

**ANNUAL REPORT OF
SLATINSKA BANKA d.d. SLATINA
FOR THE YEAR 2016**

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THE MANAGEMENT REPORT

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

In the past year, the business of Slatinska banka, as well as of other Croatian banks, continued to be under influence of very complex conditions of the business environment, which inevitably affected the business indicators and performance.

In 2016, the trend of high liquidity in the markets, the trend of negative interest rates on deposits in the world financial market and the interbank market in the Republic of Croatia continued. In order to comply with the provision of the Decision on the minimum required amount of foreign currency claims of 17% of all foreign currency sources, banks are obliged, due to the trends of interest rates cuts, to place deposits at a negative interest rate, too.

In line with the competitors' trends, in 2016 the passive interest rates were decreased, followed by the adjustments of active interest rates.

The Bank's balance increased by approx. HRK 81 mil. compared to the last year and now amounts to approx. HRK 1,607 million. The retail deposits still hold the largest share in total deposits and are still on the constant rise, which points to the clients' trust in safe and stable Bank business.

Through increase of the primary asset sources, the Bank made a base for placements in retail and corporate business, keeping an eye on business risks and client credit rating.

By maintaining a high level of liquidity reserves, with full respect of monetary regulations, the Bank was placing its liquidity surpluses into high-liquid assets and appeared in the money market as a creditor.

In 2016, the Bank recorded a negative financial result in the amount of HRK 1,5 million, which was mainly the result of high expenses of value impairment and provisions in the amount of HRK 12 million and reduced interest income.

Risk exposure, especially to credit risk, is followed continually.

The increase in uncollectable placements and increased provisions costs have a major impact on the banking sector's operations and financial performance. These placements affect the Bank's profitability by reducing interest income and increasing cost of value adjustments.

The Bank's has focused significant activity on increasing the collection of due unpaid receivables, restructuring agreements, and taking a number of activities to sell the taken assets and put it into use. In the next period the Bank will try, by taking the above actions, to reduce the value adjustment costs and impact on the business performance.

In 2016, interest income account for 76 % of total income, i.e. it decreased by approx. 10% compared to 2015, while interest expenses (accounting for 38% of total expenses) dropped by some 16 %. Decrease of interest income was caused by decreased loan/credit activities and lowered financial solvency of corporations and retail, and of increased number of difficult-to-collect loans.

Events after the reporting period: In the year 2017, up to the date of approval of the financial statements, events and indications occurred that adversely affected the ability of a group of debtors to settle properly their liabilities to the Bank. The group of the above-mentioned debtors individually represents a significant exposure of the Bank, amounting to HRK 16 million. Pursuant to its policies and procedures, the Bank conducts regular assessments of the quality of such placements.

Optimisation of cost-effectiveness has been applied continually, aimed to the improvement of business performance.

Significant investments were made into raising the Bank's security level, development of credit and card-based operations, as well as in permanent education of the Bank's employees. The end goal is improvement of banking services and better availability to its clients.

Through continuing improvement of service quality levels, we wish to offer our clients support in all their business segments and cycles.

In 2016 the Bank made efforts to offer loans under fair conditions, in cooperation with the Croatian Bank for Reconstruction and Development (HBOR) and the Ministry of Economy, Entrepreneurship and Crafts. Important activities were centred on placements to support small and middle-sized enterprises, craftsmen and family farms, central and local state and investment in securities.

Keeping in mind at all times the business liquidity, safety and stability, we believe the efforts so far invested in technology and organisation, through building trust and good business cooperation with our business partners and clients, will result in further growth and development of the Bank in the following period.

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 2016 the Bank offered its services to clients through the business network consisting of 3 financial centres, 13 branches and 11 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), three branch offices were closed in the first quarter of 2017.

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

ATMs in Našice, Požega, Ilok, 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, seven days a week, without waiting for the next free teller, using your own key or the Bank's business card.

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. accounting for the 0.35% share in the Bank's assets and its business has a very low influence on the Bank's operations.

In accordance with market demands, corporate business is primarily focused to financial crediting of SME's and tradesmen/craftsmen, 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. We also point out the continuation of positive and active cooperation with HBOR, HAMAG BICRO, the competent Ministry and all local government and self-government units in the field of entrepreneurs' loans. The Agreements for crediting companies with co-financing interest for the end-user by the Bank, the Ministry of Entrepreneurship and Crafts and the County were also signed. These agreements were entered into pursuant to the programme „Loan to Success 2014.“, measure 1 – „Loan in order to be Competitive“, as well as the agreement on business cooperation in order to actualize the loan programme of the HBOR: Micro-loans supported by the EU (programme of crediting micro-businesses), and Agreement on financing of issuance of individual guarantees financed from the European structural and investment funds entered into by HAMAG BICRO and Slatinska banka for provision of long-term loans for investment and working capital.

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

In the next period, the Bank will continue investing into development of current services in order to best fulfil more dynamic market needs and needs of its clients with respect to traditional banking services and new technologies. Special emphasis is still on improvement of services, on high-quality communication with clients and on adjusting to their needs considering the current state of the market.

THE ANALYSIS OF BANK PERFORMANCE IN 2016

BANK BUSINESS INDICATORS	(in thousands of HRK)	
	2016	2015
ASSETS	1,607,449	1,526,135
GROSS PROFIT/LOSS	-1,176	-10,592
NET PROFIT/LOSS	-1,507	-8,625
NET INTEREST INCOME	31,018	31,643
NET INCOME FROM COMMISSIONS AND FEES	9,674	8,911
TOTAL CAPITAL	168,301	166,015
REGULATORY CAPITAL	156,889	158,226
CAPITAL ADEQUACY	18.44%	17.50%
ROA	-	-
ROE	-	-
CIR	77.79%	82.12%
ASSETS/EMPLOYEES	9,240	8,771
NUMBER OF EMPLOYEES	174	174

In 2016 the financial result was negative and amounted to HRK 1,5 million and with the balance of HRK 1,607 million, respectively.

Interest income comprises some 76 % of total income, which is approx. 10% less than in 2015. Decrease of interest income is due to the decrease in credit loan activity of corporate and retail entities, which is in turn tied to the challenging economic conditions in general, as well as due to the increase of non-income-yielding loans.

Hard-to-collect loans represent double burden on the Bank's profitability: they decrease interest income and value adjustment of placements. Risk exposure is being monitored continuously. In accordance with internal regulations, value adjustments were performed on placements where collection was questionable. Value adjustment and provision expenses for placement losses for 2016 were HRK 12 million.

Interest expenses comprising some 38% of total expenses were decreased for approximately 16%, mostly due to performed value adjustment of asset sources.

In 2016 the Bank continued to rationalise cost management, which resulted in the reduction of general and administrative costs and depreciation of approximately HRK 83 thousand.

The Bank's assets as of 31 December 2016 were HRK 1,607 mil., or approximately HRK 81 million more than at the end of 2015. The largest entry in asset sources is retail sources (70 %), i.e. HRK 1,119 mil. in nominal amount, and HRK 57,5 mil. more than the last year.

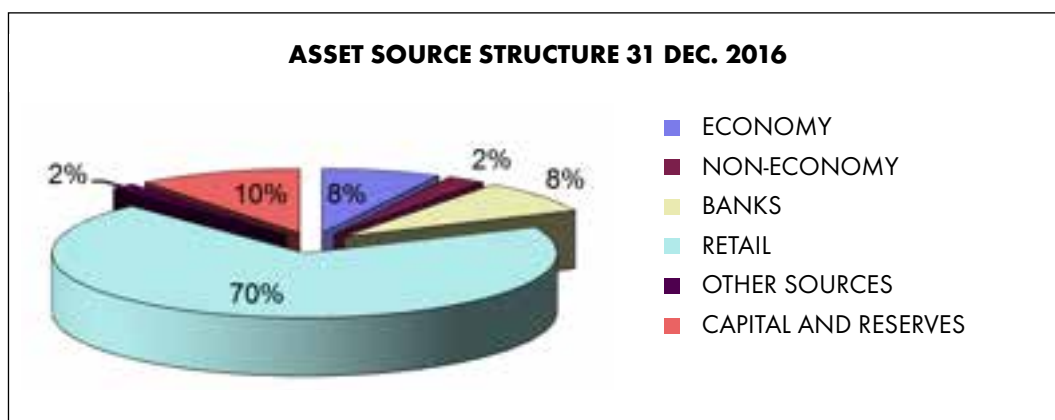
The bank satisfies all the conditions with respect to regulatory capital coverage.

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

ASSET SOURCE STRUCTURE PER SECTORS

(in thousands of HRK)

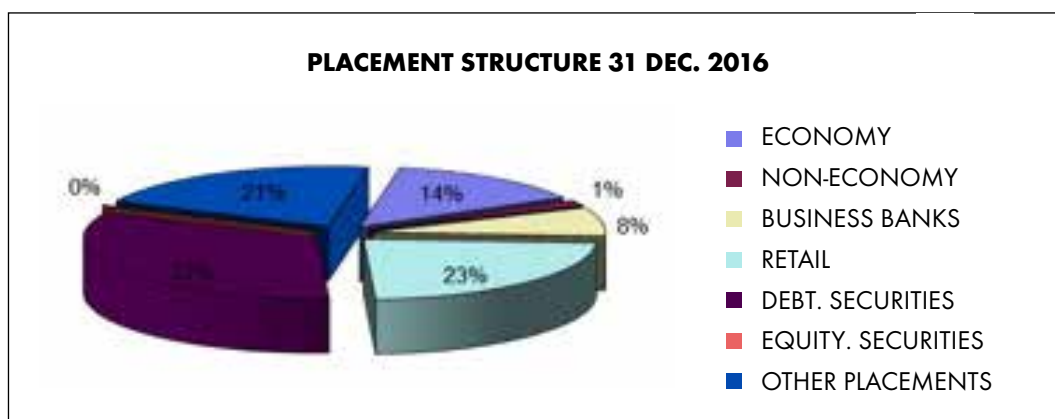
	2016	%	2015	%
ECONOMY	122,765	7.64	86,692	5.68
NON-ECONOMY	38,988	2.43	39,101	2.56
BANKS	133,554	8.31	154,409	10.12
RETAIL	1,119,263	69.63	1,061,757	69.57
OTHER SOURCES	24,578	1.52	18,161	1.19
CAPITAL AND RESERVES	168,301	10.47	166,015	10.88
TOTAL:	1,607,449	100.00	1,526,135	100.00



PLACEMENT STRUCTURE PER SECTORS

(in thousands of HRK)

	2016	%	2015	%
ECONOMY	226,618	14.10	269,545	17.67
NON-ECONOMY	23,800	1.48	28,303	1.85
BUSINESS BANKS	124,008	7.71	180,578	11.83
RETAIL	371,469	23.11	344,663	22.58
DEBT SECURITIES	525,774	32.71	418,400	27.42
EQUITY SECURITIES	187	0.01	313	0.02
OTHER PLACEMENTS	335,593	20.88	284,333	18.63
TOTAL:	1,607,449	100.00	1,526,135	100.00



RETAIL BANKING

Thanks to its continuing development of business and product/service quality, coupled with continuing market monitoring, Slatinska banka d.d. Slatina has continued to retain its position in the retail-banking segment.

Through following market trends and increasing the number of its services and introducing new technologies, the Bank is able to offer to its clients traditional and acceptable forms of savings, (primarily) non-purpose loans and various transaction services.

The confirmation of the brand and confidence in the services of Slatinska banka is reflected in the increase in retail sources, which make up high 69.63% of all Bank sources.

In total retail deposits, term deposits account for 83.09 %, which allows the Bank manageable liquidity.

Deposits are constantly on the rise, growing 5.42 % or HRK 57,506 mil. in 2016 in relation to the previous year.

During 2016 MBPlus has been introduced to pay the rate on EFTEPOS devices and the ability to raise cash on ATMs owned by Slatinska banka, which allows customers to raise cash immediately and pay the instalments. Currently, the Bank has 18 own ATMs.

In the field of the retail credit business, the Bank continuously monitors its clients' requirements. In 2016 the Bank offered them the possibility of granting loans for of tourism through several credit lines intended for renters, namely: loans for the preparation of tourist season or tourist loans for the procurement, extension or construction of new tourist, sports and hospitality facilities, renovation, arrangement and equipping tourist, sports and hospitality facilities, and procurement of boats or other equipment for the purpose of carrying out tourism activities.

Following the market changes and customer requirements in 2016, the Bank also offered the possibility of loans for residential and office buildings.

In addition to re-designing our credit lines and adjusting them in accordance with the demands of more competitive surroundings, technology of credit lines for individuals has been significantly upgraded, and our business policy has focused to targeted groups.

In 2016, the retail placements increased for the nominal amount of HRK 26,806 compared to the previous year and still account for a major part of the total Bank placements with 23.22% of total placement structure.

