

# Annual financial statements for the period from Jan 01 to Dec 31 2016

*Unaudited*

In accordance with the articles 407-411 of the Capital Markets Act, HPB p.l.c. publishes unaudited annual financial statements for 2016 (period from Jan 01 2016 to Dec 31 2016).

This report includes:

- Management report of HPB p.l.c.,
- statement by persons accountable for compiling the report of HPB p.l.c.,
- unaudited set of unconsolidated financial statements (balance sheet, profit or loss statement, statement of changes in equity, cash flow statement), and
- notes to financial statements.

Financial statements and notes were made in accordance with the TFI-KI reporting methodology by Croatian Financial Services Supervisory Agency. Items in the profit or loss statement are compiled in accordance with IFRS. Reports and notes for previous periods are harmonized for the purpose of comparability.

Key features of 2016 results are as follows:

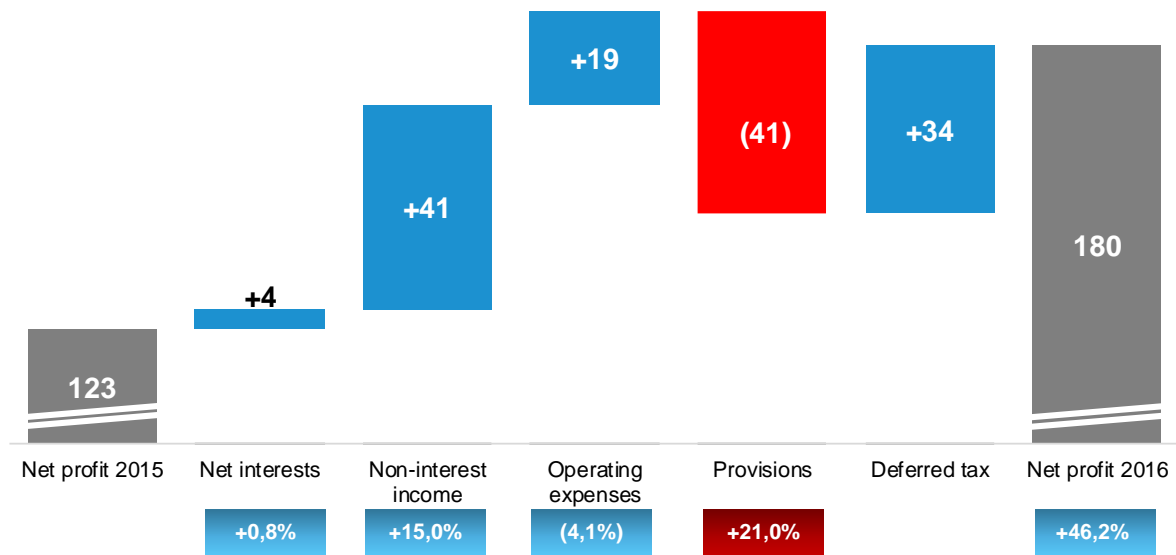
- ✓ **Net profit of HRK180,2M** is 46,2% higher than in 2015, and best in the Bank's corporate history,
- ✓ **Record operating profit of HRK385,4M** is 19,8% higher than in 2015,
- ✓ Substantial decrease in general and administrative expenses (8,0%) largely due to optimization of costs of services used by the Bank
- ✓ **C/I indicator – 53,3%; the lowest in 12 years,**
- ✓ **The largest annual assets growth in the last 5 years (+9,3%)** to HRK19.4B,
- ✓ **Growth in Market Share by Assets to 4,9%** and higher market shares in all relevant categories of loans and deposits,
- ✓ **Number of clients surpasses 640K**, 33K new retail current accounts opened, together with more than 1.500 corporate accounts,
- ✓ Successfully **closed sale of matured uncollected receivables** of HRK1,7B notional amount which will improve future financial position and results of the Bank.

## Management report of HPB p.l.c.

In 2016 the Bank was confronted with substantial challenges of announced or current regulatory changes and market competition amid general decline in interest rates. The Bank adjusted to the mentioned circumstances by quality sales management, price policy and improved processes. Furthermore 2016 was the year of many initiatives and strategic projects (Super Smart HPB, CRM, NPL sale, SEPA Credit Transfer etc.) which required engagement of human and financial resources.

Together with required operating activities, the Bank increased its **net profit by 46,2% to HRK180,2M** in 2016, the highest in the Bank's history.

### Net profit in 2016 (HRK million)



**Operating profit** is HRK385,4M which is HRK57,7M or 19,8% more than in 2015 due to higher non-interest income and 4,1% lower expenses amid efficient management.

**Net interest income** is 514,4M which is 0,8% more than in previous year. Mild increase amid lower market interest rates was due to sound part of the credit portfolio, and optimization of funding structure and costs.

**Net income from commissions and fees** is HRK182,8M which is in line with expectations and 0,6% better than in previous year. Substitution of cash transaction by other means of payments is inevitable and this segment recorded lower revenue. On the other hand, increase in fees from acquisition of accounts and noncash payments made a substantial contribution to sustainability of the Bank's future revenue.

**Income from securities and FX trading** was up by 42,7% with positive trends in trading with all types of financial instruments. This result was due to price increase in money and bond markets and higher trading volume. Contrary to 2016 when the Bank did not sell instruments in the AFS portfolio, in 2016 it made HRK48,5M of gains from these transaction while HRK33,5M were proceeds from selling VISA Europe Ltd shares.

