

PRIMORSKA BANKA d.d.
Scarpina 7, Rijeka
Annual Financial Statements
and Independent Auditor's Report
for the period from 1 January to 20 June 2018

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RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Management Board of Primorska banka d.d., Scarpina 7, Rijeka (the "Bank") is responsible for ensuring that the annual financial statements for the period from 1 January to 20 June 2018 are prepared in accordance with the Accounting Act (Official Gazette No 78/15, 120/16) and the International Financial Reporting Standards to give a true and fair view of the financial position, the financial performance, the changes in equity and the cash flows of the Bank for that period.

At its session held on May 21, 2018, the General Assembly of the Bank adopted a Decision on termination of business and regular liquidation of the Bank with the date of commencement of regular liquidation on 21 June 2018 and the scheduled completion date for liquidation on 31 December 2021 with the possibility of extending the term of completion liquidation. Also, on June 26, 2018, the Croatian National Bank terminated the approval of the EROFF-22-020 / 18-ŽJ-BV by terminating the day on which it opened its regular liquidation and thereby abolishing the Bank's approval of providing financial services as well as all other approval by the Bank.

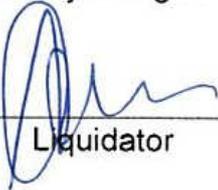
As a follow-up, the annual financial statements are prepared under the assumption that the Bank will cease operations.

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

The Management Board is responsible for keeping the proper accounting records, which at any time with reasonable certainty present the financial position, the financial performance, the changes of equity and the cash flows of the Bank, and also their compliance with the Accounting Act and the International Financial Reporting Standards. The Management Board is also responsible for safe keeping the assets of the Bank and also for taking reasonable steps for prevention and detection of fraud and other irregularities.

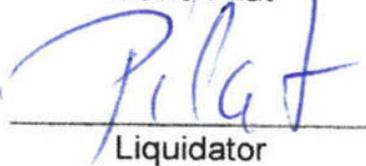
Signed on behalf of the Liquidators:

Andrej Galogaža



Liquidator

Mario Pilat



Liquidator

Primorska banka d.d.
Scarpina 7
51000 Rijeka
Croatia

PRIMORSKA BANKA

d.d. Rijeka
U LIKVIDACIJI

Rijeka, 13 September 2018

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Primorska banka d.d., Rijeka

Report on the Audit of the Annual Financial Statements

Opinion

We have audited the enclosed annual financial statements of Primorska banka d.d., Scarpina 7, Rijeka (the "Bank"), which comprise the Statement of financial position (Balance Sheet) as at 20 June 2018 the Income Statement, the Statement of other Comprehensive Income, the Statement of Changes in Equity, the Cash Flows Statement for the period from 1 January to 20 June 2018 and the accompanying Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual financial statements, give a true and fair view of the financial position of the Bank as at 20 June 2018 and of its financial performance and the cash flows for the period from 1 January to 20 June 2018 in accordance with the Accounting Act and the International Financial Reporting Standards (the "IFRS"), determined by the European Union and published in the EU Official Gazette.

Basis for Opinion

We conducted our audit in accordance with the Accounting Act, Auditing 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 annual financial statements section of our Independent Auditor's report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other 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.

Emphasis of matter – going concern basis

We would like to point out Note 1.1. and 31. to the annual financial statements, where it is determined that the financial statements stating that the General Assembly of the Bank on 21 May 2018 issued a Decision on termination of business and regular liquidation of the Bank with the date of commencement of regular liquidation on June 21, 2018 and the scheduled completion date for liquidation 31. December 2021 with the possibility of extending the termination of liquidation. The Assembly of the Bank appointed the liquidators of the Bank at the same Assembly. On June 26, 2018, the Croatian National Bank also annulled the approval of the Bank for the provision of financial services, as well as all other financial services provided by EROFF-22-020 / 18-ŽJ-BV other approvals granted to the Bank. On 30 June 2018, a change in the company was entered into the Court Register, the appointment of a liquidator and the entry of reasons for the termination of the Bank.

Accordingly, these financial statements are prepared under the assumption that the Bank will cease operations. Our opinion has not been modified in this regard

Key Auditing Questions

Key auditing questions were ones which were, based on our professional judgement, of utmost importance for our audit of annual financial statements for the current period, and include most significant recognised risks of misinterpretation due to error or fraud and have the highest impact on our auditing strategy, allocation of available resources and the time of engaged auditing team. We dealt with these questions in the context of our audit of annual financial statements as a whole, and during formation of our opinion of them; and we do not provide separate opinion on these questions.

Impairment of loans and advances to clients	
Description	Auditing procedures
<p>At 20 June 2018 gross loans and advances to clients are stated in the annual financial statements in the amount of HRK 74,450,617, impairment in the amount of HRK 26,169,770, and the loss from impairment recognised in the income statement for the period from 1 January to 20 June 2018 in the amount of HRK 17,959.</p> <p>The impairment represents the best estimate of the Bank's Management Board on losses in the loans and advances portfolio at the date of reporting. We focused on this area since determination of provisions for impairments requires significant estimation from the Bank's Management Board which is related to determination of the moment of recognition of impairment and its amount.</p> <p>In case there is an objective proof of inability to collect loans in full or according to the terms of the contract; i.e. there is substantial doubt related to interest or principal amount payment; or there is a proof of breach of contract; credit risk and value of loans are estimated on an individual basis. Bank's Management Board determines perimeters it considers relevant for the calculation of losses from impairment of loans, including, without limitations, client's financial position, and period of realisation and value of collaterals at the date of expected realisation; expected cash flows and economic conditions.</p>	<p>Our auditing procedures related to this area included, among others, the evaluation of design and testing of operational efficiency of controls related to approval and recording of loans and advances; including the identification of events causing impairment, the appropriateness of classification, the calculation of provisions for impairments and controls related to evaluation of collaterals.</p> <p>For impairment determined on an individual basis:</p> <ul style="list-style-type: none"> - We considered measurement techniques and a method used by Bank to classify its loans, estimates impairment losses and does impairment of its receivables at the balance sheet date. - We selected a sample of individual loans with focus on exposure with potentially highest impact on annual financial statements due to its size and risk; and smaller exposures which we evaluated as high risk based on our internal evaluation. - We performed a proven testing on selected samples to evaluate the accuracy of loan classification. - In certain cases we used own judgement to evaluate parameters for calculation of loan impairment losses

<p>Bank recognises impairment of loans and advances on individual and aggregate basis; in accordance with legal requirements for accounting of banks in the Republic of Croatia. The effects of aggregate impairments are not significant.</p> <p><i>Related disclosures in Annual Financial Statements</i></p> <p>See Notes 3.8,b and 16 to the annual financial statements.</p>	<p>and compared our calculations with Bank's calculated impairments.</p> <p>For impairment that determined on an aggregate basis:</p> <ul style="list-style-type: none"> - We evaluated the methodology, initial data and assumptions for provisions for losses on Bank's aged loans and advances. We have critically reviewed the reasonableness of changing model parameters in 2017, based on our understanding of business and current economic conditions. <p>The results of our tests were satisfactory. We agree that the assumptions used in the estimation of the impairment of loans and advances to customers are appropriate</p>
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Other questions

The audit of the annual financial statements of the Bank for the year ended 31 December 2017 was carried out by the auditing company BDO Croatia d.o.o., Zagreb, which in its Independent Auditor's Report of 5 March 2018 expressed a positive opinion on these annual financial statements.

Other Information in the Annual Report

The Management of the Bank is responsible for other information. Other information include information included in the Annual report, but do not include the annual financial statements and our Independent auditor's report on them.

Our opinion on the annual financial statements does not include other information, except to the extent explicitly stated in the part of our Independent auditor's report, entitled Report on compliance with other legal or regulatory requirements, and we do not express any kind of conclusion with assurance on them.

In connection with our audit of the annual financial statements, it is our responsibility to read the other information and consider whether other information have significant contradictions to annual financial statements or our knowledge gained while performing the audit, or otherwise appear to be materially misstated. If, based on the work we have performed, we conclude that there is material misstatement of these other information; we are required to report this fact. In this sense, with the exception stated in the section Emphasis of matter – going concern basis, we do not have anything to report.

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

The Management is responsible for the preparation of annual financial statements that give a true and fair view in accordance with IFRS, determined by the European Union and published in the EU Official Gazette; and for such internal control as the Management determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the annual 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 annual financial statements.

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

- Identify and assess the risks of material misstatement of the annual 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 the 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 annual 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 annual financial statements, including the disclosures, and whether the annual 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.

Audit d.o.o. za revizijske usluge
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Report on Compliance with Other Legal Requirements

Report based on Accounting Act requirements

1. In our opinion, based on the work that we performed during the audit, information's in the Management Report for the year 2017 are in accordance with the financial information's stated in the annual financial statements of the Company for the year 2017.
2. In our opinion, based on the work that we performed during the audit, the Company's Management Report for 2017 is prepared in accordance with the Accounting act.
3. Based on the knowledge and understanding of the Company and its environment obtained while performing the audit, we have not found that there are material misstatements in the Company's Management Report.

Zagreb, 18 September 2018

Audit d.o.o.
Radnička cesta 54
10000 Zagreb
Croatia



Darko Karić, President of the
Management Board



Darko Karić, Certified
Auditor

PRIMORSKA BANKA d.d., Rijeka
INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME
for the period from 1 January to 20 June 2018

Description	Note	01 January 2018. – 20 June 2018.	2017.
		HRK	HRK
Interest income	4.	3,608,688	13,245,581
Interest expense	5.	(1,994,268)	(10,628,918)
Net interest income		1,614,420	2,616,663
Fees and commissions income	6.	1,020,040	7,913,776
Fees and commissions expenses	7.	(677,770)	(1,958,272)
Net income from fees and commissions		342,270	5,955,504
Net income from trade, reduced to fair value of financial assets and foreign exchange gains	8.	518,553	9,452,866
Other income from ordinary business		14,121	327,243
Total other income		532,674	9,780,109
Other expenses	9.	(11,404,676)	(16,996,554)
Impairments and provisions	10.	(399,059)	(7,532,923)
Total other expenses		(11,803,735)	(24,529,477)
(Loss) / profit before tax		(9,314,371)	(6,177,200)
Corporate income tax	11.	0	2,882,060
(Loss) for the year		(9,314,371)	(9,059,260)
(Loss) per share	26.	(10,64)	(10,35)
Unrealized profit /(loss) from valuation of financial assets available for sale		1,517,609	(2,855,944)
TOTAL COMPREHENSIVE (LOSS) FOR THE YEAR		(7,796,762)	(11,915,203)

Accompanying Notes form an integral part of these financial statements

PRIMORSKA BANKA d.d., Rijeka
STATEMENT OF FINANCIAL POSITION / BALANCE SHEET
as at 20 June 2018

Description	Note	31 Dec 2017	31 Dec 2016
		HRK	HRK
ASSETS			
Cash	12.	42,767,857	199,458,498
Receivables from the Croatian National Bank	13.	6,979,375	30,024,149
Placements with banks	14.	787,429	800,660
Financial assets available for sale	15.	6,449,149	241,892,110
Loans and prepayments to customers	16.	49,280,847	85,846,172
Property, plant and equipment	17.	2,487,319	1,058,452
Intangible assets	18.	1,354,729	4,980,555
Foreclosed assets	19.	1,460,447	3,129,903
Other assets	20.	143,893	548,600
Total assets		111,711,045	567,739,099
LIABILITIES			
Deposits	21.	43,464,719	435,296,405
Hybrid instruments	22.	3,620,687	3,687,139
Loan liabilities	23.	3,003,175	54,359,843
Other liabilities	24.	2,680,696	5,550,882
Total liabilities		52,769,277	498,894,269
CAPITAL			
Share capital	25.	70,000,000	70,000,000
Provisions		(2,101,699)	(2,720,858)
Retained earnings / (Transferred loss)		357,838	10,624,948
(Loss) / Profit for the year		(9,314,371)	(9,059,260)
Total capital		58,941,768	68,844,830
Total capital and liabilities		111,711,045	567,739,099
CONTINGENT LIABILITIES AND COMMITMENTS			
Warranties		1,062,935	3,698,081
Approved unused evolving loans		0	1,790,302
TOTAL CONTINGENT LIABILITIES AND COMMITMENTS		1,062,935	5,488,383

