J&T banka d.d.

Annual report for the year 2017

J&T banka d.d.
J&T Finance Group
T: + 385 42 659 400
F: + 385 42 659 401
www.jtbanka.hr
E-mail: banka@jt.hr

J&T BANKA

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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 2017 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 2016	EUR 1 = HRK 7.557787	USD 1 = HRK 7.168536
31 December 2017	EUR 1 = HRK 7.513648	USD 1 = HRK 6.269733

Macroeconomic environment and banking sector in the Republic of Croatia in 2017

Changes in global environment

After a relatively weak first quarter, global economic activity accelerated in the second part of 2017. The growth recovery was widespread, in particular among developed countries, accompanied by an additional acceleration in the global trade. Among developed markets, the positive trend in the previous part of the year was particularly pronounced in the euro area where economic activity in the third quarter of 2017 accelerated to 2.5%, which had not been recorded since the outbreak of the global financial crisis. The acceleration of growth of the euro area reflected the diminished political uncertainty in recent months, as well as economic policy incentives primarily focused on the recovery of investments and the strengthening of potential growth. In addition, favourable financing conditions and improved conditions in the labour market continued to boost private consumption.

The growth of the US economy, the world's largest, also recovered in the rest of the year, after a slow-down recorded in the first quarter of 2017. In the third quarter of 2017, growth reached 2.3%, the highest rate in the past two years. It was particularly spurred by the recovery of private sector investments and strong personal consumption.

As for developing and emerging market countries, in the first three quarters of 2017 favourable developments were seen in large Asian markets, notably China, in which economic activity accelerated moderately again. Economic trends were also very favourable among European emerging market economies, in particular in Turkey and Romania, while the Russian market was rebounding successfully. Latin American countries, which were earlier hit by the crisis, also recorded more favourable movements, while exporters of oil were still in the process of adjustment to relatively low prices of raw materials.

Changes in Croatia

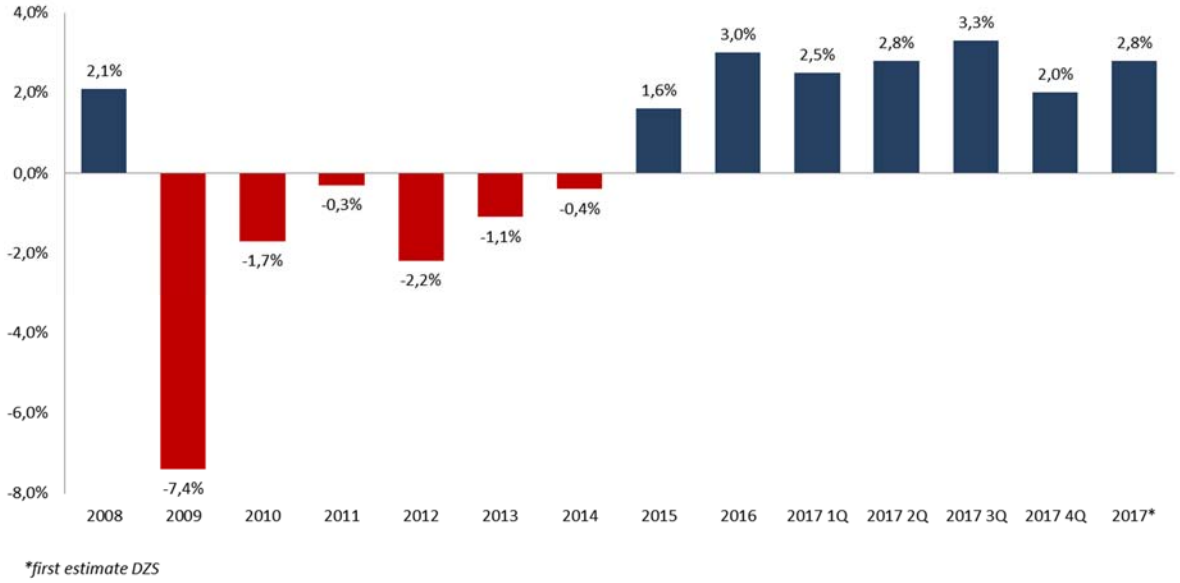
Economic activity

Economic movements continued the positive trends in third quarter 2017, mostly as result of higher export and personal consumption. According to the first estimate from Croatian Bureau of Statistics GDP for 2017 increased by 2.8% comparing to 2016. For fourth quarter 2017 GDP accelerated by 2% comparing to the same period previous year.

For 2018 CNB predicts growth rate of 2.9% with improvements in all segments of GDP. According to the World banks latest global economic outlook, growth of Croatian GDP in 2018 will amount to 2.6%, confirming its updated estimates from October last year.

The unemployment rate might fall to some 10% in 2018. Inflation accelerated in 2017, predominantly as a result of the bigger contribution of the prices of food and energy. In addition to growth of import prices and a mild resurgence of domestic inflationary pressures, given that the cyclical position of the domestic economy is about to change, inflation is expected to accelerate further in 2018. However, the rate of inflation could remain low, below the long-term average. General government deficit and debt might continue to decline in 2018, according to MoF projections. Monetary policy will continue to aid economic growth by remaining expansionary, supporting the high liquidity in the monetary system and maintaining the stability of the HRK against the EUR.

Graph 1: GDP growth rate

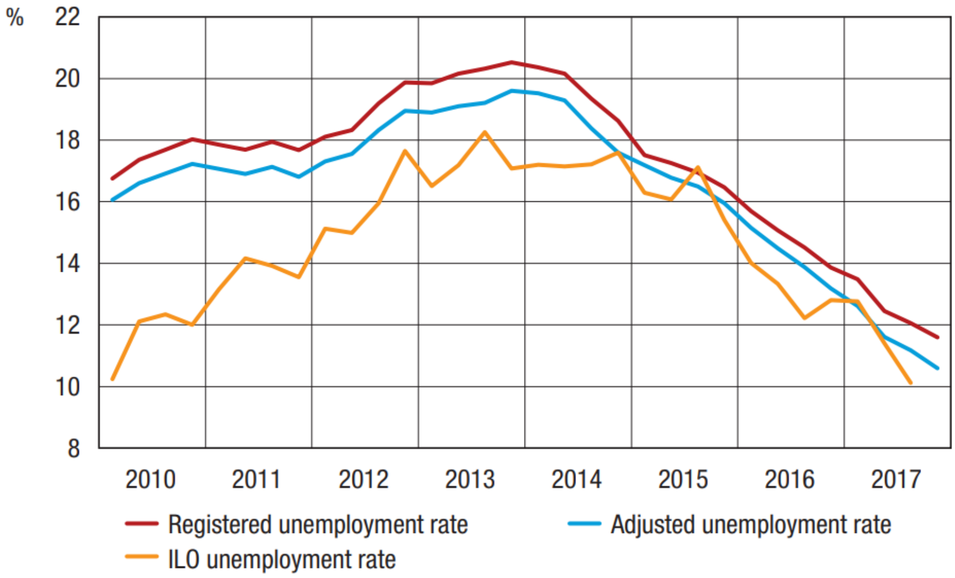


Source: CNB, HGK

Labor market

The end of 2017 was marked by the continuation of favourable developments in the labour market. The total number of employed persons in the fourth quarter grew noticeably from the average of the preceding quarter, primarily due to the increase in their number in the private sector. At the same time, unemployment continued to decrease, driven by new employment and the clearings from records for other reasons (non-compliance with legal provisions, registration cancellation and failure to report regularly). Consequently, the registered unemployment rate (according to seasonally adjusted data) fell to 11.4% in December. According to the latest available data from the Labor Force Survey for the third quarter of 2017, the unemployment rate dropped to 10.1%, down from 11.4% in the second quarter. In the last quarter of 2017, average nominal gross and net wages picked up noticeably, primarily driven by the rise in the wages in the public sector and industry. Real wage growth was weaker due to the simultaneous increase in consumer prices.

Graph 2: Registered and ILO unemployment rates

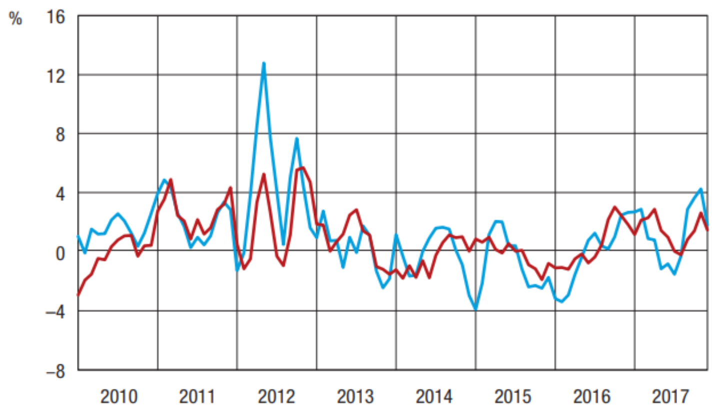


Source: HZZ, EUROSTAT

Inflation

Consumer prices fell by 0.3% in December from November. The most significant contribution came from the seasonal decrease in the prices of clothing and footwear. In addition, the prices of processed food (dairy products, oil and fats) dropped significantly. The consumer price decrease in December was partially offset by the increase in the prices of tobacco (due to the rise in excises), vegetables and fuels and lubricants for personal transport equipment (caused by the increase in the price of crude oil on the global market). Raising crude oil prices was the result of favourable global economic trends, OPEC and Russia's agreement on further restraint on production and political turmoil in the Middle East. The annual overall CPI inflation rate went down from 1.4% in November to 1.2% in December. In the last two months of 2017, the annual growth in prices of unprocessed and processed food products slowed down, while the annual growth in prices of other main components of the consumer price index accelerated. Fundamental inflation is stable and remained at the level of 1.4% in November and December, as it was in the previous three months.

Graph 3: Consumer price index and core inflation



Source: DZS, CNB calculations

Personal consumption

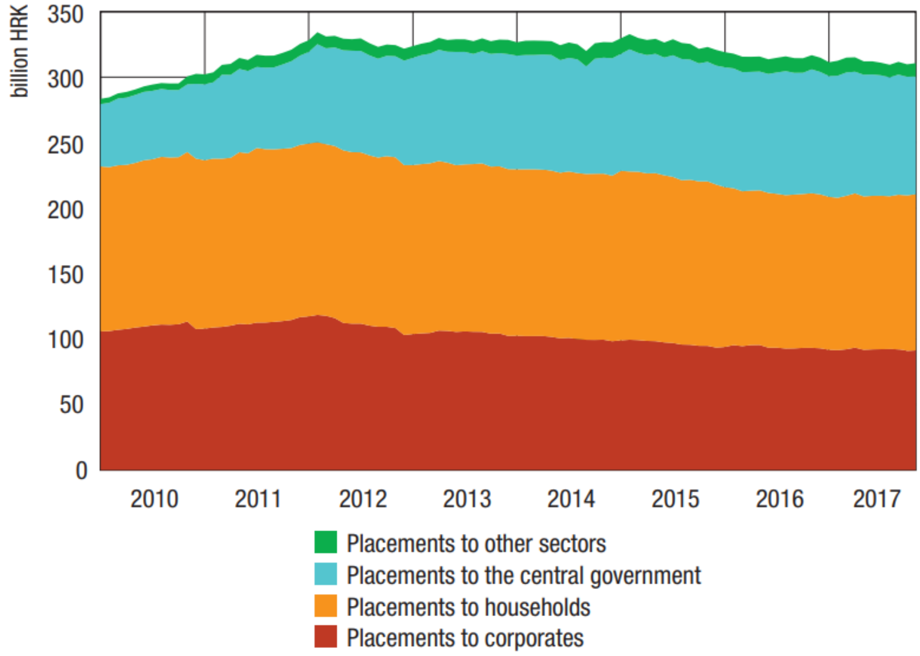
During the 2017 personal consumption continued growth trends from 2015. Personal consumption of households in third quarter increased by 0.9%. Favorable trends are the result of continued growth in employment and real net wages, and wage increases have been recorded both in the private and public sectors. Besides that, personal consumption in the third quarter recovered fast from issues with Agrokor which started in April. Annually, personal consumption inclined by 3.7% and, after total exports, made the most positive contribution to real GDP growth.

Terms of financing and banking sector

Influenced by the expansionary monetary policy of the ECB and high euro area banking system liquidity, short-term interest rates on the European money market remained in negative territory until the end of 2017. The overnight interest rate on the euro area banking market, EONIA, ended the month of December at –0.35%, and the six-month EURIBOR at –0.27%. The risk premium of European emerging market countries did not change significantly over the last three months; however, compared with the level recorded at the beginning of the year, the risk premium for Croatia saw the most substantial decrease (of 124 basis points). Standing at 96 basis points at the end of the December, the risk premium for Croatia was almost the same as the risk premiums for Bulgaria and Romania. The liquidity of the domestic financial system aided by the CNB's expansionary monetary policy remained high during the last two months of 2017 as well. A total of HRK 6.1bn was generated by the purchase of foreign exchange from banks in November and, particularly, December, contributing to the all-time high average surplus HRK liquidity of HRK 19.1bn in December. As a result of high liquidity, no significant turnover was recorded on the domestic interbank overnight market, and the average interest rate stood at 0.10%. At the same time, the interest rate on one-year HRK T-bills without a currency clause fell to its all-time low of 0.20% in December.

Interest rates on newly approved loans to non-financial corporations and households declined during the end of 2017. In corporate loans, interest rates on HRK loans for working capital with a currency clause granted for the first time saw the most substantial decline, while in household loans, interest rates on renegotiated housing loans in domestic currency decreased the most, along with the interest rates on consumer loans in HRK granted for the first time. Interest rates on time deposits increased in October and November, most notably on those of non-financial corporations, due to the change in the structure of time deposits. As a result of the trends described above, the spread between interest rates between borrowings and deposits in November decreased to 5.58 percentage points on new loans and deposits and to 4.82 percentage points on loans and deposits.

Graph 4: Structure of credit institution placement

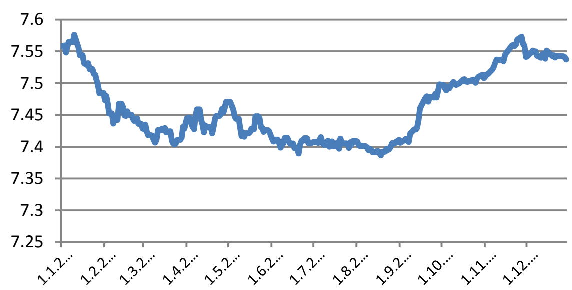


Source: CNB Bulletin

Monetary policy

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

Graph 5: Average FX rate EUR/HRK in 2017



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 2017, the Bank operates through 2 branches (Varaždin, Zagreb).

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 organization 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 2017 were 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. Total share capital amounts to 307,085,400.00 HRK, and the ownership share of J&T Bank a.s. Prague 82.55%.

In 2017 Bank generated HRK 60.8 million of interest income, while interest expenses amounted to HRK 20.6 million. Net interest income amounted to HRK 40.2 million which is an increase compared to 2016 by HRK 6.9 million.

Net fee and commission income in 2017 amounted to HRK 5.3 million which is an increase compared to 2016 by HRK 0.5 million.