In addition to investing in our business network, the Bank is continually developing and improving direct distribution channels. Following market demands and new trends in technology, the Bank also incorporated new services through its branch network, such as SMS banking for users of current and company accounts, MasterCard credit card, Internet banking, Mobile banking, standing orders for payment of utility bills, loan repayment, etc.

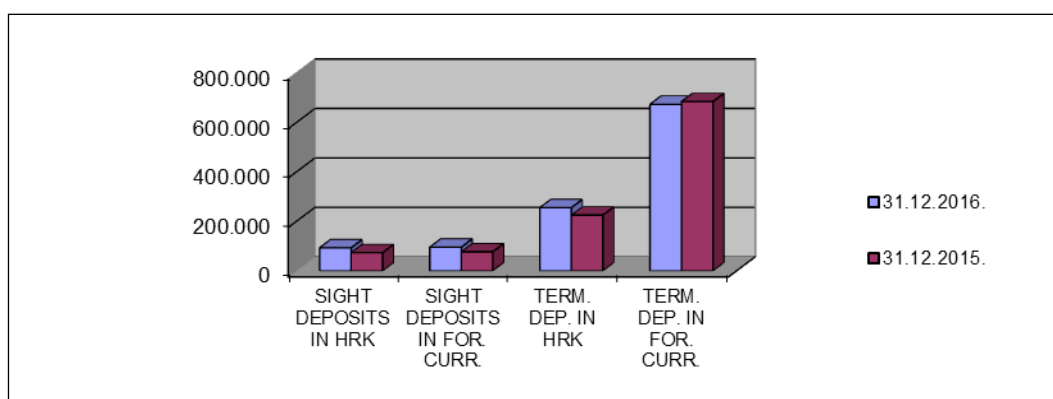
The Bank is continually adapting to the market in order to offer its clients sufficient financial backing in order to construct stable, long-term partnerships built on client trust and satisfaction.

Special care is given to training our staff in sales techniques and the Bank's product & service knowledge.

RETAIL DEPOSITS

(in thousands of HRK)

	31/12/2016	%	31/12/2015	%
SIGHT DEPOSITS	189,266	16.91	150,940	14.22
In HRK	93,440	8.35	73,818	6.96
In foreign currency	95,826	8.56	77,122	7.26
TERM DEPOSITS	929,996	83.09	910,817	85.78
In HRK	255,803	22.85	225,560	21.24
In foreign currency	674,194	60.24	685,257	64.54
TOTAL:	1,119,263	100.00	1,061,757	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.

Cooperation was agreed upon with the Ministry of Economy, Entrepreneurship and Crafts, the County and City as well, stipulating that one part of interest would be covered by their assets.

Placements to legal entities as loans/credits in 2016 amounted to HRK 250 million, or 15.58 % of total Bank's placements.

In addition to better cooperation with HBOR, allowing the Bank greater freedom in using HBOR credit sources, the Bank also concluded the Agreement with Hamag BICRO on financing the issuance of individual guarantees funded by the European and structural and investment funds and aimed at constructing a financial model which will in a best way offer a full, high-quality financial service suited for dynamic market conditions.

In addition to SMEs and crafts, the Bank actively credits local government and self-government units through CBRD credit lines, solving developmental and infrastructural financial problems and laying quality foundations for further economic growth of certain areas.

The Bank allocated a significant portion of its assets to placements into debt securities through discounting bills of exchange issued by companies with good credit rating.

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

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

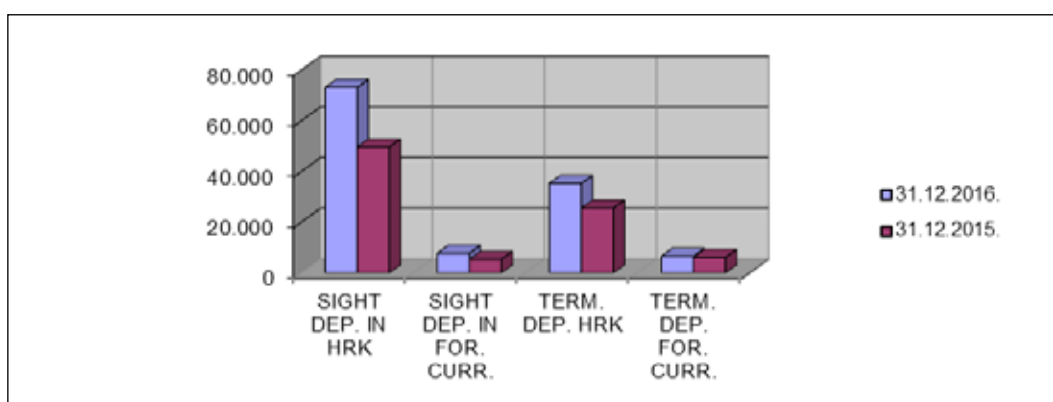
Further developing and improving its business, we are offering other services to legal entities allowing faster, simpler and more efficient business - MBCARD/MAESTRO cards, MasterCard Business cards, SMS services, Internet banking and mobile banking.

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

LEGAL ENTITY (COMPANY) DEPOSITS

(in thousands of HRK)

	31/12/2016	%	31/12/2015	%
SIGHT DEPOSITS	80,863	65.87	55,032	63.48
In HRK	73,108	59.55	49,666	57.29
In foreign currency	7,755	6.32	5,366	6.19
TERM DEPOSITS	41,903	34.13	31,660	36.52
In HRK	35,334	28.78	25,537	29.46
In foreign currency	6,568	5.35	6,123	7.06
TOTAL:	122,765	100.00	86,692	100.00



PAYMENT TRANSACTIONS

The Bank offers its customers a complete and high quality payment service, which saves time and money and ensures the efficiency of their business. The Bank provides the payment service to physical and legal persons.

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. Since February 2016 the Bank has been an active participant of the TARGET2 HR system and since June 2016 it has been an active participant of the EuroNKS system making it directly included in the SEPA system (Single Euro Payments Area).

In addition, the Bank is an active participant in introduction of SDD transactions (SEPA Direct Debit) that will be able available from June 2017.

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.

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 IS comprise servers for banking and non-banking applications. The IBM Power7 8202 server is used for banking applications. In 2016, the Bank completed the project of the information infrastructure upgrading for non-banking applications, which enabled reduction in recovery time, along with replacement of the server and disk system, and installation of a new version of VMware and TSM software.

External locations (financial centres, branches and branch offices) are connected through the virtual private network (VPN). In 2016 the network infrastructure of financial centres, branches and branch offices was renovated. 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 bank machines.

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.

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. In 2016, as part of the IT infrastructure upgrade project, the Bank made necessary upgrades of equipment and software at the backup location due to alignment with the primary location.

For further increase of security of Internet banking, in 2015 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.

During 2016, the IP telephony project was completed, whereby all the Bank's locations were connected to the internal network.

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

In June 2016 the Bank completed successfully the SEPA project (Single Euro Payments Area). The HRK SCT SCHEME has been successfully implemented. It represents a set of rules, practices, standards and implementation guidelines agreed upon within the Croatian banking community for the execution of credit transfers in local currency (kuna).

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 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 that, significant risks are covered.

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 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 sets 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 losses due to non-fulfilment of debtors' cash obligations 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 1-4.20% range, in accordance with Internet 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, as presented in accordance with legal provisions, i.e. appropriate regulatory decision.

Since credit risk is the risk that can have the most serious consequences for the Bank, we are continually improving the credit/loan process and are adding new 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 motion 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 (for certain currencies) 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. Sectors investing in securities are the ones furnishing data for monitoring price risks.

Operational Risk

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

SHARE INFORMATION

The Bank did not purchase its own shares in 2016.
Purchased own shares made up 7.77% of capital stock.

The Chairwoman of the Board Angelina Horvat holds 200 shares, i.e. 0.02% in the Bank's capital stock.
Board member Marko Brnić holds 1 share of Slatinska banka d.d.

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. declares 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 2016 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 legislation 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 2016, the tasks of the Management Board are performed by two members of the Management Board, one of whom is the president of the Management Board and the other is member 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 2016 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 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 FINNING IN THE QUESTIONNAIRE:

9/3/2017

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 conditions set.
16	Were there any conditions 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 published publically the decisions of the General Assembly?	YES	
18	Has the management of the Company publicly issued/ published 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),
Marko Brnić (Member)

NAME MEMBERS OF THE SUPERVISORY BOARD AND THEIR FUNCTIONS:

Ružica Vadić (Chairwoman),
Denis Smolar (Vice-chairman),
Baženka Eror Matić,
Hrvoje Markovinović,
Krunoslav Lisjak (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 2016**

**REPORT ON
PERFORMED AUDIT
OF FINANCIAL
STATEMENTS
FOR 2016**

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SLATINSKA BANKA

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Management Board of the bank Slatinska banka d.d., Slatina, Vladimira Nazora 2 ("the Bank") is responsible for ensuring that the annual financial statements for the year 2016 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

Angelina Horvat, President of the Management Board

Marko Brnić, Member of the Management Board

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

Slatina, 14 April 2017

The image shows two handwritten signatures in blue ink above two horizontal lines. To the right of the lower line is a blue circular stamp. The stamp contains the text "SLATINSKA BANKA d.d." around the top edge, "Slatina" at the bottom, and a stylized logo in the center.



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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 (the "Bank") for the year ended 31 December 2016, which comprise the Statement of financial position (Balance Sheet) as at 31 December 2016, the Profit and loss 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 and other explanations.

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 2016, 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 (the "IFRS").

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.

Emphasis of Matter

As stated in Note VII to the Financial Statements (Events after the Reporting Period), in 2017 events and indications occurred that unfavorably influence the ability of a certain group of debtors to regularly settle their obligations to the Bank. The group of the above mentioned debtors represents individually significant exposure of the Bank, in the amount of HRK 16 million. The Bank, in accordance with its policies and procedures, conducts regular assessments of the quality of such placements. Our opinion is not modified in relation to that matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements of the current period. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion there on, and we do not provide a separate opinion on these matters. In addition to the matter described in the Significant Uncertainty Related to Going Concern Assumption section, we have determined the matter described below to be the key audit matter to be communicated in our Independent Auditor's report.

Impairment of loans and advances to customers

As at 31 December 2016, gross loans and advances to customers stated in the Bank's annual financial statements in amount of HRK 735,051,000, the related reservations for



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impairment in amount of HRK 102,848,000, and the impairment loss recognized in the Profit and loss statement stated in amount of HRK 11,915,000 (31 December 2015, gross loan and advances to customers HRK 746,549,000, provisions for impairment HRK 92,635,000, impairment loss recognized in profit or loss HRK 19,116,000).

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.

When there is objective evidence of the impossibility of charging the loans in full or under the terms of the contract, or if there is a significant suspicion of interest payment 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 a group and individual basis, in accordance with the statutory requirements for accounting of banks in the Republic of Croatia.

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 that cause impairment, the appropriateness of the classification, the calculation of impairment provisions and the controls which related to estimate the collateral value.

For impairment determined on an individual basis:

- We have selected a sample of individual loans with a focus on exposure with potentially greatest impact on annual financial statements due to their size and risk and the smaller exposures which we rated as highly risk based on 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 their calculations with the impairment of the value calculated by the Bank.

For impairment determined on a group basis:

- We have assessed the methodology, inputs and assumptions for the provision for impairment losses on loans and advances to the Bank on a group basis. We have critically reviewed the rationality of changing model parameters in 2016, 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 model for estimating the 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 include information included in the Annual Report, but do not include the annual financial statements and our Independent Auditor's Report on them.

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

In connection with our audit of the annual financial statements, it is our responsibility to read the other information and consider whether other information have significant contradictions to annual financial statements or our knowledge gained while performing the audit, or otherwise appear to be materially misstated. If, based on the work we have performed, we conclude that there is material misstatement of these other information, we are required to report this fact. In this sense, 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, and for such internal control as the Management Board determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the Management 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve



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collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management 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 the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Compliance with Other Legal or Regulatory Requirements

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 the year ended 31 December 2016, are in accordance with the financial information stated in the annual financial statements of the Bank set out on pages 7 to 61 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 2016, which is an integral part of the Annual Report for 2016 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 2016, which is an integral part of the Bank's Annual Report for 2016.

In our opinion, based on the work that we performed during the audit, the Statement that code of corporate governance is applied, included in the Annual Report for 2016, is in accordance with the requirements of article 22, paragraph 1, points 3 and 4 of the Accounting act.

The Statement that code of corporate governance is applied, included in the Annual Report for 2016, includes information from article 22, paragraph 1, points 2, 5 and 6 of the Accounting act.

Based on the Decision of the Croatian National Bank on the structure and content of the annual financial statements of 27 March 2017 (Official Gazette No 30/17), the Bank's management has prepared the schedules set out on pages 62 to 68 ("Forms"), which comprise an alternative presentation of the Statement of financial position as at 31 December 2016, Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year 2016, as well as reconciliation ("the Reconciliation") of the Forms with the financial statements as presented on pages 69 to 72. The Management Board is responsible for the Forms and the Reconciliation. The financial information in the Forms is derived from the financial statements set out on pages 7 to 61 on which we expressed our opinion as stated in the Opinion section above.