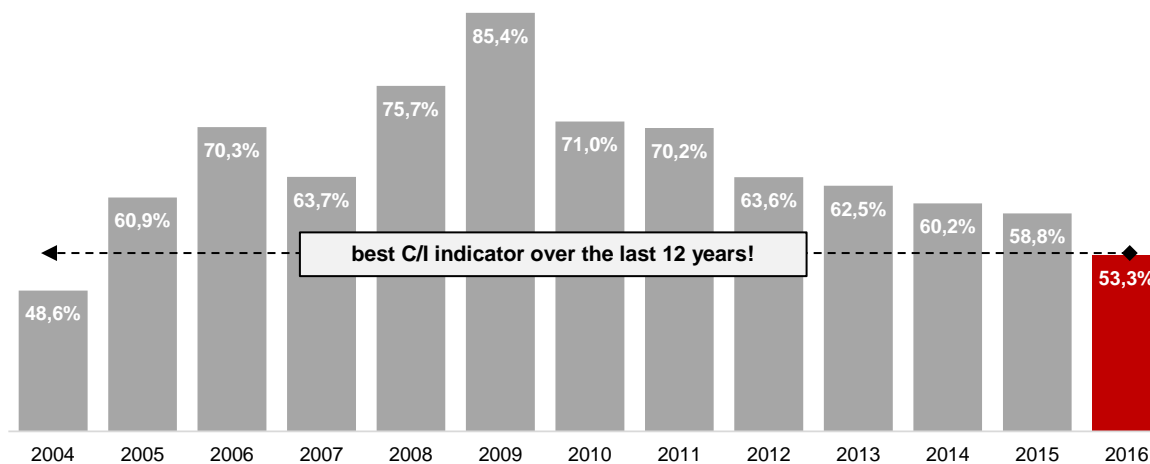
Revenue from exchange rate differences were lower than in previous year considering the FX position was mostly balanced due to necessary maintenance of minimum capital burden in order to minimize the market risk exposure.

Operating expenses were cut by 4,1% as a result of organizational and process improvements implemented in 2015 and 2016.

**C/I indicator** was improved to **53,3%**, the best level in the last 12 years mainly due to higher operating income and lower expenses.

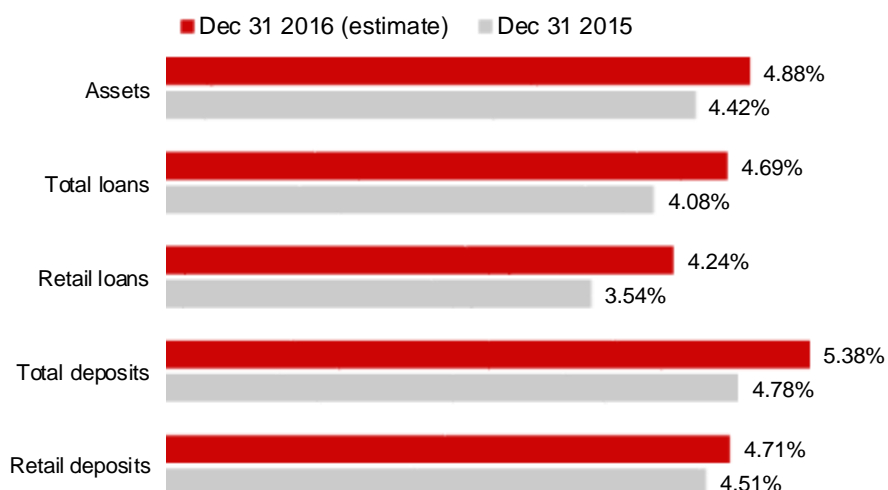
Taking into account that results achieved in 2015 and 2016 surpassed expectations, 2017 business plan can be reliably achieved. Therefore, necessary prerequisites to recognize deferred tax assets were met, with relation to accumulated tax losses carried forward from 2014.

#### C/I Indicator 2004 – 2016



Amid deposits inflow the **Bank's assets were up by 9,3% to HRK19,4B in 2016 which is the highest growth in the last five years.** The Bank achieved higher market shares in all relevant balance sheet categories.

#### Market Shares by Balance Sheet Categories



After 2015 which was marked by consolidation, reorganization and capital increase, in 2016 **the Bank made substantial credit portfolio growth.** The total portfolio of net loans and receivables was up by HRK1,2B or 11,6%, while the sector substantially lowered its credit exposure. Retail loans continue to rise (+12,3%) while housing loans were up by 51,2%.

Corporate loans were up by 11,5% and were HRK6,8B at the end of 2016. HPB continues to support corporates and sectors which create value for Croatian economy as a whole. The Bank continued its cooperation and crediting corporates, government and local government units with emphasis on SME portfolio growth.

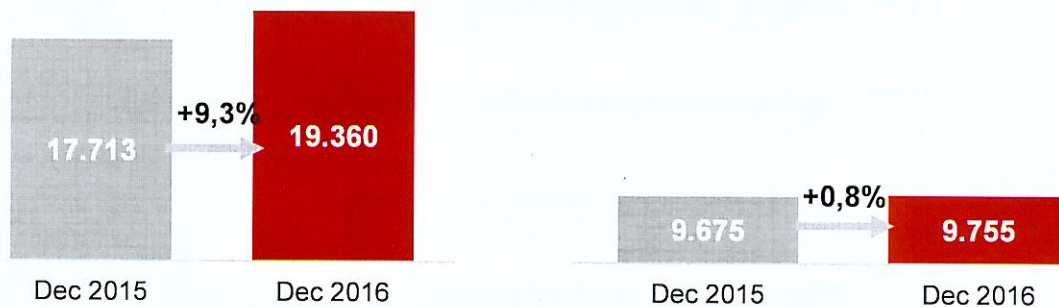
**Total deposits were up by 11,4% to HRK16,2B** with change in structure. Acquisition potential in corporate segment was used and corporate deposits were up by 54%, while deposits of nonfinancial legal persons were up by 38,6%. Retail segment also made a contribution to the increase in the Bank's deposit base: retail savings were up by 4,8% with 33K of newly opened current accounts.

The Bank had more than enough funding at its disposal and it returned HRK0,3B of received loans in line with payment plan which also lowered burden on the interest margin.

As part of the regular supervisory estimate, the Croatian National Bank determined regulatory capital rate of 15,35% (from November 2016) after previous 14,00%. In order to comply with regulatory measures amid capital shortfall the Bank optimized its risk exposure which rose marginally compared to the assets growth. Therefore **capital adequacy rate** was mildly down to **15,64%**.

