

**ANNUAL REPORT OF
SLATINSKA BANKA d.d. SLATINA
FOR THE YEAR 2017**

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THE MANAGEMENT REPORT

THE MANAGEMENT REPORT ON THE BANK'S FINANCIAL POSITION AND ANALYSIS OF BUSINESS PERFORMANCE

Dear clients and shareholders,

In 2017 Slatinska banka was doing its business in a very complex business environment, however, in the past business year, both in the overall economic environment and in the banking sector, certain positive trends emerged that give us reason for optimism.

High liquidity of financial system, economic recovery and growing business optimism are good prerequisites for further successful business, where we are committed to justify your trust, because being successful in the banking sector today depends not only on external business factors but also on our internal qualities.

Balance Sheet of the Bank on 31 December 2017 reached the level of HRK 1,594 million. Compared with last year, the balance sheet was targetedly reduced by HRK 13 million because of optimizing total resources of the Bank to improve profitability management.

As of 31 December 2017, a positive net financial result of HRK 649 thousand was also achieved. Although the Bank achieved further increase in operating profit in 2017, the operating result was heavily burdened with write-offs of approximately HRK 23 million, which are to a large extent related to the group of debtors from the group to which the Law on Extraordinary Administration Procedure applies in companies of systemic importance for the Republic of Croatia.

Interest income in 2017 accounts for approximately 70% of total revenues, and compared to 2016, they are about 2% higher, while interest expenses representing approximately 25% of total costs, decreased by approximately 28%, resulting in net interest income in the amount of HRK 40,845 thousand.

With the aim of strengthening the prerequisites for further profitable and stable operations, the Bank's activities during 2017 are significantly aimed at raising the level of risk management the Bank is exposed to in its business, and primarily credit risk. For this reason, during 2017, the Sector for Collection was established and procedures for assessing both the credit and total risks for the Bank arising from credit placements have been improved.

Looking at operative activities, the Bank has also managed to improve the cost aspect of its business, so the ratio of operating costs compared to operating income from 77% in 2016 was reduced to 69% in 2017.

During 2017, significant profit was realized in the trading segment in the amount of HRK 5.9 million, which is the result of the sale of a part of the bonds of the Republic of Croatia that the Bank had in its portfolio.

During 2017, the Bank successfully adjusted its business to increasingly dynamic legal regulations, while simultaneously redesigning its services to increasingly demanding market needs. We would like to point out that during 2017, the Bank included the service of investment banking in its offer.

In the forthcoming period, the imperative is to continue the positive trends in the Bank's business, primarily taking into account the liquidity, security and stability of the business, and further building trust and good business cooperation with the business partners and clients of the Bank.

DEVELOPMENT OF SLATINSKA BANKA d.d. SLATINA

SLATINSKA BANKA d.d. was founded on 9 October 1992 and is the only banking institution seated in the County of Virovitica and Podravina. The seat of the Bank is at Vladimira Nazora 2, Slatina. In 2017 was also marked the 25th anniversary of the Bank's operations.

In 2017, the Bank offered its services to clients through the business network consisting of 3 financial centres, 11 branches and 8 branch offices: (in counties :) Virovitica and Podravina, Osijek – Baranja, Požega – Slavonia, Brod – Posavina, Bjelovar – Bilogora, Koprivnica – Križevci, Primorje – Gorski Kotar, Vukovar - Srijem and the City of Zagreb. In order to rationalise its business, and considering the vicinity of the Branch Office, availability of services through other business channels (Internet banking, mobile banking), some branch offices were closed during 2017.

The Bank has ATM machines in Slatina, Virovitica, Našice, Požega, Daruvar, Osijek, Koprivnica, Valpovo, Rijeka, Donji Miholjac, Đakovo, Zagreb, Orahovica, Pitomača and Slavonski Brod.

ATMs in Našice, Požega, Virovitica and Slatina also have a day-and-night vault. The service of the day-and-night vault is round the clock - 24 hours per day.

In addition to the business network, banking services are available through other distribution channels such as Internet banking, mobile banking and the EFTPOS network of bank machines.

The Bank is the sole owner of Turbina d.o.o. Turbina d.o.o. holds 0.36% share in the Bank's assets and its business has a very low influence on the Bank's operations.

Corporate business is primarily focused to financial crediting of SME's, tradesmen/craftsmen, and family farm (OPG) both from own sources and from assets put up by the Croatian Bank for Reconstruction and Development (CBRD) and through credit lines in cooperation with local governments.

The Bank has developed cooperation with HAMAG BICRO for issuance individual guarantees financed from the European structural and investment funds aimed at creation of a financial model that will best provide a complete and quality financial service tailored to the dynamic market conditions. The Bank is actively crediting local government units and self-governments through HBOR's credit lines, thus solving high-quality infrastructure development needs and creating quality foundations for further economic growth in specific areas.

We will continue recognizing high-quality investment projects and enabling our clients to use high-quality sources of financing.

The Bank will continue investing into development of current services in order to best fulfil the needs of our clients. Special attention is paid to high-quality communication with clients and on adjusting to their needs considering the current market environment.

THE ANALYSIS OF BANK PERFORMANCE IN 2017

BANK BUSINESS INDICATORS	(in thousands of HRK)	
	2017	2016
ASSETS	1,593,861	1,607,449
GROSS PROFIT/LOSS	1,269	-1,176
NET PROFIT/LOSS	649	-1,507
NET INTEREST INCOME	40,845	31,018
NET INCOME FROM COMMISSIONS AND FEES	9,198	9,674
TOTAL CAPITAL	164,820	168,301
REGULATORY CAPITAL	156,543	156,889
CAPITAL ADEQUACY	18.16%	18.44%
ROA	0.04%	-
ROE	0.39%	-
CIR	68%	78%
ASSETS/EMPLOYEES	8,855	9,240
NUMBER OF EMPLOYEES	180	174

In 2017, the Bank realized a net profit of HRK 649 thousand and the balance of HRK 1,594 million. The reduction of the balance for the amount of approx. HRK 13 million is the result of optimization of the sources of the Bank's assets.

Interest income accounts for approximately 70% of total income and are increased by about 2% compared to 2016. The increase in interest income results from the increase in the loan portfolio of the corporate and retail sectors.

Interest expenses accounting for approximately 25% of total costs, have been reduced by approximately 28% due to better management of depository resources of the Bank.

Value adjustment and provision expenses for placement losses for 2017 were HRK 23 million.

With continuous optimization of cost efficiency, general and administrative costs amount to HRK 38 million.

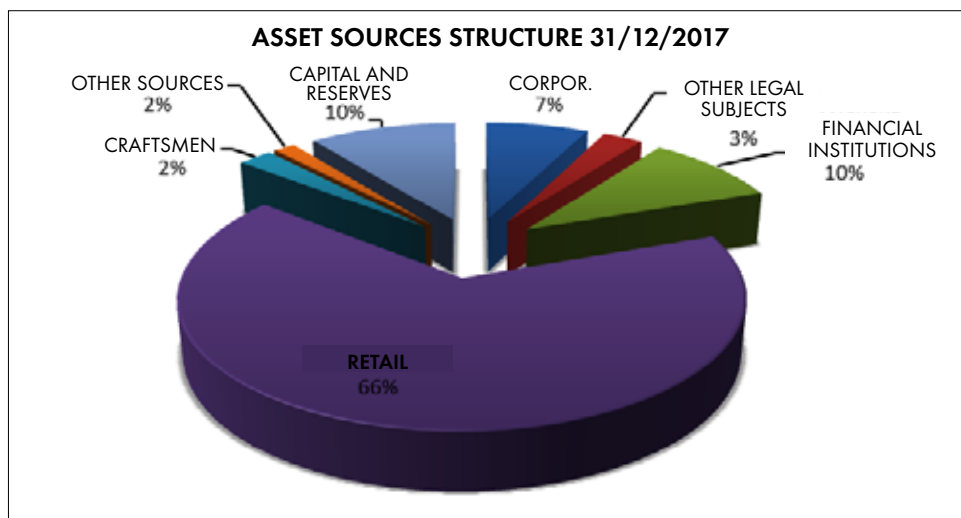
The bank satisfies all the conditions with respect to regulatory capital coverage, rate of which was 18.16% on 31 December 2017.

The structure of asset sources and placement structure per sectors is shown below.

ASSETS SOURCE STRUCTURE PER SECTORS

(in thousands of HRK)

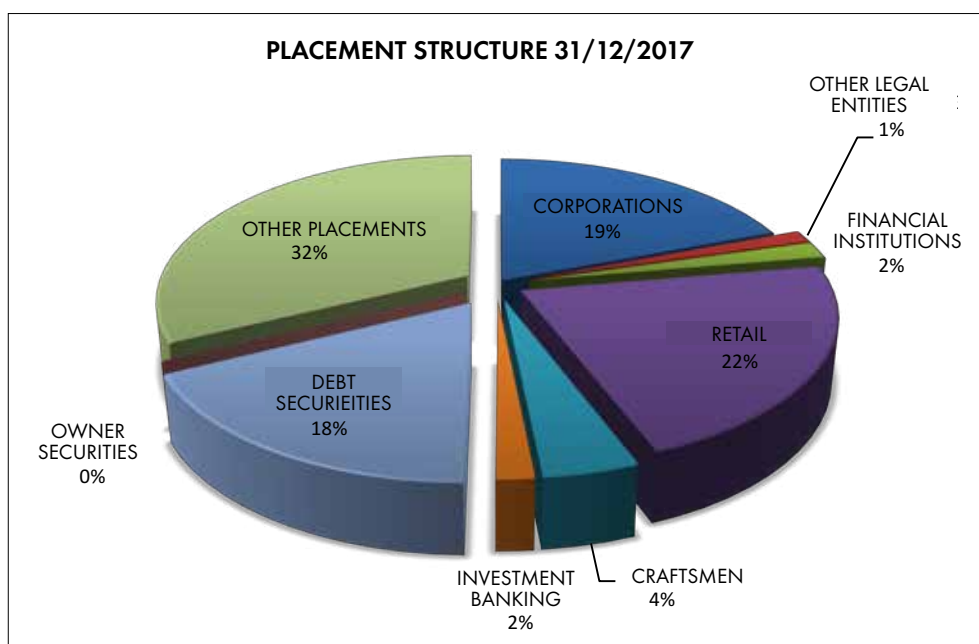
	2017	%	2016	%
CORPORATIONS	114,644	7.19	122,765	7.64
OTHERAL LEGAL ENTITIES	44,219	2.77	38,988	2.43
FINANCIAL INSTITUTIONS	151,770	9.52	133,553	8.31
RETAIL	1,056,494	66.29	1,084,648	67.48
CRAFTSMEN	37,947	2.38	34,469	2.14
OTHER SOURCES	23,967	1.50	24,577	1.53
CAPITAL AND RESERVES	164,820	10.34	168,301	10.47
TOTAL:	1,593,861	100.00	1,607,449	100.00



PLACEMENT STRUCTURE PER SECTORS

(in thousands of HRK)

	2017	%	2016	%
CORPORATIONS	305,625	19.18	226,618	14.10
OTHERAL LEGAL ENTITIES	20,851	1.31	23,800	1.48
FINANCIAL INSTITUTIONS	28,442	1.78	124,008	7.71
RETAIL	349,839	21.95	320,029	19.91
CRAFTSMEN	67,289	4.22	51,440	3.20
INVESTMENT BANKING	26,696	1.67	-	-
DEBT SECURITIES	279,448	17.53	525,774	32.71
EQUITY (OWNER) SECURITIES	141	0.01	187	0.01
OTHER PLACEMENTS	515,531	32.34	335,593	20.88
TOTAL:	1,593,861	100.00	1,607,449	100.00



RETAIL BANKING

In 2017 Slatinska banka d.d., maintaining its position in the retail business segment, monitored market demands and continually improved its business and services accordingly.

Through traditional forms of savings, payment service and credit lines, mainly non-purpose, we offer a wide range of services to the population, which are accompanied by ever increasing market demands, following current trends in banking, and in 2017, we were developing direct distribution channels increasingly relying on them.

The biggest shift in 2017 was made by introducing kuna credits for most of its credit lines, thus providing the security of clients in conditions of threatening growth in reference interest rates on the world market.

The Bank successfully maintained its depositors' confidence during the year, which is reflected in the large share of time deposits in total deposits of citizens with 66.29%.

Compared with the previous year, customer confidence is also visible in the number of current accounts of 5% and of 7% of card products. Clients' credit activity also increased with 5% higher number of approved loans compared to the previous year and with growth of 9.31%.

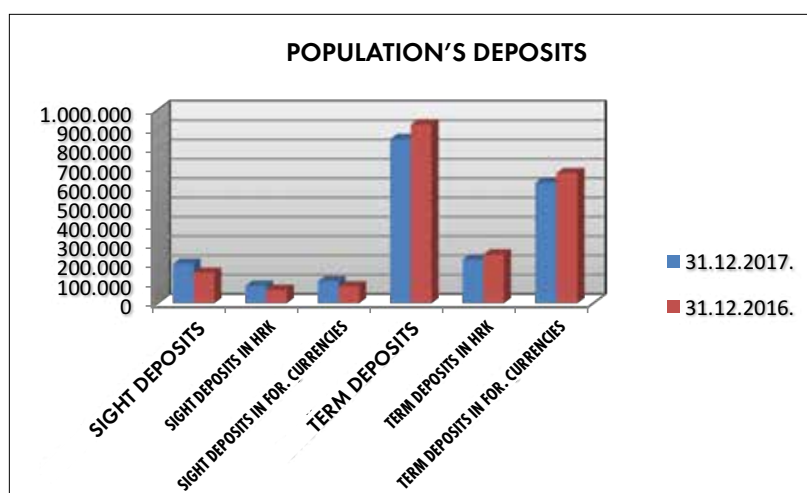
At the end of 2017, the Retail Division was divided into two departments: Product Development and Marketing Department and Sales Management Division, which opened up new opportunities to respond more quickly and better to increasingly demanding banking services market to the satisfaction of our clients.

In addition, by investing in human resources and their continuous education, we want our clients to provide with superior service and become a bank recognizable by its personal approach.

RETAIL DEPOSITS

(In thousands of HRK)

	31/12/2017	%	31/12/2016	%
SIGHT DEPOSITS	205,113	19.41	157,592	14.53
In HRK	91,068	8.62	69,810	6.44
In foreign currency	114,045	10.79	87,782	8.09
TERM DEPOSITS	851,381	80.59	927,056	85.47
In HRK	226,817	21.47	252,863	23.31
In foreign currency	624,564	59.12	674,194	62.16
TOTAL:	1.056,494	100.00	1,084,648	100.00



LEGAL ENTITY TRANSACTIONS /CORPORATES

In accordance with market demands, legal entity business primarily concerns financial crediting of SME's and tradesmen/craftsmen and family farms (OPG), both from own sources and from assets put up by the Croatian Bank for Reconstruction and Development (CBRD or HBOR in Croatian) and through credit lines in cooperation with local governments.

Placements to legal entities in the segment of the economy in 2017 amount to approximately 326.5 million kuna, which makes 20.49% of the total placements of the Bank, while placements with craftsmen and OPG holders amount to HRK 67.3 million, accounting for 4.22% of the share in the total placements of the Bank.

In addition to quality cooperation with HBOR, which enabled the Bank to have greater use of credit from HBOR's sources, the Bank developed business cooperation with HAMAG BICRO for issuing individual guarantees funded from European and Structural and Investment Funds, with the aim of creating a financial model that will best provide a complete and quality financial service tailored to the dynamic market conditions.

In addition to crediting small and medium-sized enterprises, craftsmen and OPGs, the Bank is actively lending to local government and self-government units, thus satisfying high-quality infrastructure development needs and creating quality bases for further economic growth in certain areas.

The Bank also offered all types of guarantees, in Kuna and foreign currencies, for bids, performance and payment guarantees, letters of credit and other types of guarantees demanded by today's business conditions.

Credit rating, quality development programmes and professional management are the main conditions for financial crediting of clients.

Developing and improving its business, we are offering other services to legal entities allowing faster, simpler and more efficient business through use of EFTPOS terminals MBCARD/Maestro cards, MasterCard Business card, SMS services, Internet banking and Mobile banking.

The core Bank's activities with companies will still be aimed at developing and improving quality of services, which the Bank can offer to entrepreneurs, and at further development of business trust and partnership.

LEGAL ENTITY (COMPANIES) DEPOSITS

(in thousands of HRK)

	31/12/2017	%	31/12/2016	%
SIGHT DEPOSITS	76,633	66.85	80,863	65.87
In HRK	66,870	58.33	73,108	59.55
In foreign currency	9,763	8.52	7,755	6.32
TERM DEPOSITS	38,010	33.15	41,903	34.13
In HRK	36,213	31.59	35,334	28.78
In foreign currency	1,797	1.57	6,568	5.35
TOTAL:	114,643	100.00	122,765	100.00



PAYMENT TRANSACTIONS

Continuing the trend of monitoring changes in payment transactions, the Bank continues to tailor its payment service to its clients, with the aim of offering complete and quality services, with the aim of saving time and money to customers, while ensuring the efficiency of operations.

Clients can make payments through the Bank's network of branches (i.e. in person through tellers), through our modern and safe Internet banking system, or through Mobile banking. The Bank also offers these services through FINA tellers owing to the agreement between FINA and the Bank (via model III).

The quality and speed of service remain to be the main goal in managing and conducting payment transactions in the Bank.

The Bank has a developed network of correspondent banks. The Bank has been an active participant of the TARGET2 HR system and an active participant of the EuroNKS system making it directly included in the SEPA system (Single Euro Payments Area).

In addition, as of 2017 the Bank is an active participant in SEPA Direct Debit basic and business payment scheme.

The Bank uses its own software for payment transactions, which is the technical basis for high-quality domestic payment transaction operations - both domestic and international.

It is the active participant in the harmonisation of PSD2 and introduction of HRK SCT payment scheme in the Republic of Croatia.

Continuous increase in the number and volume of transactions shows clients' satisfaction with new payment services and competitive fee levels.

The Bank will continue to develop its payment transaction services in order to offer its current and future users a cost-effective, efficient, high quality offer of our services, with guaranteed maximum transaction security and quickness in performing payment transactions.

THE BANK'S INFORMATION SYSTEM AND IT

Information technology is present in all parts of our banking operations, and special care shall be given to the management and development planning of our IT system. The primary function of the Bank's information system is to ensure to business users and Bank clients approach to information and services necessary for their everyday business, as well as confidentiality, accessibility and integrity of information within continued development of the Bank's business.

The technological base of the Bank IT comprise servers for banking and non-banking applications. External locations (financial centres, branches and branch offices) are connected through the virtual private network (VPN). In addition to the business network, banking services can be enjoyed through other distribution channels such as Internet banking, Mobile banking and the EFTPOS network of ATMs.

The Bank also has a backup system, which includes a backup location with redundant hardware, software and data to be used in case of catastrophic events or some other emergency; the entire production system can be started during the defined recovery time, all in accordance with legal provisions.

For further increase of security of Internet banking, the Bank introduced a new application. Legal persons use the USB-PKI for identification and private persons use the physical or mobile token. The Bank has also introduced an additional authorization device for approving over-the-limit payment orders and adding new recipients to the list of allowed payment recipients. The use of B2G (Business to Government) is available to business users (corporations).

In the area of security of information systems the Bank is continuously investing in equipment and software that ensure safe operations of the Bank. In 2017, a central firewall replacement was carried out, a fire alarm system was installed in the Bank's central bank and archives.

For Maestro card users, the Bank introduced a new service, raising cash on its own ATMs with the option of repayment by instalments, thus extending the existing MBPlus payment service by instalments on POS terminals within the MBNet network.

In the area of reporting to regulator, the Bank successfully fulfilled all legal and other regulatory obligations.

Project of making the support for reporting to the CNB have been successfully completed. Support for new payment transaction statistics has been completed, as part of the change in reporting to the CNB, and continuing adjustment is underway in accordance with the regulations.

In 2017 the following projects were successfully completed:

- Introduction of SEPA SDD, direct debit,
- Harmonization with the eIDAS Regulation,
- Introduction of Investment Banking,
- Project introducing support for IFRS 9.

BUSINESS RISKS

Pursuant to the Credit Institutions Act, Slatinska banka continuously conducts measurement, evaluation, mastering and monitoring of the risks it is exposed to in its business, including reporting on the risks to which the Bank is or might be exposed in its operation. The Act also stipulates that the bank all at all times shall ensure an amount of capital that is proportionate to the nature, scale and complexity of its activities as well as the risks to which it is or might be exposed to while providing services (capital adequacy). The business is based on the criteria that the risks to which it is exposed in individual or all types of business carried out does not exceed the limits prescribed by the Law, it is able to timely fulfil its due obligations (the principle of liquidity), i.e. in a way that is permanently able to fulfil all its obligations (principle of solvency) in order to ensure the security of the Bank's operations. The Bank shall base its operations on the criteria so as that the risks to which it is exposed in individual or all types of its operations do not exceed the limits prescribed by the Act (liquidity principle) it is able to timely fulfil its due obligations (liquidity principle), i.e. in a way that is permanently able to fulfil all its obligations (solvency principle) in order to ensure the security of the Bank's operations. Risk profile is a measure or an estimate of all risks that the Bank is or might be exposed to in its operations.

Risk determination is performed through the annual work plan of the risk control function. It defines the frequency of performing the risk control to which the Bank is exposed. The frequency of the control is based on the risk evaluation given the significance of individual risk. Risks that are estimated to have significant impact to the Bank, will be more frequently controlled by the risk control function. Significance is determined on the basis of the loss that individual risk causes to the Bank. After a potential risk is identified, the coverage of significant risks is performed through requirements for capital. As a part of the internal capital adequacy assessment, the Bank defined the methodology for allocating internal capital requirements for coverage, with the scale of internal capital. The evaluation of risk significance is the criterion for capital requirements.