Accompanying Notes form an integral part of these financial statements

PRIMORSKA BANKA d.d., Rijeka
STATEMENT FOR CHANGES IN CAPITAL for the period from 01 January to 20 June 2018

Description	Shared capital	Fair value reserves	Transferred loss	Loss for the year	Total
	HRK	HRK	HRK	HRK	HRK
Balance as at 1 January 2017	70,000,000	135,086	(2,070,732)	12,695,679	80,760,033
Loss allocated into transferred loss	0	0	12,695,679	(12,695,679)	0
Changes in fair value of portfolio available for sale	0	(2,855,944)	0	0	(2,855,944)
Loss for the year	0	0	0	(9,059,260)	(9,059,260)
Balance as at 31 December 2017	70,000,000	(2,720,858)	10,624,948	(9,059,260)	68,844,829
First application of accounting standard - IFRS 9	0	(898,450)	(1,207,849)	0	(2,106,299)
Restated balance - on 1 January 2018	70,000,000	(3,619,308)	9,417,098	(9,059,260)	66,738,531
Loss allocated into transferred loss	0	0	(9,059,260)	9,059,260	0
Changes in fair value of portfolio available for sale	0	1,517,609	0	0	1,517,609
Loss for the year	0	0	0	(9,314,371)	(9,314,371)
Balance as at 20 June 2018	70,000,000	(2,101,699)	357,838	(9,314,371)	58,941,768

Accompanying Notes form an integral part of these financial statements

PRIMORSKA BANKA d.d., Rijeka
CASH FLOWS STATEMENT - INDIRECT METHOD
for the period ended 20 June 2018

Description	2017.	2016.
	HRK	HRK
NET CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	(9,314,371)	(6,177,200)
<i>Adjustment to net cash assets from operating activities</i>		
Depreciation	585,400	998,552
Deferred tax assets	0	(2,882,060)
Loan impairments	17,959	7,532,532
Impairments of other assets	41,425	103,942
Provisions for court disputes	481,205	(78,046)
Provisions for off balance sheet liabilities	(141,530)	(25,504)
Changes on assets and liabilities from operating activities		
Increase in receivables from CNB	23,044,774	1,980,037
Increase in placements with banks	13,231	(117,920)
Decrease / Increase in loans and prepayments to customers	37,363,058	131,073,619
Decrease / Increase in other assets	404,706	3,891,356
Decrease / Increase in demand deposits	(67,393,718)	(5,468,544)
Decrease / Increase in term deposits	(324,437,968)	(64,713,167)
Increase in other liabilities	(2,870,186)	18,836
Net cash flow from operating activities	(342,206,015)	66,136,433
CASH FLOW FROM INVESTING ACTIVITIES		
Increase / Decrease in financial assets available for sale	235,442,962	(176,599,554)
Decrease / increase in financial assets held to maturity	0	59,813,048
Acquisition of property, plant and equipment and intangible assets	(22,078)	(2,995,053)
Increase / decrease in foreclosed assets	0	441,402
Net cash flow from investing activities	235,420,884	(119,340,157)
CASH FLOW FROM FINANCIAL ACTIVITIES		
Decrease/increase in liabilities for received loans	(51,356,668)	862,414
Increase/decrease in liabilities upon special stakes	(66,451)	681
Other changes in equity (net)	1,517,609	(2,855,944)
Net cash flow from financial activities	(49,905,511)	(1,992,849)
Net change in cash and cash equivalents	(156,690,643)	(55,196,573)
Cash and cash equivalents at the beginning of the year	199,458,498	254,655,071
Cash and cash equivalents at the end of the year	42,767,857	199,458,498

Accompanying Notes form an integral part of these financial statements

I GENERAL INFORMATION ABOUT THE BANK

1.1. Legal frame work and activities

Primorska banka d.d. (The "Bank") is a joint stock company registered at the Commercial Court in Rijeka under the registration number MBS 040098231 (OIB 96675880337). The headquarters of the Bank are located in Rijeka, Scarpina 7.

On 30 January, 2018, the Bank's Management Board issued a Decision to suspend the approval of placements (loans) and the termination of fixed-term deposits. On April 10, 2018, the Croatian National Bank analyzed the Bank's Liquidation Plan and other available documentation and gave a positive opinion on it.

On May 21, 2018, the General Assembly of the Bank issued a Decision on termination of business and regular liquidation of the Bank with the date of commencement of regular liquidation on June 21, 2018, and foreseen completion of liquidation on December 31, 2021 with the possibility of extending the liquidation term. The Assembly of the Bank appointed the liquidators of the Bank at the same Assembly.

On June 26, 2018, the Croatian National Bank, with the ruling EROFF-22-020 / 18-ŽJ-BV has abolished approvals for work on the day of the opening of regular liquidation, thereby abolishing the Bank's approval of financial services as well as all other approvals granted to the Bank.

On 30 June 2018, a change in the company was entered into the Court Register, the appointment of a liquidator and the entry of reasons for the termination of the Bank.

The Bank's share capital on June 20, 2018 amounts to HRK 70,000,000 and is divided into 875,000 ordinary shares with a nominal value of HRK 80 (31 December 2017).

Period before 2018

By the decision of the General Assembly of the Bank of 29 December 2014, the Bank's share capital was increased by cash payment of HRK 58,089,000 in the amount of HRK 5,000,000 to HRK 63,089,000 by issuing 50,000 new ordinary shares in the name, of a nominal value of 100 kuna. The Bank's share capital is divided into 630,890 shares with a nominal value of 100 kuna each. The increase in the subscribed capital was carried out in the court register on February 4, 2015.

By the decision of the General Assembly of 7 June 2016 on the simplified reduction of the share capital and the reduction of the nominal amount of the Bank's shares from 100 (hundred) kunas to 80 (eighty) of each in order to cover the past year's loss over the past years and as follows: HRK 63,099,000 for the amount of HRK 12,617,800 to HRK 50,471,200. At the regular General Assembly held on June 7, 2016, a decision was made to increase the share capital by entering the right, by increasing the share capital from HRK 50,471,200 to HRK 19,528,800 to HRK 70,000,000, by issuing 244,110 new ordinary shares on behalf of a nominal value of 80 kuna. After the increase, the share capital amounts to HRK 70,000,000 divided into 875,000 ordinary shares.

PRIMORSKA BANKA d.d., Rijeka
NOTES TO THE FINANCIAL STATEMENTS
as at 20 June 2018 - continued

The shareholders of the Bank are stated as follows:

Shareholder	31 Dec 2017	31 Dec 2016
	%	%
C.I.M. Banque	69.78	69.78
Francesco Signorio	15.02	13.99
Domenico Petrella	2.52	2.52
Svetlana Signorio	2.03	2.03
Cofisi S.A.	8.88	8.88
Other	1.77	2.8
TOTAL	100	100

As at 31 December 2017 the Bank employed 43 employees (as at 31 December 2016: 46 employees). Qualification structure of employees was as follows:

Structure	20 Jun 2018	31 Dec 2017
University education	21	30
Higher education	3	6
High school	6	6
Unqualified	1	1
TOTAL	31	43

1.2. Management Bodies of the Bank

The management bodies of the Bank are the General Assembly, Supervisory Board and Management Board.

General Assembly:

Jože Perić – president of the General Assembly until 20 February 2018

Andrej Galogaža - president of the General Assembly since 1 March 2018 until 20 June 2018

Supervisory Board:

Andrej Galogaža - Chairman of the Supervisory Board from 1 March 2018 to 20 June 2018. From January 1, 2018 until March 1, 2018, he ceased to serve as Deputy Chairman of the Supervisory Board because he served as Deputy Chairman of the Board during that period.

Gabriele Ruffa - Deputy Chairman of the Supervisory Board as of 1 March 2018, Member of the Supervisory Board of 21 February 2018 for a term of one year

Thierry David Raphael Mosse - Member of the Supervisory Board of 21 February 2018 for one year

Jože Perić - Chairman of the Supervisory Board by 20 February 2018

PRIMORSKA BANKA d.d., Rijeka
NOTES TO THE FINANCIAL STATEMENTS
as at 20 June 2018 - continued

Giorgio Mattioli - ceased to be a member of the Supervisory Board by expiration of the term of office expiring on February 20, 2018

Franco Brunati - ceased to be a member of the Supervisory Board by expiration of the term of office expiring on February 20, 2018

Renata Dogan - member of the Supervisory Board by March 1, 2018

Management Board (until 20 June 2018):

Mario Pilat - CEO of the Management Board on March 1, 2018, for a term of one year

Andrej Galogaža - Deputy Chairman of the Management Board, represents the Bank together with a member of the Management Board from January 1, 2018 to March 1, 2018

Goran Brajdić - member of the Management Board, represents the Bank together with the President of the Management Board or a member of the Management Board

On May 21, 2018, the Bank's General Meeting passed a Decision on termination of business and regular liquidation of the Bank with the date of commencement of regular liquidation on June 21, 2018 and the scheduled completion date for liquidation on December 31, 2021 with the possibility of extending the liquidation term and appointing bank liquidator:

Liquidators (since 20 June 2018):

Mario Pilat, Liquidator, represents a joint venture with another liquidator on the basis of the Assembly's decision of 21 May 2018, with the mandate of 21 June 2018

Andrej Galogaža, Liquidator, represents a joint venture with another liquidator on the basis of the Assembly's decision of 21 May 2018, with the mandate of 21 June 2018

II BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

2.1. Statement of adjustment and basis of presentation

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia. Bank's operations in Croatia have been regulated by the Credit Institutions Act (OG 117/08, 74/09, 153/09, 108/12, 54/13, 159/13, 19/15 and 102/15), in accordance with which financial reporting is prescribed by the Croatian National Bank ("the CNB") as the central supervisory institution of the banking system in Croatia. These financial statements have been prepared in accordance with these banking regulations.

The accounting regulations of the CNB are based on International Financial Reporting Standards (IFRS). The main differences between the accounting regulations and requirements for the recognition and measurement under IFRS are that regulation of CNB prescribes limits and other restrictions related to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, interest rate and currency risk, liquidity risk and foreign currency position and provisions for credit risk.

We draw attention to the following differences between the requirements for recognition and measurement under IFRS and the accounting regulations of the CNB:

- The CNB requires from banks to recognize impairment losses, in the income statement, for exposure carried at amortized cost and not specifically identified as impaired (including Central State risk) at prescribed rates. Provisions on a collective basis are recognized in the statement of financial position (balance sheet) in accordance with the requirements of the CNB. Based on the regulations of the CNB, Bank recognized the repeal of provisions within impairment losses and provisions. Although in accordance with IFRS such provisions should more properly be presented as an allocation within equity, the Bank continues to recognize them, in accordance with the rules of the CNB, as a substitute for incurred but unidentified impairment losses calculated in accordance with the requirements of IFRS.
- Bank calculates impairment losses on individually significant items by estimating the future cash flows and discounting them using original effective interest rate. Amortization of such discounts, the Bank recognize as interest income. In certain cases, collections are recognized as interest income only at the moment of complete release of provisions for impairment.
- CNB prescribes minimum levels of provisions for impairment losses for certain exposures specifically identified as impaired, and which in some cases may be different from the impairment losses calculated in accordance with IFRS.

Legal cases

In accordance with the Decision on the Obligation to Reserve Funds for Court Disputes against the Bank, it keeps records of court disputes, allocates a dispute to a risk group according to the estimate of cash outflows and makes provision. The Bank carries out the classification of risks, taking also into account the legal basis of the claim, the opinion of external attorneys for a part of court cases entrusted to them, prior judicial practice in relation to the type of dispute, the opinion of relevant internal departments as well as opinions of other relevant experts and their own experience in similar disputes

2.2. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and with statutory accounting requirements for banks in Croatia. Bank's operations in Croatia are regulated by the Credit Institutions Act, in accordance with which financial reporting is prescribed by the Croatian National Bank ("the CNB").

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

2.3. Key estimates and uncertainty of estimates

Certain estimates are used during preparation of the financial statements which have an effect on the statement of assets and liabilities of the Bank, income and expenses of the Bank and the disclosure of potential liabilities of the Bank. Future events and their influence could not be predicted with certainty and, following to this, the real results may differ from the estimated ones. Estimates used during preparation of the financial statements are subject to changes due to the occurrence of new events, gathering additional experience, obtaining additional information and comprehensions and due to change of environment in which the Bank operates.

Key estimates used in the application of accounting policies during preparation of the financial statements relate to depreciation calculation of long-term intangible and tangible assets, impairment of assets, impairment of provisions and reserves; and the disclosure of potential liabilities.

Financial statements are shown in a form usually used and internationally accepted in publishing financial statements of banks and similar financial institutions.

2.4. Reporting currency

The reporting currency is the Croatian kuna, and the financial statements are presented in kuna (unless otherwise stated).

III SUMMARY OF ACCOUNTING POLICIES

Summary of significant accounting policies adopted in the preparation of financial statements is set out below. Policies are consistently applied to all the years presented that are included in this statements, unless otherwise stated.

3.1. Changes in accounting policies

Standards, Amendments and Interpretations issued by the IASB and adopted by the European Union are effective

Adoption of new and revised International Financial Reporting Standards ("IFRS")

Standards and Interpretations effective in the current period

The following new standards and revised existing standards and interpretations issued by the International Accounting Standards Board adopted by the European Union are effective for the current period:

- ***IFRS 9 Financial Instruments: Classification and Measurement***

The Standard is effective for annual periods beginning on or after January 1, 2018, with earlier use being allowed. IFRS 9 Financial Instruments Refers to All Phases of a Financial Instruments Project and Modifies IAS 39 Financial Instruments: Recognition and Measurement as well as all prior versions of IFRS 9. The Standard introduces new classification and measurement requirements, impairment and hedge accounting.

- **IFRS 15 Revenue from Contracts with Customers**
The Standard is effective for annual periods beginning on or after 1 January 2018. The standard introduces a 5-step model applicable to customer-based revenue (with limited exceptions), regardless of the type of revenue transaction or industry. Standard requirements will also apply to the recognition and measurement of profits and losses from sales of some non-financial assets which is not a part of the Bank's regular activities (for example, the sale of property, plant and equipment or intangible assets). Extensive disclosures will be required, including disaggregation of total revenue; information on execution obligations; changes in amounts of contracted assets and liabilities between periods and key estimates and judgments. The Bank's management is currently evaluating the impact of this standard on financial reporting.
- **IFRS 15 Revenue from Contracts with Customers (Explanation)**
Explanations are effective for annual periods beginning on or after 1 January 2018, or earlier, with prior application being allowed. The purpose of the explanation is to clarify the purpose of the Board when defining the requirements of IFRS 15 *Revenue from Contracts with Customers*, in particular accounting treatment of identified execution obligations by supplementing the definition of a "separately recognizable" principle, consideration of the relationship between the principal and the agent including an assessment of whether the subject is the principal or the agent in the transaction, as well as the application of access control and licensing by providing additional guidance for the accounting treatment of intellectual property and royalties. Explanations also provide additional practical tools for entities subject to IFRS 15 using a full retroactive approach or for those who opt to use a modified retroactive approach. These clarifications are still not adopted in the EU. The Bank's management is currently evaluating the impact of these clarifications on financial reporting.
- **IFRIC 22: Foreign Currency Transactions and Advance Consideration**
Interpretation shall be effective for annual periods beginning on or after 1 January 2018, with prior application being allowed. It explains the accounting treatment of transactions involving the receipt or payment of prepayments in a foreign currency. Interpretation applies to foreign currency transactions where an entity recognizes a non-cash asset or a non-monetary liability arising out of the payment or receipt of prepayments before the entity recognizes the relevant assets, costs or income. The interpretation states that the transaction date for the purpose of determining the exchange rate takes the date of initial recognition of non-monetary assets (prepayments) or deferred income (liabilities). In cases where there are multiple payments or receipts of prepayments, the entity must specify the transaction date for each payment. This interpretation has not yet been adopted in the EU.
- **Amendments to IAS 40: Transfer of Investment Property**
Amendments shall be effective for annual periods beginning on or after 1 January 2018, with prior application being allowed. Amendments clarify at what point the entity should transfer the property, including the property under construction or the investment in property. Amendments state that change in the way of use arises when the property meets, or ceases to meet, the definition of investment in property and there is an evidence of change. The management's intention to use the property by itself does not give evidence of changing the way of use. These amendments have not yet been adopted in the EU.
- **Amendments to IFRS 2: Classification and measurement of share based payment transactions**

Amendments shall be effective for annual periods beginning on or after 1 January 2018, with prior application being allowed. Amendments have defined the accounting treatment of the impact of performance and non-performance measures on cash-settled share-based payments, share-based payments with the option of net settlement of a tax liability and changes in share-based payment conditions that change the transaction's classification from one settled in cash to the one is settled by equity instruments. These amendments have not yet been adopted in the EU.

- **Annual Improvements to IFRSs (Cycle 2014-2016)**, which represent a collection of amendments to various standards. Annual improvements are effective for annual periods beginning on or after January 1, 2017 for IFRS 12 *Disclosure of Interests in Other Entities* and for annual periods beginning on or after 1 January 2018 or for IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investments in Associates and Joint Ventures*. Earlier application is permitted for IAS 28 *Investments in Associates and Joint Ventures*. These annual improvements have not yet been adopted in the EU. An overview of the yearly improvement for the 2014-2016 cycle is given below:
 - IFRS 1 *First-time Adoption of International Financial Reporting Standards* – improving erases short-term exemptions from disclosures about financial instruments, compensation of employees and investors, which are applicable for entities applying IFRS for the first time.
 - IAS 28 *Investments in Associates and Joint Ventures* – this amendment clarifies that the choice of recognition of an investment in an associate or joint venture held by a venture capital or other qualified entity at fair value through income statement, is available for all investments in associates and joint ventures at the level of each individual investment, when it comes to initial recognition.

Adoption of these amendments to the Standard has not had any significant impact on the Bank's financial statements except for IFRS 9 - Financial Instruments (the impact is explained in Note 25 to the Financial Statements).

Standards and Interpretations issued by the Standards Board that have not yet entered into force and which the Bank has not previously adopted

At the date of issuance of these financial statements, the following standards, amendments and interpretations issued by the International Standards Board have not been adopted in the European Union:

- **IFRS 16 Leases**
The Standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 defines the rules for recognition, measurement, presentation and disclosure for the leases of both contractual parties, i.e. the buyer (the "lessee") and the supplier (the "lessor"). In accordance with the new standard the lessees should recognize most leases in their financial statements. A single accounting model will be applied to all leases, with certain exceptions. Accounting treatment of leases at the lessor will not be significantly altered. The Bank's management is currently evaluating the impact of this standard on financial reporting.

- **IFRIC 23: *Uncertainty over Income Tax Treatments***
Interpretation shall be effective for annual periods beginning on or after 1 January 2019, with prior application being allowed. Interpretation refers to the determination of taxable profit (tax losses), tax bases, unused tax losses, unused tax incentives and tax rates when there is uncertainty regarding the treatment of income tax under IAS 12. It specifically considers whether tax treatment should be considered jointly ; prerequisites for verification of tax authorities; determination of taxable profit (tax loss), tax base, unused tax losses, unused tax allowances and tax rates; and the effect of changes in facts and circumstances. This interpretation has not yet been adopted in the EU.
- **Negative Compensation Prepayment Features (Amendments to IFRS 9)**
Amendments shall enter into force for annual periods starting on or after 1 January 2019, with prior application being allowed. They change the existing IFRS 9 waiver right claims to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative fees. These amendments have not yet been adopted in the EU.
- **Long-term interests in associates and joint ventures (Amendments to IAS 28)**
Amendments shall be effective for annual periods beginning on or after 1 January 2019, with prior application being allowed. It clarifies that an entity applies IFRS 9 Financial Instruments on long-term stakes in associates or joint ventures that form part of a net investment in an associate or a joint venture but to which the equity method does not apply. These amendments have not yet been adopted in the EU.
- **IASB has published the Annual Improvement of IFRSs 2015-2017**, which is a summary of IFRS amendments. Amendments shall be effective for annual periods beginning on or after 1 January 2019.
These annual improvements have not yet been adopted in the EU. The review of Annual Improvements to IFRSs for the 2015 – 2017 cycle issued by the IASB is shown below:
 - **IFRS 3 and IFRS 11:** Amendments to IFRS 3 state that when an entity acquires control over a joint venture operation, it re-measures the previously held interests in that business. Amendments to IFRS 11 clarify that when an entity acquires joint control over a joint venture operation, an entity does not measure previously held interests in that business.
 - **IAS 12:** Amendments clarify that any tax consequences of dividends (i.e. profit distributions) should be recognized in profit or loss, regardless of how the tax is incurred
 - **IAS 23:** Amendments clarify that if any specific loan remains uncollected after the related asset is ready for intended use or sale, this loan becomes part of the entity's generally lending facility during calculation of the capitalization rate on general lending.

The Management Board of the Bank foresees that the application of these standards, amendments and interpretations will not have a significant impact on the financial statements in the period of their first application.

3.2. Interest income and expenses

Interest is defined as all income, ie expense, for which the base for calculating the placement is stated in the balance sheet assets, ie the liability shown in the liability statement, regardless of whether the calculation is made on a one-time basis or on a time basis (periodic).

Interest income to fully recoverable placements is recognized in the income statement, taking into account the effective yield of the asset on which the interest rates are calculated.

Interest income that is in the form of interest, fees and commissions charged and credited during the granting of a loan or during the term of a loan agreement relating to the future period shall be recognized in profit or loss on a pro rata basis over the period to which the income relates.

Interest income and interest expense includes amortization of discount or premium, as well as other differences between the initial carrying amount of the interest-bearing instrument and the amount at maturity.

The effective interest rate is the decurtive interest rate, expressed on an annual basis using a complex interest rate account, using discounted cash receipts equalizing the discounted cash outflows related to the given loans, ie the received deposits. For loans, the rate does not additionally adjust to the one-off equivalent effect of discounted cash receipts and expenses on the basis of the cash deposit used to secure the crediting. When discounting applies the actual (calendar) number of days in the month and 365/366 days per year. The effective interest rate is expressed in two decimal places, with the rounding of another decimal.

If the loan is partially written off to its estimated recoverable amount, the interest income is recognized on the basis of the interest rate used to discount the future cash flows in order to measure the recoverable amount. In accordance with IFRS 39, this is a historical effective interest rate that was used before the claim became suspicious and controversial. Interest income on partially recoverable and non-recoverable placements (risk groups B and C) is recognized in the income statement when it is charged or charged. Interest income on approved loans and receivables, and on payments made for guarantees and other guarantees are calculated according to interest rate and tariff resolutions of the Bank.

3.3. Fee and commission income and expenses

Fee and commission income are the fees of the Bank for guarantees and other services provided by the Bank, commissions for asset management on behalf of and for the account of legal entities and individuals and commissions for domestic and foreign payment transactions.

Fee and commission income are recorded on the principle of invoiced realization when performing banking services in the period when they are earned. For fees and commissions that have not been paid within 90 days from the maturity date, a write-down is made in accordance with the Plasma and Off-balance-sheet Procedures Procedure, based on the sole criterion and these are the delays in the expense of the period.

If the claim is billed, the booking is canceled for the benefit of the fee period. Fee expense is recognized in the income statement in the period when they were incurred.

3.4. Net income and losses from financial instruments at fair value through statement of comprehensive income and the result from purchase and sale of currencies and currency rate differentials made through recalculation of monetary assets and liabilities

This category includes earnings from purchase and sale of currencies, realized and unrealized profit and loss from debt and equity securities held for trading, other financial instruments valued at fair value through the Statement of Comprehensive Income, and derivative financial instruments. Net profit and loss from currency rate differentials made through recalculation of monetary assets and liabilities denominated in foreign currencies are also included in this category.