Based on the obligations arising from the Credit Institutions Act (Official Gazette No 159/13, 19/15 i 102/15) The Bank has presented the required information on page 73 containing all the information prescribed by Article 164, paragraph 1. Presented information were derived from the financial statements presented on pages 7 to 61 on which we expressed our opinion as stated in the Opinion section above.

The engagement partner on the audit of the annual financial statement of the Bank for the year 2016 resulting in this Independent Auditor's report is Zdenko Balen, certified auditor.

Zagreb, 14 April 2017

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

Zdenko Balen, Member of
the Management Board



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za pružanje revizorskih, konzalting
i računovodstvenih usluga
Zagreb, J.F. Kennedy 6/b

Zdenko Balen, certified Auditor

PROFIT AND LOSS STATEMENT

For the year ended 31 December 2016

POSITION	Note	2016	2015
		HRK '000	HRK '000
Interest income	4	62,207	68,858
Interest expense	5	(31,189)	(37,215)
Net interest income		31,018	31,643
Income from fees and commissions	6	12,797	11,878
Expenses from fees and commissions	7	(3,124)	(2,967)
Net income from fees and commissions		9,673	8,911
Net income from foreign exchange gains	8	2,631	2,992
Other income from ordinary business	9	3,724	1,659
Total other income		6,355	4,651
Other expenses	10,11,12	(36,169)	(36,225)
Impairments and provisions	13	(12,053)	(19,572)
Total other expenses		(48,222)	(55,797)
Loss before tax		(1,176)	(10,592)
Corporate income tax	14	(330)	1,967
LOSS FOR THE CURRENT YEAR		(1,506)	(8,625)
Loss per share	32	(1,64) kn	(9,39) 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 2016

POSITION	Note	2016	2015
		HRK '000	HRK '000
Loss of current year		(1,506)	(8,625)
Items that can be reclassified to profit or loss			
Unrealized loss/ profit from valuation of financial assets available for sale		4,134	876
TOTAL OTHER COMPREHENSIVE GAIN /LOSS OF THE CURRENT YEAR		2,628	(7,749)

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

STATEMENT OF FINANCIAL POSITION / BALANCE SHEET

As of 31 December 2016

POSITION	Note	31 December	31 December
		2016	2015
		HRK '000	HRK '000
ASSETS			
Cash assets	15	280,389	283,291
Receivables from Croatian National Bank	16	91,975	100,154
Placements with banks	17	6,451	1,432
Financial assets available for sale	18	463,789	371,031
Financial assets held to maturity	19	45,325	47,683
Loans and prepayments to customers	20	632,203	653,914
Investments in subsidiaries	21	5,670	5,558
Property, plant and equipment	22	29,155	27,018
Intangible assets	23	6,298	6,396
Foreclosed assets	24	29,826	14,048
Other assets	25	16,368	15,610
TOTAL ASSETS		1,607,449	1,526,135
LIABILITIES			
Sight deposits	26	290,107	223,102
Term deposits	27	1,004,231	978,841
Liabilities for received loans	28	120,744	140,910
Other liabilities	29	19,150	12,969
Provisions	30	4,916	4,298
TOTAL LIABILITIES		1,439,148	1,360,120
CAPITAL			
Capital stock	31	91,897	91,897
Own/treasury shares		(6,592)	(6,592)
Revaluation reserves		4,151	358
Capital gain		149	149
Reserves		15,182	15,182
Accumulated gain		65,020	73,646
Loss/ gain for the current year		(1,506)	(8,625)
TOTAL CAPITAL		168,301	166,015
TOTAL LIABILITIES AND CAPITAL		1,607,449	1,526,135

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

CASH FLOWS STATEMENT – INDIRECT METHOD

For the year ended 31 December 2016

POSITION	2016	2015
	HRK '000	HRK '000
NET CASH FLOW FROM OPERATING ACTIVITIES		
Loss / profit before taxation	(1,176)	(10,592)
Adjustment to net cash assets from operating activities		
Depreciation	2,578	2,605
Loan impairments	11,896	19,079
Value adjustments of the other assets	170	19
Provisions for court disputes	99	156
Other value adjustments of assets held to maturity	0	321
Other value adjustments and provisions (net)	519	165
Changes an assets and liabilities from operating activities		
Decrease (increase) in receivables from CNB	8,179	1,631
Decrease (increase) in placements with banks	8	(87)
Decrease (increase) in loans and advances to customers	9,826	64,338
Decrease (increase) in other assets	(942)	2,063
Increase (decrease) in liabilities to banks	0	0
Increase (decrease) in sight deposits	67,006	31,434
Increase (decrease) in term deposits	25,389	54,365
Increase (decrease) in other liabilities	6,183	1,607
Income tax	(330)	1,967
Net cash flow from operating activities	129,405	169,072
CASH FLOW FROM INVESTING ACTIVITIES		
Decrease (increase) in financial assets available for sale	(2,790)	439
Decrease (increase) in financial assets held to maturity	372	1,769
Purchase of property, plant and equipment and intangible assets	(4,617)	(3,562)
Decrease (increase) in foreclosed assets	(15,778)	(5,493)
Net cash flow from investing activities	(22,813)	(6,847)
CASH FLOW FROM FINANCIAL ACTIVITIES		
Increase in liabilities for received loans	(20,166)	318
Other changes in equity (net)	3,793	376
Net cash flow from financial activities	(16,373)	694
Net change in cash and cash equivalents	90,219	162,919
Cash and cash equivalents at the beginning of the year	687,557	524,638
Cash and cash equivalents at the end of the year	777,776	687,557
	34	

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 2016

	Reserves										TOTAL HRK '000
	Capital Stock HRK '000	Own/ treasury shares HRK '000	Revaluated reserves HRK '000	Capital gain HRK '000	Legal reserves HRK '000	Reserves for own shares HRK '000	Other reserves HRK '000	Retained earnings HRK '000	Profit of current year HRK '000		
Position as at 31 December 2014	91,897	(6,592)	(18)	149	4,729	7,425	3,028	73,257	389		174,264
Profit allocation for 2014	0	0	0	0	0	0	0	389	(389)		0
Unrealized profit	0	0	876	0	0	0	0	0	0		876
Realized profit	0	0	(500)	0	0	0	0	0	0		(500)
Profit of current period	0	0	0	0	0	0	0	0	(8,625)		(8,625)
Position as at 31 December 2015	91,897	(6,592)	358	149	4,729	7,425	3,028	73,646	(8,625)		166,015
Profit allocation for 2015	0	0	0	0	0	0	0	(8,625)	8,625		0
Unrealized profit	0	0	4,134	0	0	0	0	0	0		4,134
Realized profit	0	0	(341)	0	0	0	0	0	0		(341)
Loss of 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

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

I. GENERAL INFORMATION ABOUT THE BANK

1.1. Legal framework and activities

SLATINSKA BANKA d.d. SLATINA ("Bank") is registered with Commercial Court in Bjelovar. The Bank's headquarters is 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 of own account or on behalf of their customers, carry out transactions in securities for its own account or the account of others, the issuance and management 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.

1.2. Management Bodies of the Bank

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

Management Board:

- | | |
|--------------------|-----------------------|
| 1. Angelina Horvat | Chairman of the Board |
| 2. Marko Brnić | Member of the Board |

Supervisory Board:

- | | |
|------------------------|--|
| 1. Ružica Vađić | Chairman of the Supervisory Board |
| 2. Denis Smolar | Member of the Supervisory Board, vice 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 adjustment and basis of preparation

The Financial Statements of Slatinska Banka d.d. has 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.

The accounting regulations of the CNB are based on International Financial Reporting Standards. 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 statement of profit or loss, for exposure carried at amortized cost and not specifically identified as impaired (including sovereign risk assets) at prescribed rates. Provisions on a collective basis are recognized in the balance sheet / statement of financial position 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.
- The next difference between the IFRS and the accounting rules of the CNB refers to the calculation of impairment losses by discounting expected cash flows from assets less the original effective interest rate instrument. Bank calculates impairment losses on individually significant items by estimating the future cash flows and discounting this original effective interest rate. Amortization of such discounts, the Bank recognize as interest income. In certain cases, collections are recognized as interest income only at the moment of complete release of 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 gives assessments and estimates which have a bearing on the application of policies and declared asset and liability amounts, and the issue of potential liabilities and liabilities taken over on the day of the balance, 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, decreased by assets value, value correction of claims and provisions, and to issue 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 a measuring and reporting currency of the Bank (if not stated otherwise).

At 31 December 2016 the official rate of Croatian kuna was 7,557787 HRK for 1 EUR (2015: it was 7,635047 HRK) and 7,168536 HRK for 1 USD (2015: it was 6,991801 HRK).

III SUMMARY OF ACCOUNTING POLICIES

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

3.1. Adoption of new and revised International Financial Reporting Standards "IFRS"

- Alterations and amendments to IAS 19 Employee benefits: Employee contributions – IAS 19 requires that the contributions of the employees and other be taken into account.
- Annual Improvements to IFRSs 2012–2014 Cycle
 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
 - IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)
 - IAS 19 Employee Benefits
 - IAS 34 Interim Financial Reporting

These alterations and amendments are in effect from January 1st 2016. Earlier application is permitted.

- Annual Improvements 2010-2012 Cycle, these amendments are effective in EU for accounting periods beginning on or after 1 February 2015, with earlier application permitted. They include:
 - IFRS 2 Share-based Payment,
 - IFRS 3 Business Combinations,
 - IFRS 8 Operating Segments,
 - IFRS 13 Fair Value Measurement,
 - IAS 16 Property, Plant and Equipment and IAS 38 Intangible assets,
 - IAS 24 Related Party Disclosures;
- Amendments to IFRS 10, IFRS 12 and IFRS 28 –Investors: exemption from consolidation (issued December 2014)
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)
- Amendments to IAS 1 Disclosure Initiative (issued in December 2014)
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization (issued in May 2014)
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (issued in June 2014)
- Amendments to IAS 27 Equity Method in Separate Financial Statements (issued in August 2014)

Application of the above mentioned Standards did not have effect on the on the accompanying financial information for the period ended 31 December 2016.

New and revised IFRSs adopted for application in the EU but not yet in effect

- IFRS 9 Financial Instruments – in July 2014, IASB issued a final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments replacing IAS 39 Financial Instruments: Recognition and measurement and all other preceding versions IFRS 9. IFRS 9 is in effect for periods beginning at or after January 1st 2018. Earlier application is permitted. The application of this standard will affect the classification and measurement of financial instruments.
- IFRS 15 Revenue from Contracts with Customers - IFRS 15 was issued in May 2014 and represents a new model in five steps that relate to revenue that results from contracts with customers. The standard replaces IAS 11 and IAS 18. IFRS 15 is effective for the annual period beginning on or after 1 January 2018, earlier applications are permitted. The standard allows a modified model of transition which does not require retroactive correction. The Management Board conducts detailed analysis of possible effects of the mentioned standard on the financial statements.

New and revised IFRSs issued by the IASB but not yet adopted by the EU

The following standards and amendments to the existing standards have not been adopted by the EU yet:

- IFRS 14 Regulatory Deferral Accounts – this standard relates to subjects that operate on regulated markets and are applying IFRS for the first time. IFRS 14 is effective for the annual period beginning on or after 1 January 2016. EU will not adopt this standard due to the fact that only a small number of companies would be affected.
- IFRS 16 Leases – the standard brings a new comprehensive model of identification of arrangements which have leases and their accounting treatment on the side of lessor and lessee. The standard will replace IAS 17 and interpretations of IFRIC 4, SIC 15 and SIC 27. IFRS 16 is effective for the annual period beginning on or after 1 January 2019. Earlier applications are permitted, but this is conditioned with the application of IFRS 15 unless already adopted. This

standard brings significant changes to the accounting model of the lessee. Consequently, assets and liabilities will be recognized in the financial statements of the lessee in most contracts that were formerly recognized as operating lease. This will result in an increase of assets and liabilities. The Management Board plans detailed analysis in the coming periods to determine effects on the financial statements of the Company.

- Amendments to IFRS 2 – classification and measurement of share based payment transactions (issued in June 2016).
- Amendments to IFRS 4 – Application of IFRS 9 Financial instruments with IFRS 4 Insurance agreements (issued in June 2016).
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014).
- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued in April 2016).
- Amendments to IAS 7 – part of its disclosure initiative (issued in January 2016)
- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses (issued in January 2016.)
- Amendments to IAS 40 – Transfer of real estate investments (issued December 2016.)
- Annual Improvements 2014-2016 Cycle (issued December 2016). They include:
 - IFRS 1 First application of IFRS,
 - IFRS 12 Disclosure of interests in other entities,
 - IFRS 28 Investments in associates and joint ventures

Amendments which relate to IFRS 12 are effective for periods starting January 1st 2017, while amendments to IFRS 1 and IAS 28 are effective from January 1st 2018.

- IFRIC 22 Foreign currency transactions and advance considerations (issued December 2016).

Management of the Bank states that the adoption of stated alterations and amendments of standards and interpretations, with the exception of IFRS 16 as previously stated, will not bring to significant changes of the financial statements in the period of their first application.

3.2. Interest income and expenses

Interest income and expenses are recognized in the Profit and loss statement for all interest bearing instruments on an accrual basis using the effective yield method and based on real purchase price. Interest income includes 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 risky is recorded in the balance-sheet and recognized in income only after collection.

Fees and commissions directly related to the given credit in the calculation of effective interest rate and recognized as income on a time 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 Profit and loss 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 profit and loss statement and the result from purchase and sale of currencies and currency rate differentials made through recalculation of monetary assets and liabilities

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

3.5. Foreign currencies

Transactions in foreign currencies are converted into the functional currency 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 Croatian Kuna.

Monetary assets and liabilities are converted into the functional currency according to the mean exchange rate of the Croatian National Bank applicable on the Balance Sheet date.

Foreign exchange differences arising on translation are recognized in the statement of comprehensive income.

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 on translation and foreign currency trading are recognized in the statement of comprehensive income 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 PLA 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 date.

The Management Board shall periodically assess the positions of tax claim with respect to situations in which applicable tax laws are subject to interpretation, and the Bank shall perform 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 PLA in the year pertaining.

Defined benefit plans

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

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

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

3.8. Financial instruments

The Bank's financial assets have been classified into portfolios depending on the purpose the bank envisioned 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 PLA“, „Loans and receivables“, „Held to maturity“, „Available for sale“ and „Other financial liabilities“.

All financial assets and liabilities are recognized, or cease to be recognized, on the day of trade (purchase or sale) of financial asset or liability, 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 PLA) 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 profit and loss account

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 PLA 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 business.

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 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 value correction amount due to adjustment.

The amount of the value adjustment due to decrease shall be declared if there is objective evidence that collection of entire amount receivable will not be possible by the Bank. Value correction represents the difference between the book value and the value that can be covered, representing the current value of expected cash flow, including amounts coverable through guarantees and collateral. Value adjustment/correction for losses from decrease per individual loan shall be estimated based on 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 value adjustment due to the decrease, while all later collected amounts are declared in the profit and loss 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 provisions for value decrease. Interest earned made based on these financial instruments is declared as income from interest.

The Bank regularly checks to see if there exists objective proof which would point to value decrease of assets held to maturity. When it has been determined that there was a value decrease of assets, 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 coverable investment amount can be objectively tied to the event after recognition of decrease.

d) Financial assets available for sale

Financial assets available for sales 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 PLA.

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

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	2016	2015
	%	%
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 till 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 Profit and loss 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

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 Profit and Loss Statement for the year in which they were made. Lifespan of intangible assets shall be estimated as limited (determined) or unlimited (undetermined).

Intangible assets with 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 lifespan 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 Consolidated Profit and Loss 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 to 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 affect current and future periods.

3.14. Potential liabilities and liabilities taken over

During its business, the Bank declared potential liabilities and liabilities taken over 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 if and when the Bank covers the matured liability.

Provisions for possible losses pursuant to potential liabilities and liabilities taken over shall be kept on the level for which the Bank's management feels is sufficient to absorb possible future losses. The Management shall determine 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 Profit and loss 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 provisioning to cover credit risk, liquidity, interest risk and risk related to foreign currency position.

3.18. Events after the report date

Events after the date of the financial position report 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 shall coordinate the amounts which it recognized in its financial statements for events after the date of the financial position report which need adjusting.

3.19. Side-by-side data

Where necessary, side-by-side information has been reclassified to achieve consistency in disclosure with current financial year and other data

IV. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

4. INTEREST INCOME

DESCRIPTION	2016	2015
	HRK '000	HRK '000
Corporate	20,667	26,075
Individuals and unincorporated business	33,227	35,457
Banks	11	43
Other	8,302	7,283
Total	62,207	68,858

5. INTEREST EXPENSES

DESCRIPTION	2016	2015
	HRK '000	HRK '000
Corporate	1,212	1,038
Individuals and unincorporated business	21,827	27,256
Banks	2,870	3,467
Other	2,204	2,492
Premiums for deposit insurance	3,076	2,962
Total	31,189	37,215

6. FEE AND COMMISSION INCOME

DESCRIPTION	2016	2015
	HRK '000	HRK '000
Corporate	3,548	3,442
Individuals and unincorporated business	7,385	7,022
Other	1,864	1,414
Total	12,797	11,878

7. FEE AND COMMISSION EXPENSES

DESCRIPTION	2016	2015
	HRK '000	HRK '000
The fee for services of FINA	1,684	1,700
Foreign banks	254	286
Domestic customers	1,186	981
Total	3,124	2,967

8. NET INCOME FROM EXCHANGE GAINS

DESCRIPTION	2016	2015
	HRK '000	HRK '000
Net foreign exchange losses due to the revaluation of foreign currency assets and liabilities at the exchange rate	5,220	1,712
Net foreign exchange losses due to revaluation of positions to foreign currency clause at an agreed exchange rate	(5,448)	(1,590)
Net foreign exchange losses on foreign currency trading	2,859	2,870
Total	2,631	2,992

9. OTHER OPERATING INCOME

DESCRIPTION	2016	2015
	HRK '000	HRK '000
Income from financial assets available for sale	3,190	580
Written off liabilities for which the statutory time limits occurred	0	1
Collected court and similar costs per covered lawsuit	69	87
Income from the sale of foreclosed assets	53	37
Other	412	954
Total	3,724	1,659

10. OTHER EXPENSES

DESCRIPTION	2016	2015
	HRK '000	HRK '000
Staff expenses (note 11)	19,920	19,478
Depreciation (notes 22 i 23)	2,578	2,605
Other business expenses (note 12)	13,671	14,142
Total	36,169	36,225

11. STAFF EXPENSES

DESCRIPTION	2016	2015
	HRK '000	HRK '000
Net salaries	11,480	11,137
Contributions from and on salaries	5,902	5,757
Taxes and surtaxes from salaries	1,649	1,620
Other staff expenses	889	964
Total	19,920	19,478

12. OTHER BUSINESS EXPENSES

DESCRIPTION	2016	2015
	HRK '000	HRK '000
Material and similar expenses	1,855	1,966
Service expenses	10,283	10,591
Advertising, marketing and representation costs	431	416
Supervisory Board member fees	505	437
Other	597	732
Total	13,671	14,142

The Bank has included audit costs for 2016 in service expenses in the amount of HRK 155,000.

13. COST OF VALUE ADJUSTMENTS AND PROVISIONS

DESCRIPTION	2016	2015
	HRK '000	HRK '000
Value adjustment of placements on individual basis		
- Financial assets held until maturity (Note 19)	0	321
- Loans and advances to clients (Note 20)	11,050	19,398
- Other assets (Note 25)	170	19
Value adjustment of placements, grouped (Notes 17, 19, 20, 21, 25)	846	(319)
Collected previous written off receivables	(519)	(35)
Value adjustment of investments in subsidiaries (Note 21)	(112)	(133)
Provisions for litigation costs (Note 30)	99	156
Provisions for potential liabilities (Note 30)	519	165
Total	12,053	19,572

14. PROFIT TAX

DESCRIPTION	2016	2015
	HRK '000	HRK '000
Accounting profit /loss	(1,176)	(10,592)
Items increasing the tax basic	5,127	1,320
Items decreasing the tax basic	(94)	(184)
Tax basic	3,857	(9,456)
Tax loss	(9,456)	0
Tax loss for transfer	(5,599)	(9,456)
TAX RATE	20%	20%
TAX OBLIGATIONS	0	0
Expense / (income) from deferred taxation	330	(1,967)
Tax expense	330	(1,967)

Income tax is calculated in accordance with Croatian regulations. Income tax rate is 20% (2015: 20%). At 31 December 2016, there were no obligations to pay tax on the basis of the tax balance due to the transferred tax loss.

The tax rate in Croatia changed from 20% to 18% at 1 January 2017. As a result of the change in the tax rate, the relevant positions of deferred taxes are re-calculated.

Deferred tax assets on the basis of the transferred tax loss are stated in amount of HRK 1,008,000 (31 December 2015 HRK 1,891,000). Deferred tax assets on deferred income are stated in amount of HRK 2,711,000 (31 December 2015: HRK 2,157,000).

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

15. CASH

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Giro account	79,252	87,881
Cash in hand:		
- HRK	15,595	16,175
- foreign currency	8,344	11,446
Cash at foreign current accounts with foreign banks	41,937	86,163
Cash at foreign current accounts with domestic banks	65,365	81,577
Other cash assets	0	49
Cash at foreign current accounts with CNB	69,896	0
Total	280,389	283,291

16. RECEIVABLES FROM THE CROATIAN NATIONAL BANK

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Obligatory reserve		
- HRK	91,975	86,350
- foreign currency	0	13,804
Total	91,975	100,154

The Bank is required with the CNB to 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 for its daily operations use the amount of required reserves.

HRK portion of so calculated obligatory reserves shall be increased to 75% of the calculated reserve requirement on foreign currency deposits and loans. The percentage of kuna reserve requirement is 70%. (2015: 70%) Kuna reserve requirement deposited with the National Bank will transfer the funds accrued on the account of statutory reserves which leads CNB.

During 2016, 100% of the foreign currency reserve requirement is held in the form of other liquid receivables (in 2015, 60% of the foreign currency reserve requirement was allocated to the CNB, while the remaining 40% was held in the form of other liquid receivables.)

By CNB's decision on reserve requirements on December 15th 2015 it was introduced a 100% maintenance of foreign exchange reserve requirement, with the application of 13 January 2016. It was also introduced the obligation of banks that calculation from May 2016, 2% of the foreign currency reserve requirement maintain average daily balance of funds on their own foreign currency with euro settlement accounts with the CNB, or on its own PM accounts in the system TARGET2-HR.

17. PLACEMENTS WITH BANKS

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Short - term deposits to Croatian banks	1,451	1,432
Short - term loans to Croatian banks	5,000	0
Total	6,451	1,432

18. FINANCIAL ASSETS AVAILABLE FOR SALE

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Investments in equity securities	187	313
Investments in investment funds	28,140	27,695
Investments in debt securities		
- State institutions bonds in HRK	40,124	42,882
- State institutions bonds in foreign currency	11,651	10,647
- State institutions bonds with foreign currency clause	116,995	37,084
- Company bonds in HRK	0	0
- Company bonds with foreign currency clause	3,825	3,864
- Treasury notes of the Ministry of Finance of the Republic of Croatia - in HRK	210,112	133,144
- Treasury notes of the Ministry of Finance of the Republic of Croatia - in foreign currency	33,876	34,121
- Treasury notes of the Ministry of Finance of the Republic of Croatia with foreign currency clause	18,879	81,281
Total	463,789	371,031

19. FINANCIAL ASSETS HELD TO MATURITY

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Company bills of exchange	26,856	15,011
Company bills of exchange with foreign currency clause	20,120	33,432
State institution bills of exchange	391	1,304
Value adjustment	(2,042)	(2,064)
Total	45,325	47,683

Changes in value adjustment are as follows:

DESCRIPTION	2016	2015
	HRK '000	HRK '000
Position as at 1 January	(2,064)	(1,774)
Net value adjustment/correction (note 13) - special reserves	0	(321)
Net value adjustment/ correction (note 13) - general reserves	22	31
Position as at 31 December	(2,042)	(2,064)

20. LOANS AND PREPAYMENTS TO CUSTOMERS

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Companies	294,376	329,368
Individuals and tradesmen	406,393	377,211
Other	34,282	39,970
Value adjustment of loans	(102,848)	(92,635)
Total	632,203	653,914

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

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Production / Manufacture	59,432	81,899
Trade	86,380	108,268
Tourism	15,667	14,614
Agriculture	60,469	59,401
Civil Engineering/ Construction	19,687	16,175
Services	52,740	49,011
Private entities/ individuals	406,393	377,211
Others	34,283	39,970
Total	735,051	746,549
Value adjustments and provisions for loan-based losses	(102,848)	(92,635)
Grand total	632,203	653,914

Value adjustments changes, i.e. provision for possible losses and loans are shown as follows:

DESCRIPTION	2016			2015		
	Value adjustment	Special Reserve 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	(85,407)	(7,228)	(92,635)	(66,089)	(7,510)	(73,599)
Net value adjustment (Note 13)	(11,050)	(865)	(11,915)	(19,398)	282	(19,116)
Currency rate differentials	(61)	0	(61)	(11)	0	(11)
Write-off and other	1,764	0	1,764	91	0	91
Position as at 31 December	(94,754)	(8,093)	(102,847)	(85,407)	(7,228)	(92,635)

In accordance with Bank policies, which are attuned to current law, the Bank must secure provisions for joint losses or decreased value for placements classified as risk level A. The Bank shall perform value adjustment (decrease) of such placements in the amount of latent losses, which it shall determine 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 shall keep so determined provisions between 0.00% to 4.20% non-risk assets and non-risk off-balance potential liabilities as at 31 December 2016 (0.00% to 4.20% non-risk assets and non-risk off-balance potential liabilities as at 31 December 2015).