Type of risk	Risk significance	Control frequency
Credit risk	High significance	Periodically/monthly/quarterly
Market risk Market risk – currency risk	Higher significance	Monthly
Interest risk In the bank ledger	Higher significance	Monthly
Liquidity risk	Significant	Monthly
Operational risk	Higher significance	Periodical applications Quarterly control
Concentration risk	Significant	Quarterly
Residual risk	Significant	Semi-annual
Strategic risk	Significant	Monthly
Reputation risk	Significant	Periodical applications Semi-annual control
Country risk	Significant	Semi-annual
Risk of Recovery plan	Significant	Quarterly
Risk of excessive financial leverage	Lower significance	Semi-annual
Other risks	Lower significance	Semi-annual
Shadow banking	Lower significance	Quarterly

Liquidity/solvency risk

Liquidity risk is the risk of the Bank's ability to fulfil all its obligations according to their maturity on time and within arranged time frames, without causing any undue losses or jeopardising the Bank's capital. The Bank manages its liquidity by constructing preconditions for long-term maintenance of liquidity in HRK and foreign currencies, which ensure the Bank's unhindered and timely fulfilment of all its obligations, thereby ensuring permanent Bank liquidity and fulfilling preconditions for safe, stable and profitable business.

Maintaining the Bank's planned liquidity level requires the fulfilment of the following conditions: regular maintenance of the planned level of "daily liquid assets", maintenance of time-adjusted assets and liabilities, and attaining surplus of foreign currency receivables over foreign currency liabilities, in accordance with the Decision on minimum necessary foreign currency receivables.

Ever more complex business conditions and high level of non-liquidity/insolvency in both the business sector and the retail sector are a constant challenge before the Bank, with the goal being retention of the wanted level of solvency/liquidity. To that end, solvency/liquidity levels are being constantly monitored, and stress tests performed in order to optimise the Bank's solvency/liquidity.

Credit risk

Credit risk is the risk of loss due to non-fulfilment of debtors' monetary obligation toward the credit institution.

The Bank manages its credit risk through all-encompassing organizational structure, rules, processes, actions, systems and resources for determining, measuring i.e. assessing, managing, monitoring and reporting on risk exposure.

The Bank ensures control over crediting procedures - approval, monitoring and collection of placements - through performance of activities of detailed and thorough check of credit rating of clients.

The Bank monitors exposure toward individual clients based on client classification, type of exposure and provisioning of individual clients; it also controls the allocation of placements and off-balance potential items into risk groups.

Allocation of Bank placements and calculation of provisioning amounts for each individual non-identified and identified loss is based on each debtor's credit rating, the quality of his repayment and the quality of insurance instruments. Value adjustment amounts for identified losses have been determined within the 1-100% range, in accordance with legal provisions. Value adjustment amounts for non-identified losses have been determined within the 0-4.20% range, in accordance with internal calculation methodology and the legal provision on a minimum 0.80% value adjustment of total position of placements in risk group A. Detailed placement criteria have been defined in the Regulations on Placement Classification and Off-balance Liabilities, adopted in accordance with legal provisions, i.e. appropriate (regulatory) Decision.

Taking into account that credit risk is the risk that can have the most serious consequences for the Bank, we are continually improving the credit/loan process and adding new professional staff to the Risk Department.

Currency risk

Currency risk is the risk emerging pursuant to changes in currency relations and the change in value of the domestic currency with respect to foreign currencies in which the Bank has positions.

Currency risk stems from non-adjusted asset and liability items in the balance sheet and off-balance in currencies where more significant changes in currency rates may have an effect on the profit and loss account.

Monitoring and measuring of the currency risk is performed on a monthly and daily basis using the following methods, i.e. approaches: monitoring the currency structure of asset and liabilities and of off-balance entries, daily monitoring of the Bank's exposure to currency risk in accordance with the internal monitoring document, using the credits and deposits plan and currency exchange rate trend plan. The currency risk management is performed through planning the currency structure of the Bank's assets and liabilities, and through continuing monitoring and foreseeing of the currency exchange rate and the effect this could have on the Bank's business.

In order to minimise this type of risk, the Bank's assets and liabilities are constantly optimised in order to neutralise this type of risk as much as possible.

Interest risk

Interest risk is the risk arising from changes in active and passive interest rates, influencing profitability of business and earnings, and thereby the Bank's capital. Interest risk stems from non-adjusted interest rates, by type and by maturity of interest-sensitive balance entries.

The Bank uses the following methods for measuring the risk of change of interest rates: analysis of interest rate trends on the market, analysis of interest margins, analysis of net interest income and the analysis of the static gap model.

Price risk

Risk tied to holding and trading securities; it is a consequence of possible decrease of the value of securities in the Bank's portfolio. Management of this portfolio includes the need for constant monitoring of market prices of certain securities and maintaining the portfolio structure, which supports the optimal profit to risk ratio.

The sector investing in securities is the one furnishing data for monitoring the price risk.

Operational Risk

The operational risk is a risk of loss due to inappropriate or unsuccessful internal processes, people or systems, and external events, including legal risk.

SHARE INFORMATION

The Bank did not purchase its own shares in 2017.

Re-purchased own shares (treasury stock) made up 7.77% of capital stock.

The Chairman of the Board Marko Brnić (until 16 January 2018) holds 1 share of Slatinska banka d.d., and Angelina Horvat (upon expiry of its mandate former chairwoman of the Board until 20 April 2017) owns 200 shares Slatinska banka d.d. accounting for 0.02 % of capital stock.

Other current members of the Board do not hold shares of Slatinska banka.

STATEMENT ON APPLICATION OF THE CORPORATE GOVERNANCE CODEX

In accordance with the rules of the Zagreb Stock Exchange, the Management Board and the Supervisory Board of Slatinska Banka d.d. declare that Slatinska banka d.d. has been applying the Corporate Governance Codex that was jointly developed by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange.

The Annual Business Questionnaire for 2017 is attached to this Statement.

The Bank has established a system of internal controls that is implemented through the parallel activities of three mutually independent functions: risk control functions, compliance monitoring function and internal audit function. The main features of the Bank's internal control system include independent controllers of functions responsible for identifying, assessing and managing risks, including risk control and compliance function, while internal audit monitors the Bank's overall business.

Information on conducting internal control and risk management and data on the holders of the Bank's shares are contained in the notes to the financial statements.

Pursuant to the provisions of the Bank's Articles of Association, the Management Board consists of two to five members. The Supervisory Board of the Bank shall decide on the number of the Board members. Members of the Management Board of the Bank shall meet the criteria for the function of the Management Board member defined by the Companies Act, the Credit Institutions Act and relevant subordinate legislations and internal acts of the Bank (suitability, good reputation, professional knowledge and ability, continuing education, experience, avoiding conflict of interest and commitment for fulfilment of duties). The Management Board members shall all together have the professional knowledge, skills and experience needed for independent management of the credit institution's operations. The suitability of an individual member of the Bank Management Board to perform the relevant function is the measure of his/her characteristics and fulfilment of the prescribed conditions to ensure that he/she will carry out his/her tasks in a legal, safe and consistent manner.

The competences of the Management Board members are regulated by the Rules of Procedure of the Management Board. The Management Board makes decisions and conclusions at its sessions. On 31 December 2017, the tasks of the Management Board are performed by three members of the Management Board i.e. the president of the Management Board and two members of the Management Board. The Supervisory Board controls the Bank's operations and is obliged to perform the tasks stipulated by the Companies Act, the Credit Institutions Act, the Bank's Articles of Association and the Rules of Procedure of the Supervisory Board, including the appointment (with the prior approval by the Croatian National Bank) and replacement of members of the Bank's Management Board. The Supervisory Board shall act in sessions. The convening and holding of sessions, decision making and authorizations are stipulated in the Rules of Procedure of the Supervisory Board.

According to the assessment of their adequacy in accordance with the Bank's internal acts, the members of the Bank's Supervisory Board, together as a whole, meet all the stipulated requirements regarding the diversity of their knowledge, expertise and experience. As of 31 December 2017, the Supervisory Board includes two women - the Chairwoman of the Supervisory Board and one member of the Supervisory Board are women of total of 5 members of the Supervisory Board. Professional diversity is established when assessing and selecting members of the Management Board and the Supervisory Board. Data on the composition and activities of the Bank's Management Board and the Supervisory Board are presented in the enclosed Annual Questionnaire.

The Bank's shareholders exercise their rights at the General Assembly of the Bank.

The General Assembly of the Bank decides on the matters that are envisaged by the legal regulations and the Articles of Association of the Bank. The General Assembly shall be convened the Management Board or the Supervisory Board at least once a year and when so required by the Bank's interests.

The Rules on Amendments to the Bank Articles of Association are contained in the Articles of Association itself. The Decision on amendments shall be made by the General Assembly of the Bank in accordance with the law and the Articles of Association, with votes representing at least three quarters of the share capital represented at the General Assembly when deciding. Amendments to the Articles of Association are proposed by the Supervisory Board, the Management Board and the Bank's shareholders.

In order to protect the interests of all investors, shareholders, clients, employees and other stakeholders, the Bank has established high standards of corporate governance.

CORPORATE MANAGEMENT CODEX

ANNUAL QUESTIONNAIRE

GENERAL COMPANY INFORMATION:

Slatinska banka d.d. Slatina

CONTACT PERSON AND TELEPHONE NUMBER:

Tihomir Grđan
tel. 033/637-080

DATE OF COMPLETING THE QUESTIONNAIRE:

30/03/2018

All questions in this questionnaire pertain to the period of one fiscal year to which the annual financial statements also pertain.

Please use explanations in your responses only when the questions asks for them explicitly.

Answers found in the questionnaire are valued at certain percentages, shown at the beginning of each chapter.

DEDICATION TO PRINCIPLES OF CREATIVE MANAGEMENT AND SOCIAL RESPONSIBILITY

Answers to this set of questions carry 20% of the entire indicator with respect to the harmonization of the company with the Corporate Management Codex.

Question No.	Question	Answer YES / NO	Explanation
1	Has the company (i.e. Bank) accepted the change of the Corporate Management Codex, or adopted its own corporate management policy?	YES	
2	Are there adopted Corporate Management Codex principles within internal company policies?	YES	
3	Does the company, within its annual financial statements, publish its conformance with the principles of corporate management, in accordance with the principle of "use or explain"?	YES	
4	At decision-making, does the company take into consideration interests of all shareholders, in accordance with the Corporate Management Codex principles?	YES	

SHAREHOLDERS AND GENERAL ASSEMBLY

Answers to this set of questions carry 30% of the entire indicator with respect to the harmonization of the company with the Corporate Management Codex.

Question No.	Question	Answer YES / NO	Explanation
5	Is the Company a part of joint shareholding with another company or companies? (If so, explain)	NO	
6	Does each Company share give the right to one vote? (if not, explain)	YES	
7	Does the company have the same approach toward, and offer the same conditions, to all shareholders? (If not, explain)	YES	
8	Is the issuing of authorisation (proxy) for voting at the General Assembly fully simplified and void of strict formalistic conditions? (If not, explain)	YES	
9	Did the Company ensure (free of charge) proxies for shareholders who could not, for any reason, vote at the General Assembly, to vote in accordance with their instructions? (If not, explain)	NO	The shareholders themselves are in charge of insuring authorised persons. The Bank provides the authorisation document template.
10	Has the Company, or the Management Board, when convening the General Assembly, set a date for according to which it will check the position in the share register - which will be competent for realising the right to vote in the General Assembly, in a way that this date is before the General Assembly, but no more than six days before it? (If not, explain)	YES	
11	Were the minutes of the General Assembly, as well as all relevant information and documents with explanations pertaining to the minutes published on the web pages of the Company and accessible in the Company facilities to the shareholders from the first public issue of the minutes? (If not, explain)	YES	
12	Does the decision on the dividend payout or prepayment of the dividend contain the date on which a person who is a shareholder of the Company realizes his or her right to the dividend payout, as well as the date and the period for said payout? (If not, explain)	NO	The Company did not pay out dividends
13	Does the date of payout of dividend or prepayment of dividend fall at most 30 days after the decision? (If not, explain)	NO	The Company did not pay out dividends

14	Were any shareholders favoured during the payout/ prepayment of dividend? (If so, explain)	NO	The Company did not pay out dividends
15	Have you facilitated to shareholders their participation and voting at the General Assembly using modern communication technology means? (If not, explain)	NO	Participation and voting by the shareholders at the General Assembly of the Company is prescribed by the Company Articles of Association. There were no such requirements set.
16	Were there any requirements set with respect to taking part in the General Assembly or the use of the right to vote (regardless of the law or the articles of association), such as announcing participation beforehand, notarising authorisations/proxies, etc.? (If so, explain)	YES	The obligation of announcing participation beforehand is set by the Articles of Association
17	Has the management disclosed to the public the decisions of the General Assembly?	YES	
18	Has the management of the Company has disclosed to the public publicly the information on possible claims challenging said decisions? (If not, explain)	NO	There were none

MANAGEMENT AND SUPERVISORY BODIES

NAME MEMBERS OF THE MANAGEMENT BOARD AND THEIR FUNCTIONS:

Angelina Horvat (Chairwoman by 20 April 2017), Krunoslav Lišjak (Chairman from 20 April 2017 to 20 July 2017, Marko Brnić (member by 20 July 2017, thereafter Chairman from 20 July 2017 to 16 January 2018), Andrej Kopilaš ,member since 20 July 2017), Marin Prskalo member since 20 July 2017)

NAME MEMBERS OF THE SUPERVISORY BOARD AND THEIR FUNCTIONS:

Ružica Vadić (Chairwoman), Denis Smolar (Vice-chairman), Baženka Eror Matić, Hrvoje Markovinović i Krunoslav Lišjak (members)

Answers to this set of questions carry 20 % of the entire indicator with respect to the harmonization of the company with the Corporate Management Codex.

Question No.	Question	Answer YES / NO	Explanation
19	Has the Supervisory Board, or the Management Board, reached the decision on its operational framework, including the list of regular meetings and information which regularly and timely needs to be placed at the disposal to the members of the Supervisory Board? (If not, explain)	NO	The Supervisory Board convenes at least once a month and enacts decisions in its purview, in accordance with the Articles of Association and the Rules of Conduct of the Supervisory Board
20	Did the Supervisory Board, or the Management Board, enact internal Rules of Conduct? (If not, explain)	YES	
21	Is the Supervisory Board, or the non-executive directors in the Management Board, mostly comprised of independent members? (If not, explain)	NO	Dependent members of the Supervisory Board have all the necessary knowledge, experience and professional know-how for high-quality management.
22	Does the Bank have a long-term succession plan? (If not, explain)	NO	Members of the Management Board are named by the Supervisory Board, and approved by the CNB
23	Is the compensation/bonus received by the members of the SB and the MB completely or partly determined according to the contribution to the success of the company? (If not, explain)	NO	The compensation/bonus is determined by the General Assembly
24	Are supervisory or management board member compensations/bonuses determined by the decision of the General Assembly or by company by-laws? (If not, explain)	YES	
25	Is detailed information on all compensations and other income by the company or persons connected to the company for each member of the SB or the MB, including the structure of such compensation, published/issued publicly? (If not, explain)	NO	Expenses are published jointly
26	Does every member of the SB or the MB inform the company of all changes in connection with their acquisition, waiver or the possibility of fulfilment of their voting rights over the company shares, by five days after such a change at the latest? (If not, explain)	YES	
27	Were all transactions in which the members of the SB or MB, or associated persons and the company and associated persons/entities participated, clearly noted in the company reports: (If not, explain)	YES	

28	Are there contracts or agreements between any member of the SB or MB and the Company?	NO	
29	Have they been first approved by the SB or the MB? (If not, explain)		
30	Are important elements of such contracts or agreements contained in the annual report? (If not, explain)		
31	Has the SB or MB instituted a Naming Commission?	NO	The Supervisory Board is in charge of operations of the Naming Commission.
32	Has the SB or MB instituted an Awards Commission?	NO	The Supervisory Board is in charge of operations of the Naming Commission.
33	Has the SB or MB instituted an Audit Commission?	YES	
34	Are most Commission members independent members of the SB? (If not, explain)	NO	The Commission is made up of three members from the Supervisory Board and three members who are not from the Supervisory Board.
35	Has the Commission followed the integrity of financial information of the Company, and especially the correctness and consistency of accounting methods used by the Company and the Group the Company belongs to, including the criteria for consolidating financial statements of companies belonging to the Group? (If not, explain)	YES	
36	Has the Commission assessed the quality of the internal controls system and the risk management system, with the goal being proper identification of main risks the Company is exposed to (including risks tied to adherence to regulations), i.e. their proper identification, exposure, and management? (If not, explain)	YES	
37	Did the Commission work on ensuring the efficiency of the internal audit system, especially through drafting recommendations during phases of choosing, naming, repeat naming and dismissal of internal audit managers and with respect to assets available to them, as well as the assessment of actions undertaken by managers in view of findings and recommendations of the internal audit? (If not, explain)	YES	
38	If the function of internal audit does not exist within the Company, has the Commission made an assessment of the need to introduce it? (If not, explain)	YES	The Bank organised the function of internal audit.

39	Did the Commission monitor the independence and objectivity of the external auditor, especially with respect to the rotation of authorised auditors within the auditors' company and the compensation the Company is paying for their services? (If not, explain)	YES	
40	Has the Commission followed the nature and the quantity of services not constituting an audit, but still being received by the Company from the auditors' or associated entities? (If not, explain)	NO	No such services
41	Has the Commission drafted such regulations on which services the auditors' and their associates may not render to the Company, which services they may render only with previous approval by the Commission, and which services they may perform without previous approval? (If not, explain)	NO	This is regulated through legal provisions. External auditor performs auditing services only.
42	Has the Commission deliberated on the efficiency of external audit and the actions of the senior management staff with respect to the recommendations made by the external auditor? (If not, explain)	YES	
43	Has the Audit Commission ensured submission of high-quality information by dependant and associated companies and third parties (such as expert advisors)? (If not, explain)	YES	
44	Was the documentation relevant for the operation of the SB or MB submitted on time to all members? (If not, explain)	YES	
45	Were all decisions and voting results noted in the SB/MB meeting minutes? (If not, explain)	YES	
46	Has the SB/MB drafted the evaluation of its performance in the previous period, including assessment of contribution and competence of each individual member, as well as the joint performance of the Commission, assessment of performances of SB-established commissions, and the assessment of goals met with respect to those set by the Company?	NO	
47	Has the Company published the statement on the policy of management and SB, MB and Management awards as a part of the annual report? (If not, explain)	NO	
48	Is the Statement on the SB/MB/Management awarding policy constantly present on the web pages of the Company? (If not, explain)	NO	Awarding is defined through employment contracts.
49	Is detailed information on all salaries and compensations for each member of the Management or executive directors publicly declared in the annual report? (If not, explain)	NO	Expenses are published jointly

50	Are all forms of awards to the members of the management or the SB, including options and other benefits publicly declared (in detail by entry and person) in the annual report? (If not, explain)	NO	Expenses are published jointly
51	Were all transactions in which the members of the SB or MB, or associated persons and the Company or associated persons/entities participated, clearly noted in the Company reports: (If not, explain)	YES	
52	Does the report which the Supervisory Board or the Management Board submits to the General Assembly contain (along with the legally prescribed report), the assessment of total business success of the Company (read: the Bank), activities of the Company management, and special cooperation of the Board with the management? (If not, explain)	YES	

AUDIT AND INTERNAL CONTROL MECHANISMS

Answers to this set of questions carry 10% of the entire indicator with respect to the harmonization of the company with the Corporate Management Codex

Question No.	Question	Answer YES / NO	Explanation
53	Does the Company have its external auditing company?	YES	
54	Is the external auditor connected to the Company in ownership or interest?	NO	
55	Does the external auditor offer other services to the Company, whether by itself or through associated entities?	NO	
56	Has the company publicly declared the amounts of compensation paid out to external auditors for services of audit and other services rendered? (If not, explain)	NO	The external auditor provided only the services of audit, in accordance with the conditions of their business.
57	Does the Company have internal auditors and an integrated system of internal control? (If not, explain)	YES	

BUSINESS TRANSPARENCY AND PUBLIC APPEARANCE

Answers to this set of questions carry 20% of the entire indicator with respect to the harmonization of the company with the Corporate Management Codex.

Question No.	Question	Answer YES / NO	Explanation
58	Are semi-annual, annual and quarterly reports available to shareholders?	YES	
59	Has the Company drafted a calendar of important events?	NO	
60	Has the Company introduced mechanism whereby persons who handle or come into contact with eyes-only (privileged) information have the nature and significance of that information explained to them, including limitations?	YES	
61	Has the Company introduced mechanisms ensuring oversight over the flow of privileged information and possible misuse of the same?	YES	
62	Did anyone suffer negative consequences because he/she pointed out to the competent bodies within the Company or outside the Company any insufficiencies in the application of regulations or ethical norms within the Company? (If so, explain)	NO	
63	Did the Company have any meetings during the previous year with interested investors?	NO	
64	Are all members of the Management, the SB and the MB in agreement that the answers to the questions in this questionnaire, to their best knowledge, completely true?	YES	

SLATINSKA BANKA d.d.
Vladimira Nazora 2, Slatina

**ANNUAL FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR 2017**

**REPORT ON
PERFORMED AUDIT
OF FINANCIAL
STATEMENTS
FOR 2017**

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SLATINSKA BANKA

REPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Management Board of the bank Slatinska banka d.d., Slatina, Vladimira Nazora 2 (hereinafter: "the Bank") is responsible for ensuring that the annual financial statements for the year 2017 are prepared in accordance with the Accounting Act (Official Gazette No 78/15, 120/16) and the International Financial Reporting Standards to give a true and fair view of the financial position, the financial performance, the cash flows and the changes of equity of the Bank for that period.