Administrative costs and depreciation amounted to HRK 22.2 million, HRK 5.7 million lower compared with the previous year.

Impairment losses of loans to customers of the Bank records value adjustments in the net amount of HRK 51.9 million, while last year amounted to HRK 8.6 million. Impairment in the amount of HRK 0.6 million was recognized against repossessed assets during 2017. Realized losses after impairment amounts to HRK 29.1 million (same period last year, the loss amounted to HRK 12.9 million).

The most significant share of the funding structure of the Bank comprise term deposits of the Bank and they amounted to HRK 807.8 million at 31.12.2017 and comprise 63.4% of total sources of funding, while the share capital and reserves of the Bank as at 31.12.2017 amounts to HRK 138 million and comprise 10.8% of total sources of funding.

As at 31.12.2017 the Bank's total assets amounted to HRK 1,274.5 million (HRK 1,530.9 million at 31.12.2016).

Retail sector

In 2017 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.

In line with the strategic turnaround, the Bank gradually abandoned retail loans in 2017 and completely stopped providing consumer loans, following changes in the relevant regulatory and (sub) legal framework, which substantially changed the terms and approval processes (residential) of consumer loans. Following the before mentioned loan portfolio of the retail in 2017, it decreased by HRK 35 million or 24%.

In addition, due to the non-profitability of the corporate segment, the Bank has ceased to provide the following services in card business with citizens: the approval and use of MC credit cards and the purchase of pre-paid GSM at Bank ATMs.

The average interest rate on retail deposits fell by 1.11% in 2017, as a result of a continued decline in interest rates on retail term deposits with a goal to aligning with market trends, i.e. the reference parameter - the benchmark reference interest rate on retail deposits, which in accordance with the Bank's Principles for Determining Interest Rates for Retail Deposits and Changes in Fees for Services, is used as a reference parameter for the change of passive interest rates in business with retail. As a result, the volume of deposits was reduced by HRK 297 million or 27%.

Interest rates on existing loans to retail, arranged at variable interest rates, decreased in 2017 in line with the NRS (National Reference Rate - 6M NRS1), all in accordance with the Bank's Principles for Determining Variable Interest Rates on Retail Loans. The value of 6M NRS1 decreased by 0.35 pp for loans granted in HRK or 0.51 pp for loans granted in EUR.

Corporate sector

The year 2017 was marked by the decline in the portfolio of the Corporate Division due to the Bank's strategy change. Customers who are not part of the new Bank strategy have mostly found financing in other banks, while part of the client repaid loans under contractual maturities.

Part of the portfolio was replaced by new placements, but insufficiently for overall portfolio growth compared to the previous year. With the goal of increasing placements and achieving the planned portfolio level, more placements are being prepared with significant amount. In the biggest part, due to regulatory restrictions, other members of the J&T Group will be included in the financing of new placements. Consequently, in 2018 it is to expect higher growth of interest income and higher fees in commissions from services for syndicated loans.

The growth strategy of the portfolio in the Department of Business Banking continues in the planned volume, and the first results are expected in the first quarter of 2018.

Treasury activities

Trends in Croatian money markets continued in 2017. The country GDP after growth in 2016, continued to grow in 2017. Monetary policy of Croatian central bank with incentive of negative inflation rates, stayed expansive. Central bank continued to increase HRK liquidity announcing the structural and regular repo auction showing that it will support credit activity in domestic currency. When we add this to the extremely expansive ECB policy, it is clear that throughout the whole year there was a strong impact on further interest rate decrease both in the Eurozone and in Croatia.

Liquidity in Croatian and Eurozone banking system stayed elevated in 2017 which led to decrease of all benchmark interest rates, although lower than in 2016. For example 6 month EURIBOR rate fell from -0.220% at the beginning of the year all the way to negative -0.271% at the year end. Slow decreasing trend in banking financing costs also continued in HRK and other currencies as well so the Croatian banking association 12-month national benchmark banking sector average financing rate (NRS) for Kuna and Euro fell in third quarter to 0.71% and 1.07% for EUR respectively.

Although spread between Croatian and benchmark German bonds grew a bit, widespread reduction in European yields led to further decline in Croatian sovereign bond yield, the yield of the longest domestic government bond with a euro currency clause, with a considerable volatility over the year, ended at about 1.7%, while HRK bonds issued by the Republic of Croatia recorded a lower decline in yields, and the yield of the longest HRK bond was completed to about 2.8%.

In 2017 the trend of the decreasing exchange rate of the euro against the HRK continued. After a streak of yearly drop in value of HRK against the common European currency, in last two years there has been a slight increase. In 2017 the average annual rate was about 7.453 which is lower than 2016 when it was about 7.53.

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 2017 the Bank had HRK 5.6 million of securities trading income, and in 2016 this income was HRK 4.3 million. FX gains amounted to HRK 2.3 million in 2017, a HRK 1 million less than in 2016, due to lower volume on FX Market.

Employees and organizational structure

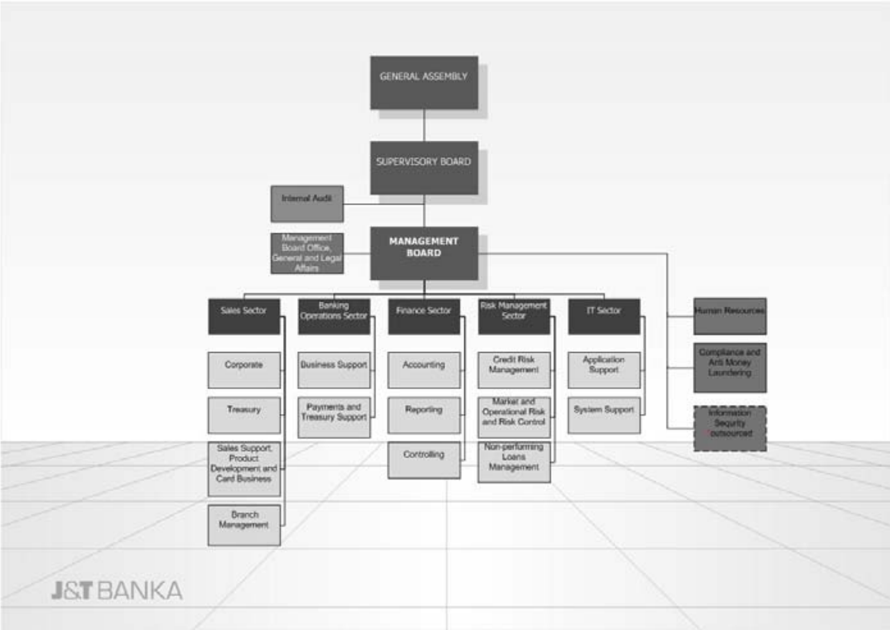
Bank's business took place during the year 2017 in Bank's headquarters at the in Varaždin, branch in Zagreb and offices in Zagreb.

Due to business rationalization which started in 2016 and continued in 2017 the Bank had to adjust organizational structure with organizational needs and Bank’s strategy. During 2017 following organizational changes were made:

- externalization of IT security
- Retail, Marketing and Card Business Department has been separated in two parts, Branch management department and Sales support, Product development and Card business. Branch management is responsible for direct communication with retail clients while Sales support, Product development and Card business does all back-office jobs for retail and corporate.

On December 31 2017 Bank employed 92 employees (116 employees, December 31 2016). Although the number of employees is decreasing, and due to organizational changes, the Bank continues to invest in additional employee training and specialization, due to training and easier adaptation to new legal regulations.

Organizational scheme



IT development

Most activities in application development during 2017 were focused on adaptation of OLBIS system (especially Internet banking) 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 2017 several significant modules were implemented or processed:

- EKS - a new method of calculation
- Changes of visual identity in applications and reports due to change of name of the Bank, and finishing program authority due to organizational changes in the Bank
- Internet banking corporate – upgrade and redesign
- The new methodology for calculating the risk and implementation of IFRS 9
- FATCA and CRS reports
- Analysis and preparation for GDPR project

In regulatory reporting segment the CNB reports have been updated (COREP, FINREP, SPP, AH, VR). In the segment of reporting the owner, ALMM reports to the J&T methodology were updated.

In infrastructural segment, the most significant was the upgrade of server operating systems and system support in the area of information security. Replacement of complete client infrastructure (obsolete personal computers) was completed, and inventory and disposal of written-off and defective equipment was conducted.

In the second half of the year the central backup system was replaced, attestation for the Swift CSP program was performed, and the rest of activities was focused on the support of organizational changes (physical relocation of employees in a central location).

In organizational segment, the biggest emphasis was on the process of modifying and revising all internal documents in the IT Sector and Information Security department, regarding organizational changes and changing the name of the Bank.

In the middle of the year, the head of the Information Security Department left the Bank and this function was outsourced, and some of the work (especially in the domain of documentation) was taken over by the IT Sector.

Regarding investments, replacing of the central firewall has been postponed to 2018.

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 programs.

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 16.5 million. The Bank uses software in its business, and it is transferred to use according to the stage of completion.

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 76,861 treasury shares as at 31 December 2017.

Subsidiaries information

The Bank has no subsidiaries.

Development plan

The Bank is still planning to substitute a significant part of the funding source, i.e. retail deposits will be replaced by a funding line approved by the parent company. By substituting part of the retail deposits with the parent company's credit line will significantly reduce the Bank's expenses in terms of financing business activity, as the short-term financing price is agreed with the parent company, which is considerably lower than the current price of the Bank's deposits (interest rate + deposit insurance costs) which also enables the Bank to finance clients at lower interest rates.

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 clients from other European countries (with limited exposure to non-EU countries).

In its future business, the Bank will be primarily focused on financing corporate clients. Financing will be oriented to proven expansive and export-oriented activities, but with funding other activities as well if the client meets the conditions set by the Bank. The Bank takes a gradual exit strategy regarding its retail and SME clients. As a rule, new risk products will not be approved to such customers, and existing exposure to them will be reduced through structuring mid-term repayments.

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 utilization. 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 utilization 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 organizational model of the operational risk management process is conceived at the level of centralized and decentralized 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 harmonize 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 2017.

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

J&T BANKA d.d.

3

Ivica Božan, President of the Management Board

Hrvoje Draksler, Member of the Management Board

Petar Rajković, Member of the Management Board

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 fair view, in all significant aspects, 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 responsible for the submission to the Supervisory Board of its 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 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 credit institutions (Official Gazette 30/17 and 44/17).

The financial statements set out on pages 22 to 95 as well as supplementary schedules for the Croatian National Bank, set out on pages 96 to 102, and reconciliation, set out on pages 103 to 112, were authorised by the Management Board on 26 April 2018 for issue to the Supervisory Board and are signed below to signify this.

The Management Board is also responsible for the preparation and content of management report as required by the Croatian Accounting Law, and for other information comprises of the Introduction, the Macroeconomic environment and banking sector in the Republic of Croatia in 2017 and Announcements pursuant to Article 164 of the Law on Credit Institutions set out on pages 2 to 5 and 113 and the Management report presented on pages 6 to 14 were approved by the Management Board on 26 April 2018 and are signed below.

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

J&T BANKA d.d.
3

Ivica Božan, President of the Management Board

Hrvoje Draksler, Member of the Management Board

Petar Rajković, Member of the Management Board

This version of the financial statements is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all maters of interpretation of information, views or opinions, the original language version of the audit report takes precedence over this translation.

Independent Auditors' report to the shareholders of J&T banka d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of J&T banka d.d. ("the Bank"), which comprise the statement of financial position of the Bank as at 31 December 2017, and the statements of comprehensive income, cash flows and changes in equity of the Bank for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for credit institutions in Croatia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. 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 opinion.

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.

This version of the Auditors' Report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all maters of interpretation of information, views or opinions, the original language version of the audit report takes precedence over this translation.

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters (continued)

Impairment of loans and advances to customers

As at 31 December 2017, gross loans and advances to customers amount to HRK 843 million, impairment allowance amounts to HRK 196 million and impairment loss recognised in the income statement amounts to HRK 52 million (31 December 2016: gross loans and advances to customers: HRK 1,013 million (restated), impairment allowance: HRK 201 million (restated) and impairment loss recognised in the income statement for the year then ended: HRK 9 million (restated)).

Refer to page 30 (Significant accounting policies), page 67 (Significant accounting estimates and judgements), page 43 (credit risk section) and page 72 (note 11 Loans and advances to customers).

Key audit matter	How our audit addressed the matter
Impairment allowances on loans and advances to customers represent the Management Board's best estimate of the credit 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 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 certain level of subjectivity and reliance on a number of significant assumptions, including those in respect of the probable sale proceeds from the related collateral and minimum period for collateral disposal. These are based on the Bank's own historical experience, also considering specific guidance of the Croatian National Bank (CNB) regarding minimum haircuts to be applied on the estimated value of collateral. Individually non-significant exposures are assessed collectively for impairment. The collective provisioning model is using predefined loss rates based on the days in arrears which follows the minimum loss rates prescribed by the CNB. For assets not specifically identified as impaired (including sovereign risk) the Bank recognises the provision at the rates prescribed by the CNB (general allowance).	Our audit procedures in this area included, among others: • Testing of the design and operating effectiveness of the controls over the Bank's determination of loss events and the estimation of impairment allowances 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, based on their magnitude and risk criteria, 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, experience 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.

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters (continued)

Going concern basis of accounting

Refer to page 29 (Basis of preparation).

Key audit matter	How our audit addressed the matter
The Bank's financial statements are prepared on a going concern basis. In 2017, the Bank reported a net loss in the amount of HRK 29,073 thousand (2016: net loss of HRK 12.871 thousand (restated)), and as at 31 December 2017 had accumulated losses of HRK 197,235 thousand (31 December 2016: accumulated losses of HRK 168,162 thousand (restated)). Due to the magnitude of the losses reported, 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 Tier 1 adequacy ratio as at 31 December 2017 amounted to 13.91%. Although the ratio is above the CNB's minimum prescribed 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. The preparation of these forecasts and projections incorporated a number of complex assumptions and required the Management Board to apply 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. The above, in the Management Board's view, supports the assertion that the Bank will have sufficient resources and adequate capital to continue as a going concern for a period of at least 12 months from the reporting date. The Management Board 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 Board. 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 audit procedures in this area 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 Bank's liquidity and capital situation and whether the plans are feasible in the circumstances; • analysing the Bank's capital adequacy position (in particular, the minimum capital requirement), inquiring of the Management Board regarding their expectations on the continuation of the financial support from the parent company, as well as their alternative plans for future actions in relation to the going concern assessment; • comparing the Bank's profit and loss forecast for the current year to the current year's outcomes to assess the quality of the Management Board'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 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 - capital adequacy position. • 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 inspecting 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.

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Report on the Audit of the Financial Statements *(continued)*

Other Information

Management is responsible for the other information. The other information comprises of the Introduction, the Macroeconomic environment and banking sector in the Republic of Croatia in 2017, the Management Report and Announcements pursuant to Article 164 of the Law on Credit Institutions included in the Annual Report of the Bank, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act.

