HRVATSKA POŠTANSKA BANKA P.L.C.

Annual Report for 2017

Zagreb, March 2018

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Introduction

The Annual report includes a summary of financial information, description of operations and audited financial reports together with the independent auditor's opinion for the year ended December 31 2017, in English language. Original and official Annual report is published in Croatian.

Legal Status

The Annual report includes the annual financial reports prepared in accordance with statutory accounting requirements for banks in Republic of Croatia and audited in accordance with International Standards on Auditing.

The Annual report has been prepared in accordance with the Accounting Act and the Companies Act that require reporting to shareholders at the annual shareholders' meeting of the Management Board. According to the Accounting Law the statutory financial reports are report of financial position, Income statement with a report of comprehensive income, report of changes in equity, cash flow report and notes to the financial reports, and the Companies Act, in accordance Article 250.a and 250.b, prescribes the obligation to submit an annual report on the state of the Bank, and other members of HPB Group.

Abbreviations

In the Annual report Hrvatska Poštanska Banka p.l.c. is referred to as «the Bank» or «HPB», Hrvatska Poštanska Banka Group is referred to as «the HPB Group» or just «the Group», the Croatian National Bank is referred to as «the CNB» or «HNB» and the Croatian Bank for Reconstruction and Development is referred to as «the CBRD» or «HBOR» .

Exchange Rates

For the purpose of translation of foreign currencies into Croatian kuna, the following exchange rates of the CNB were used:

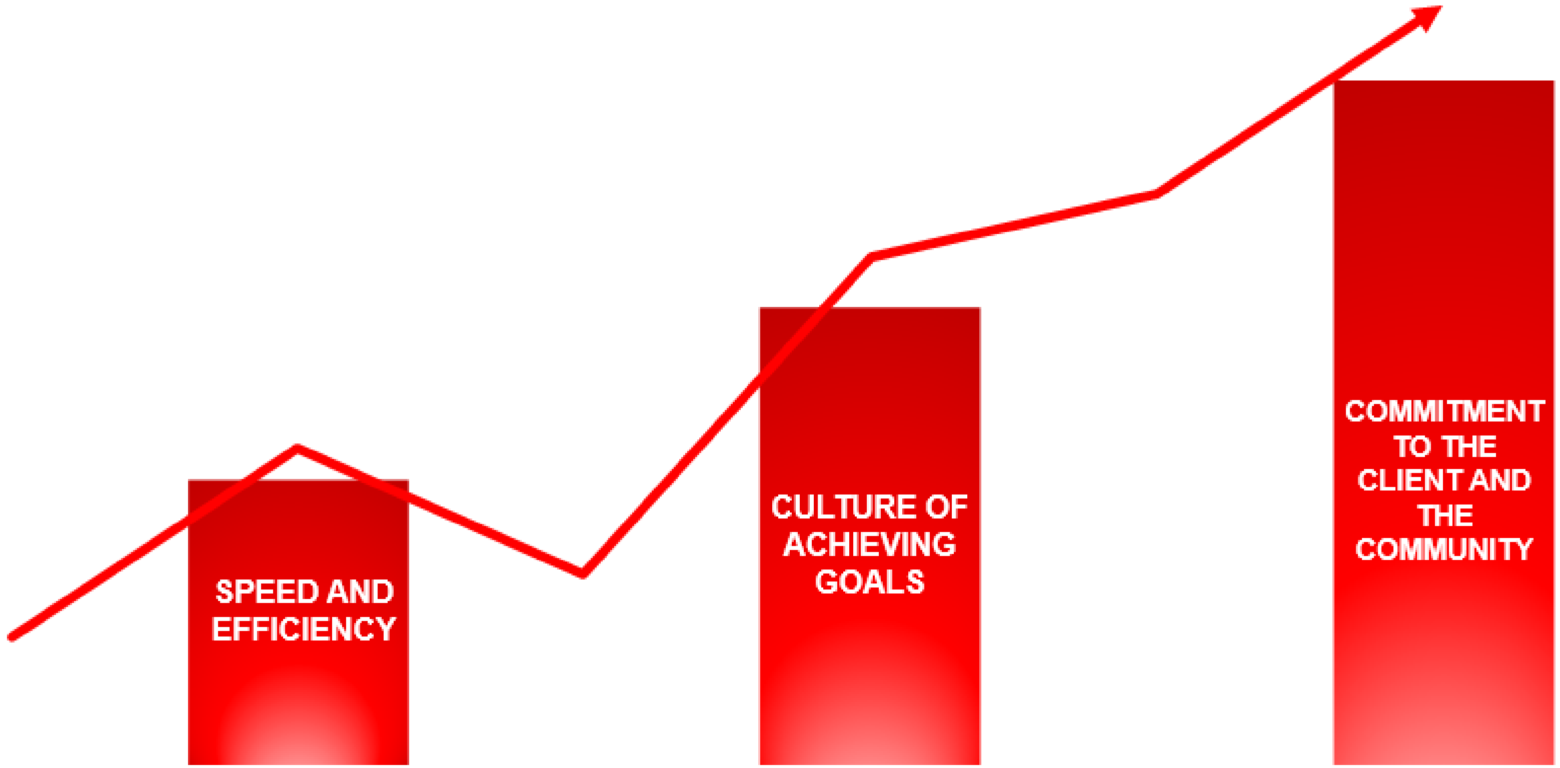
December 31 2017	EUR 1 = HRK 7.513648	USD 1 = HRK 6.269733
December 31 2016	EUR 1 = HRK 7.557787	USD 1 = HRK 7.168536

VISION

The largest banking group in Croatian ownership that takes the best possible care of its clients, shareholders and community.

MISSION

Committed to excellence, we provide top service to our clients and long-term sustainable return on capital to the owners.



Summary of Operation and Key Financial Indicators

HRK million

Group	2017	2016 (restated)	2015	2014	2013
Basic Indicators					
Profit/ (Loss) for the Year	8	183	125	(629)	36
Operating Profit	373	383	322	307	259
Total Assets	20,048	19,686	18,014	17,570	18,598
Loans to Customers	11,141	11,554	10,298	10,474	11,754
Received Deposits	17,208	16,534	14,851	14,459	15,103
Share Capital and Reserves	1,911	1,893	1,779	843	1,445
Other Indicators					
Return on Equity	0.65%	15.68%	7.01%	-65.11%	3.70%
Return on Assets	0.04%	0.97%	0.69%	-3.58%	0.19%
Operating Expenses[1] to Operating Income Ratio	55.19%	53.74%	59.50%	60.36%	63.90%

Bank	2017	2016 (restated)	2015	2014	2013
Basic Indicators					
Profit/ (Loss) for the Year	8	181	123	(635)	42
Operating Profit	372	379	321	300	266
Total Assets	19,777	19,286	17,691	17,351	18,357
Loans to Customers	10,979	11,398	10,185	10,335	11,656
Received Deposits	16,952	16,282	14,649	14,254	14,885
Share Capital and Reserves	1,905	1,887	1,779	845	1,453
Other Indicators					
Return on Equity	0.69%	14.92%	10.14%	-65.73%	4.39%
Return on Assets	0.04%	0.94%	0.70%	-3.66%	0.23%
Operating Expenses[1] to Operating Income Ratio	54.37%	53.72%	58.88%	60.15%	62.48%
Regulatory Capital	1,654	1,520	1,534	645	1,573
The Capital Adequacy	18.06%	15.66%	15.85%	6.65%	13.51%

[1] *General and Administrative Expenses, Depreciation and Amortization and Other Cost*

Statement by the President of the Management Board

Esteemed shareholders, business partners, clients,

2017 has been marked by effects arising from deterioration in creditworthiness of Agrokor, which was felt by HPB as well. Over the course of larger part of the year, as was the case in 2016, growth was limited by capital adequacy, but we managed to finish the year in positive territory by achieving HRK 8.3M of net profit. This has also been the year in which we continued with realization of our strategic development guidances which are comprised of modernization of the branch network and digitalization, as well as utilization of other market opportunities.

In order to better respond to the needs of our clients, in 2017, we carried out a reorganization in which we formed a division specialized in business with SME segment, digital marketing section and e-branch.

We continue to actively participate in the digital transformation of the banking industry, so we have introduced the first non-card cash withdrawal service on ATMs on the Croatian market, so-called e-cash. No less important is the HPB web site, as the point of first contact with HPB clients, which we redesigned in 2017 and made it more accessible to our customers who are more inclined to use this channel for using and gaining information about banking services.

In 2017, reconstruction of 4 outlets (Poreč, Zagreb - Jurišićeva, Vinkovci, Makarska) was completed, we opened one new outlet in Solin, and 5 others were moved and constructed on new locations that are more accessible and better in terms of customer frequency (Velika Gorica, Bjelovar, Rijeka, Zagreb - Gajnice, Beli Manastir). Domestic furbishing and Croatian design are main features of our branches that are becoming more and more modern and functional.

In 2017, the Bank marked the 26th anniversary since foundation, and on that occasion we have redefined the mission, vision and corporate values to ensure the fulfillment of the goals we have - to be the largest Croatian-owned banking group that takes cares about clients, shareholders, while providing top-level service and achieving long-term sustainable return on capital.

Comment on financial results of Hrvatska poštanska banka p.l.c.

The previous year was marked by impairment losses recognized on Agrokor exposures. However, we ended the year with a positive result, with a net profit of HRK 8.3M. Meanwhile, the Bank has been able to substantially improve its core revenue. Thus, net interest income amounted to HRK 531.3M, representing an increase of 3.3 percent compared to 2016, despite declining interest income (by 8.0% or HRK 57.5M), because interest expenses decreased significantly (by 36.2% or by HRK 74.4M) through funding structure optimization and lower interest rates. Net income from commission and fees amounted to HRK 192.1M, increasing by 4% or HRK 7.4M in comparison with 2016. The Bank has recorded a rise in fee income, with growth in the retail and card operations segment excelling (+25.2%) due to the increased number of users and ATM transactions. Furthermore, income from guarantees and letters of credit increased as well (+2.9%), owing to dynamics of import-export activities of Croatian companies in the post-recession period.

Efforts made by the Bank to make internal improvements that would at least partly mitigate adverse effects of external factors limiting Bank's profitability, are reflected in almost unchanged operating costs level (+0.8%), in spite of a number of initiatives and projects having been launched and started in 2017, on top of the recapitalization process that has commenced.

Operating profit amounted to HRK 372.4M, representing a HRK 6.7M or 1.8 percent decrease compared to 2016, due to smaller one-off effects arising from the sale of securities.

Impairments spiked by 59.3%, resulting almost exclusively from impairment losses on exposures to the Agrokor group and economically and legally related parties. In addition to the provisions made, NPL coverage ratio does not materially differ from the 2016-level, equalling 59.8 percent (2016: 62.5%). Non-performing loan volume is unchanged when compared to 2016 e-o-y, as new deteriorations were neutralized by disposals of outstanding NPLs, thus reducing their burden on the financial position and making new liquidity available for placements.

Comment on financial position of Hrvatska poštanska banka p.l.c.

During the past years, the Bank has achieved a strong growth in line with its strategy. However, this increase in the balance sheet led HPB to a relatively low capitalization, given that higher market share increases capital requirements. Limited capital base due to market share lingering around 5.00% significantly reduced the possibility of further balance sheet expansion over the majority of the period (until the new Decision on the Structural Systemic Risk Buffer came into force in August 2017), so the Bank's assets increased by 2.5 percent to HRK19.8B.

Due to the significant early repayments of loans recorded at the end of 2017, loans to customers decreased by 3,6 percent, although the Bank had a positive growth for almost the entire year. Retail loans continued to grow (+7.7%), but loans to corporate entities dropped by 10.4% due to the exceptionally good fiscal year and the realization of the budget above expectations, meaning that the government units had lower need for new debt.

HPB continues to be one of the most trusted banks in Croatia. Consequently, received deposits increased by 4.2 percent or by HRK 687M. As a result, deposits of all nonfinancial corporate entities and retail are on the increase. We are particularly proud of 32,000 newly opened retail current accounts of in 2017. At the same time, bank deposits fell by 21.5 percent, as the Bank had more than enough other available liquidity reserves.

As there was no need for other sources of funding, borrowings were partially repaid (-7.4%), with new debt not being contracted in a significant amount.

Capital adequacy equals 18.1 percent. Higher capital adequacy was achieved despite the postponement of the planned recapitalization at the end of 2017, through risk mitigation measures, where risk weighted assets ("RWA") dropped by 5.9 percent.

Comment on business operations of HPB Group and subsidiaries of HPB p.l.c.

HPB Group is, apart from the parent company – HPB p.l.c., comprised of HPB-Stambena štedionica (savings bank), HPB Invest (investment fund management) and HPB-nekretnine (real estate agency).

Group has realized a net profit of HRK 7.1M in 2017, as opposed to net profit of HRK 183.5M in 2016, consequent to Group's results being determined by the parent company's results, which has recognized significant impairment losses. However, we are exceptionally proud that all subisidiaries of HPB Group achieved a net profit in 2017. Apart from HRK 8.3M of the Parent's net profit, HPB-Stambena štedionica achieved a net profit amounting to HRK 315T, HPB Invest added a net profit of HRK 1.6M, while HPB-nekretnine achieved a net profit amounting to HRK 860 thousand.

Apart from this, subisidiaries have contributed to the Parent's results through dividend payouts. HPB-Stambena štedionica has for the first time in its corporate history paid out a dividend amounting to HRK 400T after allocation of profit to prescribed reserves. After having paid out HRK 3.5M in 2016, HPB Invest has paid out an aditional HRK 2.8M of dividend to the parent company.

HPB's business operations in 2018

Future is not written in stone, and trends are changing. However, we are prepared to continue with achieving our goals, in line with corporate values that we live by: speed and efficiency, goal achievement culture, and first and foremost – commitment to the client and the community. In doing this, we will aim to raise the bar continuously, in order to meet refined needs of our clients, as well as the expectations of all stakeholders.

On behalf of the Management Board and my team of closest colleagues, and myself personally, I would like to thank all the clients on their trust, employees of HPB Group on their endeavours, and business partners on their professional cooperation with HPB.

Hrvatska poštanska banka
Zagreb
dioničko društvo

Tomislav Vuić
CEO of HPB p.l.c.

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Management Board of Hrvatska Poštanska Banka p.l.c.

Management Board	 **Tomislav Vuić** *CEO*	 **Domagoj Karadjole** *CRO, CFO*	 **Mladen Mrvelj** *CIO, COO*
Area of responsibility	Retail SME Large Companies and Public Sector Financial Markets Direct Banking HR Legal Affairs Internal Audit Compliance and Support of the Management Board Marketing Corporate Communications Quality Service Management	Risk Management Collection Management Financial Management ALM	IT Procurement and General Affairs Business Support Organization and Project Management Corporate Security
Experience	2014 – HPB President of the Management Board 2003 – 2014 Erste & Steirmarkische bank d.d. – deputy CEO 2013 – 2014 Erste Card Ljubljana – chairman of the Supervisory Board 2009 – 2011 ESB Podgorica – Deputy Chairman of the Board of Directors 2007 – 2010 Diners Club Rusija – SB Member 2006 – 2014 Erste Card Club d.o.o. – SB Chairman 2004 – 2006 Kvarner Wiener Städtische Osiguranje d.d. – SB Member 2002 – 2003 Erste & Steirmarkische bank d.d. – CEO 1996 – 2000 Trgovačka banka – Board Member/CEO 1995 – 1996 Odvjetničko društvo Žurić i Partneri – partner 1993 – 1995 Odvjetnički ured Ratko Žurić, Bojan Fras, Tomislav Vuić – attorney-at-law	2014 – HPB Board Member 2010 – 2014 Erste Serbia – Executive Director for Retail 2005 – 2010 Erste & Steirmarkische bank d.d.– Head of Small Enterprises Department 2002 – 2005 Erste & Steirmarkische bank d.d. - Corporate Credit Risk manager – risk management 2009 Česka sporitelna Prag – development of Retail business 2009 Erste Holding Beč – Group ALM 2006 – 2007 Banca Commerciala Romana – project manager for implementation of small enterpreneurship 2003 – 2006 Erste & Steirmarkische bank d.d. – internal trainer in the field of credit risk	2014 – HPB Board Member 2013 – 2014 InfoSec Global – CEO 2007 – 2012 Erste & Steirmarkische bank d.d. – director and CIO 2000 – 2006 Wells fargo bank – San Francisco – IT manager 2000 Universal Studios, Los Angeles – senior application architect 1998 – 2000 Hatch Associates, Ontario – independent consultant 1996 – 1998 New Star Technologies – independent consultant 1995 – 1996 Canadian Info Tech, Toronto – system engineer 1992 – 1995 Universität der Bundeswehr München – München – software engineer 1989 – 1991 – Master Electronics, Sl. Brod – software engineer

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Macroeconomic environment

Gross domestic product

Decomposition of GDP growth by components

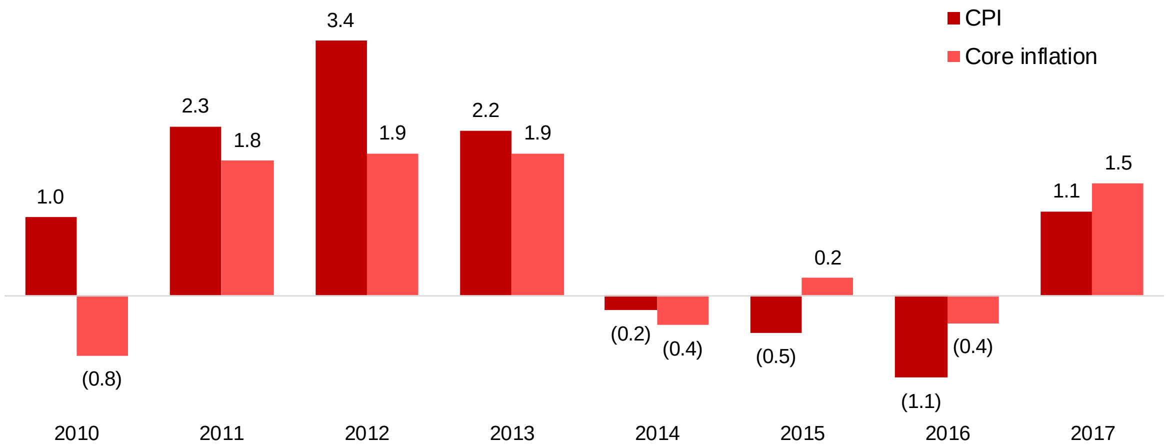
u %	2010	2011	2012	2013	2014	2015	2016	2017
BDP – real growth rate	**(1,4%)**	**(0,3%)**	**(2,2%)**	**(0,6%)**	**(0,1%)**	**2,3%**	**3,2%**	**2,8%**
Contribution to GDP growth:								
household expenditure	(0,9pp)	0,2pp	(1,8pp)	(1,0pp)	(0,9pp)	0,6pp	2,0pp	2,0pp
government expenditure	(0,1pp)	(0,1pp)	(0,2pp)	0,1pp	0,2pp	(0,2pp)	0,4pp	0,4pp
gross investment into fixed capital	(3,4pp)	(0,3pp)	(1,5pp)	0,3pp	(0,6pp)	1,7pp	0,9pp	1,2pp
net exports	3,1pp	(0,1pp)	1,1pp	-	1,2pp	0,3pp	(0,1pp)	(0,8pp)
other	(0,1pp)	-	0,2pp	-	-	(0,1pp)	-	-

Source: DZS, www.dzs.hr (MSI Bruto domaći proizvod, form 12.1.1.4.), analysis by HPB

Real GDP growth decelerated in 2017 in comparison with expansion recorded in 2016, but GDP is still growing. Main contribution to GDP growth comes from consumption (2.0 pp), arising from strong tourism consumption and continued growth in retail sales, derived from consumer confidence growing steadily, as well as higher disposal income pertaining to tax reform carried out at the beginning of 2017. Futhermore, gross investments contributed by further 1.2 pp due to investment climate and construction works improving, especially in the residential sphere, where the number of issued permits for construction and reconstruction has spiked by 30 percent. State consumption contributed by 0.4 pp, which is the strongest contribution level over the course of the last nine years, partially derived from growth in public sector personnel expenditure, and partially from a increase in other expenditure. Net exports contributed negatively for the second consecutive year, i.e. by -0.8 percent, which implies that imports rose faster than exports, owing to slight appreciation of HRK towards EUR. Stronger imports are also resulting from problems at the largest domestic retailer, and as a consequence – domestic consumers substituted some of the domestic products by imported ones from abroad.

Prices

Consumer price index (y-o-y changes)

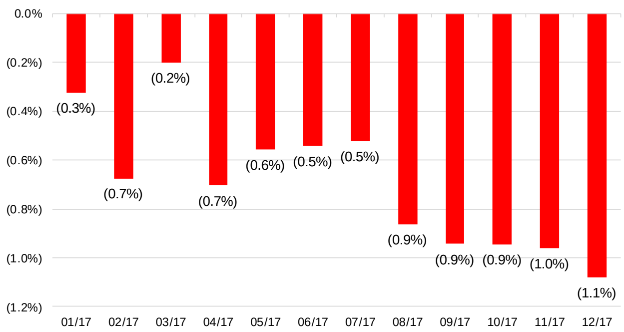


Source: CNB, www.hnb.hr (standardni prezentacijski format, obrazac h-rs_10), analysis by HPB

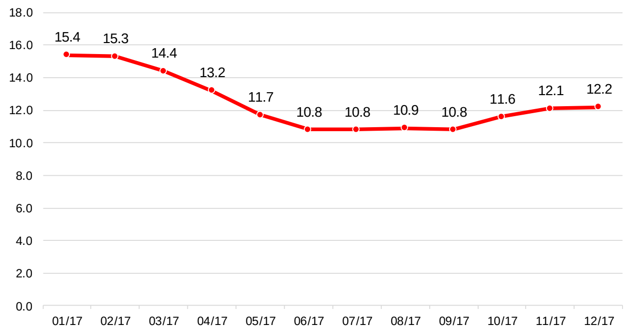
After recording deflation from 2014 to 2016, Croatian economy saw a slight increase in inflation during 2017. Average inflation rate (Y-O-Y) equals 1.1%. Hospitality services price spiked the most (+5,2%), followed by transporation (+3.1%). Meanwhile, strongest effects on prices arises from higher food prices (+2,9%), owing to relatively high importance of this indicator in CPI calculus. As opposed to this, rental prices, electric energy and other fuel prices are declining (-2,7%), which is also the reason why core inflation is increasing faster than the headline index.

Employment

YoY changes in the number of employed persons



Registered uneployment rate



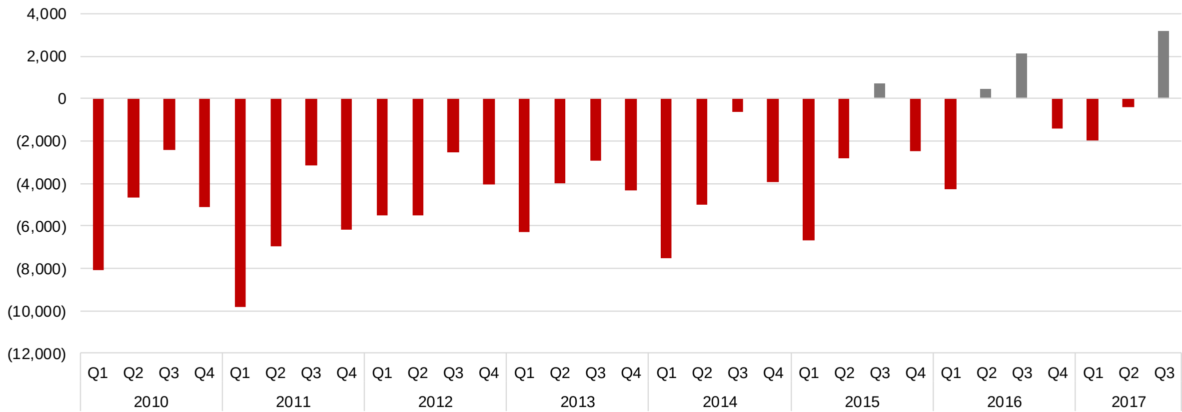
Source: DZS, www.dzs.hr (ZAPOSLENOST – ADMINISTRATIVNI IZVORI, form 9.2.3.), analysis by HPB

Unemployment rate has declined over the major part of 2017. June, July and September saw 10.8% uneployment level, which is the lowest recorded level since DZS started measuring. Such movement resulted mainly from the fact that more and more people exit the labour force due to inability to find employment in the industry for which they do not have sufficient qualifications. On the other hand, there is also no demand for certain jobs on the labour market. After improving in the past periods, employment declined again in 2017, by 0.7 percent on average in comparison with 2016.

Public finance

HRK 120.9B of revenue was collected by the State during the first three quarters of 2017, representing an increase of 0.8% y-o-y. Better income collection mainly arises from continued growth in economic activitiy which brought higher indirect taxes (+4.4%) due to stronger consumption an record tourist season (Q3 2017 was by 8.1% better y-o-y).

Difference between state revenue and expenditure



Source: CNB, www.hnb.hr (nefinancijski računi opće države, form h-i_1), analysis by HPB

Expenditure by the State units have amounted to HRK 120.1B during the first three quarters of 2017, representing a 1.3% decrease y-o-y. Total expenditure decline arises from decrease in subsidies and other current transfers by over 30 percent. Considering that revenue collections is going well, the level of operating surplus that has been recorded during 3Q 2017 is the highest over the course of last 63 quarters (=HRK 3.2B of revenue in excess to expenditure).

Business environment

Balance sheet of Croatian Credit intitutions

Number of credit institutions on Croatian market is continuosly declining due to cessation of activities of smaller banks. Accordingly, number of credit institions as per Dec 31 2017 is 24. In addition, one savings bank and 5 building socities also operated on the market. 5 largest banks represent almost ¾ of the market. Markets in CEE region are characterized by dominant market share of foreign-owned banks, wherein Croatia is no exception. In line with this, banks and building societies that are foreign owned represent 90.1 percent of credit institutions' assets, wherein banks based in EU have the dominant share: banks in Italian (largest bank – Zagrebačka banka d.d. is owned by Unicredit, and second largest bank – Privredna banka Zagreb is owned by Intesa Sanpaolo) and Austrian (third largest Erste & Steiermärkische Bank is owned by EGB AG, while fourth largest is owned by RBI AG).

HPB is one of three remaining banks that are state owned, whereby the second - CROATIA BANKA d.d. represents only 0.6% of sector's assets, while Jadranska banka d.d. has a market share of 0.4 percent. As per Dec 31 2017, HPB is in seventh position among credit institutions in Croatia measured by assets level.

Credit instituions – overview of financial indicators 2015 – 2017

Assets, market shares and banks' capital adequacy

	In HRK million	2015	2016	2017	Δ y-o-y %	Mkt share	Capital adequacy
1	Zagrebačka banka	105,997	105,131	102,188	(2.8%)	25.60%	27.75%
2	Privredna Banka Zagreb	69,733	72,439	75,881	+4.8%	19.01%	23.15%
3	Erste & Steiermärkische Bank	58,995	56,119	57,206	+1.9%	14.33%	22.36%
4	Raiffeisenbank Austria	31,198	31,424	31,386	(0.1%)	7.86%	22.48%
5	Splitska banka	27,067	27,045	26,873	(0.6%)	6.73%	21.77%
6	Addiko banka	25,557	21,099	21,199	+0.5%	5.31%	27.84%
7	**Hrvatska Poštanska banka**	**17,713**	**19,358**	**19,800**	**+2.3%**	**4.96%**	**18.03%**
	- share in total assets	*4.42%*	*4.88%*	*4.96%*			
8	OTP banka Hrvatska	15,883	15,790	19,621	+24.3%	4.91%	16.53%
9	Sberbanka	9,736	9,266	8,885	(4.1%)	2.23%	19.84%
10	Kreditna Banka Zagreb	3,470	3,551	3,383	(4.7%)	0.85%	16.73%
	TOP 10	**365,349**	**361,222**	**366,422**	**+1.4%**	**91.78%**	**23.56%**
	Other credit institutions	35,817	35,311	32,800	(7.1%)	8.22%	19.00%
	Total	**401,166**	**396,533**	**399,222**	**+0.7%**		**23.23%**

Source: CNB, www.hnb.hr (forms „revidirani pokazatelji poslovanja kreditnih institucija na 31.12.2015. i 31.12.2016., nerevidirani pokazatelji poslovanja kreditnih institucija na 31.12.2017.“)

Total assets of Croatian banking sector was in a rising trend between 1999 and 2012, but in 2008 deceleration had become evident due to financial crisis and economic slowdown. Owing to persistent negative pressures on the market and increase in NPL, total sector assets decreased in 2012 for the first time since 1999, and this decline continued in the following years up to 2017, when a slight increase of 0.7 percent was recorded, thereby ending the decreasing trend in total assets. Assets increase in 2017 mainly arises from additions to liquid forms of assets relating to increasis in domestic funding, mainly deposits which have risen by 3.4 percent. As opposed to this, loans continue to decline. This drop intensified in 2017 because of NPL sales and refinancing of government loans with other long-term debt instruments.

However, banks continue with retail financing, whereby retail loans make 47.1% of the loan portfolio (+3.2 pp y-o-y). Loans to non-financials represent 31.1% of total volume with an increase of 1.3 pp in 2017, whilst governent loans' share is decreasing and makes 15.8 percent of total loans.

NPLs represent 13.9 of total loan portfolio, which is significantly higher than in pre-crisis period, but they have been continuously decreasing due to disposals and sale to non-banking financial insitutions and specialized entities. Historically speaking, Croatian credit institutions were among the best capitalized sectors in Europe, with capital adequacy increasing still in 2017 – to 23.2 percent.

Profitability of Croatian credit institutions

In spite of stagnant balance sheet movements, banks have been achieving positive and high return rate sup to 2015, and have went through the financial crisis relatively unschathed, owing to the regulator and monetary policy which demanded that high level of capitalization should be maintained during the period leading to the crisis.

Subsequent to the loss recorded in 2015, induced by FX pegged loans' conversion, and by corresponding write-offs, banks had returned to profitability in 2016, with 2017 having been marked by adverse effects of deterioration of Agrokor's creditworthiness. Nevertheless, total 2017 pre-tax profit amonts to HRK 4.1 billion, which is still respectworthy with regard to impairment losses recurded during the year. Positive trend has thus been maintained after record-breaking HRK 6.2 billion of gross profit in 2016, when one-off gains arising from sale of equity instruments was recorded (VISA Europe transaction). It should be noted that in spite of absence of one-off gains during 2017 in the scale recorded in 2016 (other non-interest income dropped by 20.1%), net interest income as well as net fee income are rising - by 1.1 and 4.6%, respectively. Credit institutions have simultenaously decreased their costs and expenditures by 1.9 percent, thus limiting operating profit decline to 2.5 percent.

Total sector profitability in 2017 is almost wholly related to top 10 banks, which have achieved HRK 4.2 billion of pre-tax profit. Other banks outside of top10 banks recorded only negligible profits in 2017 after 2 years of consecutive losses.

Profitability of the Croatian banking sector 2015 – 2017

Pre-tax profit and return on Tier-1 capital*						
			pre-tax profit		**Return on Tier-1 capital***	
in HRK million		**2015**	**2016**	**2017**	**2016**	**2017**
1	Zagrebačka banka	(662)	2,127	1,006	*13.0%*	*8.5%*
2	Privredna Banka Zagreb	208	1,982	1,673	*17.3%*	*13.9%*
3	Erste & Steiermärkische Bank	(1,241)	830	812	*14.2%*	*12.8%*
4	Raiffeisenbank Austria	(311)	585	475	*15.8%*	*12.8%*
5	Splitska banka	155	468	19	*14.5%*	*0.6%*
6	Addiko banka	(2,456)	79	153	*3.5%*	*6.4%*
7	**Hrvatska poštanska banka**	**127**	**162**	**9**	***10.6%***	***0.6%***
	- share in total pre-tax profit	-	*2,60%*	*0,21%*		
8	OTP banka Hrvatska	(155)	152	165	*9.4%*	*9.8%*
9	Sberbank	(245)	70	(147)	*6.2%*	*(13.7%)*
10	Kreditna Banka Zagreb	9	17	26	*7.0%*	*10.0%*
	TOP 10	**(4,571)**	**6,472**	**4,191**	***14.3%***	***9.0%***
	Other credit institutions	(402)	(245)	16	*(8.3%)*	*0.6%*
	Total	**(4,973)**	**6,227**	**4,207**	***12.9%***	***8.5%***

Source: CNB, www.hnb.hr (forms „revidirani pokazatelji poslovanja kreditnih institucija na 31.12.2015. i 31.12.2016., nerevidirani pokazatelji poslovanja kreditnih institucija na 31.12.2017.")

**return on tier-1 capital is calculated as the ratio between pre-tax earnings and average tier 1 capital (yearly average of Dec 31 of current and Dec 31 of the prior year)*

Management BoardStatement of Condition of HPB P.L.C.

History and Development of Hrvatska Poštanska Banka p.l.c.

Foundation of Hrvatska Poštanska Banka p.l.c. in early 1990s is a result of a several-month dedicated work of group of enthusiasts and experts of Hrvatska Pošta i Telekomunikacije (hereafter: HPT). They used best work practices of post banks in Europe and newly created political environment to realize an idea of a post bank in independent Croatia.

HPB was founded in October 1991 with headquarters in Zagreb and first business address in 7 Tkalčićeva. HPB shares were subscribed by 50 founders/ shareholders, HPT's business partners, while HPT was the largest shareholder and had provided space and first human capital. As a „*universal banking organization*" HPB was registered in order to make „*all cash, deposit, credit and guarantee activities with corporates and all banking activities with population, also including payment activities*". The Bank was registered with the court's registry in early October 1991.

Due to retail and corporate needs for banking services, especially in local areas with no banks, the Bank had relied on around 1,100 HPT offices at the time where banking services were introduces including receiving retail deposits, corporate deposits – HPT-business partners. The Bank's first clients were HPT workers which received their paychecks in a form of savings books.

In May 1992 HPB started with FX payments and had received first FX deposits. During the year the Bank's advantages had started to be noticed by smaller private entrepreneurs which had started to get involved into HPB's deposit's sphere.

By *Statute on Collecting Debts, i.e. Receivables of Poštanska Štedionica Beograd – Croatian subsidiary, Zagreb* (March 25 1992, Official Gazette 15/ 92 HPB was named as legal successor of the mentioned subsidiary which made a substantial contribution to forming HPB's potential and activities (exchanging savings books and current accounts, taking savers and depositors, collecting receivables).

HPB's first years were marked by the war, decline in total economic and investment activities in Croatia, decline in living standard, high inflation (even hyperinflation), monetary indiscipline, higher fiscal expenditures which ended by the Stability program in May 1995 with ending inflationary pressures and stabilization of DEM/ HRK exchange rate. HPB was doing mostly retail business at the time by receiving HRD (dinar) and HRK retail savings, paying wages and pensions and placing excess liquidity on money markets, while making short-term lending to corporates supporting their working capital mostly HPT and its business partners and founders of HPB. Amid the highly complex working conditions HPB managed to record a constant balance sheet growth and profit, and was taking constant care about revaluation and maintaining founder's equity and clients' deposits.

In 1995 HPB bought a building in 4 Jurišićeva, the location of its headquarters today. The same year the Bank's acts were aligned with the Companies Act.

More than 10 years after its foundation up until opening an outlet in Split (March 2003) the Bank's solely outlets were in Zagreb, first in Praška and Kralja Držislava (from June 1995 to December 1999) and then 4 Jurišićeva. In July 2005 HPB founded a real estate company HPB Nekretnine and an asset management company HPB Invest. This formed the HPB Group which was expanded in 2006 by foundation of a residential savings bank HPB Stambena Štedionica. HPB as a parent company in the Group is also a 100% owner of all 3 companies. In addition to the the subsidiary companies in which the Banke is founder and a one hundered percent owner, between 2015 and 2017 the Bank had controlling rights (58.2%) in H1 TELEKOM plc. acquired based on pre-Bankruptcy settlement.

The Bank increased its equity by HRK550M through public share offering in September 2015. Pension funds, investment funds and other private investors have subscribed shares in the total amount of HRK305.9M which gave them 25.5% ownership stake. Due to public share offering in September 2015 the Bank increased its equity by HRK550M through mixed investment of private and public capital. Pension funds, investment funds and other private investors have subscribed shares in the total amount of HRK305.9M which gave them 25.5% ownership stake. At the same time the Republic of Croatia subscribed shares in the total amount of HRK244.1M and its ownership stake fell from 99% to 74.5%. This gives HPB the most diversified shareholders' structure among large banks in Croatia.

Today HPB's network is comprised of 11 regional corporate centers (2 in Zagreb, Split, Dubrovnik, Pula, Varaždin, Osijek, Rijeka, Čakovec, Zadar and Bjelovar), 48 outlets and 6 detached tellers in the whole country. Market position and competition profile enables HPB to be the only bank in Croatia to offer basic financial services to households in the whole country, comprehensive financial services to the government and support to the economy, especially in the SME segment. In cooperation with Hrvatska Pošta, products and services are available through the post office network in all significant places in the country.

As the largest domestically owned bank HPB is strategically focused on the retail business activities in the whole country, as well as support of the national economic development, especially in the SME segment. Strategic determinants of the HPB's development are focused on increasing market share and development of organization and business processes in line with the best practices. HPB has been focused on implementing new attractive retail products and services with special emphasis on creation and innovation of offers adjusted to the SME needs.

Business Activity of Hrvatska Poštanska Banka

The Bank offers all banking and financial services with the main focus on retail and corporates, among which:

- all types of deposit and credit products and services for corporates and retail in domestic and foreign currency,
- transaction services (HRK and FX payments),
- issuing guarantees, avals and similar products,
- factoring, financial lease services,
- securities services,
- other banking products and services (safes, Western Union services).

Regulatory Framework

Conditions for the Bank's founding and business as a credit institution in the Republic of Croatia are regulated by the Credit Institutions Act (Official Gazette 159/ 2013, 19/ 2015, 102/ 2015) and the Companies Act (Official Gazette 152/ 2011, 111/ 2012, 68/ 2013 and 110/ 2015).

Offering of investment services and investment activities in the Republic of Croatia are regulated by the Capital Market Act (Officail Gazette 88/2008, 146/2008, 74/2009, 54/2013, 159/2013, 18/2015 and 110/2015), the by-laws of Croatian Financial Services Supervisory Agency and EU regulation markets throughout the European Union and payment services offered by the Bank are regulated by the Payments Act (Official Gazette 133/2009 and 136/2012), together with certain by-laws. The Bank's core business is also regulated by the Croatian National Bank's by-laws as the top regulator which regulates the Bank's core business and operations related to the core business.

Croatian National Bank is the top regulator which supervises credit institutions, while Croatian Financial Services Supervisory Agency supervises investment services and activities, together with supplementary services. State Agency for Deposit Insurance and Bank Resolution controls credit institutions in order for them to meet all the conditions of the Deposit Insurance Act (Official Gazette, 88/ 2015). In cooperation with the Croatian National Bank it sets procedures and instruments for credit institution resolution as regulated by the Credit and Investment Companies Resolution Act (Official Gazette 19/ 2015). The Personal Data Protection Agency supervises all rights and obligations in the area of personal data protection based on Personal dana protection act (Official Gazette 103/03, 118/06, 41/08, 130/11; 106/12) which defines the obligations and responsibilities of the Bank in personal data processing related to the application of regulations covered by the legal framework for the protection of personal data in the Republic of Croatia with the appropriate application of information security measures.

The Bank uses the EU regulation which includes regulations adopted by the Parliament and the Council. The most important is Regulation (EU) 575/ 2013 of the European Parliament and of the Council of June 26 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) 648/ 2012 (Official Journal of the European Union L 176/ 2013). There are also delegated and implementing regulations of the European Commission which concern conducting business of credit institutions in Croatia, as well as other relevant acts which regulate corporate business activities in the Republic of Croatia, and corporates and credit institutions with headquarters in Croatia in part in which they conduct business with foreign entities (e.g. acts of other countries, international contracts related to anti-money laundry, international payments etc.).

The Bank as a lender of the Law on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 108/2017) undertakes in its operations the measures, actions and practices prescribed by this Act for the prevention and detection of money laundering and terrorist financing and the implementation of preventive measures to prevent the use of the financial system money laundering and terrorist financing.

Considering the Republic of Croatia directly or through other government owned companies control majority of the Bank's shares, the Bank's business is also regulated by the special regulation for companies with majority government stake.

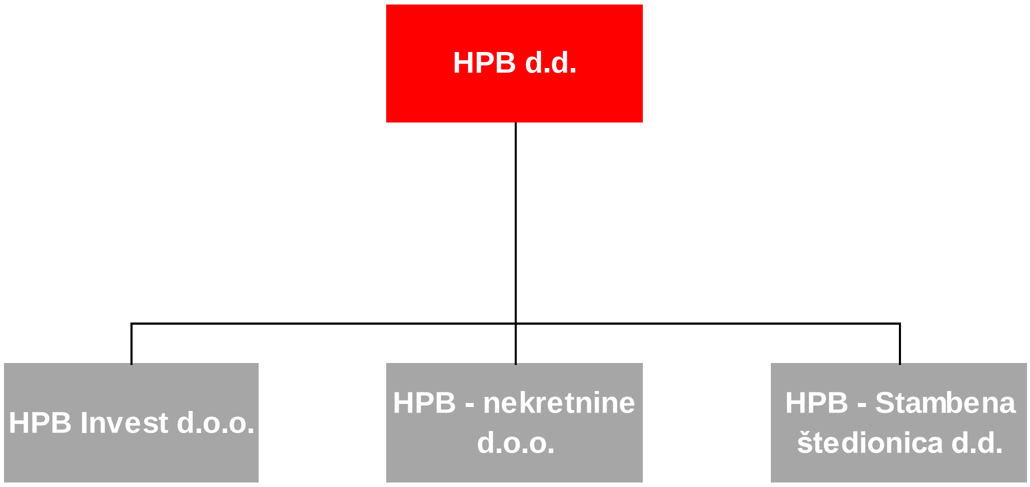
Overview of HPB Group and the Bank's Position in the Group

Hrvatska poštanska Banka p.l.c. („HPB d.d.“) is not the member of the concern according to the Companies Act.

HPB d.d. is part of a group of linked entities according to the Credit Institutions Act, and is 100% owner of the following companies which make HPB Group:

- HPB Invest d.o.o. for managing investment funds, headquartered in Zagreb, Croatia
- HPB - nekretinine d.o.o. for real estate construction and sales, headquartered in Zagreb, Croatia
- HPB - Stambena Štedionica d.d. for home savings, headquartered in Zagreb, Croatia

HPB Group's Structure



Ownership Structure of Hrvatska Poštanska Banka p.l.c.

On December 31 2017 the Bank's ownership structure was as follows:

Shareholder	Ownership Stake
Republic of Croatia (Ministry of Government Assets)	42.43%
HP Hrvatska Pošta dd	11.93%
State Agency for Deposit Insurance and Bank Resolution	8.98%
Croatian Pension Insurance Institute (Ministry of Government Assets)	8.76%
Prosperus Invest d.o.o. for Prosperus Economic Development Fund	4.94%
PBZ CROATIA OSIGURANJE Mandatory Pension Fund (B Category)	4.12%
ERSTE d.o.o. for ERSTE PLAVI Mandatory Pension Fund (B Category)	3.90%
Allianz ZB d.o.o. for AZ Mandatory Pension Fund (B Category)	2.88%
CROATIA Osiguranje d.d.	2.47%
NEK Fund	2.36%
RAIFFEISEN D.D. for Raiffeisen Mandatory Pension Fund (B Category)	2.20%
Minorities	4.99%
Treasury shares	0.04%

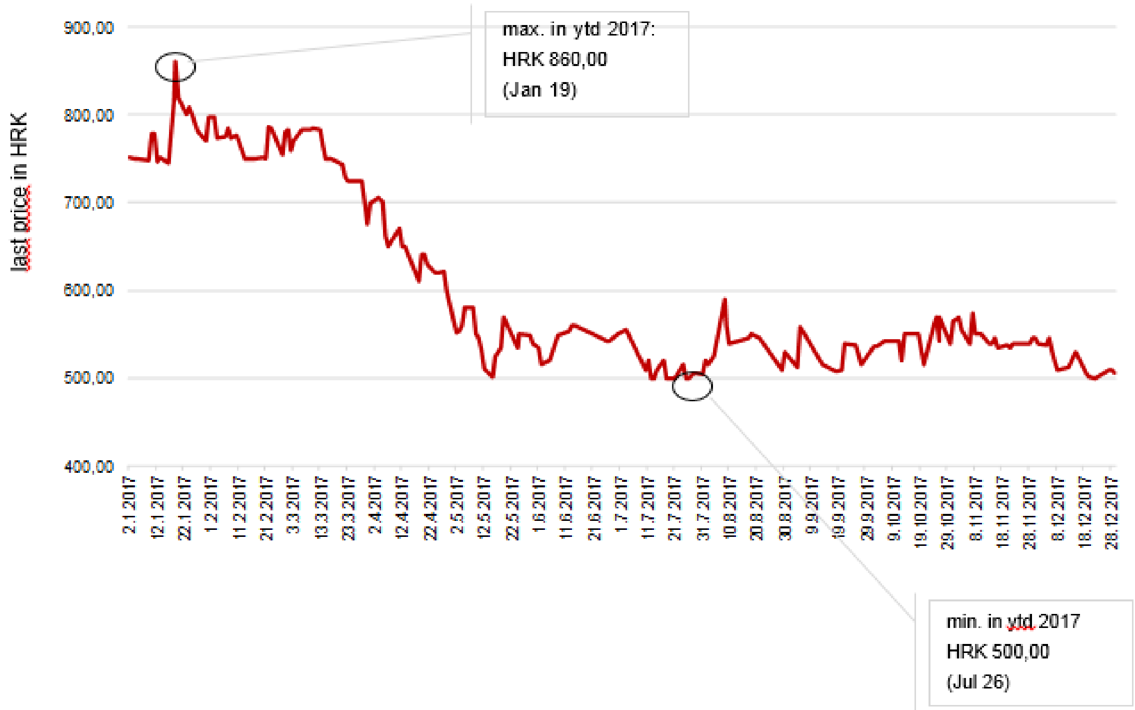
Source: Central Depository and Clearing Company ("SKDD")

On December 31 2017 The Republic of Croatia through the Ministry of Government Assets and other government institutions controlled 74.5% of the equity and voting rights of the Bank.

HPB-R-A Share

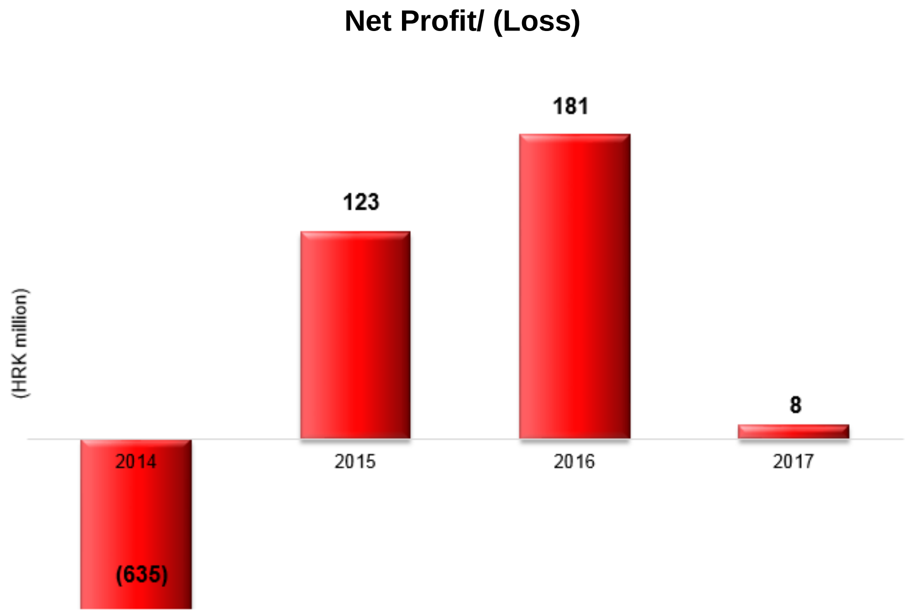
HPB's share is listed on the Official Market of ZSE. The last price per share at the end of the reporting period was HRK 506.00 (Dec 29 2017) representing a decrease of 32.6% when compared to the last traded price in 2016 (HRK 751.00 on Dec 30 2016).

Trading during the reporting period was as follows:

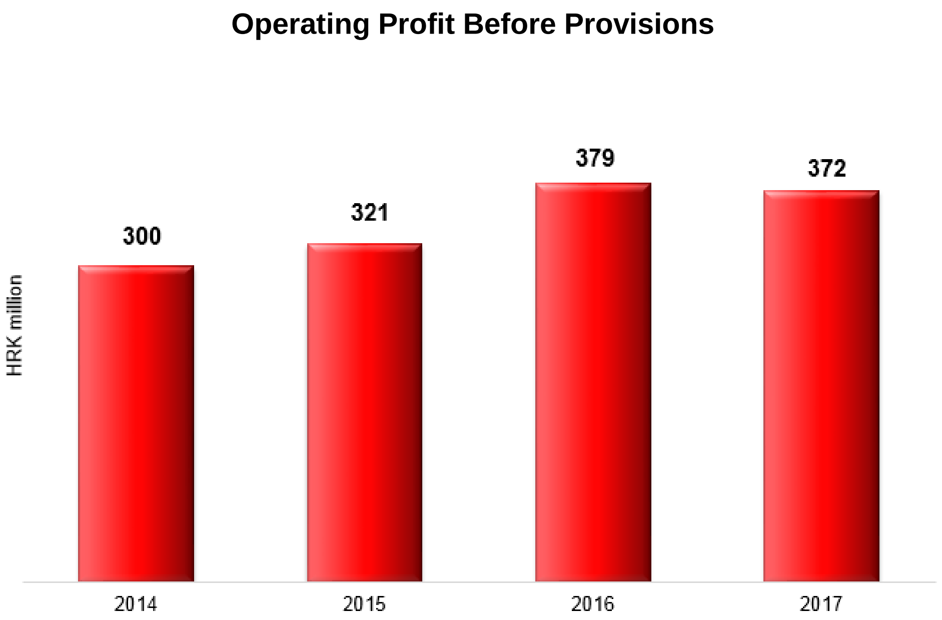


Business and Financial Overview

In 2017 the Bank made a net profit in the amount of HRK8.3 M.

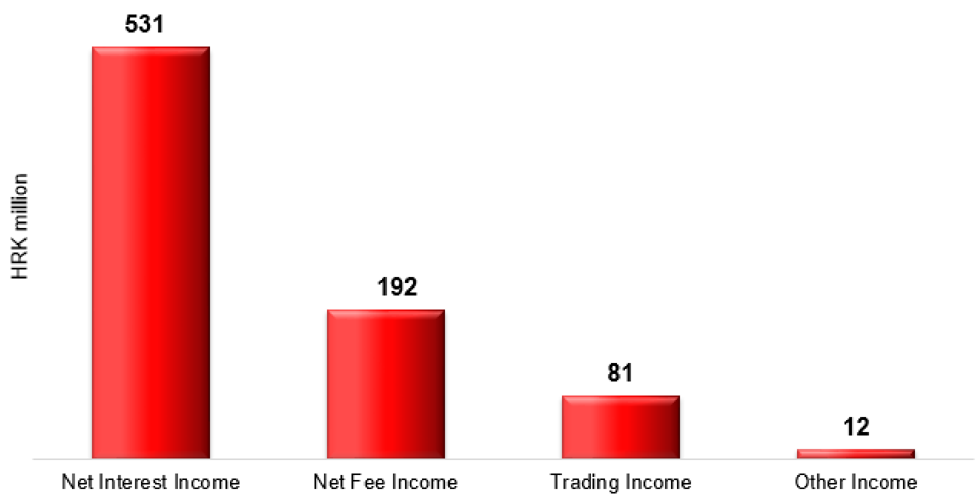


The Bank also made an operating profit before provisions in the amount of HRK372.4M. Provisions for Loan Losses and Other Impairments of Financial and Non-Financial Assets were HRK349.8M, while Provisions for Liabilities and Costs were HRK10.1M.



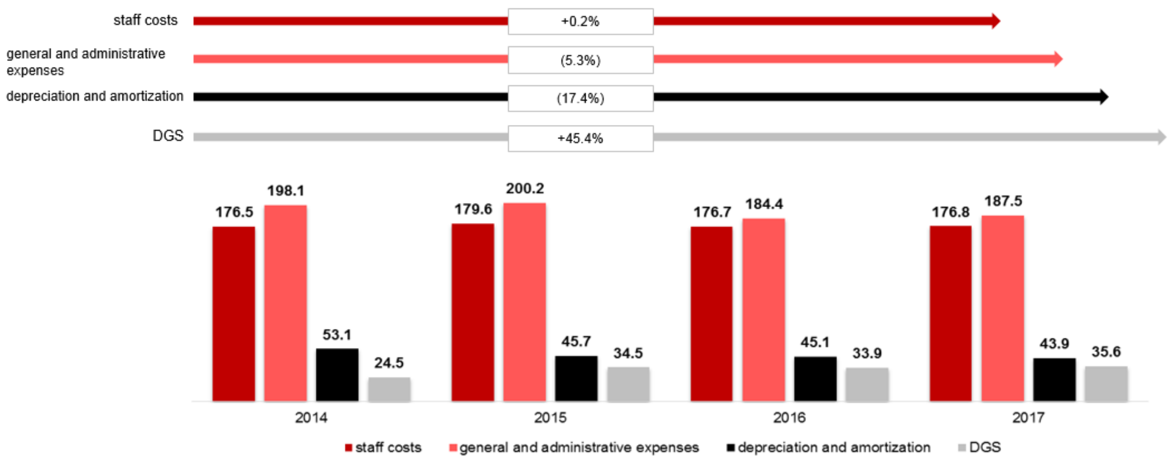
In 2017 total net operating income was slightly decreased compared to last year's (-0.38 percent). Net Interest Income in the amount of HRK531.3M generated 65.1% of the total operating income.

Net Income Structure for a Period January 1 – December 31 2017



Continuous cost optimization resulted in a lower level of total cost compared to last periods, with the Bank between 2014 and 2017 reduced services and general and administrative expenses (by 5.3 percent) and depreciation and amortization (by 17.4 percent). Staff Costs were kept almost at the same level despite volume and market share growth. On the other side continued increase in deposits and introduction of new regulatory enacement of new bank rehabilitation contribution (from 2015) passive insurance costs increased by 45.4 percent. The Bank continues its efforts to manage its costs efficiently.