3.5. Foreign currency translation

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

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to HRK at the foreign exchange rate ruling at that date. Foreign exchange differences arising from translation are recognized in the Statement of Comprehensive Income.

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

Gains and losses arising from translation and foreign currency trading are recognized in the Statement of Comprehensive Income for the year concerned.

3.6. Taxation

Corporate profit tax expense represents the joint amount of current tax liabilities and deferred taxation.

a) Current tax

Current tax liabilities are based on taxable profit for the year. Taxable profit differs from net profit of the period declared in the Statement of Comprehensive Income for amounts which are not added to the tax base, as well as amounts of tax-unrecognised expenses. The current tax liability of the Bank is calculated using valid interest rates, or those interest rates valid on the balance sheet date.

Management periodically assesses tax application positions in relation to situations in which applicable tax laws are the subject of interpretation, and the Bank makes provisions whenever possible.

b) Deferred tax

Deferred tax is calculated using the liability method and shows tax effects of all significant time differences between the tax basis, assets and liabilities and amounts declared in financial statements.

3.7. Pension plans / retirement benefits

Defined contribution plans

Contributions from the Bank's pension plans burden the Statement of Comprehensive Income in the year pertaining.

Defined benefit plans

Surplus and deficits from retirement benefit (pension) plans are measured per:

- Fair value of assets available for said benefits, as at the day of reporting, less
- Current net value of benefits and
- Adjustments for non-recognized expenses of previous services

The Bank has no other retirement plans except those included within the state retirement plan in the Republic of Croatia

3.8. Financial assets

Financial assets include:

- (a) cash;
- (b) contractual right to receive money or other financial assets of another company;
- (c) the contractual right to exchange financial instruments with other companies under conditions that are potentially more favorable;
- (d) equity instruments of another company.

CLASSIFICATION OF FINANCIAL ASSETS

Financial assets in accordance with IFRS 9 are divided into four basic categories:

- (a) Financial assets measured at amortized cost
- (b) Financial assets measured at fair value through other comprehensive income
- (c) Financial assets that are measured at fair value through profit or loss
- (d) Financial assets held for trading

Financial assets measured at amortized cost - this portfolio classifies financial assets and financial liabilities that are measured at amortized cost in accordance with IFRS 9 - Financial Instruments (items 4.1.2 and 4.2.1).

Financial assets measured at fair value through other comprehensive income - this portfolio classifies financial assets measured at fair value through other comprehensive income in accordance with IFRS 9 - Financial Instruments (item 4.1.2.A).

Financial assets that are measured at fair value through profit or loss - This portfolio classifies a financial asset that does not meet the requirement that the related cash flows comprise only the payment of principal and interest on the outstanding principal amount and is therefore measured at fair value through an income statement in accordance with IFRS 9 - Financial Instruments (item 4.1.4).

Financial assets held for trading - This portfolio classifies financial assets and financial liabilities held for trading in accordance with IFRS 9 - Financial Instruments (Appendix A, Definitions of Concepts).

RECOGNITION OF FINANCIAL ASSETS

Financial assets measured at fair value through other comprehensive income, measured at fair value through profit or loss and held for trading, are recognized in the balance sheet at the settlement date, ie on the date on which the Bank settled the obligation to purchase or settle receivable from sale of property.

Financial assets measured at amortized cost are recognized in the balance sheet at the settlement date.

FIXING AND FINANCIAL MEASUREMENT OF FINANCIAL ASSETS

Financial assets are initially recognized at cost, including transaction costs. The cost of the acquisition represents the fair value of the assets received for financial assets or received for a financial liability.

After initial recognition, all financial assets measured at fair value through other comprehensive income, measured at fair value through profit or loss and held for trading, are stated at fair value on a daily basis.

Financial assets measured at amortized cost are stated at amortized cost less any impairment losses. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the instrument and are amortized on the basis of the effective interest rate of the instrument. The fair value of financial assets is based on the daily market price without deducting transaction costs.

If the discounted cash flow method is used, the estimated future cash receipts are based on the best management estimate and the discount rate is the market rate valid on the balance sheet date for a instrument of similar characteristics and conditions.

The fair value of derivative instruments not traded on a regulated market is estimated on the basis of the amount of receipts or expenditures that the Bank would have in case of termination of the contract at the balance sheet date, taking into account the current market conditions and the credit risk of the counterparty. Gains or losses on financial assets classified as at fair value are recognized in the income statement.

Gains or losses on financial assets measured at fair value through other comprehensive income are recognized directly in equity except for impairment losses and foreign exchange differences until the recognition of instruments is recognized when cumulative gains and losses that had previously been recognized in equity , are recognized in the income statement.

FINANCIAL ASSETS LOSSES

Financial assets are reviewed at the balance sheet date to establish the existence of objective evidence of impairment loss. If there is such an indication, the recoverable amount of the asset is estimated.

The recoverable amount of financial assets measured at amortized cost is calculated as the present value of the expected future cash flows discounted at the original effective interest rate instrument. If future cash flows are expected within one year from the balance sheet date, cash flows need not be discounted.

Recoverable amount of investment The Bank in securities that is measured at amortized cost is calculated as the present value of expected future cash receipts and expenses, discounted at the original effective interest rate, as explained in the impairment policies of financial instruments.

A recognized impairment loss on securities or receivables measured at amortized cost is charged if the subsequent increase in recoverable amount can be objectively associated with an event occurring after recognition of impairment loss. Revenue can not exceed the value of the original loss.

EXCLUSION OF RECOGNITION OF FINANCIAL ASSETS

Financial assets are derecognised when the Bank ceases to have control over the contractual rights related to that asset, ie when the rights have been realized, due or relinquished. A financial liability is derecognised if the contractual obligation has been settled, corrected or expired.

When assets are measured at fair value through other comprehensive income that is measured at fair value through profit or loss and held for trading, their recognition and related receivables from customers are discontinued on the date of settlement of the receivable sold. Assets measured at amortized cost are derecognised on the date on which the Bank loses control over them.

SPECIAL FINANCIAL INSTRUMENTS

Investments in debt securities

Debt securities include bills of exchange, notes and bonds with floating or fixed interest rates and other debt-backed instruments, regardless of who the issuer is. Debt securities are quoted in the name or the originator and are issued in series (there is a greater number of papers of the same characteristics).

Debt securities may be classified in any of the four existing categories of financial assets at acquisition, depending on the specifics of the debt securities and in accordance with the above-mentioned classification criteria.

Debt securities classified as financial assets measured at fair value through other comprehensive income, measured at fair value through profit or loss and held for trading, are adjusted to the fair value at fair value. For debt securities for which the quoted price is quoted in the active market, fair value is determined on the basis of the valid price per day.

Debt securities measured at amortized cost are stated at amortized cost less any impairment losses. Amortized cost is calculated using the effective interest rate method. Disconnections and premiums, including initial transaction costs, are included in the carrying amount of the instrument and amortized on the basis of the effective interest rate, and are recognized as income or interest expense. In the business books, the principal, the discount or the premium and the related interest on each security are recorded separately.

Investments in equity securities

In equity securities, we include stocks or shares in companies. Equity securities The Bank gives the right to participate in the company's profits and assets after the rights of the creditor and other financial providers are met. Equity securities are classified as financial assets that are measured at fair value through profit or loss and held for trading.

Equity securities classified as financial assets that are measured at fair value through profit or loss and held for trading are adjusted on a daily basis with fair value. For equity securities quoted on an active market, fair value is determined on the basis of the closing price on the same. If the equity securities are not quoted in an active market, they can be stated at fair value if fair value can be measured reliably. It is considered that fair value can be measured reliably if:

- the change in value within a reasonable range of fair value estimates of the same instrument is not significant, or
- the reliability of different estimates within a range of estimates can reasonably be estimated and used when estimating fair value.

If a number of reasonable estimates of the fair value of the equity instrument are significant and the probability of different estimates can not reasonably be estimated, such an instrument is not measured at fair value but at cost.

The sale of a portion of a portfolio of a particular security is recorded at the average book value of the investment. When investing, the difference between net investment income and the carrying amount of the investment is recognized as gain or loss on sale.

Loans to banks and customers

Credits include short-term and long-term receivables based on:

- approved loans and advances
- payments made on guarantees and other guarantees
- used framework credits

If there is a permanent decrease in the value of the loans, there is a lack of objective evidence that the claim will not be fully settled, the value adjustments (placements) of the placements that identify the potential losses on an individual basis. Depending on the level of coverage and the quality of the collateral, the balance sheet and off-balance sheet receivables of the bank are allocated to the appropriate groups A, B, and C in accordance with the provisions of the Decision on the classification of placements and off-balance sheet liabilities of credit institutions.

In addition to these provisions, provision is made for impairment losses or impairment losses on placements classified in risk category A according to the Methodology for the preparation of IFRS 9. Provisions or impairments of the placements referred to in the previous paragraph are charged at the cost of provisions.

If the loan is uncollectible and all legal proceedings are completed and the final amount of loss is known, the loan is written off. If, in the following period, the amount of impairment loss is reduced by billing, the amount charged is recognized in the income statement.

Contracts with the right of reopening

The Bank contracts the purchase (sale) of the investment by negotiating the re-sale (purchase) of substantially the same investments at a certain date in the future at a fixed price. Investments purchased with a repurchase obligation in the future are not recognized in the balance sheet, but expenditures under these contracts are recognized as loans granted to banks or customers. It is also noted that the purchased receivables are secured by appropriate securities from the repurchase agreement. Investments sold under a repurchase agreement are further recognized in the balance sheet and are recognized in accordance with the accounting policies for financial assets available for sale or held-to-maturity assets, whichever is the most appropriate. Investment income receivables are presented as liabilities to banks or customers.

The difference between the amount of sales and re-purchase is recognized on the basis of the calculation over the transaction period and is shown as income in the income statement.

3.9. Fair value of financial instruments

Fair value of financial instruments being traded on active markets shall be determined on each reporting date, with respect to quoted market prices or distributor's quoted prices, without decrease for transaction costs.

Fair value of financial instruments not being traded on active markets shall be determined through the use of value estimate techniques. Such techniques may include the use of new, non-biased market transactions; use of current fair value of another similar instrument; analysis of discounted cash flow, or other models of value estimation.

3.10. Property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and / or accumulated impairment losses, and make tangible assets if their useful life is longer than one year, and single value is greater than HRK 3,500 at the acquisition date. Cost includes purchase price, the cost of spare parts, plant and equipment, borrowing costs for long-term construction projects, and other dependent costs and estimated future costs of dismantling, if recognition conditions are met, while the liability is recorded as commission.

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Land and property are recorded at cost less accumulated depreciation of property and asset impairment losses recognized after the date of revaluation, on the basis of periodic evaluation by professional appraisers.

Depreciation is calculated so to write-off the cost of the assets, except land and investments in progress, over their estimated useful lives using the straight-line method at the following rates:

DESCRIPTION	I-IV 2018.	2017.
	%	%
Computer equipment	25	25
Furniture	14.3	14.3
Personal vehicles	25	25
Other equipment	14.3 - 25	14.3 - 25

Depreciation is calculated separately by each item of assets till it is fully depreciated. Property, plant and equipment and any of their significant part initially recognized is derecognized upon the full write-off or when no future economic benefits are expected from its use or disposal.

Any gains or losses from disposal of certain asset are determined as difference between sale revenue and carrying amount of that asset and are recognized as expense or income in the Income statement. The assets' residual carrying value, useful life and methods of depreciation are reviewed at each financial year end, and adjusted if appropriate.

3.11. Intangible assets

Intangible assets include IT programmes and leasehold investments initially measured at cost and depreciated on a straight line basis during the estimated useful life. Intangible assets acquired separately are measured at initial cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and eventual accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of comprehensive income in the year in which the expenditure occurred. The useful lives of intangible assets are assessed as either limited (finite) or unlimited (indefinite).