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

- the information given in the Management Report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report have been prepared, in all material respects, in accordance with the requirements of Article 21 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Introduction, the Macroeconomic environment and banking sector in the Republic of Croatia in 2017, the Management Report and Announcements pursuant to Article 164 of the Law on Credit Institutions. We have nothing to report in this respect.

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

Management is responsible for the preparation of the financial statements which are presented fairly, in all material respects 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 the 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

Independent Auditors' report to the shareholders of J&T banka d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

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 International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

Independent Auditors' report to the shareholders of J&T banka d.d. *(continued)*

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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 controls that we identify during our audit.

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 (Official Gazette 30/17 and 44/17), the Management Board of the Bank has prepared the schedules set out on pages 96 to 102 ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2017, and of the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the financial statements set out on pages 103 to 112. 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 set out on pages 22 to 95 on which we have expressed an opinion as set out above.

We were appointed by those charged with governance on 14 June 2017 to audit the financial statements of J&T banka d.d. for the year ended 31 December 2017. Our total uninterrupted period of engagement is 2 years, covering the periods ending 31 December 2016 to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 23 April 2018;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

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

26 April 2018

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 2017

[HRK'000]	Notes	1 January 2016 Restated*	31 December 2016 Restated*	31 December 2017
ASSETS				
Amounts with the Croatian National Bank	6	174,237	175,421	168,257
Cash and accounts with banks	7	262,906	184,849	141,712
Placements with other banks	8	1,099	478	476
Financial assets available for sale	9	130,430	253,981	265,979
Held-to-maturity financial assets	10	119,933	15,190	-
Loans and advances to customers	11	812,488	805,813	642,728
Property and equipment	12	17,335	18,565	17,387
Intangible assets	13	16,664	14,756	13,523
Other assets	14	40,408	61,896	24,462
TOTAL ASSETS		**1,575,500**	**1,530,949**	**1,274,524**
LIABILITIES				
Deposits from customers	15	1,385,184	1,240,172	939,618
Borrowings	16	54,919	61,952	143,286
Subordinated debt	17	22,905	47,133	47,021
Provisions for liabilities and charges	18	1,281	1,601	832
Other liabilities	19	8,161	13,505	4,981
Deferred tax liability	30 c)	-	725	720
TOTAL LIABILITIES		**1,472,450**	**1,365,088**	**1,136,458**
EQUITY				
Share capital	20.1	231,085	307,085	307,085
Share premium	20.2	21,435	21,435	21,435
Treasury shares	20.4	-	-	(287)
Other reserves	20.3	3,787	3,792	3,792
Fair value reserve	20.5	2,034	1,711	3,276
Accumulated loss	20.6	(155,291)	(168,162)	(197,235)
TOTAL EQUITY		**103,050**	**165,861**	**138,066**
TOTAL LIABILITIES AND EQUITY		**1,575,500**	**1,530,949**	**1,274,524**

**Please see Note 39.*

The significant accounting policies and other notes on pages 27 to 95 form an integral part of these financial statements.

Income statement for 2017

[HRK'000]	Notes	2016 Restated*	2017
Interest and similar income	21	73,492	60,805
Interest and similar charges	22	(40,177)	(20,624)
Net interest income		**33,315**	**40,181**
Fee and commission income	23	7,161	7,038
Fee and commission expense	24	(2,386)	(1,773)
Net fee and commission income		**4,775**	**5,265**
Net realised gains from financial assets available for sale	25	4,345	5,600
Net foreign exchange gains	26	3,355	2,309
Other income	27	3,409	10,081
Trading and other income		**11,109**	**17,990**
Personnel expenses	28a	(23,109)	(18,619)
Depreciation, amortisation and impairment of goodwill	12, 13	(4,813)	(3,558)
Other administrative expenses	28b	(21,067)	(18,082)
Impairment losses and provisions	29	(13,081)	(52,250)
LOSS BEFORE TAX		**(12,871)**	**(29,073)**
Income tax expense	30	-	-
LOSS FOR THE YEAR		**(12,871)**	**(29,073)**
LOSS PER SHARE (in HRK)	**31**	**(0.49)**	**(0.95)**

**Please see Note 39.*

The significant accounting policies and other notes on pages 27 to 95 form an integral part of these financial statements.

Statement of comprehensive income for 2017

[HRK'000]	2016 Restated*	2017
Loss for the year	**(12,871)**	**(29,073)**
Unrealized gains on financial assets available-for-sale, net of realization	402	1,560
Deferred tax on financial assets available for sale	(725)	5
Other comprehensive income / (loss) net of tax	**(323)**	**1,565**
TOTAL COMPREHENSIVE LOSS	**(13,194)**	**(27,508)**

**Please see Note 39.*

The significant accounting policies and other notes on pages 27 to 95 form an integral part of these financial statements.

Statement of changes in equity for 2017

[HRK'000]	Notes	Share capital	Share Premium	Treasury shares	Other reserves	Fair value reserve	Accumulated loss	Total
Balance at 1 January 2016, as previously reported		**231,085**	**21,435**	**-**	**3,787**	**2,034**	**(155,291)**	**103,050**
Restatement due to correction of error	39	-	-	-	-	-	-	-
Restated balance at 1 January 2016		**231,085**	**21,435**	**-**	**3,787**	**2,034**	**(155,291)**	**103,050**
Loss for the year, restated		-	-	-	-	-	(12,871)	(12,871)
Change in fair value on financial assets available for sale, net of realized amounts and deferred tax		-	-	-	-	(323)	-	(323)
Total comprehensive loss, restated		-	-	-	-	**(323)**	**(12,871)**	**(13,194)**
Transactions with owners, recorded directly in equity								
Increase in share capital	20.1	76,000	-	-	-	-	-	76,000
Other movements		-	-	-	5	-	-	5
Balance at 31 December 2016, restated		**307,085**	**21,435**	**-**	**3,792**	**1,711**	**(168,162)**	**165,861**
Balance at 31 December 2017		**307,085**	**21,435**	**-**	**3,792**	**1,711**	**(168,162)**	**165,861**
Loss for the year		-	-	-	-	-	(29,073)	(29,073)
Change in the fair value on available-for-sale financial assets, net of realized amounts and deferred tax		-	-	-	-	1,565	-	1,565
Total comprehensive loss		-	-	-	-	**1,565**	**(29,073)**	**(27,508)**
Transactions with owners, recorded directly in equity								
Purchase of share capital	20.1	-	-	(287)	-	-	-	(287)
Other movements	20.5	-	-	-	-	-	-	-
Balance at 31 December 2017		**307,085**	**21,435**	**(287)**	**3,792**	**3,276**	**(197,235)**	**138,066**

The significant accounting policies and other notes on pages 27 to 95 form an integral part of these financial statements.

Statement of cash flows for 2017

[HRK'000]	Notes	2016 Restated*	2017
Cash flow from operating activities			
Loss before tax		(12,871)	(29,073)
Adjustments:			
- Depreciation, amortization of and impairment of goodwill	12, 13	4,813	3,558
- Impairment losses and provisions	29	13,081	52,250
- Net interest income		(33,315)	(40,181)
- Realised gains less losses from securities available for sale	25	(4,345)	(5,600)
		(32,637)	**(19,046)**
Changes in operating assets and liabilities			
Net increase in loans and advances to customers		(6,652)	109,464
Net decrease in placements with other banks		621	2
Net (increase)/decrease in obligatory reserves		15,295	14,047
Net increase in other assets		(27,959)	37,435
Net increase /(decrease) in deposits from customers		(142,327)	(294,400)
Increase in other liabilities and provisions		5,343	(9,847)
Movements in operating assets and liabilities		**(155,679)**	**(143,299)**
Interest received		77,209	60,814
Interest paid		(42,598)	(26,266)
Net cash outflow from operating activities		**(153,705)**	**(127,797)**
Purchase of/(receipts from) investment funds		(34,499)	11,878
Purchased of debt securities		(92,542)	(238,280)
Proceeds from debt securities		9,223	222,554
Net Income of/redemption of held-to-maturity financial investments		105,703	15,339
Acquisition of property and equipment and intangible assets		(2,755)	(1,147)
Net cash outflow from investing activities		**(14,870)**	**10,344**
Receipts from borrowings		31,481	298,829
Repayment of borrowings		(24,671)	(217,184)
Proceeds from issue of share capital		76,000	-
Increase / (decrease) in subordinated debt		24,187	(159)
Acquisition of own shares		-	(287)
Net cash inflow from financing activities		**106,997**	**81,199**
Net increase/(decrease) in cash and cash equivalents		(61,578)	(36,254)
Cash and cash equivalents at the beginning of the year		327,614	266,036
Cash and cash equivalents at the end of the year	33	**266,036**	**229,782**

**Please see Note 39.*

The significant accounting policies and other notes on pages 27 to 95 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.

The Czech bank J&T a.s. recapitalised the bank with HRK 75 million in June 2014, 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 231.1 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 January 2017 the Bank started operating under the name J&T banka d.d.

These financial statements were approved by the Board on 26 April 2018 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 summarized 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 2017.

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:

- The CNB requires banks to recognize 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 provisions on balance and off-balance sheet exposures in the amount of 7.9 million (2016: HRK 10.6 million) and recognized the reversal of provisions in the amount of 2.7 million, in the income statement (2016: reversal of provisions in the income statement of 2.6 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 recognized on a cash basis, as opposed to IAS 39, which prescribes recognition of interest income on impaired exposures through unwinding 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 recognizes 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, in accordance with International Financial Reporting Standards, the CNB requires that the depreciation of the calculated discount be presented in the income statement as a change in impairment losses on loans and advances instead of interest income as prescribed by the International Financial Standards.
- The CNB prescribes some specific requirements for impairment of loans and receivables such as: prescribed minimum hair-cuts and minimum realization 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 recognized in accordance with 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 amortized 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 recognized 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 2017 they were as follows: EUR 1 = HRK 7.514 (2016: EUR 1 = HRK 7.558) and USD 1 = HRK 6.270 (2016: USD 1 = HRK 7.168).

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 2017, the Bank realized a loss of HRK 29 million (31 December 2016: loss of HRK 13 million) and as at 31 December 2017 it had accumulated losses of HRK 197 million (31 December 2017: HRK 168 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 2017 amounts to 13.91% and is above the minimum rate prescribed by the CNB as is total capital adequacy which amounts to 19.13%. 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.

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 by the effective interest rate method. 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) Classification

The Bank classifies its financial instruments into the following categories financial instruments held for trading and financial instruments that were initially recognized by the Management Board at fair value through profit or loss. 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 2017, the Bank had no financial assets and financial liabilities at fair value through profit or loss (2016: 0).

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. 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, which 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 bank 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)

Approach to classification and measurement of financial assets begins by establishing the Bank's business model.

The Bank's business model is determined by the business activities the Bank undertakes with the aim of achieving its business goals. Possible business models are:

<u>Financial assets held for collection</u>

The objective of this model is to hold assets for the payment of contracted cash flows from interest and principal and not the sale of assets before its contractual maturity in order to make fair value changes. Contractual terms of financial assets give, on certain dates, cash flows that are solely payments of principal and interest on the unpaid principal amount.

Sales are not part of the business model, but may be compatible with it in the following cases:
- Sales are insignificant, but frequent
- Sales are unusual though significant
- Sale is close to maturity
- Sales due to increased credit risk.

<u>Financial assets held for collection and sale</u>

The objective of this model is to achieve the payment of contracted cash flows and the sale of financial assets for the purposes of liquidity or profit generation. It is not necessary to monitor the frequency, time and reasons for the sale. Typically, there is a greater incidence and value in relation to the business model for keeping. In this business model Bank dispose debt securities (bonds and treasury bills). In accordance with the irrevocable decision (4.1.4, IFRS 9), the Bank disposes equity instrument in the business model Financial assets held for collection and sale because of the inability to determine market value. Subsequent changes in the fair value of the instrument will be presented by the Bank in other comprehensive income.

<u>Fair value through profit or loss</u>

The assets that the Bank conducts in the said model refers to equity instruments and the portfolio of loans and advances in which it is estimated that the contracted cash flows are not solely payments of principal and interest.

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.
Impairment is based on the expected credit loss model. The expected credit loss model applies to debt instruments (bank deposits, loans, debt securities) measured at amortized cost or at fair value through other comprehensive P/L not measured at fair value through profit or loss.

If, after initial recognition, the credit risk of the financial instrument until the reporting date has not significantly increased, the Bank is required to measure the impairment provisions for that financial instrument in the amount of expected credit losses in the twelve-month period. This refers to assets in risk category A-1.

If, after initial recognition, the credit risk of the financial instrument has increased considerably, the Bank is required to measure impairment provisions in the amount of expected credit losses over the life of the instrument. This refers to assets in risk category A-2.

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)

Total impairment for exposures classified in risk subgroups A-1 and A-2 during the period until 31 December 2018. may not be less than 0,8% of the gross book value except for financial assets measured at fair value through other comprehensive income.

Impairment of individual exposures classified in risk groups B and C is determined as a positive difference between the gross carrying amount of each exposure and the present value of the estimated future borrowers' discounts discounted using the effective interest rate.

Measurement

For the purpose of assessing the expected credit losses, the Bank prescribes processes and control mechanisms for the development and application of the expected loss credit assessment methodology to ensure their integrity and timely inclusion of relevant data.

The probability of non-fulfillment of contractual obligations (PD) provides an estimate of the probability that the borrower will not be able to fulfill his obligations. Assets under the model Financial assets held for collection, referring to loans and advances is divided on corporates and retail. Corporate clients are divided into homogeneous groups by product type. For each product type, a default rate is calculated based on historical data. Adjustment to future developments is carried out in accordance with the credit rating of the Republic of Croatia immediately after the change in the credit rating.

The Bank uses the data available on the Moody's Investor Service (Average One-Year Alphanumeric Rating Migration Rates) website for determining exposure levels (PDs) for exposure to countries or exposures rated by external credit rating agencies. For unsecured exposures from which an external credit rating agency estimates, the Bank uses the basic approach set by the BIS (Bank for International Settlement): 45% LGD (Basel Committee on Banking Supervision Discussion Paper Regulatory Treatment of Accounting Standards, October 2016).

For securities under the FVOCI model, applies primarily to corporate bonds, the Bank uses the internal rating of the ECL calculation for each exposure (ISIN).

For exposures to credit institutions and the HNB classified as A-1 and A-2, the Bank uses a single rate of 0,80% of the gross book value of exposure.

Using the adopted Methodology of Implementation and Application of IFRS 9, impairment charges (effect) are estimated in the amount of:

in 000 HRK	Estimated impact of IFRS 9 01.01.2018.
Deposits with banks	(176)
Securities	1,655
General provision	(160)
Loans and advances (including off-balance sheet items)	7,327
Other assets	(682)
TOTAL	**7,964**

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.