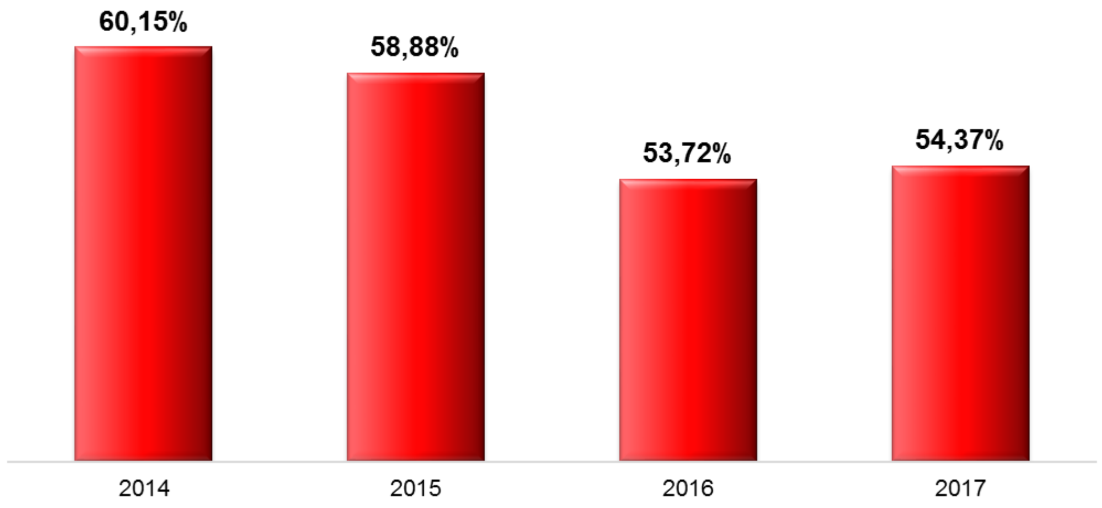
Cost management 2014 – 2017



	2014	2015	2016	2017
# employees (Ø)	1,071	1,073	1,056	1,092
fixed assets (Ø)	HRK 311M	HRK 282M	HRK 259M	HRK 254M
assets	HRK 17.4B	HRK 17.7B	HRK 19.4B	HRK 19.8B

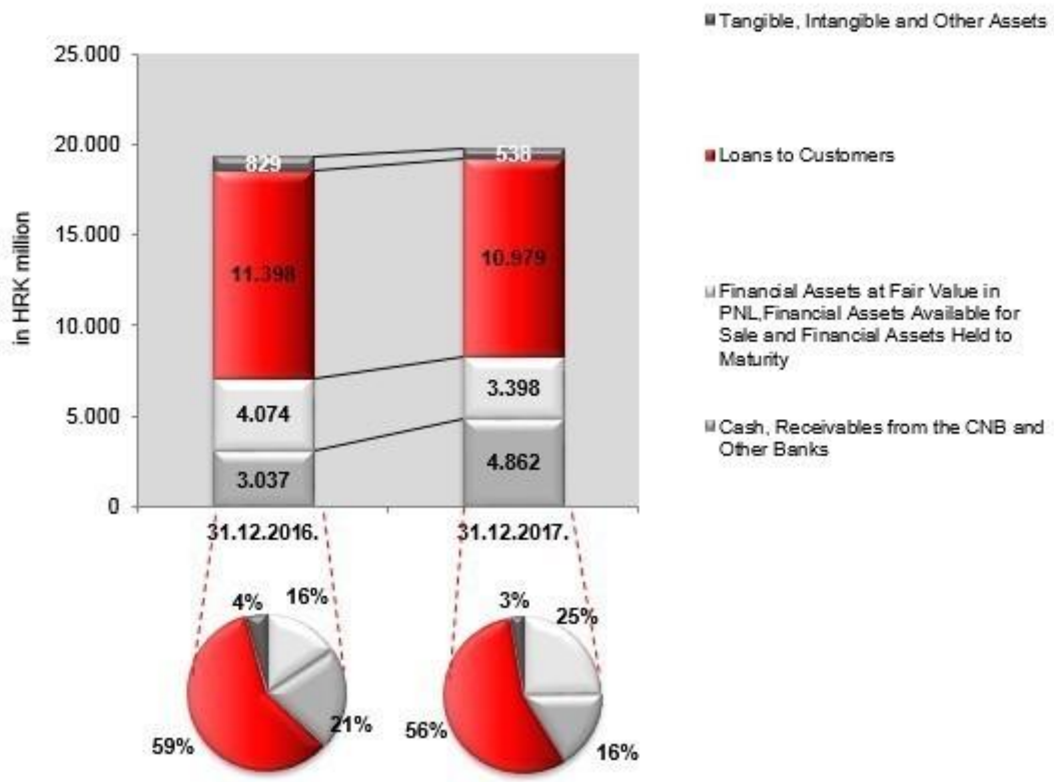
C/I indicator was 54.37 posto.

Cost to Operating Income Ratio (C/ I Indicator) in %



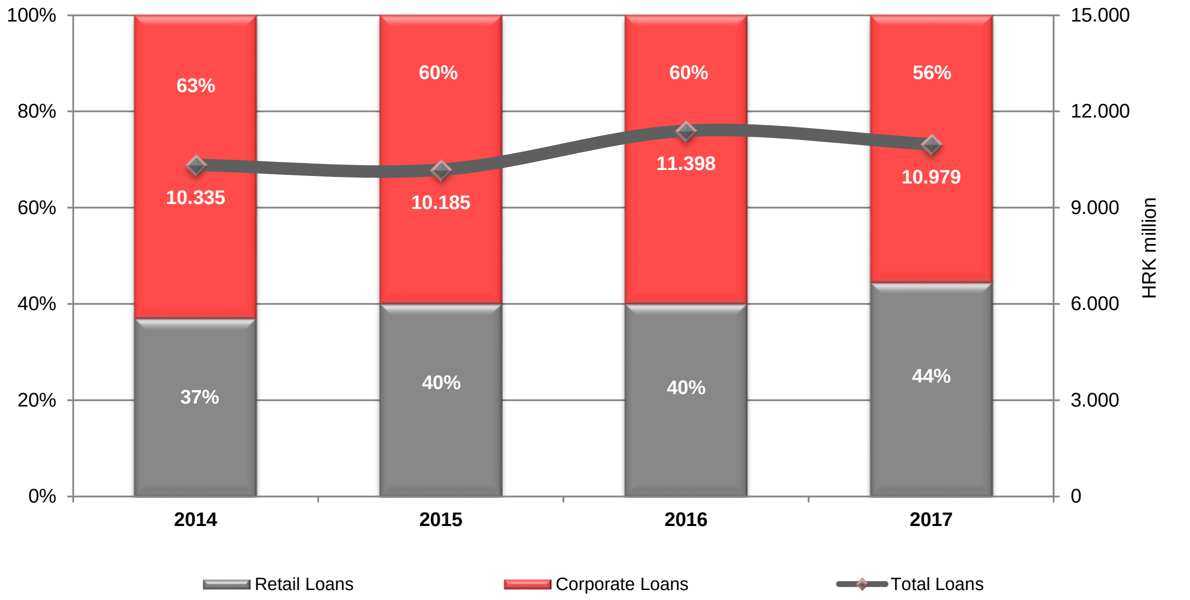
At the end of 2017 the Bank's assets were HRK19.777M which is HRK491M (+2.5%) more than at the end of 2016. Loans to Customers make the majority of the assets (56%). Share of the mandatory reserves at the CNB, loans to other banks and other cash is 25%, followed by financial assets available for sale with 16% share.

Asset Structure



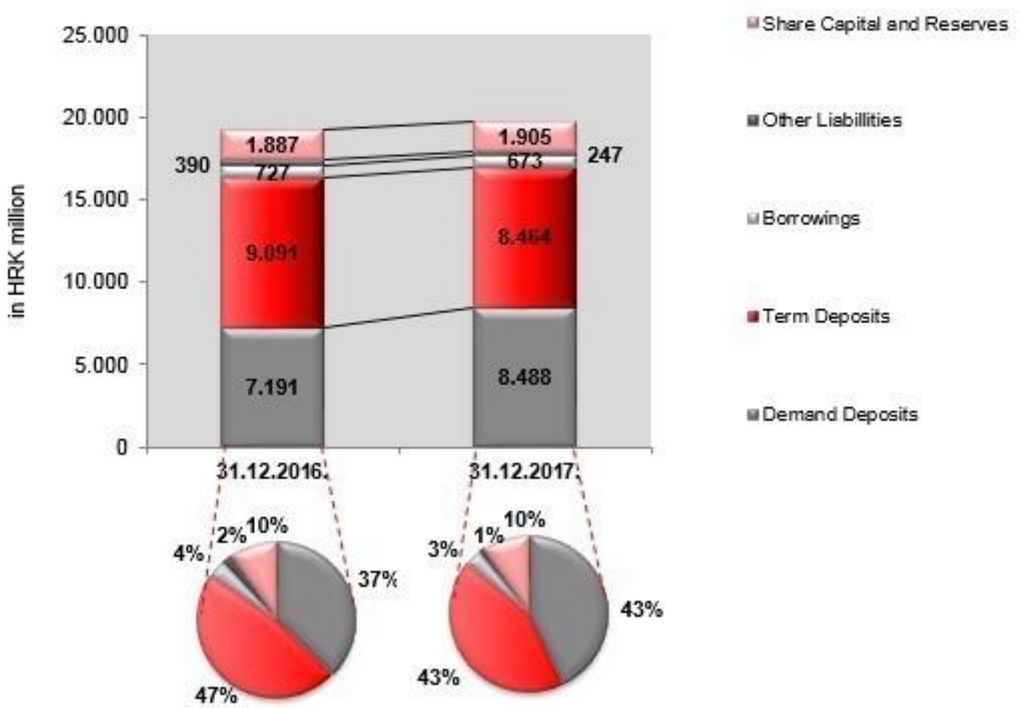
Total net loans were HRK10,979 M and are HRK419M less than in 2016. On the structure front, corporate loans make 55.6%, while retail loans make 44.4%.

Movements and Loan Structure



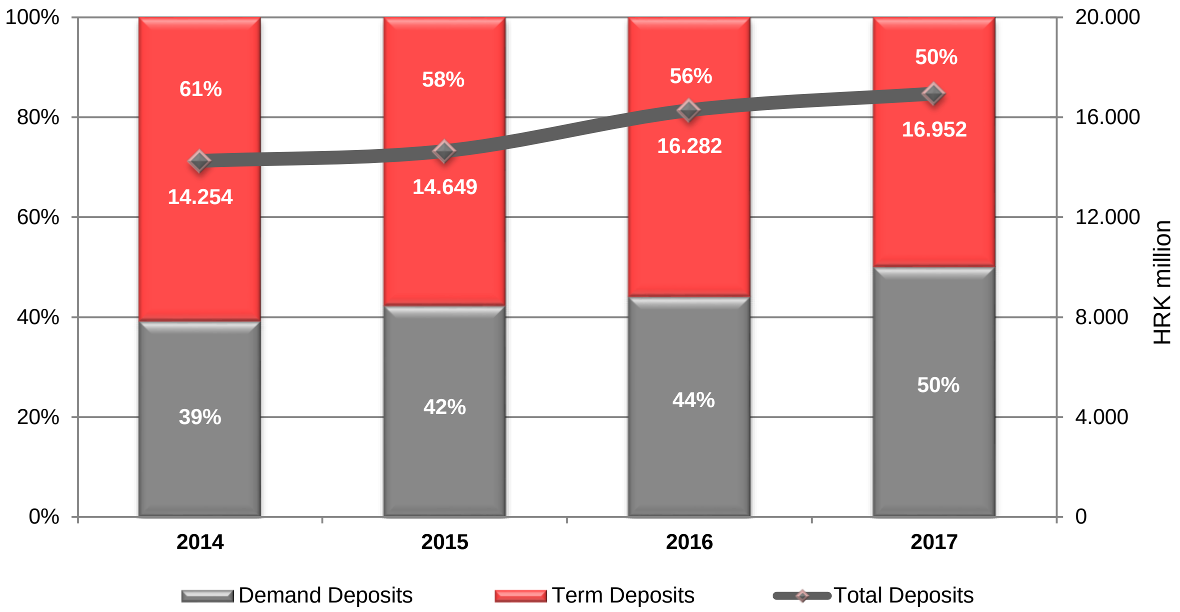
In 2017 demand deposits increased by 18 percent, thereby increasing their share in total liabilities and equity up to 42.9 percent, simultaneously exceeding term deposits share (42.8.percent).

Liabilities Structure



During 2017 client's deposits were up by 4.9% (HRK779.7M) compared to the previous year. Total deposits growth (including banks' deposits) was HRK670.4M or 4.1%.

Movements and Structure of Deposits



Due to the 2017 growth demand deposits, not only in total liabilities, took over the largest share in total deposits- from 44.2. to 50.1. percent. Term deposits' share decreased by 5.9 pp and is 49.9 percent.

Description of business segments

Retail segment operations

568 thousand **total clients**	413 thousand **current accounts**
31 thousand **new clients**	106 thousand **credit cards**
498 **ATM**	2 207 **EFT-POS**

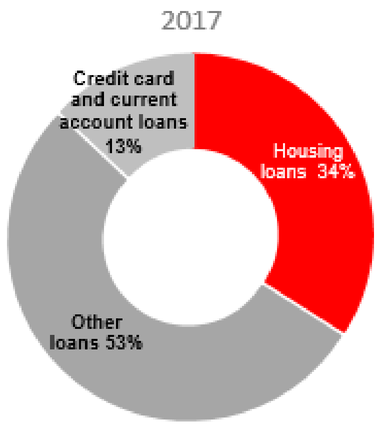
Retail business is done through the Bank's own network of 8 regional centers, 48 outlets and 6 detached tellers, as well as HP's distribution channel with more than 1,000 post offices scattered across the Republic of Croatia.

In 2017 the Bank has improved its sales network by moving certain outlets to more convenient locations, opening of a new outlet in Solin and redecoration of several other outlets. At the same time the Bank has continued to develop and improve its direct banking distribution channel by implementing online loan applications and online account opening and introducing 100 new ATMs. At the end of 2017 the Bank had a network of 498 ATMs and 2,207 EFTPOS terminals.

The Bank has continued cooperation with its strategic partner Hrvatska Pošta and had introduced loan services in post offices. Also the Bank improved its cooperation with Croatia Osiguranje with record sale of insurance policies.

In 2017 31K new clients were acquired. The Bank made remarkable results by selling 150K products and opening more than 32K new accounts which resulted with higher retail and card business revenue.

Retail deposits make 55.2% of total deposits. Last year they were up by 1% to HRK9.1B at December 31 2017. Demand deposits were HRK3.6B (+22%), while term deposits were HRK5.6B (-9%). Deposits growth is a result of quality services, customers' loyalty, excellent marketing and recognizing the Bank as a safe financial factor in Croatian banking system.



Total gross retail loan portfolio at the end of 2017 was HRK5.2B.Retail loans make 41.9% of the total gross loans to customers. Multi-purpose loans make the majority of retail loans, while share of housing loans was on the rise. In 2017 the Bank issued almost HRK1.1B of new retail credit volume with housing loans up by 40 percent. This result was achieved by excellent offer of housing loans, especially fixed-rate HRK.

These results were achieved mainly by contribution of the sales staff, loyalty of existing and acquisition of new clients, quality of services, improved intra-sector cooperation and improved support.

HPB leader in innovation, news in 2017

- **e- branch introduced**
- **Online loan applications**
- **Online credit card approval**
- **„e-cash“ service**

Regular monitoring of the market, competition and new trends, the Bank developed products which differentiate it among competitors and supports its high competitiveness on the market and for digital products is also a leader in inovations. E- branch is introduced with full range of business outlets to serve customers who only wants to use digital channels. Once the current account is enabled online in 2017 is also available for loand and credit cards. After the pre-approved loans in 2017, clients are offered and pre-approved cards. Clients are provided „e-cash“ service within HPB mbanking service which enables customers to withdraw cash from the ATM without using the card. That enables the Bank to communicate with clients in a modern way. The Bank will continue to develop its products to suit the clients' needs which are the Bank's top priority.

Client segmentation project started with the aim of improving the bank's service model. The development of CRM system regarding control and management of client interaction has also continued.

Overview of Retail Products and Services:

Retail Products and Services	Product Group	Products and Services
	Accounts	Current Account Primary Account Switching your payment account Giro-Account FX Account Kids' Account Escrow Account SuperSmart HPB Account
	Savings	Demand Deposit Motiv Plus Savings Term HRK Savings Term FX Savings Term Savings with Multiple Deposits Kids' Savings (HPB Kockica) Annuity Savings
	Loans	**Housing Loans** HRK Housing Loans with Fixed and Variable Rate EUR Linked Housing Loans with Fixed and Variable Rate HRK Green Housing Loans EUR Linked Green Housing Loans HRK Housing Loans EUR Linked Housing Loans HRK Supporting Housing Housing Loans (Program A) EUR Linked Supporting Housing Housing Loans (Program A) HRK Supporting Housing Loans based on Subsidisation Housing Loans Ac EUR Linked Supporting Housing Loans based on Subsidisation Housing Loans Act **Purpose Loans** HRK Loan for preparing for the tourist season EUR Linked Loan for preparing for the tourist season HRK Loans for Paying Liabilities EUR Linked Loans for Paying Liabilities Loans for Paying Overdrafts Student Scholarship Loans Student Loans for Knowledge, Sport and Travel Purpose loans for Supporting Housing Consumer Loans Bontech d.o.o. **Multipurpose Loans** HRK Multipurpose Cash Loans EUR Linked Multipurpose Cash Loans HRK Multipurpose Loans with Fixed and Variable Rate EUR Linked Multipurpose Loans with Fixed and Variable Rate HRK Multipurpose Loans for Pensioners EUR Linked Multipurpose Loans for Pensioners HPB Fixation Loans Lombard Loans Secured by Residential Savings in HPB Stambena Štedionica Lombard Loans Secured by Term Deposits HRK Multipurpose Mortgage Loans EUR Linked Multipurpose Mortgage Loans

Product Group	Products and Services
Cards	Debit MasterCard Contactless Card Pošta & HPB MasterCard Maestro Current Account Card Maestro Giro-Account Card VISA Electron Current Account Card VISA Prepaid Card VISA Prepaid Card for Young People VISA Installment Card Credit MasterCard (revolving) Credit MasterCard (charge) Gold Credit MasterCard
E-banking	Internet Banking mBanking Text/ E-mail Service e-Građani eRačun e-cash
Other	HPB Kombinacija (Aktiv/Senior/Diplomac) Dynamic FX Conversion at ATMs HPB Services in HP and FINA Safes Standing Orders Direct Debit SEPA Direct Debit Western Union

Corporate segment operations

Large corporates and public sector

1000 total clients	5.7B loan volume
500 local government units	4.9B deposits volume

Large Corporates and Public Sector Division offers banking services to around one thousand clients. Division strives to continuously improve services and to innovate in order to meet clients' needs.

2017 is characterized by client growth in local government segment.

Gross loan portfolio for Large Corporates and Public Sector amounted to HRK 5.7B. The portfolio is provisioned with HRK 629.7M of impairments. Portfolio structure is dominated by loans to companies and state funds, whereby HPB tends to support industries that generate value for overall economy.

Total Large Corporates and Public Sector deposits (without bank deposits) as per Dec 31 2017 amount to HRK 4.9B, wherein demand deposits amounted to HRK 3.2B and are primarily related to clients from Central state segment. Deposit growth that has been recorded resulted in significant client acquisition in local government and large corporations segments.

Bank was faced with a significant challenge during 2017, which was characterized by general decline in interest rates. This was compensated with steps taken in loan portfolio volume management and interest expense management. Existing short term funding represent a limiting factor with regard to long term loan operations, especially considering large individual transactions. Large systems are fought over on the competitive market. On the other hand, declining demand and significant liquidity should also be factored in. These factors have contributed to decline in interest rates and fees, meaning that total revenue can only be generated through substantial volume.

HPB continues with successful business cooperation with HBOR and HAMAG-BICRO throughout all the programmes, as well as cooperation with EBRD. Accordingly, Bank has entered into cooperation with EIB in 2017. This cooperation is targeted, apart from SMEs, at MID CAP segment (up to 3.000 employees), as well as public and local government unis that might be eligible for such funding.

Development of new products is ongoing. New product that should be especially emphasized are the loans for utility waste disposal companies, in line with legislation prescribing integration of electronic waste monitoring.

Division will continue to intensively cooperation and offer loan support to large corporates, state units and local government units. Special focus will be put on non-interest income growth, with continuous efforts to be invested in quality improvement and broadening of product offer.

New products that are being prepared for corporate entities include: new guarantee funds in cooperation with EIF, redesign of Internet banking for corporate entities, improvements in payment solutions, and establishment of HPB EU Desk and specialized organizational unit for project financing.

Corporate segment operations

Small and medium enterprises

8000 total clients	1.7B loan volume
11 regional centers	1.4B deposit volume

SME Division was established in Q4 2017 in order to offer comprehensive service and financial solutions for SMEs.

By establishing SME division, adequate foundations were set to secure that HPB becomes provider of quality services to SMEs considering that they are the backbone of Croatian economy.

SME Division offer banking services to approximately 8,000 klijenata, whereby we strive to constantly improve our services and introduce innovation so that clients needs be better met.

Gross loans to SME entities amounted to HRK 1.7B as per Dec 31 2017, which were provisioned with HRK 537.4 million of impairments. Within the gross loan portfolio structure, small entities have the dominant share (45.6%), followed by micro (26.8%) and medium segments (26.5%).

Total SME deposits amounted to HRK 1.37B as per Dec 31 2017, wherein demand deposits amounted to HRK 663M and term deposits HRK 709M. Within the term deposit structure, medium segment has the dominant share (64.6%), whilst within demand deposits micro segment has the highest share (64.9%).

Bank has faced a big challenge of declining interest rates in this segment as well, which was compensated for by active management of the loan portfolio and by optimizing interest rates on deposits.

Regional centres network is located in every larger Croatian city. A large part of the network was refurbished in 2017. Size and interior of our branches make them appealing to our corporate clients, e.g. our Rijeka regional centre which was constructed by Croatian architect, designers and Croatian producers.

New regional centre was opened in 2017 – in Bjelovar, making HPB even more accessible to its corporate clients, and especially SMEs, whom we wish to become the first choice Bank.

News in 2017

- **Special offer for hospitality and agricultural entrepreneurs**
- **Project „Educiramo poduzetnike*“**

HPB aims to introduce new and attractive products and services, and special emphasis has been put on innovation in financail offer. We strive to offer quality service which is quick and available, and by applying new technology our goal is to achieve availability of services 24/7, primarily in mobile and digital banking area. This should increase overall service quality and client satisfaction.

Hrvatska poštanska banka offers financial solutions for entrepreneurs, customized by demands of a certain industry. Therefore, we have created a special offer for hospitality and agricultural services in 2017.

Hrvatska poštanska banka initiatied the project of financial literacy in 2017 for SMEs. Educational programme is envisioned as a guide for simpler and successful operations – from starting a job, creating a business plan, preparing for investment loans, importance of financial reports, indebtedness analysis, and search for better financial solutions. Strategic positioning of HPB as a bank for comprehensive financial solutions for SMEs is based on assumption that educational and advisory services will be oferred. Project „Educiramo poduzetnike“ is an example of a fine business practice where entrepreneurs are enabled to gain knowledge of business operations, finance and to gain legal, financial or accounting advice.

Aiming to incite and develop entrepreneurship initiatives, HPB actively cooperates with HAMAG BICRO, HBOR, ministries and local government units, as well as with EBRD and EIB through various special loan programmes, in order to enable our clients favourable funding sources.

General product pallette which HPB offers to entrepreneurs will be enriched by introduction of corporate bundgles, so that entrpreneurs might choose best which services suits their business operations best.

In order to ensure that clients receive the best service, we are focused on designing innovative digital solutions, e.g. on-line opening of transactional accounts as well as on-line loan application aimed at improving clients operating activities.

We are still focused on securing service availability to our clients through 11 regional centers, and via partnerships with Hrvatska pošta and FINA, in order to achieve availability throughout Croatia.

In this regard, HPB utilizes sinergy between all business areas of the Bank, as well as external partners and other institutions, to encourage SME development.

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**Croatian: We educate entrepreneurs*

Overview of products and services in the corporate segment:

	Product Group	Products and services
Products and services in corporate segment	Payment operations	Transaction account Cash pooling Escrow account Cash payments Non-cash payments Izvješćivanje o stanju i promjenama na računu Solvency data (BON2) EUR Payment orders (SEPA) International payment orders EFTPOS E-commerce
	SME lending	**Short-term financing** Loans for Working Capital (Liquidity Improvement) Loans for working capital based on cession of receivables from domestic creditworthy entities Revolving loans Discount of bills of exhcange of crediworthy companies Corporate Account Overdraft Loans for preparation of tourist season Loans for Financing Stocks of Sugar, Wheat and Other Commodities **Long-term financing** Loans for permanet working capital Exports financing Loans for Purchasing Equipment and Machinery Loans for Buying, Constructing, Reconstructing or Decorating Commercial Space Loans for Financing Residential Construction AGRO corporate loans Loans for tourism development **Special loan programmes – in cooperation with HBOR** Loans for preparations and collection of exports Loans for hospitality services sector Loans for preparation of tourist season Tourism - EBRD (EBRD funding for exporters in hospitality services sector) Loans for agriculture and small enterprises in the regions of special state care Loans for preparation of agricultural production Loans for economic entities (large scale projects in agriculture) Loans for economic entities Loans for new production Loans for shipping industry Loans for women in business Loans for youth entrepreneurship Loans for beginner entrepeneurs Loans for SME development Loans for enviromental protection projects, energy efficiency and renewables Loans for buildings energy efficiency renovation Loans for communal infrastructure Loans for findings Loans for financial restructuring Loans for permanent working capital for business consolidation Loans for liquidity improvements Loans for production Loans for candidate projects within IPARD Measure 101 and Measure 103, and Programme for other candidate projects Loan programme for candidate projects within IPARD measure 302. NEW loan programme – Working capital loans NEW loan programme – Capital expenditure loans **Special loan programmes – loans in cooperation with Ministry of Economy, Entrepreneurship and Crafts, Zagreb and counties – „Mjera 1"** HPB signed a contract on execution of Programme „Kreditom do uspjeha 2014, Mjera 1 - Kreditom do konkurentnosti" with Ministry of Enrpreneurship and Crafts and counties **Special loan programmes – in cooperation with HAMAG-BICRO** „EU Početnik" „Rastimo zajedno" „Poljoprivrednici" **Special loan programmes – other** Loans in cooperation with Craftmen Society of Zagreb Loans for member of Croatian Lawyers' Association Short-term loans for member of Croatian Lawyers' Association Account overdrafts for member of Croatian Lawyers' Association Long-term loans for member of Croatian Lawyers' Association **Business cooperations** Croatia osiguranje bundle *Croatia poduzetnik* Offer for members of Croatian Dental Medicine Chamber
	Loan groups	Products and services

Products and services in corporate segment		
	Large corporates lending	**Short-term financing** Exports financing Revolving loans Revolving loans on the basis of FX inflows Loans for working capital Liquidity financing Overdraft Loans for Financing Stocks of Sugar, Wheat and Other Commodities Loans for preparation of tourist season based on cession of receivables from allotments Factoring business with creditworthy companies **Long-term financing** Loans for permanent working capital Loans for exporters Loans for Purchasing Equipment and Machinery Loans for Buying, Constructing, Reconstructing or Decorating Commercial Space Residential construction financing Loans for tourism development **Special loan programmes – in cooperation with HBOR** **Green loans for enteprises** **Offer for exporters** Long term EUR pegged purpose loans in HRK Long term EUR purpose loans Long term HRK purpose loans
	Guarantees and letters of credit	Performance guarantees Payment guarantees Counterguarantees and Superguarantees Loro Letters of Credit Nostro Letters of Credit Documentary Collections Stand by Letters of Credit
	Cards	VISA Business electron VISA Bonus plus VISA Prepaid business card VISA Business
	E-Banking	mHPB mToken Internet Banking Text Service
	Deposits	HRK and FX term deposits HRK and FX demand deposits
	Letters of Intent	Non-binding letter of intent Binding letter of intent
	Other	Croatia osiguranje bundle *Croatia poduzetnik* HPB Invest products HPB-nekretnine services

Financial markets operations

Treasury

2017 has been marked by high liquidity on European and Croatian markets. Yields on securities and money market instruments have consequently been at their historically lowest levels over the course of the majority of the year, except US market where FED increased its base rate three times by 75 bps in total.

As a result of conditions pertaining to ECB only indicating the possibility of tapering quantitative easing, and on the other hand domestic surplus of excess liquidity reaching record heights, uvjetima u kojima ECB i dalje samo naznačava mogućnost prestanka mjera kvantitativnog popuštanja, main challenge is to manage liquidity reserves in adeqate manner, i.e. to achieve adequate returns on liquid funds portfolio.

Declining yield on T-bill auctions by Ministry of Finance, as well as declining returns on money market funds, have directed funds to fixed income instruments.

Even though the Bank remains one of the most important participants on the domestic money market, extremely high liquiditiy on the systemic level combined with falling ZIBOR rates, significant activities of the Bank mainly relate to placements of excess liquidity during limited periods of time when demand for HRK was increased.

Owing to extremely high liquidity, the Bank has not participated in any of the regular CNB REPO auctions, nor in structural REPO operations which were carried out by CNB during 2017, and has successfuly maintained prescribed coefficients and liqudity ratios.

FX transaction business in 2017 brought solid FX gains and income from exchange rate translation differences, even though trading is still marked by tightening of the spreads.

Bank has increased its activities on the treasury products and sales fronts via stronger cooperation with corporate clients, who are offered to transact in FX swap and forward transactions.

In the cash management business, Bank remains one of the key participants on the market. Apart from the wide network of branches and FX exchange tellers, through cooperation with FINA gotovinski servisi, Bank can offer competitive service for trading and supply of cash.

Investment banking

Investment banking operations was marked by preparation for compliance and application of requirements stipulated in „Markets in Financial Instruments Directive“ 2014/65/EU, „Markets in Financial Instruments Regulation“ No 600/2014 (MiFIR), together with corresponding implementation and regulatory technical standards (all together MiFID II). Aim of new legislation is to additionaly enhance transparency level and to protect investors on financial markets, applicable from January 2018.

Bank offers intermediary services to its clients who seek to buy or sell financial instruments on domestic, regional and foreign capital markets, with the possibility to carry out transactions and set transaction orders electronically. After optimistic beginning of 2017 at ZSE, volume and activity have been significantly burdened by difficulties at one large corporate system during remainder of the year, with spillover effects on domestic capital market. Similar trends as in rest of the markets with regard to volumes and returns have been recorded in the brokerage and asset management fields.

Bank has been involved as co-agent of several issuances of Croatian Ministry of Finance bonds during 2017, on domestic market.

In the fields of custody and depository services for pension and investment funds, Bank continuously improves and aligns its operations with regulatory requirements and changes. Growth in assets under management has been recorded in both segments (i.e. custody and depository) as well.

Financial Market Products and Services:

	Products	Description
Financial Markets Products and Services	Domestic Trading	Trading in domestic financial instruments Clients decide which stocks they will buy or sell and at which prices, as well as what will the structure of their look like Brokers are obliged to acquaint a client with potential risks, current stock price, specifics of each market, movements of certain stocks and to recommend a portfolio diversification
	Regional Trading	Trading in financial instruments in Montenegro, Serbia, Macedonia and Bosnia and Herzegovina Clients decide which stocks they will buy or sell and at which prices, as well as what will the structure of their look like Brokers are obliged to acquaint a client with potential risks, current stock price, specifics of each market, movements of certain stocks and to recommend a portfolio diversification
	Global Trading	Trading in leading global financial instruments Clients decide which stocks they will buy or sell and at which prices, as well as what will the structure of their look like Brokers are obliged to acquaint a client with potential risks, current stock price, specifics of each market, movements of certain stocks and to recommend a portfolio diversification
	Portfolio Management	Specialized service for clients which entrust its funds to the Bank Aimed at clients which in line with its own goals and limits want to invest in securities and other financial instruments with maturity over 1 year to earn extra returns Clients receive reports on changes of securities and balance funds in their portfolio each month or more often if necessary
	Investment Services	Investment advising and advising on equity structure, business strategy and similar, and advising on mergers and acquisitions, together with other investment banking services
	Securities Issuance	Issuance of the following financial instruments: a) debt – short-term (commercial bills) and long-term (bonds) b) equity - stocks The Bank offers services which cover the whole issuance process, i.e. include all activities related to organizing, preparing, subscription and payments of securities, together with other related activities in order to achieve successful issues

Financial Markets Products and Services	Products	Description
	Securities Custody	Primarily safeguarding assets, transactions settlement and corporate actions Custody users are active capital market participants including investment and pension funds and other institutional investors, as well as natural and legal persons which make financial investments Custody services: safeguarding assets, transaction settlement by client's order, asset valuation, corporate actions reporting, collecting revenue from financial instruments and reporting, representation at annual shareholders' meetings, reports on regulatory changes
	Depositor of UCITS/ AIF Investment or Pension Fund	Depositor is a credit institution headquartered in Croatia or a subsidiary from other EU member authorized by the CNB (or the regulator in domestic market) for safeguarding and administrating financial instruments on behalf of clients including custody and related services, which conducts: - fund's supervision - monitors funds' cash flow - safeguards funds' assets Depositor takes care of funds' assets accounts and divides a fund's assets from other assets of other funds, depositors and other clients, and management company, ensures assets are invested in accordance with the regulation, reports to the regulator on fund's valuation, performs transactions for management company, reports on corporate actions, offers voting services at shareholders' meetings, takes funds' payments and insures all revenue is used in accordance with the regulation
	Moj broker - Web Trader	Moj broker – Web Trader enables securities trading and monitoring portfolio balance via Internet with no dependence on brokerage working hours Options: - to place orders on ZSE - change or cancel orders - check portfolio balance, - check brokerage account balance and turnover - check stock prices on ZSE with 50 best bids and offers in real time - data secured exchange
	Short-term HRK loans for Buying Financial Instruments (Margin Loans)	Loans for individuals and corporate with purpose of buying financial instruments included in the list of eligible financial instruments for margin loans in accordance with daily investment limits for each financial instrument Maturity up to 12 months Loans of up to 100% of collateral, minimum HRK50K and up to HRK2M
	Spot FX Buy/ Sell	Users are: domestic and foreign individuals, corporates and financial institutions Purposes include: - FX buying or selling for international payments or FX deposits - FX selling - FX conversion
	Forward FX Buy/ Sell	Users are domestic and foreign corporates and financial institutions Purposes include: - buying or selling FX at fixed rate on certain date which is two working days from the date of the agreement - FX buying for international payments or FX deposits - FX selling for international payments - FX conversion

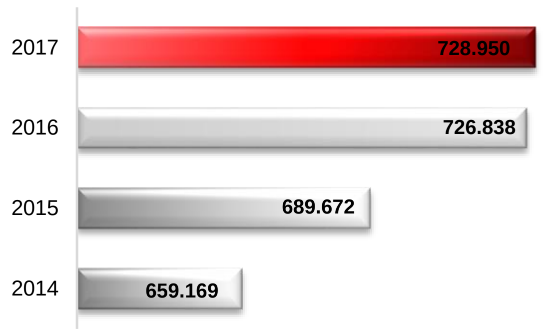
Financial Markets Products and Services	Products	Description
	FX Swap	Users are domestic and foreign corporates and financial institution Purpose: - Includes simultaneous FX buy and sell at fixed rates (spot and forward buy and sell transaction) - 2 currencies are swapped until maturity when they swapped again
	Cash Trading	The Bank's cash management where stocks of FX and HRK cash are maintained at optimal levels
	Given Deposits	Users are banks Purpose is short-term financing Maturities up to 12 months or more if necessary Available from payments to maturity
	Received Deposits	Users are domestic and foreign banks and financial institutions Purpose is to make returns on available HRK or FX Maturities are fixed mostly up to 12 months Not available during deposits term Early termination possible if contracted previously with financial institutions
	Repo/ Reverse Repo	Users are domestic corporates and financial institutions Purpose: - One side transfers a security to the other in exchange of cash flow. At the same time a reverse transaction on a fixed date is contracted. - Contract includes 2 transactions – 1 buy and 1 sell of the security at fixed price. - It is lending securities from one and lending cash flow from the other side. - All risks and benefits of holding security remain with the original owner. - Reverse repo includes 2 reverse transaction compared with original repo. Maturities: Repo agreed as deposits up to 1 year or more if necessary
	Securities Trading (Bonds, Treasuries, CNB Bills, Commercial Bills, Stocks)	Users are domestic corporates and financial institutions Purpose is investing free cash in fixed-income securities issued by the government, local governments or corporates Maturities include: - short-term securities up to 1 year - and long-term securities (more than 1 year)

Direct Banking Operations

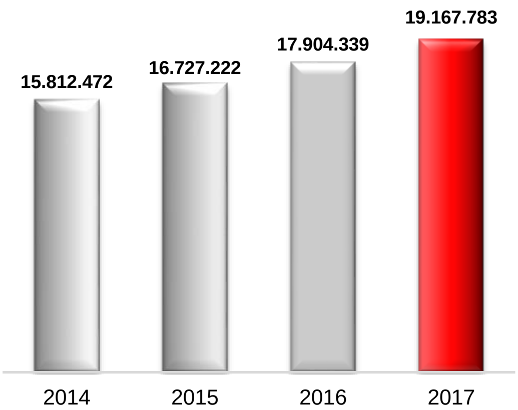
a) Card Business

At the end of 2017 the Bank had 17 different card products in its portfolio and had a total of 728,950 issued cards which is 0.3% more than in 2016. Cards issued to individuals make 99% of total issued cards, while 1% is issued to corporates.

Number of HPB cards



Number of transactions



During 2017 there was a total of 21.5M cards transactions from which 19.2M were HPB bank cards.

The increase in bank card transactions is 7% compared to 2016. The increase in the number of foreign card transactions in the banking network is 39% compared to 2016.
At the end of 2017, Bank had a total of 498 ATMs, of which 347 ATMs were in the Bank's receiving network, and 151 ATMs in partners receiving network.
Process of Banks ATM network optimization process continued. The number of ATM transactions grew by 6 percent. The number of EFTPOS terminals increased to 2,207 terminals, with an increase in the number of transactions by 27 percent.

In 2017, business cooperation with partner was continued in construction and management of a specialized ATM network and 100 new ATMs were installed. The number of foreign card transactions at ATMs specializing in the DCC network in 2017 was 627,723 transactions, an increase of 390% compared to 2016.

In 2017, a transaction infrastructure was developed for the implementation of new services - e-cash (cash withdrawal via mobile banking), EFTPOS functionality introduced a pre-authorization transaction, the card system was connected to the Corvus IPG system and an extended option to accept cards at e-commerce retailers.

Mostly, a card-issuing improvement process has been implemented, which significantly reduces the costs of card creation and distribution, and increases security for sending inactive cards. Card activation for clients is enabled by using different channels, which, apart from increasing the usability of the channels themselves, opens possibilities of direct individual access to the client. An important goal of the project is also to unburden the operational network management. As part of the project, validity card expiration date was extended to four years, which further reduces costs

In 2017, Bank started business cooperation with Hrvatski telekom in launching a pilot project to replace telephone booths with new multifunctional self-service "Vendomat" where the Bank is the receipent of card payments.
Pilot project was launched in Zadar.

During 2017, an analysis of card system was conducted and a decision on further steps is expected in early 2018.

b) Direct Banking

At the end of 2017. a number of individual Internet banking users was 68,712 which is 6.61% more than in 2016. A number of Internet banking transactions in 2017 was 786,289 which is 11.56% less than in 2016. Size of transactions Internet banking users in 2017 was HRK802,336,529.79 which is 12.35% more than in 2016.

On December 31st 2017 number of corporate users of Internet banking is 5,427, which is 17.62% more than last year. At the same time, a number of their transaction was down by 18.56%, and size of transaction by 23.83 percent.

1. Mobile Banking

At the end of 2017 a number of mobile banking users was 70,588 which is 21.46% more than in 2016 (58,114). Number of transaction was 470.558, which is 72.52% more than in 2016 (272,749). The size of transactions in 2017 was 361,625,056.13 hrk which is 62.29% more than in 2016.

2. Text Messaging

At the end of 2017 number of users of text message services was 90,451 which is 1.72% less than in 2016 (92,037). Number of sent messages was 9,258,665 which is up by 5.03% than in 2016.

4. E-mail:

At the end of 2017 number of users of e-mail service was 6.180, which is 15.90% more than in 2016.

5. Text messaging and e-mail:

At the end of 2017, number of users was 13,680, which is 18.84% more than in 2016.

Realized projects:

• e-branch - virtual office has been launched. A new service that allows customers to perform Banking services without having to go to the banks branch. Communication is done via chat / video chat / audiochat and enables the signature of all documents with advanced electronic signature issued by FINA

• New Mobile Banking Design and Extended Functionality

• eCash - new Mobile Banking functionality that allows cash withdrawal on a cardless ATM

• Implementation of SEPA direct debit

c) Call center

In 2017 Call Center received 264,416 calls with call efficiency 72.15 percent.

HPB Voice machines (IVR) handled 1,133,313 calls out of which 93.88% were related to checking account/ card balances while the rest were related to all other options available on voice machine.

In 2017, the Contact Center processed 16,305 e-mails, 2,786 inquiries received via IB for Citizens and 794 inquiries received through IB for Businesses.

As of May 2017, status tracking option for checking protected accounts 35 was added in order to unburden agents of these types of calls.

Internal Controls System and Internal Audit

Internal controls are rational guarantee that business goals will be delivered in appropriate way, within set time limits and by satisfying all regulatory standards.

Internal controls are part of the managing process of management and all the Bank's employees.
Basic principles of internal controls system are:

- Clear lines of responsibility
- Separating responsibilities and duties
- Specific control procedures
- Internal audit function

The management and all employees are responsible for the implementation and application of the elements of internal control systems. The elements of internal control systems are described in the internal regulations and implementing documents of business areas with particular emphasis on preventive control activities and early detection of weakneses and disadvantages.
Internal Audit provides an independent assessment of the adequacy and effectiveness of internal controls of each audited area.

Internal Audit

Internal audit is organized as an independent organizational part, and is based on professional principles of internal auditing, alongside associated regulations. Management and responsibilities of internal audit were set by dual responsibility. Administratively it responds to the Management Board, while functionally it responds to the Supervisory Board, and Board of Auditors.

Internal Audit Charter insures organizational independence of internal audit. Access to data, information on persons and spaces is direct and unlimited.

External valuation of internal audit is conducted in accordance with the internal audit standards and the last o Internal audit procedures are performed in accordance with general internal audit standards and regulatory requirements, in four phases which include planning, research, reporting, and results monitoring.

Planning is based on documented risk assessment and Yearly Operational Program is adopted by the Management Board with prior consent of the Audit Committee and the Supervisory Board. Internal Audit covers all business areas of the Bank and is structurally divided into audit of retail, risk management audit, general audit, audit of information system and audit of the financial markets.

Report on audit results is submitted to accountable person within the subject of internal audit, and member of the Bank's Management Board in-charge, and Audit Committee. Each individual report is subject to discussion during MB session, thus ensuring that MB is aware of the audit's result, recommendations, as well as deadlines to implement recommendations and measures.

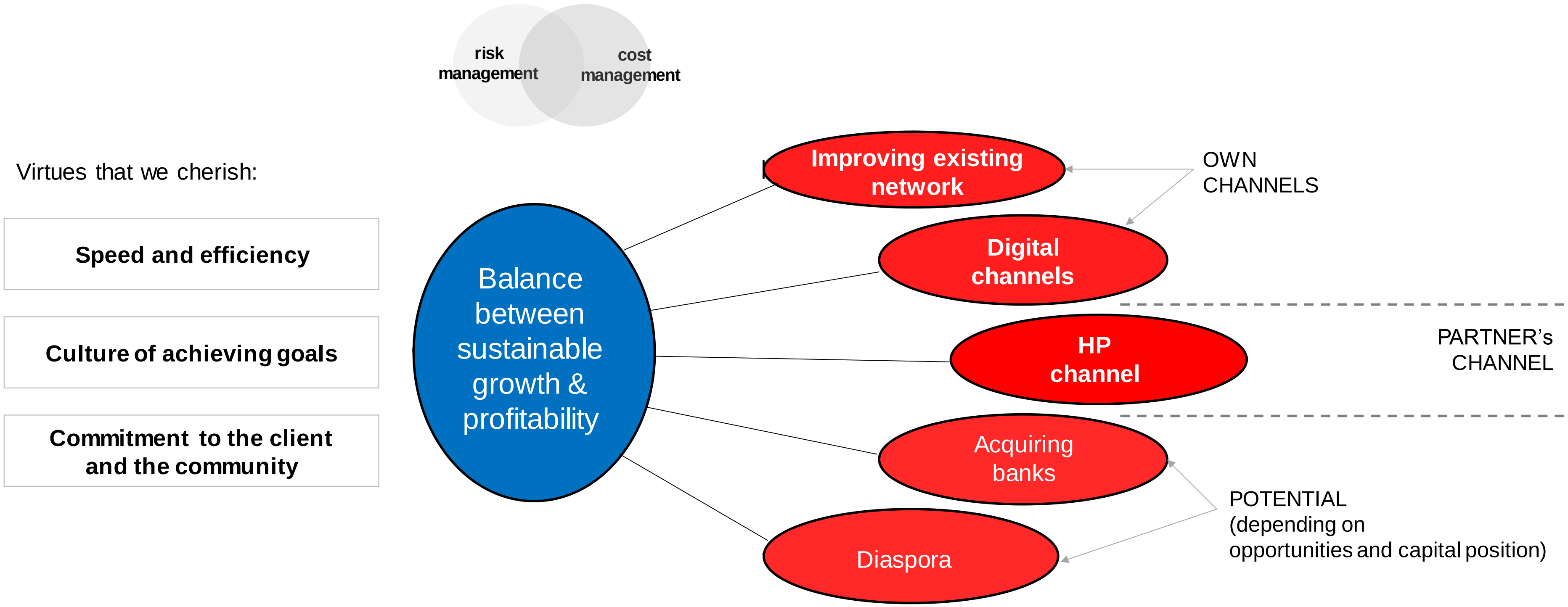
Internal audit prepares the report on work on semi-annual and quarterly basis and submits it to the Management Board, Audit Committee and the Supervisory Board.

The report contains information on the achievement of annual work plan, a summary of the most important facts established during the audits carried out, the recommendations and the status of execution and removal of the recommendations and measures identified during the audit.
ne was carried out in 2016.

HPB's development plan

Republic of Croatia is our owner, and her citizens and business entities are our current and prospective clients, for whom we create value. Group will therefore protect the interests of its shareholders, justify the trust of its depositors and other creditors, and firmly carry out its vision to be the biggest banking group in Croatian ownership which takes care, in the best possible way, about its clients, shareholders and community. Therein, optimal development scenario is determined by balancing sustainable growth and profitability.

Overview of HPB's strategic development guidelines



Our goal is to **modernize the physical branch network**. Certain steps in that direction have already been taken, like reconstruction activities on the basis of domestic design, material and products. Apart from the renovation, we will continously be improving brach locations based on demand and user frequency.

Digitalization becomes the way of corporate life. It enables institutions to recognize clients' needs better, and to decrease costs. New era requires thorough change of the way of thinking, relationship towards expenses and ways of communication. We invest considerable endeavours to adequatly respond to challenges of this new era.

HP - Hrvatska pošta d.d. and good long standing cooperation with HP represent the biggest differential of HPB. Potential from this cooperation is only partially utilized. HP and HPB are intertwined on contractual, IT and ownership basis, which is to serve as the foundation for creating the biggest branch network for financial proct offering in Croatia, and in addition postmen interaction with prospective clients is an opportunity as well.

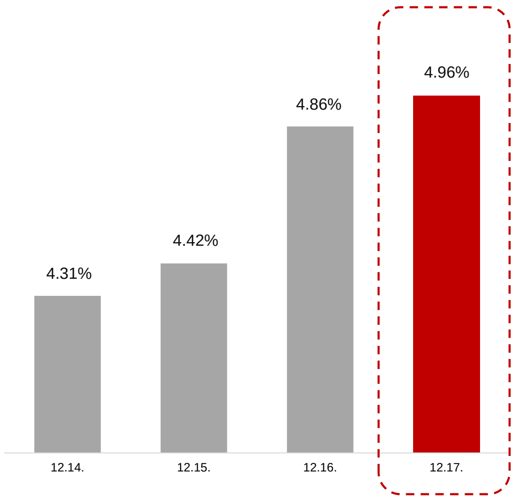
Bank's plans are partially based on organic growth. However, depending on opportunities on the market, and in line with bank consolidation trends in Croatia and abroad, we will assess commercially justifiable **acquisitions of smaller banks**, with regard to capital and shareholders support.

Demographic trends are inexorable. In this regard, **diaspora** represents increasing potential as the number of citizens in our motherland declines. Bank could therefore offer its services to users working abroad, and their families in Croatia. Accordingly, we are prepared to develop a special pallette of loan and deposit, and transactional banking products.

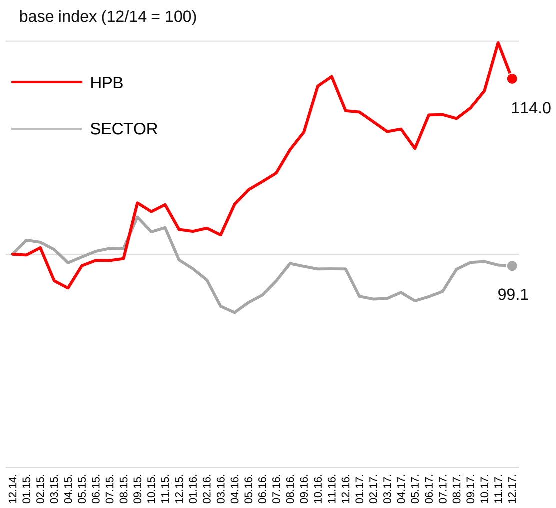
Operating cotext in which we operate is characterized by increasing client needs. vni kontekst u kojem poslujemo karakteriziraju sve veće potrebe klijenata. **Dedication to clients**, increase in service and product quality is our core corporate value – we take care about clients real well being and their needs, while having in mind they are demanding, protected, informed and price sensitive. Transparency and doing business in good faith is our priority.

Over the course of last couple of years, HPB grows significantly quicker than the market average. Market share growth in line with potential remains our goal in the future – especially in retail, SME and local government segmens. Competition affects the price of products and services, but this only contributes to efficiency and quality improvements. Quality service with fair price paves the way towards new clients, with growth being the reflection of quality work.

HPB market share



HPB and credit institutions' assets movement



Sector data: HNB, www.hnb.hr ('agregirana mjesečna statistička izvješća kreditnih institucija' for periods 12/14 – 12/17)

Our strategy is based on human, financial and intelectual capital.

HUMAN CAPITAL	FINANCIAL CAPITAL	INTELECTUAL CAPITAL
• our employees are our greatest comparative advantage in achieving the strategy • in order to create shareholder value and value to the community, we invest in development of current staff and selection of outside experts	• funding entrusted to us by our owners are valuable, and essential for compliance with all legal limits • our reponsibility is to achieve adequate and sustainable returns for our shareholders	• extreme efforts are made to develop new services, to actively manage pricing policy, to optimize business processes, in order to adjust to times we are living in, and to meet refined needs of our clients • state-of-the-art IT infrastructure

Large Companies and Public Sector

Strategic focus of the Large companies an Public Sector includes intensive expansion of cooperation with existing and acquisition of new clients based on the best banking practices. A special emphasis will be on equalizing commercial opportunities and the Bank's need to follow its conservative risk management approach. The ultimate goal is to ensure a moderate long-term growth without exposure to potentially damaging situations.

At the end of 2017, with the new reorganization, the Sector is primarily in charge of business with large clients, the central government and local government units and their affiliates.
The aim of this approach is to create special sales and client relationship model which will satisfy clients' needs and expectations in the best possible manner. This will put an emphasis on the Bank's ability to create optimum combinations of commercial returns for given risk portfolios related to each group of clients.

At the same time the Bank will performs further sector specialization in order to increase quality of the whole business relationship with clients. It will also take into account a maximum credit exposure to certain sectors in accordance with sectoral macroeconomic indicators.

Targeted acquisition groups of clients are all prudential clients with transaction accounts and stable business relationships with other banks –, large companies, government and local units. Segmentation approach will offer the best solution for new clients and maintain security for the purpose of risk management.

Using different acquisition tools (clients’ basis, selling actions etc.) will enable access to new clients and relationship expansion with existing clients. The Bank plans to fully coordinate quality of credit process, authorization powers for certain products and clients, as well as products with high-level of flexibility. Automation and digitalization are fully embraced trends which helps create modern sales infrastructure. Development processes are in progress and in the following period a number of automatic mobile services will be introduced. This enables the Bank to do corporate business in a faster and simpler manner with quality long-term business relationship management.

Of the main focuses will remain in expanding business cooperation and lending to clients and sectors which contribute the most to the national GDP- manufacturing, exporters, processing industry and energy production. Due to quality risk management it is necessary to make individual approach for each client in order to evaluate its financial strength, sector growth potential and specifics of the corporate business transaction.

In order to achieve the best market position, offer the best service and optimize revenue, corporate business will take an opportunity to develop cooperation with strategic partner Hrvatska Pošta . especially in increasing the number of clients from local government and administartion units and related companies. Substantial potential of Hrvatska Pošta's distribution channel offers an opportunity for increasing sales of products and services, primarily in payments and card products which will have an impact on noninterest income.

The Bank will keep developing cooperation with FINA as one of the most dominant partners when it comes to total payments and revenue. We are preparing activities aimed at improving cash management business, increasing 24/ 7 safes, and cash manipulation of large companies which have deposit needs. Special attention will be given to improving over-the-counter business for the Bank clients in FINA through mutual projects which should enable easier cash disposal after making payments in FINA locations.

On the deposit front the emphasis will be on expansion of transaction business with large companies but also on maintaining relationships with government and public companies, local government units and their companies. At the same time we will take into count optimum ratio of interest expense and the Bank's liquidity needs. On this front high interest rates have been constantly adjusting without consequences for total deposits balance. The Bank has been recognized as a trustworthy partner in corporate business which keeps new inflow of term and demand deposits.

In the following period macroeconomic changes, stabilization and sustainability of economic recovery will lead to higher investment activity and loan demand. In order to satisfy the market demand the Bank established a new organizational unit specializing in project financing within the Sector, and in the forthcoming period it is expected that it will team up with staff who have the necessary specialist knowledge to provide the required level of quality to clients and expertise in project evaluation, process improvement and introduce new and improve existing financing products.

Significant step forward in providing customer services is the establishment of an EU desk that aims to provide all services to clients related to this topic. For this purpose it is essential to develop credit and guarantee products. Cooperation with consultants for EU funds, external agencies and government bodies will be ensured.

The Bank's ambition is to remain a safe partner to clients which will use the Bank's expertise for improving their businesses. The Bank aims to achieve a sustainable profitability growth with low risk levels of credit portfolios. These will be key business guidelines in the future period which ensures Hrvatska Poštanska Banka to become one of the leading credit institutions in Croatia.

SME segment

Hrvatska poštanska banka is becoming more and more successful in positioning itself as the bank for SMEs. In order to achieve specialization, SME Division was formed at the end of 2017. This paved the way for better quality of services to SMEs because of their position as the main drivers of economic growth in Croatia.

Strategic emphasis of newly formed SME Division is to achieve long term sustainable growth and to increase HPB's market share. Division's goal is to facilitate access to financial and other instruments for SMEs, so that favourable growth rates would be sustained and highest EU standards would be achieved. Improved access to financing for SMEs in all phases of their development requires the alignement of funding and business model with current needs of entrepreneurs.

Aiming to making it easier for entrepreneurs to do business, to decrease administration and to lower costs, HPB has enabled its clients to do business without stamp since July 01 2017. By introducing simpler way of doing business, including abolition of use of stamps, HPB is supporting Government's efforts fo create modern business environment and to achieve cost cuts in public and private sector.

Taking into account that market conditions, business environment and legislative framework are changing continuously, rapid adaptability and innovation are of utmost importance for client retention and acquisition.

Creating environment for easier and favourable business activities, uplifting entrepreneurship, encouraging investment and innovation, Bank has embraced digitalization trends in order to keep up with world trends and to create up-to-date sales infrastructure.

Hrvatska poštanska banka actively tries to optimize business processes and to introduce digital technological solutions. Technological solutions are integrated in Bank's products and generate added value to clients via easier and quicker business activities.

HPB app for mobile banking won the MIXX -Best Tech& Innovation prize for best mobile app. We will continue to improve this service.

Users who access net-banking service for corporate entities via card or USB device can now login via Mozilla Firefox or Google Chrome, apart from Internet Explorer.

New web page design was introduced in 2017, with improved functionality, structure and content of the web pages aimed at achieving mutual communication with the clients.

In future periods, after macroeconomic trends having changed and stabilized, and through consistency of economic recovery, we expect greater investment activity and demand for funding. In order to adequatly respond to greater demand, Bank is ready to carry out additional organizational adjustments, process improvements and introduction of new and improvement of existing loan products.

Aimed at encouraging and developing stronger entrepreneurship initiative, HPB actively cooperates with HAMAG BICRO, Croatian Bank for Reconstruction and Development, various ministries and local government units, as well as with EBRD and EIB in specific loan programmes in order to make favourable funding available to our clients.

Cooperation with European bank for reconstruction and development (EBRD) has brought us a financial package of EUR 10 million dedicated to funding SMEs, women in business and energy efficiency projects.

European investment bank (EIB) and (HPB) have signed the Agreement on financing amounting to EUR 20 million. Credit line is aimed at SMEs – companies having under 250 employees and mid-capitalized segment (MidCap) with 250 to 3,000 employees.

Cooperation with Croatian Agency for SMEs and Investments (HAMAG-BICRO) has enables us to have various guarantee programmes in our offer, aimed at encouraging SME business. We also take part in carrying out the financial instruments co-financed from European fund for regional development within Operational programme 'Competitiveness and cohesion' (ESIF – individual guarantees).

Hrvatska poštanska banka has taken part in new HAMAG-BICRO Guarantee programee „Poljoprivrednici“ in 2017. This should make access to funding easier for small enterprises which are investing in agricultural industry.

