otpbanka
Opravdava tvoje povjerenje

Annual Report

2017

OTP BANKA HRVATSKA d.d.

Separate Financial statements for the year ended 31 december 2017 together with Independent auditor's report

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"The entire business operation of OTP banka in 2017 should be observed through the purchase transaction of Splitska banka on 2 May 2017. The bank bought 100% interest in Splitska banka and thus became the fourth largest banking group in Croatia with over 11% of the market share measured by the size of assets."

Balázs Békeffy
President of the Board

Dear customers and business partners,

After several years in which the domestic economy experienced contractions, since mid-2014, we have been witnessing activity growth at the annual level. At the same time, all the other major indicators, such as the unemployment rate, budgetary levels and the balance of payment, foreign debt, etc. show noticeable improvement. Positive developments resulted in enhanced credit outlooks for Croatia in 2017, thus indicating a likely improvement in the credit rating in the course of 2018. At the same time, global financial markets have already anticipated the mentioned steps taken by the rating agencies so that, for a long time, a downfall trend in the risk premium for Croatia has been present, positively impacting borrowing conditions.

Despite a positive cycle, the structural problems of the domestic economy remain largely visible in a modest potential GDP growth, despite a favourable international environment. Namely, the other comparable economies of the EU member states in the region recorded a much faster and more robust recovery in economic activity, which brought Croatia almost to the rear of the group of the EU member states, according to the degree of economic development (measured as GDP per capita adjusted for purchasing power parity). Also, in 2017, the domestic economy encountered a necessity for stronger restructuring due to problems with Agrokor.

At the end of 2017, the Government of the Republic of Croatia and the CNB presented the Strategy for the adoption of the euro in the Republic of Croatia. Given the size and openness of the domestic economy, a high level of eurisation and the level of external debt, the introduction of the euro would result in multiple benefits for the domestic economy and in the long run it would give a strong boost to faster growth and development. At the same time, the cost of such a move would be mostly short-term. Transition from the kuna to the euro would eliminate most of currency risks and would also have a positive impact on fiscal discipline, and thus lead to faster convergence in the state costs of borrowing as well as in other domestic sectors. At the same time, accession to the Eurozone would also result in significant changes in domestic banking operations, among which the following stand out: harmonisation of regulatory requirements, loss of part of non-interest income and accession to the banking union.

Compared to 2016, when the GDP growth rate reached 3.2%, the growth of economic activity is expected to slow down slightly to around 2.8% in 2017. Last year the most significant contribution to the growth rate derived from growth in household consumption, mostly influenced by a dynamic growth of net salaries due to changes in the income tax system. Also, modest inflationary pressures contributed to real growth in retail turnover as well as a successful tourist season. The recovery of capital investments continued, although at a slower pace than originally expected.

After three years of deflation and a fall in consumer prices by 1.1% in 2016, the prices went up by 1.1% on average last year. The most significant contribution to the rise in total price levels was a result of an increase in passenger vehicle fuel prices (6.8%) and food prices (2.9%). At the same time, lower housing costs and utility services, partly as a result of changes in the tax system, to a largest degree mitigated inflationary pressures in 2017.

Since the beginning of 2014, a downsizing trend has been present in the unemployment rate in the domestic labour market. Thus, the average official unemployment rate dropped from over 20% in 2013 to 12.4% in 2017. At the same time, the surveyed unemployment rate recorded a strong decline, so according to the latest data it reached only 9% during the 2017 summer season, which is close to the natural level of unemployment. Employment recovery was also recorded in the period under review, however at a noticeably slower pace. Therefore, the reduction in the unemployment rate is largely a result of a workforce decline, or a consequence of negative demographic and migration trends.

A reduction in external imbalances which began during the recession years, continued in the phase of economic recovery. Thus, in the previous period, we witnessed a current account surplus in the balance of payments and a reduction of the gross external debt of the Republic of Croatia. At the same time, we witnessed a further reduction in external debt as a result of growth in domestic savings in the conditions of a slow recovery of lending activity and less borrowing needs by the state. In such circumstances, during 2017, external debt fell below EUR 40 billion, which was last time recorded in 2008.

At the end of the third quarter of 2017, there were 26 banking institutions operating in the domestic banking market, out of which 15 banks were owned by foreign owners, which assets remained at around 90% of the total assets of the banking system. At the same time, there were three government-owned banking institutions. In the period under review, total assets of banks amounted to almost HRK 391 billion, and this presents a slight increase when compared year-over-year (HRK 389 billion). The domestic banking market over the past year was characterised by a recovery of lending activity of the private sector, as well as problems with direct and indirect exposure to Agrokor and its suppliers. The problems with Agrokor significantly reduced the profitability of the domestic banking system year-over-year, when ROE approached two-digit numbers and brought to a standstill the positive trend of decreasing the share of non-performing loans. However, the level of capitalisation of the domestic banking system remained extremely high, as well as its degree of resistance to possible shocks.

Bank's results and activities in 2017

The entire business operation of OTP banka in 2017 should be observed through the purchase transaction of Splitska banka on 2 May 2017. The bank bought 100% interest in Splitska banka and thus became the fourth largest banking group in Croatia with over 11% of the market share measured by the size of assets. The takeover was financed through the capital increase of OTP banka Hrvatska by the parent bank in Budapest. The consequence of this, one of the largest transactions in the Croatian banking market was in the fact that a significant part of the activities and efforts put by employees and management of both banks during 2017 was focused on the engagement in the purchase and then in preparing the planned integration into a single business entity by the end of 2018. The year was also characterised by problems in the operation of the companies within the Agrokor group.

In the background of positive economic trends and indicators, in 2017 the bank realised net profit without reducing the integration costs of Splitska banka in the amount of HRK 147.1 million, or the final net profit of HRK 52.2 million. As for the operational performance, there was a slight increase in the basic categories of bank income when compared to 2016. Net interest income increased by 2.2%, while net fee and commission income grew by 2.4%, or total operating income grew by 1.8%. At the same time, operating costs grew by 2.2% mainly due to the increase in staff costs and depreciation, while other operating costs remained at last year's level. Such results were achieved under the circumstances of a present trend of lowering interest rates on all bank loans, however the bank's pro-active interest rate policy on sources, taking into account market trends and competition, was able to offset negative effects on the bank's operation. In the absence of higher interest yields, an additional contribution to the bank's results was achieved in the segment of fee and commission income. The realised operating result is sufficient for additional provisioning to cover the risks of bad loans in the bank's portfolio, including also increased credit risks associated with the Agrokor case, as well as possible costs of active lawsuits, and the realised and future estimated costs of the upcoming integration process of Splitska banka.

The total balance grew by 24.4%, or 4.3%, excluding the impact of bank's capital increase. Under the circumstances of present signs of the recovery of lending activity in the domestic banking market, especially in the retail banking segment, the bank realised loan growth in all the main categories: in the retail segment, in operations with MSE and corporate customers, so the total net loans grew by 4.1%. We should particularly emphasise growth in the segment of retail housing and all-purpose loans. The bank continued to follow the trends of increased demand for kuna loans and actively offered such products to retail customers at fixed and variable interest rates in order to keep its competitiveness in the market. On the other hand, the bank endeavoured to keep and expand its deposit base, so total customer deposits recorded growth of 4.8%, despite a significant decrease in interest rates by the bank on such sources.

The result of these activities, observed through the latest available market share indicators, is visible in an increase in gross loans from 4.41% to 4.75%, and in received deposits from 4.17% to 4.31%. We should emphasise in particular a market share increase in the segment of retail housing loans, which are still one of the most important and most competitive loan products of the bank where even this year we realised an above average growth from 6.58% to 6.80% in the market share, while total retail loans accounted for 6.60% of the market share. Such good indicators combined with the synergic effects of the integration of Splitska banka and one of the largest network of branch offices in Croatia represent a challenge for new achievements in the coming years and further growth in all segments of business operation.

Over the past 2017, the Bank met and fulfilled all regulatory requirements by maintaining a sufficient level of capital to cover all the risks and necessary capital buffers imposed, so that the capital adequacy rate at the end of the year amounted to 17%.

Corporate social responsibility

At the beginning of last year, OTP banka presented the most innovative OTPrize loyalty programme in the market. This multifunctional application allows users to collect points and win prizes, with education on banking products and services. The application is free of charge for the bank's customers, and is accessed via the Internet or mobile banking. Apart from using the bank's services, users can collect points by testing their knowledge on banking products and services, which also gives the programme an educational dimension.

In 2017, OTP banka signed the Diversity Charter and joined the European community which brings together more than 7,100 signatories from 18 countries, thus opening up new channels and potentials for its organisation, employees and the community in which it operates responsibly. This initiative functions as a platform and brings together organisations that will share knowledge, learn from each other, and apply different tools to develop and promote diversity policies, which means a continuous improvement in the organisational environment with the goal of increasing the performance of the organisation and every individual.

We are proud to be the first bank in Croatia to use its own energy sources. After putting into operation solar power plants in Dubrovnik and Zadar, the third solar power plant located in the central building of OTP banka in Pula started working in early October 2017. The launching of the third, most powerful, solar power plant in Pula shows our commitment to the goals of sustainability, environmental protection and the welfare of the community in which we operate.

In the academic year 2017/2018, as part of the programme "Green light to knowledge", we continued granting scholarships to students of lower financial standing in cooperation with representatives of local government and self-government. In the past eight years, the bank provided almost five million kunas in scholarships and other grants through this programme for better schooling conditions and education of students and pupils in different parts of Croatia.

For the sixth year in a row and as part of the programme "Green light to .... better society", we invited our annual tender for donations, where 44 projects were approved and HRK 400,000 awarded to that end. Through its donation tender, the bank helped the implementation of 265 projects focused on improving the quality of life in the respective communities, totalling HRK 2.2 million.

Finally, we have to boast that OTP banka is the only bank among the ten companies in Croatia that last year received the SJAJ Award for affirming socially responsible business and sustainability in digital media of the company. Our bank was recognised as one of the companies with advanced socially responsible business practices, which as part of the implementation of the programme "Green light for ...." invests in the community and promotes job responsibility, responsible market ventures and advanced environmental solutions.

Plans for 2018

A major part of 2018 will be characterised by the complex integration process of OTP and Splitska banka. In order to successfully implement it within the envisaged deadline, i.e. 1 October, integration requires full engagement and dedication of a large number of employees and bank managers. Successful integration is the absolute business priority for this year. However, in the period up to integration, a demanding job of maintaining quality and price-attractive products and services to our customers is expecting us in order to achieve organic growth in areas where we recognise potentials. The period after integration will be devoted to brand strengthening and the positioning of the bank in the market.

In general, with the continuation of good trends, we still expect a slight growth of the bank's market shares in all segments. We will further work on the digital transformation of our business and the implementation of technological changes that can enable us to have quality and competitive business. In the domain of responsible business, we will keep on building relationships with all of our stakeholders and investing in the communities in which we operate.

Finally, on my own behalf and on behalf of the compete OTP Group, I would like to extend thanks to our customers and business partners for the trust shown. Special thanks go to our employees for their efforts and contribution to the good business results of the bank.

Yours faithfully,

Balázs Békeffy
President of the Board

Corporate governance code

By virtue of the provisions of the Companies Act (OG 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 111/12, 68/13 and 110/15) and the views of the Croatian National Bank, the Management Board of OTP banka d.d. by its decision No. 2001-118-3.20/14 of 13 November 2017, adopted the following

Corporate governance code

1. OBJECTIVES AND BASIC PRINCIPLES

OTP banka d.d. (hereinafter: the Bank) as a credit institution is well aware of the importance of a responsible and ethics-based conduct of corporate entities as an essential prerequisite for developing high-quality relations and loyal competition between business partners as well as for efficient functioning of the market.

To this end, the Bank is developing its business activities and acting in accordance with the good corporate management practice. Moreover, it is trying, by way of its business strategy, business policy, key internal acts and business practice, to contribute to transparent and efficient business activities and better-quality relations with its business environment.

Bank's adequate corporate management includes:

1. clear organisational structure with well-defined authorisations and responsibilities;
2. efficient activities for establishing, measuring and monitoring of the risks the Bank is or may be exposed to as well as related reporting activities;
3. adequate internal controls mechanisms which also involve prudent administrative and accounting procedures, the strategies and the procedures for a constant assessment and review of the figures, the structure and the distribution of the internal capital required as coverage for current and future risks;
4. fulfilment of general transparency requirements
5. meeting the obligations and the responsibilities towards the shareholders, the employees and other interested parties;
6. safe and stable business activities in accordance with law and regulations.

It is considered that a vital segment of the Bank's identity is responsible management, therefore the Bank's view is that good corporate management is realised not just by fully meeting the regulatory requirements but that is also derives from the corporate culture prevailing in the Bank and personal integrity of all Bank's employees.

Basic corporate management principles of the Bank are the following:

1. transparency of the business activities;
2. clearly elaborated operating procedures;
3. avoidance of the conflict of interest;
4. efficient internal control;
5. efficient responsibilities system.

Any interpretation of the provisions contained herein should be governed primarily by accomplishment of the mentioned objectives and adherence to the mentioned principles.

2. PUBLICATION

In addition to the data the Bank publishes as it is required to do so by laws and other regulations, the Bank shall also publish and thus make available to any interested party, pertinent information on its work and activities which primarily refers to financial statements given that they are the most important and the most complete source of information on the Bank and the Annual Report on the company's status.

If the Bank's shares are listed on the stock exchange and they are traded in on a regulated securities market, the Bank shall:

1. give notice of any change to the rights under issued shares or other issued securities;
2. publish any information it is familiar with in respect of the shares and other securities of the Bank that are owned by any member of the Supervisory Board or the Management Board;
3. make public any other information that may be regarded vital in relation to the Bank, its financial standing, operating results, the ownership structure and management;
4. publish all the information categories clearly and unambiguously and enable any interested party equal and timely access to such information;
5. publish instantly any information that may have an impact on the making of decisions on investments into shares and other securities of the Bank, covering equally the positive and the negative aspects, with a view to allowing the investor to understand and correctly assess the Bank's standing.

Publishing of information is carried out in the manner laid down in law or the Bank's Articles of Association, whereas the Bank also ensures that pieces of information are published on own web pages and over the Internet.

3. BODIES OF THE BANK

The bodies of the Bank ensuring that good corporate management practice is implemented are the ones stated below:

1. General Meeting
2. Supervisory Board
3. Management Board

3.1 General Meeting

The General Meeting is the body of the Bank whereby shareholders exercise their main management rights by passing decisions on the Bank's activities that fall under their competence.

The decisions passed by the General Meeting are laid down in law and the Bank's Articles of Association.

General Meetings are called when necessary, but at least once a year, and whenever the interests of the company require so.

General Meetings shall be called by the Management Board.

General Meetings may be called by the Supervisory Board in cases prescribed by law, and whenever the Supervisory Board deems it necessary.

The General Meeting shall also be called if so requested by shareholders who separately or together hold no less than 1/20 (One Twentieth) of the Bank's share capital providing that the Management Board has been notified about the reason of the General Meeting.

Shareholders decide on their rights and obligations at the General Meeting in accordance with law and the Articles of Association.

Shareholders must meet the conditions prescribed by law and the Articles of Association in order to participate in the work of the General Meeting.

Each share, except for those not carrying the right to vote, entitles the shareholder to one vote, in proportion to the nominal value of each share.

The Bank issues shares made out to a name, and depending on the rights they carry they are either regular or preferential.

The Bank shall treat and accord equal conditions to all shareholders regardless of the number of shares they hold. The Bank shall equally accord same treatment to the investors notwithstanding the nature of the investor i.e. individual or institutional investors.

The General Meeting shall make its decisions by votes given by the shareholders present in person or by proxy at the General Meeting.

The General Meeting shall have a quorum if shareholders representing at least 50% (fifty per cent) of the total share capital of the Bank are present (either in person or represented by proxy).

The General Meeting shall make decisions by a simple majority of the votes, except when deciding on the matters that require a certain necessary majority determined by law and the Articles of Association.

The right of a shareholder to participate in the General Meeting and exercise his/her voting rights may be realised by proxy, a legal entity or a natural person.

A power of attorney shall be issued and verified in the form prescribed by the Management Board and certified by a Notary Public.

3.2 Supervisory Board

The Supervisory Board shall supervise the management of the Bank.

The competence of the Supervisory Board is laid down by law, the Articles of Association and other acts of the Bank.

It has authority to inspect the Bank's business books and all the Bank's documents and assets including cash and securities, which and when it deems necessary.

Supervisory Board members shall act in the Bank's interest, keep business and bank secrets and act with the due care of a good businessman.

The Supervisory Board members shall dedicate sufficient time to their obligations in the Bank and carry out activities based on complete and reliable information, whilst driven by good intentions.

The Supervisory Board consists of 5 (five) to 9 (nine) members, one of whom is independent.

The members of the Supervisory Board are elected by the General Meeting, after obtaining prior approval from the Croatian National Bank.

The General Meeting adopts the Policy on the selection and assessment of the criteria for the members of the Supervisory Board of OTP banka d.d. ensuring that at all times the Supervisory Board meets the suitability requirement for the relevant function.

The members of the Supervisory Board shall elect the Chairman and the Deputy of the Supervisory Board among themselves.

The mandate of each Supervisory Board member is three years from the date when the decision of the General Meeting on the election of the Supervisory Board member has entered in force.

The Supervisory Board members can be re-elected.

The Supervisory Board's activities are carried out at its meetings.

The Supervisory Board's meetings are chaired by the Chairman of the Supervisory Board or the Deputy.

The Supervisory Board shall make valid decisions if at least half of the members attend the meeting and each member of the Supervisory Board has one vote.

The Supervisory Board can pass decisions without convening a meeting, if votes are cast by a letter, phone, fax or by using other envisaged technical possibilities for that purpose, if none of the Supervisory Board members objects to such manner of voting.

The Supervisory Board shall have its own Rules of procedure whereby the arrangement of meetings, decision-making process, position of the committees and their authorities shall be governed.

The Management Board can perform particular types of business activities subject to prior consent of the Supervisory Board.

3.2.1 Audit Committee

In accordance with law, the Supervisory Board establishes the Audit Committee and appoints its members.

The authority of the Audit Committee is laid down in the provisions of the Audit Act and the Credit Institutions Act.

The work of the Audit Committee is laid down in detail in the Rules of procedure of the Audit Committee.

The Audit Committee shall always have uneven number of members.

3.2.2 Remuneration Committee

In accordance with law, the Supervisory Board establishes the Remuneration Committee and appoints its members.

The authority of the Remuneration Committee is laid down in the provisions of the Credit Institutions Act and the relevant decision of the Croatian National Bank.

The work of the Remuneration Committee is laid down in detail in the Rules of Conduct of the Remuneration Committee.

3.2.3 Appointment Committee

In accordance with law, the Supervisory Board establishes the Appointment Committee and appoints its members.

The authority of the Appointment Committee is laid down in the provisions of the Credit Institutions Act.

The work of the Appointment Committee is laid down in detail in the Rules of Conduct of the Appointment Committee.

3.2.4 Risk Committee

In accordance with law, the Supervisory Board establishes the Risk Committee and appoints its members.

The authority of the Risk Committee is laid down in the provisions of the Credit Institutions Act.

The work of the Risk Committee is laid down in detail in the Rules of Conduct of the Risk Committee.

3.3 MANAGEMENT BOARD

The Management Board is responsible for conducting the Bank's business and it acts jointly.

The Bank is represented individually and independently by the president of the Management Board and Management Board members.

The Bank can be represented by procura holder providing that he/she acts jointly with a Management Board member.

The Management Board shall make its decisions by a simple majority of the votes cast by all its members, either in person, by phone, in writing, by fax, via e-Board application or similar specialised IT system, via video conference or e-mail, provided that all the members agree.

The Management Board consists of 3 (three) to 7 (seven) members appointed by the Supervisory Board, subject to prior consent of the Croatian National Bank.

Any person who meets the requirements of the Companies Act and the Credit Institutions Act can be appointed a member of the Management Board.

The Management Board adopts the Policy on the selection and assessment of suitability of president and members of the Management Board of OTP banka d.d. ensuring that at all times the Management Board members meet the suitability requirement for the relevant function.

Members of the Management Board are appointed for a period not longer than 5 (five) years and may be re-elected.

When appointing Management Board members, it shall be attempted that they possess the following characteristics:

- experience in banking operations management,
- developed organisational skills,
- experience in detection and monitoring of risks and dealing with crisis situations,
- knowledge of accounting and finance,
- familiarization with Bank's business scope,
- understanding of domestic and international money market,
- ability to incorporate all the interests within the Bank.
- personality that contributes to the realisation of the Bank's objectives,
- knowledge of good corporate management practice,
- strategic vision.

The Management Board shall unanimously adopt the Rules of Conduct of the Management Board, subject to prior consent of the Supervisory Board.

The scope of the Management Board's activities and responsibilities includes the activities in line with law, the Articles of Association and the Rules of Conduct of the Management Board.

During his/her term of office, no member of the Management Board shall without prior written consent of the Supervisory Board:

a) take or have employment, mandate or engagement with any other company or bank, with an exception of a subsidiary company, in which case the Supervisory Board must be notified by the Management Board in writing at its first meeting following such appointment;
b) in his/her own name and on his/her own behalf directly or indirectly be concerned or interested in business activities which are related to the Bank's business activities;
c) take or have membership in any partnership/limited liability company;
d) directly or indirectly own, conduct, contract, invest or acquire shares, engage or take part in some other way in any business activity or enterprise, which would represent competition to activities of the Bank.

During his/her term of office, no member of the Board shall without consent of the Supervisory Board participate in decision-making or a legal transaction if:

a) he/she is a legal representative, procura holder or proxy of another contractual party,
b) the other contractual party, or its legally authorised representative, legal representative, procura holder or proxy is his/her blood relation in the direct line up to any degree, in a collateral line up to the second degree, or his/her spouse, common-law spouse, or in-law up to the second degree, regardless whether or not the marriage has been dissolved; or is an adoptive parent or child of the other contractual party, its legally authorised representative, legal representative, procura holder or proxy,
c) there is a conflict of interest between a member of the Management Board and the company relating to a legal transaction to be decided upon or concluded.

4. RELATIONS BETWEEN THE MANAGEMENT BOARD, THE SUPERVISORY BOARD AND THE COMPANY

The Management Board and the Supervisory Board shall establish the strategic goals and the corporate values of the Bank and familiarize all the employees therewith.

The Management Board shall adopt the strategy and the Risk policy, subject to prior consent of the Supervisory Board.

The Bank shall ensure a reasonable, transparent and documented decision-making procedure and see to that assigning of responsibilities and competences within the Bank is clear.

The Bank shall clearly define in writing the powers and key responsibilities of the Management Board, the Supervisory Board, the employees, committees and advisory bodies in the Bank.

The Management Board and the Supervisory Board shall cooperate in the best interest of the Bank as well as negotiate and come to a mutual agreement on the strategic features of the Bank's business activities.

The members of both the Management Board and the Supervisory Board shall avoid conflict of interest or a potential conflict of interest, including also spending of company funds for personal purposes and abuse of power with regard to transactions with related parties.

The Management Board shall timely and in full report to the Supervisory Board on all the facts and circumstances that may have an impact on the business activities, the financial standing and the balance of the Bank's assets and shall grant access to all the required data and the documents necessary to exercise their powers.

Members of the Management Board and the Supervisory Board are entitled to remuneration for their work.

The Supervisory Board shall sign contracts with members of the Management Board in order to regulate mutual rights and obligations.

Members of the Supervisory Board shall receive reward for their work in the amount decided by the General Meeting. The reward may be different for each member of the Supervisory Board, depending on the duties entrusted to them.

4.1 Conflict of interest

Conflict of interest exists in a member of the Supervisory Board, that is, a member of the Management Board who is not neutral in respect of the matter to be decided or it can be assumed on the grounds of his connection with other companies, persons or deals that his interests and inclinations do not necessarily correspond to Bank's interests.

Members of the Management Board and the Supervisory Board shall not pass decisions based on personal interests or the interests of the persons they are closely involved with.

All the activities the members of the Management Board or the Supervisory Board or their related parties and the Bank or its related parties are engaged in shall be market-based particularly as concerns deadlines, interest, guarantees etc.

All the contracts or agreements between a member of the Supervisory Board or a Management Board member and the Bank are subject to prior consent of the Supervisory Board.

4.2 Prohibition of competition

Members of the Management Board i.e. the Supervisory Board shall not, for own or someone else's account, personally or through third parties carry out the activities under the Bank's scope, nor shall they supply advice to the persons that may be deemed Bank's competition.

Moreover, members of the Management Board and the Supervisory Board shall not hold a significant stake in the companies that may be deemed Bank's competitors.

5. INDEPENDENT EXTERNAL AUDITOR

The Bank is aware of the importance and the role of the audit function for the success of the corporate management, the legality and the transparency in the performance of all business processes in the Bank.

One of the important corporate management factors is to contract an independent external auditor, which the Bank must do, with a view to ensuring that financial statements adequately reflect the actual and the overall situation in the Bank.

Before signing of the contract on audit of annual financial statement, or before passing of the decision on appointment of auditor, the external auditor is to deliver to the bank the auditor's independence declaration, in line with the Credit Institutions Act and the Audit Act.

The external auditor shall be deemed any auditor who is not related to the Bank by ownership or interests and does not provide, on its own or through related parties, any other service to the Bank.

The independent external auditor shall, as clearly and unambiguously as possible, give own opinion on whether the financial statements prepared by the Management Board adequately reflect the capital balance and the Bank's financial standing and assets as well as the results for the given period.

6. INTERNAL CONTROLS SYSTEM

The Bank shall ensure an adequate internal controls system which enables it to timely monitor and detect any material risk the Bank is or may be exposed to in the pursuit of its business activities.

The Management Board is responsible for developing and maintaining the system which allows for efficient business activities, adequate risk control, reliability of financial and other non-financial information as well as compliance of the Bank's business activities with laws, regulations and Bank's internal acts.

In addition to the members of the Management Board and the Supervisory Board, employees and all organisational units of the Bank partake in the implementation of the mentioned control measures which are directly or indirectly integrated into the business processes.

In the Bank the internal controls system is realised through three mutually independent functions:

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

When establishing the mentioned functions, the Management Board shall adhere to the following principles:

1. all three functions must be co-independent;
2. all three functions have to be independent from the business processes and activities which give rise to risks;
3. avoiding conflict of interest;
4. each function independently and directly reports on its work to the persons and/or bodies in line with laws, regulations and Bank's internal acts;

5. the Management Board should employ sufficient number of the persons qualified to exercise the mentioned functions.

7. BUSINESS BOOKS AND FINANCIAL STATEMENTS

The Bank keeps business books and other business documentation and records, evaluates assets and liabilities, prepares and publishes annual financial statements and the Annual Report on the company's status as required by applicable regulations and professional standards.

The Bank keeps business books and other business documentation and records by applying a method by way of which it may be checked at any time whether the Bank operates in line with applicable regulations and professional standards.

8. RISKS

The Bank manages risks by implementing the procedures and the methods for detecting, measuring i.e. assessing, controlling and monitoring risks and also by reporting on the risks it is or may be exposed to in its business activities.

The Bank prescribes procedures, criteria and methods for measuring, assessing and managing of risks in its acts, in accordance with statutory regulations, standards and rules of profession.

Risk management includes continuous detection, measuring, assessing and reporting on all materially significant risks the Bank is or may be exposed to.

The risk policy is connected to the Bank's strategy and encompasses defining of the type and the level of risk the Bank is willing to assume in order to reach its business objectives.

The Bank possesses written policies and procedures relating to risk management which are updated and the implementation of which is controlled.

9. TRANSPARENT AND TIMELY REPORTING

The Bank publishes corporate management data and information which are based on statutory regulations and good practice.

The information being published must be true, relevant, timely and available so that all the interested parties' needs are met.

The Bank places special emphasis on transparent and timely reporting, to both the Bank's clients and the Bank's shareholders, as well as to any other interested party.

10. STATEMENT ON ADHERING TO THE CORPORATE MANAGEMENT CODE

The Bank's shares are not traded in on a regulated securities market, that is to say, the shares are not listed on the stock exchange.

If the shares of the Bank are listed and traded in on a regulated securities market, the Management Board and the Supervisory Board shall ensure that the Management Board publishes the data laid down in Article 272 p of the Companies Act in a special section of the Annual Report on the company's status.

In accordance with Article 18 of the Accounting Act the Bank shall also introduce into the Annual Report the company's status on implementation of its Corporate Governance Code.

Balázs Békeffy
president of the Management Board of OTP banka d.d.

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the separate financial statements



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

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

The Management Board is responsible for the submission to the Supervisory Board of its financial statements for acceptance. If the Supervisory Board approves the annual financial statements they are deemed confirmed by the Management Board and Supervisory Board.

The Management Board is also responsible for the preparation and fair presentation of the supplementary information prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks (Official Gazette 30/17, 44/17).

The Management Board is responsible for preparation and the content of Bank Management Report and other information, in accordance with the Accounting Act (Official Gazette 78/15, 134/15, 120/16).

The financial statements set out on pages 9 to 84 prepared in accordance with statutory accounting requirements for banks in Croatia, as well as the supplementary information presented on pages 85 to 96 prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks (Official Gazette 30/17, 44/17), were authorised by the Management Board on 16 March 2018 for issue to the Supervisory Board and are signed below to signify this.

Balázs Békeffy
President of the Management Board

Helena Banjad
Member of the Management Board

Zorislav Vidović
Member of the Management Board

Independent Auditor's Report

To the Shareholders of OTP banka Hrvatska d.d.

To the Shareholders of OTP banka Hrvatska d.d.

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	Impairment losses on loans to customers

Refer to the Note 2 of the separate financial statements for the accounting policies and to Notes 8, 14 and 31 to the separate financial statements.

More than a half of the Bank's total assets is comprised of loans, and the net value of loans to customers as of 31 December 2017 was HRK 10,739 million to customers. Impairment losses on loans was HRK 1,282 million representing 6.5% of total Bank's assets. Measurement of impairment losses on loans to customers includes significant management judgement and use of management assumptions in assessment of the recoverability of loans. The level of impairment depends on the management's assessment of timing and amount of expected future cash flows, taking into consideration assumptions such as financial position of the borrower, valuation of collaterals, expected time needed for sale of collaterals, etc. The impairment losses on loans are recognized on incurred loss basis, triggered by loss events such as significant financial difficulty of the borrower, inability to repay part or all loan obligations or other breaches of a loan contract.

The Bank conducts individual and collective credit risk assessment, in accordance with regulatory requirements for banks' accounting in the Republic of Croatia and the Croatian National Bank's (CNB) Decision on the classification of placements and off-balance sheet liabilities of credit institutions ("Official Gazette" no. 41/14).

Because of the materiality of the balances, and the subjective nature and significance of judgements over both timing of recognition of impairment and the estimation of the size, impairment losses on loans to customers is a key area of focus.

How our audit addressed the key audit matter

During the audit we gained understanding of loan loss provisioning process and primarily designed our procedures to check on the design and implementation, as well as to test operating effectiveness of controls, what was a precondition for our further procedures.

Specific Risk Provisions procedures:

- Evaluation of design and implementation of the key internal controls including calculation of days past due, timely identification of loss events, calculation of the expected future cash flows, monitoring of loans to customers and collateral valuation.
- Understanding of the process of specific risk provisions, methodology and parameters used in calculations, through discussions with Bank's personnel.
- In selecting the appropriate sample, we have disaggregated loans to customers based on criteria such as, but not limited to, increased credit risk, clients operating in higher risk industry, days past due.
- For the selected sample we performed the following procedures:
    - Understand the borrower's financial position, assessed if there is an existence of the incurred loss event, considered whether the judgements and assumptions in calculation of specific provision calculation where addressing the financial position of

the borrower in terms of cash flows from borrower's operations, and the recoverability of the loan, including value of collateral, estimated realization period. We have also challenged the discount rates used in the estimation of the expected cash flows.
    - Check of loan classification through impairment indicators that could indicate that some performing loans should be classified as non-performing as prescribed by CNB decision and International Accounting Standard 39 - Financial Instruments: Recognition and Measurement requirements
- Portfolio Risk Provisions:
    - Through understanding of the process and methodology, we have evaluated the overall adequacy of the collective impairment level.
    - By recalculating the portfolio risk provisions, we have assessed whether the Bank maintained the minimum level of provisions as prescribed by the CNB's decision for A class loans)

Key Audit Matter	Restructuring cost

Refer to the Note 2 of the separate financial statements for the accounting policies and to Notes 7 and 26 to the separate financial statements.

Through increase in share capital done by the owner OTP Bank Nyrt Hungary, during May 2017, the Bank has become ultimate owner of Splitska banka d.d., Hrvatska. In light of planned merger with Splitska banka d.d., the Bank recognized a provision in relation to the restructuring cost in the amount of HRK 97 million for redundancies using the criteria as prescribed by International accounting standard 37 ''Provisions, Contingent Liabilities and Contingent Assets''.

We considered this event as a key audit matter because of the materiality of the balances and the complexity of the transaction.

How our audit addressed the key audit matter

Our audit procedures included the following:

- Assessing the applied accounting policy for the recognition of restructuring cost and evaluation of meeting the criteria for recognition as prescribed by the standard.
- Understanding of the process and methodology of recognizing the restructuring provision through discussion with relevant Bank's personnel. Evaluating the appropriateness of meeting the recognition criteria of restructuring provision based on the obtained documentation.
- We have checked the completeness and accuracy of the calculation. Performing recalculation of the provision and challenging the management's assumptions used in the calculation.
- Assessing the completeness of the disclosures in the separate financial statements of the Bank

Other Information

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

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

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

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

1) Information included in the other information is, in all material respects, consistent with the attached financial statements.
2) Management Report has been prepared, in all material respects, in accordance with the Article 21 of the Accounting Act.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Other reporting obligations as required by the Croatian National Bank

Pursuant to the Decision of the Croatian National Bank on the structure and Content of Annual Financial Statements of Banks (Official Gazette No. 44/17 hereinafter; "the Decision"), the Bank's management has prepared the forms, as presented in the Appendix to these unconsolidated financial statements on pages 95 to 107, which comprise the unconsolidated balance sheet as at 31 December 2017, the unconsolidated profit and loss account, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flow for the year then ended, as well as the reconciliation to the separate financial statements. These forms and the accompanying reconciliation to the unconsolidated financial statements are the responsibility of the Bank's management and do not represent components of the separate financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 12 to 94, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the separate financial statements of the Bank.

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

We were appointed as the statutory auditor of the Bank by the shareholders on General Shareholders' Meeting held on XX Month 20XX to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 2 years and covers period 31 December 2016 and 31 December 2017.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Bank on XX Month 20XX in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

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

Marina Tonžetić
Member of the Board

Tea Bažant
Certified auditor

Deloitte.

Deloitte d.o.o.
ZagrebTower
Radnička cesta 80
10000 Zagreb
Croatia

Zagreb, 29 March 2018

Financial statements

Separate statement profit or loss and other comprehensive income

For the year ended 31 December 2017

All amounts are expressed in thousands of HRK

	Notes	2017	2016
Interest and similar income	3	635,749	687,126
Interest and similar expense	3	(77,617)	(141,120)
Net interest income		**558,132**	**546,006**
Fee and commission income	4	171,819	164,447
Fee and commission expense	4	(47,433)	(42,922)
Net fee and commission income		**124,386**	**121,525**
Net gains from trading in and valuation of financial instruments	5	77,546	110,388
Other operating income	6	14,068	13,198
Net trading and other income		**91,614**	**123,586**
Income before value adjustment and operating expenses		**774,132**	**791,117**
Net losses from impairment and provision charge	8	(151,521)	(211,293)
Personnel expenses	7a	(293,800)	(188,157)
Other operating expenses	7	(263,464)	(239,383)
Profit before tax		**65,347**	**152,284**
Income tax	9a	(13,159)	(28,866)
Profit / for the year		**52,188**	**123,418**

• The accompanying notes form an integral part of these financial statements.

Separate statement profit or loss and other comprehensive income

For the year ended 31 December 2017

All amounts are expressed in thousands of HRK

	Notes	2017	2016
Profit for the year		52,188	123,418
Other comprehensive income:			
Items not reclassified subsequently to profit or loss:		-	-
Items transferred or transferable subsequently to profit or loss:			
Fair value reserve from financial assets available for sale			
Net change in fair value			
Net change in the fair value of financial assets available-for-sale, net of realised amounts	27	17,090	(29,071)
Deferred tax	9c	(3,077)	6,777
		14,013	(22,294)
Total other comprehensive (loss) / income		14,013	(22,294)
Total comprehensive income		66,201	101,124
EARNINGS PER SHARE			
- basic and diluted (in kunas)	10	3.55	30.02

• The accompanying notes form an integral part of these financial statements.

Separate statement of financial position

For the year ended 31 December 2017

	Notes	31.12.2017	31.12.2016
ASSETS			
Cash and balances with Croatian National Bank	11	3,169,107	2,622,409
Loans and receivables – banks	12	117,376	134,246
Financial assets at fair value through profit or loss	13a	13,967	14,789
Loans and receivables from customers	14	10,738,987	10,318,561
Financial assets available for sale	15	1,839,551	2,009,886
Investments held to maturity	16	38,550	143,202
Investments in subsidiaries	17	3,231,317	59,842
Property and equipment	18	266,156	251,126
Intangible assets	19	31,506	37,469
Goodwill	20	42,966	42,966
Deferred tax assets	9c	35,380	29,268
Other assets	21	74,176	85,343
TOTAL ASSETS		19,599,039	15,749,107
LIABILITIES			
Amounts due to other banks	22	27,258	20,633
Amounts due to customers	23	13,182,166	12,599,000
Other borrowed funds	24	949,831	1,060,321
Financial liabilities at fair value through profit or loss	13b	2,377	7,604
Provisions	25	162,723	136,221
Other liabilities	26	238,150	126,466
Total liabilities		14,562,505	13,950,245
SHAREHOLDERS' EQUITY			
Share capital	27	3,993,755	822,280
Share premium	27	171,260	171,260
Statutory and legal reserves	27	82,229	82,229
Other reserves	27	162,512	148,503
Retained earnings		626,778	574,590
Total shareholders' equity		5,036,534	1,798,862
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		19,599,039	15,749,107

• The accompanying notes form an integral part of these financial statements.

Separate statement of changes in shareholders' equity

For the year ended 31 December 2017

All amounts are expressed in thousands of HRK

	Share capital	Share premium	Legal and statutory reserves	Other reserves	Retained earnings	Total
Balance at 01 January 2016	822,280	171,260	82,228	170,801	451,172	1,697,741
Changes in equity in 2016						
Profit for the year					123,418	123,418
Other comprehensive income				(22,294)		(22,294)
Total comprehensive income						
Undistributed dividends transferred to statutory reserves			1			1
Other movements (in the reserve funds for housing units)				(4)		(4)
Balance at 31 December 2016	822,280	171,260	82,229	148,503	574,590	1,798,862
Balance at 01 January 2017						
Changes in equity in 2017						
Profit for the year					52,188	52,188
Other comprehensive income				14,013		14,013
Total comprehensive income						
Issue of the new shares	3,171,475					3,171,475
Other movements (in the reserve funds for housing units)				(4)		(4)
Balance at 31 December 2017	3,993,755	171,260	82,229	162,512	626,778	5,036,534

• The accompanying notes form an integral part of these financial statements.

Separate statement of cash flows

For the year ended 31 December 2017

All amounts are expressed in thousands of HRK

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	65.347	152,284
Adjustments to reconcile profit before taxes to net cash from operating activities		
Net impairment allowance on loans and receivables	122,817	138,113
Provisions for legal actions and off-balance sheet items	28,704	91,734
Release of provision for the costs of conversion of CHF loans	-	(18,554)
Depreciation and amortisation	39,488	36,911
Gains on disposal of property and equipment	(4,638)	(2,227)
Interest income	(635,749)	(687,126)
Interest expense	77,618	141,120
Gains from sale of financial assets available for sale	(304)	(39,966)
Operating income before changes in operating assets and liabilities	*(306,717)*	*(187,711)*
(Increase)/decrease in operating assets:		
Obligatory reserves with the CNB	(35,597)	155,474
Loans and receivables – banks	149	26,313
Loans and receivables from customers	(448,981)	46,549
Assets at fair value through profit or loss	(4,405)	24,515
Assets available for sale	187,729	(114,122)
Other assets	12,832	(7,805)
Increase/(decrease) in operating liabilities:		
Amounts due to other banks	6,625	(1,465)
Amounts due to customers	583,166	72,538
Other liabilities	111,145	7,085
Provisions	(1,663)	(229,294)
Net cash flow from operating activities before interest and income taxes paid	*104,283*	*(207,923)*
Income taxes paid	(22,348)	-
Interest received	647,888	687,999
Interest paid	(95,600)	(166,090)
Net cash from operating activities	634,223	313,986
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of tangible and intangible assets	(52,232)	(48,615)
Proceeds from disposal of tangible and intangible assets	8,311	4,111
Increase of investments in related parties	(3,171,475)	-
(Increase)/decrease of held-to-maturity investments	(3,569)	504
Net cash from investing activities	(3,218,965)	(44,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease of other borrowed funds	(92,508)	(91,347)
Receipts from issue of share capital	3,171,475	-
Net cash from financing activities	3,078,967	(91,347)
Net increase in cash and cash equivalents	494,225	178,639
Cash and cash equivalents at the beginning of the year	1,864,921	1,686,282
Cash and cash equivalents at the end of the year	2,359,146	1,864,921

• The accompanying notes form an integral part of these financial statements.

Notes to the separate financial statements

1. GENERAL INFORMATION

The registered seat of the Bank is in Zadar, Domovinskog rata 3. The Bank is incorporated in the Republic of Croatia as a joint stock company and provides retail and corporate banking services. The Bank is registered at the Commercial Court in Zadar, with the registered share capital in the amount of HRK 3,993,754,800 as at 31 December 2017 (31 December 2016: HRK 822,279,600).

The principal activities of the Bank comprise the following:

1. Foreign exchange operations in Croatia;
2. Cash financing intermediation;
3. Acceptance of all types of deposits;
4. Issuance of all types of loans, opening of letters of credit, issuance of warranties and bank guarantees, and assuming other financial obligations;
5. Bill-of-exchange, cheque and deposit certificate operations for own account or on behalf of the Bank's customers;
6. Services related to securities (including brokerage and custody business);
7. Issuance and management of payment instruments (including cards);
8. Foreign credit operations and payment transactions; and
9. Domestic payment operations.

Governance and Management

Shareholders' Assembly

Viktor Siništaj, President of the General Assembly of Shareholders

Supervisory Board

Dr. Antal Pongrácz, President
Szabolcs Annus, Member (till 31 March 2017)
Branko Mikša, Member
László Kecskés, Member
Attila Kozsik, Member (till 31 March 2017)
Balázs Letay, Member (from 31 March 2017)
Anna Florova, Member (from 26 April 2017)

Management Board

Balázs Békeffy, President
Helena Banjad, Member
Zorislav Vidović, Member
Slaven Celić, Member (till 1 May 2017)

Ownership structure

The ownership structure and shareholders of the Bank are specified below:

	31.12.2017		31.12.2016	
	Paid-in capital	Ownership interest in %	Paid-in capital	Ownership interest in %
Otp Bank Nyrt, Hungary	3,993,755	100,00	822,280	100.00
Total	3,993,755	100,00	822,280	100.00

• All amounts are expressed in thousands of HRK

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are summarised below.

2.1 Statement of compliance

These financial statements represent separated financial statements of the Bank. The Bank has not prepared consolidated financial statements, which would include the Bank and its subsidiaries (note 17) using the exemption available within International Financial Reporting Standard 10 "Consolidated Financial Statements", as both the Bank and its subsidiaries are included in the consolidated financial statements of the ultimate parent, OTP Bank NyRt, Hungary, prepared in accordance with IFRS as adopted by EU.

These financial statements are prepared in accordance with the legal accounting requirements for banks in Croatia. The banking operations in Croatia are subject to the Credit Institutions Act (OG 159/2013, 19/2015 102/2015 and 15/2018) pursuant to which the Bank's financial reporting is regulated by the Croatian National Bank ("the CNB") which is the central banking system oversight institution in Croatia. These financial statements have been prepared in accordance with the above-mentioned banking regulations.

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

The CNB requires from banks to recognise in profit or loss impairment losses on assets not specifically identified as impaired (including certain sovereign risk assets) at prescribed rates (excluding financial assets at fair value through profit and loss and financial assets available for sale). The provisions of the Bank on a collective basis amount to HRK 125,058 thousand (2016: HRK 113,087 thousand) and have been recognised in the statement of financial position accordance with the CNB requirements, and the provisioning charge amounts to HRK 11,971 thousand (2016: income in the amount of HRK 6,818 thousand). For the mentioned items CNB requires from credit institutions estimation of latent losses on a collective basis, using its prepared and tested internal methodology based on the experience of the credit institution, whereas the level of impairment should not be less than 0.8% of the total items that it is applied to. Credit institution which does not have internal methodology is obliged to make impairments based on qualifying items on the collective basis at least in the amount of 1% of the total relevant exposure.

The Management Board expects the unidentified impairment losses, estimated on the basis described above, not to exceed the amount that would have been determined under the CNB accounting regulations.

The next difference between IFRS and the CNB's accounting regulations refers to determination of impairment losses by discounting expected cash flows with the original effective interest rate of the instrument for the impaired assets. Unlike IFRS, local regulations require that the amortization of such a discount is recognized as annulment of losses arising from the impairment of assets and not as an interest income. Additionally, CNB prescribes the minimum of provision for impairment losses for certain exposures by which impairment losses were determined and which could be different from the losses arising from impaired values calculated in accordance with IFRS.

The next difference between IFRS and accounting regulations of CNB refers to provision for legal cases. Accordingly to 'Decisions on the obligation to provision for legal proceedings against a credit institution' Bank is obligated to secure funds for legal cases for which has been determined the existence of a loss risk or a cash outflow of less than 10% of the total amount is estimated if the total amount of the court case exceeds 0.1% of the credit institution's assets according to the audited financial statements of the previous year. The provision is made in the amount of estimated cash outflow, and at least 1% of the total amount of the court dispute, whereas according to IFRS in such a situation the provision is not necessary to be recognized.

2.2 Basis of preparation

The financial statements are prepared on the amortised or historical cost basis, except for financial instruments which are carried at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

In preparing the financial statements, management makes judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, the disclosure of commitments and contingencies at the reporting date, as well as the amounts of income and expenses for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and the information available as of the date of preparation of the financial statements, the results of which form the basis for 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.

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

Judgments made by management in the application of appropriate standards that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 38.

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

2.2.2. Initial application of new amendments to the existing standards effective for the current reporting period

Bank adopted following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017). The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017). The amendments to IAS 12 clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The adoption of these amendments to the existing standards has not led to any material changes in the financial statements.

2.2.3 Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective. Where applicable, the Group intends to implement these standards when becoming effective. If it is expected that the applicaton or interpretation will affect the financial statements or the result of the Group, the impact is described as follows.

IFRS 9 "Financial Instruments"

Issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by IASB. The standard was endorsed by the EU in November 2016. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. The Group adopted IFRS 9 on the required effective date 1 January 2018.

Also effective from 1 January 2018, the framework for statutory accounting requirements for banks in the Republic of Croatia was amended following the efforts to align the statutory accounting requirements to those of IFRS. Several new regulatory decisions were issued, while major considerations in Impairment part were addressed by CNB's "Decision on classification of exposures to risk classes and method to determine credit losses" (Official Gazette 114/2017).

Consequentially, the impact on Group's financial statements and capital presented below is derived from both: requirements of IFRS 9, as well as the new statutory accounting requirements as prescribed by new CNB's regulations.

a) Classification and Measurement

The new classification and measurement approach for financial assets in IFRS 9 is based upon the contractual cash flow characteristics of the financial asset and, for financial assets whose contractual cash flows are solely payments of principal and interest on the principal amount outstanding, the entity's business model for managing them. Depending on the entity's business model, financial assets may be classified as "held to collect" contractual cash flows (measured at amortised cost and subject to the expected loss impairment), assets "held to collect and sale" (measured at fair value through other comprehensive income and subject to the expected loss impairment) or "held for trading" (measured at fair value through profit or loss).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

b) Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is no longer necessary for a

• All amounts are expressed in thousands of HRK

credit event to have occurred before credit losses are recognised.

c) Hedge accounting

IFRS 9 introduces significantly altered model of hedge accounting, with expanded information that should be disclosed about the activities of risk management. It should be noted that entities are allowed to use the possibility to continue to apply IAS39 hedge accounting rules until the IASB completes the project on definition of macro-hedging rules. There is no significant impact on the financial statements of the Group out of hedge accounting requirements.

The Bank analysed the estimated impact of the application of IFRS 9 in accordance with IAS 8, paragraph 30-31 and is presented in the Bank's separate financial statements the following way.

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" for annual reporting periods commencing on or after 1 January 2018. It contains changes to the requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting.

The Bank started its preparation for IFRS 9 actively in 2016, led by the OTP Group's Risk Management and Finance Divisions, and during 2017 much of the preparation was finalized. The preparations covered the key challenges that the Bank faces with the new standard.

The identification of gaps between its currently developed methodologies and the IFRS 9 requirements in classification and measurement and impairment was completed in recent months, with various harmonizing processes required in respect of a measuring significant increase in credit risk (SICR). Finalisation of most of these activities is planned for the first half of 2018, some of them will be finalised by the end of 2018 for the material portfolios.

Classification and Measurement

IFRS 9 introduced a new approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. The Bank recognizes the financial liabilities on amortized cost except in those cases when the standard requires otherwise, or according to the fair value option the entity chose to recognize the financial instrument on the fair value through profit or loss. Preliminary analyses of the business models and contractual cash flows on the Bank's significant portfolios were performed to determine by product segments those financial instruments that would be measured at amortised cost, at fair value through profit or loss, or at fair value through Profit or Loss and Other Comprehensive Income. The current quantitative effect of IFRS9 implementation is HRK 6,411 related to reclassification of certain financial instruments.

Impairment

IFRS 9 introduced an expected-loss impairment model instead of the previously applied incurred loss model that requires a more timely recognition of credit losses. The standard requires entities to account for expected credit losses from the moment when financial instruments are first identified.

The use of a new, three stage model was implemented for IFRS 9 purposes. The new impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk, lifetime expected losses will be recognized.

The increased credit-impairment is identified by transactions on the basis of predetermined conditions and beyond this the estimation is made on a portfolio level. Assets where no significant increase of credit risk has been identified, will be provisioned based on a 12-month expected loss methodology.

For purchased or originated credit-impaired financial assets, the same lifetime expected loss methodology was extended in order to be able to capture the cumulative changes in lifetime expected credit losses since the initial recognition as a credit-impaired instrument. The Bank chose the use of the simplified impairment approach for trade receivables and contract assets.

The Bank started to further improve its risk management definitions, processes and methodological analysis in line with the expectations of IFRS 9. The Bank has started developing the methodology – using the behavioural scoring model – for the identification of significant increase of credit risk and the calculation of expected credit losses through the use of IFRS 9 compliant risk parameters.

Based on the gap analyses and the changes in methodology, the main principles regarding the IT solutions for IFRS 9 implementation were laid down. Preliminary specifications were prepared and IT implementation was completed mostly in 2017, although there are such rating/scoring models for significant portfolios where the developments have not been finished yet.

The estimation of quantitative impact of IFRS 9 is based on the best estimation of our management as of the date of the issue of these separate financial statements. However the management of the Bank consider uncertainties exist in respect of certain aspects of the methodology described above, together with interpretations of the standard, and evolving industry practice, and these uncertainties could result in these initial estimates varying to what is ultimately adjusted as of 1 January 2018, and the amount of the variance could be significant.

• All amounts are expressed in thousands of HRK

The most significant part among the still not finalized items is SICR (in the topic of staging the measurement of increased impairment) it is still under process, for the year end alternative estimations was made. The current estimated quantitative impact of IFRS9 as of the of the issue of these separate financial statements is less than 1% of the Bank's total capital.

The IFRS 9 implementation project was driven by the Group headquarters. The unified methodology and the initial parameter estimation was delivered centrally. The rollout of the calculations to the subsidiaries is continuous and was not finalized.

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

2.2.4 New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

Amendments to IFRS 15 "Revenue from Contracts with Customers" – the standard is effective for annual periods beginning on or after 1 January 2018, endorsed by the EU in September 2016. IFRS 15 establishes a five-step model that applies to revenue earned from a contract with a customer, with limited exceptions. As the primary focus of the standard is not on financial instruments, application of this standard does not have a significant impact on the Bank's financial statements.

IFRS 16 "Leases" - the standard is effective for annual periods beginning on or after 1 January 2019, endorsed by the EU in October 2017. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17, with certain exemptions. Lessor accounting remains substantially unchanged. According to the preliminary assessment performed, the Bank does not expect a significant impact of application of IFRS 16 on the Bank's financial statements.

2.2.5 New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

Until issuance of these financial statements several new and altered Standards and Interpretations have been issued by the International Accounting Standards Board ("IASB") and its International Financial Reporting Interpretations Committee:

- IFRS 14 "Regulatory Deferral Accounts" (issued on 30 January 2014),
- Amendments to IFRS 10 i IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014),
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** (issued on 8 December 2016):
    - IFRS 1 First-time Adoption of International Financial Reporting Standards - deletion of short-term exemptions for first-time adopters;
    - IAS 28 "Investments in Associates and Joint Ventures" – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice;
    - IFRS 12 Disclosure of Interests in Other Entities - prescribes that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (issued on 8 December 2016),
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures": (issued on 12 October 2017),
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)". (issued on 12 December 2017) amendments to IFRSs relating to IAS 12 "Income Taxes", IAS 23 "Borrowing costs" and IAS 28 "Investments in Associates and Joint Ventures",
- IFRIC 22 (interpretation) "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016),
- IFRS 17 "Insurance Contrats" (issued on 18 May 2017),
- IFRIC 23 (interpretation) "Uncertainty over Income Tax Treatments" (issued on 7 June 2017),
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016, adopted by the EU on November 2017).

The application of majority of these standards is also subject to completion of ongoing endorsement process by the competent bodies of the European Commission.

The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretation will have no material impact on the financial statements of the Bank.

2.3 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Bank. The Bank controls an entity when it is exposed to, or has rights to,

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variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In reviewing the conclusion about having control, the Bank considered structured entities and entities the receivables from which are classified as irrecoverable or partly recoverable as well as its exposure to the variable returns arising from its involvement with an entity. Jointly controlled business combinations are recognised at the carrying amounts, and any differences are recognised directly in equity.

Acquisitions since 1 January 2010

The Bank measures goodwill as the sum of the following:

- the fair value of the consideration transferred; plus
- the amount of any recognised non-controlling interest in the acquiree; plus
- for business combinations achieved in stages, the fair value of the currently held equity interest in the acquiree; less
- the net amounts of the identifiable assets acquired and the liabilities assumed (generally the fair value).

If the balance is negative, any gain arisen from a bargain purchase is recognised immediately in profit or loss. The consideration transferred does not include any settlement of a pre-existing business relationship. Such settlements are recognised generally in the satement of comprehensive income.

Acquisition-related costs, other than those associated with the issue of debt or equity securities, the Bank incurs in connection with a business combination are recognised as expenses when incurred.

A contingent consideration, if any, is recognised at the acquisition-date fair value. A contingent consideration classified as an equity instrument is not remeasured, and its settlement is recognised within capital reserves. Otherwise, subsequent changes in the fair value of a contingent consideration are recognised in the satement of comprehensive income.

Acquisitions until 1 January 2010

Goodwill arisen on acquisitions prior to 1 January 2010 represents the excess of the cost of acquisition over the Bank's share in the recognised amount of identifiable assets, liabilities and contingent liabilities of the acquiree (generally the fair value). If the balance was negative, any gain arisen on a bargain purchase was recognised immediately in profit or loss. Acquisition-related costs, other than those associated with the issue of debt or equity securities, the Bank incurs in connection with a business combination were added to the cost of acquisition.

Acquisition of jointly controlled entities

Business combinations arisen on the transfer of investments in entities controlled by the shareholder controlling the Bank are recognised at the carrying amounts from the date of the combination. The assets acquired and liabilities assumed are recognised at their carrying amounts as reported in the financial statements of the acquiree. Equity shares in acquirees are added to the corresponding equity shares within the Bank's equity other than those relating to issued capital. Consolidated financial statements incorporate the results of the consolidated entities for all the periods in which an entity was under joint control of the seller, irrespective of the time of the acquisition.

2.4 Functional and presentation currency

Items included in the financial statements are presented in the currency of the primary economic environment in which the Bank operates (its functional currency). The financial statements are presented in the Croatian kuna, which is both the functional and reporting currency of the Bank. The amounts are rounded to the nearest thousand (unless otherwise stated).

The principal rates of exchange set by the Croatian National Bank and used in the conversion of the Bank's assets and liabilities at the date of the statement of financial position were as follows:

31.12.2017
EUR 1 = HRK 7,513648
CHF 1 = HRK 6,431816
USD 1 = HRK 6,269733

31.12.2016
EUR 1 = HRK 7,557787
CHF 1 = HRK 7,035735
USD 1 = HRK 7,168536

2.5 Foreign currency translation

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation of monetary assets and liabilities denominated in foreign currencies at the year-end rates are recognised in profit and loss. Foreign-currency denominated non-monetary assets and items that are measured in terms of historical cost are translated at the exchange rates in effect on the transaction dates and are not retranslated at the reporting date. The Bank does not apply cash flow hedges and qualifying net investment hedges as defined in International Accounting Standard 39 "Financial Instruments: Measurement and Recognition" ("IAS 39").

Changes in the fair value of monetary securities denominated in foreign currencies and classified as available for sale are split into the exchange differences arisen from

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changes in the security's amortised cost and other changes in the net carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

The Bank has a portion of assets and liabilities originally denominated in Croatian kunas, which are linked to a foreign currency with a one-way currency clause. The clause provides the Bank the option to remeasure relevant assets by the higher of the foreign exchange rate valid as of the date of maturity and foreign exchange rate valid as of the date of origination of the financial instrument. In case of a liability linked to this clause, the counterparty has this option. Due to the specifics of the market in the Republic of Croatia the fair value of this option cannot be calculated, as forward rates for the Croatian kuna for periods over 6 months are not available. The Bank therefore estimates the values its assets and liabilities governed by such clauses at the higher of the middle spot rate of the Croatian National Bank valid at the reporting date and the contractually agreed foreign exchange rate for the option (valid at the date of the contract).

2.6 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Bank at the lower of their fair value at the date of acquisition and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Bank's general policy on borrowing costs. are recognised as expenses in the periods in which they are incurred.

Operating lease payments are charged to profit or loss on a straight-line basis over the lease term, except where another systematic basis would be more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a deduction from the rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.7 Interest income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Interest income includes coupons earned on fixed income investments and securities as well as accrued discount and premium on treasury bills and other discounted instruments.

One-off loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income.

2.8 Fee and commission income and expense

Fees and commissions consist mainly of fees on domestic and foreign payments, granted loans and other credit instruments issued by the Bank.

Fees and commissions are generally recognized as income when due.

2.9 Employee benefits

Short-term benefits
Obligations for contributions to defined contribution pension plans and other short-term benefits are recognised as an expense in the statement of comprehensive income for the period in which they are incurred.

Bonuses
A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Long-term service benefits
The Bank provides employees with jubilee and one-off retirement awards. The obligation and costs of these benefits are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

2.10 Taxation

Income tax expense is based on taxable income for the year and represents the sum of the tax currently payable and deferred tax.

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

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

Deferred tax liabilities are recognised for all 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 recognised to the extent that it is probable that there will be sufficient taxable profits that will allow the utilisation of the benefits arising from the temporary differences and the temporary differences 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 profit will be available to allow all or a 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 realised, 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 expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred taxes are recognised as an expense or income in profit or loss, except when they relate to items presented directly in equity, in which case the tax is also recognised in equity, or where they arise from the initial accounting for a business combination, in which case the tax effect is taken into account in accounting for the business combination.

2.11 Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents comprise cash, balances with the Croatian National Bank (CNB), accounts with other banks and term deposits with other banks with contractual maturities of up to three months.

Cash and cash equivalents exclude the obligatory reserves with the CNB, as these funds are not available for the Bank's day-to-day operations.

2.12 Financial instruments

Classification
The Bank classifies its financial instruments into the following categories: at fair value through profit or loss, loans and receivables, financial assets available for sale, held-to-maturity investments or other financial liabilities. The classification depends on the purpose for which the financial instruments are acquired. The management determines the classification of financial instruments upon initial recognition and, where appropriate, reviews this designation at every reporting date. Items are designated as at fair value through profit or loss only upon initial recognition. Items designated as at fair value through profit or loss are not reclassified.

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

This category has two sub-categories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified into this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, for the purpose of short-term profit-taking, or if it is designated as such by management.

• All amounts are expressed in thousands of HRK

The Bank classifies a financial asset as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial instruments at fair value through profit or loss include investments in investment funds as well as derivatives.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except for:

- those the Bank intends to sell immediately or in a short-term, which are classified as financial assets held for trading, and those initially designated by the management as at FVTPL;
- those initially designated as available for sale; or
- those under which the Bank will probably not be able to recover its entire initial investment for reasons other than impaired creditworthiness, which are classified as available for sale.

Loans and receivables arise when the Bank provides money to a debtor with no intention of trading with the receivable and include amounts due from other banks, loans to and receivables from customers, and the obligatory reserve with the Croatian National Bank. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Held-to-maturity investments

Held-to-maturity (HTM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. These include certain debt securities. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment, with revenue recognised on an effective yield basis.

Financial assets available for sale

Financial assets available for sale (AFS) are non-derivative financial assets that are either designated as AFS or are not classified elsewhere. Financial assets available for sale are intended to be held for an indefinite period of time, but may be sold in response to liquidity needs or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include debt and equity securities and units in open ended investment funds. Fair value is determined in the manner described in Note 15. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Bank's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that currency and translated at the spot rate in effect at the reporting date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset, and other foreign exchange gains and losses are recognised in other comprehensive income Unlisted (!) equity securities and whose fair value cannot be determined reliably are carried at cost. All other available-for-sale investments are subsequently measured at fair value.

Other financial liabilities

Other financial liabilities comprise all financial liabilities not held for trading or designated at fair value through profit or loss. Other financial liabilities include amounts due to other banks, amounts due to customers and other borrowed funds.

Recognition and derecognition

Purchases and sales of financial instruments at fair value through profit or loss, held to maturity and available for sale are recognised on the settlement date, which is the date when the financial instrument is transferred from the Bank. Loans and receivables and other financial liabilities are recognised when advanced to borrowers or received from lenders.

The Bank derecognises financial instruments (in full or in part) when the rights to receive cash from a financial instrument have expired or when it loses control over the contractual rights to the instrument. This occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are exercised, surrendered or have expired.

The Bank derecognises a financial liability only when it no longer exists, i.e. when it is discharged, cancelled or expired. If the terms of a financial liability change, the Bank will derecognise the liability and instantaneously recognise a new financial liability, with new terms and conditions.

Realised gains and losses from the disposal of financial instruments are determined using the weighted average cost method. except for financial assets available for sale whose recognision is based on first in first out method, which Bank implemented in mid 2016. Taking in account the scope and structure of financial asset sold during the year, as in previous years financial impact of methodology change is not material for financial year 2016.

Initial and subsequent measurement

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

After initial recognition, the Bank measures financial instruments at fair value through profit or loss and available for sale at their fair value, without any deduction for selling costs. Equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less impairment. Debt securities that do not have a quoted market price in an active market are recognised at amortised or indexed cost

Loans and receivables, held-to-maturity investments and other financial assets are measured at amortised cost using the effective interest method.

Gains and losses

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

Gains and losses on changes in the fair value of monetary assets available for sale are recognised directly in the fair valuation reserve within equity and are reported in the statement of changes in equity. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest rate method on available-for-sale monetary financial assets are recognised in the statement of comprehensive income. Dividend income is recognised in the statement of comprehensive income.

Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses are transferred to the statement of comprehensive income.

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in the statement of comprehensive income when a financial instrument is derecognised or when its value is impaired.

Fair value measurement principles

The fair values of quoted securities are based on current closing bid prices. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Bank determines the fair value using valuation techniques. These include the use of prices achieved in recent arm's length transactions between knowledgeable and willing parties, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, 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 estimates and the discount rate used is a market rate. The fair value of non-exchange-traded derivatives is estimated at the amount that the Bank would receive or pay to terminate the contract at the statement of financial position date taking into account current market conditions and the current creditworthiness of the counterparties.

Valuation techniques and assumptions for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined by reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from the prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Reclassification of financial assets

Reclassification is permitted only in rare circumstances and where the asset is no longer held for the purpose of selling it in the short-term. In all other cases, reclassification of financial assets is restricted to debt instruments.

Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

2.13 Impairment of financial assets

Impairment of financial assets at amortised cost

At each reporting date the Bank performs a review to identify any objective evidence that a financial asset, or a group of financial assets, may be impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- significant financial difficulty of the issuer or counterparty;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower a concession in the form of restructuring a loan or an advance that the Bank would not otherwise consider;
- a significant restructuring because of financial difficulties or expected bankruptcy;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

If there is objective evidence of impairment of loans and advances or a held-to-maturity investment carried at amortised cost, the amount of the impairment loss is determined as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted using the original interest rate of the financial assets.

The carrying amounts of assets are impaired through an allowance account, and the impairment losses are recognised in the statement of comprehensive income. If a loan and receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively. Individually significant assets not identified as impaired are included in the basis for collective impairment assessment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income. When a loan is uncollectible, it is written off against the related impairment allowance account after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as a reversal of impairment losses in the statement of comprehensive income.

Where possible, the Bank seeks to renegotiate loans instead of resorting to the activation of the underlying collateral. Derecognition is considered in case of renegotiated terms and conditions for a financial asset or replacing an existing financial asset with a new one as a result of the financial difficulties of the borrower. If the cash flows under renegotiated loans are significantly different, the contractual rights to the cash flows are considered to have expired. Following the renegotiation, impairment is measured using the original effective interest rate determined before the renegotiation, and the renegotiated loan is no longer considered past due. Renegotiated loans are monitored on an on-going basis to ensure that all the terms and conditions are met and future inflows are realised. Provisions continue to be recognised for renegotiated loans, either on an individual or a collective basis, using the original effective interest rate.

Financial assets at fair value through profit or loss

At each reporting date the Bank performs a review to identify any objective evidence that a financial asset, or a group of financial assets, may be impaired. For equity investments classified as available for sale, any significant or prolonged decrease in their fair value below the cost is taken into account in determining whether an asset has been impaired. If there is evidence that an available-for-sale financial asset is impaired, the cumulative loss, defined as the difference between the cost and current fair value, less impairment loss on that financial asset previously recognised in profit or loss, is transferred from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity securities are not reversed through the statement of comprehensive income. 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 recognition of the impairment loss in profit or loss, the impairment loss is reversed in the statement of comprehensive income.

Financial assets carried at cost

These include equity securities classified as available for sale for which there is no reliable fair value. At each statement of financial position date, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired.

An impairment loss is determined as the difference between the carrying amount of the financial asset and the present value of expected future cash receipts discounted using the current market interest rate for similar financial assets. Impairment losses on those instruments are recognised in the statement of comprehensive income and are not subsequently reversed through the statement of comprehensive income.

Impairment of financial assets not identified as impaired

In addition to the above-described impairment losses on financial assets identified as impaired, the Bank recognises in its statement of comprehensive income impairment losses on on- and off-balance sheet credit risk exposures not identified as impaired at the rate of 0.80% for on-balance sheet exposures and 1.00% for off-balance sheet exposures (2016: 0.80% for on-balance sheet exposures and 1.00% for off-balance sheet exposures), in accordance with the CNB regulations. Securities at fair value were excluded from the calculation of the provisions at the reporting date.

2.14 Derivative financial instruments

The Bank uses derivative financial instruments to hedge economically its exposure to foreign exchange and interest rate risks arising from its operational, financing and investing activities.

In accordance with its treasury policy, the Bank does not hold or issue derivative financial instruments for speculative trading purposes. No derivatives are accounted for as hedging instruments. All derivatives are classified as financial instruments held for trading and measured at fair value through profit or loss.

Derivative financial instruments, including foreign exchange contracts, currency forward agreements and cross-currency swaps, are recognised initially in the statement of financial position and subsequently remeasured at their fair value. The fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives with a positive fair value are carried as assets and those with a negative fair value are presented as liabilities. Changes in the fair value of derivatives are reported in the statement of comprehensive income.

2.15 Sale and repurchase agreements

A financial asset sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return or if it is loaned under an agreement to return it to the transferor, it is not derecognised, as the Bank retains substantially all the risks and rewards of ownership.

Securities sold under sale and repurchase agreements ('repos') are included in the statement of financial position as assets as originally classified or the Group reclassifies the asset on its statement of financial position as a repurchase receivable if the transferee obtains the right to sell or pledge the asset. The corresponding liability towards the counterparty is included in amounts due to banks or amounts due to customers as appropriate.

Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets due from banks or as loans and receivables as appropriate.

The difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective interest method.

• All amounts are expressed in thousands of HRK

2.16 Tangible and intangible assets

Tangible and intangible assets are stated at cost less accumulated depreciation/amortisation and impairment loss, if any. Land and assets under development are not depreciated.

Depreciation and amortisation are provided for all assets, except for land and assets under construction, under the straight line method at rates estimated to write down the cost of each asset to its residual value over the estimated useful life, which is as follows:

	2017	2016
Buildings	40 years	40 years
Computers	4-5 years	4-5 years
Furniture and equipment	2.5-10 years	2.5-10 years
Motor vehicles	4-5 years	4-5 years
Intangible assets	1-15 years	1-15 years

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to the recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit. Maintenance and repairs are charged to the statement of comprehensive income as the expenditure is incurred. Improvements are capitalised.

2.17 Impairment of tangible and intangible assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested for impairment at least annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are assessed at each reporting date. Impairment losses are recognised whenever the carrying amount of an asset exceeds the asset's recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

The recoverable amount of property and equipment and of intangible assets is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is 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. Impairment losses on goodwill are not reversed.

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

2.18 Financial guarantees

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

Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of the amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included in other liabilities.

2.19 Investments in subsidiaries

Investments in subsidiaries are included in the financial statements of the Bank at cost less any impairment losses.

2.20 Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less transaction costs. They are measured subsequently at amortised cost, with any difference between the proceeds (net of transaction costs) and the redemption value being recognised in the satement of comprehensive income over the period of the borrowings using the effective interest method.

2.21 Current accounts and deposits from banks and customers

Current and deposit account balances are measured initially at fair value plus transaction costs and subsequently at amortised cost using the effective interest method.

2.22 Foreclosed properties

Occasionally, the Bank forecloses properties and other assets to recover the outstanding loans and advances to customers. Such properties and other assets are recognised at the lower of the net realisable value and current fair value. The Bank seeks to sell the foreclosed assets and only exceptionally makes them available for its own use.

Gains and losses on the sale of such assets are recognised in the satement of comprehensive income.

• All amounts are expressed in thousands of HRK

2.23 Off-balance sheet commitments

In the ordinary course of business, the Bank 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 included in the Bank's statement of financial position if and when they become payable.

2.24 Provisions

The Bank recognises a provision when it has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. The Management Board determines the adequacy of the provision based by analysing individual items, past loss experience, considering the current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors at the reporting date. Provisions are discounted to present value where the effect is material.

Restructuring provision are recognized if the Bank has made formal restructuring plan and if initiation of the plan or publishing their main features among those affected with the plan has initiated reasonable expectation that restructuring will be performed. While determining restructuring provision amount, only direct costs of restructuring are included, a that are costs that are necessarily connected with restructuring process, but are not connected to current business operations.

2.25 Assets managed on behalf of third parties

Assets and income arising thereon, together with related undertakings to return such assets to customers, are excluded from these financial statements when the Bank acts in a fiduciary capacity such as a nominee, trustee or agent. Fees for such services are recognised as income when earned.

2.26 Share capital

Share capital represents the nominal value of paid-in ordinary shares classified as equity and is denominated in Croatian kunas.

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

2.27 Retained earnings

Any profit for the year retained after appropriations is transferred to reserves.

2.28 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are charged to the profit or loss for the period in which they are incurred.

3. NET INTEREST INCOME

	2017	2016
Interest and similar income		
Cash reserves and amounts due from other banks	3,503	7,418
Corporate loans	146,240	161,116
Retail loans	441,332	462,709
Debt securities	44,674	55,883
Others	-	-
	635,749	**687,126**
Interest and similar expense		
Current accounts and deposits from individuals	49,466	105,987
Current accounts and corporate deposits	7,729	10,463
Other borrowed funds and amounts owed to banks	20,414	24,668
Others	8	2
	77,617	**141,120**

Included in the various interest income line items for the year ended 31 December 2017 is a total interest income in the amount of HRK 38,615 thousand (2016: HRK 46,328 thousand) relating to interest income recovered from previously impaired assets.

4. NET FEE AND COMMISSION INCOME

(a) Net fee and commission income – analysis by source

	2017	2016
Fee and commission income		
Corporate customers	44,086	40,087
Banks	24,165	21,037
Individuals	103,568	103,323
	171,819	**164,447**
Fee and commission expense		
Corporate customers	15,610	16,211
Banks	31,823	26,711
	47,433	**42,922**

(b) Net fee and commission income – analysis by fee type

	2017	2016
Fee and commission income		
Loan-related fees and commissions	6,136	4,562
Card-related fees and commissions	32,022	29,899
Domestic payment transaction related fees and commissions	45,556	43,939
Foreign payment transaction related fees and commissions	11,151	9,998
Guarantee-related fees and commissions	3,189	3,274
Asset management, brokerage and consultancy service fees	1,935	1,812
Package fees charged to individuals	31,906	30,971
Account maintenance fees	12,691	14,008
Other fees and commissions received	27,233	25,984
	171,819	**164,447**
Fee and commission expense		
Card-related fees and commissions	22,737	17,603
Domestic payment transaction related fees and commissions	7,550	7,763
Foreign payment transaction related fees and commissions	10,445	11,509
Other fees and commissions paid	6,701	6,047
	47,433	**42,922**

• All amounts are expressed in thousands of HRK

5. NET GAINS FROM TRADING IN AND VALUATION OF FINANCIAL INSTRUMENTS

	2017	2016
Net foreign exchange trading gains	63,282	67,668
Realised gains on available-for-sale securities	304	39,966
Net (loss)/gains on derivatives	(68,748)	10,601
Net gains/(loss) on translation of foreign-currency assets and liabilities	82,708	(7,847)
	77,546	110,388

6. OTHER OPERATING INCOME

	2017	2016
Amounts recovered through court actions	1,847	1,316
Dividend income	140	118
Accrued profit under the group insurance policy	165	92
Gains on disposal of property and equipment	4,638	2,227
Visa and Mastercard awards	1,814	659
Inventory gains	89	246
Rental income	3,258	3,537
Subsequent recovery of receivables written off in prior years	295	4,336
Other income	1,822	667
	14,068	13,198

Revenues from rents are mostly related to revenues from properties rental, out of which HRK 677 thousand (2016: HRK 709 thousand) is related to revenues from properties which are fully leased, while the rest is related to properties which are used by the Bank, and whose insignificant part is leased, as well as revenues from rent which are paid by telecoms for lease of premises at the top of buildings for their antennas and other communication devices.

7. OTHER OPERATING EXPENSES

	2017	2016
Professional services and cost of material	134,794	117,429
Savings deposit insurance premiums	30,435	30,983
Marketing costs	22,285	21,715
Depreciation and amortisation	39,488	36,911
Administrative expenses	19,117	21,465
Other taxes and contributions	6,491	4,851
Written-off receivables	3,432	2,170
Other costs	7,422	3,859
	263,464	239,383

During the year, external auditors provided other services other than statutory obligations. In 2017, the following non-audit services (services associated with confirmations) were provided: audit of the reporting package to parent company, other agreed procedures to check compliance with financial, accounting or regulatory issues, statutory engagement of convictions and compliance assessment of general controls in information systems, and in accordance with the EU Regulation, services provided during the year present permitted non-audit services. Total expenses for audit services in 2017 were HRK 1,503 thousand (2016: HRK 1,512 thousand).

• All amounts are expressed in thousands of HRK

(a) Personnel expenses

	2017	2016
Gross salaries	136,831	132,684
- Net salaries	*97,433*	*93,215*
- Taxes, surtaxes and contributions	*39,398*	*39,469*
Contributions on salaries	22,937	22,710
(Release)/provision expenses for termination benefits, jubilee awards and vacation allowances(Note 26)	(539)	197
Provisions for severance payments retention of employees	97,406	414
Provisions for bonuses, rewards and other payments to employees	37,165	32,152
	293,800	188,157

At the year end the Bank had 1,162 (2016: 1,150 employees).

Provision costs for severance pay and retaining employees include the amount of HRK 94,565 thousand sa osnova rezerviranja za izvedene obveze za restrukturiranje that were occurred at the time the Bank had a detailed formal restructuring plan containing all the provisions of IAS 37, including:

- location, function and the approximate number of employees who will receive the compensation referring to the restructuring cost
- expenditure that will arise; and
- when the plan will be implemented; and
- by commencing the implementation of this plan or by announcing its main features to those affected by it, it is justified to expect that the restructuring will be carried out.

The restructuring plan was announced to employees, and that the intention of the Bank is the completion of restructuring during 2018, ie by merging with Splitska banka.

8. NET LOSSES FROM IMPAIRMENT AND PROVISION CHARGE

	2017	2016
Impairment of loan receivables, net (Note 14)	16,416	142,090
(Reversal of provisions) for HTM investments, net (Note 16)	108,221	(169)
(Reversal of provisions) for other assets, net (Note 21)	(1,665)	(3,831)
Impairment of amounts due to banks, net (Note 12)	(155)	23
Litigation provisions, net (Note 25)	23,058	86,094
Provision expenses for off-balance sheet items, net (Note 25)	5,646	5,640
(Reversal of provisions)/Provisions made for overpayment and conversion of CHF loans (Note 25)	-	(18,554)
	151,521	211,293

9. TAXATION

(a) Income tax expense recognised in profit or loss

	2017	2016
Current income tax	22,348	-
Net deferred tax charge/(credit)	(9,189)	28,866
	13,159	28,866

• All amounts are expressed in thousands of HRK

(b) Reconciliation of the accounting profit and income tax expense at 20%

	2017	2016
Profit/(loss) before tax	**65,347**	**152,284**
Tax at the statutory rate of 18% (2016: 20%)	11,762	30,457
Non-taxable income, net of expenses not recognised for tax purposes	20,885	5,895
Utilisation of double-dip benefits	(114)	(147)
Net tax assets arisen from temporary differences	(19,601)	(17,843)
Utilisation of tax losses from previous years	(10,185)	(36,205)
Amortization of deferred tax assets due to utilisation of tax losses from preivous years	10,185	36,205
Correction on overstated tax assets in previous year	227	6,290
Reconciliation of the tax assets at the rate of 18%	-	4,214
Income tax	**13,159**	**28,866**
Effective tax rate	**20.1%**	**19.0%**

(c) Movement in deferred tax assets and liabilities

	Deferred loan origination fees	Unrealised gains/(losses) on available-for-sale securities	Others	Tax losses carried forward	Total
Balance at 1 January 2016	**4,680**	**(15,438)**	**8,051**	**54,064**	**51,357**
Credited to the statement of comprehensive income	1,704	-	13,082	(43,652)	(28,866)
Charged to equity	-	6,777	-	-	6,777
Balance at 31 December 2016	**6,384**	**(8,661)**	**21,133**	**10,412**	**29,268**
Credited to the statement of comprehensive income	(1,082)	-	20,683	(10,412)	9,189
Charged to equity	-	(3,077)	-	-	(3,077)
Balance at 31 December 2017	**5,302**	**(11,738)**	**41,816**	**-**	**35,380**

The balance captured under the line item 'Others' consists of HRK 24,655 thousand (2016: HRK 6,244 thousand) of deferred assets on provisions for bonuses, salaries to be paid during notice period, termination and other employee benefits, HRK 1,132 thousand (2016: HRK 1,117 thousand) in respect of the losses on revaluation of the commercial properties and other assets, HRK 428 thousand (2016: HRK 1,369 thousand) in respect of unrealised losses on the measurement of derivatives at fair value and HRK 15,601 thousand (2016: 12,403 thousand) in respect of provisions for interest on legal actions.

(d) Tax losses

The Bank is subject to taxation in accordance with the Croatian legislation. The availability of tax losses carried forward expires after five years and is subject to review based on the audit findings determined by the Ministry of Finance of the Republic of Croatia.

	2017	2016
Tax losses brought forward from 2015	-	57,846
Total tax losses available for carryforward	**-**	**57,846**
Tax effect of tax losses available for carryforward at the rate of 18% (2016: 18%)	-	10,412
Deferred tax assets recognised	**-**	**10,412**

At 31 December 2017 unused tax losses available for reducing future taxable profits amount to HRK 0 thousand (2016: HRK 57,846 thousand). Based on those losses, in 2016 the Bank recognised deferred tax assets in the amount of HRK 10,412 thousand, as it is confident that it will generate sufficient future taxable profits that would allow the utilisation of the benefit of the available tax assets. During 2017 the Bank has fully utilised deferred tax assets arising from the brought forward losses.

The availability of tax losses carried forward at 31 December 2017 expires as follows:

	2017	2016
No more than 5 years	-	-
No more than 4 years	-	57,846
No more than 3 years	-	-
No more than 2 years	-	-
No more than 1 year	-	-
Total tax losses available for carryforward	**-**	**57,846**

• All amounts are expressed in thousands of HRK

10. EARNINGS PER SHARE

For the purposes of determining earnings per share, earnings represent the Bank's profit for the current year attributable to the ordinary shareholders of the Bank.

A reconciliation of the profit for the year attributable to ordinary shareholders is provided below.

	31.12.2017	31.12.2016
Loss attributable to ordinary shareholders	52,188	123,418
Weighted average number of shares of 200 HRK each (for basic and diluted earnings per share)	14,682,982	4,111,398
Earnings per share – basic and diluted (in HRK)	3.55	30.02

11. CASH AND BALANCES WITH THE CROATIAN NATIONAL BANK

	31.12.2017	31.12.2016
Cash in hand	277,063	279,163
Current account balance	850,617	555,830
FX settlement account with the CNB	458,215	60,362
Current accounts with foreign banks	526,073	707,148
Current accounts with domestic banks	130,078	127,735
Instruments in course of collection	1	708
Assets included in cash and cash equivalents (Note 29)	**2,242,047**	**1,730,946**
Obligatory reserve at the Croatian National Bank		
- in HRK	927,060	891,463
- in foreign currency	-	-
Total obligatory reserve at the Croatian National Bank	**927,060**	**891,463**
	3,169,107	2,622,409

The foreign-currency settlement account with the CNB is an account for the national and cross-border real-time settlement of euro-denominated payment transactions through TARGET2 system. The national component TARGET2-HR went into production on 1 February 2016, in accordance with the National SEPA Migration Plan. Upon the start of the component, TARGET2-HR has become the 25th component of the payment system TARGET2. The participants of the TARGET2-HR components are the Croatian National Bank and signed-up credit institutions.

The CNB requires from banks to maintain obligatory reserve funds, both in the form of amounts required to be deposited with the CNB and in the form of other liquid receivables. The obligatory reserve with the CNB represents the amount required to be deposited with the CNB.

At 31 December 2017 the obligatory reserve allocation rate was 12 % (2016: 12%) of kuna- and foreign-currency denominated deposits, borrowings and issued debt securities.

At 31 December 2017 the percentage of the mandatory kuna reserve funds is 70% (2016: 70%), whereas the remaining 30 % (2016: 30%) are to be held in the form of other liquid receivables, including the cash in the vault, but excluding cash in the vault and in hand. The percentage includes 75% (2016: 75%) of the foreign-currency denominated portion of the obligatory reserve required to be held in kunas.

The CNB Decision of 15 December 2015 imposed the requirement to maintain 100 percent of the foreign-currency portion of the obligatory reserve funds, which applies from 13 January 2016. The Decision also imposed the obligation for banks to maintain, on the basis determined in May 2016 and thereafter, 2 percent of the foreign-currency portion as an average daily balance of the funds on their own euro-denominated settlement accounts at the Croatian National Bank, i.e. on their own PM accounts within the TARGET2-HR system.

12. AMOUNTS DUE FROM OTHER BANKS

	31.12.2017	31.12.2016
Short-term placements with other banks	119,186	136,211
	119,186	136,211
Less: provisions for impairment	(1,810)	(1,965)
	117,376	134,246

• All amounts are expressed in thousands of HRK

Changes in the provisions for impairment of amounts due from other banks:

	2017	2016
Balance at 1 January	1,965	1,942
New provisions made (Note 8)	(155)	23
Balance at 31 December	1,810	1,965

The entire amount due from other banks is measured at amortised cost.

13. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Financial assets at fair value through profit or loss

	31.12.2017		31.12.2016	
	Nominal amount	Fair value	Nominal amount	Fair value
Units in open-ended investment funds managed by a related party (quoted)	-	11,297	-	11,282
FX swap contracts	772,799	2,034	903,820	879
FX forward contracts	64,363	636	122,715	2,628
	837,162	13,967	1,026,535	14,789

The units in the open-ended investment funds are measured on the basis of the funds' net asset values.

(b) Financial liabilities at fair value through profit or loss

	31.12.2017		31.12.2016	
	Nominal amount	Fair value	Nominal amount	Fair value
FX swap contracts	772,653	1,745	907,937	4,982
FX forward contracts	64,358	632	122,709	2,622
	837,011	2,377	1,030,646	7,604

The Bank has entered into derivative contracts as noted below.

The Bank uses cross-currency swaps to reduce the currency exposures that are inherent in any banking business. The Bank reported the balances as off-balance sheet items. The derivatives were entered into with the parent bank. At 31 December 2017 the Bank had currency forward contracts with its parent bank, domestic commercial banks and funds as the counterparties.

14. LOANS AND RECEIVABLES FROM CUSTOMERS

Analysis by type of product

	31.12.2017	31.12.2016
Kuna-denominated		
Retail customers	7,832,622	7,623,397
Corporate customers	3,454,618	3,245,331
Foreign-currency denominated		
Retail customers	111	111
Corporate customers	733,546	968,174
Total loans	12,020,897	11,837,013
Less: provisions for impairment	(1,281,910)	(1,518,452)
	10,738,987	10,318,561

Included in the loans are loans incorporating a currency protection clause, such as the euro (EUR), Swiss franc (CHF) and US dollar (USD), which amount to HRK 6,072,648 thousand (2016: HRK 6,190,101 thousand). Repayments of principal and interest are determined in the foreign currency and paid in the kuna-equivalent amount translated at the foreign exchange rate applicable on the date of payment. Deferred loan origination fees included in the net loan balance amount to HRK 29,453 thousand (2016: HRK 35,064 thousand).

• All amounts are expressed in thousands of HRK

Movements in the impairment provision were as follows:

	2017	2016
Balance at 1 January	**1,518,452**	**1,394,103**
Amounts collected	(75,334)	(90,318)
New provisions made	91,750	232,408
Impairment losses recognised in the satement of comprehensive income (Note 8)	**16,416**	**142,090**
Exchange differences	(1,101)	(1,987)
Amounts written-off	(251,857)	(15,754)
Balance at 31 December	**1,281,910**	**1,518,452**

At 31 December 2017, the total amount of impaired loans HRK 1,737,313 thousand (2016: HRK 2,055,573 thousand).

Credit risk concentration by industry:

Set out below is an overview of the Bank's concentration by various types of industries (gross amounts before provision for impairment):

	31.12.2017	31.12.2016
Agriculture, forestry and fisheries	307,454	301,324
Mining	1,333	17,423
Food and beverage production	213,439	151,824
Leather and textiles production	196	8,927
Publishing	11,953	13,417
Non-metal mineral and chemical products	182,701	99,948
Metal-working industry	38,873	48,926
Other manufacturing industries	248,365	239,334
Energy, gas and water supply	45,314	27,737
Construction	563,654	810,065
Trade	611,132	631,914
Hotel and restaurant trade	497,498	477,219
Transport and communications	102,890	115,998
Financial intermediation	73,802	55,744
Real property	379,421	408,509
Public administration and defence	624,525	551,696
Education, health and social security	118,271	130,591
Other services and social activities	167,343	122,909
Total corporate loans	**4,188,164**	**4,213,505**
Retail customers	**7,832,733**	**7,623,508**
	12,020,897	**11,837,013**
Less: provisions for impairment	(1,281,910)	(1,518,452)
Total loans	**10,738,987**	**10,318,561**

Conversion of CHF loans

In the period from 2005 to 2008 the Bank granted loans to individuals which were denominated or tied to the Swiss franc (CHF).

At the inception of the loan origination, individuals could benefit from the lower interest rates on such CHF loans. However, starting from 2006 the CHF LIBOR rate started to increase, resulting in higher interest rates on CHF loans granted by the Bank. In addition, the value of the Swiss franc grew strongly against the Croatian kuna, first in 2009 and then again in 2015, which increased the monthly instalments additionally, while the CHF LIBOR rate decreased considerably.

On 22 September 2015 the Act amending the Consumer Credit Act was adopted (hereinafter: "the Amended Act") which has introduced a permanent measure for regulating the conversion of CHF loans to euro-denominated loans. The Amended Act came into force on 30 September 2015.

Under the amendments, the conversion of CHF loans to euro-denominated loans was to be performed so as to align the position of CHF loan debtors with the one they would have if the loans were denominated in euros, and the position of the beneficiaries of loans pegged to the Swiss franc with the one they would have if the loans were pegged to the euro by means of a euro currency clause. The Amended Act imposed to banks a transition period of 45 days from its effective date for delivering a loan conversion calculation as at 30 September 2015 to the loan beneficiaries as well as specified a period of 30 days for consumers to accept the conversion. The time limit for the conversion itself, upon its acceptance, has not been defined.

Of 1,852 loans accepted by the debtors for conversion, 1,825 individual loan agreements were converted until 31 December 2017 (1,815 until 31 December 2016), and the remaining loan agreements are in the process of conversion.

• All amounts are expressed in thousands of HRK

In 2016 the Bank recognised income from the reversal of the CHF loan conversion provisions in the amount of HRK 18,554 thousand representing the difference between the estimated and the actual conversion loss (Note 8). The provisions for the CHF loan conversion for customers having accepted, but not yet exercised the conversion amounts to HRK 2,867 thousand (2016: HRK 4,175 thousand), as presented in Note 25 "Provisions".

15. FINANCIAL ASSETS AVAILABLE FOR SALE

	31.12.2017	31.12.2016
Equity securities	35,695	28,705
Debt securities	1,738,013	1,927,601
Units in open-end investment funds	65,843	53,580
	1,839,551	2,009,886

Equity securities consist mainly of the Zagreb Stock Exchange shares and the shares of Visa Inc. USA.

(a) Equity securities

	31.12.2017	31.12.2016
Equity securities at cost		
- Listed	21,701	17,223
- Unlisted	13,994	15,074
Less: provisions for impairment	-	(3,592)
	35,695	28,705

(b) Debt securities

	31.12.2017	31.12.2016
Listed		
Bonds of the Ministry of Finance	689,513	712,938
Foreign government bonds	748,589	1,004,980
Subtotal: listed debt securities	*1,438,102*	*1,717,918*
Treasury bills of the Croatian Ministry of Finance	299,911	209,683
Subtotal: unlisted debt securities	*299,911*	*209,683*
	1,738,013	1,927,601

The RHMF-O-203E bonds of the Republic of Croatia were issued in 2010. They are denominated in Croatian kunas and pegged with a currency clause to the euro and they bear interest at a rate of 6.50%, which is paid semi-annually. The bonds mature in 2020 and are quoted on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The RHMF-O-172A bonds of the Republic of Croatia were issued in 2007. They are denominated in Croatian kunas and bear interest at a rate of 4.75%, which is payable semi-annually. The bonds have matured in 2017 and are quoted on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Republic of Croatia RHMF-O-282A were issued in 2017. They are denominated in Croatian kunas and bear interest at a rate of 2,8750%, which is payable semi-annually. The bonds mature in 2028 and are quoted on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The RHMF-O-187A bonds of the Republic of Croatia were issued in 2013. They are denominated in Croatian kunas and bear interest at a rate of 5.25%, which is payable semi-annually. The bonds mature in 2018 and are quoted on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Republic of Croatia (RHMF-O-17BA) were issued in 2010. They are denominated in Croatian kunas and bear interest at a rate of 6.25%, which is payable semi-annually. The bonds have matured in 2017 and are quoted on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Republic of Croatia RHMF-O-217A were issued in 2016. They are denominated in Croatian kunas and bear interest at a rate of 2,75%, which is payable semi-annually. The bonds mature in 2021 and are quoted on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

• All amounts are expressed in thousands of HRK

The RHMF-O-257A bonds of the Republic of Croatia were issued in 2015. They are denominated in Croatian kunas and bear interest at a rate of 4.50%, which is payable semi-annually. The bonds mature in 2025 and are quoted on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Republic of Croatia (RHMF-O-26CA) were issued in 2015. They are denominated in Croatian kunas and bear interest at a rate of 4.25%, which is payable semi-annually. The bonds mature in 2026 and are listed on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The RHMF-O-203A bonds of the Republic of Croatia were issued in 2010. They are denominated in Croatian kunas and bear interest at a rate of 6.75%, which is payable semi-annually. The bonds mature in 2019 and are listed on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Republic of Croatia RHMF-O-222A were issued in 2017. They are denominated in Croatian kunas and bear interest at a rate of 2,25%, which is payable semi-annually. The bonds mature in 2022 and are listed on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Republic of Croatia RHMF-O-023BA were issued in 2017. They are denominated in Croatian kunas and bear interest at a rate of 1,75%, which is payable semi-annually. The bonds mature in 2023 and are listed on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Republic of Croatia XS0464257152 were issued in 2009. They are denominated in Croatian kunas and bear interest at a rate of 6.75%, which is payable semi-annually. The bonds mature in 2020 and are quoted on foreign exchange markets. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Hungarian Government were issued in 2007 and 2008 and are denominated in euros. The interest rate on the bonds is 4.375% and 5.75%, respectively, with the interest payable annually. The bonds mature in 2017 and 2018, respectively, and are listed on foreign exchange markets. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Hungarian Government were issued in 2010 and 2011 and are denominated in US dollars. The interest rate on the bonds is 6.25% and 6.375%, respectively, with the interest payable semi-annually. The bonds mature in 2020 and 2021, respectively, and are listed on foreign exchange markets. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Republic of Romania XS1129788524were issued in 2014. They are denominated in Croatian kunas and bear interest at a rate of 2,875%, which is payable semi-annually. The bonds mature in 2024 and are listed on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The bonds of the Republic of Bulgaria XS1083844503 were issued in 2014. They are denominated in Croatian kunas and bear interest at a rate of 2,95%, which is payable semi-annually. The bonds mature in 2024 and are listed on the Zagreb Stock exchange. The fair value of the bonds is determined based on the bid price published on the Bloomberg service.

The Bank's portfolio includes Treasury Bills of the Ministry of Finance with a maturity of 364 days. The T-bills are denominated in Croatian kunas and bear interest at market rates. The kuna-denominated T-bills were acquired by the Bank on the on the primary market in 2016 and 2017. In 2016 and 2017 the Bank also acquired special-purpose euro-denominated T-bills with a maturity of 455 days, which have matured in November 2017, that is, will mature in February 2019.

(c) Units in open-end investment funds

The Bank has investments in open-ended investment funds managed by investment fund management company OTP invest d.o.o. These are: OTP Balanced Fund, OTP Index Fund, OTP Absolute Fund and OTP Short-term bond Fund.

16. HELD-TO-MATURITY INVESTMENTS

	31.12.2017	31.12.2016
Bonds of the Croatian Ministry of Finance	16,468	16,565
Corporate bills	146,958	143,292
Less: provisions for impairment	(124,876)	(16,655)
	38,550	143,202

Movements in the Bank's provisions for impairment of held-to-maturity investments:

	2017	2016
Balance at 1 January	**16,655**	**16,824**
Amounts reversed	108,221	(169)
Balance at 31 December	124,876	16,655

The increase in provisions refers to recording of provision related to bills of exchange of Agrokor Group.

The receivables for bonds of the Ministry of Finance arose as a receivable for the never issued bonds that should have been a compensation for flats purchased by citizens of Croatia, and are fully value adjusted.

17. INVESTMENTS IN SUBSIDIARIES

	31.12.2017	31.12.2016
Investments in subsidiaries	3,232,871	61,396
Less: provision for impairment	(1,554)	(1,554)
	3,231,317	59,842

	31.12.2017	31.12.2016
Balance at 1 January	59,842	59,842
Acquisition of subsidiary	3,171,475	-
Balance at 31 December	3,231,317	59,842

As at May 2, 2017, the Bank has acquired 100% of the share in Splitska banka d.d..

Total acquisition costs in the amount of HRK 1,358 thousand are excluded from the transferred fee and accrued as an expense which is included in current year profit and loss and presented within the other expenses.

Acquired assets and liabilities of Splitska banka d.d. at the date of acquisition:

Assets	
Cash and cash equivalents	2.549.915
Loans and receivables from banks and placements with the Croatian National Bank	2.745.108
Financial assets	4.273.591
Investments in subsidiaries	244.469
Loans and receivables with customers	15.405.626
Other assets	243.286
Total assets	**25.461.995**
Liabilities to customers	20.797.513
Other liabilities	1.393.536
Total liabilities	22.191.050

On 1 March 2016 the Commercial Court of Zadar adopted a decision on the merger of Kratos nekretnine d.o.o. into OTP Aventin d.o.o.

After the purchase of Splitska banka d.d., the Bank has acquired control over its subsidiaries: SB Nekretnine d.o.o., SB Zgrada d.o.o., SB Leasing d.o.o. i OTP Osiguranje d.d. Splitska banka d.d. ima 100% ownership in this companies.

OTP Nekretnine d.o.o. has 100% ownership of Cresco d.o.o.

The merger of Splitska banka d.d. is planned during 2018 and the calculation of goodwill is in process.

• All amounts are expressed in thousands of HRK

18. PROPERTY AND EQUIPMENT

	Land and buildings	Computers	Furniture and equipment	Motor vehicles	Others	Assets under development	Total
Cost							
Balance at 01 January 2016	326,123	70,806	171,768	3,052	1,041	11,122	583,912
Acquired on the merger of a subsidiary	2,264	3,540	10,131	381	-	(16,316)	-
Transfer from assets under development							
Additions						32,017	32,017
Disposals and retirements	(278)	(2,826)	(15,353)	(603)	(17)	-	(19,077)
Balance at 31 December 2016	328,109	71,520	166,546	2,830	1,024	26,823	596,852
Balance at 01 January 2017	328,109	71,520	166,546	2,830	1,024	26,823	596,852
Acquired on the merger of a subsidiary	4,571	6,868	9,832	1,208	-	(22,479)	-
Transfer from assets under development							
Additions						44,528	44,528
Disposals and retirements	(5,296)	(5,599)	(12,128)	(247)	-	-	(23,270)
Balance at 31 December 2017	327,384	72,789	164,250	3,791	1,024	48,872	618,110
Accumulated depreciation and impairment							
Balance at 1 January 2016	147,963	60,534	126,248	2,590	-	-	337,335
Charge for the year	7,676	5,415	12,321	222	-	-	25,634
Disposals and retirements	(215)	(2,824)	(13,757)	(447)	-	-	(17,243)
Balance at 31 December 2016	155,424	63,125	124,812	2,365	-	-	345,726
Balance at 01 January 2017	155,424	63,125	124,812	2,365	-	-	345,726
Acquired on the merger of a subsidiary	7,630	4,786	13,463	235	-	-	26,114
Charge for the year							
Disposals and retirements	(2,587)	(5,591)	(11,461)	(247)	-	-	(19,886)
Balance at 31 December 2017	160,467	62,320	126,814	2,353	-	-	351,954
Net book value							
At 1 January 2017	172,685	8,395	41,734	465	1,024	26,823	251,126
At 31 December 2017	166,917	10,469	37,436	1,438	1,024	48,872	266,156

19. INTANGIBLE ASSETS

Cost	
Balance at 1 January 2016	148.113
Additions	16,594
Disposals and retirements	(3,318)
Balance at 1 January 2016	161,389
Balance at 1 January 2017	161,389
Additions	9,879
Disposals and retirements	(3,609)
Balance at 31 December 2017	167,659
Accumulated amortisation	
Balance at 1 January 2016	115,911
Charge for the year	11,277
Disposals and retirements	(3,268)
Balance at 31 December 2016	123,920
Balance at 1 January 2017	123,920
Charge for the year	13,374
Disposals and retirements	(1,141)
Balance at 31 December 2017	136,153
Net book value	
At 31 December 2016	37,469
At 31 December 2017	31,506

• All amounts are expressed in thousands of HRK

20. GOODWILL

Goodwill reported on the Bank's statement of financial position represents goodwill originally arisen on the acquisition of Istarska banka d.d., Pula and Sisačka banka d.d. Sisak (which is included in the Bank's accounts following the merger with these banks on 30 June 2002), and Dubrovačka banka d.d., Dubrovnik (which is included in the Bank's accounts following the merger of this bank on 30 September 2004). At 31 December 2017 the carrying amount of goodwill was 42,966 thousand (2016: HRK 42,966 thousand).

For the purposes of impairment testing, goodwill was allocated to three cash-generating units of the Bank (Business Centres) that are separably identifiable in the context of adding new value.

The Bank determines the need to recognise impairment based on the following four approaches: by considering the net present value of future assets; the present value of future net interest income; the present value of future operating income; and the analysis of actual operating results from the acquisition date to the date of the financial statements.

For each of the cash-generating units, the present value of the discounted cash flows was calculated.

The future period is taken to correspond with the period covered by the Strategic Plan, which comprises minimum three following years. Discounted cash flows were compared with the carrying amounts. The discount rate applied is the expected return on equity as defined in the Strategic Plan.

The Bank has assessed the recoverability of the goodwill and determined that there was no impairment of goodwill at 31 December 2017 and 2016.

21. OTHER ASSETS

	31.12.2017	31.12.2016
Accrued fees and commissions	19,461	21,249
Accounts receivable	17,812	32,351
Foreclosed assets	15,578	17,496
Receivables in respect of credit card operations	19,634	17,731
Prepaid expenses	6,820	5,117
Others	6,515	4,708
	85,820	**98,652**
Less: provisions for impairment	(11,644)	(13,309)
	74,176	85,343

Movements in provisions for impairment for other assets of the Bank were as follows:

	2017	2016
Balance at 1 January	**13,309**	**17,140**
Amounts reversed	(1,665)	(3,831)
Balance at 31 December	11,644	13,309

The provisions relate mainly to fees receivable, which are fully provided against upon expiry of 90 days.

22. AMOUNTS DUE TO OTHER BANKS

	31.12.2017	31.12.2016
Demand deposits		
- kuna-denominated	11,825	3,444
Foreign-currency denominated	15,433	17,189
	27,258	20,633

• All amounts are expressed in thousands of HRK

23. AMOUNTS DUE TO CUSTOMERS

	31.12.2017	31.12.2016
Retail customers		
Demand deposits		
- kuna-denominated	2,078,646	1,663,733
Foreign-currency denominated	3,001,271	2,339,694
Term deposits		
- kuna-denominated	1,254,006	1,333,096
Foreign-currency denominated	4,496,119	5,476,102
	10,830,042	10,812,625
Corporate customers		
Demand deposits		
- kuna-denominated	1,330,818	857,079
Foreign-currency denominated	611,786	463,683
Term deposits		
- kuna-denominated	176,114	214,519
Foreign-currency denominated	228,374	246,627
Deposits of the acquired subsidiaries	5,032	4,467
	2,352,124	1,786,375
	13,182,166	12,599,000

24. OTHER BORROWED FUNDS

	31.12.2017	31.12.2016
Domestic lenders:		
HBOR (Croatian development bank)	947,026	1,057,517
Ministry of Finance	2,802	2,802
Others	3	2
	949,831	1,060,321

(a) Liabilities to the Croatian development bank (HBOR)
Funds borrowed from HBOR are designated for approving loans to end-beneficiaries – corporate and retail customers – under the programmes supported by HBOR.

(b) Amounts due to the Croatian Ministry of Finance
This is a liability to the Croatian Ministry of Finance transferred from Dubrovačka banka and relates to interest on the so-called "frozen" foreign currency savings.

25. PROVISIONS

a) Analysis of provisions

	31.12.2017	31.12.2016
Provisions for termination benefits, jubilee awards and annual vacation days	9,028	9,567
Provisions for off-balance sheet items	19,465	13,917
Litigation provision	131,363	108,562
Provisions for overpayments and conversion of CHF loans	2,867	4,175
	162,723	136,221

The loss on the conversion of CHF loans is discussed in Note 14.

b) Movements in provisions for risks and charges

Provisions for off-balance sheet items

	2017	2016
Balance at 1 January	13,917	8,272
Foreign exchange gains	(98)	5
New provisions made/(provisions reversed)	5,646	5,640
Balance at 31 December	19,465	13,917

• All amounts are expressed in thousands of HRK

Litigation provision

	2017	2016
Balance at 1 January	108,562	32,472
Net charge to profit or loss	23,058	86,094
Amounts utilised during the year	(257)	(10,004)
Balance at 31 December	131,363	108,562

Litigation provision relates to legal actions against the Bank, i.e. where the Bank is the defendant. The Bank has recognised provisions for those legal actions it expects to result finally in an outflow of the Bank's resources embodying economic benefits.

Provisions for overpayments and conversion of CHF loans

	2017	2016
Balance at 1 January	4,175	242,024
Conversions completed by the year-end	(1,308)	(219,295)
Provision surplus credited to income	-	(18,554)
Balance at 31 December	2,867	4,175

Provisions for termination benefits, jubilee awards and annual vacation days

Opening balance at 1 January 2016	9,370
New provisions made	197
Balance at 31 December 2016	9,567
Decrease of provision	(539)
Balance at 31 December 2017	9,028

26. OTHER LIABILITIES

	31.12.2017	31.12.2016
Provision for severance pay and retention of employees	97,820	414
Accrued expenses for bonuses and other employee benefits	33,908	27,700
Amounts due to suppliers	27,514	32,276
Salaries and contributions payable	14,004	13,465
Current income tax liabilitiy	22,232	-
Due to State Agency for Deposit insurance and Bank Rehabilitation for saving deposits insurance	7,704	7,939
Accrued expenses	1,058	1,058
Provisions for payments of deposits previously credited to income	4,661	4,527
Liabilities in respect of credit card operations	1,463	6,159
Tax liabilities from prior years	2,307	2,307
Liabilities for undistributed cash	374	15
Advances received	1,799	101
Value added tax payable	2,025	2,140
Liabilities in respect of opening of accounts	4,098	3,362
Taxes payable on savings deposit interest	105	144
Other liabilities	17,078	24,859
	238,150	126,466

Changes in provisions for severance pay and retention of employees in 2017 mainly relate to liabilities arising from provisioning for derived liabilities for restructuring (Note 7).

• All amounts are expressed in thousands of HRK

27. SHAREHOLDERS' EQUITY

Share capital

As at 31 December 2017 the share capital of the Bank consists of 19,968,774 ordinary shares (2016: 4,111,398 ordinary shares), with a nominal value of HRK 200 each, which represents a share capital in the amount of HRK 3,993,755 thousand (2016: HRK 822,280 thousand). New 15,857,376 ordinary shares has been issued as at 2 May 2017, and entire issue has been purchased and paid by the owner from Budapest. All the ordinary shares provide equal rights and carry one vote per share.

No dividends were paid in 2017 and 2016.

Share premium

Share premium consist of the premium which arose from issue of new ordinary shares form previous years in the amount of HRK 167,328 thousand, and of premiums arose from purchase of own ordinary shares in previous years in amount of HRK 3,932 thousand.

Reserves

	31.12.2017	31.12.2016
Legal reserves	41,114	41,114
Statutory reserves	41,115	41,115
Total legal and statutory reserves	**82,229**	**82,229**
Fair value reserve	53,473	39,460
General banking risks reserve	105,819	105,819
Other reserves	3,220	3,224
Total other reserves	**162,512**	**148,503**

Movements in the fair value reserve:

	2017	2016
Balance at 1 January	**39,460**	**61,754**
Increase in reserves	33,451	17,127
Decrease in reserves	(16,361)	(16,673)
Collection of the VISA Europe shares	-	(29,525)
Taxes	(3,077)	6,777
Balance at 31 December	**53,473**	**39,460**

Legal and statutory reserves

The legal reserve has been formed in accordance with Croatian law, which requires 5% of the profit for the year to be transferred to this reserve until it reaches 5% of the issued share capital. The legal reserve, in the amount of up to 5% of the issued share capital, can be utilised to cover current and prior year losses. In addition, in accordance with the Bank's Statute, an additional reserve equivalent to the legal reserve has been created in an amount of up to 5% of the share capital for the purpose of covering impairment losses and for the same purposes as the legal reserve.

General banking risks reserve

According to earlier CNB regulations the Bank had to create a reserve for general banking risks if the increase of relevant on- and off-balance-sheet exposures at the statement-of-financial-position date exceeded 15% of the prior year-end exposures.

The general banking risk reserve was not transferable to retained earnings or other reserves, or otherwise distributable until the expiry of a consecutive three-year period from the period in which the Bank reported an annual growth over 15%. As the three-year period expired in 2011, the reserve was available to be utilised by the Bank as the Bank's retained earnings.

Fair value reserve

The fair value reserve consists of unrealised gains and losses on changes in the fair value of financial assets available for sale, net of deferred tax.

Other reserves

Other reserves of the Bank represent mainly the reserve on the revaluation of assets transferred to investment properties. The revaluation of these properties occurred prior to the transfer.

Retained earnings

Retained earnings represent profits accumulated from prior years.

• All amounts are expressed in thousands of HRK

28. CONTINGENT LIABILITIES AND COMMITMENTS

Presented below are contractual amounts of the Bank's off-balance-sheet financial instruments:

	31.12.2017	31.12.2016
Payment guarantees	61,068	57,340
Performance guarantees	99,765	89,616
Letters of credit	7,979	4,426
Approved unused facilities	1,231,813	1,148,449
Others	670	120
	1,401,295	1,299,951

29. CASH AND CASH EQUIVALENTS

For the purposes of cash flow statements, cash and cash equivalent comprise the following balances with maturities of up to 90 days:

	31.12.2017	31.12.2016
Cash and cash equivalents (excluding mandatory reserve with Croatian National Bank (Note 11))	2,242,047	1,730,946
Amounts due from other banks	117,099	133,975
	2,359,146	1,864,921

30. CAPITAL RISK MANAGEMENT

The Croatian National Bank ("the CNB"), as the Bank's principal regulator, determines and supervises the capital requirements of the Bank as a whole. The amount of capital allocated to individual operations is based primarily on regulatory requirements. The allocation of capital to specific activities is performed independent of individuals in charge of those activities.

Although the maximisation of return on the risk-weighted capital is the key basis used in determining the allocation of capital to the Bank's individual activities, it is not the only basis in the decision-making process. Synergies with other activities, availability of the Management Board and other resources, as well as the alignment of the activities with the Bank's long-term strategic goals are also considered. The directors review the Bank's capital management and allocation policies regularly.

The capital adequacy ratio is determined as the ratio of the regulatory capital to the risk-weighted assets, risk exposures, the overall uncovered exposures, foreign exchange risk and operational risk.

The Bank's regulatory capital amounts to HRK 1,734,125 thousand (31 December 2016: HRK 1,674,782 thousand) and is composed entirely of the Common Equity Tier 1 (CET1) capital. The capital adequacy ratio is 16.9% (2016: 16.7%). The 2017 data were not audited by the date of issue of these financial statements.

The Bank has to calculate the regulatory capital and the capital adequacy in accordance with the requirements of the European Banking Authority (EBA) and the national discretionary rules of the CNB, which were as follows (the information about the regulatory capital, risk-weighted assets and other risk components were not audited as of the date of issue of these financial statements):

Regulatory capital (unaudited)

	31.12.2017	31.12.2016
Share capital	3,993,755	822,280
Share premium	171,260	171,260
Retained earnings (included in the 2017 profit)	626,778	574,590
Other reserves	191,197	191,197
Deductions under EBA requirements	(3,248,865)	(84,545)
Common Equity Tier 1 capital	**1,734,125**	**1,674,782**
Additional Tier 1 capital		
Core capital	**1,734,125**	**1,674,782**
Tier 2 capital		
Regulatory capital (unaudited)	**1,734,125**	**1,674,782**
Risk-weighted assets and other risk components (unaudited)	10,239,048	10.004.571
Common Equity Tier 1 capital ratio	**16.9%**	**16.7%**
Tier 1 ratio	**16.9%**	**16.7%**
Total capital ratio	16.9%	16.7%

• All amounts are expressed in thousands of HRK

31. CREDIT RISK

The Bank is exposed to credit risk, which is the risk that the counterparty will not be able to settle in full the amounts owed as they fall due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or a group of borrowers, and to geographical and industry segments. The Bank monitors the risks and reviews them on an annual or more frequent basis. The exposure to credit risk for all assets is limited by the carrying amount of each asset reported in the statement of financial position. The exposure to credit risk of derivatives which relate to foreign currencies is equal to the sum of the positive current market value of the underlying contract and the potential exposure to the counterparty risk. Additionally, the Bank is exposed to credit risk on off-balance-sheet items, which include undrawn commitments to extend credit, issued guarantees and letters of credit.

The Bank manages its exposure to credit risk by analysing regularly the ability of the borrowers to repay interest and principal and by revising the credit limits, where necessary, or obtaining collateral, corporate or personal guarantees.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	31.12.2017	31.12.2016
Assets		
Cash and balances with Croatian National Bank	2,892,043	2,342,538
Loans and receivables from other banks	117,376	134,246
Financial assets at fair value through profit or loss	2,670	3,507
Loans and receivables from customers	10,738,987	10,318,561
- corporate customers	4,188,164	4,213,505
- retail customers	7,832,733	7,623,508
Less: provisions for impairment	(1,281,910)	(1,518,452)
Debt securities available for sale	1,738,013	1,927,601
Held-to-maturity investments	38,550	143,202
Other assets	43,746	62,592
	15,571,385	14,932,247

The table below shows the maximum exposure to credit risk on off-balance sheet items:

Guarantees and letters of credit	168,812	151,382
Lending and other commitments	1,232,483	1,148,569
	1,401,295	1,299,951

The analysis provided above reflects the Bank's maximum exposure to credit risk at 31 December 2017 and 2016, without taking into account any collateral or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on the net carrying amounts as reported in the statement of financial position.

Concentration of assets and liabilities – Republic of Croatia and its institutions

	Notes	31.12.2017	31.12.2016
Current account with the Croatian National Bank	11	1,308,833	616,192
Obligatory reserve at the Croatian National Bank	11	927,060	891,463
Obligatory treasury bills with the Croatian National Bank	11	-	-
Treasury bills of the Croatian Ministry of Finance	15c	299,796	209,683
Bonds of the Ministry of Finance	15b, 16	689,513	712,938
HBOR and Government loans		354,042	449,599
Other assets		56	158
Other borrowed funds		(989,826)	(1,060,322)
Other liabilities		(8,507)	(8,125)
		2,580,967	1,811,586

• All amounts are expressed in thousands of HRK

Concentration of assets by geographical area

At 31 December 2017	Croatia	Hungary	Austria	Switzerland	Germany	Great Britain	USA	Others	Total
Assets									
Cash and balances with the Croatian National Bank	2,643,034	13,134	-	2,038	282,313	156,630	9,998	61,958	3,169,107
Loans and receivables from other banks	-	7,814	-	92,260	-	17,053	-	248	117,376
Financial assets at fair value through profit or loss	11,385	-	2,582	-	-	-	-	-	13,967
Loans and receivables from customers	10,736,268	37	-	801	-	-	-	1,880	10,738,987
Financial assets available for sale	1,058,583	448,760	-	-	-	-	32,298	299,910	1,839,551
Held-to-maturity investments	38,550	-	-	-	-	-	-	-	38,550
Investments in subsidiaries	3,231,317	-	-	-	-	-	-	-	3,231,317
Deferred tax assets	35,380	-	-	-	-	-	-	-	35,380
Other assets	69,466	48	13	22	167	1,096	2,559	84	74,176
	17,823,983	469,794	2,595	96,121	282,480	174,779	44,855	364,800	19,258,411

At 31 December 2016	Croatia	Hungary	Austria	Switzerland	Germany	Great Britain	USA	Others	Total
Assets									
Cash and balances with the Croatian National Bank	1,915,261	5,084	-	6,309	223,476	156,681	13,094	302,504	2,622,409
Loans and receivables from other banks	-	-	-	-	-	19,476	-	114,770	134,246
Financial assets at fair value through profit or loss	11,625	3,164	-	-	-	-	-	-	14,789
Loans and receivables from customers	10,314,595	36	-	-	861	-	-	3,069	10,318,561
Financial assets available for sale	979,517	1,004,980	-	-	-	-	25,308	81	2,009,886
Held-to-maturity investments	143,202	-	-	-	-	-	-	-	143,202
Investments in subsidiaries	59,842	-	-	-	-	-	-	-	59,842
Deferred tax assets	29,268	-	-	-	-	-	-	-	29,268
Other assets	62,893	61	18,516	12	112	533	2,477	739	85,343
	13,516,203	1,013,325	18,516	6,321	224,449	176,690	40,879	421,163	15,417,546

Concentration of assets by risk groups

At 31 December 2017	Risk group A	Risk group B	Risk group C	Unallocated	Impairment	Total
Assets						
Cash and balances with the Croatian National Bank	2,892,042	-	-	277,064	-	3,169,107
Loans and receivables from other banks	117,229	1,038	918	-	(1,810)	117,376
Financial assets at fair value through profit or loss	-	-	-	13,967	-	13,967
Loans and receivables from customers	10,283,584	1,011,889	725,424	-	(1,281,910)	10,738,987
Financial assets available for sale	-	-	-	1,839,551	-	1,839,551
Held-to-maturity investments	-	146,867	16,558	-	(124,876)	38,550
Investments in subsidiaries	-	-	-	3,231,317	-	3,231,317
Deferred tax assets	-	-	-	35,380	-	35,380
Other assets	44,521	1,010	11,534	30,430	(13,319)	74,176
	13,337,376	1,160,804	754,433	5,427,709	(1,421,915)	19,258,411

At 31 December 2016	Risk group A	Risk group B	Risk group C	Unallocated	Impairment	Total
Assets						
Cash and balances with the Croatian National Bank	2,342,538	-	-	279,871	-	2,622,409
Loans and receivables from other banks	134,091	1,071	1,049	-	(1,965)	134,246
Financial assets at fair value through profit or loss	-	-	-	14,789	-	14,789
Loans and receivables from customers	9,781,440	1,137,589	917,984	-	(1,518,452)	10,318,561
Financial assets available for sale	-	-	-	2,009,886	-	2,009,886
Held-to-maturity investments	143,202	-	16,655	-	(16,655)	143,202
Investments in subsidiaries	-	-	-	59,842	-	59,842
Deferred tax assets	-	-	-	29,268	-	29,268
Other assets	61,299	1,039	13,563	22,751	(13,309)	85,343
	12,462,570	1,139,699	949,251	2,416,407	(1,550,381)	15,417,546

• All amounts are expressed in thousands of HRK

Loans and receivables from customers (Amounts due from customers) analysed by risk groups

Risk group	31.12.2017		31.12.2016	
	Loans and receivables from customers	Impairment provision	Loans and receivables from customers	Impairment provision
A	10,283,584	107,063	9,781,440	100,035
B1	366,085	42,883	423,333	46,260
B2	382,429	196,472	450,468	237,979
B3	263,375	210,068	263,788	216,194
C	725,424	725,424	917,984	917,984
Total	12,020,897	1,281,910	11,837,013	1,518,452

Loans and receivables from customers (Amounts due from customers) analysed by effect

	Retail loans		Corporate loans	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Not yet due and impaired	6,844,187	6,499,379	3,351,982	3,236,101
Past due but not impaired	18,730	20,907	68,685	25,053
Impaired	969,816	1,103,222	767,497	952,351
Gross amount	7,832,733	7,623,508	4,188,164	4,213,505
Less: provisions for impairment	(736,442)	(823,553)	(545,468)	(694,899)
Net	7,096,291	6,799,955	3,642,696	3,518,606

32. MARKET RISK

Currency risk

The Bank takes on exposure to the effects of changes in the foreign currency exchange rates on its financial position and cash flows.

The tables below analyse the Bank's exposures by principal currencies. The remaining currencies are shown within 'Other currencies'. The Bank monitors its foreign exchange (FX) position for compliance with the regulatory requirements of the Croatian National Bank established in respect of limits on open positions. In measuring the open positions, the Bank monitors the value at risk limits on its currency exposures. Other currencies also include amounts pegged to the Swiss franc by a currency clause.

The Bank has developed a VaR analysis (Value at Risk). This analysis is defined as the worst possible scenario over a certain time frame under normal market conditions. The analysis is based on a window of 10 days at a confidence of 99%. The probability that the Bank will incur losses in excess of the VaR calculated in normal market conditions is 1%. VaR calculated as of 29 December 2017 amounts to HRK 105 thousand (2016: HRK 147 thousand). The minimum VaR for 2017 amounts to HRK 15 thousand, the maximum VaR for 2017 amounts to HRK 301 thousand, and the average is HRK 106 thousand.

• All amounts are expressed in thousands of HRK

At 31 December 2017	EUR	EUR currency clause	Total in EUR	USD	HRK	Other currencies	Total
Assets							
Cash and balances with the Croatian National Bank	1,082,605	-	1,082,605	17,982	1,989,886	78,634	3,169,107
Loans and receivables from other banks	7,950	-	7,950	17,091	-	92,335	117,376
Financial assets at fair value through profit or loss	-	-	-	-	13,967	-	13,967
Loans and receivables from customers	716,163	5,900,773	6,616,936	57,513	4,055,342	9,196	10,738,987
Financial assets available for sale	566,151	59,539	625,690	507,529	706,332	-	1,839,551
Held-to-maturity investments	-	-	-	-	38,550	-	38,550
Investments in subsidiaries	-	-	-	-	3,231,317	-	3,231,317
Tangible and intangible assets	-	-	-	-	340,628	-	340,628
Deferred tax assets	-	-	-	-	35,380	-	35,380
Other assets	4,614	-	4,614	120	69,351	91	74,176
Total assets	**2,377,483**	**5,960,312**	**8,337,795**	**600,235**	**10,480,753**	**180,256**	**19,599,039**
Liabilities							
Amounts due to other banks	15,008	-	15,008	317	11,825	108	27,258
Amounts due to customers	6,878,765	10,484	6,889,249	1,193,203	4,833,230	266,484	13,182,166
Other borrowed funds	2,803	738,025	740,828	-	209,003	-	949,831
Financial liabilities at fair value through profit or loss	-	-	-	-	2,377	-	2,377
Provisions	-	-	-	-	153,695	-	153,695
Other liabilities	8,249	1,122	9,371	748	236,434	625	247,178
Total liabilities	**6,904,825**	**749,631**	**7,654,456**	**1,194,268**	**5,446,564**	**267,217**	**14,562,505**
Net foreign exchange position	(4,527,342)	5,210,681	683,339	(594,033)	5,034,189	(86,961)	5,036,534

At 31 December 2016	EUR	EUR currency clause	Total in EUR	USD	HRK	Other currencies	Total
Assets							
Cash and balances with the Croatian National Bank	766,994	-	766,994	25,584	1,661,811	168,020	2,622,409
Loans and receivables from other banks	109,724	-	109,724	19,531	-	4,990	134,246
Financial assets at fair value through profit or loss	-	-	-	-	14,789	-	14,789
Loans and receivables from customers	949,042	6,000,031	6,949,073	55,864	3,298,768	14,856	10,318,561
Financial assets available for sale	633,471	24,605	658,076	576,829	774,981	-	2,009,886
Held-to-maturity investments	-	-	-	-	143,202	-	143,202
Investments in subsidiaries	-	-	-	-	59,842	-	59,842
Tangible and intangible assets	-	-	-	-	331,561	-	331,561
Deferred tax assets	-	-	-	-	29,268	-	29,268
Other assets	21,219	-	21,219	61	64,002	61	85,343
Total assets	**2,480,450**	**6,024,636**	**8,505,086**	**677,869**	**6,378,224**	**187,927**	**15,749,107**
Liabilities							
Amounts due to other banks	16,451	-	16,451	635	3,444	103	20,633
Amounts due to customers	6,875,475	7,704	6,883,179	1,373,971	4,064,957	276,893	12,599,000
Other borrowed funds	2,960	810,081	813,041	-	247,280	-	1,060,321
Financial liabilities at fair value through profit or loss	-	-	-	-	7,604	-	7,604
Provisions	-	-	-	-	126,654	-	126,654
Other liabilities	6,045	1,183	7,228	951	127,497	357	136,033
Total liabilities	**6,900,931**	**818,968**	**7,719,899**	**1,375,557**	**4,577,436**	**277,353**	**13,950,245**
Net foreign exchange position	(4,420,481)	5,205,668	785,187	(697,688)	1,800,788	(89,426)	1,798,862

Interest rate risk

Interest-rate sensitivity of assets and liabilities

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest on a financial instrument remains fixed indicates the extent of the exposure to interest rate risk. The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity of its financial instruments or, for instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of the Bank to manage the exposure to fluctuations in the net interest income arising from changes in interest rates by the degree of repricing mismatch in the statement of financial position. Those assets and liabilities that do not have a contractual maturity date or are not interest bearing are grouped in the 'Non-interest bearing' category. Earnings will also be affected by the currency of the assets and liabilities. The Bank has a significant portion of interest-bearing assets and liabilities denominated in or pegged to foreign currency.

• All amounts are expressed in thousands of HRK

Interest-rate risk management as required by the Croatian National Bank

Pursuant to the Decision on managing banking-book interest rate risk, the Bank has the obligation to measure and evaluate the negative impact of interest rate risk in the banking book on the interest income or gains and economic value in the banking book. For the purpose of Croatian National Bank reporting, and related to the aspect of impact on the economic value in the banking book, the Bank is obliged to apply the higher level of:

1) standard interest-rate shock represented by a parallel positive or negative shift in interest rates by 200 basis points, applying the lower level of rate of 0%, except for the cases in which there is negative interest rate
2) internally calculated changes of economic value calculated as 1st i 99th percentile attributable to daily changes of interest rates during the period of 5 years scaled to a year that lasts 240 days

According to CNB regulations, ratio of change of economic value of the banking book and regulatory capital must not exceed 20%.

The Bank has calculated that the internally calculated change of the value calculated as 99th percentile of the attributable to daily changes of interest rates during the period of 5 years scaled to a year that lasts 240 days, amounts to 2.88% of the regulatory capital (2016: change of interest rates for the 200 basis points resulted in the change of the economic value of the banking book by 3.42%). The Bank has calculated that the negative impact of the interest rate risk in the banking book on the net interest income in the period of one year amounts to HRK 10,475 thousand.

Interest-rate risk management as required by the OTP Group

According to the OTP Group methodology, the Bank estimates the impact of the internally calculated interest rate stress on the economic value of its assets and liabilities by applying the minimum zero rate (0%), except where the interest rate may be negative. The Bank applies internally developed sensitivity assumptions for items with unspecified maturities (e.g. demand deposits), and only unfavourable interest rate movements are considered. The magnitude of the interest rate shock for an individual currency is the higher of the standard interest rate shock (200 bp) and the internally calculated shock, determined as the 1st and 99th percentile of the interest rate change over a period of nine years.

By applying the internally determined interest rate shock results in the change in the economic value of assets and liabilities of 3.4 percent of the regulatory capital (2016: 0.7 percent).

At 31 December 2017	Up to 1 month	1-3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with the Croatian National Bank	656,150	-	-	-	2,512,957	3,169,107
Loans and receivables from other banks	117,347	-	-	-	29	117,376
Financial assets at fair value through profit or loss	-	-	-	-	13,967	13,967
Loans and receivables from customers	4,904,390	430,978	1,241,945	4,124,283	37,391	10,738,987
Financial assets available for sale	5,819	1,597	444,528	1,265,076	122,531	1,839,551
Held-to-maturity investments	-	-	-	38,550	-	38,550
Investments in subsidiaries	-	-	-	-	3,231,317	3,231,317
Tangible and intangible assets	-	-	-	-	340,628	340,628
Deferred tax assets	-	-	-	-	35,380	35,380
Other assets	-	-	-	-	74,176	74,176
Total assets	**5,683,706**	**432,575**	**1,686,473**	**5,427,909**	**6,368,376**	**19,599,039**
Liabilities						
Amounts due to other banks	27,252	-	-	-	6	27,258
Amounts due to customers	8,580,877	1,403,368	2,997,571	177,190	23,160	13,182,166
Other borrowed funds	2,219	122,600	103,457	713,452	8,103	949,831
Financial liabilities at fair value through profit or loss	-	-	-	-	2,377	2,377
Provisions	-	-	-	-	153,695	153,695
Other liabilities	-	-	-	-	247,178	247,178
Total liabilities	**8,610,348**	**1,525,968**	**3,101,028**	**890,642**	**434,519**	**14,562,505**
On-balance sheet interest rate gap	(2,926,642)	(1,093,393)	(1,414,555)	4,537,267	5,933,857	5,036,534

• All amounts are expressed in thousands of HRK

At 31 December 2016	Up to 1 month	1-3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with the Croatian National Bank	834,883	-	-	-	1,787,526	2,622,409
Loans and receivables from other banks	134,234	-	-	-	12	134,246
Financial assets at fair value through profit or loss	-	-	-	-	14,789	14,789
Loans and receivables from customers	5,061,109	493,676	1,556,264	3,168,496	39,016	10,318,561
Financial assets available for sale	1,785	169,710	789,723	966,383	82,285	2,009,886
Held-to-maturity investments	-	46,063	97,139	-	-	143,202
Investments in subsidiaries	-	-	-	-	59,842	59,842
Tangible and intangible assets	-	-	-	-	331,561	331,561
Deferred tax assets	-	-	-	-	29,268	29,268
Other assets	-	-	-	-	85,343	85,343
Total assets	**6,032,011**	**709,449**	**2,443,126**	**4,134,879**	**2,429,642**	**15,749,107**
Liabilities						
Amounts due to other banks	20,624	-	-	-	9	20,633
Amounts due to customers	7,284,011	1,592,633	3,514,111	163,723	44,522	12,599,000
Other borrowed funds	3,617	147,936	116,427	784,238	8,103	1,060,321
Financial liabilities at fair value through profit or loss	-	-	-	-	7,604	7,604
Provisions	-	-	-	-	126,654	126,654
Other liabilities	-	-	-	-	136,033	136,033
Total liabilities	**7,308,252**	**1,740,569**	**3,630,538**	**947,961**	**322,925**	**13,950,245**
On-balance sheet interest rate gap	(1,276,241)	(1,031,120)	(1,187,412)	3,186,918	2,106,717	1,798,862

The table below summarises the year-end average effective interest rate for monetary financial instruments:

	31.12.2017	Interest rate (%)	31.12.2016	Interest rate (%)
Cash and balances with the Croatian National Bank	3,169,107	0.0	2,622,409	0.0
Loans and receivables from other banks	117,376	0.8	134,246	-0.5
Loans and receivables from customers	10,738,987	5.0	10,318,561	5.7
Held-to-maturity investments	38,550	6.8	143,202	6.1
Financial assets available for sale	1,839,551	2.5	2,009,886	2.5
	15,903,571		15,228,304	
Amounts due to other banks	27,258	0.0	20,633	0.0
Amounts due to customers	13,182,166	0.3	12,599,000	0.7
Other borrowed funds	949,831	1.8	1,060,321	2.0
	14,159,255		13,679,954	

• All amounts are expressed in thousands of HRK

33. LIQUIDITY RISK

The Bank is exposed to daily calls on the available cash resources from overnight deposits, current accounts, matured deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all the demands, as experience has shown that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The management sets limits for the minimum portion of maturing funds available to meet such calls and the minimum level of interbank and other borrowing facilities that should be available to cover unexpected levels of demand. The table below analyses the assets and liabilities of the Bank classified into relevant maturity groupings based on the remaining period to contractual maturity from the date of the statement of financial position.

At 31 December 2017	Up to 1 month	1-3 months	3 months to 1 year	1 to 3 years	Over 3 year	Undefined	Total
Assets							
Cash and balances with the Croatian National Bank	2,802,258	101,187	231,642	19,711	14,308	-	3,169,107
Loans and receivables from other banks	117,376	-	-	-	-	-	117,376
Financial assets at fair value through profit or loss	13,967	-	-	-	-	-	13,967
Loans and receivables from customers	1,361,302	386,705	1,457,314	2,304,863	5,228,803	-	10,738,987
Financial assets available for sale	122,531	-	432,609	559,052	725,359	-	1,839,551
Held-to-maturity investments	38,550	-	-	-	-	-	38,550
Investments in subsidiaries	-	-	-	-	-	3,231,317	3,231,317
Tangible and intangible assets	-	-	-	-	-	340,628	340,628
Deferred tax assets	-	-	-	-	-	35,380	35,380
Other assets	58,598	-	15,578	-	-	-	74,176
Total assets	**4,514,582**	**487,892**	**2,137,143**	**2,883,626**	**5,968,470**	**3,607,325**	**19,599,039**
Liabilities							
Amounts due to other banks	27,258	-	-	-	-	-	27,258
Amounts due to customers	7,965,825	1,438,816	3,293,795	280,275	203,455	-	13,182,166
Other borrowed funds	47,025	30,016	114,818	245,223	512,749	-	949,831
Financial liabilities at fair value through profit or loss	2,377	-	-	-	-	-	2,377
Provisions	-	-	-	-	-	153,695	153,695
Other liabilities	247,178	-	-	-	-	-	247,178
Total liabilities	**8,289,663**	**1,468,832**	**3,408,613**	**525,498**	**716,204**	**153,695**	**14,562,505**
Net maturity gap	(3,775,081)	(980,940)	(1,271,470)	2,358,128	5,252,266	3,453,630	5,036,534

At 31 December 2016	Up to 1 month	1-3 months	3 months to 1 year	1 to 3 years	Over 3 year	Undefined	Total
Assets							
Cash and balances with the Croatian National Bank	2,178,498	119,132	266,885	44,483	13,411	-	2,622,409
Loans and receivables from other banks	134,246	-	-	-	-	-	134,246
Financial assets at fair value through profit or loss	14,789	-	-	-	-	-	14,789
Loans and receivables from customers	1,129,579	288,344	1,351,476	2,511,611	5,037,551	-	10,318,561
Financial assets available for sale	113,460	166,250	772,884	458,647	498,645	-	2,009,886
Held-to-maturity investments	-	46,063	97,139	-	-	-	143,202
Investments in subsidiaries	-	-	-	-	-	59,842	59,842
Tangible and intangible assets	-	-	-	-	-	331,561	331,561
Deferred tax assets	-	-	-	-	-	29,268	29,268
Other assets	67,847	-	17,496	-	-	-	85,343
Total assets	**3,638,419**	**619,789**	**2,505,880**	**3,014,741**	**5,549,607**	**420,671**	**15,749,107**
Liabilities							
Amounts due to other banks	20,633	-	-	-	-	-	20,633
Amounts due to customers	6,325,231	1,683,687	3,771,875	628,678	189,529	-	12,599,000
Other borrowed funds	44,074	35,276	127,163	281,768	572,040	-	1,060,321
Financial liabilities at fair value through profit or loss	7,604	-	-	-	-	-	7,604
Provisions	-	-	-	-	-	126,654	126,654
Other liabilities	136,033	-	-	-	-	-	136,033
Total liabilities	**6,533,575**	**1,718,963**	**3,899,038**	**910,446**	**761,569**	**126,654**	**13,950,245**
Net maturity gap	(2,895,156)	(1,099,174)	(1,393,158)	2,104,295	4,788,038	294,017	1,798,862

• All amounts are expressed in thousands of HRK

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Bank. It is unusual for banks ever to be completely matched because of the often uncertain timing and the varied nature of transactions. An unmatched position potentially improves profitability, but may also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest–bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

34. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequately defined or improperly executed business process, human error, inappropriate system operation or as a result of external factors.

The Bank's activities in the area of managing operational risk are in line with the applicable regulations and good operational risk management practice, and are regularly revised to reflect any changes therein. The Operational Risk Management Rules and the Operational Risk Management Guidelines as well as the Guidelines for Operational Risk Self-assessment constitute the framework for managing operational risk at the Bank.

The Bank has a Business Continuity Plan and its Crisis Communication Handbook that define the system supporting the continuity of operations in cases where they become temporarily discontinued as a result of an exceptional event.

Operational risks are managed in a decentralised manner: the responsibility for managing operational risks rests with the managers and staff in charge of those organisational units in which operational risks are inherent to the activities performed by those units. They best understand, control and monitor the processes taking place in their organisational units and their duty is to ensure that the processes they manage follow appropriate procedures and are safe from the aspect of incurrence of operational risks. Operational risk management activities that are a joint responsibility of all the Bank's organisational units include the following: identification, measurement, assessment and analysis, as well as monitoring operational risks.

The Division for Quantitative Analysis, Market and Operational Risks operates as an independent unit within the Operational Risk Management Department and is responsible for suggesting the set-up of the operational risk management environment and the rules governing this area, for collecting data about losses caused by operational risks, informing the Bank's Management Board regularly on operational risk events, as well as for providing assistance and support to all the Bank's organisational units in understanding the structured approach to managing operational risks.

In line with the decentralised operational risk management methodology, the owners of each of the processes at the Bank have the obligation to co-operate closely in assessing the risks inherent in those processes (self-assessment) and then to identify and implement measures for managing risks identified in the respective areas and processes for which they are responsible.

In order to obtain a full view of the Bank's exposure to the risk, an Operational Risk Management Committee has been established.

The Bank applies a simplified approach in determining the capital requirements for operational risk.

35. RELATED PARTY TRANSACTIONS

The Bank is the parent of the OTP Bank Group. The Bank considers to be immediately related to its key shareholders and their subsidiaries; its subsidiaries and associates; the investment funds managed by one of its subsidiaries, OTP invest d.o.o.; Supervisory Board members, Management Board members; close family members of the Management Board members; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions from International Accounting Standard 24 "Related Party Disclosures" (IAS 24).

The Bank has OIF shares managed by OTP Invest d.o.o: OTP Balanced Fund, OTP Index Fund, OTP Euro Money Fund, OTP Absolute Fund and OTP Short-Term Bond Fund in the amount of HRK 65,843 thousand as at 31 December 2017 (2016: HRK 53,580 thousand) and OTP Cash Fund in the amount of HRK 11,297 thousand as at 31 December 2017 (2016: HRK 11,282 thousand).

• All amounts are expressed in thousands of HRK

The year-end outstanding balances and the underlying related party transactions, except for investments in subsidiaries (Note 17), during the year were as follows:

	31.12.2017		31.12.2016	
	Receivables	Liabilities	Receivables	Liabilities
Otp Bank Nyrt, Hungary	23,929	13,122	8,500	8,973
OTP Nekretnine d.o.o.	4	1,592	25	2,863
OTP Invest d.o.o.	556	3,134	293	1,398
OTP Aventin d.o.o.	83,039	525	68,888	206
OTP Leasing d.d.	18,546	2,067	1,300	15,892
Cresco d.o.o.	-	1	-	1
Splitska banka d.d.	107	1,516	-	-
SB Nekretnine d.o.o.	-	-	-	-
SB Zgrada d.o.o.	-	-	-	-
SB Leasing d.o.o.	-	-	-	-
OTP Osiguranje d.d.	-	-	-	-
Jet Soll	444	-	7.448	-
OTP Kartyagyarto KFT	-	-	-	-
	126,625	21,957	86,454	29,333

Receivables and libilities towards Splitska banka d.d. and its subsidiaries are presented only for 2017 since the Bank gained control over these companies as at May 2, 2017.

	2017		2016	
	Income	Expenses	Income	Expenses
Otp Bank Nyrt, Hungary	1,919	73,568	18,780	742
OTP Nekretnine d.o.o.	118	3,229	64	2,172
OTP Invest d.o.o.	482	-	287	1
OTP Aventin d.o.o.	5,382	1	15,243	9,046
OTP Leasing d.d.	876	629	797	707
Cresco d.o.o.	1	-	-	-
Splitska banka d.d.	1,454	5	-	-
SB Nekretnine d.o.o.	-	-	-	-
SB Zgrada d.o.o.	-	-	-	-
SB Leasing d.o.o.	-	-	-	-
OTP Osiguranje d.d.	-	-	-	-
Jet Soll	-	744	-	1.320
OTP Kartyagyarto KFT	-	838	-	575
	10,232	79,014	35,171	14.563

Revenue and expenses gained in transactions with Splitska banka d.d. and its subsidiaries are presented for the period from May 2, 2017.

Remuneration paid to key management personnel amounted to HRK 7,915 thousand (2016: HRK 7,012 thousand) and comprised short-term benefits. Included in key management personnel are Management Board members.

Remuneration paid to Supervisory Board members amounted to HRK 752 thousand (2016: HRK 880 thousand) and comprised short-term benefits.

36. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Bank manages funds on behalf of third parties, which consist mainly of loans provided by one legal person to another through the Bank as agent. These assets are accounted for separately from those of the Bank, and the Bank has no liability in connection with these transactions. The Bank charges a fee for these services.

At 31 December 2017, funds managed by the Bank on behalf of third parties amounted to HRK 72,266 thousand (2016: HRK 70,670 thousand). Additionally, assets under the management of OTP Invest, a subsidiary of the Bank, amounted to HRK 945,813 thousand (2016: HRK 814,89 thousand), and represent the funds the Bank manages as a depositary or custody bank. In addition, the Bank has under custody assets of other customers in the amount of HRK 419,234 thousand (2016: HRK 451,721 thousand).

• All amounts are expressed in thousands of HRK

37. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial instruments is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's-length transaction. Where available, fair value is based on quoted market prices. However, market prices for a significant portion of financial instruments of the Bank are not readily available. In circumstances where quoted market prices are not readily available, fair value is estimated using alternative techniques, or financial assets are measured at cost, amortised cost or indexed cost.

Valuation techniques and assumptions for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined by reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional
- derivatives, and option pricing models for optional derivatives; foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates under contracts with similar maturities; interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from the prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31.12.2017				31.12.2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss								
Non-derivative financial assets	11,297	-	-	11,297	11,282	-	--	11,282
Other derivative financial assets	-	2,670	-	2,670	-	3,507	-	3,507
Financial assets available for sale								
Equity securities	21,701	-	13,994	35,695	17,223	-	11,482	28,705
Debt securities	1,438,102	299,911	-	1,738,013	1,717,918	209,683	-	1,927,601
Units in open-end investment funds	65,843	-	-	65,843	55,580	-	-	55,580
Total	1,536,943	302,581	13,994	1,853,518	1,802,003	213,190	11,482	2,026,675
Financial liabilities at fair value through profit or loss								
Other derivative financial liabilities	-	2,377	-	2,377	-	7,604	-	7,604
Total	-	2,377	-	2,377	-	7,604	-	7,604

There were no transfers between Level 1, 2 and 3 in the period.

Some of the Bank's financial assets are measured at fair value at the end of each reporting period. The table below provides the information about the fair value measurement of financial assets and liabilities, together with the valuation techniques and the inputs to the techniques used.

• All amounts are expressed in thousands of HRK

Financial assets and financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31.12. 2017	31.12. 2016				
Fair value through the statement of profit or loss – units in open-ended investment funds	11,297	11,282	Level 1	Redemption price quoted by the Fund	N/A	N/A
Fair value through the statement of profit or loss – derivatives	Assets: 2,670 ; and liabilities: 2,377	Assets: 3,507; and liabilities: 7,604	Level 2	The fair value denominated in the original currency is retrieved from Kondor application after 14:30 hours and multiplied by the middle exchange rate of the CNB to determine the countervalue in kunas. Kondor determines the present value by discounting the agreed future cash flows in the original currencies.	N/A	N/A
Equity securities available for sale	21,701	17,223	Level 1	Price quoted in an active market – average price at the last working day in a month.	N/A	N/A
Available for sale – equity securities	13,994	11,482	Level 3	For VISA shares series C according to quoted price of shares series A discounted using internally calculated discount rate and for other securities measured at cost – tested for impairment	Discount rate for measuring of fair value is determined according to internal methodology	N/A
Available for sale – equity securities	1,438,102	1,717,918	Level 1	Price quoted in an active market – bid price at 14:00 hr on the last working day in a month	N/A	N/A
Available for sale – T-bills of the Ministry of Finance in domestic currency and with a currency clause	149,796	194,657	Level 2	Valuation at prices calculated using interpolation of last auctions prices.	N/A	N/A
Available for sale – Foreign-currency denominated T-bills of the Ministry of Finance	150,115	15,026	Level 2	Measured at cost, with the discount amortised on a straight-line basis to maturity	N/A	N/A
Available for sale – units in open-ended investment funds	65,843	55,580	Level 1	Redemption price quoted by the Fund	N/A	N/A

Movements in Level 3 financial instruments measured at fair value

The fair-value hierarchy level of financial instruments is determined at the beginning of each reporting period. The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities reported at fair value:

	Available-for-sale – unlisted shares	Total
Balance at 1 January 2016	**30,002**	**30,002**
Sale of the VISA Europe shares	(29,525)	(29,529)
Total gains or losses:		
- recognised in profit or loss	37,975	37,975
- recognised in other comprehensive income	(26,970)	(26,966)
Balance at 31 December 2016	**11,482**	**11,482**
Sale of the VISA Europe shares		
Total gains or losses:		
- recognised in profit or loss	-	-
- recognised in other comprehensive income	2,512	2,512
Balance at 31 December 2017	13,994	13,994

Financial instruments not measured at fair value

In arriving at the fair value of these financial instruments certain assumptions, estimates and methods were used.

Because of the relatively short period to maturity, the fair values of Loans and receivables from banks, Held-to-maturity investments and Amounts due to other banks are considered not to differ significantly from their carrying amounts.

The fair values of Loans and receivables from customers and Amounts due to customers were estimated using the expected future cash flows using as the discount rate the current average market rate for identical loans and deposits. Partly recoverable and fully irrecoverable loans were not considered in measuring the fair value because their recoverable amount is assumed to reflect their fair price.

• All amounts are expressed in thousands of HRK

Because of the specific features of the credit lines provided by HBOR and their restricted transferability as well as the standardised terms and conditions HBOR applies to all commercial banks, the carrying amount of the credit lines is assumed to reflect their fair values.

