,998	(187,363)	2,635
Cash and accounts with banks	a), b)	-	262,906	262,906	-	215,924	215,924
Financial assets available for sale	c)	130,430	-	130,430	191,640	2,163	193,803
Held-to-maturity financial assets		120,380	-	120,380	30,032	-	30,032
Loans and advances to customers	d)	875,789	(5,545)	870,244	654,038	(3,433)	650,605
Property and equipment	e)	58,074	(40,739)	17,335	42,372	(23,658)	18,714
Intangible assets		16,664	-	16,664	17,675	-	17,675
Other assets	e), c)	15,163	40,739	55,902	29,009	21,495	50,504
TOTAL ASSETS		**1,654,742**	**(5,545)**	**1,649,197**	**1,345,888**	**(3,433)**	**1,342,455**
LIABILITIES							
Deposits from customers		1,385,184	-	1,385,184	1,145,526	-	1,145,526
Borrowings		54,919	-	54,919	37,894	-	37,894
Subordinated debt		22,905	-	22,905	26,489	-	26,489
Provisions for liabilities and charges		1,281	-	1,281	969	-	969
Other liabilities	d)	13,706	(5,545)	8,161	11,279	(3,433)	7,846
TOTAL LIABILITIES		**1,477,995**	**(5,545)**	**1,472,450**	**1,222,157**	**(3,433)**	**1,218,724**
EQUITY							
Share capital	f)	231,085	-	231,085	128,585	-	128,585
Share premium	f)	-	21,435	21,435	-	21,435	21,435
Other reserves	f)	25,222	(21,435)	3,787	25,222	(21,435)	3,787
Fair value reserve		2,034	-	2,034	1,042	-	1,042
Accumulated losses		(81,594)	-	(81,594)	(31,118)	-	(31,118)
TOTAL EQUITY		**176,747**	**-**	**176,744**	**123,731**	**-**	**123,731**
TOTAL LIABILITIES AND EQUITY		**1,654,742**	**(5,545)**	**(1,649,197)**	**1,345,888**	**(3,433)**	**1,342,455**

Notes to the financial statements (continued)

39. Restatement of previously presented amounts (continued)

	Notes	2015, previously presented HRK '000	Efect of change HRK '000	2015, restated HRK '000
Interest and similar income		68,879	-	68,879
Interest and similar charges		(41,271)	-	(41,271)
Net interest income		**27,608**	-	**27,608**
Fee and commission income		6,629	-	6,629
Fee and commission expense		(1,808)	-	(1,808)
Neto fee and commission income		**4,821**	**-**	**4,821**
Net realised gains from financial assets available for sale		660	-	660
Net foreign exchange gains		4,649	-	4,649
Other operating income		4,711	-	4,711
Trading and other income		**10,020**	**-**	**10,020**
Personnel expenses	g)	-	(23,295)	(23,295)
General and administrative costs	g)	*(46,667)*	46,667	-
Depreciation, amortisation and impairment of goodwill	h)	(4,749)	499	(4,250)
Other administrative expenses	g)	-	(23,363)	(23,363)
Provisions for liabilities and expenses	h)	*(349)*	349	-
Impairment losses and provisions	h)	(41,160)	(857)	(42,017)
LOSS BEFORE TAX		**(50,476)**	-	**(50,476)**
Income tax expense		-		-
LOSS FOR THE YEAR		**(50,476)**	-	**(50,476)**

Notes to the financial statements (continued)

40. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The disclosures set out in the table on the next page include financial assets and financial liabilities that are offset in the Bank's statement of financial position.

Sale and repurchase agreement, and reverse sale and repurchase transaction

Sale and repurchase agreements are transactions in which the Bank sells a security and simultaneously agrees to repurchase it at a fixed price on a future date. The Bank continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and a financial liability is recognised for the obligation to repay at the repurchase price, classified as interest-bearing borrowings.

Reverse sale and repurchase agreements are transactions in which the Bank purchases a security and simultaneously agrees to sell it at a fixed price on a future date. The Bank holds collateral in the form of marketable securities in respect of loans given.

Sale and repurchase agreements as well as reverse sale and repurchase agreements give the Bank possibility for offsetting on a net basis, in case of default of any counterparty.

The table below shows the amount of collateral accepted in respect of reverse sale and repurchase agreements and given in respect of sale and repurchase agreements. Collateral accepted and given includes government issued treasury bills and Bonds.