**The Bank's Assets (YoY)**  
(HRK million)

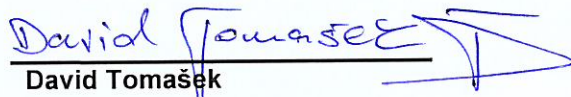
**RWA (YoY)**  
(HRK million)




**Tomislav Vuić**  
President of the Management Board

## Statement by persons accountable for compiling the report of HPB p.l.c.

In accordance with the Capital Market Act, the Management Board of HPB p.l.c., states that according to their best knowledge the set of unaudited annual financial statements for 2016 (period from Jan 01 to Dec 31 2016), compiled in accordance with the accounting regulation applicable to credit institutions in Croatia, presents complete and accurate view of assets and liabilities, losses and gains, financial position and results of HPB p.l.c.

  
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**David Tomašek**  
Deputy Executive Director  
Finance Division



  
\_\_\_\_\_  
**Tomislav Vuić**  
President of the Management  
Board

HPB p.l.c.

**Appendix 3.**

Reporting period:

Jan 01

to

Dec 31 2016

**Quarterly financial statements for credit institutions TFI-KI**Registration number (MB): **03777928**Registration number (MBS): **080010698**Personal identification number  
(OIB): **87939104217**Company: **HPB p.l.c.**Postal code and city: **10000****ZAGREB**Address: **JURIŠIĆEVA 4**E-mail address: [hpb@hpb.hr](mailto:hpb@hpb.hr)Internet address: [www.hpb.hr](http://www.hpb.hr)City code and name: **133** **ZAGREB**County code and name: **21** **GRAD ZAGREB**# of employees: **1.067**  
(as per reporting date)Consolidated report: **NO**Industry code: **6419**

Consolidated companies (in accordance with IFRS):

Headquarters:

Registration number:

Book-keeping service  
provided by: **n/a****n/a**Contact: **Čižmešija Marko**Phone: **014888191**Fax: **014804594**E-mail address: [marko.cizmesija@hpb.hr](mailto:marko.cizmesija@hpb.hr)Surname and name: **Vuić Tomislav**

(person authorized for representation)

Documentation to be made public:

1. Financial reports (balance sheet, profit or loss statement, cash flow statement, statement on changes in equity and notes to financial statements)
2. Management report
3. Statement by persons accountable for compiling the report



**BALANCE SHEET**

 as per **Dec 31 2016**

in HRK

| Item   | AOP label  | Dec 31 2015           | Dec 31 2016           |
|--|------------|-----------------------|-----------------------|
| 1  | 2          | 3                     | 4                     |
| <b>ASSETS</b>  |            |                       |                       |
| 1. CASH AND DEPOSITS WITH THE CNB (002+003)  | <b>001</b> | 2.179.809.734         | 2.263.303.114         |
| 1.1.Cash   | <b>002</b> | 412.197.218           | 421.479.852           |
| 1.2.Deposits with the CNB  | <b>003</b> | 1.767.612.516         | 1.841.823.262         |
| 2. DEPOSITS WITH FINANCIAL INSTITUTIONS  | <b>004</b> | 958.338.782           | 774.134.891           |
| 3. SHORT-TERM TREASURY BILLS OF THE CROATIAN MINISTRY OF FINANCE                     | <b>005</b> | 501.234.808           | 415.536.615           |
| 4. FINANCIAL ASSETS HELD FOR TRADING   | <b>006</b> | 596.525.929           | 551.322.886           |
| 5. FINANCIAL ASSETS AVAILABLE FOR SALE   | <b>007</b> | 1.995.759.118         | 2.630.574.528         |
| 6. FINANCIAL ASSETS HELD TO MATURITY   | <b>008</b> | 566.062.663           | 442.835.059           |
| 7. FINANCIAL ASSETS VALUED AT FAIR VALUE THROUGH PROFIT OR LOSS, NOT ACTIVELY TRADED | <b>009</b> | 0                     | 0                     |
| 8. DERIVATIVE FINANCIAL ASSETS   | <b>010</b> | 0                     | 3.780.197             |
| 9. LOANS TO FINANCIAL INSTITUTIONS   | <b>011</b> | 104.187.886           | 81.579.680            |
| 10. LOANS TO OTHER CUSTOMERS   | <b>012</b> | 10.051.115.650        | 11.247.443.151        |
| 11. INVESTMENTS IN SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES             | <b>013</b> | 53.420.000            | 53.420.000            |
| 12. REPOSSESSED ASSETS   | <b>014</b> | 103.134.707           | 87.209.063            |
| 13. TANGIBLE ASSETS (LESS DEPRECIATION)  | <b>015</b> | 147.109.089           | 146.007.374           |
| 14. OTHER ASSETS   | <b>016</b> | 456.468.108           | 662.873.215           |
| <b>A) TOTAL ASSETS (001+004 to 016)</b>  | <b>017</b> | <b>17.713.166.474</b> | <b>19.360.019.773</b> |
| <b>LIABILITIES</b>   |            |                       |                       |
| 1. BORROWINGS FROM FINANCIAL INSTITUTIONS (019+020)                                  | <b>018</b> | 558.124.023           | 621.264.677           |
| 1.1. Short-term  | <b>019</b> | 393.994               | 0                     |
| 1.2. Long-term   | <b>020</b> | 557.730.029           | 621.264.677           |
| 2. DEPOSITS (022 to 024)   | <b>021</b> | 12.392.106.047        | 14.529.990.572        |
| 2.1. Transactional and current accounts  | <b>022</b> | 2.953.953.271         | 4.009.237.425         |
| 2.2. Savings deposits (demand)   | <b>023</b> | 1.060.935.229         | 1.486.719.761         |
| 2.3. Term deposits   | <b>024</b> | 8.377.217.547         | 9.034.033.386         |
| 3. OTHER BORROWINGS (026+027)  | <b>025</b> | 446.650.250           | 88.426.108            |
| 3.1. Short-term  | <b>026</b> | 0                     | 0                     |
| 3.2. Long-term   | <b>027</b> | 446.650.250           | 88.426.108            |
| 4. DERIVATIVE AND OTHER FINANCIAL LIABILITIES HELD FOR TRADING                       | <b>028</b> | 0                     | 3.640.667             |
| 5. ISSUED SECURITIES (030+031)   | <b>029</b> | 0                     | 0                     |
| 5.1. Short-term  | <b>030</b> | 0                     | 0                     |
| 5.2. Long-term   | <b>031</b> | 0                     | 0                     |
| 6. SUBORDINATED DEBT ISSUED  | <b>032</b> | 0                     | 0                     |
| 7. HYBRID INSTRUMENTS  | <b>033</b> | 0                     | 0                     |
| 8. OTHER LIABILITIES   | <b>034</b> | 2.537.022.027         | 2.187.525.936         |
| <b>B) TOTAL LIABILITIES (018+021+025+028+029+032+033+034)</b>                        | <b>035</b> | <b>15.933.902.347</b> | <b>17.430.847.960</b> |
| <b>EQUITY</b>  |            |                       |                       |
| 1. SHARE CAPITAL   | <b>036</b> | 1.214.298.000         | 1.214.298.000         |
| 2. PROFIT FOR THE YEAR   | <b>037</b> | 123.216.697           | 180.192.293           |
| 3. RETAINED EARNINGS   | <b>038</b> | 0                     | 82.293.647            |
| 4. REGULATORY RESERVES   | <b>039</b> | 0                     | 6.160.835             |
| 5. STATUTARY AND OTHER CAPITAL RESERVES  | <b>040</b> | 359.660.725           | 363.602.534           |
| 6. FAIR VALUE RESERVE  | <b>041</b> | 82.088.705            | 82.624.504            |
| 7. RESERVES ARISING FROM HEDGING TRANSACTIONS  | <b>042</b> | 0                     | 0                     |
| <b>C) TOTAL EQUITY (036 to 042)</b>  | <b>043</b> | <b>1.779.264.127</b>  | <b>1.929.171.813</b>  |
| <b>D) TOTAL LIABILITIES AND EQUITY (035+043)</b>                                     | <b>044</b> | <b>17.713.166.474</b> | <b>19.360.019.773</b> |