The Bank's effort, whenever possible, is 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 2016 restated	31 December 2017
Amounts with the Croatian National Bank	6	175,421	168,257
Placements with other banks	8	478	476
Gyro accounts with banks	7	168,211	132,316
Financial assets available for sale	9	216,466	240,342
Held-to-maturity financial assets	10	15,190	-
Loans and advances to customers	11	805,813	642,728
Other assets	14	33,130	3,264
Total assets exposed to credit risk		**1,414,709**	**1,187,383**
Guarantees		14,962	8,032
Letters of credit		6,361	-
Credit lines		45,856	11,366
Total off-balance-sheet exposure to credit risk	34	**67,179**	**19,398**
Total credit exposure		**1,481,888**	**1,206,781**

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 (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 2017	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	168,257	-	-	168,257
Placements with other banks	476	-	-	476
Gyro accounts with banks	132,316	-	-	132,316
Financial assets available for sale	240,342	-	-	240,342
Loans and advances to customers	362,959	95,509	184,260	642,728
Other assets	3,264	-	-	3,264
Off-balance-sheet exposures	19,139	-	259	19,398
TOTAL	**926,753**	**95,509**	**184,519**	**1,206,781**

[HRK'000] As at 31 December 2016 restated	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**	**216,606**	**1,481,888**

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 but 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.

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	31.12.2017 Total
Loans to and receivables to customers -retail	23,332	3,212	-	-	-	-	**26,544**
Loans to and receivables to customers - corporate	32,980	35,985	-	-	-	-	**68,965**
Off-balance-sheet exposures	-	-	-	-	-	-	**-**
Total	**56,312**	**39,197**	**-**	**-**	**-**	**-**	**95,509**

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	31.12.2016 restated 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**

The exposure is presented before the effect of mitigation through collateral agreements. Management considers 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)

Individually impaired

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	31.12.2017 Total
Loans to and receivables to customers -retail	6,344	539	312	1,212	2,432	823	1,748	**13,410**
Loans to and receivables to customers - corporate	48,630	8,449	14,773	22,329	15,750	33,931	26,988	**170,850**
Held to maturity financial assets	-	-	-	-	-	-	-	**-**
Off-balance-sheet exposures	-	-	-	-	259	-	-	**259**
Total	**54,974**	**8,988**	**15,085**	**23,541**	**18,441**	**34,754**	**28,736**	**184,519**

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 restated Restated 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**

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]	31.12.2017					
	Gross	Identified losses	Impairment losses on collective basis	Impairment total	Impairment / gross	Net
	1	2	3	4 = 2 + 3	5 = 4 / 1	6 = 1 - 4
ASSETS						
Amounts with the Croatian National Bank	168,257	-	-	-	*0.00%*	168,257
A	168,257	-	-	-	*0.00%*	168,257
Placements with other banks	476	-	-	-	*0.00%*	476
A	476	-	-	-	*0.00%*	476
Current accounts with banks	132,316	-	-	-	*0.00%*	132,316
A	132,316	-	-	-	*0.00%*	132,316
Financial assets available for sale	240,342	-	-	-	*0.00%*	240,342
A	240,342	-	-	-	*0.00%*	240,342
Held-to-maturity financial assets	73	73	-	73	*100.00%*	-
A	-	-	-	-	*0.00%*	-
B	-	-	-	-	*0.00%*	-
C	73	73	-	73	*100.00%*	-
Loans and advances to customers	838,583	188,158	7,697	195,855	23.36%	642,728
A	466,164	-	7,697	7,697	1.65%	458,467
B1	136,694	10,930	-	10,930	8.00%	125,764
B2	99,461	53,750	-	53,750	54.04%	45,711
B3	108,116	95,330	-	95,330	88.17%	12,786
C	28,148	28,148	-	28,148	100.00%	-
Retail	130,719	15,738	1,456	17,194	13.15%	113,525
A	91,700	-	1,456	1,456	1.59%	90,244
B1	21,085	1,458	-	1,458	6.91%	19,627
B2	3,596	1,879	-	1,879	52.25%	1,717
B3	9,192	7,255	-	7,255	78.93%	1,937
C	5,146	5,146	-	5,146	100.00%	-
Corporate	707,864	172,420	6,241	178,661	25.24%	529,203
A	374,464	-	6,241	6,241	1.67%	368,223
B1	115,609	9,472	-	9,472	8.19%	106,137
B2	95,865	51,871	-	51,871	54.11%	43,994
B3	98,924	88,075	-	88,075	89.03%	10,849
C	23,002	23,002	-	23,002	100.00%	-
Other assets	6,709	3,445	-	3,445	51.35%	3,264
A	3,264	-	-	-	0.00%	3,264
B	-	-	-	-	0.00%	-
C	3,445	3,445	-	3,445	100.00%	-
TOTAL	**1,386,756**	**191,677**	**7,697**	**199,373**	**14.38%**	**1,187,383**

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]	31.12.2016 restated					
	Gross	Identified losses	Impairment losses on collective basis	Impairment 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	1,007,007	191,407	9,787	201,194	*19.98%*	805,813
A	599,768	-	9,787	9,787	*2.99%*	589,981
B1	158,578	4,735	-	4,735	*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	161,626	15,001	2,078	17,079	*10.57%*	144,547
A	126,505	-	2,078	2,078	*1.64%*	124,427
B1	17,097	1,137	-	1,137	*6.65%*	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	845,381	176,406	7,709	184,115	*21.78%*	661,266
A	473,263	-	7,709	7,709	*1.63%*	465,554
B1	141,481	3,598	-	3,598	*2.54%*	137,883
B2	99,951	54,498	-	54,498	*54.52%*	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	**1,646,695**	**222,048**	**9,938**	**231,986**	***14,09%***	**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)

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 assessors included in the list of the Bank's certified assessors. 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. A restructured placement can be classified back to A risk category if following conditions are met after a period of at least 12 months:

a) financial position of the client is based on reliable cash flows
b) regular repayment has been established in a period of minimum 12 months and during that period significant payments have been done (regular repayment means no delays over 30 days)
c) there are is no due debt according to the new repayment plan

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)

Restructuring of loans and receivables (continued)

Mentioned period of 12 months stated in the previous paragraph starts with the following event (which ever starts last):

a) date of restructuring
b) end of grace period included in the restructuring

In case when a restructured loan is classified into A risk category additional 24-month period is activated in which the client must not be in delay over 30 days with a significantly material amount (> 1.750,00 HRK). If applied then the loan must be classified in B1 or worse.

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 December 2017			
	HRK	EUR and EUR linked	Other foreign currencies	Total
ASSETS				
Amounts with the Croatian National Bank	168,257	-	-	168,257
Placements with other banks	-	476	-	476
Cash and accounts with banks	6,225	121,770	13,717	141,712
Financial assets available for sale	97,497	155,973	12,509	265,979
Loans and advances to customers	186,812	455,916	-	642,728
Property and equipment	17,387	-	-	17,387
Intangible assets	13,523	-	-	13,523
Other assets	24,457	5		24,462
TOTAL ASSETS	**514,158**	**734,140**	**26,226**	**1,274,524**
LIABILITIES				
Deposits from customers	301,794	611,791	26,033	939,618
Borrowings	11,116	132,170	-	143,286
Subordinated debt	20,000	27,021	-	47,021
Provisions for liabilities and charges	830	2	-	832
Other liabilities	3,884	1,097	-	4,981
Deferred tax liability	720	-	-	720
TOTAL LIABILITIES	**338,344**	**772,081**	**26,033**	**1,136,458**
CURRENCY GAP	**175,814**	**(37,941)**	**193**	**138,066**

[HRK'000]	31 December 2016 restated			
	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	15,190	-	-	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	34,340	27,556	-	61,896
TOTAL ASSETS	**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
Deferred tax liability	725	-	-	725
TOTAL LIABILITIES	**446,034**	**880,629**	**38,425**	**1,365,088**
CURRENCY GAP	**154,255**	**11,810**	**(204)**	**165,861**

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 2017 and 31 December 2016. 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 HRK against the EUR was made on 31st of December 2017. The table below shows the currency position at the end of 2017 and the net effect on the income statement. The positive figure shows a decrease in loss in the case of depreciation of the HRK against the EUR by 10%. In the case of a 10% appreciation of the HRK against the EUR, the impact on the profit and loss account would be negative.

2017.		HRK'000
	EUR	Other currencies
Open currency position	(37,941)	193
% change	10%	10%
Net P/L effect	(3,794)	19

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

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 and available-for-sale debt securities. Shares in investment funds mainly relate to cash funds where no significant fluctuations in value. The Bank has minor investment to one alternative fund which is not significant. The Bank manages the risks arising from the change in their fair value by continuously following changes in share price and investment returns and reports to the Management Board. At least once a year The Market and Operational Risk department and Risk Control department conducts stress testing on fixed income securities portfolio. Stress testing includes at least the sensitivity analysis, and relates to the impact of significant changes in interest rates on portfolio value and profit / loss.

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.

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)

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 2017, 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.

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 effect the increase of net interest income by HRK 705 thousand (2016: decrease of HRK 1,005 thousand) which is 1.76% (2016: 1.91%) 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 2017							
	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	-	-	-	-	-	168,257	**168,257**	-
Placements with other banks	476	-	-	-	-	-	**476**	476
Cash and accounts with banks	132,316	-	-	-	-	9,396	**141,712**	-
Financial assets available for sale	-	6,270	131,191	75,136	38,320	15,062	**265,979**	250,916
Held-to-maturity financial assets	-	-	-	-	-	-	**-**	-
Loans and advances to customers	154,547	36,548	382,288	35,888	32,777	680	**642,728**	101,240
Other assets	-	-	-	-	-	3,264	**3,264**	-
TOTAL FINANCIAL ASSETS	**287,339**	**42,818**	**513,479**	**111,024**	**71,097**	**196,659**	**1,222,416**	**352,632**
FINANCIAL LIABILITIES								
Deposits from customers	108,711	119,204	564,542	64,612	71,358	11,191	**939,618**	649,039
Borrowings	125,693	474	6,499	3,662	6,693	265	**143,286**	22,802
Subordinated debt	-	-	22,541	-	24,392	88	**47,021**	24,392
Other liabilities	-	-	-	-	-	4,981	**4,981**	-
Deffered tax liability	-	-	-	-	-	720	**720**	-
TOTAL FINANCIAL LIABILITIES	**234,404**	**119,678**	**593,582**	**68,274**	**102,443**	**17,245**	**1,135,626**	**696,233**
INTEREST GAP	**53,935**	**(76,860)**	**(80,103)**	**42,750**	**(31,346)**	**179,414**	**86,790**	**(343,601)**

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)

Restated [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)

4.1.3 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.

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 organization 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 2017 and 31st December 2016. 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 2017 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	168,257	-	-	-	-	**168,257**
Placements with other banks	476	-	-	-	-	**476**
Cash and accounts with banks	141,712	-	-	-	-	**141,712**
Financial assets available for sale	26,125	8,443	14,650	88,393	128,368	**265,979**
Held-to-maturity financial assets	-	-	-	-	-	**-**
Loans and advances to customers	110,693	41,575	82,942	168,062	239,456	**642,728**
Other assets	807	25	1,941	-	491	**3,264**
TOTAL FINANCIAL ASSETS	**448,070**	**50,043**	**99,533**	**256,455**	**368,315**	**1,222,416**
FINANCIAL LIABILITIES						
Deposits from customers	231,411	121,575	377,852	136,525	72,255	939,618
Borrowings	5,936	120,351	5,382	3,290	8,327	143,286
Subordinated debt	-	-	-	-	47,021	47,021
Other liabilities	3,525	1,416	40	-	-	4,981
Deferred tax liabilities	-	-	720	-	-	720
TOTAL FINANCIAL LIABILITIES	**240,872**	**243,342**	**383,994**	**139,815**	**127,603**	**1,135,626**
MATURITY GAP	**207,198**	**(193,299)**	**(284,461)**	**116,640**	**240,712**	**86,790**
OFF- BALANCE SHEET						
Guarantees	385	96	6,055	1,496	-	8,032
Letters of credit	-	-	-	-	-	-
Overdrafts	10,775	104	102	20	365	11,366
TOTAL OFF-BALANCE SHEET	**11,160**	**200**	**6,157**	**1,516**	**365**	**19,398**

Notes to the financial statements (continued)

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

4. RISK MANAGEMENT (continued)

4.1.3 Liquidity risk (continued)

[HRK'000]	31. December 2016 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	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 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

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

31. December2017	Less than 1 month	1 – 3 month	3 – 12 month	1 – 3 years	Over 3 years	Undiscounted	Carrying values
Deposits to costumers	231,419	121,630	379,237	138,729	75,089	946,104	939,618
Borowings	5,941	120,491	5,441	3,488	8,881	144,242	143,286
Subordinated debt	-	-	-	-	64,935	64,935	47,021
Provisions for liabilities and charges	-	413	194	-	225	832	832
Other liablities	3,525	1,416	40	-	-	4,981	4,981
Differed tax liabilities	720	-	-	-	-	720	720
Total undiscounted financial liabilities	**241,605**	**243,950**	**384,912**	**142,217**	**149,130**	**1,161,814**	**1,136,458**
Off Balance-sheet	**11,160**	**199**	**6,158**	**1,516**	**365**	**19,398**	**19,398**

31. December 2016 restated	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**

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 2017 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	2017
TIER 1 CAPITAL	**120,951**
TIER 1 CAPITAL – COMMON EQUITY	**120,951**
Capital instruments eligible as CET1 Capital	306,799
Retained earnings	(197,235)
Accumulated other comprehensive profit	(55)
Other reserves	25,227
(-) Goodwill	-
(-) Other intagible assets	(13,523)
Other transitional adjustments to CET 1 Capital	(262)
TIER 1 CAPITAL - ADDITIONAL	**-**
TIER 2 CAPITAL	45,440
TOTAL REGULATORY CAPITAL	**166,391**
RISK WEIGHTED ASSETS	
Credit risk weighted asstes	757,862
Exposure for operational risk	92,584
Exposure for market risk (position, FX, commodities)*	19,197
TOTAL RISK WEIGHTED ASSETS	**869,643**
COMMON EQUITY TIER 1 CAPITAL RATIO	**13.91%**
TIER 1 CAPITAL	**13.91%**
TOTAL CAPITAL RATIO	**19.13%**

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 jeopardize 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)	2017.	%	2016. restated	%
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	9,550	1.16%	23,940	2.44%
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	131,632	16.05%	60,844	6.20%
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	1,033	0.13%	1,733	0.18%
FINANCIAL AND INSURANCE ACTIVITIES	39,286	4.79%	69,485	7.08%
CONSTRUCTION	52,373	6.38%	65,287	6.66%
INFORMATION AND COMMUNICATION	25,070	3.06%	27,618	2.82%
PUBLIC ADMINISTRATION	7,032	0.86%	15,841	1.61%
NON-RESIDENTS	2,032	0.25%	2,097	0.21%
EDUCATION	-	0.00%	-	0.00%
ELECTRICITY SUPPLY, GAS AND CLIMATIZATION	-	0.00%	-	0.00%
WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	22,356	2.73%	9,831	1.00%
OTHER SERVICE ACTIVITIES	7,381	0.90%	7,795	0.79%
AGRICULTURE, FORESTRY AND FISHING	23,004	2.80%	29,091	2.97%
REAL ESTATE ACTIVITIES	21,028	2.56%	14,568	1.49%
MANUFACTURING	140,557	17.13%	226,013	23.04%
TRANSPORTATION AND STORAGE	2,761	0.34%	21,237	2.16%
MINING AND QUARRYING	267	0.03%	275	0.03%
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	66,849	8.15%	89,572	9.13%
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	143,988	17.54%	147,735	15.06%
ARTS, ENTERTAINMENT AND RECREATION	0	0.00%	8,818	0.90%
RETAIL	124,180	15.14%	159,179	16.23%
TOTAL	**820,379**	100.00%	980,959	100.00%

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 2017 amounted to HRK 7.9 million (31 December 2016: HRK 10.6 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 Management board considers that provisions for legal disputes are on adequate level. 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 the final decision on the risk group and the amount of the provision is made by the Board of Directors.

