

KARLOVAČKA BANKA d.d.
Ivana Gorana Kovačića 1, Karlovac

**Annual Financial Statements
and Independent Auditor's Report
for the year 2017**

KARLOVAČKA BANKA D.D. KARLOVAC
ANNUAL FINANCIAL STATEMENTS FOR THE YEAR 2017
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REPORT OF THE MANAGEMENT BOARD
ACCOMPANYING AUDITED FINANCIAL STATEMENTS FOR THE
PERIOD

01 January – 31 December 2017

Business environment

The stable growth of the economy, despite the emerging crisis in Agrokor, another record tourist season, exit from the EU's Excessive Deficit Procedure (EDP) and announcement of first steps towards entry into the eurozone are the main features of the Croatian economy in 2017.

Macroeconomic forecast indicates the expected continuation of positive trends so the projections of the final rates of change of basic economic indicators for 2017 are as follows:

Change rates

	2017
GDP	3,1
Private consumption	3,8
Government consumption	1,7
Fixed capital investments	4,2
Exports of goods and services	6,6
Imports of goods and services	8,5
LABOR MARKET	
Number of employed persons (rate)	1,8
Unemployment rate (administ.)	12,4
PRICES	
Consumer price index (aver.r.)	1,2
EXTERNAL SECTOR	
Current Payments Balance Sheet (% GDP)	3,7
Gross external debt (% GDP)	79,9
MONETARY TRENDS	
Placements with the private sector (trans.)	3,0
Placements with the private sector (nom.)	0,6

- **Source: CNB publication – Macroeconomic forecasts and trends, December 2017**

At the year level for 2017, the real GDP growth could amount to 3.1%. Growth of exports of goods and services is expected to contribute most significantly to the economic growth but a positive contribution could be expected from other components of domestic demand. Growth of total exports could be intensified in 2017 and could reach 6.6%. Slightly faster real growth of exports of goods is expected, in line with further recovery of Croatia's main foreign trade partners.

Among the components of domestic demand, further intensifying of household consumption is expected, due to increase in employment, faster growth of salaries in private sector which is contributed by legal changes to income taxation, increase in salaries to public and civil employess and increase in household loans. Thus

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household consumption could increase by 3.8% in 2017 and, of all components of domestic demand, give the most significant positive contribution to overall economic growth.

Government spending could also increase and thereby positively contribute to GDP growth. When it comes to investment activity, growth in 2017 is expected to slow down (4.2% when compared to 5.3% in 2016). Accelerating growth of the total exports and personal consumption could result in high growth in imports of goods and services.

With regard to employment trends in the first eleven months, it is estimated that at 2017 level the employment growth could increase by 1.8% when compared to previous year.

The average annual consumer price inflation rate could accelerate to 1.2% in 2017 (from 1.1% in 2016).

Financing conditions in the domestic sector mainly continued to improve in 2017. Financing costs for businesses and households show a continuation of the downward trend. The continuation of maintaining the banking system's high liquidity and reducing the cost of bank resources contributed to favourable interest rate movements for private sector financing. As a result, the national reference rate and the Euribor have also declined steadily to record low levels.

Standards for approving household loans continued to alleviate. Reducing the standards for approving housing and consumer loans and other loans was primarily a result of competition among banks, lower costs of resources and positive expectations for general economic activity. The main factors of the growth in demand for housing loans are consumer confidence, favourable real estate market prospects as well as the positive impact of the government's housing loan subsidy program, which has probably resulted in a temporary halt in growth in demand for other types of loans.

It is estimated that in 2017 total placements will increase by 3.0% (based on transactions). On the other hand, the nominal placement status in 2017 will grow at a significantly lower rate, due to the impact of sales of non-revenue placements.

Financial result of the Bank

In the above described business environment Karlovačka banka has made some significant positive moves in its operations and for that reason we consider the year 2017 to be the most successful year, when observing the whole period since 2014 when the actual consolidation process begun and recapitalization and complete change of ownership and management structure took place.

According to the audited financial statements Karlovačka banka d.d. realized a profit after taxation in 2017 in the amount of HRK 7,669 thousand.

The Bank's business in 2017 was characterized primarily by the continued strengthening of the business result from operating activities, with simultaneous positive structural changes in assets and liabilities.

The achieved operating result was primarily influenced by several positive factors:

- Further growth in net interest income
- Further growth in net income from fees and commissions

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- Further growth in income from trading activities
- Further decrease in general and administrative costs and thusly achieved further increase in business efficiency

Negative factors impacting the reduction of the final business result related to:

- Recorded realized negative effects from the sale of assets available for sale, being the portfolio of equity securities, but with simultaneous positive effect on the amount of the Bank's capital
- Recorded negative effects from the sale of foreclosed assets that were however annulled by earned extraordinary income on other grounds

The impact of value adjustment and loss provisioning on the final result was also relatively high in 2017, relating mainly to:

- Additional provision for bad loans portfolio dating back from before year 2010, primarily based on the criteria for their age structure and
- Partly to provisions made for a single court dispute

The total amount of value adjustments and provisions for losses amounted to HRK 27.5 million, which is approximately 22% less than the amount the Bank recorded in 2016, with statement that in 2018, based on this type of expense, the Bank can expect relatively smaller and nominal impact on the final business result. The latter is due to the significant reduction of bad loans in 2017 as well as the expected reduction in their level.

Intensified activities in the sale of the foreclosed assets resulted in a decrease by 17% of this property position, which reduced its share in assets from 3.8% to 3.0%.

At year end, the Bank's assets amounted to HRK 2,181,373 thousand, meaning that the total assets position recorded an increase of 2% when compared to the end of 2016. However, bearing in mind the high share of the foreign currency component of assets in total assets, with the simultaneous appreciation of kuna currency in 2017, it can be stated that the Bank's assets recorded a real growth of 2.3%.

Net interest income amounted to HRK 51,605 thousand which was 15.3% higher than in 2016; the growth was achieved in terms of decreased interest income by 5.3% and decreased interest expenses by 30.9%.

Net income from fees and commissions amounted to HRK 16,990 thousand which was 12.7% higher than in 2016. Growth was a result of increase in income from fees and commissions by 7.9% with simultaneous decrease in commission expenses by 1.8%.

Other non interest bearing income and expense relate mainly to:

- Trading income in the amount of HRK 8,713 thousand or 18.6% higher than the previous year
- Income from valuation of debt securities portfolio, valued at fair value, in the amount of HRK 3,018 thousand
- Income from the sale of a portion of debt securities portfolio in the 'held to maturity' category in the amount of HRK 958 thousand
- Expense from above mentioned sale of assets in the portfolio available for sale and the portfolio of equity securities with negative effect on the business result in the amount of HRK 3,594 thousand, but at the same time having achieved approximately the same positive effect to the level of the Bank's capital

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Total operating expenses amounted to HRK 43,308 thousand or 1.8% less than in 2016. The Bank's cost/income ratio (**C/I ratio**) was 60%; it was improved compared to that of 2016 for 3 p.p.

Net operating income before value adjustments and provisions for losses amounted to HRK 35,178 thousand or 20.1% higher than in 2016.

The basic positions of assets and liabilities are as follows:

- **Net liquid assets** (cash and deposits with CNB, deposits with banks, loans to financial institutions, highly liquid debt securities) amounted to HRK 944 million or 1.3% more than at the end of 2016
- **Net loans to other customers** at the end of 2017 amounted to HRK 1,107 million or 3.7% more than at the end of 2016. Loans to households recorded a growth of 6.1%, loans to so-called other companies recorded a growth of 5.8% and loans to public sector decreased by 2.3%
- **Customer deposits** amounted to HRK 1,930 million which is an increase by 3% when compared to the end of 2016. Term deposits decreased by 3.2% while a significant growth of 22.4% was recorded in sight deposits and 3.1% in savings deposits. With a participation of 88.5% in the total liabilities of the Bank, customer deposits remain the primary and stable source of financing for the Bank;
- **Loans from financial institutions** amounting to HRK 8.5 million represent only 0.4% of total sources of financing of the Bank; previously low amount has been reduced further in 2017;
- **The Bank's capital** amounted to HRK 141.4 million at the end of December, accounting for 6.5% of the total Bank's sources and, together with paid hybrid instruments accounted for 9.0% of total sources.

At the end of 2017, according to the audited report, the Bank showed regulatory capital in the amount of HRK 181 million and regulatory capital adequacy ratio of 17.00% which is satisfactory above the statutory and internally set minimum.

Through continuous offerings at competitive conditions the Bank has achieved a significant increase in placements, in particular housing and non-purpose retail loans as well as loans for the financing of small and medium sized businesses in which area the Bank continued cooperation with local government units through special credit lines.

A further increase in transaction accounts of individuals and business entities was recorded as well as users of mobile and internet banking, both retail and business which resulted in the expected further migration of transactions from branches. In order to ensure wide availability of its products and services and following banking trends, the Bank has continued to invest in new technology solutions in the past year. In 2017 all dial up EFTPOS terminals were replaced by new terminals connected via the Internet. The EFTPOS network is moving now to a touchless technology. Mobile EFTPOS devices are also available to our customers. In 2017 the Bank started the process of complete replacement of the ATM network in accordance with the latest IT trends and legal regulations, which will be completed at the beginning of the first quarter of 2018.

Expectations for 2018

Macroeconomic forecasts for 2018 point to the expected growth of the Croatian economy at a rate of 2.9%.

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	2018
GDP	2,9
Private consumption	3,2
Government consumption	1,5
Fixed capital investments	7,1
Exports of goods and services	5,8
Imports of goods and services	7,4
LABOUR MARKET	
Number of employed persons (rate)	1,5
Unemployment rate (administ.)	11,3
PRICES	
Consumer price index (aver.r.)	1,6
EXTERNAL SECTOR	
Current Payments Balance Sheet (% GDP)	2,6
Gross external debt (% GDP)	74,9
MONETARY TRENDS	
Placements with the private sector (trans.)	4,1
Placements with the private sector (nom.)	4,1

• **Source: CNB publication - Macroeconomic forecasts and trends, December 2017**

Real GDP could continue to increase in 2018, although the rate could be somewhat lower than in the previous year (2.9%). The slowdown in economic activity is primarily a reflection of the expected slowdown in exports of goods and services and it is assumed that the exports of tourism services in 2018 could slow down after a few years of exceptionally strong growth.

In addition, personal consumption growth is expected to slow down due to the disappearance of the beneficial effects of tax changes and the consequent slowdown in real net wage growth, but also a somewhat lower rate of employment growth. Household consumption will continue to contribute most of all components of domestic demand to the growth of GDP, given the continued favourable labour market performance. At the same time the growth of gross investments into fixed capital is expected to intensify, owing to more substantial use of EU funds, which could bring the contribution of capital investment in the economic growth closer to the contribution of personal consumption.

Favourable trends in the labour market are expected to continue during 2018, although somewhat less intense.

The acceleration of average annual consumer price inflation is forecasted to 1.6% in 2018.

As a result of growth in foreign trade shortages, due to further recovery of domestic economic activity and strengthening of import demand and noticeably lesser effect of Agrokor, a reduction of surplus in the current account can be expected in 2018. Regarding financial flows, the continuation of dilution of domestic sectors abroad is certain. On the other hand, the gradual recovery of direct equity investments in Croatia is expected, although it may be restricted by increased uncertainty and risk

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aversion of global investors and also by the long-term structural weaknesses of the Croatian economy.

Monetary policy will continue to be expansive in 2018. This implies the support of high liquidity of the monetary system which favors the maintenance of low domestic interest rates and acceleration of growth in placements, which has a beneficial effect on overall economic trends. Medium-term risks are mainly related to the possible tightening of monetary policy in global environment, primarily in the euro zone, which may also reflect to the monetary policy in Croatia. This, in turn, suggests that further consolidation of public finances and reduction of macroeconomic imbalances should continue.

The Bank's strategy will be based on the following management principles in the forthcoming period:

- Dedication to customers in order to maintain loyalty of existing clients and gain new ones
- Equal focus on retail and corporate customers with the aim of achieving and maintaining a better diversification of risk
- Maintaining the existing dispersed branch network in the local, regional market where the Bank needs to further strengthen its market position, which is also a good infrastructure base for obtaining primary sources of financing
- Preference for a stable deposit base that will support increased credit activity towards customers with whom the Bank has established or will establish a comprehensive business relationship
- Continuous change in the structure of the balance sheet for the gradual increase in interest bearing assets and operating profit, as well as the total profit which is expected to be the exclusive generator of the Bank's credit growth
- Responsible management of all risks, and within the credit risk maintenance and continuous improvement of credit risk monitoring and control process

Activities and measures that the Bank will undertake in 2018 will be aimed at achieving further growth in net operating profit through the continuation of:

- growth of loans and investments in debt securities investment portfolio
- decrease in non-performing loans
- improvement of business efficiency
- sale of assets acquired in lieu of uncollected receivables

The fact that the new majority owners are locally based is a legitimate expectation for the Bank as well as for its clients and the wider local community that the Bank will continue to cultivate its brand of a regional bank which it has been building for more than 60 years of its existence. In addition to providing competitive and attractive financial conditions, both for loans and deposits, the primary interest of the Bank will continue to be the encouragement of domestic, particularly regional economic recovery, with the aim of further strengthening the regional presence.

I would like to thank our customers and shareholders for their trust and the members of the Supervisory Board for their continuous support and cooperation.

The Bank has based its activities and will continue to rely on professional and organized team of workers whom, on this occasion, I would like to thank for their professional work and dedication.

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Karlovac, 30th April 2018

PRESIDENT OF THE MANAGEMENT BOARD



Željka Surač



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KARLOVAČKA BANKA
Joint-stock company
SUPERVISORY BOARD

REPORT ON THE WORK OF THE SUPERVISORY BORD IN 2017

The Supervisory Board of Karlovačka banka d.d. is composed of: Nedjeljko Strikić, President, Bernarda Ivšić, Deputy President and Željko Tintor, Member.

The Supervisory Board met regularly and held a total of 30 meetings in 2017, of which 23 were held by fax.

In addition to making decisions that are within the responsibility of the Supervisory Board under the provisions of the Companies Act, the Credit Institutions Act and the Bank's Statute, the Supervisory Board's work has been directed, in cooperation with the Bank's Management Board, to the development of the Bank's business and efficient and reliable management of the Bank.

During 2017 the Supervisory Board supervised the Management Board's management of the Bank's operations and established that the Bank had operated in accordance with the law and acts of the Bank as well as the decisions of the General Assembly.

The Supervisory Board confirms that the annual financial statements have been prepared in accordance with the Bank's records and that they show true and correct property status and business condition of the Bank.

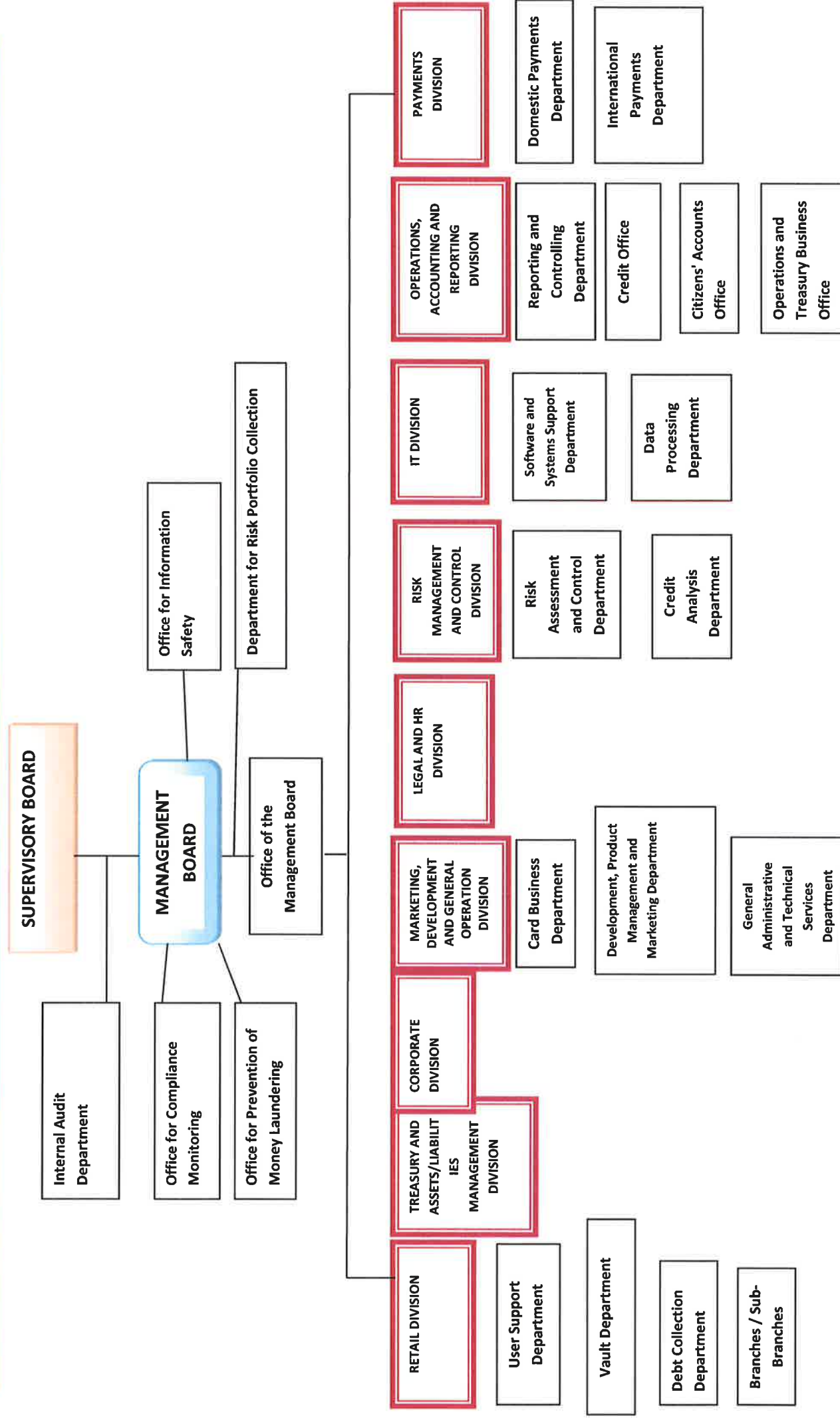
Karlovac, 12th February 2018

President of the Supervisory Board

mr.sc. Nedjeljko Strikić



3. Management and Corporate Governance - Organisational chart of Karlovačka banka d.d. – December 2017



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Correspondent Banks-Account Relationships

Curr	Bank	Swift/BIC	Account No	CP	FX	MM
AUD	Hrvatska poštanska banka dd, Zagreb	HPBZHR2X	HR3423900011900000145	CP	FX	MM
CAD	Zagrebacka banka dd, Zagreb	ZABHR2X	HR3423600001900000547	CP	FX	MM
CHF	Zagrebacka banka dd, Zagreb	ZABHR2X	HR3423600001900000547	CP	FX	MM
CZK	Zagrebacka banka dd, Zagreb	ZABHR2X	HR3423600001900000547	CP	FX	MM
DKK	Danske Bank A/S, Copenhagen	DABADKKK	DK0230003996057542	CP	FX	MM
EUR	Banco Bilbao Vizcaya Argentaria SA, Madrid	BBVAESMM	ES3801820061710080109344	CP		
EUR	Bayerische Landesbank, Munich	BYLADEMM	DE47700500000001169673	CP	FX	MM
EUR	Erste Group Bank AG, Vienna	GIBAATWG	AT712010040331963300	CP	FX	MM
EUR	Intesa Sanpaolo SpA, Milan	BCITITMM	IT42J0306940101100100004122	CP		
EUR	UniCredit Bank Austria AG, Vienna	BKAUATWW	AT801100001016506600	CP		
EUR	UniCredit SpA, Milan	UNCRITMM	IT40L0200832978000000000925	CP	FX	MM
EUR	T2HR	KALCHR2X	HRPKALC2400008	CP	FX	MM
EUR	SEPA	KALCHR2X		CP		
GBP	Zagrebacka banka dd, Zagreb	ZABHR2X	HR3423600001900000547	CP	FX	MM
JPY	Zagrebacka banka dd, Zagreb	ZABHR2X	HR3423600001900000547	CP	FX	MM
NOK	DNB Bank ASA, Oslo	DNBANOKK	NO2270010205253	CP	FX	MM

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Curr	Bank	Swift/BIC	Account No	CP	FX	MM
SEK	Skandinaviska Enskilda Banken AB , Stockholm	ESSESESS	SE5650000000052018512463	CP	FX	MM
EUR	Raiffeisenbank Austria d.d. , Zagreb	RZBHHR2X	EUR HR4524840081900001492	CP	FX	MM
CHF			CHF HR6024840081900001513	CP	FX	MM
USD	Raiffeisenbank Austria d.d. , Zagreb	RZBHHR2X	USD HR8224840081900001505		FX	MM
AUD,CAD, CHF,EUR, GBP,SEK	Hrvatska poštanska banka dd , Zagreb	HPBZHR2X	HR3423900011900000145	CP	FX	MM
AUD,CAD, CHF,CZK, DKK,EUR, GBP,HUF, JPY,NOK, SEK	Erste & Steiermaerkische Bank dd , Rijeka	ESBCHR22	HR4724020061970000118	CP		
USD	Erste&Steiermaerkische Bank dd , Rijeka	ESBCHR22	HR4724020061970000118	CP		
AUD,CAD, CHF,DKK, EUR,GBP, SEK	Privredna banka dd , Zagreb	PBZGHR2X	HR2023400091990016076	CP		
AUD,CAD, CHF,CZK, DKK,EUR, GBP,JPY, NOK,SEK	Zagrebačka banka dd , Zagreb	ZABHR2X	HR3423600001900000547	CP	FX	MM
USD	Zagrebačka banka dd , Zagreb	ZABHR2X	HR3423600001900000547		FX	MM
HRK	HSVP (CROATIAN RTGS)	KALCHR2X		CP		

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BRANCH NETWORK AND CONTACT DETAILS

Branches and sub-branches

BRANCHES

Zagreb

Preradovićeve 15
10 000 Zagreb
Phone (+385 1) 6041 005
Fax (+385 1) 4813 557
www.kaba.hr

Rijeka

Prolaz Marije Krucifikse Kozulić 4 (Zagrad)
51 000 Rijeka
Phone (+385 51) 324 507
Fax (+385 51) 323 641
www.kaba.hr

SUB-BRANCHES / OFFICES

Head office

Ivana Gorana Kovačića 1
47 000 Karlovac
Phone (+385 47) 417 525
Fax (+385 47) 614 204
www.kaba.hr

Office Grabrik

Maksimilijana Vrhovca 3
47 000 Karlovac
Phone (+385 47) 421 310
Fax (+385 75) 802 087

Vladka Mačeka

Vladka Mačeka 8
47 000 Karlovac
Phone (+385 47) 417 412

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Phone (+385 47) 715 772

Fax (+385 75) 802 090

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47 000 Karlovac

Phone (+385 47) 412 171

Fax (+385 75) 802 089

www.kaba.hr

Duga Resa

Jozefinska cesta 15

47 250 Duga Resa

Phone (+385 47) 844 537

Fax (+385 47) 801 748

www.kaba.hr

Jastrebarsko

Zrinski-Frankopanska 2

10 450 Jastrebarsko

Phone (+385 1) 6270 203

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Žakanje

Žakanje 95 d

47 276 Žakanje

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Statement of application of the Corporate Governance Code

As a company with A series shares listed on the Zagreb Stock Exchange, Karlovačka banka d.d. applied voluntarily the recommendations of the Corporate Governance Code in 2017, while deviating from some recommendations and guidelines of the Code, taking into account specifics in the banking sector.

Detailed explanations regarding the non-application of or deviation from the specific recommendations of the Code are given in the annual questionnaire which forms an integral part of the Code that is submitted to the Zagreb Stock Exchange d.d. and HANFA for public announcement and is also available on the Bank's website.

Rules for appointing and recalling members of the Management Board are contained in the Bank's Statute. President and Members of the Management Board shall be appointed by the Bank's Supervisory Board for a maximum period of five years, with the possibility of re-election.

The procedure for amending the Statute is regulated by the Article 74 of the Bank's Statute and accordingly the Statute may be amended by the decision of the General Assembly and in accordance with the law and the Statute of the Bank.