[HRK'000]	2015	2016
Receivables from reverse sale and repurchase agreements related to:		
Loans and advances to banks	-	-
Loans and advances to costumers	-	-
Fair value of collateral accepted in respect of the above	-	-
Payables under sale and repurchase agreements		
Interest-bearing borrowings	27,943	35,503
Carrying amount of collateral provided in respect of the above relating to:		
Available-for-sale financial assets	29,968	41,701

41. EVENTS AFTER THE BALANCE SHEET DATE

The Bank previously operated under the name VABA Banka d.d. Varaždin and has changed its name to J&T Bank d.d. as of 1 January 2017.

Additional reports for Croatian National Bank

Reports made in accordance with CNB decision

Balance sheet as at 31st December 2016

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)
as of 31.12.2016

in HRK

Positon name	AOP code	Previous period	Current period
1	2	3	4
ASSETS			
1. CASH AND DEPOSITS WITH CNB (002+003)	**001**	198,078,765	233,008,657
1.1.Cash	**002**	23,841,379	16,637,633
1.2.Deposits with the CNB	**003**	174,237,386	216,371,024
2. Deposits with banking institutions	**004**	240,164,250	127,739,048
3. MF treasury bills and CNB bills	**005**	-	-
4. Securities and other financial instruments held for trading	**006**	-	-
5. Securities and other financial instruments available for sale	**007**	128,881,964	251,452,020
6. Securities and other financial instruments held to trading	**008**	120,379,414	15,189,311
7. Securities and other financial instruments which are not actively traded, but are designated at fair value throught profit or loss	**009**	-	-
8. Derivative financial assets	**010**	-	-
9. Loans to financial institutions	**011**	14,103,789	207,611
10. Loans to other clients	**012**	853,301,539	808,944,545
11. Investments in subsidiaries, associates and joint ventures	**013**	-	-
12. Foreclosed assets	**014**	53,669,777	28,501,383
13. Tangible assets (net of depreciation)	**015**	17,645,249	18,564,864
14. Interest, fees and other assets	**016**	28,518,090	56,177,758
A) TOTAL ASSETS (001+004 do 016)	**017**	1,654,742,837	1,539,785,197
LIABILITIES			
1. Borrowings from financial institutions (019+020)	**018**	47,566,608	61,374,890
1.1. Short-term borrowings	**019**	34,357,381	41,684,668
1.2. Long-term borrowings	**020**	13,209,227	19,690,222
2. Deposits (AOP 022 to 024)	**021**	1,365,899,062	1,223,688,089
2.1. Giro and current accounts	**022**	73,424,152	83,691,546
2.2. Saving deposits	**023**	36,694,490	40,400,816
2.3. Term deposits	**024**	1,255,780,420	1,099,595,727
3. Other borrowings (026+027)	**025**	6,999,200	-
3.1. Short-term borrowings	**026**	-	-
3.2. Long-term borrowings	**027**	6,999,200	
4. Liabilities arising from derivatives and other liabilities held for trading	**028**	-	-
5. Issued debt securities (030+031)	**029**	-	-
5.1. Short-term issued debt securities	**030**	-	-
5.2. Long-term issued debt securities	**031**	-	-
6. Issued subordinate instruments	**032**	-	-
7. Issued hybrid intruments	**033**	22,905,141	47,091,643
8. Interest, fees and other liabilities	**034**	34,626,325	41,769,158
B) TOTAL LIABILITIES (018+021+025+028+029+032+033+034)	**035**	1,477,996,336	1,373,923,780

EQUITY			
1. SHARE CAPITAL	**036**	231,085,400	307,085,400
2. PROFIT/(LOSS) OF THE CURRENT YEAR	**037**	-50,476,373	-86,567,943
3. RETAINED PROFIT/(LOSS)	**038**	-31,117,187	-81,593,560
4. LEGAL RESERVES	**039**	1,235,660	1,235,660
5. STATUTORY AND OTHER CAPITAL RESERVES	**040**	23,986,160	23,991,175
6. UNREALISED PROFIT/(LOSS) FROM VALUE ADJUSTMENT OF FINANCIAL ASSETS AVAIABLE FOR SALE	**041**	2,032,841	1,710,685
C) TOTAL EQUITY (036 do 041)	**042**	176,746,501	165,861,417
D) TOTAL LIABILITIES AND EQUITY (035+042)	**043**	1,654,742,837	1,539,785,197
SUPPLEMENT TO STATEMENT OF FINANCIAL POSITION (filled out by banks that compose a consolidated financial report)			
1. TOTAL EQUITY	**044**	-	-
2. Attributed to equity holders of the parent	**045**	-	-
3. Minority shares (045-046)	**046**	-	-