### PROFIT OR LOSS STATEMENT

for the period from **Jan 01 2016** to **Dec 31 2016** in HRK

| Item  | AOP label  | Jan 01 - Dec 31 2015 |                    | Jan 01 - Dec 31 2016 |                     |
|---|------------|----------------------|--------------------|----------------------|---------------------|
|   |            | Cumulative           | Quarterly          | Cumulative           | Quarterly           |
| 1   | 2          | 3                    | 4                  | 5                    | 6                   |
| 1. Interest income  | 048        | 781.979.594          | 187.907.525        | 720.254.986          | 181.089.705         |
| 2. Interest expense   | 049        | 271.653.986          | 64.024.344         | 205.858.447          | 43.589.715          |
| <b>3. Net interest income (048-049)</b>   | <b>050</b> | <b>510.325.608</b>   | <b>123.883.181</b> | <b>514.396.539</b>   | <b>137.499.990</b>  |
| 4. Fee and commission income  | 051        | 483.022.131          | 120.382.658        | 491.965.426          | 118.813.905         |
| 5. Fee and commission expense   | 052        | 301.288.601          | 76.507.913         | 309.192.128          | 78.030.606          |
| <b>6. Net fee and commission income (051-052)</b>   | <b>053</b> | <b>181.733.530</b>   | <b>43.874.745</b>  | <b>182.773.298</b>   | <b>40.783.299</b>   |
| 7. Gains less losses arising from investments in subsidiaries, associated companies and joint ventures    | 054        | 0                    | 0                  | 0                    | 0                   |
| 8. Gains less losses from trading activities  | 055        | 46.943.667           | 16.568.244         | 66.994.704           | 13.803.192          |
| 9. Gains less losses from built-in derivatives  | 056        | 0                    | 0                  | 0                    | 0                   |
| 10. Gains less losses arising from financial assets valued at fair value through P&L, not actively traded | 057        | 0                    | 0                  | 0                    | 0                   |
| 11. Gains less losses arising from securities available for sale  | 058        | 0                    | 0                  | 48.595.443           | 6.897.025           |
| 12. Gains less losses arising from securities held to maturity  | 059        | 0                    | 0                  | 0                    | 0                   |
| 13. Gains less losses arising from hedging activities   | 060        | 0                    | 0                  | 0                    | 0                   |
| 14. Income from investments in subsidiaries, associated companies and joint ventures                      | 061        | 0                    | 0                  | 0                    | 0                   |
| 15. Income from other equity instruments  | 062        | 1.073.257            | 152.531            | 4.326.626            | 3.532.441           |
| 16. Gains less losses from exchange rate differences  | 063        | 9.970.802            | 482.791            | 4.413.279            | (846.382)           |
| 17. Other income  | 064        | 30.992.245           | 3.999.567          | 4.312.522            | 646.516             |
| 18. Other operating costs   | 065        | 62.018.557           | 27.300.789         | 63.120.954           | 18.696.041          |
| 19. General and administrative expenses, amortization and depreciation                                    | 066        | 397.424.069          | 107.629.594        | 377.308.731          | 96.026.991          |
| <b>20. Operating profit (050+053 to 064-065-066)</b>  | <b>067</b> | <b>321.596.483</b>   | <b>54.030.676</b>  | <b>385.382.726</b>   | <b>87.593.049</b>   |
| 21. Impairment losses and provisions  | 068        | 195.010.932          | 36.767.702         | 236.024.746          | 84.665.196          |
| <b>22. PROFIT BEFORE TAXATION (067-068)</b>   | <b>069</b> | <b>126.585.551</b>   | <b>17.262.974</b>  | <b>149.357.980</b>   | <b>2.927.853</b>    |
| <b>23. INCOME TAX EXPENSE / DEFERRED TAX</b>  | <b>070</b> | <b>3.368.853</b>     | <b>885.829</b>     | <b>(30.834.313)</b>  | <b>(29.742.231)</b> |
| <b>24. NET PROFIT FOR THE PERIOD (069-070)</b>  | <b>071</b> | <b>123.216.698</b>   | <b>16.377.145</b>  | <b>180.192.293</b>   | <b>32.670.084</b>   |
| 25. Earnings per share  | 072        | 85                   | 11                 | 89                   | 16                  |