The powers of the Supervisory Board and the Management Board of the Bank are regulated by the Bank's Statute in accordance with applicable regulations, the Companies Act and the Credit Institutions Act.

The system of internal controls and risk management in relation to the financial reporting process is established through the Internal Audit Department, the Risk Management and Control Division and the Office for Compliance Monitoring.

The stock control is held by two shareholders, Mr Marko Vuković and Mr Ivan Žabčić, each holding 6,636,710 shares of the Series B, or 37.56% each, that is, 75.12% in total. Shares of the Series B are not listed on the Stock Exchange.

The manner in which the General Assembly operates is regulated by the Statute of the Bank in accordance with the Companies Act. The decisions of the General Assembly are made by the majority of votes cast at the General Assembly, unless a qualified majority is required for a particular decision.

The right to participate in the General Assembly is given to shareholders who are registered as shareholders of the Bank at the depository of the Central Depository Clearing Company (SKDD d.d.) at the beginning of the 21st day prior to the General Assembly and who have reported their participation no later than 6 days before the General Assembly is held, not counting the date of receipt of the application by the Bank.

In accordance with the provisions of the Capital Market Act, the invitation to the General Assembly is published on the web site of the Bank, the Zagreb Stock Exchange, HANFA and through HINA announcement. The Invitation contains details explanations and instructions to shareholders regarding the application, powers of attorney and all necessary forms.

The number of members of the Management Board and the Supervisory Board is stipulated by the Bank's Statute. The Management Board consists of the president and two members, while the Supervisory Board consists of the president, deputy president and three members. The Supervisory Board appoints a combined Risk and Auditing Board which consists of three members.

Operations of the Management Board, the Supervisory Board and the Risk and Auditing Board are governed by particular rules of procedure.

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The Bank adopts policies that prescribe the target structure of the Management Board and the Supervisory Board with regard to education and profession. Policy implementation is ensured when determining proposals for candidates of individual bodies and assessing the suitability of a particular candidate as well as assessing the adequacy of an individual body as a whole.

Pursuant to the provisions of the Article 250a, paragraph 4 and the Article 272p of the Companies Act and the Article 22 of the Accounting Act, this Statement is a separate section and an integral part of the Annual Financial Statements of the Company for the year 2017.

Karlovac, 30th April 2018

President of the Management Board:

Željka Surač



KARLOVAČKA BANKA D.D. KARLOVAC
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CORPORATE GOVERNANCE CODE
ANNUAL QUESTIONNAIRE

BASIC INFORMATION ABOUT THE COMPANY:

Karlovačka banka d.d.

CONTACT PERSON AND PHONE NUMBER:

Branka Bakić, 385 47 417 508

DATE OF THE QUESTIONNAIRE:

11th April 2018

All questions contained in this questionnaire refer to the one-year period to which the annual financial statements refer as well.

For questions contained in the questionnaire, it is necessary to provide the explanation only if so explicitly requested.

The answers in the questionnaire are evaluated at a certain percentage which is expressed at the beginning of each chapter.

COMMITMENT TO PRINCIPLES OF CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

Answers to this set of questions carry 20% of the overall indicator of compliance with the Corporate Governance Code.

Question number	Question
Answer YES/NO	Explanation
1	Has the company accepted the application of the Corporate Governance Code of the Zagreb Stock Exchange?
YES	
2	Does the company have its own Corporate Governance Code?
NO	
3	Are there adopted principles of the Corporate Governance Code within the internal policies of the company?
YES	
4	Does the company publish the compliance with the principles of corporate governance within its annual financial statements?
YES	

SHAREHOLDERS AND GENERAL ASSEMBLY

Answers to this set of questions carry 30% of the overall indicator of compliance with the Corporate Governance Code.

Question number	Question
Answer YES/NO	Explanation
5	Is the company in a relationship of mutual shareholding with another company or companies? (if yey, explain)
NO	
6	Does each share of the company have the right to one vote? (if not, explain)
	NO Ordinary shares entitle to 1 vote and preferred shares entitle to 10 votes

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- 7 Are there cases in which some shareholders are treated differently? (if yes, explain)
- NO
- 8 Is the issuance of the power of attorney for voting at the General Assembly extremely simplified and without strict formal requirements? (if no, explain)
- YES
- 9 Has the company provided for empowered persons to vote in accordance with instructions of shareholders who for any reason are not able to vote at the assembly, without any special expenses? (if no, explain)
- NO not prescribed by the Statute
- 10 When convening the assembly, did the Management Board or the Board of Directors of the company set a date to be used for determining the status of the shares in the registry, which will be applicable for the exercise of voting rights at the assembly, in such a way that it is the date before the assembly and that it is the date no more than six days before the assembly? (if no, explain)
- YES
- 11 Did the company publish the agenda of the assembly and all the relevant information and documents along with explanations related to the agenda on its website and made them available to shareholders in the company's premises since the first public announcement of the agenda? (if no, explain)
- YES
- 12 Does the decision on the payment of the dividend or the advance contain the date on which the shareholder acquires the right to a dividend payment and the date or period when the dividend is paid? (if no, explain)
- YES
- 13 Is the date of the payment of the dividend or the advance set no more than 30 days after the date of the decision? (if no, explain)
- YES
- 14 Are there cases when certain shareholders are favored at dividend or dividend advance payments? (if yes, explain)
- YES preferred shareholders
- 15 Is it possible for shareholders to participate and vote at the General Assembly of the company using modern communication technology? (if no, explain)
- NO not prescribed by the Statute
- 16 Are the conditions for participating at the General Assembly and using the right to vote set (whether or not permitted by law or statute), such as advance attendance, certification of power of attorney, etc.? (if yes, explain)

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YES application must be received 6 days before the General Assembly, prescribed by the Statute

- 17 Did the Management Board of the company announced publicly the decisions of the General Assembly?

YES

- 18 Did the Management Board of the company publicly disclose information about possible lawsuits to contest these decisions? (if no, explain)

YES

MANAGEMENT AND SUPERVISORY BODIES

STATE NAMES OF THE MANAGEMENT BOARD MEMBERS AND THEIR AND FUNCTIONS:

Željka Surač, President of the Management Board

Marino Rade, Member of the Management Board

Ljiljana Movre, Member of the Management Board

STATE NAMES OF THE SUPERVISORY BOARD MEMBERS AND THEIR FUNCTIONS:

Nedjeljko Strikić, President

Bernarda Ivšić, Deputy President

Željko Tintor, Member

Answers to this set of questions carry 20% of the overall indicator of compliance with the Corporate Governance Code.

Question number	Question
Answer YES/NO	Explanation

- 19 Did the Supervisory Board or the Management Board make a decision on the framework plan of their activities which includes a list of regular sessions and data that should be made available to the members of the Supervisory Board on a regular and timely basis? (if no, explain)

NO Not prescribed by the Statute.

- 20 Did the Supervisory Board or the Management Board pass the internal code of conduct?

YES

- 21 Does the company have independent members in the Supervisory Board and the Management Board? (if no, explain)

YES

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

YES

- 23 Is the reward or fee received by members of the Supervisory Board and the Management Board wholly or partly determined by the contribution to the company's performance? (if no, explain)

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NO It depends on the average income of all employees.

- 24 Is the remuneration of the members of the Supervisory Board and the Management Board determined by the decision of the General Assembly or the Statute (if no, explain)

YES

- 25 Are detailed information on all remuneration and other income from the company or from the affiliated company of each individual member of the Management Board and executive directors, including the remuneration structure, disclosed publicly (in the annual financial statements)? (if no, explain)

NO Depending on the size and the risk profile of the Bank, the total amounts are shown.

- 26 Are detailed information on all remuneration and other income from the company or the related persons of each individual member of the Supervisory Board and the Board of Directors, including the remuneration structure, disclosed publicly (in the annual report)? (if no, explain)

NO Depending on the size and the risk profile of the Bank, the total amounts are shown.

- 27 Does each member of the Supervisory Board and the Management Board report to the company any changes regarding the acquisition, dismissal or the possibility of exercising voting rights for the shares of the company immediately and not later than three working days from the day of the transaction? (if no, explain)

NO There were no such acquisitions.

- 28 Are all the activities, in which the members of the Supervisory Board and the Board of Directors or their related persons and the company and its associated persons participated, clearly stated in the company's reports? (if no, explain)

NO Depending on the size and the risk profile of the Bank, the total amounts are shown.

- 29 Are there any contracts or agreements between members of the Supervisory Board and the Board of Directors of the company and the company itself?

NO

- 30 Have they been previously approved by the Supervisory Board or the Board of Directors? (if no, explain)

NO

- 31 Are the essential elements of such contracts or agreements contained in the annual financial statements? (if no, explain)

NO

- 32 Has the Supervisory Board or the Management Board set up a nomination committee?

NO There is no such obligation.

- 33 Has the Supervisory Board or the Management Board set up a remuneration committee?

NO There is no such obligation.

KARLOVAČKA BANKA D.D. KARLOVAC
ANNUAL FINANCIAL STATEMENTS FOR THE YEAR 2017

34 Has the Supervisory Board or the Management Board set up an audit committee?

YES

35 Is the majority of the audit committee members elected from among the independent members of the Supervisory Board? (if no, explain)

NO There is no such obligation.

36 Has the audit committee followed the integrity of financial information of the company, in particular the correctness and consistency of accounting methods used by the company and the group to which it belongs, including the criteria for consolidating financial statements of the companies belonging to the group? (if no, explain)

YES

37 Has the audit committee assessed the quality of the internal control and risk management system with the aim of adequately identifying, announcing publicly and managing the main risks to which the company is exposed (including the risks associated with compliance to regulations)? (if no, explain)

YES

38 Has the audit committee worked to ensure the effectiveness of the internal audit system, in particular by making recommendations when selecting, appointing, re-appointing and dismissing the head of the internal audit department and the available resources and assessing the management of internal findings and recommendations of the internal audit? (if no, explain)

YES

39 If there is no internal audit in the company, has the audit committee made an assessment of the need to establish such a function? (if no, explain)

NE There is an internal audit function.

40 Has the audit committee monitored the independence and objectivity of an external auditor, particularly with regard to the rotation of authorized auditors within the audit firm and the fees for external audit services paid by the company? (if no, explain)

YES

41 Has the audit committee monitored the nature and quantity of services that are not audit services but which the company receives from the audit firm or audit firm's related persons? (if no, explain)

YES

42 Has the audit committee drawn up rules on which services an external audit firm and associated persons can not provide to the company, which services can only be provided with prior consent of the committee and which services can be provided without prior consent? (if no, explain)

NO The audit firm does not provide services to the company.

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- 43 Has the audit committee considered the efficiency of external audit and senior management in view of recommendations provided by an external auditor? (if no, explain)

NO There were no recommendations

- 44 Has the documentation relevant for the work of the Supervisory Board and the Board of Directors been delivered on time to all members? (if no, explain)

YES

- 45 Have all the decisions and voting records been recorded in the minutes of the Supervisory Board or the Board of Directors meetings? (if no, explain)

YES

- 45 Has the Supervisory Board, that is, the Management Board made an assessment of their work in the last period which includes valuation of contribution and competence of each individual member as well as the joint work of the board, the evaluation of work of the established committees and the evaluation of achieved goals in relation to the company's objectives?

NO Not prescribed by the Statute.

- 46 Have the detailed information on all income and remuneration received by each member of the Management Board or by the Executive Directors from the company been publicly disclosed in the company's annual financial statements? (if no, explain)

NO Depending on the size and the risk profile of the Bank, the total amounts are shown.

- 47 Have all types of remuneration to members of the Management Board and the Supervisory Board, including options and other management benefits, been publicly disclosed in the company's annual financial statements in detail and by individual items and persons? (if no, explain)

NO Depending on the size and the risk profile of the Bank, the total amounts are shown.

- 48 Have all the activities involving members of the Management Board and Executive Directors and their related persons and the company or its associated persons been clearly stated in the company's reports? (if no, explain)

NO Depending on the size and the risk profile of the Bank, the total amounts are shown.

- 50 Does the report presented to the General Assembly by the Supervisory Board, that is, the Management Board contain, apart from the contents prescribed by law, the assessment of the overall performance of the company and of the Management Board and a special reference to the co-operation with the Management Board? (if no, explain)

YES

AUDIT AND INTERNAL CONTROL MECHANISMS

Answers to this set of questions carry 10% of the overall indicator of compliance with the Corporate Governance Code.

Question number	Question
Answer YES/NO	Explanation

KARLOVAČKA BANKA D.D. KARLOVAC
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51 Does the company have an external auditor?

YES

52 Does the external auditor have a state or interest in the company?

NO

53 Does the external auditor provide the company with other services, alone or through related persons?

NO

54 Has the company disclosed publicly the fees paid to the external auditors for the audit performed and other services rendered? (if no, explain)

YES

55 Does the company have internal auditors? (if no, explain)

YES

56 Does the company have an established system of internal control? (if no, explain)

YES

TRANSPARENCY AND BUSINESS EXPOSURE

Answers to this set of questions carry 20% of the overall indicator of compliance with the Corporate Governance Code.

Question number
Answer YES/NO

Question
Explanation

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

58 Has the company prepared a calendar of important events?
NO

59 Has the company established mechanisms to ensure that persons who have access to or come into contact with privileged information understand the nature and importance of such information and restrictions in that regard?
YES

60 Has the company established mechanisms to ensure control of privileged information flow and the possible misuse?
YES

61 Has anybody suffered the negative consequences for pointing out to the competent authorities inside or outside the company the shortcomings in the application of regulations or ethical norms within the company? (if yes, explain)

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NO

- 62 Has the Management Board held meetings with potential investors in the past year?

NO

- 63 Have all the members of the Management Board, the Supervisory Board or the Board of Directors agreed that the statements made in response to the questions in this questionnaire are, to the best of their knowledge, entirely true?

YES

KARLOVAČKA BANKA D.D. KARLOVAC
ANNUAL FINANCIAL STATEMENTS FOR THE YEAR 2017

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Management Board of Karovačka banka d.d., Karlovac, Ivana Gorana Kovačića 1 ("the Bank") is responsible for ensuring that the annual financial statements for the year 2017 are prepared in accordance with the Accounting Act (Official Gazette No 78/15, 120/16) and the International Financial Reporting Standards to give true and fair view of the financial position, business results, changes in equity and cash flows of the Bank for that period.

After making enquiries, the Management Board of the Bank reasonably expects the Bank to have adequate resources to continue to operate in the foreseeable future. Accordingly, the Management Board of the Bank prepared the annual financial statements using the going concern basis of accounting.


In preparing the annual financial statements, the Management Board of the Bank is responsible for:

- selection and consistent application of suitable accounting policies in accordance with the applicable financial reporting standards;
- giving reasonable and prudent judgments and estimates;
- preparation of annual financial statements using the going concern basis of accounting, unless it is inappropriate to presume so.

In accordance with the Accounting Act (Official Gazette No 78/15, 134/15 and 120/16), the Management Board of the Bank is responsible for preparation and contents of the Statement of the Management Board on the Bank's position as well as the Statement on the Corporate Governance Code.

Financial statements as well as the forms shown on the following pages, which have been prepared in accordance with the Croatian National Bank's Decision on the structure and content of annual financial statements of credit institutions dated 3rd April 2017 (Official Gazette No. 30/17 and 44/17), have been approved by the Management Board on 30th April 2018 for submitting to the Supervisory Board and signed below.

For and on behalf of the Management Board:



Željka Surač
President



Marino Rade
Member



Ljiljana Movre
Member

Karovačka banka d.d.
Ivana Gorana Kovačića 1
47000 Karlovac
Croatia
Karlovac, 30th April 2018



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Karlovačka banka d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Karlovačka banka d.d. (the Bank), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the matters described in the *Basis for qualified opinion* paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Basis for qualified opinion

As stated in Note 2, the Bank is the owner of 100% of the company Rezidencija Mejaši d.o.o. as at 31 December 2017 and 31 December 2016. As defined in the Article 278 of the Credit Institutions Act (the 'Act'), company Rezidencija Mejaši d.o.o. does not meet the conditions for consolidation within the Karlovačka banka d.d. Group. Accordingly, the Bank is not obliged to include the stated company in the report of the group of credit institutions which it submits to the Croatian National Bank pursuant to the Article 163, Paragraph 1, Item 1 of the Act. In accordance with the International Financial Reporting Standard 10: Consolidated Financial Statements, the Bank is required to prepare consolidated financial statements in case of controlling one or more entities. The Bank did not prepare consolidated financial statements in which, according to the applicable accounting framework, it would include the company Rezidencija Mejaši d.o.o. Since legal requirement for accounting for banks in the Republic of Croatia are based on International Financial Reporting Standards ('IFRS'), this is a deviation from the applicable accounting framework. During our audit we were unable to determine the exact effect that the consolidation of the company Rezidencija Mejaši d.o.o. would have on the consolidated financial statements of the Bank.

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

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Board Members: Branislav Vrtačnik, Marina Tonžetić, Juraj Moravek and Dražen Nimčević; Bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHR2X IBAN: HR1024840081100240905.

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INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

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.

Key audit matter	Impairments of loans and prepayments to customers ("Loan Loss Provision")
------------------	---

We hereby refer to Note 3 of financial statements which contain the accountancy policies, and to Notes 14 and 24 of financial statements.

On 31 December 2017, loan receivables represented more than one half of the Bank's total assets, while the net value of client's loans amounted to HRK 1,119 million. Loan loss provisions amounted to HRK 143 million, i.e. 6,6% of the total Bank's assets. Loan loss provisions calculation entails a significant application of judgement and the use of Management's assumptions. The level of the loan loss provision depends on the Management's judgement concerning the time and amount of expected future cash flows, considering the presumptions such as the debtor's financial position, expected time of sale of collateral et al. Loan loss provisions are recognised based on incurred losses, caused by events such as significant financial difficulties of the debtor, the inability to settle a part or all liabilities or other breaches of loan contracts.

The Bank conducts an individual and collective credit risk assessment, pursuant to the statutory accounting requirements for banks in Croatia and the Decision of the Croatian National Bank on the classification of loans and off-balance sheet liabilities of credit institutions (Official Gazette No 41/14, 28/17).

We consider loan loss provisions to be a key audit matter due to the significance of this item for financial statements and because of the significant use of Bank's judgement regarding their recognition and valuation.

How the audit addressed the key audit matter

Individual Loan Loss Provisions:

During the audit we gained an understanding of the process of the loan loss provision procedure and devised procedures in order to assess the design, implementation and operational effectiveness of controls, which was a pre-requisite for conducting our subsequent procedures. Specific loan loss provisions:

- Assessment of the design, implementation and operational effectiveness of internal controls, including the calculation of days past due, the calculation of future expected cash flows, review of the credit portfolio and collateral assessment;
- Understanding the process of establishing specific loan loss provisions, as well as the methodology and parameters used in calculations by talking with key personnel in the Bank and through the review of relevant documentation and processes;
- When selecting the sample, we segmented the loans given to clients based on the criteria such as, but not limited to, small or individually significant exposure, days of delay, increased credit risk, lower credit risk.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key audit matters (continued)

- We conducted the following procedures on our sample:
 - Understanding the financial position of the debtor, assessing whether an event that might incur losses exists and assessing whether the judgements and presumptions used for the calculation of specific loan loss provisions correspond to the real debtor's position, having taken into consideration the expected debtor's operating cash flows, including the collateral value and the estimated realisation time. Furthermore, we checked which discount rates were used in the assessment of expected cash flows;
 - Review of the credit classification pursuant to impairment indicators which may point to the fact that some recoverable loans should be classified as unrecoverable, as stipulated in the Decision of the Croatian National Bank and the International Accounting Standard 39 – Financial instruments: Recognition and Measurement.

Collective Loan Loss Provisions:

Considering the fact that the Bank uses a simplified model for calculating loan loss provisions on a group basis, we recalculated the aforementioned provisions in order to assess whether the Bank maintains the minimum provisions' level, as stipulated in the Decision of the Croatian National Bank for rank A classified loans.

Other Information

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

Our opinion on the financial statements does not cover the other information.

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

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

- 1) Information included in the other information is, in all material respects, consistent with the attached financial statements.
- 2) Management Report has been prepared, in all material respects, in accordance with the Article 21 of the Accounting Act.
- 3) Corporate Governance Statement has been prepared, in all material aspects, in accordance with the Article 22, paragraph 1, items 3 and 4 of the Accounting Act, and includes also the information from the Article 22.

Based on the knowledge and understanding of the Bank and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on Other Legal and Regulatory Requirements

Pursuant to the Decision of the Croatian National Bank on the Structure and Content of Annual Financial Statements of Banks (Official Gazette No. 30/17, 44/17, hereinafter "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix to these financial statements on pages 102-118, which comprise balance sheet as of 31 December 2017, and the profit and loss account, statement of changes in equity and statement of cash flow for the year then ended, as well as the reconciliation to the financial statements. These forms and the accompanying reconciliation to the financial statements are the responsibility of the Bank's management, and do not represent components of financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 33-101, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the financial statements of the Bank.

INDEPENDENT AUDITOR'S REPORT (continued)

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

We were appointed as the statutory auditor of the Bank by the shareholders on 20 June 2017 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 1 years and covers period from 1 January 2017 to 31 December 2017.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Bank on 30 April 2017 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

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

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



Juraj Moravek

Member of the Board



Vanja Vlák

Certified auditor

Deloitte d.o.o.

Zagreb, 30 April 2018

Radnička cesta 80,

10 000 Zagreb,

Croatia

KARLOVAČKA BANKA d.d.
INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2017

Description	Note	2017. HRK '000	2016. HRK '000
Interest income	4	76.574	80.901
Interest expense	5	(24.969)	(36.127)
Net interest income		51.605	44.774
Fees and commissions income	6	24.279	22.502
Fees and commissions expenses	7	(7.288)	(7.422)
Net income from fees and commissions		16.991	15.080
Profit from financial activities	8	9.095	14.991
Net foreign exchange losses	9	(185)	(177)
Other income	10	7.606	5.403
Total other income		16.516	20.217
Other expenses	11,12,13	(49.792)	(50.321)
Impairments and provisions	14	(27.651)	(35.825)
Total other expenses		(77.443)	(86.146)
Profit before tax		7.669	(6.076)
Income tax	15	0	0
Profit/ (loss) for the year		7.669	(6.076)
Profit/(loss) per share in HRK	16	0,44	(0,37)
Other comprehensive profit / (loss):			
<i>To be reclassified into profit or loss</i>			
Unrealized loss from valuation of financial assets available for sale		3.374	(576)
Other comprehensive profit (loss) for the year, net of tax		3.374	(576)
TOTAL COMPREHENSIVE PROFIT/(LOSS)		11.043	(5.500)
Profit/(loss) per share in HRK	16	0,44	(0,37)

Significant accounting policies and other Notes set out on the following pages form an integral part of these financial statements.

KARLOVAČKA BANKA d.d.
STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

Description	Note	31.12.2017. HRK '000	31.12.2016. HRK '000
ASSETS			
Cash	18	317.517	243.486
Receivables from the Croatian National Bank	19	147.517	136.355
Placements with banks	20	32.400	64.091
Financial assets available for sale	21	13.224	87.218
Financial assets held to maturity	22	153.590	36.770
Financial assets at fair value through profit or loss	23	276.924	351.906
Loans and prepayments to customers	24	1.118.783	1.088.125
Property, plant and equipment	25	44.229	45.043
Intangible assets	26	826	1.084
Foreclosed assets	27	66.480	80.478
Other assets	28	9.883	4.873
Total assets		2.181.373	2.139.429
LIABILITIES			
Liabilities to banks		1	2
Demand deposits	29	746.617	649.877
Term deposits	30	1.190.310	1.232.964
Loan liabilities	31	8.558	53.363
Other liabilities	32	33.253	24.196
Provisions	33	7.112	5.248
Hybrid instruments	34	54.162	44.067
Total liabilities		2.040.013	2.009.717
CAPITAL			
Share capital	35	176.678	176.678
Fair value reserves from available for sale financial assets		0	(3.374)
Profit /(Loss) for the year		7.669	(6.076)
Transferred loss		(42.987)	(37.516)
Total capital		141.360	129.712
Total liabilities and capital		2.181.373	2.139.429

Significant accounting policies and other Notes set out on the following pages form an integral part of these financial statements.