Hrvatska poštanska banka offers comprehensive financial solutions for entrepreneurs. These solutions are tuned by specific industries, with targeted offer of products and services at industries that contribute to GDP growth. Specialized approach should contribute to increasing quality of client relationship. Accordingly, we created special offer of products and services for entrepreneurs in tourism and agriculture industries.

Strategic guideline for following period is to strongly differentiate the portfolio in a way that SMEs and micro clients increase their share. This will ensure that the Bank is more flexible in portfolio management via smaller concentration and balanced growth.

In order to achieve stronger market position, and to provide our clients with the best service possible and to optimize revenue, SME Division will strive to utilize further possibilities of cooperation with HP Hrvatska pošta, as the strategic partner for transactional services and card business via HP's distribution channel.

Bank will continue to develop its business relationship with FINA as one of the most prominent partners in the field of payment operations. Special focus will be put on over-the-counter services that are provided to Bank's clients at FINA's tellers, through joint projects which should enable the clients easier disposal of their funds after depositing at FINA locations.

Cooperation in the field of cash management is realized through our parther FINA gotovinski servisi d.o.o., who apart from transporting value shipments, performs cash receival, processing, safekeeping and transmission of cash on behalf of the Bank, for its clients. Further strengthening of cooperation is planned for future periods.

In deposit business operations emphasis will be put on broadening transaction banking services with micro and SME entities. Bank has already been recognized as a partner by SMEs, who are putting their trust in the Bank through continuous inflow of new term deposits and funds on transactional accounts.
We envisage opportunities for progress in the field of EU funds for entrepreneurship development, funding innovations and exporters, who are recognized as key source of innovations in the economy, owing to their flexibility and dynamics.

Bank's and Division's ambition in SME operations is to be quality and safe partner for clients, and to use its expertise to achieve positive impact on clients' business activities, thereby achieving continuous growth and high level of protection and security of its portfolio. Such concept will be the main guideline in upcoming period, which is aimed at establishing HPB as the leading credit institution for offering quality service for SMEs.

Retail segment

HPB has continued with retail growth trend in 2017, mainly in housing lending and digital product development. This puts great responsibility on our shoulders to maintain planned dynamics in the future. Therefore, Bank will continue to develop new and improve existing offer. Furthermore, as in previous years, we are aiming to diversify client structure by acquisition of younger age groups, and clients with greater salaries, in order to increase cross-selling potential.

HPB is well aware that deposit and loan products are not sufficient, but that it is necessary to follow most important trends and to improve existing products and introduce new ones according to market demand and need, as well as industry trends. Most important products that we plan to introduce are mainly linked with modern trends, apps and digitalization. We are targeting omni-channel distribution. In so doing, we aim to continue with integration of CRM and direct channels.

Network and channel optimization is to remain in contiuous focus.

Significant portion of resources will be directed at process improvements, together with development of sales and reporting applications. Billing process with regard to retail transactional accounts will be suppported by apps, and should have automated reporting. Substantial resources will be dedicated to modernization and optimization of the loan process.

After introducing new model of business cooperation with Hrvatska pošta during previous years, we are oriented on process optimization aimed at improved sales management. Alongside this, we will continue to work on widening the offer, employee education and service improvements for the clients that use banking services in HP externalized network.

Defining the pricing policy remains one of the key activities of all business segments, and retail operations is no exception. Taking into account planned increase in the number of transactional accounts and balances, as well as term deposits, careful and adequate balance between acceptable price for the client and optimal price for the Bank should be targeted, bearing in mind that regulation and legislation is more and more demanding.

Financial markets segment

Financial market activities will primarily be focused on supporting business goals of the Bank with dominant part being in ensuring stability and liquidity, and portfolio management revenue. The Bank will also organize and participate in securities issuances which have potential to partially compensate interest income decline amid lower yields with noninterest revenue.

Securing liquidity and portfolio management with the aim to secure ensure the stability of the Bank's operations and its clients is the most importan aspect of financial markets segment. In the conditions characterized by high liquidity on the domestic market, maintaing an appropriate level of liquid securities bearing adequate yields, and correspondingly – achieving interest income from the portfolio represents a challenge.

Domestic money markets are expected to remain highly liquid throughout 2018, and a low yield environment. The Bank will strive to use every opportunity during seasonal periods of high demand – to intensify trading by combining short-term deposits and repos.

Increase in GDP and inflow from EU funds should increase total volumes of FX trading with corporate clients at least slightly. In order to offset the negative effects of further tightening of the spreads and to accomplish goals set in the business plans, compact cooperation with other business lines is required. In this way, successful management of FX position and targeted volumes and income can be achieved in the area of FX trading activities.

Taking into account ECB's announcement that open market bond purchase programme might end, we expect that EURIBOR rates will stay in negative territory over the majority of the year, putting pressure to buy liquid securities in order to offset costs that are incurred on FX funds that the Bank holds on accounts with foreign banks and with CNB.

On the other hand, since the beginning of 2018, rise in EUR bond yields is evident, making positioning in securities more difficult, owing to expected further rise in yields and consequently – decline in bond prices.

With regard to FX cash exchange business, 2018 brought the end of the declining trend that had been persistent over the course of the last couple of years. This was mainly driven by excellent tourist season in Croatia when majority of the inflow is materialized. Should external shocks be absent, we expect solid profitability to be maintained until Croatia's ascension to EMU.

We expect that problems linked to largest corporate system in Croatia should be solved in 2018, which combined with continued economic growth, should result in higher trading volume on ZSE platform. Investment banking activities will be focused on broadening of the client base and higher revenue from investment banking and custody services.

Risk Management

HPB manages its risks by risk management system comprised of a number of procedures and methods aimed at determining, measuring, monitoring, justifying and management of risks to which HPB is or could be exposed. Risk control system aims at curbing risks and mitigating its unwanted consequences to ensure the Bank's business stability (including meeting all obligations). It is worth to note that even with the best risk management system the Bank or any other credit institution is no table to fully mitigate any business risk. The risk management system is regularly updated (qualitative and quantitative components) and was formed in line with the following principles:

- Defining acceptable levels of risk exposure based on internal individual risk exposure limits and regulatory requirements,
- Continued improvement of procedure for determining, measuring, evaluating and monitoring risks to which the Bank is exposed,
- Continued development of measuring and monitoring risk procedures and methods in line with development of control risk function and development of certain IT support.

HPB by the nature of its business takes risks in business with every client. By taking and managing risks HPB ensures the following:

- Stable and secure growth due to using efficient risk management system,
- Improved risk profile,
- Comprehensive HPB Group management system due to using harmonized methods and procedures by all members of the Group.

Considering the size and complexity of its activities HPB defined substantial risks which are monitored through the risk management system in the most detail:

- Credit Risk,
- Market Risk,
- Liquidity Risk,
- Interest Risk in the Bank’s book
- Operational Risk

Credit Risk

Credit risk assumes loss incurred due to debtor's default. This risk is take by HPB (and all credit institutions) as part of the regular business activities and it makes the single most significant risk.

Therefore the most attention goes to managing credit risks in a form of policies, procedure and other internal documentation.

The goal of credit risk management is to ensure quality credit portfolio, profit and lending growth with maximum returns and acceptable risk/ return ratio, together with risk/ cost ratio.

Credit risk management is organized through:

- The Management Board,
- Authorized committees (Credit Committee) and persons,
- Operating and organizational separation between front and back office activities,
- Risk control function.

Credit risk appetite is determined by internal credit risk limits. For the purpose of credit risk control and management the Bank monitors different risk indicators (e.g. creditworthiness of clients including track record of paying credit liabilities, quality of collateral, capital adequacy, portfolio quality) and makes different estimates (e.g. credit risk estimate before loan approval, loan recoverability estimate).
Credit risk is also related to concentration risk and currency induced credit risk which HPB manages in the same way as it manages credit risk.

Market Risk

- Market risks include position risk, FX and commodity risk.
- Position risk assumes loss due to price change of financial instruments or financial derivatives
- FX risk assumes loss due to change in exchange rate or price of gold
- Commodity risk assumes loss due to price change of commodities.

Market risk management is organized through:

- The Management Board,
- Operating and organizational separation of front and back office trading activities,
- Assets and Liabilities Office,
- Risk control function.

Market risk appetite is determined by internal market risk limits. In order to mitigate market risks the Bank uses certain limits for portfolio, sub-portfolio and instruments (based on its nature). Also there are stop loss limits by each equity classified as assets held for trading.

In measuring and valuing market risk exposure the Bank uses a methodology based on value at risk (VaR) method, duration and PV01 (internal model).

Liquidity Risk

- Liquidity risk assumes loss due to inability to fulfill liabilities at maturity. Liquidity risk is related to the following two risks and the Bank considers them as one for the purpose of risk management:
- Funding Liquidity Risk assumes credit institution's inability to fulfill current and future cash needs or collateral needs without effecting its daily business or financial results
- Market Liquidity Risk assumes credit institution's inability to offset positions or eliminate them at market price due to market disruptions or shallowness.

Liquidity risk management is organized through:

- The Management Board,
- Assets and Liabilities Office,
- The Assets and Liabilities Committee (Liquidity Subcommittee),
- Risk control function,
- Financial Markets Department.

Methodology of measuring, i.e. estimating exposure to liquidity risk is based on the calculation of liquidity coverage ratio (LCR), calculation of structural liquidity montoring and reporting of net stable funding ratio (NSFR) and reporting of additional liquidity monitoring metrics (ALMM).

Liquidity risk appetite is determined by liquidity risk limits. For mitigating liquidity risk there are certain limits related to liquidity coefficient, assets and liabilities maturity mismatch and structural liquidity limits. There are also limits in accordance with the Decision on Mandatory Reserves and Decision on Minimally Required FX Receivables by the CNB.

Interest Risk in the Bank's Book

Interest risk in the Bank's book assumes loss due to changes in interest rates which affect nontrading positions. Managing interest risk in the Bank's book is organized through

- The Management Board,
- The Assets and Liabilities Committee,
- Risk control function.
- Assets and Liabilities Management.

Interest risk appetite is determined by internal exposure limits.

Methodology of measurement of exposure to interest rate risk in the Bank's book is based on internal system of measurement of changes in economic value calculated as the 99th percentile of attributable one-day changes in interest rates over the course of 5 year period scaled to a year lasting 240 days (taking into account the lower bound of simulation of paralel interest rate changes equalling 2 percentage points), for each currency which represents 5 percent or more of Bank's balance sheet. Meanwhile, for other currencies Bank uses simplified calculation of assessed changes in economic value of the Bank's book, as prescribed by CNB's Decision on managing interest rate risk in the bank's book. Exposure to interest rate risk from the profit perspective is also calculated.

For mitigating interest risk in the Bank's book there are certain limits related to change in the economic value of the Bank's book and regulatory capital related to change (decrease) of net interest income.

Operational Risk

Operational risk assumes losses due to inadequate or failed internal processes, human capital or system, or due to external effects including legal risk.

- Operational risk management is organized through:
- The Management Board,
- Structure of operational risk management (Operational risk manager, Support persons for operational risk management, Connection persons),
- Operational Risk Management Committee,
- Assets and Liabilities Committee,
- Corporate Security Office,
- Compliance Office,
- Risk control function.

Methodology of measuring, i.e. estimating operational risk exposure is based on collecting and analyzing data on events due to operational risk, self-assessment of risk and controls, estimated IT risk, results of analysis of business effects taking into count implemented going concern plan and estimation of externalized risks. Also the Bank estimates effect of introducing new products to its risk profile.

The Bank primarily uses measures for mitigating operational risk through internal control system and risk transfer measures (hedge) in cases where applicable. Also there is going concern management system.

Other Risks

Other risks, although evident in the Bank's business, are less important than previously described and their methodology and managing is less complex.

Concentration Risk assumes every single, direct or indirect exposure to one person, group of linked persons or exposure pool interconnected with same risk determinants including same sector, geographical area, business or products, i.e. using techniques to for lowering credit risk, including risks related to indirect credit exposure to same collateral provider which can lead to losses that could jeopardize credit institution's going concern or make material change to its risk profile.

Collateral Value Risk assumes inconvenient market movements of assets used as collateral which will be a collateral trigger and cashed in for receivables collection.

Government Risk assumes government bodies or the central bank will not be able to meet its obligations toward other countries or foreign lenders and that other debtor of the country will not be able to meet their obligation to foreign lenders.

Strategic Risk assumes loss due to wrong business decisions, inflexibility to economic changes etc.

Management Risk assumes loss due to credit institution having limited capacity in forming sophisticated management system, mechanism and controls.

Credit Value Adjustment Risk assumes portfolio value adjustment at mid-market value (this risk is related to all OTC derivatives for all business activities except credit derivatives recognized for reduction of credit risk weighted exposure). Credit value adjustment reflects current market value of counterparty credit risk for the institution but does not reflect current market value credit risk for the counterparty.
The Bank regularly reports on credit value adjustment risk which is not relevant in size for the Bank's business.

Compliance Risk assumes potential measures or sanctions and risk of significant financial loss or reputation loss borne by the institution due to noncompliance with regulation, standards, codices or internal documentation.
Business Risk assumes negative sudden change in business and/ or profit margins which could lead to losses or decrease in the Bank's market value. Business risk can occur if market environment deteriorates substantially or due to changes in competition or consumer behavior.

Legal Risk assumes legal procedures against the Bank due to not meeting legally binding conditions, and business decision which are not applicable or have a negative effect on the Bank's business and financial position.

Regulatory Risk assumes regulation change which can affect the Bank's business and profitability.

Social responsibility

Hrvatska poštanska banka, the largest Croatian-owned bank, is seeking through its socially responsible business operation to raise the standards of social development, encourage others to participate, and contribute to the general well-being of the Croatian society.

HPB encourages the progress of the Croatian society through different activities and projects that involve employee care and investing in their development, operational transparency, expanding availability, supporting the community where it operates in terms of donations and sponsorships, and caring for the environment.

Investing in employee development

Hrvatska poštanska banka continued in 2017 to carry out the activities designated to protect, educate and take care of all its employees.

The Bank takes care of the expertise and education of its employees, supports and promotes lifelong education whereby adding corporate value, and provides each employee with opportunities to acquire required professional competences and regulatory capacities.

In 2017 the employees were actively involved in educational programs through professional counselling, workshops, seminars, conferences, specialised training and language and computer courses in various educational institutions. Using the system of instruction provided by internal trainers, new and existing employees were educated on an on-going basis for individual workplaces and provided with all necessary contents in order to train and prepare them sufficiently for their daily work activities. Internal educations included also the programs via E-Classroom educational portal.

All required educational programs have been systematically implemented and specifically designed for new employees – interns who at the end of education take internship exams based on which their future employment status is determined and they are steered in the direction of business areas where they can achieve the best possible results.

Transparent internal communication

The Bank's employees have been regularly informed of the new developments in the Bank's operations via the internal portal and newsletter “Moja HPBanka”. The Bank’s newsletter has been published in the electronic format four times a year; it follows and reports on important events within the HPB Group, and includes interviews, articles on the employees’ humanitarian efforts, information concerning new employees, special offers and new products of the Bank, and interesting casual topics.

Through the intranet portal all the acts and decisions of the Bank are regularly shared, as well as other news and information relevant for the employees' good quality work. The intranet is the place where the employees may get all important information and instructions related to the Bank's business, opportunities for further training, learn about other organizational units of the Bank, put questions to the Management Board and similar. Each organizational unit has common space on this portal (team page) for sharing contents and other materials required in daily work. The aim of the internal channels is to improve vertical and horizontal communication within the Bank and to ensure that the employees who work all over Croatia may get to know their colleagues. The intranet and the newsletter have been regularly improved and developed so that they can offer more contents and functionalities to the employees; having this in mind, in 2017 the survey of employee satisfaction with the internal communication in the Bank was carried out.

Expanding availability

Through the project “The Bank in the Post” HPB and the Croatian Post became in 2017 the largest distribution channel for basic banking products and services in Croatia with more than 200 branches and offices. In the Financial Corners which operate in the post offices as small-scale bank’s branches an increasing number of HPB’s services may be contracted, including also cash loans. The major value of this cooperation is to get banking services closer to the customers in the smallest places in the country, under the same terms and conditions as in the Bank’s branches.

Financial literacy projects

Seeking to enhance the awareness of the importance of good management of the finances of citizens, enterprises and stakeholders in public sector and political life, Hrvatska poštanska banka carried out in 2017 a series of activities within the financial education project. As a socially responsible institution, HPB promoted through different programs the importance of the financial responsibility and literacy of different groups of customers. In order to improve financial literacy, especially of pupils and students, in the past years the Bank carried out different surveys on the importance of people's timely and inclusive awareness of finance, their understanding of financial risks and sound personal finance management, and presented the results of those surveys to the public.

In order to additionally contribute to financial literacy among citizens, HPB introduced at the end of 2017 educational "Cups of coffee with HPB" in its central branch in Zagreb at Jurišićeva Street. This is the project where in a friendly atmosphere the bankers give tips to customers to help them better manage their money and answer their questions concerning finances.

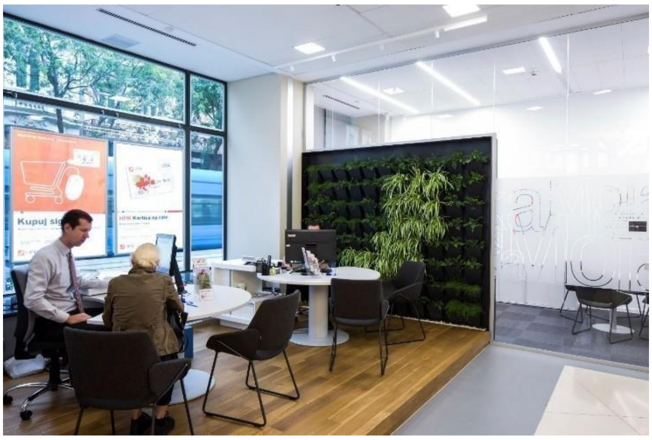
Environmental responsibility

Hrvatska poštanska banka is dedicated to the promotion of the importance of healthy environment and sustainable development. The Bank regards environmental and social sustainability to be the fundamental aspect of achieving the results being in line with its goals and that the projects where environmental and social sustainability are encouraged are among the top priorities. Having this in mind, the Environmental and Social Policy was adopted in 2017, setting forth that environmental and social impacts of the projects financed by the Bank are to be addressed by promoting and encouraging the programs that result in major environmental and social benefits.

Introducing the Green Office Initiative in 2012, Hrvatska poštanska banka has opted to be the institution which soundly and rationally manage energy and waste encouraging ecologically responsible behaviour of its employees, business partners and community where it operates. Among the activities of the Green Office the education of employees plays an important role seeking to diminish negative impact on the environment and to enhance the efficient use of resources in everyday office activities. Education is raising awareness and motivation to change attitude to the consumption of energy and other materials in the offices. Taking such measures, not only the costs and negative impacts on the environment have been reduced, but also the quality of employee work has been better.

Hrvatska poštanska banka has procured the latest environmentally friendly technological equipment, and e-waste has been disposed of in compliance with law provisions and contracts with suppliers.

In 2017, HPB replaced as part of the IT infrastructure renewal a significant part of the central hardware with new and significantly more energy efficient one. Also, primary and secondary data centre was relocated from the Bank's premises to specialised premises for energy efficient and environmental and eco-friendly data centres. One of the top priority projects is speeding up and simplifying the lending process where using IT technology the number of steps will be reduced, as well as the volume of documentation produced in that process. This is only one of the examples of significant digitalization of HPB's processes whereby the transactions carried out with the customers are eased and the consumption of paper, energy and waste is reduced, thereby positively impacting the environment.



Fighting corruption

In compliance with the Anti-Corruption Strategy of Hrvatska poštanska banka for the period from 2015 to 2020, the Bank performs activities referring to the promotion of business integrity and transparency through the improvement of corporate governance, customer relationship and communication, compliance with legislation, improvement of internal control system and control functions, and ethical conduct and behaviour.

As one of the essential elements of keeping business integrity and improving transparency of operations, the Bank has adopted the Grievance Policy regulating the situations where the Bank's employees report potential illegal/unlawful conduct. In 2017 no irregularities were reported either by the customers or the employees.

Seeking to improve customer relationship and communication, the Bank has the Service Quality Management Office which manages customer service quality, continuously taking measures and surveying customer satisfaction and proposing improvements to business areas responsible for service quality improvement. This Office manages also the process of resolving complaints, objections and other requests of the customers.

The Bank is obliged to take measures and carry out activities prescribed by the Anti-Money Laundering and Terrorist Financing Act, and in 2017 it was undertaking in a consistent manner the anti-money laundering and terrorist financing related measures and activities as prescribed by the Act and regulations passed in accordance with the Act, systematically developing and improving the software in the area of money laundering and terrorist financing detection and prevention, and it organized a series of training courses for its employees.

Support to the community

Hrvatska poštanska banka is a socially responsible institution aware of its impact on the environment and it understands that action and business operation in a society involve also constant care and respect for a society. One of the activities whereby the Bank exercises social responsibility is supporting the community through donations and sponsorships.

We support the projects at the local and national levels which encourage the creation of new values, seeking to promote knowledge, sports, excellence and to preserve cultural heritage of our country. Special care is also taken of humanitarian organizations and actions.

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Report on Application of the Corporate Governance Codex

Application of the Corporate Governance Codex

In accordance with article 272.p of Commercial Companies Law the Management Board and the Supervisory Board state that the Bank voluntarily implements the Corporate Governance Codex which was established by Croatian Financial Services Supervisory Agency and Zagreb Stock Exchange („ZSE“). Also, the Bank implemented the Corporate Governance Codex for Commercial Companies in which the Republic of Croatia has shares or stakes which was established by the Croatian Government (Official Gazette 132/ 2017) in the end of 2017.

Constituent part of this Report is Annual Questionnaire for 2017. The questionnaire is also available on the Bank’s website and it reflects corporate management practice used in the Bank in accordance with the recommendation from the Corporate Governance Codex and detailed treatment explanations.

With recommendations of the mentioned codices and in accordance with the credit institutions regulation, the Bank is actively improving its corporate management in line with the Bank’s structure and organization, strategy and business goals, distribution of privileges and duties with a special emphasis on effective procedures for determining, measuring, monitoring and reporting of risks associated with the Bank’s business, as well as setting up corresponding internal control mechanisms.

Description of basic characteristics associated with internal supervision and risk management can be found in the Bank’s business description in the Note 2.

Significant Shareholders and Limited Share Rights

The Republic of Croatia is the most significant shareholder of the Bank with 42.43% stake. Together with Croatian Pension Insurance Institute, Croatian Post, State Agency for Deposit Insurance and Bank Resolution, and NEK Fund the Government controls more than 74% of equity and voting rights.
In line with the Bank’s Statute, voting rights are not limited, nor are there limits for realizing voting rights.

Rules for the Appointment or Removal of the Management Board, Statute Changes and Special Authorizations of the Management Board

In accordance with the Bank’s Statute the Management Board should have at least 2 and no more than 5 members with the Supervisory Board deciding on the number. Members and the president of the Management Board are appointed by the Supervisory Board to a maximum of 5 years, and can be reappointed without time limit. Member of the Management Board must fulfill all the necessary conditions as set by the regulation on the Bank’s business, as well as get the nomination approval by the CNB. The Supervisory Board can decide to remove the president or Management Board members should it have an important reason, while president and members of the Management Board are entitled to make written resignations. The Bank’s Statute can only be changed by the decision of the General Meeting. Decision is approved if voted by ¾ of the equity holders. A proposed Decision on amendments to the Statue is submitted by the Management Board to the Supervisory Board, which is authorized to accept the proposal and submit it to the General Assembly for consideration.

Supervisory Board Members and Activities

The Supervisory Board can have a maximum of 7 members appointed and removed by the General Meeting. Member of the Management Board must fulfill all the necessary conditions as set by the regulation on the Bank’s business, as well as get the nomination approval by the CNB

Supervisory Board’s authorizations are regulated by Commercial Companies Act, Credit Institutions Act and the Bank’s Statute. The Supervisory Board has set up an Audit Committee, Committee for receipts, Nomination Committee and the Risk Committee as supporting bodies.

The Supervisory Board had the following 4 members:

- mr.oec. Marijana Miličević, president
- dr.sc. Željko Lovrinčević, vice president
- mr.sc. Marijana Vuraić-Kudeljan, member

Members of the Supervisory Board of the Bank were appointed at the General Assembly on 30.01.2017. and their mandate began with obtaining the prior consent of the HNB in accordance with the requirements of the ZOKI and on 11 February 2017. and were initially appointed for a period not more than six months. At the General Assembly 29.05.2017. the members of the Supervisory Board were appointed for a period of 4 years after obtaining the prior consent of the HNB, which had previously given consent.

In the period between February 1st 2017 and February 10th 2017. until the beginning of the mandate of the above-mentioned composition of the Supervisory Board, the Supervisory Board acted in accordance with the Decision of the Commercial Court in Zagreb No. R1-395 / 16 dated February 1st 2017. in composition:

- Dražen Kobas, president
- dr.sc. Nada Karaman Aksentijević, vice president
- Niko Raič, member

Members of the Supervisory Board do not own the Bank's shares or any other securities issued by the Bank.

Management Board Members and Activities

Privileges, duties and responsibilities of the Bank's Management Board are described in the Commercial Companies Act, Credit Institutions Act, the Bank's Statute and the Board's Work Regulations. The Board establishes permanent and temporary boards and commissions. The Bank's permanent boards are Credit Board, Assets and Liabilities Management Board and Operational Risk Management Board.

In 2017 the Management Board had 4 following members:

- Tomislav Vuić, president
- Mladen Mrvelj, member
- Domagoj Karadjole, member.

Members of the Management Board do not own the Bank's shares or any other securities issued by the Bank.

Overview of Diversity Policy

In accordance with the Code of Ethics, the Bank appreciates and respects the natural and cultural differences between people. All employees are equal regardless of gender, age, nationality, ethnic origin, religion, language, social and economic status.

All employees have the same opportunity for success in the Bank and their position depends solely on the performance and performance of each individual.

There is no discrimination by sex, age or any other basis in procedure of selecting members of the Management Board, Supervisory Board or other bodies. The Bank has relatively high percentage of female managers, as well as people of different age groups, educational orientation, knowledge and skills and specific work experience. The Bank will keep this policy of gender, age and professional diversity.

Management by Sex	Number 2016	Number 2017	Share 2016	Share 2017
Male	**23**	**24**	**53.50%**	**55.81%**
Female	**20**	**19**	**46.50%**	**44.19%**

CORPORATE GOVERNANCE CODEX

ANNUAL QUESTIONNAIRE

All questions from this questionnaire are related to a period of one business year in line with annual financial reports.

COMMITMMENT TO PRINCIPLES OF CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY

1. Has the company accepted implementation of the code of corporate governance of the ZSE?

YES

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

NO

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

YES

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

YES

SHAREHOLDERS AND GENERAL MEETING

5. Is the company in a cross-shareholding relationship with another company or other companies? (If so, explain)

NO

6. Does each share of the company have one voting right? (If not, explain)

YES

7. Are there cases of different treatment of any shareholders?? (If so, explain)

NO

8. Has the procedure for issuing power of attorney for voting at the general assembly been fully simplified and free of any strict formal requirements? (If not, explain)

YES

9. Has the company ensured that the shareholders of the company who, for whatever reason, are not able to vote at the assembly in person, have proxies who are obliged to vote in accordance with instructions received from the shareholders, with no extra costs for those shareholders? (If not, explain)

NO *There were no such demands.*

10. Did the management or Management Board of the company, when convening the assembly, set the date for defining the status in the register of shares, which will be relevant for exercising voting rights at the general assembly of the company, by setting that date prior to the day of holding the assembly and not earlier than 6 days prior to the day of holding the assembly? (If not, explain)

YES

11. Were the agenda of the assembly, as well as all relevant data and documentation with explanations relating to the agenda, announced on the website of the company and put at the disposal of shareholders on the company's premises as of the date of the first publication of the agenda? (If not, explain)

YES

12. Does the decision on dividend payment or advance dividend payment include information on the date when shareholders acquire the right to dividend payment, and information on the date or period during which the dividend will be paid? (If not, explain)

YES

13. Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the date of decision making? (If not, explain)

YES

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

NO

15. Are the shareholders allowed to participate and to vote at the general assembly of the company using modern communication technology? (If not, explain)

NO *There were no such demands by shareholders.*

16. Have the conditions been defined for participating at the general assembly by voting through proxy voting (irrespective of whether this is permitted pursuant to the law and articles of association), such as registring participation in advance, certification of powers of attorney etc.? (If so, explain)

YES *Due to organizational arrangements of the shareholders' meeting, participation registration is needed while authorizations need to be attested in order to determine valid voting rights.*

17. Did the management of the company publish the decisions of the general assembly of the company?

YES

18. Did the management of the company publish the data on legal actions, if any, challenging those decisions? (If not, explain)

NO *There were no such challenges.*

MANAGEMENT AND SUPERVISORY BOARD

- **PLEASE PROVIDE THE NAMES OF MANAGEMENT BOARD AND FUNCTIONS:**

  Tomislav Vuić, president of the Board

  Domagoj Karadjole, Board member

  Mladen Mrvelj, Board member

- **PLEASE PROVIDE THE NAMES OF SUPERVISORY BOARD AND FUNCTIONS:**

  mr.oec. Marijana Milićević, predsjednik NO

  dr.sc. Željko Lovrinčević, zamjenik predsjednika NO

  mr.sc. Marijana Vuraić Kudelja, član NO

19. Did the Supervisory or Management Board adopt a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board members, regularly and in a timely manner? (If not, explain)

YES

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

YES

CORPORATE GOVERNANCE CODEX

ANNUAL QUESTIONNAIRE

All questions from this questionnaire are related to a period of one business year in line with annual financial reports.

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

YES *According to the Credit Institutions Act, a bank's supervisory board must have one independent member.*

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

NO *The Bank does not have it due to regulation which determines appointment of the president and members of the management boards in companies and other persons in legal entities which are of strategic and special importance to the Government.*

23. Is the remuneration received by the members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company's business performance? (If not, explain)

NO *According to the Shareholders' Meeting Decision compensations to the members of the Supervisory Board are determined by the Government Decision on Compensation to Members of Supervisory Board Members.*

24. Is the remuneration to the members of the Supervisory or Management Board determined by a decision of the general assembly or in the articles of association of the company? (If not, explain)

YES

25. Have detailed records on all remunerations and other earnings of each member of the management or each executive director received from the company or from other persons related to the company, including the structure of such remuneration, been made public (in annual financial statements)? (If not, explain)

NO *Information on Management Baord compensation, other management personnel and linked persons is available in a special note within the annual report in line with the IFRS. Annual reports are available on the Bank's website.*

26. Have detailed records on all remunerations and other earnings of each member of the Supervisory or Management Board received from the company or from other persons related to the company, including the structure of such remuneration, been made public (in annual financial statements)? (If not, explain)

NO *Information on compensation for the members of the Supervisory Board are publicly available on the individual basis in the Shareholders' Meeting Decision which determines compensation for their work.*

27. Does every member of the Supervisory or Management Board inform the company of each change relating to their acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the company 's shares promptly and no later than three business days, after such a change occurs? (If not, explain)

NO *Members of the Supervisory Board do not own the bank's shares.*

28. Were all transactions involving members of the Supervisory or Management Board or persons related to them and the company and persons related to it clearly presented in reports of the company? (If not, explain)

NO *Aggregated data on transactions with linked persons are stated in the annual financial reports which are based on the International Financial Reporting Standards.*

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

YES *Contracts exist as part of the regular business activities.*

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

YES *Yes if authorization is needed.*

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

NO *Aggregated data on transactions with linked persons are stated in the annual financial reports which are based on the International Financial Reporting Standards.*

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

YES

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

YES

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

YES

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

NO *Commission members are also members of the supervisory board but supervisory board according to the Credit Institutions Act needs to have one independent member. Out of all established committee, the audit committee has the most independent members.*

36. Did the committee monitor the integrity of the financial information of the company, especially the correctness and consistency of the accounting methods used by the company and the group it belongs to, including the criteria for the consolidation of financial reports of the companies belonging to the group? (If not, explain)

YES

37. Did the audit committee assess the quality of the internal control and risk management system, with the aim of adequately identifying and publishing the main risks the company is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (If not, explain)

All questions from this questionnaire are related to a period of one business year in line with annual financial reports.

YES

38. Has the audit committee been working on ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit, and with regard to funds at his disposal, and evaluation of the actions taken by the management after findings and internal audit's recommendations? (If not, explain)

YES *Audit Committee monitors efficiency of the internal audit system through individual and quarterly reports and reports on monitoring application of recommendations by internal audit. In accordance with the Credit Institutions Act a person authorized for internal audit control function can be named or replaced solely by the Supervisory Board's approval.*

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

NO *The bank has the internal audit function.*

40. Did the audit committee monitor the independence and impartiality of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company is paying for services provided by external auditors? (If not, explain)

YES

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

YES

42. Did the audit committee prepare rules defining which services may not be provided to the company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (If not, explain)

NO *It is described within the national legislature.*

43. Did the audit committee analyse the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (If not, explain)

YES

44. Was the documentation relevant for the work of the Supervisory Board submitted to all members on time? (If not, explain)

YES

45. Do Supervisory Board or Management Board minutes contain all adopted decisions, together with the data on voting results? (If not, explain)

YES

46. Has the Supervisory or Management Board evaluated their work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?

NO

47. Are detailed data on all earnings and remunerations received by each member of the management or each executive director from the company published in the annual report of the company? (If not, explain)?

NO *Aggregated data on transactions with related parties and the Bank's management are stated in the annual report which are based on the International Financial Reporting Standards.*

48. Are all forms of remuneration to the members of the management, Management Board and Supervisory Board, including options and other benefits of the management, made public, broken down by items and persons, in the annual report of the company? (If not, explain)

NO *See answer 47.*

49. Are all transactions involving members of the management or executive directors, and persons related to them, and the company and persons related to it, clearly presented in reports of the company? (If not, explain)

NO *See answer 47.*

50. Does the report to be submitted by the Supervisory or Management Board to the general assembly include, apart from minimum information defined by law, the evaluation of total business performance of the company, of activities of the anagement of the company, and a special comment on its cooperation with the management? (If not, explain)?

YES

AUDIT AND MECHANISMS OF INTERNAL AUDIT

51. Does the company have an external auditor?

YES

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

NO

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

YES

54. Has the company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (If not, explain)

NO *The auditor audited financial reports of the Bank and its subsidiaries in line with contracted price conditions which is in accordance with its general business conditions. For other services see answer 33.*

55. Does the company have internal auditors

YES

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

CORPORATE GOVERNANCE CODEX

ANNUAL QUESTIONNAIRE

All questions from this questionnaire are related to a period of one business year in line with annual financial reports.

YES

TRANSPARANCY AND THE PUBLIC OF ORGANIZATION OF BUSINESS

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

YES

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

NO *All important events and information are publicly available as soon as the exact dates are determined.*

59. Did the company establish mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it?

YES

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

YES

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

NO

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

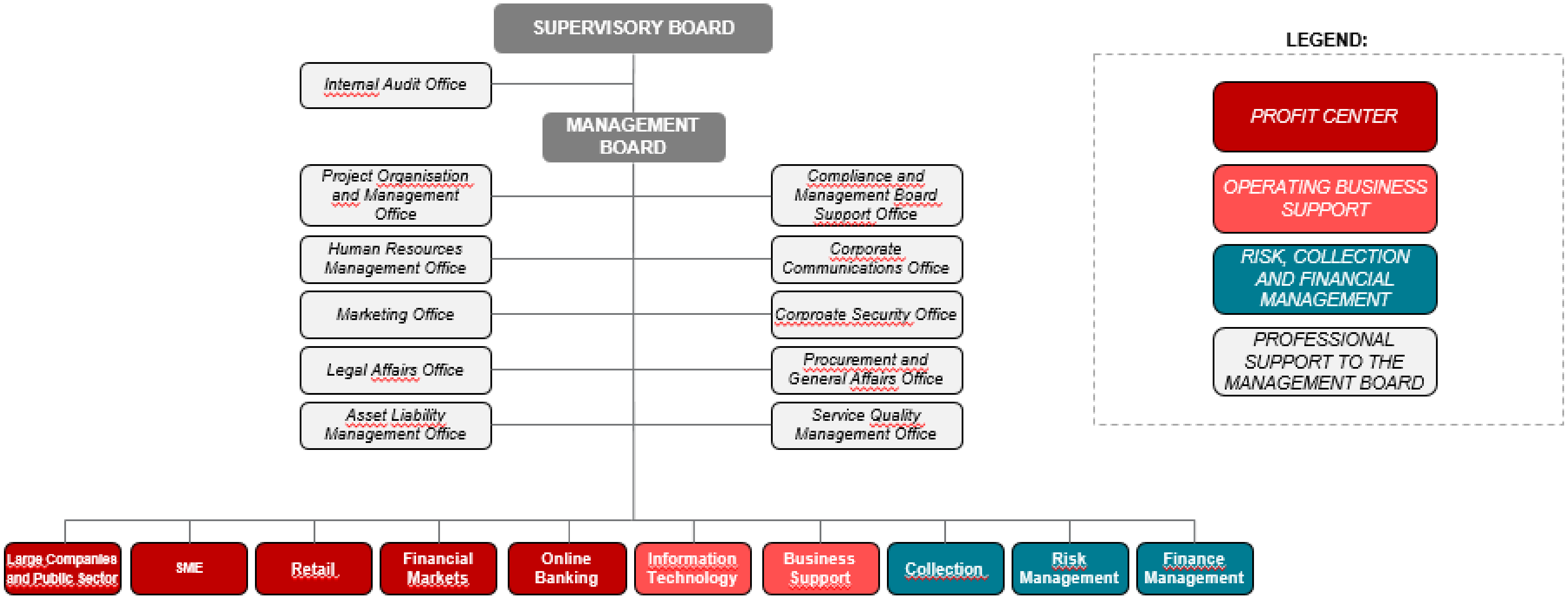
NO *No such meetings were held because recapitalization of the Bank had been postponed.*

63. Do all the members of the management, Management Board and Supervisory Board agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely truthful?

YES

Organizational Scheme of Hrvatska Poštanska Banka p.l.c.

The Bank's business is organized in 21 organizational units – 11 offices and 10 divisions. The Bank's organizational scheme is as follows:



The Bank's organizational unites are divided into 4 basic business areas including:

1. Professional support to the Management Board,
2. Profit centers,
3. Operating business support,
4. Risk, collection and financial management.

Business area functionally and technologically connects certain Bank's organization units to ensure efficient management and business organization.

1. PROFESSIONAL SUPPORT TO THE MANAGEMENT BOARD includes a group of activities which offer professional support to the Management Board in achieving business goals, organization and the Bank's management.

This business area includes:

- Internal Audit Office,
- Compliance and Management Support Office,
- Office for Corporate Communications,
- Office for Organization and Project Management,
- Office for Human Resources Management,
- Marketing Office
- Corporate Security Office
- Office for Quality Service Management,
- Legal Affairs Office,
- Office for Purchase and General Affairs, and
- ALM Office.

The Internal Audit Office is the Bank's organization unit which evaluates internal control and risk management system, compliance function and performs IT audit.

Compliance and Management Support Office is the Bank's organization unit which supports the Bank's bodies, follows regulation, ensures compliance of the Bank's business with regulation and manages the anti-money laundering and terrorism financing system.

Office for Corporate Communications is the Bank's organization unit responsible for corporate communications.

Office for Organization and Project Management is the Bank's organization unit which analyses and improves organization and business processes and manages projects**.**

Office for Human Resources Management is the Bank's organization unit involved in supply, development and rewarding employees. It also regulates legal working affairs with employees and government bodies.

Marketing Office is the Bank's organization unit which prepares and conducts marketing and promotional activities.

Corporate Security Office is the Bank's organization unit which ensures safety of IT, workers and assets.

Office for Quality Service Management is the Bank's organization unit which manages quality of services offered to clients by continuous surveys and research on clients' satisfaction and suggesting improvements on that front.

Legal Affairs Office is the Bank's organization unit involved in legal support to all organization units.

Office for Purchase and General Affairs is the Bank's organization unit involved in asset purchase and management, together with other general affairs.

ALM Office is the Bank's organization unit responsible for managing assets and liabilities, FX positions, market risk and liquidity risk positions**.**

2. **PROFIT CENTER** includes a group of activities which sell the Bank's products and services.

This business area includes:

- Retail Division,
- Large Companies and Public Sector Division,
- SME Division
- Financial Markets Division, and
- Direct Banking Division.

Retail Division is the Bank's organization unit which offers market based banking and financial services to households and coordinates work of retail regional centers, outlets and HP-Hrvatska Pošta as a distribution channel.

Large Companies and Public Sector Division is the Bank's organization unit which offers market based banking and financial services to large corporate clients and public sector.

SME Division is the Bank's organization unit which offers market based banking and financial services to small and medium companies and crafts which conduct independent and permanent economic activity.

Corporate Division is the Bank's organization unit which offers market based banking and financial services to legal persons, natural persons and crafts which conduct independent and permanent economic activity.

Financial Markets Division is the Bank's organization unit which trades in financial instruments on behalf of the Bank, manages liquidity and FX position and offers investment services and activities, together with supplementary services to clients.

Direct Banking Division is the Bank's organization unit which ensures undisturbed functioning and development of direct distribution channels and card business (ATM, POS, WEB, CC, mBanking and eBanking, card business).

3. **OPERATING BUSINESS SUPPORT** includes a group of activities which offer support to sales and the Bank's whole business.

This business area includes:

- Business Support Division, and
- IT Division.

Business Support Division is the Bank's organization unit offering operating support to profit centers and making domestic and FX payments, cash management and supply activities of the Bank's business network and Hrvatska Pošta with cash.

IT Division is the Bank's organization unit offering IT support to all organization units.

4. **RISK, COLLECTION AND FINANCIAL MANAGEMENT** includes a group of activities for risk, collection and financial management.

This business area includes:

- Risk Management Division,
- Collection Management Division, and
- Finance Division

Risk Management Division is the Bank's organization unit which measures, evaluates and controls all the risks the Bank is or could be exposed with an aim of reducing potential exposure to all kinds of risks and ensuring safety and business efficiency.

Collection Management Division is the Bank's organization unit which performs receivables restructuring and activities of early and forced collection.

Finance Division is the Bank's organization unit which manages the Bank's accounting system, performs regulatory reports, financial controls and develops management reporting system.

Human Resources Management in HPB p.l.c.

In 2017 Bank continued with development of positive practice in human resources management in terms with its strategy and corporate values.

Development of innovative digital channels is supported by acquiring new employees with specific skills and experience and also by competence development of existing employees who can succesfully follow digitalization trends in banking and influence on Bank's digital culture development.

Development programs are focused on raising the level of knowlegde and skills of employees, especially in profit centers in order to improve service quality, consumer protection and appropriate risk managment.

By investing in mentorship and internal coaching there was a significant raise in quality and intensivity of internal education.

During 2017. HRIS moduls have been succesfully implemented. They support the work performance management model and employee knowledge and skills management process which is significant consdering that both are influenced by the legal requirements of risk management and consumer protection.

Leadership development programs and managment skills are in focus for all managment levels as well as the process of identifying and evolving Bank's key positon successors.

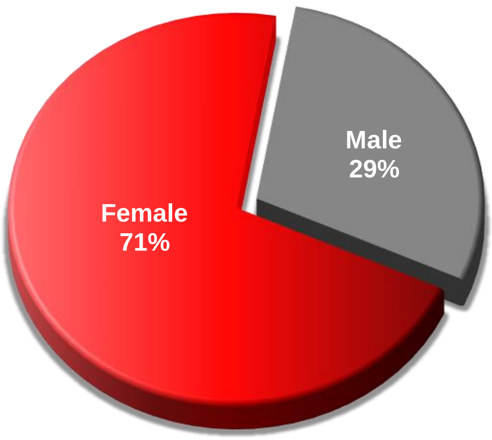
In 2017. Bank has initiated activities in order to renew the Employer Partner certificate.

Number of Employees in the Bank 2014. – 2017.

Number of employees	Dec 31 2014	Dec 31 2015	Dec 31 2016	Dec 31 2017
Based on the Working Hours	**850**	**823**	**833**	**842**
At the end of the Period	**1,084**	**1,067**	**1,067**	**1,122**

All jobs in HPB are located in the Republic of Croatia.

Structure of HPB's Employees by Sex on December 2017.:

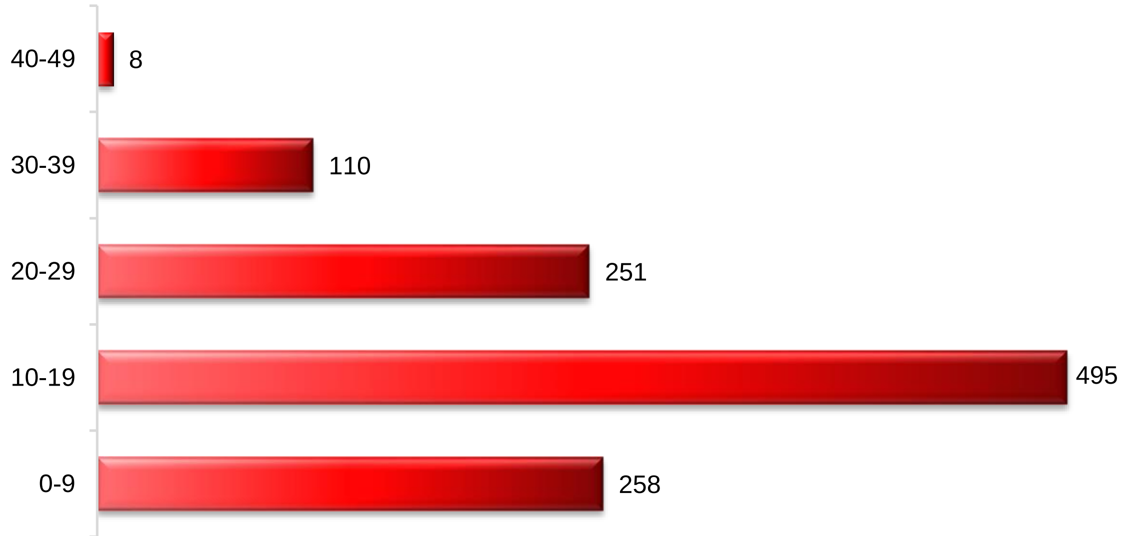


Education and Skills of Employees 2014 – 2017

Employees with undergraduate and graduate qualifications dominate the qualifications structure.

Qualification	Dec 31 2014	Dec 31 2015	Dec 31 2016	Dec 31 2017
Postgraduate/ Doctorate	15	15	16	14
Graduate	436	445	446	475
Undergraduate	170	169	169	187
High School	460	436	435	444
Elementary or Secondary School	3	2	1	1
Total	**1,084**	**1,067**	**1,067**	**1,122**

Number of Employees Based on Years of Service as of December 2017.:



Operations of Subsidiaries

HPB Invest Ltd

HPB Invest Ltd (hereafter „the Company“)is an investment fund management company registered. As of December 31 2017 the Company had 5 open-end investment funds with public offer under management (money: HPB Novčani fond, HPB Euronovčani fond, obveznički: HPB Obveznički fond, mixed: HPB Global fond i dionički fond: HPB Dionički fond).
On December 31st 2017 total assets under management were HRK815M (2016: 773M). Average asstes in 2017 were HRK777M, while in 2016 they were HRK593M. The largest increase in assets was recorded in HPB Obveznički fond.

Structure of the assets under management is as follows:

Fund	Assets under management HRK'000	2017 Return in %
HPB Dionički fond	29,869	-2.52%
HPB Global fond	86,703	2.51%
HPB Novčani fond	350,227	0.10%
HPB Obveznički fond	330,738	4.09%
HPB Euronovčani	17,511	0.00%

At the end of 2017, market share of the Company in total assets of investment funds was 4.41 percent, while in 2016 market share was 4,19 percent. The company thus confirms its ambition and establishes a stable position among the leading investment fund management companies in Croatia.

As of December 31 2017 the Company’s balance sheet was HRK7.8M. In 2016 the Company made net profit of HRK1,590K. At the end of 2017 the Company had 11 employees.

Development Plan

The Company's main activities will remain in the field of professional asset management and high quality of services in order to ensure sustainable return on clients' assets.

Continuing improvement of the Company's development policy will be directed towards continuing professional, human resource, organizational and technological improvements. Together with continuing improvement of the Company's development policy and ever-growing legal and regulatory requirements, the Company will continue to attract clients with long-term attractive pallet of funds and investment products which can satisfy all of their needs differentiated by goals, investment horizon and risk appetites.

Risks Exposure

The Company measures and monitors following types of risks: credit risk, market risk, liquidity risk and operational risk. These risks represent the overall profile of the Company's risk.

The Company has taken a conservative stand on managing its assets by investing exclusively in bank deposits, debt securities, money market instruments and cash funds. For this reason, the Company's risk profile is low risk, ie 1.

At the reporting date, the Company was not exposed to significant market risk and liquidity risk. The majority of the Company's exposure to credit risk at the reporting date is derived from the fair value of the instrument whose positive value on that reporting date is presented in the statement of financial position.

The Company is exposed to operational risk through its regular business operations. The Company manages operational risk by reporting quarterly to the Company's Management Board on events that can qualify as an operational risk for the Company.

Risks that may affect the Company's regular operations are the risk of impaired asset management due to client withdrawal and the risk of impairment of asset under management as a result of the asset's decline.

The Company gives special importance to the internal control system in order to monitor business efficiency, compliance with legal regulation, monitoring and disclosure of risks to which the Company is exposed.

HPB-Stambena štedionica d.d.

HPB-Stambena Štedionica d.d.(hereafter: “the Savings Bank“) is a credit institution which collects long-term savings with a purpose to resolve housing needs of depositors. Furthermore, it approves housing loans bearing fixed interest rates and with state subsidies.

Growth in credit activity was recorded in 2017 compared to 2016 (2.9%) with lower interest rates for interfinancing and regular loans. Deposits have continued on the positive trend (+7.8%) from 2016. During 2017 the Savings Bank had brokered 8.912 new housing savings contracts with HPB being the primary sales channel. Contracts are also available in Hrvatska Pošta and the Savings Bank's headquarters.

Value of the total housing loans at the end of 2017 was HRK168.8M which is HRK5.3M more than a year before.

Value of total housing deposits was HRK302M which is HRK21.9M more than a year before.

At the end of 2016 the Savings Banks’ total assets amounted to HRK353.3M (2015: HRK331.9M) which is a 6.5% increase in 2017.

The Savings Bank recorded net profit in the amount of HRK315K.

At the end of 2017 the Savings Bank had 18 employees.

Development Plan

On business planning front the Savings Bank plans to make positive effects for the whole HPB Group by strengthening its market position and delivering own results. This is planned to achieve by constant cooperation improvement with HPB.

Risk Exposure

Risk management system of the Savings Bank is accomplished by internal risk management acts, through organizational structure with clearly defined responsibilities and authorizations with regard to risk management, through risk management process and through effective internal control system. The Savings Bank expresses its risk tolerance by defining targeted risk profile, while taking into account all demands impacting adequacy of available regulatory capital.

The most important risks to which the Savings Bank is exposed are non-trading book interest rate risk, liquidity risk, market risks, credit risk and operational risk.

The Savings Bank is exposed to non-trading interest risk in the amount of which interest-bearing assets or liabilities mature or change interest rates. Most of the interest-bearing assets and total interest-bearing liabilities have fixed rates which require special attention.

The Savings Bank is exposed to credit risk by lending and investments. Individual credit risk assessment ensures loans to customers are provided in line with the clients' creditworthiness, quality and value of their collateral and credit history.

Liquidity risk management includes operating management of daily liquidity, operating short-term liquidity management and structural liquidity management.

Determining and evaluating operational risk is done by collecting and analyzing internal dana on events due to operational risk, self-assessment of operational risk and quality of controls, assessment of externalization risks, IT risk and analysis of resource unavailability effect on critical processes within going concern management.

The Saving Bank's risk exposure during the whole year was in line with regulatory limits.

HPB-nekretnine ltd

HPB Nekretnine d.o.o. (hereafter "the Company") is a company specialized in real estate business which started its business activities in August 2005, and is fully owned by the Bank. Shareholders' equity amounts to HRK0.5M.

Primary business activities of HPB Nekretnine are real estate value estimation, advisory services, project development and real estate transactions.

As of December 31 2017 balance sheet of HPB Nekretnine amounted to HRK 9.96M, with net profit of HRK 860.2K. At the end of 2017 the Company had 11 employees.

Development Plan

In the upcoming period focus will be on the active market promotion and on further improvements in quality of services rendered. The Company's business and development policy will be built on expected rise in market demand for specific services which the Company offers, as well as for testing market potential for new consulting and engineering services, which the Company is equipped to offer. The Company should therefore contribute to Group becoming more recognizable, and a synergy effect will be accomplished.

Risks Exposure

Most significant types of risk that the Company is exposed to are: market and liquidity risk. Market risk takes into account that demand volume for specific services offered by the Company is difficult to foresee, especially appraisal of property. Linked directly to this is the liquidity risk due to high share of these services in the Company's overall offer. The Company manages its risks according to prescribed policies and procedures of HPB described in Note 2.

The Company owns 2 real estates, in Osijek and Vinkovci. Vinkovci real estate poses business risk since the ownership gives 357/ 900 share in dilapidated commercial building with total area of around 10,000 sqm. In the future period a complete reconstruction may be needed and it assumes substantial investment amount relative to the Company's business volume.
On January 17, 2018, a smaller part of Vinkovci property was sold, with a surface area of 111.23 m2 (out of a total of 3.508 m2), registration of land sales is under way.

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Responsibilities of the Management Board for the Preparation and Approval of the Annual Financial Reports

Management Board is accountable for preparation of consolidated and unconsolidated financial reports of Hrvatska Poštanska Banka p.l.c. (hereafter referred to as: "the Bank" or "Bank") for each financial year. These reports give a true and fair view of financial position of the Bank and of the results of its operations and cash flows, in accordance with applicable accounting standards. The Management Board is also responsible for maintaining proper accounting records needed for preparation of such financial reports at any given time. Also, the Board is responsible for the whole annual report of the Group, together with forms of financial reports constructed in accordance with the CNB Decision on Forms and Contents of Bank Financial Reports (Official Gazette 30/17 and 44/17) which are available in the attachment. The Management Board has a general responsibility for taking available measures aiming to safeguard the Bank's and Group's assets, and to prevent and detect fraud and other irregularities.

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

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank, together with annual financial reports, for acceptance. If the Supervisory Board approves annual financial reports, they are deemed confirmed by the Management and Supervisory Board.

The Management Board is responsible for preparation and contents of the annual report in accordance with the Accounting Act (Official Gazette 78/15,134/15 i 120/16).

Consolidated and unconsolidated financial reports presented on pages 83 to 221, as well as Forms drafted in line with CNB Decision on Forms and Contents of Bank Financial Reports dated March 27 2017 (Official Gazette 30/17), outlined on pages 223 to 227, were approved by the Management Board on March 26 2018 and have been submitted for acceptance to the Supervisory Board. As a sign of confirmation, financial reports are signed by persons authorized for representation, as follows:

Signed on behalf of Hrvatska poštanska banka, p.l.c.

Tomislav Vuić
CEO

Hrvatska poštanska banka
Zagreb
0100000
dioničko društvo

Domagoj Karadjole
Board Member

Mladen Mrvelj
Board Member

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SWIFT: ESBCHR22

Independent auditor's report

To the shareholders of Hrvatska poštanska banka d.d.

Report on the audit of the separate and consolidated financial statements

Opinion

We have audited the separate and consolidated financial statements of Hrvatska poštanska banka d.d. ("the Bank") and its subsidiaries ("the Group"), which comprise the separate and consolidated statement of financial position as at 31 December 2017, the separate and consolidated income statement and the separate and consolidated statement of other comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2017 and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with statutory accounting regulation applicable for banks in Croatia.

Basis for opinion

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

Other matter

Separate and consolidated financial statements of the Bank and the Group for the year ended 31 December 2016 were audited by another auditor who expressed unmodified opinion on those separate financial statements on 12 April 2017 and expressed a modified opinion on those consolidated statements on 12 April 2017 as was unable to assess whether there is a need for adjustment in respect of ability of subsidiary H1 Telekom d.d. to remain going concern and of its ability to repay its liabilities in the consolidated 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 separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.
We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

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Impairment allowance of loans and advances from clients

Credit impairment is a highly subjective area due to the level of judgement applied by management in determining impairment allowances for individually significant exposures.

The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, and expected net selling prices of collaterals. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions.