Income statement for period from 1.1.2016 to 31.12.2016

Income statement
for period from 1.1.2016 to 31.12.2016

in HRK

Position name	AOP code	Prior period	Current period
1	2	3	4
1. Interest income	**048**	68,860,678	75,277,690
2. Interest expense	**049**	(44,362,118)	(43,367,265)
3. Net interest income (048-049)	**050**	24,498,560	31,910,425
4. Fee and commission income	**051**	6,614,292	7,514,741
5. Fee and commission expense	**052**	(2,012,515)	(3,266,732)
6. Net fee and commission income (051-052)	**053**	4,601,777	4,248,009
7. Profit/loss from investments in subsidiaries, associates and joint ventures	**054**	-	-
8. Profit/loss from trading	**055**	4,012,287	2,889,894
9. Profit/loss from embedded derivatives	**056**	-	-
10. Profit/loss from asset not actively traded measured at fair value through profit or loss	**057**	-	-
11. Profit/loss from asset available for sale	**058**	660,300	4,344,743
12. Profit/loss from asset held to maturity	**059**	-	-
13. Profit/loss from hedging	**060**	-	-
14. Income from investments in subsidiaries, associates and joint ventures	**061**	-	-
15. Income from other ownership investments	**062**	-	-
16. Profit/loss from foreign currency differences	**063**	636,544	464,807
17. Other income	**064**	4,710,899	3,409,351
18. Other expenses	**065**	4,045,706	2,946,721
19. General administrative expenses and depreciation	**066**	44,074,999	63,971,052
20. Net income from business before value adjustment and loan loss provisions (050+053 to 064-065-066)	**067**	(9,000,338)	(19,650,544)
21. Expense of value adjustment and loan loss provisions	**068**	41,476,035	66,917,399
22. PROFIT/LOSS BEFORE TAX (067-068)	**069**	(50,476,373)	(86,567,943)
23. INCOME TAX EXPENSE	**070**	-	-
24. PROFIT/LOSS OF THE CURRENT YEAR (069-070)	**071**	(50,476,373)	(86,567,943)
25. Earnings per share	**072**	-	-
ANNEX TO INCOME STATEMENT (for the Banks that prepare consolidated financial statements)			
1. PROFIT/LOSS OF THE CURRENT YEAR	**073**	-	-
2. Assign equity holders of the Bank	**074**	-	-
3. Non controlling interest (073-074)	**075**	-	-

Cash flow statement

CASH FLOW STATEMENT – indirect method

for period from 01.01.2016. to 31.12.2016. in HRK

Position name	AOP code	Prior period	Current period
1	2	3	4
OPERATING ACTIVITIES			
1.1. Profit/(loss) before income tax	**001**	(50,476,373)	(86,567,943)
1.2. Allowances and loss provisions	**002**	41,476,035	66,917,399
1.3. Depreciation	**003**	4,749,364	26,023,957
1.4. Net unrealized profit/(loss) from financial assets and liabilities through profit and loss	**004**	-	-
1.5. Profit/(loss) from sale of tangible assets	**005**	-	-
1.6. Other profit/(losses)	**006**	(738,229)	(426,394)
1. Cash flow from operating activities before changes of operating asset (001 do 006)	**007**	(4,989,203)	5,947,019
2.1. Deposits with Central bank	**008**	(12,612,464)	15,395,130
2.2. Treasury bills of Ministry of Finance and CB bills	**009**	9,265,741	-
2.3. Deposits with banks and loans to financial institutions	**010**	1,576,561	584,179
2.4. Loans to other customers	**011**	(264,476,439)	(29,752,394)
2.5. Securities and other financial instruments held for trading	**012**	-	-
2.6. Securities and other financial instruments available for sale	**013**	62,390,143	(124,120,689)
2.7. Securities and other financial instruments not traded actively, measured at fair value through profit or loss	**014**	-	-
2.8. Other operating assets	**015**	7,664,401	(27,542,831)
2. Net increase/(decrease) of operating assets (008 do 015)	**016**	(196,192,057)	(165,436,605)
3.1. Demand deposits	**017**	(14,898,280)	10,267,394
3.2. Savings and term deposits	**018**	251,108,894	(141,156,561)
3.3. Financial derivative liabilities and other liabilities actively traded	**019**	-	-
3.4. Other liabilities	**020**	5,376,440	7,282,147
3. Net increase/(decrease) of operating liabilities (017 do 020)	**021**	241,587,054	(123,607,020)
4. Net cash flow from operating activities before income tax (007+016+021)	**022**	40,405,794	(283,096,606)
5. (Income tax paid)	**023**	-	-
6. Net inflow/(outflow) of cash from operating activities (022+023)	**024**	40,405,794	(283,096,606)
INVESTING ACTIVITIES			
7.1. Receipt from sale/(payment for buying) tangible and intangible assets	**025**	(12,809,623)	(1,775,178)
7.2. Receipt from sale/(payment for buying) investments in subsidiaries, associates and joint ventures	**026**	-	-
7.3. Receipt from sale/(payment for buying) securities and other financial instruments held to maturity	**027**	(90,350,146)	105,190,103
7.4. Dividend income	**028**	-	-
7.5. Other receipts/(payments) from investing activities	**029**	-	-
7. Net cash flow from investing activities (025 do 030)	**030**	(103,159,769)	103,414,925