21. INVESTMENT IN SUBSIDIARY

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Turbina d.o.o., Slatina	9,500	9,500
Value adjustment	(3,830)	(3,942)
Position as at 31 December	5,670	5,558

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

Changes in value adjustments are shown as follows:

DESCRIPTION	2016	2015
	HRK '000	HRK '000
Position as at 1 January	(3,942)	(4,075)
Net value adjustment/ correction (Note 13)	112	133
Position as at 31 December	(3,830)	(3,942)

22. PROPERTY, PLANT AND EQUIPMENT

DESCRIPTION	Land	Buildings	Equipment	Furniture and transport equipment	Assets in preparation	Total real property, plans and equipment
Purchase value						
Balance at 1 January 2015	1,266	35,630	19,440	8,273	536	65,145
Additions	0	0	0	0	3,257	3,257
Transfer from assets in preparation	11	1,666	348	45	(2,070)	0
Disposals and write-offs	(140)	(689)	(435)	0	0	(1,264)
Balance at 31 December 2015	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
Impairment						
Balance at 1 January 2015	0	13,890	16,895	7,943	0	38,728
Depreciation for 2015	0	753	1,075	153	0	1,981
Disposals and write-offs	0	(155)	(435)	0	0	(590)
Balance at 31 December 2015	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
Net carrying value						
As at 1 January 2015	1,266	21,740	2,545	330	536	26,417
As at 31 December 2015	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

Right to lien (i.e. mortgage) was entered on one part of the Bank's real estate property, for the benefit of Zveza Bank, Bank und Revisionsverband registrierte Genossenschaft mit beschränkter Haftung, Klagenfurt, Republic of Austria, for the purpose of insuring cash claims. The bank repaid the loan in 2016 and the right to lien was erased.

23. INTANGIBLE ASSETS

DESCRIPTION	Software	Investments in property of third parties	Intangible assets under construction	Total intangible Assets
Purchase value				
Balance at 1 January 2015	13,713	2,091	1,463	17,267
Additions	0	0	981	981
Transfer from assets in preparation	1,039	0	(1,039)	0
Disposals and write-offs	(319)	(33)	0	(352)
Balance at 31 December 2015	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

Impairment

Balance at 1 January 2015	9,416	1,811	0	11,227
Depreciation for 2015	583	36	0	619
Disposals and write-offs	(319)	(27)	0	(346)
Balance at 31 December 2015	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

Net carrying value

Balance at 1 January 2015	4,297	280	1,463	6,040
Balance at 31 December 2015	4,753	238	1,405	6,396
Balance at 31 December 2016	4,816	262	1,220	6,298

24. ASSETS TAKEN OVER

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Land - taken over for over 2 years	2,422	2,107
Structures/buildings - taken over for over 2 years	5,942	4,052
Land - taken over for less than 2 years	3,748	1,336
Structures/buildings - taken over for less than 2 years	17,714	6,553
Total	29,826	14,048

Assets taken over declared in the balance sheet of the Bank as at 31 December 2016 in the amount of HRK 29,826 (HRK 14,048 as at 31 December 2015) 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 assets taken over are shown as follows:

DESCRIPTION	2016	2015
	HRK '000	HRK '000
Position as at 1 January	14,048	8,555
Increase		
- real property tax and other	10	63
- newly acquired assets	15,909	5,543
Decrease		
- sales	(141)	(113)
Position as at 31 December	29,826	14,048

25. OTHER ASSETS

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Calculated assets	9,084	8,670
Fee and commission receivables	3,769	3,702
Receivables for cash sent to collection centre	0	2
Deferred tax assets	3,718	4,049
Accounts receivable	1,559	1,370
Card-based receivables	950	745
Receivables for advance payments of profit/company tax	765	560
Receivables from customers based on paid court expenses	2,618	2,666
Paid expenses of future period	515	558
Advance payments	20	81
Other	565	554
Value adjustment	(7,195)	(7,347)
Total	16,368	15,610

Changes in value adjustment are as follows:

DESCRIPTION	2016	2015
	HRK '000	HRK '000
Position as at 1 January	(7,347)	(5,206)
Net value adjustment / correction (Note 13)- general reserves	(3)	6
Net value adjustment / correction (Note 13) – special reserves	170	(19)
Write- off and other	(15)	(2,128)
Position as at 31 December	(7,195)	(7,347)

26. SIGHT DEPOSITS

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Sight deposits – individuals		
- HRK	93,274	73,772
- foreign currency	93,562	75,302
Total individuals	186,836	149,074
Sight deposits – companies		
- HRK	73,108	49,666
- foreign currency	7,755	5,366
Total companies	80,863	55,032
Sight deposits – financial institutions		
- HRK	551	127
Total financial institutions	551	127
Sight deposits – state and other institutions		
- HRK	18,468	16,012
- foreign currency	70	98
Total state and other institutions	18,538	16,110
Limited deposits		
- HRK	696	513
- foreign currency	193	382
Total limited deposits	889	895
Sight deposits – foreign banks		
- HRK	166	44
- foreign currency	2,264	1,820
Total foreign deposits	2,430	1,864
GRAND TOTAL	290,107	223,102

27. TERM DEPOSITS

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Individual deposits		
- HRK	255,803	225,560
- Foreign currency	662,420	673,412
Total individuals	918,223	898,972
Individual deposits		
- HRK	35,334	25,537
- Foreign currency	6,568	6,123
Total individuals	41,902	31,660
Financial institutions deposits		
- HRK	11,882	13,371
- Foreign currency	0	0
Total financial institutions	11,882	13,371
State and other institutions deposits		
- HRK	20,369	22,912
- Foreign currency	81	80
Total state and other institutions	20,450	22,992
Foreign entity deposits		
- Foreign currency	11,774	11,846
Total foreign entities	11,774	11,846
GRAND TOTAL	1,004,231	978,841

28. LIABILITIES FOR RECEIVED CREDITS/ LOANS

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Domestic banks (Croatian Bank for Reconstruction and Development) /i/	95,259	105,063
Domestic non-banking financial institutions /ii/	25,485	24,776
Foreign banks	0	11,071
Total	120,744	140,910

/i/ Liabilities toward the CBRD as at 31 December 2016 amounted to HRK 95,259 thousand (HRK 105,063 thousand as at 31 Dec. 2015). 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 2015).

/ii/ Liabilities toward domestic non-banking financial institutions as at 31 December 2016 were HRK 25,485 thousand (HRK 24,776 thousand as at 31 December 2015) and refers to REPO transactions concluded with AUCTOR INVEST d.o.o. REPO rate is fixed for each contract, from 1.7% to 3.5%.

29. OTHER LIABILITIES

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Credit overpayment liabilities	4,553	3,744
Accounts payable	1,672	2,056
Liabilities toward employees	1,585	1,515
Supervisory Board member fees	31	38
Deferred interest income	8,702	3,862
Dividend liabilities	122	122
VAT liabilities	12	15
Derivative liabilities	1	2
Other liabilities	2,472	1,615
Total	19,150	12,969

30. PROVISIONS

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Provisions for court cases (litigation costs)	2,975	2,876
Provisions for identified losses	26	14
Provisions for losses as per off-balance potential liabilities	1,915	1,408
Total	4,916	4,298

Changes in provisions are as follows:

DESCRIPTION	2016	2015
	HRK '000	HRK '000
Position as at 1 January	4,298	3,978
Changes on provisions for litigation costs (Note 13)	99	156
Changes in provisions for potential liabilities and identified losses (Note 13)	519	164
Position as at 31 December	4,916	4,298

31. CAPITAL

Subscribed capital as at 31 December 2016 amounted to HRK 91,897 thousand divided into 918,972 shares of HRK 100 per share nominal value.

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 2016 are shown as follows:

Shareholder	At 31 Dec 2016	Percentage of share in capital stock
	Number of shares	%
ADDIKO BANK D.D./ SZAIF D.D. (1/1)	220,552	24.00
DRŽAVNA AGENCIJA ZA OSIG. ŠTEDNIH ULOGA I SANACIJU (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)	61,200	6.66
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
SEŠAR 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	208,624	22.70
TOTAL 1,190 SHAREHOLDERS	918,972	100.00

32. EARNINGS PER SHARE

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
Loss/ profit of current year (in thousands of HRK)	(1,506)	(8,625)
Number of shares (in thousands of shares)	918,972	918,972
Loss /Earnings per share	(1,64)	(9,39)

33. POTENTIAL LIABILITIES

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Performance guarantees		
- HRK	4,293	2,268
- Foreign currency	234	215
Payment guarantees		
- HRK	9,817	2,475
- Foreign currency	60	944
Letters of credit		
- Foreign currency	244	0
Approved unrealized credit line	34,322	45,350
Other potential liabilities	49,630	10,002
Total	98,600	61,254
Provisions for potential liabilities	(1,940)	(1,421)
Grand total	96,660	59,833

34. CASH AND CASH EQUIVALENTS

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

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Cash assets	280,389	283,291
Placements to banks with remaining maturity up to 3 months	5,684	657
Treasury notes and bills of exchange, with remaining maturity up to 3 months		
- Portfolio available for sale	456,453	366,854
- Portfolio to maturity	35,250	36,755
Total cash and cash equivalents	777,776	687,557

35. ASSETS FOR AND ON BEHALF

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Total sources	11,233	11,165
Less: assets	(10,590)	(10,713)
Assets not spent	643	452

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 part, which was collected through burdening these assets.

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

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Loans and advance payments to clients		
Shareholders having 5 or more percent of voting shares	12,851	10,619
Others (employees and associated parties)	20,751	18,403
Total loans and advance payments to clients	33,602	29,022

Potential liabilities

Others (employees and associated parties)	1,054	536
Total potential liabilities	1,054	536

Sight deposits

Shareholders having 5 or more percent of voting shares	1,203	10
Others (employees and associated parties)	3,791	142
Turbina d.o.o., Slatina	455	374
Supervisory Board and associated parties	298	0
Total sight deposits	5,747	526

Term deposits

Shareholders having 5 or more percent of voting shares	4,634	3,907
Others (employees and associated parties)	9,996	8,367
Turbina d.o.o., Slatina	3,725	3,627
Supervisory Board and associated parties	118	0
Total term deposits	18,473	15,901

Other assets

Shareholders having 5 or more percent of voting shares	11,001	11,176
Turbina d.o.o., Slatina	5,670	5,558
Total other assets	16,671	16,734

Other liabilities

Shareholders having 5 or more percent of voting shares	25,502	24,776
Turbina d.o.o., Slatina	11	12
Supervisory Board and associated parties	31	0
Total other liabilities	25,544	24,788

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Income		
Shareholders having 5 or more percent of voting shares	1,070	1,049
Members of the Supervisory Board and associated parties	2	1
Others (employees and associated parties)	1,976	1,111
Turbina d.o.o., Slatina	6	7
Total income	3,054	2,168
Expenses		
Shareholders having 5 or more percent of voting shares	859	1,419
Others (employees and associated parties)	300	288
Turbina d.o.o., Slatina	251	146
Supervisory Board and associated parties	2	0
Total expenses	1,412	1,853

Management Board salaries are shown as follows:

DESCRIPTION	At 31 Dec 2016	At 31 Dec 2015
	HRK '000	HRK '000
Net salaries	897	903
Taxes and contributions	815	831
Total	1,712	1,734

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 shall be 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 once per year or more often.

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 credit liabilities taken over is to ensure availability of assets in accordance with client needs. Guarantees represent non-retractable 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 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

Maximum credit risk exposure before lien/mortgage or other insurance instruments at 31 December 2015 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	283,290	0	0	283,290
Receivables from the Croatian National Bank	100,154	0	0	100,154
Placements to banks	1,432	0	0	1,432
Financial assets available for sale	371,031	0	0	371,031
Financial assets held to maturity	49,746	1,591	473	47,682
Loans and advance payments to clients				
-Companies	329,369	57,731	2,094	269,544
- Individuals	377,211	27,676	4,873	344,662
-Other entities	39,970	0	261	39,709
Other assets	77,400	7,340	1,429	68,631
Total balance exposure:	1,629,603	94,338	9,130	1,526,135

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

Guarantees	7,323	0	73	7,250
Letters of credit	0	0	0	0
Credit and other liabilities taken over	53,931	14	1,334	52,583
Total off-balance exposure:	61,254	14	1,407	59,833
Total as at 31 December 2015	1,690,857	94,352	10,537	1,585,968

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

DESCRIPTION	Maturity							TOTAL
	Matured up to 30 days	Matured 31-90 days	Matured 91-180 days	Matured 181-365 days	Matured 1-2 years	Matured 2-3 years	Matured 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

Overview of unpaid matured receivables as at 31 December 2015 is shown as follows:

DESCRIPTION	Maturity							TOTAL
	Matured up to 30 days	Matured 31-90 days	Matured 91-180 days	Matured 181-365 days	Matured 1-2 years	Matured 2-3 years	Matured 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	6,399	1,053	380	5,628	38,525	12,495	56,788	121,268
- Individuals	2,915	2,471	1,486	1,852	7,685	2,512	24,369	43,290
- Other entities	594	135	0	0	0	0	0	729
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	9,908	3,659	1,866	7,480	46,210	15,007	82,812	166,942
Off-balance interest (matured)	86	82	146	728	5,154	3,144	59,434	68,774

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 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

Summary of credit exposure with respect to the level of possibility of coverage as at 31 December 2015 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	1,432	190,485	321,286	39,241	552,444
Matured and value not decreased	0	18,863	5,237	729	24,829
Individual value decreased	0	120,021	50,688	0	170,709
Gross	1,432	329,369	377,211	39,970	747,982
Decreased for provisioning	0	(59,825)	(32,549)	(261)	(92,635)
Net	1,432	269,544	344,662	39,709	655,347

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 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
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

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 2015 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	1,432	190,485	321,286	39,241	552,444
TOTAL	1,432	190,485	321,286	39,241	552,444
Matured and value not decreased					
Maturity up to 30 days	0	6,372	2,742	594	9,708
Maturity 31-90 days	0	1,018	2,407	135	3,560
Maturity over 90 days	0	11,473	88	0	11,561
TOTAL	0	18,863	5,237	729	24,829
GRAND TOTAL	1,432	209,348	326,523	39,970	577,273
Fair value of lien/mortgage	0	153,863	65,612	6,047	225,522
Receivables (claims) insured with an insurance company	0	0	116,271	0	116,271

Placements to banks and loans and advance payments to clients whose value has individually decreased - 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

- at as 31 December 2015

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	27	173	0	200
Maturity 31-90 days	0	35	64	0	99
Maturity 91-180 days	0	379	1,437	0	1,816
Maturity 181-365 days	0	5,628	1,813	0	7,441
Maturity 1-2 years	0	27,053	7,685	0	34,738
Maturity 2-3 years	0	12,495	2,512	0	15,007
Maturity over 3 years	0	56,788	24,369	0	81,157
TOTAL MATURED	0	102,405	38,053	0	140,458
Pertinent non-matured debt	0	17,616	12,635	0	30,251
TOTAL	0	120,021	50,688	0	170,709
Decreased for provisioning	0	(57,731)	(27,676)	0	(85,407)
Net	0	62,290	23,012	0	85,302
Fair value of lien/mortgage	0	62,290	12,623	0	74,913
Receivables (claims) insured with an insurance company	0	0	6,956	0	6,956

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 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
Assets taken over	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							
Sight deposits	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							
Capital stock	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 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 2015.

2015	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	27,669	255,622	0	0	0	0	283,291
Receivables from the Croatian National Bank	0	13,804	0	86,350	0	0	100,154
Placements to banks	0	504	153	775	0	0	1,432
Financial assets available for sale	10,647	19,431	32,874	307,124	955	0	371,031
Financial assets held to maturity	0	2,735	34,115	10,778	17	38	47,683
Loans and advance payments to clients	11,780	35,116	45,131	138,323	258,775	164,789	653,914
Investments in related company	5,558	0	0	0	0	0	5,558
Real property, plants and equipment	27,018	0	0	0	0	0	27,018
Intangible assets	6,396	0	0	0	0	0	6,396
Assets taken over	14,048	0	0	0	0	0	14,048
Other assets	15,610	0	0	0	0	0	15,610
Total assets	118,726	327,212	112,273	543,350	259,747	164,827	1,526,135
LIABILITIES							
Sight deposits	895	4	0	222,203	0	0	223,102
Term deposits	31,959	195,259	183,976	454,370	98,217	15,060	978,841
Credit liabilities	687	37,501	11,975	14,314	42,800	33,633	140,910
Other liabilities	12,968	0	0	0	0	0	12,968
Provisions	4,298	0	0	0	0	0	4,298
Total liabilities	50,807	232,764	195,951	690,887	141,017	48,693	1,360,119
CAPITAL							
Capital stock	91,897	0	0	0	0	0	91,897
Own/treasury shares	(6,592)	0	0	0	0	0	(6,592)
Revaluation reserves	358	0	0	0	0	0	358
Capital gain	149	0	0	0	0	0	149
Reserves	15,182	0	0	0	0	0	15,182
Retained earnings	73,646	0	0	0	0	0	73,646
Profit of current year	(8,625)	0	0	0	0	0	(8,625)
Total capital	166,015	0	0	0	0	0	166,015
Total liabilities and capital	216,823	232,764	195,951	690,887	141,017	48,693	1,526,135
NET ASSETS/LIABILITIES AND CAPITAL	(98,096)	94,448	(83,678)	(147,537)	118,730	116,134	0

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

	2016	2015
	%	%
Assets		
Receivables from the Croatian National Bank	(0,40)	0
Placements to banks	0.50 - 0.95	(0.50) - 1.00
Financial assets held to maturity	5.30 - 9.68	1.90 - 10.05
Loans and advance payments to clients	1.00 - 14.00	2.00 - 14.00
Liabilities		
Sight deposits	0.00 - 1.00	0.00 - 1.00
Term deposits	0.00 - 3.80	2.40 - 4.90
Liabilities by credit	0.00 - 5.00	0.00 - 5.00

39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount which some assets may be traded for or a liability covered, in the best interest of both sides. Since market prices are not accessible (possible) 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 December 2016			31 December 2015		
	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	1,565,512	1,424,944	98,599	1,439,924	1,335,335	61,253
Europe	41,937	14,204	1	86,211	24,782	1
Other	0	168,301	0	0	166,018	0
Total geographical region	1,607,449	1,607,449	98,600	1,526,135	1,526,135	61,254
Sector						
Republic of Croatia	458,886	39,694	548	383,720	39,101	427
CNB	241,122	0	0	188,035	0	0
Trade	86,848	24,340	13,458	126,932	13,885	8,054
Finances	124,082	133,178	2,310	138,638	143,336	3,303
Tourism	14,686	2,027	3,491	13,760	4,291	159
Agriculture, fishing	48,026	7,336	12,652	44,646	2,608	1,434
Industry	45,145	23,755	6,466	65,060	14,838	3,151
Individuals (including tradesmen and other independent enterprises)	371,530	1,106,886	42,294	344,662	1,048,046	36,340
Non-residents	41,937	14,204	1	86,211	24,782	1
Other	175,187	256,029	17,380	134,471	235,248	8,385
Total sector analysis	1,607,449	1,607,449	98,600	1,526,135	1,526,135	61,254

41. CURRENCY RISK

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 for, cur, 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
Real property, plants and equipment	0	0	0	0	0	29,155	29,155
Intangible assets	0	0	0	0	0	6,298	6,298
Assets taken over	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	0	0	0	0	0	0	0
Sight deposits	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							
Capital stock	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

Foreign currency assets and liabilities of the Bank as at 31 December 2015 are shown as follows:

2015	EUR	USD	Other currencies	HRK with currency clause	Total for, cur, equivalents	HRK	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS							
Cash assets	159,618	9,064	10,553	0	179,235	104,056	283,291
Receivables from the Croatian National Bank	13,804	0	0	0	13,804	86,350	100,154
Placements to banks	928	0	504	0	1,432	0	1,432
Financial assets available for sale	0	0	0	132,255	132,255	238,776	371,031
Financial assets held to maturity	0	0	0	32,971	32,971	14,712	47,683
Loans and advance payments to clients	5	0	0	427,793	427,798	226,116	653,914
Investments in related company	0	0	0	0	0	5,558	5,558
Real property, plants and equipment	0	0	0	0	0	27,018	27,018
Intangible assets	0	0	0	0	0	6,396	6,396
Assets taken over	0	0	0	0	0	14,048	14,048
Other assets	0	0	0	0	0	15,610	15,610
Total assets	174,355	9,064	11,057	593,019	787,495	738,640	1,526,135
LIABILITIES							
Liabilities to banks	0	0	0	0	0	0	0
Sight deposits	77,193	1,877	3,896	0	82,966	140,136	223,102
Term deposits	677,697	7,064	6,699	16,713	708,173	270,668	978,841
Credit liabilities	11,071	0	0	46,197	57,268	83,642	140,910
Other liabilities	0	0	0	0	0	12,969	12,969
Provisions	0	0	0	0	0	4,298	4,298
Total liabilities	765,961	8,941	10,595	62,910	848,407	511,713	1,360,120
CAPITAL							
Capital stock	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	358	358
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	73,646	73,646
Profit of current year	0	0	0	0	0	(8,625)	(8,625)
Total capital	0	0	0	0	0	166,015	166,015
Total liabilities and capital	765,961	8,941	10,595	62,910	848,407	677,728	1,526,135
NET ASSETS/LIABILITIES AND CAPITAL	(591,606)	123	462	530,109	(60,912)	60,912	0

42. LIQUIDITY RISK

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

2016	Up to 1	1 to 3	3 to 12	1 to 3 years	Over 3	Total
	month	months	months		years	
	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
Real property, plants and equipment	0	0	0	0	29,155	29,155
Intangible assets	0	0	0	0	6,298	6,298
Assets taken over	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	0	0	0	0	0	0
Sight deposits	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						
Capital stock	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

Foreign currency assets and liabilities of the Bank as at 31 December 2015 are shown as follows:

2015	Up to 1	1 to 3	3 to 12	1 to 3 years	Over 3	Total
	month	months	months		years	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
ASSETS						
Cash assets	283,291	0	0	0	0	283,291
Receivables from the Croatian National Bank	0	43,877	40,627	13,754	1,896	100,154
Placements to banks	504	153	775	0	0	1,432
Financial assets available for sale	364,052	0	0	0	6,979	371,031
Financial assets held to maturity	2,780	33,484	10,938	434	47	47,683
Loans and advance payments to clients	116,683	38,423	127,150	197,314	174,344	653,914
Investments in related company	0	0	0	0	5,558	5,558
Real property, plants and equipment	0	0	0	0	27,018	27,018
Intangible assets	0	0	0	0	6,396	6,396
Assets taken over	0	0	0	0	14,048	14,048
Other assets	13,645	126	918	556	365	15,610
Total assets	780,955	116,063	180,408	212,058	236,651	1,526,135
LIABILITIES						
Liabilities to banks	0	0	0	0	0	0
Sight deposits	223,102	0	0	0	0	223,102
Term deposits	202,933	187,441	454,354	114,495	19,618	978,841
Credit liabilities	26,524	4,433	15,775	57,695	36,483	140,910
Other liabilities	12,951	0	12	6	0	12,969
Provisions	1,351	34	25	2,887	1	4,298
Total liabilities	466,861	191,908	470,166	175,083	56,102	1,360,120
CAPITAL						
Capital stock	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	358	358
Capital gain	0	0	0	0	149	149
Reserves	0	0	0	0	15,182	15,182
Retained earnings	0	0	0	0	73,646	73,646
Profit of current year	0	0	0	0	(8,625)	(8,625)
Total capital					166,015	166,015
Total liabilities and capital	466,861	191,908	470,166	175,083	222,117	1,526,135
NET ASSETS/LIABILITIES AND CAPITAL	314,094	(75,845)	(289,758)	36,975	14,534	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. 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 Art. 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 15.37% (12% + 3.37% regulatory cover for 2015).

On 1 February 2017, the Bank received a decision by Supervisor on required rate of total capital of 15.71%.

DESCRIPTION	Basel III 31 December 2016	Basel III 31 December 2015
	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	65,020	73,646
Reserves and retained earnings	80,351	88,977
Intangible assets	(6,297)	(6,395)
Unreturned amount of credits/loans approved for purchase of credit institution shares	0	(14)
Unrealized loss based on value adjustment of financial assets available for sale	(964)	(1,021)
Loss of the current year	(1,506)	(8,625)
CAPITAL	156,889	158,224
SUPPLEMENTARY CAPITAL		0
REGULATORY CAPITAL	156,889	158,224
RATE OF CAPITAL ADEQUACY	18.44%	17.50%

VII. EVENTS AFTER THE REPORT DATE

In 2017 events and indications occurred that unfavorably influence the ability of a certain group of debtors to regularly settle their obligations to the Bank. The group of the above mentioned debtors represents individually significant exposure of the Bank, in the amount of HRK 16 million. The Bank, in accordance with its policies and procedures, conducts regular assessments of the quality of such placements. Our opinion is not modified in relation to that matter.

VIII. COURT CASES (CLAIMS) AND POTENTIAL LIABILITIES

As at 31 December 2016, ten 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 53 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 is 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 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 reserved assets for said case in accordance with Article 8 Decision on obligatory provisions of assets for court claims against credit institutions (O.G. 1/09, 75/09 and 2/10). Until the Bank in relation to the claim for damages is not had a final judgment in its favor, 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 14 April 2017:

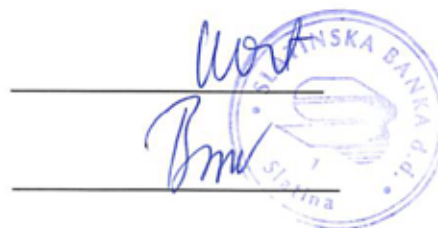
Signed on behalf of the Board:

Angelina Horvat, President of the Management Board

Marko Brnić, Member of the Management Board

Slatinska Banka d.d.
Vladimira Nazora 2
33520 Slatina

Croatia



Two handwritten signatures in blue ink are positioned above two horizontal lines. The top signature is 'A. Horvat' and the bottom signature is 'M. Brnić'. To the right of the signatures is a circular blue stamp with the text 'SLATINSKA BANKA d.d.' and 'Slatina'.

APPENDIX – OTHER LEGAL AND REGULATORY REQUIREMENTS

ADDITIONAL REPORTS FOR THE CROATIAN NATIONAL BANK

In addition are shown annual financial statements of the Bank (the Profit and loss Statement for 2016, Balance sheet at 31 December 2016, the Cash Flows Statement for 2016 and the Statement of Changes in Equity for 2016) 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: Decision).

Position code	Position	Previous year	Current year
Company: SLATINSKA BANKA d.d. MB:03999092			
Type of statement: NONCONSOLIDATED OIB:42252496579			
PROFIT AND LOSS for period 1 January to 31 December 2016 in HRK			
2.1	Income statement comprise following items:		
1.	Interest income	68,893,457	62,202,762
2.	(Interest expenses)	(37,174,677)	(31,147,860)
3.	Net interest income (1.-2.)	31,718,780	31,054,902
4.	Income from fees and commissions	11,877,626	12,797,615
5.	(Expenses from fees and commissions)	(2,966,606)	(3,123,346)
6.	Net income from fees and commissions (4. -5.)	8,911,020	9,674,269
7.	Profit (loss) from investments in affiliates, associated companies, joint ventures	132,988	111,688
8.	Profit (loss) from trading activities	2,869,348	2,858,124
9.	Profit (loss) from derivatives built into	360	715
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	579,564	3,190,489
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	0
16.	Profit (loss) from accounted foreign exchange differences	56,242	(327,072)
17.	Other income	1,079,706	534,269
18.	Other expense	844,010	816,147
19.	General administrative costs and depreciation	35,536,107	35,453,365
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.)	8,967,891	10,827,872
21.	Cost of value adjustments and provisions for losses	19,559,510	12,004,238
22.	Profit / (loss) BEFORE TAXATION (20.-21.)	(10,591,619)	(1,176,366)
23.	INCOME TAX	(1,966,329)	330,236
24.	Profit / (loss) FOR THE CURRENT YEAR (22.-23.)	(8,625,290)	(1,506,602)
25.	Earnings per share		
	Annex to income statement		
26.	Profit/(loss) for the current year		
27.	Parent company shareholders		
28.	Minority share		
2.2.	Annex to income statement fill only credit institutions that prepare consolidated financial statements		

Company: SLATINSKA BANKA d.d.

MB:03999092

Type of statement: NONCONSOLIDATED

OIB:42252496579

STATEMENT OF OTHER COMPREHENSIVE INCOME for period 1 January to 31 December 2016 in HRK

Position code	Position	Previous year	Current year
1.	Profit or (-) loss for current year	(8,625,290)	(1,506,602)
2.	Other comprehensive income (2.1+2.2)	876,030	4,133,873
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)		
2.1.1	Tangible assets		
2.1.2	Intangible assets		
2.1.3	Actuary gains or (-) losses on pension plans sponsored by the employer		
2.1.4	Non-current assets and disposal groups held for sale		
2.1.5	The share of other income and expenses of entities that are accounted for using the equity method		
2.1.6	Income tax related to items that will not be reclassified		
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)	876,030	4,133,873
2.2.1	Hedging of net investments in foreign business (effective part) (2.2.1.1+2.2.1.2+2.2.1.3)		
2.2.1.1	Gains or losses (-) in equity		
2.2.1.2	Transferred in profit or loss		
2.2.1.3	Other reclassifications		
2.2.2	Exchange of foreign currency (2.2.2.1+2.2.2.2+2.2.2.3)		
2.2.2.1	Gains or losses (-) in equity		
2.2.2.2	Transferred to profit or loss		
2.2.2.3	Other reclassifications		
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)		
2.2.3.1	Gains or losses (-) in equity		
2.2.3.2	Transferred in profit or loss		
2.2.3.3	Transferred to the initial book value of the protected items		
2.2.3.4	Other reclassifications		
2.2.4	Financial assets available for sale (2.2.4.1+2.2.4.2+2.2.4.3)	876,030	4,133,873
2.2.4.1	Gains or losses (-) in equity	876,030	4,133,873
2.2.4.2	Transferred in profit or loss		
2.2.4.3	Other reclassifications		
2.2.5	Non-current assets and disposal groups held for sale (2.2.5.1+2.2.5.2+2.2.5.3)		
2.2.5.1	Gains or losses (-) in equity		
2.2.5.2	Transferred in profit or loss		
2.2.5.3	Other reclassifications		
2.2.6	Share of other recognized or not recognized income or expenses from investments into subsidiaries, related companies and joint ventures		
2.2.7	Income tax related to items that can be reclassified in profit or (-) loss		
3.	Total comprehensive gain of the current year (1.+2.)	(7,749,260)	2,627,271
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: NONCONSOLIDATED

OIB:42252496579

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) as at 31 December 2016 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)	215,704,452	265,061,420
1.1	Cash	27,669,236	23,939,122
1.2	Deposits with CNB	188,035,216	241,122,298
2.	DEPOSITS WITH BANKING INSTITUTIONS	169,171,899	108,752,753
3.	TREASURY NOTES OF THE MINISTRY OF FINANCE AND TREASURY BILLS OF CNB	214,424,502	228,990,933
4.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	0	0
5.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	155,967,451	232,912,773
6.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	47,200,886	45,324,191
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	11,387,187	15,257,665
10.	LOANS TO OTHER CUSTOMERS	638,801,559	618,256,176
11.	INVESTING IN AFFILIATES, ASSOCIATED COMPANIES AND JOINT VENTURES	5,558,172	5,669,860
12.	FORECLOSED ASSETS	14,047,590	29,824,959
13.	TANGIBLE ASSETS (LESS DEPRECIATION)	27,233,884	29,395,579
14.	INTEREST, FEES AND OTHER ASSETS	26,637,267	28,002,226
A	TOTAL ASSETS (1.+2.+3. do 14.)	1,526,134,849	1,607,448,535
	Liabilities and equity		
1.	LOANS FROM FINANCIAL INSTITUTIONS (1.1+1.2)	129,309,368	120,234,789
1.1	Short term loans	24,341,635	25,255,624
1.2	Long term loans	104,967,733	94,979,165
2.	DEPOSITS (2.1+2.2+2.3)	1,186,690,434	1,282,528,220
2.1	Deposits on gyro accounts and current accounts	124,724,170	168,122,931
2.2	Saving deposits	97,498,359	121,094,959
2.3	Term deposits	964,467,905	993,310,330
3.	OTHER LOANS (3.1+3.2)	11,070,818	0
3.1	Short term loans	0	0
3.2	Long term loans	11,070,818	0
4.	DERIVATIVE FINANCIAL LIABILITIES AND OTHER FINANCIAL LIABILITIES WHICH ARE NOT TRADED	2,084	936
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	33,047,404	36,383,220
B	TOTAL LIABILITIES (1.+2.+3.+4.+5.+6.+7.+8.)	1,360,120,108	1,439,147,165

ANNUAL FINANCIAL STATEMENTS FOR CREDIT INSTITUTIONS

Company: SLATINSKA BANKA d.d.

MB:03999092

Type of statement: NONCONSOLIDATED

OIB:42252496579

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) as at 31 December 2016 in HRK

Position code	Position	Previous year	Current year
	Capital		
1.	SHARE KAPITAL	85,304,852	85,304,852
2.	PROFIT /(LOSS) OF THE CURRENT YEAR	(8,625,290)	(1,506,602)
3.	RETAINED EARNINGS (LOSS)	73,645,782	65,020,492
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	357,974	4,151,205
C	TOTAL CAPITAL (1.+2.+3.+4.+5.+6.+7.)	166,014,741	168,301,370
D	TOTAL LIABILITIES AND CAPITAL (B+C)	1,526,134,849	1,607,448,535
	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: NONCONSOLIDATED

OIB:42252496579

CASH FLOW STATEMENT for period 1 January to 31 December 2016 in HRK

Position code	Position	Previous year	Current year
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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	(10,591,619)	(1,176,366)
1.2	Impairment and loss provisions	19,559,510	12,004,238
1.3	Depreciation	2,605,239	2,577,732
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)	11,573,130	13,405,604
2.1	Deposits with CNB	(37,681,765)	(53,087,082)
2.2	Treasury notes of Ministry of Finance and treasury bills of CNB	(24,687,799)	(14,566,431)

2.3	Deposits at banking institutions and loans to financial institutions	(37,771,395)	56,548,668
2.4	Loans to other customers	69,997,504	8,541,145
2.5	Securities and other financial instruments held for trading	0	0
2.6	Securities and other financial instruments available for sale	(97,131,630)	(76,945,322)
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	914,874	(1,364,959)
2.	Net increase / decrease in business property (2.1 do 2.8)	(126,360,211)	(80,873,981)
	Increase / decrease in operating liabilities	0	0
3.1	Demand deposits	9,441,856	43,398,761
3.2	Saving and term deposits	78,776,254	52,439,025
3.3	Derivative financial liabilities and other liabilities which are traded	(1,085)	(1,148)
3.4	Other liabilities	(419,647)	3,005,581
3.	Net increase / decrease in operating liabilities (3.1 do 3.4)	87,797,378	98,842,219
4.	Net cash flow from business activities before net income tax payment (1.+2.+3.)	(26,989,703)	31,373,842
5.	(Paid income tax)	0	0
6.	Net inflow / (outflow) of cash from operating activities (4.-5.)	(26,989,703)	31,373,842
	Investment activities	0	0
7.1	Receivables from sale / payments for purchase of tangible and intangible assets	(8,706,671)	(20,516,796)
7.2	Receivables from sale / payments for purchase of investments into subsidiaries, related companies and joint ventures	(132,988)	(111,688)
7.3	Receivables from collection / payments for purchase of securities and other financial instruments held to maturity	32,421,608	1,876,695
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)	23,581,949	(18,751,789)
	Financing activities	0	0
8.1	Net increase / decrease/ of received loans	248,017	(20,145,397)
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	2,342,570	3,793,230
8.	Net cash flow from financing activities (8.1 do 8.6)	2,590,587	(16,352,167)
9.	Net increase /decrease of cash and cash equivalents (6.+7.+8.)	(817,167)	(3,730,114)
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.)	(817,167)	(3,730,114)
12.	Cash and cash equivalents at the beginning of the year	28,486,403	27,669,236
13.	Cash and cash equivalents at the end of the year	27,669,236	23,939,122

STATEMENT OF CHANGES IN EQUITY for period 1 January to 31 December 2016

Company: SLATINSKA BANKA d.d. ; OIB:42252496579 ; in HRK

Serial number	Type of change in capital	Available to the shareholders of parent company						Minority interests	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 basic of Value adjustment of financial assets available for sale		
1.	Balance at 1 January current year	91,897,200	(6,592,347)	15,331,423	73,645,781	(8,625,290)	357,974	0	166,014,741
2.	Changes in accounting policies and correction of errors								
3.	Corrected balance at 1 January current year (1.+2.)	91,897,200	(6,592,347)	15,331,423	73,645,781	(8,625,290)	357,974	0	166,014,741
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	0	0	0
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	3,793,231	0	3,793,231
9.	Profit/(loss) for the current year	0	0	0	0	(1,506,602)	0	0	(1,506,602)
10.	Total recognized income and expenses for the current year (8.+9.)	0	0	0	0	(1,506,602)	3,793,231	0	2,286,629
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	(8,625,290)	8,625,290	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	(8,625,290)	8,625,290	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	65,020,491	(1,506,602)	4,151,205	0	168,301,370

Company: SLATINSKA BANKA d.d.
Type of statement: NONCONSOLIDATED
OFF-BALANCE SHEET in HRK

MB:03999092
OIB:42252496579

	31 December 2015	31 December 2016
1. Guarantees	7,322,874	14,404,649
2. Letters of credit	0	243,748
3. Bills of exchange	0	0
4. Revolving loans and financing obligations	53,930,934	82,681,328
5. Other risk off-balance sheet items	0	1,270,000
6. Futures	0	0
7. Options	0	0
8. Swap agreements	0	0
9. Forwards	0	0
10. Other derivatives	0	0
Total	61,253,808	98,599,725

The following is 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	62,207		Interest income	62,203	4		(4)	Net currency rate differentials based on interest income	
Interest expenses	31,189		Interest expenses	31,148	(41)		41	Net currency rate differentials based on interest expenses	
Income from commissions and fees	12,797		Income from commissions and fees	12,798	0				
Fee and commission expenses	3,124		Fee and commission expenses	3,123	0				
Net income from currency rate differentials	2,631		Profit/loss from trading	2,858		4		Net currency rate differentials based on interest income	
			Profit/loss from built-in derivatives	1		(41)		Net currency rate differentials based on interest expenses	
			Profit/loss from calculated currency rate differentials	(327)	99		(62)		Net currency rate differentials based on adjustments of placement values
Other income from regular business transactions			Profit / loss from activities in category of assets available for sale	3,190					
Other business expenses	3,724		Other income	533		0			
			Other income	816					
			General administrative expenses and depreciation	35,453	99		(99)		Provisions for court cases (litigation)
Expenses of value adjustments and provisions	12,053		Profit (loss) from investing into subsidiaries, related companies and joint ventures	112			99	Provisions for court cases (litigation)	
			Expenses of value adjustments and provisions for losses	12,004	(161)		62		Net currency rate differentials based on adjustments of placement value
Profit (loss) before taxes	(1,176)		Profit (loss) before taxation	(1,176)			-		
Profit/company tax	330		Profit/company tax	330					
Profit (loss) after taxation	(1,506)		Profit (loss) after taxation	(1,506)					

Auditors report	Amount		Reports as per the Decision of the CNB		Amount		Difference		Explanation
	HRK '000	Assets	HRK '000	Assets	HRK '000	Assets	HRK '000	Assets	
Cash assets	280,389	Cash	23,939		256,450		149,147	Giro account (coverage account at the CNB)	
Receivables from the Croatian National Bank	91,975	Deposits with the CNB	241,122		(149,147)		(149,147)	Sight deposits with foreign banks	
Placements to banks	6,451	Deposits with banking institutions	108,753				65,365	Sight deposits with Croatian banks	
Financial assets held to maturity	45,325	Securities and other financial instruments held to maturity	45,324				(41,937)	Giro account (coverage account) at the CNB	
Financial assets available for sale	463,789	Monetary Fund treasury notes and CNB financial papers	228,991				(10,258)	Obligatory CNB financial papers	
Loans and advance payments to clients	632,203	Securities and other financial instruments available for sale	232,913		1,884		1,884	Sight deposits with foreign banks	
Investments in subsidiaries	5,670	Credits/loans to other clients	618,256		13,947		10,258	Credits/loans to non-banking financial institutions	
Assets taken over	29,826	Investments in branches	5,670				3,689	Sight deposits with Croatian banks	
Real property, plants and equipment	29,155	Assets taken over	29,825		0		0	Interest	
Intangible assets	6,298	Material assets (less depreciation)	29,396		(241)		(241)	Credits/loans to non-banking financial institutions	
Other assets	16,368	Interest, fees and other assets	28,002				(5,573)	Interest	
Total assets	1,607,449	Derivative financial liabilities	0		(5,336)		241	Other tangible assets (small inventory)	
		Total assets	1,607,449		0		0	Other tangible assets (small inventory)	

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	HRK '000	HRK '000
Liabilities			Liabilities							
Sight deposits	290,106		Deposits on giro accounts and current accounts	168,123		889		889	889	Limited deposits
Term deposits	1,004,231		Savings deposits	121,095						
Credit liabilities	120,744		Term deposits	993,310		10,921		10,921	10,921	Interest
Other liabilities	19,150		Credits/loans from financial institutions	120,235		509		509	509	Interest
Provisions	4,917		Other credits/loans	0						
Total liabilities	1,439,148		Interest, fees and other assets	36,384		(12,318)		(12,318)	(889)	Limited deposits
Capital			Derivative financial liabilities	1					(11,430)	Interest
Capital stock	91,897		Total liabilities	1,439,148					0	
Own/treasury shares	(6,592)		Capital							
Profit of current year	-1,506		Shareholder capital	85,305					0	
Retained earnings	65,020		Profit (loss) of current year	(1,506)					0	
Reserves	15,182		Shareholder capital	65,020					0	
Capital gain	149		Legal reserves	4,729					0	
Revaluation reserves	4,151		Statutory and other capital reserves	10,602					0	
Total capital	168,301		Unrealized profit (loss) based on value adjustment of financial assets available for sale	4,151					0	
TOTAL LIABILITIES AND CAPITAL	1,607,449		Total capital	168,301					0	
			TOTAL LIABILITIES AND CAPITAL	1,607,449					0	0

ADJUSTMENT OF CASH FLOW REPORT

Deviations of positions in the Cash Flow Report published 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 item 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 Law on Credit Institutions the Bank announces the following information:

The Bank is registered for and is providing following activities:

- receiving of deposits or other returnable assets
- grants loans and borrowings, including consumable loans as also mortgage loans and borrowings if it is permitted by special law and financing commercial activities, including export financing on the basis of purchase with discount and without recourse of long term undue receivables assured by financial instruments (forfeiting),
- purchase of receivables with recourse or without (factoring),
- financial lease (leasing),
- issuing of guarantees or other warranties
- trading for own account or for the account of client in instruments on money market, transferable securities, foreign means of payment, including exchange business, financial terms and options, currency and interest instruments
- payment traffic services in accordance with special regulations
- services related to financing business as e.g. gathering of data, performing of analyses and giving information in respect of solvency of legal persons and individuals which
- independently perform activities, issuing of other instruments of payment and managing with them if rendering of this services is not deemed rendering of payment traffic services in accordance with special law
- mediation when concluding contracts on financial market
- performing of business related to sale of insurance policies in accordance with regulations which regulate insurance activities

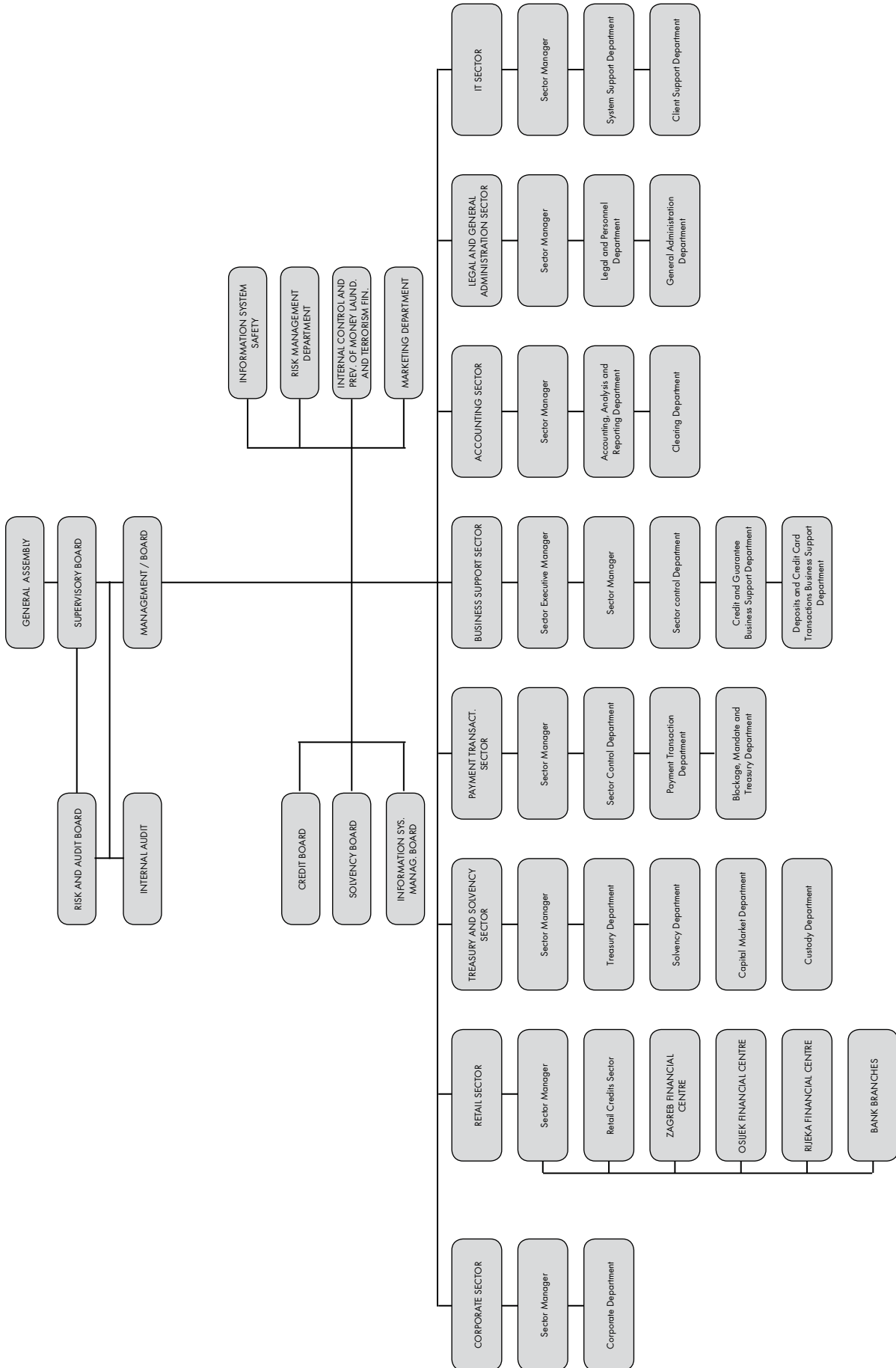
The Bank operates through headquarters in Slatina and 3 financial centers (Osijek, Rijeka, Zagreb), 13 offices (D. Miholjac, Daruvar, Đakovo, Ilok, Koprivnica, Našice, Orahovica, Pitomača, Požega, Slavonski Brod, Slatina, Valpovo, Virovitica) and 12 substations (Bribir, Čačinci, Čađavica, Kaptol, Kutjevo, Mikleuš, Molve, Nova Bukovica, Nova Kapela, Pleternica, Suhopolje, Viškovo) in Republic of Croatia. In the first quarter of 2017, Nova Bukovica, Mikleuš and Nova Kapela offices were closed, and the branch offices of Daruvar and Ilok were changed into an organization.

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

	2016
	HRK '000
Total revenue	81,696
Loss before taxation	(1,176)
Income tax	(330)
Number of employees on 31 December 2016	174
Number of full-time employees (paid working hours) in 2016	160
The number of workers on the basis of equivalent full working time in 2016	136

During 2016 Slatinska Banka d.d. did not received public subsidies.

ORGANIZATIONAL DIAGRAM SLATINSKA BANKA d.d.



CONTACTS

SUPERVISORY BOARD

Gđa. Ružica Vađić, - Chairwoman

Gđa. Blaženka Erer Matić, - Member

Gdin. Hrvoje Markovinović, - Member

Gdin. Denis Smolar, - Member

Gdin. Krunoslav Lisjak - Member (rights and obligations resting from 20th April 2017 until to 20th July 2017)

DEPUTY PRESIDENT OF MANAGEMENT BOARD

Krunoslav Lisjak, B.Sc. (Econ.)

V. Nazora 2, Slatina

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SLATINSKA BANKA D.D. - BUSINESS NETWORK

FINANCIAL CENTRES:

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

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

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



BRANCHES:

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

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

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

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

ORAHOVICA BRANCH
Kralja Zvonimira 14, 33515 Orahovica
Manager: Juraj Nerovčić, tel: 033/637-145

POŽEGA BRANCH
Kamenita vrata 4, 34000 Požega
Manager: Alexandra Bilen-Raguž, tel: 034/638-505

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

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

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

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

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

BRANCH OFFICES:

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VIŠKOVO BRANCH OFFICE
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SUHOPOLJE BRANCH OFFICE
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Tel: 033/637-195

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

ČAĐAVICA BRANCH OFFICE
Zagrebačka 11, 33523 Čađavica
Tel: 033/637-125

KUTJEVO BRANCH OFFICE
Trg Graševine 4, 34340 Kutjevo
Tel: 034/638-540

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

KAPTOL BRANCH OFFICE
Trg Vilima Korajca 15, 34334 Kaptol
Tel: 034/638-530

ILOK BRANCH OFFICE
Trg žrtava domovinskog rata 1, 32236 Ilok
tel: 032/637-005

CORRESPONDENTS

COUNTRY	CORRESPONDENT
AUSTRIA	UNICREDIT BANK AUSTRIA AG, VIENNA
GERMANY	BAYERISCHE LANDESBANK, MÜNCHEN
ITALY	INTESA SANPAOLO SPA, MILAN BANCA MONTE DEI PASCHI DI SIENNA, PADOVA