Our work covered impairment of both Retail receivables and Receivables from corporate counterparties. The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from estimates of future cash flows and realizable value of collateral, which are unsecured or are subject to potential collateral shortfalls. Judgement is applied to determine appropriate parameters and assumptions used to calculate impairment.

Due to the significance of loans and advances from clients (representing 56% of Total assets of the Bank and 55% of Total assets at the Group level) and the related estimation uncertainty, this is considered a key audit matter.

Our work covered impairment of both Bank's and Group's Receivables from corporate counterparties and Receivables from Retail clients which are being individually assessed (as opposed to small clients portfolio which is collectively assessed based on past due days).

We assessed the design and tested the operating effectiveness of the controls over individual impairment calculations of the Bank's and the Group's portfolio including the quality of underlying data and systems.

We focused on the measurement of impairment of individually significant credit exposures, including the assessment of whether historic experience is appropriate when assessing the amount of incurred losses in the portfolios. In addition, we also focused on individually significant exposures that are not individually impaired, however, either continued to be, have become, or were at risk of being individually impaired.

We assessed the criteria for determining whether an impairment event had occurred and tested a sample of performing loans with characteristics that might imply an impairment event had occurred (including customers experiencing financial difficulties or clients with overdue debts for higher number of days for which impairment loss was not recognized) to assess whether all impairment events had been properly and timely identified by management. For a sample of individually impaired credit exposures within the individually significant clients' portfolio we tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. This included taking into consideration the impact of forbearance as well as the latest developments at the borrower.

We also assessed whether the separate and consolidated financial statement disclosures appropriately reflect the Bank's and the Group's exposure to credit risk and are compliant with the statutory accounting regulation as applicable for banks in Croatia. Refer to Note 2.1 Credit risk for further details.

Building a better working world

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Other information included in The Bank's and the Group's 2017 separate and consolidated Annual Report
Management is responsible for the other information. Other information consists of the information included in the separate and consolidated Annual Report which includes the Management report and Corporate Governance Statement, other than the separate and consolidated financial statements and our auditor's report thereon. Our opinion on the separate and consolidated financial statements does not cover the Other information including the Management report and Corporate Governance Statement.

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

With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management report for the 2017 financial year are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

2.the enclosed Management report for 2017 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

3. Corporate Governance Statement, included in the Bank's and Group's separate and consolidated Annual Report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Bank's and Group's separate and consolidated Annual Report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

In addition, in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report, Corporate Governance Statement and separate and consolidated Annual report. We have nothing to report in this respect.

Responsibilities of management and Audit Committee for the separate and consolidated financial statements
Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with statutory accounting regulation as applicable for banks in Croatia, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and the Group'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 and Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Bank's and the Group's financial reporting process.

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Erste & Steiermärkische Bank d.d.
Jadranski trg 3A, 51000 Rijeka, Hrvatska / Croatia
IBAN: HR3324020061100280716
SWIFT: ESBCHR22

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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 separate and consolidated 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 separate and consolidated 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 and the Group'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 and the Group'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 separate and consolidated 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 and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the separate and consolidated 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.

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Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Bank and the Group by the General Assembly on 29 May 2017 and our uninterrupted engagement has lasted for 1 year.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank and the Group, which we issued on 26 March 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Bank and its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Bank and its controlled undertakings in European Union and which have not been disclosed in the separate and consolidated financial statements.

Report on Regulatory requirements

In accordance with the Bylaw on the structure and content of the annual financial statements (National Gazette no 30/17, 44/17) (hereinafter "the Bylaw") the Bank's management has prepared forms which are presented on pages 223 to 235, and which contain a balance sheet as at 31 December 2017, profit and loss account, statement on other comprehensive income, statement of changes in equity and cash flow statement for the year then ended together with reconciliation with the separate and consolidated financial statements of the Bank and the Group ("financial information"). This financial information is the responsibility of the Bank's management and is, pursuant to statutory accounting regulation as applicable to banks in Croatia, not a required part of the separate and consolidated financial statements, but is required by the Bylaw.
Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited separate and consolidated financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited separate and consolidated financial statements of the Bank and the Group which were prepared in accordance with statutory accounting regulation as applicable for banks in Croatia as presented on pages 83 to 221 and are based on underlying accounting records of the Bank and the Group.

The partner in charge of the audit resulting in this independent auditor's report is Zvonimir Madunić.

Zvonimir Madunić
Member of the Board and certified auditor
30. ožujka 2018.
Radnička cesta 50 (Green Gold), Zagreb

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Group

HRK '000	Notes	31.12.2017	31.12.2016 (restated)	01.01.2016 (restated)
ASSETS				
Cash and Amounts Due from Banks	5	3,451,044	1,554,612	1,630,115
Mandatory Reserve with Croatian National Bank	6	1,300,269	1,300,796	1,279,570
Loans and Receivables from Banks	7	113,832	182,087	261,913
Financial Assets at Fair Value through Profit and Loss	8	883,998	1,019,441	1,019,694
Financial Assets Available for Sale	9	2,581,351	2,753,938	2,221,310
Financial Assets Held to Maturity	10	72,417	444,825	571,764
Loans and Receivables from Customers	11	11,141,393	11,554,215	10,298,014
Assets Held for Sale	12	20,000	89,349	7,930
Property and Equipment	14	135,831	140,764	142,236
Investment Property	15	79,832	96,518	9,568
Intangible Assets	16	110,861	107,360	117,010
Deferred Tax Assets, Net	17	34,365	40,729	10,750
Tax Prepayment		460	348	371
Other Assets	18	122,437	400,952	398,952
TOTAL ASSETS		**20,048,090**	**19,685,934**	**17,969,197**
LIABILITIES				
Financial Liabilities at Fair Value through Profit and Loss	19	-	3,641	-
Deposits from Banks	20	399,790	509,133	357,639
Customer Deposits	21	16,807,937	16,024,804	14,493,594
Borrowings	22	672,883	726,660	1,005,383
Provisions for Liabilities and Expenses	23	73,427	60,787	36,723
Corporate Tax Liability		418	58	-
Other Liabilities	24	182,818	467,439	341,903
TOTAL LIABILITIES		**18,137,273**	**17,792,522**	**16,235,242**
EQUITY				
Share Capital	25	1,214,775	1,214,775	1,214,775
Capital Gain	25	-	-	-
Own Shares	25	(477)	(477)	(477)
Reserves for Own Shares	25	4,477	4,477	477
Statutory Reserve	25	15,709	6,161	-
Other Reserves	25	443,030	358,306	358,306
Fair Value Reserve	25	94,257	84,690	82,089
Revaluation Reserve	25	779	839	877
Retained Earnings	25	138,267	224,641	77,908
TOTAL EQUITY		**1,910,817**	**1,893,412**	**1,733,955**
TOTAL LIABILITIES AND EQUITY		**20,048,090**	**19,685,934**	**17,969,197**

The significant accounting policies and other notes on pages 93-221 form an integral part of these financial statements.

Consolidated Income Statement
for the year ended 31 December 2017

	Notes	2017 HRK '000	2016 (restated) HRK '000	2016 (as previously reported) HRK '000
Interests and Similar Income	26	676,898	733,389	733,389
Interests and Similar Expense	27	(139,434)	(213,940)	(213,940)
Net Interest Income		**537,464**	**519,449**	**519,449**
Fees and Commissions Income	28	535,096	508,934	508,934
Fees and Commissions Expense	29	(328,188)	(310,183)	(310,183)
Net Fees and Commissions Income		**206,908**	**198,751**	**198,751**
Gains Less Losses Arising from Securities at Fair Value through Profit and Loss	30	10,472	26,249	26,249
Gains Less Losses Arising from Securities Available for Sale	31	30,213	48,596	48,596
Gains Less Losses Arising from Dealing in Foreign Currencies		38,157	43,408	43,408
Other Operating Income	32	9,213	1,526	10,082
Trading and Other Income		**88,055**	**119,779**	**128,335**
Operating Income		**832,427**	**837,979**	**846,535**
General and Administrative Expenses	33	(415,092)	(409,497)	(409,497)
Depreciation and Amortization	14,15,16	(44,333)	(45,416)	(45,416)
Impairment Losses on Loans and Receivables from Customers and Other Assets	34	(349,416)	(201,293)	(201,293)
Provisions for Liabilities and Expenses	23	(10.426)	(25,384)	(25,384)
Total Expenses and Provisions		**(819,267)**	**(681,590)**	**(681,590)**
PROFIT BEFORE TAX		**13,160**	**156,389**	**164,945**
Deferred Income Tax (Expense)/ Income	35	(5,262)	27,098	25,558
PROFIT FOR THE YEAR		**7,898**	**183,487**	**190,503**

The significant accounting policies and other notes on pages 93-221 form an integral part of these financial statements.

HRK '000	2017	2016 (restated)
Profit for the Year	**7,898**	**183,487**
Other Comprehensive Income		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation Reserve	(73)	(73)
Income Tax Relating to Items That Will Not Be Reclassified Subsequently	13	35
	(60)	**(38)**
Items that may be reclassified subsequently to profit or loss:		
Gains from Financial Assets Available for Sale	18,935	45,506
Sale of Financial Assets Available for Sale	(6,745)	(44,836)
Income Tax Relating to Items That May Be Reclassified Subsequently	(2,194)	1,931
	9,996	**2,601**
Other Comprehensive Gains for the Year	**9,936**	**2,563**
Total Comprehensive Income for the Year, Net of Income Tax	**17,834**	**186,050**

HRK '000	01.01. – 31.12. 2017	01.01. – 31.12. 2016 (restated)
Profit/ (Loss) for the Year	**7,898**	**183,487**
The Bank's Owners	7,898	183,487
Profit/ (Loss) Per Share	***3.90 kn***	***90.66 kn***
From active and discontinued operations:		
Basic (in HRK per Share)	3.90 kn	90.66 kn
Diluted (in HRK per Share)	3.90 kn	90.66 kn

The significant accounting policies and other notes on pages 93-221 form an integral part of these financial statements.

Group	Share Capital HRK'000	Capital Gain HRK'000	Own Shares HRK'000	Reserve for Own Shares HRK'000	Other Reserves HRK'000	Fair Value Reserve HRK'000	Revaluation Reserve HRK'000	Retained Earnings HRK'000	Total HRK'000
Balance at 1 January 2016 (as previously reported)	**1,214,775**	**-**	**(477)**	**477**	**358,306**	**82,089**	**877**	**122.784**	**1.778.831**
Restatement								(44.876)	**(44.876)**
Balance at 1 January 2016 (restated)	**1,214,775**	**-**	**(477)**	**477**	**358,306**	**82,089**	**877**	**77.908**	**1.733.955**
Revaluation Reserve							(73)		**(73)**
Change in the Fair Value of Financial Assets Available for Sale						45,506			**45.506**
Sale of Financial Assets Available for Sale						(44,836)			**(44.836)**
Deferred Tax						1,931	35		**1.966**
Net Profit for 2016 (restated)								183.487	**183.487**
Total Comprehensive Income for 2016	**-**	**-**	**-**	**-**	**-**	**2,601**	**(38)**	**183.487**	**186.050**
Distribution of 2015 Profit									**-**
- Transfer to Statutory Reserves					6,161			(6.161)	**-**
- Trasfer to Reserves of Own Shares				4,000				(4.000)	**-**
- Dividend Payments								(30.762)	**(30.762)**
- Other Changes								4.169	**4.169**
Balance at 31 December 2016 (restated)	**1,214,775**	**-**	**(477)**	**4,477**	**364,467**	**84,690**	**839**	**224.641**	**1.893.412**
Balance at 1 January 2017	**1,214,775**	**-**	**(477)**	**4,477**	**364,467**	**84,690**	**839**	**224.641**	**1.893.412**
Revaluation Reserve							(73)		**(73)**
Change in the Fair Value of Financial Assets Available for Sale						18,935			**18.935**
Sale of Financial Assets Available for Sale						(6,745)			**(6.745)**
Deferred Tax						(2,194)	13		**(2.181)**
Other Changes						(429)			**(429)**
Net Profit for 2017								7.898	**7.898**
Total Comprehensive Income for 2017	**-**	**-**	**-**	**-**	**-**	**9,567**	**(60)**	**7.898**	**17.405**
Distribution of 2016 Profit									**-**
- Transfer to Statutory Reserves and other reserves					94,272			(94.272)	**-**
Balance at 31 December 2017	**1,214,775**	**-**	**(477)**	**4,477**	**458,739**	**94,257**	**779**	**138.267**	**1.910.817**

The significant accounting policies and other notes on pages 93-221 form an integral part of these financial statements.

Consolidated Cash Flow Statement
For the year ended 31 December 2017

HRK '000	Notes	2017	2016 (restated)	2016 (as previously reported)
Cash Flows from Operating Activities				
Profit/ (Loss) Before Taxation		13,160	156,389	164,945
Adjusted by:				
- Depreciation and Amortization	14,15,16	44,333	45,416	45,416
- Foreign Exchange (Gains)/Losses	32	(1,771)	3,874	(4,682)
- Net Impairment Losses on Loans and Receivables from Customers and Other assets	34	349,416	201,293	201,293
- Provisions for Liabilities and Expenses	23	10,426	25,384	25,384
- Net Unrealized Gains on Financial Assets at Fair Value through Profit and Loss	30	(6,940)	(25,655)	(25,655)
Changes in Operating Assets and Liabilities				
Net Increase in Loans and Receivables from Banks		24,661	13,253	13,253
Net (Outflow)/ Inflow from Financial Assets at Fair Value through Profit and Loss		142,383	25,908	25,908
Net Increase in Loans to and Receivables from Customers		237,918	(1,500,963)	(1,500,963)
Net (Increase)/Decrease in Other Assets		85,321	88,969	97,523
Net Increase/(Decrease) in Deposits from Banks		(109,343)	151,494	151,494
Net Increase in Customer Deposits		781,740	1,532,603	1,532,603
Net Increase/(Decrease) in Other Liabilities		(97,157)	5,329	5,329
Net Cash (Outflow)/ Inflow from Operating Activities Before Tax		**1,474,147**	**723,293**	**731,848**
Income Tax Paid		(1,342)	(172)	(171)
Net Cash (Outflow)/ Inflow from Operating Activities		**1,472,805**	**723,121**	**731,677**
Cash Flows from Investing Activities				
Purchases of Property, Equipment and Intangible Assets		(42,719)	(42,415)	(42,415)
Disposal of Financial Assets Available for Sale		469,370	731,876	731,876
Acquisition of Financial Assets Available for Sale		(269,123)	(1,263,834)	(1,263,834)
Maturity of Financial Assets Held to Maturity		188,606	128,028	128,028
Dividends Received		975	827	827
Net Cash Inflow/(Outflow) from Investing Activities		**347,109**	**(445,518)**	**(445,518)**
Cash Flows from Financing Activities				
Dividend Payment		-	(30,762)	(30,762)
Increase in Borrowings		161,450	80,604	80,604
Repayments of Borrowings		(215,227)	(359,327)	(359,327)
Increase in Share Capital		-	-	-
Net Cash Outflow from Financing Activities		**(53,777)**	**(309,485)**	**(309,485)**
Effect of Foreign Exchange Differences on Cash and Cash Equivalents		(4,815)	813	813
Net (Decrease)/ Increase in Cash and Cash Equivalents		**1,761,322**	**(31,069)**	**(22,513)**
Cash and Cash Equivalents at the Beginning of the Year	38	**3,171,169**	**3,202,238**	**3,247,114**
Cash and Cash Equivalents at the End of the Year	38	**4,932,491**	**3,171,169**	**3,224,601**

The significant accounting policies and other notes on pages 93-221 form an integral part of these financial statements.

HRK'000	Notes	31.12.2017	31.12.2016 (restated)	01.01.2016 (restated)
ASSETS				
Cash and Amounts Due from Banks	5	3,451,044	1,554,584	1,630,052
Mandatory Reserve with the Croatian National Bank	6	1,300,269	1,300,796	1,279,570
Loans to and Receivables from Banks	7	113,832	182,087	261,913
Financial Assets at Fair Value through Profit and Loss	8	743,172	874,450	900,943
Financial Assets Available for Sale	9	2,581,351	2,753,938	2,221,310
Financial Assets Held to Maturity	10	72,417	444,825	571,764
Loans and Receivables from Customers	11	10,979,108	11,397,810	10,184,719
Assets Held for Sale	12	20,000	89,349	7,930
Investments in Subsidiaries	13	45,490	45,490	45,490
Property and Equipment	14	135,576	140,622	142,150
Investment Properties	15	70,748	87,209	-
Intangible Assets	16	110,664	107,052	116,850
Deferred Tax Assets, Net	17	33,974	40,281	10,224
Tax Prepayment		460	253	81
Other Assets	18	118,990	267,140	273,509
TOTAL ASSETS		**19,777,095**	**19,285,886**	**17,646,506**
LIABILITIES				
Financial Liabilities at Fair Value through Profit and Loss	19	-	3,641	-
Deposits from Banks	20	399,790	509,133	357,639
Customer Deposits	21	16,552,454	15,772,722	14,291,102
Borrowings	22	672,883	726,660	1,005,383
Provisions for Liabilities and Expenses	23	72,955	60,674	36,592
Tax liability		-	-	-
Other Liabilities	24	173,723	325,606	221,401
TOTAL LIABILITIES		**17,871,805**	**17,398,436**	**15,912,117**
EQUITY				
Share Capital	25	1,214,775	1,214,775	1,214,775
Capital Gain	25	-	-	-
Treasury Shares	25	(477)	(477)	(477)
Reserves for Treasury Shares	25	4,477	4,477	477
Statutory Reserve	25	15,575	6,161	-
Other Reserve	25	443,030	358,306	358,306
Fair Value Reserve	25	94,257	84,690	82,089
Revaluation Reserve	25	779	839	877
Retained Earnings	25	132,874	218,679	78,341
TOTAL EQUITY		**1,905,290**	**1,887,450**	**1,734,388**
TOTAL LIABILITIES AND EQUITY		**19,777,095**	**19,285,886**	**17,646,506**

The significant accounting policies and other notes on pages 93-221 form an integral part of these financial statements.

	Notes	2017 HRK '000	2016 (restated) HRK '000	2016 (as previously reported) HRK '000
Interests and Similar Income	26	662,753	720,255	720,255
Interests and Similar Expense	27	(131,418)	(205,858)	(205,858)
Net Interest Income		**531,335**	**514,397**	**514,397**
Fees and Commissions Income	28	520,964	493,880	493,880
Fees and Commissions Expense	29	(328,837)	(309,110)	(309,110)
Net Fees and Commissions Income		**192,127**	**184,770**	**184,770**
Gains Less Losses Arising from Securities at Fair Value through Profit and Loss	30	12,668	23,587	23,587
Gains Less Losses Arising from Securities Available for Sale	31	30,213	48,596	48,596
Gains Less Losses Arising from Dealing in Foreign Currencies		38,157	43,408	43,408
Other Operating Income	32	11,650	4,507	13,063
Trading and Other Income		**92,688**	**120,098**	**128,654**
Operating Income		**816,150**	**819,265**	**827,821**
General and Administrative Expenses	33	(399,896)	(395,050)	(395,050)
Depreciation and Amortization	14,15,16	(43,868)	(45,053)	(45,053)
Impairment Losses on Loans and Receivables from Customers and Other Assets	34	(349,794)	(200,622)	(200,622)
Provisions for Liabilities and Expenses	23	(10.132)	(25,370)	(25,370)
Total Expenses and Provisions		**(803,690)**	**(666,095)**	**(666,095)**
PROFIT BEFORE TAX		**12,460**	**153,170**	**161,726**
Deferred Income Tax (Expense)/ Income	35	(4,127)	28,091	26,551
PROFIT FOR THE YEAR		**8,333**	**181,261**	**188,277**

The significant accounting policies and other notes on pages 93-221 form an integral part of these financial statements.

	2017 000 kn	2016 (restated) 000 kn
Profit for the Year	**8,333**	**181,261**
Other Comprehensive Income		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation Reserve	(73)	(73)
Income Tax Relating to Items That Will Not Be Reclassified Subsequently	13	35
	(60)	**(38)**
Items that may be reclassified subsequently to profit or loss:		
Unrealized gains from Assets Available for Sale	18,935	45,506
Sale from Financial Assets Available for Sale	(6,745)	(44,836)
Income Tax Relating to Items That May Be Reclassified Subsequently	(2,194)	1,931
	9,996	**2,601**
Other Comprehensive Gains for the Year	**9,936**	**2,563**
Total Comprehensive Income/ (Loss) for the Year, Net of Income Tax	**18,269**	**183,824**

	2017 000 kn	2016 (restated) 000 kn
Profit for the Year	**8,333**	**181,261**
Owners of the Bank	8,333	181,261

The significant accounting policies and other notes on pages 93-221 form an integral part of these financial statements.

Separate Statement of Changes in Equity and Reserves
for the year ended 31 December 2017

	Share Capital HRK '000	Capital Gain HRK '000	Own Shares HRK '000	Reserve for Own Shares HRK '000	Other Reserves HRK '000	Fair Value Reserve HRK '000	Revaluation Reserve HRK '000	Retained Earnings HRK '000	Total HRK '000
Balance at 1 January 2016 (as previously reported)	**1,214,775**	**-**	**(477)**	**477**	**358,306**	**82,089**	**877**	**123,217**	**1,779,264**
Restatement								(44,876)	**(44,876)**
Balance at 1 January 2016 (restated)	**1,214,775**	**-**	**(477)**	**477**	**358,306**	**82,089**	**877**	**78,341**	**1,734,388**
Revaluation Reserve							(73)		**(73)**
Change in the Fair Value of Financial Assets Available for Sale						45,506			**45,506**
Disposal of Financial Assets Available for Sale						(44,836)			**(44,836)**
Deferred Tax						1,931	35		**1,966**
Net Profit for 2016 (restated)								181,261	**181,261**
Total Comprehensive Income for the Year 2016	**-**	**-**	**-**	**-**	**-**	**2,601**	**(38)**	**181,261**	**183,824**
Distribution of 2015 Profit									**-**
- Transfer to Statutory Reserves					6,161			(6,161)	**-**
- Transfer to Reserves of Treasury Shares				4,000				(4,000)	**-**
- Dividend Payments								(30,762)	**(30,762)**
Balance at 31 December 2016 (restated)	**1,214,775**	**-**	**(477)**	**4,477**	**364,467**	**84,690**	**839**	**218,679**	**1,887,450**
Balance at 1 January 2017	**1,214,775**	**-**	**(477)**	**4,477**	**364,467**	**84,690**	**839**	**218,679**	**1,887,450**
Revaluation Reserve							(73)		**(73)**
Change in the Fair Value of Financial Assets Available for Sale						18,935			**18,935**
Disposal of Financial Assets Available for Sale						(6,745)			**(6,745)**
Deferred Tax						(2,194)	13		**(2,181)**
Other Changes						(429)			**(429)**
Net Profit for 2017								8,333	**8,333**
Total Comprehensive Income for the Year 2017	**-**	**-**	**-**	**-**	**-**	**9,567**	**(60)**	**8,333**	**17,840**
Distribution of 2016 Profit									**-**
Transfer to Statutory Reserves and Other reserves					94,138			(94,138)	**-**
Balance at 31 December 2017	**1,214,775**	**-**	**(477)**	**4,477**	**458,605**	**94,257**	**779**	**132,874**	**1,905,290**

The significant accounting policies and other notes on pages 93-221 form an integral part of these financial reports.

	Notes	2017. HRK '000	2016. (restated) HRK '000	2016. (as previously reported) HRK '000
Cash Flows from Operating Activities				
Profit Before Taxation		12,460	153,170	161,726
Adjusted by:				
- Depreciation and Amortization	14,15,16	43,868	45,053	45,053
Foreign Exchange Gains	32	(1,747)	4,100	(4,456)
- Impairment Losses on Loans and Other Assets	34	349,794	200,622	200,622
- Provisions for Liabilities and Expenses	23	10,132	25,370	25,370
- Net Unrealized (Gains)/ Loss on Financial Assets at FVPL	30	(9,142)	(23,228)	(23,228)
Changes in Operating Assets and Liabilities				
Net Decrease in Loans to and Receivables from Banks		21,461	13,253	13,253
Net (Increase) in Financial Assets at FVPL		140,420	49,721	49,721
Net (Increase)/ Decrease in Loans to Customers		243,634	(1,478,186)	(1,478,186)
Net (Increase)/Decrease in Other Assets		84,493	(10,131)	(1,575)
Net (Decrease)/Increase in Deposits from Banks		(109,343)	151,494	151,494
Net Increase/ (Decrease) in Customer Deposits		779,732	1,481,620	1,481,620
Net Increase/(Decrease) in Other Liabilities		(96,010)	106,558	106,558
Net Cash (Outflow)/ Inflow from Operating Activities Before Tax		**1,469,752**	**719,416**	**727,972**
Income Tax Paid		(207)	(171)	(171)
Net Cash (Outflow)/ Inflow from Operating Activities		**1,469,545**	**719,245**	**727,801**
Cash Flows from Investing Activities				
Purchases of Property, Equipment and Intangible Assets		(42,434)	(42,034)	(42,034)
Disposal of Financial Assets Available for Sale		1,440,049	731,875	731,875
Acquisition of Financial Assets Available for Sale		(1,239,801)	(1,263,834)	(1,263,834)
Maturity of Financial Assets Held to Maturity		188,606	128,028	128,028
Dividends Received		4,175	4,327	4,327
Net Cash Outflow from Investing Activities		**350,595**	**(441,638)**	**(441,638)**
Cash Flows from Financing Activities				
Dividend Payments		-	(30,762)	(30,762)
Increase in Borrowings		161,450	80,604	80,604
Repayments of Borrowings		(215,227)	(359,327)	(359,327)
Increase in Share Capital		-	-	-
Net Cash Inflow from Financing Activities		**(53,777)**	**(309,485)**	**(309,485)**
Effect of FX Differences on Cash and Cash Equivalents		(4,982)	813	813
Cash and Cash Equivalents at the Beginning of the Year		**1,761,381**	**(31,065)**	**(22,509)**
Cash and Cash Equivalents at the End of the Year	38	**3,171,110**	**3,202,175**	**3,247,051**
Cash Flows from Financing Activities	38	**4,932,491**	**3,171,110**	**3,224,542**

The significant accounting policies and other notes on pages 93-221 form an integral part of these financial reports.

1. SIGNIFICANT ACCOUNTING POLICIES

Hrvatska Poštanska Bank P.L.C. Zagreb is a joint stock company incorporated and domiciled in the Republic of Croatia, Jurišićeva 4, Zagreb. The Bank is the parent of the Hrvatska Poštanska Bank Group (“the Group).

The Bank has control over following subsidiaries that make the HPB Group:

	Industry	State	Ownership as of 31 December 2017 %
HPB Invest d.o.o.	Investment Funds Management	Croatia	100,00
HPB Nekretnine d.o.o.	Real Estate Agency and Construction	Croatia	100,00
HPB Stambena Štedionica d.d.	Savings Bank	Croatia	100,00

In addition to investments in subsidiaries, the consolidated financial position as at 31 December 2016 included the subsidiary H1 Telekom d.d. which was classified as an investment held for sale in accordance with IFRS 5: Non-current assets held for sale and discontinued operations.

Company H1 TELEKOM d.d. has entered into an agreement to merge with OT-Optima Telekom d.d. on July 29, 2016. Based on the contract, H1 TELEKOM d.d. as a merged company, is merged into OT-Optima Telekom d.d. as a merging company, by transfering all assets and rights and obligations, without conducting the liquidation process of the merged company.

Based on the decision of Croatian Competition Agency of 9 June 2017, the merger procedure was finalized by the Commercial Court of Zagreb No. Tt-17/26830 on 1 August 2017, and on the date of issue of these financial statements the Central Depository Clearing Company executed corporate actions of new share issue of OT-Optima Telekom, which the Bank received in exchange for shares of H1 TELEKOM d.d. which the Bank held.

Therefore financial position of H1 TELEKOM d.d. is no longer included in the consolidated financial statements of the HPB Group at the reporting date as the company continues to exist merged within the of OT-Optima Telekom d.d., in which the Bank holds a minority interest. Hence, the conditions prescribed by the IFRS 10 "Consolidated Financial Statements" are not fulfilled in order for the company to be included within the consolidated financial statements of HPB Group.

An overview of investments in HPB subsidiaries is presented in note 13, while the consolidation basis is described in note 1, item e).

These financial statements comprise separate and consolidated financial statements of the Bank as defined in IFRS 10 "Consolidated Financial Statements" and International Accounting Standard 27 "Separate Financial Statements". These financial statements were approved by the Management Board on March 26, 2018 for submission to the Supervisory Board.

The main accounting policies applied in the preparation of these financial statements are summarized below. Where accounting policies coincide with the accounting principles of International Financial Reporting Standards, in the description of the Group's accounting policies, individual Standards may be referred to, and unless otherwise stated, these are the Standards that were in effect at 31 December 2017.

The accompanying financial statements are prepared in accordance with statutory requirements and only as general information and are not intended for any particular purpose or transaction. Therefore, users are advised not to rely exclusively on them in making any decisions, and to conduct further examinations prior to making a decision.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Statement of Compliance

These financial reports are prepared in accordance with the legal requirements applicable to accounting for banks .in the Republic of Croatia. Financial reporting for Group and Bank is regulated by Croatian National Bank (“the CNB”) which is the central supervisory institution of Croatian banking system. These financial reports have been prepared in accordance with the above-mentioned banking regulations.

The accounting regulations of the CNB rely on International Financial Reporting Standards ("IFRSs") adopted by European Union. The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards are as follows:

- Although the Bank calculates impairment losses on corporate lending as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate, in accordance with International Financial Reporting Standards, the CNB requires the amortization of the discount calculated to be presented in the Profit and Loss account report within the movement on impairment losses on loans and receivables to customers and other assets, rather than as interest income, as required by International Financial Reporting Standards.
- Suspended interests represent accrued but not paid interests on individually impaired assets. At the moment of reclassification the Bank impairs fully accrued but not paid interests through the profit and loss report. Furthermore, further financial position accrual is suspended, with interest being booked off-balance sheet until the debtor makes a payment. This accounting procedure is not in line with the IFRS 18 “Revenue” and IFRS 39 “Financial Instruments: Recognition and Measurement” which require the interest revenue from impaired financial assets to be calculated by using effective interest rate method. Following the issuance of these reports, a new international financial reporting standard has been introduced, which prescribes classification, measurement and impairment of financial assets - IFRS 9, and a new domestic regulation that prescribes the calculation of loan losses, this mismatch largely eliminated except for the portion of exposure where it the time from the occurrence of a non-fulfillment obligation is more than two years.
- In line with amendments to CNB’s Decision on the classification of placements and off-balance sheet liabilities of credit institutions, in force from October 1st 2013, CNB prescribes minimum levels of impairment losses for certain specifically identified impaired exposures, which may be different from impairment loss calculated in accordance with International Financial Reporting Standards (IFRSs). Following the issuance of these reports, a new international financial reporting standard has been introduced which prescribes the classification, measurement and impairment of financial assets - IFRS 9, and a new domestic regulation that provides for the calculation of credit losses, eliminating this mismatch.
- In line with the CNB’s Decision on Provisions for Court Cases against the Credit Institution of March 31 2010 there are minimum requirements for the provisions for court cases the credit institution is obliged to keep. In line with the Decision a credit institution must diversify court cases into risk categories depending on the loss probability and form provisions accordingly. However in certain cases required reserves may differentiate from the ones calculated on the basis of the International Financial Reporting Standards (IFRS).

The accounting policies are the same as in the preparation of annual financial reports for the year ended December 31 2016.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of preparation

These financial reports represent the general-purpose financial reports of the Bank and Group. Financial reports are prepared for the reporting period from 1 January 2017 to 31 December 2017 in compliance with existing accounting regulations applicable in Croatia.

The financial reports are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss, assets available for sale, derivative financial instruments and property and repossessed assets except those for which a reliable fair value measurement is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at revaluation model, amortized or historical cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank and Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/ or disclosure purposes in these consolidated and separate financial reports is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of Preparation (continued)

In preparing the financial reports, management is required to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period. Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under current circumstances, the results of which form the basis of making the judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

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

Judgments made by management in the application of applicable standards that have significant effects on financial reports and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of Preparation (continued)

New Standards, Interpretation and Changes of Published Standards

(I) New and changed International Financial Reporting Standards are referred to the reporting period with evaluated effect on financial reports:

The accounting policies applied during the preparation of these financial statements are consistent with those applied when preparing the Group's and the Bank's annual consolidated and separate financial statements as at 31 December 2016, except for the adoption of new standards applicable from 1 January 2017. The Group and the Bank have not previously adopted any other standards, amendments or interpretations that have been published but are not yet in force.

Although these changes are applicable for the first time in 2017, they do not have a significant impact on the consolidated and separate financial statements of the Group and the Bank. The nature and impact of these changes are published below:

- Amendments to IAS 12 Income Taxes (effective for periods beginning on or after 1 January 2017) - Recognition of deferred tax assets for unrealized losses. The International Accounting Standards Board (IASB) concluded that the difference in practice regarding the recognition of deferred tax assets relating to a debt instrument measured at fair value can mainly attribute uncertainty over the application of some of the principles in IAS 12. Application of this change is mandatory for Bank and Group retrospectively.

  The Group and the Bank applied retrospectively this change. Nevertheless, this amendment has no impact on the financial position and performance of the Bank and the Group as the Bank or the Group do not deduct temporary differences or assets within the scope of these changes.

- Amendments to IAS 7 Statement of Cash Flows (effective for periods beginning on or after 1 January 2017) - Initiative regarding disclosure. Amendments are intended to enable entities to disclose to financial statements users the ability to estimate changes in liabilities arising from financial activities, including changes arising from cash flows and non-cash changes. After initial application, companies are not required to publish comparative information for the previous periods.

  These changes did not have a significant impact on the Group's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of Preparation (continued)

New Standards, Interpretation and Changes of Published Standards (continued)

(II) The new and revised published standards which take effect after the reporting period:

- **IFRS 9 Financial Instruments**, adopted by the EU on December 22 2016 (in effect for annual periods on and after January 1 2018 with possible earlier adoption)

The standard replaces IAS 39 "Financial Instruments: Recognition and Measurement" and contains requirements for recognition and measurement, impairment, derecognition and hedge accounting in general.

Classification and measurement – IFRS 9 introduces a new approach in classifying financial assets based on cash flow and business model of the certain financial assets. New approach implies a unique impairment model applied for all financial instruments.

Impairment – IFRS 9 introduces a new impairment model based on expected losses which enables timely recording of expected credit losses.

Hedge accounting – IFRS 9 introduces a substantially improved hedge accounting model which assumes more information on risk management activities.

In 2016, the Bank and its subsidiaries launched a project of IFRS 9 implementation and successfully implemented it with the beginning of its application as of 01 January 2018.

The project included the following activities:

- Gap analysis between the existing condition and IFRS 9 requirements in the area of classification and measurement,
- Assessing business models and implementing them in the Bank's processes,
- Assessing the characteristics of the contracted cash flow,
- Performing a contracted cash flow test (so-called SPPI test),
- An analysis of the quantitative impact of IFRS 9,
- Defining functional specifications for the appropriate application solution, i.e. introduction of the appropriate software,
- Defining an impairment methodology in accordance with the Bank's business models - developing a model for calculating risk parameters for calculating expected credit losses in accordance with IFRS 9.

During 2018, the Bank will continue with the Project by controlling input data, verifying the appropriateness of the methodology within the Bank's regular activities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Basis of Preparation (continued)

New Standards, Interpretation and Changes of Published Standards (continued)

(II) The new and revised published standards which take effect after the reporting period:

Efect of the standard on the classification and measurement

In the context of classification and measurement, the Bank and its subsidiary HPB-Stambena Štedionica, have defined business models and met other requirements of IFRS 9 with regard to the analysis of the structure and characteristics of financial instruments in financial asset portfolios in order to be appropriately classified for the first time adoption.

IFRS 9 lists three business models:

• Business model of holding for the purpose of collecting cash flows (hereinafter referred to as a business model hold to collect): Exclusively financial assets acquired with the purpose of holding for the purpose of collection and allocated to the appropriate business model are measured at amortization cost provided that the asset has passed the SPPI test,

• Business model of holding for the collection of contracted cash flows and sale of financial assets (hereinafter: business model of holding to collect and sell): Financial assets acquired with the purpose of holding for the purpose of collection and sale and allocated to the relevant business model will be measured at fair value through other comprehensive income also subject to the passing of the SPPI test,

• Other business models that do not meet the criteria of the first two models (including the portfolio of instruments held for trading) (hereinafter: other business models): All other assets that are not intended to be held in one of the two previous business models will be measured at fair value through profit or loss,

Equity securities that fall within scope of IFRS 9 are measured at fair value through profit or loss, regardless of the business model, and SPPI test is not performed for these instruments as they do not have contractual cash flows representing the payment of principal and interest. Exceptionally, the Bank may choose to measure those instruments at fair value through other comprehensive income but in that case unrealized accumulated gains / losses in other comprehensive income are not transferred at the time of realization to the income statement with the exception of the dividends paid which are upon receipt recognized immediately in profit or loss.
Taking into account the current practices of acquiring financial assets in the credit operations segment, the same was classified in accordance with IAS 39 as loans and receivables (hereinafter referred to as L&R) and valued at amortization cost. Such practice suggests that in the future, the relevant organization units will acquire assets to hold for collection which, subject to the passing of the SPPI test, will also mean their allocation to the category of financial assets measured at amortization cost. In addition to this, it is not expected that the Bank will do the same with the intent to sell them, which would then result in the allocation to one of the remaining categories. The presentation of a business model and a segment with a link to the category of financial asset in accordance with IAS 39 is provided below (for the Bank):

Segment	Financial assets group	IAS 39	Business model according to IAS 39
Retail Sector	Loans to Retail	Loand and receivables	Hold to collect
Corporate Sector	Loans to Corporate	Loand and receivables	Hold to collect
SME Sector	Loans to SME	Loand and receivables	Hold to collect

b) Basis for Preparation (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Standards, Interpretation and Changes of Published Standards (continued)

(II) The new and revised published standards which take effect after the reporting period:

The financial market sector obtains various forms of financial assets, and the purpose for acquiring them is not unified. Namely, in accordance with IAS 39, the assets acquired by the Financial Markets Sector are allocated to other portfolios that the relevant Standard foresees. In the context of the application of IFRS 9, the model of acquisition of financial assets and their classification to business models will be allocated between the Financial Markets Sector and the Asset and Liability Management Office.

The Financial Markets Sector may decide, when deciding on the acquisition of financial assets, on classification into one of three business models as defined by IFRS 9. Via Internal Act The Financial Markets Sector further describes the conditions and method of acquiring financial assets and their classification in individual categories in accordance with the chosen business model.

The Asset and Liability Management Committee, upon proposal of the Asset and Liability Management Office, makes decisions on the acquisition of financial assets within the business model of holding to collect and sell. Investments classified into this business model will result from Bank's investments into the into financial instruments to manage liquidity - a general strategy. Transactions associated with the above-mentioned business model are implemented by the Financial Markets Division at the order of the Asset and Liability Management Office. The Bank allocates financial instruments within this business model primarily with the aim of maintaining regulatory requirements and prescribed ratios or liquidity reserves in accordance with internal and external limits.
In accordance with the aforesaid, most of the Bank's and Group's financial assets via implementation of IFRS 9 will be valued at fair value with changes recognized in other comprehensive income and classified into a business model of holding to collect and sell.

From the aspect of classification and measurement, the application of this Standard will have a significant impact on the Bank's and Group's financial statements, since different asset classification criteria will be established in relation to the current practice under IAS 39. The Group's management initiated the necessary activities to ensure availability of all the necessary data and methodologies for preparation of financial statements in future periods.

With regard to the effects on the financial position, the Group carried out a testing of the entire existing portfolio, and it was determined that the credit exposure (loan portfolio and receivables) with a net book value of HRK 26,508 thousand (as of 31 December 2017) did not pass the SPPI test. The effect of changing fair valuation of these exposures on management's judgment is not material because most of them are partially recoverable or non-recoverable loans.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis for Preparation (continued)

New Standards, Interpretation and Changes of Published Standards (continued)

(II) The new and revised published standards which take effect after the reporting period:

Influence of standards in the portion of impairment

In the area of impairment, the Bank established a methodology for calculating expected credit losses and modeling risk parameters that include all the parameters required to project future expectations.

Impairment methodology defines credit risk increase based on changes in the borrower's creditworthiness, timeliness in settling debtor's obligations vis-à-vis the credit institution and other creditors and the quality of the insurance instruments. The same is defined and divided according to the Standard on STAGE1, STAGE2 and STAGE3, the schedule being defined as follows:

- in STAGE3, the Bank allocates exposures in accordance with the provisions of an internal act regulating the exposure schedule by degrees in the status of non-fulfillment of obligations,
- in STAGE2, the Bank allocates exposures in accordance with the provisions of an internal act regulating the schedule of exposures by degrees in the status of significant increase in credit risk,
- in STAGE1, the Bank distributes the remaining exposures.

The Bank establishes a required impairment allowance based on the calculation of expected losses, whereby the chosen approach and future horizons for which the credit losses relate depend on the status and type of exposure. The calculation of expected credit losses is based on the calculation of risk parameters. They are modeled on the basis of historical data (5-year time series).

For the purposes of modeling the PD risk parameter, ie the likelihood of non-fulfillment of liabilities, the Bank has defined 10 segments. When modeling the PD risk parameter, the Bank uses access based on migration matrices for exposure to legal entities and exposure to physical persons. Likewise, groups are defined through which the analysis of migration between these groups is performed and the status of non-fulfillment occurs. For exposures to physical persons, the Bank has defined the groups based on due days, while for exposures to legal entities the group is defined on the basis of the financial position of the client.

Aproach based on the external investment rating published by the credit rating agency was used when calculating the PD risk parameter for exposures to the Republic of Croatia and exposures to financial institutions.

The LGD risk parameter is defined for 6 segments and is estimated on the basis of transactions after the date of the non-fulfillment obligation. Each transaction is discounted at the date of the non-fulfillment of the obligation at the relevant discount rate, and the discount factor depends on the vintage interval to which the transaction belongs. For exposures from the portfolio of banking financial institutions and central governments, the bank used annual reports on the rates of occurrence of default status and the rates of collection published by credit rating agencies.

The purpose of estimating expected credit losses is not to estimate the worst possible or best possible scenario, but that estimate always reflects the possibility of credit loss and the possibility that no credit loss will occur even when the lack of credit loss is the most probable outcome.

From the aspect of impairment, the application of this Standard will have a significant effect on the Bank's and Group's capital. The initial effect of transition from IAS 39, ie the first application of IFRS 9, on retained earnings is an impairment of HRK 57,233 thousand. The effect of this change on capital adequacy will not be significant in the first and second year of application, since the Bank has decided to apply transitional arrangements to mitigate the effects of IFRS 9 on the regulatory capital established by Regulation (EU) No. 2017/2395 on Amendments to Regulation (EU) 575/2013 with respect to transitional arrangements to mitigate the effect of introducing IFRS 9 on regulatory capital. If the overall effect would be taken into account once on capital adequacy, the same would reduce the capital adequacy ratio by 0.69 percentage points.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis for Preparation (continued)

New Standards, Interpretation and Changes of Published Standards (continued)

II) The new and revised published standards which take effect after the reporting period:

Efect of standards in the part regarding disclosure of financial information

From the aspect of disclosure, the application of this Standard will have a significant impact on the financial statements of the Bank and the Group. The Group's management at the time has initiated the necessary activities to provide all the necessary data and methodologies for preparing the reports in future periods.

- **IFRS 15 Revenue from Contracts with Customers,** adopted in the European Union in September 2016 (effective for annual periods beginning on or after 1 January 2018). The effects of this standard relate to the formation of a customer recognition agreement model.

With current business strategy adoption of the mentioned IFRS will have no effect on the Bank and the Group after the adoption.

- **IFRS 16 Leases** , adopted in the European Union in October 2017 (effective for annual periods beginning on or after 1 January 2019). The standard has not yet been adopted in the European Union. The Standard lays down the principles of recognition, measurement, disclosure and publication of leases, for both parties, for both the lessee and the lessee.

The Bank and the Group are currently evaluating the effect of introducing this IFRS on the Bank's and Group's financial position and results as well as on business processes.

(III) The new and revised published but not yet adopted standards which will take effect after the reporting period:

Approval of a number of amendments to the Standards by the competent authorities at the European Commission is underway. The IFRSs currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, amendments to existing standards and interpretations, of which adoption by the European Union on March 29, 2018 did not make a decision (the dates of entry into force referred to below apply to IFRSs as a whole):

• **Amendments to IFRS 2 "Share-based Payments"** - "Classification and Measurement of Transaction-Based Transactions",

• **Amendments to IFRS 4 "Insurance Contracts" - "Applying IFRS 9" Financial Instruments "in conjunction with IFRS 4" Contracts and Insurance ""**,

• **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Shares in Associates and Joint Ventures"** - Selling or investing assets between an investor and its affiliated entity or joint venture and subsequent changes,

• **IFRS 17 "Insurance Contracts",** a new Standard for Insurance Contracts, which supersedes IFRS 4.

• Amendments to IAS 28 "Long-term investments in associates and joint ventures",

• Amendments to IAS 40 "Investments in Real Estate" - "Transfer of Real Estate Investments",

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis for Preparation (continued)

New Standards, Interpretation and Changes of Published Standards (continued)

(III) The new and revised published but not yet adopted standards which will take effect after the reporting period:

•Amendments to the various standards under the heading "Adjustment of IFRS from Cycle 2014 - 2016" arising from the IFRS Annual Compensation Project (IFRS 1, IFRS 12 and IAS 28), primarily to eliminate discrepancies and clarification of the text,
• Amendments to the various standards under the heading "Update of IFRS for the period 2015-2017" arising from the annual IFRS update (IAS 12, IAS 23 and IAS 28),
• Interpretation of IFRIC 22 "Transactions and Advances in Foreign Currencies",
• Interpretation of IFRIC 23 "Uncertainties regarding the application of tax rules on profit tax"

Given the present business strategy, the introduction of these IFRSs will not have any impact on the Bank and the Group after initial application.

c) *Functional and Presentation Currency*

The Bank's and Group financial reports are presented in Croatian kunas (HRK), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

d) Changes in Presentation or Classification of the Items in the Financial Reports

In 2017, the Group and the Bank made a correction of errors in certain positions of financial statements related to historical periods. In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, financial statements relating to the prior period have been restated.

The correction refers to the decrease of retained earnings for erroneously recorded foreign exchange differences in foreign exchange transactions for foreign affiliate business, in the period from 01.01.2011. - 31.12.2015. and for the adjustment of profit for the period from 01.01. - 31.12.2016. for erroneously recorded exchange rate differences in the aforementioned jobs.

In the current period, the amount relating to the previous periods has been corrected, the error in the records has been eliminated and the profit and loss account for the period from 01.01. - 31.12.2017 reflects the correct effects of the subject transactions.

HPB
HRVATSKA POŠTANSKA BANKA

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

d) Restatement in presentation and clasification of financial positions

Effects of correction are as follows:.

Effect on statement on financial position as at 1 January 2016:
(HRK'000)

			Group
	1 January 2016 - before restatement	**Correction**	**1 January 2016 - after restatement**
ASSETS			
Other assets	443,828	(44,876)	398,952
Instruments in the course of settlement	*122,424*	*(44,876)*	*77,548*
EQUITY AND RESERVES			
Retained earnings	122,784	(44,876)	77,908

Effect on statement on financial position as at 31 December 2016:
(HRK'000)

			Group
	31 December 2016 - before restatement	**Correction**	**31 December 2016 - after restatement**
ASSETS			
Other assets	454,384	(53,432)	400,952
Instruments in the course of settlement	*220,731*	*(53,432)*	*167,299*
	39,189	1,540	40,729
EQUITY AND RESERVES			
Retained earnings			
ASSETS	276,533	(51,892)	224,641

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

d) Reastatement in presentation and clasification of financial positions (continued)

Effect on statement on financial position as at 1 January 2016:
(HRK'000)

			Bank
	1 January 2016 - before restatement	**Correction**	**1 January 2016 - after restatement**
ASSETS			
Other assets	318.385	(44.876)	273.509
Instruments in the course of settlement	*122.393*	*(44.876)*	*77.517*
EQUITY AND RESERVES			
Retained earnings	123.217	(44.876)	78.341

Effect on statement on financial position as at 31 December 2016:
(HRK'000)

			Bank
	31 December 2016 - before restatement	**Correction**	**31 December 2016 - after restatement**
ASSETS			
Other assets	320,572	(53,432)	267,140
Instruments in the course of settlement	*220,700*	*(53,432)*	*167,268*
	38,741	1,540	40,282
EQUITY AND RESERVES			
Retained earnings			
ASSETS	270,571	(51,892)	218,679

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

d) Reastatement in presentation and clasification of financial positions (continued)

Effect on income statement for 2016:

(HRK'000)			**Group**
	2016 - before restatement	**Correction**	**2016 - after restatement**
TRADING AND OTHER INCOME	**128.335**	**(8.556)**	**119.779**
Other operating income	10.082	(8.556)	1.526
Net gain from foreign exchange differences from translation of monetary assets and liabilities	*4.682*	*(8.556)*	*(3.874)*
PROFIT BEFORE TAX	**164.945**	**(8.556)**	**156.389**
Tax income	25.558	1.540	27.098
PROFIT FOR THE YEAR	**190.503**	**(7.016)**	**183.487**

Effect on income statement for 2016:

(HRK'000)			**Bank**
	2016 - before restatement	**Correction**	**2016 - after restatement**
TRADING AND OTHER INCOME	**128,654**	**(8,556)**	**120,098**
Other operating income	13,063	(8,556)	4,507
Net gain from foreign exchange differences from translation of monetary assets and liabilities	*4,456*	*(8,556)*	*(4,100)*
PROFIT BEFORE TAX	**161,726**	**(8,556)**	**153,170**
Tax income	26,551	1,540	28,091
PROFIT FOR THE YEAR	**188,277**	**(7,016)**	**181,261**

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

d) Reastatement in presentation and clasification of financial positions (continued)

Effect on statement on comprehensive income for 2016:

(HRK'000)			**Group**
	2016 - before restatement	**Correction**	**2016 - after restatement**
Net profit for the year	**190,503**	**(7,016)**	**183,487**
Net orher comprehensive income for the year	2,563	-	2,563
Total comprehensive income, net of taxes	**193,066**	**(7,016)**	**186,050**
Profit for the year	**190,503**	**(7,016)**	**183,487**
To the Bank's owners	190,503	(7,016)	183,487
Earnings per share			
From active and discontinues business operations:			
Basic (in HRK per share)	94,13 kn	(3,47 kn)	90,66 kn
Diluted (in HRK per share)	94,13 kn	(3,47 kn)	90,66 kn

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

d) Reastatement in presentation and clasification of financial positions (continued)

Effect on statement on comprehensive income for 2016:

(HRK'000)			Bank
	2016 - before restatement	**Correction**	**2016 - after restatement**
Net profit for the year	**188,277**	**(7,016)**	**181,261**
Net orher comprehensive income for the year	2,563	-	2,563
Total comprehensive income, net of taxes	**190,840**	**(7,016)**	**183,824**
Profit for the year	**188,277**	**(7,016)**	**181,261**
To the Bank's owners	188,277	(7,016)	181,261
Earnings per share			
From active and discontinues business operations:			
Basic (in HRK per share)	93,03 kn	(3,47 kn)	89,56 kn
Diluted (in HRK per share)	93,03 kn	(3,47 kn)	89,56 kn

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

d) Presentation and reclassification reassements

Significant reclassifications of amounts or items within the financial statements in the reporting period are as follows:

(I) as of 31 December 2017. a reclassification of HRK 140,807 thousand (31 December 2016: HRK 57,636 thousand) was made on the other participants in syndicated loans under item Other assets within the assets under Other liabilities. This amount represents the receivable of the loan beneficiary in the part pertaining to the other participants in the financing. The reclassification of the relevant receivables has netted the current liabilities to the other participants in the financing, in the part they patipcipate in finance. Historical information has not been restated.

Reclassifications were made in the previous reporting period as follows:
(I) reclassification of HRK 81,419 thousand from loans and advances was made to financial assets intended for sale. As the Bank concluded a sales contract for the reclassified bad debt portfolio, until the contractual amount received from the sale and transfer of economic benefits to the buyer, which occurred in January 2017, the Bank classified this asset in accordance with IFRS 5: Non-current assets held for sale and termination business. Upon receipt of the money, the mentioned was transferred to the buyer and the value of stated position on 31.12.2017. in the Group's financial statements is HRK 0.

(II) At the end of 2016, the Group reclassified tangible assets with gross book value of HRK 186,017 thousand, which was taken over in exchange for uncollected receivables, in real estate investments. Impairment related to reclassified assets amounts to HRK 98,808 thousand, and the net book value of these assets is HRK 87,209 thousand. The underlying assets were previously classified as held for sale but due to the long duration of holding in the portfolio and the impossibility of selling within a reasonable time, criteria that were classified under IFRS 5 were not fulfilled: Non-current assets intended for sale and discontinuation of operations. Gross carrying amount of the assets on 31.12.2017. in the financial statements of the Group is HRK 184,227 thousand, and the impairment is HRK 70,748 thousand.

e) The basis for consolidation

The financial statements are presented to the Bank and the Group. The Group's financial statements consist of the consolidated financial statements of the parent company and its subsidiaries over which it has control: HPB Nekretnine doo, Real Estate Company, HPB Invest doo, Investment Fund Management Company, HPB Stambena štedionica dd, a specialized financial institution dealing with the collection of deposits from domestic natural persons and the granting of subsidized housing loans to Croatian citizens on the territory of the Republic of Croatia. All subsidiaries are 100% owned by their parent company, all of which are also based in Croatia.
The consolidated financial position as at 31 December 2016 includes the results of the company H1 TELEKOM dd, in which the Bank had a majority shareholding (58.17%), acquired in the pre-installment process by replacing the deposit receivable, and is classified as assets destined for sale.
Company H1 TELEKOM d.d. has entered into a contract to merge with OT-Optima Telekom d.d. on July 29, 2016. Based on the contract, H1 TELEKOM d.d. as an merged company, is merged by OT-Optima Telekom d.d. as the merging transferring company, the transfer of all assets and all rights and obligations, without conducting the liquidation process of the merged company.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

e) Presentation and reclassification reassements (continued)

Based on the decision of the Competition Agency of 9 June 2017, the merger procedure was completed by the Commercial Court of Zagreb No. Tt-17/26830 on 1 August 2017, and on the date of issue of these reports to the Central Depository Clearing Company executed corporate shares issued by OT-Optima Telekom, which the Bank received in exchange for shares of H1 TELEKOM d.d.

Financial Position of H1 TELEKOM d.d. is therefore no longer included in the consolidated financial statements of the HPB Group on the reporting date as it continued to exist in the merging company OT-Optima Telekom dd, where the Bank has a minority interest, and the conditions prescribed by IFRS 10 "Consolidated Financial Statements" were not fulfilled to include H1 TELEKOM d.d. in the consolidated financial statements of HPB Group.

Investments in subsidiaries are stated at cost, less any impairment losses with the exception of investments in H1 TELEKOM d.d. which was at previous periods in separate financial statements of the Bank stated lower of carrying amount and fair value,.

Investments in subsidiaries are consolidated in the consolidated financial statements of the Group.

Subsidiaries

Subsidiaries are all the companies managed by the Bank. Subsidiaries are consolidated, ie they cease to be consolidated from the moment the Bank acquires or loses control over them. Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income from the date on which the Bank acquired control until the date of termination of control. Profit or loss and each component of other comprehensive income is divided into the portion attributable to the Bank's owners and the portion attributable to non-controlling interests. The total comprehensive income of the subsidiaries is attributed to the owners of the Bank and the owners of non-controlling interests, even if this results in a negative balance of non-controlling interests. Adjustments are made in the financial statements of subsidiaries as necessary to harmonize their accounting policies with other Group members.

Transactions eliminated at consolidation

When consolidating, assets, liabilities, capital, income and expenses among Group members are eliminated in full. The investment cost method is used to record the acquisition of subsidiaries by the Group. The cost of acquiring subsidiaries is measured at the fair value of the given assets, issued equity instruments and liabilities incurred or assumed at the exchange date. Acquired recognizable assets and liabilities and contingent liabilities in business combinations are initially measured at fair value at the acquisition date, irrespective of the size of the minority interest. The higher costs of acquiring the fair value of the Group's share of acquired net assets, including intangible assets, result in goodwill.

If the cost of acquisition is less than the fair value of the net asset acquired subsidiary, the difference is recognized directly in the income statement.