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

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

- selection and consistent application of suitable accounting policies in accordance with the applicable financial reporting standards;
- giving reasonable and prudent judgments and estimates;
- 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 and the financial performance, the cash flows and the changes of equity 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.

For and on behalf of the Management Board

Andrej Kopilaš, President of the Management Board



Marin Prskalo, Member of the Management Board



Elvis Mališ, Member of the Management Board



Slatinska banka d.d.
Vladimira Nazora 2
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Republic of Croatia

Slatina, 23 April 2018



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INDEPENDENT AUDITOR'S REPORT

To the shareholders of the bank Slatinska Banka d.d., Slatina

Report on the Audit of the Annual Financial Statements

Opinion

We have audited the enclosed annual financial statements of the Slatinska banka d.d., Vladimira Nazora 2, Slatina (hereinafter: the "Bank") for the year ended 31 December 2017, which comprise the Statement of financial position (Balance Sheet) as at 31 December 2017, the Income statement, the Statement of other comprehensive income, Statement of cash flows and the Statement of changes in equity the for the year then ended, and 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 31 December 2017, and of the financial performance and the cash flows of the Bank for the year then ended in accordance with the Accounting Act and the International Financial Reporting Standards ("IFRS"), determined by the European Commission and published in the Official Journal of the EU.

Basis for Opinion

We conducted our audit in accordance with 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.

Key audit matters

Key audit matters are those issues that were, in our professional judgment, of the utmost significance for our audit of the annual financial statements of the current period and include the recognized most significant risks of significant misstatement due to error or fraud with the greatest impact on our audit strategy, the disposition of our available resources and the time spent of the engaged audit team. These issues were dealt with in the context of our audit of the annual financial statements as a whole and in the formation of our opinion thereon, and we do not give a separate opinion on these matters.

Impairment of loans and advances to customers

As at 31 December 2017, gross loans and advances to customers stated in the Bank's annual financial statements in amount of HRK 897,004 thousand, the related provisions for impairment in amount of HRK 119,229 thousand, and the impairment loss recognized in the Income statement stated in amount of HRK 16,418 thousand (31 December 2016, gross loan and advances to customers HRK 735,051 thousand, provisions for impairment HRK 102,848 thousand, impairment loss recognized in Income statement HRK 11,915 thousand).

Impairment represents the best estimate of the Management Board of the Bank on realized losses within the portfolio of loans and advances at the reporting date. We have focused on the above mentioned area since the determination of the amount of impairment provision requires a significant assessment by the Bank's Management Board regarding the determination of the moment of impairment as well as the amount of impairment.

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When there is objective evidence of the improbability of collecting the loans in full or under the terms of the contract, or if there is a significant suspicion regarding the payment of interest or principal repayment, or there is evidence of a breach of the terms of the contract, the credit risk and the value of the loans are assessed on an individual basis. The Board of Directors evaluates the parameters considered relevant for the calculation of loan impairment losses, including, but not limited to the financial position of the client, the period of realization and the value of the insurance instruments on the date of expected realization, expected cash flow and economic conditions.

The Bank presents impairment provisions on loans and advances to customers on an aggregate and individual basis, in accordance with the statutory requirements for accounting of banks in the Republic of Croatia. Effects of impairment on an aggregate basis are not significant.

Related Disclosures in related Annual Financial Statements

See Notes 3.8b, 20 and 37 in the related annual financial statements.

Audit procedures

Our audit procedures related to this area, inter alia, include rating of the design and testing of the operational effectiveness of controls related to approval, recording of loans and advances, including the identification of events which cause the impairment, the appropriateness of the classification, the calculation of impairment provisions and controls related to the estimation of the collateral value.

For impairment determined on an individual basis:

- We have considered the method and techniques of measurement by which the Bank classifies its loans, estimates the impairment loss and implements the impairment of its receivables at the Balance sheet date,
- We have selected a sample of individual loans with a focus on exposure with the potentially greatest impact on the annual financial statements due to their size and risk; and the smaller exposures that we have assessed as high risk on the basis of our internal estimates,
- We have conducted an exemplary test of the selected sample to assess the correctness of the loan classification,
- In certain cases, we used our own judgment to determine the parameters for calculating impairment losses on loans and comparing our calculations with the impairment of the value calculated by the Bank.

For impairment determined on an aggregate basis:

- We have assessed the methodology, inputs and assumptions for the provision for impairment losses on loans and advances of the Bank on an aggregate basis. We have critically reviewed the reasonableness of changing model parameters in 2017, based on our understanding of business, and current economic conditions.

The results of our tests were satisfactory. We agree that the assumptions used in the estimation of impairment of loans and advances to customers are appropriate.



Other Information in the Annual Report

The Management Board is responsible for other information. Other information includes information included in the Annual Report, however, it does 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 are material misstatements in this other information; we are required to report this fact. In this sense, we do not have anything to report.

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

The Management Board is responsible for the preparation of annual financial statements that give a true and fair view in accordance with IFRS, determined by the European Commission and published in the Official Journal of the EU; and for such internal control as the Management Board determines 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 Board 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 the Management Board 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 Independent 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:



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- 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 given 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 Board.
- Conclude on the appropriateness of the Management's Board 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 Independent 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 Independent 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 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.

Report on compliance with other legal or regulatory requirements

Report based on the requirements of EU Regulation No. 537/2014

On 27 June 2017, we were appointed by the General Assembly of the Bank to audit the annual financial statements for 2017, and on 31 August 2017, we signed the Audit Agreement for 2017.

At the date of this report we have been continuously engaged in carrying out the audits of the Bank's annual financial statements for 2014, up to the Bank's annual financial statements for 2017, a total of 4 years.

In addition to the issues that we have mentioned in our Independent Auditor's report as key audit questions, we have nothing to report in relation to point (c) of Article 10 of EU Regulation No. 537/2014.



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Through our statutory audit of the Bank's annual financial statements for the year 2017, we are able to detect irregularities, including fraud in accordance with Section 225, Responding to Non-Compliance with the IESBA Code of Conduct, which requires us to, during our audit engagement, see if the Bank has complied with laws and regulations which are generally recognized to have a direct impact on the determination of significant amounts and disclosures in the annual financial statements, as well as other laws and regulations that do not have a direct effect on the determination of significant amounts and disclosures in the annual financial statements, but compliance with which may be crucial for operational aspects of the Bank's business, its ability to continue with going concern or to avoid significant penalties.

Except where we encounter or gain knowledge about disrespect of any of the aforementioned laws or regulations that is apparently insignificant, in our judgment of its content and its influence, financial or other, for the Bank, its stakeholders and the general public, we are obliged to inform the Bank and ask it to investigate this case and take appropriate measures to resolve the irregularities and to prevent the reappearance of these irregularities in the future. If the Bank does not correct any irregularities, that, in the audited annual consolidated financial statements are cumulatively equal to or greater than the amount of significance to the consolidated financial statements as a whole; until the date of the revised balance sheet; we are required to modify our opinion in the Independent auditor's report.

In the audit of the Bank's annual financial statements for the year 2017, we determined the significance for the annual financial statements as a whole totalled to HRK 7,549 thousand which represents approximately 4.5% of the Bank's total capital.

Our audit opinion is consistent with the additional report for the Banks Auditing Board, prepared in accordance with provisions of Article 11 of Regulation (EU) No. 537/2014.

During the period between the initial date of the audited annual financial statements of the Bank for the year 2017 and the date of this report, we did not provide the Bank with prohibited non-scheduled services and in the business year prior to the aforementioned period, we did not provide services for the design and implementation of internal control procedures or risk management related to preparation and/or control of financial information or the design and implementation of technological systems for financial information, and we have maintained independence in the performance of the audit in relation to the Bank.

Report based on the requirements of the Accounting Act

The Management Board is responsible for the preparation of the Management report as part of the Annual report of the Bank. We are obliged to express an opinion on the compliance of the Management report as part of the Annual report of the Bank with the annual financial statements of the Bank. In our opinion, based on our audit of the annual financial statements of the Bank, information in the Management report as part of the Annual report of the Bank for 2017 are in accordance with the financial information stated in the annual financial statements of the Bank set out on pages 8 to 67 on which we expressed our opinion as stated in the Opinion section above.



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In our opinion, based on the work that we performed during the audit, the Bank's management report for 2017 which is an integral part of the Annual report for 2017 is prepared in accordance with the Accounting act.

Based on the knowledge and understanding of the Bank and its environment obtained while performing the audit, we have not found that there are material misstatements in the Bank's Management report for 2017.

In our opinion, based on the work we performed during the audit, the Statement on the application of Corporate Governance Code, included in the Bank's Annual Report for 2017, is in accordance with the requirements set out in Article 22, paragraph 1, points 3 and 4 of the Accounting Act.

The Statement on the application of Corporate Governance Code, included in the Bank's Annual Report for 2017, includes the information referred to in Article 22, paragraph 1, points 2, 5, and 7 of the Accounting Act.

Based on the Decision of the Croatian National Bank on the structure and contents of the Bank's annual financial statements dated 27 March 2017 (OG 30/17), the Bank's Management Board prepared the forms presented on pages 68 to 75 (hereinafter: "Forms") containing an alternative presentation of the Statement of financial position (balance sheet) as at 31 December 2017; Income Statement, Statement of other comprehensive income, Cash flows statement and Statement of changes in equity for 2017 as well as the adjustment ("adjustment") of these Forms with the financial statements presented on pages 76 to 79. The Management Board of the Bank is responsible for these Forms and Reconciliations. Financial information in the Forms are derived from the Bank's financial statements presented on pages 8 to 67 for which we have expressed the our opinion as set out in the Opinion section above.

Based on the liabilities arising from the Credit Institutions Act (OG 159/13, 19/15 and 102/15), the Bank provided the required information on pages 79 to 80 containing all the information required by Article 164, paragraph 1. Disclosed information are derived from Bank's financial the reports presented on pages 8 to 67 for which we have expressed our opinion as set out in the Opinion section above.

The engagement partner for the audit of the Bank's annual financial statements for the year 2017 resulting in this Independent Auditor's Report is Marija Draginić, Certified Auditor.

Zagreb, 23 April 2018

BDO Croatia d.o.o.
Trg J. F. Kennedy 6b
10000 Zagreb

Jeni Krstičević, President of the
Management Board

BDO Croatia d.o.o.
za pružanje revizorskih
i računovodstvenih usl.
Zagreb, J.F. Kenne

Marija Draginić, Certified Auditor

INCOME STATEMENT

For the year ended 31 December 2017

POSITION	Note	2017	2016
		HRK '000	HRK '000
Interest income	4	63,391	62,207
Interest expense	5	(22,546)	(31,189)
Net interest income		40,845	31.018
Income from fees and commissions	6	12,829	12,797
Expenses from fees and commissions	7	(3,632)	(3,124)
Net income from fees and commissions		9,197	9.673
Net income from foreign exchange gains	8	3,387	2,631
Other income from ordinary business	9	11,158	3,724
Total other income		14,545	6.355
Other expenses	10,11,12	(40,431)	(36,169)
Impairments and provisions	13	(22,887)	(12,053)
Total other expenses		(63,318)	(48,222)
Profit/(Loss) before tax		1,269	(1,176)
Corporate income tax	14	(620)	(330)
PROFIT/(LOSS) FOR THE CURRENT YEAR		649	(1,506)
Profit/(Loss) per share	32	0,71 kn	(1,64) kn

Supplementary notes under number I to IX form an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

POSITION	Note	2017	2016
		HRK '000	HRK '000
Profit/(Loss) of current year		649	(1,506)
Items that can be reclassified to profit or loss			
Unrealized profit from valuation of financial assets available for sale		499	4,134
TOTAL OTHER COMPREHENSIVE PROFIT		499	4,134
TOTAL OTHER COMPREHENSIVE PROFIT FOR THE CURRENT YEAR		1,148	2,628

Supplementary notes under number I to IX form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION / BALANCE SHEET

As at 31 December 2017

POSITION	Note	31 Dec 2017	31 Dec 2016
		HRK '000	HRK '000
ASSETS			
Cash assets	15	352,634	280,389
Receivables from Croatian National Bank	16	89,999	91,975
Placements with banks	17	10,191	6,451
Financial assets available for sale	18	264,812	463,789
Financial assets held to maturity	19	14,776	45,325
Loans and prepayments to customers	20	777,775	632,203
Investments in subsidiaries	21	5,723	5,670
Property, plant and equipment	22	27,349	29,155
Intangible assets	23	7,192	6,298
Foreclosed assets	24	24,943	29,826
Other assets	25	18,467	16,368
TOTAL ASSETS		1,593,861	1,607,449
LIABILITIES			
Deposits on demand	26	353,085	290,107
Term deposits	27	917,903	1,004,231
Liabilities for received loans	28	136,002	120,744
Other liabilities	29	17,224	19,150
Provisions	30	4,827	4,916
TOTAL LIABILITIES		1,429,041	1,439,148
CAPITAL			
Share capital	31	91,897	91,897
Own/treasury shares		(6,592)	(6,592)
Revaluation reserves		21	4,151
Capital gain		149	149
Reserves		15,182	15,182
Accumulated profit		63,514	65,020
Profit/(Loss) for the current year		649	(1,506)
Total capital		164,820	168,301
TOTAL LIABILITIES AND CAPITAL		1,593,861	1,607,449

Supplementary notes under number I to IX form an integral part of these financial statements.

CASH FLOW STATEMENT – INDIRECT METHOD

For the year ended 31 December 2017

POSITION	2017	2016
	HRK '000	HRK '000
NET CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	1,269	(1,176)
Adjustment of net cash assets from operating activities		
Depreciation	3,296	2,578
Loan impairments	16,076	11,896
Impairment of other assets	246	170
Provisions for court disputes	105	99
Other impairment of assets held to maturity	6,757	0
Other impairment and provisions (net)	(193)	519
Changes an assets and liabilities from operating activities		
Decrease of receivables from CNB	1,979	8,179
Decrease of placements with banks	3	8
Increase/decrease of loans and advances to customers	(161,648)	9,826
Increase of other assets	(2,345)	(942)
Increase of deposits on demand	62,978	67,006
Decrease/increase of term deposits	(86,328)	25,389
Decrease/increase of other liabilities	(1,927)	6,183
Income tax	(620)	(330)
Net cash flow from operating activities	(160,352)	129,405
CASH FLOW FROM INVESTING ACTIVITIES		
Increase of financial assets available for sale	(7,093)	(2,790)
Decrease of financial assets held to maturity	8,227	372
Purchase of property, plant and equipment and intangible assets	(2,384)	(4,617)
Decrease/increase of foreclosed assets	4,883	(15,778)
Net cash flow from investing activities	3,633	(22,813)
CASH FLOW FROM FINANCIAL ACTIVITIES		
Increase/decrease of liabilities for received loans	15,258	(20,166)
Other changes in equity (net)	(4,130)	3,793
Net cash flow from financial activities	11,128	(16,373)
Net change in cash and cash equivalents	(145,591)	90,219
Cash and cash equivalents at the beginning of the year	777,776	687,557
Cash and cash equivalents at the end of the year	632,185	777,776

Supplementary notes under number I to IX form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Reserves							Total		
	Share capital	Own/ treasury shares	Unrealised profit/fair value	Capital gain	Legal reserves	Reserves for own shares	Other reserves		Retained earnings	Profit/ Loss for the current year
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	
Position as at 31 December 2015	91,897	(6,592)	358	149	4,729	7,425	3,028	73,645	(8,625)	166,014
Loss allocation for 2015	0	0	0	0	0	0	0	(8,625)	8,625	0
Change in fair value of portfolio available for sale	0	0	3,793	0	0	0	0	0	0	3,793
Loss for the current period	0	0	0	0	0	0	0	0	(1,506)	(1,506)
Position as at 31 December 2016	91,897	(6,592)	4,151	149	4,729	7,425	3,028	65,020	(1,506)	168,301
Loss allocation for 2016	0	0	0	0	0	0	0	(1,506)	1,506	0
Change in fair value of portfolio available for sale	0	0	(4,130)	0	0	0	0	0	0	(4,130)
Profit for the current period	0	0	0	0	0	0	0	0	649	649
Position as at 31 December 2017	91,897	(6,592)	21	149	4,729	7,425	3,028	63,514	649	164,820

I. GENERAL INFORMATION ABOUT THE BANK

1.1. Legal framework and activities

SLATINSKA BANKA d.d. SLATINA (hereinafter: "the Bank") is registered with Commercial Court in Bjelovar. The Bank's headquarters are located in Slatina, Vladimira Nazora 2.

The Bank is registered to conduct business with foreign currencies in the country, carrying out financial intermediation, all types of deposits, all types of loans, opening of letters of credit, issuance of warranties and bank guarantees, transactions with bills of exchange, checks, lending, sale and purchase for its own account or on behalf of their customers, carrying out transactions in securities for its own account or the account of others, the issuance and management of means of payment, financial leases and factoring, providing information on the creditworthiness of customers at their request, the performance of credit transactions with foreign countries and payments transactions with foreign countries, payment transactions in the country, providing services in the sale of insurance policies and the provision of other financial services, participation in the issuance of financial instruments and provision of services, provision of services for the supply or sale of financial instruments with no obligation of purchase, custody of financial instruments and services related to custody of financial instruments, investment and ancillary services and activities.

1.2. Management bodies of the Bank

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

The Management Board:

1. Angelina Horvat President of the Management Board (until 20 April 2017)
2. Krunoslav Lisjak Deputy president (from 20 April 2017 to 20 July 2017)
3. Marko Brnić
- Member of the Management Board (until 20 July 2017)
- President of the Management Board (from 20 July 2017 to 16 January 2018)
4. Andrej Kopilaš Member of the Management Board (from 20 July 2017 to 10 April 2018); represents the Bank individually and independently by the decision of the Supervisory Board from 16 January 2018; President of the Management Board since 10 April 2018)
5. Marin Prskalo Member of the Management Board (since 20 July 2017)
6. Elvis Mališ Member of the Management Board (since 10 April 2018)

Supervisory Board:

1. Ružica Vadić President of the Supervisory Board
2. Denis Smolar Member of the Supervisory Board; deputy President of the Supervisory Board
3. Hrvoje Markovinović Member of the Supervisory Board
4. Blaženka Eror Matić Member of the Supervisory Board
5. Krunoslav Lisjak Member of the Supervisory Board

II. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

2.1. Statement of compliance and basis of preparation

The Financial Statements have been prepared in compliance with the legal requirements of the framework of financial reporting applicable for Banks in Republic of Croatia. Banking business in the Republic of Croatia is regulated by the Credit Institutions Act under which financial reporting is regulated by the Croatian National Bank ("CNB") which is the central supervisory institution of the banking system. These financial statements have been prepared in accordance with the banking regulations mentioned above.

Banking business in the Republic of Croatia is regulated by the Credit Institutions Act (OG 117/08, 74/09, 153/09, 108/12, 54/13, 159/13, 19/15 and 102/15), according to which financial reporting is prescribed by the CNB.

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 relating 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 sovereign risk assets) at prescribed rates. Provisions on an aggregate 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 repeal of provisions within impairment losses and provisions.

Although, in accordance with IFRS requirements, these provisions would be more appropriate to be presented as allocation within equity and reserves, the Bank continues to recognize them, in accordance with CNB rules, as a replacement for any unrealized impairment losses that have been calculated in accordance with IFRS requirements.

- Bank calculates impairment losses on individually significant items by estimating the future cash flows and discounting them by the original effective interest rate. Amortization of such discounts, the Bank recognizes as interest income. In certain cases, collections are recognized as interest income only at the moment of complete release of impairment losses.
- CNB prescribes minimum levels of 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.

2.2. The basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and legal requirements of Bank accounting in Republic of Croatia. Banking business in the Republic of Croatia is regulated by the Credit Institutions Act under which financial reporting is regulated by the Croatian National Bank ("CNB").

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

Throughout the preparation of financial statements, the Management Board gives assessments and estimates which have an effect on the application of policies and declared asset and liability amounts, and the disclosure of potential liabilities and liabilities taken over at the balance sheet date, as well as on the amounts of income and liabilities during the reporting period. Assessments and estimates are based on past experience and other factors and information available on the day of completion of financial statements. Actual results may differ from said estimates. Estimates and related assumptions are being frequently checked and, if needed, amended. Amendments to accounting estimates are recognized in the period of the amendment.

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

Financial statements are shown in the form regularly used and is internationally adopted for publishing financial statements of banks and other similar financial institutions.

2.3. Reporting currency

The financial statements of the Bank are prepared in Croatian kuna, rounded in thousand, as the measuring and reporting currency of the Bank (if not stated otherwise).

At 31 December 2017 the official rate of Croatian kuna was HRK 7.513648 for EUR 1 (31 December 2016: HRK 7.557787) and HRK 6.269733 HRK for USD 1 (31 December 2016: HRK 7.168536).

III SUMMARY OF ACCOUNTING POLICIES

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

3.1. Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

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

- **Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses**

Amendments will be effective for annual periods beginning on or after 1 January 2017, subject to prior application being permitted. The purpose of the amendment is to clarify the application for the recognition of deferred tax assets to unrealized losses in order to address the differences in practice related to the application of the provisions of IAS 12 Income Tax. Certain issues relate to differences in practice, such as; the treatment of temporary tax differences on the basis of fair value reduction, asset sale for an amount greater than book value, probable future tax profits and consideration of a combined or separate impact assessment.

- **Amendments to IAS 7: Disclosure Initiative**

Amendments shall be effective for annual periods beginning on or after 1 January 2017, or, where applicable, prior application may be granted. The purpose of the amendment is to provide disclosures that allow users of financial statements to assess the impact of changes in liabilities from financial activities, including cash and non-cash changes. Amendments state that one way of meeting disclosure requirements is to align the spreadsheet between initial and closing positions in the statement of financial position for liabilities arising from financial activities, including changes in cash flows from financing, changes that result from loss or gain of control over subsidiaries or other affairs, the effect of exchange rate fluctuations, changes in fair value and other changes.

The adoption of these amended standards did not significantly affect the financial statements of the Bank.

Standards and Interpretations issued by the Standards Board are not yet effective 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 by the European Union:

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

The Standard is effective for annual periods beginning on or after 1 January 2018, with earlier application being allowed. Final version of 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. The Bank's management adopted the standard after its effective date and its impact was assessed, quantified and recorded in the business books starting on 1 January 2018.

- **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 retrospective 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.

- **IFRS 16 Leases**

The Standard is effective for annual periods beginning on or after 1 January 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 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.

- **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 bases, 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.

- **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

- **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.

- **Annual Improvements to IFRSs (Cycle 2014-2016)** represent a collection of amendments to various standards. Annual improvements are effective for annual periods beginning on or after 1 January 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:

- o IFRS 1 First-time Adoption of International Financial Reporting Standards – explains short-term exemptions from disclosures about financial instruments, compensation of employees and investors, which are applicable for entities applying IFRS for the first time.
- o 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.
- o IFRS 12 Disclosure of Interests in Other Entities - amendments clarify that requirements for IFRS 12 disclosures, except those for summarised financial information of subsidiaries, joint ventures and associates, apply to investments in a subsidiary, joint venture or associate that is classified as asset held for sale, or distribution, or as a discontinued operation in accordance with IFRS 5.

• **Negative Compensation Prepayment Features (Amendments to IFRS 9)**

Amendments shall be effective 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:

- o 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.
- o 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
- o 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 Bank's Management anticipates that the application of said standards, amendments and interpretations will not have a materially significant impact on the Bank's financial statements in the period of their initial application, except for IFRS 9 for which the Bank's Management conducted a detailed analysis and is recorded in business books beginning on 1 January 2018. An overview of the effects is shown below:

- The first application of IFRS 9 – Financial instruments

In the following table is an overview of the effect of the first application of IFRS 9 – Financial instruments on initial balance sheet on 1 January 2018 and its impact on assets and potential and contingent liabilities:

DESCRIPTION	Gross exposure	Impairment 31 Dec 2017	Impairment with application of IFRS 9 1 Jan 2018	Changes in impairment
	HRK '000	HRK '000	HRK '000	HRK '000
Cash	352,634	0	750	750
Receivables from CNB	89,999	0	202	202
Placements with banks	10,192	0	4	4
Financial assets available for sale	264,812	0	546	546
Financial assets held to maturity	23,175	8,399	8,436	37
Loans and prepayments to clients	897,004	119,228	125,043	5,815
Investments in subsidiary	5,723	0	0	0
Property, plant and equipment	27,348	0	0	0
Intangible assets	7,192	0	0	0
Foreclosed assets	24,943	0	0	0
Other assets	24,619	6,151	6,023	(128)
Total assets	1,727,642	133,778	141,003	7,225
Off-balance items	102,330	1,747	1,279	(468)

Until 31 December 2017, the Bank calculated the aggregate reserves based on the Decision on the classification of placements and off-balance sheet liabilities of credit institutions, applying an internal model based on historical data over the past 5 years. The model analysed the movement of probability of non-payment and loss in sectors where the Bank has an exposure, and in the case of the placements to citizens, by individual lines of credit. An update of the model with realized balances on 31 December was carried out annually in such a way that the percentage of loss actually incurred in the portfolio of risk group A was applied in the subsequent allocation of the latent losses included in said portfolio.

The amount of provision was:

An impairment of 1.10% is assigned to:

- Exposure recorded in the Bank's business books to companies and physical persons engaged in registered economic activity (craftsmen, freelance profession etc.);
- other not mentioned placements.

Exposures to natural persons are subject to the following impairment rates:

- Exposures based on approved overdrafts on current accounts have the impairment rate of 2.80%;
- Exposures based on approved placements on a credit line in cooperation with Croatia osiguranje d.d. have the impairment rate of 0.60%;
- All other exposures to natural persons have impairment rate of 1.80%.

The amendment to the IFRS and transition to IFRS 9 no longer generates general reserve formation as previously described, but exposure previously classified in A is now classified into risk category A1 (stage 1) and A2 (Stage2) for which provisions are calculated individually for each exposure using the formula:

$$ECL = \sum_{t=1}^t EAD_t * MPD_t * LDG_t * DF_t$$

For exposure to risk category A1, loss is calculated in the twelve-month period, while for risk group A2 it is calculated over the entire exposure period.

For risk groups B and C (stage 3), credit loss is determined by discounting the estimated cash flows by exposure, or by discounting the value of collaterals.

Exposure is divided into the following homogeneous groups:

- Economy (trading companies, craftsmen and other natural persons performing the registered activity);
- Physical persons;
- Financial institutions;
- Central government and local self-government

Determining MPD (Marginal Probability of Default) represents a marginal likelihood of loss status for a particular financial instrument over a given period. In calculating MPD, the Bank uses an approach based on transitional matrices using the Markov chain techniques using homogeneous matrices at a given time. This principle is used to calculate PD for segment of economy and segment of population.

The economy sector includes trading companies, craftsmen and other natural persons performing the registered activity.

For the segment of financial institutions, PD estimates are taken from the rating agency for a particular financial institution or for the alternative domicile country of a financial institution.

For a segment of the central government and local self-government, PD estimates are taken from the rating agencies of the state.

The following macroeconomic indicators are used in the calculation:

- Gross domestic product
- Unemployment rate
- Inflation rate

LGD (Loss given default) is an estimated percentage of losses for a particular financial instrument.

The Bank has defined the estimated percentage of loss of a specific financial instrument depending on the segment and the existence of collateral on a receivable as follows:

1. Segment economy - 50%
2. Segment of physical persons:
 - a) financial instrument secured by collateral - 40%
 - b) financial instrument without collateral - 80%
3. Segment - financial institutions - 45%
4. Segment - central government and local self-government - 45%

3.2. Interest income and expenses

Interest income and expenses are recognized in the Income statement for all interest bearing instruments on an accrual basis using the effective yield method and based on real purchase price. Interest income includes interests on loans and deposits, coupons earned on fixed income investment and trading securities for sale and accrued discount and premium on treasury bills and other discounted instruments.

Interest on placements evaluated as risky is recorded off-balance sheet and recognized in income only after collection.

Fees and commissions directly related to the given credit enter into the calculation of effective interest rate and are recognized as income on an accrual basis.

3.3. Fee and commission income and expenses

Fees and commissions income mainly comprises fees and commissions from domestic and international payment transactions, guarantees, letters of credit, cards and assets management, and are recognized in the Income statement when the corresponding service is provided, except for the cases when they are included in the calculation of effective interest rates.

Fees and commissions expenses comprise fees paid to the authorized banks for foreign payment transactions and for the services of the Financial Agency ("FINA") for domestic payment transactions.

3.4. Net income and losses from financial instruments at fair value through income statement and the result from purchase and sale of currencies and currency rate differences 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 kept for trading, other financial instruments valued at fair value through the Income statement, and derivative financial instruments. Net profit and loss from currency rate differences made through recalculation of monetary assets and liabilities denominated in foreign currencies are also included in this category.

3.5. Foreign currencies

Transactions in foreign currencies are converted into the Croatian kuna (HRK), according to the exchange rate applicable on the transaction date. Croatian Kuna is the functional currency of the Bank and financial statements are presented in it.

Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency at the exchange rate applicable on the Balance Sheet date. Foreign exchange differences arising from translation are recognized in the Income statement.

Non-monetary items denominated in foreign currencies measured at fair value are translated to HRK at the exchange rate prevailing at the date of determination of fair value. Non-monetary items denominated in foreign currencies measured at historical cost should be reported using the exchange rates at the dates of the transactions.

Gains and losses arising from translation and foreign currency trading are recognized in the Income statement for the corresponding year.

3.6. Taxation

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 Income statement for amounts which are not added to the tax base, as well as amounts of tax-

unrecognized expenses. The current tax liability of the Bank is calculated using valid interest rates, or those interest rates valid on the balance sheet date.

The Management Board shall periodically assesses the positions of tax claim with respect to situations in which applicable tax laws are subject to interpretation, and the Bank performs provisioning when possible.

b) Deferred tax

Deferred tax is calculated using the liability method and shows tax effects of all significant time differentials 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 Income statement 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 reporting date, 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 instruments

The Bank's financial assets have been classified into portfolios depending on the Bank's intentions when acquiring the financial instrument, and in accordance with the Bank's investment strategy. Financial assets and liabilities have been classified into the following categories: "Fair value in the Income statement", "Held to maturity", "Available for sale", "Loans and receivables" and "Other financial liabilities".

All financial assets and liabilities are recognized, or cease to be recognized, at the day of trade, as defined by the contractual date of delivery of financial assets within terms determined in accordance with conventional terms on the market.

At initial recognition of financial asset or liability, the Bank measures said asset/liability at purchase cost plus transaction expenses (except financial assets at fair value in the Statement of comprehensive income) which can be directly tied to the acquisition, i.e. issuing of the financial asset/liability.

a) Financial assets/liabilities at fair value in the income statements

Said category includes two sub-categories: Financial instruments held for trade (including derivatives), and those that the Bank initially placed in this category. A financial instrument shall be placed in this category if it was acquired or made for sale or repurchase within a short period of time, for the purpose of short-term profit or classification by the management into this category.

After initial recognition, financial assets at fair value in the income statement shall be calculated and recognized at fair value equal to the price quoted on official stock exchanges, or shall be determined through the application of acceptable value assessment models. The Bank is declaring non-realized profit and loss within the category net profit/loss from financial operations.

b) Loans and receivables

Loans and receivables represent non-derivative financial assets with fixed or determined payment not quoted on the active market. They are made when the Bank gives cash assets to clients without any plan to trade with receivables; they include loans and receivables from banks, clients, replacement bonds and obligatory reserves at the CNB.

They are initially measured at cost, and are later decreased for impairment.

The amount of the impairment loss is declared when there is objective evidence that collection of entire amount receivable will not be possible. Impairment represents the difference between the book value and the value that can be recovered, representing the current value of expected cash flow, including amounts recoverable through guarantees and collateral. Impairment losses from individual loans shall be estimated based on the credit standing of the borrowing party, taking in consideration the value of instruments of insurance for loan repayment, or a third-party guarantee.

Non-collected matured loans are written-off in the amount of related impairment, while all later collected amounts are declared in the income statement, as other income.

The Bank charges penalty interest for late repayment, which is calculated based on incoming cash flow and is declared within income from interest.

c) Investments held to maturity

Investments held to maturity represent non-derivative financial assets with fixed or determinable payment amount and fixed maturity which the Bank intends and has the means to hold until maturity. This category includes certain debt securities.

All financial instruments held to maturity are declared as depreciated expense decreased by impairment provisions. Interest earned made based on these financial instruments is declared as income from interest.

The Bank regularly checks to see if there is objective evidence that would indicate potential impairment of assets held to maturity. When it has been determined that assets are impaired, the Bank shall declare appropriate provisions in the Statement of Comprehensive Income. Loss from decrease shall be annulled in later periods if the increase of the recoverable investment amount can be objectively tied to the event after recognition of impairment.

d) Financial assets available for sale

Financial assets available for sale are non-derivative financial assets classified in this category, or are not classified in another category. Financial assets classified as available for sale are those assets that are intended to be held for a certain period of time, but may be sold if the need for maintaining liquidity or change of interest rates, exchange rates or prices of ownership/equity instruments arises. Financial assets available for sale include debt and equity securities.

After initial recognition, financial assets available for sale are calculated again at fair value, based on quoted prices or amounts derived from the cash flow model. If the market value cannot be ascertained with certainty, the Bank shall determine fair value using estimation techniques. They include using prices from recent transactions between informed and ready parties, referring to other similar instruments, using analyses of discounted cash flows and optional price models, all the while using market-based information as much as possible.

Non-realized gains and losses arising from changes to fair value of assets classified as available for sale shall be recognized as equity/principal until the moment of sale or decrease of financial assets; after that, realized gains or losses shall be declared as net profit or loss of the period.

e) Other financial liabilities

Other financial liabilities contain all financial liabilities/expenses not held for trade or which are not classified in the fair value category in the Income statement.

3.9. Investments in subsidiaries

Subsidiaries are entities in which the Bank has the power to govern the financial and operating policies (over 50% stake). Investments in subsidiaries recoded by the cost method, with the decrease of the carrying value of this asset - investment to its recoverable amount.

The Bank also prepares consolidated financial statements of the subsidiary in which it has the entire share portion and control.

3.10. 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.

3.11. Property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and / or accumulated impairment losses. Tangible assets are capitalized if their useful life is longer than one year, and individual value is greater than HRK 3,500 at the acquisition date. Cost includes the 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 a future decommission cost.

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

DESCRIPTION	2017	2016
	%	%
Buildings	2.00 - 2.50	2.00 - 2.50
Computer equipment	25	25
Furniture	20	20
Cars	40	40
Other equipment	10 - 25	10 - 25

Depreciation is calculated separately by each item of assets until it is fully depreciated. An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal 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 values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

3.12. Intangible assets

Intangible assets pertain to IT software and investments in third party's assets initially calculated at purchase cost and depreciated using the straight-line method during their estimated life spans.

Individually acquired intangible assets are initially recognized at purchase value. Purchase value of intangible assets acquired through business combination represents fair value on the date of acquisition.

After initial recognition, intangible assets are entered at purchase value decreased by depreciation costs and eventual accumulated losses due to asset decrease. Intangible assets made through own production, excluding capitalized development costs, shall not be capitalized, and expenses shall be recognized in the Income Statement for

the year in which they occurred. Lifespan of intangible assets shall be estimated as limited (determined) or unlimited (undetermined).

Intangible assets with a determined lifespan shall be depreciated during the estimated lifespan and shall be decreased when condition for this have been met. Depreciation period and method for intangible assets with determined lifespans shall be revised at least at the end of each fiscal year. Changes in expected lifespan or in the expected method of use future economic benefits included in these assets shall be calculated through the change in depreciation period and method, and shall be treated as changes to accounting estimates. For the purpose of preparing these financial statements, the Bank calculated depreciation of intangible assets using the depreciation rate of 10% (same as the previous year).

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

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

3.13. 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 make estimates and assumptions that affect the amounts reported in financial statements and accompanying notes. The estimates have been made based on historical experience and various other factors that are believed to be realistic in the 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 of accounting estimates are recognized in the period in which they are incurred if affect only that period or the period in which they are incurred and future periods if they affect current and future periods.

3.14. Potential and contingent liabilities

During its business, the Bank declared potential and contingent liabilities in off-balance entries, through issuing guarantees, credit notes, approving credits/loans not entirely used, and through other potential liabilities. These financial instruments are shown in the Bank's balance sheet if and when the Bank covers the matured liability.

Provisions for possible losses pursuant to potential and contingent liabilities are kept on the level for which the Bank's management feels is sufficient to absorb possible future losses. The Management determines the sufficiency of these provisions based on the insight into individual items, current economic circumstances, various transaction risk categories, as well as other pertinent factors.

3.15. Cash flow report

For the purpose of cash flow reporting, cash and cash equivalents contain cash assets, placements to banks with remaining maturity of 90 days, treasury notes and bonds of the Croatian Ministry of Finance with remaining maturity of 90 days, and bills of exchange and bonds of companies with remaining maturity of 90 days and investment in investment fund.

3.16. 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 has been identified as the Bank's Management Board that reaches strategic decisions.

The Bank has 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 income statement were shown by mentioned segments.

3.17. 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 provisions to cover credit risk, liquidity, interest risk and risk related to foreign currency position.

3.18. Events after the reporting date

Events after the date of the financial position report/balance sheet are those events which have positive or negative effects and which emerged between the financial position report date and the date of approving the issue of the financial statements. The Bank coordinates the amounts it recorded in its financial statements for events after the date of the financial position report / balance sheet which need adjusting.

3.19. Comparative information

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year and other data.

IV. NOTES TO THE INCOME STATEMENT

4. INTEREST INCOME

Description	2017	2016
	HRK '000	HRK '000
Corporate	20,814	20,667
Individuals and craftsmen	35,412	33,227
Banks	66	11
Other	7,099	8,302
Total	63,391	62,207

5. INTEREST EXPENSES

Description	2017	2016
	HRK '000	HRK '000
Corporate	726	1,212
Individuals and craftsmen	15,276	21,827
Banks	2,474	2,870
Other	956	2,204
Premiums for deposit insurance	3,114	3,076
Total	22,546	31,189

6. FEE AND COMMISSION INCOME

Description	2017	2016
	HRK '000	HRK '000
Corporate (fee income)	3,714	3,548
Individuals	7,568	7,385
Other (fee income)	1,547	1,864
Total	12,829	12,797

7. FEE AND COMMISSION EXPENSES

Description	2017	2016
	HRK '000	HRK '000
The fee for services of FINA	1,782	1,684
Foreign banks	175	254
Domestic customers	1,675	1,186
Total	3,632	3,124

8. NET INCOME FROM EXCHANGE GAINS

Description	2017	2016
	HRK '000	HRK '000
Net foreign exchange losses due to the revaluation of foreign currency assets and liabilities at the exchange rate	1,955	5,220
Net foreign exchange losses due to revaluation of positions with foreign currency clause at an agreed exchange rate	(1,778)	(5,448)
Net foreign exchange differences on foreign currency trading	3,210	2,859
Total	3,387	2,631

9. OTHER OPERATING INCOME

Description	2017	2016
	HRK '000	HRK '000
Income from financial assets available for sale	5,920	3,190
Collected court and similar costs per lawsuit	25	69
Income from the sale of foreclosed assets	793	53
Other	4,420	412
Total	11,158	3,724

10. OTHER EXPENSES

Description	2017	2016
	HRK '000	HRK '000
Staff expenses (note 11)	21,394	19,920
Depreciation (notes 22 and 23)	3,296	2,578
Other business expenses (note 12)	15,741	13,671
Total	40,431	36,169

11. STAFF EXPENSES

Description	2017	2016
	HRK '000	HRK '000
Net salaries	12,455	11,480
Contributions from and on salaries	6,292	5,902
Taxes and surtaxes from salaries	1,627	1,649
Other staff expenses	1,020	889
Total	21,394	19,920

12. OTHER OPERATING EXPENSES

Description	2017	2016
	HRK '000	HRK '000
Materials and similar expenses	1,906	1,855
Service expenses	10,596	10,283
Advertising, marketing and representation costs	513	431
Supervisory Board member fees	408	505
Other	2,318	597
Total	15,741	13,671

The Bank has included audit costs for 2017 in service expenses in the amount of HRK 155,000.

13. COST OF VALUE ADJUSTMENTS AND PROVISIONS

Description	2017	2016
	HRK '000	HRK '000
Value adjustment of placements on individual basis		
- Financial assets held until maturity (Note 19)	6,757	0
- Loans and advances to clients (Note 20)	14,697	11,050
- Other assets (Note 25)	245	170
Value adjustment of placements, grouped (Notes 17, 19, 20, 21 and 25)	1,379	846
Collection of previously written off receivables	(50)	(519)
Value adjustment of investments in subsidiaries (Note 21)	(53)	(112)
Provisions for litigation costs (Note 30)	105	99
Provisions for potential liabilities (Note 30)	(193)	519
Total	22,887	12,053

14. CORPORATE INCOME TAX

Description	2017	2016
	HRK '000	HRK '000
Accounting profit /loss	1,269	(1,176)
Items increasing the tax base	2,232	5,127
Items decreasing the tax base	(2,574)	(94)
Tax base	927	3,857
Transferred tax loss	(5,599)	(9,456)
Tax loss for transfer	(4,672)	(5,599)
TAX RATE	18%	20%
TAX LIABILITY	0	0
Expense from deferred taxation	620	330
Tax expense	620	330

Income tax is calculated in accordance with Croatian regulations. Income tax rate is 18% (2016: 20%). As at 31 December 2017, there were no obligations to pay tax on the basis of the tax balance due to the transferred tax loss.

Deferred tax assets on the basis of the transferred tax loss are stated in amount of HRK 841 thousand (31 December 2016 HRK 1,008 thousand). Deferred tax assets on deferred income are stated in amount of HRK 2,257 thousand (31 December 2016: HRK 2,711 thousand).

V. NOTES TO THE BALANCE SHEET / STATEMENT OF FINANCIAL POSITION

15. CASH

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Giro account	188,530	79,252
Cash on hand:		
- HRK	14,836	15,595
- foreign currency	8,771	8,344
Cash at foreign current accounts with foreign banks	345	41,937
Cash at foreign current accounts with domestic banks	10,429	65,365
Cash at foreign current accounts with CNB	129,723	69,896
Total	352,634	280,389

16. RECEIVABLES FROM THE CROATIAN NATIONAL BANK

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Obligatory reserves		
- HRK	89,992	91,975
- foreign currencies	0	0
Other deposits with CNB	7	0
Total	89,999	91,975

The Bank is required with the CNB to a deposit reserve requirement 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 obligatory reserves is increased to 75% of the calculated reserve requirement on foreign currency deposits and loans. The percentage of HRK reserve requirement is 70% (2016: 70%). HRK reserve requirement deposited with the National Bank is transferred to the account of statutory reserves managed by CNB.

During 2017, 100% of the foreign currency reserve requirement is held in the form of other liquid receivables (in 2016: 100%).

Since May 2016, 2% of the foreign currency reserve requirement banks maintain through average daily balance of funds on their own euro accounts with the CNB, or on their own PM accounts in the TARGET2-HR system.

17. PLACEMENTS WITH BANKS

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Short term deposits with domestic banks	1,413	1,451
Short term deposits with foreign banks	8,778	0
Short term loans to domestic banks	0	5,000
Total	10,191	6,451

18. FINANCIAL ASSETS AVAILABLE FOR SALE

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Investments in equity securities	141	187
Investments in investment funds	21,115	28,140
Investments in debt securities		
- State institutions bonds in HRK	38,360	40,124
- State institutions bonds in foreign currency	0	11,651
- State institutions bonds with foreign currency clause	33,239	116,995
- Company bonds with foreign currency clause	0	3,825
- Treasury notes of the Ministry of Finance of the Republic of Croatia - in HRK	81,941	210,112
- Treasury notes of the Ministry of Finance of the Republic of Croatia - in foreign currency	90,016	33,876
- Treasury notes of the Ministry of Finance of the Republic of Croatia with foreign currency clause	0	18,879
Total	264,812	463,789

19. FINANCIAL ASSETS HELD TO MATURITY

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Company bills of exchange	22,880	26,856
Company bills of exchange with foreign currency clause	0	20,120
State institution bills of exchange	295	391
Value adjustment	(8,399)	(2,042)
Total	14,776	45,325

Changes in value adjustment are as follows:

Description	2017	2016
	HRK '000	HRK '000
Position as at 1 January	(2,042)	(2,064)
Net value adjustment/correction (note 13) - special reserves	(6,757)	0
Net value adjustment/ correction (note 13) - general reserves	400	22
Position as at 31 December	(8,399)	(2,042)

20. LOANS AND PREPAYMENTS TO CUSTOMERS

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Companies	386,646	294,376
Individuals and craftsmen	481,838	406,393
Other	28,520	34,282
Impairment of loans	(119,229)	(102,848)
Total	777,775	632,203

Risk concentration by sector of industry in client loan portfolio is as follows:

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Production / Manufacturing	114,734	59,432
Trade	90,130	86,380
Tourism	24,245	15,667
Agriculture	65,699	60,469
Civil Engineering/ Construction	18,937	19,687
Services	72,902	52,740
Private entities/ individuals	481,838	406,393
Others	28,519	34,283
Total	897,004	735,051
Impairments and provisions for loan-based losses	(119,229)	(102,848)
Grand total	777,775	632,203

Changes for impairments, i.e. provision for possible losses and loans are shown as follows:

Description	2017			2016		
	Value adjustment	Special Reserves for Identified Joint losses	Total	Value adjustment	Special Reserves for Identified Joint losses	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Position as at 1 January	(94,754)	(8,093)	(102,847)	(85,407)	(7,228)	(92,635)
Net value adjustment (Note 13)	(14,697)	(1,781)	(16,478)	(11,050)	(865)	(11,915)
Currency rate differentials	53	0	53	(61)	0	(61)
Write-offs and other	43	0	43	1,764	0	1,764
Position as at 31 December	(109,355)	(9,874)	(119,229)	(94,754)	(8,093)	(102,847)

In accordance with Bank policies, which are in compliance with the current law, the Bank must secure provisions for joint losses or decreased value for placements classified as risk level A. The Bank performs impairment (decrease) of such placements in the amount of latent losses, which it determines using its pre-prepared and tested internal methodologies based on experience, where the level of value adjustment must not be less than 0.80% of total position of these placements. The Bank keeps so determined provisions between 0.00% to 2.80% of non-risk assets and non-risk off-balance potential liabilities as at 31 December 2017 (0.00% to 4.20% of non-risk assets and non-risk off-balance potential liabilities as at 31 December 2016).

21. INVESTMENT IN SUBSIDIARY

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Turbina d,o,o,, Slatina	9,500	9,500
Impairment	(3,777)	(3,830)
Position as at 31 December	5,723	5,670

The Bank has 100% shares in the mentioned company. Investment in subsidiary is stated at the cost method, decreased by carrying value of this asset - investment to its recoverable amount.

Changes in value adjustments are shown as follows:

Description	2017	2016
	HRK '000	HRK '000
Position as at 1 January	(3,830)	(3,942)
Net value adjustment/impairment (Note 13)	53	112
Position as at 31 December	(3,777)	(3,830)

22. PROPERTY, PLANT AND EQUIPMENT

Description	Land	Buildings	Equipment	Furniture and transport equipment	Assets in preparation	Total property, plant and equipment
	HRK '000	HRK '000	HRK '000			
Purchase value						
Balance at 1 January 2016	1,137	36,607	19,353	8,318	1,723	67,138
Additions	0	0	0	0	3,978	3,978
Transfer from assets in preparation	0	538	3,295	437	(4,270)	0
Disposals and write-offs	0	0	(297)	(5)	0	(302)
Balance at 31 December 2016	1,137	37,145	22,351	8,750	1,431	70,814
Additions	0	0	0	0	1,333	1,333
Transfer from assets in preparation	0	7	814	333	(1,154)	0
Disposals and write-offs	(32)	(1,237)	(4,139)	(1,057)	0	(6,465)
Balance at 31 December 2017	1,105	35,915	19,026	8,026	1,610	65,682
Impairment						
Balance at 1 January 2016	0	14,488	17,535	8,096	0	40,119
Depreciation for 2016	0	817	940	85	0	1,842
Disposals and write-offs	0	0	(297)	(5)	0	(302)
Balance at 31 December 2016	0	15,305	18,178	8,176	0	41,659
Depreciation for 2017	0	823	1,474	170	0	2,467
Disposals and write-offs	0	(597)	(4,139)	(1,057)	0	(5,793)
Balance at 31 December 2017	0	15,531	15,513	7,289	0	38,333
Net carrying value						
As at 1 January 2016	1,137	22,119	1,818	222	1,723	27,018
As at 31 December 2016	1,137	21,840	4,173	574	1,431	29,155
As at 31 December 2017	1,105	20,384	3,513	737	1,610	27,349

At 31 December 2017, the Bank had no pledged assets with other legal entities.

23. INTANGIBLE ASSETS

Description	Software	Investments in property of third parties	Intangible assets under construction	Total intangible assets
	HRK '000	HRK '000	HRK '000	HRK '000
Purchase value				
Balance at 1 January 2016	14,433	2,058	1,405	17,896
Additions	0	0	637	637
Transfer from assets in preparation	736	86	(822)	0
Disposals and write-offs	0	(80)	0	(80)
Balance at 31 December 2016	15,169	2,064	1,220	18,453
Additions	0	0	1,723	1,723
Transfer from assets in preparation	1,005	366	(1,371)	0
Disposals and write-offs	0	(23)	0	(23)
Balance at 31 December 2017	16,174	2,407	1,572	20,153

Impairment

Balance at 1 January 2016	9,680	1,820	0	11,500
Depreciation for 2016	673	53	0	726
Disposals and write-offs	0	(71)	0	(71)
Balance at 31 December 2016	10,353	1,802	0	12,155
Depreciation for 2017	747	82	0	829
Disposals and write-offs	0	(23)	0	(23)
Balance at 31 December 2017	11,100	1,861	0	12,961

Net carrying value

Balance at 1 January 2016	4,753	238	1,405	6,396
Balance at 31 December 2016	4,816	262	1,220	6,298
Balance at 31 December 2017	5,074	546	1,572	7,192

24. FORECLOSED ASSETS

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Land - foreclosed over 2 years	3,286	2,422
Buildings - foreclosed over 2 years	10,233	5,942
Land - foreclosed up to 2 years	2,027	3,748
Other buildings - foreclosed up to 2 years	8,369	17,714
Other assets - foreclosed up to 2 years	1,028	0
Total	24,943	29,826

Foreclosed assets declared in the balance sheet of the Bank as at 31 December 2017 in the amount of HRK 24,943 thousand (HRK 29,826 thousand as at 31 December 2016) pertains to assets that the bank took over as coverage for non-collected receivables from credits/loans and placements. It is the estimation of the Bank that the value of assets taken over is close to its actual market value.

Changes in foreclosed assets are shown as follows:

Description	2017	2016
	HRK '000	HRK '000
Position as at 1 January	29,826	14,048
Increase		
- real estate / property tax and other	322	10
- newly acquired assets	220	15,909
Decrease		
- sales	(5,425)	(141)
Position as at 31 December	24,943	29,826

25. OTHER ASSETS

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Calculated assets	9,868	9,084
Fee and commission receivables	2,575	3,769
Receivables for cash sent to collection centre	1,708	0
Deferred tax assets	3,098	3,718
Accounts receivable	1,641	1,559
Card-based receivables	1,310	950
Receivables for advance payments of profit/company tax	765	765
Receivables from customers based on paid court expenses	2,526	2,618
Paid expenses of future period	440	515
Advance payments	115	20
Other	570	565
Value adjustment	(6,149)	(7,195)
Total	18,467	16,368

Changes in value adjustment /impairment are as follows:

Description	2017	2016
	HRK '000	HRK '000
Position as at 1 January	(7,195)	(7,347)
Net value adjustment / correction (Note 13) - general reserves	10	(3)
Net value adjustment / correction (Note 13) - special reserves	(245)	170
Write-off and other	1,281	(15)
Position as at 31 December	(6,149)	(7,195)

26. DEPOZITI PO VIĐENJU

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Deposits on demand – individuals		
- HRK	118,104	93,274
- foreign currency	118,917	93,562
Total individuals	237,021	186,836
Deposits on demand – companies		
- HRK	66,771	73,108
- foreign currency	9,763	7,755
Total companies	76,534	80,863
Deposits on demand – financial institutions		
- HRK	101	551
Total financial institutions	101	551
Deposits on demand – state and other institutions		
- HRK	34,168	18,468
- foreign currency	109	70
Total state and other institutions	34,277	18,538
Limited deposits		
- HRK	1,984	696
- foreign currency	0	193
Total limited deposits	1,984	889
Deposits on demand – foreign entities		
- HRK	52	166
- foreign currency	3,116	2,264
Total foreign deposits	3,168	2,430
Grand total	353,085	290,107

27. TERM DEPOSITS

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Individual deposits		
- HRK	229,720	255,803
- Foreign currency	615,185	662,420
Total individuals	844,905	918,223
Company deposits		
- HRK	36,213	35,334
- Foreign currency	1,699	6,568
Total companies	37,912	41,902
Financial institutions deposits		
- HRK	15,667	11,882
- Foreign currency	0	0
Total financial institutions	15,667	11,882
State and other institutions deposits		
- HRK	9,942	20,369
- Foreign currency	0	81
Total state and other institutions	9,942	20,450
Foreign entity deposits		
- Foreign currency	9,477	11,774
Total foreign entities	9,477	11,774
Grand total	917,903	1,004,231

28. LOAN LIABILITIES

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Domestic banks (Croatian Bank for Reconstruction and Development) /i/	92,276	95,259
Domestic non-banking financial institutions /ii/	18,683	25,485
CNB (iii)	25,043	0
Total	136,002	120,744

/i/ Liabilities toward the CBRD as at 31 December 2017 amounted to HRK 92,276 thousand (31 December 2016: HRK 95,259 thousand). These sources are meant for approving loans to legal and private entities, in accordance with CBRD programs. Depending on the purpose of the credit/loan, interest rates were 0%-5% (0%-5% also in 2016).

/ii/ Liabilities toward domestic non-banking financial institutions as at 31 December 2017 were HRK 18,683 thousand (HRK 25,485 thousand as at 31 December 2016) and refer to REPO transactions concluded with AUCTOR INVEST d.o.o. REPO rate is fixed for each contract, from 1.7% to 2.8%, depending on the contract.

/iii/ Liabilities to the CNB as of 31 December 2017 amount to HRK 25,043 thousand (31 December 2016: HRK 0) and refer to the CNB's structural operations at an interest rate of 1.20% and the treasury bills of the Ministry of Finance as an insurance instrument.

29. OTHER LIABILITIES

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Credit overpayment liabilities	5,004	4,553
Accounts payable	1,692	1,672
Liabilities toward employees	1,742	1,585
Supervisory Board member fees	31	31
Deferred interest income	5,307	8,702
Dividend liabilities	122	122
Liabilities for fees and commissions	1	0
Liabilities for income tax and contributions	10	0
VAT liabilities	36	12
Derivative liabilities	0	1
Other liabilities	3,279	2,472
Total	17,224	19,150

30. PROVISIONS

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Provisions for court cases (litigation costs)	3,080	2,975
Provisions for identified losses	7	26
Provisions for losses as per off-balance potential liabilities	1,740	1,915
Total	4,827	4,916

Changes in provisions are as follows:

Description	2017	2016
	HRK '000	HRK '000
Position as at 1 January	4,916	4,298
Changes on provisions for litigation costs (Note 13)	105	99
Changes in provisions for potential liabilities and identified losses (Note 13)	(193)	519
Position as at 31 December	4,828	4,916

31. CAPITAL

Share capital as at 31 December 2017 amounted to HRK 91,897 thousand divided into 918,972 shares of HRK 100 nominal value per share.

Pursuant to the decision of the General Assembly as of 29 June 2006, on elimination of preferred shares it was ascertained that capital stock of the Bank of HRK 91,897,000 divided into 172,412 immaterial (intangible) name shares of which 114,662 such common shares of series "A" carries a nominal value of HRK 600 each and 57,750 preferred immaterial shares of series "B" carry a nominal value of HRK 400 each, and that by this decision all preference is eliminated in full, so that said shares thereby become immaterial name shares of HRK 400 nominal value each. Pursuant to the decision of the General Assembly as of 29 June 2006, on division of shares, one common name share of the Bank carries a nominal value of HRK 600 and is divided into 6 common name shares of the Bank at HRK 100 nominal per-share value, and one share that was until this time a preferred share at HRK 400 nominal value shall be divided into 4 common name shares of the Bank at HRK 100 nominal value.

Largest shareholders of the Bank as at 31 December 2017 are shown as follows:

Shareholder	Number of shares	%
ADDIKO BANK D,D,/ SZAIF D,D, (1/1)	220,552	24.00
CERP (0/1) / REPUBLIC OF CROATIA (1/1)	76,494	8.32
SOKAČIĆ DRAGUTIN (1/1)	73,781	8.03
SB-S D,D, (1/1)	71,374	7.77
BANKA SPLITSKO - DALMATINSKA D,D, U STEČAJU (1/1)	60,000	6.53
BERIŠIĆ LJUBICA (1/1)	36,432	3.96
GALIĆ JOSIP (1/1)	29,962	3.26
MRKOCI MILIVOJ (1/1)	29,960	3.26
FINE SA CREDOS D,D,, FINANCIJSKA KOMPANIJA (1/1)	29,073	3.16
MIKULIĆ EMIL (1/1)	26,554	2.89
AUCTOR INVEST D,O,O,/ BORAS ARIJANA (1/1)	10,063	1.10
HITA-VRIJEDNOSNICE D,D,/ MIKULIĆ EMIL (1/1)	10,000	1.09
SEsar IVAN (1/1)	9,000	0.98
TVIN D,O,O, (1/1)	8,958	0.97
ALLIANZ ZAGREB D,D, (1/1)	8,703	0.95
STRIZREP TIHOMIR (1/1)	8,242	0.90
OTHER	209,824	22.83
TOTAL 1,190 shareholders	918,972	100.00

32. EARNINGS PER SHARE

Description	31 Dec 2017	31 Dec 2016
Profit/loss of current year (in thousands of HRK)	649	(1,506)
Number of shares (in thousands of shares)	918,972	918,972
Earnings/loss per share	0.71 HRK	(1.64) HRK

33. POTENTIAL AND CONTINGENT LIABILITIES

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Performance guarantees		
- HRK	8,862	4,293
- Foreign currency	706	234
Payment guarantees		
- HRK	5,676	9,817
- Foreign currency	0	60
Letters of credit		
- Foreign currency	0	244
Approved unrealized credit lines	38,992	34,322
Other potential liabilities	48,094	49,630
Total	102,330	98,600
Provisions for potential liabilities	(1,747)	(1,940)
Grand total	100,583	96,660

34. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash placements to banks, treasury notes and bills of exchange with up to 90 days maturity:

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Cash assets	352,634	280,389
Placements to banks with remaining maturity up to 3 months	9,429	5,684
Treasury notes and bills of exchange, with remaining maturity up to 3 months		
- Portfolio available for sale	257,193	456,453
- Portfolio to maturity	12,929	35,250
Total cash and cash equivalents	632,185	777,776

35. ASSETS FOR AND ON BEHALF THIRD PARTIES

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Total sources	11,344	11,233
Less: assets	(10,621)	(10,590)
Assets not spent	723	643

The Bank manages assets for and on behalf of third parties, mainly placed as credits/loans. These assets are kept on books separate from Bank assets. Income and expenses based on these assets are entered in books for the benefit or burdening appropriate sources, while the Bank did not take over any appertaining risk. The Bank charged fees for its services, which was collected through burdening these assets.

Assets at care:

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Assets at care	1,158	0
TOTAL	1,881	643

36. RELATED PARTY TRANSACTIONS

Persons in a special relationship with a credit institution are:

- 1) shareholders of the Bank holding 5 or more percent of the Bank's voting rights at the General Assembly of the Credit Institution, including the holders of shares of the credit institution
- 2) members of the Management Board and the Supervisory Board and the Procurator of the Bank
- 3) persons that have an employment contract with a Bank, which implies a significant influence of those persons in the Bank's business, or that contains provisions that determine the award for the work of those persons on special criteria that differ from the criteria for persons who have concluded standard employment contracts, under condition that that person is not one of the persons referred to a point 1 or 2 of this paragraph and other employees that have a material influence on the Bank's risk profile.
- 4) legal entities in which the Bank, a member of the management board, a member of the supervisory board or a procurator has a participating interest.
- 5) legal entities whose member of the Management board or the Supervisory board or procurator is at the same time a member of the Management or a member of the Supervisory board or procurator of the bank.
- 6) legal entities whose member of the board has 10% or more of the voting rights of the Bank at the General Assembly of the Bank.
- 7) a member of the Board of directors, a member of the Supervisory board and a procurator of a company that is, directly or indirectly, a parent of a credit institution or a subsidiary of a credit institution.
- 8) a third person acting for the account of person referred to point 1 to 7 of this paragraph related to transactions that would cause or increase the exposure of the Bank.

Persons with a special relationship with a credit institution are also considered as related persons as defined below: related parties are two or more legal entities or persons and members of their closer family who, unless proven otherwise, have a risk to a credit institution because:

- 1) one of them has, directly or indirectly, control over the other or others or
- 2) are interrelated so that there is a high probability that the deterioration or improvement of the economic and financial condition of a person will deteriorate or improve the economic and financial condition of one or more other persons, especially if between them exists a possibility of transferring loss, gain, credit ability or if difficulties in the financing sources or a person's obligations may cause difficulties in the financing sources of funding or settlement of the obligations of one or more other persons.

Members of the close family of the related parties are:

- 1) a spouse or a person, with whom he or she lives in a common household which, according to a special law, has the same status in the marriage community,
- 2) son, adopted son, daughter or adopted daughter of that person
- 3) son, adopted son, daughter or adopted daughter of the person mentioned in the point 1 of this paragraph,
- 4) another person who has no full business capacity and who is placed under the custody of that person.

A credit institution may enter into a legal transaction with a person in a special relationship with the Bank and its related person only if such employment is contracted under terms that are no longer favourable than the normal conditions of the credit institution.

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. Total amount of transactions with related parties, closing balances at the end of the year and related income and expense for the year are shown as follows:

Description	31 Dec 2017	31 Dec 2016
	HRK '000	HRK '000
Loans and advance payments to clients		
Shareholders having 5 or more percent of voting shares	10,245	12,851
Others (employees and associated parties)	36,162	20,751
Total loans and advance payments to clients	46,407	33,602
Potential liabilities		
Others (employees and associated parties)	2,149	1,054
Total potential liabilities	2,149	1,054
Deposits on demand		
Shareholders having 5 or more percent of voting shares	150	1,203
Others (employees and associated parties)	8,258	3,791
Turbina d.o.o., Slatina	523	455
Supervisory Board and associated parties	230	298
Total deposits on demand	9,161	5,747
Term deposits		
Shareholders having 5 or more percent of voting shares	10,384	4,634
Others (employees and associated parties)	8,869	9,996
Turbina d.o.o., Slatina	3,774	3,725
Supervisory Board and associated parties	203	118
Total term deposits	203,230	18,473
Other assets		
Shareholders having 5 or more percent of voting shares	13,637	11,001
Turbina d.o.o., Slatina	5,723	5,670
Total other assets	19,360	16,671
Other liabilities		
Shareholders having 5 or more percent of voting shares	18,692	25,502
Others (employees and associated parties)	9	0
Turbina d.o.o., Slatina	2	11
Supervisory Board and associated parties	31	31
Total other liabilities	18,734	25,544

Description	2017	2016
	HRK '000	HRK '000
Income		
Shareholders having 5 or more percent of voting shares	855	1,070
Members of the Supervisory Board and associated parties	16	2
Others (employees and associated parties)	2,151	1,976
Turbina d.o.o., Slatina	6	6
Total income	3,028	3,054

Expenses		
Shareholders having 5 or more percent of voting shares	456	859
Others (employees and associated parties)	241	300
Turbina d.o.o., Slatina	48	251
Supervisory Board and associated parties	3	2
Total expenses	748	1,412

Management Board salaries are as follows:

Description	2017	2016
	HRK '000	HRK '000
Net salaries	1,340	897
Taxes and contributions	1,086	815
Total	2,426	1,712

VI. MANAGING FINANCIAL RISKS

This Note shows details of Bank's exposure to risks which arise from unpredictability of the financial market as well as briefly described methods which the Management uses for identification, measuring and management of risks. The Bank makes an effort to control the same risks, i.e. to reduce them to lowest possible level. The most significant types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes the risk of interest rate changes, exchange rate changes and price risk (price changes of owner and debt securities).

The risk management system is continually being upgraded at the level of the Bank by introducing new policies and procedures for assessment, measurement, control and management of risks and by determining the limits of risk exposure adjusted to the legal provisions and the Bank's risk profile.

The Bank's Management Board is accountable for recognition and control of risk. There are separate bodies and organizational parts within the Bank's organizational structure responsible for individual risk management and control.

37. CREDIT RISK

The Bank is exposed to credit risk, which represents the risk of inability of the other side to cover their liabilities in full as they mature. The Bank classifies credit risk by determining limits for the amount of risk taken on which it expects shall emerge with respect to each borrower or a group of borrowers, and divided by industry. The Bank regularly monitors above risks and reassesses them at least once per year.

The Bank manages credit risk through regular analysis of the ability of existing and potential borrowers to pay back their obligations (equity and interest) and to change credit limits as necessary. In addition, exposure to this risk is also partially regulated through acquiring collateral and corporate/private guarantees.

The purpose of the credit liabilities taken over is to ensure availability of assets in accordance with client needs. Guarantees represent the non-retractable portion of the Bank's obligation of realizing payments to third parties in case the client cannot settle/cover the same; they carry the same credit risk as credits/loans.

Credit liabilities taken over represent unused approved amounts in the form of credits/loans or guarantees. In connection with credit risk tied to credit liabilities taken over, the Bank is potentially exposed to losses in the amount equal to total unused liabilities taken over. However, the probable amount of losses is lower than the total amount of unused liabilities taken over because most of credit liabilities taken over are tied to maintaining specific credit-based standards by the client. The Bank monitors the period to maturity of credit liabilities taken over, since these long-term liabilities generally represent a greater credit risk than short-term ones.

Maximum credit risk exposure before lien/mortgage or other insurance instruments at 31 December 2017 is shown as follows:

Description	Gross placements	Individual reserves	Joint reserves	Net placements
	HRK '000	HRK '000	HRK '000	HRK '000
Exposure to credit risk relating to balance assets is as follows:				
Cash assets	352,634	0	0	352,634
Receivables from the Croatian National Bank	89,999	0	0	89,999
Placements to banks	10,191	0	0	10,191
Financial assets available for sale	264,812	0	0	264,812
Financial assets held to maturity	23,175	8,349	50	14,776
Loans and advance payments to clients				
- Companies	386,646	78,222	2,799	305,625
- Individuals	481,838	31,126	6,889	443,823
- Other entities	28,520	9	184	28,327
Other assets	89,822	6,123	25	83,674
Total balance exposure:	1,727,637	123,829	9,947	1,593,861
Exposure to credit risk relating to off-balance assets is as follows:				
Guarantees	15,244	0	168	15,076
Letters of credit				
Credit and other liabilities taken over	87,086	7	1,572	85,507
Total off-balance exposure:	102,330	7	1,740	100,583
Total as at 31 December 2017	1,829,967	123,836	11,687	1,694,444

Maximum credit risk exposure before lien/mortgage or other insurance instruments at 31 December 2016 is shown as follows:

Description	Gross placements	Individual reserves	Joint reserves	Net placements
	HRK '000	HRK '000	HRK '000	HRK '000
Exposure to credit risk relating to balance assets is as follows:				
Cash assets	280,389	0	0	280,389
Receivables from the Croatian National Bank	91,975	0	0	91,975
Placements to banks	6,451	0	0	6,451
Financial assets available for sale	463,788	0	0	463,788
Financial assets held to maturity	47,367	1,591	451	45,325
Loans and advance payments to clients				
- Companies	294,376	65,969	1,789	226,618
- Individuals	406,393	28,777	6,086	371,530
- Other entities	34,282	9	218	34,055
Other assets	94,514	7,171	25	87,318
Total balance exposure:	1,719,535	103,517	8,569	1,607,449

Exposure to credit risk relating to off-balance assets is as follows:

Guarantees	14,405	0	144	14,261
Letters of credit	244	0	2	242
Credit and other liabilities taken over	83,951	25	1,769	82,157
Total off-balance exposure:	98,600	25	1,915	96,660
Total as at 31 December 2016	1,818,135	103,542	10,484	1,704,109

Overview of unpaid matured receivables as at 31 December 2017 is shown as follows:

DESCRIPTION	Maturity							TOTAL
	Up to 30 days	31 - 90 days	91-180 days	181-365 days	1 - 2 years	2-3 years	Over 3 years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	
Placements to banks	0	0	0	0	0	0	0	0
Loans and advance payments to clients								
- Companies	8,483	4,937	2,098	560	298	10,258	97,198	123,832
- Individuals	4,761	1,464	973	1,642	2,441	1,254	26,324	38,859
- Other entities	556	0	0	0	853	0	0	1,409
Financial assets held to maturity	0	0	0	0	0	0	0	0
Other matured receivables	0	0	0	0	0	0	0	0
Total unpaid matured receivables	13,800	6,401	3,071	2,202	3,592	11,512	123,522	164,100
Off-balance interest (matured)	149	58	68	140	451	2,726	79,900	83,492

Overview of unpaid matured receivables as at 31 December 2016 is shown as follows:

DESCRIPTION	Maturity							TOTAL
	Up to 30 days	31 - 90 days	91-180 days	181-365 days	1 - 2 years	2-3 years	Over 3 years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	
Placements to banks	0	0	0	0	0	0	0	0
Loans and advance payments to clients								
- Companies	3,991	887	48	308	10,113	38,011	58,727	112,085
- Individuals	2,970	1,986	1,162	1,797	1,737	6,043	23,635	39,330
- Other entities	649	1	0	58	0	0	0	708
Financial assets held to maturity	0	0	0	0	0	0	1,655	1,655
Other matured receivables	0	0	0	0	0	0	0	0
Total unpaid matured receivables	7,610	2,874	1,210	2,163	11,850	44,054	84,017	153,778
Off-balance interest (matured)	131	81	107	189	1,712	7,603	64,726	74,549

Placements to banks, loans and advance payments to clients

Summary of credit exposure with respect to the level of possibility of coverage as at 31 December 2017 is shown as follows:

Description	Placements to banks	Loans and advance payments to companies	Loans and advance payments to individuals	Loans and advance payments to other entities	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Not matured and value not decreased	10,192	243,618	424,083	27,111	705,004
Matured and value not decreased	0	11,034	4,516	556	16,106
Individual value decreased	0	131,994	53,239	853	186,086
Gross	10,192	386,646	481,838	28,520	907,196
Decreased for provisioning	0	(81,021)	(38,015)	(193)	(119,229)
Net	10,192	305,625	443,823	28,327	787,967

Summary of credit exposure with respect to the level of possibility of coverage as at 31 December 2016 is shown as follows:

Description	Placements to banks	Loans and advance payments to companies	Loans and advance payments to individuals	Loans and advance payments to other entities	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Not matured and value not decreased	6,451	166,235	352,293	32,751	557,730
Matured and value not decreased	0	12,636	4,791	649	18,076
Individual value decreased	0	115,505	49,309	882	165,696
Gross	6,451	294,376	406,393	34,282	741,502
Decreased for provisioning	0	(67,758)	(34,863)	(227)	(102,848)
Net	6,451	226,618	371,530	34,055	638,654

Placements to banks and loans and advance payments to clients whose value has not been decreased

Credit quality of placements to banks portfolio, and loans and advance payments to clients that have not matured nor has their value decreased, may be estimated based on the Bank-adopted internal system of estimation and placement allocation.

It shall be considered that the value of placements to banks and loans and advances matured, with maturation of up to 90 days, has not decreased unless other information pointing to otherwise is available.

Gross amount of placements to banks and loans and advances to clients which have matured, but whose value has not decreased as at 31 December 2017 are shown as follows:

Description	Placements to banks	Loans and advance payments to companies	Loans and advance payments to individuals	Loans and advance payments to other entities	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Not matured and value not decreased	10,192	243,618	424,083	27,111	705,004
TOTAL	10,192	243,618	424,083	27,111	705,004
Matured and value not decreased					
Maturity up to 30 days	0	8,191	3,095	555	11,841
Maturity 31-90 days	0	2,843	1,344	1	4,188
Maturity over 90 days	0	0	77	0	77
TOTAL	0	11,034	4,516	556	16,106
GRAND TOTAL	10,192	254,652	428,599	27,667	721,110
Fair value of lien/mortgage	0	109,632	102,860	851	
Receivables (claims) insured with an insurance company	0	0	36,641	0	36,641

Gross amount of placements to banks and loans and advances to clients which have matured, but whose value has not decreased as at 31 December 2016 are shown as follows:

Description	Placements to banks	Loans and advance payments to companies	Loans and advance payments to individuals	Loans and advance payments to other entities	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Not matured and value not decreased	6,451	166,235	352,293	32,751	557,730
TOTAL	6,451	166,235	352,293	32,751	557,730
Matured and value not decreased					
Maturity up to 30 days	0	3,918	2,907	648	7,473
Maturity 31-90 days	0	756	1,782	1	2,539
Maturity over 90 days	0	7,962	102	0	8,064
TOTAL	0	12,636	4,791	649	18,076
GRAND TOTAL	6,451	178,871	357,084	33,400	575,806
Fair value of lien/mortgage	0	84,027	124,349	464	208,840
Receivables (claims) insured with an insurance company	0	0	69,027	0	69,027

Placements to banks and loans and advance payments to clients whose value has individually decreased - as at 31 December 2017

Debt age	Placements to banks	Loans and advance payments to companies	Loans and advance payments to individuals	Loans and advance payments to other entities	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Maturity up to 30 days	0	292	1,666	0	1,958
Maturity 31-90 days	0	2,094	120	0	2,214
Maturity 91-180 days	0	2,098	935	0	3,033
Maturity 181-365 days	0	560	1,603	0	2,163
Maturity 1-2 years	0	298	2,441	853	3,592
Maturity 2-3 years	0	10,258	1,254	0	11,512
Maturity over 3 years	0	97,198	26,324	0	123,522
TOTAL MATURED	0	112,798	34,343	853	147,994
Pertinent non-matured debt	0	19,196	18,896	0	38,092
TOTAL	0	131,994	53,239	853	186,086
Decreased for provisioning	0	(78,222)	(31,126)	(9)	(109,357)
Net	0	53,772	22,113	844	76,729
Fair value of lien/mortgage	0	80,787	13,944	853	95,584
Receivables (claims) insured with an insurance company	0	0	1,542	0	1,542

- as at 31 December 2016

Debt age	Placements to banks	Loans and advance payments to companies	Loans and advance payments to individuals	Loans and advance payments to other entities	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Maturity up to 30 days	0	74	63	0	137
Maturity 31-90 days	0	131	203	0	334
Maturity 91-180 days	0	48	1,097	0	1,145
Maturity 181-365 days	0	308	1,759	58	2,125
Maturity 1-2 years	0	10,113	1,736	0	11,849
Maturity 2-3 years	0	30,049	6,036	0	36,085
Maturity over 3 years	0	58,726	23,645	0	82,371
TOTAL MATURED	0	99,449	34,539	58	134,046
Pertinent non-matured debt	0	16,056	14,770	824	31,650
TOTAL	0	115,505	49,309	882	165,696
Decreased for provisioning	0	(65,969)	(28,777)	(9)	(94,755)
Net	0	49,536	20,532	873	70,941
Fair value of lien/mortgage	0	60,448	14,050	882	75,380
Receivables (claims) insured with an insurance company	0	0	3,400	0	3,400

38. INTEREST RISK

The following table shows assets and liabilities of the Bank as per book value, categorized at contractually changed price or maturity, depending on which term is earlier, as at 31 December 2017

2017	Not sensitive to interest rate changes	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	1 to 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS							
Cash assets	23,607	329,027	0	0	0	0	352,634
Receivables from the Croatian National Bank	0	7	0	89,992	0	0	89,999
Placements to banks	1	9,277	150	763	0	0	10,191
Financial assets available for sale	12,742	23,197	20,125	117,691	91,057	0	264,812
Financial assets held to maturity	472	1,267	1,312	1,712	9,966	47	14,776
Loans and advance payments to clients	7,381	35,259	32,072	172,105	250,973	279,985	777,775
Investments in related company	5,723	0	0	0	0	0	5,723
Real property, plants and equipment	27,349	0	0	0	0	0	27,349
Intangible assets	7,192	0	0	0	0	0	7,192
Foreclosed assets	24,943	0	0	0	0	0	24,943
Other assets	18,467	0	0	0	0	0	18,467
Total assets	127,877	398,034	53,659	382,263	351,996	280,032	1,593,861
LIABILITIES							
Deposits on demand	2,023	33	0	351,029	0	0	353,085
Term deposits	37,602	163,765	161,273	404,422	136,572	14,269	917,903
Credit liabilities	1,975	20,133	8,102	15,247	29,134	61,411	136,002
Other liabilities	17,224	0	0	0	0	0	17,224
Provisions	4,827	0	0	0	0	0	4,827
Total liabilities	63,651	183,931	169,375	770,698	165,706	75,680	1,429,041
CAPITAL							
Share capital	91,897	0	0	0	0	0	91,897
Own/treasury shares	(6,592)	0	0	0	0	0	(6,592)
Revaluation reserves	21	0	0	0	0	0	21
Capital gain	149	0	0	0	0	0	149
Reserves	15,182	0	0	0	0	0	15,182
Retained earnings	63,514	0	0	0	0	0	63,514
Profit of current year	649	0	0	0	0	0	649
Total capital	164,820	0	0	0	0	0	164,820
Total liabilities and capital	228,471	183,931	169,375	770,698	165,706	75,680	1,593,861
NET ASSETS/LIABILITIES AND CAPITAL	(100,594)	214,103	(115,716)	(388,435)	186,290	204,352	0

The following table shows assets and liabilities of the Bank as per book value, categorized at contractually changed price or maturity, depending on which term is earlier, as at 31 December 2016:

2016	Not sensitive to interest rate changes	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS							
Cash assets	23,939	256,450	0	0	0	0	280,389
Receivables from the Croatian National Bank	0	0	0	91,975	0	0	91,975
Placements to banks	0	5,533	151	767	0	0	6,451
Financial assets available for sale	24,246	33,230	30,000	375,750	563	0	463,789
Financial assets held to maturity	152	14,018	21,007	10,094	17	37	45,325
Loans and advance payments to clients	6,658	25,070	37,286	138,460	222,778	201,951	632,203
Investments in related company	5,670	0	0	0	0	0	5,670
Real property, plants and equipment	29,155	0	0	0	0	0	29,155
Intangible assets	6,298	0	0	0	0	0	6,298
Foreclosed assets	29,826	0	0	0	0	0	29,826
Other assets	16,368	0	0	0	0	0	16,368
Total assets	142,312	334,301	88,444	617,046	223,358	201,988	1,607,449
LIABILITIES							
Deposits on demand	889	413	0	288,805	0	0	290,107
Term deposits	30,831	173,856	192,691	446,386	143,285	17,182	1,004,231
Credit liabilities	1,913	26,996	9,753	24,522	26,131	31,429	120,744
Other liabilities	19,150	0	0	0	0	0	19,150
Provisions	4,916	0	0	0	0	0	4,916
Total liabilities	57,699	201,265	202,444	759,713	169,416	48,611	1,439,148
CAPITAL							
Share capital	91,897	0	0	0	0	0	91,897
Own/treasury shares	(6,592)	0	0	0	0	0	(6,592)
Revaluation reserves	4,151	0	0	0	0	0	4,151
Capital gain	149	0	0	0	0	0	149
Reserves	15,182	0	0	0	0	0	15,182
Retained earnings	65,020	0	0	0	0	0	65,020
Profit of current year	(1,506)	0	0	0	0	0	(1,506)
Total capital	168,301	0	0	0	0	0	168,301
Total liabilities and capital	226,000	201,265	202,444	759,713	169,416	48,611	1,607,449
NET ASSETS/LIABILITIES AND CAPITAL	(83,688)	133,036	(114,000)	(142,667)	53,942	153,377	0

The table below shows valid interest rates for interest - yielding assets and liabilities:

	2017	2016
	%	%
Assets		
Receivables from the Croatian National Bank	(0.40)	(0.40)
Placements to banks	0.30 - 1.60	0.50 - 0.95
Financial assets held to maturity	4.90 - 9.41	5.30 - 9.68
Loans and advance payments to clients	1.00 - 14.00	1.00 - 14.00
Liabilities		
Deposits on demand	0.00 - 0.30	0.00 - 1.00
Term deposits	0.00 - 3.80	0.00 - 3.80
Loan liabilities	0.00 - 5.00	0.00 - 5.00

39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount by which some assets may be traded for or a liability covered, in the best interest of both sides. Since market prices are not available for a greater part of financial assets and liabilities of the Bank, fair value of such assets and liabilities shall be based on estimates of the management, as per type of asset/liability. According to Management estimate, market values do not differ significantly from their book value in all categories of assets and liabilities.

40. CONCENTRATION OF ASSETS, LIABILITIES AND OFF-BALANCE ENTRIES

Description	31 Dec 2017			31 Dec 2016		
	Assets	Liabilities	Off -balance entries	Assets	Liabilities	Off -balance entries
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Geographical region						
Republic of Croatia	1,584,738	1,416,395	102,329	1,565,512	1,424,944	98,599
Europe	9,123	12,646	1	41,937	14,204	1
Other	0	164,820	0	0	168,301	0
Total geographical region	1,593,861	1,593,861	102,330	1,607,449	1,607,449	98,600
Sector						
Republic of Croatia	264,269	44,962	2,746	458,886	39,694	548
CNB	408,252	25,043	0	241,122	0	0
Trade	107,974	25,408	5,613	86,848	24,340	13,458
Finances	56,705	126,727	2,694	124,082	133,178	2,310
Tourism	24,245	2,764	2,206	14,686	2,027	3,491
Agriculture, fisheries	65,895	10,528	7,627	48,026	7,336	12,652
Industry	117,222	19,026	5,138	45,145	23,755	6,466
Individuals (including craftsmen and other independent enterprises)	444,110	1,131,634	55,551	371,530	1,106,886	42,294
Non-residents	9,123	12,646	1	41,937	14,204	1
Other	96,066	195,124	20,754	175,187	256,029	17,380
Total sector analysis	1,593,861	1,593,861	102,330	1,607,449	1,607,449	98,600

41. CURRENCY RISK

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

2017	EUR	USD	Other currencies	HRK with currency clause	Total currency equivalents	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS							
Cash assets	138,447	1,290	9,532	0	149,269	203,365	352,634
Receivables from the Croatian National Bank	0	0	0	0	0	89,999	89,999
Placements to banks	914	8,777	500	0	10,191	0	10,191
Financial assets available for sale	0	0	0	33,239	33,239	231,573	264,812
Financial assets held to maturity	0	0	0	0	0	14,776	14,776
Loans and advance payments to clients	0	0	0	527,047	527,047	250,728	777,775
Investments in related company	0	0	0	0	0	5,723	5,723
Property, plants and equipment	0	0	0	0	0	27,349	27,349
Intangible assets	0	0	0	0	0	7,192	7,192
Foreclosed assets	0	0	0	0	0	24,943	24,943
Other assets	0	0	0	0	0	18,467	18,467
Total assets	139,361	10,067	10,032	560,286	719,746	874,115	1,593,861
LIABILITIES							
Liabilities to banks							
Deposits on demand	121,049	3,805	7,052	0	131,906	221,179	353,085
Term deposits	617,444	6,212	2,705	13,504	639,865	278,038	917,903
Credit liabilities	0	0	0	51,777	51,777	84,225	136,002
Other liabilities	0	0	0	0	0	17,224	17,224
Provisions	0	0	0	0	0	4,827	4,827
Total liabilities	738,493	10,017	9,757	65,281	823,548	605,493	1,429,041
CAPITAL							
Share capital	0	0	0	0	0	91,897	91,897
Own/treasury shares	0	0	0	0	0	(6,592)	(6,592)
Revaluation reserves	0	0	0	0	0	21	21
Capital gain	0	0	0	0	0	149	149
Reserves	0	0	0	0	0	15,182	15,182
Retained earnings	0	0	0	0	0	63,514	63,514
Profit of current year	0	0	0	0	0	649	649
Total capital	0	0	0	0	0	164,820	164,820
Total liabilities and capital	738,493	10,017	9,757	65,281	823,548	770,313	1,593,861
NET ASSETS/LIABILITIES AND CAPITAL	(599,132)	50	275	495,005	(103,802)	103,803	0