Intangible assets with finite lives are amortised over the useful economic life and impaired whenever the conditions are met. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. For the purpose of preparation of these financial statements the Bank calculated depreciation of intangible assets at the following rates:

DESCRIPTION	I-VI 2018	2017
	%	%
Investments in property of third parties	3.3 - 10	3.3 - 10
Software	10 - 25	10 - 25
Other intangible assets	20 - 50	20 - 50

The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level.

3.12. Foreclosed assets

Foreclosed assets in exchange for uncollected receivables on placements are recorded at the lower of net book value and net realizable value on the basis of appraisal.

3.13. Deposits

Deposits are shown at the level of deposited amounts increased for accounted interest. Foreign currency deposits as also the deposits in kunas with currency clause are accounted at currency rate at the date of transaction and at the end of the accounting period at the balance sheet date.

3.14. Hybrid instruments

Hybrid instruments represent long term deposits with possibility of conversion into shares. The Bank is obliged to make conversion of a liquid hybrid instrument into shares if adequacy of capital falls under 75% of the minimal prescribed liquidity, unless if the existing shareholders pay the necessary capital within 90 days from the day when the aberration from the prescribed adequacy value is established. The owners of hybrid instruments have the possibility to buy Bank's shares in case of increase of the basic Bank's capital. Value of shares is not defined in advance.

3.15. Share capital and reserves

Share (basic) capital represents undistributed capital of the Bank. Profit, after appropriation into legal reserves and the payment of dividends, has to be transferred into reserves. Reserves include legal reserves of the Bank, retained profits and other reserves prescribed by Statutes or Assembly's Decision.

3.16. Use of estimates

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

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

3.17. Cash flow statement

For the cash flow reporting purposes, cash and cash equivalents are defined as cash, placements with banks with remaining maturity up to 90; and treasury bills of the Ministry of Finance and bills of exchange of trading companies with remaining maturity up to 90 days.

3.18 . Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, i.e. the function that allocates resources and evaluates the work of operational segments, has been identified as the Bank's Management Board that reaches strategic decisions.

The Bank identified four primary segments: Corporate, Retail, Banks and Other. The primary segmental information is based on the internal reporting structure of business segments. Where it was possible, the positions of the balance sheet and Statement of Comprehensive Income were shown by mentioned segments.

3.19. Regulatory requirements

The Bank is subject to the regulatory requirements of the Croatian National Bank. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments and provisioning to cover credit risk, liquidity, interest risk and risk related to foreign currency position.

3.20. Events after the report date

Events after the balance sheet date are those events which have positive or negative effects and which emerged between the balance sheet date and the date of approving the issue of the financial statements. The Bank shall coordinate the amounts which it recognized in its financial statements for events after the balance sheet date which need adjustment.

NOTES TO THE INCOME STATEMENT AND THE STATEMENT OF COMPREHENSIVE INCOME

4. Interest income

Description	01 Jan – 20 Jun	
	2018.	2017.
	HRK	HRK
Corporate	717,865	8,766,606
Financial institutions	1,736	309,773
Governmental institutions	113,811	353,575
Non-profit institutions	173,422	226,467
Individuals	997,163	3,253,129
Foreign customers	211,350	337,357
Other	1,393,987	0
Foreign exchange differences on interest income	(646)	(1,326)
Total	3,608,688	13,245,581

5. Interest expenses

Description	01 Jan – 20 Jun	
	2018.	2017.
	HRK	HRK
Corporate	18,016	72,512
Financial institutions	48,399	1,149,107
Non-profit institutions	0	7,202
Individuals	1,749,097	8,758,824
Foreign customers	178,756	641,273
Total	1,994,268	10,628,918

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6. Fee and commission income

Description	01 Jan – 20 Jun	2017.
	2018.	
	HRK	HRK
Corporate	796,252	6,985,336
Financial institutions	35,506	80,408
Government institutions	360	1,090
Non-profit institutions	17,400	41,180
Individuals	138,780	591,084
Foreign customers	31,742	214,678
Total	1,020,040	7,913,776

7. Fee and commission expenses

Description	01 Jan – 20 Jun	2017.
	2018.	
	HRK	HRK
Corporate and financial institutions	643,223	1,878,433
Foreign customers	34,547	79,839
Total	677,770	1,958,272

8. Net income from trade, carrying over to fair value of financial property and foreign exchange gains

Description	01 Jan – 20 Jun	2017.
	2018.	
	HRK	HRK
Income from trade with currencies	411,588	6,208,227
Loss from carrying over of foreign positions of balance sheet to average rate	2,039,159	3,017,407
(Loss)/Income from carrying over of positions with foreign currency clause to agreed rate	(1,880,764)	(2,360,711)
Income from activities in category of property available for sale	(51,430)	(278,530)
Income from activities in category of property held to maturity	0	2,866,473
Total	518,553	9,452,866

9. Other expenses

Description	01 Jan – 20 Jun	2017.
	2018.	
	HRK	HRK
Employees /i/	4,364,323	8,572,092
Depreciation of long-term material and intangible assets without assets taken over	545,928	998,552
Depreciation of property taken over	39,472	78,943
Impaired value of long-term assets	2,975,290	0
Disposal of long-term assets	327,804	0
Other operating costs / ii /	3,151,859	7,346,967
Total	11,404,676	16,996,554

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/i/ Employees' costs are shown as follows:

Description	01 Jan – 20 Jun 2018.	2017.
	HRK	HRK
Net salaries	1,972,392	4,388,540
Contributions from and on salaries	1,124,292	2,369,811
Taxes and surtaxes from salaries	441,251	1,142,825
Other employees' costs	137,683	542,349
Severance pay	688,705	128,567
Total	4,364,323	8,572,092

/ii/ Other operating expenses are shown as follows:

Opis	01 Jan – 20 Jun 2018.	2017.
	HRK	HRK
Deposit insurance premiums	227,321	1,140,484
Material and similar expenses	141,320	211,123
Reimbursements to the Supervisory Board	214,583	543,716
IT services	287,676	420,798
Services of attorneys, notaries and counsellors	50,293	328,940
Other intellectual services	354,800	323,981
Rental costs	703,657	1,410,741
Other services expenses	221,667	208,025
Cost of advertising, propaganda and representation	32,308	334,134
Other	918,234	2,425,025
Total	3,151,859	7,346,967

10. Impairment and provisions costs

Description	01 Jan – 20 Jun 2018.	2017.
	HRK	HRK
Impairment of loans and prepayments to customers	17,959	7,532,532
Impairment of other assets	41,425	103,941
Provisions for contingent liabilities	(141,530)	(25,504)
Provisions for court disputes	481,205	(78,046)
Total	399,059	7,532,923

11. Corporate income tax

Description	01 Jan – 20 Jun 2018.	2017.
	HRK	HRK
Accounting loss before taxation	(9,314,371)	(6,177,200)
Items which increase tax base	3,424,866	1,304,854
Items which decrease tax base	(194,845)	(740,258)
Loss after increase and decrease	(6,084,350)	(5,612,604)
Tax loss carried forward	(19,046,217)	(17,910,332)
Corporate income tax base	0	0
Income tax rate	18%	20%
Corporate income tax liability (deferred tax assets)	0	2,882,060
Tax loss for transfer	(25,130,567)	(23,522,936)

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NOTES TO THE FINANCIAL STATEMENTS
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The transferred tax losses are shown below:

Description	2013	2014	2015	2016	2017	I-VI 2018
	HRK	HRK	HRK	HRK	HRK	HRK
Tax gains	0	0	825,722	10,342,490	0	0
Tax loss	7,865,449	5,568,165	0	0	5,612,603	6,084,350
Transferred tax loss	0	7,865,449	13,433,614	13,433,614	13,433,614	19,046,217
Total tax loss	7,865,449	13,433,614	13,433,614	13,433,614	19,046,217	25,130,567
To be transferred to the next tax period	7,865,449	13,433,614	13,433,614	13,433,614	19,046,217	25,130,567

The Bank has not recognized the deferred tax assets in the financial statements that arise from the past tax losses transferred in the previous periods due to the uncertainty of profit making in future tax periods.

NOTES TO THE STATEMENT OF FINANCIAL POSITION / BALANCE SHEET

12. Cash

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Cash in hand:		
- HRK	0	1,610,800
- foreign currency	0	1,521,678
Cash on foreign current accounts with foreign banks	0	6,910,876
Cash on foreign current accounts with domestic banks	9,651,537	9,797,206
Giro account	0	179,617,938
Giro account with domestic banks	33,116,320	0
Total	42,767,857	199,458,498

13. Receivables from the Croatian National Bank

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Mandatory reserves		
- HRK	6,979,375	30,024,149
Total	6,979,375	30,024,149

The Bank is required to deposit mandatory reserves with the CNB in the amount of 12% of short-term and long-term deposits to which the reserve requirement is calculated. The Bank cannot use the amount of required reserves for its daily operations.

HRK portion of so calculated mandatory reserves is increased to 75% of the calculated reserve requirement on foreign currency deposits and loans. The percentage of kuna reserve requirement is 70%. Kuna reserve requirement is deposited with the National Bank through the transfer of the funds accrued on the account of statutory reserves within CNB.

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With the CNB Decision on Obligatory Reserve made on December 15, 2015, a 100% maintenance of the foreign exchange reserve requirement was introduced with effect from 13 January 2016. Also, the obligation of banks was introduced that from the calculation in May 2016 2 % of the foreign exchange reserve requirement hold the average daily balance of funds on their own Euro currency settlement accounts with the CNB, ie on their own PM accounts in the TARGET2-HR system

Due to the Bank's entry into the regular liquidation procedure in accordance with the Mandatory Reserve Decision, the Bank is not required to maintain the kuna and foreign reserve requirement until the kuna reserve requirement continues to be allocated.

14. Placements with banks

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Deposits with domestic banks		
- HRK	197,690	199,569
- Foreign currency	589,739	601,091
Total	787,429	800,660

15. Financial assets available for sale

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Bonds		
- HRK	6,383,919	9,081,861
- foreign currency clause	35,230	46,602
Treasury bills		
- HRK	0	44,982,000
- foreign currency	0	46,674,777
- foreign currency clause	0	110,946,526
Shares		
- HRK	30,000	86,000
Stakes in investment funds	0	30,074,344
Total	6,449,149	241,892,110

16. Loans and prepayments to customers

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Corporate	58,350,168	82,303,674
Individuals	14,493,724	24,315,033
Non-profit institutions	2,606,725	3,614,764
Impairment	(26,169,770)	(24,387,299)
Total	49,280,847	85,846,172

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/i/ Loans to customers by categorisation of placements are shown as follows:

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Non purpose loans in cash	4,742,540	18,207,931
Investment loans	5,204,304	6,984,076
Loans to building trade	1,506,847	1,516,906
Loans to tourism	4,712,680	4,820,719
Loans for current assets	16,601,342	25,142,934
Housing loans	502,648	634,511
Overdrafts upon balances of transaction accounts	382,063	440,037
Mortgage loans	8,077,831	8,155,607
Margin loans	0	3,630,500
Other loans	31,681,449	38,601,540
Receivables for interest and fees upon loans	2,038,913	2,098,710
Impairment	(26,169,770)	(24,387,299)
Total	49,280,847	85,846,172

/ii/ Changes upon value provision, i.e. provisions for possible losses are shown as follows:

Description	I – VI 2018			2017		
	Impairment	Special provisions for identified cumulative losses	Total	Impairment	Special provisions for identified cumulative losses	Total
	HRK	HRK	HRK	HRK	HRK	HRK
Balance as at 1 January	21,641,868	2,745,431	24,387,299	10,139,665	5,604,032	15,743,697
Net Impairment and provisions	3,051,102	(1,755,840)	1,295,262	12,112,427	(2,858,601)	9,253,826
Write-offs and foreign currency differences	487,209	0	487,209	(610,224)	0	(610,224)
Balance as at 31 December	25,180,179	989,591	26,169,770	21,641,868	2,745,431	24,387,299

Pursuant to the Bank's policies in accordance with the applicable legislation, the Bank shall allocate group-based impairment provisions on a group basis that are determined in the credit portfolio on the basis of prior experience. The amount of such reserves determined by the Bank shall be in accordance with the regulations of the Croatian National Bank (CNB).