As at 31 December 2017, 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.

All 4 disputes are classified into the risk group A.

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 16.5 million. The Bank uses software in its business, and it is transferred to use according to the stage of completion.

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]	31.12.2016 restated	31.12.2017
Giro accounts with CNB	**81,187**	**88,070**
in HRK	81,187	88,070
in foreign currency	-	-
Obligatory reserve with CNB	**94,234**	**80,187**
in HRK	94,234	80,187
in foreign currency	-	-
TOTAL	**175,421**	**168,257**

Banks are obliged to calculate obligatory reserve in HRK and foreign currency at a rate which, as at 31 December 2017, accounted for 12% of HRK and foreign currency funds (31 December 2016: 12%).

The part of the obligatory reserve calculated in HRK is increased by 75% (31 December 2016: 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 2016: 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 2016: 100%) and can be maintained in eligible liquid.

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]	31 December 2016 restated	31 December 2017
Cash in hand	**16,638**	**9,396**
in HRK	12,529	6,224
in foreign currency	4,109	3,172
Giro accounts with other banks	**168,211**	**132,316**
with foreign banks	84,279	80,581
with domestic banks	83,932	51,734
TOTAL	**184,849**	**141,712**

8. PLACEMENTS WITH OTHER BANKS

[HRK'000]	31 December 2016 restated	31 December 2017
Short-term	**478**	**476**
with domestic banks	478	476
TOTAL	**478**	**476**

Notes to the financial statements (continued)

9. FINANCIAL ASSETS AVAILABLE FOR SALE

[HRK'000]	31 December 2016 restated	31 December 2017
Debt securities	**213,938**	**236,828**
Bonds of the Croatian Ministry of Finance	168,665	104,622
Treasury bills of the Croatian Ministry of Finance	18,831	17,826
Foreign government treasury bills	18,620	12,509
Corporate bonds	-	-
Foreign corporate bonds	7,822	100,871
Of which:		
- listed	176,487	205,494
- not listed	37,451	31,334
Shares in investment funds	**37,515**	**25,637**
Of which:		
- Listed	37,515	25,637
Accrued interest	**2,528**	**3,514**
not past due	2,528	3,514
TOTAL	**253,981**	**265,979**

10. HELD-TO-MATURITY FINANCIAL ASSETS

[HRK'000]	31 December 2016 restated	31 December 2017
Debt securities	**16,237**	**69**
Bills of exchange	16,237	69
Accrued interest	**595**	**4**
past due	595	4
Allowance for impairment	**(1,642)**	**(73)**
identified losses - bills of exchange	(897)	(69)
identified losses - accrued interest	(594)	(4)
unidentified losses on collective basis	(151)	-
TOTAL	**15,190**	**-**

Movement in impairment allowance against financial investments held to maturity HRK 000	2016 restated	2017
Balance at 1 January	**2,945**	**1,642**
(Release of impairment allowance) / impairment recognized in the income statement - identified losses (Note 29)	91	-
(Release of impairment allowance) recognized in the income statement - unidentified losses (Note 29)	(1,051)	(151)
Write off and reversal	(343)	(1,418)
Balance at 31 December	**1,642**	**73**

Notes to the financial statements (continued)

11. LOANS AND ADVANCES TO CUSTOMERS

[HRK'000]	31 December 2016 restated	31 December 2017
Gross loans	**980,959**	**820,379**
retail	159,179	124,180
corporate	821,780	696,199
Interest receivables	**33,529**	**22,508**
Allowance for impairment	**(201,194)**	**(195,855)**
identified losses - gross loans	(165,375)	(169,378)
identified losses - past due interest receivables	(26,032)	(18,780)
unidentified losses on a collective basis	(9,787)	(7,697)
Deferred income from fees	**(5,481)**	**(4,304)**
TOTAL	**805,813**	**642,728**

[HRK'000] Movements in impairment allowance	2017 Identified losses	2017 Provisions on collective basis	2017 TOTAL
Changes in provisions			
Balance at 1 January	**191,407**	**9.787**	**201,194**
Increase/(decrease) in impairment allowance	54,793	(2,090)	52,703
Collected impaired interest	(851)	-	(851)
Impairment losses recognized in the income statement (Note 29)	53,942	(2,090)	51,852
Write-offs and other movements	(57,191)	-	**(57,191)**
At 31 December 2017	**188,158**	**7,697**	**195,855**

[HRK'000] Movements in impairment allowance	2016 restated Identified losses	2016 restated Provisions on collective basis	2016 restated TOTAL
Changes in provisions			
Balance at 1 January	**184,465**	**10,939**	**195,404**
Increase/(decrease) in impairment allowance	9,836	(1,152)	**8,684**
Collected impaired interest	(56)	-	**(56)**
Impairment losses recognized in the income statement (Note 29)	9,780	(1,152)	**8,628**
Write-offs and other movements	(2,838)	-	**(2,838)**
At 31 December 2016	**191,407**	**9,787**	**201,194**

For impairment allowances on collective basis, the Bank uses a 1% (31 December 2016 : 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

2017 [HRK'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
At 1 January 2017	**20,724**	**8,279**	**9,890**	**1,391**	**23**	**40,307**
Additions	-	59	185	131	48	423
Transfer from and to foreclosed assets	-	-	-	-	-	-
Write-offs and disposals	(62)	(125)	(236)	(126)	-	(549)
Transfers	-	9	-		(9)	-
At 31 December 2017	**20,662**	**8,222**	**9,839**	**1,396**	**62**	**40,181**
Accumulated depreciation						
At 1 January 2017	**5,375**	**6,445**	**9,045**	**877**	**-**	**21,742**
Charge for the year	598	506	266	175	-	1,545
Write-offs and disposals	(18)	(126)	(223)	(126)	-	(493)
At 31 December 2017	**5,955**	**6,825**	**9,088**	**926**	**-**	**22,794**
Net carrying value	**14,707**	**1,397**	**751**	**470**	**62**	**17,387**

2016 restated [HRK'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
At 1 January 2016,	**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	**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**

Decrease in value of buildings and land is result of write of purchase value of land Prelog in the amount HRK 62 thousand, value adjustments in amount HRK 18 thousand and regular depreciation ion the amount HRK 598 thousand.

Notes to the financial statements (continued)

13. INTANGIBLE ASSETS

2017 [HRK'000]	Internally generated software	Leasehold improvements	Licenses	Goodwill	Assets under construction	Total
Cost						
At 1 January 2017	**16,650**	**5,951**	**5,985**	**2,300**	**1,500**	**32,386**
Additions	-	-	17	-	763	780
Transfer into use	1,116	-	116	-	(1,232)	-
At 31 December 2017	**17,766**	**5,951**	**6,118**	**2,300**	**1,031**	**33,166**
Accumulated amortisation						
At 1 January 2017,	**4,189**	**5,746**	**5,395**	**2,300**	**-**	**17,630**
Charge for the year	1,647	147	219	-	-	2,013
At 31 December 2017	**5,836**	**5,893**	**5,614**	**2,300**	**-**	**19,643**
Net carrying value	**11,930**	**58**	**504**	**-**	**1,031**	**13,523**

2016 restated [HRK'000]	Internally generated software	Leasehold improvements	Licenses	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	**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**

The most significant movement in intangible assets relates to the application software in their own development. The Bank in 2017 transferred to the use of HRK 1.1 million application software under construction of the bank, and in 2016 transferred HRK 1.8 million.

Notes to the financial statements (continued)

14. OTHER ASSETS

[HRK'000] OTHER ASSETS	31 December 2016 restated	31 December 2017
Other assets	**91,046**	**27,286**
Fees receivable	1,894	484
Prepaid expenses	265	299
Other receivables	60,386	5,604
Collateral repossessed	28,501	20,899
Impairement allowance	**(29,150)**	**(2,824)**
TOTAL	**61,896**	**24,462**

On the position of other assets, the most significant change is write-of uncollectable receivables from Žito d.o.o. i Žito MPI d.o.o. after lost court dispute. Write-of receivables was carried out on value adjustments of 100% (HRK 26.3 million)

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 620 thousand shown in Note 29 (2016: HRK 5,716 thousand (restated)).

B) *Movements in provisions for other assets*

[HRK'000] MOVEMENT IN IMPAIREMENT ALLOWANCE FOR OTHER ASSETS	2016 restated	2017
At 1 January	**30,152**	**29,150**
Increase/decrease (Note 29)	(623)	-
Write-offs	(379)	(26,326)
At 31 December	**29,150**	**2,824**

Notes to the financial statements (continued)

15. DEPOSITS FROM CUSTOMERS

[HRK'000]	31 December 2016 restated	31 December 2017
Demand deposits	**124,453**	**121,889**
retail	44,243	35,326
in HRK	*24,461*	*22,340*
in foreign currency	*19,782*	*12,986*
corporate	80,210	86,563
in HRK	*60,025*	*56,568*
in foreign currency	*20,185*	*29,995*
Term deposits	**1,099,596**	**807,760**
retail	875,319	586,863
in HRK	*204,575*	*150,260*
in foreign currency	*670,744*	*436,603*
corporate	224,277	220,897
in HRK	*78,084*	*73,322*
in foreign currency	*146,193*	*147,575*
Accrued interest	**16,123**	**9,969**
TOTAL	**1,240,172**	**939,618**

16. BORROWINGS

[HRK'000]	31 December 2016 restated	31 December 2017
Short-term	**16,685**	**130,218**
from banks	16,685	10,000
in HRK	*13,000*	*10,000*
in foreign currency	*3,685*	-
from other financial institutions	-	120,218
in foreign currency	-	*120,218*
Long-term	**44,690**	**12,802**
from banks	44,690	12,802
in HRK	*30,233*	*1,022*
in foreign currency	*14,457*	*11,780*
Accrued interest	**577**	**266**
TOTAL	**61,952**	**143,286**

Borrowings contain agreed repurchase agreements totaling to HRK 10,000 thousand (2016: HRK 35,503 thousand) – Note 40.

Notes to the financial statements (continued)

17. SUBORDINATED DEBT

[HRK'000]	31 December 2016 restated	31 December 2017
Subordinated debt	**47,092**	**46,933**
in HRK	20,000	20,000
in foreign currency	27,092	26,933
Accrued interest	**41**	**88**
TOTAL	**47,133**	**47,021**

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]	31 December 2016 restated	31 December 2017
Provisions for legal disputes	122	125
Provisions for termination benefits and similar liabilities to employees	735	413
Provisions for contingent liabilities	744	194
Provisions for contingent liabilities from other sources to individuals	-	100
TOTAL	**1,601**	**832**

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

[HRK'000]	2016 restated	2017
At 1st January	**1,281**	**1,601**
Increase/decrease in the income statement		
- Increase in provisions for legal disputes (Note 29)	2	3
- Provisions for termination benefits and similar liabilities to employees (note 29)	735	404
- Release of provisions for contingent liabilities (Note 29)	(417)	(478)
- Increase in provisions from other sources to individuals (Note 28b)	-	28
Provisions used during the year (towards employees)	-	(726)
At 31 December	**1,601**	**832**

Notes to the financial statements (continued)

19. OTHER LIABILITIES

[HRK'000] OTHER LIABILITIES	31 December 2016 restated	31 December 2017
Trade payables	510	523
Liabilities for salaries, deductions from salaries, taxes	1,641	1,529
Deferred income	400	-
Other liabilities	10,954	2,929
TOTAL	**13,505**	**4,981**

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 0.6 million (31 December 2016: 0.9 million).

20. EQUITY

20.1. Share capital

[HRK'000]	31 December 2016 restated	31 December 2017
Share capital	307,085	307,085
TOTAL	**307,085**	**307,085**

31 December 2017	Number of shares	Ownership share (%)
J&T BANKA A.S. (1/1)	25,350,000	82.55
Nexus FGS II	3,571,429	11.63
Other shareholders	1,787,111	5.82
TOTAL	**30,708,540**	**100.00**

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

The Bank’s shares are not listed on the Zagreb Stock Exchange. On the May 10, 2017 the Bank filed a request to delist its shares and the last trading day was on November 03, 2017.

During 2017 there was no capital increase. Last capital increase was in July 2016 when 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 amounted 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]	31 December 2016 restated	31 December2017
Reserves for treasury shares	2,557	2,557
Legal reserves	1,235	1,235
	3,792	**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 Treasury shares

When the Bank purchases the share capital of the Bank (treasury shares), the paid amount represents the remainder of the capital and reserves belonging to the Bank's shareholders, until such shares are annuled, issued or sold.

During 2017, the Bank purchased 76,861 treasury shares. The total value of 76,861 treasury shares at December 31, 2017 is 286,691.53 kuna.

20.5 Fair value reserve

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

20.6 Accumulated loss

The transferred loss includes accrued losses from previous years.