KARLOVAČKA BANKA d.d.
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

Description	Share capital	Own shares	Fair value reserves from available for sale assets	Capital gain	Reserves		Retained profit/loss carried forward	Profit for the year	Total
	HRK '000	HRK '000	HRK '000	HRK '000	Legal reserves	Other reserves	HRK '000	HRK '000	HRK '000
Balance as at 31 December 2015	156.679	0	(3.950)	0	0	0	(21.597)	(14.529)	116.603
Profit allocation	0	0	0	0	0	0	(14.529)	14.529	0
Increase in share capital	20.000	0	0	0	0	0	0	0	20.000
Other changes	0	0	1.349	0	0	0	(1.391)	0	(42)
Other comprehensive income	0	0	(773)	0	0	0	0	0	(773)
Loss for the period	0	0	0	0	0	0	0	(6.076)	(6.076)
Balance as at 31 December 2016	176.679	0	(3.374)	0	0	0	(37.517)	(6.076)	129.712
Profit allocation	0	0	0	0	0	0	(6.076)	6.076	0
Increase in share capital	0	0	0	0	0	0	0	0	0
Decrease in share capital	0	0	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	605	0	605
Other comprehensive income	0	0	3.374	0	0	0	0	0	3.374
Profit for the period	0	0	0	0	0	0	0	7.669	7.669
Balance as at 31 December 2017	176.679	0	0	0	0	0	(42.988)	7.669	141.360

Significant accounting policies and other Notes set out on the following pages form an integral part of these financial statements.

KARLOVAČKA BANKA d.d.
CASH FLOWS STATEMENTS - INDIRECT METHOD
For the year ended 31 December 2017

Description	2017. HRK'000	2016. HRK '000
NET CASH FLOW FROM OPERATING ACTIVITIES		
(Loss) before tax	7.669	(6.076)
<i>Adjustment to net cash assets from operating activities</i>		
Depreciation	3.854	5.045
Loan impairments	11.742	28.038
Impairments of other assets	(129)	354
Provisions for court disputes	1.701	(357)
Impairments of property, plant and equipment and foreclosed assets	9.395	4.782
Other impairments and provisions (net)	4.941	3.007
<i>Changes on assets and liabilities from operating activities</i>		
(Increase) / Decrease in receivables from CNB	(11.954)	5.070
(Increase) in placements with banks	(7.518)	(126)
(Increase) in loans and prepayments to customers	(43.059)	(71.200)
Decrease in financial assets available for sale	73.868	38.737
(Increase) in financial assets held to maturity	(15.504)	(9.717)
Decrease / (Increase) in financial assets at fair value through profit or loss	74.980	(136.849)
(Increase) in other assets	(4.822)	(1.126)
(Decrease) in liabilities to banks	-	(20)
Increase in demand deposits	96.742	48.647
Increase / (Decrease) in term deposits	(42.656)	56.750
(Decrease)/increase in other liabilities	9.821	(2.818)
Income tax paid	-	-
Net cash flow from operating activities	169.071	(37.859)
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(3.428)	(4.218)
Income from sales of foreclosed assets	5.105	26.505
Payments for purchasing financial assets held to maturity	(102.065)	(26.942)
Dividends received	-	3
Other changes	(432)	-
Net cash flow from investing activities	(100.820)	(4.652)
CASH FLOW FROM FINANCIAL ACTIVITIES		
Increase in loan liabilities	-	24.000
(Decrease) in loan liabilities	(44.351)	(18.418)
Receipts from issued share capital	-	20.000
Other changes in capital (net)	605	-
(Decrease) in hybrid instruments	(424)	(185)
Increase in hybrid instruments	10.519	-
Net cash flow from financial activities	(33.651)	25.437
Net change in cash and cash equivalents	34.600	(17.074)
Cash and cash equivalents at the beginning of the year (Note 37)	303.186	320.260
Cash and cash equivalents at the end of the year (Note 37)	337.786	303.186

Significant accounting policies and other Notes set out on the following pages form an integral part of these financial statements.

I GENERAL INFORMATION

1.1. Legal framework and activities

Karlovačka banka d.d. Karlovac ("the Bank") is a joint stock company established by the Decision of the General Assembly in 1989. The Bank was registered at the Commercial Court in Zagreb, Permanent Office in Karlovac under registration number MBS 020000334 (OIB/PIN 08106331075). The Bank's headquarters is located in Karlovac, Ivana Gorana Kovačica 1.

The principal activities of the Bank include receiving deposits and other repayable funds, granting credits and loans and issuing guarantees and other bank warranties.

The Bank's share capital as at 31 December 2017 amounted to HRK 176,678 and is divided into 17,570,409 shares, of which 17,559,585 are ordinary shares with a nominal value of HRK 10 and 10,824 are preferred shares with a nominal value of HRK 100. Out of the ordinary shares, 1,328,233 shares are listed on the Zagreb Stock Exchange.

The Bank's shareholders as at 31 December 2017 and 31 December 2016 are shown as follows:

Shareholder	31.12.2017.	31.12.2016.
	%	%
Marko Vuković	37,56	37,56
Ivan Žabčić	37,56	37,56
Zagreb Archdiocese - Archdiocesan See	7,69	7,69
Marijan Šarić	4,01	4,01
Pinjuh Jakov	1,75	1,75
Stanić Miro	1,75	1,75
Sandi Šola	1,66	1,66
Guerrero Devlahovic Jaime Ivan	0,65	0,65
Čalalo Milenko	0,48	0,48
Rupena Ivan	0,48	0,48
Projekt Mejaši - Mejaši Project	0,34	0,34
Fond Hrvatskih branitelja iz domovinskog rata i članova njihovih obitelji - Croatian Veterans' Fund	0,31	0,31
Croatian Handball Association	0,32	0,32
Dario Šimić	0,30	0,30
Other shareholders	5,14	5,14
TOTAL	100,00	100,00

1.2. Management Bodies of the Bank

The Bank's management bodies are: the General Assembly, the Supervisory Board and the Management Board.

As at 31 December 2017 the Bank's management bodies were as follows:

GENERAL ASSEMBLY

Nedjeljko Strikić President since 2 July 2014

SUPERVISORY BOARD

Nedjeljko Strikić President since 10 February 2014

Bernarda Ivšić Deputy president since 10 February 2014

Željko Tintor Member since 1 April 2016

MANAGEMENT BOARD

Željka Surač President since 6 March 2015

Marino Rade Member since 22 April 2014

Ljiljana Movre Member since 1 September 2017

The President of the Management Board and Members of the Management Board represent the Bank individually and independently.

As at 31 December 2017 the Bank employed 177 employees (31 December 2016: 177). The qualification structure of the employees as at 31 December 2017 and 31 December 2016 is shown as follows:

DESCRIPTION	Number of employees	Number of employees
	31.12.2017.	31.12.2016.
PhD	1	1
Master's degree	2	1
University degree	69	68
Higher education	16	16
Secondary education	89	92
TOTAL	177	178

As at 31 December 2017 the Bank operated through the Central Office in Karlovac, branches in Zagreb and Rijeka and 10 sub-branches and two offices: Central Office with office in Grabrik, Vladka Mačeka with office in Draganići, Tržnica located in Karlovac, and cities and places: Jastrebarsko, Duga Resa, Ogulin, Ozalj, Slunj, Žakanje and Topusko.

II BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

2.1. Statement of compliance:

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia. Bank's operations in Croatia have been regulated by the Credit Institutions Act, in accordance with which financial reporting is prescribed by the Croatian National Bank ("the CNB") as the Central supervisory institution of the banking system in Croatia. These financial statements have been prepared in accordance with these banking regulations.

The accounting regulations of the CNB are based on International Financial Reporting Standards ("IFRS"). The main difference between the accounting regulations of the CNB and International Financial Reporting Standards are as follows:

- Croatian National Bank requires from banks to recognize impairment losses through profit and loss statement for exposures that are carried at amortized cost and for which no impairment (including central government risk) is recognized at prescribed rates. In accordance with aforementioned requirements, the Bank recognized provisions to the amount of HRK 19,410 thousand (2016: HRK 16,716 thousand) and recognized an expenditure of HRK 2,694 thousand (2016: expenditure in the amount of HRK 2,979 thousand) within impairment losses. The Bank continues to recognize these provisions, in accordance with CNB's regulations, as a replacement for existing, unidentified impairment losses calculated in accordance with the requirements of International Financial Reporting Standards.
- A further difference between IFRSs and the accounting regulations of the CNB relates to the determination of impairment losses by discounting the expected cash flows of the impaired assets using original effective instrument interest rate. The Bank calculates impairment losses on individually significant items by estimating the future cash flows and discounts the same using original effective interest rate. Depreciation of such discounts the Bank recognized as interest income. However, in certain cases, collections are recognized as interest income in the moment of full reversals of impairment provisions.
- Croatian National Bank has also prescribed guidelines for provisions for legal disputes against a credit institution. Required provisions are carried out in accordance with IAS 37 - Provisions, contingent liabilities and contingent assets and the amount of the provision is determined taking into account the estimated loss of the dispute and the amount of estimated outflow of funds. The Bank reconciles the amounts of contingent provisions in a manner that reflects the best estimate at the balance sheet date.
- Additionally the CNB prescribes minimum levels of impairment losses on individual exposures specifically identified as impaired, which may be different from the impairment losses calculated in accordance with IFRS.
- The next distinction between IFRS and accounting rules of the CNB relates to provisions for passive legal disputes. According to the "Decision on provisioning for legal disputes against a credit institution" the Bank is obliged to provide funds for legal disputes for which there is no risk for loss or for which a cash outflow is estimated to be less than 10% of the total amount, if the total amount of the legal dispute exceeds 0.1% of the credit institution's assets as per audited financial statements of the previous year. Provisioning is made in the amount of estimated cash outflow and at least 1% of the total amount of the legal dispute, whereas according to IFRS there is no need to recognize the provision in such a situation.

II BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS (continued)

Basis for preparation:

The financial statements have been prepared on a fair value basis for financial assets available for sale and financial assets through profit and loss. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized or historical cost.

The preparation of financial statements requires Management Board to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent liabilities at the balance sheet date as well as reported amounts of revenues and expenses and other comprehensive income during the reporting period. Estimates and related assumptions are based on historical experience and various other factors that are believed to be realistic in the current circumstances and information available at the financial position date, the result of which makes the basis for estimating book value of assets and liabilities not directly visible from other sources. Actual results may differ from those estimates.

The key assumptions and estimates are regularly reviewed. Changes to estimates are recognized in the period in which they occur if they exclusively impact that period, or in the period in which they occur or future period if they affect the current or future period.

Key estimates used by the application of accounting policies during preparation of the financial statements relate to depreciation calculation of long-term tangible and intangible property, value decrease of property, value decrease of receivables and provisions and the disclosure of potential liabilities.

The financial statements are prepared in Croatian Kuna as the primary currency of the economic environment in which the Bank operates ("the functional currency") and the amounts are rounded to the nearest thousand. The official exchange rate applied at 31 December 2017 was HRK 7.513648 = 1 EUR (2016: HRK 7.557787) and HRK 6.269733 = 1 USD (2016: HRK 7.168536).

The Bank owns 100% stake in company Rezidencija Mejaši d.o.o.. The Bank is not preparing a consolidated report as it is considered that the effects of the consolidation of the said company are not significant for the financial statements.

III SUMMARY OF ACCOUNTING POLICIES

3.1. Changes in accounting policies

Adoption of new and revised International Financial Reporting Standards and Interpretations effective in the current period

In the current period, the following amendments to the existing standards and new interpretations published by the International Accounting Standards Board (IASB) are in force and are adopted by the European Union:

- **Amendments to IAS 7 'Statement of Cash Flows' - 'Disclosure Initiative'**, adopted in the European Union on 6 November 2017 (effective for annual accounting periods commencing on or after 1 January 2017),
- **Amendments to IAS 12 'Income Taxes' - 'Recognition of deferred tax assets on the basis of unrealized losses'**, adopted in the European Union on 6 November 2017 (effective for annual accounting periods commencing on or after 1 January 2017).

3.1. Changes in accounting policies (continued)

- Amendments to various standards entitled 'Annual adjustment of IFRSs from the 2014-2016 cycle' resulted from annual adjustment of IFRSs (IFRS1, IFRS 12 and IAS 28) primarily for the purpose of eliminating discrepancies and explaining the text, adopted in the European Union on 8 February 2018 (amendments to IFRS 12 are applied to annual accounting periods commencing on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 apply to annual accounting periods commencing on or after 1 January 2017).

Adoption of these amendments to existing standards has not resulted in material changes in the financial statements.

Adoption of new and revised International Financial Reporting Standards (continued)

New and revised IFRSs adopted in EU but not yet in effect

At the date of approval of the financial statements, the following new standards published by IASB were adopted in EU, but not yet in force:

- IFRS 9 'Financial instruments', adopted in EU on 22 November 2016 (effective for annual accounting periods commencing on or after 1 January 2018),
- IFRS 15 'Revenue from contracts with customers' and amendments to IFRS 15 'Date of entry into force of IFRS 15', adopted in EU on 22 September 2016 (effective for annual accounting periods commencing on or after 1 January 2018),
- IFRS 16 'Leases', adopted in EU on 31 October 2017 (effective for annual accounting periods commencing on or after 1 January 2019),
- Amendments to IFRS 4 'Insurance contracts' - 'Application of IFRS 9 'Financial instruments' in conjunction with IFRS 4 'Insurance contracts', adopted in EU on 3 November 2017 (effective for annual accounting periods commencing on or after 1 January 2018 or periods in which IFRS 9 'Financial instruments' is first applied),
- Amendments to IFRS 15 'Revenue from contracts with customers' - explanation of IFRS 15 'Revenue from contracts with customers', adopted in EU on 31 October 2017 (effective for annual accounting periods commencing on or after 1 January 2018).
- Amendments to various standards called 'Annual adjustment of IFRSs from the 2014-2016 cycle' resulted from annual adjustment of IFRSs (IFRS1, IFRS 12 and IAS 28) primarily for the purpose of eliminating discrepancies and explaining the text, adopted in the European Union on 8 February 2018 (amendments to IFRS 1 and IAS 28 apply to annual accounting periods commencing on or after 1 January 2017 while amendments to IFRS 1 and IAS 28 are applied to annual accounting periods commencing on or after 1 January 2018)

The Bank decided not to adopt these new standards and amendments to existing standards prior to their coming into force.

The Bank has analyzed the estimated effect of applying IFRS 9 in accordance with IAS 8, paragraph 30-31 and presented it in separate financial statements as follows:

IFRS 9 'Financial instruments' is replaced by IAS 39 'Financial instruments: Recognition and measurement' for annual reporting periods beginning on or after 1 January 2018. It contains

changes to requirements relating to recognition and measurement, impairment, discontinuation and hedge accounting.

The Bank began active preparation for IFRS 9 at the end of 2016, led by a dedicated team of competent persons from: Risk Management and Control Division, Accounting Division, Treasury and Assets and Liabilities Management Division and IT Division, and in 2017 most of the preparations were finished. Preparations included key challenges the Bank is facing in relation to this new standard.

Determining the deficiency between currently developed methodologies and IFRS 9 requirements for classification, measurement and impairment has been completed in the last few months with various adjustment processes required to measure a significant increase in credit risk. The completion of most of these activities is planned for the first half of 2018 and some of them will be finalized by the end of 2018 for tangible assets portfolio.

Classification and measurement

IFRS 9 has introduced a new approach to the classification of financial assets by the characteristics of cash flows and the business model in which the assets are held. The Bank recognizes financial liabilities at amortized cost, except in those cases where the standard requires otherwise or at the fair value option that the entity has chosen to recognize a financial instrument at fair value through profit or loss. Preliminary analysis of business models and contracted cash flows in significant portfolios of the Bank were carried out to determine financial instruments to be measured at depreciation cost, at fair value through profit or loss or at fair value through other comprehensive income. The current quantitative impact of IFRS 9 implementation, with regard to reclassification of certain financial instruments, is financially neutral.

Impairment

IFRS 9 has introduced the model of expected loss impairment instead of previously applied model of incurred loss which requires the recognition of loan losses. The Standard requires that entities calculate expected loan losses from the time the financial instruments are first identified.

A new, three tier model was implemented for IFRS 9. The new impairment methodology is used to classify financial instruments to determine whether the credit risk has significantly increased from initial recognition and can it identify assets less credit losses. For instruments with impaired credit losses or significantly increased credit risk, the expected credit loss will be recognized over the life span.

Increased credit loss impairment is determined by transactions based on pre-determined conditions and then the estimate is made at portfolio level. Assets for which a significant increase in credit risk was not determined will be booked on the basis of a 12-month methodology of expected loss.

For assets that recorded at 31 December 2017 a reduction for credit losses based on identified credit losses, that is, objective evidence of impairment, the same methodology of impairment was retained, as internally prescribed for exposures classified in risk groups B and C, that is, for Stage 3 exposures.

The Bank has elected to use a simplified approach to impairment of customer receivables and contracted assets.

The Bank has begun to improve definitions, processes and methodological risk management analysis in accordance with IFRS 9 requirements. The Bank has begun to develop a methodology - using a behavioral model - to determine a significant increase in credit risk and to calculate expected loan losses using IFRS 9 adjusted risk parameters.

Based on the gap analysis and changes in methodology, the main principles regarding IT solutions for the implementation of IFRS 9 have been established. Preliminary specifications

3.1. Changes in accounting policies (continued)

have been prepared and IT implementation was largely completed in 2017, although there are such rating models / ratings for significant portfolios for which the development has not yet been completed.

The estimate of the quantitative impact of IFRS 9 is based on the best estimate of our management since the date of issue of these financial statements. However, the Bank's management believes that there are uncertainties regarding certain aspects of the above-described methodology, along with the interpretation of standards and developed economic practice, and such uncertainties may result in such initial estimates varying from what is ultimately adjusted from 1 January 2018, and the amount of deviations should not be significant. Activities that the Bank will continue in 2018 relate in particular to:

- Completion of testing and estimation of IT system controls
- Verification and potential improvement of the model for estimated exposure credit losses in potential expansion of SICR indicators

The present estimated quantitative impact of IFRS 9 from the issuance of these separate financial statements is positive, resulting in a capital increase of about 0.9%.

According to the estimate, there are no loans that will be measured at fair value as at 1 January 2018 in separate financial statements.

IFRS 15 Revenues from contracts with customers - IFRS 15 was issued in May 2014 and represents a new five-step model relating to revenue from customer contracts. The standard replaces IAS 11 and IAS 18. The standard is effective for annual accounting periods beginning on or after 1 January 2018. Earlier application is permitted. The standard permits a modified transition model that requires no retroactive restatement. The Management Board is conducting detailed analyses of the possible effects of this standard to the Bank's financial statements.

New and revised IFRSs adopted by IASB, but not yet adopted in EU

The IFRSs currently adopted in the European Union do not differ significantly from the regulations prescribed by the International Accounting Standards Board (IASB), with the exception of the following standards, amendments to existing standards and interpretations, the adoption of which the European Union has not yet passed as at 21 February 2018 (dates of entering into force stated below refer to IFRSs as a whole):

- **IFRS 14 'Regulatory Deferral Accounts'** - (in effect for annual accounting periods beginning on or after 1 January 2016) - The European Commission decided to postpone this transitional standard until publication of the final version,
- **IFRS 17 'Insurance Contracts'** - (in effect for annual accounting periods beginning on or after 1 January 2021),
- **Amendments to IFRS 2 'Share-based Payment'** - 'Classification and measurement of share-based payment transactions' (in effect for annual accounting periods beginning on or after 1 January 2018),
- **Amendments to IFRS 9 'Financial Instruments'** - 'Advances with negative compensation' (in effect for annual accounting periods beginning on or after 1 January 2019),

Changes in accounting policies (continued)

New and revised IFRSs adopted by IASB, but not yet adopted in EU (continued)

- **Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' - 'Sale or investment of assets between the investor and its affiliated entity or joint venture' and subsequent changes (the initial date of entry into force was delayed until the completion of the research project on the application of the share method),**
- **Amendments to IAS 19 'Employee Benefits' entitled 'Amendments, deduction of rights and payout from benefit plans' (in effect for annual accounting periods beginning on or after 1 January 2019),**
- **Amendments to IAS 28 'Investments in Associates and Joint Ventures' - 'Long-term investments in associates and joint ventures' (in effect for annual accounting periods beginning on or after 1 January 2019),**
- **Amendments to IAS 40 'Investment Property' - 'Transfer of property investment' (in effect for annual accounting periods beginning on or after 1 January 2018),**
- **Amendments to various standards entitled 'Annual adjustment of IFRSs from the 2014-2016 cycle' resulted from annual adjustment of IFRSs (IFRS 1, IFRS 12 and IAS 28) primarily for the purpose of eliminating discrepancies and explaining the text (amendments to IFRS 12 are applied to annual accounting periods commencing on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 apply to annual accounting periods commencing on or after 1 January 2018),**
- **Amendments to various standards due to 'Annual adjustment of IFRSs from the 2015-2017 cycle' resulted from annual adjustment of IFRSs (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily for the purpose of eliminating discrepancies and explaining the text (in effect for annual accounting periods beginning on or after 1 January 2019),**
- **Interpretation of IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (in effect for annual accounting periods beginning on or after 1 January 2018),**
- **Interpretation of IFRIC 23 'Uncertainty over Income Tax Treatments' (in effect for annual accounting periods beginning on or after 1 January 2019).**

The Bank anticipates that the adoption of stated standards, amendments to existing standards and new interpretations will have no material, that is, significant impact on the Bank's financial statements in the period of their initial application.

III SUMMARY OF ACCOUNTING POLICIES (continued)

3.2. Interest income and expenses

Interest income and expenses are recognized in the income statement as they occur for all interest-bearing financial instruments, including those measured at amortized cost and those available for sale, using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of 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.

When loan repayment becomes doubtful, the principal amount is decreased to its recoverable amount and interest income is excluded from the income statement, and is subsequently recognized as collected excluded receivables only in the case of actual collection after the collection of the principal.

Interest income related to loan fees included in the calculation of effective interest rate is recognized only for loans with a maturity term of one year, and for long-term placements it is accrued to the entire lifetime of placements charge.

3.3. Fee and commission income and expenses

Fee and commission income and expenses comprise fees and commissions from domestic and international payment transactions, guarantees, letters of credit, card business and assets management, and are recognized in the income statement when the corresponding service is provided, except when they are included in effective interest rate calculation.

Fees and commissions expenses comprise fees to the authorized banks for executed foreign payment transactions and for the services of the Financial Agency (FINA) and the Croatian National Bank for domestic payment and card transactions.

3.4. Net gains and losses from financial instruments at fair value through profit or loss and the result of foreign exchange trading and exchange rate differences arising on translation of monetary assets and liabilities

This category includes earnings from foreign currency trading, realized and unrealized gains and losses from debt and equity securities held for trading, other financial instruments carried at fair value through profit or loss and derivative financial instruments. Net gains and losses from foreign exchange differences arising on translation of monetary assets and liabilities denominated in foreign currencies, are also included in this category.

3.5. Foreign currency translation

Transactions in foreign currencies are translated into HRK (Croatian Kuna) at the exchange rate ruling at the date of the transaction. The Croatian Kuna is the official currency of the Bank and the financial statements are presented in that currency.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to HRK at the middle foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement.

Non-monetary items denominated in foreign currencies measured at fair value are translated to HRK using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Gains and losses arising on translation and foreign currency trading are recognized in the income statement for the related year.

III SUMMARY OF ACCOUNTING POLICIES (continued)

3.6. Cash and cash equivalents

Cash and cash equivalents include highly liquid assets as defined within the cash flow policy.

Cash comprises cash and funds in bank accounts.

Cash includes cash and checks in cash registers in domestic and foreign currency.

Funds in bank accounts include: funds in transaction accounts with the Central bank and with domestic and foreign banks in domestic and foreign currency.

Cash equivalents comprise placements with banks with maturity of up to 90 days.

3.7. Taxation

Income tax represents the cumulative amount of the current tax liability and deferred tax.

a) Current tax

Current tax liability is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement for amounts not included in the tax base as well as the amounts of non-deductible expenses. The Bank's current tax liability is calculated using tax rates that are effective, i.e. valid at the balance sheet date.

The Management Board periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation.

b) Deferred tax

Deferred tax is calculated using the liability method and presents tax effects on all significant differences between the tax base, assets and liabilities and the amounts expressed in the financial statements.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period when the property will be recovered or the liability settled, based on tax rates and tax laws that are effective or partially applicable at the financial position reporting date.