FINANCIAL ACTIVITIES			
8.1. Net increase/(decrease) of borrowings	**031**	16,747,630	7,140,850
8.2. Net increase/(decrease) issued debt securities	**032**	-	-
8.3. Net increase/(decrease) subordinated and hybrid instruments	**033**	(3,077,625)	24,425,568
8.4. Receipts from transmitted share capital	**034**	102,500,000	76,000,000
8.5. (Dividends paid)	**035**	-	-
8.6. Other receipts/(payments) from financial activities	**036**	-	5,015
8. Net cash flow from financial activities (031 do 036)	**037**	116,170,005	107,571,433
9. Net increase/(decrease) of cash and cash equivalents (024+030+037)	**038**	53,416,030	(72,110,248)
10. Effects of change in foreign exchange rates on cash and cash equivalents	**039**	359,146	(3,396,860)
11. Net increase/(decrease) cash and cash equivalents (038+039)	**040**	53,775,176	(75,507,108)
12. Cash and cash equivalents at the beginning of the year	**041**	287,767,437	341,542,613
13. Cash and cash equivalents at the end of the year (040+041)	**042**	341,542,613	266,035,505

Statement of changes in shareholder's equity

Position name	AOP code	Attributable to the equity holders of the Bank						Non controlling interest	Total capital and reserves
		Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/(loss)	Profit/(loss) for the period	Unrealised profit/(loss) from the basis of value adjustment of financial assets available for sale		
1	2	3	4	5	6	7	8	9	10
Balance at 1 January	**001**	231,079,500	5,900	25,221,819	(31,117,186)	(50,476,373)	2,032,840		176,746,500
Changes in accounting policies and corrections of mistakes	**002**	-	-	-	-	-	-	-	-
Corrected balance as at 1 January (1+2)	**003**	231,079,500	5,900	25,221,819	(31,117,186)	(50,476,373)	2,032,840	-	176,746,500
Sale of financial assets available for sale	**004**	-	-	-	-	-	-	-	-
Change of fair value financial asset available for sale	**005**	-	-	-	-	-	402,565	-	402,565
Tax on items directly recognised or transferred from capital and reserves	**006**	-	-	-	-	-	(724,721)	-	(724,721)
Other profit/(loss) directly recognised in capital and reserves	**007**	-	-	(885)	-	-	-	-	(885)
Net profit/(loss) directly recognised in capital and reserves (004+005+006+007)	**008**	-	-	(885)	-	-	(322,156)	-	(323,041)
Profit/(loss) for the period	**009**	-	-	-	-	(86,567,943)	-	-	(86,567,943)
Total recognised income and expenses for the period (008+009)	**010**	-	-	(885)	-	(86,567,943)	(322,156)	-	(86,890,984)
Increase/(decrease) of share capital	**011**	76,000,000	-	-	-	-	-	-	76,000,000
Buy/sell of treasury shares	**012**	-	-	5,900	-	-	-	-	5,900
Other changes	**013**	5,900	(5,900)	-	-	-	-	-	-
Transfer to reserves	**014**	-	-	-	(50,476,373)	50,476,373	-	-	-
Dividends paid	**015**	-	-	-	-	-	-	-	-
Distribution on income (014+015)	**016**	-	-	-	(50,476,373)	50,476,373	-	-	-
Balance at reporting date (003+010+011+012+013+016)	**017**	307,085,400	-	25,226,834	(81,593,559)	(86,567,943)	1,710,684	-	165,861,416

Reconciliation of the statutory financial statements with the suplementary schedules for CNB

Comparison of balance sheet as at 31st December 2016

	Total assets – Statutary financial statements		Cash and deposits with Central bank	Cash and deposits with other banks	Placements with other banks	Securities and other financial instruments available for sale	Securities and other financial instruments held to maturity	Loans to customers	Tangible assets	Intangible assets	Other assets	**ASSETS**	Numberj
	Assets Supplmentary schedules for CNB		**175,421**	**184,849**	**478**	**253,981**	**15,190**	**805,813**	**18,565**	**14,756**	**61,896**	**1,530,949**	
1.	Cash and deposits with Central bank	**233,009**	-	-	-	-	-	-	-	-	-	-	
1.1.	Cash	16,638	-	(16,638)	-	-	-	-	-	-	-	-	**1**
1.2.	Deposits with Central bank	216,371	(175,421)	(40,950)	-	-	-	-	-	-	-	-	**2**
2.	Deposits with banking institutions	**127,739**	-	(127,261)	(478)	-	-	-	-	-	-	-	**3**
3.	Deposits with banking institutions	-	-	-	-	-	-	-	-	-	-	-	
4.	Ttreasury bills with ministry of finance and bills of exchange with central bank	-	-	-	-	-	-	-	-	-	-	-	
5.	Securities and other financial instruments held for trading	**251,452**	-	-	-	(251,452)	-	-	-	-	-	-	**4**
6.	Securities and other financial instruments available for sale	**15,189**	-	-	-	-	(15,189)	-	-	-	-	-	**5**
7.	Securities and other financial instruments held to maturity	-	-	-	-	-	-	-	-	-	-	-	
8.	Securities and other financial instruments not actively traded, measured at fair value through profit and loss	-	-	-	-	-	-	-	-	-	-	-	
9.	Derivative financial assets	**207**	-	-	-	-	-	(207)	-	-	-	-	**6**
10.	Loans to financial institutions	**808,945**	-	-	-	-	-	(808,945)	-	-	-	-	**7**
11.	Loans to other customers	-	-	-	-	-	-	-	-	-	-	-	
12.	Investments in associates, subsidiaries and joint ventures	**28,501**	-	-	-	-	-	-	-	-	(28,501)	-	**8**
13.	Repossessed assets	**18,565**	-	-	-	-	-	-	(18,565)	-	-	-	**9**
14.	Tangible asset (minus depreciation)	**56,178**	-	-	-	(2,529)	(1)	3,339	-	(14,756)	(42,231)	-	**10**
	ASSETS	**1,539,785**	**(175,421)**	**(184,849)**	**(478)**	**(253,981)**	**(15,190)**	**(805,813)**	**(18,565)**	**(14,756)**	**(70,732)**	-	
	Difference	-	-	-	-	-	-	-	-	-	**(8,836)**	**(8,836)**	

	Total liabilities – Statutary financial statements		Client deposits	Borrowings	Hybrid instrument	Provision for liabilities and charges	Deferred tax liability	Other liabilities	**Liabilities**	Number
	Liabilities Supplmentary schedules for CNB		**1,240,172**	**61,952**	**47,133**	**1,601**	**725**	**13,505**	**1,365,088**	
1.	BORROWINGS FROM FINANCIAL INSTITUTIONS	**61,375**	-	-	-	-	-	-	-	
1.1.	Short-term borrowings	41,685	-	(41,685)	-	-	-	-	-	**1**
1.2.	Long-term borrowings	19,690	-	(19,690)	-	-	-	-	-	**2**
2.	DEPOSITS	**1,223,688**	-	-	-	-	-	-	-	
2.1.	Deposits of giro and current accounts	83,692	(83,692)	-	-	-	-	-	-	**3**
2.2.	Savings deposits	40,401	(40,401)	-	-	-	-	-	-	**4**
2.3.	Term deposits	1,099,596	(1,099,596)	-	-	-	-	-	-	**5**
3.	OTHER BORROWINGS	-	-	-	-	-	-	-	-	
3.1.	Short-term borrowings	-	-	-	-	-	-	-	-	
3.2.	Long-term borrowings	-	-	-	-	-	-	-	-	
4.	DERIVATIVE FINANCIAL LIABILITIES AND OTHER FINANCIAL LIABILITIES HELD FOR TRADING	-	-	-	-	-	-	-	-	
5.	5.ISSUED DEBT SECURITIES	-	-	-	-	-	-	-	-	
5.1.	Short-term issued debt instruments	-	-	-	-	-	-	-	-	
5.2.	Long-term issued debt instruments	-	-	-	-	-	-	-	-	
6.	ISSUED SUBORDINATED INSTRUMENTS	-	-	-	-	-	-	-	-	
7.	ISSUED HYBRID INSTRUMENTS	**47,092**	-	-	(47,092)	-	-	-	-	**6**
8.	INTEREST, FEES AND OTHER LIABILITIES	**41,769**	(16,483)	(577)	(41)	(1,601)	(725)	(23,066)	-	**7**
	LIABILITIES	**1,373,924**	**(1,240,172)**	**(61,952)**	**(47,133)**	**(1,601)**	**(725)**	**(23,066)**	-	
	Difference	-	-	-	-	-	-	**(8,836)**	**(8,836)**	