	Notes	Carrying amount	Fair value			Total
			Level 1	Level 2	Level 3	
		2017	2017			
Financial assets						
Loans and receivables from banks	12	117,376	-	-	117,376	**117,376**
Loans and receivables from customers	14	10,738,987	-	-	10,912,542	**10,912,542**
Held-to-maturity investments	16					
Financial liabilities						
Amounts due to other banks	22	27,258	-	-	27,258	**27,258**
Amounts due to customers	23	13,182,166	-	-	13,184,470	**13,184,470**

38. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes certain judgments and estimates about uncertain events, including estimates and judgments concerning the future. Such accounting estimates and judgments are regularly reviewed and are based on past experience and other factors, such as the reasonably expected course of future events under given circumstances, but which nevertheless represent sources of uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio represents the most significant source of estimation uncertainty. The risk as well as other key sources of estimation uncertainty with a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Impairment losses on loans and receivables

The Bank monitors the creditworthiness of its customers on an ongoing basis. In accordance with applicable regulations, the Bank's on- and off-balance sheet credit risk exposures are reviewed for impairment at least quarterly.

Impairment losses are recognised mainly as a charge to the carrying amounts of loans to and receivables from corporate and retail customers (summarised in Note 14), and as provisions for liabilities and charges arising from the Bank's off-balance-sheet risk exposure to customers, mainly in the form of undrawn lending commitments, guarantees, letters of credit and unused credit card limits (summarised in Note 25). Impairment losses are also considered in assessing credit risk exposures to other banks and for other assets not carried at fair value, where credit risk is not the primary risk of impairment.

Summary of impairment losses on customers	Notes	31.12.2017	31.12.2016
Provisions for loans to and receivables from customers	14	1,281,910	1,518,452
Provisions for off-balance sheet items	25	19,465	13,917
		1,301,375	1,532,369

The Bank first performs an individual assessment of whether there is objective evidence of impairment of an individually significant asset (mainly corporate exposures) and a collective assessment for assets that are not individually significant (mainly retail exposures). However, assets assessed individually as unimpaired are then included in groups of assets with similar credit risk characteristics. These portfolios are then assessed collectively for impairment.

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

In assessing impairment, the Bank considers the combined effect of several events and applies its experienced judgement 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 considers the ranges of specific impairment loss provisioning rates prescribed by the CNB for individually identified losses.

At the year end, the gross amount of loans to and receivables from customers identified as individually impaired and the rate of impairment loss recognised were as follows:

• All amounts are expressed in thousands of HRK

	31.12.2017			31.12.2016		
	Corporate customers	Retail customers	Total	Corporate customers	Retail customers	Total
Gross exposure	767,497	969,816	1,737,313	952,351	1,103,222	2,055,573
Loss rate	60.2%	73.5%	67.6%	65.9%	71.6%	69.0%

Any additional increase of the impairment loss rate by one percentage point on the gross portfolio at 31 December 2017 would lead to the recognition of an additional impairment loss of HRK 17,373 thousand (2016: HRK 20.556 thousand).

The Bank recognises an impairment provision on a collective i.e. portfolio basis at rates prescribed by the CNB. from minimum 0.80% if there is a developed internal methodology. or at least 1.00% if there is no developed an internal methodology. which apply to all credit risk exposures except those arising from the portfolio at fair value through profit or loss and the portfolio available for sale. including off-balance-sheet amounts (including undrawn lending and credit card commitments) and sovereign risk. Amounts assessed as impaired are excluded from this calculation.

At 31 December 2017 the impairment provision determined on a collective (portfolio) basis for the relevant on-balance sheet and off-balance sheet exposures of the Bank in accordance with local regulations amounts to HRK 125.058 thousand (2016: HRK 113.087 thousand). The total portfolio-based impairment losses amounted to 0.80 % of the relevant on-balance sheet exposure and 1.00 % of the off-balance sheet exposure (2016: 0.80% of the relevant on-balance sheet exposure and 1.00% of the off-balance sheet exposure) arising from eligible loans to and receivables from customers and contingent liabilities of the Bank. each net of the amounts individually assessed as impaired.

By applying the 1% rate applicable in case of non-existing internal model. the portfolio-based impairment losses would be HRK 26,746 thousand (2016: HRK 24.981 thousand) higher than the amount recognised by the Bank.

Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below the cost. Identifying a significant or prolonged decline requires judgement. In making this judgement. the Bank assesses. among other factors. the nominal volatility in the share price. In addition. impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee. the industry and sector performance. changes in technology. and operational and financing cash flows.

Held-to-maturity investments

The Bank follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. which requires significant judgement. In making this judgement. the Bank considers its intent and ability to hold such investments to maturity.

Taxation

The Bank determines its tax liabilities in accordance with the tax legislation of the Republic of Croatia. Tax returns are subject to the approval of the Tax Administration. which may perform subsequent tax audits of taxpayers' records.

Regulatory requirements

The CNB is responsible for performing prudential oversight over the Bank's operations and may require from the Bank to revise the carrying amounts of its assets and liabilities in accordance with applicable regulations.

Legal actions

There are several legal actions and claims initiated against the Bank. arisen from the ordinary course of business. the outcome of which is uncertain. At 31 December 2017. based on the legal advice. the Management Board recognised provisions in the amount of HRK 131,363 thousand (2016: HRK 108.562 thousand) for those risks.

Balázs Békeffy
President of the
Management Board

Zorislav Vidović
Member of the
Management Board

• All amounts are expressed in thousands of HRK

Supplementary financial statements and reports for the Croatian National Bank

Profit and loss account

Pursuant to the Croatian Accounting Act. the Croatian National Bank issued the Decision on Structure and Contents of Annual Financial Statements of Banks (Official Gazette No. 30/17, 44/17).

The following tables reflect the presentation of the financial statements in accordance with the Decision:

For the year ended 31 December 2017

All amounts are expressed in thousands of HRK

	2017	2016
1 Interest income	634,464	686,683
2 (Interest expense)	(107,386)	(171,540)
3 Net interest income	**527,078**	**515,143**
4 Fee and commission income	171,804	164,445
5 (Fee and commission expenses)	(47,434)	(42,922)
6 Net fee and commission income	**124,370**	**121,523**
7 Gains/(losses) on investments in subsidiaries. associates and joint ventures	-	-
8 Trading gains/(losses)	(5,466)	78,514
9 Gains/(losses) on embedded derivatives	(5)	(281)
10 Gains/(losses) on assets at FVTPL not actively traded	15	73
11 Gains/(losses) on available-for-sale assets	304	39,966
12 Gains/(losses) on assets held to maturity	-	-
13 Gains / (losses) on hedging relationships	-	-
14 Gains on investments in subsidiaries. associates and joint ventures	-	-
15 Gains on other equity investments	139	118
16 Foreign exchange gains / (losses)	82,246	(9,915)
17 Other income	13,621	27,232
18 Other expenses	(159,787)	(121,528)
19 General administrative expenses and depreciation	(390,102)	(361,130)
20 Net income from operations before impairment and provisions for losses	**192,413**	**289,715**
21 Impairment losses and provisions	(127,066)	(137,431)
22 Profit/(loss) before taxation	**65,347**	**152,284**
23 Income tax	(13,159)	(28,866)
24 Profit/(loss) for the year	**52,188**	**123,418**
25 Earnings per share	-	-
26 Profit/(loss) for the year	**52,188**	**123,418**
27 Attributable to the equity holders of the parent	**52,188**	**123,418**
28 Minority interest	-	-

Statement of comprehensive income

For the year ended 31 December 2017

All amounts are expressed in thousands of HRK

	2017	2016
Profit/(loss) for the year	**52,188**	**124,466**
Other comprehensive income	**14,013**	**(23,257)**
Items that are not recognized within profit or loss	**-**	**-**
Tangible assets	-	-
Intangible assets	-	-
Actuarial gains or losses from pension plan surpluses under the sponsorship of the employer	-	-
Tangible assets and groups intended for sale	-	-
Share of other recognized income and expense of entities that are accounted for by the equity method	-	-
Income tax relating to items that will not be reclassified	-	-
Items that can be reclassified to profit or loss	**14,013**	**(29,071)**
Protection of net investment in foreign operations [effective share]	-	-
Gains or losses in capital	-	-
Transferred to gain or loss	-	-
Other reclassifications	-	-
Change of foreign currency	-	-
Capital gains or losses	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Protection of net investment in foreign operations [effective share]	-	-
Capital gains or losses	-	-
Transferred to profit or loss	-	-
Transferred to the initial book value of the protected items	-	-
Other reclassifications	-	-
Financial assets available for sale	17,090	(29,071)
Capital gains or losses	17,090	470
Transferred to profit or loss	-	(29,541)
Other reclassifications	-	-
Tangible assets and groups intended for sale	-	-
Capital gains or losses	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share of other recognized income and expenses from investments in subsidiaries, joint ventures and associates	-	-
Income tax relating to items that can be reclassified to profit or (-) loss	(3,077)	5,814
Total comprehensive profit fot the year	**66,201**	**101,209**
It belongs to a minority stake [uncontrolled share]	-	-
Belongs to the owners of the parent company	66,201	101,209

Balance sheet

For the year ended 31 December 2017

All amounts are expressed in thousands of HRK

	2017	2016
Assets		
1 Cash and deposits with the CNB	2,512,956	1,787,526
1.1 Cash	277,064	279,871
1.2 Deposits with the CNB	2,235,892	1,507,655
2 Deposits with credit institutions (banks)	773,496	969,117
3 Treasury bills of the Ministry of Finance and of the CNB	149,796	194,657
4 Securities and other financial instruments held for trading	-	-
5 Securities and other financial instruments available for sale	1,668,761	1,784,053
6 Securities and other financial instruments held to maturity	38,550	143,202
7 Securities and other financial instruments at FVTPL not actively traded	11,297	11,282
8 Derivative financial assets	2,668	3,531
9 Loans to financial institutions	30,073	11,095
10 Loans and advances to other customers	10,736,338	10,335,615
11 Investments in subsidiaries. associates and joint ventures	3,231,317	59,842
12 Foreclosed assets	15,578	17,496
13 Tangible assets (net of depreciation)	275,275	256,726
14 Interest. fees and other assets	232,832	254,685
A. Total assets	19,678,937	15,828,827
Liabilities and equity		
1 Loans from financial institutions	945,659	1,056,107
1.1. Short-term loans	38,355	34,129
1.2. Long-term loans	907,304	1,021,978
2 Deposits	13,162,031	12,552,927
2.1 Balances on giro and current accounts	3,438,482	2,534,663
2.2 Savings deposits	3,585,739	2,782,480
2.3 Term deposits	6,137,810	7,235,784
3 Other loans	-	-
3.1 Short-term borrowings	-	-
3.2 Long-term borrowings	-	-
4 Derivative financial and other liabilities held fortrading	2,377	7,646
5 Issued debt securities	-	-
5.1. Short-term securities	-	-
5.2. Long-term securities	-	-
6 Issued subordinated instruments	-	-
7 Hybrid instruments issued	-	-
8 Interest. fees and other liabilities	532,335	413,286
B. Total liabilities	14,642,402	14,029,966
1 Share capital	4,161,082	989,607
2 Profit/(loss) for the year	52,188	123,418
3 Retained earnings/(Accumulated losses)	574,590	451,173
4 Legal reserves	41,114	41,114
5 Statutory and other capital reserves	142,348	145,427
6 Unrealised gains/(losses) on revaluation of financial assets available for sale	65,212	48,122
C. Total equity	5,036,534	1,798,861
D. Total equity and liabilities	19,678,937	15,828,827
8 Total equity	5,036,534	1,798,861
9 Attributable to the equity holders of the parent	5,036,534	1,798,861
10 Minority interest	-	-

Statement of changes in shareholders' equity

For the year ended 31 December 2017

All amounts are expressed in thousands of HRK

	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (accumula-ted losses)	Profit/ (loss) for the year	Unrealised gains/(losses) on revaluation of financial assets	Minority share	Total equity
1. Balance at 1 January 2017	**989,607**	**-**	**186,541**	**451,173**	**123,418**	**48,122**	**-**	**1,798,861**
2. Effects of changes in accounting policies and corrections of errors		-					-	
3. Restated balance at 1 January 2017	**989,607**	**-**	**186,541**	**451,173**	**123,418**	**48,122**		**1,798,861**
4. Sale of available-for-sale financial assets	-	-	-	-	-	-	-	-
5. Change in the fair value of financial assets available for sale	-	-	-	-	-	17,090	-	17,090
6. Tax on items recognised directly in/transferred from equity	-	-	-	-	-	(3,076)	-	(3,076)
7. Other gains and losses recognised directly in equity	-	-	-	-	-	-	-	-
8. Net gains/losses recognised directly in equity	-	-	-	-	-	14014	-	14014
9. Profit/(loss) for the year	-	-	-	-	52188	-	-	52188
10. Total recognised income and expenses for the year	**-**	**-**	**-**	**-**	**52,188**	**14,014**	**-**	**66,202**
11. Increase/(decrease) in share capital	3,171,475	-	-	-	-	-	-	3,171,475
12. (Purchase)/sale of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	(3,080)	(123,418)	(123,418)	3,076	-	(4)
14. Transferred to reserves	-	-	-	-	-	-	-	-
15. Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
16. Profit allocation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
17. Balance at 31 December 2017	**4,161,082**	**-**	**183,462**	**574,590**	**52,188**	**65,212**	**-**	**5,036,534**

	Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ (accumula-ted losses)	Profit/ (loss) for the year	Unrealised gains/(losses) on revaluation of financial assets	Minority share	Total equity
1. Balance at 1 January 2016	**989.607**	**-**	**179.768**	**530.762**	**(79.589)**	**77.193**	**-**	**1.697.741**
2. Effects of changes in accounting policies and corrections of errors	-	-	-	-	-	-	-	-
3. Restated balance at 1 January 2016	**989.607**	**-**	**179.768**	**530.762**	**(79.589)**	**77.193**	**-**	**1.697.741**
4. Sale of available-for-sale financial assets	-	-	-	-	-	(29.541)	-	(29.541)
5. Change in the fair value of financial assets available for sale	-	-	-	-	-	470	-	470
6. Tax on items recognised directly in/transferred from equity	-	-	-	-	-	6.777	-	6.777
7. Other gains and losses recognised directly in equity	-	-	-	-	-		-	0
8. Net gains/losses recognised directly in equity	-	-	-	-	-	(22.294)	-	(22.294)
9. Profit/(loss) for the year	-	-	-	-	123.418	-	-	123.418
10. Total recognised income and expenses for the year	**-**	**-**	**-**	**-**	**123.418**	**(22.294)**	**-**	**101.124**
11. Increase/(decrease) in share capital	-	-	-	-	-	-	-	-
12. (Purchase)/sale of treasury shares	-	-	-	-	-	-	-	-
13. Other changes	-	-	6.773	(79.589)	79.589	(6.777)	-	(4)
14. Transferred to reserves	-	-	-	-	-	-	-	-
15. Profit allocation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
16. Balance at 31 December 2016	**989.607**	**-**	**186.541**	**451.173**	**123.418**	**48.122**	**-**	**1.798.861**

Statement of cash flows

For the year ended 31 December 2017

All amounts are expressed in thousands of HRK

	2017	2016
Operating activities		
1.1 Profit/(loss) before taxation	**65,347**	**152,284**
1.2 Impairment allowance and provisions for losses	127,066	137,431
1.3 Depreciation and amortisation	39,488	36,911
1.4 Net unrealised (gains)/losses on financial assets and liabilities at FVTPL	-	-
1.5 Gains/(losses) on sale of tangible assets	(4,638)	(2,227)
1.6 Other (gains)/losses	-	-
1 Operating cash flows before changes in operating assets	**227,263**	**324,399**
2.1 Deposits with the CNB	(35,596)	155,475
2.2 Treasury bills of the Ministry of Finance and of the CNB	44,861	127,046
2.3 Deposits with financial institutions and loans to financial institutions	12	-
2.4 Loans and advances to other customers	(433,163)	67,951
2.5 Securities and other financial instruments held for trading	848	21,231
2.6 Securities and other financial instruments available for sale	132,242	(277,008)
2.7 Securities and other financial instruments at FVTPL not actively traded	-	-
2.8 Other operating assets	22,145	20,100
2 Net (increase)/decrease in operating assets	**(268,651)**	**114,795**
Increase/(decrease) in operating liabilities		
3.1 Demand deposits	903,819	375,372
3.2 Savings and term deposits	(294,715)	(276,042)
3.3 Derivative financial and other liabilities held for trading	(5,269)	3,363
3.4 Other liabilities	97,280	(200,121)
3 Net increase/(decrease) in operating liabilities	**701,115**	**(97,428)**
4 Net cash from operating activities	**659,727**	**341,766**
5 Income taxes paid	(116)	-
6 Net cash inflow/(outflow) from operating activities	**659,611**	**341,766**
Investing activities		
7.1 Proceeds from sale/(payments for purchases) of tangible and intangible assets	(51,481)	(42,979)
7.2 Proceeds from sale of/(payments for purchases of) investments in subsidiaries. associates and joint ventures	(3,171,475)	-
7.3 Proceeds from/(payments to acquire) securities and other financial instruments held to maturity	(3,598)	335
7.4 Dividends received	140	118
7.5 Other receipts/(payments) from investing activities	-	-
7 Net cash from investing activities	**(3,226,414)**	**(42,526)**
Financing activities		
8.1 Net increase/(decrease) in borrowings	(110,447)	(120,601)
8.2 Net increase/(decrease) of issued debt securities	-	-
8.3 Net increase/(decrease) of supplementary capital instruments	-	-
8.4 Premium on shares/Receipts of share capital issue	3,171,475	-
8.5 (Dividends paid)	-	-
8.6 Other receipts/(payments) from financing activities	-	323
8 Net cash from financing activities	**3,061,028**	**(120,601)**
9 Net increase/(decrease) in cash and cash equivalents	**494,225**	**178,639**
10 Effect of the foreign exchange rate change on the cash and cash equivalents	**-**	**-**
11 Net increase/(decrease) of cash and cash equivalents	**494,225**	**178,639**
12 Cash and cash equivalents. beginning of the year	**1,864,921**	**1,686,282**
13 Cash and cash equivalents at the end of the year	2,359,146	1,864,921

Off-balance sheet

For the year ended 31 December 2017

All amounts are expressed in thousands of HRK

	2017	2016
1. Guarantees	146.696	160.462
2. Credentials	4.426	7.979
3. Bills of exchange	-	-
4. Frame loans and funding liabilities	1.066.320	1.174.608
5. Other risk classical off-balance items	82.510	58.245
6. Futures	-	-
7. Options	-	-
8. Trade agreement	2.069.589	1.681.876
9. Forwards	-	-
10. Other derivatives	4.428	30

Comparative presentations

Comparative presentation of the profit and loss account items and the statement of comprehensive income for 2017

As the figures grouped in the financial statements prepared under the Decision of the Croatian National Bank differ from the manner in which they are classified under the accounting requirements for banks in the Republic of Croatia. the tables below provide a reconciliation between the two different presentations.

For the year ended 31 December 2017

All amounts are expressed in thousands of HRK

	Under the CNB decision	Accounting standards for banks	Difference
Interest income	634,464	635,749	(1,285)
(Interest expense)	(107,386)	(77,617)	(29,769)
Net interest income	**527,078**	**558,132**	**(31,054)**
Fee and commission income	171,804	171,819	(15)
(Fee and commission expenses)	(47,434)	(47,433)	(1)
Net fee and commission income	**124,370**	**124,386**	**(16)**
Gains/(losses) on investments in subsidiaries. associates and joint ventures	-	-	-
Trading gains/(losses)	(5,466)	-	(5,466)
Gains/(losses) on embedded derivatives	(5)	-	(5)
Gains/(losses) on assets at FVTPL not actively traded	15	-	15
Gains/(losses) on assets available for sale	304	-	304
Gains/(losses) on assets held to maturity	-	-	-
Gains/(losses) on hedging relationships	-	-	-
Gains on investments in subsidiaries. associates and joint ventures	-	-	-
Gains on other equity investments	139	-	139
Foreign exchange gains / (losses)	82,246	-	82,246
Net gains from trading in and valuation of financial instruments	-	77,54	(77,546)
Other income	13,621	14,068	(447)
Other expenses	(159,787)	-	(159,787)
General administrative expenses and depreciation	(390,102)	-	(390,102)
Net income from operations before impairment and provisions for losses	**192,413**	**774,132**	**(581,719)**
Impairment losses and provisions	(127,066)	(151,521)	24,455
Personnel expenses	-	(293,800)	293,800
Other operating expenses	-	(263,464)	263,464
Profit/(loss) before taxation	**65,347**	**65,347**	**-**
Income tax	(13,159)	(13,159)	-
Profit/(loss) for the year	**52,188**	**52,188**	**-**
Earnings per share	-	-	-
Profit/(loss) for the year	52,188	52,188	-

Comparative presentations

Comparative presentation of the profit and loss account items and the statement of comprehensive income for 2016

For the year ended 31 December 2017

All amounts are expressed in thousands of HRK

	Under the CNB decision	Accounting standards for banks	Difference
Interest income	686,683	687,126	(443)
(Interest expense)	(171,540)	(141,120)	(30,420)
Net interest income	**515,143**	**546,006**	**(30,863)**
Fee and commission income	164,445	64,447	(2)
(Fee and commission expenses)	(42,922)	(42,922)	-
Net fee and commission income	**121,523**	**121,525**	**(2)**
Gains/(losses) on investments in subsidiaries. associates and joint ventures	-		-
Trading gains/(losses)	78,514	-	78,514
Gains/(losses) on embedded derivatives	(281)	-	(281)
Gains/(losses) on assets at FVTPL not actively traded	73	-	73
Gains/(losses) on assets available for sale	39,966	-	39,966
Gains/(losses) on assets held to maturity	-	-	-
Gains / (losses) on hedging relationships	-	-	-
Gains on investments in subsidiaries. associates and joint ventures	-	-	-
Gains on other equity investments	118	-	118
Foreign exchange gains / (losses)	(9,915)	-	(9,915)
Net gains from trading in and valuation of financial instruments	-	110,388	(110,388)
Other income	27,232	13,198	14,034
Other expenses	(121,528)	-	(121,128)
General administrative expenses and depreciation	(361,130)	-	(361,130)
Net income from operations before impairment and provisions for losses	**289,715**	**791,117**	**(501,402)**
Impairment losses and provisions	(137,431)	(211,293)	73,862
Personnel expenses	-	(188,157)	188,157
Other operating expenses	-	(239,383)	239,383
Profit/(loss) before taxation	**152,284**	**152,284**	**-**
Income tax	(28,866)	(28,866)	-
Profit/(loss) for the year	**123,418**	**123,418**	**-**
Earnings per share	-	-	-
Profit/(loss) for the year	123,418	123,418	-

Reconciliations between the items from the statement of comprehensive income included in the Annual Report and the items presented in accordance with the CNB Decision

Reconciliation notes to the statement of comprehensive income for 2016

The differences on items of the statement of comprehensive income included in the Annual Report from the presentation under the CNB Decision comprise the following:

The difference in the total interest income reported under the CNB accounting requirements for banks in the Republic of Croatia versus the Annual Report relates to the net foreign exchange difference on interest income. which is presented in Annual Report within the line item "Net profit or loss from trading in and valuation of financial instruments". The difference in the total interest expense reported under the CNB accounting requirements for banks in the Republic of Croatia versus the Annual Report relates to the savings deposit insurance premiums. which are included in the Annual Report in the line items "Operating expenses". and to the "Net foreign exchange gains on interest expense". included in the Annual Report under "Net profit or loss from trading in and valuation of financial instruments".

The items "Trading gains/losses". "Gains/losses on derivatives" and "Gains/losses on exchange differences" are presented separately under the CNB bank accounting requirements. whereas in the Annual Report they have been included in "Net profit or loss from trading in and valuation of financial instruments". The line items "Profit/(loss) on assets at FVTPL not actively traded". "Income from other equity investments" and "Other income" are presented separately. as provided by the CNB accounting requirements for banks. whereas in the Annual Report they are aggregated under "Other operating income". The line items "Other expenses"and "General and administrative expenses and depreciation" are presented separately. as provided by the CNB accounting requirements for banks. whereas in the Annual Report they are included in "Personnel expenses" and "Other operating expenses".

Comparative presentations

Reconciliation between the balance sheets at 31 December 2017 and 2016

For the year ended 31 December 2017

All amounts are expressed in thousands of HRK

Assets	Under the CNB decision – 2017	Accounting standards for banks in Croatia – 2017	Difference – 2017	Under the CNB decision – 2016	Accounting standards for banks in Croatia – 2016	Difference – 2016
Cash and deposits with the CNB	2,512,956	-	2,512,956	1,787,526	-	1,787,526
Cash	277,064	-	277,064	279,871	-	279,871
Deposits with the CNB	2,235,892	-	2,235,892	1,507,655	-	1,507,655
Deposits with credit institutions (banks)	773,496	-	773,496	969,117	-	969,117
Cash and balances with the Croatian National Bank	-	*3,169,107*	*(3,169,107)*	-	*2,622,409*	*(2,622,409)*
Loans and receivables from other banks	-	*117,376*	*(117,376)*	-	*134,246*	*(134,246)*
Treasury bills of the Croatian Ministry of Finance and of the CNB	149,796	-	149,796	194,657	-	194,657
Securities and other financial instruments held for trading	-	-	-	-	-	-
Securities and other financial instruments available for sale	1,668,761	1,839,551	(170,790)	1,784,053	2,009,886	(225,833)
Securities and other financial instruments held to maturity	38,550	38,550	-	143,202	143,202	-
Securities and other financial instruments at FVTPL not actively traded	11,297	-	11,297	11,282	-	11,282
Financial assets at fair value through profit or loss	-	*13,967*	*(13,967)*	-	*14,789*	*(14,789)*
Derivative financial assets	2,668	-	2,668	3,531	-	3,531
Loans to financial institutions	30,073	-	30,073	11,095	-	11,095
Loans and advances to other customers	10,736,338	-	10,736,338	10,335,615	-	10,335,615
Loans and receivables from customers		*10,738,987*	*(10,738,987)*	-	*10,318,561*	*(10,318,561)*
Investments in subsidiaries. associates and joint ventures	3,231,317	3,231,317	-	59,842	59,842	-
Foreclosed assets	15,578	-	15,578	17,496	-	17,496
Tangible assets (net of depreciation)	275,275	266,156	9,119	256,726	251,126	5,600
Intangible assets	-	*31,506*	*(31,506)*	-	*37,469*	*(37,469)*
Goodwill	-	*42,966*	*(42,966)*	-	*42,966*	*(42,966)*
Deferred tax assets	-	*35,380*	*(35,380)*	-	*29,268*	*(29,268)*
Interest. fees and other assets	254,685	-	254,685	254,685	-	254,685
Other assets		*74,176*	*(74,176)*	-	*85,343*	*(85,343)*
Total assets	19,678,937	19,599,039	79,898	15,828,827	15,749,107	79,720

Comparative presentations

Reconciliation between the balance sheets at 31 December 2017 and 2016

For the year ended 31 December 2017

All amounts are expressed in thousands of HRK

Liabilities. equity and reserves	Under the CNB decision – 2017	Accounting standards for banks in Croatia – 2017	Difference – 2017	Under the CNB decision – 2016	Accounting standards for banks in Croatia – 2016	Difference – 2016
Loans from financial institutions	945,659	-	945,659	1,056,107	-	1,056,107
Deposits	13,162,031	-	13,162,031	12,552,927	-	12,552,927
Balances on giro and current accounts	3,438,482	-	3,438,482	2,534,663	-	2,534,663
Savings deposits	3,585,739	-	3,585,739	2,782,480	-	2,782,480
Term deposits	6,137,810	-	6,137,810	7,235,784	-	7,235,784
Other borrowed funds	-	-	-	-	-	-
Short-term borrowings	-	-	-	-	-	-
Long-term borrowings	-	-	-	-	-	-
Amounts due to other banks	-	*27,258*	*(27,258)*	-	*20,633*	*(20,633)*
Amounts due to customers	-	*13,182,166*	*(13,182,166)*	-	*12,599,000*	*(12,599,000)*
Other borrowed funds	-	*949,831*	*(949,831)*	-	*1,060,321*	*(1,060,321)*
Derivative financial and other liabilities held for trading	2,377	-	2,377	7,646	-	7,646
Financial liabilities at fair value through profit or loss	-	*2,377*	*(2,377)*	-	*7,604*	*(7,604)*
Issued debt securities	-	-	-	-	-	-
Provisions	-	*162,723*	*(162,723)*	-	*126,654*	*(126,654)*
Interest. fees and other liabilities	532,335	-	532,335	413,286	-	413,286
Other liabilities	-	*238,150*	*(238,150)*	-	*136,033*	*(136,033)*
Total liabilities	**14,642,402**	**14,562,505**	**79,897**	**14,029,966**	**13,950,245**	**79,721**
Share capital	4,161,082	3,993,755	167,327	989,607	822,280	167,327
Share premium	-	*171,260*	*(171,260)*	-	*171,260*	*(171,260)*
Profit/(loss) for the year	52,188	-	52,188	123,418	-	123,418
Retained earnings/(Accumulated losses)	574,590	626,778	(52,188)	451,172	574,590	(123,418)
Legal reserves	41,114		41,114	41,114	-	41,114
Statutory and legal reserves		*82,229*	*(82,229)*	-	*82,229*	*(82,229)*
Statutory and other capital reserves	142,348	-	142,348	145,428	-	145,428
Other reserves	-	*148,503*	*(148,503)*	-	*148,503*	*(148,503)*
Unrealised gains/(losses) on revaluation of financial assets available for sale	65,212	-	65,212	48,122	-	48,122
Total equity	**5,036,534**	**5,036,534**	**-**	**1,798,861**	**1,798,862**	**(1)**
Total liabilities and equity	19,678,937	19,599,039	79,897	15,828,827	15,749,107	79,720

Reconciliations between the items from the statement of financial position included in the Annual Report and the items presented in accordance with the CNB Decision

Reconciliation notes to the statement of financial position for 2017

Assets

The line items "Cash and deposits with the CNB" and "Deposits and receivables from banking institutions" are presented separately. as provided by the CNB accounting requirements for banks. whereas in the Annual Report they are captured under "Loans and receivables from other banks" and "Cash and balances with the Croatian National Bank".

The treasury bills of the Ministry of Finance and of the Croatian National Bank are presented separately, as provided by the CNB accounting requirements for banks, whereas in the Annual Report they are included in "Financial assets available for sale". Securities and other financial instruments at FVTPL not actively traded are presented separately under the CNB accounting requirements for banks, whereas in the Annual Report they are included in "Financial assets at fair value through profit or loss".

Foreclosed assets are presented separately, in accordance with the CNB accounting requirements for banks in the Republic of Croatia, whereas in the Annual Report they are included in "Other assets". Deferred tax assets are presented within the line item "Interest. fees and other assets", in accordance with the CNB accounting requirements for banks in the Republic of Croatia, whereas in the Annual report they are presented separately. Accrued interest and fees due and not yet due as well as intangible assets are presented under the CNB accounting requirements for banks in the Republic of Croatia within "Interest. fees and other assets", whereas in the Annual Report they are presented separately. i.e. the interest is presented together with the principal due and not yet due and the related securities.

Liabilities and equity

In accordance with the CNB accounting requirements for banks in the Republic of Croatia, short-term and long-term loans from financial institutions, other short-term and long-term loans and issued subordinated debt instruments are items to be presented separately, whereas in the Annual Report they are included under "Other borrowed funds".

Under the CNB accounting requirements for banks in the Republic of Croatia, balances on current and giro accounts, savings and term deposits are presented separately, whereas in the Annual Report they are included in "Amounts due to other banks" and "Amounts due to customers".

In accordance with the CNB accounting requirements for banks in the Republic of Croatia, provisions are included in "Interest. fees and other liabilities", whereas they are presented separately in the Annual Report.

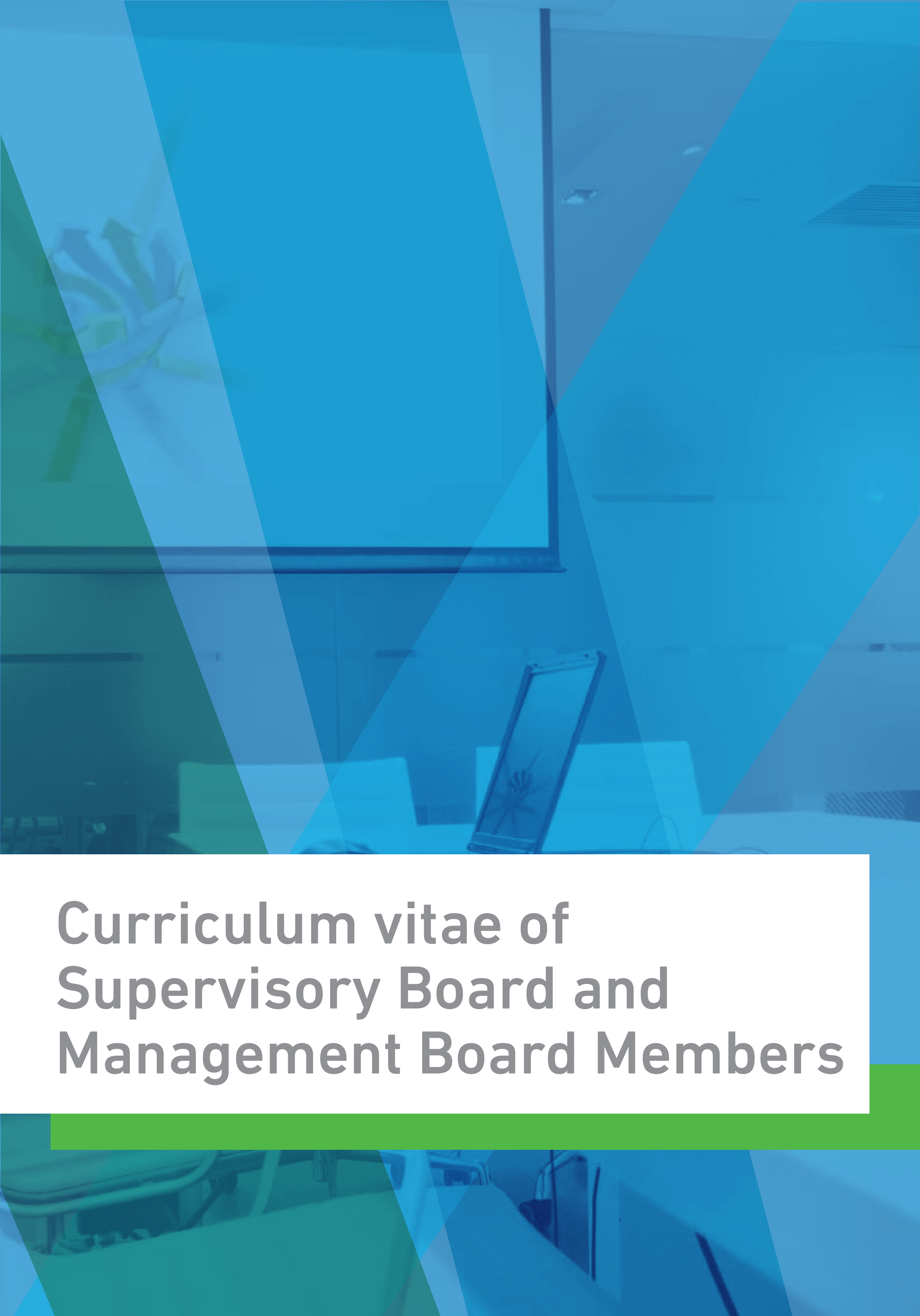
Accrued interest due and not yet due is presented in the Annual Report under the related principal due and not yet due, whereas under the CNB accounting requirements for banks in the Republic of Croatia they are included in "Interest. fees and other liabilities".

Under the CNB accounting requirements for banks in the Republic of Croatia, share capital includes the registered and issued capital of the bank as well as capital gains/losses on the issue of shares. In the Annual Report, the items are included in the line items "Shareholders' equity" and "Share premium". The line items also include capital gains/losses on purchase and sale of own shares, which are included in the line item "Statutory and other capital reserves" according to the CNB accounting requirements for banks in the Republic of Croatia.

The line items "Profit/(loss) for the year" and " Retained earnings/accumulated losses" reported under the CNB accounting requirements for banks in the Republic of Croatia are presented separately, whereas in the Annual Report they are aggregated under the line item "Retained earnings/(accumulated losses)".

Under the CNB accounting requirements for banks in the Republic of Croatia, "Legal reserves" represent a separate line item, whereas in the Annual Report they are combined with the statutory reserves under the line item "Legal and statutory reserves".

"Statutory and other capital reserves" reported under the CNB accounting requirements for banks in the Republic of Croatia consists of statutory reserves, other reserves formed out of after-tax profit as well as tax on items directly recognised in or transferred from equity. The line item "Other reserves" in the Annual Report includes other reserves formed out of after-tax profit and unrealised gains/(losses) on remeasurement of financial assets available for sale. Under the CNB accounting requirements for banks in the Republic of Croatia, "Unrealised gains/(losses) on remeasurement of financial assets available for sale" are presented separately.



Curriculum vitae of Supervisory Board and Management Board Members

Curriculum vitae of Supervisory Board Members

Dr. Antal Pongrácz
Chairman of the Supervisory Board of
OTP banka Hrvatska d.d.

Dr. Antal Pongrácz, Chairman of the Supervisory Board, was born in 1946. He holds a PhD in Economic Sciences. Early in his career he worked as an analyst and later on as a manager at the Revenue Directorate, but also held various positions in the Hungarian Ministry of Finance. He was also the first Deputy Chairman of the State Office for Youth and Sports. He came to OTP Bank for the first time in 1988 and was the first Deputy CEO of OTP Bank until 1990. Between 1991 and 1994 he was the CEO, then the Chairman and CEO of the European Commercial Bank Rt., between 1994 and 1998 he was the Chairman and CEO of Szerencsejáték Rt, then from 1998-99 he served as CEO of Hungarian flagship carrier Malév. Since 2001 he has been the executive director of OTP Bank's Staff Division. He has been a member of OTP Bank's Board of Directors since 2002 and the Deputy Chairman since June 2009.

Anna Florova
Deputy chairman of the Supervisory Board of
OTP banka Hrvatska d.d.

Anna Florova, SB deputy Chairman, was born in Sofia in 1967. She finished post-gradute studies in banking management in 1996 on Corvinus University in Budapest. After 15 years of experience in the banking sector, her career in OTP Bank commenced in 2008 on the position of Mortgage Loan Department Director, while she transfered to OTP Bank Russia in 2012 to the position of Deputy CEO until 2015. That same year she became the General Deputy CEO and Board member of OTP Mortgage Bank. In 2017, she came back to OTP Bank to the position of Retail Lending Directorate, under the direct authority of the Retail Deputy CEO.

Branko Mikša
Member of the Supervisory Board of
OTP banka Hrvatska d.d.

Branko Mikša was born in 1947 in Đurmanec, Croatia. He graduated in 1970 and gained his masters degree in 1973 from the Faculty of Economics, University of Zagreb. From 1970 to 1991 he worked at Pliva holding various positions from an associate to the head of the supply chain, export director and marketing director. In 1991 and 1992 he was the director of Pliva Handels GmbH in Germany, while in 1992 and 1993 he held the position of the Minister of Trade and Tourism in the Croatian Government. From 1993 to 1996 he was the Mayor of Zagreb, while from 1996 to 1999 he returned to Pliva Handels GmbH in Germany. Since 1999 he has been the Deputy President of the Supervisory Board of Agrokor d.d. and advisor to the President of the Agrokor Group. He has been an independent member of the Supervisory Board since 29 September 2011.

László Kecskés
Member of the Supervisory Board of
OTP banka Hrvatska d.d.

László Kecskés graduated from the Financial Accounting College and began his career as the Manager of Kecskés and Co. accounting and tax-consultant company. After two years he transferred to the position of the Chief Manager at Intertia Accountant Trustee, where he remained until 1994 when he became an auditor in OTP Bank. In 1996 he became the Deputy Head of the Banking Operation Audit Department and obtained the position of the General Director in 2001. Since April 2007 he has been the Managing Director of the OTP Bank Internal Audit Directorate.

Balázs Létay
Member of the Supervisory Board of
OTP banka Hrvatska d.d.

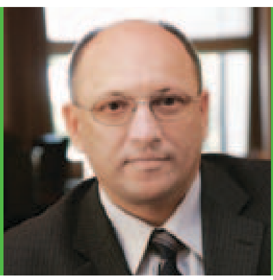
Balázs Létay was born in Budapest in 1976. He has two degrees, that of transportation engineer from the Faculty of Mechanical Engineering and Transport Science, and Business economics from the Faculty of Finance and Accountancy. He came to OTP Bank in 1998 and has advanced through different positions since. From 2001 to 2005 he was expert in Banking Group and Branch Network Management Directorate, and between 2005 and 2007 utilized this knowledge as a manager in Marketing and Sales Directorate. From 2008 to 2015 he was the Deputy Head of Bank Acquisition and Coordination Department responsible for OTP Group's strategic M&A projects. He was appointed the Head of the Department in 2015.

Szabolcs Annus was member of the Supervisory Board until 31 March 2017.
Attila Kozsik was member of the Supervisory Board until 31 March 2017.

Curriculum vitae of Management Board Members

Balázs Békeffy
President of the Management Board of OTP banka Hrvatska d.d.

Balázs Békeffy, president of the Management Board of OTP banka d.d., was born in 1977 in Budapest. He graduated from the Budapest University of Economics, and gained specialised education at professional schools in Moscow and Sweden. He started his career in a subsidiary of the Swiss-based pharmaceutical and research company Novartis Seeds, and afterwards worked with the audit company PricewaterhouseCoopers as a consultant at Corporate Finance Services. He joined OTP Bank in March 2003, as a senior project manager in charge of bank acquisitions. In March 2006, he was appointed head of the Operations Division within OTP banka Hrvatska, and in September 2006 he was appointed Management Board member. He was appointed Management Board president in September 2011, and is in charge of Operations, IT, Human Resources, Legal Affairs, Compliance and Security and Internal Audit.



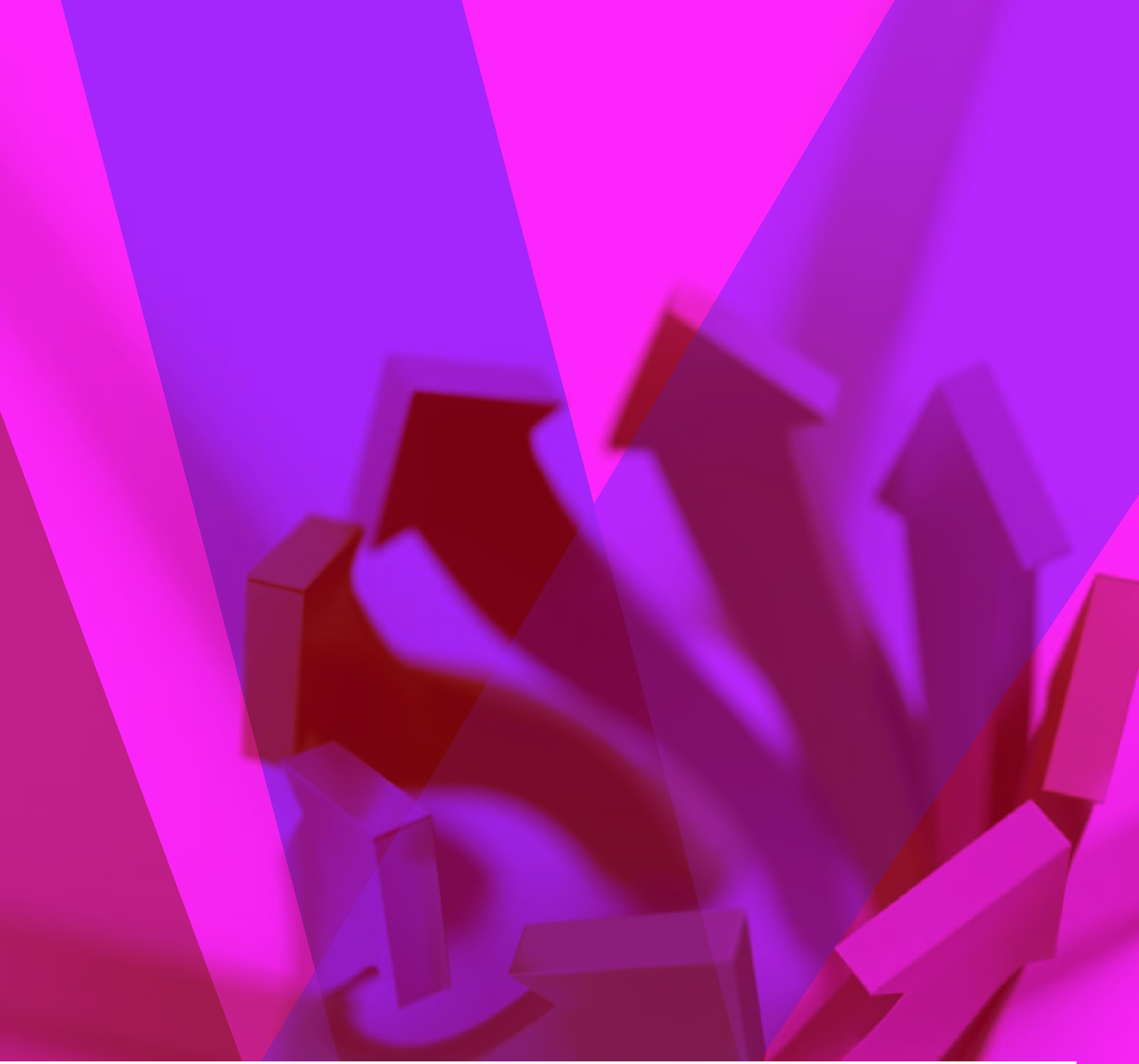
Zorislav Vidović
Member of the Management Board of OTP banka Hrvatska d.d.

Zorislav Vidović, member of the Management Board of OTP banka d.d., was born in 1964 in Šibenik. He graduated from the Faculty of Economics at the University of Zagreb in 1988. In the period from 1988 to 1990 he held a job in the Finance Section of the company Kepol Zadar. At the end of 1990 he joined Dalmatinska banka where he was assigned to the Assets and Lending Division and in 1992 he earned his broker's license. From 1997 to 2002 he held the position of the director of the Treasury Department. He was a member of the Management Board since 1 April 2002 until 24 April 2014, when he was appointed president of the Management Board of Banco Popolare Croatia. On 16 December 2014 he was appointed member of the Management Board of OTP banka in charge of the Treasury, Finance, Corporate Banking and Group Governance system.

Helena Banjad
Member of the Management Board of
OTP banka Hrvatska d.d.

Helena Banjad, member of the Management Board of OTP banka d.d., was born in 1955 in Zadar. She graduated from the Faculty of Economics at the University of Zagreb in 1978. She started her career in the development department of Pliva pharmaceutical company in Zagreb, and in 1981 took a job in Zadar, working in the foreign trade unit of a chemical company. She joined Dalmatinska banka in 1990, and left the Bank for a company offering financial services, where she worked from 1993 to 1995. Her jobs with the Bank included running the international market and managing f/x liquidity (1990 to 1993), correspondent banking and procurement of funds from international markets (1995 to 1998), and since 1998 she has been heading the Risk Management Division. In the period from 2002 to 2004 she held the position of the Management Board member in charge of risks. She was appointed Management Board member in August 2011, and the supervision over credit, market and operational risks remains within her competence.

Slaven Celić was member of the Management Board of OTP banka d.d. until 1 May 2017.



OTP banka Hrvatska business network

Retail offices and ATMs

OTP banka Hrvatska d.d.
Zadar, Domovinskog rata 3
Tel: + 385 (0) 72 201 555
Fax: +385 (0) 72 201 950
Swift: OTPV HR 2X
Web: www.otpbanka.hr
e-mail: info@otpbanka.hr

GROUP

Splitska banka d.d.
Split, Ulica Domovinskog rata 61
Tel: + 385 (0) 21 304 304
Fax: + 385 (0) 21 304 034
Web: www.splitskabanka.hr
e-mail: info@splitskabanka.hr

OTP Invest d.o.o.
Zagreb, Petrovaradinska 1
Tel: + 385 (0) 72 201 092
Fax: + 385 (1) 75 28 087
Web: www.otpinvest.hr
e-mail: info@otpinvest.hr

OTP Nekretnine d.o.o.
Zadar, Domovinskog rata 3
Tel: + 385 (0) 72 201 666
Fax: +385 (0) 72 201 967
Web: www.otpnekretnine.hr
e-mail: info@otpnekretnine.hr

OTP Leasing d.d.
Zagreb, Avenue Center,
Avenija Dubrovnik 16/V
Tel: + 385 (1) 66 66 700
Fax: + 385 (1) 66 66 701
Web: www.otpleasing.hr
e-mail: otpleasing@otpleasing.hr

OTP Osiguranje d.d.
Zagreb, Ulica grada Vukovara 284
Tel: + 385 (1) 63 27 944
Fax: + 385 (1) 63 27 497
Web: www.otposiguranje.hr
e-mail: info@otposiguranje.hr