**CASH FLOW STATEMENT - INDIRECT METHOD**

 for the period from **Jan 01 2016** to **Dec 31 2016**

in HRK

| Item  | AOP label  | Jan 01 - Dec 31 2015 | Jan 01 - Dec 31 2016   |
|---|------------|----------------------|------------------------|
| 1   | 2          | 3                    | 4                      |
| <b>OPERATING ACTIVITIES</b>   |            |                      |                        |
| <b>1. Cash flow from operating activities before changes in assets (002 to 007)</b>                     | <b>001</b> | <b>349.298.755</b>   | <b>366.276.437</b>     |
| 1.1. Profit for taxation  | 002        | 126.585.551          | 180.192.293            |
| 1.2. Impairment losses and provisions   | 003        | 180.412.586          | 173.681.279            |
| 1.3. Amortization and depreciation  | 004        | 45.698.288           | 45.125.631             |
| 1.4. Net unrealised gains less losses from financial assets valued at fair value through profit or loss | 005        | (8.363.184)          | (23.087.536)           |
| 1.5. Gains / losses from sale of tangible assets  | 006        | 14.934.511           | 253.900                |
| 1.6. Other gains / losses   | 007        | (9.968.997)          | (9.889.130)            |
| <b>2. Net increase / decrease of operating assets (009 to 016)</b>                                      | <b>008</b> | <b>(523.312.734)</b> | <b>(1.924.639.174)</b> |
| 2.1. Deposits with the CNB  | 009        | 365.516.253          | (74.210.746)           |
| 2.2. Treasury bills of the Croatian Ministry of Finance   | 010        | (501.234.808)        | 85.698.193             |
| 2.3. Deposits with and loans to financial institutions  | 011        | (87.957.688)         | 206.812.097            |
| 2.4. Loans to other customers   | 012        | 1.692.916            | (1.370.008.780)        |
| 2.5. Financial assets held for trading  | 013        | (305.149.279)        | 68.290.579             |
| 2.6. Financial assets available for sale  | 014        | (26.490.978)         | (634.815.410)          |
| 2.7. Financial assets valued at fair value through profit or loss, not actively traded                  | 015        | 0                    | 0                      |
| 2.8. Other operating assets   | 016        | 30.310.850           | (206.405.107)          |
| <b>3. Net increase / decrease of operating liabilities (018 to 021)</b>                                 | <b>017</b> | <b>172.594.856</b>   | <b>1.779.029.101</b>   |
| 3.1. Transactional accounts   | 018        | 39.457.761           | 1.055.284.154          |
| 3.2. Savings and term deposits  | 019        | (121.272.743)        | 1.082.600.371          |
| 3.3. Derivative financial liabilities and other liabilities actively traded                             | 020        | (507.910)            | 3.640.667              |
| 3.4. Ostale liabilities   | 021        | 254.917.748          | (362.496.091)          |
| <b>4. Net cash flow from operating activities before taxation (001+008+017)</b>                         | <b>022</b> | <b>(1.419.123)</b>   | <b>220.666.364</b>     |
| 5. Income tax paid  | 023        | (27.894)             | (171.183)              |
| <b>6. Net cash inflow / outflow from operating activities (022+023)</b>                                 | <b>024</b> | <b>(1.447.017)</b>   | <b>220.495.181</b>     |
| <b>INVESTING ACTIVITIES</b>   |            |                      |                        |
| <b>7. Net cash flow from investing activities (026 to 030)</b>  | <b>025</b> | <b>5.667.558</b>     | <b>84.898.523</b>      |
| 7.1. Purchase of tangible and intangible assets   | 026        | (18.799.787)         | (42.655.707)           |
| 7.2. Investment in / disposal of subsidiaries, associated companies and joint ventures                  | 027        | 0                    | 0                      |
| 7.3. Investment in / disposal of financial assets held to maturity                                      | 028        | 23.394.088           | 123.227.604            |
| 7.4. Dividends received   | 029        | 1.073.257            | 4.326.626              |
| 7.5. Other inflows / outflows from investing activities   | 030        | 0                    | 0                      |
| <b>FINANCIAL ACTIVITIES</b>   |            |                      |                        |
| <b>8. Net cash flow from financial activities (032 to 037)</b>  | <b>031</b> | <b>48.056.085</b>    | <b>(295.083.488)</b>   |
| 8.1. Net increase / decrease of borrowings  | 032        | (501.943.515)        | (295.083.488)          |
| 8.2. Net increase / decrease of issued debt securities  | 033        | 0                    | 0                      |
| 8.3. Net increase / decrease of subordinated debt and hybrid instruments                                | 034        | 0                    | 0                      |
| 8.4. Share capital raised   | 035        | 549.999.600          | 0                      |
| 8.5. Dividends paid   | 036        | 0                    | 0                      |
| 8.6. Other inflows / outflows from financial activities   | 037        | 0                    | 0                      |
| <b>9. Net increase / decrease of cash and cash equivalents (024+025+031)</b>                            | <b>038</b> | <b>52.276.626</b>    | <b>10.310.216</b>      |
| 10. Effect of foreign exchange differences on cash and cash equivalents                                 | 039        | (1.201.106)          | (1.027.582)            |
| <b>11. Net increase/(decrease) in cash and cash equivalents (038+039)</b>                               | <b>040</b> | <b>51.075.520</b>    | <b>9.282.634</b>       |
| <b>12. Cash and cash equivalents at the beginning of the year</b>                                       | <b>041</b> | <b>361.121.698</b>   | <b>412.197.218</b>     |
| <b>13. Cash and cash equivalents as per reporting date (040+041)</b>                                    | <b>042</b> | <b>412.197.218</b>   | <b>421.479.852</b>     |