	TOTAL EQUITY – Statutary financial statements		Share capital	Share premium	Other reverves	Fair value reserves	Accumulated loss	Equity	Number
	Liabilities Supplmentary schedules for CNB		**307,085**	**21,345**	**3,792**	**1,711**	**(168,162)**	**165,861**	
1.	Share capital	**307,085**	(307,085)	-	-	-	-	(307,085)	1
2.	Profit/(loss) of the current year	**(86,568)**	-	-	-	-	86,568	86,568	2
3.	Retained profit/(loss)	**(81,594)**	-	-	-	-	81,594	81,594	3
4.	Legal reserves	**1,235**	-	-	(1,235)	-	-	-	4
5.	Statutory and other capital reserves	**23,992**	-	(21,435)	(2,557)	-	-	-	5
6.	Unrealised profit/(loss) from value adjustment of financial assets avaiable for sale	**1,711**	-	-	-	(1,711)	-	(1,711)	6
7.	Reserves resulting from protective transactions	-	-	-	-	-	-	-	
	EQUITY	**165,861**	**(307,085)**	**(21,345)**	**(3,792)**	**(1,711)**	**168,162**	**(165,861)**	
	Difference	-	-	-	-	-	-	-	

Explanations for adjustments to the balance sheet of the Specific Financial Statements and the Core Financial Statements

ASSETS

1. The amount of cash (HRK 16,638 thousand) from the Cash of CNB report was reclassified to the item Cash and deposits with the CNB in statutory financial statements.

2. The amount of deposits with the CNB (HRK 216,371 thousand) from the item Deposits with the CNB of the CNB report were reclassified to the item Cash and deposits with the CNB of statutory financial statements in the amount of (HRK 175,421 thousand) and in the Placements with other banks of the statutory financial statements in the amount of (HRK 40,950 thousand) account 31100 Foreign currency accounts with CNB.

3. The amount of deposits with banks (HRK 127,739 thousand) from the Deposits with the Banking Institutions of CNB report was reclassified to the item "Placements with Other Banks" in the statutory financial statements

4. Amounts of securities and other available-for-sale financial instruments (HRK 251,452 thousand) from Securities and other financial instruments available for sale CNB report are reclassified to Financial assets available for sale in statutory financial statements.

5. The amount of securities and other held-to-maturity financial instruments (HRK 15,189 thousand) from Securities and other financial instruments held to maturity of the CNB report has been reclassified to the item Financial assets held to maturity of the statutory financial statements.

6. Amounts of loans to financial institutions (HRK 207 thousand) from Loans to Financial Institutions of CNB reports have been reclassified to Loans and advances to customers of the statutory financial statements.

7. Loans to Other Clients (HRK 808,945 thousand) from Loans to Other Clients of the CNB reports were reclassified to Loans and advances to customers of the statutory financial statements (HRK 805,811 thousand). The difference in the amount of 3,339 relates to account 292951970 - revenues from foreign companies related to the future period, for the same amount has been reduced the item Loans to other customers in the statutory financial statements and in the statutory financial statements recorded under interest, fees and other commitments.

8. Retained assets reclassified to the sale portfolio in the amount of (HRK 28,501 thousand) from the item Retained Assets of the CNB reports have been reclassified to the item Other Assets of statutory financial statements.

9. The amount of tangible assets (HRK 18,565 thousand) from Assets (minus amortization) of the CNB reports is reclassified to the item Property and Equipment of the statutory financial statements.

10. Amounts of accrued interest on available-for-sale financial assets (HRK 2,529 thousand) from interest, fees and other assets of the CNB reports have been reclassified to Financial assets available for sale statutory financial statements.

The amount of accrued interest on securities and other held-to-maturity financial instruments (HRK 2 thousand) from the Interest, fees and other assets of the CNB reports has been reclassified to the item Financial assets held to maturity of the statutory financial statements.

Amounts of interest accrued on Loans and advances to customers (HRK 3,339 thousand) from items Interest, fees and other assets of the CNB reports have been reclassified under Loans and advances to customers of the statutory financial statements.

The amount of intangible assets (HRK 14,756 thousand) from item Interest, fees and other assets CNB reports has been reclassified in the item Intangible assets in statutory financial statements.

Amounts of other assets (HRK 42,231 thousand) from items Interest, fees and other assets of the CNB reports have been reclassified to the item Other assets of the statutory financial statements. Statutory financial statements in the item other assets are abbreviated for the synthetics of account 290 - Deferred income referring to the future period and account 292951970 - Company revenue accrued from the parent company relating to the future period.