The Group's assets, all unrealized gains and losses, and income and expenses arising from transactions between Group members are eliminated when prep aring consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

f) Interest Income and Expense

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

g) Fees and Commissions Income and Expense

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

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognized over the term of the commitment. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank and Group has retained no part for itself, or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees related to investment fund management are recognized on an accrual basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

h) Dividend Income

Dividend income on equity investments is recognized in the Income statement when the right to receive dividends is established.

i) Gains Less Losses from Financial Instruments at Fair Value in PNL and Financial Instruments Available for Sale

Gains less losses from financial instruments at fair value through profit or loss include unrealized and realized gains and losses arising from derivative financial instruments, trading debt securities and other financial instruments designated at fair value through profit or loss.

Gains less losses arising from financial instruments available for sale comprise realized gains from financial instruments available for sale.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

j) (i) Gains Less Losses from Financial Instruments at Fair Value in PNL and Financial Instruments Available for Sale (continued)

Financial assets available for sale are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty, or
- breach of contract, such as a default or delinquency in interest or principal payments, or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization, or
- disappearance of an active market for that financial asset because of financial difficulties.

Group carried out impairment of equity securities on the basis of the supervisor's recommendation, amounting to HRK 1,032 thousand (2016: HRK 0), for the purposes of the profit and loss account. Impairment losses on available-for-sale equity securities previously recognized in profit or loss and the loss can not be subsequently recognized as income in the income statement. Any subsequent increase in fair value after impairment is recognized in other comprehensive income. In respect of debt securities in a portfolio available for sale, impairment losses may be subsequently reversed in the income statement if there is evidence that there is objective evidence of an increase in fair value relating to an event that arises after recognition of impairment.

k) Gains Less Losses Arising from Dealing in Foreign Currencies

Gains less losses from dealing in foreign currencies include unrealized and realized gains and losses arising from spot dealings in foreign currencies.

l) Foreign Currencies

Transactions in foreign currencies are translated into HRK at the rate of exchange applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate applicable at that date. Foreign exchange differences arising on translation are recognized in the Income statement. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates applicable at the dates when the fair values were determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not recalculated.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

m) Financial Instruments

i) Classification

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

Financial Assets and Liabilities at Fair Value in PNL

This category comprises two subcategories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. The Bank and Group recognises financial assets and liabilities at fair value through profit or loss when:

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

Financial assets at fair value through profit or loss include equity and debt securities, units/ shares in investment funds and derivative financial instruments.

Loans and Receivables

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

Financial Instruments Held to Maturity

This category comprises non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank and Group has the positive intention and ability to hold to maturity. This category includes debt securities.

Financial Assets Available for Sale

This category comprises non-derivative financial assets which are defined as available for sale or are not included in loans and receivables or held to maturity investments, or classified as financial assets at fair value through profit or loss. Financial assets 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. Available for sale financial assets include debt and equity securities.

Other Financial Liabilities

Other financial liabilities include all financial liabilities not designated as at fair value through profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

l) Financial Instruments (continued)

ii) Recognition and Derecognition

Purchases and sales of financial assets and financial liabilities at fair value through profit or loss, and financial assets held to maturity and available for sale, are recognized on the settlement date. Loans and receivables and financial liabilities at amortized cost are recognized when advanced to borrowers or received from lenders.

The Bank and Group derecognizes financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over financial instrument.

This occurs when the Bank and Group transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realized, surrendered or have expired. The Bank and Group derecognizes financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Bank will cease recognizing that liability and will instantaneously recognize a new financial liability, with new terms and conditions.

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

iii) Initial and Subsequent Measurement

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

After initial recognition, the Bank and Group measures financial instruments at fair value through profit or loss and financial assets available for sale at their fair value, without any deduction for costs of sale. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are initially recognized at acquisition cost, and afterwards measured applying internal models of fair value estimation.

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

iv) Gains and Losses

Gains and losses on changes in the fair value of financial assets at fair value through profit or loss are recognized in the Income statement.

Gains or losses arising from a change in the fair value of available for sale monetary assets are recognized directly within equity and are disclosed in the report of changes in equity. Impairment losses, foreign exchange differences, interest income and amortization of premium or discount on available for sale monetary assets are recognized in the Income statement. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognized in equity.

Dividend income is recognized in the Income statement. Upon sale or other derecognition of available for sale assets, any cumulative gains or losses on the instrument are transferred to the Income statement.
Gains or losses arising from financial instruments carried at amortized cost may also be recognized in the Income statement when a financial instrument is derecognized or when its value is impaired.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

l) Financial Instruments (continued)

v) Determination of Fair Value of Financial Instruments

The fair value of quoted financial assets in an active market is based on their closing price. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Bank and Group uses an internal evaluation model for fair value estimation. Such models include the use of prices achieved in recent transactions, by reference to similar financial instruments, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate.

The fair value of non-traded derivatives is estimated at the amount that the Bank and Group would receive or pay to terminate the contract at the reporting date, taking into account current market conditions, its own credit risk and the current creditworthiness of the counterparties.

vi) Impairment of Financial Assets

Impairment of Assets Identified as Impaired

Financial assets are reviewed at financial reports date to determine whether there is objective evidence of impairment. If any such indication exists, the recoverable amount of an item is estimated.

The Bank and Group estimates and performs impairment of all financial assets, except financial assets at fair value through profit or loss.

If any objective evidence of impairment exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in the Income statement. Impairment losses recognized in the Income statement on equity instruments are not reversed through the Income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the Income statement.

The recoverable amount of financial instruments measured at amortized cost is calculated as the present value of the expected future cash flows, discounted at the instrument's original interest rate. Short-term balances are not discounted. Allowances for uncollectibility are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts (or lower amount if required by applicable CNB regulations). The expected cash flows for portfolio of similar assets are estimated based on previous experience. Also taken into considering are: credit rating of the underlying customers, and delays in payments of interest or penalties. Increases of impairment allowances are recognized in the Income statement. When a loan is identified as uncollectable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period the amount of impairment loss decreases, and the decrease can be linked objectively to an event occurring after the write-down, the write-down or impairment loss is reversed through the Income statement.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

l) Financial Instruments (continued)

vi) Impairment of Financial Assets (continued)

Impairment of Assets Not Individually Identified as Impaired

In addition to recognized impairment losses on assets, the Bank and Group recognizes in its Income statement latent losses on its on-balance sheet and off-balance sheet items exposed to credit risk at a level not lower than 0.80% of the total placements and off-balance sheet exposures in accordance with the CNB regulations.

At the reporting date, debt securities carried at fair value at the reporting date, initially recognized as financial assets at fair value through profit or loss, as well as financial assets available for sale, are excluded from the calculation basis of these impairments.

vii) Reclassifications

According to IFRSs, the Bank and Group has the possibility to reclassify certain financial instruments out of the category at fair value through profit or loss into available for sale or held to maturity instruments.

n) Specific Financial Instruments

Cash and Cash Equivalents

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

Derivative Financial Instruments

The Bank and Group uses derivative financial instruments to hedge economically its exposure to currency risk and interest rate risk arising from operating, financing and investing activities. In accordance with its investment policies, the Bank and Group does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied and consequently, all derivative agreements are classified as financial instruments at fair value through profit or loss.

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

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed as an embedded derivative. Except as required to the contrary by the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealized gains and losses recognized in the Income statement, unless there is no reliable measure of their fair value.

Changes in the fair value of derivatives are included in gains less losses arising from dealing securities.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

m) Specific Financial Instruments (contuinued)

Treasury Bills and Debt Securities

Treasury bills and debt securities that the Bank and Group holds for the purpose of short-term profit taking are classified as at fair value through profit or loss or as available for sale assets, and are carried at fair value. Treasury bills and debt securities that the Bank has the intent and ability to hold to maturity are classified as held to maturity assets.

Equity Securities and Investments in Open-End Investment Funds

Equity securities and investments in open-ended investment funds are classified as at fair value through profit or loss or as available for sale assets.

Placements with Banks

Placements with banks are classified as loans and receivables and measured at amortized cost less impairment losses.

Loans and Receivables from Customers

Loans and receivables from customers are presented net of impairment losses. Purchased loans that the Bank and Group has the intent and ability to hold to maturity are classified as held to maturity assets.

In accordance with CNB requirements, the amortization of any discounts included within impairment losses is presented in impairment losses.

Investments in Subsidiaries

In the Bank's separate financial reports, investments in subsidiaries are recorded at cost, except for H1 Telekom plc. which is, as assets held for sale, recorded at the lower of carrying amount and fair value.

Borrowings

Interest-bearing borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between proceeds (net of transaction costs) and redemption value being recognized in the Income statement over the period of the borrowings as interest. The amount is subsequently reduced by not deferred portion of the fee paid at the point of loan approval.

Repurchase Agreements and Linked Transactions

The Bank and Group enters into purchases (sales) of investments under agreements to resell (repurchase) essentially identical investments, or in a series of linked sales and buy-back transactions at a certain future date at a fixed price. The amounts paid are recognized in loans and advances to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the report of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortized cost or at fair value, as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

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

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

n) Corporate Tax

Corporate tax expense represents the sum of the tax currently payable and deferred tax.

Current tax payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the Income statement and report of other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in financial reports and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

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

The measurement of deferred tax liabilities and assets reflects the amount that the Bank and Group expects, at the end of the financial reports date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified in the report of financial position as non-current assets and/ or non-current liabilities. Deferred tax assets are recognized only to the extent that it is probable that the related tax benefit will be realized. At each reporting date, the Bank and Group reviews the unrecognized potential tax assets and the carrying amount of the recognized tax assets.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

o) Property and Equipment

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

Recognition and Measurement

An item of property whose fair value can be measured reliably is subsequently carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The fair value of land and buildings is determined by the independent professional surveyor.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation is recognized in the Income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

Equipment is measured at cost, less accumulated depreciation and accumulated impairment losses.

The estimated useful lives are as follows:

	2017	**2016**
Buildings	40 years	40 years
Computers	3 years	3 years
Furniture and Equipment	3-4 years	3-4 years
Motor Vehicles	5 years	5 years
Other Assets	10 years	10 years

Depreciation methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount, and are included in the Income statement.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

p) Investment Property

Investment property include the Bank's investments in real estate with the intention of selling the same and / or earning from the lease. Real estate investments are initially recognized at cost, including transaction costs. All investments in real estate are valued at fair value less costs to sell. The fair value of such assets is estimated annually on the basis of an independent valuer's estimate, and any impairment loss is recognized in the income statement. Profits on the income statement other than prepayments are recognized at the end of recognition.

q) Intangible Assets

Intangible assets are carried at cost less accumulated amortization and impairment. Development costs are capitalized if all the requirements specified in IAS 38 "Intangible Assets" are met.

The Bank and Group intends to capitalize internal employee project costs in the future under a condition of meeting requirements by the IFRS 38. During 2016 it started the preparation activities for the mentioned purpose. Durability of the mentioned intangible assets will correspond to the estimated useful life and its future economic benefits.

Amortization is provided on a straight-line basis over the estimated useful life of an intangible asset. Maintenance costs are recognized as an expense when they are incurred. Depreciation methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount, and are included in the Income statement.

Amortization method and estimated useful life are reassessed on the date of preparing financial reports. Gains and losses from disposal are determined by comparing realized sale price and book value of assets and is included in the profit or loss report.

Amortization of intangible assets is provided on a straight-line basis over the estimated useful life of an asset as follows:

	2017	2016
Leasehold Improvements	range*	4 years
Software	3-10 years	3-10 years
Licenses	3-10 years	3-10 years

* *As part of a comprehensive process screening, the Group has analyzed lease contracts for business premises used to perform its business. Consequently, the life span of investment to improve the functionality of these spaces was also analyzed. It was found that irrespective of the duration of the contract, the life span of investments in improving the functionality of these premises was 4 years and depreciated at a rate of 25 percent. However, rent lease agreements with leasing companies are mostly concluded for longer time comparing to life span of investments in improving these areas. Given the above, and taking into account modern methods and quality materials used to improve space, the Group's management estimated that the useful life of the investment to improve the functionality of leased real estate and equipment would have to be within the contractual term of the lease agreement and hence changed depreciation rate. For the rest of the property, where the lease contract is concluded for a shorter period than 4 years, the depreciation rate of 25% is applied as far as legally prescribed as the maximum. For lease contracts concluded for an indefinite period, a rate of 10 percent is applied, which is determined by the fact that the median is the average tenancy time for ten years. If the amortization rate did not change, the depreciation cost in 2017 would be higher by HRK 4.2 million.*

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

r) Impairment of Non-Financial Assets

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

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

s) Non-Current Assets Held for Sale

Bank and Group records tangible assets gained in exchange for uncollected receivables as assets held for sale in accordance with International Financial Reporting Standard 5 (IFRS 5). Only exceptionally, if the assets can be used for the Bank's anf Group's business operations decision on using the assets and accounting treatment will be in accordance with the International Financial Reporting Standard 16. Properties which do not fulfill the IFRS 5 recognition criteria will be reclassified as Property Investment in accordance with the International Account Standard 40.

The Bank and Group initially recognizes (classifies) non-current assets as assets held for sale if its value be through sale, rather than used for the purpose of conducting business activities through depreciation. Such assets are classified at the lower of carrying amount or fair market value less costs to sell.

Subsequent measurement of assets held for sale is carried at the lower of carrying value and the current fair market value less costs to sell.

In case of events that may extend the period to perform the sale of the property does not preclude the classification of assets as held for sale if the circumstances beyond the control of the Bank and Group occur and if there is evidence that the Bank and Group will continue in line with the plans to continue selling the same.

The Bank and Group does not perform depreciation of assets held for sale.

Impairment losses arising on the subsequent measurement of assets is recorded in the Income statement of the Bank and Group.

Subsequent gains from increase in the fair value of previously impaired assets will be recognized in the Income statement at the time of sale.

If it is determined that the non-current assets classified as held for sale do not meet the criteria for initial recognition of the Bank and Group does not recognize those assets as assets held for sale.

Bank and Group does not recognize assets held for sale in the event that such property is sold. Gain or loss on sale of assets held for sale are recognized in the Income statement.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

t) Provisions for Liabilities and Expenses

The Bank and Group recognizes a provision when it has a present obligation as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the obligation. Provisions are also made for off-balance sheet credit risk exposures on a portfolio basis.

Provision for liabilities and charges represents the best estimate of the expenditures needed to settle the present obligation at the reporting date. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Provisions are released only for such expenditure in respect of which provision are recognized at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed

u) Operating Lease

Leases where the Bank and Group as lessor retains substantially all the risks and rewards incidental to ownership are included in tangible and intangible assets at cost net of accumulated depreciation. Rental income under operating leases is recognized in the Income statement on a straight-line basis over the term of the lease.

The Bank and Group leases office space under operating leases. Payments under operating leases are recognized in the Income statement over the term of the underlying lease. Lease incentives received are recognized in the Income statement as an integral part of the total lease expense. The Bank does not have operating lease contracts with the termination period longer than one year.

v) Employee Benefits

Defined Pension Contributions

The Bank and Group pays contributions to pension-insurance funds on a mandatory, contractual basis. The Bank and Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Provisions for Severance Payments and Jubilee Awards

In calculating provisions for severance payments and jubilee awards, the Bank and Group discounts expected future cash flows in respect of the liabilities, using discount rates that, in opinion of the Bank's management, best represent the time value of money.

Equity Payment Scheme Plan

The Bank and Group has set a equity payment scheme policy but does not have an equity payment scheme plan as conditions for payments in 2016 or later have not been met yet.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

w) Share Capital and Reserves

Share Capital and Reserves

Share capital is denominated in Croatian kunas and stated at nominal value. The amount of fees paid on repurchase of share capital, including directly attributable costs, is recognized as a deduction from equity and classified as treasury shares.

Dividends

Dividends are recognized as a liability in the period in which they are declared.

Retained Earnings/ Accumulated Losses

All income for the year, retained after appropriations, is transferred to reserves, in accordance with the decision of the General Assembly.

Loss for the period is charged on the accumulated retained earnings. Any remaining loss is allocated in accordance with the regulations applicable to trading companies in the Republic of Croatia.

During the reduction of the share capital of the Bank in 2015 remaining amount after loss coverage from the previous period has been allocated to retained earnings based on the Decision of the General Assembly and in accordance with the regulations applicable to trading companies in the Republic of Croatia.

Earnings per Share

The Bank presents earnings or loss per share data for its ordinary shares. Earnings/ loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

x) Contingencies and Commitments

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

y) Funds Managed for and on Behalf of Third Parties

The Bank and Group manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Bank's and Group's assets and are excluded from the report of financial position. For the services rendered, the Bank and Group charges a fee which is recognized in the Income statement on an accruals basis. The Bank also manages five open-end funds with a public offering: HPB Equity Fund, HPB Global Fund, HPB Cash Fund, HPB Bond Fund, and HPB Eurocash Fund.

Investment funds assets that is managed by the Bank is not part of consolidated reports of the Group

The investment of the parent company in the investment funds of the parent company are stated at fair value through profit and loss.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

z) Segment Reporting

A segment is a distinguishable component of the Bank and Group that is engaged either in providing products or services (business segment) which achieves economic benefits or costs, including the transactions with other parts of the Bank and Group. The Group did not use internal transfer prices in determining the success of the segments.

The Group identified four major segments: banking with legal entities - divided into two sub-sectors (business with large companies and the public sector, small and medium-sized businesses), banking with physical persons, financial markets (including treasury and investment banking with custody) and direct banking. The description of business segments and their financial review is presented in Note 4 to these financial statements.

Group's operations, its total assets as well as the majority of its clients are based in Croatia.

2. RISK MANAGEMENT

This note details the Bank's and Group risk exposures as well as the methods applied by the management to identify, measure and manage those risks for the purpose of preserving capital. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk, interest rate risk in the Bank’s non-trading book, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

An integrated system of risk management is established at the Bank and Group level by introducing a set of policies, procedures and manuals, determining the limits of risk levels acceptable to the Bank and monitoring their implementation. The limits are set with respect to the amount of regulatory capital and are applied to all types of risk. Additionally, the Bank sets limits for annual potential losses measured by Value-at-Risk techniques for its market risk exposure. Internal methodologies and models for managing other types of risks are also being developed.

The responsibility for determining the framework of the Bank’s and Group risk management lies with the Bank’s Management Board which has delegated the risk management tasks to the Assets and Liabilities Management Committee, Credit Committee and Operational Risk Management Committee.

2.1 Credit Risk

The Bank and Group are subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties.

The risk that counterparties to financial instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank and Group evaluates debtors' creditworthiness, and in order to minimize credit risk, obtains appropriate collateral.

At reporting date, the Bank’s and Group credit risk exposure to financial instruments classified as at fair value through profit or loss is presented by the positive fair value of these instruments, as recorded in the report of financial position. Notional amounts disclosed in the notes to the financial reports do not represent the amounts to be exchanged by the parties in derivative transactions and do not measure the Bank’s exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The Bank and Group are exposed to credit risk primarily through loans and receivables from customers. The amount of credit exposure in this regard, as well as held to maturity debt securities recognized at amortized cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to the credit risk through off-balance sheet items, i.e. through commitments arising from unused facilities and guarantees issued, as disclosed in Note 38.

Credit risk management comprises assessment of placements’ credit risk, subsequent monitoring, supervision, and evaluation of recoverability of placements and off-balance sheet commitments, as well as formation of required impairments and provisions for identified losses on placements and off-balance sheet commitments, and reporting to the Management Board of the Bank.

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.1. 2.1.1. Credit Risk Assessment

Assessment of the individual credit risk exposure comprises the following:

- debtors' creditworthiness,
- debtors' timeliness in meeting their obligations,
- collateral quality.

Monitoring of credit risk includes continuous assessment whether elements exist which would indicate a deterioration of the client's financial position, the client's exposure to currency risk or an increase in risk due to the decrease of collateral value.

2.1.2. Classification of Placements in Risk Categories

The Bank and Group classifies placements into risk categories depending on the estimated recovery rate of placements, and in accordance with the Croatian National Bank's Decision on Classification of Placements and Off-balance Sheet Liabilities of Credit Institutions. All placements that the Bank and Group estimates are fully recoverable are classified in risk category A. Upon initial approval, the Bank and Group classifies all placements into risk category A. Placements that the Bank and Group estimates are partly recoverable are classified into risk category B, depending on the loss percentage: in subcategory B1 (loss is estimated at below 30% of nominal carrying value of the placement), in subcategory B2 (loss is estimated at between 30% and 70% of nominal carrying value of the placement), and in subcategory B3 (loss is estimated at above 70%, but below 100% of nominal carrying value of the placement). Placements estimated to be fully irrecoverable are classified into risk category C.

2.1.3. Placements Impairment Policy

When estimating the recoverable amount of placements, the Bank and Group separates placements between small and large portfolios.

Small portfolio represents placements and off-balance sheet commitments whose gross value (before any impairment loss) does not exceed HRK 700 thousand towards a single debtor or a single group of related parties at the date of estimation.

Generally, the Bank estimates the recoverability of placements to retail customers according to criteria established for the small portfolio, whereas the recoverability of placements to corporate clients is estimated according to criteria which do not apply to the small portfolio.

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3. Placements Impairment Policy (continued)

Individual Assessment

The recoverable amount of placements that are not classified within the small loan portfolio of the Bank is estimated on an individual basis according to the following criteria:

- debtors' creditworthiness,
- debtors' timeliness in meeting their obligations, and
- collateral quality.

With respect to this, credit rating of the debtor and/ or other parties in the loan business (guarantors, co-debtors etc.) is taken into account, as well as days-past-due in debt settlement and type and appraised value of the available collateral. By taking this into consideration, as well as other available information, Bank estimates loan recoverability by evaluating future cash flows arising from the placement, which are discounted and compared with placement's book value. Required impairments are determined in this way. Bank complies with regulations from *Decision on the Classification of Placements and Off-Balance Sheet Liabilities of Credit Institutions* with respect to procedures for restructured placements, placements whose repayment is based on collateral, placements that are not secured by adequate collateral, as well as other regulations regarding eligibility of collateral and appropriate discount factors used for impairment calculus.

Portfolio Based Assessment

The Bank and Group estimates the recoverable amount of exposures that are classified on a portfolio basis by having regard principally to the debtors' timeliness in meeting their obligations. In arriving at the recoverable amount, the present value of future cash flows from the placements is estimated by reducing the principal by reference to the loan type and the number of days in default.

The following tables present the classification of exposures into risk categories and the allocation of the corresponding impairment losses as a percentage of gross principal.

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3 Placements Impairment Policy (continued)

Group

%	**Loans and Receivables**	Impairement Allowance	**Loans and Receivables from Banks**	Impairement Allowance	**Financial Assets Helt to maturity**	Impairement Allowance	**Balances with the CNB**	Impairement Allowance	**Fees Receivables**	Impairement Allowance
2017										
A	83,13	1,14	99,56	-	5,68	1,17	100,00	-	57,44	-
A - 90 days	-	-	-		-	-	-	-	-	-
B i C	16,87	59,78	0,44	100,00	94,32	76,86	-	-	42,56	100,00
2016										
A	83,98	0,97	99,73	-	99,09	1,51	100,00	-	62,00	-
A - 90 days	-	0,28	-	-	-	-	-	-	-	-
B i C	16,02	61,80	0,27	100,00	0,91	34,76	-	-	37,99	100,00

Bank

%	**Loans and Receivables**	Impairement Allowance	**Loans and Receivables from Banks**	Impairement Allowance	**Financial Assets Helt to maturity**	Impairement Allowance	**Balances with the CNB**	Impairement Allowance	**Fees Receivables**	Impairement Allowance
2017										
A	82,91	1,15	99,56	-	5,68	1,17	100,00	-	57,44	-
A - 90 days	-	-	-	-	-	-	-	-	-	-
B i C	17,09	59,79	0,44	100,00	94,32	76,86	-	-	42,56	100,00
2016										
A	83,52	0,97	99,73	-	99,09	1,51	100,00	-	61,22	-
A - 90 days	-	0,74	-	-	-	-	-	-	-	-
B i C	16,48	62,58	0,27	100,00	0,91	34,76	-	-	38,78	100,00

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

Maximum Exposure to Credit Risk before Consideration of Collateral

The table below shows the maximum exposure of the Group and Bank to credit risk as at December 31 2017 and December 31 2016, not considering the collateral, if any. The exposures presented below are net of impairment losses and provisions.

Maximum Exposure		**Group**		**Bank**	
		2017.	**2016.**	**2017.**	**2016.**
	Notes	**'000 kn**	**'000 kn**	**'000 kn**	**'000 kn**
Giro Account with the CNB and Other Banks	5	3,451,044	1,133,248	3,451,044	1,133,248
Mandatory Reserve with the CNB	6	1,300,269	1,300,796	1,300,269	1,300,796
Loans to and Receivables from Banks	7	113,832	182,087	113,832	182,087
Held to Maturity Investments	10	72,417	444,825	72,417	444,825
Loans and Receivables from Customers	11	11,141,393	11,552,549	10,979,108	11,397,810
Fees Receivable	18	12,294	13,340	11,506	12,903
Off-Balance Sheet Exposure	39	**2,042,706**	**2,364,932**	**2,042,056**	**2,362,226**
Undisbursed Lending Commitments		1,297,270	1,636,818	1,296,620	1,634,112
Guarantees		730,566	710,846	730,566	710,846
Other Contingent Liabilities		14,870	17,268	14,870	17,268
Total Credit Exposure		**18,133,955**	**16,991,777**	**17,970,232**	**16,833,895**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets Exposed to Credit Risk

Group

2017	Loans and Receivables from Customers HRK'000	Loans to and Receivable HRK'000	Financial Assets Held to Maturity HRK'000	Balances with the Croatian National Bank HRK'000	Fees Receivable HRK'000
Loans Neither Overdue nor	10,410,388	113,832	14,988	3,931,444	12,294
Overdue Loans Not Impaired	-	-	-	-	-
Impaired Loans	2,113,286	500	248,961	-	8,526
Total Gross	**12,523,674**	**114,332**	**263,949**	**3,931,444**	**20,820**
Individually Identified Losses	(1,263,301)	(500)	(191,356)	-	(8,526)
Portfolio Based Losses	(118,980)	-	(176)	-	-
	(1,382,281)	**(500)**	**(191,532)**	**-**	**(8,526)**
Total	**11,141,393**	**113,832**	**72,417**	**3,931,444**	**12,294**

2016	Loans and Receivables from Customers '000 kn	Loans to and Receivables from '000 kn	Financial Assets Held to Maturity '000 kn	Balances with the Croatian National Bank '000 kn	Fees Receivable '000 kn
Loans Neither Overdue nor Impaired	10,865,509	182,087	448,896	1,841,823	13,339
Overdue Loans Not Impaired	358	-	-	-	1
Impaired Loans	2,072,827	500	4,139	-	8,173
Total Gross	**12,938,694**	**182,587**	**453,035**	**1,841,823**	**21,513**
Individually Identified Losses	(1,280,962)	(500)	(1,439)	-	(8,173)
Portfolio Based Losses	(105,183)	-	(6,772)	-	-
Total Individually Identified Losses	**(1,386,145)**	**(500)**	**(8,211)**	**-**	**(8,173)**
Total	**11,552,549**	**182,087**	**444,824**	**1,841,823**	**13,340**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

Bank

2017	Loans and Receivables from Customers	Loans to and Receivables from Banks	Financial Assets Held to Maturity	Balances with the Croatian National Bank	Fees Receivable
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Loans Neither Overdue nor Impaired	10,247,084	113,832	14,988	3,931,444	11,506
Overdue Loans Not Impaired	-	-	-	-	-
Impaired Loans	2,112,455	500	248,961	-	8,526
Total Gross	**12,359,539**	**114,332**	**263,949**	**3,931,444**	**20,032**
Individually Identified Losses	(1,263,046)	(500)	(191,356)	-	(8,526)
Portfolio Based Losses	(117,385)	-	(176)	-	-
Total Identified Losses	**(1,380,431)**	**(500)**	**(191,532)**	**-**	**(8,526)**
Total	**10,979,108**	**113,832**	**72,417**	**3,931,444**	**11,506**

2016	Loans and Receivables from Customers	Loans to and Receivables from Banks	Financial Assets Held to Maturity	Balances with the Croatian National Bank	Fees Receivable
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Loans Neither Overdue nor Impaired	10,710,909	182,087	448,897	1,841,823	12,902
Overdue Loans Not Impaired	135	-	-	-	1
Impaired Loans	2,112,820	500	4,139	-	8,173
Total Gross	**12,823,864**	**182,587**	**453,036**	**1,841,823**	**21,076**
Individually Identified Losses	(1,322,264)	(500)	(1,439)	-	(8,173)
Portfolio Based Losses	(103,790)	-	(6,772)	-	-
Total Identified Losses	**(1,426,054)**	**(500)**	**(8,211)**	**-**	**(8,173)**
Total	**11,397,810**	**182,087**	**444,825**	**1,841,823**	**12,903**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (contuinued)

2.1.4. Assets Exposed to Credit Risk (continued)

In accordance with applicable acts, the Bank and Group utilizes the following common types of collateral: bank guarantees; HAMAG-BICRO (Croatian Agency for SMEs, Innovation and Investments) and other corporate guarantees; bills of exchange accepted by a bank; pledged property and equipment; insurance policies; pledged shares, bonds, commercial papers, and units in open-ended investment funds; assignment of receivables (cessions) from corporate clients and the Government; pledged concessions; pledged industrial and intellectual property; and other common financial execution instruments, such as bills of exchange and promissory notes.

Collateral value is reviewed along the lines of internal policies and procedures, and in accordance with good business practice, current market trends as well as the Resolution on Classifying Placements and Off-Balance Sheet Liabilities of Credit Institutions.

Collateral value in the table below relates to recorded collateral value based on valuation made by certified appraisers without adjustments for discount factors but excluding burdens listed before the Bank and limiting to the amount of exposure which it collateralizes.

		Group		Bank	
Asset Type	**Collateral Type**	**2017**	**2016**	**2017**	**2016**
		'000 kn	**'000 kn**	**'000 kn**	**'000 kn**
Financial Assets Held to Maturity		**-**	**25,821**	**-**	**25,821**
	Deposits	-	25,821	-	25,821
Loans to and Receivables from Customers		**4,974,048**	**4,988,823**	**4,813,691**	**4,823,839**
	Deposits	167,814	188,045	167,814	188,045
	Debt Securities	64,851	81,580	64,851	81,580
	Guarantees and Warranties of the	1,330,936	1,216,947	1,330,936	1,216,947
	Real Estate – Non-Business Purposes	1,764,991	1,729,269	1,604,634	1,564,285
	Real Estate – Business Purposes	1,124,911	1,381,209	1,124,911	1,381,209
	Movable Property (equipment, supplies, vehicles, ships etc.)	92,913	75,313	92,913	75,313
	Equity Investments (Single-Stocks and Funds)	235,876	77,025	235,876	77,025
	Land	191,756	239,436	191,756	239,436
Total		**4,974,048**	**5,014,644**	**4,813,691**	**4,849,660**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (contuinued)

2.1.4. Assets Exposed to Credit Risk (continued)

Below is presented an overview of due and not yet due receivables aging structure based on days-past-due, with regard to the principal of the loans:

Group u '000 kn	**Total**	**Undue Exposure to Credit Risk**	**Days Past Due 1-30**	**Days Past Due 31-60**	**Days Past Due 61-90**	**Days Past Due 91-180**	**Days Past Due 180+**
31. prosinca 2017.							
Government	3,263,848	3,262,554	1,290	-	-	-	4
Other Corporate							
Clients	3,877,512	2,838,443	34,720	11,298	29,311	45,821	917,919
Retail	5,332,578	4,979,922	16,803	7,325	3,263	39,798	285,467
Total	**12,473,938**	**11,080,919**	**52,813**	**18,623**	**32,574**	**85,619**	**1,203,390**
31. prosinca 2016.							
Government	4,023,904	4,021,914	1,986	-	-	-	4
Other Corporate							
Clients	3,913,148	2,662,028	76,209	38,183	5,064	7,887	1,123,777
Retail	4,951,372	4,676,596	24,308	6,961	3,466	35,183	204,858
Total	**12,888,424**	**11,360,538**	**102,503**	**45,144**	**8,530**	**43,070**	**1,328,639**

Bank u '000 kn	**Total**	**Undue Exposure to Credit Risk**	**Days Past Due 1-30**	**Days Past Due 31-60**	**Days Past Due 61-90**	**Days Past Due 91-180**	**Days Past Due 180+**
31. prosinca 2017.							
Government	3,263,848	3,262,554	1,290	-	-	-	4
Other Corporate							
Clients	3,883,674	2,844,606	34,720	11,298	29,310	45,821	917,919
Retail	5,162,841	4,810,220	16,803	7,325	3,263	39,798	285,432
Total	**12,310,363**	**10,917,380**	**52,813**	**18,623**	**32,573**	**85,619**	**1,203,355**
31. prosinca 2016.							
Government	4,023,904	4,021,914	1,986	-	-	-	4
Other Corporate							
Clients	3,962,216	2,669,607	76,209	38,183	5,064	7,887	1,165,266
Retail	4,786,388	4,511,743	24,233	6,943	3,466	35,172	204,831
Total	**12,772,508**	**11,203,264**	**102,428**	**45,126**	**8,530**	**43,059**	**1,370,101**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (contuinued)

2.1.4. Assets Exposed to Credit Risk (continued)

The gross amount of fully recoverable placements, where a payment delay of more than 90 days has not been established and no impairment allowance is made on an individual basis at the date of preparation of the financial statements and the coverage of the relevant collateral at its fair value, expressed as a percentage of net loans is as follows:

(a) Assets exposed to credit risk but not impaired (risk category A)

Group 2017 '000 kn	Government Units	Financial Institutions (Excl. Banks)	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets Held to Maturity**	**Balances with the Croatian National Bank**	**Fees Receivable**
Gross Amount	3,189,554	11,310	2,330,183	1,847,245	15,924	141,222	2,874,950	**10,410,388**	113,832	14,988	3,931,444	12,294
Total Portfolio Based Losses	(36,538)	(130)	(26,764)	(20,815)	(182)	(1,618)	(32,933)	**(118,980)**	-	(176)	-	-
Net Amount	**3,153,016**	**11,180**	**2,303,419**	**1,826,430**	**15,742**	**139,604**	**2,842,017**	**10,291,408**	**113,832**	**14,812**	**3,931,444**	**12,294**
Collateral Value	563,107	-	1,601,827	1,333,529	11,409	-	246,914	**3,756,786**	-	-	-	-
Collateral Coverage	17,86	0,00	69,54	73,01	72,47	-	8,69	**36,50**	-	-	-	-

2016 '000 kn	Government Units	Financial Institutions (Excl. Banks)	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets Held to Maturity**	**Balances with the Croatian National Bank**	**Fees Receivable**
Gross Amount	4,031,561	81,631	2,156,073	1,561,967	415	146,655	2,887,207	**10,865,509**	182,087	448,896	1,841,823	13,339
Total Portfolio Based Losses	(38,960)	(791)	(20,975)	(15,053)	(5)	(1,421)	(27,977)	**(105,182)**	-	(6,772)	-	-
Net Amount	**3,992,601**	**80,840**	**2,135,098**	**1,546,914**	**410**	**145,234**	**2,859,230**	**10,760,327**	**182,087**	**442,124**	**1,841,823**	**13,339**
Collateral Value	654,804	81,580	1,362,133	1,457,315	415	-	242,190	**3,798,437**	-	25,821	-	-
Collateral Coverage (%)	16,40	100,92	63,80	94,21	101,22	-	8,47	**35,30**	-	5,84	-	-

2. RISK MANAGEMENT (continued)

2.1. Credit risk (contuined)

2.1.4. Assets Exposed to Credit Risk (continued)

Bank
2017
'000 kn

	Government Units	Financial Institutions (Excl. Banks)	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets Held to Maturity**	**Balances with the Croatian National Bank**	**Fees Receivable**
Gross Amount	3,189,554	11,310	2,336,346	1,677,778	15,924	141,222	2,874,950	**10,247,084**	113,832	14,988	3,931,444	11,506
Total Portfolio Based Losses	(36,538)	(130)	(26,764)	(19,220)	(182)	(1,618)	(32,933)	**(117,385)**	-	(176)	-	-
Net Amount	**3,153,016**	**11,180**	**2,309,582**	**1,658,558**	**15,742**	**139,604**	**2,842,017**	**10,129,699**	**113,832**	**14,812**	**3,931,444**	**11,506**
Collateral Value	563,107	-	1,601,827	1,333,529	11,409	-	246,914	**3,756,786**	-	-	-	-
Collateral Coverage (%)	17,86	-	69,36	80,40	72,47	-	8,69	**37,09**	-	-	-	-

2016
'000 kn

	Government Units	Financial Institutions (Excl. Banks)	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets Held to Maturity**	**Balances with the Croatian National Bank**	**Fees Receivable**
Gross Amount	4,031,562	81,631	2,164,661	1,398,778	415	146,655	2,887,207	**10,710,909**	182,087	448,897	1,841,823	12,902
Total Portfolio Based	(39,066)	(791)	(20,975)	(13,554)	(5)	(1,421)	(27,977)	**(103,789)**	-	(6,772)	-	-
Net Amount	**3,992,496**	**80,840**	**2,143,686**	**1,385,224**	**410**	**145,234**	**2,859,230**	**10,607,120**	**182,087**	**442,125**	**1,841,823**	**12,902**
Collateral Value	654,804	81,580	1,362,133	1,294,709	415	-	242,190	**3,635,831**	-	25,821	-	-
Collateral Coverage (%)	16,40	100,92	63,54	93,47	101,22	0,00	8,47	**34,28**	-	5,84	-	-

2. RISK MANAGEMENT (continued)

2.1. Credit risk (contuinued)

2.1.4. Assets Exposed to Credit Risk (continued)

(b) Assets exposed to credit risk in the risk category A that are past due beyond 90 days but not impaired

(c) The gross balance and the coverage of those assets with collateral at fair value, presented as a percentage of net placements is as follows:

Group	**Loans and Receivables from Customers**					
2017	Governme		Housing	Other		**Fee Receivable**
'000 kn	nt Units	Companies	Loans	Loans	**Total**	
Gross Amount	-	-	-	-	-	-
Total Portfolio Based						
Losses	-	-	-	-	-	-
Net Amount						
Collateral Value	-	-	-	-	-	-
Collateral Coverage (%)	-	-	-	-	-	-

	Loans and Receivables from Customers					
2016	Governme		Housing	Other		**Fee Receivable**
'000 kn	nt Units	Companies	Loans	Loans	**Total**	
Gross Amount	134	223	1	358	1	134
Total Portfolio Based						
Losses	(1)	-	-	(1)	-	(1)
Net Amount	**133**	**223**	**1**	**357**	**1**	**133**
Collateral Value	-	-	110	110	-	-
Collateral Coverage (%)	-	-	-	30,81	-	-

2. RISK MANAGEMENT (continued)

2.1. Credit risk (contuinued)

2.1.4. Assets Exposed to Credit Risk (continued)

(b) Assets exposed to credit risk in the risk category A that are past due beyond 90 days but not impaired

Bank	**Loans and Receivables from Customers**					**Fee Receivable**
2017 **'000 kn**	Government Units	Companies	Housing Loans	Other Loans	**Total**	
Gross Amount	-	-	-	-	-	-
Total Portfolio Based Losses	-	-	-	-	-	-
Net Amount						
Collateral Value	-	-	-	-	-	-
Collateral Coverage (%)	-	-	-	-	-	-

	Loans and Receivables from Customers					**Fee Receivable**
2016 **'000 kn**	Government Units	Companies	Housing Loans	Other Loans	**Total**	
Gross Amount	134	-	1	**135**	1	134
Total Portfolio Based Losses	(1)	-	-	**(1)**	**-**	(1)
Net Amount	**133**	**-**	**1**	**134**	**1**	**133**
Collateral Value	-	-	110	**110**	-	-
Collateral Coverage (%)	-	-	-	82,09	-	-

2. RISK MANAGEMENT (continued)

2.1. Credit risk (contuinued)

2.1.4. Assets Exposed to Credit Risk (continued)

(c) Credit risk on impaired assets in risk categories B and C

Tables below show the amount of loans with impairments, both individual and portfolio based, as well as coverage of these placements by corresponding collateral at fair value in percentage and in relation to net placements as following:

Group 2017 '000 kn	Loans to Customers						Loans to and Receivables from Banks	Financial Assets Held to Maturity	Fees
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Companies	Housing Loans	Mortgage Loans	Credit Cards	Receivable Companies
Gross Amount	1.631.846	64.846	101.740	11.967	302.887	**2.113.286**	500	248.961	8.526
Total Identified Losses	-962.806	(17.646)	(72.862)	(9.770)	(200.217)	**(1.263.301)**	(500)	(191.356)	(8.526)
Net Amount	**669.040**	**47.200**	**28.878**	**2.197**	**102.670**	**849.985**	**-**	**57.605**	**-**
Collateral Value	833.930	55.507	57.039	-	45.578	**992.054**	-	-	-
Collateral Coverage (%)	124,65	117,60	197,52	-	44,39	116,71	**-**	**-**	**-**
2016 '000 kn	**Loans to Customers**						**Loans to and Receivables from Banks**	**Financial Assets Held to Maturity**	**Fees**
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Companies	Housing Loans	Mortgage Loans	Credit Cards	**Receivable** Companies
Gross Amount	1,673,400	40,448	53	7,628	351,298	**2,072,827**	500	4,139	8,173
Total Identified Losses	(1,057,221)	(19,560)	(5)	(5,928)	(198,248)	**(1,280,962)**	(500)	(1,439)	(8,173)
Net Amount	**616,179**	**20,888**	**48**	**1,700**	**153,050**	**791,865**	**-**	**2,700**	**-**
Collateral Value	1,031,668	37,291	53	**-**	121,039	**1,190,051**	**-**	**-**	**-**
Collateral Coverage (%)	167,43	178,53	110,42	**-**	79,08	150,28	**-**	**-**	**-**

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2. RISK MANAGEMENT (continued)

2.1. Credit risk (contuinued)

2.1.4. Assets Exposed to Credit Risk (continued)

(c) Credit risk on impaired assets in risk categories B and C

Bank 2017. '000 kn	**Loans to Customers**						**Loans to and Receivables from Banks**	**Financial Assets Held to Maturity**	**Fees Receivable**
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Companies	Housing Loans	Mortgage Loans	Credit Cards	Companies
Gross Amount	1,631,846	64,015	101,740	11,967	302,887	**2,112,455**	500	248,961	8,526
Total Identified Losses	(962,806)	(17,391)	(72,862)	(9,770)	(200,217)	**(1,263,046)**	(500)	(191,356)	(8,526)
Net Amount	669,040	46,624	28,878	2,197	102,670	**849,409**	**-**	**57,605**	**-**
Collateral Value	**833,930**	**55,507**	**57,039**	**-**	**45,578**	**992,054**	-	-	-
Collateral Coverage (%)	124,65	119,05	197,52	-	44,39	116,79	**-**	**-**	**-**

2016. '000 kn	**Loans to Customers**						**Loans to and Receivables from Banks**	**Financial Assets Held to Maturity**	**Fees Receivable**
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Companies	Housing Loans	Mortgage Loans	Credit Cards	Companies
Gross Amount	1,715,547	38,294	53	7,628	351,298	**2,112,820**	500	4,139	8,173
Total Identified Losses	(1,099,263)	(18,820)	(5)	(5,928)	(198,248)	**(1,322,264)**	(500)	(1,439)	(8,173)
Net Amount	**616,284**	**19,474**	**48**	**1,700**	**153,050**	**790,556**	**-**	**2,700**	**-**
Collateral Value	1,031,668	35,137	53	-	121,039	**1,187,897**	-	-	-
Collateral Coverage (%)	167,40	180,43	110,42	-	79,08	150,26	**-**	**-**	**-**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (contuinued)

2.1.4. Assets Exposed to Credit Risk (continued)

(d) Prolonged and rescheduled loans to customers

Prolongation of a loan is approved to customers because of common and current financing needs of their business activities.

Loans are most often rescheduled when borrowers' business operations are disrupted, with considerable changes made to the previously agreed lending terms and conditions

	2017 '000 kn	2016 '000 kn
Gross Loans to Customers		
Corporate	476.603	653.698
Retail	67.691	63.954
Total	**544.294**	**717.652**

2.1.5. Credit Risk Concentration by Industry

An analysis of the concentration of credit risk by industry is presented in the table below:

	Group 2017 '000 kn	Group 2016 '000 kn
Public administration, Defense and Compulsory Social Security	2,600,977	3,352,833
Manufacturing	925,997	1,020,081
Construction	1,034,089	1,014,397
Transportation and Storage	427,254	348,132
Wholesale and Retail Trade; Motor Vehicles and Motorcycles Repair	458,632	459,407
Professional, Scientific and Technical Activities	527,975	523,031
Accommodation and Food Service Activities	377,828	311,152
Agriculture, Forestry and Fishing	220,419	239,259
Information and Communications	128,390	150,274
Electricity and Gas Supply and Air-Conditioning	100,509	72,339
Arts, Entertainment and Recreation	101,707	110,500
Administrative and Auxiliary Services	66,798	29,613
Other	180,563	306,034
Total Gross Corporate Loans	**7,151,138**	**7,937,052**
Gross Retail Loans	**5,322,800**	**4,951,372**
Collateralized	**4,748,840**	**4,988,823**
Accrued Interests	49,736	51,936
Provision for Impairment Losses	(1,382,281)	(1,386,145)
Total	**11,141,393**	**11,554,215**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (contuinued)

2.1.5. Credit Risk Concentration by Industry (continued)

	Bank	Bank
	2017	2016
	'000 kn	'000 kn
Public administration, Defense and Compulsory Social Security	2,600,977	3,352,833
Manufacturing	925,997	1,020,081
Construction	1,034,089	1,014,397
Transportation and Storage	427,254	348,132
Wholesale and Retail Trade; Motor Vehicles and Motorcycles	458,632	459,407
Professional, Scientific and Technical Activities	527,975	523,031
Accommodation and Food Service Activities	377,828	311,152
Agriculture, Forestry and Fishing	220,419	239,259
Information and Communications	128,390	150,274
Electricity and Gas Supply and Air-Conditioning	100,509	72,339
Arts, Entertainment and Recreation	101,707	110,500
Administrative and Auxiliary Services	66,798	29,613
Other	186,726	355,102
Total Gross Corporate Loans	**7,157,301**	**7,986,120**
Gross Retail Loans	**5,153,062**	**4,786,388**
Collateralized	4,748,840	4,823,839
Accrued Interests	49,176	51,355
Provision for Impairment Losses	(1,380,431)	(1,426,053)
Total	**10,979,108**	**11,397,810**

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk

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

- liquidity funding risk (structural liquidity risk): risk that the Bank will not be able to meet efficiently its expected and unexpected present and future cash and collateral requirements without impacting its day-to-day operations or its own financial result,
- market liquidity risk, risk that the Bank will not be able to offset its positions or liquidate positions at market price due to a market disturbance or the market being insufficiently deep.

The Bank and Group manage liquidity risk in accordance with the legal and regulatory requirements. In addition to those requirements, liquidity risk management is governed by the following internal regulations:

- Risk Management Policy,
- Liquidity Risk Management Manual.

The system for managing liquidity risk, in line with defined polices, includes:

- estimation and measurement of liquidity risk exposure;
- setting liquidity risk exposure limits,
- reporting and monitoring the limits used,
- the mechanism for the distribution of liquidity costs and benefits,
- control function.

Liquidity risk management is realized through:

- operational management of daily liquidity,
- operational management of short-term liquidity,
- structural liquidity management.

Operational management of daily and short-term liquidity is performed through:

- planning and projecting daily/ ten-day/ monthly cash flows
- maintaining minimum weekly and monthly liquidity coefficient in HRK, total of all convertible currencies and non-convertible currencies individually, and total minimum weekly and monthly liquidity coefficient, calculated according to CNB's Decision on Liquidity Risk Management, within the prescribed limit.

Structural liquidity management is performed through:

- maintaining positions depending on gap limits between receivables and liabilities according to remaining contractual maturity,
- maintaining positions in accordance with liquidity risk exposure limits,
- diversification of sources of funding.

RISK MANAGEMENT (continued)

2.2. Liquidity Risk (continued)

Risk Management Division is reporting monthly about liquidity risk and liquidity risk exposure limits during sessions of Assets and Liabilities Management Committee.

The Bank submits to the Croatian National Bank a monthly regulatory report on liquidity coverage. The prescribed quantitative requirements include: the amount of liquid assets (C72), the amount of potential outflows (C73), the amount of potential inflows (C74) and the calculation of liquidity coverage (C76).

The Bank and the Group were for all the positions for which regulatory limits were imposed during 2017 within the prescribed regulatory limits. The Bank maintains a compulsory reserve and minimally required foreign currency receivables within the limits prescribed by the Mandatory Reserve Decision and the Decree on minimum required foreign currency receivables.

Financial Markets Division reports monthly to Assets and Liability Management Committee about planned outflows and inflows.

Responsibility for liquidity risk management rests with the Bank's Management Board. The Bank’s Asset and Liability Committee is authorized by the Management Board to manage liquidity risk. The Committee makes decisions and conclusions regarding liquidity management in its sessions. Each sector to which these decisions and conclusions made by the committee relate, is obliged to enact them.

As a part of liquidity risk management system, authority, responsibilities and procedures in conditions of liquidity crisis are determined separately.

The Bank and Group prescribes and implements stress tests of its liquidity. Risk Management Division conducts tests of immunity to stress by taking into account all the factors specific to the Bank (internal factors) and market factors (external factors).

Stress tests are conducted on minimal liquidity coefficient for HRK.

Long-term liquidity management is achieved by maintaining positions in accordance with the limits of exposure to liquidity risk, diversification of sources of funding, and monitoring and reporting on stable sources of financing.

2.2.1 Maturity Analysis

A maturity analysis of assets and liabilities, as well as equity, of the Bank and Group, based on their remaining contractual maturity, except for financial assets at fair value through profit and loss that are analyzed as current based on their classification and the Bank’s and Group’s trading intention, as at December 31 2017 and December 31 2016, is presented in the tables below.

Although significant negligent maturity mismatches have been reported in the first analyzed periods, the Bank does not expect the outflow of deposits in contractual terms in accordance with its own historical experience and knowledge of the customers.

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk (continued)

2.2.1. Maturity Analysis (continued)

Group

2017 u '000 kn	0-30 Days	31-90 Days	91-360 Days	1 to 3 Years	Over 3 Years	Total
ASSETS						
Cash and Amounts Due from Banks	3,451,044	-	-	-	-	**3,451,044**
Mandatory Reserve with the Croatian National Bank	1,300,269	-	-	-	-	**1,300,269**
Loans to and Receivables from Banks	93,441	20,161	-	230	-	**113,832**
Financial Assets at Fair Value in PNL	877,491	6,507	-	-	-	**883,998**
Financial Assets Available for Sale	49,993	71,375	92,259	1,170,261	1,197,463	**2,581,351**
Financial Assets Held to Maturity	57,464	74	-	14,879	-	**72,417**
Loans to and Receivables from Customers	1,252,479	430,139	1,608,509	2,292,250	5,558,016	**11,141,393**
Assets Held for Sale	-	-	-	20,000	-	**20,000**
Properties and Equipment	-	-	-	-	135,831	**135,831**
Investment Properties	-	-	-	-	79,832	**79,832**
Intangible Assets	-	-	-	-	110,861	**110,861**
Deferred Tax Assets, Net	-	-	391	-	33,974	**34,365**
Tax Prepayment	-	-	460	-	-	**460**
Other Assets	113,981	-	8,161	-	295	**122,437**
TOTAL ASSETS	**7,196,162**	**528,256**	**1,709,780**	**3,497,620**	**7,116,272**	**20,048,090**
LIABILITIES						
Financial Liabilities at Fair Value in PNL	-	-	-	-	-	-
Deposits from Banks	50,889	108,834	240,067	-	-	**399,790**
Customer Deposits	9,188,418	1,473,932	4,478,427	1,415,196	251,964	**16,807,937**
Borrowings	36,872	14,699	63,927	182,363	375,022	**672,883**
Provisions for Liabilities and Expenses	13,698	428	46,142	7,992	5,167	**73,427**
Tax Liabilities	-	-	418	-	-	**418**
Other Liabilities	150,079	11,489	13,544	2,527	5,179	**182,818**
Total Equity	-	**-**	**-**	**-**	1,910,817	**1,910,817**
TOTAL LIABILITIES AND	**9,442,236**	**1,609,382**	**4,842,525**	**1,608,078**	**2,545,869**	**20,048,090**
MATURITY GAP	**(2,246,074)**	**(1,081,126)**	**(3,132,745)**	**1,889,542**	**4,570,403**	**-**
CUMMULATIVE MATURITY GAP	**(2,246,074)**	**(3,327,200)**	**(6,459,945)**	**(4,570,403)**	**-**	**-**
OFF-BALANCE SHEET	***470,948***	***165,184***	***951,924***	***223,974***	***230,025***	***2,042,056***
Derivatives	-	-	-	-	-	-
Off-Balance Sheet Contingent	*470,948*	*165,184*	*951,924*	*233,974*	*230,025*	*2,042,056*

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk (continued)

2.2.1. Maturity Analysis (continued)

Group **2016. u '000 kn**	**0-30 Days**	**31-90 Days**	**91-360 Days**	**1 to 3 Years**	**Over 3 Years**	**Total**
ASSETS						
Cash and Amounts Due from Banks	1,554,612	-	-	-	-	1,554,612
Mandatory Reserve with the Croatian National Bank	1,300,796	-	-	-	-	1,300,796
Loans to and Receivables from Banks	161,913	20,074	-	100	-	182,087
Financial Assets at Fair Value in PNL	1,009,597	9,844	-	-	-	1,019,441
Financial Assets Available for Sale	99,972	23,392	707,953	272,059	1,650,562	2,753,938
Financial Assets Held to Maturity	2,160	219,499	208,442	14,724	-	444,825
Loans to and Receivables from Customers	1,662,215	300,885	2,453,237	2,448,674	4,689,204	11,554,215
Assets Held for Sale	81,419	-	-	7,930	-	89,349
Properties and Equipment	-	-	-	-	140,764	140,764
Investment Properties	-	-	-	-	96,518	96,518
Intangible Assets	-	-	-	-	107,360	107,360
Deferred Tax Assets, Net	-	-	448	-	40,281	40,729
Tax Prepayment	-	-	348	-	-	348
Other Assets	242,691	(606)	8,087	21,000	129,780	400,952
TOTAL ASSETS	**6,115,375**	**573,088**	**3,378,515**	**2,764,487**	**6,854,469**	**19,685,934**
LIABILITIES						
Financial Liabilities at Fair Value in PNL	-	3,641	-	-	-	3,641
Deposits from Banks	234,855	104,331	169,947	-	-	509,133
Customer Deposits	7,973,964	1,591,786	4,925,135	1,280,036	253,883	16,024,804
Borrowings	53,885	104,677	84,771	156,913	326,414	726,660
Provisions for Liabilities and Expenses	17,207	921	36,892	4,778	988	60,787
Tax Liabilities	58	-	-	-	-	58
Other Liabilities	256,291	16,844	36,342	14,964	142,996	467,439
Total Equity	**-**	**-**	**-**	**-**	1,893,412	1,893,412
TOTAL LIABILITIES AND	**8,536,261**	**1,822,201**	**5,253,087**	**1,456,691**	**2,617,693**	**19,685,934**
MATURITY GAP	**(2,420,886)**	**(1,249,113)**	**(1,874,573)**	**1,307,796**	**4,236,776**	**-**
CUMMULATIVE MATURITY GAP	**(2,420,886)**	**(3,669,999)**	**(5,544,571)**	**(4,236,776)**	**-**	**-**
OFF-BALANCE SHEET	***611,463***	***391,631***	***963,608***	***457,668***	***132,137***	***2,556,507***
Derivatives	-	*96,500*	*1,994*	-	-	*98,494*
Off-Balance Sheet Contingent	*611,463*	*295,132*	*961,614*	*457,668*	*132,137*	*2,458,014*

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk (continued)

2.2.1. Maturity Analysis (continued)

Bank 2017. u '000 kn	0-30 Days	31-90 Days	91-360 Days	1 to 3 Years	Over 3 Years	Total
ASSETS						
Cash and Amounts Due from Banks	3,451,044	-	-	-	-	3,451,044
Mandatory Reserve with the Croatian National Bank	1,300,269	-	-	-	-	1,300,269
Loans to and Receivables from Banks	93,441	20,161	-	230	-	113,832
Financial Assets at Fair Value in PNL	738,947	4,225	-	-	-	743,172
Financial Assets Available for Sale	49,993	71,375	92,259	1,170,261	1,197,463	2,581,351
Financial Assets Held to Maturity	57,464	74	-	14,879	-	72,417
Loans to and Receivables from Customers	1,249,529	427,990	1,598,505	2,265,026	5,438,058	10,979,108
Assets Held for Sale	-	-	-	20,000	-	20,000
Investments in Subsidiaries	-	-	-	-	45,490	45,490
Properties and Equipment	-	-	-	-	135,576	135,576
Investment Properties	-	-	-	-	70,748	70,748
Intangible Assets	-	-	-	-	110,664	110,664
Deferred Tax Assets, Net	-	-	-	-	33,974	33,974
Tax Prepayment	-	-	460	-	-	460
Other Assets	112,938	-	6,052	-	-	118,990
TOTAL ASSETS	**7,053,625**	**523,825**	**1,697,276**	**3,470,396**	**7,031,973**	**19,777,095**
LIABILITIES						
Financial Liabilities at Fair Value in PNL	-	-	-	-	-	-
Deposits from Banks	50,889	108,834	240,067	-	-	399,790
Customer Deposits	9,228,148	1,464,205	4,437,161	1,319,623	103,317	16,552,454
Borrowings	36,872	14,699	63,927	182,363	375,022	672,883
Provisions for Liabilities and Expenses	13,681	189	45,926	7,992	5,167	72,955
Other Liabilities	144,451	9,912	11,654	2,527	5,179	173,723
Total Equity	**-**	-	-	-	1,905,290	1,905,290
TOTAL LIABILITIES AND	**9,474,041**	**1,597,839**	**4,798,735**	**1,512,505**	**2,393,975**	**19,777,095**
MATURITY GAP	**(2,420,416)**	**(1,074,014)**	**(3,101,459)**	**1,957,891**	**4,637,998**	**-**
CUMMULATIVE MATURITY	**(2,420,416)**	**(3,494,430)**	**(6,595,889)**	**(4,637,998)**	**-**	**-**
OFF-BALANCE SHEET	***470,948***	***165,184***	***951,924***	***223,974***	***230,025***	***2,042,056***
Derivatives	-	-	-	-	-	-
Off-Balance Sheet Contingent Liabilities	*470,948*	*165,184*	*951,924*	*223,974*	*230,025*	*2,042,056*

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk (continued)

2.2.1. Maturity Analysis (continued)

Bank 2016. u '000 kn	0-30 Days	31-90 Days	91-360 Days	1 to 3 Years	Over 3 Years	Total
ASSETS						
Cash and Amounts Due from Banks	1,554,584	-	-	-	-	**1,554,584**
Mandatory Reserve with the Croatian National Bank	1,300,796	-	-	-	-	**1,300,796**
Loans to and Receivables from Banks	161,913	20,074	-	100	-	**182,087**
Financial Assets at Fair Value in PNL	866,888	7,562	-	-	-	**874,450**
Financial Assets Available for Sale	99,972	23,392	707,953	272,059	1,650,562	**2,753,938**
Financial Assets Held to Maturity	2,159	219,500	208,442	14,724	-	**444,825**
Loans to and Receivables from Customers	1,653,790	299,420	2,444,212	2,424,063	4,576,325	**11,397,810**
Assets Held for Sale	81,419	-	-	7,930	-	**89,349**
Investments in Subsidiaries	-	-	-	-	45,490	**45,490**
Properties and Equipment	-	-	-	-	140,622	**140,622**
Investment Properties	-	-	-	-	87,209	**87,209**
Intangible Assets	-	-	-	-	107,052	**107,052**
Deferred Tax Assets, Net	-	-	-	-	37,201	**37,201**
Tax Prepayment	-	-	253	-	-	**253**
Other Assets	241,332	1,738	6,150	21,000	-	**270,220**
TOTAL ASSETS	**5,962,854**	**571,686**	**3,367,010**	**2,739,876**	**6,644,461**	**19,285,886**
LIABILITIES						
Financial Liabilities at Fair Value in PNL	-	3,641	-	-	-	3,641
Deposits from Banks	234,855	104,331	169,947	-	-	509,133
Customer Deposits	7,991,811	1,578,433	4,879,288	1,208,520	114,670	15,772,722
Borrowings	53,884	104,677	84,771	156,913	326,415	726,660
Provisions for Liabilities and Expenses	17,196	921	36,814	4,755	988	60,674
Other Liabilities	249,966	14,772	34,317	14,964	11,587	325,606
Total Equity	-	-	-	-	1,887,450	1,887,450
TOTAL LIABILITIES AND	**8,547,712**	**1,806,775**	**5,205,137**	**1,385,152**	**2,341,110**	**19,285,886**
MATURITY GAP	**(2,584,859)**	**(1,235,089)**	**(1,838,127)**	**1,354,724**	**4,303,351**	**-**
CUMMULATIVE MATURITY	**(2,584,859)**	**(3,819,948)**	**(5,658,075)**	**(4,303,351)**	**-**	**-**
OFF-BALANCE SHEET	***611,463***	***295,132***	***961,614***	***457,668***	***132,137***	***2,458,014***
Derivatives	*-*	*95,788*	*-*	*-*	*-*	*95,788*
Off-Balance Sheet Contingent	*611,463*	*199,344*	*961,614*	*457,668*	*132,137*	*2,362,226*

2. RISK MANAGEMENT (continued)

2.3. Market Risk

The exposure to market risk occurs in balance sheet and off-balance sheet positions recognized at fair value:

- financial assets held for trading,
- financial assets available for sale,
- positions denominated in foreign currency (including placements and liabilities linked to foreign currencies).