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

2016	EUR	USD	Other currencies	HRK with Currency clause	Total currency equivalents	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS							
Cash assets	163,031	12,071	10,440	0	185,542	94,847	280,389
Receivables from the Croatian National Bank	0	0	0	0	0	91,975	91,975
Placements to banks	919	0	532	0	1,451	5,000	6,451
Financial assets available for sale	45,573	0	0	149,689	195,262	268,527	463,789
Financial assets held to maturity	0	0	0	19,883	19,883	25,442	45,325
Loans and advance payments to clients	0	0	0	430,186	430,186	202,017	632,203
Investments in related company	0	0	0	0	0	5,670	5,670
Property, plants and equipment	0	0	0	0	0	29,155	29,155
Intangible assets	0	0	0	0	0	6,298	6,298
Foreclosed assets	0	0	0	0	0	29,826	29,826
Other assets	0	0	0	0	0	16,368	16,368
Total assets	209,523	12,071	10,972	599,758	832,324	775,125	1,607,449
LIABILITIES							
Liabilities to banks							
Deposits on demand	96,380	3,576	3,888	0	103,844	186,263	290,107
Term deposits	666,328	8,487	6,027	16,830	697,672	306,559	1,004,231
Credit liabilities	0	0	0	42,668	42,668	78,076	120,744
Other liabilities	0	0	0	0	0	19,150	19,150
Provisions	0	0	0	0	0	4,916	4,916
Total liabilities	762,708	12,063	9,915	59,498	844,184	594,964	1,439,148
CAPITAL							
Share capital	0	0	0	0	0	91,897	91,897
Own/treasury shares	0	0	0	0	0	(6,592)	(6,592)
Revaluation reserves	0	0	0	0	0	4,151	4,151
Capital gain	0	0	0	0	0	149	149
Reserves	0	0	0	0	0	15,182	15,182
Retained earnings	0	0	0	0	0	65,020	65,020
Profit of current year	0	0	0	0	0	(1,506)	(1,506)
Total capital	0	0	0	0	0	168,301	168,301
Total liabilities and capital	762,708	12,063	9,915	59,498	844,184	763,265	1,607,449
NET ASSETS/LIABILITIES AND CAPITAL	(553,185)	8	1,057	540,260	(11,860)	11,860	0

42. LIQUIDITY RISK

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

2017	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS						
Cash assets	352,634	0	0	0	0	352,634
Receivables from the Croatian National Bank	7	41,700	31,500	13,175	3,617	89,999
Placements to banks	9,278	150	763	0	0	10,191
Financial assets available for sale	257,193	0	0	0	7,619	264,812
Financial assets held to maturity	11,631	1,296	1,685	164	0	14,776
Loans and advance payments to clients	100,154	31,549	166,748	192,925	286,399	777,775
Investments in related company	0	0	0	0	5,723	5,723
Property, plants and equipment	0	0	0	0	27,349	27,349
Intangible assets	0	0	0	0	7,192	7,192
Foreclosed assets	0	0	0	0	24,943	24,943
Other assets	17,600	122	267	274	204	18,467
Total assets	748,497	74,817	200,963	206,538	363,046	1,593,861
LIABILITIES						
Liabilities to banks	0	0	0	0	0	0
Deposits on demand	353,085	0	0	0	0	353,085
Term deposits	170,183	164,930	403,147	155,757	23,886	917,903
Credit liabilities	22,314	4,224	16,530	30,929	62,005	136,002
Other liabilities	17,224	0	0	0	0	17,224
Provisions	1,586	20	103	3,118	0	4,827
Total liabilities	564,392	169,174	419,780	189,804	85,891	1,429,041
CAPITAL						
Share capital	0	0	0	0	91,897	91,897
Own/treasury shares	0	0	0	0	(6,592)	(6,592)
Revaluation reserves	0	0	0	0	21	21
Capital gain	0	0	0	0	149	149
Reserves	0	0	0	0	15,182	15,182
Retained earnings	0	0	0	0	63,514	63,514
Profit of current year	0	0	0	0	649	649
Total capital	0	0	0	0	164,820	164,820
Total liabilities and capital	564,392	169,174	419,780	189,804	250,711	1,593,861
NET ASSETS/LIABILITIES AND CAPITAL	184,106	(94,357)	(218,817)	16,734	112,335	0

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

2016	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS						
Cash assets	280,389	0	0	0	0	280,389
Receivables from the Croatian National Bank	0	41,308	34,256	14,308	2,103	91,975
Placements to banks	5,533	151	767	0	0	6,451
Financial assets available for sale	456,454	0	0	0	7,335	463,789
Financial assets held to maturity	14,240	21,010	10,075	0	0	45,325
Loans and advance payments to clients	90,188	31,839	130,478	173,288	206,410	632,203
Investments in related company	0	0	0	0	5,670	5,670
Property, plants and equipment	0	0	0	0	29,155	29,155
Intangible assets	0	0	0	0	6,298	6,298
Foreclosed assets	0	0	0	0	29,826	29,826
Other assets	11,791	122	3,734	411	310	16,368
Total assets	858,595	94,430	179,310	188,007	287,107	1,607,449
LIABILITIES						
Liabilities to banks						
Deposits on demand	290,107	0	0	0	0	290,107
Term deposits	180,181	195,273	440,338	163,020	25,419	1,004,231
Credit liabilities	28,921	4,070	25,958	29,656	32,139	120,744
Other liabilities	19,150	0	0	0	0	19,150
Provisions	1,764	78	68	3,003	3	4,916
Total liabilities	520,123	199,421	466,364	195,679	57,561	1,439,148
CAPITAL						
Share capital	0	0	0	0	91,897	91,897
Own/treasury shares	0	0	0	0	(6,592)	(6,592)
Revaluation reserves	0	0	0	0	4,151	4,151
Capital gain	0	0	0	0	149	149
Reserves	0	0	0	0	15,182	15,182
Retained earnings	0	0	0	0	65,020	65,020
Profit of current year	0	0	0	0	(1,506)	(1,506)
Total capital	0	0	0	0	168,301	168,301
Total liabilities and capital	520,123	199,421	466,364	195,679	225,862	1,607,449
NET ASSETS/LIABILITIES AND CAPITAL	338,472	(104,991)	(287,054)	(7,672)	61,245	0

43. CAPITAL MANAGEMENT

Managing capital

Credit institutions in the Republic of Croatia are from 1 January 2014 required to calculate and report the prudential requirements in accordance with Regulation (EU) No. 575/2013, Directive 2013/36/EU, Implementing technical standards and other relevant regulations of the European supervisory authorities for banking ("EBA") and also, the local regulator, the CNB.

The regulatory capital of the Bank is entirely comprised of share capital, which includes equity created by issuing common stock, capital gains, retained earnings, reserves impaired for acquired own shares, intangible assets, unrealized losses on changes in fair value of financial assets available for sale and the approved amount of loans granted for the purchase of own shares.

The prescribed minimum capital ratios in accordance with Art. 92 of Regulation (EU) No. 575/2013 is the following:

- The rate of regular share capital 4.5% of total risk exposure
- The rate of core capital 6% of the total risk exposure
- The rate of the total capital of 8% of the total risk exposure

In addition to the set of minimum regulatory capital adequacy and according to Articles 117 and 130 of the Credit Institutions Act and Articles 129 and 133 of Directive 2013/36/EU, the Bank is also obliged to provide the following protective layers of capital:

- Cover for the preservation of capital of 2.5% of the total risk exposure
- Cover for structural system risk of 1.5% of the total risk exposure

Supervisory assessment of the required rate of the total capital amounted to 15.71% (12% + 3.71% regulatory cover for 2017).

OPIS	Basel III 31 Dec 2017	Basel III 31 Dec 2016
	HRK '000	HRK '000
Ordinary shares paid-in	91,897	91,897
Own/treasury shares	(6,592)	(6,592)
Regular and non-cumulative preferred shares	85,305	85,305
Reserves	15,182	15,182
Capital profit from purchase and sale of own shares	149	149
Retained earning	63,514	65,020
Reserves and retained earnings	78,845	80,351
Intangible assets	(7,192)	(6,297)
Unreturned amount of credits/loans approved for purchase of credit institution shares	0	0
Unrealized loss based on value adjustment of financial assets available for sale	(415)	(964)
Loss of the current year	0	(1,506)
CAPITAL	156,543	156,889
SUPPLEMENTARY CAPITAL		
REGULATORY CAPITAL	156,543	156,889
RATE OF CAPITAL ADEQUACY	18.16%	18.44%

VII. EVENTS AFTER THE REPORT DATE

After the balance sheet date there were no events that would have a significant impact on the Bank's 2017 annual financial statements, which should subsequently be disclosed in relation to that matter.

VIII. COURT CASES (CLAIMS) AND POTENTIAL LIABILITIES

As at 31 December 2017, several court claims are currently being held against the Bank; they are all of lesser value except the claim initiated by Jugobanka d.d., in bankruptcy, Belgrade. The Commercial court in Bjelovar rendered its verdict on 19 June 2008 (decision VP-167/08-27), whereby the claim of the plaintiff was dismissed as baseless. Appeal was lodged against this Decision. At the same time, the plaintiff brought forward a claim for temporary court injunction, to which claim the High Commercial Court of the Republic of Croatia rendered its verdict on 3 June 2008, Decision PŽ-3109/08-4, whereby the claim of the plaintiff was dismissed as baseless, and the Decision of the Commercial court in Bjelovar was held up.

The High Commercial Court also rendered its verdict on the claim of the plaintiff, as well as the Decision 52 PŽ-6092/08-3 as of 30 October 2012, amending a part of the judgment of the Commercial Court in Bjelovar with respect to the question of annulment of the Contract dated 26 October 1992 and decided the Contract is null and void. At the same time, the High Commercial Court dismissed the remainder of the first-instance judgment pertaining to damage claims through a separate decision, feeling that these issues have not been sufficiently argued on, and the case in that part was returned to the Commercial Court in Bjelovar for re-trial, noting that it should be ascertained whether there are any basis for damage compensation, especially due to and with respect to objection to expiration of statute of limitations. The Bank lodged a request for revision against this Decision, due to erroneous use of material law and significant breaches of civil case provisions. In the re-trial, the Commercial Court in Bjelovar rendered its verdict Reg. No. 5 P-9/2013-33 dated 1 August 2013, whereby the plaintiff's claims were dismissed in full as baseless. The plaintiff lodged an appeal against the above ruling. The procedure of the second instance before the High Commercial Court of the Republic of Croatia is on-going.

Croatian Supreme Court, by judgment of 7 May 2014, No Revt 156 / 13-2, reversed the judgment of the High Commercial Court of the Republic of Croatia number: 52,PŽ-6092 / 08-3 of 30 October 2012 in the way that the part of the judgment of the Commercial Court in Bjelovar the number P-167 / 08-27 of 19 June 2008, which denied request to establish the nullity of the Assumption Agreement the rights and obligations of 26 October 1992 had dismissed the appeal of the plaintiff as unfounded and in that part confirmed the first-instance judgment. This made the decision of the Commercial Court in Bjelovar on 19 June 2008 in respect of the rejection of the claim Jugobanka a.d., in bankruptcy, Belgrade, for the nullity of the Treaty established in 1992 legal and final.

On 13 February 2015, the Bank received Resolution from the Supreme Court of the Republic of Croatia in the case of prosecutor Jugobanka a.d. in bankruptcy, Belgrade, by which it has accepted the appeal of the Bank against the verdict of the High Commercial Court of the Republic of Croatia dated 30 October 2012.

In October 2016, the Bank received Resolution from High Commercial Court of the Republic of Croatia, No. PŽ-8979/2013-2 of 15 September 2016 which denied the appeal of Jugobanka a.d. in bankruptcy, Belgrade, and confirmed the judgment of the Commercial court in Bjelovar No. P-9/13-33 of 1 August 2013 which rejected the entire plaintiff's claim for damages. To the specified judgment Jugobanka a.d. in bankruptcy, Belgrade, submitted a request for revision on the Supreme Court of the Republic of Croatia. On the plaintiff's revision, the Bank submitted a response which denies all the audit states, and audit has not been resolved until the day of the adoption of the financial statements.

The Bank has reserved assets for said case in accordance with Article 8; Decision on obligatory provisions of assets for court claims against credit institutions (OG 1/09, 75/09 and 2/10). Until the Bank in relation to the claim for damages has not had a final judgment in its favour, or judgment, by which would legally reject plaintiff's claim in its entirety as unfounded.

IX. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were signed and authorized for issuing by the Management Board on 23 April 2018:

For and on behalf of the Management Board:

Andrej Kopilaš, President of the Management Board

Marin Prskalo, Member of the Management Board

Elvis Mališ, Member of the Management Board



Slatinska Banka d.d.
Vladimira Nazora 2
33520 Slatina
Republic of Croatia

APPENDIX – OTHER LEGAL AND REGULATORY REQUIREMENTS

ADDITIONAL REPORT FOR THE CROATIAN NATIONAL BANK

In addition, The annual financial statements of the Bank (the Income Statement for 2017, Balance sheet at 31 December 2017, the Cash Flows Statement for 2017 and the Statement of Changes in Equity for 2017) prescribed by the Decision of the Croatian National Bank regarding structure and content of annual financial reports of banks, prescribed by Croatian National Bank (hereinafter: "the Decision") are shown.

Company: SLATINSKA BANKA d.d.

MB:03999092

Type of statement: UNCONSOLIDATED

OIB:42252496579

2. INCOME STATEMENT for period 1 January to 31 December 2017 in HRK

Position code	Position	Previous year	Current year
2.1	Income statement comprises of the following items		
1.	Interest income	62,202,762	63,317,394
2.	(Interest expenses)	(31,147,860)	(22,536,415)
3.	Net interest income (1.-2.)	31,054,902	40,780,979
4.	Income from fees and commissions	12,797,615	12,829,715
5.	(Expenses from fees and commissions)	(3,123,346)	(3,632,215)
6.	Net income from fees and commissions (4. -5.)	9,674,269	9,197,500
7.	Profit (loss) from investments in affiliates, associated companies, joint ventures	111,688	53,383
8.	Profit (loss) from trading activities	2,858,124	3,210,556
9.	Profit (loss) from derivatives built into	715	246
10.	Profit (loss) from property which is not traded actively, but is valued at fair value through P & L account	0	0
11.	Profit (loss) from activities in category of property available for sale	3,190,489	5,920,295
12.	Profit (loss) from activities in category which is held to maturity	0	0
13.	Profit (loss) from protection transactions (hedge)	0	0
14.	Income from investments in affiliates, associated companies and joint ventures	0	0
15.	Income from other equity investments	0	7,801
16.	Profit (loss) from accounted foreign exchange differences	(327,072)	187,478
17.	Other income	534,269	5,230,529
18.	Other expense	(816,147)	(2,471,254)
19.	General administrative costs and depreciation	(35,453,365)	(38,065,253)
20.	Net income from operations before value adjustment and provisions for losses (3.+6.+7.+8.+9.+10.+11.+12.+13.+14.+15.+16.+17.-18.-19.)	10,827,872	24,052,260
21.	Cost of value adjustments and provisions for losses	(12,004,238)	(22,782,896)
22.	Profit / (loss) BEFORE TAXATION (20.-21.)	(1,176,366)	1,269,364
23.	INCOME TAX	(330,236)	(620,386)
24.	Profit / (loss) FOR THE CURRENT YEAR (22.-23.)	(1,506,602)	648,978
25.	Earnings per share	0	1
	Annex to income statement		
26.	Profit/(loss) for the current year		
27.	Parent company shareholders		
28.	Minority share		
2.2.	Annex to income statement filled only by credit institutions that prepare consolidated financial statements		

Company: SLATINSKA BANKA d.d.

MB:03999092

Type of statement: UNCONSOLIDATED

OIB:42252496579

3. STATEMENT OF OTHER COMPREHENSIVE INCOME for period 1 January to 31 December 2017 In HRK

Position code	Position	Previous year	Current year
1.	Profit or (-) loss for current year	(1,506,602)	648,978
2.	Other comprehensive income (2.1+2.2)	4,133,873	499,205
2.1	Items that will not be classified in profit or loss (2.1.1+2.1.2+2.1.3+2.1.4+2.1.5+2.1.6)	0	0
2.1.1	Tangible assets	0	0
2.1.2	Intangible assets	0	0
2.1.3	Actuary gains or (-) losses on pension plans sponsored by the employer	0	0
2.1.4	Non-current assets and disposal groups held for sale	0	0
2.1.5	The share of other income and expenses of entities that are accounted for using the equity method	0	0
2.1.6	Income tax related to items that will not be reclassified	0	0
2.2	Items that can be reclassified in profit or loss (2.2.1+2.2.2+2.2.3+2.2.4+2.2.5+2.2.6+2.2.7)	4,133,873	499,205
2.2.1	Hedging of net investments in foreign business (effective part) (2.2.1.1+2.2.1.2+2.2.1.3)	0	0
2.2.1.1	Gains or losses (-) in equity	0	0
2.2.1.2	Transferred in profit or loss	0	0
2.2.1.3	Other reclassifications	0	0
2.2.2	Exchange of foreign currency (2.2.2.1+2.2.2.2+2.2.2.3)	0	0
2.2.2.1	Gains or losses (-) in equity	0	0
2.2.2.2	Transferred to profit or loss	0	0
2.2.2.3	Other reclassifications	0	0
2.2.3	Hedging of cash flows (effective part) (2.2.3.1+2.2.3.2+2.2.3.3+2.2.3.4)	0	0
2.2.3.1	Gains or losses (-) in equity	0	0
2.2.3.2	Transferred in profit or loss	0	0
2.2.3.3	Transferred to the initial book value of the protected items	0	0
2.2.3.4	Other reclassifications	0	0
2.2.4	Financial assets available for sale (2.2.4.1+2.2.4.2+2.2.4.3)	4,133,873	499,205
2.2.4.1	Gains or losses (-) in equity	4,133,873	499,205
2.2.4.2	Transferred in profit or loss	0	0
2.2.4.3	Other reclassifications	0	0
2.2.5	Non-current assets and disposal groups held for sale (2.2.5.1+2.2.5.2+2.2.5.3)	0	0
2.2.5.1	Gains or losses (-) in equity	0	0
2.2.5.2	Transferred in profit or loss	0	0
2.2.5.3	Other reclassifications	0	0
2.2.6	Share of other recognized or not recognized income or expenses from investments into subsidiaries, related companies and joint ventures	0	0
2.2.7	Income tax related to items that can be reclassified in profit or (-) loss	0	0
3.	Total comprehensive gain of the current year (1.+2.)	2,627,271	1,148,183
4.	Minority share (non-controlling share)		
5.	Owners of the parent company		

ANNUAL FINANCIAL STATEMENTS FOR CREDIT INSTITUTIONS

Company: SLATINSKA BANKA d.d.

MB:03999092

Type of statement: UNCONSOLIDATED

OIB:42252496579

1. STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) as at 31 December 2017 In HRK

Position code	Position	Previous year	Current year
1.1	Statement of financial position (balance sheet) should comprise following items:		
	Assets		
1.	CASH AND DEPOSITS WITH CNB (002+003)	265,061,420	431,859,290
1.1	Cash	23,939,122	23,607,655
1.2	Deposits with CNB	241,122,298	408,251,635
2.	DEPOSITS WITH BANKING INSTITUTIONS	108,752,753	20,964,914
3.	TREASURY NOTES OF THE MINISTRY OF FINANCE AND TREASURY BILLS OF CNB	228,990,933	81,940,890
4.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	0	0
5.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	232,912,773	182,035,942
6.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	45,324,191	14,770,074
7.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS WHICH ARE NOT TRADED ACTIVELY, BUT IS VALUED AT FAIR VALUE THROUGH P & L ACCOUNT	0	0
8.	DERIVATIVE FINANCIAL ASSETS	0	0
9.	LOANS TO THE FINANCIAL INSTITUTIONS	15,257,665	7,421,942
10.	LOANS TO OTHER CUSTOMERS	618,256,176	767,858,975
11.	INVESTING IN AFFILIATES, ASSOCIATED COMPANIES AND JOINT VENTURES	5,669,860	5,723,243
12.	FORECLOSED ASSETS	29,824,959	24,942,706
13.	TANGIBLE ASSETS (LESS DEPRECIATION)	29,395,579	27,526,832
14.	INTEREST, FEES AND OTHER ASSETS	28,002,226	28,816,372
A	TOTAL ASSETS (1.+2.+3. do 14.)	1,607,448,535	1,593,861,180
	Liabilities and equity		
1.	LOANS FROM FINANCIAL INSTITUTIONS (1.1+1.2)	120,234,789	135,616,409
1.1	Short term loans	25,255,624	43,589,409
1.2	Long term loans	94,979,165	92,027,000
2.	DEPOSITS (2.1+2.2+2.3)	1,282,528,220	1,259,164,941
2.1	Deposits on gyro accounts and current accounts	168,122,931	192,146,445
2.2	Saving deposits	121,094,959	158,914,825
2.3	Term deposits	993,310,330	908,103,671
3.	OTHER LOANS (3.1+3.2)	0	0
3.1	Short term loans	0	0
3.2	Long term loans	0	0
4.	DERIVATIVE FINANCIAL LIABILITIES AND OTHER FINANCIAL LIABILITIES WHICH ARE NOT TRADED	936	252
5.	ISSUED EQUITY INSTRUMENTS (5.1+5.2)	0	0
5.1	Issued short term security equity investments	0	0
5.2	Issued long term security equity instruments	0	0
6.	ISSUED SUBORDINATE INSTRUMENTS	0	0
7.	ISSUED HYBRID INSTRUMENTS	0	0
8.	INTEREST, FEES AND OTHER LIABILITIES	36,383,220	34,259,919
B	TOTAL LIABILITIES (1.+2.+3.+4.+5.+6.+7.+8.)	1,439,147,165	1,429,041,521

ANNUAL FINANCIAL STATEMENTS FOR CREDIT INSTITUTIONS

Company: SLATINSKA BANKA d.d.