Notes to the financial statements (continued)

21. INTEREST AND SIMILAR INCOME

[HRK'000]	2016 restated	2017
Analysis by product	**73,492**	**60,805**
Loans and advances to customers	62,657	53,263
Deposits	3	1
Debt securities	10,830	7,541
Other	2	-
Analysis by source	**73,492**	**60,805**
Retail	12,936	9,310
Corporate	49,502	41,496
State and public sector	6,460	5,924
Financial institutions	482	79
Other	4,112	3,996

22. INTEREST AND SIMILAR CHARGES

[HRK'000]	2016 restated	2017
Analysis by product	**40,177**	**20,624**
Deposits from customers	35,796	15,400
Borrowings	1,530	1,659
Subordinated debt	2,851	3,565
Analysis by source	**40,177**	**20,624**
Retail	33,273	14,559
Corporate	1,556	917
State and public sector	86	6
Financial institutions	4,430	5,089
Other	922	53

23. FEE AND COMMISSION INCOME

[HRK'000]	2016 restated	2017
Payment transactions	**4,054**	**2,866**
Letters of credit and guarantee fees	**775**	**403**
Early repayment fees	**348**	**2,137**
Brokerage fees	**1,449**	**795**
Other	**535**	**837**
TOTAL	**7,161**	**7,038**

Notes to the financial statements (continued)

24. FEE AND COMMISSION EXPENSE

[HRK'000]	2016 restated	2017
Payment transactions	1,307	868
Credit cards	270	237
Other	809	668
TOTAL	2,386	1,773

25. NET REALISED GAINS FROM FINANCIAL ASSETS AVAILABLE FOR SALE

[HRK'000]	2016 restated	2017
Realised	4,345	5,600
Bonds	4,342	6,120
Investment funds	3	(520)
TOTAL	4,345	5,600

26. NET FOREIGN EXCHANGE GAINS

[HRK'000]	2016 restated	2017
Net gains / (losses) from translation of monetary assets and liabilities	465	(917)
Net gains / (losses) from trading with foreign currencies	2,890	3,226
TOTAL	3,355	2,309

Notes to the financial statements (continued)

27. OTHER INCOME

[000 HRK]	2016 restated	2017
Rental of premises	1,055	1,211
Use of official cars	62	60
Collection of written off and the transfer of receivables	331	2,998
Income from disposal of tangible and intangible assets	934	2,135
Release of accrued provisions from previous years	793	431
Other	235	3,246
TOTAL	3,409	10,081

28. GENERAL AND ADMINISTRATIVE EXPENSES

a) Personnel expenses

[HRK'000]	2016 restated	2017
Personnel expenses	23,109	18,619
- *Net salaries*	*12,448*	*10,013*
- *Contributions on and from salaries*	*6,864*	*5,526*
- *Taxes and surtaxes*	*2,717*	*2,352*
- *Other personnel expenses*	*1,080*	*728*
TOTAL	23,109	18,619

As at 31 December 2017, the Bank had 92 employees (31 December 2016: 116 employees).

b) Other administrative expenses

[HRK'000]	2016 restated	2016
Services	11,899	9,383
Costs of deposit insurance	4,072	2,888
Material and other costs	1,846	1,263
Representation, grants and sponsorship	737	568
Other administrative expenses	476	2,112
Car and other transportation expenses	344	144
Business trip	274	260
Other expenses	41	234
Taxes, contributions, fees	1,378	1,230
UKUPNO	21,067	18,082

In other administrative expenses, under the cost of intellectual services, the cost of audit is included. The contracted audit fees in 2017 amounted to HRK 322 thousand + VAT (2016: HRK 272 thousand + VAT).

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%).

In other expenses, there is the expense of increase in provisions for contingent liabilities on other bases towards individuals in the amount of HRK 28 thousand (2016 :-) (Note 18).

Furthermore, other administrative expenses include lawyer cost of lost court case in amount HRK 1,6 mln (2016: -).

Notes to the financial statements (continued)

29. IMPAIRMENT LOSSES AND PROVISIONS

[HRK'000] IMPAIRMENT LOSSES AND PROVISIONS	2016 restated	2017
Specifically identified losses	**9,248**	**53,942**
Impairment of loans and advances to customers (Note 11)	9,780	53,942
Impairment of financial investments held to maturity (Note 10)	91	-
Other receivables (Note 14)	(623)	-
Impairment / (release of impairment) for unidentified losses	**(2,620)**	**(2,719)**
Impairment of loans and advances to customers (Note 11)	(1,152)	(2,090)
Impairment of financial investments held to maturity (Note 10)	(1,051)	(151)
Provisions for off-balance-sheet exposure to credit (Note 18)	(417)	(478)
Other provisions	**6,453**	**1,027**
Provisions for court cases (Note 18)	2	3
Provisions for termination benefits (Note 18)	735	404
Impairment of foreclosed assets (Note 14a)	5,716	620
TOTAL	**13,081**	**52,250**

30. INCOME TAX

a) Income tax expense recognised in the income statement

[HRK'000]	2016 restated	2017
Current income tax expense	-	-
Deferred income tax	-	-
TOTAL	**-**	**-**

b) Reconciliation of accounting profit and current income tax liability

[HRK'000]	2016	2017
Accounting loss before tax	**(12,871)**	**(29,073)**
Income tax at 18% (2016: 20%)	**(2,574)**	**(5,233)**
Non-deductible expenses	**9,192**	4,951
Non-taxable income	**(3,556)**	(5,730)
Tax at 18% after reconciliations (2016: 20%)	**3,062**	**(6,012)**
Tax losses that are not considered deferred tax assets	**-**	**6,012**
Utilized transferred tax losses	**(3,062)**	**-**
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 2017
No later than 1 year	88,462
No later than 2 year	7,594
No later than 3 year	116,118
No later than 4 year	-
No later than 5 year	33,400
Total tax losses carried forward not recognised as deferred tax assets	**245,574**

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.

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 720 thousand (2016: HRK 725 thousand).

[HRK '000] CHANGES IN DEFERRED TAX LIABILITIES	2017
Balance as at 1 January	**725**
Recognised deferred tax liability in other comprehensive income	(5)
Balance as at 31 December	**720**

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.

	2016 restated	2017
Loss for the year [HRK'000]	(12,871)	(29,073)
Weighted average number of shares	26,514,004	30,708,540
BASIC AND DILUTED LOSS PER SHARE	(0.49)	(0,95)

	2016 restated	2017
Number of shares as at January 1	23,108,540	30,708,540
Recapitalization 20.7.2016	3,405,464	-
Weighted average number of shares as at December 31	26,514,004	30,708,540

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	31 December 2016 restated	31 December 2017
Giro account with CNB	6	81,187	88,070
Obligatory reserve with CNB	6	94,234	80,187
Bonds issued by the Ministry of Finance	9	188,579	125,006
Borrowings from Croatia Bank for Reconstruction and Development		(26,375)	(12,802)
TOTAL		337,625	280,461

33. CASH AND CASH EQUIVALENTS

[HRK'000]	Notes	31 December 2016 restated	31 December 2017
Cash and gyro accounts with banks	7	184,849	141,712
Giro account with CNB	6	81,187	88,070
TOTAL		266,036	229,782

34. CONTINGENCIES

[HRK'000]	31 December 2016 restated	31 December 2017
Guarantees	**14,962**	**8,032**
in HRK	14,962	8,032
Letters of credit	**6,361**	**-**
in foreign currency	6,361	-
Revolving facility	**45,856**	**11,366**
in HRK	43,566	11,344
in foreign currency	2,290	22
TOTAL	67,179	19,398

As at 31 December 2017, 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 194 thousand (2016: HRK 672 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 2017 owned 82.55% of the Bank's shares (31 December 2016: 82.55%). 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 2017 is Alternative d.o.o. owning 11.63% of the shares. The remaining 5.82% of the shares were traded publicly until 3rd November and delisting from Zagreb Stock Exchange. 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 2017, the Bank has liabilities to key shareholders in respect of assets on current accounts, liabilities for services rendered, loans and advances and deposits.

For key management personnel in 2017, in addition to regular income (salary), deposits and given loans no other payments were carried out. The Bank does not have a remuneration policy in 2017 (none in 2016).

Related party transactions for the year ended 31 December 2016 and 31 December 2017 were as follows:

[HRK'000]	2016 restated				2017			
	exposure	liabilities	revenue	expenses	exposure	liabilities	revenue	expenses
J&T Banka A.S.								
Other income	-	-	1,452	-	5	-	974	-
Received deposits								
Gyro accounts	-	13,095	-	-	-	10,029	-	-
Received loans	-	-	-	-	-	120,218	-	547
Subordinated debt	-	42,673	-	2,670	-	42,541	-	3,350
Other liabilities	-	361	-	-	-	1	-	-
	-	**56,129**	**1,452**	**2,670**	**5**	**172,789**	**974**	**3,897**
Key management personnel								
Loans to and receivables from customers	1,846	-	87	-	2,572	-	118	-
Received deposits	-	1,376	-	7	-	3,472	-	17
Compensation to key management personnel	-	-	-	5,252	-	612	-	7,798
Total	**1,846**	**1,376**	**87**	**5,259**	**2,572**	**4,084**	**118**	**7,815**

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:

	2016 restated	2017
Assets		
Amounts with the Croatian National Bank	-	-
Placements with banks	0.27%	0.12%
Financial assets available for sale	2.99%	2.62%
Held-to-maturity financial assets	9.37%	8.81%
Loans and advances to customers	7.32%	6.99%
Liabilities		
Deposits from customers	2.48%	1.47%
Borrowings	2.33%	1.32%
Subordinated debt	7.60%	7.62%

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 2016 restated	31 December 2017
Up to 1 year	2,884	2,994
From 1 to 5 years	7,710	6,513
Over 5 years	-	-
	10,594	9,457

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 2017.

Notes to the financial statements (continued)

38. FAIR VALUE OF FINANCIAL INSTRUMENTS(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.

2017 Financial assets	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total HRK '000
Financial assets available for sale				
Bonds of the Ministry of Finances	106,180	-	-	106,180
Treasury bills of the Ministry of Finance	-	18,826	-	18,826
Foreign corporate bonds	102,827	-	-	102,827
Foreign treasury bills	-	12,509	-	12,509
Closed investment funds	-	-	941	941
Cash funds	24,696	-	-	24,696
Total financial assets	**233,703**	**31,335**	**941**	**265,979**

2016 restated Financial assets	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total HRK '000
Financial assets available for sale				
Bonds of the Ministry of Finances	171,172	-	-	171,172
Treasury bills of the Ministry of Finance	-	18,831	-	18,831
Foreign corporate bonds	7,844	-	-	7,844
Foreign treasury bills	-	18,620	-	18,620
Closed investment funds	-	-	2,886	2,886
Cash funds	34,628	-	-	34,628
Total financial assets	**213,644**	**37,451**	**2,886**	**253,981**

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 2017 restated	**2.886**
Valuation up to the day of sale, through other comprehensive income	2,702
Receipt from sales	*(4,054)*
Loss from sales	(593)
As at 31 December 2017	**941**

During 2017 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)

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. 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.

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 restated		31 December 2017	
	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS				
Accounts with the CNB and credit institutions	343,632	343,632	300.573	300.573
Placements with other banks	478	478	476	476
Loans and advances to customers	805,813	840,647	642.728	689.209
Held-to-maturity financial assets	15,190	15,190	-	-
Total financial assets	**1,165,113**	**1,199,947**	**943.777**	**990.258**
Deposits from customers	1,240,172	1,240,172	939.618	939.618
Borrowings	61,952	61,952	143.286	143.286
Subordinated debt	47,133	47,133	47.021	47.021
Total financial liabilities	**1,349,257**	**1,349,257**	**1.129.925**	**1.129.925**

Notes to the financial statements (continued)

39. Restatement of previously presented amounts

In 2016, the Bank recognized specific impairment losses of HRK 69,944 thousand for financial assets held to maturity and loans and advances to customers. These losses were partially related to exposures for which there was already objective evidence of impairment as of 31 December 2015 and for which the corresponding impairment loss should recognized in previous periods.

Furthermore, as of December 31, 2016, the Bank recognized HRK 21,208 thousand in impairment loss on the foreclosed assets and, in part, the impairment that already existed on 31 December 2015.

In 2017, the Bank calculated and determined the required amount of adjustments that were recognized in 2016 and should have been recognized in previous years and implemented required adjustments retrospectively in accordance with IAS 8 Accounting Policies, Changes in Estimates and Errors. The effects of adjustments to the Bank's Comprehensive Income for the year ended 31 December 2016 are presented on the next page.

These adjustments did not affect the Bank's financial position as at 31 December 2016.

Notes to the financial statements (continued)

39. Restatement of previously presented amounts (continued)

HRK '000	Previously presented	Effect of reclassification	Restated 1 January 2016
ASSETS			
Amounts with the CNB	174,237	0	174,237
Placements with other banks	1,099	0	1,099
Cash and accounts with banks	262,906	0	262,906
Financial assets available for sale	130,430	0	130,430
Held-to-maturity financial assets	120,380	(447)	119,933
Loans and advances to customers	870,244	(57,756)	812,488
Property and equipment	17,335	0	17,335
Intangible assets	16,664	-0	16,664
Other assets	55,902	(15,494)	40,408
TOTAL ASSETS	**1,649,197**	**(73,697)**	**1,575,500**
LIABILITIES			
Deposits from customers	1,385,184	0	1,385,184
Borrowings	54,919	0	54,919
Subordinated debt	22,905	0	22,905
Provisions for liabilities and charges	1,281	0	1,281
Other liabilities	8,161	0	8,161
Deferred tax liability	-	0	-
TOTAL LIABILITIES	**1,472,450**	**0**	**1,472,450**
EQUITY			
Share capital	231,085	0	231,085
Share premium	21,435	0	21,435
Other reserves	3,787	0	3,787
Fair value reserve	2,034	0	2,034
Accumulated losses	(81,594)	(73,697)	(155,291)
TOTAL EQUITY	**176,747**	**(73,697)**	**103,050**
TOTAL LIABILITIES AND EQUITY	**1,649,197**	**(73,697)**	**1,575,500**

Notes to the financial statements (continued)

39. Restatement of previously presented amounts (continued)

	2016, previously presented *HRK '000*	Effect of change *HRK '000*	2016, restated *HRK '000*
Interest and similar income	75,302	(1,810)	73,492
Interest and similar charges	(40,177)	-	(40,177)
Net interest income	35,125	(1,810)	33,315
Fee and commission income	7,161	-	7,161
Fee and commission expense	(2,386)	-	(2,386)
Net fee and commission income	4,775	-	4,775
Net realised gains from financial assets available for sale	4,345	-	4,345
Net foreign exchange gains	3,355	-	3,355
Other operating income	3,409	-	3,409
Trading and other income	11,109	-	11,109
Personnel expenses	(23,109)	-	(23,109)
General and administrative costs			
Depreciation, amortisation and impairment of goodwill	(4,813)	-	(4,813)
Other administrative expenses	(21,067)	-	(21,067)
Provisions for liabilities and expenses			
Impairment losses and provisions	(88,588)	75,507	(13,081)
LOSS BEFORE TAX	(86,568)	73,697	(12,871)
Income tax expense	-	-	-
LOSS FOR THE YEAR	(86,568)	73,697	(12,871)

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]	2016	2017
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	35,503	10,000
Carrying amount of collateral provided in respect of the above relating to:		
Available-for-sale financial assets	41,701	9,994

41. EVENTS AFTER THE BALANCE SHEET DATE

On the 20th February 2018 the General Assembly was held and changed statute from 14 June 2017 in the Article 7, regarding the subject of business subject (the business activities related to the sale of insurance policies in accordance with the regulations regulating the insurance have been abolished) and a new text of the Statute of 20 February 2018 has been passed.