All trading instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous (i.e. impaired). Trading financial instruments are recognized at fair value, and all changes in market conditions directly affect trading income. The Bank and Group manages their use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed through acquisitions or disposals of financial instruments in accordance with the risk limits set in Market Risk Management Guidelines.

Market risk management of the Bank and Group are conducted in accordance with regulatory requirements, as is defined by internal policies and procedures regarding market risks which are regularly revised by the Risk Management Division.

The Risk Management Division daily calculates market risk exposure figures, usage of exposure to market risk limits and capital requirements for exposure to market risks.

In the measurement of the market risk exposure, the Bank relies on regulations set out by the Croatian National Bank and monitors:

- Capital requirement calculated by the standard method calculated in accordance with the Croatian National Bank's Decision on the capital adequacy of financial institutions,
- Value at Risk (VaR) which represents the maximum potential loss that the Bank could incur as a result of changes in market risk factors (interest rates, exchange rate and share prices) for a period of retaining the same position for 10 days at statistical accuracy of 99%. VaR is calculated at the end of the day and does not include daily exposure arising from a change in position. To calculate VaR, a database containing 250 historical figures is used,

In addition the Bank uses the following internally prescribed measures in measuring exposure to debt instrument position risks:

- Duration (measure of the sensitivity of debt security prices to changes in interest rates),
- PV01 which represents the decline of portfolio value in a scenario where interest rates increase by 0.01%.

The Risk Management Division reports daily to the Financial Markets Division on the usage of market risk exposure limits, daily to the Financial Management Division regarding the capital requirements for currency risk and position risks, and monthly to the Assets and Liabilities Management Committee on market risk exposure.

2. RISK MANAGEMENT (continued)

2.3. Market risk (continued)

a) Trading Portfolio

The table below shows the movements in those measures at December 31 2017 and December 31 2016.

2017	**Position HRK'000**	**VaR**
FX Risk	88,325	(609)
Fixed-Income Position Risk	608,657	(3,811)
Equity Position Risk	33,527	(2,357)
Investment Fund Position Risk	100,988	(1,334)
Correlation Effect	-	2,551
Market Risk	-	**(5,559)**
2016		
FX Risk	44,103	(331)
Fixed-Income Position Risk	644,736	(6,885)
Equity Position Risk	39,393	(2,684)
Investment Fund Position Risk	186,541	(960)
Correlation Effect	-	3,287
Market Risk	-	**(7,572)**

2. RISK MANAGEMENT (continued)

2.3. Market risk (continued)

a) Available for Sale Portfolio

The available for sale portfolio consists of fixed-income and equity securities.

The table below shows market value and VaR movements for the portfolio of fixed-income and equity securities available for sale.

Bonds	Market Value HRK'000	VaR HRK'000
2017	2,560,245	(14,901)
2016	2,734,202	(23,700)

Equity	Market Value HRK'000	VaR HRK'000
2017	(22,124)	(2,862)
2016	19,736	(525)

2. RISK MANAGEMENT (continued)

2.4. Interest Rate Risk in the Bank Non-Trading Book

Interest Rate Risk in the Bank's Non-Trading Book

Interest rate risk in the Bank's and Group's non-trading book is a risk which can have a negative effect on economic value of the Bank's and Group's book and earnings (net interest income), because of variation of market interest rates. Exposure to interest rate risk in the Bank's non-trading book arises as a consequence of:

- mismatch between assets and liabilities distributed according to the possibility of interest rate change criterion (repricing gaps),
- various natures of interest rates (reference rates) applied by the Bank in arranging its lending and borrowing activities.

Accordingly, all interest-rate sensitive items in the Bank's non-trading book are exposed to interest rate risk.

The Bank and Group manages interest rate risk in its non-trading book in accordance with the legal and regulatory requirements. In line with the Croatian National Bank's Decision on the Management of Interest rate risk in the Bank's and Group's non-trading book, it is required to submit quarterly reports to the Croatian National Bank about the interest rate risk in the bank's non-trading book, on unconsolidated and consolidated basis both.

Apart from those regulations, managing interest rate risk in the Bank's non-trading book is regulated by:

- Risk Management Policy, and
- Manual on Managing Interest Rate Risk in the Bank's non-trading book.

The Manual on Managing Interest Rate Risk in the Bank's and Group's non-trading nook defines the management process, evaluation methods and measures of exposure to interest rate risk in the Bank's non-trading book, as well as exposure limits, manner and frequency of reporting about the Bank's and Group's exposure to that risk.

The Bank and Group assesses interest rate risk in the bank's non-trading book by observing this risk from two perspectives:

- Perspective of economic value: a potential market value decrease of the Bank's non-trading book because of interest rate movements in the market,
- Profit perspective: a potential decrease of net interest income because of movements in market interest rates.

Perspective of Economic Value of Capital

The Bank uses a simplified calculation of the estimate of the change in the economic value of the Bank's book by applying a standard interest rate shock to the book position of the bank exposed to the risk of interest rate changes in all major currencies individually and for other currencies altogether or applying an internal system of measurements of the economic value calculated as 99 percentile attributed to one-day changes Interest rates over a period of 5 years are scaled to a year of 240 days depending on what is more unfavorable. The Bank's interest-sensitive bank book position is allocated to 15 time zones by distinguishing between fixed-rate positions, floating interest rates and interest rates that can be changed by management's decision (administrative interest rate) and estimates the change in the market value of the bank's book by applying a basic simulation of parallel changes in interest rates rate for 2 percentage points. The Bank calculates the ratio of changes in the economic value of the bank's book and regulatory capital and maintains it not to exceed 15% (the regulatory ratio is 20%). The change in the economic value of capital at 31 December 2017 was HRK 55,896 thousand or 3.38% of regulatory capital.

2. RISK MANAGEMENT (continued)

2.5. FX Risk (continued)

2.5.1 FX Analysis Risk (continued)

Profit Perspective

The prospect of earnings includes a potential decrease in net interest income in case of changes in interest rates on the market. When calculating interest rate risk from a profit perspective, the Bank applies a simulation of interest rate changes observed over a 12-month period and a potential decrease in net interest income is maintained within the limit of 12% of net interest income for the observed period (from the beginning of the year) projected to annual level. The potential change in net interest income at the end of 2017 amounts to HRK 47,923 thousand

Likewise, the Bank and the Group conduct a minimum quarterly test of stress resistance, which consists of 6 stress tests in accordance with the EBA guidelines that test the different inclination and intensity of interest rate changes on the economic value of the bank's book.

The Risk Management Sector reports to the Bank for the Management of Interest Rate Risk in the Bank's Book of Assets and Liabilities Management.

2.5. Foreign Exchange Risk

The Group is exposed to FX risk through transactions in foreign currencies.

Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored daily in accordance with legislation and internally set limits, for each currency and for the total balance sheet denominated in or linked to foreign currency.

The Group directs their business activities trying to minimize the gap between assets and liabilities denominated in or linked to foreign currency.

The Group manages their currency risk by setting principles and limits for foreign currency exposures and monitoring exposures against these limits. The Bank directs their business activities towards trying to minimize the gap between assets and liabilities denominated in or linked to a foreign currency, and maintaining daily business activities within the internal and adequacy limits per currency.

The Group is exposed to the risk of fluctuations in the euro exchange rate in non-significant ratios. As at 31 December 2017, the amount of the Group's assets denominated in euro or in euro-denominated currency amounted to HRK 5,665,296 thousand (2016: HRK 6,420,270 thousand), while this amount to the Bank was HUF 5,435,438 thousand (2016 : HRK 6,172,665 thousand). Liabilities of the Group denominated in euro or in euro-denominated currencies amounted to HRK 5,983,053 thousand (2016: HRK 6,498,412 thousand), and the amount of the Bank's denominated in euro or currencies related to the euro was HRK 5,739,466 thousand (2016 : HRK 6,237,062 thousand). Hence the kuna / euro exchange rate by 1% (kuna appreciation) influenced the Group's result in the amount of 3,178 thousand revenues (2016: 781 thousand in revenue), while this amount to the Bank amounted to 3,040 thousand in revenue (2016: 781 thousand kuna of income).

2.5.1. FX Risk Analysis

The following tables illustrate the value of total assets and liabilities of the Bank on December 31 2017 and December 31 2016 in HRK and foreign currencies (values denominated in HRK with foreign currency clause are mostly linked to EUR).

2. RISK MANAGEMENT (continued)

2.5. FX Risk (continued)

2.5.1 FX Analysis Risk (continued)

Group

2017. u '000 kn	HRK	HRK Linked to Foreign Currencies	EUR	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	2,989,283	-	225,735	236,026	3,451,044
Mandatory Reserve with the Croatian National Bank	1,300,269	-	-	-	1,300,269
Loans to and Receivables from Banks	20,379	-	647	92,806	113,832
Financial Assets at Fair Value in PNL	494,186	169,340	220,472	-	883,998
Financial Assets Available for Sale	1,516,358	297,405	753,475	14,113	2,581,351
Financial Assets Held to Maturity	57,428	14,989	-	-	72,417
Loans and Receivables from Customers	7,152,225	2,597,441	1,368,291	23,436	11,141,393
Assets Held for Sale	20,000	-	-	-	20,000
Investments in Subsidiaries	135,831	-	-	-	135,831
Property and Equipment	79,832	-	-	-	79,832
Intangible Assets	110,861	-	-	-	110,861
Deferred Tax Assets, Net	34,365	-	-	-	34,365
Tax Prepayment	460	-	-	-	460
Other Assets	103,908	159	17,342	1,028	122,437
TOTAL ASSETS	**14,015,385**	**3,079,334**	**2,585,962**	**367,409**	**20,048,090**
LIABILITIES					
Financial Liabilities at Fair Value in PNL	-	-	-	-	-
Deposits from Banks	349,107	-	42,060	8,623	399,790
Customer Deposits	10,998,123	257,788	5,203,507	348,519	16,807,937
Borrowings	202,060	450,497	20,326	-	672,883
Hybrid Instruments	73,427	-	-	-	73,427
Provisions for Liabilities and Expenses	418	-	-	-	418
Other Liabilities	173,513	-	8,875	430	182,818
Total Equity	1,910,817	-	-	-	1,910,817
TOTAL LIABILITIES AND EQUITY	**13,707,465**	**708,285**	**5,274,768**	**357,572**	**20,048,090**
NET FOREIGN EXCHANGE POSITION	**307,920**	**2,371,049**	**(2,688,806)**	**9,837**	**-**

2. RISK MANAGEMENT (continued)

2.5. FX Risk (continued)

2.5.1 FX Analysis Risk (continued)

Group

2016. u '000 kn	HRK	HRK Linked to Foreign Currencies	EUR	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	870,141	-	542,078	142,393	1,554,612
Mandatory Reserve with the Croatian National Bank	1,300,796	-	-	-	1,300,796
Loans to and Receivables from Banks	20,168	-	725	161,194	182,087
Financial Assets at Fair Value in PNL	524,639	175,457	315,565	3,780	1,019,441
Financial Assets Available for Sale	1,223,857	301,295	1,067,095	161,691	2,753,938
Financial Assets Held to Maturity	429,802	15,023	-	-	444,825
Loans and Receivables from Customers	7,528,193	2,450,111	1,519,949	55,962	11,554,215
Assets Held for Sale	89,349	-	-	-	89,349
Investments in Subsidiaries	140,764	-	-	-	140,764
Property and Equipment	96,518	-	-	-	96,518
Intangible Assets	107,360	-	-	-	107,360
Deferred Tax Assets, Net	40,729	-	-	-	40,729
Tax Prepayment	348	-	-	-	348
Other Assets	361,679	930	32,042	6,301	400,952
TOTAL ASSETS	**12,734,343**	**2,942,816**	**3,477,454**	**531,321**	**19,685,934**
LIABILITIES	-	-	-	3,641	3,641
Financial Liabilities at Fair Value in PNL	336,030	-	145,634	27,469	509,133
Deposits from Banks	9,757,309	280,055	5,483,135	504,305	16,024,804
Customer Deposits	144,693	493,521	88,446	-	726,660
Borrowings	60,779	8	-	-	60,787
Hybrid Instruments	58	-	-	-	58
Provisions for Liabilities and Expenses	455,369	-	7,613	4,457	467,439
Other Liabilities	1,893,412	-	-	-	1,893,412
Total Equity	**12,647,650**	**773,584**	**5,724,828**	**539,872**	**19,685,934**
TOTAL LIABILITIES AND EQUITY	**86,693**	**2,169,232**	**(2,247,374)**	**(8,551)**	**-**

2. RISK MANAGEMENT (continued)

2.5. FX Risk (continued)

2.5.1 FX Analysis Risk (continued)

Bank

2017. **u '000 kn**	**HRK**	**HRK Linked to Foreign Currencies**	**EUR**	**Other Foreign Currencies**	**Total**
ASSETS					
Cash and Amounts Due from Banks	2,989,283	-	225,735	236,026	3,451,044
Mandatory Reserve with the Croatian National Bank	1,300,269	-	-	-	1,300,269
Loans to and Receivables from Banks	20,379	-	647	92,806	113,832
Financial Assets at Fair Value in PNL	469,934	52,766	220,472	-	743,172
Financial Assets Available for Sale	1,516,358	297,405	753,475	14,113	2,581,351
Financial Assets Held to Maturity	57,428	14,989	-	-	72,417
Loans and Receivables from Customers	7,102,974	2,484,407	1,368,291	23,436	10,979,108
Assets Held for Sale	20,000	-	-	-	20,000
Investments in Subsidiaries	45,490	-	-	-	45,490
Property and Equipment	135,576	-	-	-	135,576
Intangible Assets	70,748	-	-	-	70,748
Deferred Tax Assets, Net	110,664	-	-	-	110,664
Tax Prepayment	33,974	-	-	-	33,974
Other Assets	460	-	-	-	460
TOTAL ASSETS	100,711	(91)	17,342	1,028	118,990
	13,974,248	**2,849,476**	**2,585,962**	**367,409**	**19,777,095**
LIABILITIES					
Financial Liabilities at Fair Value in PNL					
Deposits from Banks	-	-	-	-	-
Customer Deposits	349,107	-	42,060	8,623	399,790
Borrowings	10,986,227	14,201	5,203,507	348,519	16,552,454
Hybrid Instruments	202,060	450,497	20,326	-	672,883
Provisions for Liabilities and Expenses	72,955	-	-	-	72,955
Other Liabilities	164,418		8,875	430	173,723
Total Equity	1,905,290				1,905,290
TOTAL LIABILITIES AND EQUITY	**13,680,057**	**464,698**	**5,274,768**	**357,572**	**19,777,095**
NET FOREIGN EXCHANGE POSITION	**294,191**	**2,384,778**	**(2,688,806)**	**9,837**	**-**

2. RISK MANAGEMENT (continued)

2.5. FX Risk (continued)

2.5.1 FX Analysis Risk (continued)

Bank

2016 u '000 kn	HRK	HRK Linked to Foreign Currencies	EUR	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	870,113	-	542,078	142,393	1,554,584
Mandatory Reserve with the Croatian National Bank	1,300,796	-	-	-	1,300,796
Loans to and Receivables from Banks	20,168	-	725	161,194	182,087
Financial Assets at Fair Value in PNL	499,732	55,373	315,565	3,780	874,450
Financial Assets Available for Sale	1,223,857	301,295	1,067,095	161,691	2,753,938
Financial Assets Held to Maturity	429,802	15,023	-	-	444,825
Loans and Receivables from Customers	7,499,069	2,322,830	1,519,949	55,962	11,397,810
Assets Held for Sale	89,349	-	-	-	89,349
Investments in Subsidiaries	45,490	-	-	-	45,490
Property and Equipment	140,622	-	-	-	140,622
Intangible Assets	87,209	-	-	-	87,209
Deferred Tax Assets, Net	107,052	-	-	-	107,052
Tax Prepayment	40,281	-	-	-	40,281
Other Assets	253	-	-	-	253
TOTAL ASSETS	228,107	690	32,042	6,301	267,140
	12,581,900	**2,695,211**	**3,477,454**	**531,321**	**19,285,886**
LIABILITIES					
Financial Liabilities at Fair Value in PNL					
Deposits from Banks	-	-	-	3,641	3,641
Customer Deposits	336,030	-	145,634	27,469	509,133
Borrowings	9,766,569	18,713	5,483,135	504,305	15,772,722
Hybrid Instruments	144,693	493,521	88,446	-	726,660
Provisions for Liabilities and Expenses	60,674	-	-	-	60,674
Other Liabilities	313,536	-	7,613	4,457	325,606
Total Equity	1,887,450	**-**	-	-	1,887,450
TOTAL LIABILITIES AND EQUITY	**12,508,952**	**512,234**	**5,724,828**	**539,872**	**19,285,886**
NET FOREIGN EXCHANGE POSITION	**72,948**	**2,182,977**	**(2,247,374)**	**(8,551)**	**-**

2. RISK MANAGEMENT (continued)

2.6. Operational Risk Management

Operational risk is inherent to all activities, processes, products and systems of the Bank. The Bank ensures appropriate operational risk management by applying procedures and a system of authorizations and responsibilities specified in detail in its internal by-laws, the Risk Management Policy and the Internal Operational Risk Management Manual as root documents. The operational risk management system has been established through appropriate bodies of the Bank and an efficient internal control system.

The Bank and Group defines operational risk as a risk of an event which, as a consequence, exposes the Bank and Group to financial losses, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk. Significant operational risk is a risk of an event resulting in significant loss because of operational risk.

In order to efficiently manage the overall exposure to operational risk, the Bank and Group applies the following:

- Collecting and analyzing internal data about operational risk events,
- Self-assessment of risks and controls,
- Assessment of information technology risk, and
- Business Impact Analysis of unavailability of key business processes.

The Bank and Group assess the outsourcing risk as an additional exposure to all significant risks arising from the fact that the Bank and Group does not itself perform the outsourced activities, but rather that those activities are performed by external vendors; hence, the impact of outsourcing on the Bank's and Group's risk profile is assessed.

The Bank and Group assess the impact of introducing a new product on the Bank's and Group's risk profile, which includes exposure to all significant risks.

For the purpose of efficient operational risk management, the Bank and Group has set up the Operational Risk Management Committee. Based on the reports on the Bank's exposure to operational risk, the Operational Risk Management Committee draws conclusions and makes decisions about appropriate measures necessary to undertake in order to overmaster the exposure to operational risk.

The Bank and Group applies the Standardized Approach in calculating the capital requirement for operational risk.

2.7. Capital Management

Capital requirement calculations are based on exposures to customers classified into the prescribed exposure categories, which are then weighted according to risk depending on the exposure category of the customer (exposure to sovereign debt, to institutions, public bodies, individuals, etc.), remaining maturity, type of collateral (i.e. residential or commercial property), diversification of loans, identified number of days past due and the amount of provisions made.

The Group manages capital in line with internal capital adequacy assessment (ICAAP). It establishes significant risks to which it is exposed or estimates that it may be exposed, calculate or estimate the required capital requirements for exposure to particular risks and establish the total required (internal) capital for the current and subsequent period in accordance with the business plan. In accordance with capital requirements so expressed, capital planning is carried out whereby items of available capital are considered exclusively to items recognized for the purpose of calculating the regulatory capital.

2. RISK MANAGEMENT (continued)

2.7. Capital Management (continued)

In planning capital needs it is necessary to take into account capital adequacy, i.e. regulatory capital requirements for exposures to credit, market and operational risk.

Regulatory minimum rate of capital adequacy stipulated by law on 31.12.2017. year is 8 percent. The regulatory obligation to maintain the rate of the protection layer of capital is prescribed for the rate of 2.5% of the protection layer for the protection of capital and the protective layer for the structural systemic risk to 1.5%. In addition, the Group of Credit Institutions of the HPB Group (including the Bank and the HPB Housing Savings Bank d.d.) has assigned a supervisory protective layer of capital in the total amount of 3.55 percent. Therefore, the total regulatory requirements as of 31.12.2017. 15.55% (2016: 15.35%). Below is an overview of regulatory capital movements for the Bank:

Bank	**2017**	**2016**
	'000 kn	**'000 kn**
OWN FUNDS		
Tier-1 Capital	1,653,861	1,520,355
Common Equity Tier-1 Capital	*1,653,861*	*1,520,355*
Tier-2 Capital	-	-
Total Own Funds	**1,653,861**	**1,520,355**
Credit Risk Exposure Using Standardized Approach	7,127,582	7,695,697
Exposure to FX and Position Risk	575,287	580,229
Exposure to Operational risk	1,434,091	1,429,432
Exposure to Credit Value Adjustment Risk	96	1,258
Total Risk Exposure	**9,137,056**	**9,706,615**
Total Capital Adequacy Ratio	**18,10%**	**15,66%**

3. SIGNIFICANT ACCOUNTING ESTIMATIONS

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Group's portfolio exposed to credit risk represents the major source of estimation uncertainty. This and other key sources of estimations uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

4. *Impairment Losses on Loans and Receivables*

The Group continuously monitors creditworthiness of its customers. In accordance with the requirements of the CNB, the need to reduce the value of the balance sheet and the provision for off-balance sheet exposure to credit risk is estimated quarterly for large exposures or monthly for a portfolio of exposures below HRK 700 thousand. Impairment losses are mainly recognized in relation to the net book value of loans to legal entities and households (shown in Note 11), and as provisions for liabilities and expenses arising from off-balance sheet exposures to customers, most often in the form of approved guarantees, letters of credit and approved unused loans (shown in notes 23 and 39). Impairment losses are also considered for credit exposure to banks and for other assets not carried at fair value and where the primary impairment risk is not a credit risk.

Following tables represent the summary of impairment losses of loans to and receivables from customers, as well as provisions for off-balance sheet exposures:

Group	**Bilješke**	**2017. '000 kn**	**2016. '000 kn**
Impairment Losses on Loans to and Receivables from Customers	11	1,382,281	1,386,144
Provisions for Off-Balance Sheet Exposures	23	25,160	22,269
Total		**1,407,441**	**1,408,413**

Bank	**Bilješke**	**2017. '000 kn**	**2016. '000 kn**
Impairment Losses on Loans to and Receivables from Customers	11	1,380,431	1,426,053
Provisions for Off-Balance Sheet Exposures	23	25,151	22,269
Total		**1,405,582**	**1,448,322**

3. SIGNIFICANT ACCOUNTING ESTIMATIONS (CONTINUED)

Financial Assets at Amortised Cost

The Group first assesses whether objective evidence of impairment exists individually for assets that are individually significant (mainly corporate exposures) and collectively for assets that are not individually significant (mainly retail exposures). However, assets assessed individually as unimpaired are then included in Banks of assets with similar credit risk characteristics. These portfolios are then assessed collectively for impairment.

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

The Group takes into consideration the combined effect of several events when assessing impairment and uses its experienced judgment in cases where the observable data required to estimate impairment is limited. In estimating impairment losses on items individually or collectively assessed as impaired, the Bank also has regard to the ranges of specific impairment loss rates prescribed by the CNB.

Gross value of specifically impaired loans and other receivables for interest classified in risk Banks B and C, and the rates of recognized impairment losses, were as follows as per year end:

Group	**2017.**	**2016.**
Gross Exposures (in HRK'000)	**2,371,273**	**2,085,639**
Impairment Loss (in HRK'000)	1,463,683	1,291,073
Impairment Rate	**61,73%**	**61,90%**

Bank	**2017.**	**2016.**
Gross Exposures (in HRK'000)	**2,370,442**	**2,125,632**
Impairment Loss (in HRK'000)	1,463,428	1,332,375
Impairment Rate	**61,74%**	**62,68%**

Each additional decrease of one percentage point in the impairment rate on the gross portfolio at December 31 2017 would lead to recognition of additional impairment loss amounting to HRK 23,713 thousand for the Bank (2016: HRK 20,856 thousand), and HRK 23,704 thousand for the Bank (2016: HRK 21,563 thousand).

The Bank also seeks to recognize impairment losses which are known to exist at the reporting date, but which have not yet been specifically identified. In assessing impairment losses on a portfolio basis, historical loss rates are used which are determined in accordance with an internal methodology.

The Bank considers impairment losses depending on the type of assets, whereby the overall impairment rate may not be below 0.80% of the total on-balance sheet and off-balance sheet credit risk exposure, except in the case of available for sale assets at fair value through profit or loss. The amounts assessed as impaired on an individual basis are excluded from this calculation.

3. SIGNIFICANT ACCOUNTING ESTIMATIONS (CONTINUED)

Financial Assets at Amortized Cost (continued)

The value of the impairment allowance as at 31 December 2017, calculated on the basis of the portfolio, amounted to HRK 139,590 thousand (2016: HRK 133,973 thousand) for the relevant balance sheet and off-balance sheet exposures of the Group, ie HRK 137,985 thousand (2016: HRK 132,580 thousand) for the relevant balance sheet and off-balance sheet exposures of the Bank classified in risk category A. By applying the lowest rate prescribed by the CNB, portfolio-based impairment losses would amount to HRK 4,636 thousand (2016: HRK 3,336 thousand) less than the amount recognized by the Groups and Banks.

In case the Group does not have a developed internal methodology for assessing latent losses on an aggregate basis, it should be obliged to apply a 1.00 percent reduction of the relevant relevant balance sheet and off-balance sheet exposure to credit risk. In this case, impairment losses on the portfolio amounted to HRK 29,462 thousand (2016: HRK 29,356 thousand) higher than the amount recognized in the Group and HRK 29,038 thousand (2016: HRK 28,975 thousand) higher than the amount recognized by the Bank.

Market Value of Pledged Property and Foreclosed Assets

As disclosed above (note 2.1.4 (c)), loans and receivables from customers include exposures with a book value of HRK 2,112,455 thousand (2016: HRK 2,085,639 thousand) classified by the Group, or 2,113. HRK 286 thousand (2016: HRK 2,125,632 thousand) classified by the Bank as impaired due to the delays in repayment, which is secured by a pledge over real property, plant and equipment. In assessing the recoverability of pledges based on real estate in a pledge, the market value of the property in the collateral is reduced and reduced to the present value using the impairment factor and the collection deadlines in accordance with CNB regulation.

Exposure to Agrokor and related persons

As of 31.12.2017. the Group's total exposure to debtors from the Agrokor Group, representing a group of economically and legally related persons, amounts to HRK 451,913 thousand (of which HRK 4,102 thousand relates to off-balance-sheet contingent liabilities), including HRK 6,186 thousand of interest receivables previously recognized in the income statement as income for the period. Of this amount, HRK 271,019 relates to companies that are owned by Agrokor Group, while the remaining exposure to economically related persons. At the moment of issuance of these financial statements, the process of restructuring Agrokor d.d. and related persons is still underway. Therefore, on the basis of the expert assessment, based on available information, an value adjustment of the exposure to the associated companies of Agrokor Group was formed in the amount of HRK 209,344 thousand, while the amount of HRK 71,742 thousand (totaling HRK 281,086 thousand) was value adjusted for economically-related companies.

Market and book value of investment property

Furthermore, as disclosed in Note 15, real estate investments as at 31 December 2017 include real estate, plant and equipment with a gross book value of HRK 184,227 thousand representing assets acquired in exchange for uncollected receivables. In 2016, the Group reclassified this property from property intended for sale in real estate, as the asset in question no longer fulfilled the criteria to be recognized as an asset for sale. All investments in real estate are valued at fair value less costs to sell. The fair value of such assets is estimated annually on the basis of an independent valuer's estimate, and any impairment loss is recognized in the income statement. Profits on the income statement other than prepayments are recognized at the end of recognition. In the period under review, the Group recognized the impairment loss on the current property in the amount of HRK 15,428 thousand (2016: HRK 9,224 thousand at the time the assets were classified as held for sale). The net book value of the assets under Investments in Property of the Group as at 31 December 2017 amounts to HRK 79,832 thousand (31.12.2016: HRK 96,518 thousand) and HRK 70,748 thousand (31 December 2016: 87,209 thousand) to the Bank.

3. SIGNIFICANT ACCOUNTING ESTIMATIONS (CONTINUED)

Market and book value of investment property *(continued)*

Information on properties acquired by swapping the Group's uncollected debt which were subsequently reclassified as of December 31 2017 and December 31 2016 is as follows

31.12.2017: Group	Level 1	Level 2	Level 3	Fair Value as of December 31 2016
- Land	-	-	26.247	26.247
- Buildings	-	-	47.772	47.772
- Equipment	-	-	5.813	5.813
TOTAL	**-**	**-**	**79.832**	**79.832**

31.12.2016: Group	Level 1	Level 2	Level 3	Fair Value as of December 31 2016
- Land	-	-	17.252	17.252
- Buildings	-	-	73.319	73.319
- Equipment	-	-	5.947	5.947
TOTAL	**-**	**-**	**96.518**	**96.518**

31.12.2017: Bank	Level 1	Level 2	Level 3	Fair Value as of December 31 2016
- Land	-	-	17.163	17.163
- Buildings	-	-	47.772	47.772
- Equipment	-	-	5.813	5.813
TOTAL	**-**	**-**	**70.748**	**70.748**

31.12.2016.: Bank	Level 1	Level 2	Level 3	Fair Value as of December 31 2016
- Land	-	-	17,252	17,252
- Buildings	-	-	64,010	64,010
- Equipment	-	-	5,947	5,947
TOTAL	**-**	**-**	**87,209**	**87,209**

During the year there were no items that would be reclassified from level 3 indicator to level 1 indicator or vice versa by hierarchy of fair value measures.

The fair value of investing in real estate of the Bank was determined on the basis of the valuation of value from November and December 2017. Estimates of real estate value in 2017 were made by HPB-real estate d.o.o., a subsidiary of HPB Group. HPB Real Estate Appraisers acted as independent expert witnesses, who possess the required professional qualifications and recent experience in estimating the fair value of real estate, and have no interest in the assets in question or interests related to the estimated value of the property. in relevant locations. The fair value is estimated in accordance with the Property Valuation Act (OG 78/2015), and the related Property Value Assessment Methods (NN 105/2015), according to law prescribed and appropriate methods, taking into account a number of factors when determining its current market value. The valuation method has not changed during the year.

3. SIGNIFICANT ACCOUNTING ESTIMATIONS (CONTINUED)

Fair Value of Derivatives

Fair value of OTC derivatives that are quoted on active market is determined using their closing market price. For derivatives that are not traded on active markets, Bank determines contractual value applying internally developed models for fair value assessment.

Fair Value of Treasury Bills

The Group determines the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia using an internal model which takes into account their remaining maturity and latest available auction prices of equivalent instruments. As of December 31, 2017, the Group had HRK 224,957 thousand of treasury bills classified as financial assets at fair value through profit or loss (2016: HRK 315,565 thousand). The carrying amount of treasury bills classified as available-for-sale financial assets as at 31 December 2017 amounted to HRK 850,641 thousand (2016: HRK 686,021 thousand).

Provisions for Court Cases Initiated Against the Bank

In calculating provisions for court expenses the Bank and Group discounts expected future cash flows with respect to the liabilities using the CNB's discount rate.

Taxation

The Bank and Group recognizes tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of tax authorities that are entitled to carry out subsequent inspections of taxpayers' records.

3. SEGMENT REPORTING

The Group's business segments represent the primary reportable segments. The primary format is based on the Group’s management and internal reporting structure. As the Group does not allocate overhead expenses and equity to segments, segment profitability is not reported.

Business Segments

The Group comprises following primary reportable segments:

- *Corporate Banking* Includes loans, deposits and other transactions and balances with corporate customers,
- *Retail Banking* Includes loans, deposits and other transactions and balances with retail customers,
- *Financial Markets* Group financing operations and the aggregate liquidity and foreign exchange risk activities in respect of borrowings, transactions with debt securities, use of derivatives and investments in liquid assets. It also includes asset management, securities custody and brokerage services.
- *Direct Banking* Includes undisturbed functioning and development of all Bank’s direct product and services distribution channels, and card operations

The Group does not apply internal transfer prices in determining the financial results of segments.
Classification of individual sectors for the purposes of notes on the results and position of segments differs from other parts of the financial reports. This primarily refers to the owner of small enterprises, who are part of Corporate Banking in the report of segmentation, while in the financial reports part of positions related to the Retail Banking.

4. SEGMENT REPORTING (continued)

Group **2017.**

'000 kn

	Corporate	Retail	Financial Markets	Direct Banking	Unallocated	Total
Net Interest Income	229,788	217,062	90,614	-	-	537,464
Net Fees and Commissions	58,550	86,914	4,830	30,800	25,815	206,908
Trading and Investment	-	-	81,044	-	(2,202)	78,842
Other Income	1,752	670	2,658	-	4,133	9,213
Operating Income	**290,089**	**304,646**	**179,146**	**30,800**	**27,746**	**832,427**
General and Administrative	(28,182)	(168,552)	(7,052)	(38,154)	(173,152)	(415,092)
Depreciation and Amortization	-	-	-	-	(44,333)	(44,333)
Impairment Losses on Loans and Other	(259,725)	(73,353)	(1,287)	-	(15,051)	(349,416)
Provisions for Liabilities and Expenses	-	-	-	-	(10,426)	(10,426)
Operating Expenses	**(287,907)**	**(241,905)**	**(8,339)**	**(38,154)**	**(242,962)**	**(819,267)**
Profit Before Taxation	-	-	-	-	-	13,160
Deferred Income Tax	-	-	-	-	(5,262)	(5,262)
Profit for the Year	**-**	**-**	**-**	**-**	**(5,262)**	**7,898**
Segment Assets	6,336,253	5,393,145	7,966,486	231	(32,116)	19,663,999
Unallocated Assets	-	-	-	-	384,091	384,091
Total Assets	**6,336,253**	**5,393,145**	**7,966,486**	**231**	**351,975**	**20,048,090**
Segment Liabilities	8,339,666	9,439,881	160,830	4,715	9,984	17,955,076
Unallocated Equity	-	-	-	-	2,093,014	2,093,014
Total Equity and Liabilities	**8,339,666**	**9,439,881**	**160,830**	**4,715**	**2,102,998**	**20,048,090**

4. SEGMENT REPORTING (continued)

2016.

'000 kn

	Corporate	Retail	Financial Markets	Direct Banking	Unallocated	Total
Net Interest Income	229,245	184,806	105,398	-	-	519,449
Net Fees and Commissions Income	59,530	93,536	3,523	23,967	18,195	198,751
Trading and Investment	-	-	109,697	-	-	109,697
Other Income	2,944	1,241	5,897	-	-	10,082
Operating Income	**291,719**	**279,583**	**224,515**	**23,967**	**18,195**	**837,979**
General and Administrative Expenses	(25,138)	(176,352)	(6,641)	(39,776)	(161,591)	(409,497)
Depreciation and Amortization	-	-	-	-	(45,416)	(45,416)
Impairment Losses on Loans and Other Assets	(175,054)	(8,564)	1	-	(17,676)	(201,293)
Provisions for Liabilities	-	-	-	-	(25,384)	(25,384)
Operating Expenses	**(200,191)**	**(184,916)**	**(6,639)**	**(39,776)**	**(250,068)**	**(681,590)**
Profit Before Taxation	**-**	-	-	-	-	156,389
Deferred Income Tax	-	-	-	-	27,098	27,098
Profit for the Year	**-**	**-**	**-**	**-**	**27,098**	**183,487**
Segment Assets	7,420,928	5,262,290	6,481,490	192	-	19,164,900
Unallocated Assets	-	-	-	-	521,034	521,034
Total Assets	**7,420,928**	**5,262,290**	**6,481,490**	**192**	**521,034**	**19,685,934**
Segment Liabilities	7,652,281	9,405,091	382,406	1,420	-	17,441,198
Unallocated Equity	-	-	-	-	2,244,736	2,244,736
Total Equity and Liabilities	**7,652,281**	**9,405,091**	**382,406**	**1,420**	**2,244,736**	**19,685,934**

4. SEGMENT REPORTING (continued)

Bank **2017.**

'000 kn

	Corporate	Retail	Financial Markets	Direct Banking	Unallocated	Total
Net Interest Income	230,045	218,162	83,128	-	-	531,335
Net Fees and Commissions	58,550	83,193	4,830	30,800	14,755	192,127
Trading and Investment	-	-	81,038	-	-	81,038
Other Income	4,952	670	2,658	-	3,370	11,650
Operating Income	**293,546**	**302,025**	**171,654**	**30,800**	**18,125**	**816,150**
General and Administrative	(28,182)	(168,552)	(7,052)	(38,154)	(157,956)	(399,896)
Depreciation and					(43,868)	(43,868)
Impairment Losses on	(259,725)	(73,353)	(1,287)	-	(15,429)	(349,794)
Provisions for Liabilities	-	-	-	-	(10,132)	(10,132)
Operating Expenses	**(287,907)**	**(241,905)**	**(8,339)**	**(38,154)**	**(227,385)**	**(803,690)**
Profit Before Taxation	**-**	-	-	-	-	12,460
Deferred Income Tax	-	-	-	-	(4,127)	(4,127)
Profit for the Year	**-**	**-**	**-**	**-**	**(4,127)**	**8,333**
Segment Assets	6,347,934	5,224,697	7,821,174	231	-	19,394,036
Unallocated Assets	-	-	-	-	383,059	383,059
Total Assets	**6,347,934**	**5,224,697**	**7,821,174**	**231**	**383,059**	**19,777,095**
Segment Liabilities	8,339,666	9,137,464	207,764	4,715	-	17,689,609
Unallocated Equity	-	-	-	-	2,087,486	2,087,486
Total Equity and	**8,339,666**	**9,137,464**	**207,764**	**4,715**	**2,087,486**	**19,777,095**

4 SEGMENT REPORTING (continued)

Bank **2016.**

'000 kn

	Corporate	Retail	Financial Markets	Direct Banking	Unallocated	Total
Net Interest Income	229,625	179,374	105,398	-	-	514,397
Net Fees and Commissions	56,174	82,912	3,523	23,967	18,194	184,770
Trading and Investment	-	-	115,591	-	-	115,592
Other Income	2,753	913	840	-	-	4,506
Operating Income	**288,552**	**263,199**	**225,353**	**23,967**	**18,194**	**819,265**
General and Administrative	(25,138)	(176,352)	(6,641)	(39,776)	(147,144)	(395,050)
Depreciation and Amortization	-	-	-	-	(45,053)	(45,053)
Impairment Losses on	(175,054)	(8,039)	1	-	(17,530)	(200,622)
Provisions for Liabilities	-	-	-	-	(25,370)	(25,370)
Operating Expenses	**(200,191)**	**(184,391)**	**(6,640)**	**(39,776)**	**(235,097)**	**(666,095)**
Profit Before Taxation	-	-	-	-	-	153,170
Deferred Income Tax	-	-	-	-	28,091	28,091
Profit for the Year	**-**	**-**	**-**	**-**	**28,091**	**181,261**
Segment Assets	7,433,506	4,930,374	6,502,811	192	-	18,866,883
Unallocated Assets	-	-	-	-	419,003	419,003
Total Assets	**7,433,506**	**4,930,374**	**6,502,811**	**192**	**419,003**	**19,285,886**
Segment Liabilities	7,660,596	9,078,831	403,727	1,420	-	17,144,574
Unallocated Equity	-	-	-	-	2,141,312	2,141,312
Total Equity and Liabilities	**7,660,596**	**9,078,831**	**403,727**	**1,420**	**2,141,312**	**19,285,886**

5. CASH AND RECEIVABLES FROM BANKS

Group	2017. '000 kn HRK	2017. Foreign Currency	2017. Total	2016. '000 kn HRK	2016. Foreign Currency	2016. Total
Cash in Hand						
Held by the Bank	232,298	101,881	334,179	201,942	92,231	294,173
Held by Other Parties	125,810	-	125,810	127,173	-	127,173
Cheques in the Course of Collection	-	19	19	-	18	18
	358,108	**101,900**	**460,008**	**329,115**	**92,249**	**421,364**
Amounts Due from Banks						
Current Accounts with Domestic Banks	-	3,341	3,341	-	1,070	1,070
Current Accounts with Foreign Banks	-	356,520	356,520	-	591,151	591,151
Giro Account with the CNB	2,528,606	102,569	2,631,175	502,603	38,424	541,027
	2,528,606	**462,430**	**2,991,036**	**502,603**	**630,645**	**1,133,248**
Total	**2,886,714**	**564,330**	**3,451,044**	**831,718**	**722,894**	**1,554,612**

Bank	2017. '000 kn HRK	2017. Foreign Currency	2017. Total	2016. '000 kn HRK	2016. Foreign Currency	2016. Total
Cash in Hand						
Held by the Bank	232,298	101,881	334,179	201,915	92,231	294,146
Held by Other Parties	125,810	-	125,810	127,172	-	127,172
Cheques in the Course of Collection	-	19	19	-	18	18
	358,108	**101,900**	**460,008**	**329,087**	**92,249**	**421,336**
Amounts Due from Banks						
Current Accounts with Domestic Banks	-	3,341	3,341	-	1,070	1,070
Current Accounts with Foreign Banks	-	356,520	356,520	-	591,151	591,151
Giro Account with the CNB	2,528,606	102,569	2,631,175	502,603	38,424	541,027
	2,528,606	**462,430**	**2,991,036**	**502,603**	**630,645**	**1,133,248**
Total	**2,886,714**	**564,330**	**3,451,044**	**831,690**	**722,894**	**1,554,584**

6. MANDATORY RESERVE WITH CROATIAN NATIONAL BANK

			2017. '000 kn			2016. '000 kn
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Mandatory Reserve	1,300,269	-	1,300,269	1,300,796	-	1,300,796
TOTAL	**1,300,269**	**-**	**1,300,269**	**1,300,796**	**-**	**1,300,796**

Obligatory reserve with the Croatian National Bank represents amounts held at the CNB due to a prescribed obligation by the Croatian National Bank.
The reserve requirement rate amounts to 12.0 percent of kuna and foreign currency deposits, loans and debt securities issued (31 December 2016: 12.0%).
The rate of allocating the required required minimum kuna reserve requirement with the Croatian National Bank as at 31 December 2017 was 70% (2016: 70%), while the remaining 30% (2016: 30%) was maintained in the form of other liquid receivables .
By the decision of the CNB Council (effective from January 13, 2016), the obligation to allocate the foreign currency part of the reserve has been abolished.
The CNB does not pay any fees on the reserve requirements set aside.

7. LOANS TO AND RECEIVABLES FROM BANKS

	Group		Bank	
	2017. '000 kn	2016. '000 kn	2017. '000 kn	2016. '000 kn
Short-Term Placements with Domestic Banks	20,000	20,000	20,000	20,000
Short-Term Placements with Foreign Banks	81,507	148,389	81,507	148,389
Total Short-Term Placements and Loans Banks	**101,507**	**168,389**	**101,507**	**168,389**
Guarantee Deposits with Foreign Banks	11,934	13,524	11,934	13,524
Total Short-Term Placements and Loans Banks	**11,934**	**13,524**	**11,934**	**13,524**
Short-Term Placements with Domestic Non-Banking Financial Institutions	500	500	500	500
Long-Term Placements with Domestic Non-Banking Financial Institutions	230	100	230	100
Long-Term Placements with Domestic Non-Banking Financial Institutions	**730**	**600**	**730**	**600**
Provisions for Impairment Losses (Non-Banking Financial Institutions)	**(500)**	**(500)**	**(500)**	**(500)**
Accrued Interests Not Yet Due	161	74	161	74
Total Interests Receivable	**161**	**74**	**161**	**74**
Total	**113,832**	**182,087**	**113,832**	**182,087**

Guarantee deposits mainly relate to deposits for card operations.

Movements in Impairment Allowance

No changes in impairment allowance for loans and receivables from banks occurred in 2017 (2016: 0).

	Group		Bank	
	2017. '000 kn	2016. '000 kn	2017. '000 kn	2016. '000 kn
Balance at January 1	500	500	500	500
(Decrease)/ Increase in Impairment Losses on Loans to and Receivables from Banks	-	-	-	-
Balance at December 31	**500**	**500**	**500**	**500**

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8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2017.	2016.	2017.	2016.
	'000 kn	'000 kn	'000 kn	'000 kn
Trading Instruments				
Listed Debt Securities				
Treasury Bills of the Ministry of Finance	224,957	315,565	224,957	315,565
Bonds of the Ministry of Finance	518,030	466,838	379,474	325,389
Listed Debt Securities	**742,987**	**782,403**	**604,431**	**640,954**
Listed Shares of Investment Funds	**100,988**	**187,801**	**100,988**	**186,541**
Listed Equity Securities	**33,527**	**39,393**	**33,527**	**39,393**
	877,505	**1,009,597**	**738,946**	**866,888**
Futures Fair Value	-	3,780	-	3,780
Accrued Interests Not Yet Due	6,496	6,064	4,226	3,782
Total Trading Instruments	**883,998**	**1,019,441**	**743,172**	**874,450**

9. FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	2017. '000 kn	2016. '000 kn	2017. '000 kn	2016. '000 kn
Debt Securities Not Listed				
Bonds of the Ministry of Finance	1,538,639	1,502,626	1,538,639	1,502,626
Corporate Bonds	149,766	127,957	149,766	127,957
Foreign Government Bonds	-	394,206	-	394,206
	1,688,405	**2,024,789**	**1,688,405**	**2,024,789**
Debt Securities Not Listed				
Treasury Bills of the Croatian Ministry of Finance	850,461	686,021	850,461	686,021
Equity securities Not Listed				
- Corporate	9,192	15,414	9,192	15,414
- Non-Banking Financial Institutions	-	-	-	-
	9,192	**15,414**	**9,192**	**15,414**
Listed Equity Securities				
- Corporate	16,536	7,241	16,536	7,241
- Non-Banking Financial Institutions	1,456	2,141	1,456	2,141
Provisions for Impairment Losses on Equity Securities	(6,093)	(5,060)	(6,093)	(5,060)
	11,899	**4,322**	**11,899**	**4,322**
Accrued Interests Not Yet Due	21,394	23,392	21,394	23,392
Total	**2,581,351**	**2,753,938**	**2,581,351**	**2,753,938**

In accordance with the applicable accounting policies, the Group recognizes available-for-sale financial assets at fair value with the subsequent recognition of changes in fair value through other comprehensive income apart from the impairment of equity securities which is charged by the profit and loss account.

9. FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

Movement in Impairment Allowance for Financial Assets Available for Sale

Group			**2017.**			**2016.**
			’000 kn			**’000 kn**
	Individually Identified Losses	**Portfolio Based Losses**	**Total**	**Individually Identified Losses**	**Portfolio Based Losses**	**Total**
At January 1	**5.060**	**-**	**5.060**	**5.060**	**-**	**5.060**
Increase/ (Decrease) of Impairment Losses						
Other	1.033	-	**1.033**	-	-	**-**
	-	-	**-**	-	-	**-**
At December 31	**6.093**	-	**6.093**	**5.060**	-	**5.060**

Bank			**2017.**			**2016.**
			’000 kn			**’000 kn**
	Individually Identified Losses	**Portfolio Based Losses**	**Total**	**Individually Identified Losses**	**Portfolio Based Losses**	**Total**
At January 1	**5,060**	**-**	**5,060**	**5,060**	**-**	**5,060**
Increase/ (Decrease) of Impairment Losses						
Other	1,033	-	**1,033**	-	-	**-**
	-	-	**-**	-	-	**-**
At December 31	**6,093**	-	**6,093**	**5,060**	-	**5,060**

10. FINANCIAL ASSETS HELD TO MATURITY

	Group		Bank	
	2017. '000 kn	2016. '000 kn	2017. '000 kn	2016. '000 kn
Bonds of the Ministry of Finance	14,915	169,768	14,915	169,768
Corporative Bonds	2,700	3,000	2,700	3,000
Bills of Exchange	246,261	277,273	246,261	277,273
	263,876	**450,041**	**263,876**	**450,041**
Accrued Interest Not Yet due	**73**	2,994	**73**	2,994
Provisions for Impairment Losses	(191,356)	(1,439)	(191,356)	(1,439)
Portfolio Based Impairment Allowance for Identified Losses	(176)	(6,771)	(176)	(6,771)
Total	**72,417**	**444,825**	**72,417**	**444,825**

Movement in Impairment Allowance for Financial Assets Held to Maturity

The movements in the impairment allowance for financial assets held to maturity were as follows:

Group			**2017. '000 kn**			**2016. '000 kn**
	Individually Identified Losses	**Portfolio Based Losses**	**Total**	**Individually Identified Losses**	**Portfolio Based Losses**	**Total**
At January 1	**1.439**	**6.771**	**8.210**	**23.380**	**8.255**	**31.635**
Increase/ (Decrease) of Impairment Losses	190.397	(6.595)	**183.802**	395	(1.484)	**(1.089)**
Write-Offs and Other	(480)	-	**(480)**	-	-	-
Reclasification to AFS	-	-	-	(22.336)	-	**(22.336)**
At December 31	**191.356**	**176**	**191.532**	**1.439**	**6.771**	**8.210**

Bank			**2017. '000 kn**			**2016. '000 kn**
	Individually Identified Losses	**Portfolio Based Losses**	**Total**	**Individually Identified Losses**	**Portfolio Based Losses**	**Total**
At January 1	**1,439**	**6,771**	**8,210**	**23,380**	**8,255**	**31,635**
Increase/ (Decrease) of Impairment Losses	190,397	(6,595)	**183,802**	395	(1,484)	**(1,089)**
Write-Offs and Other	(480)	-	**(480)**	-	-	-
Reclasification to AFS	-	-	-	(22,336)	-	**(22,336)**
At December 31	**191,356**	**176**	**191,532**	**1,439**	**6,771**	**8,210**

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS

	Group		Bank	
	2017.	**2016.**	**2017.**	**2016.**
	'000 kn	**'000 kn**	**'000 kn**	**'000 kn**
Short-Term Loans				
Corporate	1,337,197	1,997,205	1,337,793	1,997,390
Retail	877,918	841,341	877,918	841,341
Total Short-Term Loans	**2,215,115**	**2,838,546**	**2,215,711**	**2,838,731**
Long-Term Loans				
Corporate*	5,813,941	5,939,847	5,819,508	5,988,730
Retail	4,444,882	4,110,031	4,275,144	3,945,047
Total Long-Term Loans	**10,258,823**	**10,049,878**	**10,094,652**	**9,933,777**
Total Gross Loans	**12,473,938**	**12,888,424**	**12,310,363**	**12,772,508**
Accrued Interests Due	6,759	11,259	6,750	11,215
Accrued Interests Not Yet Due	42,977	40,676	42,426	40,140
Provisions for Impairment Losses *	**(1,263,301)**	**(1,280,961)**	**(1,263,046)**	**(1,322,263)**
Portfolio Based Impairment Allowance for Identified Losses	**(118,980)**	**(105,183)**	**(117,385)**	**(103,790)**
Total	**11,141,393**	**11,554,215**	**10,979,108**	**11,397,810**
Total Impairment Allowance and Provisions as a Percentage of Gross Loans to Customers	11,08%	10,75%	11,21%	11,17%

**from the position of Long-term loans to legal entities within Loans and receivables from Group companies, as of 31.12.2016. the Bank's claims towards the company H1 TELEKOM d.d. are eliminated in the amount of HRK 42,147 thousand. Company H1 TELEKOM d.d. has been merged into OT-Optima Telekom dd in 2017, where the Bank has a minority interest and therefore has no basis for eliminating this transaction with the merging company from the consolidated statement of financial position as at 31 December 2017.*

11. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Movements in Impairment Allowance

Movements in the impairment allowance on loans to and receivables from customers were as follows:

Group			**2017.**			**2016.**
			’000 kn			**’000 kn**
	Individually Identified Losses	**Portfolio Based Losses**	**Total**	**Individually Identified Losses**	**Portfolio Based Losses**	**Total**
At January 1	**1.280.961**	**105.183**	**1.386.144**	**2.104.998**	**92.678**	**2.197.676**
Increase/ (Decrease) of Impairment Losses	153.872	13.797	**167.669**	170.294	12.505	**182.799**
Reclassification to Assets Available for Sale	-	-	**-**	(620.973)	-	**(620.973)**
Net Foreign Exchange Loss/ (Gain)	(2.873)	-	**(2.873)**	(5.534)	-	**(5.534)**
Write-Offs	(210.789)	-	**(210.789)**	(346.757)	-	**(346.757)**
Other*	42.130	-	**42.130**	(21.067)	-	**(21.067)**
At December 31	**1.263.301**	**118.980**	**1.382.281**	**1.280.961**	**105.183**	**1.386.144**

** Position Other in 2017 refers to the deconsolidation effect of provisions for receivables due to company H1 TELEKOM dd, which was merged with OT-Optima Telekom dd in 2017, where the Bank has a minority interest and which is not part of the HPB Group. In the financial statements for 2016, the amount stated in the Position refers to the effect of the change in the impairment of placements to H1 TELEKOM d.d., which was then part of the consolidation group.*

Bank			**2017.**			**2016.**
			’000 kn			**’000 kn**
	Individually Identified Losses	**Portfolio Based Losses**	**Total**	**Individually Identified Losses**	**Portfolio Based Losses**	**Total**
At January 1	**1,322,263**	**103,790**	**1,426,053**	**2,125,656**	**91,396**	**2,217,052**
Increase/ (Decrease) of Impairment Losses	154,445	13,595	**168,040**	169,871	12,394	**182,265**
Reclassification to Assets Available for Sale	-	-	**-**	(620,973)	-	**(620,973)**
Net Foreign Exchange Loss/ (Gain)	(2,873)	-	**(2,873)**	(5,534)	-	**(5,534)**
Write-Offs	(210,789)	-	(210,789)	(346,757)	-	**(346,757)**
Other	-	-	**-**	-	-	**-**
At December 31	**1,263,046**	**117,385**	**1,380,431**	**1,322,263**	**103,790**	**1,426,053**

12. ASSETS AVAILABLE FOR SALE

a) Structure of Financial Assets Available for Sale

	Industry	Domicile	Ownership at December 31 2016 %
Drvna Industrija Spačva d.d.	Other Carpentry and Components Production	Croatia	18,96%

The Group plans to recover its investment in the aforementioned companies by sale and not by realizing its share rights. These investments are currently held for sale and based on its strategy the Bank has made all the necessary actions in order to sell the investment in a time period customary for such transactions.