MB:03999092

Type of statement: UNCONSOLIDATED

OIB:42252496579

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) as at 31 December 2017 In HRK

Oznaka pozicije	Naziv pozicije	Prethodna godina	Tekuća godina
	Capital		
1.	SHARE KAPITAL	85,304,852	85,304,852
2.	PROFIT/(LOSS) OF THE CURRENT YEAR	(1,506,602)	648,978
3.	RETAINED EARNINGS (LOSS)	65,020,492	63,513,889
4.	LEGAL RESERVES	4,729,423	4,729,423
5.	STATUTORY AND OTHER CAPITAL RESERVES	10,602,000	10,602,000
6.	UNREALIZED PROFIT (LOSS) ON THE BASIS OF VALUE ADJUSTMENT OF FINANCIAL PROPERTY AVAILABLE FOR SALE	4,151,205	20,517
C	TOTAL CAPITAL (1.+2.+3.+4.+5.+6.+7.)	168,301,370	164,819,659
D	TOTAL LIABILITIES AND CAPITAL (B+C)	1,607,448,535	1,593,861,180
	Annex to statement of financial position		
8.	TOTAL CAPITAL		
9.	Capital available to shareholders of parent company		
10.	Minority interests		
1.2	Annex to balance sheet fill only credit institutions that prepare consolidated financial statements		

Company: SLATINSKA BANKA d.d.

MB:03999092

Type of statement: UNCONSOLIDATED

OIB:42252496579

4. CASH FLOW STATEMENT for period 1 January to 31 December 2017 In HRK

Position code	Position	Previous year	Current year
Credit institutions can state the Cash flow statement using direct or indirect method			
Cash flow statement performed using indirect method contains following items:			
	Operating activities		
1.1	Profit / (loss) before tax	(1,176,366)	1,269,364
1.2	Impairment and loss provisions	12,004,238	22,782,896
1.3	Depreciation	2,577,732	3,296,262
1.4	Net unrealized (profit)/loss from financial assets and liabilities at fair value through profit and loss account	0	0
1.5	Profit/(loss) from sale of tangible assets	0	0
1.6	Other income / losses	0	0
1.	Cash flow from operating activities before changes in business property (1.1 do 1.6)	13,405,604	27,348,522
2.1	Deposits with CNB	(53,087,082)	(167,129,337)
2.2	Treasury notes of Ministry of Finance and treasury bills of CNB	(14,566,431)	147,050,043
2.3	Deposits at banking institutions and loans to financial institutions	56,548,668	95,623,562
2.4	Loans to other customers	8,541,145	(172,385,695)
2.5	Securities and other financial instruments held for trading	0	0
2.6	Securities and other financial instruments available for sale	(76,945,322)	50,876,831
2.7	Securities and other financial instruments non actively traded at fair value through profit and loss account	0	0
2.8	Other operating assets	(1,364,959)	(814,146)
2.	Net increase / decrease in business property (2.1 do 2.8)	(80,873,981)	(46,778,742)
	Increase / decrease in operating liabilities		
3.1	Demand deposits	43,398,761	24,023,514
3.2	Saving and term deposits	52,439,025	(47,386,793)
3.3	Derivative financial liabilities and other liabilities which are traded	(1,148)	(684)
3.4	Other liabilities	3,005,581	(2,123,301)
3.	Net increase / decrease in operating liabilities (3.1 do 3.4)	98,842,219	(25,487,264)
4.	Net cash flow from business activities before net income tax payment (1.+2.+3.)	31,373,842	(44,917,484)
5.	(Paid income tax)	0	0
6.	Net inflow / (outflow) of cash from operating activities (4.-5.)	31,373,842	(44,917,484)
	Investment activities		
7.1	Receivables from sale / payments for purchase of tangible and intangible assets	(20,516,796)	3,454,738
7.2	Receivables from sale / payments for purchase of investments into subsidiaries, related companies and joint ventures	(111,688)	(53,383)
7.3	Receivables from collection / payments for purchase of securities and other financial instruments held to maturity	1,876,695	30,554,117
7.4	Received dividends	0	0
7.5	Other receivables / payments from investment activities	0	0
7.	Net cash flow from investment activities (7.1 do 7.5)	(18,751,789)	33,955,472

	Financing activities		
8.1	Net increase / decrease/ of received loans	(20,145,397)	15,381,620
8.2	Net increase / decrease/ from the issue of equity and debt financial instruments	0	0
8.3	Net increase / decrease/ in subordinated and hybrid instruments	0	0
8.4	Receipts from emission of share capital	0	0
8.5	Paid off dividends	0	0
8.6	Other receipts / payments from financing activities	3,793,230	(4,751,075)
8.	Net cash flow from financing activities (8.1 do 8.6)	(16,352,167)	10,630,545
9.	Net increase /decrease of cash and cash equivalents (6.+7.+8.)	(3,730,114)	(331,467)
10.	Effects of changes in foreign currencies on cash and cash equivalents	0	0
11.	Net increase/ (decrease) in cash and cash equivalents (9.+10.)	(3,730,114)	(331,467)
12.	Cash and cash equivalents at the beginning of the year	27,669,236	23,939,122
13.	Cash and cash equivalents at the end of the year	23,939,122	23,607,655

Company: SLATINSKA BANKA d.d.
Type of statement: UNCONSOLIDATED

MB:03999092
OIB:42252496579

STATEMENT OF CHANGES IN EQUITY for period 1 January to 31 December 2017 in HRK

5.1. Statements of changes in equity should contain following items:

Serial number	Type of change in capital	Available to the shareholders of parent company							Total capital and reserves
		Share capital	Treasury shares	Legal, statutory and other reserves	Retained earnings/ loss	Profit/loss of the current year	Unrealized profit/loss on the basis of Value adjustment of financial assets available for sale	Minority interests	
1.	Balance at 1 January current year	91,897,200	(6,592,347)	15,331,423	65,020,491	(1,506,602)	4,151,205	0	168,301,370
2.	Changes in accounting policies and correction of errors	0	0	0	0	0	0	0	0
3.	Corrected balance at 1 January current year (1.+2.)	91,897,200	(6,592,347)	15,331,423	65,020,491	(1,506,602)	4,151,205	0	168,301,370
4.	Sale of financial assets available for sale	0	0	0	0	0	0	0	0
5.	Change in fair value of financial assets available for sale	0	0	0	0	0	(4,130,689)	0	(4,130,689)
6.	Tax to items directly recognized or transferred from capital and reserves	0	0	0	0	0	0	0	0
7.	Other gains/losses directly recognized in capital and reserves	0	0	0	0	0	0	0	0
8.	Net gains/losses directly recognized in capital and reserves (4.+5.+6.+7.)	0	0	0	0	0	(4,130,689)	0	(4,130,689)
9.	Profit / (Loss) of the current year	0	0	0	0	648,978	0	0	648,978
10.	Total recognized income and expenses for the current year (8+9)	0	0	0	0	648,978	(4,130,689)	0	(3,481,711)
11.	Increase/decrease in share capital	0	0	0	0	0	0	0	0
12.	Purchase/sale of treasury shares	0	0	0	0	0	0	0	0
13.	Other changes	0	0	0	0	0	0	0	0
14.	Transfer to reserves	0	0	0	(1,506,602)	1,506,602	0	0	0
15.	Pay off of dividends	0	0	0	0	0	0	0	0
16.	Allocation of profit (14.+15.)	0	0	0	(1,506,602)	1,506,602	0	0	0
17.	Balance at 31 December current year (3.+10.+11.+12.+13.+16.)	91,897,200	(6,592,347)	15,331,423	63,513,889	648,978	20,516	0	164,819,659

Company: SLATINSKA BANKA d.d.
Type of statement: UNCONSOLIDATED
OFF-BALANCE SHEET ITEMS In HRK

MB:03999092
 OIB:42252496579

	31 Dec 2016	31 Dec 2017
1. Guarantees	14,404,649	15,243,498
2. Letters of credit	243,748	0
3. Bills of exchange	0	0
4. Revolving loans and financing obligations	82,681,328	86,876,508
5. Other risk off-balance sheet items	1,270,000	210,000
6. Futures	0	0
7. Options	0	0
8. Swap agreements	0	0
9. Forwards	0	0
10. Other derivatives	0	0
Total	98,599,725	102,330,006

The following is the adjustment of annual financial statements prepared in accordance with the reporting and annual financial statements framework prescribed by the Decision of the CNB on the structure and the contents of annual financial statements:

Auditors report	Amount		Reports as per the Decision of the CNB		Amount		Difference		Explanation
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	
Interest income	63,391		Interest income	63,317	74		74	Net currency rate differentials based on interest income	
Interest expenses	22,546		Interest expenses	22,536	(10)		(10)	Net currency rate differentials based on interest expenses	
Income from commissions and fees	12,829		Income from commissions and fees	12,830					
Fee and commission expenses	3,632		Fee and commission expenses	3,632					
			Profit/loss from trading	3,211			(74)	Net currency rate differentials based on interest income	
Net income from currency rate differentials		3,387	Profit/loss from built-in derivatives	0			10	Net currency rate differentials based on interest expenses	
			Profit/loss from calculated currency rate differentials	187			(11)	Net currency rate differentials based on impairments	
Other income from regular business transactions		11,158	Profit / loss from activities in category of assets available for sale	5,920					
			Income from other investments	7					
			Other income	5,231					
Other business expenses		40,431	Other expenses	2,471					
			General administrative expenses and depreciation	38,065			105	Provisions for court cases (litigation)	
Expenses of value adjustments and provisions		22,887	Profit (loss) from investing into subsidiaries, related companies and joint ventures	53			(105)	Provisions for court cases (litigation)	
			Expenses of impairments and provisions for losses	22,783			(53)	Net currency rate differentials based on impairments	
Profit (loss) before taxes		1,269	Profit (loss) before taxation	1,269			-		
Profit/company tax		620	Profit/company tax	620					
Profit for the year		649	Profit for the year	649					

Auditors report	Reports as per the Decision of the CNB			Difference	Explanation
	Amount	Amount	Amount		
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Cash assets	352,634	Cash	23,608	329,026	Giro account (coverage account at the CNB) Deposits on demand with foreign banks Deposits on demand with Croatian banks
Receivables from the Croatian National Bank	89,999	Deposits with the CNB	408,252	(318,253)	Giro account (coverage account) at the CNB
Placements to banks	10,191	Deposits with banking institutions	20,965	(10,774)	Deposits on demand with foreign banks Deposits on demand with Croatian banks
Financial assets held to maturity	14,776	Securities and other financial instruments held to maturity	14,770	6	Interest
Financial assets available for sale	264,812	Monetary Fund treasury notes and CNB financial papers Securities and other financial instruments available for sale	81,941 182,036	835	Interest
Loans and advance payments to clients	777,775	Credits/loans to other clients Credits/loans to financial institutions	767,859 7,422	2,494	Interest
Investments in subsidiaries	5,723	Investments in branches	5,723	0	
Foreclosed assets	24,943	Assets taken over	24,943	0	
Property, plant and equipment	27,349	Material assets (less depreciation)	27,527	(178)	Other material assets (small inventory)
Intangible assets	7,192	Interest, fees and other assets	28,815	(3,335)	Interest
Other assets	18,467	Derivative financial liabilities	0	(3,157)	Other material assets (small inventory)
Total assets	1,593,861	Total assets	1,593,861		

Auditors report	Amount		Reports as per the Decision of the CNB		Difference		Explanation
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	
Deposits on demand	353,085		Deposits on giro and current accounts	192,146		1,984	Limited deposits
Term deposits	917,903		Savings deposits	158,915	2,024	40	Interest
Credit liabilities	136,002		Term deposits	908,104	9,799	9,799	Interest
Other liabilities	17,224		Loans from financial institutions	135,616			
Provisions	4,827		Other loans	0	386	386	Interest
Total liabilities	1,429,041		Interest, fees and other liabilities	34,259		(1,984)	Limited deposits
CAPITAL			Derivative financial liabilities and other assets that can be traded with	0	(12,208)	(10,225)	Interest
Share capital	91,897		Total liabilities	1,429,040			
Own shares	(6,592)		CAPITAL				
Profit (loss) for the current year	649		Share capital	85,305			
Retained earnings	63,514		Profit (loss) for the current year	649			
Reserves	15,182		Retained earnings	63,514			
Capital gain	149		Leal reserves	4,730			
Revaluation reserves	21		Other capital reserves	10,602			
Total capital	164,820		Unrealized profit (loss) based on value adjustment of financial assets available for sale	21			
TOTAL LIABILITIES AND CAPITAL	1,593,861		Total capital	164,821			
			TOTAL LIABILITIES AND CAPITAL	1,593,861			

ADJUSTMENT OF CASH FLOW REPORT

Deviations of positions in the Cash Flow Report reported in the annual financial statements from those defined through prescribed structure and content of the report as per CNB Decision arise from:

- Difference in declaring certain positions in the balance sheet, as is explained in the overview of differences of in the financial position report in significant financial statements with respect to the standard prescribed in the CNB Decision.
- In the annual financial statements, cash and cash equivalents at the beginning and the end of the year show positions of cash and cash equivalents maturing in up to 90 days, while the report, as per the CNB Decision, contains only cash positions

ADJUSTMENT OF REPORT ON CHANGES IN EQUITY

Differences in the Statement of changes in equity disclosed in the annual financial statements from the Statement of changes in equity, which is defined by the prescribed structure and contents of the report by the CNB standards apply only to the grouping of individual items of capital. In the annual financial statements, capital gains, legal reserves, reserves for own shares and other reserves are presented separately while in the statement by the CNB standards summarized under Statutory and other reserves.

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

The Bank is registered for and is providing following activities:

- Receiving deposits or other public funds and approving loans from these funds and for their account
- Receipt of deposits or other means of return
- Approval of loans, including consumer credits and loans, and mortgage loans, if permitted under a special law and financing of commercial transactions, including export-based discount-based and non-repayable long-term debt receivables
- Purchase of claims with and without recourse
- Financial leases
- Issuance of guarantees or other warranties
- Trading for your account or for a client account: money market instruments, transferable securities, foreign exchange funds, including exchange transactions, financial rosters and options, currency and interest instruments
- Payment services in accordance with special laws
- Credit-related services, such as data collection, analysis and information on the creditworthiness of legal and natural persons who independently carry out their activity
- Issuance of other payment instruments and their management if the provision of these services is not considered to be a service within the meaning of Article 5 (7) of the Credit Institutions Act and in accordance with a special law
- Intermediary work on the money market
- Activities related to the sale of insurance policies in accordance with the regulations governing insurance
- Participation in the issuance of financial instruments and provision of financial instruments in accordance with the law regulating the capital market
- Provision of supply or sale of financial instruments without the obligation of redemption
- Custody activities over financial instruments and custodial services in accordance with the law regulating the capital market
- Investment and ancillary services and activities prescribed by a special law regulating the capital market and not included in the services referred to in points 1, 16, paragraph 1, Article 8 of the Credit Institutions Act - granting a loan to an investor to enable him the conclusion of a transaction with one or more financial instruments, if the transaction involves a loan or credit institution.

Appendix - other legal and regulatory requirements

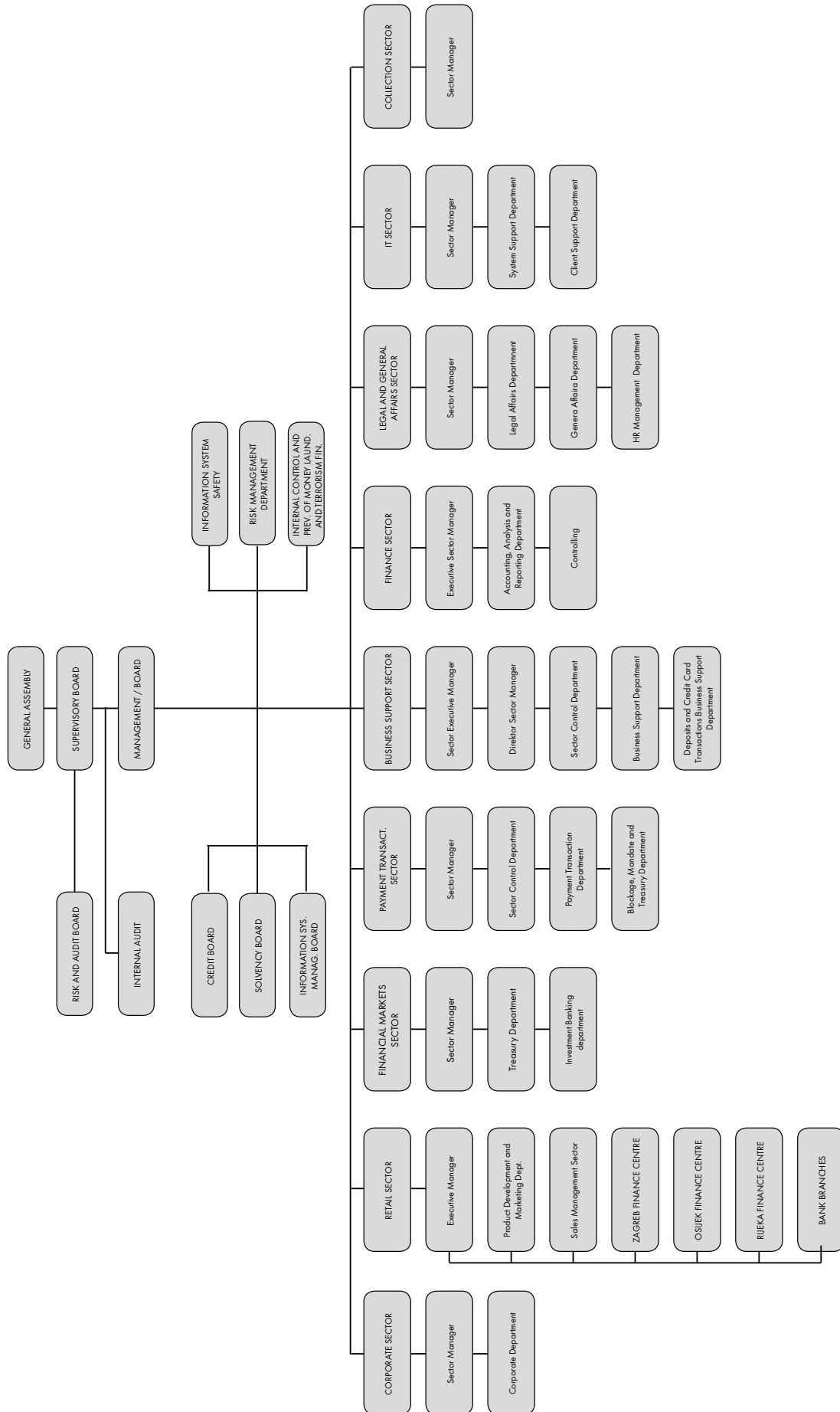
In 2017, the Bank operated through its headquarters in Slatina and 3 financial centers (Osijek, Rijeka, Zagreb), 11 branches (D, Miholjac, Đakovo, Koprivnica, Našice, Orahovica, Pitomača, Požega, Slavonski Brod, Slatina, Valpovo, Virovitica) and 8 establishments (Darugar, Čačinci, Čađavica, Ilok, Kaptol, Kutjevo, Pleternica and Viškovo) in the territory of the Republic of Croatia.

The Bank states, as follows, the other requirements in accordance with Article 164 of the Credit Institutions Act:

	2017
	HRK '000
Total revenue	90,757
Profit before tax	1,269
Income tax	(620)
Number of employees on 31 December 2017	180
Number of full-time employees (paid working hours) in 2017	161
The number of workers on the basis of equivalent full working time in 2017	138

During 2017 Slatinska Banka d.d. did not receive public subsidies.

ORGANIZATION DIAGRAM



SLATINSKA BANKA D.D. - BUSINESS NETWORK



OSIJEK FINANCIAL CENTRE
Županijska 13, 31000 Osijek
tel: 031/628-205

ZAGREB FINANCIAL CENTRE
Tomašičeva 2, 10000 Zagreb
tel: 01/645-9005

RIJEKA FINANCIAL CENTRE
Jelačićev trg 1, 51000 Rijeka
tel: 051/563-505

VALPOVO BRANCH
Trg kralja Tomislava 6, 31550 Valpovo
tel: 031/628-165

DONJI MIHOVLJAC BRANCH
Vukovarska 4, 31540 D.Miholjac
tel: 031/628-185

NAŠICE BRANCH
Trg Izidora Kršnjavog 3, 31500 Našice
tel: 031/628-145

ĐAKOVO BRANCH
Stjepana Radića 9, 31400 Đakovo
tel: 031/628-455

SLAVONSKI BROD BRANCH
Matije Gupca 39, 35000 Slavonski Brod
tel: 035/637-005

SLATINA BRANCH - BANK CENTRAL
V.Nazora 2, 33520 Slatina
tel: 033/637-011

VIROVITICA BRANCH
Trg kralja Tomislava 6, 33000 Virovitica
tel: 033/637-185

DARUVAR BRANCH
Kralja Tomislava 22, 43500 Daruvar
tel: 043/638-305

POŽEGA BRANCH
Kamenita vrata 4, 34000 Požega
tel: 034/638-505

PLETERNICA BRANCH OFFICE
Trg Z. Frankopana 10, 34310 Pleternica
tel: 034/638-520

ORAHOVICA BRANCH
Kralja Zvonimira 9, 33515 Orahovica
tel: 033/637-145

PITOMAČA BRANCH
Trg kralja Tomislava bb, 33405 Pitomača
tel: 033/637-165

KOPRIVNICA BRANCH
Dr. Željka Selinger 2, 48000 Koprivnica
tel: 048/617-105

SLATINSKA BANKA D.D.
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