PRIMORSKA BANKA d.d., Rijeka
 NOTES TO THE FINANCIAL STATEMENTS
 as at 20 June 2018 - continued

17. Property, plant and equipment

Description	Equipment	Furniture and transport vehicles	Other tangible assets	Total property, plant and equipment
	HRK	HRK	HRK	HRK
Cost				
Balance as at 1 January 2017	3,321,460	990,530	5,958	4,317,948
Additions	503,780	4,828	0	508,608
Disposals and write-offs	(140,900)	0	0	(140,900)
Balance as at 31 December 2017	3,684,341	995,358	5,958	4,685,656
Additions	5,278	0	1,629,984	1,635,262
Disposals and write-offs	(481,380)	(89,012)	0	(570,392)
Balance as at 20 June 2018	3,208,238	906,346	1,635,942	5,750,526
Impairment				
Balance as at 1 January 2017	2,502,722	886,950	0	3,378,672
Depreciation for 2017	336,010	42,421	0	378,431
Disposals and write-offs	(140,899)	0	0	(140,900)
Balance as at 31 December 2017	2,697,833	929,371	0	3,627,204
Depreciation for 2018	185,152	15,090	0	200,242
Disposals and write-offs	(475,227)	(89,012)	0	(564,239)
Balance as at 20 June 2018	2,407,758	855,450	0	3,263,207
Net carrying value as at 1 January 2017	818,738	103,580	5,958	928,276
Net carrying value as at 31 December 2017	986,507	65,987	5,958	1,058,452
Net carrying value as at 20 June 2018	800,480	50,897	1,635,942	2,487,319

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 NOTES TO THE FINANCIAL STATEMENTS
 as at 20 June 2018 - continued

18. Intangible assets

Description	Investments in property of third parties	Software	Other intangible assets	Intangible assets under construction	Total intangible assets
	HRK	HRK	HRK	HRK	HRK
Cost					
Balance as at 1 January 2017	3,848,994	1,074,228	1,485,259	1,216,138	7,624,619
Additions	0	2,486,444	0	0	2,486,444
Disposals and write-offs	0	1,216,138	0	(1,216,138)	0
Balance as at 31 December 2017	3,848,994	4,776,810	1,485,259	0	10,111,063
Additions	0	16,800	0	0	16,800
Disposals and write-offs	(46,261)	(903,630)	(1,446,769)	0	(2,396,660)
Balance as at 20 June 2018	3,802,733	3,889,980	38,490	0	7,731,203
Impairment					
Balance as at 1 January 2017	2,555,236	758,967	1,196,184	0	4,510,387
Depreciation for 2017	127,859	406,341	85,921	0	620,121
Balance as at 31 December 2017	2,683,095	1,165,308	1,282,105	0	5,130,508
Depreciation for 2018	63,930	240,449	41,307	0	345,686
Disposals and write-offs	(32,232)	(757,856)	(1,284,922)	0	(2,075,010)
Intangible asset impairment	935,177	2,040,113	0	0	2,975,290
Balance as at 20 June 2018	3,649,970	2,688,015	38,490	0	6,376,475
Net carrying value as at 1 January 2016	1,293,758	315,261	289,075	1,216,138	3,114,232
Net carrying value as at 31 December 2016	1,165,899	3,611,502	203,154	0	4,980,555
Net carrying value as at 31 December 2017	152,763	1,201,966	0	0	1,354,729

19. Foreclosed assets

Foreclosed assets stated in the balance sheet of the Bank as at 20 June 2018 in the amount of HRK 1,460,447 (31 December 2017: HRK 3,129,903) relates to property which was taken over by the Bank in exchange for uncollected receivables upon loans and placements. The estimate of the Management Board of the Bank is that the value of foreclosed assets is approximate to its actual market value.

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Initially recognized value of residential buildings	1,578,862	3,208,846
Amortization	(118,415)	(78,943)
Total	1,460,447	3,129,903

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20. Other assets

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Receivables on the basis of cashier's deficits	0	7,570
Receivables for fees and commissions	23,974	289,843
Receivables for overpaid memberships	576	0
Receivables for refunds of sick leaves	1,091	1,445
Receivables for other reasons	77,087	196,074
Prepaid expenses of the future period	73,074	127,002
Provisions for possible losses	(31,909)	(73,334)
Total	143,893	548,600

/i/ Movements on impairments are shown as follows:

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Balance as at 1 January	(73,334)	(177,276)
Net Impairment	41,425	103,942
Balance as at 31 December	(31,909)	(73,334)

21. Clients' deposits

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Deposits on demand /i/	1,858,997	69,252,715
Timed deposits /ii/	41,605,722	366,043,690
Total	43,464,719	435,296,405

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/i/ Demand deposits are shown as follows:

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Demand deposits - individuals		
- HRK	1,045,508	7,140,693
- foreign currency	362,354	27,094,085
Total individuals	1,407,862	34,234,778
Demand deposits – trade companies		
- HRK	23,537	10,101,298
-	3,508	3,008,701
Total trade companies	27,045	13,109,999
Demand deposits – non-banking financial institutions		
- HRK	0	34,719
Total financial institutions	0	34,719
Demand deposits - state institutions		
- HRK	0	2,364
Total state institutions	0	2,364
Restricted deposits		
- HRK	0	2,118,278
- foreign currency	0	2,133,312
Total restricted deposits	0	4,251,590
Demand deposits - non-profit institutions		
- HRK	0	271,340
Total non-profit institutions	0	271,340
Deposits – foreigners		
- HRK	20,781	1,573,674
- foreign currency	403,309	15,774,251
Total foreigners	424,090	17,347,925
Total demand deposits	1,858,997	69,252,715

/ii/ Time deposits are shown as follows:

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Time deposits - individuals		
- HRK	5,039,026	36,019,022
- foreign currency	35,061,814	289,315,341
Total individuals	40,100,840	325,334,363
Time deposits – trade companies		
- HRK	667,520	2,795,714
- foreign currency	0	375,441
Total trade companies	667,520	3,171,155
Time deposit - non-profit institutions		
- foreign currency	0	14,500,845
Total non-profit institutions	0	14,500,845
Deposits – foreigners		
- HRK	0	120,410
- foreign currency	837,362	22,916,917
Total foreigners	837,362	23,037,327
Total time deposits	41,605,722	366,043,690

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 as at 20 June 2018 - continued

22. Hybrid instruments

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Hybrid instruments of foreign legal entities	3,620,687	3,687,139
Total	3,620,687	3,687,139

23. Liabilities for received loans

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Loans from domestic financial institutions	3,003,175	54,359,843
Total	3,003,175	54,359,843

24. Other liabilities

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Trade payables	22,807	1,715,273
Liabilities to employees for net wages and salaries	222,016	396,448
Obligations for severance payments to employees	682,705	0
Liabilities for taxes and contributions from and on salaries	177,949	298,441
Liabilities for other taxes and contributions	30,338	164,894
Overpayments upon loans	532,200	670,864
Liabilities from balancing of accounts	528,056	924,749
Deferred income of future period	10,489	66,683
Provisions for potential liabilities taken over (i)	19,958	54,884
Provisions for court disputes (ii)	452,478	1,172,586
Other liabilities	1,700	86,060
Total	2,680,696	5,550,882

/i/ Movements in provisions are shown as follows:

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Balance as at 1 January	1,227,470	1,331,020
New provisions for potential liabilities taken over	142,049	57,466
New provisions for court disputes	1,684,666	297,921
Reversal of provisions for potential liabilities taken over	(176,975)	(82,970)
Reversal of provisions for court disputes	(2,404,774)	(375,967)
Balance as at 31 December	472,436	1,227,470

25. Share capital

In line with the decision of the General Assembly dated December 29, 2014 the share capital was increased by payment in cash from the amount of HRK 58,089,000 by the amount of HRK 5,000,000 to the amount of HRK 63,089,000, by issuing 50,000 new ordinary shares, with the nominal value of HRK 100. The share capital of the Bank is divided into 630,890 shares with a nominal value of HRK 100 each. The increase in subscribed capital was recorded in the Court Register on 4 February 2015.

In line with the decision of the General Assembly dated 7 June 2016, a simplified decrease of the share capital was implemented from the amount of HRK 63,089,000 by the amount of HRK 12,617,800 to the amount of HRK 50,471,200 as well as the decrease of the nominal amount of the Bank's share from 100 (one hundred) HRK to 80 (eighty) HRK each in order to cover accumulated loss from previous years. In line with the decision of the General Assembly of the Bank from 7 June 2016, the decision was reached to increase the share capital by contribution, i.e. to increase the share capital from the amount of HRK 50,471,200 HRK by the amount of 19,528,800 HRK to the amount of HRK 70,000,000 HRK, all by issuing 244,110 new ordinary shares each having a nominal value of HRK 80. After the increase, share capital amounts HRK 70,000,000 HRK divided into 875,000 ordinary shares.

The first application of IFRS 9 for which the Bank's Management has conducted a detailed analysis has appropriately amended the internal acts related to the effects of the application of this Standard. The Bank's management adopted the standard after its effective date and its impact was assessed and quantified and recorded in the business books starting on 1 January 2018. The impact of first-time adoption of IFRS 9 is recorded as impairment of reserves and increase in financial assets losses through other comprehensive income of a total of HRK 2,106,999.

By December 31, 2017, the bank calculated the aggregate provisions on the basis of the Decision on classification of placements and off-balance sheet liabilities of credit institutions. The amount of the reservation was 1% of the base. By applying IFRS 9 Financial Instruments as of January 1, 2018, the Bank has developed its own group-based booking methodology where it will conduct a group-based impairment estimate if the gross exposure to the debtor or group of related persons does not exceed the amount of HRK 500,000 (Decision on the classification of exposures to risk groups and the method of determining credit losses, Article 8 paragraph 2) and is not secured by an adequate insurance instrument. The bank divided the property into homogeneous groups (exposures):

1. Loans, off-balance sheet liabilities and receivables
 - a. Physical persons
 - b. Legal persons
 - c. Other claims
2. Securities
 - a. State
 - b. Other issuers
 - c. Shares and funds
3. Accounts with the Bank and the CNB

Pursuant to the provisions of IFRS 9 - Financial Instruments, PD and LGD are calculated and the percentage of provisions for each exposure is calculated

PRIMORSKA BANKA d.d., Rijeka
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26. Earnings/loss per share

Description	I – VI 2018	2017
	HRK	HRK
(Loss)/Profit for the year	(9,314,371)	(9,059,260)
Weighted average number of shares	875,000	875,000
Earnings/Loss per share	(10.64)	(10.35)

27. Contingent liabilities and commitments

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Guarantees		
- HRK	1,062,935	2,090,127
- foreign currency	0	1,607,954
Approved non-utilized loan overdrafts		
- HRK	0	1,790,302
Total contingent liabilities and commitments taken over	1,062,935	5,488,384
Provisions for contingent liabilities and commitments taken over	(19,958)	(54,884)
Total contingent liabilities and commitments taken over, net	1,042,977	5,433,500

Cash and cash equivalents

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Cash	0	3,132,479
Giro account with domestic banks	40,773,415	0
Giro account	0	179,617,938
Deposits with maturity dates of up to 3 months	9,651,537	17,309,174
Total cash and cash equivalents	50,424,952	200,059,590

28. Concentration of Assets to the Republic of Croatia

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Money on the account	0	179,617,938
Obligatory deposits with the CNB	6,979,375	30,024,149
Treasury bills of Ministry of finance of the Republic of Croatia	0	155,928,526
Bonds of the Republic of Croatia	35,230	46,603
Total	7,014,605	365,617,216

Concentration of Assets to the Republic of Croatia on 20 June 2018 represents 6% of assets of the Bank (2016: 64% assets of the Bank).