In the reporting period, the Group recognized in the income statement the unrealized gain from release of impairement allowance of asset held for sale in the amount of HRK 12,070 thousand (2016: 0), up to the initial cost of acquisition. Profit is recognized in the curriculum to estimate the fair value of shares in DI Spacva on the basis of the discounted cash flow method and comparison with a group of similar companies.

Investments in company H1 TELEKOM d.d.

On March 25, 2008, the Bank signed a contract with H1 TELEKOM d.d. on converting claims on long-term debt into the company's share capital. Through this agreement the Bank has acquired a 41.25% stake in the company's capital. The Bank's shareholder's share increased to 58.17% on the basis of converting bond liabilities, long-term loans and interest-rate claims into equity holdingsat legal completion of pre-bankruptcy settlement of 29 July 2015.

Company H1 TELEKOM d.d. on July 29, 2016 entered into a contract to merge with OT-Optima Telekom d.d. Based on the contract, H1 TELEKOM d.d. as a merged company, is merged into OT-Optima Telekom d.d. as merging company, the transfer of all assets and all rights and obligations, without conducting the liquidation process of the merged company.
Based on the decision of the Competition Agency of 9 June 2017, the merger procedure was completed by the Commercial Court of Zagreb Decision No. Tt-17/26830 issued on 1 August 2017 and up to the date of issue of these financial statements the corporate actions of new share issue of OT-Optima Telekom were performed by Central Clearing Depository Company and the Bank acquired these new shares in exchange for shares of H1 TELEKOM d.d. which the Bank previously held.

Loans and Receivables

On December 29 2016 the Bank made an agreement on receivables sale with a financing company APS Delta S.A. owned by APS Holding after getting approval by the CNB on meeting conditions for sale of materially important placements. Rights and benefits of the assets are transferred to the buyer upon receiving payments, and these assets were reclassified from loans to customers to financial assets available for sale. The agreed price was paid after the balance sheet date on January 19 2017 when the assets were transferred to the buyer.

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12. ASSETS HELD FOR SALE (continued)

b) Assets Held for Sale are as follows:

	Group		Bank	
	2017.	**2016.**	**2017.**	**2016.**
	'000 kn	**'000 kn**	**'000 kn**	**'000 kn**
Equity Stakes	20.000	7.930	20.000	7.930
Loans and Receivables	**-**	81.419	**-**	81.419
Total as of December 31	**20.000**	**89.349**	**20.000**	**89.349**

c) Movements in Assets Held for Sale:

	Group		Bank	
	2017.	**2016.**	**2017.**	**2016.**
	'000 kn	**'000 kn**	**'000 kn**	**'000 kn**
Balance at January 1	**89,349**	**7,930**	**89,349**	**7,930**
Increase in value	12,070	-	12,070	-
Reclassification from Loans and Receivables to Assets Held for Sale	-	81,419	-	81,419
Disposal of loans and receivables intened for sale i	(81,419)	-	(81,419)	-
De-recognition of investment in H1 TELEKOM d.d. due to merger	-	-	(62,283)	-
Write off of the Impairment of the investment in H1 TELEKOM d.d. due to de-recognition priznavanja	-	-	62,283	-
Balance at 31December	**20,000**	**89,349**	**20,000**	**89,349**

13. INVESTMENTS IN SUBSIDIARIES

a) The Bank's subsidiaries are as follows:

	Industry	Domicile	Ownership at December 31 2017 %
HPB Invest Ltd	Investment Fund Management	Croatia	100
HPB Nekretnine d.o.o.	Real Estate Agency and Construction	Croatia	100
HPB Stambena Štedionica d.d.	Savings Bank	Croatia	100

b) Investments in Subsidiaries that are fully consolidated in financial reports of the Group, are as follows:

	2017. '000 kn	2016. '000 kn
HPB Invest Ltd	5,000	5,000
HPB Nekretnine d.o.o.	490	490
HPB Stambena Štedionica d.d.	40,000	40,000
Total	**45,490**	**45,490**

The following table presents summary financial information on subsidiaries

	2017. u '000 kn	2016. u '000 kn
Short Term Assets	208,443	196,309
Long Term Assets	162,579	153,452
Short Term Liabilities	(69,218)	(81,789)
Long Term Liabilities	(249,786)	(216,520)
Net Assets, Book Value of Subsidiaries	**52,018**	**51,452**
Share of Revenue and Profit of Subsidiaries	100%	100%
Revenue	32,859	36,387
Net profit	2,765	5,726

c) Movements of Investments in Subsidiaries

There were no changes in book value of investments in subsidiaries in 2017 (2016: no change).

14. PROPERTY AND EQUIPMENT

Group 2017.	Land and Buildings HRK'000	Computers, Equipment and Motor Vehicles HRK'000	Assets Under Construction HRK'000	Total HRK'000
Cost or Estimated Value				
Balance at January 1 2016	**167,595**	**285,240**	**3,812**	**456,647**
Revaluation of Land and Buildings	168	-	-	168
Additions	53	56	13,701	13,810
Amounts Written-Off	-	(23,596)	(2,041)	(25,637)
Brought Into Use	925	11,746	(12,671)	-
Balance at December 31 2016	**168,741**	**273,446**	**2,801**	**444,988**
Accumulated Depreciation				
Balance at January 1 2016	**(63,420)**	**(252,463)**	**-**	**(315,883)**
Revaluation	(3,076)	(13,645)	-	(16,721)
Amounts Written-Off	-	23,447	-	23,447
Balance at December 31 2016	**(66,496)**	**(242,661)**	**-**	**(309,157)**
Net Book Value				
Balance at January 1 2016	**104,175**	**32,777**	**3,812**	**140,764**
Balance at December 31 2016	**102,245**	**30,785**	**2,801**	**135,831**

2016.	Land and Buildings HRK'000	Computers, Equipment and Motor Vehicles HRK'000	Assets Under Construction HRK'000	Total HRK'000
Cost or Estimated Value				
Balance at January 1 2016	**167,517**	**306,242**	**3,121**	**476,880**
Additions	-	-	15,514	15,514
Amounts Written-Off	-	(35,747)	-	(35,747)
Brought Into Use	78	14,745	(14,823)	-
Balance at December 31 2016	**167,595**	**285,240**	**3,812**	**456,647**
Accumulated Depreciation				
Balance at January 1 2016	**(60,395)**	**(274,249)**	**-**	**(334,644)**
Revaluation	(3,025)	(13,796)	-	(16,821)
Amounts Written-Off	-	35,582	-	35,582
Balance at December 31 2016	**(63,420)**	**(252,463)**	**-**	**(315,883)**
Net Book Value				
Balance at January 1 2016	**107,122**	**31,993**	**3,121**	**142,236**
Balance at December 31 2016	**104,175**	**32,777**	**3,812**	**140,764**

Assets under construction as of 31 December 2017 refer to investments in equipment and construction objects at cost of HRK 2,801 thousand (2016: HRK 3,812 thousand). The carrying amount of the land owned by the Group as at 31 December 2017 amounts to HRK 45,941 thousand (2016: HRK 45,895 thousand).

14. PROPERTY AND EQUIPMENT (continued)

Bank 2017.	Land and Buildings HRK'000	Computers, Equipment and Motor Vehicles HRK'000	Assets Under Construction HRK'000	Total HRK'000
Cost or Estimated Value				
Balance at January 1 2016	**167.595**	**284.729**	**3.812**	**456.136**
Revaluation of Land and Buildings	168	-	-	**168**
Additions	-	-	13.601	13.601
Amounts Written-Off	-	(23.596)	(2.041)	(25.637)
Brought Into Use	925	11.746	(12.671)	-
Balance at December 31 2016	**168.688**	**272.879**	**2.701**	**444.268**
Accumulated Depreciation				
Balance at January 1 2016	**(63.420)**	**(252.094)**	**-**	**(315.514)**
Revaluation	(3.035)	(13.590)	-	(16.625)
Amounts Written-Off	-	23.447	-	23.447
Balance at December 31 2016	**(66.455)**	**(242.237)**	**-**	**(308.692)**
Net Book Value				
Balance at January 1 2016	**104.175**	**32.635**	**3.812**	**140.622**
Balance at December 31 2016	**102.233**	**30.642**	**2.701**	**135.576**

2016.	Land and Buildings HRK'000	Computers, Equipment and Motor Vehicles HRK'000	Assets Under Construction HRK'000	Total HRK'000
Cost or Estimated Value				
Balance at January 1 2016	**167,517**	**305,796**	**3,121**	**476,434**
Revaluation of Land and Buildings	-	-	-	**-**
Additions	-	-	15,405	**15,405**
Amounts Written-Off	-	(35,703)	-	**(35,703)**
Brought Into Use	78	14,636	(14,714)	**-**
Balance at December 31 2016	**167,595**	**284,729**	**3,812**	**456,136**
Accumulated Depreciation				
Balance at January 1 2016	**(60,395)**	**(273,889)**	**-**	**(334,284)**
Charge for the Year	(3,025)	(13,743)	-	**(16,768)**
Revaluation	-	-	-	**-**
Amounts Written-Off	-	35,538	-	**35,538**
Balance at December 31 2016	**(63,420)**	**(252,094)**	**-**	**(315,514)**
Net Book Value				
Balance at January 1 2016	**107,122**	**31,907**	**3,121**	**142,150**
Balance at December 31 2016	**104,175**	**32,635**	**3,812**	**140,622**

Assets under construction as at 31 December 2017 refer to investments in equipment and construction objects at a purchase price of HRK 2,701 thousand (2016: HRK 3,812 thousand). The carrying amount of the land owned by the Bank as at 31 December 2017 amounts to HRK 45,941 thousand (2016: HRK 45,895 thousand).

During the reporting period, the reconstruction of buildings and land owned by the Group and the Bank was carried out at fair value on the basis of which the previously recognized impairment of HRK 168 thousand was reversed, as revenue was transferred to the income statement.

There are no mortgages or other pledged rights on the properties owned by the Bank for the benefit of other parties.

15. INVESTMENT PROPERTIES

Group	Bilješka	2017. '000 kn	2016. '000 kn
Cost			
Balance at January 1		197,761	11,744
Additions		34	-
Reclassification from Other Assets	18	-	186,017
Cancellation of finance leasing		245	-
Disposals		(2,035)	-
Balance at December 31		**196,005**	**197,761**
Accumulated Depreciation			
Balance at January 1		(2,435)	(2,176)
Charge for the Year		(259)	(259)
Balance at December 31		**(2,694)**	**(2,435)**
Impairment Loss			
Balance at January 1		(98,808)	-
Imapirement		(15,429)	-
Reclassification from Other Assets	18	758	(98,808)
Balance at December 31		**(113,479)**	**(98,808)**
Net Book Value			
Balance at January 1		96,518	9,568
Balance at December 31		**79,832**	**96,518**

Bank	Bilješka	2017. '000 kn	2016. '000 kn
Cost			
Balance at January 1		186,017	-
Additions		-	-
Reclassification from Other Assets	18	-	186,017
Cancellation of finance leasing		245	-
Disposals		(2,035)	-
Balance at December 31		**184,227**	**186,017**
Accumulated Depreciation			
Balance at January 1		-	-
Charge for the Year		-	-
Balance at December 31		**-**	**-**
Impairment Loss			
Balance at January 1		**(98,808)**	**-**
Imapirement		(15,429)	-
Reclassification from Other Assets	18	-	(98,808)
Disposal		758	-
Balance at December 31		**(113,479)**	**(98,808)**
Net Book Value			
Balance at January 1		**87,209**	**-**
Balance at December 31		**70,748**	**87,209**

15. INVESTMENT PROPERTIES (continued)

At the end of 2016, the Bank reclassified tangible assets with gross book value of HRK 186,017 thousand, which was taken over in exchange for uncollected receivables, in real estate investments. Impairment related to reclassified assets amounts to 113,479 (2016: HRK 98,808 thousand), and the net book value of this property is HRK 70,748 thousand (2016: 87,209 thousand). The underlying assets were previously classified as held for sale but due to the long duration of holding in the portfolio and the impossibility of selling within a reasonable time, criteria that were classified under IFRS 5 were not fulfilled: Non-current assets intended for sale and discontinuation of operations.

Fair value hierarchy of investment properties as of December 31 2017 was as follows:

31.12.2017.: Group	Level 1	Level 2	Level 3	Fair Value as of December 31 2016
- Land	-	-	26.247	26.247
- Buildings	-	-	47.772	47.772
- Equipment	-	-	5.813	5.813
TOTAL	**-**	**-**	**79.832**	**79.832**

31.12.2016.: Group	Level 1	Level 2	Level 3	Fair Value as of December 31 2016
- Land	-	-	17.252	17.252
- Buildings	-	-	73.319	73.319
- Equipment	-	-	5.947	5.947
TOTAL	**-**	**-**	**96.518**	**96.518**

31.12.2017.: Bank	Level 1	Level 2	Level 3	Fair Value as of December 31 2016
- Land	-	-	17.163	17.163
- Buildings	-	-	47.772	47.772
- Equipment	-	-	5.813	5.813
TOTAL	**-**	**-**	**70.748**	**70.748**

31.12.2016.: Bank	Level 1	Level 2	Level 3	Fair Value as of December 31 2016
- Land	-	-	17,252	17,252
- Buildings	-	-	64,010	64,010
- Equipment	-	-	5,947	5,947
TOTAL	**-**	**-**	**87,209**	**87,209**

Disclosure of the investment valuation in real estate is presented in Note 3. Property is assessed in accordance with the Real Estimates Act (OG 78/2015) and the related Property Ordinance Ordinance (NN 105/2015), according to law prescribed and appropriate methods consideration is given to a number of factors in determining its current market value. The valuation method has not changed during the year.During the year there were no items that would be reclassified from level 3 indicator to level 1 indicator or vice versa by hierarchy of fair value measures.

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16. INTANGIBLE ASSETS

Group 2017.	Software HRK'000	Leasehold Improvements HRK'000	Licenses HRK'000	Assets Under Construction HRK'000	Total HRK'000
Cost					
Balance at January 1 2016	**240,735**	**83,254**	**69,380**	**7,438**	**400.807**
Additions	-	-	-	30,859	30.859
Brought Into Use	12,004	9,353	1,720	(23,077)	-
Amounts Written-Off	-	(9,131)	-	-	(9.131)
Balance at December 31 2016	**252,739**	**83,476**	**71,100**	**15,220**	**422.535**
Accumulated Amortization					
Balance at January 1 2016	**(168,535)**	**(68,649)**	**(56,263)**	**-**	**(293.447)**
Charge for the Year	(20,879)	(2,710)	(3,764)	-	(27.353)
Amounts Written-Off	-	9,126	-	-	9.126
Balance at December 31 2016	**(189,414)**	**(62,233)**	**(60,027)**	**-**	**(311.674)**
Net Book Value					
Balance at January 1 2016	**72,200**	**14,605**	**13,117**	**7,438**	**107.360**
Balance at December 31 2016	**63.325**	**21,243**	**11,073**	**15,220**	**110,861**

2016.	Software HRK'000	Leasehold Improvements HRK'000	Licenses HRK'000	Assets Under Construction HRK'000	Total HRK'000
Cost					
Balance at January 1 2016	**228,415**	**77,255**	**65,648**	**17,916**	**389.234**
Additions	-	-	-	26,992	26.992
Brought Into Use	12,389	13,021	3,754	(29,164)	-
Amounts Written-Off	(69)	(7,022)	(22)	(8,306)	(15.419)
Balance at December 31 2016	**240,735**	**83,254**	**69,380**	**7,438**	**400.807**
Accumulated Amortization					
Balance at January 1 2016	**(149,053)**	**(70,537)**	**(52,634)**	**-**	**(272.224)**
Charge for the Year	(19,551)	(5,134)	(3,651)	-	(28.336)
Amounts Written-Off	69	7,022	22	-	7.113
Balance at December 31 2016	**(168,535)**	**(68,649)**	**(56,263)**	**-**	**(293.447)**
Net Book Value					
Balance at January 1 2016	**79,362**	**6,718**	**13,014**	**17,916**	**117.010**
Balance at December 31 2016	**72.200**	**14,605**	**13,117**	**7,438**	**107,360**

Assets under construction as of 31 December 2017 mainly refer to investments in application software and investments in other assets at a purchase price of HRK 15,220 thousand (2016: HRK 7,483 thousand), which are being prepared for future use by the Group.

16. INTANGIBLE ASSETS (continued)

Bank	Software HRK'000	Leasehold Improvements	Licenses HRK'000	Assets Under Construction	
Cost					
Balance at January 1 2016	**239,711**	**83,143**	**69,380**	**7,184**	**399.418**
Additions				30,859	30.859
Brought Into Use	11,990	9,353	1,720	(23,063)	-
Amounts Written-Off	-	(9,131)	-	-	(9.131)
Balance at December 31 2016	**251,701**	**83,365**	**71,100**	**14,980**	**421.146**
Accumulated Amortization					
Balance at January 1 2016	(167,565)	(68,535)	(56,265)	**-**	(292.365)
Charge for the Year	(20,769)	(2,710)	(3,764)	-	(27.243)
Amounts Written-Off	-	9,126	-	-	9.126
Balance at December 31 2016	**(188,334)**	**(62,119)**	**(60,029)**	**-**	**(310.482)**
Net Book Value					
Balance at January 1 2016	72,146	14,608	13,115	7,184	107.053
Balance at December 31 2016	**63.367**	**21,246**	**11,071**	**14,980**	**110,664**

	Software HRK'000	Leasehold Improvements	Licenses HRK'000	Assets Under Construction	
Cost					
Balance at January 1 2016	**227,417**	**77,144**	**65,648**	**17,834**	**388.043**
Additions	-	-	-	26,793	**26.793**
Brought Into Use	12,363	13,021	3,754	(29,138)	-
Amounts Written-Off	(69)	(7,022)	(22)	(8,306)	**(15.419)**
Balance at December 31 2016	**239,711**	**83,143**	**69,380**	**7,183**	**399.417**
Accumulated Amortization					
Balance at January 1 2016	**(148,124)**	**(70,433)**	**(52,636)**	**-**	**(271.193)**
Charge for the Year	(19,510)	(5,124)	(3,651)	-	**(28.285)**
Amounts Written-Off	69	7,022	22	-	**7.113**
Balance at December 31 2016	**(167,565)**	**(68,535)**	**(56,265)**	**-**	**(292.365)**
Net Book Value					
Balance at January 1 2016	**79,293**	**6,711**	**13,012**	**17,834**	**116.850**
Balance at December 31 2016	**72.146**	**14,608**	**13,115**	**7,183**	**107,052**

Assets under construction as at 31 December 2017 mainly relate to investment in application software and investments in other assets at cost of HRK 14,980 thousand (2016: 7,183 thousand), which are being prepared for future use by the Bank.

17. NET DEFERRED TAX ASSETS

a) Recognized Deferred Tax Assets and Liabilities

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2017 are presented below:

Group **2017.**	**2017.** **'000 kn**	**Recognized as Income/ (Expense) in the Income statement** **HRK'000**	**Recognized as Other Comprehensive Income** **HRK'000**	**2016.** **'000 kn** **(restated)**
Deferred Tax Assets				
Loans and Advances to Customers	7,390	(1,211)	-	8,601
Other Provisions	3	-	-	3
Financial Assets	14,169	(664)	-	14,833
Fair Value Reserve	34,600	(2,244)	-	36,843
Deferred Tax Liabilities				
Borrowings	(761)	(93)	-	(401)
Revaluation Reserve	(171)	-	13	(184)
Fair Value Reserve	(20,785)	-	(2,194)	(18,591)
Prepaid expenses	(80)	28	-	(375)
Deferred Tax Assets, Net	**34,365**	**(4,184)**	**-**	**40,729**

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2016 are presented below:

Group **2016.**	**2016.** **'000 kn** **(restated)**	**Recognized as Income/ (Expense) in the Income statement** **HRK'000**	**Recognized as Other Comprehensive Income** **HRK'000**	**2015.** **'000 kn**
Deferred Tax Assets				
Loans and Advances to Customers	8,601	(1,260)	-	9,861
Other Provisions	3	(14)	-	17
Financial Assets	14,833	(7,641)	-	22,474
Fair Value Reserve	36,843	36,843	-	-
Deferred Tax Liabilities				
Borrowings	(668)	22	-	(690)
Revaluation Reserve	(184)	-	35	(219)
Fair Value Reserve	(18,591)	-	1,931	(20,522)
Prepaid expenses	(108)	63	-	(171)
Deferred Tax Assets, Net	**40,729**	**28,013**	**1,966**	**10,750**

18. 17. NET DEFERRED TAX ASSETS (CONTINUED)

b) Recognized Deferred Tax Assets and Liabilities

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2017 are presented below:

	2017. '000 kn	Recognized as Income/ (Expense) in the Income statement HRK'000	Recognized as Other Comprehensive Income HRK'000	2016. '000 kn (restated)
Deferred Tax Assets				
Loans and Advances to Customers	6,922	(1,126)	-	8,048
Other Provisions	-	-	-	-
Financial Assets	14,169	(664)	-	14,833
Fair Value Reserve	34,600	(2,244)	-	36,843
Deferred Tax Liabilities				
Borrowings	(761)	(93)	-	(668)
Revaluation Reserve	(171)	-	13	(184)
Fair Value Reserve	(20,785)	-	(2,194)	(18,591)
Deferred Tax Assets, Net	**33,974**	**(4,127)**	**(2,181)**	**40,281**

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2016 are presented below:

	2016.	Recognized as Income/ (Expense) in	Recognized as Other Comprehensive	2015. '000 kn
Deferred Tax Assets				
Loans and Advances to Customers	8,048	(1,133)	-	9,181
Other Provisions	-	-	-	-
Financial Assets	14,833	(7,641)	-	22,474
Fair Value Reserve	36,843	36,843	-	-
Deferred Tax Liabilities				
Borrowings	(668)	22	-	(690)
Revaluation Reserve	(184)	-	35	(219)
Fair Value Reserve	(18,591)	-	1,931	(20,522)
Deferred Tax Assets, Net	**40,281**	**28,091**	**1,966**	**10,224**

19. OTHER ASSETS

u '000 kn	Group			Bank		
	31.12.2017.	31.12.2016. restated	01.01.2016. restated	31.12.2017.	31.12.2016. restated	01.01.2016. restated
Fees Receivable	20,820	24,202	28,052	20,032	23,502	27,615
Foreclosed Tangible Assets	-	-	192,719	-	-	192,719
Items in Course of Collection*	79,510	167,299	77,548	79,510	167,268	77,517
Deferred fees expense	-	366	681	-	-	-
Prepaid expenses	11,416	10,525	5,744	10,994	10,376	5,590
Receivables Arising from Syndicated Loans **	-	57,636	55,475	-	57,636	55,475
Other Receivables	24,081	33,498	28,802	21,844	31,065	25,214
Total Other Assets, Gross	**135,827**	**293,526**	**389,021**	**132,380**	**289,847**	**384,130**
Impairment Loss	(13,390)	(22,707)	(110,621)	(13,390)	(22,707)	(110,621)
Total	**122,437**	**270,819**	**278,400**	**118,990**	**267,140**	**273,509**
Discontinued Operations	**-**	130,133	120,552	**-**	**-**	**-**
Total	**122,437**	**400,952**	**398,952**	**118,990**	**267,140**	**273,509**

** TItems in course of collection relate mainly to the sale/purchase of forein currency cash in the amount of HRK 17,884 thousand (2015: HRK 38,725 thousand), as well as other accounts receivable (retail, card transactions, payment transactions, saleof foreign currency cash etc.) .*

*** As of 31.12.2017. a reclassification of HRK 140,807 thousand (31 December 2016: HRK 57,636 thousand) was made related to portion of other participants in syndicated loans from item Other assets within the assets to Other liabilities under liabilities. This amount represents the receivable from the loan beneficiary in the part pertaining to the other participants in the financing. In this way, the reclassification of the relevant receivables has netted the current liabilities to the other participants in the financing, in the part they finance. Historical information has not been restated*

Movements in Impairment Allowance
Movements in the impairment allowance on other assets were as follows:

	Group		Bank	
	2017. '000 kn	2016. '000 kn	2017. '000 kn	2016. '000 kn
Balance at January 1	22,707	110,621	22,707	110,621
Increase in Impairment Losses	(47)	10,486	(47)	10,486
Disposal of repossessed assets	-	-	-	-
Reclassification of Assets Taken Over for Uncollected Receivables in Investment Property	-	(98,808)	-	(98,808)
Foreign Exchange Currencies	(163)	141	(163)	141
Used Impairments and Other	(9,107)	267	(9,107)	267
Balance at December 31	**13,390**	**22,707**	**13,390**	**22,707**

18. OTHER ASSETS (continued)

At the end of 2016, the bank reclassified the tangible assets taken over for unpaid claims on real estate investments. The underlying assets were previously classified as held for sale but due to the long duration of holding in the portfolio and the impossibility of selling within a reasonable time, criteria that were classified under IFRS 5 were not fulfilled: Non-current assets intended for sale and discontinuation of operations.

After the reclassification described above, the Bank had no tangible assets taken over for uncollected receivables classified as held for sale (2016: 0) as at 31 December 2017. The Bank and the Group actively sell the property taken over for unpaid claims and sold objects and land in the total net amount of HRK 5,907 thousand (2016: HRK 814 thousand) in 2017. During the reporting period, the Bank and the Group did not show losses on the real estate (2016: HRK 9,224 thousand).

Movements in Foreclosed Tangible Assets

The following table represents movements in foreclosed assets during 2017:

Group i Bank		**2017.**	**2016.**
Gross Carrying Value	**Bilješka**	**'000 kn**	**'000 kn**
Balance as at January 1		**-**	**192,719**
Repossessed		5,907	-
Leased Out		-	(5,911)
Disposal of Repossessed Assets		(5,907)	(814)
Investment Property (or Investments in Facilities) and Other		**-**	22
Reclassification of Investment in Property	15	-	(186,016)
Balance as at December 31		**-**	**-**
Impairment Losses			
Balance as at January 1		**-**	**(89,584)**
Impairment Loss Charged to the Income statement		**-**	(9,224)
Leased Out		**-**	**-**
Disposal of Repossessed Assets		**-**	**-**
Reclassification of Investment in Property	15	-	98,808
Balance as at December 31		**-**	**-**
Net Carrying Value			
Balance as at January 1		**-**	**103,135**
Balance as at December 31		**-**	**-**

The Bank and the Group actively sell the property taken over for unpaid claims and sold objects and land in the total net amount of HRK 5,907 thousand (2016: HRK 814 thousand) in 2017.

Following the sale of real estate, the Bank and the Group recorded HRK 1,653 thousand of revenue from sale of tangible assets (2016: HRK 212 thousand in revenues) during the reporting period.

19. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2017.	2016.	2017.	2016.
	'000 kn	'000 kn	'000 kn	'000 kn
Negative Fair Value of Forward Foreign Exchange Contracts	-	3,641	-	3,641
Negative Fair Value of Cross Currency Swaps	-	-	-	-
Balance at December 31	**-**	**3,641**	**-**	**3,641**

20. DEPOSITS FROM BANKS

Group	2017. ('000 kn)			2016. ('000 kn)		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Demand Deposits	5,494	19,935	25,429	35,265	142,158	177,423
Term Deposits	342,927	30,712	373,639	300,011	30,872	330,883
Interest Payable Not Yet Due	685	37	722	754	73	827
Total	**349,106**	**50,684**	**399,790**	**336,030**	**173,103**	**509,133**

Bank	2017. ('000 kn)			2016. ('000 kn)		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Demand Deposits	5,494	19,935	**25,429**	35,265	142,158	**177,423**
Term Deposits	342,927	30,712	**373,639**	300,011	30,872	**330,883**
Interest Payable Not Yet Due	685	37	**722**	754	73	**827**
Total	**349,106**	**50,684**	**399,790**	**336,030**	**173,103**	**509,133**

21. DEPOSITS FROM CUSTOMERS

Group	2017. ('000 kn)			2016. ('000 kn)		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Demand Deposits						
Retail	2,668,888	889,458	3,558,346	2,294,830	629,288	2,924,118
Corporate	2,775,534	293,956	3,069,490	1,856,532	502,471	2,359,003
Restricted Deposits						
Retail	6,582	4,568	11,150	5,972	4,651	10,623
Corporate	1,717,077	59,353	1,776,430	1,624,973	66,177	1,691,150
	7,168,081	**1,247,335**	**8,415,416**	**5,782,307**	**1,202,587**	**6,984,894**
Term Deposits						
Retail	2,317,850	3,554,965	5,872,815	2,461,295	3,938,531	6,399,826
Corporate	1,748,893	730,659	2,479,552	1,764,676	818,869	2,583,545
	4,066,743	**4,285,624**	**8,352,367**	**4,225,971**	**4,757,400**	**8,983,371**
Interests Payable - Not Yet Due	21,151	19,003	40,154	29,239	27,300	56,539
Total	**11,255,975**	**5,551,962**	**16,807,937**	**10,037,517**	**5,987,287**	**16,024,804**

Bank	2017. ('000 kn)			2016. ('000 kn)		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Demand Deposits						
Retail	2,668,888	889,458	3,558,346	2,294,830	629,288	2,924,118
Corporate	2,822,402	294,022	3,116,424	1,884,748	502,625	2,387,373
Restricted Deposits						
Retail	6,582	4,568	11,150	5,972	4,651	10,623
Corporate	1,717,077	59,353	1,776,430	1,624,973	66,177	1,691,150
	7,214,949	**1,247,401**	**8,462,350**	**5,810,523**	**1,202,741**	**7,013,264**
Term Deposits						
Retail	2,015,772	3,554,965	5,570,737	2,181,076	3,938,531	6,119,607
Corporate	1,748,893	730,659	2,479,552	1,764,676	818,869	2,583,545
	3,764,665	**4,285,624**	**8,050,289**	**3,945,752**	**4,757,400**	**8,703,152**
Interests Payable - Not Yet Due	20,812	19,003	39,815	29,006	27,300	56,306
Total	**11,000,426**	**5,552,028**	**16,552,454**	**9,785,281**	**5,987,441**	**15,772,722**

Restricted deposits mainly relate to client deposits which are predetermined for special purposes, such as those based on court orders.

22. BORROWINGS

Group	2017. ('000 kn)			2016. ('000 kn)		
	HRK	Foreign Currency	Total	HRK	Foreign currency	Total
Short-term loans from domestic banks and HBOR	-	-	-	14,777	-	
Long-term loans from banks	-	20,287	**20,287**	-	88,426	
Long-term loans from HBOR	651,971	-	**651,971**	620,995	-	
Accrues Interests Due	41	-	41	2,126	-	
Accrued Interests not Yet Due	545	39	584	316	20	
Total	**652,557**	**20,326**	**672,883**	**638,214**	**88,446**	

Bank	2017. ('000 kn)			2016. ('000 kn)		
	HRK	Foreign Currency	Total	HRK	Foreign currency	Total
Short-term loans from domestic banks and HBOR	-	-	-	14,777	-	14,777
Long-term loans from banks	-	20,287	**20,287**	-	88,426	88,426
Long-term loans from HBOR	651,971	-	**651,971**	620,995	-	620,995
Accrues Interests Due	41	-	41	2,126	-	2,126
Accrued Interests not Yet Due	545	39	584	316	20	336
Total	**652,557**	**20,326**	**672,883**	**638,214**	**88,446**	**726,660**

In accordance with their terms, borrowings from the CBRD are used to fund loans to customers of the Bank for financing eligible reconstruction and development projects at preferential interest rates.

23. PROVISIONS FOR LIABILITIES AND EXPENSES

	Group		Bank	
	2017.	**2016.**	**2017.**	**2016.**
	'000 kn	**'000 kn**	**'000 kn**	**'000 kn**
Litigation Provisions	41.999	37.217	41.804	37.217
Provision for Contingent Liabilities	4.726	250	4.726	250
Provisions for Other Liabilities	6.130	1.301	6.000	1.188
Provisions for Off-Balance Sheet Exposures	20.434	22.019	20.425	22.019
Other provisions	138	-	-	-
Total	**73.427**	**60.787**	**72.955**	**60.674**

Movements in Provisions for Liabilities and Expenses

The movements in provisions for liabilities and expenses were as follows

	Group		Bank	
	2017.	**2016.**	**2017.**	**2016.**
	'000 kn	**'000 kn**	**'000 kn**	**'000 kn**
Balance at January 1	60,787	36,723	60,674	36,592
Increase/ (Decrease) in Provisions in the Income statement	10,491	25,384	10,132	25,370
Amounts Utilized / Reversed During the Reporting Period	(2,187)	(1,320)	(2,187)	(1,288)
Other	4,336	-	4,336	-
Balance at December 31	**73,427**	**60,787**	**72,955**	**60,674**

24. OTHER LIABILITIES

	Group		Bank	
	2017. '000 kn	2016. '000 kn	2017. '000 kn	2016. '000 kn
Trade Accounts Payable	19.306	17.494	18.914	16.974
Salaries, Amounts to Be Withheld from Salaries, Taxes and Contributions	27,777	102,902	27,053	101,928
Provisions for Retirement Benefits, Termination Benefits and Similar Liabilities	4,118	3,885	4,109	3,885
Fees Payable	7,585	14,534	7,503	14,461
Items in Course of settlement	63,407	83,438	63,407	80,883
Prepaid Deferred Income	9,810	16,144	7,861	13,999
Other Liabilities*	50,815	93,999	44,876	90,476
Provisions for Awards to Employees	-	3,517	-	3,000
Ukupno aktivni dijelovi poslovanja	**182,818**	**335,913**	**173,723**	**325,606**
Obustavljeni dijelovi poslovanja	**-**	**131,526**	**-**	**-**
Total	**182,818**	**467,439**	**173,723**	**325,606**

** As of 31.12.2017. a reclassification of HRK 140,807 thousand (31 December 2016: HRK 57,636 thousand) was made related to portion of other participants in syndicated loans from item Other assets within the assets to Other liabilities under liabilities. This amount represents the receivable from the loan beneficiary in the part pertaining to the other participants in the financing. In this way, the reclassification of the relevant receivables has netted the current liabilities to the other participants in the financing, in the part they finance. Historical information has not been restated.*

25. EQUITY

a) Share Capital

As at 31 December 2017, the authorized, registered and fully paid-up share capital of the parent company of the Group amounted to HRK 1,214,755 thousand (2016 1,214,755 thousand) and included 2,024,625 (2016 2,024,625) of the approved ordinary the nominal value of 600.00 kn.

At 31 December 2017, the Bank had 795 treasury shares (2016: 795) in the total amount of HRK 477 thousand (2016: HRK 477 thousand). Reserve for own shares as of 31.12.2017. amounted to HRK 4 477 thousand (2016: HRK 4 477 thousand).

The ownership structure is as follows:

	2017.		2016.	
	Paid-In Capital HRK'000	Ownership (%)	Paid-In Capital HRK'000	Ownership (%)
Republic of Croatia	515,421	42,43%	515,421	42,43%
Hrvatska Pošta d.d.	144,966	11,93%	144,966	11,93%
State Agency for Deposit Insurance and Bank Resolution	109,091	8,98%	109,091	8,98%
Croatian State Pension Insurance Fund	106,387	8,76%	106,387	8,76%
Fund NEK	28,727	2,36%	28,727	2,36%
Others	310,183	25,54%	310,183	25,54%
Total	**1,214,775**	**100,00%**	**1,214,775**	**100,00%**

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25) *Capital Gain*

Capital gain is the excess amount paid with respect to nominal value of shares at the issue of new shares. In 2017 there were no capital gains from emitting new shares (2016: 0).

c) Fair Value Reserve

The fair value reserve includes unrealized gains and losses on changes in the fair value of financial assets available for sale, net of tax.

The movements of fair value reserve during 2017 and 2016 were as follows:

Group	**2017.**	**2016.**
	’000 kn	’000 kn
Balance at January 1	**84,690**	**82,089**
Net Unrealized Gain from Financial Assets Available for Sale	18,935	45,506
The Cumulative Gain/ (Loss) on the Sale of Available for Sale Assets Transferred to the Income statement	(6,745)	(44,836)
Deferred Taxes in Respect of Profits on Revaluation of Available for Sale Financial Assets	(2,194)	(134)
Corporate Tax Rate Change Effect on Deferred Tax of Profits from Impairments of Financial Assets Available for Sale	-	2,065
Other changes	(429)	-
Balance at December 31	**94,257**	**84,690**

Bank	**2017.**	**2016.**
	’000 kn	’000 kn
Balance at January 1	**84,690**	**82,089**
Net Unrealized Gain from Financial Assets Available for Sale	18,935	45,506
The Cumulative Gain/ (Loss) on the Sale of Available for Sale Assets Transferred to the Income statement	(6,745)	(44,836)
Deferred Taxes in Respect of Profits on Revaluation of Available for Sale Financial Assets	(2,194)	(134)
Corporate Tax Rate Change Effect on Deferred Tax of Profits from Impairments of Financial Assets Available for Sale	-	2,065
Other changes	(429)	-
Balance at December 31	**94,257**	**84,690**

25. EQUITY (continued)

d) Revaluation Reserve

Revaluation reserve in the amount of HRK 779 thousand (2016: HRK 839 thousand), net of tax, results from revaluation of land and buildings of the Bank. In 2017, the reduction in the revaluation reserve amounted to HRK 60 thousand (2016: a decrease of HRK 38 thousand).

The movements of revaluation reserve in 2017 and 2016 were as follows:

Group i Bank	**2017.**	**2016.**
	'000 kn	'000 kn
Balance at January 1	**839**	**877**
Decrease in the Revaluation Reserve on Depreciation of Assets	(73)	(73)
Deferred Tax Related to Revaluation Reserve	13	35
Balance at December 31	**779**	**839**

e) Proposed Dividends

Dividend liabilities are not recognized until they are approved at the Shareholders' General Meeting. In 2017 there were no dividend payments (2016: HRK 30,762 thousand, or HRK 15.20 per share).

Legal and other reserves

The Bank and its subsidiary HPB Stambena štedionica d.d. are obliged to form a legal reserve by allocating 5% of net profit for the year, until the reserves reach 5% of the share capital. Based on the Decision of the Supervisory Board of the Bank from May 2017, HRK 9,414 thousand of profit realized in 2016 was allocated to legal reserves. Based on the Decision of the General Assembly of HPB Stambena štedionica dd, after covering the uncovered loss from previous years, HRK 134 thousand was allocated to legal reserves.

In May 2017, the General Assembly confirmed the Decision of the Supervisory Board to allocate HRK 84,724 thousand from the profit realized in 2016 to other reserves. Other reserves as at 31 December 2017 amount to HRK 443,030 thousand (2016: HRK 358,306).

f) Retained Earnings/ (accumulated losses)

In May 2017, the General Assembly of the Bank passed a Decision to divide the portion of profit in 2016 amounting to HRK 94,139 thousand, after allocating the legal reserve, and other reserves to retained retained earnings within capital and reserves (2016: HRK 37,418 thousand, 2016 adjustments: HRK 82,294 thousand). The effect of adjusting the financial statements for historical periods ending on 31.12.2015. the retained earnings of the Group and the Bank amounted to HRK 44,876 thousand. The impact of the financial result adjustment in 2016 on the retained earnings of the Group and the Bank amounts to HRK 7,016 thousand..

h) Financial Leverage Ratio

In line with article 429 of Regulation EU 575/ 2013 from January 01 2014, calculus of financial leverage ratio between common tier-1 equity and total exposure is mandatory for each credit institution.

Financial leverage ratio for the Bank is as follows:

	2017.	**2016.**
Financial Leverage Ratio (%)	7,65	7,00

26. INTEREST AND SIMILAR INCOME

a) Analysis by Product:

	Group		Bank	
	2017.	**2016.**	**2017.**	**2016.**
	'000 kn	**'000 kn**	**'000 kn**	**'000 kn**
Loans and Advances to Customers				
- Corporate	274,457	284,424	274,714	284,948
- Individuals	306,114	317,880	299,166	311,621
	580,571	**602,304**	**573,880**	**596,569**
Loans and Advances to Customers	(2,152)	750	(2,152)	647
Debt Securities	94,076	114,181	86,622	106,885
Bills of Exchange	4,403	16,154	4,403	16,154
Total	**676,898**	**733,389**	**662,753**	**720,255**

b) Analysis by Source:

	Group		Bank	
	2017.	**2016.**	**2017.**	**2016.**
	'000 kn	**'000 kn**	**'000 kn**	**'000 kn**
Corporate	141.200	153.790	141.457	154.314
Retail	306.114	317.880	299.166	311.621
Government and Public Sector	229.805	259.257	222.351	251.961
Banks and Other Financial Institutions	(1.443)	1.833	(1.443)	1.730
Other Organizations	1.222	629	1.222	629
Total	**676.898**	**733.389**	**662.753**	**720.255**

27. INTEREST AND SIMILAR EXPENSE

a) Analysis by Product

	Group		Bank	
	2017.	**2016.**	**2017.**	**2016.**
	'000 kn	**'000 kn**	**'000 kn**	**'000 kn**
Borrowings	13,543	18,857	13,543	18,857
Customer Deposits				
- Corporate	36,755	55,695	36,787	55,736
- Retail	85,393	136,427	77,345	128,304
	122,148	**192,122**	**114,132**	**184,040**
Deposits from Banks	3,228	2,896	3,228	2,896
Other	515	65	515	65
Total	**139,434**	**213,940**	**131,418**	**205,858**

27. INTEREST AND SIMILAR EXPENSE (continued)

b) Analysis by Recipient

	Group		Bank	
	2017.	**2016.**	**2017.**	**2016.**
	'000 kn	**'000 kn**	**'000 kn**	**'000 kn**
Corporate	19,954	27,393	19,986	27,434
Retail	85,393	136,427	77,345	128,304
Government and Public Sector	6,892	14,076	6,892	14,076
Banks and other Financial Institutions	24,563	31,805	24,563	31,805
Others	2,632	4,239	2,632	4,239
Total	**139,434**	**213,940**	**131,418**	**205,858**

28. FEES AND COMMISSIONS INCOME

	Group		Bank	
	2017.	**2016.**	**2017.**	**2016.**
	'000 kn	**'000 kn**	**'000 kn**	**'000 kn**
Cash Payment Operations	271,549	280,106	271,549	280,106
Non-Cash Payment Operations	49,362	48,640	49,426	48,640
Retail and Credit Card Operations	160,807	127,554	157,086	124,866
Letters of Credit, Guarantees and Foreign-Exchange Payment Operations	22,788	22,149	22,788	22,149
Other Fees and Commissions Income	30,590	30,485	20,115	18,119
Total	**535,096**	**508,934**	**520,964**	**493,880**

29. FEES AND COMMISSIONS EXPENSE

	Group		Bank	
	2017.	**2016.**	**2017.**	**2016.**
	'000 kn	**'000 kn**	**'000 kn**	**'000 kn**
Cash Payment Operations	241,703	248,829	241,703	248,829
Non-Cash Payment Operations	14,116	14,202	14,116	14,202
Card Operations	62,445	36,874	62,445	36,874
Other Fees and Commission Expense	9,924	10,278	10,573	9,205
Total	**328,188**	**310,183**	**328,837**	**309,110**

30. GAINS LESS LOSSES ARISING FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2017. '000 kn	2016. '000 kn	2017. '000 kn	2016. '000 kn
Net Unrealized Losses/ (Gains) on Financial Assets at Fair Value Through Profit or Loss				
Realized Gains/ (Losses)				
- Debt securities	2,437	1,277	2,437	1,057
- Equity Securities	317	-	317	-
- Investment Funds	57	1,009	57	1,009
- Forward Contracts, OTC	721	(1,692)	715	(1,707)
	3,532	**594**	**3,526**	**359**
Unrealized Gains/ (Losses)				
- Debt securities	11,025	11,881	13,227	9,612
- Equity Securities	(5,103)	5,446	(5,103)	5,446
- Investment Funds	1,158	8,030	1,158	8,030
- Futures	-	158	-	-
- Forward Contracts, OTC	(140)	140	(140)	140
	6,940	**25,655**	**9,142**	**23,228**
Total	**10,472**	**26,249**	**12,668**	**23,587**

31. GAINS LESS LOSSES FROM FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	2017. '000 kn	2016. '000 kn	2017. '000 kn	2016. '000 kn
Realized Gains on Disposal of Debt Securities Available for Sale	21,973	15,112	21,973	15,112
Realized Gains on Disposal of Equity Securities Available for Sale	7,811	33,484	7,811	33,484
Other changes	429	-	429	-
Total	**30,213**	**48,596**	**30,213**	**48,596**

32. OTHER OPERATING INCOME

	Group		Bank	
	2017. '000 kn	2016. '000 kn	2017. '000 kn	2016. '000 kn
Dividend Income	975	827	4,175	4,327
Net Foreign Exchange Gain from Translation of Monetary Assets and Liabilities	1,771	(3,874)	1,747	(4,100)
Income on Dormant Customer Accounts	40	29	40	29
Other income	6,427	4,544	5,688	4,251
Total	**9,213**	**1,526**	**11,650**	**4,507**

33. GENERAL AND ADMINISTRATIVE EXPENSES

	Group		Bank	
	2017.	2016.	2017.	2016.
	'000 kn	'000 kn	'000 kn	'000 kn
Materials and Services*	128,756	131,594	126,434	127,294
Administration and Marketing	16,702	16,483	16,297	16,369
Postage and Telecommunications	23,316	23,662	22,706	23,035
Staff Costs	185,842	186,059	176,787	176,721
Savings Deposit Insurance Costs	36,382	34,691	35,559	33,913
Other General and Administrative Expenses	24,094	17,008	22,113	17,718
Total	**415,092**	**409,497**	**399,896**	**395,050**

a) Staff Costs

	Group		Bank	
	2017.	2016.	2017.	2016.
	'000 kn	'000 kn	'000 kn	'000 kn
Net Salaries, Termination and Other Employee Benefit Costs	99,649	97,264	95,071	93,087
Taxes and Contributions (including contributions payable by employers)	76,140	75,082	72,412	71,107
Other Fees to Employees	9,505	9,632	9,198	9,351
Provisions for Bonuses to Employees	-	3,517	-	3,000
Fees to Supervisory Board Members	548	564	106	176
Total	**185,842**	**186,059**	**176,787**	**176,721**

** The Material and Services item within General and Administrative Expenses for 2017 includes HRK 3,333 thousand of expenses paid to associated companies of the external auditor of the Bank and the Group for 2017 for non-audit services. The non-audit services provided relate to a success fee on the implementation of the project for the sale of receivables (services provided in 2016, sale transaction realized in 01/2017), and the financial due dilligence of the Bank for the purpose of the recapitalization (service provided in 2017).*

Furthermore, for non-audit service of review of the financial statements as of 30 June 2017the fee was paid to the external auditor of the Bank and the Group for 2017 in the amount of HRK 130 thousand.

As at 31 December 2016, the Bank had 1,122 employees (2016: 1,067) and 1,162 employees (2016: 1,120 employees).

34. IMPAIRMENT LOSSES ON LOANS TO AND RECEIVABLES FROM CUSTOMERS AND OTHER ASSETS

		Group		Bank	
	Bilješke	2017. '000 kn	2016. '000 kn	2017. '000 kn	2016. '000 kn
Individually Identified Impairment Losses					
Loans to and Receivables from Customers	11	(153,872)	(170,294)	(154,445)	(169,871)
Interest Receivables		(3,671)	(10,272)	(3,678)	(1,057)
Financial Assets Available for Sale	9	(1,033)	-	(1,033)	-
Financial Assets Held to Maturity	10	(190,397)	(395)	(190,397)	(395)
Other Assets	18	(45)	(1,408)	(45)	(1,262)
Investment property		(15,429)	-	(15,429)	-
Tangible and Intangible Assets	14,16	-	(8,306)	-	(8,306)
Asset held for sale		21,828	-	21,828	(9,224)
Gains from Recovery of Placements Written-Off in Previous		405	403	405	403
Total Charge		**(342,214)**	**(190,272)**	**(342,794)**	**(189,712)**
Portfolio Based Provisions for Identified Losses					
Loans and Receivables from Customers	11	(13,797)	(12,505)	(13,595)	(12,394)
Financial Assets Held to Maturity	10	6,595	1,484	6,595	1,484
Other assets	18	-	-	-	-
Loans and Receivables from Banks	7	-	-	-	-
Total Provision from Identified Losses		**(7,202)**	**(11,021)**	**(7,000)**	**(10,910)**
Total Portfolio Based and Individually Identified Losses					
Loans to and Receivables from Customers	11	(167,669)	(182,799)	(168,040)	(182,265)
Interest Receivables		(3,671)	(10,272)	(3,678)	(1,057)
Financial Assets Available for Sale	9	(1,033)	-	(1,033)	-
Financial Assets Held to Maturity	10	(183,802)	1,089	(183,802)	1,089
Other Assets	18	(45)	(1,408)	(45)	(1,262)
Investment Property		(15,429)	-	(15,429)	-
Tangible and Intangible Assets	14,16	-	(8,306)	-	(8,306)
Asset held for sale		21,828	-	21,828	(9,224)
Loans and Receivables from Banks	7	-	-	-	-
Gains from Recovery of Placements Written-Off in Previous		405	403	405	403
Total Charge		**(349,416)**	**(201,293)**	**(349,794)**	**(200,622)**

35. CORPORATE TAX

Total recognized corporate tax expense, calculated at the corporate tax rate of 20%, comprises corporate tax expense recognized in the Income statement and movements in deferred tax recognized in equity, as follows:

Income Tax Expense Recognized in the Income statement

		Group		Bank
	2017. '000 kn	2016. '000 kn restated	2017. '000 kn	2016. '000 kn restated
Current Tax	(1,078)	(928)	-	-
Recognized Deferred Tax assets	(2,243)	36,843	(2,243)-	36,843
Deferred Tax Income/ (Expense) Related to Origination and Reversal of Temporary Differences	(1,941)	(8,817)	(1,884)	(8,752)
Total Current Tax Recognized in the Income statement	**(5,262)**	**27,098**	**(4,127)**	**28,091**

Movements in the Income Tax Recognized in Other Comprehensive Income:

		Group		Bank
	2017. '000 kn	2016. '000 kn	2017. '000 kn	2016. '000 kn
Deferred Tax Expense Relate to Unrealized Losses on Available for Sale Assets Not Recognized in the Fair Valuation Reserve	(2,194)	(134)	(2,194)	(134)
Corporate Tax Rate Change Effect on Deferred Tax Expense Related to Unrealized Loss from Assets Available for Sale in Fair Value Reserves	-	2,065	-	2,065
Deferred Tax Income Related to Revaluation of Property	13	15	13	15
Corporate Tax Change Effect on Deferred Tax Expense Related to Revaluation Reserve*	-	20	-	20
Total Tax Expense Recognized Directly in Equity	**(2,181)**	**1,966**	**(2,181)**	**1,966**

** From 01.01.2017. Amendments to the Profit Tax Act have been in force, with the tax rate reduced from 20 to 18 percent. Bank deferred tax assets and liabilities are recognized under the new - revised income tax rate, since the same applies to future periods.*

35. CORPORATE TAX (continued)

Reconciliation of Income Tax Expense

The reconciliation between income tax expense and profit before tax is shown as follows:

	Group		Bank	
	2017. '000 kn	**2016. '000 kn restated**	**2017. '000 kn**	**2016. '000 kn restated**
Profit/ (Loss) Before Taxation	13,160	156,389	12,460	153,170
Income Tax at the Rate of 18%	(2,370)	(31,278)	(2,243)	(30,634)
Tax Non-Deductible Expenses	(2,229)	(20,576)	(1,790)	(19,747)
Non-Taxable Income	(663)	14,051	(94)	13,951
Used Unrecognized Tax Losses	-	30,766	-	30,146
Corporate Tax Change Effect on Deferred Tax Assets*	-	(2,708)	-	(2,468)
Recognized Deferred Tax Assets	-	36,843	-	36,843
	(5,262)	**27,098**	**(4,127)**	**28,091**
Effective Income Tax Rate	*32,2%*	*(18,3%)*	*33,1%*	*(18,3%)*

** Effective from January 1 2017 corporate tax rate was lowered from 20% to 18%. The Bank has recognized tax assets and liabilities based on the newly set corporate tax rate considering it will be applied in future periods.*

Unrecognized Deferred Tax in Respect of Tax Losses Disposable in Prospective Periods

On December 31, 2017, the Bank, as parent company of the Group, had HRK 139,182 thousand (2016: HRK 187,572 thousand) of accumulated unused tax losses that it could use until December 31, 2019. After having achieved profit before tax in the amount of HRK 153,170 thousand (revised earnings before tax, see note 1 (d)), the Bank recovered deferred tax assets on the basis of the remaining unused tax loss at the rate of 18 percent, in accordance with International Accounting Standard 12 "Income Tax", Article 34 (OG 136/09): "Deferred tax assets should be recognized for unused unused tax losses and unused tax credits at the level likely to be future taxable profit , for which unused tax losses and unused tax reliefs may be used, will be available. "

In the period of 2015 and 2016, the Bank exceeded the planned operating profit from strategic guidelines, and thus confirm the trend of making the plan. It is therefore probable that in future periods it will be possible to realize a budgeted taxable profit that would be used to utilize unused tax losses as tax relief. For these reasons, unused tax losses are recognized as deferred tax assets. In the year 2017, HRK 12,460 thousand of tax assets with a total effect on the profit and loss account amounted to HRK 2,243 thousand.

The table below shows the tax effect of deferred tax assets on tax losses that are transferable to future periods. Losses can be utilized for a period of 5 years from the period in which they were generated and the remainder of unrealized deferred tax assets according to the current strategic plan of the Bank will be utilized by 2019:

Bank i Group	Ukupni porezni gubitak	Efekt poreznog gubitka
31.12.2018.	155,365	27,966
31.12.2019.	36,856	6,634
	192,221	**34,600**

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36. EARNINGS/ (LOSS) PER SHARE

For the purpose of calculating earnings per (loss) per share, earnings / (loss) are accounted for as the profit / loss for the current period intended for the shareholders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares in circulation during the year after the decrease of the number of regular treasury shares. The weighted average number of ordinary shares used in calculating the basic earnings per loss was 2.023.830 (2016: 0223.830). Given that there is no effect on options, convertible bonds or similar effects, the weighted average number of ordinary shares used to calculate the diluted / diluted earnings per share would be the same as the number used to calculate the basic earnings per (loss) per share, or 2,023 .830 (2016-2.023.830), as shown below:

a) Basic Earnings Per Share

Profit and weighted average number of ordinary shares outstanding:

	2017. '000 kn	2016. '000 kn
Current Year Profit/ (Loss) Distributable to the Bank's Owners	8,333	181,261
Profit Used to Calculate Basic Earnings Per Share	**8,333**	**181,261**
Weighted Average Ordinary Shares Outstanding Used to Calculate Basic Earnings Per Share	**2,023,830**	**2,023,830**
Basic Earnings Per Share from Active Operations	**4,12 kn**	**89,56 kn**

b) Diluted Earnings Per Share

Profit used to calculate diluted Earnings Per Share

	2017. '000 kn	2016. '000 kn
Profit Used to Calculate Earnings Per Share	8,333	181,261
Adjustments	-	-
Profit/ (Loss) Used to Calculate Diluted Earnings Per Share	**8,333**	**181,261**

Adjustments of weighted average ordinary shares outstanding used to calculate diluted earnings per share compared to weighted average ordinary shares outstanding used to calculate earnings per share

	2017.	2016.
Weighted Average Ordinary Shares Outstanding Used to Calculate Earnings Per Share	2,023,830	2,023,830
Shares Issued Without Cost:		
- Options for Employees	-	-
- Partially Payed Ordinary Shares	-	-
- Convertible Bonds	-	-
- Other	-	-
Weighted Average Ordinary Shares Outstanding Used to Calculate Diluted Earnings Per Share	**2,023,830**	**2,023,830**
Diluted Earnings Per Share	**4,12 kn**	**89,56 kn**

37. CONCENTRATION OF ASSETS AND LIABILITIES

The assets and liabilities of the Bank are significantly concentrated on amounts directly due from and to the Republic of Croatia. The amounts at year end, including accrued interest, are as follows:

		Group		Bank	
	Note	2017. '000 kn	2016. '000 kn	2017. '000 kn	2016. '000 kn
Giro Account with the CNB	5	2,528,605	502,603	2,528,605	502,603
Mandatory Reserve with the Croatian National Bank	6	1,300,269	1,300,796	1,300,269	1,300,796
Bonds of the Republic of Croatia		2,097,632	2,169,263	1,956,806	2,025,532
Treasury Bills of the Croatian Ministry of Finance		1,075,418	1,001,586	1,075,418	1,001,586
Loans and Advances to the Republic of Croatia		2,529,702	3,282,435	2,529,702	3,282,435
Deposits from the Republic of Croatia		(1,947,674)	(1,897,921)	(1,947,674)	(1,897,921)
Total		**7,583,952**	**6,358,762**	**7,443,126**	**6,215,031**

The Bank's exposure towards local government and state institutions not directly funded by the State Budget (excluding state owned companies) is presented below:

	Group		Bank	
	2017. '000 kn	2016. '000 kn	2017. '000 kn	2016. '000 kn
Loans	663,523	759,509	663,523	759,509
Deposits	(306,987)	(513,578)	(306,987)	(513,578)
Total	**356,536**	**245,931**	**356,536**	**245,931**

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38. CASH AND CASH EQUIVALENTS

u '000 kn				Group			Bank
		31.12.2017.	31.12.2016.	01.01.2016.	31.12.2017.	31.12.2016.	01.01.2016.
	Bilješka		restated	restated		restated	restated
Cash and Amounts Due from Banks	5	3,451,044	1,554,612	1,630,115	3,451,044	1,554,584	1,630,052
Mandatory Reserve with the Croatian National Bank	6	1,300,269	1,300,796	1,279,570	1,300,269	1,300,796	1,279,570
Deposits with Banks with Original Maturities of Up to 90 Days		101,668	148,462	215,036	101,668	148,462	215,036
Items in Course of Collection	18	79,510	167,299	77,517	79,510	167,268	77,517
Total		**4,932,491**	**3,171,169**	**3,202,238**	**4,932,491**	**3,171,110**	**3,202,175**

39. CONTINGENT LIABILITIES

		Group		Bank
	2017.	2016.	2017.	2016.
	'000 kn	'000 kn	'000 kn	'000 kn
Guarantees Denominated in HRK	296,643	321,418	296,643	321,418
Guarantees Denominated in Foreign Currency	433,923	389,428	433,923	389,428
Letters of Credit	14,870	17,268	14,870	17,268
Undrawn Lending Commitments	1,297,270	1,636,818	1,296,620	1,634,112
Total	**2,042,706**	**2,364,932**	**2,042,056**	**2,362,226**

As of December 31, 2017, the Group and the Bank recognized the provision based on off-balance sheet risks arising from the issuance of guarantees, letters of credit and unused loans, the Group in the amount of HRK 20,434 thousand (2016: HRK 22,019 thousand). amounting to HRK 20,425 thousand (2016: HRK 22,019 thousand) included in Provisions for liabilities and charges (Note 24).

40. DERIVATIVE INSTRUMENTS AND DEALINGS IN FOREIGN CURRENCIES

The Bank had the following derivative contracts, accounted for as trading instruments, open at year-end.

Group	Notional Amount, Remaining Life					Fair Value	
	Up to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total	Assets	Liabilities
2017.	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn
Forward Foreign Exchange Contracts - OTC	-	-	-	-	-	-	-
Cross Currency Swap Contracts - OTC	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

	Notional Amount, Remaining Life					Fair Value	
	Up to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total	Assets	Liabilities
2016.	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn
Forward Foreign Exchange Contracts - OTC	95,788	-	-	-	95,788	3,780	3,641
Cross Currency Swap Contracts - OTC	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-
	95,788	**-**	**-**	**-**	**95,788**	**3,780**	**3,641**

Bank	Notional Amount, Remaining Life					Fair Value	
	Up to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total	Assets	Liabilities
2017.	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn
Forward Foreign Exchange Contracts - OTC	-	-	-	-	-	-	-
Cross Currency Swap Contracts - OTC	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

	Notional Amount, Remaining Life					Fair Value	
	Up to 3	3 to 12 Months	1 to 5	Over 5 Years	Total	Assets	Liabilities
2016.	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn	'000 kn
Forward Foreign	95,788	-	-	-	95,788	3,780	3,641
Cross Currency	-	-	-	-	-	-	-
Futures	-	-	-	-	-	-	-
	95,788	**-**	**-**	**-**	**95,788**	**3,780**	**3,641**

41. RELATED PARTY TRANSACTIONS

The Bank is the parent of the Hrvatska Poštanska Bank Group.

Key shareholders of the Bank are the Republic of Croatia as the largest shareholder with an ownership stake of 42.43 percent, and Hrvatska Pošta d.d. (“HP”) with a stake of 11.93 percent.

Other significant state-owned shareholders include: State agency for deposits insurance and bank resolution (“DAB”), the Croatian Pension Insurance Institute (“HZMO”) and Fund for financing the decommissioning of the Krško Nuclear Power Plant and the disposal of NEK radioactive waste and spent nuclear fuel (“NEK fund”). These shareholders together own 74.46% of the Bank's shares. The remaining 25.54% (2016: 25.54%) are publicly traded.

a) Key Transactions with Related Parties

Hrvatska Pošta d.d. ("HP") performs domestic payment transactions for and on behalf of the Bank. Exposure to Hrvatska Pošta d.d. mainly comprises fees receivable based on domestic payment transactions performed for and on behalf of the Bank, as well as placements in debt securities issued by Hrvatska Pošta d.d. Liabilities towards Hrvatska Pošta d.d. mainly relate to demand and term deposits. Income and expenses mostly relate to commissions for services provided.

Exposure to the state is shown in Note 37, *Concentration of assets and liabilities*.

The exposure to members of HPB Group mainly consists of investment into share capital. The Bank performs payment transactions on behalf of its subsidiaries and, accordingly, recognizes income. Expenses payable to HPB Nekretnine relate to the services performed by the subsidiary in respect of estimation of collateral.

Key management costs other than the interest expense on savings held by the Bank, as well as their fixed receipts, also include the amount of variable pay received in 2017 paid to key management members on the basis of their performance. Thus, the total gross cost of these variable receipts amounted to HRK 684 thousand for the Group (2016: 0) or HRK 572 thousand for the Bank. Key management did not have regular shares at the end of the reporting period (2016: -).

41. RELATED PARTY TRANSACTIONS (continued)

b) Amounts arising from transactions with related parties

Assets and liabilities and off-balance sheet exposure and income and expense as at and for the years ended December 31 2017 and December 31 2016 of the Bank, arising from transactions with related parties were as follows:

Group

2017.	Exposure* HRK'000	Liabilities HRK'000	Income HRK'000	Expenses HRK'000
Key Shareholders				
Republic of Croatia	-	-	-	-
Hrvatska Pošta d.d.	154,579	287,084	287,650	278,359
Subsidiaries				
HPB Invest Ltd	-	-	-	-
HPB Nekretnine d.o.o.	-	-	-	-
HPB Stambena Štedionica d.d.	-	-	-	-
Assets Held for sale				
H1 TELEKOM	-	-	190	2,086
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	361	3,604	38	20,154
Long-Term Benefits (loans and deposits)	16,409	44	542	132
Companies Under Significant Influence	**26,072**	**16,501**	**1,496**	**5**
Total	**197,421**	**307,233**	**289,916**	**300,736**

2016.	Exposure* HRK'000	Liabilities HRK'000	Income HRK'000	Expenses HRK'000
Key Shareholders				
Republic of Croatia	-	-	-	-
Hrvatska Pošta d.d.	77,621	252,494	298,257	288,161
Subsidiaries				
HPB Invest Ltd	-	-	-	-
HPB Nekretnine d.o.o.	-	-	-	-
HPB Stambena Štedionica d.d.	-	-	-	-
Assets Held for sale				
H1 TELEKOM	-	-	2,275	3,406
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	1,214	3,395	33	21,611
Long-Term Benefits (loans and deposits)	14,255	233	589	138
Companies Under Significant Influence	**54,703**	**3,879**	**1,577**	**12**
Total	**147,793**	**260,001**	**302,731**	**313,328**

** Exposure includes advances in cash and in kind, contingent liabilities and receivables, interest and other receivables and includes HRK 91,061 thousand (2016: HRK 13,361 thousand) off-balance sheet exposures. Expenses do not include value adjustments, unrealized gains / losses on securities or loss provisions.*

41. RELATED PARTY TRANSACTIONS (continued)

b) Amounts arising from transactions with related parties (continued)

Bank

2017.	**Exposure* HRK'000**	**Liabilities HRK'000**	**Income HRK'000**	**Expenses HRK'000**
Key Shareholders				
Republic of Croatia	-	-	-	-
Hrvatska Pošta d.d.	154,579	287,084	287,650	278,359
Subsidiaries				
HPB Invest Ltd	5,242	5,518	6	2,208
HPB Nekretnine d.o.o.	7,196	495	933	1,125
HPB Stambena Štedionica d.d.	40,096	41,017	499	287
Assets Held for sale				
H1 TELEKOM	-	-	190	2,086
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	199	3,547	29	17,307
Long-Term Benefits (loans and deposits)	13,937	44	464	111
Companies Under Significant Influence	**26,072**	**16,501**	**1,496**	**5**
Total	**247,321**	**354,206**	**291,267**	**301,488**

2016.	**Exposure* HRK'000**	**Liabilities HRK'000**	**Income HRK'000**	**Expenses HRK'000**
Key Shareholders				
Republic of Croatia	-	-	-	-
Hrvatska Pošta d.d.	77,621	252,494	298,257	288,161
Subsidiaries				
HPB Invest Ltd	5,225	5,656	1,164	3
HPB Nekretnine d.o.o.	8,272	51	747	2,317
HPB Stambena Štedionica d.d.	40,146	21,365	749	38
Assets Held for sale				
H1 TELEKOM	154	1,393	2,275	3,406
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	1,024	3,335	25	18,868
Long-Term Benefits (loans and deposits)	11,999	233	497	121
Companies Under Significant Influence	**39,511**	**958**	**1,577**	**12**
Total	**183,952**	**285,485**	**305,291**	**312,926**

** Exposure includes cash and cash advances, contingent liabilities, commitments and interest and other receivables, and includes HRK 91,555 thousand (2016: HRK 14,170 thousand) of off-balance sheet exposures. Expenses do not include value adjustments, unrealized gains / losses on securities or loss provisions.*

41. RELATED PARTY TRANSACTIONS (continued)

c) State owned companies

Major shareholders of the Bank, which together own 74.46% of its shares, are state agencies or state owned companies, all mainly funded from the State Budget. Accordingly, transactions and balances with other state owned companies, including credit risk exposures guaranteed by the state, also represent related party relationships. The Bank has a significant exposure to these parties, which is disclosed in Note 37.

42. REPURCHASE AND RESALE AGREEMENTS

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognized and the proceeds are accounted for as interest bearing borrowings. At the end of the year assets sold under repurchase agreements were as follows:

	Fair Value of Securities '000 kn	Carrying Amount of Corresponding Liabilities '000 kn	Repurchase Date	Repurchase Price '000 kn
Debt Securities at Fair Value Through PNL - Repurchase Agreements				
2017.	-	-	-	-
2016.	-	-	-	-

Related Party Transactions, in accordance with IAS 39: Financial Instruments: Recognition and Measurement, are recognized as repurchase agreements.

The Group also purchases financial instruments provided that they are re-sold at a contracted future date ("resale agreement"). The seller agrees to buy the same or similar instruments on the agreed future date. Re-sale is contracted as a client financing instrument and is recorded as loans and advances to customers and the purchased financial instrument is not recognized.

	Fair Value of Receivables HRK'000	Carrying Amount of Collaterals HRK'000	Repurchase Date	Repurchase Price HRK'000
Loans to Customers – Reverse Repo Agreements				
2017.	62,450	65,241	siječanj 2018.	62,472
2016.	81,630	81,713	siječanj 2017.	81,666

43. FUNDS MANAGED FOR AND ON BEHALF OF CORPORATE AND RETAIL CUSTOMERS

The Group manages funds on behalf of and for the account of legal entities, households and investment funds (including investment funds of the Group), which holds and manages assets or invests funds in various financial instruments at the client's request. For services provided, the Bank receives a fee income. This asset is not the Group's assets and is not recognized in the statement of financial position. The Group is not exposed to credit risks from such placements or guarantees for investments.

As of December 31, 2017, the total assets of the Bank, including HPB Group funds, amounted to HRK 5.27 billion (2016: HRK 4.95 billion).

Furthermore, as at 31 December 2016, total assets of investment and pension funds for which the Bank performs depositors' business amounted to HRK 5.05 billion (2016: HRK 4.73 billion).

The Bank also manages other credit exposure, as follows:

	2017. **'000 kn**	**2016.** **'000 kn**
Assets		
Corporate	54,766	59,521
Retail	532,867	545,389
Giro Accounts	462,772	403,046
Total Assets	**1,050,405**	**1,007,956**
Liabilities		
Croatian Employment Office	69,883	70,245
Counties	11,860	11,386
Government of the Republic of Croatia	961,068	919,797
CBRD	3,877	3,846
Other Liabilities	3,717	2,681
Total Liabilities	**1,050,405**	**1,007,956**

44. AVERAGE INTEREST RATES

Average interest rates calculated as the weighted average of each category of interest-earning asset and interest-bearing liability, are presented below:

Group	Average Interest Rates 2017.	Average Interest Rates 2016.
Assets		
Cash and Amounts Due from Banks	(0,58%)	(0,26%)
Loans to and Receivables from Banks	0,70%	1,11%
Financial Assets at Fair Value Through PNL	2,67%	2,99%
Financial Assets Available for Sale	2,73%	3,35%
Financial Assets Held to Maturity	2,44%	2,63%
Loans and Receivables from Customers	5,09%	5,48%
Liabilities		
Deposits from Banks	0,71%	0,67%
Customer Deposits	0,75%	1,26%
Borrowings	1,94%	2,18%

Bank	Average Interest Rates 2017.	Average Interest Rates 2016.
Assets		
Cash and Amounts Due from Banks	(0,58%)	(0,26%)
Loans to and Receivables from Banks	0,70%	1,07%
Financial Assets at Fair Value Through PNL	2,08%	2,54%
Financial Assets Available for Sale	2,73%	3,30%
Financial Assets Held to Maturity	2,44%	2,63%
Loans and Receivables from Customers	5,10%	5,50%
Liabilities		
Deposits from Banks	0,71%	0,67%
Customer Deposits	0,71%	1,23%
Borrowings	1,94%	2,18%

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's-length transaction.

Financial instruments at fair value through profit or loss or available for sale financial assets are measured at fair value. Loans and receivables, and held to maturity investments are measured at amortized cost less impairments. Financial assets at fair value through profit or loss and financial assets available for sale are disclosed at their fair value that arises from price quotes of these instruments on active markets. Financial liabilities at fair value through profit or loss are disclosed at fair values calculated on the basis of available conditions of these instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/ or disclosure purposes in these consolidated financial reports is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Set out below is an overview of key methods and assumptions used in estimating the fair values of financial instruments.

Loans

The fair value of loans and advances is calculated based on discounted expected future cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. Expected future cash flows are estimated considering credit risk and any indication of impairment including portfolio based provisions for performing (i.e. A-risk rated) loans calculated at rates prescribed by the CNB. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. The Bank has a limited portfolio of loans with fixed rates, where there is a difference between the fair value and the carrying amount.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Investments carried at cost

For equity investments for which a quoted market price is not available, fair value is, where possible, estimated using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date. Where discounted cash flow techniques provide insufficiently reliable valuations due to a number of uncertainties related to estimations of future cash flows, investments are carried at cost less impairment.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Borrowings

Most of the Bank's long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the reporting date to the Bank for new debt of similar type and remaining maturity.

The following table represents the Bank's estimate of the fair value hierarchy of financial instruments as of December 31 2017 and December 31 2016:

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45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Group 2017.	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
Financial Assets					
Cash and Receivables from Banks	**3,451,044**	**Level 1**	**Cash and Cash Equivalents**	**3,451,044**	**-**
Mandatory Reserve with the Croatian National Bank	**1,300,269**	**Level 1**	**Cash Equivalent**	**1,300,269**	**-**
Loans to and Receivables from Banks	**113,798**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows**	**113,832**	**(34)**
Financial Assets at Fair Value in PNL	**883,998**			**883,998**	**-**
- Ministry of Finance Treasury Bills	224,957	Level 3	Ministry of Finance Treasury Bills	224,957	-
- Ministry of Finance Bonds	518,030	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	518,030	-
- Open-End Investment Fund Investments	100,988	Level 1	*Value of an Individual Share on Given Date*	100,988	-
- Equity Securities	33,527	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	33,527	-
- Fair Value of Forwards	-	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	-	-
- Interest Receivables	6,496	Not Applicable	Not Applicable	6,496	-
Financial Assets Available for Sale	**2,581,350**	Level 3		**2,581,350**	**-**
- Ministry of Finance Treasury Bills	850,461	Level 3	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future	850,461	-
- Ministry of Finance Bonds	1,538,639	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	1,538,639	-
- Foreign Country Securities	-	Level 1	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future		-
- Corporate Bonds of State-Run Companies	149,766	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	149,766	-
- Corporate Bonds of Other Companies		Level 3	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future		-
- Equity Securities – Not Listed	9,192	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/	9,192	-
- Equity Securities - Listed	11,899	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	11,899	-
- Interest Receivables	21,393	Not Applicable	Not Applicable	21,393	-
Financial Assets Held to Maturity	**71,733**	**Level 3**	**Present Value of Future Discounted cash Flows**	**72,417**	**(684)**
Loans and Receivables from Customers	**10,996,797**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**11,141,393**	**(144,596)**
Total Financial Assets	**19,398,989**			**19,544,303**	**(145,314)**
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through PNL	**-**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**-**	**-**
Deposits from Banks	**398,825**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**399,790**	**965**
Customer Deposits	**16,771,007**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**16,807,937**	**36,930**
Borrowings	**662,890**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**672,883**	**9,993**
Total Financial Liabilities	**17,832,722**			**17,880,610**	**47,888**
TOTAL					**(97,426)**

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Group 31.12.2016. ('000 kn)	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
Financial Assets					
Cash and Receivables from Banks	**1,554,612**	**Level 1**	**Cash and Cash Equivalents**	**1,554,612**	**-**
Mandatory Reserve with the Croatian National Bank	**1,300,796**	**Level 1**	**Cash Equivalent**	**1,300,796**	**-**
Loans to and Receivables from Banks	**182,032**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the FV is the Present Value of Discounted CF**	**182,087**	**(55)**
Financial Assets at FV in PNL	**1,019,441**			**1,019,441**	-
- Ministry of Finance Treasury Bills	315,565	Level 3	Ministry of Finance Treasury Bills	315,565	-
- Ministry of Finance Bonds	466,838	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	466,838	-
- Open-End Investment Fund Investments	187,801	Level 1	*Value of an Individual Share on Given Date*	187,801	-
- Equity Securities	39,393	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	39,393	-
- Fair Value of Forwards	3,780	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	3,780	-
- Interest Receivables	6,064	Not Applicable	Not Applicable	6,064	-
Financial Assets Available for Sale	**2,753,938**	Level 3		**2,753,938**	**-**
- Ministry of Finance Treasury Bills	686,021	Level 3	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	686,021	-
- Ministry of Finance Bonds	1,502,626	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	1,502,626	-
- Foreign Country Securities	394,206	Level 1	*Mark-to-Model* Using Internal Model for Determining the PV of Future CF	394,206	-
- Corporate Bonds of State-Run Companies	127,957	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	127,957	-
- Corporate Bonds of Other Companies		Level 3	*Mark-to-Model* Using Internal Model for Determining the PV of Future CF	-	-
- Equity Securities – Not Listed	15,414	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B.	15,414	-
- Equity Securities - Listed	4,322	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	4,322	-
- Interest Receivables	23,392	Not Applicable	Not Applicable	23,392	-
Financial Assets Held to Maturity	**440,541**	**Level 3**	**Present Value of Future Discounted cash Flows**	**444,825**	**(4,284)**
Loans and Receivables from Customers	**11,461,875**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**11,554,215**	**(92,340)**
Total Financial Assets	**18,713,235**			**18,809,914**	**(96,679)**
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through PNL	**3,641**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**3,641**	**-**
Deposits from Banks	**509,129**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective**	**509,133**	**4**
Customer Deposits	**15,957,189**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective**	**16,024,804**	**67,615**
Borrowings	**724,933**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective**	**726,660**	**1,727**
	17,194,892				**69,346**
Total Financial Liabilities				**17,264,238**	
TOTAL					**(27,333)**

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank 2017.	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
Financial Assets					
Cash and Receivables from Banks	**3,451,044**	**Level 1**	**Cash and Cash Equivalents**	**3,451,044**	**-**
Mandatory Reserve with the Croatian National Bank	**1,300,269**	**Level 1**	**Cash Equivalent**	**1,300,269**	**-**
Loans to and Receivables from Banks	**113,798**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the PV of Discounted CFs**	**113,832**	**(34)**
Financial Assets at Fair Value in PNL	**743,172**			**743,172**	**-**
- Ministry of Finance Treasury Bills	224,957	Level 3	Ministry of Finance Treasury Bills	224,957	-
- Ministry of Finance Bonds	379,474	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	379,474	
- Open-End Investment Fund Investments	100,988	Level 1	*Value of an Individual Share on Given Date*	100,988	-
- Equity Securities	33,527	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	33,527	-
- Fair Value of Forwards	-	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	-	-
- Interest Receivables	4,226	Not Applicable	Not Applicable	4,226	-
Financial Assets Available for Sale	**2,581,350**	Level 3		**2,581,350**	**-**
- Ministry of Finance Treasury Bills	850,461	Level 3	*Mark-to-Model* Using Internal Model for Determining the PV of Future CFs	850,461	-
- Ministry of Finance Bonds	1,538,639	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	1,538,639	-
- Foreign Country Securities	-	Level 1	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Corporate Bonds of State-Run Companies	149,766	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	149,766	-
- Corporate Bonds of Other Companies	-	Level 3	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Equity Securities – Not Listed	9,192	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B.	9,192	-
- Equity Securities - Listed	11,899	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	11,899	-
- Interest Receivables	21,393	Not Applicable	Not Applicable	21,393	-
Financial Assets Held to Maturity	**71,733**	**Level 3**	**Present Value of Future Discounted cash Flows**	**72,417**	**(684)**
Loans and Receivables from Customers	**10,859,322**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**10,979,108**	**(119,786)**
Total Financial Assets	**19,120,687**			**19,241,192**	**(120,505)**
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through PNL	**-**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**-**	**-**
Deposits from Banks	**398,825**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**399,790**	**965**
Customer Deposits	**16,522,979**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**16,552,454**	**29,475**
Borrowings	**662,890**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**672,883**	**9,993**
Total Financial Liabilities	**17,584,695**			**17,625,127**	**40,432**
TOTAL					**(80,072)**

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank 2016 ('000 kn)	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
Financial Assets					
Cash and Receivables from Banks	**1,554,584**	**Level 1**	**Cash and Cash Equivalents**	**1,554,584**	**-**
Mandatory Reserve with the	**1,300,796**	**Level 1**	**Cash Equivalent**	**1,300,796**	**-**
Loans to and Receivables from Banks	**182,035**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the FV is the Present Value of Discounted CF**	**182,087**	**(52)**
Financial Assets at FV in PNL	**874,450**			**874,450**	**-**
- Ministry of Finance Treasury Bills	315,565	Level 3	Ministry of Finance Treasury Bills	315,565	
- Ministry of Finance Bonds	325,389	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	325,389	-
- Open-End Investment Fund Investments	186,541	Level 1	*Value of an Individual Share on Given Date*	186,541	-
- Equity Securities	39,393	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	39,393	-
- Fair Value of Forwards	3,780	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	3,780	-
- Interest Receivables	3,782	Not Applicable	Not Applicable	3,782	-
Financial Assets Available for Sale	**2,753,938**			**2,753,938**	**-**
- Ministry of Finance Treasury Bills	686,021	Level 3	*Mark-to-Model* Using Internal Model for Determining the Present Values of	686,021	-
- Ministry of Finance Bonds	1,502,626	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	1,502,626	-
- Foreign Country Securities	394,206	Level 1	*Mark-to-Model* Using Internal Model for Determining the PV of Future CF	394,206	-
- Corporate Bonds of State-Run Companies	127,957	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	127,957	-
- Corporate Bonds of Other Companies		Level 3	*Mark-to-Model* Using Internal Model for Determining the PV of Future CF	0	-
- Equity Securities – Not Listed	15,414	Level 3	Method of Comparable Companies, Average of standard multiples EV/	15,414	-
- Equity Securities - Listed	4,322	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	4,322	-
- Interest Receivables	23,392	Not Applicable	Not Applicable	23,392	-
Financial Assets Held to Maturity	**440,541**	**Level 3**	**Present Value of Future Discounted cash Flows**	**444,825**	**(4,284)**
Loans and Receivables from Customers	**11,330,305**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**11,397,810**	**(67,505)**
Total Financial Assets	**18,436,689**			**18,508,490**	**(71,841)**
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through PNL	**3,641**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash**	**3,641**	**-**
Deposits from Banks	**509,129**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective**	**509,133**	**4**
Customer Deposits	**15,715,479**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective**	**15,772,722**	**57,243**
Borrowings	**724,933**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**726,660**	**1,727**
Total Financial Liabilities	**16,953,181**			**17,012,156**	**58,975**
TOTAL					**(12,866)**

45. PLEDGED ASSETS OF THE CREDIT INSTITION

The Bank and the CI *Group under the term "plefeged assets" mean the pledged property, property given as collateral, property subject to some form of security or serves for credit improvement of the balance sheetposition from which it can not be withdrawn freely. Also, the property for which the withdrawal must be previously approved is considered to be a pledged property.

Within its assets, the HPB CI Group has pledged assets in the amount of HRK 2,039,421 thousand (2016: 2,808,262) thousand. Pledged assets of the Bank correspond to the HPB CI GroupI's pledged assets, which amounted to HRK 2,039,421 thousand (2016: HRK 2,808,262 thousand).

The carrying amount of HPB CI Groups assets represents 10.14 percent of the Group's total assets and the Bank's pledged assets represent 10.28 percent of the total assets of the Bank.

Pledged assets of the HPB CI Group and the Bank include a total kuna and foreign currency obligatory reserve, which includes the amounts deposited with the CNB, as well as funds on the reserve maintenance accounts in the total amount of HRK 2,027,487 thousand (2016: 2,042,133 thousand).

The remaining amount of the pledged asset refers to other pledged assets such as guarantee deposits.

** The CI Group refers to a group of credit institutions, and includes the Bank and the HPB Housing Savings Bank, for which there is a requirement to report on a pledged asset*

	31.12.2017.		31.12.2016.	
Group (HRK'000)	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Equity Instruments			-	-
Securities	-	-	110,160	110,160
Mandatory Reserve and Balances on Nostro Accounts on Which Mandatory Reserve is Maintained	2,027,487	2,027,487	2,042,133	2,042,133
Loans to Customers and Other Assets	11,934	11,934	655,969	655,969
Total	**2,039,421**	**2,039,421**	**2,808,262**	**2,808,262**

	31.12.2017.		31.12.2016.	
Bank (u 000 kn)	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Equity Instruments			-	-
Securities	-	-	110,160	110,160
Mandatory Reserve and Balances on Nostro Accounts on Which Mandatory Reserve is Maintained	2,027,487	2,027,487	2,042,133	2,042,133
Loans to Customers and Other Assets	11,934	11,934	655,969	655,969
Total	**2,039,421**	**2,039,421**	**2,808,262**	**2,808,262**

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Balance Sheet as at December 31 2017

	2017 '000 kn	2016 (restated) '000 kn
ASSETS		
Cash and Balances with the CNB	**4,391,467**	**2,263,303**
- Cash	460,023	421,480
- Deposits with the CNB	3,931,444	1,841,823
Deposits with Banking Institutions	473,302	774,135
Treasury Bills of the Ministry of Finance and the CNB Bills	324,931	415,537
Securities and Other Financial Instruments Held for Trading	513,989	551,323
Securities and Other Financial Instruments Available for Sale	2,459,982	2,630,575
Securities and Other Financial Instruments Held to Maturity	72,344	442,835
Securities and Other Financial Instruments at Fair Value Through PNL - Not Actively Traded	-	-
Derivative Financial Assets	-	3,780
Loans to Financial Institutions	62,450	81,580
Loans to Other Customers	10,851,665	11,250,340
Investments in Subsidiaries, Associates and Joint Ventures	65,490	53,420
Foreclosed Assets	-	-
Tangible Assets (Less Depreciation)	141,461	146,091
Interests, Fees and Other Assets	441,749	692,909
TOTAL ASSETS	**19,798,830**	**19,305,828**
LIABILITIES		
Borrowings from Financial Institutions	**651,971**	**620,995**
- Short-term Borrowings	-	-
- Long-Term Borrowings	651,971	620,995
Deposits	**15,134,400**	**14,529,990**
- Giro and Current Account Deposits	5,172,463	4,009,237
- Savings Deposits	1,538,007	1,486,720
- Term Deposits	8,423,930	9,034,033
Other Borrowings	**20,287**	**92,067**
- Short-Term Borrowings	-	-
- Long-Term Borrowings	20,287	88,426
Derivative Financial and Other Liabilities Held for Trading	**-**	**3,641**
Issued Debt securities	**-**	**-**
- Short-Term Debt Securities Issued	-	-
- Long-Term Debt Securities Issued	-	-
Subordinated Debt Issued	**-**	**-**
Issued Hybrid Instruments	**-**	**-**
Interests, Fees and Other Liabilities	**2,086,882**	**2,175,326**
TOTAL LIABILITIES	**17,893,540**	**17,418,378**
EQUITY		
Share Capital	1,214,298	1,214,298
Profit/ (Loss) for the Year	8,333	181,261
Retained Earnings / (Accumulated Losses)	124,540	37,418
Legal Reserves	15,575	6,161
Statutory and Other Capital Reserves	448,287	363,622
Unrealized Gains/ (Losses) on Revaluation of Financial Assets Available for Sale	94,257	84,690
TOTAL EQUITY	**1,905,290**	**1,887,450**
TOTAL LIABILITIES AND EQUITY	**19,798,830**	**19,305,828**

Income statement for the period 01.01.2017. – 31.12.2017.

	2017 '000 kn	2016 (restated) '000 kn
Interest Revenue	662,753	720,255
Interest Expense	(131,418)	(205,858)
Net Interest Income	**531,335**	**514,397**
Fee and Commission Revenue	520,964	493,880
Fee and Commission Expense	(328,837)	(309,110)
Net Fee and Commission Income	**192,127**	**184,770**
Losses on Investments in Subsidiaries, Associates and Joint Ventures	-	-
Trading Gains	50,825	66,995
Gains/ (Losses) on Embedded Derivatives	-	-
Gains/ (Losses) on Assets at Fair Value Through PNL Not Actively Traded	-	-
Gains on Available for Sale Assets	30,213	48,595
Gains / (Losses) on Held to Maturity Assets	-	-
Hedging Gains/ (Losses)	-	-
Income from Investments in Subsidiaries, Associates and Joint Ventures	3,200	3,500
Income from Other Equity Investments	975	827
Foreign Exchange Gains/ (Losses)	1,747	(4,099)
Other Income	5,728	4,278
Other Expenses	(62,028)	(59,444)
General and Administrative Expenses, and Depreciation	(381,736)	(380,658)
Net Profit from Operations Before Provisions and Impairment Losses	**372,386**	**379,161**
Impairment Losses and Provisions	(359,926)	(225,991)
PROFIT BEFORE TAXATION	**12,460**	**153,170**
INCOME TAX (EXPENSE)/ INCOME	(4,127)	28,091
PROFIT FOR THE YEAR	**8,333**	**181,261**
Earnings Per Share	4	90

Income statement other comprehensive income 01.01.2017. - 31.12.2017.

	2017 '000 kn	2016 (restated) '000 kn
1. Profit for the year	**8,333**	**181,261**
2. Other comprehensive income	**9,507**	**2,563**
2.1. Items – not to be reclassified to P&L	**(60)**	**(38)**
2.1.1. Tangible Assets	(73)	(73)
2.1.2. Intangible Assets	-	-
2.1.3. Actuarial gains or (-) losses from employer's pension benefits programme	-	-
2.1.4. Assets held for sale	-	-
2.1.5. Other recognized income and expenses from entities recognized at share method	-	-
2.1.6. Income tax on items not to be reclassified to P&L	13	35
2.2. Items that might be reclassified to P&L	**9,567**	**2,601**
2.2.1. Hedge on Net Investments to Foreign Operations (effective share)	-	-
2.2.2. FX Exchange	-	-
2.2.3. Cash flow Hedge (effective share)	-	-
2.2.4. Financial Instruments Available for Sale	11,761	670
2.2.4.1. Capital Gains or Losses (-)	*18,935*	*45,506*
2.2.4.2. Reclassified to P&L	*(6,745)*	*(44,836)*
2.2.4.3. Other reclassifications	*(429)*	-
2.2.5. Assets held for sale	-	-
2.2.6. Share of other income and expeses from investments in subsidiaries, joint ventures and associates	-	-
2.2.7. Income tax on items that might be reclassified to P&L	(2,194)	1,931
3. Total other comprehensive income for the year	**17,840**	**183,824**
4. Attributable to minority shareholders	**-**	**-**
5. Attributable to majority shareholders	**-**	**-**

Changes in Equity During 2017.

HRK '000	Share Capital HRK'000	Treasury Shares HRK'000	Legal, Statutory and Other Reserves HRK'000	Retained Profit / (Accumulated Losses) HRK'000	Profit / (Loss) for the Year HRK'000	Unreal. Gains / (Losses) on Remeasurement of Financial Assets Available for Sale HRK'000	Total Equity HRK'000
Balance at 1 January 2017	**1,214,775**	**(477)**	**369,783**	**82,294**	**188,277**	**84,690**	**1,939,342**
Effects of Changes in Accounting Policies and Corrections	-	-	-	(44,876)	(7,016)	-	(51,892)
Restated balance at 1 January 2017	**1,214,775**	**(477)**	**369,783**	**37,418**	**181,261**	**84,690**	**1,887,450**
Disposal of Financial Assets Available for Sale	-	-	-	-	-	(6,745)	(6,745)
Change in Fair Value of Financial Assets Available for Sale	-	-	-	-	-	18,935	18,935
Tax on Items Recognized Directly in or Transferred from Equity	-	-	13	-	-	(2,194)	(2,181)
Other Gains and Losses Recognized Directly in Equity	-	-	(73)	-	-	(429)	(502)
Net Gains/ (Losses) Recognized Directly in Equity	**-**	**-**	**(60)**	**-**	**-**	**9,567**	**9,507**
Profit / (Loss) for the Year	**-**	**-**	**-**	**-**	**8,333**	**-**	8,333
Total Recognized Income and expenses for 2017	**-**	**-**	**(60)**	**-**	**8,333**	**9,567**	**17,840**
Increase/ (Decrease) in Share Capital	**-**	**-**	**-**	**-**	**-**	**-**	-
Purchase/ (Sale) of Treasury Shares	**-**	**-**	**-**	**-**	**-**	**-**	-
Other changes	**-**	**-**		**(7,016)**	**7,016**	**-**	-
Transferred to Reserves	-	-	94,138	94,139	(188,277)	-	-
Dividends Paid	-	-	-	-	-	-	-
Profit Allocation	**-**	**-**	**94,138**	**94,139**	**(188,277)**	**-**	-
Balance at 31 December 2017	**1,214,775**	**(477)**	**463,861**	**124,541**	**8,333**	**94,257**	**1,905,290**

Cash Flow for the Year 2017

	2017 '000 kn	2016 (restated) '000 kn
OPERATING ACTIVITIES	-	-
Operating Cash Flows Before Changes in Operating Assets	**403.483**	**404.832**
Profit/ (Loss) Before Tax	12.460	153.170
Impairment Losses and Provisions	359.926	225.991
Depreciation and Amortization	43.868	45.053
Net Unrealized (Losses)/ Gains on Financial Assets and Liabilities at Fair Value	(9.142)	(23.227)
Gains/ (Losses) on Sale of Tangible Assets	(1.882)	(254)
Other Losses	(1.747)	4.099
Net Decrease/ (Increase) in Operating Assets	**693.986**	**(1.994.922)**
Deposits CNB		-
Treasury Bills of the Ministry of Finance and the CNB bills	90.606	85.698
Deposits with Banking Institutions and Loans to Financial Institutions	40.591	13.253
Loans to Other Customers	223.607	(1.350.233)
Securities and Other Financial Instruments Held for Trading	46.476	45.203
Securities and Other Financial Instruments Available for Sale	198.253	(634.815)
Securities and Other Financial Instruments Not Actively Traded –at FV through P & L	-	-
Other Operating Assets	94.453	(154.028)
Net Increase/ Decrease in Operating Liabilities	-	-
Demand Deposits	**559.558**	**1.754.457**
Savings and Term Deposits	1.163.226	1.055.284
Derivative Financial and Other Liabilities Held for Trading	(558.816)	1.082.600
Other Liabilities	(3.641)	3.641
Net Increase/ Decrease in Operating Liabilities	(41.211)	(387.068)
Net Cash Flow from Operations Before Income Tax	**1.657.027**	**164.367**
Income Taxes Paid	(207)	(171)
Net Cash Inflow/ Outflow from Operating Activities	**1.656.820**	**164.196**
INVESTING ACTIVITIES	-	-
Net Cash from Investing Activities	**150.347**	**85.558**
Proceeds from Sale/ (Payments for Purchases) of Tangible and Intangible Assets	(42.434)	(42.126)
Proceeds from Sale of/ Payments for Investments in Subsidiaries, Associates and Joint Ventures	-	-
Proceeds from/ (Payments to Acquire) Securities and Other Financial Instruments Held to Maturity	188.606	123.228
Dividends Received	4.175	4.456
Other inflows / outflows from Investing Activities	-	-
FINANCING ACTIVITIES	-	-
Net Cash from Financing Activities	**(40.804)**	**(326.509)**
Net Increase/ (Decrease) in Borrowings	(40.804)	(295.747)
Net Increase/ (Decrease) in Subordinated Debt and Hybrid Instruments	-	-
Net increase / (Decrease) of Additional Capital Instruments	-	-
Share Premium	-	-
Proceeds from Issuance of Share Capital	-	(30.762)
Other inflows / outflows from Financing Activities	-	-
Net Increase in Cash and Cash Equivalents	**1.766.363**	**(76.755)**
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents	**(4.982)**	**813**
Net Increase in Cash and Cash Equivalents	**1.761.381**	**(75.942)**
Cash and Cash Equivalents at the Beginning of the Year	**3.171.110**	**3.247.052**
Cash and Cash Equivalents at the End of the Year	**4.932.491**	**3.171.110**

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Reconciliation of the balance sheet as at 31 December 2017

ASSETS

Financial reports

in 000 kn	CNB Requirements	Cash and Amounts Due from Banks	Mandatory Reserve with the Croatian National Bank	Loans to and Receivables from Banks	Financial Assets at Fair Value Through PNL	Financial Assets Available for Sale	Financial Assets Held to Maturity	Loans and Receivables from Customers	Assets Held for Sale	Investments in Subsidiaries	Property and Equipment	Investment Property	Intangible Assets	Deferred Tax Assets, Net	Prepaid Income Tax	Other Assets	Reconciliation Between CNB Requirements and Financial Reports
Cash	460.023	-460.008	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15
Deposits with the CNB	3.931.444	-2.631.175	-1.300.269	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Deposits with Banking Institutions	473.302	-359.861	-	-113.441	-	-	-	-	-	-	-	-	-	-	-	-	0
Treasury Bills of the Ministry of Finance and the CNB Bills	324.931	-	-	-	-224.957	-99.974	-	-	-	-	-	-	-	-	-	-	0
Securities and Other Financial Instruments Held for Trading	513.989	-	-	-	-513.989	-	-	-	-	-	-	-	-	-	-	-	0
Securities and Other Financial Instruments Available for Sale	2.459.982	-	-	-	-	-2.459.982	-	-	-	-	-	-	-	-	-	-	0
Securities and Other Financial Instruments Held to Maturity	72.344	-	-	-	-	-	-72.344	-	-	-	-	-	-	-	-	-	0
Loans to Financial Institutions	62.450	-	-	-	-	-	-	-62.450	-	-	-	-	-	-	-	-	0
Loans to Other Customers	10.851.665	-	-	-	-	-	-	-10.867.482	-	-	-	-	-	-	-	15.817	0
Investments in Subsidiaries, Associates and Joint Ventures	65.490	-	-	-	-	-	-	-	-20.000	-45.490	-	-	-	-	-	-	0
Tangible Assets (Less Depreciation)	141.461	-	-	-	-	-	-	-	-	-	-135.576	-	-	-	-	-5.885	0
Interest, Fees and Other Assets	441.749	-	-	-391	-4.226	-21.395	-73	-49.176	-	-	-	-70.748	-110.664	-33.974	-460	-128.922	21.720
TOTAL ASSETS	**19.798.830**	**-3.451.044**	**-1.300.269**	**-113.832**	**-743.172**	**-2.581.351**	**-72.417**	**-10.979.108**	**-20.000**	**-45.490**	**-135.576**	**-70.748**	**-110.664**	**-33.974**	**-460**	**-118.990**	**21.735**

Besides the differences in terminology and classification of items between CNB’s regulatory requirements and financial statements, assets and liabilities are unadjusted for 21.735 thousand kuna, and they are classified as liabilities in regulatory requirements while netting-off assets in financial statements:

21.720 thousand kuna of deferred tax liability is classified as Other liabilities in regulatory requirements, and it is netting-off Deferred tax assets in financial statements

15 thousand kuna from cash payments made in externalized networks, is classified as Other Liabilities by regulatory requirements, and in financial statements is netting-off Cash and accounts at bank position

Reconciliation of the Balance Sheet at December 31 2017 (continued)

LIABILITIES

Special Financial Reports / Financial Reports

	CNB Requirements	Financial Liabilities at Fair Value Through PNL	Deposits from Banks	Deposits from Customers	Borrowings	Provisions for Liabilities and Expenses	Current Tax Liability	Other Liabilities	Reconciliation Between CNB Requirements and Financial Reports
Borrowings from Financial Institutions	651.971	-	-	-	-651.971	-	-	-	0
Deposits	15.134.400	-	-398.869	-14.725.059	-	-	-	-10.472	0
Other Borrowings	20.287	-	-	-	-20.287	-	-	-	0
Interest, Fees and Other Liabilities	2.086.882	-	-921	-1.827.395	-625	-72.955	-	-163.251	21.735
TOTAL LIABILITIES	**17.893.540**	**-**	**-399.790**	**-16.552.454**	**-672.883**	**-72.955**	**-**	**-173.723**	**21.735**

EQUITY

Special Financial Reports / Financial Reports

	CNB Requirements	Share capital	Capital Gains	Own Shares	Reserve for Treasury Shares	Legal Reserves	Other Reserves	Unrealized Gains / Losses on Impairments of Financial Assets Available for Sale	Revaluation Reserve	Retained Earnings	Profit / (Loss) of the Year	Reconciliation Between CNB Requirements and Financial Reports
Share Capital	1.214.298	-1.214.775	-	477	-	-	-	-	-	-	-	0
Profit / Loss for the Year	8.333	-	-	-	-	-	-	-	-	-	-8.333	0
Retained Earnings	124.541	-	-	-	-	-	-	-	-	-124.541	-	0
Legal Reserves	15.575	-	-	-	-	-15.575	-	-	-	-	-	0
Statutory and Other Capital Reserves	448.286	-	-	-	-4.477	-	-443.030	-	-779	-	-	0
Unrealized Gains / Losses on Impairments of Financial Assets Available for Sale	94.257	-	-	-	-	-	-	-94.257	-	-	-	0
TOTAL EQUITY	**1.905.290**	**-1.214.775**	**-**	**477**	**-4.477**	**-15.575**	**-443.030**	**-94.257**	**-779**	**-124.541**	**-8.333**	**0**

Reconciliation of the Income statement for the Year 2017

Financial Reports

CNB Requirements

in 000 kn	Total CNB Requirements	Interest Income	Interest Expenses	Net Interest Income	Fees and Commissions Income	Fees and Commissions Expenses	Net Fees and Commissions Income	Gains Less Losses Arising from Securities at Fair Value Through PNL and Held for Trading	Gains Less Losses Arising from Securities Available for Sale	Gains Less Losses Arising from Dealing in Foreign Currencies	Other Operating Income	General and Administrative Expenses	Depreciation	Impairment Losses on Loans to and Receivables from Customers and Other Assets	Provisions for Liabilities and Expenses	PROFIT BEFORE TAX	Income Tax Expense	PROFIT FOR THE YEAR	Reconciliation Between CNB Requirements and Financial Reports
Interest Revenue	662.753	662.753	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Interest Expense	-131.418	-	-131.418	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Net interest Income	**531.335**	-	-	**531.335**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Fee and Commission Revenue	520.964	-	-	-	520.964	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Fee and Commission Expense	-328.837	-	-	-	-	-328.837	-	-	-	-	-	-	-	-	-	-	-	-	0
Net Fee and Commission Income	**192.127**	-	-	-	-	-	**192.127**	-	-	-	-	-	-	-	-	-	-	-	0
Trading Gains / Losses	50.825	-	-	-	-	-	-	12.668	-	38.157	-	-	-	-	-	-	-	-	0
Gains / Losses on Available for Sale Assets	30.213	-	-	-	-	-	-	-	30.213	-	-	-	-	-	-	-	-	-	0
Income from Investments in Subsidiaries, Associates and Joint Ventures	3.200	-	-	-	-	-	-	-	-	-	3.200	-	-	-	-	-	-	-	0
Income from Other Equity Investments	975	-	-	-	-	-	-	-	-	-	975	-	-	-	-	-	-	-	0
Foreign Exchange Gains / (Losses)	1.747	-	-	-	-	-	-	-	-	-	1.747	-	-	-	-	-	-	-	0
Other Income	5.728	-	-	-	-	-	-	-	-	-	5.728	-	-	-	-	-	-	-	0
Other Expenses	-62.028	-	-	-	-	-	-	-	-	-	-	-62.028	-	-	-	-	-	-	0
General and Administrative Expenses and Depreciation	-381.736	-	-	-	-	-	-	-	-	-	-	-337.868	-43.868	-	-	-	-	-	0
Impairment Losses and Provisions	-359.926	-	-	-	-	-	-	-	-	-	-	-	-	**-349.794**	**-10.132**	-	-	-	0
PROFIT BEFORE TAXATION	**12.460**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**12.460**	-	-	0
Income Tax	**-4.127**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-4.127**	-	0
PROFIT FOR THE YEAR	**8.333**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**8.333**	0

Profit and Loss statement is reconciled between CNB's regulatory requirements and Financial Statements.

Reconciliation of the Report of Changes in Equity for the Year 2017

Items Legal Reserve, General Banking Risk Reserve, Revaluation Reserve and Other Reserves from the financial reports are presented in the report of Changes in Equity per CNB’s regulatory requirements in Legal, Statutory and Other Reserves.

Retained Earnings from the Annual Report are presented within Retained Earnings/ (Accumulated losses), Profit/ (Loss) for the Year.

Reconciliation of Cash Flows for the Year 2017

OPERATING ACTIVITIES

	CNB Requirements	Per Financial Reports	Difference
Cash Flows from Operating activities			
1.1. Profit/(Loss) Before Tax	12.460	12.460	-
1.2. Impairments and Provisions	359.926	-	359.926
- Impairment Losses on Loans to and Receivables from Customers and Other Assets	-	349.794	(349.794)
- Impairment Losses on Provisions for Liabilities and Expenses	-	10.132	(10.132)
1.3. Depreciation and Amortization	43.868	43.868	-
1.4. Net Unrealized Gains/Losses on Financial Assets and Liabilities at Fair Value Through PNL	(9.142)	(9.142)	-
1.5. Gains/(Losses) on Sale of Tangible Assets	(1.882)	-	(1.882)
1.6. Other Gains/Losses	(1.747)	-	(1.747)
- Foreign Exchange Gains/Losses	-	(1.747)	1.747
2.1. Deposits at CNB	-	-	-
2.2. Treasury Bills of the Ministry of Finance and the CNB bills	90.606	-	-
2.3. Deposits with Banking Institutions and Loans to Financial Institutions	40.591	-	40.591
Increase of Deposits and Loans to other Banks	-	21.461	(21.461)
2.4. Loans to Other Customers	223.607	-	223.607
Net (Increase)/Decrease in Loans to other Customers	-	243.634	(243.634)
2.5. Securities and Other Financial Instruments Held for Trading	46.476	-	46.476
- Net (Increase)/Decrease of Financial Assetsat fair value through PNL	-	140.420	(140.420)
2.6. Securities and Other Financial Instruments Available for Sale	198.253	-	198.253
2.7. Securities and Other Financial Instruments that are not actively traded and are valued at fair value through PNL	-	-	-
2.8. Other Operating Assets	94.453	-	94.453
- Net (Increase)/Decrease in Other Assets		84.493	(84.493)
3.1. Demand Deposits	1.163.226	-	1.163.226
3.2. Savings and Term deposits	(558.816)	-	(558.816)
- Net (Decrease)/Increase in Deposits from Banks	-	(109.343)	109.343
- Net Increase/(Decrease) in Deposits from Customers	-	779.732	(779.732)
3.3. Derivative Financial and Other Liabilities Held for Trading	(3.641)	-	(3.641)
3.4. Other Liabilities	(41.211)	-	(41.211)
- Net Increase/Decrease in other liabilities	-	(96.010)	96.010
5. Income Taxes Paid	(207)	(207)	-
6. Net Cash Generated from Operating Activities	**1.656.820**	**1.469.545**	**187.275**

Reconciliation of Cash Flows for the Year 2017

INVESTING ACTIVITIES

	CNB Requirements	Per Financial Reports	Difference
Investing Activities			
7. Net Cash from Investing Activities	**150.347**	**350.595**	**(200.248)**
7.1. Proceeds from Sale/ (Payments for Purchases) of Tangible and Intangible Assets	(42.434)	(42.434)	-
7.2. Proceeds from Sale of/ Payments for Investments in Subsidiaries, Associates and Joint Ventures	-	-	-
- Disposal of Financial Assets Available for Sale	-	1.440.049	(1.440.049)
- Acquisition of Financial Assets Available for Sale	-	(1.239.801)	1.239.801
7.3. Proceeds from/ (Payments to Acquire) Securities and Other Financial Instruments Held to Maturity	188.606	188.606	-
7.4. Dividends Recieved	4.175	4.175	-
7.5. Other Proceeds/Payments from Investing Activities	-	-	-

FINANCING ACTIVITIES

	CNB Requirements	Per Financial Reports	Difference
Financing Activities			
8. Net Cash from Financing Activities	**(40.804)**	**(53.777)**	**12.973**
8.1. Net Increase/(Decrease) in Borrowings	(40.804)	-	(40.804)
- Increase in Borrowings	-	161.450	(161.450)
- Repayments in Borrowings	-	(215.227)	215.227
8.2. Net Increase/(Decrease) in Subordinated Debt and Hybrid Instruments	-	-	-
8.3. Net Increase/(Decrease) of Additional Capital Instruments	-	-	-
8.4. Share Premiums	-	-	-
8.5. Dividend Payment	-	-	-
8.6. Other inflows/outflows from Financing Activities	-	-	-
9. Net Increase in Cash and Cash Equivalents	**1.766.363**	**1.766.363**	**-**
10. Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents	**(4.982)**	**(4.982)**	**-**
11. Net Increase in Cash and Cash Equivalents	**1.761.381**	**1.761.381**	**-**
12. Cash and Cash Equivalents at the Beginning of the Year	**3.171.110**	**3.171.110**	**-**
13. Cash and Cash Equivalents at the End of the Year	**4.932.491**	**4.932.491**	**-**

Reconciliation of Cash Flows for the Year 2017 (continued)

1. The amount of HRK359,926K from Impairment and provisions for losses in CNB's regulatory requirements, is shown in financial reports as: HRK 349,794K in Impairment Losses on Loans to and Receivables from Customers and Other Assets and HRK10,132K in Impairment Losses on Provisions for Liabilities and Expenses.

2. The amount of HRK1,747K included in Other gains/losses in CNB's regulatory requirements is presented within (gains)/losses from foreign exchange differences in the Financial statements.

3. Gains/(Losses) on Sale of Tangible Assets in amount of HRK1,882K, Treasury Bills of the Ministry of Finance and the CNB bills in amount of HRK90,606K, Deposits with Banking Institutions and Loans to Financial Institutions in amount of HRK40,591K, Loans to Other Customers in amount of HRK223,607K, Securities and Other Financial Instruments Held for Trading in amount of HRK46,476K, Securities and Other Financial Instruments Available for Sale in amount of HRK198,253K, Other Operating Assets in amount of HRK94,453K, Demand Deposits in amount of HRK1,163,226K, Savings and Term deposits in amount of HRK558,816K, Derivative Financial and Other Liabilities Held for Trading in amount of HRK3,641K and Other Liabilities in amount of HRK41,211K in CNB's regulatory requirements are shown in financial reports as: Increase of Deposits and Loans to other Banks in amount of HRK21,461K, Net (Increase)/Decrease in Loans to other Customers in amount of HRK243,634K, Net (Increase)/Decrease of Financial Assetsat fair value through PNL in amount of HRK140,420K, Net (Increase)/Decrease in Other Assets in amount of HRK84,493K, Net (Decrease)/Increase in Deposits from Banks in amount of HRK109,343K, Net Increase/(Decrease) in Deposits from Customers in amount of HRK779,732K, Net Increase/Decrease in other liabilities in amount of HRK96,010K, Disposal of Financial Assets Available for Sale in amount of HRK1,440,049K and Acquisition of Financial Assets Available for Sale in amount of HRK1,239,801K.

Differences on other items are purely semantic, and there is no discrepancy between the cash flow statement for 2017, between CNB's regulattory requirements and financial reports.

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