**STATEMENT OF CHANGES IN EQUITY**

for the period from **Jan 01 2016** to **Dec 31 2016** in HRK

| Item  | AOP label  | Attributable to the shareholders of the parent company |                  |  |                   |                       |                    | Minority interest | Total equity         |
|---|------------|--|------------------|--|-------------------|-----------------------|--------------------|-------------------|----------------------|
|   |            | Share capital  | Own shares       | Regulatory, statutory and other reserves | Retained earnings | Profit for the period | Fair value reserve |                   |                      |
| 1   | 2          | 3  | 4                | 5  | 6                 | 7                     | 8                  | 9                 | 10                   |
| Balance as per Jan 01 2016  | 001        | 1.214.775.000  | (477.000)        | 359.660.725                              | 0                 | 123.216.697           | 82.088.705         | 0                 | 1.779.264.127        |
| Effects of changes in accounting policies and corrections of errors       | 002        |  |                  |  |                   |                       |                    |                   | 0                    |
| <b>Restated balance as per Jan 01 2016 (001+002)</b>                      | <b>003</b> | <b>1.214.775.000</b>                                   | <b>(477.000)</b> | <b>359.660.725</b>                       | <b>0</b>          | <b>123.216.697</b>    | <b>82.088.705</b>  | <b>0</b>          | <b>1.779.264.127</b> |
| Disposal of financial assets available for sale                           | 004        |  |                  | 0  |                   |                       | (44.147.709)       |                   | (44.147.709)         |
| Change in the fair value of financial assets available for sale           | 005        |  |                  |  |                   |                       | 44.817.458         |                   | 44.817.458           |
| Tax on items recognised directly in/transferred from equity               | 006        |  |                  | 14.548                                   |                   |                       | (133.950)          |                   | (119.402)            |
| Other gains and (losses) recognised directly in equity                    | 007        |  |                  | (72.739)                                 |                   |                       | -                  |                   | (72.739)             |
| <b>Net gains/(losses) recognised directly in equity (004+005+006+007)</b> | <b>008</b> | <b>0</b>   | <b>0</b>         | <b>(58.191)</b>                          | <b>0</b>          | <b>0</b>              | <b>535.799</b>     | <b>0</b>          | <b>477.608</b>       |
| Profit for the period   | 009        |  |                  |  |                   | 180.192.293           |                    |                   | 180.192.293          |
| <b>Total recognized income and expense for the period (008+009)</b>       | <b>010</b> | <b>0</b>   | <b>0</b>         | <b>(58.191)</b>                          | <b>0</b>          | <b>180.192.293</b>    | <b>535.799</b>     | <b>0</b>          | <b>180.669.901</b>   |
| Increase/decrease in share capital  | 011        | 0  |                  |  |                   |                       |                    |                   | 0                    |
| Purchase/sale of own shares   | 012        |  | 0                |  |                   |                       |                    |                   | 0                    |
| Other changes   | 013        |  |                  |  |                   |                       |                    |                   | 0                    |
| Transfer to reserves  | 014        |  |                  | 10.160.835                               | 82.293.647        | (92.454.482)          |                    |                   | 0                    |
| Dividends paid  | 015        |  |                  |  |                   | (30.762.215)          |                    |                   | (30.762.215)         |
| <b>Profit allocation (014+015)</b>  | <b>016</b> | <b>0</b>   | <b>0</b>         | <b>10.160.835</b>                        | <b>82.293.647</b> | <b>(123.216.697)</b>  | <b>0</b>           | <b>0</b>          | <b>(30.762.215)</b>  |
| <b>Balance as per Dec 31 2016 (003+010+011+012+013+016)</b>               | <b>017</b> | <b>1.214.775.000</b>                                   | <b>(477.000)</b> | <b>369.763.369</b>                       | <b>82.293.647</b> | <b>180.192.293</b>    | <b>82.624.504</b>  | <b>0</b>          | <b>1.929.171.813</b> |

## NOTES TO FINANCIAL STATEMENTS

### A) PROFIT OR LOSS STATEMENT

**1) INTEREST INCOME**
*in HRK*

|                 | Jan 01 - Dec 31 2015 |                    | Jan 01 - Dec 31 2016 |                    |
|-----------------|----------------------|--------------------|----------------------|--------------------|
|                 | Cumulative           | Quarterly          | Cumulative           | Quarterly          |
| Loans           | 648.112.546          | 156.505.914        | 595.182.686          | 152.008.362        |
| Deposits        | 2.677.586            | (2.745.806)        | 2.001.471            | 832.715            |
| Debt securities | 131.189.462          | 34.147.417         | 123.070.829          | 28.248.628         |
| <b>TOTAL</b>    | <b>781.979.594</b>   | <b>187.907.525</b> | <b>720.254.986</b>   | <b>181.089.705</b> |

**2) INTEREST EXPENSE**
*in HRK*

|              | Jan 01 - Dec 31 2015 |                   | Jan 01 - Dec 31 2016 |                   |
|--------------|----------------------|-------------------|----------------------|-------------------|
|              | Cumulative           | Quarterly         | Cumulative           | Quarterly         |
| Borrowings   | 29.857.539           | 6.544.482         | 18.962.631           | 4.257.844         |
| Deposits     | 241.796.447          | 57.479.862        | 186.895.816          | 39.331.871        |
| <b>TOTAL</b> | <b>271.653.986</b>   | <b>64.024.344</b> | <b>205.858.447</b>   | <b>43.589.715</b> |