Deferred tax assets are recognized up to the amount of future taxable profit that is likely to be available to utilize temporary differences.

3.8. Employment benefits

Defined contribution schemes

The Bank pays contributions for defined contribution schemes on compulsory contractual basis. Once the defined contribution is paid, the Bank has no further obligations. Contributions are recognized as cost of employees when occurred.

The Bank has no other retirement arrangements separate from the state pension system of the Republic of Croatia.

Severance payments

Termination benefits are recognized 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

III SUMMARY OF ACCOUNTING POLICIES (continued)

reliably. If benefits are payable more than 12 months after the reporting date, they are then discounted to their present value.

Jubilee awards

The Bank pays to its employees certain benefits for long service (jubilee awards). Jubilee award amounts from HRK 1,500 to HRK 5,000 net for continuous work in the Bank. The decision on payment is made individually for each tax period.

3.9. Financial instruments

The Bank's financial assets are classified into portfolios based on the Bank's intention at the time of the acquisition of a financial instrument and in accordance with the Bank's investment strategy. Financial assets and financial liabilities are classified into the following categories: "at fair value through profit and loss", "held to maturity", "available for sale", "loans and receivables" and "other financial liabilities".

All financial assets and liabilities are recognized and derecognized at the settlement date when ownership has been transferred, and the sale itself is recorded in the books as at the contracted transaction date.

At initial recognition of a financial asset or a financial liability, the Bank measures the asset or liability at fair value increased by transaction cost (excluding financial assets at fair value through profit or loss) which are directly attributable to the acquisition or issue of the financial asset or liability.

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

This category has two subcategories: financial instruments held for trading (including derivatives) and those which the Bank initially deployed into this category. A financial instrument is allocated to this category if acquired or incurred for sale or repurchase in the short term, for the purpose of short-term profit or deployment by the management in this category.

After initial recognition, financial assets at fair value through profit or loss are carried at fair value which is equal to the price quoted on recognized stock exchanges, or is determined by some acceptable evaluation models. The Bank states unrealized gains and losses within net profit/(loss) from financial operations.

b) Investments held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as investments held to maturity when the Bank has the intention and ability to hold it to maturity. Mentioned category includes certain debt securities.

All financial instruments held to maturity are accounted for at amortized cost less impairment provisions. Interest earned on the basis of these financial instruments is stated as interest income.

The Bank regularly checks whether there is objective evidence that would indicate an impaired value of assets held to maturity. If the impairment of assets is determined, the Bank recognizes provisions in the income statement. Impairment loss is cancelled in the next periods when an increase in the recoverable amount of the investment can be related objectively to an event occurring after the impairment recognition.

III SUMMARY OF ACCOUNTING POLICIES (continued)

3.9. Financial instruments (continued)

c) Financial assets available for sale

This category comprises non-derivative financial assets which are designated as available for sale or not designated to another category. Financial assets designated as available for sale 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 equity prices. Financial assets available for sale include debt and equity securities.

After initial measurement, financial assets available for sale are subsequently measured at fair value based on quoted prices or amounts derived from cash flows. If assets are not traded actively in the market and the market value cannot be reliably determined, the Bank establishes fair value by using the techniques of evaluation. These include the use of prices achieved in recent transactions between informed, willing parties, reference to other substantially similar instruments, discount cash flow analysis and price option models, thereby making maximum use of information from the market.

Unrealized gains and losses arising from changes in fair value of assets available for sale are recognized directly in equity until the sale or impairment of financial assets, and then the realized gains or losses are reported in net profit or loss for the period.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when the Bank provides cash to clients with no intention of trading the receivables and include loans and receivables from banks, loans and receivables from clients and obligatory reserve at the Croatian National Bank. Loans and receivables are initially stated at cost and subsequently net of allowances for impairment losses.

Allowances for impairment losses are established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the allowance for impairment losses is the difference between the carrying amount and the recoverable amount, which represents the present value of expected cash flows, including amounts recoverable from guarantees and collaterals. Allowances for impairment losses by specific loans are assessed with reference to the performance of the borrower, taking into account the value of any collateral or third party guarantees.

Due outstanding loans are written-off in the amount of related impairment loss, and all subsequently collected amounts are credited to the income statement within other income.

d) Other financial liabilities

Other financial liabilities include all the financial liabilities that are not held for trade and are not classified in a specific category at fair value through the income statement.

Financial liabilities are measured at amortized cost with the application of the effective interest rate method.

III SUMMARY OF ACCOUNTING POLICIES (continued)

3.10. Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations without any deduction for transaction costs.

The Bank does not allocate assets and liabilities to the trading portfolio and has no prescribed detailed parameters.

3.11. Intangible assets

Intangible assets are stated at cost less accumulated depreciation and impairment. Costs arising from development activities are recognized as intangible assets if the requirements according to IAS 38 "Intangible Assets" are met. Depreciation of intangible assets is calculated on a straight line basis over the estimated useful life of assets as follows:

Description	2017.	2016.
Software	5 years	5 years
Leasehold investments	10 years	10 years
Other intangible assets	10 years	10 years

3.12. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses, and make tangible assets if their useful life is longer than one year and single value is greater than HRK 3.500 at the acquisition date. Cost includes purchase price, import duties and tax and other dependent costs of bringing assets to working condition for intended use, decreased by trade discounts.

Subsequent expenditure on already recognized items of tangible assets is added to the carrying value of that asset only if it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

At each balance sheet date the Bank assesses whether there is any indication that a tangible asset may be impaired, and if such an indicator exists, the Bank estimates the recoverable amount of the asset taking into account indicators in paragraph 12-14 of IAS 36.

Depreciation is calculated when the acquisition value of property, apart from current investments is written off according to the straight-line method during useful life as follows:

Description	2017.	2016.
Buildings	40 years	40 years
IT equipment	4 years	4 years
Furniture	10 years	10 years
Personal vehicles	5 years	5 years
Other equipment	10 years	10 years

III SUMMARY OF ACCOUNTING POLICIES (continued)

During 2017 Karlovačka banka carried out the division of the purchase value of buildings into the value of land and the value of buildings themselves in accordance with provisions of IAS 16, p.58. The result of decrease in depreciation on buildings which relates to previous periods amounted to HRK 605 thousand for which the amount of the transferred operating loss from previous years was corrected (decreased). At the same time, the correction of the depreciation rates of buildings was carried out in such a way that they were calculated on the basis of the residual useful life.

3.13. Assets acquired in lieu of uncollected receivables

The Bank assesses marketability of assets acquired in lieu of uncollected receivables and recognizes as assets only marketable assets the value of which can be measured reliably. Such assets are stated at the lower of the cost of related loans or the fair value of that asset, depending on which is the lower one.

When such assets are sold, the difference between the purchase price and the carrying value is stated within other income or expenses.

Assets acquired in lieu of uncollected receivables are originally intended for sale and rented only exceptionally until such time when an appropriate bid for sale is made.

3.14. Liabilities for loans

Liabilities for receivables are recognized in accounting records at nominal value arising from the business transaction based on the contract or another credible accounting record.

Subsequently, these liabilities are measured at amortized cost and thus presented in the Bank's financial statements.

3.15. Received deposits

Received deposits are classified as: funds in transaction accounts, savings deposits, time deposits and other deposits.

Deposit liabilities are stated at agreed nominal value and subsequent measurement is carried out in accordance with the portfolio policy at amortized cost.

3.16. Earnings per share

Earning per share is calculated by dividing the net profit by the weighted average number of existing shares (ordinary and preference) for the period, without own shares.

3.17. Issued subordinated and hybrid instruments

The bank uses these instruments as a rule to collect funds with the aim of creating additional capital. These instruments may be recognized as supplementary capital only if they fulfil the conditions prescribed by special decisions of the central bank regulating the content of regulatory capital and the EU regulations as well.

Subsequent valuation and presentation of subordinated and hybrid instruments is carried out in accordance with the portfolio policy at amortized cost.

III SUMMARY OF ACCOUNTING POLICIES (continued)

3.18. Use of estimates

The preparation of the Bank's financial statements in accordance with the IFRS requires that the Bank's Management Board makes estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. The estimates and related assumptions are based on historical experience and various other factors that are believed to be realistic in the circumstances and information available at the date of preparing the financial statements, the results of which form the basis for judgments about carrying values of assets and liabilities that are not easily ascertainable from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which they are incurred if they only affect that period or the period in which they are incurred and future periods if they affect current and future periods.

a) Losses from impairment of loans

The Bank conducts loan assessment procedures at a minimum quarterly level. The rules/methods of assessment are defined by the internal act on classification of placements. The assessment is basically based on the acceptance of basic classification criteria - creditworthiness, regularity and quality of insurance instruments.

Impairment losses on exposures that are not secured by adequate collateral are carried out on the basis of default days, while estimates for exposures secured by adequate collateral use default days as well as the criteria for quality and value of the instruments, types of measures taken for collection and also historic data on the maturity terms applying the reduction factor for a particular type of insurance instrument. Impairment is determined as a positive difference between the gross carrying amount of a given exposure and the present value of estimated future cash flows discounted using the effective interest rate.

b) Losses from court disputes

Provisions for court disputes are conducted in accordance with the rules established by the internal act of the bank which is based on the basic provisions of the relevant decision of the CNB.

3.19. Contingent liabilities and commitments

In the ordinary course of business, the Bank issued guarantees and letters of credit and granted loans that were not fully utilized and other contingencies and these are stated as contingent liabilities and commitments in the off-balance records. These financial instruments are stated in the Bank's balance sheet when and if the Bank settled the matured liability.

Provisions for possible losses by contingent liabilities and commitments are made at a level the Bank's Management Board believes are adequate to absorb probable future losses. The Management Board determines the adequacy of the provisions based on reviews of individual items, current economic conditions, the risk characteristics of various categories of transactions and other pertinent factors.

Impaired values are implemented at a minimum quarterly level in accordance with the criteria and rules prescribed by the internal act on classification of placements and off-balance liabilities.

Regarding the classification criteria and the division according to the degree of risk, the Bank applies the same rules as those for balance sheet items. The amount of the offsetting for a certain off-balance obligation is equal to the amount of expected future expenditures for settling off-balance obligation that the Bank will not be able to offset.

III SUMMARY OF ACCOUNTING POLICIES (continued)

If the effect of the time value of money is significant, the amount of the provision is equal to the discounted value of the expected future irreparable outflows for settling the off-balance obligation using a discount rate corresponding to the current market value of money. It is considered that the effect of the time value of money is significant when it is estimated that the cash outflow will be in a period of more than one year and the expected outflow of more than 0.1% of the bank's assets.

3.20. Cash flow statement

For the cash flow reporting purposes, cash and cash equivalents are defined as cash, placements and deposits to banks with maturity up to 90 days.

3.21. Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, i.e. the function responsible for allocating resources and evaluating the performance of the operating segments, has been identified as the Bank's Management Board that makes strategic decisions.

The Bank has identified four primary segments: Retail, Corporate, Financial institutions and Other. Segment information is based on information provided to management for management purposes.

3.22. Regulatory requirements

The Bank is required to comply with the regulations of the Croatian National Bank, which include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments and provisioning to cover credit risk, liquidity risk, interest risk and investments in tangible assets. Regarding the applicable regulatory limits from all the above mentioned areas, as at 31 December 2017 the Bank showed an excess of investments in tangible assets. Adjustment to this limit is carried out continuously by the Bank in accordance with decisions of the CNB and, based on a valid one, comprehensive adjustment of up to 40% of the recognized capital should be executed by 30 September 2018.

The regulatory capital rate as at 31 December 2017 amounted to 17.00% (31 December 2016: 16.19%) which is a level that exceeds the regulatory and internal limit of this indicator.

3.23. Comparative information

Comparative information has been reclassified where necessary for the purpose of comparability with the current year.

In order to reflect individual positions in the financial statements in line with IFRS requirements in 2017, the Bank reclassified the position of Other assets that contained interest rate receivables into the positions as follows. Interest receivables are shown with corresponding principal.

Other liabilities according to the published report for 2016 also included interest liabilities. Interest payables are allocated to related principal by reclassification.

Since there were no changes in the measurement rules applied, the reclassification had no impact on profit or loss, other comprehensive income and retained earnings of the Bank. Details are set in the table below:

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

		BANK - PREVIOUSLY DISCLOSED			
	Note	31.12.2016.	RECLASSIFICATIONS		31.12.2016 RECLASSIFIED
ASSETS					
Placements with banks	20	64.053	38		64.091
Financial assets available for sale	21	87.175	43		87.218
Financial assets held to maturity	22	36.295	475		36.770
Financial assets at fair value through profit or loss	23	347.368	4.538		351.906
Loans and advances to customers	24	1.083.711	4.414		1.088.125
Other assets	28	14.381	(9.508)		4.873

		BANK - PREVIOUSLY DISCLOSED			
	Note	31.12.2016.	RECLASSIFICATIONS		31.12.2016 RECLASSIFIED
LIABILITIES					
Liabilities to banks	20	1	1		2
Demand deposits	29	649.869	8		649.877
Term deposits	30	1.224.941	8.023		1.232.964
Liabilities for received loans	31	52.910	453		53.363
Other liabilities	32	32.681	(8.485)		24.196

NOTES TO THE STATEMENT OF PROFIT AND LOSS

4. Interest income

a) Interest income - Analysis according to source

Description	2017. HRK '000	2016. HRK '000
Corporate	14.635	18.616
Individuals	38.964	38.588
Banks	1.163	271
Public sector	21.723	22.272
Other	89	1.154
Total interest income	76.574	80.901

b) Interest income - Analysis according to product

Description	2017. HRK '000	2016. HRK '000
Loans and receivables from banks	1.050	271
Debt securities	14.263	16.584
Loans and receivables from customers	61.236	64.084
Other	25	(38)
Total interest income	76.574	80.901

5. Interest expenses

a) Interest expenses - Analysis according to recipient

Description	2017. HRK '000	2016. HRK '000
Corporate	89	314
Individuals	18.723	29.021
Banks	979	1.590
Public sector	16	81
Non-profit institutions	40	53
Other	5.122	5.068
Total interest expenses	24.969	36.127

b) Interest expenses - Analysis according to product

Description	2017. HRK '000	2016. HRK '000
Current accounts and deposits from individuals	15.229	25.463
Current accounts and deposits from corporate and other companies	1.186	1.704
Loans issued	784	1.463
Hybrid instruments	2.647	2.485
Premiums for saving deposit insurance	5122	5.011
Other	1	1
Total interest expenses	24.969	36.127

6. Fee and commission income

Description	2017. HRK '000	2016. HRK '000
Payment operations	10.161	9.706
Authorized loans	988	1.306
Guarantees and letters of credit	819	836
Self-services devices	4.674	4.439
Account maintenance fee	3.255	3.203
Cards for giro and current accounts	397	259
Credit cards	592	526
Mobile, Phone and Internet Banking	1.023	829
Mandate jobs	90	90
Other	2.280	1.307
Total fee and commission income	24.279	22.502

7. Fee and commission expenses

Description	2017. HRK '000	2016. HRK '000
Payments service fee	3.591	3.361
Reception and processing of card transactions	2.969	3.229
Other	728	832
Total fee and commission expenses	7.288	7.422

8. Profit from financial activities

Description	2017. HRK '000	2016. HRK '000
Profit/loss from foreign currency trading	8.732	7.369
Loss from trading with the Croatian Kuna	(19)	(19)
Profit/loss from implemented derivatives	0	0
Profit/loss from securities not actively traded but valued at fair value through profit and loss	3.018	7.708
Loss from activities in the assets available for sale	(3.594)	(67)
Profit from activities in the assets held to maturity	958	0
Total profit from financial activities	9.095	14.991

9. Net foreign exchange income

Description	2017. HRK '000	2016. HRK '000
Currency differences on translations	2.997	5.285
Currency differences from currency clause	(3.182)	(5.462)
Total net foreign exchange income	(185)	(177)

10. Other operating income

Description	2017. HRK '000	2016. HRK '000
Income from sale of property, plant and equipment	2.252	3.486
Income from the difference in value of foreclosed assets	0	0
Write offs of old and inactive accounts	131	308
Court settlements and reimbursement	4.348	0
Lease of office spaces	463	356
Collection of damages and interest from previous years	192	32
Income from contracted relations	1	787
Other non-specified income	219	434
Total other operating income	7.606	5.403

11. Other operating expenses

Description	2017. HRK '000	2016. HRK '000
Employees (Note 12)	24.964	24.081
Depreciation (Notes 25 and 26)	3.854	5.045
Other operating expenses (Note 13)	20.974	21.195
Total other operating expenses	49.792	50.321

12. Staff costs

Description	2017. HRK '000	2016. HRK '000
Net salaries	13.767	13.211
Taxes and contributions from salaries	5.485	5.614
Contributions on salaries	3.359	3.283
Reimbursements to employees	2.352	1.973
Total staff costs	24.964	24.081

At 31 December 2017 the Bank employed 177 employees (31 December 2016: 177 employees).

13. Other operating expenses

Description	2017. HRK '000	2016. HRK '000
Material and similar expenses	1.764	2.164
Services expenses	11.304	11.388
Representation, advertising and promotion expenses	806	688
Remunerations for Supervisory Board	348	370
Non-depreciated value of property sold	2.102	4.516
Expenses for court litigation and settlements	2.761	35
Other	1.889	2.034
Total other operating expenses	20.974	21.195

14. Impairment and provision costs

Description	2017. HRK'000	2016. HRK'000
Impairment of loans and prepayments to customers (Note 24)	11.743	28.038
Impairment of other assets (Note 28)	(129)	354
Special reserves for identified cumulative losses (Note 24)	748	1.647
Impairment of financial assets held to maturity (Note 22)	1.180	371
Collected written-off receivables	(1.217)	(3)
Provisions for contingent liabilities (Note 33)	163	590
Provisions for court disputes (Note 33)	1.701	(357)
Impairment of bank placements (Note 20)	(225)	21
Impairment of receivables from CNB (Note 19)	113	215
Cash impairment (Note 18)	679	167
Impairment of tangible assets intended for sale	9.395	4.782
Impairment of assets available for sale (Note 21)	3.500	0
Total impairment and provision costs	27.651	35.825

15. Income tax

Description	2017. HRK '000	2016. HRK '000
Accounting profit/loss	7.669	(6.076)
Items which increase tax base	42.681	17.024
Items which decrease tax base	(4.533)	(15.327)
Income tax base	45.817	(4.379)
Tax loss carried forward (of which effect of deferred tax assets)	(72.128)	(90.844)
Income tax rate	18%	20%
Tax loss available for transfer	(26.311)	(127.380)

Income tax is calculated in accordance with the Croatian legislation. Tax rate on taxable income is 18% (2016: 20%). As at 31 December 2017 there was no corporate income tax obligation due to realized tax loss.

Decrease in income tax rate in Croatia from 20% to 18% came into force on 1 January 2017. As the result of changes in income tax rate, relevant positions of deferred taxes have been recalculated.

15. Income tax (continued)

The Bank can use tax loss as deduction of accrued income tax base in the following 5 accounting periods, after which tax loss is abolished. Tax loss benefits have not been recognized in financial statements due to uncertainty of their future use.

The Bank's tax losses and their maturities are shown as follows:

Year of tax loss	Total amount of tax loss	Mature in
HRK '000		
2013.	21.932	2018.
2014.	0	2019.
2015.	0	2020.
2016.	4.379	2021.
2017.	0	2022.
	26.311	

16. Earnings per share

For the purposes of calculating earnings per share, earnings are calculated as the profit for the period attributable to shareholders. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used to calculate basic earnings per share was 17.559.585 (2016.: 16.619.694). Since there is no effect of dilution of other instruments, basic and diluted earnings per share are the same.

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
Profit / (Loss) for the year	7.669	(6.078)
Average weighted number of ordinary shares (in thousand)	17.560	16.620
Profit((Loss) per share	0,44	(0,37)

17. Financial information per segment

The Bank classifies customers by segment and sub segments depending on their size.
Segment Retail includes: individuals, craftsmen and free-lance professions.
Segment Corporate includes: public companies and private companies.
Segment Financial institutions includes: credit institutions, funds, insurance companies and other institutions performing financial activities.
Segment Other includes assets and liabilities not included within other segments.

Operating activities and customers are located mostly in Croatia and for that reason the geographical information by segments are not published.

a) Statement of profit and loss for 2017 - by operating segments

Description	Retail HRK'000	Corporate HRK'000	Financial institutions HRK'000	Other HRK'000	Total HRK'000
Net interest income	20.241	14.546	184	16.634	51.605
Net fees and commissions income	13.067	6.134	(3.021)	811	16.991
Provisions and placement impairments	(2.906)	(11.923)	(718)	(12.104)	(27.651)
Other	0	0	0	(33.276)	(33.276)
Result by segments	30.405	8.757	(3.555)	(27.635)	7.669
Income tax	0	0	0	0	0
Net result by segments	30.405	8.757	(3.555)	(27.635)	7.669

b) Statement of profit and loss for 2016 - by operating segments

Description	Retail HRK'000	Corporate HRK'000	Financial institutions HRK'000	Other HRK'000	Total HRK'000
Net interest income	10.661	18.303	(287)	16.097	44.774
Net fees and commissions income	12.409	4.849	(2.921)	742	15.079
Provisions and placement impairments	(10.524)	(18.058)	0	(2.461)	(31.043)
Other	0	0	0	(34.886)	(48.934)
Result by segments	12.546	5.094	(3.208)	(20.508)	(6.076)
Income tax	0	0	0	0	0
Net result by segments	12.546	5.094	(3.208)	(20.508)	(6.076)

17. Financial information per segment (continued)

c) Statement of financial position (Balance sheet) as at 31 December 2017 - operating segments

Description	Retail HRK'000	Corporate HRK'000	Financial institutions HRK'000	Other HRK'000	Total HRK'000
Net placements	604.439	298.062	7.044	209.238	1.118.783
Financial assets available for sale	0	13.224	0	0	13.224
Financial assets held to maturity	0	6.077	8.210	139.303	153.590
Financial assets at fair value through profit and loss	0	25.094	25.300	226.530	276.924
Other	6.894	306	497.154	114.498	618.852
Assets by segments	611.333	342.763	537.708	689.569	2.181.373
Deposits	1.667.060	162.585	179	161.265	1.991.089
Loans	0	0	8.558	0	8.558
Other	6.000	3.538	85	30.743	40.366
Liabilities by segments	1.673.060	166.123	8.822	192.008	2.040.013

c) Statement of financial position (Balance sheet) as at 31 December 2016 - operating segments

Description	Retail HRK'000	Corporate HRK'000	Financial institutions HRK'000	Other HRK'000	Total HRK'000
Net placements	569.312	289.018	16.237	213.558	1.088.125
Financial assets available for sale	0	16.444	1.029	69.745	87.218
Financial assets held to maturity	0	0	0	36.770	36.770
Financial assets at fair value through profit and loss	0	25.076	46.088	280.742	351.906
Other	769	786	410.284	163.571	575.410
Assets by segments	570.081	331.324	473.638	764.386	2.139.429
Deposits	1.636.546	173.840	650	115.874	1.926.910
Loans	0	0	53.363	0	53.363
Other	14.091	3.424	381	20.033	37.929
Liabilities by segments	1.643.433	177.062	54.013	135.209	2.009.717

NOTES TO THE STATEMENT OF FINANCIAL POSITION/BALANCE SHEET

18. Cash

<u>Description</u>	<u>31.12.2017.</u>	<u>31.12.2016.</u>
	HRK '000	HRK '000
Giro account	142.017	55.601
Cash in hand:		
- HRK	24.796	26.291
- foreign currency	8.342	9.140
Cash in foreign account with foreign banks	112.577	96.819
Cash in foreign account with domestic banks	32.863	57.746
Other cash	0	288
Impairment	(3.078)	(2.399)
Total cash	317.517	243.486

Impairment relates to special reserves which are determined for placements of the risk group A. Movements on impairments are shown as follows:

<u>Description</u>	<u>2017.</u>	<u>2016.</u>
	HRK '000	HRK '000
Balance as at 1 January	(2.399)	(2.232)
Net impairment (Note 14)	(679)	(167)
Balance as at 31 December	(3.078)	(2.399)

19. Receivables from the Croatian National Bank

<u>Description</u>	<u>31.12.2017.</u>	<u>31.12.2016.</u>
	HRK '000	HRK '000
Obligatory reserve		
- HRK	149.007	137.733
- foreign currency	0	0
Impairment	(1.490)	(1.377)
Total receivables from the Croatian National Bank	147.517	136.356

19. Receivables from the Croatian National Bank (continued)

According to CNB Decision the Bank is required to calculate obligatory reserves in the amount of 12% (2016: 12%) of the average daily balance of deposits and loans. The Bank cannot use the amount of obligatory reserves for its daily operations.

The Kuna share in the minimum reserve requirement calculated as above is increased by 75% of calculated minimum reserve requirement on foreign currency deposits and loans. The percentage of allocation of the Kuna share in the minimum reserve requirement amounts to 70% (2016: 70%). The Kuna share in the minimum reserve requirement is allocated with CNB by transfer of the calculated funds to the allocated minimum reserve requirement account kept at CNB.

During 2017, 100% of the foreign currency portion of obligatory reserves are kept in form of other liquid receivables.

CNB Decision on the minimum reserve requirement dated 15 December 2015 introduced a 100% maintenance of foreign currency minimum reserve requirement, effective as of 13 January 2016. Decision also introduced the obligation of banks to maintain, from calculation in May, 2016, at least 2% of the foreign currency minimum reserve requirement by the average daily balance of funds on their own EUR settlement accounts with the CNB, respectively on their own PM accounts in TARGET2-HR (accounts used to settle transactions in EURO in actual time, on a gross base).

Impairment refers to special reserves which are determined on cumulative basis for placements of the risk group A as shown below:

Description	2017. HRK '000	2016. HRK '000
Balance as at 1 January	(1.377)	(1.162)
Net impairment (Note 14)	(113)	(215)
Balance as at 31 December	(1.490)	(1.377)

20. Placements with banks

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
Loans to domestic banks	0	30.000
Short-term deposits with foreign banks	20.269	29.700
Guarantee deposit	12.253	4.739
Impairment	(122)	(348)
Total placements with banks	32.400	64.091

20. Placements with banks (continued)

Impairment refers to special reserves which are determined on cumulative basis for placements of the risk group A, and movements are shown as follows:

Description	2017. HRK '000	2016. HRK '000
Balance as at 1 January	(326)	(326)
Net impairment (Note 14)	225	(21)
Write-off	0	(1)
Balance as at 31 December	(122)	(348)

21. Financial assets available for sale

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
Investments in equity securities	733	2.359
Investments in debt securities	0	6.877
Bills of exchange	15.995	10.373
Impairment	(3.504)	(4)
Treasury bills	0	67.613
Total financial assets available for sale	13.224	87.218

/i/ Investments in equity securities refer to the following:

Description	31.12.2017. HRK'000	31.12.2016. HRK'000
Korana d.d. Karlovac	0	32
Varteks d.d. Varaždin	583	1.157
Jadranska banka d.d. Šibenik	0	30
ZIF Fima Proprius d.d.	0	990
Središnja depozitarna agencija d.d. Zagreb	8	8
Tržište novca d.d. Zagreb	1	1
Hrvatski registar obveza po kreditima d.o.o	141	141
Shares in equity	20	20
Impairment of shares in equity	(20)	(20)
Total shares	733	2.359

/ii/ Investments in debt securities mainly relate to investments in bonds of state enterprises with maturity up to 2 years for which the Bank realized yield of 4,12%.

/iii/ During 2017 only one bill of exchange was redeemed at a discount rate of 6,5% per annum (2016: 6,5% to 7,8% per annum). The contractual maturity date was 330 days. Discounted bills of exchange have been allocated to available-for-sale portfolio under IAS 39 and after the sale of bonds from up to maturity-portfolio. In addition, at the end of 2016, the Bank stopped new discounts of bills of exchange.

/iv/ Investments in treasury bills from the Ministry of Finance are maturing in the period of up to 15 months and in 2017 the Bank realized yield of 1,14% (2016: yield of 1,14%).

22. Financial assets held to maturity

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
Treasury bills from the Ministry of Finance	95.512	9.940
Bills and bonds of companies	6.182	0
Bonds of the Republic of Croatia	47.860	27.201
Bonds of HBOR	8.587	0
Impairment	(1.551)	(371)
Total financial assets held to maturity	153.590	36.770

/i/ Investments in treasury bills from the Ministry of Finance in EUR mature in the period of up to 15 months and in 2017 the Bank realized yield of 0,60% (2016: yield of 0,65%).

Investments in treasury bills from the Ministry of Finance in HRK mature in the period of up to 8 months and in 2017 the Bank realized yield of 0,50%.

/ii/ Bonds of the Republic of Croatia in HRK mature in the period over 12 months until year 2023 and the Bank realized yield of 2,15% (2016: yield of 2,09%). Foreign currency bonds of the Republic of Croatia mature in 2025 and 2027 and the Bank realized yield of 3,05% (2016: yield of 3,04%).

/iii/ Bonds of HBOR in foreign currency mature in the period up to year 2020 and the Bank realized yield of 1,45%.

/iiii/ Impairment refers to special reserves determined on a group base for placements of risk group A and the changes are shown below:

Description	2017. HRK '000	2016. HRK '000
Balance as at 1 January	(371)	0
Net impairment (Note 14)	(1.180)	(371)
Balance as at 31 December	(1.551)	(371)

23. Financial assets at fair value through profit and loss

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
Bonds of the Republic of Croatia	226.868	280.478
Bonds of State enterprises	7.030	7.659
Bonds of other companies	18.020	17.681
Portions in investment funds	25.006	46.088
Total financial assets at fair value through profit and loss	276.924	351.906

Bonds of the Republic of Croatia in HRK, indexed in EUR, mature in the period over 6 months to 6 years and bear yield of 1.75% to 6.75% annually (2016: 2.75% to 6.50% annually).

Bonds of the Republic of Croatia in foreign currency mature in the period over one year to 9 years and bear yield of 2.875%. In 2017 the Bank had an average interest yield of 3.88% (2016: 4.63%) on the portfolio of bonds of the Republic of Croatia and 5.08% including realized and unrealized effects of market prices (2016: 7.29%).

The Bank is in possession of foreign currency bonds of Hrvatska elektroprivreda d.d. in the amount of HRK 6,959 thousand which mature by year 2022 and bear yield of 5.875%. In 2017 the Bank made total yield of 10.52% (2016: 9.81%).

In 2017 the Bank earned the total return of 5.73% (2016: 9.81%) from bonds of other companies which mature as at 15 July 2023 and bear yield of 3.872%.

During 2017 the Bank invested a part of liquidity surplus in portions in investment funds with an average yield of 0.3% (2016: 0.9%).

24. Loans and prepayments to customers

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
Corporate	586.061	591.616
Individuals and sole traders	646.475	637.115
Other	31.621	44.385
Collected fees related to future periods	(2.697)	(3.290)
Loan impairments	(142.677)	(181.701)
Total loans and prepayments to customers	1.118.783	1.088.125

24. Loans and prepayments to customers (continued)

Movements on impairments are shown as follows:

Description	2017.			2016.		
	Impairment	Special reserves for identif.cumulative losses	Total	Impairment	Special reserves for identif.cumulative losses	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January	172.077	9.624	181.701	161.663	7.977	169.640
Net impairment and provision (Note 14)	11.743	748	12.491	28.038	1.647	29.685
Currency differences	(125)	0	(125)	(451)	0	(451)
Write-offs and other	(51.389)	0	(51.389)	(17.173)	0	(17.173)
Balance at 31 December	132.306	10.372	142.677	172.077	9.624	181.701

The amount of unused bank overdrafts doesn't represent a need for the funds in the total amount of approved overdrafts. Overdrafts are granted for a systematic and timely insurance of preconditions for possible and necessary financing. Potential loss from the commitments cannot be determined, but according to experiences from previous accounting periods and the effectiveness of existing mechanisms to protect the Bank in case of deterioration of financial position or performance of the client, the Bank does not expect additional potential losses from those stated in the financial statements for 2017.

Risk concentration by economic sector in portfolio loans to customers is shown as follows:

Description	31.12.2017.	31.12.2016.
	HRK '000	HRK '000
Production	135.590	128.946
Trade	125.034	80.247
Tourism	24.402	26.118
Agriculture	35.189	56.846
Construction	213.734	211.688
Services	105.051	154.994
Individuals	597.642	585.375
Other	27.514	28.903
Total by sector	1.264.156	1.273.116
Collected fees related to future periods	(2.697)	(3.290)
Impairment and provisions for loss from loans	(142.677)	(181.701)
Total loans and prepayments to customers, net	1.118.782	1.088.125

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25. Property, plant and equipment

Movements on property, plant and equipment are shown as follows:

Description	Buildings		Equipment		Furniture and transport vehicles		Other assets		Flats		Tangible assets under construction		Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Cost													
Balance at 31 December 2015	65.237	33.900	11.271	2.065	122	32.380	144.975						
Additions	-	-	-	-	-	4.218	4.218						
Transfer from assets under construction	-	4.031	171	-	-	(4.202)	-						
Other transfers	-	-	-	-	-	(25)	(25)						
Disposals and sales	(297)	(3.939)	(388)	(109)	-	-	(4.733)						
Balance at 31 December 2016	64.940	33.991	11.055	1.957	122	32.370	144.434						
Additions	-	-	-	-	-	2.349	2.349						
Transfer from assets under construction	2.126	1.067	46	7	-	(3.246)	-						
Other transfers	-	-	-	-	-	-	-						
Disposals and sales	-	(1.026)	(186)	(2)	-	-	(1.214)						
Balance at 31 December 2017	67.066	34.032	10.914	1.962	122	31.473	145.569						
Impairment													
Balance at 31 December 2015	43.662	31.524	9.424	1.528	122	13.407	99.667						
Depreciation for 2016	1.624	1.360	546	71	-	850	4.451						
Disposals and sales	(297)	(3.939)	(389)	(101)	-	-	(4.726)						
Balance at 31 December 2016	44.989	28.945	9.581	1.498	122	14.257	99.392						
Depreciation for 2017	1.009	1.476	550	56	-	171	3.263						
Disposals and sales	-	(1.026)	(186)	(2)	-	-	1.214						
Other transfers	400	-	-	-	-	(501)	(101)						
Balance at 31 December 2017	46.398	29.395	9.945	1.552	122	13.927	101.340						
Net carrying value at 31 December 2016	19.951	5.047	1.473	458	0	18.114	45.043						
Net carrying value at 31 December 2017	20.668	4.636	968	410	0	17.546	44.229						

25. Property, plant and equipment (continued)

Ownership of the predominant part of the property in which the Bank operates is registered at the Land Registry, while for two of the properties procedure to establishing certain specific parts of the property should be instituted, which is a prerequisite for the registration of ownership at the Land Registry. There are no pledges on the Bank's real estate. Cost of assets that have been fully depreciated and still used in the Bank's business amounts to HRK 34,274 thousand.

26. Intangible assets

Changes in intangible assets are given below::

Description	Software	Investments into others' assets	Other assets	Prepayment s	Total
Balance at 31 December 2015	2.001	7.034	533	0	9.568
Disposals and sales	(104)	(3)	-	-	(107)
Balance at 31 December 2016	1.897	7.031	533	0	9.461
Disposals and sales	-	(357)	-	0	(357)
Additions				333	332
Balance at 31 December 2017	1.897	6.674	533	333	9.436
<i>Impairment</i>					
Balance at 31 December 2015	1.981	5.376	533	0	7.890
Depreciation	10	584	0	0	594
Disposals and sales	(104)	(3)	0	0	(107)
Balance at 31 December 2016	1.887	5.957	533	0	8.377
Depreciation for 2017	7	584	0	0	594
Disposals and sales	0	-357	0	0	(107)
Balance at 31 December 2017	1.894	6.183	533	0	8.610
Net carrying value at 31 December 2015	20	1.658	0	0	1.678
Net carrying value at 31 December 2016	10	1.074	0	0	1.084
Net carrying value at 31 December 2017	3	491	0	333	826

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27. Foreclosed assets

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
Land (foreclosed over 2 years)	41.124	54.388
Buildings (foreclosed over 2 years)	10.816	14.558
Stanovi (foreclosed over 2 years)	7.595	6.804
Land (foreclosed up to 2 years)	0	1.069
Other buildings (foreclosed up to 2 years)	4.488	805
Other assets (foreclosed up to 2 years)	2.457	2.856
Total foreclosed assets	66.480	80.478

/i/ Land (foreclosed more than two years) stated as at 31 December 2017 in the amount of HRK 41,124 thousand (31 December 2016: HRK 54,388 thousand) on the most part or to the amount of HRK 34,293 thousand refers to the foreclosed land in Ičići (c.m. Veprinac) that the Bank has overtaken to settle receivables from Industrogradnja Grupa. By way of merger of Haustus gradnja, the Bank acquired land in Zagreb in the value of HRK 13,800 thousand which was sold in 2017.

/ii/ Buildings (foreclosed more than two years) stated as at 31 December 2017 to the amount of HRK 10,816 thousand mostly refer to the foreclosed buildings from the company Gradip d.d. Vrbovec taken over by the Bank in settlement of receivables from the said company.

/iii/ The Bank is currently in the process of initiating foreclosure over several properties that are collateral for the Bank's receivables for issued placements and other receivables from customers. Movements in foreclosed assets are shown as follows:

	Land	Buildings	Flats and other assets	Total
Cost				
Balance as at 31 December 2015	102.959	34.140	21.385	158.485
Takeovers and PPN	26	343	2.037	2.406
Sales	(18.872)	(11.598)	(7.216)	(37.686)
Balance as at 31 December 2016	84.113	22.885	16.206	123.205
Takeovers	15.461	4.488	2.707	22.656
Sales	(29.794)	(4.867)	(2.179)	(36.840)
Balance as at 31 December 2017	69.780	22.506	16.735	109.021
Impairment				
Balance as at 31 December 2015	37.134	9.433	4.201	50.768
Value adjustment	702	1.660	2.420	4.782
Sales	(9.181)	(3.569)	(72)	(2.822)
Balance as at 31 December 2016	28.656	7.523	6.549	42.728
Impairment				
Takeovers	7.782	168	942	8.892
Sales	(7.782)	(489)	(808)	(9.079)
Balance as at 31 December 2017	28.656	7.202	6.683	42.541
Net value as at 31 December 2015	65.825	24.707	17.184	107.717

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Net value as at 31 December 2016	55.457	15.362	9.657	80.477
Net value as at 31 December 2017	41.124	15.304	10.051	66.480

28. Other assets

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
Fees and commissions receivables	2.180	2.210
Trade receivables	159	74
Prepayment receivables	796	909
Prepayments	455	478
Deferred tax assets	579	700
Regulation of property relations of real estate for sale	5.954	0
Card business receivables	799	642
Various contractual relations receivables	947	3.000
Other receivables	614	318
Impairment	(2.601)	(3.458)
Total other assets	9.882	4.873

Movements on impairments are shown as follows:

Description	2017. HRK '000	2016. HRK '000
Balance at 1 January	3.458	3.765
New impairment (Note 14)	594	713
Collected and relieved amounts (Note 14)	(723)	(360)
Exchange differences	(16)	(9)
Write-offs and corrections	(712)	(651)
Balance at 31 December	2.601	3.458

Deferred tax assets are stated from the following temporary differences:

Description	2017. HRK '000	2016. HRK '000
Deferred fee for granted loans	579	700
Total	579	700

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Charged fees for placed loans represent a constant and it is estimated that in the near future a certain use of this property will be made on the basis of these differences. The Bank has not recognized deferred taxes on other items in view of the uncertainty of using deferred tax in respect of earnings.

Adjustment of tax assets are shown as follows:

	2017.		2016.	
	HRK'000		HRK'000	
Description	Tax assets HRK '000	Net HRK '000	Tax assets HRK '000	Net HRK '000
Balance at 1 January	700	700	947	947
Recognition of deferred tax assets	0	0	0	0
Utilization of deferred tax assets	(121)	(121)	(247)	(247)
Balance at 31 December	579	579	700	700

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29. Demand deposits

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
Demand deposits - individuals		
- HRK	319.562	242.276
- foreign currency	208.915	176.755
Total individuals	528.477	419.031
Demand deposits - trade companies		
- HRK	121.704	103.560
- foreign currency	25.131	48.137
Total trade companies	146.835	151.997
Demand deposits - financial institutions		
- HRK	179	359
Total financial institutions	179	359
Demand deposits - State and other institutions		
- HRK	61.356	67.732
- foreign currency	782	531
Total State and other institutions	62.118	68.263
Restricted deposits		
- HRK	1.544	1.147
- foreign currency	385	192
Total restricted deposits	1.929	1.339
Demand deposits - foreigners		
- HRK	1.718	799
- foreign currency	5.362	8.089
Total foreigners	7.080	8.888
Total demand deposits	746.617	649.876

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30. Term deposits

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
Deposits - individuals		
- HRK	345.433	350.774
- foreign currency	794.083	822.082
Total individuals	1.139.516	1.172.856
Deposits - trade companies		
- HRK	1.606	11.719
- foreign currency	14.144	9.644
Total trade companies	15.750	21.363
Deposits - State and other institutions		
- HRK	697	1.394
- foreign currency	1.052	1.084
Total State and other institutions	1.749	2.478
Deposits - foreigners		
- HRK	1.151	915
- foreign currency	32.144	35.352
Total foreigners	33.295	36.267
Total term deposits	1.190.310	1.232.964

31. Loan liabilities

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
HNB	0	24.390
Domestic banks	8.590	29.067
Paid loan fees related to future periods	(32)	(94)
Total loan liabilities	8.558	53.363

The liability to HBOR as at 31 December 2017 amounted to HRK 8,590 thousand (2016: HRK 29,067 thousand). These funds are intended for loans to enterprises and individuals in accordance with HBOR programs for the promotion of small and medium enterprises, tourism and agriculture, with an average interest rate of 3% (2016: 2,57%).

32. Other liabilities

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
Fee and commissions payables	381	448
Derivative liabilities	0	0
Liabilities to employees	2.373	1.823
Liabilities for taxes and contributions	1.287	77
Liabilities toward suppliers	1.166	1.160
Liabilities for prepayments on loans	5.246	2.647
Accrued loan interests and receivables discount	2.640	2.671
Liabilities for closed accounts	7.755	8.136
Premium for deposit insurance	1.292	1.290
Liabilities for transactions at POS terminals	856	626
Liabilities for management of foreclosed assets for sale	5.799	0
Orders sent to the NCS (National Clearing System-NKS)	2.337	2.352
Liabilities for public housing	235	1.564
Collected deferred income	652	412
Liabilities for purchased cash in HRK	310	0
Liabilities for tax and surtax on savings interest	391	513
Bearer savings	113	113
Other liabilities	420	364
Total other liabilities	33.253	24.196

33. Provisions

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
Provisions for employees	684	1.306
Provisions for court disputes	3.610	1.287
Provisions for identified losses by off-balance contingent liabilities	109	93
Special provisions for identified cumulative losses by commitments	2.710	2.562
Total provisions	7.112	5.248

/i/ Movements on provisions are shown as follows:

Description	2016. HRK '000	2016. HRK '000
Balance at 1 January	5.248	5.015
Changes in court disputes and employees provisions (Note 14)	1.701	(357)
Changes in provisions for contingent liabilities and commitments (Note 14)	163	590
Write-off	0	0
Balance at 31 December	7.112	5.248

/ii/ As at 31 December 2017 the Bank is involved in 95 legal disputes against legal entities and 206 against individuals.

The Bank is involved in 8 procedures for payment for real estate where the Bank is registered as the fiduciary owner.

The Bank is involved in 50 procedures for payment pursuant to bankruptcy procedures initiated against debtors.

/iii/ Proceedings in which the Bank is legitimately seeking receivables are classified according to significance:

1. Litigation by Josip Pribaić against the Bank for payment of the amount of HRK 2.0 million, with interest and expenses, which was validly completed by the final decision of the Zagreb County Court, against which the Bank made a revision request and made provisions in the amount of HRK 2.3 million. The Bank also obtained a final decision on the postponement of the enforcement order by which the enforcement order under the final judgment of the Municipal Court in Karlovac and the decision of the Zagreb County Court was delayed until the decision on the revision.

2. Civil proceedings of the Bank's shareholders before the Commercial Court in Zagreb to contest the decision of the General Assembly dated 10 February 2014 on the reductions and increase of the share capital and amendments to the Statute. The claim was rejected

by the first-instance judgment and, following the appeal of the plaintiffs, the cases are being resolved before the High Commercial Court in Zagreb.

In addition to the above proceedings in which the Bank is standing to be sued, when it comes to the amount there is also a significant claim for payment under the guarantee in the amount of HRK 8,922 thousand plus default interest. The Bank has refused to make a payment under the guarantee putting a complaint of abuse of rights by the beneficiary (Croatian Ministry of Health), but it is expected that the plaintiff will achieve partial success in the dispute, and for that reason the Bank formed provision of 10% of the dispute value. The Bank's Management Board informed the Croatian National Bank about this dispute.

The Bank turned to the lawsuit of the Republic of Croatia represented by the competent State Attorney's Office in a manner that it had entirely challenged the lawsuit and proposed to carry out a series of evidentiary proposals. A preliminary hearing has not yet been held.

34. Hybrid instruments

Hybrid instruments represent special instruments of investments into the capital, stakes without payment possibilities before the expiry of the contracted periods, except for entry into the equity, respectively for the conversion of hybrid instruments into shares. According to CNB regulations these instruments affect the increase of the Bank's regulatory capital in calculating capital adequacy. Hybrid instruments balance as of 31 December 2017 amounted to HRK 54,162 thousand (2016: HRK 44,067 thousand).

The balance includes 13 hybrid instruments that mature from April 2021 to May 2023. Instruments are subject to linear depreciation and their non-depreciated value is included in the calculation of regulatory capital or HRK 41,772 thousand (2016: HRK 40,108 thousand).

35. Share capital

The Bank's share capital as at 31 December 2017 amounted to HRK 176,678 thousand and is divided into 17,570,409 shares, of which 17,559,585 are ordinary shares with a nominal value of HRK 10 and 10,824 of preferred shares with a nominal value of HRK 100. Ordinary shares are quoted on the Zagreb Stock Exchange in the amount of 1,328,233. Preferred shares are entitled to a dividend of 7% of the nominal value and difference up to dividends entitled to the holders of ordinary shares. Preferred shares are also listed and traded.

Regulatory capital

The regulatory capital of the Bank and the capital adequacy rate for 2017 are calculated in accordance with the requirements of the Decision on the implementation of (EU) Commission implementing Regulation No. 680/2014 on establishing the implementing technical standards on supervisory reporting of institutions in accordance with (EU) Regulation No. 575/2013 (Official Gazette no. 84/2014, 116/2014, 16/2015, 67/2015, 19/2015, 34/2016, 94/2016 and 7/2017). As at 31 December 2017 regulatory capital of the Bank amounted to HRK 180,992 thousand (2016: HRK 167,492 thousand) while the capital adequacy rate amounted to 17.00% (2016: 16.19%) in relation to the prescribed minimum rate of 12%.

Description	2017. HRK'000	2016. HRK'000
Regulatory capital		
<i>Share capital</i>	139.220	127.384
<i>Regular share capital</i>	139.220	127.384
Issued stock capital	175.436	175.869
Retained profit (excluding profit for the year)	(42.987)	(37.516)
Net profit/(loss) for the year	7.668	(6.076)
<i>Deductions in line with the CNB regulations</i>		
Intangible assets	(826)	(1.084)
Unrealized loss from changes in fair value of financial assets available for sale	0	(3.374)
Impairment of CET1 due to prudential filters	(70)	(435)
Total regular share capital	139.220	127.384
Additional share capital	0	0
Share capital	139.220	127.384
Supplementary capital	41.771	40.108
Total regulatory capital	180.992	167.492
Total amount of risk exposure	1.064.522	1.034.828
Capital adequacy rate	17,00%	16.,19 %

36. Contingent liabilities and commitments

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
Performance guarantees		
- HRK	48.680	40.915
- foreign currency	2.190	2.065
Payment guarantees		
- HRK	6.402	5.929
- foreign currency	12.416	10.516
Letters of credit		
- foreign currency	0	1.890
Not withdrawn loan facilities	202.887	195.495
Other	2.545	3.002
Total contingent liabilities and commitments	275.120	259.812
Provisions for contingent liabilities and commitments	109	93
Total contingent liabilities and commitments, net	275.229	259.905

37. Cash and cash equivalents

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
Cash	317.517	243.486
Placements with other banks with maturity up to 3 months	20.269	59.700
Total cash and cash equivalents	337.786	303.186

38. Funds for and on behalf of third parties

The Bank is managing funds for and on behalf of third parties mainly placed in the form of borrowings. These funds are booked separately from the Bank's funds. Income and expenses based on these funds are booked as income or expense of certain sources, and the Bank does not bear any risk in this respect. The Bank charged fees for its services which are debited to these funds.

Description	2017. HRK '000	2016. HRK '000
Total sources	9.120	8.330
Less: assets	(9.120)	(9.195)
Unused funds	0	(865)

39. Transactions with persons in a special relation with the Bank and their related parties

Persons in a special relation with the credit institution are:

- 1) The credit institution's shareholders owning 5% or more of shares with voting rights at the credit institution's general meeting,
- 2) The members of the credit institution's management board and supervisory board and its procurators,
- 3) Persons who have concluded employment contracts with the credit institution the provisions of which imply that these persons have a significant influence over the operation of the credit institution or the contracts in which the remuneration for the work of these persons is determined in accordance with the special criteria, different from those applied to the persons who have concluded standard employment contracts, where these persons are not referred to in item 1) or 2) of this paragraph,
- 4) Legal entities in which the credit institution has a participating interest.

Persons in a special relationship with a credit institution shall also be persons connected with such persons defined as follows: two or more natural or legal persons and their immediate family members, who, unless it is shown otherwise, constitute a single risk because:

- 1) One of them, directly or indirectly, has control over the other or others or
- 2) They are so interconnected that there is a high likelihood that the economic and financial condition of one or more persons will deteriorate or improve as a result of the deterioration or improvement of the economic and financial conditions of one person, especially if between them there is a possibility of transferring loss, profit, creditworthiness or if difficulties in funding sources, or settlement of a person's obligations, can cause difficulties in sources of funding, or settlement of the obligations of one person or other persons.

Immediate family members are:

- 1) Spouse or a person living in a common household who, according to a special law, has the position equal to that in a marital community,
- 2) Children or adopted children of the person or children or adopted children of the person from item 1 of this paragraph without full legal capacity and
- 3) Other persons without full legal capacity and placed under custody of that person.

Credit institution may enter into a legal arrangement with the person in a special relationship with the Bank and persons connected with such persons, only if such an arrangement is agreed under conditions that are not more favourable than the usual conditions of a credit institution.

The exposure of a credit institution to persons in a special relationship with the Bank and persons connected with such persons that exceeds HRK 50,000 thousand may incur or increase only by unanimous approval of all the Bank's Management Board members and with the prior approval of the Bank's Supervisory Board. Exceptionally, member of the Management Board or Supervisory Board cannot vote on the approval of exposure, if the exposure would relate to them, or persons connected with them.

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39. Transactions with persons in a special relation with the Bank and their related parties (continued)

/i/ Receivables and payables of related parties as at 31 December 2017 are shown below:

	2017. HRK '000			
Related parties	Loans and receivables	Contingent liabilities and commitments	Deposits	Other liabilities
Shareholders with over 5% of ordinary shares and their related parties	481	8.370	231.570	5.806
Supervisory Board	663	58	1.275	27
Management Board	270	125	1.432	125
Procurators	0	0	0	0
Persons who concluded with the Bank employment contract with special conditions	1	58	122	10
Legal entities in which the Bank has a participating interest	30.768	0	5	0
TOTAL	32.183	8.611	183.233	5.968

/ii/ Receivables and payables of related parties as at 31 December 2016 are shown below:

	2016. HRK '000			
Related parties	Loans and receivables	Contingent liabilities and commitments	Deposits	Other liabilities
Shareholders with over 5% of ordinary shares and their related parties	2.663	6.242	158.034	9
Supervisory Board	815	49	567	29
Management Board	292	79	544	112
Procurators	0	0	0	0
Persons who concluded with the Bank employment contract with special conditions	1	59	120	12
Legal entities in which the Bank has a participating interest	30.766	0	2	0
TOTAL	34.517	6.429	159.267	162

39. Transactions with persons in a special relation with the Bank and their related parties (continued)

/iii/Income and expenses with the related parties for the year 2017 and 2016 are shown as follows:

Description	2017. HRK '000	2016. HRK '000
Income		
Shareholders with over 5% of ordinary shares and their related parties	5.423	3.709
Members of the Management Board and their related persons	12	13
Members of the Supervisory Board and their related persons	41	40
Others (employees and their related persons)	2	1
Legal entities in which the Bank has a participating interest	1	3.301
Total income	5.478	7.064
Expenses		
Shareholders with over 5% of ordinary shares and their related parties	3.644	3.629
Members of the Management Board and their related persons	1.708	1.250
Members of the Supervisory Board and their related persons	348	342
Others (employees with special contracts and persons related with them)	151	253
Legal entities in which the Bank has a participating interest	2.785	9.349
Total expenses	8.635	14.823

/iv/Remuneration to the Management Board is shown as follows:

Description	31.12.2017. HRK '000	31.12.2016. HRK '000
Net salaries	2.534	2.044
Taxes and contributions	2.155	1.983
Total	4.689	4.027

40. Interest risk

Interest risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Therefore the period in which the interest rate is fixed for a financial instrument indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Bank's interest rate exposure, based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are not interest bearing are grouped in 'Interest free' category.

2017.	Less than 1 month	1-3 months	3-12 months	1-3 years	More than 3 years	Interest free	TOTAL
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS							
Cash	0	0	0	0	0	317.517	317.517
Receivables from CNB	0	0	147.517	0	0	0	147.517
Placements with banks	4.094	10.084	6.102	12.079	0	41	32.400
Financial assets available for sale	0	0	0	0	0	13.224	13.224
Financial assets held to maturity	9.900	0	14.850	80.366	47.266	1.208	153.590
Financial assets valued through profit and loss	9.532	2.380	15.929	128.128	117.644	3.311	276.924
Loans and prepayments to customers	411.898	441.813	58.068	84.642	117.958	4.404	1.118.783
Property, plant and equipment	0	0	0	0	0	44.229	44.229
Intangible assets	0	0	0	0	0	826	826
Foreclosed assets	0	0	0	0	0	66.480	66.480
Other assets	0	0	0	0	0	9.883	9.883
Total assets	435.424	454.277	242.466	305.215	282.868	461.123	2.181.373
LIABILITIES							
Due to banks	1	0	0	0	0	0	1
Demand deposits	209	0	746.402	0	0	6	746.617
Term deposits	125.270	235.615	663.400	154.257	6.684	5.084	1.190.310
Hybrid instruments	0	0	0	0	54.162	0	54.162
Liabilities for received loans	5.160	114	341	910	2.033	0	8.558
Other liabilities	0	0	0	0	0	33.253	33.253
Provisions	0	0	0	0	0	7.112	7.112
Total liabilities	130.640	235.729	1.410.143	155.167	62.879	45.455	2.040.013
CAPITAL							
Share capital	0	0	0	0	0	176.678	176.678
Own shares	0	0	0	0	0	0	0
Unrealized profit/loss based on impaired financial assets available for sale	0	0	0	0	0	0	0
Capital gain	0	0	0	0	0	0	0
Reserves	0	0	0	0	0	0	0
Loss for the year	0	0	0	0	0	7.669	7.669
Retained profit	0	0	0	0	0	(42.987)	(42.987)
Total capital	0	0	0	0	0	141.360	141.360
Total liabilities and capital	130.640	235.729	1.410.143	155.167	62.879	186.815	2.181.373
Net assets/liabilities and capital	304.783	217.548	(1.167.677)	150.048	219.989	274.309	

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40. Interest risk (continued)

2016.	Less than 1 month	1-3 months	3-12 months	1-3 years	More than 3 years	Interest free	TOTAL
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS	0	0	0	0	0	243.486	243.486
Cash	0	0	136.355	0	0	0	136.355
Receivables from CNB	42.065	17.014	4.974	0	0	38	64.091
Placements with banks	444	2.685	74.811	6.179	0	3.099	87.218
Financial assets available for sale	0	0	9.900	0	26.395	475	36.770
Financial assets valued through profit and loss	52.228	16.717	43.612	77.724	157.087	4.538	351.906
Loans and prepayments to customers	461.052	467.564	57.261	50.132	47.702	4.414	1.088.125
Property, plant and equipment	0	0	0	0	0	45.043	45.043
Intangible assets	0	0	0	0	0	1.084	1.084
Foreclosed assets	0	0	0	0	0	80.478	80.478
Other assets	0	0	0	0	0	4.873	4.873
Total assets	555.789	503.980	326.913	134.035	231.184	387.527	2.139.429
LIABILITIES							
Due to banks	2	0	0	0	0	0	2
Demand deposits	389	0	649.480	0	0	8	649.877
Term deposits	142.478	249.570	652.703	173.468	6.722	8.023	1.232.964
Hybrid instruments	0	0	320	0	43.747	0	44.067
Liabilities for received loans	19.623	4.504	1.427	914	26.442	453	53.363
Other liabilities	0	0	0	0	0	24.198	24.198
Provisions	0	0	0	0	0	5.248	5.248
Total liabilities	162.491	254.074	1.303.930	174.382	76.911	37.929	2.009.717
CAPITAL							
Share capital	0	0	0	0	0	176.678	176.678
Available for sale financial assets fair value reserves	0	0	0	0	0	(3.374)	(3.374)
Loss for the year	0	0	0	0	0	6.076	(6.076)
Transferred loss	0	0	0	0	0	(37.516)	(37.516)
Total capital	0	0	0	0	0	129.712	129.712
Total liabilities and capital	162.491	254.074	1.303.930	174.382	76.911	167.641	2.139.429
Net assets/liabilities and capital	393.298	249.906	(977.017)	(40.347)	154.273	219.887	0

40. Interest risk (continued)

Table below shows effective interest rates for interest bearing assets and liabilities:

	2017.	2016.
	%	%
Assets		
Receivables from CNB	-0,6-0	-0,4-0,00
Placements with banks	-0,4-1,82	0,00-0,95
Financial assets available for sale	-	0,70-7,60
Financial assets held to maturity	0,10-6,00	0,65-3,04
Loans and prepayments to customers	2,00-11,00	2,00-11,57
Liabilities		
Due to banks (HBOR)	0,5-5,12	0,50-5,12
Demand deposits	0,00-0,10	0,00-0,01
Term deposits	0,00	0,00-5,60
Loan liabilities	-	-

41. Fair value of financial assets and liabilities

Fair value represents the amount to which funds can be exchanged or liabilities settled in the best interest of all parties. Since market prices for the major part of the Bank's financial assets and liabilities are not available, the fair value of these items is based on the estimates of the Management Board according to the type of assets and liabilities. According to the estimation of the Management Board, the market value is not materially different from the carrying value of all categories of assets and liabilities.

42. Concentration of assets, liabilities and off-balance sheet items

The Bank has no assets, liabilities and commitments in any other country other than Croatia, excluding current foreign currency accounts and term deposits with foreign banks in the European Union and insignificant funds with banks outside the European Union.

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43. Liquidity risk

Liquidity risk as a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations prescribed by the Croatian National Bank.

Remaining maturity of the Bank's assets and liabilities as at 31 December 2017 is shown as follows:

	Less than 1 month	1-3 months	3-12 months	1-3 years	More than 3 years	TOTAL
2017.	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS						
Cash	317.517	0	0	0	0	317.517
Receivables from CNB	147.517	0	0	0	0	147.517
Placements with banks	4.965	10.289	9.154	7.992	0	32.400
Financial assets available for sale	12.463	28	0	0	733	13.224
Financial assets held to maturity	10.226	882	14.850	80.366	47.266	153.590
Financial assets valued through profit and loss	25.901	2.417	5.133	125.829	117.644	276.924
Loans and prepayments to customers	150.787	35.962	119.342	418.799	393.892	1.118.783
Investment in associated company	0	0	0	0	0	0
Property, plant and equipment	0	0	0	0	44.229	44.229
Intangible assets	0	0	0	0	826	826
Foreclosed assets	0	0	0	0	66.480	66.480
Other assets	2.446	6.611	827	0	0	9.883
Total assets	671.822	54.189	149.306	632.986	671.070	2.181.373
LIABILITIES						
Due to banks	1	0	0	0	0	1
Demand deposits	746.617	0	0	0	0	746.617
Term deposits	124.508	242.267	667.010	154.883	1.642	1.190.310
Hybrid instruments	0	0	0	0	54.162	54.162
Liabilities for received loans	73	570	1.855	3.995	2.065	8.558
Other liabilities	33.253	0	0	0	0	33.253
Provisions	7.112	0	0	0	0	7.112
Total liabilities	911.564	242.837	668.865	158.878	57.869	2.040.013
CAPITAL						
Share capital	0	0	0	0	176.678	176.678
Own shares	0	0	0	0	0	0
Unrealized profit/loss based on impaired financial assets available for sale	0	0	0	0	0	0
Capital gain	0	0	0	0	0	0
Reserves	0	0	0	0	0	0
Profit for the year	0	0	0	0	7.669	7.669
Retained profit/(loss)	0	0	0	0	(42.987)	(42.987)
Total capital	0	0	0	0	141.360	141.300
Total liabilities and capital	911.564	242.837	668.865	158.878	199.229	2.181.373
Net assets/liabilities and capital	(239.742)	(186.649)	(519.559)	474.108	471.841	0

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43. Liquidity risk (continued)

Remaining maturity of the Bank's assets and liabilities as at 31 December 2016 is shown as follows:

	Less than 1 month	1-3 months	3-12 months	1-3 years	More than 3 years	TOTAL
2016.	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS						
Cash	243.486	0	0	0	0	243.486
Receivables from CNB	136.355	0	0	0	0	136.355
Placements with banks	42.078	17.039	4.974	0	0	64.091
Financial assets available for sale	1.157	2.713	74.811	6.179	2.358	87.218
Financial assets held to maturity	167	307	9.900	0	26.395	36.769
Financial assets valued through profit and loss	89.922	2.938	24.703	77.256	157.087	351.906
Loans and prepayments to customers	194.054	50.990	127.399	393.861	321.821	1.088.125
Property, plant and equipment	0	0	0	0	45.043	45.043
Intangible assets	0	0	0	0	1.084	1.084
Foreclosed assets	0	0	0	0	80.477	80.477
Other assets	1.336	2.453	1.084	0	4.873	4.873
Total assets	708.555	76.440	242.871	477.296	634.265	2.139.429
LIABILITIES						
Due to banks	2	0	0	0	0	2
Demand deposits	649.877	0	0	0	0	649.877
Term deposits	145.771	244.715	656.936	173.811	11.732	1.232.965
Liabilities for received loans	113	6.674	7.821	7.943	30.812	53.363
Other liabilities	24.197	0	0	0	0	24.197
Provisions	5.248	0	0	0	0	5.248
Hybrid instruments	0	0	320	0	43.747	44.067
Total liabilities	825.207	251.389	665.077	181.754	86.291	2.009.717
CAPITAL						
Share capital	0	0	0	0	176.678	176.578
Available for sale financial assets fair value reserves	0	0	0	0	(3.374)	(3.374)
Loss of current year	0	0	0	0	(6.077)	(6.077)
Transferred loss	0	0	0	0	(37.516)	(37.516)
Total capital	0	0	0	0	129.711	129.711
Total liabilities and capital	825.208	251.389	665.077	181.754	216.002	2.139.429
Net assets/liabilities and capital	(116.653)	(174.949)	(422.206)	295.542	418.263	0

44. Credit risk

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Risks are monitored regularly and are subject to an annual or more frequent review.

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

The primary purpose of credit commitments is to ensure that funds are available to a customer as required. Guarantees which represent irrevocable commitments that the Bank will settle the payment to third parties if the customers are not able to, bear the same credit risk as loans.

Contingent credit commitments represent undrawn portions of authorized loans and guarantees. According to credit risk related to contingent credit commitments, the Bank takes on potential loss exposure to the amount equal to total undrawn contingent commitments. However, possible loss amount is lower than total amount of undrawn contingent commitments, as most of the contingent credit commitments are related to maintenance of specific credit standards by customers. The Bank monitors the term of maturity of contingent credit commitments because longer-term commitments generally have a greater degree of credit risk than short-term.

Exposure to credit risk related to balance sheet records is presented as follows:

	31.12.2017. HRK'000	31.12.2016. HRK'000
Current accounts with CNB and other banks	284.582	208.056
Receivables from CNB	142.489	136.355
Placements with banks	37.184	64.053
Financial assets available for sale	13.185	87.175
Financial assets held to maturity	152.382	36.295
Financial assets at fair value through profit and loss	273.613	347.368
Loans and prepayments to customers	1.114.378	1.083.711
Other assets	18.887	14.381
Total	2.036.700	1.977.394

Exposure to credit risk related to off-balance sheet records is presented as follows:

	31.12.2017. HRK'000	31.12.2016. HRK'000
Guarantees	69.689	59.647
Unused placements and other	205.432	200.165
Total	275.121	259.812
Reserves	(2.818)	(2.656)
Total off-balance	272.303	257.156
Total exposure to credit risk	2.309.003	2.237.206

44. Credit risk (continued)

In the table above the Bank's highest exposure to credit risk is stated as at 31 December 2017 (HRK 31,581 thousand) and 31 December 2016, without collaterals taken into consideration. Balance sheet records stated in the table above are presented at net carrying value less provisions for value decrease, as shown in the balance sheet. Off-balance sheet records are based on the approved amounts, except for the undrawn portions of authorized loans and limits on credit cards, based on the undrawn portions of the amount.

49.9% (2016: 51.4%) of the highest exposure to credit risk arises from loans and receivables from banks and clients. Undrawn portions of authorized loans, credit card limits and other items represent 8.9% (2016: 8.9%) of the Bank's total exposure.

The Management Board is confident in its ability to further monitor and manage the Bank's credit risk, which arises from the loan portfolio and taken over liabilities due to the following reasons:

- 82.4% (2016: 76.0%) of loans and receivables from clients are classified in the risk category A,
- 81.6% (2016: 75.3%) of gross loans and receivables from clients are loans that are not yet due and have not been impaired,
- 17.6% (2016: 24%) of gross loans and receivables from clients are classified as impaired loans.

Loans and receivables from clients are insured with various types of collateral. The Management Board considers that loans and receivables from clients are sufficiently recoverable by provisions for impairment and collateral.

Impairment

Classification of the Bank	31.12.2017.		31.12.2016.	
	HRK'000		HRK'000	
	Loans and receivables from clients	Provisions for impairment	Loans and receivables from clients	Provisions for impairment
A	1.037.046	10.372	963.280	9.624
B1	57.659	6.934	71.787	6.734
B2	40.650	24.486	166.826	99.769
B3	96.241	71.020	22.145	19.216
C	29.865	29.865	45.788	45.788
Total	1.261.461	142.677	1.269.826	181.701

- Provisions for impairment of loans and receivables from clients classified in the risk category A are related to general provisions,
- Provisions for impairment stated as a percentage of gross loans and receivables from clients amount to 11.1% (2016: 13.9%),
- Decrease in provisions in 2017 is a result of the new evaluation of placements, relocation of part of the risk category C portfolio to off-balance sheet records and on the other hand, new mode of calculating provisions for risk category A placements.

44. Credit risk (continued)

Uncertainty related to the valuation of property collateral

Most housing loans are insured with mortgages on residential property. Also, a significant part of corporate portfolios is insured with real estate mortgages. The Real estate market in Croatia has not been liquid for several years, but despite the drop in prices, a relatively small number of transactions have been realized. Decrease in prices and non-liquidity of the real estate market have a negative impact on recoverability of the assets and the expected time of its realization in cases when borrowers have financial difficulties and the Bank would normally rely on collection through collaterals.

Rescheduled loans and receivables

The Bank has rescheduled certain loans to clients during the year to increase the possibility for their ultimate repayment. This measure was taken as a response to the deteriorating financial position of borrowers, that is, as a preventative measure. Wherever possible, the Bank has tried to improve its position by obtaining additional collaterals. Restructured loans are constantly monitored and in case of additional deterioration or breach of contractual obligations, necessary measures for collection of receivables are considered.

Loans and receivables from clients: impact analysis

<i>Given loans</i>	31.12.2017. HRK'000	31.12.2016. HRK'000
Not due and not impaired	1.031.075	958.568
Due but not impaired	9.699	9.332
Impaired loans	220.686	301.926
Gross total	1.261.460	1.269.826
Provisions for impairment	(142.677)	(181.701)
Net amount	1.118.783	1.088.125

Total provisions of the Bank for impairment of loans and receivables from clients amounts to HRK 139,093 thousand (2016: HRK 176,220 thousand), out of which HRK 128,721 thousand (2016: HRK 166,596 thousand) relates to specific provisions for impairment while the remaining HRK 10,372 thousand relates to general provisions (2016: HRK 9,624 thousand).

a) Loans and receivables from clients that are not yet due and not impaired

Loans and receivables from clients that are not yet due and not impaired are being monitored regularly and reviewed in detail for the purpose of early detection of any irregularities or warning signs, in order to take timely actions.

44. Credit risk (continued)

b) Loans and receivables from clients that are due but not impaired

Loans and receivables from clients with payment delays up to 90 days are not considered to be impaired, unless other information indicates otherwise. Also, there are some cases where clients are overdue in payments for over 90 days but due to other factors there is no need for impairment. The gross amount of loans and receivables from clients that are due but not impaired is shown below:

Description	31.12.2017. HRK'000	31.12.2016. HRK'000
Due within 30 days	7.856	7.559
Due in 31-60 days	1.261	1.213
Due in 61-90 days	582	560
Due over 90 days	0	0
TOTAL	9.699	9.332

It is not practical to present the estimated value of the collateral.

c) Impaired loans and receivables from clients

Overview of loans and receivables from clients for which an individual impairment has been recognized, net provisions for impairment, is shown below:

Description	31.12.2017. HRK'000	31.12.2016. HRK'000
Impaired loans, gross	220.686	301.926
Impairment	(128.721)	(166.596)
Impaired loans, net	91.965	135.330

It is not practical to present the estimated value of the collateral.

The Management Board believes that impaired loans and receivables from clients are adequately covered by collaterals and impairment provisions.

45. Market risk

Market risk is defined as the direct effect that changes in market prices have on the Bank's Income statement and the Balance sheet. Primary risk factors are:

- Currency risk
- Interest rate risk,
- Securities price risk,
- Concentration risk
- Operational risk

45.1. Currency risk

Currency risk management is performed with the aim of minimizing losses that may occur as a result of open FX position per currency and as a result of foreign exchange balance mismatching from the point of remaining maturity by key currencies.

The Bank is exposed to currency risk through transactions in foreign currencies that have effect on its financial position and cash flows.

The following table represents the analysis of main foreign currencies related to the Bank currency risk exposure. Other foreign currencies are comprised in 'Other currencies'. The Bank monitors its foreign currency risk exposure daily in accordance with legislation prescribed by the CNB and internally set limits. The Bank endeavours to match its assets and liabilities in foreign currencies in order to avoid exposure to currency risk.