PRIMORSKA BANKA d.d., Rijeka
 NOTES TO THE FINANCIAL STATEMENTS
 as at 20 June 2018 - continued

29. Transaction with related parties

Related parties are those in which one party is controlling or have significant influence in governing the financial and operating business decisions of other party. Bank activities with the related parties are conducted in the course of ordinary operations, which include loans and deposits assignment. Mentioned transactions are conducted under commercial conditions and market rates, respectively, prices. Total amount of transactions with related parties, closing balances at the end of a year and related income and expense for the year are shown as follows:

Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Loans and advance payments to clients		
Members of the Management Board	106,801	81,050
Total loans and advance payments to clients	106,801	81,050
Deposits and hybrid instruments		
Members of the Management Board	0	421,913
Members of the Supervisory Board	0	324,836
Shareholders with 5 and more ordinary shares	3,620,687	5,028,897
Total deposits and hybrid instruments	3,620,687	5,775,646

Description	I – VI 2018	2017
	HRK	HRK
Income		
Members of the Management Board	4,625	8,056
Members of the Supervisory Board	102	2,849
Shareholders with 5 and more ordinary shares	657,826	5,545,445
Total income	662,553	5,556,350
Expenses		
Members of the Supervisory Board	0	5,891
Shareholders with 5 and more ordinary shares	140,945	128,417
Total expenses	140,945	134,308

// Salaries of the Management Board are shown as follows:

Description	I – VI 2018	2017
	HRK	HRK
Net wages and salaries	313,361	751,255
Taxes and contributions	293,302	580,453
Total	606,663	1,331,708

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Description	20 Jun 2018	31 Dec 2017
	HRK	HRK
Loans and prepayments		
C.I.M. BANQUE	0	5,363,174
PRIMORSKE NEKRETNINE D.O.O.	0	139
S.V.I.T. BON D.O.O.	0	120
SIGNORIO FRANCESCO MARIA AMEDEO	0	500
SIGNORIO SVETLANA	0	10
DI DATO CARLO	0	5
JOURDAN JEAN LUC LEON M	0	10
OŠTRC D.O.O.	0	61
Total loans and prepayments	0	5,364,019
Deposits and hybrids		
C.I.M. BANQUE	0	910,927
COFISI S.A.	3,592,800	3,592,800
PRIMORSKE NEKRETNINE D.O.O.	0	2,040,206
S.V.I.T. BON D.O.O.	0	301,594
SIGNORIO FRANCESCO MARIA AMEDEO	0	525,171
SIGNORIO SVETLANA	0	335,505
DI DATO CARLO	0	19,219
JOURDAN JEAN LUC LEON M	0	855
OŠTRC D.O.O.	0	1,959
Total deposits and hybrids	3,592,800	7,728,236
<hr/>		
Description	I – VI 2018	2017.
	HRK	HRK
Received interest and received commissions (fees)		
C.I.M. BANQUE	575,850	5,521,965
COFISI S.A.	0	854
PRIMORSKE NEKRETNINE D.O.O.	4,240	5,804
S.V.I.T. BON D.O.O.	1,089	2,966
TERRA MARIQUE DOO	217	724
ALPS MERCHANT SA RIJEKA	0	612
SIGNORIO FRANCESCO MARIA AMEDEO	950	22,627
SIGNORIO SVETLANA	50	137
JOURDAN JEAN LUC LEON M	30	121
DI DATO CARLO	25	1,068
OŠTRC D.O.O.	240	266,913
Total received interest and received commissions (fees)	582,691	5,823,789
Interest expense and commission expenses (fees)		
C.I.M. BANQUE	2,125	1,153
COFISI S.A.	58,945	125,661
PRIMORSKE NEKRETNINE D.O.O.	367,844	801,121
S.V.I.T. BON D.O.O.	0	2,417
SIGNORIO FRANCESCO MARIA AMEDEO	0	1,603
SIGNORIO SVETLANA	2,580	5,978
Total interest expense and commission expenses (fees)	431,494	937,933

PRIMORSKA BANKA d.d., Rijeka
 NOTES TO THE FINANCIAL STATEMENTS
 as at 20 June 2018 - continued

30. FINANCIAL RISK MANAGEMENT

Interest risk

The following table represents the carrying value of the Bank's assets and liabilities, categorized by the earlier contractual re-pricing or maturity, depending which term is earlier as at 20 June 2018.

2017.	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Interest free	TOTAL
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
ASSETS							
Cash	42,764,235	0	0	0	0	3,622	42,767,857
Receivables from the CNB	0	0	0	0	0	6,979,375	6,979,375
Placements with banks	0	0	787,429	0	0	0	787,429
Financial assets available for sale	0	0	6,334,281	0	0	114,868	6,449,149
Loans and prepayments to customers	1,761,121	2,089,560	8,240,089	30,349,850	571,685	6,268,542	49,280,847
Property, plant and equipment	0	0	0	0	0	2,487,319	2,487,319
Intangible assets	0	0	0	0	0	1,354,729	1,354,729
Foreclosed assets	0	0	0	0	0	1,460,447	1,460,447
Other assets	0	0	0	0	0	143,895	143,895
Total assets	44,525,356	2,089,560	15,361,799	30,349,850	571,685	18,812,795	111,711,045
LIABILITIES							
Demand deposits	0	0	1,858,997	0	0	0	1,858,997
Hybrid instruments	0	0	0	0	3,620,687	0	3,620,687
Time deposits	0	1,556,340	16,839,411	18,883,312	969,383	3,357,276	41,605,722
Liabilities for received loans	0	0			3,003,175	0	3,003,175
Other liabilities	0	0	0	0	0	2,680,696	2,680,696
Provisions	0	0					
Total liabilities	0	1,556,340	18,698,408	18,883,312	7,593,244	6,037,973	52,769,277
CAPITAL							
Subscribed capital	0	0	0	0	0	70,000,000	70,000,000
Reserves	0	0	0	0	0	(2,101,699)	(2,101,699)
Accumulated loss	0	0	0	0	0	357,838	357,838
Loss for the year	0		0	0	0	(9,314,371)	(9,314,371)
Total capital	0	0	0	0	0	58,941,768	58,941,768
Total liabilities and capital	0	1,556,340	18,698,408	18,883,312	7,593,244	64,979,741	111,711,045
Net assets/liabilities and capital	44,525,356	533,221	(3,336,609)	11,466,538	(7,021,560)	(46,166,946)	0

PRIMORSKA BANKA d.d., Rijeka
NOTES TO THE FINANCIAL STATEMENTS
as at 20 June 2018 - continued

The following table represents the carrying value of the Bank's assets and liabilities, categorized by the earlier contractual re-pricing or maturity, depending which term is earlier as at 20 June 2017.

2016.	do 1 mjesec	od 1 do 3 mjeseca	od 3 do 12 mjeseci	od 1 do 3 godine	preko 3 godine	beskamatno	UKUPNO
	HRK	HRK	HRK	HRK	HRK	HRK	HRK
ASSETS							
Cash	196,322,397	0	0	0	0	3,136,101	199,458,498
Receivables from the CNB	0	0	0	0	0	30,024,149	30,024,149
Placements with banks	0	0	800,660	0	0	0	800,660
Financial assets available for sale	13,109	78,185,254	160,772,960	21,408	2,784,514	114,868	241,892,111
Financial assets held to maturity	2,372,280	3,365,579	14,794,174	50,314,902	8,435,351	6,563,885	85,846,171
Loans and prepayments to customers	0	0	0	0	0	1,058,452	1,058,452
Property, plant and equipment	0	0	0	0	0	4,980,555	4,980,555
Intangible assets	0	0	0	0	0	3,129,903	3,129,903
Foreclosed assets	0	0	0	0	0	548,600	548,600
Other assets	198,707,786	81,550,833	176,367,794	50,336,310	11,219,864	49,556,512	567,739,099
Total assets							
LIABILITIES	0	0	67,163,751	0	0	2,088,964	69,252,715
Demand deposits	0	0	0	0	3,687,139	0	3,687,139
Hybrid instruments	0	23,621,860	90,423,650	207,857,125	13,008,873	31,132,182	366,043,690
Time deposits	0	0	0	0	54,359,843	0	54,359,843
Liabilities for received loans	0	0	0	0	0	5,550,882	5,550,882
Other liabilities	0	0	0	0	0	0	0
Total liabilities	0	23,621,860	157,587,401	207,857,125	71,055,855	38,772,028	498,894,269
CAPITAL							
Subscribed capital	0	0	0	0	0	70,000,000	70,000,000
Reserves	0	0	0	0	0	(2,720,858)	(2,720,858)
Accumulated loss	0	0	0	0	0	10,624,948	10,624,948
Profit for the year	0	0	0	0	0	(9,059,260)	(9,059,260)
Total capital	0	0	0	0	0	68,844,830	68,844,830
Total liabilities and capital	0	23,621,860	157,587,401	207,857,125	71,055,855	107,616,858	567,739,099
Net assets/liabilities and capital	198,707,785	57,928,973	18,780,393	(157,520,815)	(59,835,990)	(58,060,346)	0

PRIMORSKA BANKA d.d., Rijeka
NOTES TO THE FINANCIAL STATEMENTS
as at 20 June 2018 - continued

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

Description	I – VI 2018	2017
	%	%
Assets		
Loans and prepayments to customers	2.00 – 11.9	2.00 – 11.9
Liabilities		
Due to banks	0	1.4 – 1.8
Time deposits	0.01 – 3.5	0.01 – 4.0

Concentration of assets, liabilities and off-balance sheet items

Description	20 Jun 2018			31 Dec 2017		
	Assets	Liabilities	Off- balance sheet items	Assets	Liabilities	Off- balance sheet items
	HRK	HRK	HRK	HRK	HRK	HRK
Geographic region						
Republic of Croatia	100,721,703	46,071,621	1,082,893	498,803,672	453,502,865	5,488,384
Europe	6,410,752	4,729,396	0	13,375,345	41,025,524	0
Other countries	0	152,743	0	46,676,077	4,365,880	0
Total geographic region	107,132,455	50,953,760	1,082,893	558,855,094	498,894,269	5,488,384
Sector						
Republic of Croatia	35,705	88,584	0	155,928,526	12,693	0
The Croatian National Bank	6,927,133	0	1,035,13	209,642,087	51,382,900	1,642,93
Trade	8,873,166	1,010,407	9	47,101,175	15,126,262	5
Finance	50,571,229	4,153,437	0	56,244,458	23,196,472	0
Tourism	484,865	0	0	5,889,863	777,980	438,161
Agriculture	67,340	0	0	95,352	891,766	0
Industry	25,865,035	373,734	47,754	12,153,921	1,577,985	1,000,00
Individuals	9,439,215	45,083,38	0	23,810,889	401,411,017	2,407,288
Non-residents	0	155,235	0	10,699	4,230,253	0
Other	4,868,767	88,983	0	47,978,122	286,942	0
Total analysis by sector	107,132,455	50,953,760	1,082,893	558,855,094	498,894,269	5,488,384

Fair value of financial assets and liabilities

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

PRIMORSKA BANKA d.d., Rijeka
NOTES TO THE FINANCIAL STATEMENTS
as at 20 June 2018 - continued

Currency risk

Bank's foreign currencies and liabilities as at 20 June 2018 are shown as follows:

2018.	Total HRK	HRK	EUR HRK	USD HRK	Other HRK
ASSETS					
Cash	42,767,857	33,116,320	7,660,717	1,968,348	22,472
Receivables from the Croatian National Bank	6,979,375	6,979,375	0	0	0
Placements with banks	787,429	197,690	589,739	0	0
Financial assets available for sale	6,449,149	30,000	35,230	6,383,919	0
Loans and prepayments to customers	50,145,715	31,249,074	18,561,571	0	335,070
Property, plant, equipment	2,487,319	1,058,452	0	0	0
Intangible assets	1,354,729	4,980,555	0	0	0
Foreclosed assets	1,460,447	3,129,903	0	0	0
Receivables for interest and fees	124,723	62,258	58,972	828	2,665
Other assets	143,893	533,517	15,083	0	0
Cumulative provisions	(989,591)	(989,591)	0	0	0
Total assets	111,711,045	80,347,553	26,921,312	8,353,095	360,206
LIABILITIES					
Demand deposits	1,858,997	1,089,826	746,261	22,658	253
Time deposits	40,856,175	5,657,946	27,169,233	8,028,996	0
Special stakes	3,592,800	3,592,800	0	0	0
Liabilities for received loans	3,003,175	3,003,175	0	0	0
Liabilities for interest	777,434	76,487	482,724	218,223	0
Other liabilities	2,680,696	2,417,132	190,320	73,244	0
Total liabilities	52,769,277	15,837,366	28,588,537	8,343,121	253
CAPITAL					
Subscribed capital	70,000,000	70,000,000	0	0	0
Reserves	(2,101,699)	(2,101,699)	0	0	0
Accumulated loss	357,838	357,838	0	0	0
Profit for the year	(9,314,371)	(9,314,371)	0	0	0
Total capital	58,941,768	58,941,768	0	0	0
Total liabilities and capital	111,711,045	74,779,134	28,588,537	8,343,121	253
Net assets/liabilities and capital	0	6,668,708	2,044,323	1,210,540	(9,923,571)