LIABILITIES

1. The amount of short-term borrowings received from financial institutions (HRK 41,685 thousand) from the Loans from financial institutions of the CNB report was reclassified to the Received Loans of statutory financial statements.
2. The amount of long-term loans received from financial institutions (HRK 19,690 thousand) from the Loans from Financial Institutions of the CNB report has been reclassified to the Received Loans of statutory financial statements.
3. The amount of deposits on giro and current accounts (HRK 83,692 thousand) from the Giro account deposits of the CNB report was reclassified to the Deposits of customers of the statutory financial statements.
4. The amount of term deposits (HRK 40,401 thousand) from the Term deposits of the CNB report was reclassified to the Deposits from customers of the statutory financial statements.
5. The amount of term deposits (HRK 1,099,596 thousand) from the Term deposits of the was reclassified to the Deposits of customers of the statutory financial statements.
6. The amount of subordinated instruments issued (HRK 47,092 thousand) from the The subordinated instruments issued by the CNB report were reclassified to the Subordinated Instruments of the statutory financial statements.
7. The amount of accrued interest on term deposits (HRK 16,483 thousand) from the Interest, fees and other liabilities of the CNB report was reclassified to the Deposits of customers of the statutory financial statements.

Amounts of interest accrued on borrowings received (HRK 577 thousand) from the Interest, fees and other liabilities of the CNB report were reclassified to the Receivables Loans of statutory financial statements.

The amount of subordinated instruments (HRK 41 thousand) from the Interest, fees and other liabilities of the CNB report has been reclassified to the Hybrid Instruments of the statutory financial statements.

The amount of provisions for liabilities and expenses (HRK 1,601 thousand) has been reclassified from the Interest, fees and other liabilities of the CNB report to the Reserves for liabilities and charges in statutory financial statements.

Amounts on other liabilities (HRK 23,066 thousand) were reclassified from the Interest, fees and other liabilities of the CNB report under Other Liabilities of statutory financial statements. The underlying financial statements in the Other liabilities are abbreviated for the synthetics of account 290 - Deferred income referring to the future period.

EQUITY

1. The amount of share capital (HRK 307,085 thousand) from the Share capital of the CNB reporting has been reclassified to the Share capital of the statutory financial statements.
2. The amount of current year's loss (HRK 86,568 thousand) from the Profit (loss) for the current year from CNB reporting is reclassified to Accumulated losses of the statutory financial statements.
3. The retained earnings (HRK 81,594 thousand) from retained earnings (loss) oin CNB reporting has been reclassified to Accumulated losses of the statutory financial statements.
4. The amount of legal reserves (HRK 1,235 thousand) from the Legal reserves of the CNB reporting was reclassified to the Other reserves in statutory financial statements.
5. The amount of statutory and other capital reserves (HRK 23,992 thousand) from the Statutory and other capital reserves of the CNB reporting has been reclassified to the Other reserves of the statutory financial statements in the amount of HRK 2,557 thousand and to the position Premium for issued shares in the amount HRK 21,435 thousand.
6. The amount of unrealized gain (loss) (HRK 1,711 thousand) on the basis of value adjustments of available-for-sale financial assets in CNB reporting has been reclassified to the fair value reserve position of the statutory financial statements.

Comparison of P&L account

Profit and loss account – Statutary financial statements		Interest income	Interest expense	Fee anc commision income	Fee anc commision expense	Gains/losses from activities related to available for sale financial	Gains/(losses) from foreign exchange differences	Other income	Employee costs	Depereciation	General and administrative costs	Provisions for liabilities and chages	Profit/loss	Number
Profit and loss account I-XII 2016 in HRK 000		**75,302**	**(40,177)**	**7,161**	**(2,386)**	**4,344**	**3,355**	**3,409**	**(23,109)**	**(4,813)**	**(21,067)**	**(88,588)**	**(86,568)**	
Interest income	75,277	(75,277)											-	
Interest expense	(43,367)		39,296								3,190		(881)	1
Net interest income	**31,910**												-	
Fee and commission income	7,514			(7,514)									-	
Fee and commission expense	(3,267)		881		2,386								-	2
Net fee and commission income	**4,247**												-	
Profit/loss from investments in subsidiaries, associates and joint ventures	-												-	
Profit/loss from trading	2,890						(2,890)						-	3
Profit/loss from embedded derivatives	-												-	
Profit/loss from asset not actively traded measured at fair value through profit or loss	-												-	
Profit/loss from asset available for sale	4,345					(4,345)							-	
Profit/loss from asset held to maturity	-												-	
Profit/loss from hedging	-												-	
Income from investments in subsidiaries, associates and joint ventures	-												-	
Income from other ownership investments	-												-	
Profit/loss from foreign currency differences	465						(465)						-	4
Other income	3,409							(3,409)					-	
Other expenses	(2,946)										2,946		-	5
General administrative expenses and depreciation	(63,971)								23,109	4,813	14,838	21,211	-	6
Net income from business before value adjustment and loan loss provisions	**(19,651)**	–	–	–	–	–	–	–	–	–	–	–	–	
Expense of value adjustment and loan loss provisions	(66,917)	(25)		353							93	67,377	881	
PROFIT/LOSS BEFORE TAX	**(86,568)**												**(86,568)**	
INCOME TAX EXPENSE	-												-	
PROFIT/LOSS OF THE CURRENT YEAR	**(86,568)**												**(86,568)**	
Earnings per share													-	
Difference		-	-	-	-	-	-	-	-	-	-	-	-	

Explanations for adjustments of the Profit and Loss Account for CNB reporting and the Statutary Financial Statements

1. The amount of the cost of deposit insurance (HRK 3,190 thousand) is reclassified from Interest expense in CNB reporting to General and administrative expenses of the statutary financial statements.

2. The amount of the cost of intermediation in the sale of the deposit (HRK 881 thousand) from the position Fee and commission expense of CNB reporting has been reclassified to the Interest expense and similar charges of the statutary financial statements.

3. The amount of profit from trading activities (HRK 2,890 thousand) from position profit/loss from trading activities from CNB reporting has been reclassified to position Gains less losses from foreign exchange differences of statutary financial statements.

4. Foreign exchange gains/losses (HRK 465 thousand) from position The gain/loss on the accrued exchange rate differences in the CNB reporting has been reclassified to the Gains less losses on exchange rate differences in statutary financial statements.

5. Other operating expenses (HRK 2,946 thousand) from Other expenses in CNB reporting were reclassified to General and administrative expenses of the statutary financial statements.

6. The depreciation amount (HRK 4,813 thousand) from the General and administrative expenses and depreciation of CNB reporting has been reclassified to the Amortization of the statutary financial statements. Employee expenses (HRK 23,109 thousand) from the General and administrative expenses and depreciation from the CNB reporting have been reclassified to Employee costs in statutary financial statements. Amounts of provisions for liabilities and charges and identified losses (HRK 21,201 thousand) from General and administrative expenses and depreciation of CNB reporting have been reclassified to Provisions for liabilities and charges and identified losses in statutary financial reports.

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Comparison of cash flow statement

Differences in Cash and cash equivalents arise from different classification of items of statement of financial position for statutory reporting and CNB reporting as well as elimination of non-cash transactions from movements for statutory financial reporting purposes.

Announcements pursuant to Article 164 of the Law on Credit Institutions

1) J&T banka d.d. is registered for the following activites:

- Accepting deposits or other repayable funds from people and approving credits from those funds, for own account,
- accepting deposits and other repayable funds,
- approval of loans and credits, including consumer credits and loans, and mortgage credits and loans, if it is allowed by a special law, and financing commercial activities, including export financing based on discount repurchase and without reimbursement of long-term unmatured claims ensured by financial instruments (forfeiting);
- purchase of receivables with or without recourse (favtoring),
- financial lease,
- issuing guarantees and other warrants,
- trading for own account or for the client's account:
    - money market instruments,
    - transferable securities,
    - foreign currencies, including exchange transactions,
    - financial futures and options,
    - currency and interest rate instruments,
- payment services in line with special laws;
- services related to crediting, e.g. collection of data, conducting analyses and providing information on creditworthiness of legal and natural persons who conduct business activities on their own;
- issuing other payment instruments and managing them, in line with a special law, unless provision of these services is not considered provision of payment services in line with special laws;
- renting safe boxes;
- mediation in money market transactions;
- investments and other services and activities in accordance with separate laws regulating capital markets, as follows:
    - trading for own account,
    - bidding or sale of financial instruments without a firm commitment to repurchase,
    - safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash or collateral management,
- carrying out activities related to sale of insurance policies in line with regulations on insurance.

As at 31 December 2016, the Bank operates through 2 branches (Varaždin, Zagreb).

The Bank mainly carries out its business activities in the territory of the Republic of Croatia while only a small part of its business is carried out with non-residents.

2) The total revenue of the Bank for 2016 amounted to HRK 93,571 thousand.
3) The Bank employs 116 full-time employees.
4) Net loss in 2016 amounted to HRK 86,568 thousand and the Bank did not have any obligation to pay tax on profit.
5) The bank have not received public subsidies during 2016.