Foreign currency assets and liabilities of the Bank as at 31 December 2017 are shown as follows:

2017.	EUR	USD	Other currencies	HRK with currency clause	Total foreign currency equivalents	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS							
Cash	125.313	11.848	15.165	0	152.326	165.191	317.517
Receivables from CNB	0	0	0	0	0	147.517	147.517
Placements with banks	304	24.385	7.771	0	32.400	5.027	32.400
Financial assets available for sale	0	0	0	0	0	13.224	13.224
Financial assets held to maturity	101.798	0	0	0	101.798	51.792	153.590
Financial assets valued through profit and loss	25.559	14.294	0	99.683	139.536	137.388	276.924
Loans and prepayments to customers	204.583	0	0	480.307	684.890	433.892	1.118.783
Property, plant and equipment	0	0	0	0	0	44.229	44.229
Intangible assets	0	0	0	0	0	826	826
Foreclosed assets	0	0	0	0	0	66.480	66.480
Other assets	4.195	0	0	956	5.151	4.732	9.882
Total assets	461.752	50.527	22.876	580.946	1.116.101	1.065.271	2.181.373
LIABILITIES							
Due to banks	0	0	0	0	0	1	1
Demand deposits	211.452	15.064	14.063	0	240.579	506.038	746.617
Term deposits	797.397	35.621	8.645	10	841.673	348.637	1.190.310
Hybrid instruments	0	0		28.162	28.162	26.000	54.162
Liabilities for received loans	0	0	0	8.205	8.205	353	8.558
Other liabilities	12.235	515	128	0	12.878	20.375	33.253
Provisions	0	0	0	0	0	7.112	7.112
Total liabilities	1.021.084	51.200	22.836	36.377	1.131.497	908.516	2.040.013
CAPITAL							
Share capital	0	0	0	0	0	176.678	176.678
Unrealized profit/loss based on impaired financial assets available for sale	0	0	0	0	0	0	0
Profit for current year	0	0	0	0	0	7.669	7.669
Retained profit / (loss)	0	0	0	0	0	(42.987)	(42.987)
Total capital	0	0	0	0	0	141.360	141.360
Total liabilities and capital	1.021.084	51.200	22.836	36.377	1.131.497	1.049.876	2.181.373
Net assets/liabilities and capital	(559.332)	(673)	40	544.569	((15.396))	15.396	0

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

45.1. Currency risk (continued)

Foreign currency assets and liabilities of the Bank as at 31 December 2016 are shown as follows:

2016.					Total foreign currency equivalents		Total
	EUR	USD	Other currencies	HRK with currency clause	HRK	HRK	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS							
Cash	135.430	13.246	15.316	0	163.992	79.494	243.486
Receivables from CNB	0	0	0	0	0	136.355	136.355
Placements with banks	307	25.937	7.829	0	34.073	30.018	64.091
Financial assets available for sale	67.646	0	0	698	68.344	18.874	87.218
Financial assets valued through profit and loss	11.451	0	0	0	11.451	25.318	36.770
Loans and prepayments to customers	108.194	0	0	68.568	176.762	175.144	351.906
Investment in associated company	218.456	2.639	0	466.398	687.493	400.632	1.088.125
Property, plant and equipment	0	0	0	0	0	45.043	45.043
Intangible assets	0	0	0	0	0	1.084	1.084
Foreclosed assets	0	0	0	0	0	80.478	80.478
Other assets	1.093	0	0	917	2.010	2.863	4.873
Total assets	542.577	41.822	23.145	536.581	1.144.125	995.303	2.139.429
LIABILITIES							
Due to banks	0	0	0	0	0	2	2
Demand deposits	205.169	22.246	12.711	0	240.126	409.751	649.877
Term deposits	823.388	35.177	9.592	10	868.167	364.797	1.232.964
Liabilities for received loans	0	0	0	16.795	16.795	36.568	53.363
Other liabilities	8.492	0	0	194	8.686	15.512	24.196
Provisions	0	0	0	0	0	5.248	5.248
Hybrid instruments	0	0	0	0	18.067	26.000	5.248
Total liabilities	1.037.049	57.423	22.303	35.066	1.151.841	857.878	2.009.717
CAPITAL							
Share capital	0	0	0	0	0	176.678	176.678
Available for sale financial assets fair value reserves	0	0	0	0	0	(3.374)	(3.374)
Loss for the current year	0	0	0	0	0	(6.076)	(6.076)
Transferred loss	0	0	0	0	0	(37.516)	(37.516)
Total capital	0	0	0	0	0	129.712	129.712
Total liabilities and capital	1.037.049	57.423	22.303	35.066	1.151.841	987.589	2.139.429
Net assets/liabilities and capital	(492.472)	(15.601)	842	501.515	(7.716)	7.716	0

45.1. Currency risk (continued)

The currency management system is determined by the extent of the business in foreign exchange trading which does not assume trading for speculative purpose. The aim of the Bank is to maintain the balanced position in terms of minimizing the impact of open position on the operating result.

Stress tests related to this risk are indirectly involved through the liquidity risk testing and also in cases of announced potential changes in regulations to the extent that it directly or indirectly affects the amount of an open foreign exchange position.

45.2. Interest rate risk

Interest rate risk refers to the sensitivity of the Bank's income and market value of the Bank's capital to changes in interest rates.

Interest rate risk management policy is adopted and implemented by the Bank in order to protect and minimize potential adverse effects on its financial result (net interest income) as well as the economic value of the Bank's portfolio, which could occur due to changes in interest rates.

Policy of interest rate risk management takes into consideration the short term as well as the long term focus when managing this risk.

Short term focus

In order to protect and minimize potential adverse effects on its financial result (net interest income), the Bank uses a re-pricing model (GAP analysis). For this purpose, nominal and weighted GAP's values are determined for each period as well as cumulatively in the period up to 1 year in all major currencies, and then for all currencies in total. The weighted value is considered in relation to the annual level of net interest income.

Long term focus

In order to protect and minimize the potential negative effects on the economic value of the Bank's portfolio, the Bank uses a simplified calculation of estimates of economic value by applying the standard interest rate shock on the positions in all major currencies and all currencies in total, and in the manner prescribed by the CNB in its applicable regulation.

In order to minimize the potential impact of changes in interest rates on net interest income and the economic value, the following objectives and constraints were set by the Policy:

1. Gradual decrease of existing net weighted positions in all major currencies and the total, with the aim of reducing possible changes in annual net interest income to a maximum level of 10%.

Maximum changes in economic value of the Bank's portfolio, as a result of the application of the standard interest rate shock which is expressed as a ratio set of change in economic value and the liable capital must not be greater than 10%.

45.3. Securities price risk

Objectives of investments in investment portfolio are:

1. to ensure a satisfactory structure of assets in terms of the liquidity level
2. to enable the provision of repo loans or loans based on eligible collaterals in the domestic interbank market
3. to achieve an acceptable rate of return

When purchasing a particular security, the Bank is guided by the principle of minimizing:

- concentration risk
- market risk
- credit risk
- liquidity risk
- interest risk

In order to minimize each of the above mentioned risks, the Bank has established appropriate limits.

45.4. Concentration risk

Concentration risk management is achieved through:

- Defined target structure of investment portfolios of which the bulk of the portfolio or 75% consists of debt securities issued by the Republic of Croatia;
- The maximum amount of the portfolio per issuer from 0.25 to 5% of the regulatory capital.

46. Operational risk

The Bank is exposed to operational risk in all its business activities and therefore seeks to manage operational risk in accordance with the prescribed principles and policies, as defined for the purpose of avoiding or mitigating operational risk.

Operational risk is managed through its identification, assessment, control and monitoring and the appropriate organizational chart and internal acts are set for that purpose. The Bank's policy for managing operational risk, beside the definition of the risk and its categories, determines also the classification of operational risk events in a way that it takes the classification from the current subordinate regulations. Furthermore, as part of the assessment and measurement of risk, the Bank covers the events that occurred and resulted in operating losses as well as the events which have occurred but for which the operating loss was avoided. Area of operational risk management is also regulated by special internal documents. For that purpose specific functions for operating segments related to the risk of outsourcing, compliance, anti-money laundering and terrorist financing, risk information systems and business continuity have been set.

For the purposes of identification and assessment of operational risk exposure, the Bank uses both qualitative and quantitative methods.

In case of crisis, the activities of the Bank are regulated by the Business continuity plan.

47. Fair value of financial instruments

Fair values of financial assets and financial liabilities are determined as follows:

- Fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.
- Fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.
- Fair value of derivative instruments is calculated using listed prices. Where such prices are not available, the analysis uses discounted cash flows by applying the current yield curve for the period of non-derivative instruments.
- This note provides information on methods used by the Bank to determine the fair value of various financial assets and financial liabilities.

The table below provides information on how to determine their fair value, more precisely, valuation methods and used input data:

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation method and main input data
	31.12.2017.	31.12.2016.		
1) Listed bonds (see Note 23.)	<i>Listed debt securities - government bonds</i> - HRK 226.868 thousand (book value = HRK 207.304 thousand)	<i>Listed debt securities - government bonds</i> - HRK 280.478 thousand (book value = HRK 260.199 thousand)	1. level	Market price model - the average daily price in the active market on the day of valuation or on the last trading day preceding the valuation.
2) Listed bonds (see Note 23.)	<i>Listed debt securities - bonds of public companies</i> (HEP) - HRK 7.030 thousand (book value = HRK 6.340 thousand)	<i>Listed debt securities - bonds of public companies</i> - HRK 7.659 thousand (book value = HRK 7.234 thousand)	1. level	Market price model - the average daily price in the active market on the day of valuation or on the last trading day preceding the valuation.
3) Listed bonds (see Note 23.)	<i>Listed debt securities - bonds of other companies</i> (Zgb.holding) - HRK 18.020 thousand (book value = HRK 17.256 thousand)	<i>Listed debt securities - bonds of other companies</i> (Zgb. Holding) - HRK 17.681 thousand (book value = HRK 17.269 thousand)	1. level	Market price model - the average daily price in the active market on the day of valuation or on the last trading day preceding the valuation.
4) Listed shares in investment funds (Note 23.)	<i>Listed securities - shares in investment funds</i> - HRK 25.006 thousand (book value = HRK 25.000 thousand.)	<i>Listed securities - shares in investment funds</i> - HRK 46.088 thousand (book value = HRK 46.000 thousand)	1. level	Market price model - published share price on the day of valuation.

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

5) Shares in joint-stock companies (Note 22.)	Listed securities. 2,48 % of shares of Varteks dd - HRK 583 thousand (book value = HRK 1.326 thousand)	Listed securities. 3,34 % of shares of Varteks dd - HRK 1.156 thousand (book value HRK 1.417 thousand)	1. level	Fair value estimation model - weighted average market price less a corrective factor
6) Shares in limited liability companies (Note 22.)	Unlisted shares 1,04 % of shares of HROK HRK 141 thousand	Unlisted shares 1,04 % of shares of HROK HRK 141 thousand	3. level	Book value at cost of acquisition
7) Shares in joint-stock companies (Note 22.)	Unlisted shares 0,87% shares of SDA d.d. - HRK 8 thousand.	Unlisted shares 0,87% shares of SDA d.d. - HRK 8 thousand.	3. level	Book value at cost of acquisition
8)) Shares in joint-stock companies (Note 22.)	Unlisted shares 4,555% shares of Tržište novca dd - HRK 1 thousand.	Unlisted shares 4,555% shares of Tržište novca dd - HRK 1 thousand.	3. level	Book value at cost of acquisition
9) Shares in (trade) companies (Note 22.)		Unlisted shares 0,547 % shares of Korana dd - HRK 33 thousand	3. level	Book value at cost of acquisition
10) Shares in (trade) companies (Note 22.)		Listed shares 0,195 % shares of Jadranska banka HRK 30 thousand. (book value HRK 873 thousand)	3. level	Market price model - the average daily price in the active market on the day of valuation or on the last trading day preceding the valuation.
11) Shares in closed-end investment funds (Note 22.)		Shares taken over 4,493 % shares in ZAIF Fima Proprius HRK 990 thousand (book value HRK 2.098. thousand)	3. level	Market price model - the average daily price in the active market on the day of valuation or on the last trading day preceding the valuation.
12) Bills of exchange (Note 22.)	Discounted bill of exchange of Uljanik HRK 8.952 thousand		3. level	Discounted value
13) Bills of exchange	Discounted bill of exchange AWT HRK 7.000 thousand denominated with HRK 3.500 thousand value adjustment	Discounted bill of exchange AWT HRK 7.000 thousand	3. level	Discounted value less credit risk
14) Bills of exchange (Note 22.)		Discounted bills of exchange of multiple companies in total value of HRK 3.326 thousand	3. level	Discounted value less credit risk
15)		Listed bonds of other companies	3. level	Book value at cost of acquisition

KARLOVAČKA BANKA d.d.
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

Bonds (Note 22.)		HRK 6.222 thousand (Hrvatska pošta)- book value HRK 6.783 thousand.		
16) Bonds (Note 22.)		Bonds of the Republic of Croatia for sold social housing HRK 698 thousand.	3. level	Value at nominal value
17) Treasury notes (Note 22.)		Treasury notes of the Republic of Croatia HRK 67.613 thousand. - book value HRK 68.020 thousand.	3. level	Fair value estimation model based on the achieved rate of return at the last TN auction and the interest rate on deposits at the nearest remaining maturity of TN

Fair value measurements recognized in the Statement of financial position / Balance sheet

The table analyses financial instruments subsequently measured at fair value, classified within three groups according to IFRS 13:

1. level of available indicators - fair value indicators are derived from (uncoordinated) quoted market prices for identical assets or liabilities
2. level of available indicators - fair value indicators are derived from inputs other than quoted prices from level 1 which relate to the asset or liability (their prices) or indirectly (derived from prices) and
3. level of indicators - indicators derived using valuation methods in which the input data are not based on available market data (unobservable inputs).

Levels of fair value recognized in the Statement of financial position / Balance sheet:

	1. level HRK '000	2. level HRK '000	3. level HRK '000	Total HRK '000
2017				
Financial assets available for sale	583	0	12.641	13.224
Financial assets at fair value through profit and loss	276.924	0	0	276.924
2016				
Financial assets available for sale	1.156	0	86.062	87.218
Financial assets at fair value through profit and loss	351.906	0	0	347.368

48. Auditors' fee

Auditors of the Bank's annual financial statements provided services in the amount of HRK 278 thousand (2016: HRK 190 thousand) which included the audit of annual financial statements, audit of reports for the CNB and IT system audit. During the year, the external auditor also provided services other than statutory auditing services. In 2017 the following non-auditing services (certification-related services) were provided: other agreed procedures to

verify compliance with financial, accounting or regulatory issues, legally required engagement of beliefs and conformity assessment of general information control system, and in accordance with the EU Regulation, services provided during the year represent permitted non-auditing services.

49. Subsequent events

Following the Balance sheet date, there were no events that could significantly influence the annual financial statements of the Bank for 2017 and should accordingly be published.

50. Approval of the financial statements

These financial statements were approved by the Management Board and authorized for issue on 30th April 2018.



Željka Surač
President of the Management Board



Marino Rade
Member



Ljiljana Movre
Member



Appendix A - Other legal and regulatory requirements

Additional report for the Croatian National Bank (CNB)

Statutory financial statements are prepared in accordance with reporting framework and statutory financial reports prescribed by the Decision of the Croatian National Bank regarding structure and content of annual financial reports of banks (hereinafter: Decision).

INCOME STATEMENT FOR 2017 IN ACCORDANCE WITH THE DECISION

Description	2017. HRK '000	2016. HRK '000
Interest income	76.575	80.901
Interest expenses	(24.969)	(36.127)
Net interest income	51.605	44.774
Fees and commissions income	24.279	22.502
Fees and commissions expenses	(7.289)	(7.422)
Net fees and commissions income	16.990	15.080
Profit/loss from investments in subsidiaries, joint ventures and associated companies	0	0
Profit/loss from trading	8.713	7.349
Profit/loss from embedded derivatives	0	0
Profit/loss from assets not actively traded, at fair value through profit and loss	3.018	7.708
Income from investments in subsidiaries, joint ventures and associated companies	0	0
Profit/loss from activities in assets available for sale	(3.594)	(67)
Profit/loss from activities in assets held to maturity	958	0
Income from other equity investments	0	0
Profit/loss from accrued foreign exchange differences	(327)	(637)
Other income	7.606	5.400
Other expenses	6.484	6.226
General administrative costs and depreciation	43.308	44.096
Net operating income before value adjustments and loss provisions	35.178	29.289
Value adjustment costs and loss provisions	(27.509)	(35.365)
Profit/loss before taxation	7.669	(6.076)
Income tax	0	0
Profit/loss for the year	7.669	(6.076)

Additional report for the Croatian National Bank (CNB) (continued)

STATEMENT OF OTHER COMPREHENSIVE INCOME IN ACCORDANCE WITH THE DECISION

No.	STATEMENT OF OTHER COMPREHENSIVE INCOME Description	2017	2016
1.	Profit or (-) loss for the year	7.669	(6.076)
2.	Other comprehensive profit (2.1+2.2)	3.374	576
2.1.	Items not to be reclassified as profit or loss (2.1.1+2.1.2+2.1.3+2.1.4+2.1.5+2.1.6)	0	0
2.1.1.	Tangible assets	0	0
2.1.1.	Intangible assets	0	0
2.1.1.	Actuarial gain or (-) loss on pension plans sponsored by the employer	0	0
2.1.1.	Fixed assets and alienation groups intended for sale	0	0
2.1.1.	Portion of other recognized income and expense from third parties calculated using share portion method	0	0
2.1.1.	Income tax which refers to items that will not be reclassified	0	0
2.2.	Items to be reclassified as profit or loss (2.2.1+2.2.2+2.2.3+2.2.4+2.2.5+2.2.6+2.2.7)	3.374	576
2.2.1.	Protection of net investments in foreign operations (effective portion) (2.2.1.1+2.2.1.2+2.2.1.3)	0	0
2.2.1.1	Gain or loss (-) in the capital	0	0
2.2.1.2	Transferred into profit or loss	0	0
2.2.1.3	Other reclassifications	0	0
2.2.2.	Foreign currency exchange (2.2.2.1+2.2.2.2+2.2.2.3)	0	0
2.2.2.1	Gain or loss (-) in the capital	0	0
2.2.2.2	Transferred into profit or loss	0	0
2.2.2.3	Other reclassifications	0	0
2.2.3.	Cash flows protection (effective portion) (2.2.3.1+2.2.3.2+2.2.3.3+2.2.3.4)	0	0
2.2.3.1	Gain or loss (-) in the capital	0	0
2.2.3.2	Transferred into profit or loss	0	0
2.2.3.3	Transferred into opening carrying value of protected items	0	0
2.2.3.4	Other reclassifications	0	0
2.2.4.	Financial assets available for sale (2.2.4.1+2.2.4.2+2.2.4.3)	3.374	576
2.2.4.1	Gain or loss (-) in the capital	(312)	(773)
2.2.4.2	Transferred into profit or loss	3.686	1.349
2.2.4.3	Other reclassifications	0	0
2.2.5.	Fixed assets and alienation groups intended for sale (2.2.5.1+2.2.5.2+2.2.5.3)	0	0
2.2.5.1	Gain or loss (-) in the capital	0	0
2.2.5.2	Transferred into profit or loss	0	0
2.2.5.3	Other reclassifications	0	0
2.2.6.	Portion of other recognized income and expense from investments into subsidiaries, joint ventures and associates	0	0
2.2.7.	Income tax referring to items that may be reclassified as profit or (-) loss	0	0
3.	Total comprehensive profit for the year (1.+2.)	11.043	(5.500)

Additional report for the Croatian National Bank (CNB) (continued)

BALANCE SHEET AS AT 31 DECEMBER 2017 IN ACCORDANCE WITH THE DECISION

Description	31.12.2017.	31.12.2016.
	HRK '000	HRK '000
ASSETS		
Cash and deposits with CNB	327.184	252.026
Cash	33.138	35.719
Deposits with CNB	294.046	216.307
Deposits with banking institutions	170.209	191.869
Treasury bills from the Ministry of Finance and Central bank bills	24.710	9.940
Securities and other financial instruments available for sale	13.185	87.175
Securities and other financial instruments held to maturity	127.672	26.355
Securities and other financial instruments not actively traded, at fair value through profit and loss	273.613	347.368
Derivative financial assets	0	0
Loans to financial institutions	7.003	16.238
Loans to other customers	1.107.376	1.067.473
Foreclosed assets	66.480	80.477
Tangible assets (less depreciation)	44.335	45.114
Interests, fees and other assets	19.607	15.394
Total assets	2.181.373	2.139.429
LIABILITIES		
Loans from financial institutions	8.558	52.910
Short-term loans	8.558	28.000
Long-term loans	0	24.910
Deposits	1.929.909	1.873.471
Deposits in giro and current accounts	482.494	394.192
Savings deposits	262.190	254.338
Term deposits	1.185.225	1.224.941
Derivative financial liabilities and other traded financial liabilities	0	0
Issued hybrid instruments	54.162	44.067
Interests, fees and other liabilities	47.384	39.269
Total liabilities	2.040.013	2.009.717
CAPITAL		
Share capital	176.678	176.678
Profit (loss) for the year	7.669	(6.076)
Retained profit (loss)	(42.987)	(37.516)
Legal reserves	0	0
Statutory and other capital reserves	0	0
Unrealized profit (loss) from value adjustment of financial assets available for sale	0	(3.374)
Total capital	141.360	129.712
Total liabilities and capital	2.181.373	2.139.429

Additional report for the Croatian National Bank (CNB) (continued)

CASH FLOW STATEMENT FOR 2017 IN ACCORDANCE WITH THE DECISION

Description	2017. HRK '000	2016. HRK '000
Operating activities		
1.1. Profit/(loss) before taxation	7.669	(6.076)
1.2. Impairments and loss provisions	27.509	35.365
1.3. Depreciation	3.854	5.045
1.4. Net unrealized (profit)/loss from financial assets and liabilities at fair value through profit and loss	2.864	(7.656)
1.5. (Profit) / loss from sale of tangible assets	150	93
1.6. Other (gains) / losses (value decrease)	0	0
1. Cash flows from operating activities before changes in operating assets (1.1. to 1.6.)	42.046	26.771
2.1. Deposits with CNB	(11.954)	5.070
2.2. Treasury notes of Ministry of Finance and treasury bills of CNB	(14.770)	(9.720)
2.3. Deposits with banking institutions and loans to financial institutions	1.718	(1.329)
2.4. Loans to other customers	(52.178)	(69.386)
2.5. Securities and other financial instruments held for trading	0	0
2.6. Securities and other financial instruments available for sale	73.864	39.551
2.7. Securities and other financial instruments not actively traded, at fair value through profit and loss	70.891	(129.763)
2.8. Other operating assets	(4.301)	(1.269)
2. Net (increase) /decrease in operating assets (2.1. to 2.8.)	63.270	(166.846)
Increase / (decrease) in operating liabilities		
3.1. Demand deposits	88.301	9.350
3.2. Savings and term deposits	(31.864)	95.993
3.3. Derivative financial liabilities and other trading liabilities	0	(4)
3.4. Other liabilities	(7.462)	(3.147)
3. Net increase /(decrease) in operating liabilities (3.1. to 3.4.)	63.899	102.192
4. Net cash flows from operating activities before income tax (1+2+3)	169.216	(37.883)
5. (Paid income tax)	0	0
6. Net inflow /(outflow) of cash from operating activities (4-5)	169.216	(37.883)
Investment activities		
7.1. Receipts from sale /(payments for purchase) of tangible and intangible assets	1.527	18.239
7.2. Receipts from sale /(payments for purchase) from investments into affiliates, associates and joint ventures	0	0
7.3. Receipts from sale /(payments for purchase) of securities and other financial instruments held to maturity	(102.497)	(26.942)
7.4. Received dividends	0	3
7.5. Other receipts /(payments) from investment activities	0	4.048
7. Net cash flow from investment activities (7.1. to 7.5.)	(100.970)	(4.652)
Financial activities		
8.1. Net increase /(decrease) in received loans	(44.351)	5.622
8.2. Net increase /(decrease) in issued debt securities	0	0
8.3. Net increase /(decrease) in subordinated and hybrid instruments	10.095	(185)
8.4. Receipts from emission of share capital	0	20.000
8.5. (Paid dividend)	0	0
8.6. Other receipts /(payments) from financial activities	605	0
8. Net cash flow from financial activities (8.1. to 8.6.)	(33.651)	25.437
9. Net increase /(decrease) in cash and cash equivalents (6+7+8)	34.595	(17.098)
10. Effects of changes in foreign currencies on cash and cash equivalents	0	
11. Net increase /(decrease) in cash and cash equivalents (9+10)	34.595	(17.098)
12. Cash and cash equivalents at the beginning of the year	303.162	320.260
13. Cash and cash equivalents at the end of the year	337.757	303.162

Appendix A - Other legal and regulatory requirements

Additional report for the Croatian National Bank (CNB) (continued)

STATEMENT OF CHANGES IN EQUITY IN 2017 IN ACCORDANCE WITH THE DECISION

Statement of changes in equity in line with the CNB standards										HRK'000
No.	Description	Share capital	Treasury shares	Legal, statutory and other reserves	Retained profit/loss	Profit/ (loss) for the year	Unrealized profit/loss from value adjustments of financial assets available for sale	Minority interests	Total capital and reserves	
1.	Balance as at 1 January	176.678			(37.516)	(6.076)	(3.374)		129.712	
2.	Changes in accounting policies and correction of errors	0	0	0	605	0	0	0	605	
3.	Corrected balance as at 1 January of the current year (1 + 2)	176.678	0	0	(36.911)	(6.076)	(3.374)	0	130.317	
4.	Sale of financial assets available for sale	0	0	0	0	0	2.354	0	2.354	
5.	Changes in fair value of the portfolio of financial assets available for sale	0	0	0	0	0	(312)	0	(312)	
6.	Tax on items directly recognized or transferred from capital and reserves	0	0	0	0	0	0	0	0	
7.	Other gains and losses directly recognized in capital and reserves	0	0	0	0	0	1.332	0	1.332	
8.	Net gains/losses directly recognized in capital and reserves (4 + 5 + 6 + 7)	0	0	0	0	0	3.374	0	3.374	
9.	Profit/ (loss) for the year	0	0	0	0	7.669	0	0	7.669	
10.	Total recognized income and expenses for the year (8 + 9)	0	0	0	0	7.669	3.374	0	11.043	
11.	Increase/decrease in share capital	0	0	0	0	0	0	0	0	
12.	Purchase/sale of treasury shares	0	0	0	0	0	0	0	0	
13.	Other changes	0	0	0	0	0	0	0	0	
14.	Transfer to reserves		0		(6.076)	6.076	0	0	0	
15.	Payment of dividends	0	0	0	0	0	0	0	0	
16.	Allocation of profit (14 + 15)	0	0	0	(6.076)	6.076	0	0	0	
17.	Balance as at 31 December (3 + 10 + 11 + 12 + 13 + 16)	176.678	0	0	(42.987)	7.669	0	0	141.360	

Additional report for the Croatian National Bank (CNB) (continued)

Reconciliation of statutory financial statements prepared in accordance with reporting framework and statutory financial statements prescribed by the CNB Decision on structure and content of annual financial statements of banks:

A) RECONCILIATION OF THE INCOME STATEMENT FOR 2017

Description	CNB Decision	Annual report	Difference	Note
	HRK'000	HRK'000	HRK'000	
Interest income	76.575	76.575	0	
(Interest expenses)	(24.969)	(24.969)	0	
Net interest income	51.605	51.605		
Income from fees and commissions	24.279	24.279	0	
(Expenses from fees and commissions)	(7.288)	(7.288)	0	
Net income from fees and commissions	16.991	16.991		
Profit/(loss) from investments in affiliates, associates and joint ventures	0	0	0	
Profit/(loss) from trading	8.713		8.713	1
Profit/(loss) from embedded derivatives	0		0	1
Profit/(loss) from assets not actively traded, at fair value through profit and loss	3.018		3.018	1
<i>Profit/loss from financial activities</i>		9.095	(9.095)	1
<i>Net income from foreign exchange differences</i>		(185)	185	1
Profit/(loss) from activities in assets available for sale	(3.594)		(3.594)	1
Profit/(loss) from activities in assets held to maturity	958	0	958	
Profit/(loss) from hedge transactions	0	0	0	
Income from investments in affiliates, associates and joint ventures	0	0	0	
Income from other equity investments	0	0	0	
Profit/(loss) from accrued foreign currency differences	(327)		(327)	1
Other income	7.606	7.606	0	
Other expenses	(6.484)	(49.792)	43.308	3
General administrative costs and depreciation/Other expenses	(43.309)	0	(43.308)	3
Net operating income before value adjustments and loss provisions	35.178	35.1320	(142)	2
Value adjustments and loss provisions costs	27.509	27.651	142	2
Profit/(loss) BEFORE TAX	7.669	7.669	0	
INCOME TAX	0	0	0	
Profit/(loss) FOR THE YEAR	7.669	7.669	0	
Earnings per share	0,44	0,44		

Additional report for the Croatian National Bank (CNB) (continued)

RECONCILIATION OF THE INCOME STATEMENT FOR 2017 (continued)

1. In accordance with the CNB standard, items *Profit/(loss) from trading activities, Profit/(loss) from assets not actively traded, at fair value through profit and loss* and item *Profit/(loss) from assets available for sale* represent the item *Profit/(loss) from financial activities* in the Annual report.
2. The difference amounting HRK (142) thousand in item *Value adjustments and loss provisions costs* relates to net foreign exchange differences on the value adjustments of placements that are, according to the CNB Decision, stated in item *Impairment expense and provisions for loss*.
3. *Other expenses* and *General administrative costs and depreciation* are according to CNB Decision stated separately while in the Annual report they are stated in item *Other expenses*. The difference of HRK 4,783 thousand represents costs of impairment of tangible and intangible assets which are according to CNB Decision stated in the Statement under item *Value adjustments and loss provisions costs*.

Additional report for the Croatian National Bank (CNB) (continued)

A) RECONCILIATION OF THE STATEMENT OF COMPREHENSIVE INCOME FOR 2017

No.	STATEMENT OF OTHER COMPREHENSIVE PROFIT IN LINE WITH THE CNB DECISION Description	2017	2017
1.	Profit or (-) loss for the year	7.669	7.669
2.	Other comprehensive profit (2.1+2.2)	3.374	3.374
2.1.	Items not to be reclassified into profit or loss (2.1.1+2.1.2+2.1.3+2.1.4+2.1.5+2.1.6)	0	0
2.1.1.	Tangible assets	0	0
2.1.1.	Intangible assets	0	0
2.1.1.	Actuarial gain or (-) loss on pension plans sponsored by the employer	0	0
2.1.1.	Long-term assets and alienation groups intended for sale	0	0
2.1.1.	Portion of other recognized income and expense from third parties calculated using share portion method	0	0
2.1.1.	Income tax which refers to items that will not be reclassified	0	0
2.2.	Items to be reclassified as profit or loss (2.2.1+2.2.2+2.2.3+2.2.4+2.2.5+2.2.6+2.2.7)	3.374	3.374
2.2.1.	Protection of net investments in foreign operations (effective portion) (2.2.1.1+2.2.1.2+2.2.1.3)	0	0
2.2.1.1	Gain or loss (-) in the capital	0	0
2.2.1.2	Transferred into profit or loss	0	0
2.2.1.3	Other reclassifications	0	0
2.2.2.	Foreign currency exchange (2.2.2.1+2.2.2.2+2.2.2.3)	0	0
2.2.2.1	Gain or loss (-) in the capital	0	0
2.2.2.2	Transferred into profit or loss	0	0
2.2.2.3	Other reclassifications	0	0
2.2.3.	Cash flows protection (effective portion) (2.2.3.1+2.2.3.2+2.2.3.3+2.2.3.4)	0	0
2.2.3.1	Gain or loss (-) in the capital	0	0
2.2.3.2	Transferred into profit or loss	0	0
2.2.3.3	Transferred into opening carrying value of protected items	0	0
2.2.3.4	Other reclassifications	0	0
2.2.4.	Financial assets available for sale (2.2.4.1+2.2.4.2+2.2.4.3)	3.374	3.374
2.2.4.1	Gain or loss (-) in the capital	(312)	(312)
2.2.4.2	Transferred into profit or loss	3.686	3.686
2.2.4.3	Other reclassifications	0	0
2.2.5.	Long-term assets and alienation groups intended for sale (2.2.5.1+2.2.5.2+2.2.5.3)	0	0
2.2.5.1	Gain or loss (-) in the capital	0	0
2.2.5.2	Transferred into profit or loss	0	0
2.2.5.3	Other reclassifications	0	0
2.2.6.	Portion of other recognized income and expense from investments into subsidiaries, joint ventures and affiliates	0	0
2.2.7.	Income tax referring to items that can be reclassified into profit or (-) loss	0	0
3.	Total comprehensive profit for the year (1.+2.)	11.043	11.043

Additional report for the Croatian National Bank (CNB) (continued)

B) RECONCILIATION OF THE STATEMENT OF COMPREHENSIVE INCOME FOR 2017
(continued)

Statement of comprehensive income - Annual report

Description	2017. HRK '000	2017. HRK '000
Profit for the year	7.669	7.669
Other comprehensive profit:		
<i>To be reclassified as profit or loss</i>		
Unrealized loss from valuation of financial assets available for sale	(312)	(312)
Other comprehensive profit (loss) for the year, net of tax	3.686	3.686
TOTAL COMPREHENSIVE PROFIT	11.043	11.043

Besides the difference in the description of certain positions, in the Statement of Comprehensive Income no other differences were detected.

Additional report for the Croatian National Bank (CNB) (continued)

C) RECONCILIATION OF THE BALANCE SHEET AS AT 31 DECEMBER 2017

ASSETS	CNB Decision	Annual report	Difference	Note
	HRK'000	HRK'000	HRK'000	
Asseets				
CASH AND DEPOSITS WITH CNB (1.1+1.2.)	327.184	0	0	
Cash	33.138	0	33.138	1
Deposits with CNB	294.046	0	294.046	1
DEPOSIT WITH BANKING INSTITUTIONS	170.209	0	170.209	1
<i>Cash assets</i>		317.517	(317.517)	1
<i>Receivables from CNB</i>		147.517	(147.517)	1
<i>Placements to banks</i>		32.400	(32.400)	1 and 5
TREASURY NOTES OF MINISTRY OF FINANCE AND TREASURY BILLS OF CNB	24.710	0	24.710	2
SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	0	0	0	
SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	13.185	13.224	39	5
SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	127.672	153.590	(25.919)	5
SECURITIES AND OTHER FINANCIAL INSTRUMENTS NOT ACTIVELY TRADED, AT FAIR VALUE THROUGH PROFIT OR LOSS	273.613	276.924	3.311	5
DERIVATIVE FINANCIAL ASSETS	0	0	0	
LOANS TO FINANCIAL INSTITUTIONS	7.003		7.003	4
LOANS TO OTHER CUSTOMERS	1.107.376	1.118.783	(11.407)	5
INVESTMENTS IN AFFILIATES, ASSOCIATES AND JOINT VENTURES	0	0	0	
FORECLOSED ASSETS	66.480	66.480	0	
TANGIBLE ASSETS (LESS DEPRECIATION)	44.335	44.229	106	3
<i>Intangible assets</i>		826	(826)	3
INTERESTS, FEES AND OTHER ASSETS	19.607	9.883	9.724	3 and 5
TOTAL ASSETS (1+2+3 do 14-15)	2.181.373	2.181.373	0	

Additional report for the Croatian National Bank (CNB) (continued)

B) RECONCILIATION OF THE BALANCE SHEET AS AT 31 DECEMBER 2017 (continued)

LIABILITIES	CNB Decision	Annual report	Difference	Note
	HRK'000	HRK'000	HRK'000	
Liabilities and capital				
LOANS FROM FINANCIAL INSTITUTIONS (1.1.+1.2.)	8.558			
Short-term loans	8.558		8.558	5
Long-term loans	0		0	5
<i>Loan liabilities</i>	0	8.558	(8.558)	5
DEPOSITS (2.1.+2.2.+2.3.)				
Deposits in giro and current accounts	482.494		482.494	6
Savings deposits	262.190		262.190	6
Term deposits	1.185.225	1.190.310	(5.084)	6 and 9
<i>Demand deposits</i>		746.618	(746.618)	6 and 9
<i>Liabilities to banks</i>	0	1	(1)	6
OTHER LOANS (3.1.+3.2.)	0	0	0	
Short-term loans	0	0	0	
Long-term loans	0	0	0	
DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING LIABILITIES	0	0	0	
ISSUED DEBT SECURITIES(5.1.+5.2.)	0	0	0	
Issued short-term debt securities	0	0	0	
Issued long-term debt securities	0	0	0	
ISSUED SUBORDINATED INSTRUMENTS	0	0	0	
ISSUED HYBRID INSTRUMENTS	54.162	54.162	0	
INTERESTS, FEES AND OTHER LIABILITIES	47.384	33.253	14.131	7 and 9
<i>Provisions</i>	0	7.112	(7.112)	7
TOTAL LIABILITIES (1+2+3+4+5+6+7+8)	2.040.013	2.040.013		
Capital			0	
SHARE CAPITAL	176.678	176.678	0	
<i>Own shares</i>	0	0	0	
<i>Capital gain</i>	0	0	0	
PROFIT (LOSS) FOR THE YEAR	7.669	7.669	0	
RETAINED PROFIT / LOSS	(42.987)	(42.987)	0	
LEGAL RESERVES	0	0	0	
STATUTORY AND OTHER CAPITAL RESERVES	0	0	0	
<i>Reserves</i>	0	0	0	
UNREALIZED PROFIT/(LOSS) FROM VALUE ADJUSTMENT OF FINANCIAL ASSETS AVAILABLE FOR SALE	0	0	0	
TOTAL CAPITAL (1+2+3+4+5+6+7)	141.360	141.360		
TOTAL LIABILITIES AND CAPITAL	2.181.373	2.181.373		

Additional report for the Croatian National Bank (CNB) (continued)

C) RECONCILIATION OF THE BALANCE SHEET AS AT 31 DECEMBER 2016 (continued)

ASSETS

1. *Cash and Deposits with CNB* and *Deposits with banking institutions* are items that are stated separately according to CNB standards while in the Annual report those values are stated within *Cash, Receivables from CNB and Placements with banks*.
2. Item *Treasury notes of the Ministry of Finance and Treasury bills of the CNB* in the amount of HRK 24,710 thousand is, in line with CNB standards, stated separately while in the Annual report this item is stated within *Securities and other financial instruments held to maturity*.
3. In the Annual report intangible assets are stated as a separate item while according to the CNB Decision it is stated in the item *Interests, fees and other assets*. Furthermore, small inventory is stated within Tangible assets according to the CNB Decision in the amount of HRK 106 thousand, while according to the Annual report it is stated in the item Other assets.
4. According to the CNB Decision, *Loans to financial institutions* are stated as a separate item, while in the Annual report they are stated within Loans to third parties.
5. In the Annual report interests are stated with instruments they relate to, while according to the CNB Decision interest receivables are stated within Interests, fees and other assets. Thus, there are differences in the item Deposits with banking institutions (HRK - 41 thousand), Securities available for sale (HRK - 39 thousand), securities held to maturity (HRK - 1,208 thousand), securities valued through profit and loss (HRK 3,311 thousand). Loans and prepayments to customers decreased by HRK 4,404 thousand and Other assets increased in total by HRK 9,004 thousand in the Report to CNB.

LIABILITIES AND CAPITAL

6. *Loans from financial institutions* (short-term and long-term) are items stated separately according to CNB standards and in the Annual report those are stated within *Loan liabilities*.
7. *Deposits in giro and current accounts* and *Savings deposits* are stated separately according to CNB Decision and in the Annual report represent item *Demand deposits* and *Due to banks*. The difference in the amount of HRK 1,927 thousand refers to limited deposits which are according to the Annual report stated as *Demand deposits* while according to the CNB Decision they are stated as *Interests, fees and other*.
8. Furthermore, according to the Annual report the item *Provisions* is stated separately, while according to the CNB Decision the item is stated as *Interests, fees and other liabilities*. The difference of HRK 1,927 thousand relates to restricted deposits as described in the section above.
9. As with the assets, in case of passive instruments in the Annual report as well, the interest is stated as a single position, whereas according to CNB Decision interest liability is stated within the item Interest, fees and other liabilities. Thus there are differences in Demand deposits (HRK - 6 thousand), Term deposits (HRK - 5,084 thousand) and Other liabilities (HRK 5,090 thousand).

Additional report for the Croatian National Bank (CNB) (continued)

D) RECONCILIATION OF THE CASH FLOW STATEMENT FOR 2017

CASH FLOW STATEMENT - indirect method	CNB Decision	Annual report	Difference
Operating activities	HRK'000	HRK'000	HRK'000
Profit/(loss) before tax	7.669	7.669	0
Impairments and loss provisions	27.509	11.742	15.767
Impairments of other assets		(129)	129
Other impairments and provisions (net)		4.941	(4.941)
Impairments of property, plant, equipment and foreclosed assets		9.395	(9.395)
Provisions for court disputes (net)		1.701	(1.701)
Depreciation	3.854	3.854	0
Net unrealized (profit)/loss from financial assets and liabilities at fair value through profit and loss	2.864	0	2.864
(Profit) / loss from sold tangible assets	0	0	0
Cash flow from operating activities before changes in operating assets (1.1. to 1.6.)	41.896	39.173	2.723
Deposits with CNB	(11.953)	(11.953)	0
Treasury notes of Ministry of Finance and treasury bills of CNB	(14.770)	(14.770)	0
Deposits with banking institutions and loans to financial institutions	1.718	0	1.718
Loans to other customers	(52.178)	(43.059)	(9.119)
Securities and other financial instruments held for trading	0	0	0
Securities and other financial instruments available for sale	73.864	73.864	0
Securities and other financial instruments not actively traded, at fair value through profit and loss	70.891	74.980	(4.089)
Increase in placements with banks	0	(7.518)	7.518
Other operating assets	(4.297)	(4.822)	525
Net (increase)/decrease in operating assets (2.1. to 2.8.)	63.275	66.722	(3.447)
Increase / (decrease) in liabilities to banks	0	0	0
Demand deposits	88.301	96.742	(8.441)
Savings and term deposits	(31.864)	(42.656)	10.792
Derivative financial liabilities and other liabilities held for trading	0	0	0
Other liabilities	7.463	9.090	(1.627)
Net increase/(decrease) in operating liabilities (3.1. to 3.4.)	63.900	63.176	0
Net cash flow from operating activities before income tax (1+2+3)	169.071	169.071	0
(Paid income tax)	0	0	0
Net inflow/(outflow) of cash from operating activities (4-5)	169.071	169.071	724
Investment activities			
Receipts from sale / (payments for purchase) of tangible and intangible assets	1.677	1.677	0
Receipts from sale / (payments for purchase) of investments in subsidiaries, associates and joint ventures	0	0	0
Receipts from sale / (payments for purchase) of securities and other financial instruments held to maturity	(102.497)	(102.497)	0
Received dividends	0	0	0
Other receipts /(payments) from investment activities	0	0	0
Net cash flow from investment activities (7.1. to 7.5.)	(100.820)	(100.820)	0
Financial activities			
Net increase /(decrease) in received loans	(44.351)	(44.351)	0
Net increase /(decrease) in subordinated and hybrid instruments	10.095	10.095	0
Receipts from issued share capital	0	0	0
(Paid dividend)	0	0	0
Other receipts /(payments) from financial activities	605	605	0
Net cash flow from financial activities (8.1. to 8.6.)	(33.651)	(33.651)	0
Net increase/(decrease) in cash and cash equivalents (6+7+8)			0
Effects of foreign exchange rate changes on cash and cash equivalents	0	0	0
Net increase/(decrease) in cash and cash equivalents (9+10)	34.600	34.600	0
Cash and cash equivalents at the beginning of the year	303.186	303.186	0
Cash and cash equivalents at the end of the year	337.786	337.786	0

As the cash flow statement is prepared using the indirect method, except for the difference in the reconciliation of the balance sheet position, explained on pages 78 to 80 and

the methodology of the cash flow statement prescribed by the Decision, there were no other differences.

Additional report for the Croatian National Bank (CNB) (continued)

E) RECONCILIATION OF THE STATEMENT OF CHANGES IN EQUITY FOR 2017

Statement of changes in equity according to CNB standard										HRK '000
No.	Description	Share capital	Treasury shares	Legal, statutory and other reserves	Retained profit/loss	Profit/ (loss) for the year	Unrealized profit/loss from value adjustment of financial assets available for sale	Minority interests	Total capital and reserves	
1.	Balance as at 1 January	176.678			(37.516)	(6.076)	(3.374)		129.712	
2.	Changes in accounting policies and correction of errors	0	0	0	605	0	0	0	605	
3.	Corrected balance as at 1 January (1 + 2)	176.678	0	0	(36.911)	(6.076)	(3.374)	0	130.317	
4.	Sale of financial assets available for sale	0	0	0	0	0	2.354	0	2.354	
5.	Change in fair value of portfolio of financial assets available for sale	0	0	0	0	0	(312)	0	(312)	
6.	Tax on items directly recognized or transferred from capital and reserves	0	0	0	0	0	0	0	0	
7.	Other gains and losses directly recognized in capital and reserves	0	0	0	0	0	1.332	0	1.332	
8.	Net gains/losses directly recognized in capital and reserves (4 + 5 + 6 + 7)	0	0	0	0	0	3.374	0	3.374	
9.	Profit/(loss) for the year	0	0	0	0	7.669	0	0	7.669	
10.	Total recognized income and expenses for the year (8 + 9)	0	0	0	0	7.669	3.374	0	11.043	
11.	Increase/decrease in share capital	0	0	0	0	0	0	0	0	
12.	Purchase/sale of treasury shares	0	0	0	0	0	0	0	0	
13.	Other changes	0	0	0	0	0	0	0	0	
14.	Transfer to reserves		0		(6.076)	6.076	0	0	0	
15.	Payment of dividends	0	0	0	0	0	0	0	0	
16.	Allocation of profit (14 + 15)	0	0	0	(6.076)	6.076	0	0	0	
17.	Balance as at 31 December of the current year (3 + 10 + 11 + 12 + 13 + 16)	176.678	0	0	(42.987)	7.669	0	0	141.360	

Additional report for the Croatian National Bank (CNB) (continued)

C) RECONCILIATION OF THE STATEMENT OF CHANGES IN EQUITY FOR 2017 (continued)

Description	Share capital	Own shares	Available for sale financial assets fair value reserves	Transferred loss	Profit for the year	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance as at 1 January 2016	156.679	0	(3.950)	(21.597)	(14.529)	116.603
Allocation of profit	0	0	0	(14.529)	14.529	0
Increase in share capital	20.000	0	0	0	0	20.000
Decrease in share capital	0	0	0	0	0	0
Other changes	0	0	1.349	(1.391)	0	(42)
Change in fair value of the portfolio available for sale	0	0	(773)	0	0	(773)
Loss for the year	0	0	0	0	(6.076)	(6.076)
Balance as at 31 December 2016	176.679	0	(3.374)	(37.517)	(6.076)	129.712
Allocation of profit	0	0	0	(6.076)	6.076	0
Increase in share capital	0	0	0	0	0	0
Decrease in share capital	0	0	0	0	0	0
Other changes	0	0	1.332	605		1.937
Other comprehensive profit (sale of portfolio AFS)	0	0	2.354	0	0	2.354
Other comprehensive profit (AFS impairment to fair value)	0	0	(312)	0	0	(312)
Profit for the year	0	0	0	0	7.669	7.669
Balance as at 31 December 2017	176.679	0	0	(42.987)	7.669	141.360

Apart from differences in description of individual transactions, the statement of changes in equity did not incur any other differences.

Pursuant to the Article 164 of the Credit Institutions Act the Bank discloses the following information:

The Bank is registered to conduct the following activities:

- Accept deposits and other refundable resources
- Approve loans and leases, including consumer loans and leases and mortgage loans and leases if allowed pursuant to a special law and financing commercial activities, including export financing based on forfeiting with discounts and without recourse of long-term unmatured receivables secured with financial instruments
- Factoring receivables with or without recourse
- Issuing guarantees and other securities
- Trading on its own account or on behalf of clients with: money market instruments, transferrable securities, foreign currencies, including currency exchange, financial terms and options, currency and interest instruments
- Payment operations pursuant to a separate law
- Services related to loans, eg. data collection, analyses and information on creditworthiness of legal entities and individuals performing an independent activity
- Issuing and managing other payment instruments if these services are not considered to be payment services in accordance with a special law
- Leasing safe boxes
- Conducting business related to selling insurance policies in accordance with insurance regulations

As at 31 December 2017 the Bank operated through the Central Sub-branch in Karlovac, branch offices in Zagreb and Rijeka and 10 other sub-branches and two offices: Central sub-branch with office in Grabrik, sub-branch Vladka Mačeka with office in Draganići and sub-branch Tržnica which are located in Karlovac, and in cities and places: Jastrebarsko, Duga Resa, Ogulin, Ozalj, Slunj, Žakanje and Topusko.

The Bank further discloses other requirements pursuant to the Article 164 of the Credit Institutions Act:

	2017. HRK '000
Total income	122.117
Profit before tax	7.669
Income tax	0
<hr/>	
Number of employees as at 31 December 2017	177
Number of employees based on equivalent of full-time working hours in 2017	172

In 2016 Karlovačka banka d.d. received no public subsidies. In 2017 a subsidy for contributions was made to one person in a professional training without an employment relationship in the total amount of HRK 12 thousand.