Additional reports for Croatian National Bank

Reports made in accordance with CNB decision

Balance sheet as at 31st December 2017

Item	AOP label	Notice	Previous year (net) (restated)	Current year (net)
1	2	3	4	5
Assets				
1. CASH AND DEPOSITS WITH THE CNB (002+003)	**1**		**233,008,657**	**222,519,336**
1.1.Cash	**2**		16,637,633	9,395,993
1.2.Deposits with the CNB	**3**		216,371,024	213,123,343
2. DEPOSITS WITH FINANCIAL INSTITUTIONS	**4**		127,739,048	87,925,075
3. SHORT-TERM TREASURY BILLS OF THE CROATIAN MINISTRY OF FINANCE	**5**			
4. FINANCIAL ASSETS HELD FOR TRADING	**6**			
5. FINANCIAL ASSETS AVAILABLE FOR SALE	**7**		251,452,020	262,465,219
6. FINANCIAL ASSETS HELD TO MATURITY	**8**		15,189,311	
7. FINANCIAL ASSETS VALUED AT FAIR VALUE THROUGH PROFIT OR LOSS, NOT ACTIVELY TRADED	**9**			
8. DERIVATIVE FINANCIAL ASSETS	**10**			
9. LOANS TO FINANCIAL INSTITUTIONS	**11**		207,611	39,135
10. LOANS TO OTHER CUSTOMERS	**12**		808,944,545	644,941,304
11. INVESTMENTS IN SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES	**13**			
12. REPOSSESSED ASSETS	**14**		28,501,383	19,413,453
13. TANGIBLE ASSETS (LESS DEPRECIATION)	**15**		18,564,864	19,080,688
14. OTHER ASSETS	**16**		56,177,758	24,119,249
A) TOTAL ASSETS (001+004 to 016)	**17**		**1,539,785,197**	**1,280,503,459**
Liabilities				
1. BORROWINGS FROM FINANCIAL INSTITUTIONS (019+020)	**18**		**61,374,890**	**22,802,430**
1.1. Short-term	**19**		41,684,668	10,000,000
1.2. Long-term	**20**		19,690,222	12,802,430
2. DEPOSITS (022 to 024)	**21**		**1,223,688,089**	**927,374,758**
2.1. Transactional and current accounts	**22**		83,691,546	77,972,039
2.2. Savings deposits (demand)	**23**		40,400,816	41,643,075
2.3. Term deposits	**24**		1,099,595,727	807,759,644
3. OTHER BORROWINGS (026+027)	**25**		**0**	**120,218,368**
3.1. Short-term	**26**			120,218,368
3.2. Long-term	**27**			
4. DERIVATIVE AND OTHER FINANCIAL LIABILITIES HELD FOR TRADING	**28**			
5. ISSUED SECURITIES (030+031)	**29**		**0**	**0**
5.1. Short-term	**30**			
5.2. Long-term	**31**			
6. SUBORDINATED DEBT ISSUED	**32**			
7. HYBRID INSTRUMENTS	**33**		47,091,643	46,933,423
8. OTHER LIABILITIES	**34**		41,769,158	25,108,410
B) TOTAL LIABILITIES (018+021+025+028+029+032+033+034)	**35**		**1,373,923,780**	**1,142,437,389**

Equity				
1. SHARE CAPITAL	**36**		307,085,400	307,085,400
2. PROFIT/(LOSS) FOR THE PERIOD	**37**		-12,871,173	-29,073,287
3. RETAINED EARNINGS	**38**		-155,290,330	-168,161,503
4. REGULATORY RESERVES	**39**		1,235,660	1,235,660
5. STATUTARY AND OTHER CAPITAL RESERVES	**40**		23,991,175	23,704,483
6. FAIR VALUE RESERVE	**41**		1,710,685	3,275,317
C) TOTAL EQUITY (036 to 041)	**42**		**165,861,417**	**138,066,070**
D) TOTAL LIABILITIES AND EQUITY (035+042)	**43**		**1,539,785,197**	**1,280,503,459**
ADDENDUM TO THE BALANCE SHEET (filled-in by the banks submitting consolidated financial statement)				
1. TOTAL EQUITY	**44**		**0**	**0**
2. Equity attributable to the shareholders of the parent company	**45**			
3. Minority interest (045-046)	**46**		**0**	**0**

Income statement for period from 1.1.2017 to 31.12.2017

Item	AOP label	Notice	Previous year (restated)	Current year
1	2	3	4	5
1. Interest income	47		73,467,594	60,789,503
2. Interest expense	48		43,367,265	23,502,800
3. Net interest income (047-048)	**49**		**30,100,329**	**37,286,703**
4. Fee and commission income	50		7,514,741	7,454,483
5. Fee and commission expense	51		3,266,732	1,782,750
6. Net fee and commission income (050-051)	**52**		**4,248,009**	**5,671,733**
7. Gains less losses arising from investments in subsidiaries, associated companies and joint ventures	53			
8. Gains less losses from trading activities	54		2,889,894	3,226,415
9. Gains less losses from built-in derivatives	55			
10. Gains less losses arising from financial assets valued at fair value through P&L, not actively traded	56			
11. Gains less losses arising from securities available for sale	57		4,344,743	5,600,142
12. Gains less losses arising from securities held to maturity	58			
13. Gains less losses arising from hedging activities	59			
14. Income from investments in subsidiaries, associated companies and joint ventures	60			
15. Income from other equity instruments	61			
16. Gains less losses from exchange rate differences	62		464,807	-917,280
17. Other income	63		3,409,351	10,080,649
18. Other operating costs	64		2,946,721	2,437,675
19. General and administrative expenses, amortization and depreciation	65		48,476,503	35,960,649
20. Operating profit (049+052 to 063-064-065)	**66**		**-5,966,091**	**22,550,038**
21. Impairment losses and provisions	67		6,905,082	51,623,325
22. PROFIT/(LOSS) BEFORE TAX (066-067)	**68**		**-12,871,173**	**-29,073,287**
23. INCOME TAX EXPENSE / DEFERRED TAX	**69**			
24. NET PROFIT/(LOSS) FOR THE PERIOD (068-069)	**70**		**-12,871,173**	**-29,073,287**
25. Earnings per share	71			
ADDENDUM TO THE P&L (filled-in by the banks submitting consolidated financial statement)				
1. PROFIT FOR THE PERIOD	**72**		**0**	**0**
2. Attributable to the shareholders of the parent company	**73**			
3. Minority interest (073-074)	**74**		**0**	**0**

Statement of comprehensive income for period from 1.1.2017 to 31.12.2017

REPORT ON OTHER COMPREHENSIVE INCOME				
1. NET PROFIT/(LOSS) FOR THE PERIOD	**75**		-12,871,173	-29,073,287
2. OTHER COMPREHENSIVE PROFIT (AOP 078+083)	**76**		**-322,156**	**1,564,633**
2.1. Items which will not be subsequently reclassified in profit or loss (AOP 078 to 083)	**77**		**0**	**0**
2.1.1. Tangible assets	**78**			
2.1.2 Intangible assets	**79**			
2.1.3. Defined benefit plan actuarial gains/(losses)	**80**			
2.1.4. Long-term assets and groups available for sale	**81**			
2.1.5. The share of other recognized income and expense of entities that is calculated by the equity method	**82**			
2.1.6. Tax on items that w ill not be reclassified	**83**			
2.2. Items which may be subsequently reclassified in profit or loss (AOP 085+089+093+098+102+106+107)	**84**		**-322,156**	**1,564,633**
2.2.1. Protection if net investments in foreign affairs (effective share)(AOP 086 to 088)	**85**		**0**	**0**
2.2.1.1. Gains or loss in equity	**86**			
2.2.1.2. Transferred to gains or loss	**87**			
2.2.1.3. Other reclassifications	**88**			
2.2.2 Replacement of foreign currency (AOP 090+091+092)	**89**		**0**	**0**
2.2.2.1. Gains or loss in equity	**90**			
2.2.2.2. Transferred to gains or loss	**91**			
2.2.2.3. Other reclassifications	**92**			
2.2.3. Protection of cash flow s	**93**		**0**	**0**
2.2.3.1. Gains or loss in equity	**94**			
2.2.3.2. Transferred to gains or loss	**95**			
2.2.3.3. Transferred in the intial book value of the hedged items	**96**			
2.2.3.4. Other reclassifications	**97**			
2.2.4. Financial assets available for sale (AOP 099+100+101)	**98**		**402,565**	**1,559,549**
2.2.4.1.Gains or loss in equity	**99**		402,565	1,559,549
2.2.4.2. Transferred to gains or loss	**100**			
2.2.4.3.Other reclassifications	**101**			
2.2.5. Long-term assets and groups available for sale (AOP 103 to 105)	**102**		**0**	**0**
2.2.5.1.Gains or loss in equity	**103**			
2.2.5.2. Transferred to gains or loss	**104**			
2.2.5.3.Other reclassifications	**105**			
2.2.6. Share of other recognised income and revenues from investments in subsidiars, venture capital and associated companies	**106**			
2.2.7. Income tax for items w hich may be reclassified in profit or loss (-)	**107**		-724,721	5,084
3. Total comprehensive income of current year (AOP 075+076)	**108**		**-13,193,329**	**-27,508,654**
4. Minority interest	**109**			
5. Owners of parent company	**110**		**-13,193,329**	**-27,508,654**

Cash flow statement for period from 1.1.2017 to 31.12.2017

Item	AOP label	Notice	Previous year (restated)	Current year
1	2	3	4	5
Operating activities				
1. Cash flow from operating activities before changes in assets (002 to 007)	**1**		**79,643,789**	**27,811,606**
1.1. Profit/(loss) before tax	**2**		-12,871,173	-29,073,287
1.2. Impairment losses and provisions	**3**		66,917,399	51,623,325
1.3. Amortization and depreciation	**4**		26,023,957	4,329,421
1.4. Net unrealised gains less losses from financial assets valued at fair value through profit or loss	**5**			
1.5. Gains / losses from sale of tangible assets	**6**			
1.6. Other gains / losses	**7**		-426,394	932,147
2. Net increase / decrease of operating assets (009 to 016)	**8**		**-239,133,375**	**142,624,443**
2.1. Deposits with the CNB	**9**		15,395,130	14,046,008
2.2. Tresury bills of the Croatian Ministry of Finance	**10**			
2.3. Deposits with and loans to financial institutions	**11**		584,179	168,475
2.4. Loans to other customers	**12**		-103,449,164	107,378,587
2.5. Financial assets held for trading	**13**			
2.6. Financial assets available for sale	**14**		-124,120,689	-10,828,873
2.7. Financial assets valued at fair value through profit or loss, not actively traded	**15**			
2.8. Other operating assets	**16**		-27,542,831	31,860,246
Net increase / decrease of operating liabilities				
3. Net increase / decrease of operating liabilities (018 to 021)	**17**		**-123,607,020**	**-302,845,352**
3.1. Transactional accounts	**18**		10,267,394	-5,719,507
3.2. Savings and term deposits	**19**		-141,156,561	-279,366,117
3.3. Derivative financial liabilities and other liabilities actively traded	**20**			
3.4. Ostale liabilities	**21**		7,282,147	-17,759,728
4. Net cash flow from operating activities before taxation (001+008+017)	**22**		**-283,096,606**	**-132,409,303**
5. Income tax paid	**23**			
6. Net cash inflow / outflow from operating activities (022+023)	**24**		**-283,096,606**	**-132,409,303**
Investing activites				
7. Net cash flow from investing activities (026 to 030)	**25**		**103,414,925**	**19,431,996**
7.1. Purchase of tangible and intangible assets	**26**		-1,775,178	4,242,685
7.2. Investment in / disposal of subsidiaries, associated companies and joint ventures	**27**			
7.3. Investment in / disposal of financial assets held to maturity	**28**		105,190,103	15,189,311
7.4. Dividends received	**29**			
7.5. Other inflows / outflows from investing activities	**30**			

Financial activities				
8. Net cash flow from financial activities (032 to 037)	**31**		**107,571,433**	**79,316,675**
8.1. Net increase / decrease of borrowings	**32**		7,140,850	79,603,833
8.2. Net increase / decrease of issued debt securities	**33**			
8.3. Net increase / decrease of subordinated debt and hybrid instruments	**34**		24,425,568	-466
8.4. Share capital raised	**35**		76,000,000	
8.5. Dividends paid	**36**			
8.6. Other inflows / outflows from financial activities	**37**		5,015	-286,692
9. Net increase / decrease of cash and cash equivalents (024+025+031)	**38**		**-72,110,248**	**-33,660,632**
10. Effect of foreign exchange differences on cash and cash equivalents	**39**		-3,396,860	-2,593,861
11. Net increase/(decrease) in cash and cash equivalents (038+039)	**40**		**-75,507,108**	**-36,254,493**
12. Cash and cash equivalents at the beginning of the year	**41**		341,542,613	266,035,505
13. Cash and cash equivalents as per reporting date (040+041)	**42**		**266,035,505**	**229,781,012**

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	**1**	307,085,400	0	25,226,834	-81,593,559	-86,567,943	1,710,684		165,861,416
Changes in accounting policies and corrections of mistakes	**2**								0
Corrected balance as at 1 January (1+2)	**3**	307,085,400	0	25,226,834	-81,593,559	-86,567,943	1,710,684	0	165,861,416
Sale of financial assets available for sale	**4**						1,564,633		1,564,633
Change of fair value financial asset available for sale	**5**								0
Tax on items directly recognised or transferred from capital and reserves	**6**								0
Other profit/(loss) directly recognised in capital and reserves	**7**								0
Net profit/(loss) directly recognised in capital and reserves (004+005+006+007)	**8**	0	0	0	0	0	1,564,633	0	1,564,633
Profit/(loss) for the period	**9**					-29,073,287			-29,073,287
Total recognised income and expenses for the period (008+009)	**10**	0	0	0	0	-29,073,287	1,564,633	0	-27,508,654
Increase/(decrease) of share capital	**11**								0
Buy/sell of treasury shares	**12**		-286,692		-86,567,943	86,567,943			-286,692
Other changes	**13**								0
Transfer to reserves	**14**								0
Dividends paid	**15**								0
Distribution on income (014+015)	**16**	0	0	0	0	0	0	0	0
Balance at reporting date (003+010+011+012+013+016)	**17**	307,085,400	-286,692	25,226,834	-168,161,502	-29,073,287	3,275,317	0	138,066,070

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

Comparison of balance sheet as at 31st December 2017

	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	-	-	-	-	-	-	-	-	-	-	-	
1.	Cash and deposits w ith Central bank	-	-	-	-	-	-	-	-	-	-	-	
1.1.	Cash	-	-	-9,396	-	-	-	-	-	-	-	**-9,396**	**1**
1.2.	Deposits w ith Central bank		-168,257	-44,866		-	-	-	-	-	-	**-213,123**	**2**
2.	Deposits w ith banking institutions	-	-	-87,449	-476	-	-	-	-	-	-	**-87,925**	**3**
3.	Deposits w ith banking institutions	-	-	-	-	-	-	-	-	-	-	-	
4.	Ttreasury bills w ith ministry of finance and bills of exchan	-	-	-	-	-	-	-	-	-	-	-	
5.	Securities and other financial instruments held for trading	-	-	-	-	-262,465	-	-	-	-	-	**-262,465**	**4**
6.	Securities and other financial instruments available for sa	-	-	-	-	-	-	-	-	-	-	-	**5**
7.	Securities and other financial instruments held to maturity	-	-	-	-	-	-	-	-	-	-	-	
8.	Securities and other financial instruments not actively trad	-	-	-	-	-	-	-	-	-	-	-	
9.	Derivative financial assets	-	-	-	-	-	-	-39	-	-	-	**-39**	**6**
10.	Loans to financial institutions	-	-	-	-	-	-	-644,941	-	-	-	**-644,941**	**7**
11.	Loans to other customers	-	-	-	-	-	-	-	-	-	-	-	
12.	Investments in associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-19,414	**-19,414**	**8**
13.	Repossesed assets	-	-	-	-	-	-	-	-17,387	-	-1,694	**-19,081**	**9**
14.	Tangible asset (minus depreciation)	-	-	-1	-	-3,514	-	-3,727	-	-13,523	-3,354	**-24,119**	**10**
	ASSETS	-	**-168,257**	**-141,712**	**-476**	**-265,979**	-	**-648,707**	**-17,387**	**-13,523**	**-24,462**	**-1,280,503**	
	Difference	-	-	-	-	-	-	**-5,979**	-	-	-	-	