**3) FEE AND COMMISSION INCOME**
*in HRK*

|                                    | Jan 01 - Dec 31 2015 |                    | Jan 01 - Dec 31 2016 |                    |
|------------------------------------|----------------------|--------------------|----------------------|--------------------|
|                                    | Cumulative           | Quarterly          | Cumulative           | Quarterly          |
| Cash payment operations - channels | 290.870.928          | 72.879.418         | 285.883.396          | 70.269.462         |
| Retail and card operations         | 133.189.658          | 31.415.401         | 143.639.056          | 33.051.053         |
| Corporate operations               | 50.279.820           | 14.255.410         | 55.089.786           | 13.548.510         |
| Other fee and commission income    | 8.681.725            | 1.832.429          | 7.353.188            | 1.944.880          |
| <b>TOTAL</b>                       | <b>483.022.131</b>   | <b>120.382.658</b> | <b>491.965.426</b>   | <b>118.813.905</b> |

**4) FEE AND COMMISSION EXPENSE**
*in HRK*

|                                  | Jan 01 - Dec 31 2015 |                   | Jan 01 - Dec 31 2016 |                   |
|----------------------------------|----------------------|-------------------|----------------------|-------------------|
|                                  | Cumulative           | Quarterly         | Cumulative           | Quarterly         |
| Payment operations               | 270.460.872          | 55.089.109        | 284.852.560          | 70.035.927        |
| Other fee and commission expense | 30.827.729           | 21.418.804        | 24.339.568           | 7.994.679         |
| <b>TOTAL</b>                     | <b>301.288.601</b>   | <b>76.507.913</b> | <b>309.192.128</b>   | <b>78.030.606</b> |

**5) GAINS LESS LOSSES FROM TRADING ACTIVITIES**
*in HRK*

|                                   | Jan 01 - Dec 31 2015 |                   | Jan 01 - Dec 31 2016 |                   |
|-----------------------------------|----------------------|-------------------|----------------------|-------------------|
|                                   | Cumulative           | Quarterly         | Cumulative           | Quarterly         |
| Securities and equity instruments | 8.592.944            | 3.928.030         | 25.153.961           | 4.165.695         |
| FX transactions                   | 40.654.631           | 12.706.093        | 43.408.082           | 9.847.017         |
| HRK cash transactions             | 421.619              | 47.833            | 367.955              | (0)               |
| Derivatives                       | (2.725.527)          | (113.712)         | (1.935.294)          | (209.519)         |
| <b>TOTAL</b>                      | <b>46.943.667</b>    | <b>16.568.244</b> | <b>66.994.704</b>    | <b>13.803.192</b> |

**6) OPERATING EXPENSES**
*in HRK*

|                                     | Jan 01 - Dec 31 2015 |                    | Jan 01 - Dec 31 2016 |                    |
|-------------------------------------|----------------------|--------------------|----------------------|--------------------|
|                                     | Cumulative           | Quarterly          | Cumulative           | Quarterly          |
| General and administrative expenses | 351.725.781          | 98.286.358         | 332.183.100          | 84.290.933         |
| Amortization and depreciation       | 45.698.288           | 9.343.236          | 45.125.631           | 11.736.058         |
| Savings deposit insurance costs     | 34.474.391           | 15.544.319         | 33.913.498           | 7.643.706          |
| Other costs                         | 27.544.166           | 11.756.470         | 29.207.456           | 11.052.335         |
| <b>TOTAL</b>                        | <b>459.442.626</b>   | <b>134.930.383</b> | <b>440.429.685</b>   | <b>114.723.032</b> |

**7) IMPAIRMENT LOSSES AND PROVISION EXPENSES**
*in HRK*

|   | Jan 01 - Dec 31 2015 |                   | Jan 01 - Dec 31 2016 |                   |
|---|----------------------|-------------------|----------------------|-------------------|
|   | Cumulative           | Quarterly         | Cumulative           | Quarterly         |
| Individually identified impairment losses (risk group B i C)    | 180.412.586          | 36.272.806        | 173.681.279          | 61.373.051        |
| Portfolio based provisions for identified losses (risk group A) | (6.032.690)          | (7.839.374)       | 13.522.210           | 531.014           |
| Other provisions  | 20.631.036           | 8.334.270         | 48.821.257           | 22.761.131        |
| <b>TOTAL</b>  | <b>195.010.932</b>   | <b>36.767.702</b> | <b>236.024.746</b>   | <b>84.665.196</b> |

**B) BALANCE SHEET**
**8) CASH AND DEPOSITS WITH THE CNB**
*in HRK*

|  | Dec 31 2015          | Dec 31 2016          |
|--|----------------------|----------------------|
| <b>CASH</b>  | <b>412.197.218</b>   | <b>421.479.852</b>   |
| <b>DEPOSITS WITH THE CNB</b>                               | <b>1.767.612.516</b> | <b>1.841.823.262</b> |
| Mandatory reserve  | 1.279.570.476        | 1.300.796.321        |
| Account for transaction settlement                         | 488.042.040          | 541.026.941          |
| <b>MANDATORY TREASURY BILLS</b>                            | <b>-</b>             | <b>-</b>             |
| Portfolio based impairment allowance for identified losses | -                    | -                    |
| <b>TOTAL</b>   | <b>2.179.809.734</b> | <b>2.263.303.114</b> |

**9) DEPOSITS WITH FINANCIAL INSTITUTIONS**
*in HRK*

|  | Dec 31 2015        | Dec 31 2016        |
|--|--------------------|--------------------|
| Deposits with foreign banking institutions                 | 810.491.087        | 753.064.621        |
| Deposits with domestic banking institutions                | 147.847.695        | 21.070.270         |
| Portfolio based impairment allowance for identified losses | -                  | -                  |
| <b>TOTAL</b>   | <b>958.338.782</b> | <b>774.134.891</b> |

**10) EQUITY INSTRUMENTS AND SECURITIES**
*in HRK*

|   | Dec 31 2015          | Dec 31 2016          |
|---|----------------------|----------------------|
| Short term Treasury bills of the Croatian Ministry of Finance | 501.234.808          | 415.536.615          |
| Financial assets held for trading                             | 596.525.929          | 551.322.886          |
| Financial assets available for sale                           | 1.995.759.118        | 2.630.574.528        |
| Financial assets held to maturity                             | 574.826.429          | 450.105.787          |
| Portfolio based impairment allowance for identified losses    | (8.255.991)          | (6.771.524)          |
| Deferred front-end fee  | (507.775)            | (499.204)            |
| <b>TOTAL</b>  | <b>3.659.582.518</b> | <b>4.040.269.088</b> |