PRIMORSKA BANKA d.d., Rijeka
NOTES TO THE FINANCIAL STATEMENTS
as at 20 June 2018 - continued

Assets and liabilities of the Bank by type of currencies as at 31 December 2017 are shown as follows:

2017.	Ukupno HRK	HRK	EUR HRK	USD HRK	Ostalo HRK
ASSETS					
Cash	199,458,498	72,304,819	121,950,577	2,200,165	3,002,936
Receivables from the Croatian National Bank	30,024,149	30,024,149	0	0	0
Placements with banks	800,660	199,569	601,092	0	0
Financial assets available for sale	241,863,242	45,068,000	141,096,341	55,698,901	0
Loans and prepayments to customers	88,214,187	43,346,589	44,867,598	0	0
Property, plant, equipment	1,058,452	1,058,452	0	0	0
Intangible assets	4,980,555	4,980,555	0	0	0
Foreclosed assets	3,129,903	3,129,903	0	0	0
Receivables for interest and fees	406,283	249,684	127,730	28,868	0
Other assets	548,601	533,517	15,082	0	0
Cumulative provisions	(2,745,431)	(2,745,431)	0	0	0
Total assets	567,739,099	198,149,806	308,658,422	57,927,934	3,002,936
LIABILITIES					
Demand deposits	65,001,124	19,123,805	35,024,132	6,099,798	4,753,389
Time deposits	358,946,222	37,503,793	263,760,723	49,512,126	8,169,580
Restricted deposits	4,251,592	2,118,278	2,071,870	61,443	0
Special stakes	3,592,800	3,592,800	0	0	0
Liabilities for received loans	52,903,175	52,903,175	0	0	0
Liabilities for interest	8,648,475	2,266,683	5,334,225	1,044,028	3,538
Other liabilities	5,550,881	5,127,734	423,149	0	0
Total liabilities	498,894,269	122,636,268	306,614,099	56,717,395	12,926,507
CAPITAL					
Subscribed capital	70,000,000	70,000,000	0	0	0
Reserves	(2,720,858)	(2,720,858)	0	0	0
Accumulated loss	10,624,948	10,624,948	0	0	0
Profit for the year	(9,059,260)	(9,059,260)	0	0	0
Total capital	68,844,830	68,844,830	0	0	0
Total liabilities and capital	567,739,099	191,481,098	306,614,099	56,717,395	12,926,507
Net assets/liabilities and capital	0	6,668,708	2,044,323	1,210,540	(9,923,571)

PRIMORSKA BANKA d.d., Rijeka
NOTES TO THE FINANCIAL STATEMENTS
as at 20 June 2018 - continued

Liquidity risk

Remaining maturity of the Bank's assets and liabilities as at 20 June 2018 is shown as follows:

20 Jun 2018	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	TOTAL
	HRK	HRK	HRK	HRK	HRK	HRK
ASSETS						
Cash	42,767,857	0	0	0	0	42,767,857
Receivables from the CNB	6,979,375	0	0	0	0	6,979,375
Placements with banks	197,690	0	589,739	0	0	787,429
Financial assets available for sale	30,000	0	6,383,919	35,230	0	6,449,149
Loans and prepayments to customers	18,130,026	3,496,507	6,394,809	17,530,094	4,719,002	50,270,438
Property, plant and equipment	0	0	0	0	2,487,319	2,487,319
Intangible assets	0	0	0	0	1,354,729	1,354,729
Foreclosed assets	0	0	0	1,460,447	0	1,460,447
Other assets	0	0	0	0	143,893	143,893
Cumulative provisions	0	0	0	0	(989,591)	(989,591)
Total assets	68,104,948	3,496,507	13,368,467	19,025,771	7,715,353	111,711,045
LIABILITIES						
Demand deposits	1,858,997	0	0	0	0	1,858,997
Time deposits	322,279	2,502,799	18,684,763	16,668,577	3,427,303	41,605,721
Restricted deposits	0	0	0	0	0	0
Hybrid instruments	0,00	0	0	0	3,620,687	3,620,687
Liabilities for received loans	0	0	154,725	412,600	2,435,850	3,003,175
Other liabilities	2,680,697	0	0	0	0	2,680,697
Total liabilities	4,861,973	2,502,799	18,839,488	17,081,177	9,483,840	52,769,277
CAPITAL						
Subscribed capital	0	0	0	0	70,000,000	70,000,000
Reserves	0	0	0	0	(2,101,699)	(2,101,699)
Accumulated loss	0	0	0	0	357,838	357,838
Profit for the year	0	0	0	0	(9,314,371)	(9,314,371)
Total capital	0	0	0	0	58,941,768	58,941,768
Total liabilities and capital	4,861,973	2,502,799	18,839,488	17,081,177	68,425,608	111,711,045
Net assets/liabilities and capital	63,242,975	993,708	(5,471,021)	1,944,594	(60,710,255)	0

PRIMORSKA BANKA d.d., Rijeka
NOTES TO THE FINANCIAL STATEMENTS
as at 20 June 2018 - continued

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

31 Dec 2017.	Up to 1	From 1 to	From 3 to	From 1 to 3	Over 3	TOTAL
	month	3 months	12 months	years	years	
	HRK	HRK	HRK	HRK	HRK	HRK
ASSETS						
Cash	199,458,498	0	0	0	0	199,458,498
Receivables from the CNB	30,024,149	0	0	0	0	30,024,149
Placements with banks	651,890	148,770	0	0	0	800,660
Financial assets available for sale	41,975	48,110,910	160,772,960	21,407	32,944,857	241,892,110
Loans and prepayments to customers	31,085,971	5,059,179	21,168,488	9,514,255	21,763,709	88,591,602
Property, plant and equipment	0	0	0	0	1,058,452	1,058,452
Intangible assets	0	0	0	0	4,980,555	4,980,555
Foreclosed assets	0	0	0	3,129,903	0	3,129,903
Other assets	0	0	0	0	548,600	548,600
Cumulative provisions	0	0	0	0	(2,745,431)	(2,745,431)
Total assets	261,262,483	53,318,859	181,941,448	12,665,565	58,550,744	567,739,099
LIABILITIES						
Demand deposits	65,000,327	0	0	0	0	65,000,327
Time deposits	24,926,153	24,156,516	92,453,919	211,477,129	13,029,972	366,043,690
Restricted deposits	4,252,388	0	0	0	0	4,252,388
Hybrid instruments	0,00	0	0	0	3,687,139	3,687,139
Liabilities for received loans	0	0	0	51,356,668	3,003,175	54,359,843
Other liabilities	5,516,829	0	974	25,735	7,344,00	5,550,882
Total liabilities	99,695,697	24,156,516	92,454,894	262,859,532	19,727,630	498,894,269
CAPITAL						
Subscribed capital	0	0	0	0	70,000,000	70,000,000
Reserves	0	0	0	0	(2,720,858)	(2,720,858)
Accumulated loss	0	0	0	0	10,624,948	10,624,948
Profit for the year	0	0	0	0	(9,059,260)	(9,059,260)
Total capital	0	0	0	0	68,844,830	68,844,830
Total liabilities and capital	99,695,697	24,156,516	92,454,894	262,859,532	88,572,460	567,739,099
Net assets/liabilities and capital	161,566,786	29,162,343	89,486,555	(250,193,968)	(30,021,716)	0

Credit risk

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

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

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

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

31. GOING CONCERN BASIS

For the period from 1 January to 20 June 2018, the Bank realized a loss in the amount of HRK 9,314,371 (2017 loss amounting to HRK 9,059,260). As a result of the accumulated losses in previous years, the Bank has been obliged to maintain the regulatory capital level above the minimum statutory amount in the previous periods by continuous recapitalizations.

On March 7, 2018, the majority of the Bank's owner, CIM Banque Geneve, granted the Bank an unconditional and irrevocable credit line in the amount of EUR 5 million with an interest rate of 1% for the possible needs of the Bank's liquidity shortfall in the liquidation process. The bank may use the specified credit limit unconditionally. The repayment of the proceeds is made to the Bank's ability during the period of liquidation. The term of the credit line is up to the end of liquidation.

On April 10, 2018, the Croatian National Bank analyzed the Bank's Liquidation Plan and other available documentation and gave a positive opinion on it. On June 26, 2018, the Croatian National Bank also annulled the approval of the Bank for the provision of financial services, as well as all other financial services provided by EROFF-22-020 / 18-ŽJ-BV other approvals granted to the Bank.

On May 21, 2018, the General Assembly of the Bank issued a Decision on termination of business and regular liquidation of the Bank with the date of commencement of regular liquidation on June 21, 2018, and foreseen completion of liquidation on December 31, 2021 with the possibility of extending the liquidation term. The Assembly of the Bank appointed the liquidators of the Bank at the same Assembly.

On June 26, 2018, the Croatian National Bank also annulled the approval of the Bank for the provision of financial services, as well as all other financial services provided by EROFF-22-020 / 18-ŽJ-BV other approvals granted to the Bank.

On 30 June 2018, a change in the company was entered into the Court Register, the appointment of a liquidator and the entry of reasons for the termination of the Bank..

IV COURT DISPUTES AND POTENTIAL LIABILITIES

The Bank as the plaintiff has 52 active law-suits and distraining procedures due to non-payment upon loans and placements in total value of HRK 24,038,793 The Bank has for the stated receivables on loans and placements made provisions in accordance with regulations of the Croatian National Bank

There are 10 court disputes against the Bank in the total value of HRK 6,533,464. An external solicitor's office and internal legal service are in charge of all court disputes and the Bank relies on their expert estimate in respect of the result of disputes.

Changes in and the amount of provisions for court litigations are given in Note 24 to the annual financial statements.

V EVENTS AFTER THE BALANCE SHEET DATE

On June 29, 2018, the Commercial Court of Rijeka issued a Decision on termination of the subject of registration, change of company, termination of the function of a member of the Management Board, termination of the function of the President of the Management Board and appointment of the liquidator of the Bank.

Below we provide changes to the Supervisory Board in the period from 21 June 2018 until the date of preparation of the Annual Financial Statements:

Supervisory Board:

Andrej Galogaža - ceased to be the Chairman of the Supervisory Board on 21 June 2018 when he became liquidator

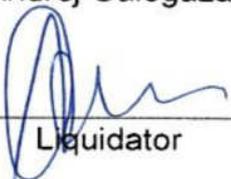
Adnan Hafizadić - President of the Supervisory Board based on the decision of the Assembly of 21 May 2018, with a mandate starting from 21 June 2018 for two years

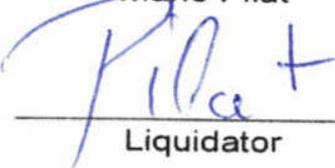
After the balance sheet date, there were no other events that would have a significant impact on the Bank's annual financial statements for the period from 1 January 2018 to 20 June 2018, which should subsequently be disclosed.

VI APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements were signed and authorised for issuing by the Management Board on 13 September 2018.

Signed on behalf of the Liquidators:

Andrej Galogaža

Liquidator

Mario Pilat

Liquidator

Primorska banka d.d.
Scarpina 7
51000 Rijeka
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PRIMORSKA BANKA
d.d. Rijeka
U LIKVIDACIJI

Rijeka, 13. September 2018