Reconciliation of the statutory financial statements with the suplementary schedules for CNB (continued)

	Total liabilities – Statutory financial statements		Client deposits	Borrowings	Hybrid instrument	Provision for liabilities and charges	Other liabilities	Deferred tax liability	**Liabilities**	Number
	Liabilities Supplmentary schedules for CNB	**-**	**-**	**-**	**-**		**-**	**-**	**-**	
1.	BORROWINGS FROM FINANCIAL INSTITUTIONS	**-**	-	-	-	-	-	-	-	
1.1.	Short-term borrow ings	-	-	-10,000	-	-	-	-	-10,000	**1**
1.2.	Long-term borrow ings	-	-	-12,802	-	-	-	-	-12,802	**2**
2.	DEPOSITS	**-**	-	-	-	-	-	-	-	
2.1.	Deposits of giro and current accounts	-	-77,972	-	-	-	-	-	-77,972	**3**
2.2.	Savings deposits	-	-42,746	-	-	-	-	-	-42,746	**4**
2.3.	Term deposits	-	-807,760	-	-	-	-		-807,760	**5**
3.	OTHER BORROWINGS	**-**	-	-	-	-	-	-	-	
3.1.	Short-term borrow ings	**-**	-	-120,219	-	-	-	-	-120,219	
3.2.	Long-term borrow ings	**-**	-	0	-	-	-	-	0	
4.	DERIVATIVE FINANCIAL LIABILITIES AND OTHER FINANCIAL LIABILITIES HELD FOR TRADING	**-**	-	-	-	-	-		0	
5.	5.ISSUED DEBT SECURITIES	**-**	-	-	-	-	-	-	-	
5.1.	Short-term issued debt instruments	**-**	-	-	-	-	-	-	0	
5.2.	Long-term issued debt instruments	**-**	-	-	-	-	-	-	0	
6.	ISSUED SUBORDINATED INSTRUMENTS	**-**	-	-	-	-	-	-	0	
7.	ISSUED HYBRID INSTRUMENTS	**-**	-	-	-46,933		-	-	-46,933	**6**
8.	INTEREST, FEES AND OTHER LIABILITIES	**-**	-11,140	-265	-88	-832	-10,960	-720	-24,005	**7**
	LIABILITIES	**-**	**-939,618**	**-143,286**	**-47,021**	**-832**	**-10,960**	**-720**	**-1,142,437**	
	Difference	-	-	-	-	-	**-5,979**		**-**	

Reconciliation of the statutory financial statements with the suplementary schedules for CNB (continued)

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**	**21,435**	**3,505**	**3,276**	**-197,235**	**138,066**	
Share capital	307,085	-307,085	-	-	-	-	-307,085	1
Profit/(loss) of the current year	-29,073	-	-	-	-	29,073	29,073	2
Retained profit/(loss)	-168,162	-	-	-	-	168,162	168,162	3
Legal reserves	1,235	-	-	-1,235	-	-	-	4
Statutory and other capital reserves	23,705	-	-21,435	-2,270	-	-	-	5
Unrealised profit/(loss) from value adjustment of financial assets avaiable for sale	3,276	-	-	-	-3,276	-	-3,276	6
Reserves resulting from protective transactions	0	-	-	-	-	-	-	
EQUITY	138,066	**-307,085**	**-21,435**	**-3,505**	**-3,276**	**197,235**	**-138,066**	
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 9,396 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 213,123 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 168,257 thousand) and in the Placements with other banks of the statutory financial statements in the amount of (HRK 44,866 thousand) account 31100 Foreign currency accounts with CNB.

3. The amount of deposits with banks (HRK 87,925 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 (HRK 476 thousand) and (HRK 87,499 thousand) in position Cash and deposits with other banks.

4. Amounts of securities and other available-for-sale financial instruments (HRK 262,465 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. Amounts of loans to financial institutions (HRK 39 thousand) from Loans to Financial Institutions of CNB reports have been reclassified to Loans and advances to customers of the statutory financial statements.

6. Loans to Other Clients (HRK 644,941 thousand) from Loans to Other Clients of the CNB reports were reclassified to Loans and advances to customers of the statutory financial statements (HRK 644,941 thousand). The difference in the amount of 5,979 relates to account 290 Deferred income of future period (HRK 4,304 thousand) and account 292951970 - revenues from foreign companies related to the future period (HRK 1,675 thousand), 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.

7. Repossessed assets reclassified to the sale portfolio in the amount of (HRK 19,414 thousand) from the item Repossessed Assets of the CNB reports have been reclassified to the item Other Assets of statutory financial statements.

8. The amount of tangible assets (HRK 19,081 thousand) from Assets (minus amortization) of the CNB reports is reclassified to the item Property and Equipment (HRK 17,387 thousand) and Other assets (HRK 1,694 thousand) of the statutory financial statements.

9. The amount of accrued interest on securities (HRK 3,514 thousand) from the Interest, fees and other assets of the CNB reports has been reclassified to the item Financial assets available for sale of the statutory financial statements.

   Amounts of interest accrued on Loans and advances to customers (HRK 3,727 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 13,523 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 3,354 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.

LIABILITIES

1. The amount of short-term borrowings received from financial institutions (HRK 10,000 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 12,802 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 77,972 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 42,746 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 807,760 thousand) from the Term deposits of the CNB report was reclassified to the Deposits of customers of the statutory financial statements.
6. The amount of subordinated instruments issued (HRK 46,933 thousand) from the subordinated instruments issued by the CNB report were reclassified to the Subordinated Instruments of the statutory financial statements.
7. The amount of short-term borrowings (HRK 120,218 thousand) has been reclassified from position Other borrowings in CNB report to Borrowings in the statutory financial statements.
8. The amount of accrued interest on term deposits (HRK 11,140 thousand) from the Interest, fees and other liabilities of the CNB report was reclassified to the Deposits of customers of the statutory financial statements.
9. Amounts of interest accrued on borrowings received (HRK 265 thousand) from the Interest, fees and other liabilities of the CNB report were reclassified to the Received Loans of statutory financial statements.
10. The amount of subordinated instruments (HRK 88 thousand) from the Interest, fees and other liabilities of the CNB report has been reclassified to the Hybrid Instruments of the statutory financial statements.
11. The amount of provisions for liabilities and expenses (HRK 832 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.
12. The amount of Deferred tax liabilities (HRK 720 thousand) from position of Fees, provisions and other liabilities of the CNB report to the deferred tax liabilities in statutory financial statements.

13. Amounts on other liabilities (HRK 10,960 thousand) were reclassified from the Interest, fees and other liabilities of the CNB report to the Other Liabilities of statutory financial statements. Statutory financial statements in position Other liabilities does not include group 290-Deffered income of future periods (HRK 4,304 thousand) and the amount HRK 1,675 thousand- account 292951970 – deferred income to the future period HETA. The same amount is excluded from Loans to other clients from Statutory financial statements, while in CNB report it goes under Interest, fees and other liabilities.

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 29,073 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 168,162 thousand) from retained earnings (loss) on 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 23,705 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 2,270 thousand and to the position Premium for issued shares in the amount HRK 21,435 thousand.
6. The amount of unrealized gain (loss) (HRK 3,275 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 and commission income	Fee and commission expense	Gains/losses from activities related to available for sale financial assets	Gains/(losses) from foreign exchange differences	Other income	Employee costs	Depreciation	General and administrative costs	Provisions for liabilities and charges	Profit/loss	Number
Profit and loss account I-XII 2017 in HRK 000	-	60,805	-20,624	7,038	-1,773	5,600	2,309	10,081	18,619	-3,558	-18,082	-52,250	-29,073	
Interest income	60,790	-60,790	-	-	-	-	-	-	-	-	-	-	-	
Interest expense	-23,503	-	20,615	-	-	-	-	-	-	-	2,888	-	-	1
Net interest income	37,287	-	-	-	-	-	-	-	-	-		-	-	
Fee and commission income	7,454	-	-	-7,454	-	-	-	-	-	-	-	-	-	
Fee and commission expense	-1,782	-	9	-	1,773	-	-	-	-	-	-	-	-	2
Net fee and commission income	5,672	-	-	-	-	-	-	-	-	-	-	-	-	
Profit/loss from investments in subsidiaries, associates and joint ventures	0	-	-	-	-	-	-	-	-	-	-	-	-	
Profit/loss from trading	3,226	-	-	-	-	-	-3,226	-	-	-	-	-	-	3
Profit/loss from embedded derivatives	0	-	-	-	-	-	-	-	-	-	-	-	-	
Profit/loss from asset not actively traded measured at fair value through profit or loss	0	-	-	-	-	-	-	-	-	-	-	-	-	
Profit/loss from asset available for sale	5,600	-	-	-	-	-5,600	-	-	-	-	-	-	-	
Profit/loss from asset held to maturity	0	-	-	-	-	-	-	-	-	-	-	-	-	
Profit/loss from hedging	0	-	-	-	-	-	-	-	-	-	-	-	-	
Income from investments in subsidiaries, associates and joint ventures	0	-	-	-	-	-	-	-	-	-	-	-	-	
Income from other ow nership investments	0	-	-	-	-	-	-	0	-	-	-	-	-	
Profit/loss from foreign currency differences	-917	-	-	-	-	-	917	-	-	-	-	-	-	4
Other income	10,081	-	-	-	-	-	-	-10,081	-	-	-	-	-	
Other expenses	-2,588	-	-	-	-	-	-	-	-	-	2,588	-	-	5
General administrative expenses and depreciation	-35,811	-	-	-	-	-	-	-	18,619	3,558	12,606	1,028	-	6
Net income from business before value adjustment and loan loss provisions	22,550	-	-	-	-	-	-	-		-		-	-	
Expense of value adjustment and loan loss provisions	51,623	-15	-	416	-	-	-	-	-	-	-	51,222	-	
PROFIT/LOSS BEFORE TAX	-29,073	-	-	-	-	-	-	-	-	-	-	-	29,073	
INCOME TAX EXPENSE	0	-	-	-	-	-	-	-	-	-	-	-	-	
PROFIT/LOSS OF THE CURRENT YEAR	-29,073	-	-	-	-	-	-	-	-	-	-	-	29,073	
Earnings per share	-	-	-	-	-	-	-	-	-	-	-	-	-	
Difference		-	-	-	-	-	-	-	-	-	-	-	-	-

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

1. The amount of the cost of deposit insurance (HRK 2,888 thousand) is reclassified from Interest expense in CNB reporting to General and administrative expenses of the statutory financial statements.

2. The amount of the cost of intermediation in the sale of the deposit (HRK 9 thousand) from the position Fee and commission expense of CNB reporting has been reclassified to the Interest expense and similar charges of the statutory financial statements.

3. The amount of profit from trading activities (HRK 3,226 thousand) from position profit/loss from trading activities from CNB reporting has been reclassified to position Gains less losses from foreign exchange differences of statutory financial statements.

4. Foreign exchange gains/losses (HRK 917 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 statutory financial statements.

5. Other operating expenses (HRK 10,081 thousand) from Other expenses in CNB reporting were reclassified to General and administrative expenses of the statutory financial statements.

6. The depreciation and general administrative expenses (HRK 35,960 thousand) from the General and administrative expenses and depreciation of CNB reporting has been reclassified to the Amortization of the statutory financial statements (HRK 3,708 thousand), Provisions for liabilities and charges and identified losses (HRK 1,028 thousand), General administrative expenses (HRK 12,606 thousand) and position Employee expenses (HRK 18,619 thousand).

7. The amount of value adjustments and provisions for losses from position of Expense of value adjustment and loan loss provisions (HRK 35,960 thousand) of CNB reporting has been reclassified to the Provisions for liabilities and charges (HRK 51,222 thousand), Interest income (HRK – 15 thousand) and Fee and commission income (HRK 416 thousand) of the statutory financial statements.

Comparison of comprehensive income statement

Statement on comprehensive income (HRK)		Loss for year	Net unrealised gains from AFS	Deffered tax for AFS	Other comprehensive income	Total loss
1. NET PROFIT/(LOSS) FOR THE PERIOD	(29.073)	(29.073)				
2. OTHER COMPREHENSIVE PROFIT (AOP 078+083)	1.565				1,565	
2.1. Items which will not be subsequently reclassified in profit or loss (AOP 078 to 083)						
2.1.1. Tangible assets						
2.1.2 Intangible assets						
2.1.3. Defined benefit plan actuarial gains/(losses)						
2.1.4. Long-term assets and groups available for sale						
2.1.5. The share of other recognized income and expense of entities that is calculated by the equity method						
2.1.6. Tax on items that will not be reclassified						
2.2. Items which may be subsequently reclassified in profit or loss (AOP 085+089+093+098+102+106+107)						
2.2.1. Protection if net investments in foreign affairs (effective share)(AOP 086 to 088)						
2.2.1.1. Gains or loss in equity						
2.2.1.2. Transferred to gains or loss						
2.2.1.3. Other reclassifications						
2.2.2 Replacement of foreign currency (AOP 090+091+092)						
2.2.2.1. Gains or loss in equity						
2.2.2.2. Transferred to gains or loss						
2.2.2.3. Other reclassifications						
2.2.3. Protection of cash flows						
2.2.3.1. Gains or loss in equity						
2.2.3.2. Transferred to gains or loss						
2.2.3.3. Transferred in the intial book value of the hedged items						
2.2.3.4. Other reclassifications						
2.2.4. Financial assets available for sale (AOP 099+100+101)	1.560		1.560			
2.2.4.1.Gains or loss in equity						
2.2.4.2. Transferred to gains or loss						
2.2.4.3.Other reclassifications						
2.2.5. Long-term assets and groups available for sale (AOP 103 to 105)						
2.2.5.1.Gains or loss in equity						
2.2.5.2. Transferred to gains or loss						
2.2.5.3.Other reclassifications						
2.2.6. Share of other recognised income and revenues from investments in subsidiars, venture capital and associated companies						
2.2.7. Income tax for items which may be reclassified in profit or loss (-)	5			5		
3. Total comprehensive income of current year (AOP 075+076)	(27.508)					-27,508
4. Minority interest						
5. Owners of parent company						
Differences	-	-	-	-	-	-

The amount (1,560 thousand kuna) of the financial assets available for sale (gains or losses on equity) of the special financial statements is reclassified to the net unrealized gains on the assets available for sale of the underlying financial statements.

The amount of HRK 5 thousand from the income tax item that relates to items that can be reclassified to profit or loss of separate financial statements is reclassified to the deferred tax on financial assets available for sale in financial reports.

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 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),
- 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 2017, 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 2017 amounted to HRK 85,833 thousand.

3) The Bank employs 92 full-time employees.

4) Net loss in 2017 amounted to HRK 29,073 thousand and the Bank did not have any obligation to pay tax on profit.

5) The bank have not received public subsidies during 2017.