**11) LOANS TO CUSTOMERS**
*in HRK*

|  | Dec 31 2015           | Dec 31 2016           |
|--|-----------------------|-----------------------|
| <b>Loans to financial institutions</b>                     | <b>104.187.886</b>    | <b>81.579.680</b>     |
| Gross loans  | 104.190.902           | 81.583.376            |
| Impairment allowance                                       | (3.016)               | (3.696)               |
| <b>Loans to companies</b>                                  | <b>2.617.620.327</b>  | <b>2.778.956.268</b>  |
| Gross loans  | 4.185.847.569         | 3.880.932.056         |
| Impairment allowance                                       | (1.568.227.242)       | (1.101.975.788)       |
| <b>Retail loans</b>  | <b>4.078.378.617</b>  | <b>4.580.248.900</b>  |
| Gross loans  | 4.634.571.446         | 4.799.866.200         |
| Impairment allowance                                       | (556.192.829)         | (219.617.300)         |
| <b>therein: housing loans</b>                              | <b>941.539.297</b>    | <b>1.423.592.367</b>  |
| Gross loans  | 961.008.397           | 1.441.669.433         |
| Impairment allowance                                       | (19.469.100)          | (18.077.066)          |
| <b>Other loans</b>   | <b>3.492.378.718</b>  | <b>4.036.570.686</b>  |
| Gross loans  | 3.493.545.226         | 4.039.141.626         |
| Impairment allowance                                       | (1.166.508)           | (2.570.940)           |
| Portfolio based impairment allowance for identified losses | (90.416.028)          | (103.076.997)         |
| Deferred front-end fee                                     | (46.845.984)          | (45.255.706)          |
| <b>TOTAL</b>   | <b>10.155.303.536</b> | <b>11.329.022.831</b> |

**B) BALANCE SHEET (continued)**
**12) DEPOSITS**
*in HRK*

|                        | Dec 31 2015           | Dec 31 2016           |
|------------------------|-----------------------|-----------------------|
| Financial institutions | 913.221.701           | 1.180.254.901         |
| Corporations           | 1.954.309.669         | 3.010.655.654         |
| Retail                 | 8.476.517.508         | 8.886.016.253         |
| Other                  | 1.048.057.169         | 1.453.063.764         |
| <b>TOTAL</b>           | <b>12.392.106.047</b> | <b>14.529.990.572</b> |

**13) BORROWINGS**
*in HRK*

|   | Dec 31 2015          | Dec 31 2016        |
|---|----------------------|--------------------|
| Borrowings from HBOR                              | 561.173.123          | 624.965.630        |
| Borrowings from domestic banking institutions     | -                    | -                  |
| Borrowings from domestic non-banking institutions | 393.994              | -                  |
| Borrowings from foreign banking institutions      | 446.650.250          | 88.426.109         |
| Deferred front-end fee                            | (3.443.094)          | (3.700.954)        |
| <b>TOTAL</b>                                      | <b>1.004.774.273</b> | <b>709.690.785</b> |

**14) OTHER LIABILITIES**
*in HRK*

|   | Dec 31 2015          | Dec 31 2016          |
|---|----------------------|----------------------|
| Restricted deposits                       | 2.187.135.040        | 1.715.292.949        |
| Interest and fees payable                 | 73.630.369           | 58.731.565           |
| Provisions for off-balance sheet exposure | 20.118.045           | 22.269.210           |
| Other                                     | 256.138.573          | 391.232.212          |
| <b>TOTAL</b>                              | <b>2.537.022.027</b> | <b>2.187.525.936</b> |

**C) CHANGES IN ACCOUNTING POLICIES**

There were no changes in accounting policies of the Bank during 2016 which might have impact on financial position or results of the Bank.

Bank has intention to start with capitalization of internal personnel expenses with regard to project development, should all the necessary requirements as sety by IAS 38 be met. Bank has commenced with preparations for this change during 2016. Useful life of such developed intangible asset will be in line with estimated period of use, and estimated period of inflow of economic benefits linked with this fixed asset.

## D) BANK'S OWNERSHIP STRUCTURE

Bank's ownership structure as per December 31 2016 was as follows:

| Shareholder  | Vlasnički udio |
|--|----------------|
| Republic of Croatia (Ministry of State Assets)   | 42,43%         |
| HP Hrvatska pošta Plc  | 11,93%         |
| State Agency for Deposit Insurance and Bank Resolution   | 8,98%          |
| Croatian Pension Insurance Insitute (Ministry of State Assets)   | 8,76%          |
| Prosperus Invest d.o.o., for Prosperus FGS   | 4,94%          |
| PBZ CROATIA OSIGURANJE OMF (B category)  | 4,12%          |
| ERSTE d.o.o. for ERSTE PLAVI OMF (B category)  | 3,90%          |
| Allianz ZB d.o.o., for AZ OMF (B category)   | 2,88%          |
| CROATIA osiguranje Plc   | 2,47%          |
| RAIFFEISEN D.D., for Raiffeisen OMF (B category)   | 2,42%          |
| Fund for Financing the Decommissioning of the Krško Nuclear Power Plant and the Disposal of NEK Radioactive Waste and Spent Nuclear Fuel | 2,36%          |
| Minorities   | 4,77%          |
| Own shares   | 0,04%          |

## E) HPB-R-A STOCK

Share HPB-R-A is listed on the Official Market of ZSE. The last price per share at the end of the reporting period was HRK 750,00 (Dec 31 2016) representing an increase of 17,3% when compared to the last traded price in 2015 (HRK 640,00 on Dec 31 2015).

Trading during 2016 was as follows:

