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SLATINSKA BANKA d.d.

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MANAGEMENT REPORT

MANAGEMENT REPORT ON THE FINANCIAL POSITION AND ANALYSIS OF BUSINESS PERFORMANCE

Dear clients and shareholders and employees,

We can evaluate the 2018 business year as very successful based on the achieved business performance, and especially for reasons that during 2018, we created real presumptions and steps forward for further stable and successful operations, so we are entering the business 2019 year with great optimism.

Among the basic indicators of the operation, we would emphasise net profit of the Bank as at 31 December 2018 in the amount of HRK 4,777 thousand, whereas the balance amounted to HRK 1,568,629 thousand. Important activities during 2018 were directed to optimisation of both the amount and the structure of the total liabilities of the Bank so that the amount and structure of liabilities that would be complementary to the business policy of the Bank's placements was ensured, which we achieved.

Besides the stated results, we would also emphasise the following indicators of the operation:

- growth of net interest income in 2018 compared to 2017 by 7.47%;
- growth of ROE from 0.39% in 2017 to 2.90% in 2018.

In 2018 again, a consolidation process that imposed increasing competitive conditions of operations continued in the Croatian banking market. Besides the increasingly strong competition, the banking operation is facing the challenge of ever intensifying digitisation and automation, which will significantly change some segments of the hitherto banking operation.

However, even though Slatinska banka belongs to a group of "small-sized" banks in the Croatian banking market, we have managed to adequately respond to all business challenges put in front of the Bank, improve organisation of the Bank, and accomplish growth in target markets.

The above was achieved with significant rationalisation of the business network of the Bank, which was carried out during 2018.

Digitisation of the banking operations, regulatory adjustments, cost management, business risk management, and seeking new markets are still challenges we will strive to respond to successfully.

With an expected further trend of recovery of the economic activity and growth of the business optimism in the Republic of Croatia, with full regard to the still present problems in our economy and society, we firmly believe that in the future operation as well we will ensure both satisfying results of the operation and further steps forward that will profile the Bank in line with the modern bank trends.

Our target is to achieve sustainable and long-term development of the Bank, along with success, satisfaction and prosperity of our clients, employees, local environment where we act and the Croatian society at large.

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 registered office of the Bank is at Vladimira Nazora 2, Slatina.

On 31 December 2018 the Bank operated through a business network of 15 branch offices and 1 field office in the counties: Virovitica and Podravina County, Osijek-Baranja County, Požega-Slavonia County, Brod-Posavina County, Bjelovar-Bilogora County, Koprivnica-Križevci County, Primorje-Gorski Kotar County, and in the City of Zagreb.

Besides providing services to clients through the network of branch offices, the banking services are available through an ATM network and through other distribution channels, such as Internet banking, mobile banking and a network of EFTPOS devices.

Given the specific activity it deals with, R&D activities of the Bank are directed to research and analysis of the market with a view of improving the offer and enhancing the services it provides to its clients.

The Bank is 100% owner of the company Turbina d.o.o. Slatina. Turbina d.o.o. Slatina accounts for 0.36% in the total assets of the Bank, and the operations of the branch of the Bank have a little influence on the total operation of the Bank.

In terms of organisation, the Bank is divided in 11 Sectors, within which specialist departments are defined.

In its operations, the Bank is oriented to private individuals, craftsmen, and small-sized and middle-sized entrepreneurs. Furthermore, the financial monitoring of local self-government units is one of the directions of the Bank's development. In late 2017, the Bank services were also expanded to include the investment banking service.

The business model of the Bank is based on the principle of a universal local Bank, which is capable to provide its clients with an encircled financial service, which will be a determinant of future operations as well.

The 2018 business year is important for reasons that trends of the operations of the Bank have been initiated in positive direction, and real presumptions for future profitable and stable operations have been created.

Considering the above, we will make effort to respond in an as adequate manner as possible to the challenges of digitisation of the bank operations thus profiling ourselves into a modern financial institution centred on our clients and employees.

ANALYSIS OF THE BANK OPERATION IN 2018

Table: Basic financial indicators of the Bank's operation (in HRK 000)

	2018.	2017.	Index 2018/2017
ASSETS	1.568.629	1.593.861	98,42%
PROFIT AND LOSS STATEMENT			
Net interest-based income	47.241	43.959	107,47%
Net income from commissions and fees	9.022	9.197	98,10%
Other income from operation	6.096	14.546	41,91%
Other expenses from operation	-4.560	-4.967	91,81%
Administrative expenses from operation	-35.979	-35.119	102,45%
Depreciation	-3.304	-3.296	100,24%
Result before impairment of value and provisions	**18.515**	**24.320**	**76,13%**
Loss from impairment of value and provisions	-11.974	-23.051	51,95%
Gross profit	**6.541**	**1.269**	**515,45%**
Profit tax	-1.764	-620	284,52%
Net profit	**4.777**	**649**	**736,06%**
Total capital	**164.276**	**164.820**	**99,67%**
Regulatory capital	**156.585**	**156.543**	**100,02%**
Total capital rate	**17,72%**	**18,16%**	**97,57%**
ROA	**0,30%**	**0,04%**	**750,00%**
ROE	**2,90%**	**0,39%**	**743,59%**
CIR	**73%**	**68%**	**107,35%**
Number of employees	**180**	**180**	**100,00%**

Profit and loss account

In 2018, the Bank made profit in the amount of HRK 4,777 thousand. The share of interest-based income in the total income as at 31.12.2018 was 76.22%, which shows that the Bank significantly relies on the interest-based income. Despite fall of the total interest-based income by 3.35% in 2018, as a result of better depost management, interest expense was lowered by 27.83%, which in the end resulted in the growth of net interest income by 7.47% in 2018.

Income from commissions and fees increased by 1.50% in 2018 whereas expenses for commissions and fees grew by 10.13%, which finally resulted in a decline of net income from fees and commissions by 1.90%. This was a consequence of the entering into force of the Act on Consumer Housing Loans, introduction of new tariffs in the procedure of enforced collection from debtors, and rationalisation of the business network.

Costs of value adjustment in 2018 were made in the amount of HRK 11,974 thousand, which was a significant fall compared to the costs of value adjustment in 2017 (HRK 23,051 thousand).

The above was a result of the sale of part of non-interest bearing placements in the population lending segment and in companies, improvement of the procedure of loan approval and collection of non-interest bearing placements.

Administrative expenses, which include operative costs of the Bank operation increased by 2.45%.

Depreciation cost increased by 0.25%.

Balance of the Bank

The balance of the Bank as at 31 December 2018 was HRK 1,568,629 thousand, which was a decline by HRK 25,232 thousand or 1.58% compared to 2017.

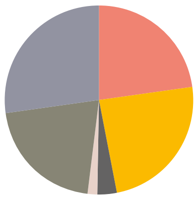
The above decline was a planned activity the goal of which was optimisation of the total asset sources of the Bank, in compliance with the planned policy of placements.

The overview of the placement structure per sector and the asset sources is given below

Placement structure per sector

	2018	%	2017	%
CORPORATES	**355.526**	**22,66%**	**395.857**	**24,84%**
Companies	264.641		305.625	
Private individuals (craftsmen, family run farms, etc.)	63.631		67.289	
Local government and non-profit organisations	22.043		20.851	
Other	5.211		2.092	
RETAIL	**379.499**	**24,19%**	**347.747**	**21,82%**
FINANCIAL INSTITUTIONS	**50.623**	**3,23%**	**28.442**	**1,78%**
INVESTMENT BANKING	**24.912**	**1,59%**	**26.696**	**1,67%**
DEBT SECURITIES	**330.446**	**21,07%**	**258.333**	**16,21%**
OTHER LOANS AND ASSETS	**427.623**	**27,26%**	**536.786**	**33,68%**
TOTAL	**1.568.629**	**100,00%**	**1.593.861**	**100,00%**

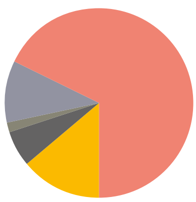
24,19 % RETAIL
22,66 % CORPORATES
27,26 % OTHER LOANS AND ASSETS
21,07 % DEBT SECURITIES
1,59 % INVESTMENT BANKING
3,23 % FINANCIAL INSTITUTIONS



Asset source structure per sector

	2018	%	2017	%
RETAIL	**1.066.389**	**67,98%**	**1.056.494**	**66,29%**
CORPORATES	**215.349**	**13,73%**	**196.810**	**12,35%**
Companies	115.270		114.644	
Private individuals (craftsmen, family run farms, etc.)	45.438		37.947	
Local government and non-profit organisations	54.641		44.219	
FINANCIAL INSTITUTIONS	**97.278**	**6,20%**	**151.770**	**9,52%**
OTHER SOURCES	**25.338**	**1,62%**	**23.967**	**1,50%**
CAPITAL AND RESERVES	**164.275**	**10,47%**	**164.820**	**10,34%**
TOTAL	**1.568.629**	**100,00%**	**1.593.861**	**100,00%**

67,98 % RETAIL
10,47 % CAPITAL AND RESERVES
1,62 % OTHER SOURCES
6,20 % FINANCIAL INSTITUTIONS
13,73 % CORPORATES



Retail Banking

Slatinska banka d.d. maintains its position in the retail banking segment by constantly monitoring the trends and continuing improvement of operations and service quality.

The Bank is oriented to the satisfaction of clients, whom it offers innovative and universal financial services, combining traditional and modern distribution channels.

In its daily operation, the Bank is not only directed to business success but to development of the community in which it does business including care for the people and sustainable development.

By expanding the range and functionality of its services and introducing new technologies, and monitoring the market trends, the Bank offers the retail segment the traditional and market-acceptable forms of savings, credit lines primarily for non-purpose loans, payment transaction services, and online banking services.

Increasing number of current accounts by 6% and credit cards by 15% compared to the previous year, and growth of placements to the retail segment nominally by HRK 31,752 thousand for the previous year points to maintaining of trust between the Bank and its clients. Placements in the retail segment maintain a significant share in the placements of the Bank and account for 24.19% of the total structure of the Bank assets.

In the area of the credit operation with the retail sector, the Bank adjusted the conditions of loans for consumers, to their needs through simple loan products. It offers consumers an opportunity for repayment of loans in up to 12 years for consumer credits, and concerning housing loans, a repayment term of up to 20 years. The offer of loans with fixed interest rates and with changeable interest rates related to the National Reference Rate (NRR) has been also expanded.

The operation of the Bank in retail encompasses the following organisational parts: Sales Management Department, which organises, coordinates and monitors the operation of the business network, shapes the model of goal setting and measurement of performance of the set goals of the business network, setting of sales plans and monitoring thereof, and Product Development and Marketing Department, assigned with monitoring new and existing market trends and developing Bank’s products, in compliance with the market requirements, with a purpose of providing support to the business (sales) network and organising and implementing marketing campaigns and selecting the most effective communication channels for certain products to private individuals.

By investing in human potentials and their continuing education and personal development, clients are ensured superb service, whereby a personal approach between the client and the Bank is developed.

Corporate Transactions

Banking in the corporate segment is primarily directed to financial monitoring of the small-sized and middle-sized entrepreneurship, craftsmen and family run farms, predominantly from own funds and through credit lines in cooperation with local government units, which take part in co-funding of interest rate costs as per loan.

Placements in the corporate segment in 2018 were HRK 355.5 million, which accounted for 22.66% in the total assets of the Bank.

The Bank has developed business cooperation with the Croatian Agency for SMEs, Innovations and Investments (HAMAG BICRO) for the issuance of individual guarantees funded from the European and structural investment funds, whose goal is to create in the best possible manner a financial model that would provide a complete and high quality financial service adjusted to the dynamic market conditions. Furthermore, the business cooperation with the Croatian Bank for Reconstruction and Development (HBOR) enables a more diverse offer of credit lines for clients of the Bank using loans from the HBOR sources.

Along with crediting SMEs, craftsmen and family run farms, the Bank takes active part in funding the local government and self-government units, which ensures addressing developmental infrastructure needs in a proper manner and creating a good basis for further economic development of areas operated in by the Bank.

Besides the above, the Bank issues all forms of guarantees, from HRK to foreign currency guarantees, bid, performance and payment guarantees, letters of credit and other forms of guarantees required by the present conditions of operation.

Credit worthiness, good development programmes and competence of the management make the fundamental preconditions for financial monitoring of clients.

Developing and improving its operations, the Bank also offers the legal entities other services that ensure faster, simpler and more efficient operation using the EFTPOS terminal, MBCARD/Maestro cards, MasterCard Business Charge card, SMS services, Internet banking, and Mobile banking.

The basic activities of the Bank in its operations with the corporate sector will further on be directed to development and increasing of quality of services that the Bank is able to offer to legal entities, and to further common development of mutual business trust and partnership.

Payment Transactions

Successful and safe functioning of the payment transactions (national, cross-border, and international) is of exceptional importance for all the clients of the Bank and other participants in the payment transactions. The payment transactions are performed through a network of branches (counters) of the Bank, ATMs, daily-and-nightly safety vaults, through the network of branches of FINA as well as by modern electronic payments (Internet banking and mobile banking). We bear witness to payment habits gradually changing due to development of new technologies, e.g. smart phones. Cash payments are gradually replaced with card payments, and internet and mobile banking.

Quality and speed of service is still a guide in management and running of payment transactions in the Bank.

The Bank has a developed network of correspondent banks. Foreign currency payments are made through the SWIFT Alliance application, and the Bank is an active participant in the HSVP and TARGET2 systems. Moreover, it is also an active participant in the EuroNKS and NKSkn systems, by which it is directly involved in the Single Euro Payments Area (SEPA) payment system.

Since 2017, the Bank has been an active participant in the SEPA Direct Debit basic and business payment scheme.

For the payment transaction operations, the Bank uses its own programme support that makes the technical basis for quality provision of payment transaction services in both the country and towards abroad.

It also actively takes part in the process of adjustment of PSD2 and introduction of the HRK SCTInst payment scheme in the Republic of Croatia where important progress was made during 2018.

Continuing increase of the number and volume of transactions shows clients' satisfaction with the new payment transaction services and competitive fee rates, which in return enabled the clients to better manage their assets at transaction account.

The activities of the Bank towards development of the payment transaction services are carried out with a purpose of the Bank's enabling its clients and participants in the payment transactions an acceptable, efficient, good and above all financially advantageous offer of services while respecting the maximum safety and speed as well as simplicity in the payment transactions.

Information System of the Bank

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 access to information and services necessary for their everyday business, as well as confidentiality, availability, and integrity of information within continued development of the Bank's business.

The technological base of the Bank IT comprises servers for banking and non-banking applications. IBM Power7 8202 server is used as the server for the bank application. External locations (financial centres, branches and branch offices) are connected through the virtual private network (VPN). In addition to the business network, banking services are also made available through other distribution channels such as the Internet banking, Mobile banking and the EFTPOS device of ATM network. Two new ATMs were installed at Čađavica and Čačinci in 2018.

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

A new service providing payment by cards through the Internet – Dynamic authentication – SMS OTP on 3D Secure, which increases safety of payment through the Internet, was introduced for card users. Furthermore, a project of introduction of cards with contact-free functionalities was also launched.

Harmonisation to the EU Regulation 2016/679 on the protection of natural persons with regard to the processing of personal data (GDPR) was completed in 2018.

RISK MANAGEMENT

Risk Management Policy and Strategies

Risk is defined as a possibility for occurrence of events that can affect unfavourably the Bank's capital, income and its sustainability and goal accomplishment.

The risk management system is comprehensiveness of the organisation structure, rules, processes, procedures, systems and resources for determining, measuring, i.e. assessing, mastering, and monitoring and reporting exposure to risks, or risk managing on the whole, and implies establishment of adequate corporate management, risk culture and adoption of strategy, policy and other internal acts for risk management.

Risk management is an overall process of determining, assessing and monitoring risk, taking into consideration the goals of the Bank and taking the necessary actions, all with a purpose of lowering risk.

Risk Management Organisation

Risk management in the bank is carried out by the Risk Sector. The Collection Sector also takes part in the credit risk management segment. Also, risk management is carried out in all the segments of operation through an established internal control system.

Risk Committee

The Risk Committee is a central organisation body for the risk management completeness.

The Risk Committee continually discusses all the risks the Bank is exposed to through a defined reporting system, with a purpose of defining future business policies of the Bank.

Risk Sector:

The Risk Sector carries out operational management of total risks, and monitoring and measuring of all the risks the Bank is exposed to.

The Risk Control Function is performed by the Risk Sector Director.

Key employees of the Risk Management Department are as follows:

- Senior Professional Associate for Market and Other Risk Management;
- Senior Professional Associate for Credit Risk and Credit Related Risk Management;
- Senior Professional Associate for Credit Risk Management;

Key employees of the Risk Monitoring and Measuring Department are as follows:

- Senior Professional Associate for Credit Risk Monitoring and Measuring
- Senior Professional Associate for Market and Other Risk Monitoring and Measuring

Collateral management jobs are also performed within the Risk Sector, which includes review of the collateral assessment, monitoring of collateral values, and giving opinion of collaterals that the Bank accepts in the loan approval procedure.

Collection Sector

The Collection Sector operatively manages all credit exposures where default in meeting liabilities exists. The Collection Sector undertakes all the measures for collection of receivables, both voluntarily and in an enforced manner if agreed collection cannot be achieved. Besides the above, the Collection Sector also proposes loan restructuring, and gives proposals for sale of part of non-interest bearing investments.

Risk Exposure

The Bank is exposed to the following risks in its operation:

1. Credit risk
   - Credit risk of the other contracting party
   - Currency induced credit risk
   - Interest induced credit risk
2. Market risks
   - Position risk
   - Foreign exchange risk
   - Commodity risk
3. Interest rate risk in the non-trading book
4. Liquidity risk (liquidity financing risk, market liquidity risk)
   - Liquidity financing risk
   - Market liquidity risk
5. Operational risk
6. Compliance risk
7. Concentration risk
8. Residual risk
9. Country risk
10. Strategic risk within which, new product and business line risk
11. Excessive financial leverage risk
12. Exposure to entities of shadow banking
13. Reputation risk
14. Other risks (dilution risk, securitisation risk, managing risk, model risk, risk of adjustment to credit valuation, risk of free delivery, business risk, legal risk, migration risk, risk of externalisation, profitability risk, risk of investment in property, information system risk, risk of settlement, risk of non-conscientious conduct, and other risks which the Bank is or might be exposed to in its operations).

The risk level which the Bank is exposed to depends on multiple factors and all the stated risks do not influence on the Bank in an equal manner. Detailed management of individual risks is prescribed in policies, ordinances, and procedures for respected risks.

Risk Profile

The Bank is not exposed to the securitisation risk because it does not perform securitisation jobs and will not enter jobs that condition dilution risk, so it will not be exposed thereto.

Furthermore, the Bank will not trade in goods in the market or in derived financial instruments related to goods, that is, it will not be exposed to the commodity risk.

Risk culture in terms of assuming and managing risk is presented to all the workers at all the levels so that they are clearly informed with the authority assigned to them.

Approach to Risk Management

A systemic approach to risk management is a key element for setting the strategy of the Bank in risk management. The Bank management ensures that risk management is embedded in all business processes and all organisation segments. The goal of risk management is achievement of optimum level of profitability with an acceptable risk level.

The Management and the Supervisory Board, in line with their competences, are fully responsible for establishment, implementation and supervision of the management system.

Risk Management Process

The risk management process has to be adjusted to the type of risks which the company is exposed to. Any process must contain the following as a minimum

- risk determination
- risk measurement
- risk mitigation
- monitoring and reporting on the risk
- risk control

Acceptable Risk Level

The Bank is obliged to ensure to have at any time an amount of capital adequate to the type, scope and complexity of the services provided and the risks it is exposed or could be exposed to in the provision of these services.

The Bank is obliged, for the purpose of safe and stable business, i.e. fulfilment of obligations towards its creditors, to maintain adequate regulatory capital adequacy. The regulatory capital of a credit institution should not be less than the law prescribed amount of the share capital or the Decision on the prescribed internal capital.

The Bank is obliged to operate in such a manner so as to be able at any time to timely meet due payment obligations (liquidity principle) and to be permanently able to meet all of its obligations (solvency principle).

In its risk-related policies, the Bank prescribes the level of acceptable risks for defined risks.

Reporting on Risk Exposure

The Management and the Supervisory Board of the Bank are informed regularly, from various risk aspects, about the portfolio quality, the indicators of the Recovery Plan and are provided with all information necessary for the assessment of risks which the Bank is exposed to. The report contains detailed information on exposures, risk assessments, concentrations and changes in the risk profile. The Risk Sector also creates additional reports that provide it with information necessary for proactive risk management.

Control functions make individual and periodic reports in accordance with the Rules of Procedure of the Risk Control Function, the Rules of Procedure of the Compliance Monitoring Function and the Rules of Procedure of the Internal Audit.

In order to adequately protect its exposure, the Bank contracts collaterals for receivables from which it will possibly collect its claims if a debtor of the Bank does not meet its obligations, i.e. ensure minimum credit risk.

Credit risk

Credit risk is the most significant risk for the Bank. Credit risk is a risk of loss due to failure of debtors to meet their monetary liability towards the Bank.

Currency-induced credit risk and interest rate-induced risk are derivatives of credit risk and the Bank considers them separately.

The Bank has prescribed its credit risk management policy. The purpose of the policy is prescribing clear lines of authority and responsibility for the credit risk management within the Bank, the methodology for determining and measuring, i.e. assessment of the credit risk the Bank is exposed or could be exposed to, procedures for the risk mitigation and monitoring of the credit risk, including putting in place appropriate limits, procedures and measures if crisis situations occur.

Credit risk is a risk of loss due to failure of debtors to meet their monetary liability towards the Bank.

The process of monitoring of individual loans includes assessing of the credit worthiness of the debtor, a group of persons related to the debtor, regulatory in meeting the obligations and the quality of collaterals for securing the claims during the validity of the legal relation that makes the exposure.

Senior Professional Associate for Credit Risk Monitoring and Measuring makes analysis of the loan portfolio and is responsible for its production. The analysis is made every three months after the completion of the value adjustments and is presented to the Risk Committee.

We measure the credit risk through the process of monitoring of loans and analysis of the portfolio in line with the Loan Monitoring Policy and the analysis of the credit portfolio and through the process of classification of loans according to risk levels, which is prescribed by the Ordinance on Classification of Exposures into Risk Categories and the Method of Determining Credit Loss.

The totality of compliance with the provisions of the Policy is implemented through the Risk Control Function, Sector Control Departments and the Internal Audit, according to the adopted annual plans.

After the controls have been carried out, the Risk Control Function, Sector Control Departments and the Internal Audit inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board.

The way of credit risk protection is continuous monitoring of individual loans in order to allow timely appropriate measures with a purpose of reducing the credit risk in the event of deterioration in the credit worthiness of the debtor or the provider of collateral for securing the claim.

Over the entire validity of the contractual relationship, the Bank assesses the credit quality of the exposure and classifies those exposures into the appropriate risk groups, based on the following criteria:

1. creditworthiness of the debtor,
2. regularity in the fulfilment of liabilities of the debtor toward the credit institution and other creditors, and
3. quality of the collateral per individual exposure.

Three categories of value adjustment calculation are prescribed in line with the IFRS 9 requirements:

- STAGE 1 (S1) – calculation of expected annual credit losses on an aggregate basis
- STAGE 2 (S2) – calculation of expected annual credit losses for the entire life time of exposure on an aggregate basis
- STAGE 3 (S3) – calculation of expected annual credit losses on individual basis

The main criteria/relevant data for classification of exposure into risk group are as follows:

- Days of delay,
- Status of the claims – Restructured loans
- Blocking the account
- Internal credit rating
- Status of a dead person

Indicators suggesting that the debtor will not fully meet their liabilities are as follows:

1. evident significant financial difficulties of the debtor,
2. violation of the agreement, like default or delay in paying interest rates and/or the principal, or failure to meet other provisions of the agreement,
3. existence of a real possibility for initiation of a bankruptcy procedure or undertaking some other legal activity (financial reorganisation) that is caused by the bad financial status of the debtor,
4. based on the analysis of the System for early determination of increased credit risk and qualitative indicators on the loan portfolio of legal entities with early detected increased credit risk, they are as follows: reputation of the client, negative experiences in connection with the delivery of information to the Bank and initiated litigations.

Definition of the default status

The default status of individual debtors occurs when one of the following requirements or both following requirements are met:

a. the Bank considers it probable that the debtor will not fully meet its obligations towards the Bank, its parent company or any of its subsidiaries without taking into account the possibility of collection of collateral;
b. the debtor in default for more than 90 days has not fulfilled its liability accrued on any significant credit obligations toward the Bank, its parent company or any of its subsidiaries. Competent authorities may replace 90 days with 180 days for exposures that are secured with residential property or commercial real estate of SMEs in the category of exposures towards the retail segment, as well as the exposures towards the public sector entities. The replacement with 180 days is applied for the needs of Article 127 of the Regulation (EU) No. 575/2013.

Reassigning of the status of fulfilment of obligations is possible in cases where all causes that led to the default status are removed in a period of minimum three months. It is necessary to analyse criteria that have led to the improvement of the financial situation of the debtor, which allows full and timely repayment of the credit obligations and make the debt repayment likely. The bank needs to be convinced that the improvement in credit quality is real and permanent, and that the financial condition of the debtor is satisfactory in order to change the status of default into the status of fulfilment of liabilities. Based on this, we will monitor and analyse changes in the status of debtors or products where the status of default will occur shortly after the reassignment of the status of fulfilment of liabilities with the aim of re-examining our policies in relation to the reclassification of exposure.

Criteria for classification and reduction of exposure in the A Risk Group

Only exposures towards the debtor who is not in the status of default can be classified in the A Risk Group.

The Bank is obliged to classify the exposures in the risk subgroup:

1. A-1 if after the initial recognition the credit risk of a certain debtor's exposure did not increase significantly,
2. A-2 if after the initial recognition the credit risk of a certain debtor's exposure increased significantly.

The Bank is obliged, in line with the IFRS-9 provisions, to conduct appropriate impairments and provisions for exposures in the amount equal to:

1. expected credit losses in the twelve-month period for the A-1 Risk Subgroup,
2. expected credit losses during the life time for the A-2 Risk Subgroup,

General requirements for the method of assessment of credit losses

Indicators for determination of increased credit risk of a debtor that is used for transition of exposure from the A-1 Risk Subgroup to the A-2 Risk Subgroup are as follows:

1. days of delay,
2. blocking of the client
3. worsening of the credit worthiness assessment
4. natural person's death
5. appearing on monitoring lists of the Watch List and the System for Early Detection of Increased Credit Risk

The Bank takes the regularity of the debtor in settling arrears as a mandatory indicator. If the debtor is in delay with the payment of their due exposures towards the Bank that is more than 30 days, though it is still within the terms not exceeding 90 days, the Bank is obliged to assign them into the A-2 Risk Subgroup.

Model of calculation of the expected credit loss (ECL) on an aggregate base

$$ECL = \sum_{n=1}^{r} (EAD_n * MPD_n * LGD_n * DF_n)$$

EAD

Calculation of exposure due to the default status (EAD) is exposure at the time of default of the client/claim. The discounted cash flows are taken into account as well as potential additional withdrawals from the credit lines.

MPD model

The MPD model applies the basic approach of calculation of the probability of default occurrence, based on the transition matrices using the Markov chain, after which the macroeconomic anticipations are implemented in a z-shift model. The time dimension is obtained by simply multiplying the appropriate matrices based on projections for future periods.

LGD

The Bank has defined the loss in the case of occurrence of a default status of the given financial mean depending on the segment and existence of collateral for the claim

DF

DF is abbreviation of the term Discount Factor, i.e. it represents the discount factor for a given period based on the initial effective interest rate. DF is calculated depending on the value of the effective interest rate, maturity

of the exposure, and the delay or application of the expected credit loss.

Strategic Risk

The Bank has prescribed the Policy for management of the strategic risk whose purpose is to define the strategic risk which the Bank is exposed to. The strategic risk is a possibility of occurrence of loss due to the lack of a long-term development component of the Bank, adverse business decisions, bad implementation of adopted decisions or lack of sensitivity to market changes.

The Risk Control Function is obliged to inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board on a semi-annual basis about the implementation of the annual plans of the balance.

The strategic risk is risk of loss that may arise due to adverse business decisions, lack of responsiveness to changes in the economic environment, etc.

This risk is linked to the strategic objectives of the Bank, developed business strategy in order to achieve strategic objectives, resources used to achieve those objectives and quality of implementation. Necessary resources for implementation of the business strategy consist of tangible and intangible assets, including the communication channels, operating systems, networks for the delivery and management capacities and capabilities. Through the process of measuring, the Bank will determine the realisation of adopted plans and the level of deviation from the adopted plans and strategic objectives of the Bank in order to establish in a timely manner the cause for the deviations and initiate actions to achieve the strategic objectives of the Bank.

Protection of the strategic risk is a set of guidelines, strategies, methods and activities that clearly define what the Bank wants and how to achieve it, or how to rule out or alleviate certain deviations. The Bank may use services of external institutions in the process of mastering the strategic risk.

Residual Risk

The Bank has prescribed the Residual Risk Management Policy whose purpose is determination, measurement, mastering and monitoring and reporting about the residual risk. The residual risk is the risk of loss that occurs if the recognised techniques for reduction of the credit risk used by a credit institution are less efficient than expected.

Monitoring and reporting about the residual risk is carried out within the Risk Sector and the Risk Control Function.

Senior Professional Associate for Credit Risk Monitoring and Measuring submits a report to the Management on the residual risk management at least once in six months.

The Bank measures the residual risk by the ratio of bad debts (which are estimated to have been fully secured by the credit protection) and totally insured claims by the same kind of credit protection.

Another measure is monitoring of the records of sold property in legal/enforcement/bankruptcy proceedings and records of initiated and still unsold property with a purpose of obtaining information about the period of marketability of certain types of collaterals. Then making projections of taking property for a period of two years with a purpose of controlling the limits for further taking over the property.

Within the process of the residual risk management, if the credit risk mitigation techniques prove less efficient than expected during the loan approval, measures to control/reduce the credit risk shall be put in place.

Effects of the credit protection can be improved by a smaller proportion of the amount of claims in the estimated value of the instrument that is used as credit protection, avoiding the use of instruments used as credit protection that prove to be ineffective, and greater legal safety of used mitigation techniques, etc.

Reputation Risk

The Bank has prescribed the Reputation Risk Management Policy with a purpose of defining the reputation risk management. The reputation risk is potential negative impact on earnings and capital arising from negative public opinion.

Continuous monitoring of threats to the reputation in the context in which the Bank is mentioned in media, or which occur in the form of complaints from customers, or through reporting on the operational risk or through analysis.

Reputation risk measurement system:

Reputation is shaped by three factors: communication, media coverage (online and print), and experience of customers and the public.

In accordance with the foregoing, the reputation risk is measured in a way that we perform the following:

- analysis of customers' complaints,
- analysis of media articles in whose context the Bank is mentioned (positively or negatively),
- analysis of reported reputation risks within the operational risk.

Control is made through the performance of applied results obtained from the analysis on the basis of which the removal of negative reputation that referred to the Bank was targeted.

The totality of compliance with the provisions of the Policy is implemented through the Risk Control Function, Sector Control Departments, and the Internal Audit, according to the adopted annual plans. After controls have been carried out, the Risk Control Function, Sector Control Departments and the Internal Audit inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board.

The way for risk protection is to master the reputation risk in a way as to direct the public opinion about the Bank as desired.

Interest Rate Risk

The Policy of Interest Rate Risk Management in the Non-Trading Book defines the process of interest rate risk management and the process of interest rate risk management in the non-trading book that is linked to Decision on Interest Rate Risk Management in the Non-Trading Book. The process of the interest rate risk management in the non-trading book includes determination and identification of the interest rate risk, measuring, mastering and management; along with monitoring, control and reporting on the interest rate risk. In addition to the foregoing, the acceptable level of the interest rate risk is also prescribed.

The totality of compliance with the provisions of adopted policies is implemented through the Risk Control Function, Sector Control Departments, and the Internal Audit, according to the adopted annual plans. After the controls have been carried out, the Risk Control Function, Sector Control Departments, and the Internal Audit inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board, and put in place specific measures depending on the situation.

The control of the interest rate risk in the non-trading book is made through a quarterly Report on Exposure to the Interest Rate Risk in the Non-Trading Book, through an internal quarterly report on the interest rate risk, and through a semi-annual report on the operation of the Risk Control Function.

The Management of the Bank is informed by internal reporting on the interest rate risk by the Risk Committee, and on a quarterly basis, by the regulator through the Report on Exposure to the Interest Rate Risk in the Non-Trading Book. Based on the received information from the reports, the Management of the Bank manages the interest rate risk using interest rate risk management instruments.

Continuous monitoring of the interest rate risk using the method of analysis of movements of the interest rates in the market, the interest margin analysis, analysis of net interest income and analysis of the static gap model.

The acceptable level of interest rate risk based on analysis of the static gap model is to determine the Bank's exposure to the interest rate risk in the event of price changes per loan, that is per sources of funds and to ensure that the maximum cumulative gap between assets and liabilities in the periods up to 12 months does not exceed the limit of 20% of net assets. As long as the realised net interest income covers the total administrative costs, this is an acceptable level of risk based on the analysis of net interest income.

In addition to the above, we use the prescribed limit in accordance with the Decision on Interest Rate Risk Management in the Non-Trading Book, where the ratio of change in the economic value of the non-trading book and the regulatory capital of the Bank should not exceed 20%.

When prescribing and determining the annual plan (by which the Bank determines amounts of its planned loans and sources for individual products as well as the pace of their realisation, and the absolute value of the asset to which the Bank has a contracted right to accrue interest in relation to the liabilities to which the Bank has commitment to pay interest); then the Decision on Interest Rates (which affect the value of the interest rates, the variability of the interest rates and the possibility of contracting the variable interest rates, the method and the way of calculation of interest rates); and credit policies (which can affect the sectoral structure of loans by individual credit lines); and the Asset and Liability Management Policy (which affects the structure of assets and liabilities of the Bank), the impact of interest rate risk is taken into account, i.e. they influence the reduction of interest rate risk.

Operational Risk

The Risk Management Strategy of Slatinska banka d.d. provides for management of all risks, including the operational risk as well and the total process of determining, assessment and monitoring of the risk, taking into account the objectives of the Bank and undertaking the required activities, with a purpose of mitigating the risk. The Risk Management Strategy defines the levels of acceptable risks and responsibilities for the risk management.

The Operational Risk Management Policy defines the process of the operational risk management, methods, ways and procedures of monitoring of operational risks, identification, assessment, control, responsibilities and reporting on operational risks.

The totality of compliance with the provisions of adopted policies is implemented through the Risk Control Function, Sector Control Departments, and the Internal Audit, according to the adopted annual plans. After the controls have been carried out, the Risk Control Function, Sector Control Departments, and the Internal Audit inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board, and put in place specific measures depending on the situation.

The control of the operational risk is made through a quarterly internal operational risk reporting, then through a semi-annual report on the operation of the Risk Control Function.

Risk assessment is performed by the self-assessment method, using the open assessment method, and structural questionnaires and workshops. Results of the assessment are presented through the risk matrix, which is defined with the amount of loss, frequency of loss and risk levels.

In case of emergence of a crisis situation, actions will be taken in compliance with the Going Concern Plan.

An important aspect of the operational risk management is carried out through the mechanism of internal control of business activities in sectors, financial centres and branches as well as control functions.

Internal practices that are adequate for control of the operational risks are as follows: supervision of compliance with the assigned limits, protection against access to assets and records, ensuring the corresponding professionalism of the staff, determining business activities or services where profits seem not to be in line with the realistic expectations, regular check and adjustment of transactions and accounts.

Adequate control of procedures (verification of compliance with policies, system of documented approvals and authorisations), which are a component of regular activities, enables fast response to changing conditions and avoiding unnecessary expenses, and the control culture promotes good practices of risk management.

Foreign Exchange Risk

The Risk Management Strategy of Slatinska banka d.d. provides for management of all risks, including the foreign exchange risk as well and the total process of determining, assessment and monitoring of the risk, taking into account the objectives of the Bank and undertaking the required activities, with a purpose of mitigating the risk. The Risk Management Strategy defines the levels of acceptable risks and responsibilities for the risk management.

According to the definition of market risks, besides the foreign exchange risk, the position risk and the commodity risk are considered to be market risks. Therefore, the Strategy has established that the Bank is not and does not plan to be exposed to the position and commodity risk since it will not enter into deals that can derive such risks.

The Market Risk Management Policy defines determination or identification, measuring, mastering and managing the foreign exchange risk; then monitoring, control and reporting on the foreign exchange risk, as well as an acceptable level of foreign exchange risk.

The totality of compliance with the provisions of adopted policies is implemented through the Risk Control Function, Sector Control Departments, and the Internal Audit, according to the adopted annual plans. After the controls have been carried out, the Risk Control Function, Sector Control Departments, and the Internal Audit inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board, and put in place specific measures depending on the situation.

The control of the foreign exchange risk is made through a quarterly internal foreign exchange risk reporting, then through a semi-annual report on the operation of the Risk Control Function.

The continuing analysis of exchange rate movement is made by the Treasury Department, which informs the Management thereof. The Liquidity Committee also informs the Management of the Bank on all important changes forthwith.

Measuring the foreign exchange risk is made on a monthly and daily level, through the following methods, i.e. approaches:

- gap report - the basic foreign exchange risk measurement model. This contrasts foreign exchange asset and liability items and off-balance items, and calculates open positions of the bank in different currencies.
- daily measurement of the exposure of the bank to foreign exchange risk according to Decision on the Limitation of Bank's Exposure to Foreign Exchange Risk.

The total open foreign exchange position (increased by the position in gold) at the end of each business day, adopted internally, shall not exceed the amount of 30% of the regulatory capital of the Bank in conditions of stable exchange rate, otherwise, the instrument of foreign exchange risk management will influence its reduction.

Mastering and managing the foreign exchange risk is carried out by planning the foreign exchange structure of the assets and liabilities of the Bank, and continuing monitoring of the movement of the exchange rates of certain currencies and projection of their movement and influence on the operation of the Bank in the following manners: Annual plan, monthly liquidity plan, analysis of the exchange rate monthly movement.

Based on the determined plans and submitted reports, the Management of the Bank and the Liquidity Committee adopt specific measures with a view of as better management of foreign exchange risk.

Liquidity Risk

The Bank has instituted a process of liquidity risk management and adopted internal acts that are compliant with the respective provisions of applicable regulations in this segment of operation. Internal acts that relate to the said areas are as follows:

- Liquidity Risk Management Policy,
- Ordinance on the Liquidity Committee Operation,
- Action Plan in Case of Liquidity Crisis.

The liquidity risk management process consists of determining the liquidity risk and its measuring, mastering, monitoring, reporting, and control.

The Treasury Department informs the Liquidity Committee of the liquidity position of the Bank on a daily, weekly and monthly basis.

The liquidity risk reporting system includes:

- Monitoring of compliance with the adopted policies, internal acts and limits.
- Monitoring of liquidity position in total in HRK and foreign currencies.
- Monitoring of the results of testing of stress resistance.

Concentration Risk

The Concentration Risk Management Policy, which is a constituent part of the Risk Management Strategy, prescribes a set of procedures and methods for determining, measuring, or assessing, mastering and monitoring the concentration risk.

The concentration risk is any individual, direct or indirect, exposure to a person, or a group of associated persons or a group of exposures that are connected with common risk factors such as the same economy sector, or geographic area, same type of jobs or commodity or application of credit risk lowering techniques, which can lead to such loss that could threaten further operation of the Bank.

The Risk Control Function is carried out in the Risk Sector, within which Senior Professional Associate for Credit Risk Management makes independent analysis of the concentration and credit risk, and gives a written opinion for a loan proposal for individually significant exposures.

The Risk Sector notifies the Management of the concentration risk once in three months. Furthermore, the concentration risk is analysed through semi-annual reports of the Risk Control Function in which all important risks which the Bank is exposed to are controlled and submitted to the Supervisory Board, Risk and Audit Committee and Bank Management.

The Bank carries out the concentration risk management in five manners:

1. Exposure to the corporate sector (excluding exposure to the Retail Sector, credit institutions, the Republic of Croatia and the Croatian National Bank) is measured by the ratio between exposure to the corporate sector and the total exposure of the Bank, as well as the proportion of value adjustments in the total exposure of a certain corporate sector. The corporate sector is represented by activity codes in the National Classification of Activities.
2. Exposure to investment funds is measured with the ratio between the exposure to a certain investment fund and the regulatory capital.
3. Exposure to collateral providers and credit protection providers is measured with the ratio between such secured exposures and the regulatory capital.
4. Exposure according to the Herfindahl-Hirschman Index is measured in three manners:

a. ratio of exposure to fifty largest clients and their associated persons, and the total exposure,

b. ratio between net individual exposure of activity (except financial institutions) and total exposure per activity,

c. ratio between the sum of large exposure, after the application of exemption and CRM, and the regulatory capital.

5. Exposure to groups of associated persons through identification and measurement of concentration that relates to individual persons and groups of associated persons.

The Concentration Risk Management Policy provides for the level of allowed exposure to the corporate sector, to investment funds and collateral provides and credit protection providers, and measures for the lowering thereof.

Country Risk

The Country Risk Management Policy, which is an integral part of the Risk Management Strategy, prescribes the policy and procedures for identification, measuring, monitoring and control of risk of the country where the debtor has a registered office, or residence.

The country risk is determined based on assessment of probability of default by the other contracting party with the registered office, or residence outside the Republic of Croatia, which derives from the economic and political factors that are specific for a certain country, and assessment of enforceability of the contract based on which a loan has occurred and the possibility for cashing the instrument for securing claims to the legislation of a country in a certain period.

For the purpose of monitoring the country risk, the Treasury Department is obliged to monitor the movement of the credit worthiness of the country, or the credit institution where the invested free foreign exchange currencies are found, about which it undertakes to notify the Management of the Bank twice a year. For those credit institutions that do not have credit worthiness of a selected external institution for assessment of credit risk, its credit capacity should be determined semi-annually.

The Treasury Department shall be obliged to submit a semi-annual report to the Credit Committee of the Bank about the good standing of legal entities where the Bank has invested money abroad. Based on the submitted reports, the Credit Committee will propose individual limits of maximum exposure to individual legal entities with the registered office or residence outside the Republic of Croatia, while paying regard to the country risk and the profitability of operations.

Excessive Financial Leverage Risk

The excessive financial leverage risk means risk that is derived from the vulnerability of an institution due to the financial leverage or potential financial leverage, which can lead to unwanted changes of its business plan, including enforceable sales of property that can result in loss or adjustment of valuation of its remaining property.

The extent of the financial leverage is calculated in a way that the measure of the capital of the institution is divided with the measure of the total exposure of the institution, and is expressed in percentage.

II The Bank calculates the proportion of the financial leverage on the reference day of reporting.

III Measure of the capital is basic capital.

IV Measure of the total exposure is a sum of value exposures to:

1. property
2. derivative
3. increases for credit risk of the other contracting party in repo transactions, transactions of lending/borrowing securities or goods to the other contracting party or from the other contracting party, transactions with good term of settling and other credit margins.
4. Off-balance items

Risks Derived from Exposure to Shadow Banking Entities

This is a risk of credit brokerage system that involves entities and activities outside the regulated banking system.

By defining its credit brokerage activities, the Bank has put emphasis on all the entities that perform activities similar to banking activities, are exposed to similar risks, and are not subject to similar regulatory framework. Such exposures will be determined and defined as exposures to shadow banking.

When processing an application for exposures of the Bank towards a client, it should be necessarily determined whether it is about shadow banking entities by the credit official/official of the Treasury Department who processes the application. Control in form of opinion is performed by Senior Professional Associate for Credit Risk Management. If the assets of the client have an item - loans lent and/or the profit and loss statement has an item - financial income, such a client should be processed further in terms of determining whether this is about a shadow banking entity. The processing should include determining the share of loans given, deposits in the total assets and share of financial income in total income.

Summary of the Internal Capital Adequacy Assessment

Type of risk:	Assessment of significance	Manner of measurement / assessment	Description of the measurement method
Concentration risk	3	Quantitatively	Based on the Herfindahl-Hirschmann Index based on 50 largest exposures (2 pp) and based on the sectoral exposure of 18 non-financial activities (6 pp), 8% additional capital requirements of credit risk are obtained..
Management risk	2	Qualitatively	The Bank incorporates internal controls in individual processes
Credit risk	5	Quantitatively	Standardised approach from Regulation (EU) 575/2013
Including foreign exchange induced credit risk	3	Quantitatively	For loans approved in foreign exchange or with a foreign exchange clause - to debtors who have incompliant foreign currency position and are not protected (except for the country and exposures for which the Bank has already allotted additional capital requirement), the Bank shall allot capital requirement in a manner to weight such total exposure with 10% and allot capital request in the amount of 8% of the weighted amount.
Interest rate risk in the non-trading book	3	Quantitatively	The method of simplified calculation of assessment of change of the economic value of the non-trading book is provided for in the Decision on Interest Rate Risk Management in the Non-Trading Book. By introducing and using credit lines with variable interest rate, the Bank manages and protects itself better against this risk. Based on this, there are expectations that change of the economic value in the future period will be below 10% of the regulatory capital.
Foreign exchange risk	3	Quantitatively	Simple approach from Regulation (EU) 575/2013 The capital requirement is 8% of the total open foreign currency position and net position in gold
Liquidity risk including possibility of collection of additional capital	3	Qualitatively	The Liquidity Risk Policy of the Bank provides for an acceptable level of liquidity risk and the manner of measuring, mastering, reporting and monitoring the liquidity risk and the obligation to implement stress tests.
Operational risk	4	Quantitatively	Simple approach from Regulation (EU) 575/2013
Strategic risk	2	Qualitatively	The Bank incorporates measures for control of business decision-making in certain processes , and monitors changes in the economic environment and activities of competitors
Other significant risks (other than those already stated individually)		Quantitatively	5% of the total regulatory capital requirements
Excessive financial leverage risk	2	Qualitatively	The Bank incorporates internal controls in individual processes
Influence of external factors	2	Qualitatively	The Bank monitors and assesses the influence of external factors on the operation of the Bank and the required level of capital
Country risk	2	Qualitatively	Exposure to foreign currency towards the Republic of Croatia is weighted with the 20% weight within the credit risk. Better management of this risk has been achieved in the manner that redistribution of portfolios into bonds of a foreign country (currency of the country) has been made and based on this, there is no obligation in the future to allot capital requirement.
Property marketability risk	3	Quantitatively	2% of the capital requirement from the credit risk due to the share of the credit portfolio ensured and classified based on the property security instruments
Risk of cash non-purpose loans to retail sector	3	Quantitatively	Increase of the risk weight by 15 pp from 75% to 90% and allotment of 8% capital requirement from such weighted assets

DECLARATION ON APPLICATION OF THE CORPORATE MANAGEMENT CODE

In compliance with the rules of the Zagreb Stock Exchange, the Management and the Supervisory Board of Slatinska banka d.d. hereby declare that Slatinska banka d.d. applies the Corporate Management Code drafted together by the Croatian Agency for Supervision of Financial Services and the Zagreb Stock Exchange.

Enclosed to this Declaration is the Annual Questionnaire for the 2018 Business Year.

The Bank has instituted a system of internal controls that is carried out with parallel actions of three mutually independent functions: Risk Control Function, Compliance Monitoring Function, and Internal Audit Function. The main feature of the internal control system of the Bank is reflected in independent holders of control functions responsible for identification, assessment and management of risk, including the Risk Control and Compliance Functions, whereas the Internal Audit supervises the overall operation of the Bank.

Data on implementation of internal supervision and risk management, and data on shareholders of the Bank is contained in the Notes to Financial Statements.

Pursuant to the provision of the Bank Statute, the Management is prescribed to consist of two to five members.

Decision on the number of members of the Management is issued by the Supervisory Board of the Bank.

Members of the Management have to meet the conditions for the performance of the function member of the Management prescribed by the Company Act, Credit Institutions Act, and relevant by-laws and internal acts of the Bank (suitability, good image, required professional knowledge and competence, requirement for continuing education, experience, avoiding conflict of interest, and requirement for commitment in duty performance). Members of the Management together have to have professional knowledge, competences and experience required for independent and autonomous running of the credit institution affairs.

Suitability of an individual member of the Bank Management for performance of the respective function is the extent to which that person has properties and meets the prescribed preconditions which ensure that they will perform their duties in a legal, safe, and stable manner.

Competence of the members of the Management is stipulated in the Rules of Procedure of the Management. The Management adopts decisions and conclusions in meetings.

On 31 December 2018, the Management duties were performed by 3 members (President of the Management and two members of the Management).

The Supervisory Board supervises the Bank's affairs and is responsible to perform jobs stipulated by the Company Act, the Credit Institutions Act, the Bank Statute and the Rules of Procedure of the Supervisory Board including appointing (upon previous consent of the Croatian National Bank) and recalling members of the Bank Management.

The Supervisory Board adopts decisions in meetings. Convening and holding meetings, the decision making procedure and authorisations are provided for in the Rules of Procedure of the Supervisory Board.

The members of the Supervisory Board of the Bank, in accordance with the performed assessment of their appropriateness in compliance with the internal acts, together as a whole meet all the prescribed requirements concerning diversity of knowledge and experience.

On 31 December 2018, one member of the Supervisory Board out of the total five members is a woman.

Professional diversity is represented during evaluation and selection of members of the Management and the Supervisory Board.

Data on the composition and action of the Management and the Supervisory Board of the Bank is shown in the enclosed Annual Questionnaire.

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

The General Assembly decides on issues provided for under the legal regulations and the Bank Statute. The General Assembly is convened by the Management or the Supervisory Board at least once in a year and when the Bank's interests require so.

Rules on amendment of the Bank's Statute are contained in the Statute. A decision on amending is adopted by the General Assembly of the Bank in compliance with the law and the Statute, by votes representing at least three quarters of the equity represented at the General Assembly at the time the decision is made.

Amendments to the Statute are proposed by the Supervisory Board, the Management and shareholders of the Bank. To protect interests of all investors, shareholders, clients, employees and others who have interest, the Bank has established high corporate management standards.

CORPORATE MANAGEMENT CODE

BASIC DATA ABOUT THE COMPANY: Slatinska banka d.d. Slatina
CONTACT PERSON AND PHONE NUMBER: Tihomir Grđan, tel. 033/637-080
DATE OF COMPLETING THE QUESTIONNAIRE: 04.04.2019.

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

Number of questions	Question	Answer YES/NO	Explanation
COMMITMENT TO THE CORPORATE MANAGEMENT AND SOCIAL RESPONSIBILITY PRINCIPLES			
1	Has the company accepted implementation of the Corporate Management Code or has it adopted its own corporate management policy?	YES	
2	Are there adopted principles of the Corporate Management Code within the internal policies of the company?	YES	
3	Does the company report, within its annual financial statements, compliance with the corporate management principles, made according to the "apply or explain" principle?	YES	
4	When making decision, does the company take into account interests of all shareholders of the company, in accordance with the Corporate Management Code?	YES	
SHAREHOLDERS AND GENERAL ASSEMBLY			
5	Is the company in a cross-shareholding relationship with another company or companies? (If yes, explain)	NO	
6	Does each share of the company give one vote? (If not, explain)	YES	
7	Does the company act in the same way and under the same conditions towards all shareholders? (If not, explain)	YES	
8	Is the issuance of proxies for voting at the General Assembly simplified and free of strict formal requirements? (If not, explain)	YES	
9	Has the company provided proxies, free of charge, to the shareholders who are not able to vote at the meeting for whatever reason, and those proxies are obliged to vote according to the shareholders' instructions? (If not explain)	NO	Care about providing proxies is on the shareholders themselves. The Bank provides the proxy form.
10	Does the Management or the Management Board, when convening the General Assembly, set a date by which the status in the register of shares will be determined, which will be relevant for exercising of the voting rights at the meeting, in that the date is before the General Assembly and may be up to six days at most before the General Assembly? (If not, explain)	YES	
11	Are the agenda of the Annual Meeting and all relevant information and documents with explanations relating to the agenda posted on the website of the company and made available to shareholders in the premises of the company from the date of the first public announcement of the agenda? (If not, explain)	YES	
12	Does the decision on dividend payment or advance of the dividend contain the date on which the person who is a shareholder becomes entitled to the dividend payment and the date or period when the dividend is paid? (If not, explain)	NO	The company has not paid dividend.
13	Is the date of dividend payment or advance payment up to 30 days at most after the date of decision making? (If not, explain)	NO	The company has not paid dividend.
14	Were with the payment of dividend or advance payment some shareholders favoured? (If yes, explain)	NO	The company has not paid dividend.
15	Are the shareholders allowed to participate and vote at the General Assembly using devices of the modern communication technology? (If not, explain)	NO	Participation and voting of the shareholders at the Assembly of the company is regulated by the Statute of the company. There were no requirements for such needs.
16	Are the conditions for participation in the General Assembly and exercising the voting right (irrespective of whether they are permitted pursuant to the law and statute), such as reporting the participation in advance, certification of the proxies and similar set? (If yes, explain)	YES	Obligation to report participation in advance is determined by the Statute
17	Has the Management of the company publicly announced the decisions of the General Assembly?	YES	
18	Has the Management of the company published data on possible civil actions to challenge these decisions? (If not, explain)	NO	There were none

MANAGEMENT AND SUPERVISORY BODIES

LIST THE NAMES OF THE MANAGEMENT MEMBERS AND THEIR FUNCTIONS

Marko Brnić (President from 20 July 2017 to 16 January 2018) Andrej Kopilaš (member from 20 July 2017 to 9 April 2018 and President since 10 April 2018), Marin Prskalo (member) and Elvis Mališ (member since 10 April 2018).

LIST THE NAMES OF THE SUPERVISORY BOARD AND THEIR FUNCTIONS

Ružica Vađić (President), members: Krunoslav Lisjak, Dušan Banović (members since 1 July 2018), Srećko Vukić (member since 1 July 2018), and Goran Kovač (member since 1 July 2018). Members until 30 June 2018 were Denis Smolar, Blaženka Eror Matić and Hrvoje Markovinović

Number of questions	Question	Answer YES/NO	Explanation
19	Has the Supervisory Board or the Management Board adopted a decision on the framework plan of its activities that includes a list of regular meetings and data that has to be regularly and timely put at the disposal of the members of the Supervisory Board? (If not, explain)	NO	The Supervisory Board holds meetings and makes decisions within its jurisdiction in accordance with the Statute and Rules of Procedure of the Supervisory Board
20	Has the Supervisory Board or Management Board adopted its internal rules of procedure? (If not, explain)	YES	
21	Is the Supervisory Board, i.e. are the non-executive directors of the Management Board of the company, composed mostly of independent members? (If not, explain)	YES	
22	Is there a long term succession plan in the company? (If not, explain).	NO	Members of the Management are appointed by the Supervisory Board and approved by the HNB
23	Is the compensation or remuneration received by the members of the Supervisory Board or the Management Board determined entirely or partly by their contribution to the performance of the company? (If not, explain)	NO	The amount of the remuneration is fixed and determined by the General Assembly
24	Is the remuneration to the members of the Supervisory Board, i.e. the Management Board determined by a decision of the General Assembly or the Statute? (If not, explain)	YES	
25	Is detailed data on all remunerations and other earnings from the company or its related entities of each individual member of the Supervisory Board or the Management Board of the company, including the structure of remuneration, publicly announced? (If not, explain)	NO	Expenses are published as aggregate
26	Is every member of the Supervisory Board or the Management Board informed about any changes with regard to their acquisition, firing or possibility to exercise voting rights over the company's shares no later than five trading days after such change has occurred? (If not, explain)	YES	
27	Are all transactions involving the members of the Supervisory Board or the Management Board or persons related to them, and the company or persons related to it, clearly stated in the reports of the company? (If not explain)	YES	
28	Are there contracts or agreements between members of the Supervisory Board or the Management Board of the company?	NO	
29	Were they previously approved by the Supervisory Board or the Management Board? (If not, explain)		
30	Are important elements of all such contracts or agreements included in the annual report? (If not, explain)		
31	Has the Supervisory Board or the Management Board constituted an Appointment Commission?	NO	Activities of a commission for appointment are performed by the Supervisory Board
32	Has the Supervisory Board or the Management Board constituted a Reward Commission?	NO	Activities of a reward commission are performed by the Supervisory Board
33	Has the Supervisory Board or the Management Board constituted an Audit Committee?	YES	
34	Do most of the Committee members consist of independent members of the Supervisory Board? (If not, explain)	YES	The composition of the Committee consists of three members from the Supervisory Board.
35	Has the Committee monitored the integrity of the financial information of the company, especially the correctness and consistency of the accounting methods used by the company and the group which it belongs to, including the criteria for consolidation of financial statements of companies belonging to the group? (If not, explain)	YES	

36	Has the Committee evaluated the quality of the internal control and risk management, with the purpose that the main risks which the Company is exposed to (including the risks related to compliance with regulations) are adequately identified and publicly disclosed, and that they are properly managed? (If not, explain)	YES	
37	Has the Committee worked on ensuring the effectiveness of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and change of the Head of the Internal Audit Department and regarding the resources at their disposal, and assessment of the proceeding of the Management following the findings and recommendations of the internal audit? (If not, explain)	YES	
38	If the Internal Audit Function does not exist in the company, has the Committee made assessment of the need for establishing such a function? (If not, explain)	YES	The bank has organised the Internal Audit Function.
39	Has the Committee supervised the independence and objectivity of an external auditor, in particular with regard to the rotation of authorised auditors within the audit company and the fees paid by the Company for external audit services? (If not, explain)	YES	
40	Has the Committee monitored the nature and quantity of services other than audit, and the company is receiving them from the audit company or entities related to it? (If not, explain)	NO	There were no such services
41	Has the Committee prepared rules regarding the services which the external audit company and entities related to it may not render to the company, the services that may be rendered only upon prior consent of the Committee, and services that may be rendered without prior consent? (If not, explain)	NO	This issue is regulated through legislation. The external auditor performs only auditing services.
42	Has the Committee considered the efficiency of external audit and actions of senior management given the recommendations made by the external auditor? (If not, explain)	YES	
43	Has the Audit Committee ensured delivery of high quality information about subsidiaries and related companies, and third parties (such as expert advisors)? (If not, explain)	YES	
44	Is the documentation relevant for the work of the Supervisory Board or the Management Board submitted on time to all members? (If not, explain)	YES	
45	Are all adopted decisions with the voting results recorded in the minutes from the meetings of the Supervisory Board or the Management Board? (If not, explain)	YES	
46	Has the Supervisory Board or the or Management Board evaluated their work in the past period including the validation of contributions and competence of each member, as well as the joint work of the committee, evaluation of the work of the committees established by them and achievements in relation to the set objectives of the company?	NO	
47	Has the company as part of the annual report announced a statement on the remuneration policy for the Management, the Management Board and the Supervisory Board? (If not, explain)	NO	
48	Is the Statement on the remuneration policy for the Management or executive directors permanently available on the own websites of the company? (If not, explain)	NO	Remuneration is defined by the employment contract.
49	Is detailed data on all earnings and remunerations which each member of the Management or executive director receives from the company publicly announced in the Company's annual report? (If not, explain)	NO	Expenses are published as aggregate
50	Are all forms of remunerations to the members of the Management Board and the Supervisory Board, including options and other benefits for the Management publicly announced as pe detailed single items and persons in the annual report of the company? (If not, explain)	NO	Expenses are published as aggregate
51	Are all transactions involving the members of the Management or the executive directors and persons related to them, and the company or persons related to it, clearly stated in the reports of the company? (If not explain)	YES	
52	Does the report that the Supervisory or the Management Board submit to the General Assembly, in addition to the contents of the report defined by law, contain the evaluation of the total business performance of the company, operation of the Management of the company and a special review of its cooperation with the Management? (If not, explain)	YES	

AUDIT AND INTERNAL CONTROL MECHANISMS			
53	Does the company have an external auditor?	YES	
54	Is the external auditor of the company related by the ownership or interest relation to the company?	NO	
55	Does the external auditor of the company provide itself other services to the company or through related persons?	NO	

56	Has the company publicly disclosed the amounts for the fees paid to the external auditor for audit and other services rendered? (If not, explain)	NO	The external auditor provided exclusively audit services, according to the general terms of their business.
57	Does the company have internal auditors and the internal control system in place? (If not, explain)	YES	
BUSINESS TRANSPARENCY AND PUBLIC APPEARANCE			
58	Are the annual, semi-annual and quarterly reports available to shareholders?	YES	
59	Has the company prepared a calendar of important events?	NO	
60	Has the company established mechanisms to ensure that persons who posses or have access to privileged information are informed about the nature and importance of those information and limitations in this regard?	YES	
61	Has the company established mechanisms to ensure control of the flow of privileged information and its possible misuse?	YES	
62	Has anybody suffered negative consequences for indicating any shortcomings in the application of rules or ethical norms within the company to the competent authorities or bodies in the company or outside it? (If yes, explain)	NO	
63	Did the Management of the company hold meetings with interested investors in the past year?	NO	
64	Do all the members of the management and the Supervisory or Management Board agree that the statements stated in the answers to this Questionnaire are at their best knowledge truthful in its entirety?	YES	

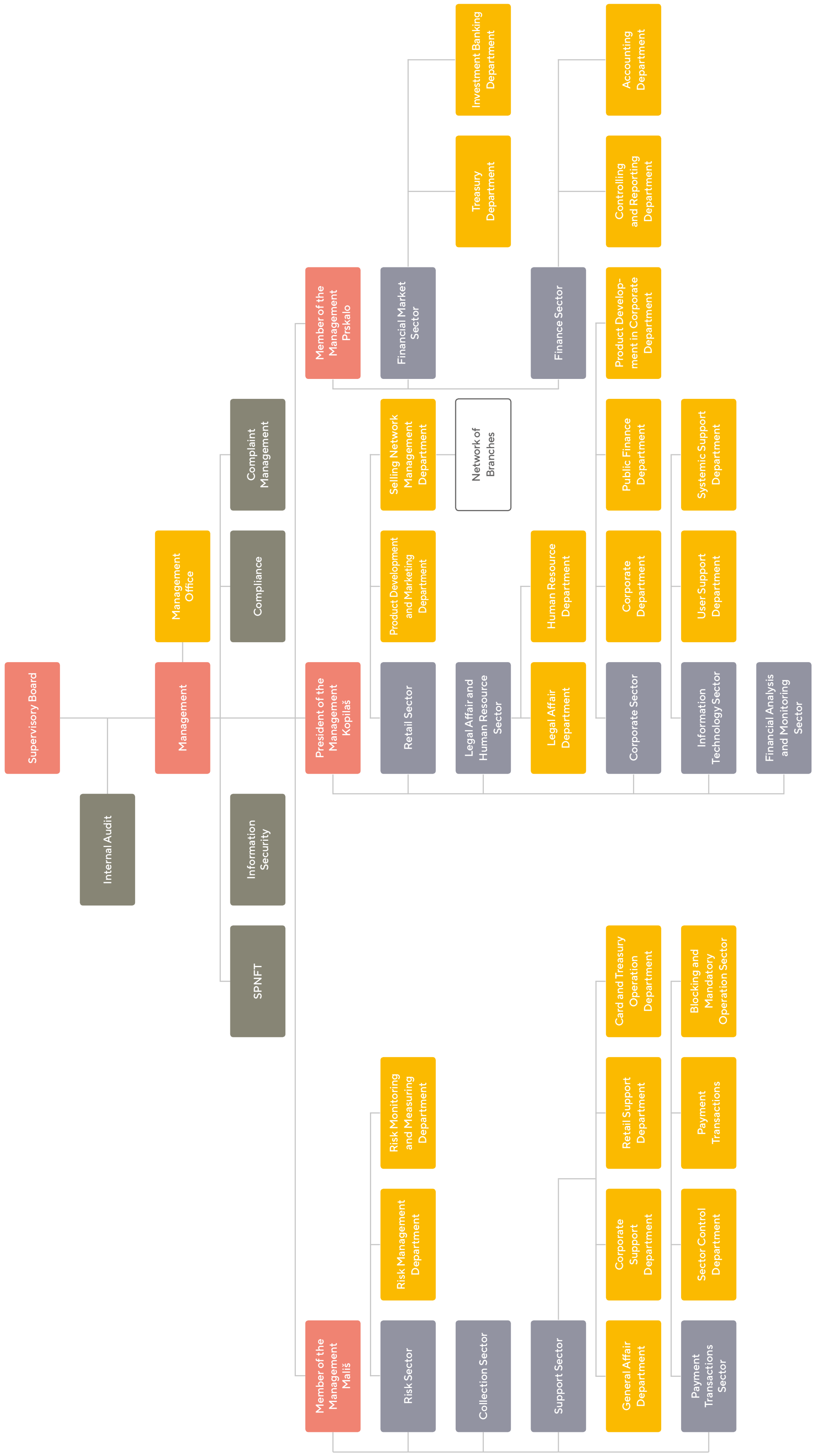
INFORMATION ON SHARES

In 2018, the Bank did not repurchase its own shares.

The share of the repurchased own shares in the equity capital amounts to a total of 7.77%.

Members of the Management of Slatinska banka do not own shares of Slatinska banka.

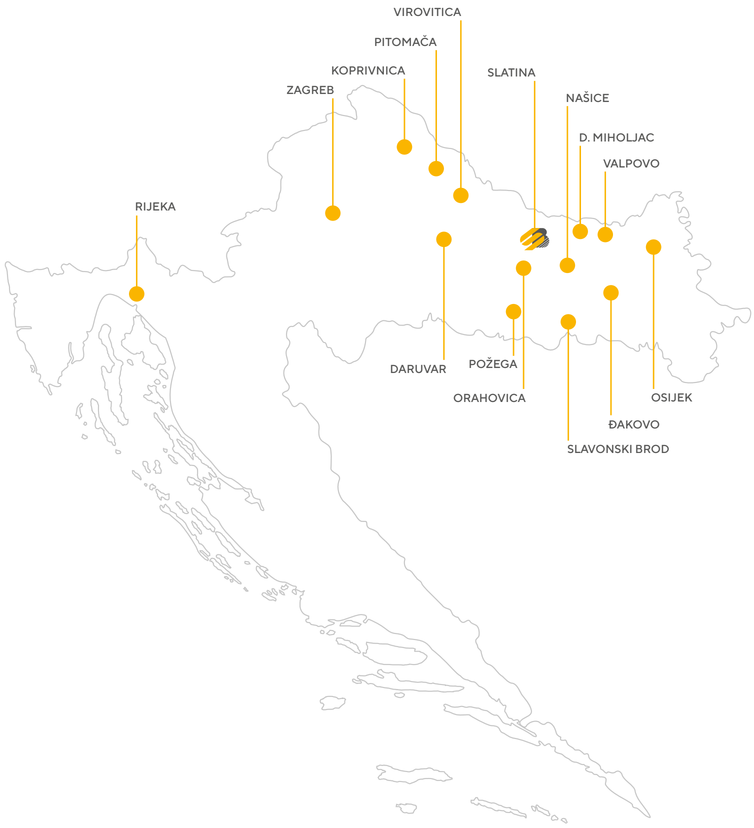
Organisational structure



LEGEND

- Management
- Sector
- Function
- Department
- Branches

Business network of Slatinska banka d.d.



OSIJEK BRANCH Županijska 13, 31000 Osijek phone: 031/628-205	**SLATINA BRANCH – MAIN OFFICE OF THE BANK** V.Nazora 2, 33520 Slatina phone: 033/637-011
ZAGREB BRANCH Tomašićeva 2, 10000 Zagreb phone: 01/645-9005	**VIROVITICA BRANCH** Trg kralja Tomislava 6, 33000 Virovitica phone: 033/637-185
RIJEKA BRANCH Jelačićev trg 1, 51000 Rijeka phone: 051/563-505	**DARUVAR BRANCH** Kralja Tomislava 22, 43500 Daruvar phone: 043/638-305
VALPOVO BRANCH Trg kralja Tomislava 6, 31550 Valpovo phone: 031/628-165	**POŽEGA BRANCH** Kamenita vrata 4, 34000 Požega phone: 034/638-505
DONJI MIHOLJAC BRANCH Vukovarska 4, 31540 D.Miholjac phone: 031/628-185	**ORAHOVICA BRANCH** Kralja Zvonimira 9, 33515 Orahovica phone: 033/637-145
NAŠICE BRANCH Trg Izidora Kršnjavog 3, 31500 Našice phone: 031/628-145	**PITOMAČA BRANCH** Trg kralja Tomislava bb, 33405 Pitomača phone: 033/637-165
ĐAKOVO BRANCH Stjepana Radića 9, 31400 Đakovo phone: 031/628-455	**KOPRIVNICA BRANCH** Dr. Željka Selingera 2, 48000 Koprivnica phone: 048/617-105
SLAVONSKI BROD BRANCH Matije Gupca 39, 35000 Slavonski Brod phone: 035/637-005	

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ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR 2018

REPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Management Board of the Slatinska banka d.d., Slatina, Vladimira Nazora 2 (hereinafter: "the Bank") is responsible for ensuring that the annual financial statements for the year 2018 are prepared in accordance with the Accounting Act (OG 78/15, 134/15, 120/16, 116/18) and the International Financial Reporting Standards to give a true and fair view of the financial position, the financial performance, the cash flows and the changes of equity of the Bank for that period.

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

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

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

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

For and on behalf of the Management Board

Andrej Kopilaš, President of the Management Board ____________________

Marin Prskalo, Member of the Management Board ____________________

Elvis Mališ, Member of the Management Board ____________________

SLATINSKA BANKA d.d. Slatina

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

Slatina, 25 April 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Annual Financial Statements

Opinion

We have audited the enclosed annual financial statements of the Slatinska banka d.d., Vladimira Nazora 2, Slatina (hereinafter: the “Bank"), which comprise the Statement of financial position (Balance Sheet) as at 31 December 2018, the Statement of profit or loss, the Statement of other comprehensive income, Statement of cash flows and the Statement of changes in equity for the year then ended, and Notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual financial statements, give a true and fair view of the financial position of the Bank as at 31 December 2018, and of the financial performance and the cash flows of the Bank for the year then ended in accordance with the Accounting Act and the International Financial Reporting Standards (“IFRS”), determined by the European Commission and published in the Official Journal of the EU.

Basis for Opinion

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

Key audit matters

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

We have determined that the question below is a key audit matter which is to be disclosed in our Independent Auditor's Report.

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Key audit matters (continued)

Key audit matter	How we addressed the key audit matter
Impairment of loans and advances to customers As at 31 December 2018 gross loans and receivables from customers in the financial statements amounted to HRK 904 million, the corresponding provision for impairment to HRK 124 million, and the impairment expense recognized in the statement of profit or loss was HRK 6 million (31 December 2017: gross loans and advances to customers: HRK 915 million, provisions for impairment: HRK 125 million, impairment charges recognized in profit or loss: HRK 17 million). The impairment represents the best estimate of the Bank's Management Board on the realized losses within the portfolio of loans and advances at the reporting date. We have focused on this area since the determination of the amount of provisions for impairment requires a significant assessment by the Bank's Management Board regarding the determination of the moment of recognition and the amount of impairment. In the case where there is objective evidence of the impossibility of collection of loans in full or under the terms of the contract; i.e. if there is a substantial suspicion regarding the payment of interest or repayment of principal, 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 Management Board evaluates the parameters considered relevant for the calculation of impairment losses on loans including, but not limited to: the financial position of the client, the period of realization and value of the collaterals on the date of expected realization, expected cash flow and economic conditions. The Bank recognizes impairment on loans and advances to customers on an aggregate and individual basis, in accordance with the legal requirements for accounting of banks	***Audit procedures*** Our audit procedures related to this area included, inter alia, rating of design and testing of 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 related controls to estimate the collateral value. For impairment determined on an individual basis: - We have considered the manner and the techniques of measurement by which the Bank classifies its loans, estimates impairment losses and deducts the value of its receivables at the balance sheet date. - We have selected a sample of individual loans with a focus on exposure with potentially greatest impact on the annual financial statements due to their size and risk and the smaller exposures we rated as highly risky 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 compared our calculations with the impairment calculated by the Bank. With regard to accounting for impairment under the new standard:

in the Republic of Croatia. Additionally, on 1 January 2018, the Bank applied a new standard for financial instruments, IFRS 9 Financial Instruments, whose impairment requirements are based on the expected loss credit model (ECL), not on the previously used loss model. The new model uses a double approach measurement, according to which the impairment is measured either as the 12-month expected credit loss or as lifelong expected credit loss, depending on whether there was a significant increase in the credit risk since the initial recognition. After the initial application of the new standard, the provision for impairment of revenue exposure (Stage 1 and Stage 2 in the IFRS 9 hierarchy) and unrecognizable retail as well as unacceptable exposure to legal entities (Stage 3) are determined using the expected loss credit model (ECL). Historical experience, identification of exposure with significant credit quality deterioration, future-related information and management estimates are included in the model assumptions. The Bank continually adjusts the parameters of the model, which also requires our increased attention during the audit. **Related Disclosures in Annual Financial Statements** For more information, see Notes 3.1 and 3.9. of the annual financial statements for the accounting policies and notes 13, 18, VI, 34.	- We have evaluated whether the definition of non-fulfilment of obligations and the criteria of a new standard for the definition of a stage are consistently applied; - We have evaluated the entire ECL calculation model, including the calculation of the main risk parameters and macroeconomic factors (probability of default (PD), loss given default (LGD) and exposure at default (EAD)); - We have conducted an analysis of ECL-based impairment provisions at the date of the introduction of the new standard compared to the provisions calculated at the same date in accordance with the previous standard and evaluating their justification on the basis of a request from credit risk management personnel.

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Other Information in the Annual Report

The Management Board is responsible for other information. Other information include information included in the Annual Report, however, it does not include the annual financial statements and our Independent Auditor's Report on them.

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

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

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

The Management Board is responsible for the preparation of annual financial statements that give a true and fair view in accordance with legal requirements for the accounting of banks in the Republic of Croatia; and for such internal control as the Management Board determines necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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Auditor's Responsibilities for the Audit of the Annual Financial Statements (continued)

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

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

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

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

Among the issues to communicate with those charged with governance, we determine those issues that are of paramount importance in the audit of the annual financial statements for the current period and are therefore a key audit issues. We describe these issues in our Independent Auditor's Report unless the law or regulation prevents public disclosure or when we decide in extremely rare circumstances that the issue should not be disclosed in our Independent Auditor's Report as it can reasonably be expected that the negative consequences of disclosure will outweigh the public interest benefits in such communication.

Report on compliance with other legal or regulatory requirements

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

On 27 June 2018, we were appointed by the General Assembly of the Bank to audit the annual financial statements for 2018.

At the date of this report we have been continuously engaged in carrying out the audits of the Bank's annual financial statements for 2014, up to the Bank's annual financial statements for 2018, a total of 5 years.

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

Through our statutory audit of the Bank's annual financial statements for the year 2018, we are able to detect irregularities, including fraud in accordance with Section 225, Responding to Non-Compliance with the IESBA Code of Conduct, which requires us to, during our audit engagement, see if the Bank has complied with laws and regulations which are generally recognized to have a direct impact on the determination of significant amounts and disclosures in the annual financial statements, as well as other laws and regulations that do not have a direct effect on the determination of significant amounts and disclosures in the annual financial statements, but compliance with which may be crucial for operational aspects of the Bank's business, its ability to continue with going concern or to avoid significant penalties.

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

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

During the period between the initial date of the audited annual financial statements of the Bank for the year 2018 and the date of this report, we did not provide the Bank with prohibited non-scheduled services and in the business year prior to the aforementioned period, we did not provide services for the design and implementation of internal control procedures or risk management related to preparation and/or control of financial information or the design and implementation of technological systems for financial information, and we have maintained independence in the performance of the audit in relation to the Bank.

Report based on the requirements of the Accounting Act

The Management Board is responsible for the preparation of the Management report as part of the Annual report of the Bank. We are obliged to express an opinion on the compliance of the Management report as part of the Annual report of the Bank with the annual financial statements of the Bank. In our opinion, based on our audit of the annual financial statements of the Bank, information in the Management report as part of the Annual report of the Bank for 2018 are in accordance with the financial information stated in the annual financial statements of the Bank set out on pages 9 to 72 on which we expressed our opinion as stated in the Opinion section above.

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Report based on the requirements of the Accounting Act (continued)

In our opinion, based on the work that we performed during the audit, the Bank's management report for 2018 which is an integral part of the Annual report for 2018 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 2018, which is an integral part of the Bank's Annual report for 2018.

In our opinion, based on the work we performed during the audit, the Statement on the application of Corporate Governance Code, included in the Bank's Annual Report for 2018, is in accordance with the requirements set out in Article 22, paragraph 1, points 3 and 4 of the Accounting Act.

The Statement on the application of Corporate Governance Code, included in the Bank's Annual Report for 2018, includes the information referred to in Article 22, paragraph 1, points 2, 5, and 7 of the Accounting Act.

Based on the Decision of the Croatian National Bank on the structure and contents of the Bank's annual financial statements dated 9 May 2018 (OG 42/18), the Bank's Management Board prepared the forms presented on pages 75 to 81 (hereinafter: "Forms"). Financial information in the Forms are consistent with the Bank's financial statements presented on pages 9 to 72 for which we have expressed our opinion as set out in the Opinion section above.

Based on the liabilities arising from the Credit Institutions Act (OG 159/13, 19/15, 102/15 and 15/18), the Bank provided the required information on pages 73 and 74 containing all the information required by Article 164, paragraph 1. Disclosed information are derived from Bank's financial the reports presented on pages 9 to 72 for which we have expressed our opinion as set out in the Opinion section above.

The engagement partner for the audit of the Bank's annual financial statements for the year 2018 resulting in this Independent Auditor's Report is Marija Draginić, Certified Auditor.

In Zagreb, 25 April 2019

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

BDO CROATIA
BDO Croatia d.o.o.
za pružanje revizorskih, konzalting
i računovodstvenih usluga
Zagreb, J. F. Kennedy 6/b

Ivan Čajko, Member of the Management Board

Marija Draginić, Certified Auditor

SLATINSKA BANKA d.d., Slatina

STATEMENT OF PROFIT OR LOSS for the year ended 31 December 2018

POSITION	Note	2018. HRK '000	2017. HRK '000
Interest income	4	61.265	63.391
Interest expenses	5	(14.024)	(19.432)
Dividend income		0	8
Income from fees and commissions	6	13.022	12.830
Expenses from fees and commissions	7	(4.000)	(3.632)
Gains or losses on termination of recognition of financial assets and financial liabilities that are not measured at fair value through profit or loss, net		911	5.920
Gains or losses on financial assets and financial liabilities held for trading, net	8	2.939	3.210
Exchange rate gains or losses, net		(294)	177
Other operating income	9	2.246	5.230
Other operating expenses	10	(4.266)	(4.967)
TOTAL OPERATING INCOME, NET		**57.799**	**62.735**
Administrative expenses	11	(35.979)	(35.118)
Amortisation and depreciation	12	(3.304)	(3.296)
Provisions or discontinuation of provisions	13	(318)	88
Impairment or reversal of impairment of a financial asset not measured at fair value through profit or loss	13	(11.429)	(23.193)
Impairment or reversal of impairment for investments in subsidiaries, joint ventures and associates	13	(26)	53
Impairment or reversal of impairment for non-financial assets	13	(202)	0
PROFIT BEFORE TAX		**6.541**	**1.269**
Corporate income tax	14	(1.764)	(620)
PROFIT AFTER TAX		**4.777**	**649**

The accompanying notes under numbers I to IX below form an integral part of these financial statements.

SLATINSKA BANKA d.d., Slatina

STATEMENT OF OTHER COMPREHENISVE INCOME for the year ended 31 December 2018

POSITION	2018. HRK '000	2017. HRK '000
Profit for the year	**4.777**	**649**
Items not reclassified in profit or loss		
Changes in fair value of equity instruments measured at fair value through other comprehensive income	37	0
Items that can be reclassified in profit or loss		
Debt instruments at fair value through other comprehensive income	175	499
Other comprehensive income	**212**	**499**
TOTAL OTHER COMPREHENSIVE INCOME	**4.989**	**1.148**

The accompanying notes under numbers I to IX below form an integral part of these financial statements.

SLATINSKA BANKA d.d., Slatina

STATEMENT OF FINANCIAL POSITION / BALANCE SHEET as at 31 December 2018

POSITION	Note	31 Dec 2018 HRK '000	31 Dec 2017 HRK '000
ASSETS			
Cash, cash receivables from central banks and other demand deposits	15		
Cash in hand		29.078	23.608
Cash receivables from central banks		214.635	318.260
Other demand deposits		20.808	10.774
TOTAL		**264.521**	**352.642**
Financial assets at fair value through other comprehensive income	16		
Equity instruments		16.369	21.256
Debt securities		324.561	243.556
TOTAL		**340.930**	**264.812**
Financial assets at amortised cost			
Debt securities	17	5.885	14.777
Loans and advances	18	895.808	891.943
TOTAL		**901.693**	**906.720**
Investment in subsidiary	19	5.698	5.723
Tangible assets	20	24.146	27.348
Intangible assets	21	7.005	7.192
Tax assets	22	3.309	3.863
Other assets	23	21.327	25.561
TOTAL ASSETS		**1.568.629**	**1.593.861**

SLATINSKA BANKA d.d., Slatina

STATEMENT OF FINANCIAL POSITION / BALANCE SHEET as at 31 December 2018 (continued)

POSITION	Note	31 Dec 2018 HRK '000	31 Dec 2017 HRK '000
LIABILITIES			
Financial liabilities measured at amortised cost			
Deposits	24	1.380.894	1.406.991
Other financial liabilities	25	122	123
TOTAL		**1.381.017**	**1.407.114**
Provisions	26	4.677	4.827
Other liabilities	27	18.659	17.099
TOTAL LIABILITIES		**1.404.353**	**1.429.040**
EQUITY	28		
Share capital		91.897	91.897
Share premium		149	149
Accumulated other comprehensive income		240	21
Retained earnings		58.622	63.514
Other reserves		15.183	15.183
Treasury shares		(6.592)	(6.592)
Profit or loss attributable to the owners of parent		4.777	649
TOTAL EQUITY		**164.276**	**164.821**
TOTAL EQUITY AND LIABILITIES		**1.568.629**	**1.593.861**

The accompanying notes under numbers I to IX below form an integral part of these financial statements.

SLATINSKA BANKA d.d., Slatina

STATEMENT OF CASH FLOWS – INDIRECT METHOD for the year ended 31 December 2018

POSITION	2018. HRK '000	2017. HRK '000
OPERATONS AND ADJUSTMENTS		
Profit before taxation	6.541	1.269
Impairment and provisions	11.974	22.887
Amortisation and depreciation	3.304	3.296
Changes in assets and liabilities from operating activities		
Funds with CNB	100.832	(167.129)
Deposits at financial institutions and loans to financial institutions	(25.517)	95.564
Loans and advances to other clients	6.654	(166.764)
Securities and other financial instruments at fair value through other comprehensive income	(76.064)	197.927
Securities and other financial instruments at amortised cost	3.203	24.064
Other assets from business activities	(2.036)	758
Increase/decrease in operating liabilities		
Transaction accounts of other clients	45.679	32.966
Saving deposits of other clients	23.409	29.972
Term deposits of other clients	(53.735)	(85.207)
Derivative financial liabilities and other liabilities traded with	0	(1)
Other liabilities	1.091	(1.925)
Collected interest from operating activities	2.729	66
Paid interests from operating activities	(1.910)	(1.205)
Paid income tax	0	0
A) Net cash flow from operating activities	**46.154**	**(13.459)**
Investing activities		
Proceeds from sale / payments for purchase / tangible and intangible assets	4.176	2.498
B) Net cash flow from operating activities	**4.176**	**2.498**
Financial activities		
Net increase / decrease / received loans from financial activities	(39.540)	15.381
Other proceedings / payments from financial activities	(5.321)	(4.751)
C) Net cash flow from financial activities	**(44.861)**	**10.630**
D) Net increase/decrease in cash and cash equivalents	**5.470**	**(331)**
Cash and cash equivalents at beginning of year	**23.608**	**23.939**
Cash and cash equivalents at end of year	**29.078**	**23.608**

The accompanying notes under numbers I to IX below form an integral part of these financial statements.

SLATINSKA BANKA d.d., Slatina

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2018

					Reserves					
	Share capital	Own shares	Accumulated other comprehensive income	Capital gain	Legal reserves	Reserves for own shares	Other reserves	Retained earnings	Profit/loss for the year	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 31 December 2016	**91.897**	**(6.592)**	**4.151**	**149**	**4.729**	**7.425**	**3.028**	**65.020**	**(1.506)**	**168.301**
Profit allocation 2016	0	0	0	0	0	0	0	(1.506)	1.506	0
Other increase or decrease in equity instruments	0	0	(4.629)	0	0	0	0	0	0	(4.629)
Total comprehensive income for the year	0	0	499	0	0	0	0	0	0	499
Profit for the year	0	0	0	0	0	0	0	0	649	649
Balance at 31 December 2017	**91.897**	**(6.592)**	**21**	**149**	**4.729**	**7.425**	**3.028**	**63.514**	**649**	**164.820**
Effects of IFRS 9 application	0	0	546	0	0	0	0	(5.541)	0	(4.995)
Profit allocation 2017	0	0	0	0	0	0	0	649	(649)	0
Other increase or decrease in equity instruments	0	0	(538)	0	0	0	0	0	0	(538)
Total comprehensive income for the year	0	0	212	0	0	0	0	0	0	212
Profit for the year	0	0	0	0	0	0	0	0	4.777	4.777
Balance at 31 December 2018	**91.897**	**(6.592)**	**241**	**149**	**4.729**	**7.425**	**3.028**	**58.622**	**4.777**	**164.276**

The accompanying notes under numbers I to IX below form an integral part of these financial statements.

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018

I. GENERAL INFORMATION

1.1. Legal framework and activities

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

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

1.2. Bank's Management bodies

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

The Management Board:

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

Supervisory Board members are:

1. Ružica Vađić - President of the Supervisory Board
2. Krunoslav Lisjak – deputy President of the Supervisory Board
3. Goran Kovač – Member of the Supervisory Board (since 1 July 2018)
4. Dušan Banović - Member of the Supervisory Board (since 1 July 2018)
5. Srećko Vukić - Member of the Supervisory Board (since 1 July 2018)
6. Hrvoje Markovinović - Member of the Supervisory Board (until 30 June 2018)
7. Denis Smolar - Member of the Supervisory Board (until 30 June 2018)
8. Blaženka Eror Matić - Member of the Supervisory Board (until 30 June 2018)

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

II. BASIS OF PREPARATION

2.1. Statement of compliance and basis of preparation

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

Banking business in the Republic of Croatia is regulated by the Credit Institutions Act (OG 117/08, 74/09, 153/09, 108/12, 54/13, 159/13, 19/15, 102/15, 15/18), according to which financial reporting is prescribed by the CNB.

The accounting regulations of the CNB are based on International Financial Reporting Standards ("IFRS").

2.2. Basis of preparation

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

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

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

Key estimates used in the application of accounting policies during the drafting of financial statements pertain to the calculation of depreciation of long-term tangible and intangible assets, impairment of assets, impairment of receivables and provisions, and to disclosure of contingent 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 (unless stated otherwise).

At 31 December 2018 the official rate of Croatian kuna was HRK 7.417575 for EUR 1 (31 December 2017: HRK 7.513648) and HRK 6.469192 for USD 1 (31 December 2017: HRK 6.269733).

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

III. SUMMARY OF ACCOUNTING POLICIES

The 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 amended International Financial Reporting Standards

For the year ended 31 December 2018, the Bank adopted the following new standards and amendments to existing International Financial Reporting Standards and interpretations that came into force (and adopted by the European Union) for annual periods beginning on or after 1. January 2018.

- **IFRS 9: Financial instruments**

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments replacing IAS 39 Financial Instruments: Recognition and Measurement and all prior IFRS 9 versions. IFRS 9 integrates all three aspects of the Financial Instruments Accounting Project: Classification and Measurement, Impairment, and Hedge Accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, and earlier application is permitted by the International Accounting Standards Board. The Standard requires retrospective application (excluding hedge accounting), and presentation of comparative data is not mandatory. The Standard was adopted in the European Union in November 2016, and the Bank adopted the new IFRS 9 standard on the date of its first application on 1 January 2018. As of 1 January 2018, the framework of legal requirements for accounting of banks in the Republic of Croatia has been revised following efforts to align the legal requirements for bank accounting with IFRS requirements. Several regulatory decisions were made in this regard, with the main issues related to the impairment included in the "Decision on the Classification of Exposure to Risk Groups and the Method of Determining Credit Losses" of the Croatian National Bank and the "Decision on Amendments to the Classification of the Decision on the Classification of Exposure to Risk Groups and the Method of Determining Credit Losses "(Official Gazette 114/17 and 110/2018).

Below is an overview of the impact on the Bank's financial statements and capital, as a result of IFRS 9 requirements; as well as of new banking legal requirements prescribed by the CNB.

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SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

3.1. Adoption of new and amended International Financial Reporting Standards (continued)

Summary of new requirements:

a. **Classification and measurement** - The new approach to IFRS 9 related to the classification and measurement of financial assets is based on the characteristics of contractual cash flows of financial assets and for financial assets whose contractual cash flows represent the remaining principal and interest payments on the business model of the asset management company. Depending on the business model, financial assets are classified as "held for the purpose of collecting" contractual cash flows (measured at amortized cost and subject to calculating expected credit losses), "held for collection and sale" (measured at fair value through other comprehensive income and is subject to the calculation of expected credit losses) or "held for trading" (measured at fair value through profit or loss). IFRS 9 largely retains the existing requirements of IAS 39 in the section on classification and measurement of financial liabilities.

b. **Impairment** - IFRS 9 replaces the model of "losses incurred" from IAS 39 with the model of future "expected loan losses". The Company calculates expected credit losses and changes in expected credit losses for each reporting period to reflect changes in credit risk from the time of initial recognition. There is no longer a requirement for a credit event preceding the credit loss recognition.

c. **Hedge accounting** - IFRS 9 introduces significantly altered model of hedge accounting and requires expanded information related to risk management activities that should be disclosed. Companies have the option of continuing to apply hedge accounting under IAS 39 while the International Accounting Standards Board does not complete the Macro Accounting Project. The application of these hedge accounting requirements does not have a significant impact on the financial statements.

„Classification and measurement“

In the "Classification and Measurement" section, the Bank has recognized the criteria for the classification of financial instruments into new categories that provide for the standard based on the business model and the characteristics of the related contractual cash flows and has applied the criteria recognized in the classification of the existing portfolio (corporate and retail clients). The analysis of the business model was carried out by mapping business areas to which certain business models were assigned.

Business models of "holding for collection" and "holding for collection and sales" are assigned to business areas related to the banking part of the Bank's portfolio, while the business model "other" is assigned to the Bank's trading portfolio reflecting the intent of trading. For the purpose of classifying financial assets in IFRS 9 categories, the business model analysis is supplemented by analysis of contractual cash flows ("SPPI test").

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

3.1. Adoption of new and amended International Financial Reporting Standards (continued)

The Bank has developed processes to analyse the portfolio of securities and loans in order to assess whether the characteristics of contractual cash flows allow measurement at amortized cost (a "held for collection") or at fair value through other comprehensive income (a portfolio held „for collection and sales "). This analysis was conducted at the level of individual contracts or at the level of exposure groups where possible. Equity instruments will be measured at fair value through profit or loss or other comprehensive income, depending on their characteristics and intent to acquire.

Thus, in 2017, the instruments classified as "Loans and receivables" and "Held-to-maturity investments" retained their names and became part of the "Financial Assets at amortized cost" position, while the instruments were classified in 2017 as "Investments available for sale" transferred to the position" Financial assets at fair value through other comprehensive income ".

„Impairment“

Until 31 December 2017, the bank calculated the aggregate provisions based on the Decision on classification of placements and off-balance sheet liabilities of credit institutions, applying an internal model based on historical data for 5 years. The model analysed the likelihood of default and loss due to the non-payment of the sectors where the Bank has exposure, and in the retail placements by individual credit lines. An update of the model with realized balances at 31 December was carried out annually, in such a way that the percentage of loss actually incurred in the portfolio of risk category In application in the subsequent allocation of latent losses contained in the said portfolio.

The amount of provision was:

Value adjustment in the amount of 1.10% is awarded to:

- exposure recorded in the books of the Bank to corporates and natural persons engaged in registered economic activity (freelance professionals, etc.);
- other not mentioned placements;

Exposure to natural persons is assigned the following rates of value adjustments:

- Exposures based on approved overdrafts on current accounts are assigned a value adjustment rate of 2.80%;
- exposures based on approved placements on a credit line in co-operation with Croatia insurance d.d. an allowance of 0.60% is given;
- All other exposures to natural persons are assigned a value adjustment rate of 1.80%;

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

3.1. Adoption of new and amended International Financial Reporting Standards (continued)

The change in regulation and the transition to IFRS 9 no longer generates general reserve formation as previously described, but exposure previously classified in A is now classified into risk category A-1 (stage 1) and A-2 (Stage2) for which provisions are calculated individually for each exposure using the formula:

$$ECL = \sum_{t=1}^{t} (EAD_t * MPD_t * LGD_t * DF_t)$$

For exposure to risk category A-1, loss is calculated in the twelve-month period, while risk category A-2 calculates credit loss over the entire exposure period.

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

Exposure is divided into the following homogeneous groups:

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

Determining MPD (Marginal Probability of Default) represents a marginal likelihood of loss status for a particular financial instrument over a given period.

In calculating MPD, the Bank uses an approach based on transitional matrices using Markov chain techniques using homogeneous matrices at a given time.

This principle is used to calculate PD for the corporate and retail segment.

Corporate includes the companies, craftsmen and other natural persons carrying out business activity.

For the segment of financial institutions, the value of PD takes the PD estimated by the rating agency for a particular financial institution or, alternatively the domicile state of financial institutions;

For the segment of the central government and local governments, the value of PD takes the PD estimated by the rating agencies for the state.

The following macroeconomic indicators are used in the calculation:

- Gross Domestic Product
- Unemployment rate
- Inflation rate

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

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

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

3.1. Adoption of new and amended International Financial Reporting Standards (continued)

1. Corporate segment - 50%
2. Retail segment:
a. financial instrument insured with the collateral - 40%
b. financial instrument without collateral - 80%
3. Financial institutions segment – 45%
4. Central state and local self-government segment - 45%

Effects of applying IFRS 9 and reclassification of comparative data and changes in presentation

During 2018, the Bank reclassified certain items in the statement of financial position in order to align the presentation of the financial statements with the IFRS requirements. Therefore, the amounts previously disclosed as at 31 December 2017 were reclassified, as presented below. Since there were no changes in the measurement, these reclassifications had no impact on profit or loss, other comprehensive income, and retained earnings.

Statement of financial position

Position	31 Dec 2017	Change	Prepravljeno 31 Dec 2017
Assets			
Cash	352.634	7	352.641
Receivables from Croatian National Bank	89.999	(7)	89.992
Placement with banks	10.191	1.981	12.172
Loans and advances to clients	777.775	12.005	789.780
Tax assets	0	3.863	3.863
Foreclosed assets	24.943	(24.943)	0
Other assets	18.467	7.094	25.561
Liabilities			
Demand deposits	353.085	2.399	355.484
Term deposits	917.903	(2.399)	915.504
Other financial liabilities	1	122	123
Other liabilities	17.224	(122)	17.102

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

3.1. Adoption of new and amended International Financial Reporting Standards (continued)

Effects of applying IFRS 9 and reclassification of comparative data and changes in presentation

Statement of profit or loss

Position	31 Dec 2017	Change	Prepravljeno 31 Dec 2017
Other income	11.158	(5.928)	5.230
Profit from activities in the available-for-sale category	0	5.920	5.920
Income from dividends	0	8	8
Interest expense: savings insurance premiums on other operating expenses	22.546	(3.114)	19.432
Other operating expenses	0	4.967	4.967
Other operating expenses: other administrative expenses	15.741	(2.017)	13.724
Impairment: write-off of financial assets	22.887	164	23.051

IFRS 9

Classification and Valuation of Financial Instruments and Adjustment of Book Value Based on Valuation Categories

The table below shows the changes between the valuation categories and the carrying amounts of financial assets and financial liabilities in accordance with IAS 39 and IFRS 9 on 1 January 2018.

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

Position	31 Dec 2017	IFRS 9 classification: Fair value through other comprehensive income (FV-OSD – debt instruments	IFRS 9 classification: Fair value through other comprehensive income (FV-OSD – equity instruments)	IFRS 9 classification: Amortised cost	IFRS 9 classification	Value 1 Jan 2018	Impairment
Financial assets					**Financial assets**		
Cash	**352.641**			**352.641**	**Cash**	**351.891**	**750**
Financial assets available for sale	**264.812**	**243.556**	**21.256**		**Financial assets at fair value through other comprehensive income**	**264.812**	**546**
Debt securities	243.556	243.556			Debt securities	243.556	546
Equity securities	21.256		21.256		Equity securities	21.256	
Financial assets held to maturity	**14.777**			**14.777**	**Debt securities measured at amortised cost**	**14.740**	**37**
Loans and receivables	**891.944**			**891.944**	**Financial assets at amortised cost**	**886.052**	**5.892**
Receivables from Croatian National Bank	89.992			89.992	Receivables from Croatian National Bank	89.790	202
Placements to credit institutions	12.172			12.172	Placements to credit institutions	12.168	4
Loans and advances to clients	789.780			789.780	Loans and advances to clients	784.094	5.686
Total financial assets	**1.524.174**	**243.556**	**21.256**	**1.259.362**		**1.517.495**	**7.225**
Financial liabilities					**Financial liabilities**		
Liabilities to banks	0			0	Liabilities to banks	0	
Demand deposits	355.483			355.483	Demand deposits	355.483	
Term deposits	915.505			915.505	Term deposits	915.505	
Liabilities on received loans	136.002			136.002	Liabilities on received loans	136.002	
Other financial liabilities	123			123	Other financial liabilities	123	
Total financial liabilities	1.407.113			1.407.113	Total financial liabilities	1.407.113	
Off-balance sheet records	100.582			100.582	Off-balance sheet records	100.114	(468)
Total IFRS 9 effect					Total IFRS 9 effect		6.757

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

3.1. Adoption of new and amended International Financial Reporting Standards (continued)

Effects of applying IFRS 9 and reclassification of comparative data and changes in presentation

Adjustment of provisions for impairment

	Provisions (IAS 39 and IAS 37)	New measurement	Provisions MSFI 9
	31 Dec 2017		1 Jan 2018
Impairment of financial assets measured at amortised cost	133.778	6.679	140.457
Debt instruments at fair value through other comprehensive income	0	546	546
Impairment of off-balance sheet items	1.747	(468)	1.279
Total	135.525	6.757	142.282

Increase in impairment of HRK 546 thousand as of 1 January 2018 for debt securities classified as available-for-sale assets and IFRS 9 classified as assets measured at fair value through other comprehensive income. This change did not have an impact on the Bank's capital by switching to IFRS 9.

Increase in impairment losses of HRK 6,211 thousand relates to financial assets at amortized cost and includes differences in loan losses for instruments that are measured at amortized cost in accordance with IFRS 9 that were previously classified as loans and receivables and held-to-maturity financial assets in accordance with IAS 39.

Effect on capital and reserves

	Retained earnings	Fair value reserve	Effect on total capital and reserves
Closing balance 31 Dec 2017	63.514	20	
Increase in impairment due to IFRS 9 application	(6.211)		(6.211)
Expected credit losses on debt securities in a portfolio of financial assets that are measured at fair value through other comprehensive income	(546)	546	0
Tax effect	1.216		1.216
Total IFRS 9 effect	(5.541)	546	(4.995)
Opening balance after changes	57.973	566	

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

3.1. Adoption of new and amended International Financial Reporting Standards (continued)

IFRS 15 Revenue from Contracts with Customers

The Standard is effective for annual periods beginning on or after 1 January 2018 and was adopted in the European Union in September 2016. IFRS 15 establishes a customer recognition revenue model that consists of five criteria (with limited exceptions).

Key provisions - IFRS 15 replaces all existing requirements and rules on income recognition (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Interpretation of Customer Loyalty Programs, IFRIC 15 Real Estate Construction Contracts, IFRIC 18 Transfer of Assets from Customer and SIC 31 Revenue - nonmonetary services that include advertising services) in the IFRSs and applies to all income arising as a result of customer contracts. Additionally, the standard provides a model for recognition and measurement of sales of non-financial assets that are not the result of regular operations (for example, the sale of property, plant, equipment and intangible assets). The Standard prescribes the principles that a company must apply when measuring and recognizing revenue. The underlying principle is that the company should recognize the proceeds in order to reflect the transfer of goods or services to customers in the amount corresponding to the remuneration the company expects to be entitled to in return for the goods delivered or the services rendered.

The principle of recognition of income in IFRS 15 is applied through a five-step model:

- Step 1: Identification of the contract with the customer(s)Identify the contract(s) with the customer
- Step 2: Identification of the separate performance obligations in the contract Determine the contract execution obligation
- Step 3: Determine Determination of the transaction price
- Step 4: Allocation of the transaction price to the separate performance obligations Allocate the transaction price on separate execution obligations
- Step 5: Recognize income when performing a committed execution obligation. Recognition of revenue as each performance obligation is satisfied

The standard requirement is that entities, in each step of the model, think and make estimates and to consider all relevant facts and circumstances when applying the model to contracts with their customers. In addition to the five-step model, the standard also specifies how to account for the incremental cost of signing the contract and the costs that are directly related to the fulfilment of the contractual performance obligations. The Application guidelines are an integral part of the standard itself, assisting companies in applying standard requirements to custom arrangements, including licenses, warranties, refund rights, principal and agent considerations, options for additional goods or services, and damages.

Since the primary focus of the standards were not financial instruments, its application did not have a significant impact on the Bank's financial statements.

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

3.2. Standards, amendments to existing standards and interpretations that are published but not yet in force

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

IFRS 16 Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 defines the recognition, measurement, presentation and disclosure rules for the leases of both parties, i.e. the buyer (the "lessee") and the supplier (the "lessor"). In accordance with the new standard lessees should recognize most leases in their financial statements. All leases will be subject to a unique accounting model, with certain exceptions. Accounting treatment of leases at the lessor will not be significantly altered. The Bank estimates that the application of this Standard will not have a significant impact on the financial statements.

3.3. Interest income and expenses

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

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

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

3.4. Income and expenses from fees and commissions

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

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

3.5. Net gains and losses on financial instruments at fair value through profit or loss and result from foreign exchange trading and translation 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 statement of profit or loss and derivative financial instruments. Net profit and loss from currency rate differences made through recalculation of monetary assets and liabilities denominated in foreign currencies are also included in this category.

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

3.6. Foreign currency translation

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

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

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

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

3.7. Taxation

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

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

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

b. Deferred tax

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

3.8. Retirement benefits plan

Defined contribution plans

Contributions from the Bank's pension plans burden the statement of profit or loss in the year pertaining.

Defined benefit plans

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

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

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

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

3.9. Financial assets and liabilities

Financial assets and financial liabilities included in the balance sheet include cash and cash equivalents, marketable securities, receivables and payables, long-term loans and deposits and investments. Accounting methods for monitoring these instruments are contained in the appropriate accounting policies. The Bank discloses financial assets and financial liabilities in its balance sheet only and only when it becomes a party to contractual obligations related to transactions with financial instruments.

The Bank's financial assets are classified into the portfolio depending on the Bank's intention at the time of acquisition of the financial asset and in accordance with the investment strategy. Financial assets and financial liabilities are classified as "at amortized cost (up to maturity)", "at fair value through other comprehensive income (for sale)" or "at fair value through profit or loss (for trading)". The fundamental difference between these categories is the approach of measuring financial assets and recognizing their fair value in the financial statements.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or when it simultaneously realizes the asset and settles the liability.

All common transactions with financial instruments are recognized in the balance sheet at the date of transfer (settlement date). According to the method of recognizing transactions per settlement date at which the basic assets or liabilities are not recognized until the settlement date, changes in the fair value of the basic assets and liabilities are recognized in the balance sheet starting with the trading date. At initial recognition, the Bank measures the financial asset or financial liability at its fair value, and, in the case of financial assets, increased for transaction costs that are directly related to the acquisition or delivery of financial assets or financial liabilities.

(a) Financial assets measured at amortised cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- Financial assets are held within a business model whose purpose is to hold a financial asset for the purpose of collecting contractual cash flows or a business model for the purpose of collection
- Based on contractual terms of financial assets at certain dates, cash flows are generated that are only principal and interest payments on the outstanding principal amount.

Financial assets measured at amortized cost are primarily loans, deposits and receivables created by the Bank and represent financial assets with fixed payments or payments that can be determined which are not quoted on an active market and created by the Bank by placing money, commodities or services directly to the debtor.

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

3.9. Financial assets and liabilities (continued)

Purchased debt securities that the Bank has the intent and the ability to hold to maturity have also been categorised here.

Borrowings and receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables arise when the Bank grants cash to its customers without the intention to trade in receivables and includes loans and receivables from banks, loans and receivables from customers, substitute bonds and reserve requirements with the Croatian National Bank.

Loans and receivables are initially measured at cost and are subsequently deducted for impairment.

The impairment allowance is recognized if there is objective evidence that the Bank will not be able to collect the full amount of matured receivables. Impairment represents the difference between the carrying amount and the recoverable amount, which represents the present value of the expected cash flows, including recoverable amounts on guarantees and collaterals. The impairment allowance for individual loans is estimated on the basis of the borrower's creditworthiness, taking into account the value of collaterals or the third-party guarantee.

Uncollected due loans are written down in the amount of the related impairment allowance for impairment, and any subsequent charges are credited to the profit and loss statement.

For the default in payment, the Bank charges interest, which is calculated on the basis of cash receipts and is reported as interest income.

(b) Financial assets measured at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial assets are held within the business model whose objective is achieved through the collection of contractual cash flows and the sale of financial assets, i.e. the business model for the collection and sale
- based on contractual terms of financial assets at certain dates, cash flows generated are only principal and interest payments on the outstanding principal amount.

This category holds purchased debt securities which the Bank intends to keep for interest or dividend earnings, but may, if these conditions are met, be sold.

The Bank may irrevocably decide that subsequent changes in the fair value of investments in equity instruments will be measured at fair value through other comprehensive income.

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

3.9. Financial assets and liabilities (continued)

c) Financial assets measured at fair value through profit or loss statement

Financial assets are measured at fair value through profit or loss if they are not measured at amortized cost or at fair value through other comprehensive income. This category classifies the purchased debt and equity value of the securities the Bank intends to trade with and all derivative financial instruments.

3.10. Investments in subsidiaries

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

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

3.11. 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.

3.12. Property, plant and equipment

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

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

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

3.12. Property, plant and equipment (continued)

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	2018. %	2017. %
Buildings	2,00 – 2,50	2,00 – 2,50
IT equipment	25	25
Furniture	20	20
Personal vehicles	40	40
Other equipment	10 - 25	10 - 25

Depreciation is calculated separately by each item of assets until it is fully depreciated. An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses from disposal of certain asset are determined as difference between sale revenue and carrying amount of that asset and are recognized as expense or income in the Income statement. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

3.13. Intangible assets

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

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

After initial recognition, intangible assets are entered at purchase value decreased by depreciation costs and eventual accumulated losses due to asset decrease. Intangible assets made through own production, excluding capitalized development costs, shall not be capitalized, and expenses shall be recognized in the Income Statement for the year in which they occurred. Lifespan of intangible assets shall be estimated as limited (determined) or unlimited (undetermined).

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

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

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

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

3.14. Use of estimates

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

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

3.15. Commitments and contingent liabilities

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

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

3.16. Statement of cash flows

For the purpose of cash flow reporting, cash and cash equivalents include items in the cash register (including national and foreign currencies and coins normally used for payments), cash receivables and liabilities in central banks (including demand deposits at central banks), other demand deposits (including demand deposits in credit institutions).

3.17. 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-Credit institutions and Other. The primary segmental information is based on the internal reporting structure of business segments. Where it was possible the positions of the balance sheet and income statement were shown by mentioned segments.

3.18. Regulatory requirements

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

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

3.19. Events after the balance sheet date

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

3.20. Comparable data

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

IV. NOTES TO THE STATEMENT OF PROFIT OR LOSS

4. Interest income

	2018.	2017.
Description	HRK '000	HRK '000
Corporate	18.496	20.814
Retail and craftsmen	38.977	35.412
Credit institutions	122	66
Other	3.670	7.099
Total	**61.265**	**63.391**

Interest income depending on the type of financial instrument on which they are realized is presented as follows:

	2018.	2017.
Description	HRK '000	HRK '000
Financial assets at fair value through other comprehensive income (financial assets available for sale until 1 Jan 2018)	1.957	5.340
Financial assets-debt securities at amortized cost (financial assets held to maturity until 1 Jan 2018)	245	2.310
Financial assets - loans and advances at amortized cost	59.063	55.741
Total	**61.265**	**63.391**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

5. Interest expenses

	2018.	2017.
Description	HRK '000	HRK '000
Corporate	470	726
Retail and craftsmen	10.940	15.276
Credit institutions	2.262	2.474
Other	352	956
Total	**14.024**	**19.432**

6. Income from fees and commissions

	2018.	2017.
Description	HRK '000	HRK '000
Corporate (income from fees)	4.031	3.714
Retail	7.801	7.568
Other (income from fees)	1.190	1.547
Total	**13.022**	**12.829**

7. Expenses from fees and commissions

	2018.	2017.
Description	HRK '000	HRK '000
Commission for FINA services	1.871	1.782
Foreign institutions	211	175
Domestic banks and clients	1.918	1.675
Total	**4.000**	**3.632**

8. Gains or losses on financial assets and financial liabilities held for trade, net

	2018.	2017.
Description	HRK '000	HRK '000
Net exchange differences on foreign currency trading	2.939	3.210
Total	**2.939**	**3.210**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

9. Other operating income

	2018.	2017.
Description	HRK '000	HRK '000
Collected court and similar costs	23	25
Income from the sale of tangible assets	689	793
Revenue from deferred income	1.220	3.357
Other	314	1.055
Total	**2.246**	**5.230**

10. Other operating expenses

	2018.	2017.
Description	HRK '000	HRK '000
Insurance premium for savings	3.025	3.114
Cost of sale of fixed assets	388	1.644
Other expenses	853	209
Total	**4.266**	**4.967**

11. Administrative expenses

	2018.	2017.
Description	HRK '000	HRK '000
Employee benefits /i/	21.976	21.394
Expenses for Supervisory board benefits	450	408
Other administrative expenses /ii/	13.553	13.316
Total	**35.979**	**35.118**

/i/ Employee benefits were as follows:

	2018.	2017.
Description	HRK '000	HRK '000
Net salaries	12.533	12.455
Contributions on and from salaries	6.427	6.292
Tax and surtax from salaries	1.643	1.627
Other employee benefits	1.373	1020
Total	**21.976**	**21.394**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

11. Administrative expenses (continued)

/ii/ Other administrative expenses were as follows:

	2018.	2017.
Description	HRK '000	HRK '000
Materials	1.427	1.906
Services	11.001	10.596
Entertainment and advertising	688	513
Other	437	301
Total	**13.553**	**13.316**

12. Amortisation and depreciation

	2018.	2017.
Description	HRK '000	HRK '000
Depreciation of tangible assets (Note 20)	2.312	2.467
Amortisation of intangible assets (Note 21)	992	829
Total	**3.304**	**3.296**

13. Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss

	2018.	2017.
Description	HRK '000	HRK '000
Impairment of financial assets:	11.429	23.193
- Financial assets that are valued through other comprehensive income (Note 16)	257	0
- Financial assets-debt securities valued at amortized cost / held to maturity (Note 17)	5.682	6.356
- Financial assets valued at amortized cost / loans and advances (CNB, credit institutions, clients) and cash (Notes 15 i 18)	5.600	16.887
Collected receivables previously written-off	(110)	(50)
Impairment of non-financial assets (Notes 20 i 23)	202	0
Impairment of investment in subsidiary (Note 19.)	26	(53)
Provisions or reversal of provisions	318	(88)
Provisions for legal disputes (Note 26.)	74	105
Provisions for contingent liabilities (Note 26.)	244	(193)
Total	**11.975**	**23.052**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

14. Corporate income tax

	2018.	2017.
Description	HRK '000	HRK '000
Accounting profit before taxation	6.541	1.269
IFRS 9 – the effect of initial application	(6.757)	0
Items increasing tax base	4.458	2.232
Items decreasing tax base	(44)	(2.574)
Profit/loss after increase and decrease	4.198	927
Transferred tax losses	(4.671)	(5.599)
Tax loss for transfer	(473)	(4.672)
Income tax rate	18%	18
Tax liability	0	0
Cost of deferred tax	(1.764)	(620)
Tax expense	(1.764)	(620)

Income tax is calculated in accordance with Croatian regulations. The tax rate on taxable income is 18% (2017: 18%). At 31 December 2018 there was no obligation to pay income taxes based on the tax balance due to tax losses carried forward (2017: no tax liabilities due to tax losses carried forward).

Deferred tax assets on the basis of the transferred tax loss amount to HRK 85 thousand (31 December 2017 amounted to HRK 841 thousand). Deferred tax assets on deferred income amount to HRK 2,419 thousand (31 December 2017 HRK 2,257 thousand).

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

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

15. Cash, cash receivables from central banks and other demand deposits

	2018.	2017.
Description	HRK '000	HRK '000
Giro account	134.085	188.530
Cash register		
- kunas	18.203	14.836
- foreign currencies	10.875	8.771
Cash on foreign currency current accounts of foreign banks	6.483	345
Cash on foreign currency accounts of domestic banks	14.343	10.429
Foreign currency account with the CNB	81.070	129.723
Other deposits with the CNB	7	7
Total	**265.066**	**352.641**
Impairment	(546)	0
Total	**264.520**	**352.641**

Impairment of financial assets without credit risk increases after initial recognition (Stage 1):

Balance at 1 January 2018 – effects of initial application of IFRS 9	(750)
Changes in credit risk, net – Note 13	204
Balance at 31 December 2018	(546)

16. Financial assets at fair value through other comprehensive income (in 2017: available-for-sale)

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Investment in equity securities /i/	141	141
Investment in funds /i/	16.228	21.115
Investment in debt securities		
Bonds – Republic of Croatia	138.279	71.599
Treasury bills – Republic of Croatia	186.282	171.957
Total	**340.930**	**264.812**
The corresponding provisions for anticipated loan losses for debt securities (recognized in other comprehensive income)	(803)	0

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

16. Financial assets at fair value through other comprehensive income (in 2017: available-for-sale) (continued)

/i/ Equity instruments

The carrying amount of equity instruments measured at fair value through other comprehensive income as at 31 December 2018 amounts to HRK 16,369 thousand.

During 2018, the sale of shares in the investment fund amounted to HRK 5 million and was caused by strategic business decisions. In 2018, the realized gain on financial assets at fair value through other comprehensive income, net of tax, amounts to HRK 22 thousand and is recognized in other comprehensive income until the decision to transfer to retained earnings.

The value of funds is determined on the basis of NAV (daily announcement for an open-end investment fund with a public offer and semi-annual for an open-end venture capital investment with a private offering).

/ii/ Debt instruments

Debt securities consist of bonds of the Republic of Croatia and treasury bills of the Ministry of Finance of the Republic of Croatia. Bonds are listed on the stock exchange, treasury bills and shares in the funds and share in the company are not listed.

Value adjustments for financial assets without increasing credit risk after initial recognition (phase 1)

Balance at 1 January 2018 – effects of initial application of IFRS 9	(546)
Changes in credit risk, net – Note 13	(257)
Balance at 31 December 2018	(803)

17. Debt securities measured at amortised cost

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Corporate bills of exchange	18.901	22.880
Bills of exchange of state units	1.102	296
Impairment	(14.118)	(8.399)
Total	**5.885**	**14.777**

Debt securities in the portfolio of financial assets measured at amortized cost include bills of companies and local government and are not quoted in active markets and are intended to be held to maturity.

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

17. Debt securities measured at amortised cost (continued)

Financial assets at amortized cost - Debt securities by phases

Net carrying value	Phase 1	Phase 2	Phase 3	Total
Bills of exchange of state units	1.102	0	0	1.102
Corporate bills of exchange	685	0	18.216	18.901
Total	**1.787**	**0**	**18.216**	**20.003**

Impairment	Phase 1	Phase 2	Phase 3	Total
Debt securities				
Bills of exchange of state units	(2)	0	0	(2)
Corporate bills of exchange	(7)	0	(14.109)	(14.116)
Total	**(9)**	**0**	**(14.109)**	**(14.118)**

	2018.	2017.
Description	HRK '000	HRK '000
Balance at 1 January	(8.399)	(2.042)
The effect of first application of IFRS 9 – 1 Jan 2018	(37)	0
Net impairment – special reserves	0	(6.757)
Net impairment – general reserves	0	400
Net impairment – phase 1	29	0
Net impairment – phase 2	44	0
Net impairment – phase 3	(5.755)	0
Balance at 31 December	(14.118)	(8.399)

Changes in value adjustments to financial assets at amortized cost - Debt securities are presented as follows:

Impairment	Faza 1	Faza 2	Faza 3	Ukupno
Balance at 1 January	(40)	(45)	(8.353)	(8.438)
Changes in credit risk, net – Note 13	30	45	(5.756)	(5.682)
Balance at 31 December 2018	(11)	(0)	(14.109)	(14.119)

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

18. Loans and advances measured at amortised cost

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Receivables from Croatian National Bank /i/	92.970	89.992
Placements to credit institutions /ii/	22.722	12.172
Loans and advances to clients /iii/	780.116	789.780
Total	**895.808**	**891.944**

/i/ Receivables from Croatian National Bank are as follows:

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Mandatory reserves	93.199	89.992
Impairment	(229)	0
Total	**92.970**	**89.992**

Obligation to allocate reserve requirement prescribed by the CNB. It is deposited in the form of deposits with the CNB and is maintained through the state of other liquid receivables. The reserve requirement rate at 31 December 2018 was 12% (2017: 12%) of short-term and long-term deposits and borrowings.

As of 31 December 2018, the percentage of the kuna reserve requirement with the CNB was 70% (2017: 70%), while the remaining 30% (2017: 30%) was maintained in the form of other liquid receivables. This also includes a portion of the foreign exchange component (75%) of the reserve requirement, which is to be kept in kunas (2017: 75%) and forms an integral part of the reserve requirement in kunas.

During 2018, 100% of the foreign exchange reserve requirement is held in the form of other liquid receivables (2017: 100%).

The obligatory reserve is not interest-bearing in 2018 (it was not interest-bearing in 2017).

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

18. Loans and advances measured at amortised cost (continued)

/ii/ Placements to credit institutions were as follows:

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Short-term deposits with domestic banks	1.377	1.413
Short-term deposits with foreign banks	6.470	8.778
short-term loans to domestic banks	14.836	0
Short-term receivables in settlement	0	1708
Receivables based on card business	79	273
Other	36	36
Total	**22.798**	**12.208**
Impairment	(76)	(36)
Total	**22.722**	**12.172**

/iii/ Loans and advances to clients were as follows:

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Corporate	356.384	389.290
Retail and craftsmen	511.812	487.150
Other	35.481	38.683
Impairment of loans	(123.561)	(125.343)
Total	**780.116**	**789.780**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

18. Loans and advances measured at amortised cost (continued)

The concentration of risk per economic sector in the loan portfolio to clients is presented as follows:

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Production	83.533	115.610
Trade	87.228	91.179
Tourism	40.056	24.336
Agriculture	58.150	65.810
Construction	25.382	19.056
Services	62.035	73.299
Retail	511.812	487.150
Other	35.481	38.683
Total	**903.677**	**915.123**
Impairment and provisions for credit losses	(123.561)	(125.343)
Total	**780.116**	**789.780**

Financial assets at amortized cost - loans and advances by phases

Net carrying value	Phase 1	Phase 2	Phase 3	Total
Central bank	93.199	0	0	93.199
Credit institutions	22.760	0	36	22.796
Trading companies	218.429	11.936	126.019	356.384
Private persons	445.143	6.636	60.033	511.812
Other	34.178	83	1.220	35.481
Total	**813.709**	**18.655**	**187.308**	**1.019.672**

Impairment	Phase 1	Phase 2	Phase 3	Total
Central bank	(229)	0	0	(229)
Credit institutions	(40)	0	(36)	(76)
Trading companies	(2.237)	(330)	(82.627)	(85.194)
Private persons	(6.437)	(1.238)	(30.020)	(37.695)
Other	(142)	(5)	(525)	(672)
Total	**(9.085)**	**(1.573)**	**(113.208)**	**(123.866)**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

18. Loans and advances measured at amortised cost (continued)

Changes in value adjustments to financial assets at amortized cost - loans and advances are shown as follows:

Impairment	Phase 1	Phase 2	Phase 3	Total
Balance at 1 January	(7.404)	(5.781)	(118.083)	(131.268)
Changes in credit risk, net – Note 13	(1.681)	4.208	(8.331)	(5.804)
Transfer to deferred income	0	0	1.168	1.168
Exchange differences	0	0	118	118
Write-off	0	0	11.920	11.920
Balance at 31 December 2018	(9.085)	(1.573)	(113.208)	(123.866)

Changes in value adjustments or provisions for possible loan losses are shown as follows:

	2017.		
Description	Impairment	Special provisions for identified aggregate losses	Total
	HRK '000	HRK '000	HRK '000
Balance at 1 January	(101.924)	(8.118)	(110.042)
Net impairment or provision (Note 13.)	(14.942)	(1.771)	(16.713)
Exchange differences	53	0	53
Write-off and other	1.324	0	1.324
Balance at 31 December 2017	(115.489)	(9.889)	(125.378)

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Balance at 1 January	(125.378)	(110.042)
The effect of first application of IFRS 9 – 1 Jan 2018	(5.892)	0
Net impairment – special reserves	0	(13.565)
Net impairment – general reserves	0	(1.771)
Net impairment – phase 1	(1.681)	0
Net impairment – phase 2	4.208	0
Net impairment – phase 3	4.877	0
Balance at 31 December	(123.866)	(125.378)

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

19. Investment in subsidiary

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Turbina d.o.o., Slatina	9.500	9.500
Impairment	(3.802)	(3.777)
Balance at 31 December	5.698	5.723

The Bank has 100% stake in the said company. Investment in subsidiary is stated at cost, with impairment of the carrying value of this asset - investment to its recoverable amount. Changes in impairments are shown as follows:

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Balance at 1 January	(3.777)	(3.830)
Net impairment (Note 13)	(25)	53
Balance at 31 December	(3.802)	(3.777)

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

20. Tangible assets

Description	Land	Buildings	Equipment	Furniture and vehicles	Tangible assets under construction	Total property, plant and equipment
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Cost						
Balance at 1 Jan 2017	**1.137**	**37.145**	**22.351**	**8.750**	**1.431**	**70.814**
Direct increase	0	0	0	0	1.332	1.332
Transfer from assets under construction	0	7	814	333	(1.154)	0
Sale and disposal	(32)	(1.237)	(4.139)	(1.057)	0	(6.465)
Balance at 31 Dec 2017	**1.105**	**35.915**	**19.026**	**8.026**	**1.609**	**65.681**
Direct increase	0	0	0	0	629	629
Transfer from assets under construction	0	0	788	9	(797)	0
Sale and disposal	(145)	(192)	(811)	(489)	(1.200)	(2.837)
Balance at 31 Dec 2018	**960**	**35.723**	**19.003**	**7.546**	**241**	**63.473**
Impairment						
Balance at 01 Jan 2017	**0**	**15.305**	**18.178**	**8.176**	**0**	**41.659**
Depreciation for 2017	0	823	1.474	170	0	2.467
Sale and disposal	0	(597)	(4.139)	(1.057)	0	(5.793)
Balance at 31 Dec 2017	**0**	**15.531**	**15.513**	**7.289**	**0**	**38.333**
Depreciation for 2017	0	799	1.322	191	0	2.312
Sale and disposal	0	(32)	(811)	(489)	0	(1.332)
Impairment – Note 13	0	14	0	0	0	14
Balance at 31 Dec 2018	**0**	**16.312**	**16.024**	**6.991**	**0**	**39.327**
Net carrying value						
Balance at 01 Jan 2017	**1.137**	**21.840**	**4.173**	**574**	**1.431**	**29.155**
Balance at 31 Dec 2017	**1.105**	**20.384**	**3.513**	**737**	**1.609**	**27.348**
Balance at 31 Dec 2018	**960**	**19.411**	**2.979**	**555**	**241**	**24.146**

At 31 December 2018, the Bank had no pledged assets with other legal entities.

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

21. Intangible assets

Description	Software	Investment in third party property	Intangible assets under construction	Total intangible assets
	HRK '000	HRK '000	HRK '000	HRK '000
Cost				
Balance at 01 Jan 2017	**15.169**	**2.064**	**1.220**	**18.453**
Direct increase	0	0	1.723	1.723
Transfer from assets under construction	1.005	366	(1.371)	0
Disposal	0	(23)	0	(23)
Balance at 31 Dec 2017	**16.174**	**2.407**	**1.572**	**20.153**
Direct increase	0	0	805	805
Transfer from assets under construction	1.513	0	(1.513)	0
Disposal	0	(460)	0	(460)
Balance at 31 Dec 2018	**17.687**	**1.947**	**864**	**20.498**
Impairment				
Balance at 01 Jan 2017	**10.353**	**1.802**	**0**	**12.155**
Amortisation for 2017	747	82	0	829
Disposal	0	(23)	0	(23)
Balance at 31 Dec 2017	**11.100**	**1.861**	**0**	**12.961**
Amortisation for 2018	867	125	0	992
Disposal	0	(460)	0	(460)
Balance at 31 Dec 2018	**11.967**	**1.526**	**0**	**13.493**
Net carrying value				
Balance at 01 Jan 2017	**4.816**	**262**	**1.220**	**6.298**
Balance at 31 Dec 2017	**5.074**	**546**	**1.572**	**7.192**
Balance at 31 Dec 2018	**5.720**	**421**	**864**	**7.005**

22. Tax assets

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Current tax assets	765	765
Deferred tax assets		
Deferred tax assets on the basis of fees and other	2.459	2.257
Deferred tax assets arising from tax losses carried forward	85	841
Total	**3.309**	**3.863**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

22. Tax assets (continued)

As at 31 December 2018, unused tax losses amounted to HRK 473 thousand (2017: HRK 4,671 thousand). The Bank has the right to use tax loss (from 2015) as a deduction item from the calculated profit tax base in the next five accounting periods (by 2020), after which the unused tax loss for the fifth business year is abolished.

23. Other assets

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Prepaid expenses and accrued income	487	440
Foreclosed assets /i/	20.649	24.943
Other	191	178
Total	**21.327**	**25.561**

/i/ Foreclosed assets are as follows:

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Land	8.751	5.313
Buildings	11.898	18.602
Other assets	0	1.028
Total	**20.649**	**24.943**

Changes in foreclosed assets were as follows:

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Balance at 1 January	24.943	29.826
Increase		
- Real-estate tax and other	0	322
- Newly foreclosed assets	5.916	220
Decrease		
- Sale	(10.022)	(5.425)
- Impairment – Note 13	(188)	0
Balance at 31 December	20.649	24.943

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

24. Financial liabilities measured at amortised cost – deposits

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Sight deposits /i/	424.572	355.483
Term deposits /ii/	859.859	915.506
Loan liabilities	96.463	136.002
Total	**1.380.894**	**1.406.991**

/i/ Sight deposits are as follows:

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Sight deposits - retail		
- kunas	129.810	120.502
- foreign currency	159.636	118.917
Total retail	**289.446**	**239.419**
Sight deposits - corporate		
- kunas	71.989	66.771
- foreign currency	7.902	9.763
Total corporate	**79.891**	**76.534**
Sight deposits – financial institutions		
- kunas	263	101
Total financial institutions	**263**	**101**
Sight deposits – state and other institutions		
- kunas	47.593	34.168
- foreign currency	29	109
Total state and other institutions	**47.622**	**34.277**
Sight deposits -limited		
- kunas	2.045	1.984
Total limited deposits	**2045**	**1984**
Sight deposits – non-residents		
- kunas	50	52
- foreign currency	5.255	3.116
Total non-residents	**5.305**	**3.168**
Total	**424.572**	**355.483**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

24. Financial liabilities measured at amortised cost – deposits (continued)

/i/ Term deposits are as follows:

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Deposits - retail		
- kunas	229.720	227.321
- foreign currency	581.229	615.186
Total retail	**810.949**	**842.507**
Deposits - corporate		
- kunas	32.056	36.214
- foreign currency	3.109	1.699
Total corporate	**35.165**	**37.913**
Deposits – financial institutions		
- kunas	551	15.667
Total financial institutions	**551**	**15.667**
Deposits – state and other institutions		
- kunas	6.877	9.942
- foreign currency	78	0
Total state and other institutions	**6.955**	**9.942**
Deposits – non-residents		
- foreign currency	6.239	9.477
Total non-residents	**6.239**	**9.477**
Total	**859.859**	**915.506**

/iii/ Loan liabilities:

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Domestic banks (HBOR) /a/	71.115	92.276
Domestic non-banking financial institutions /b/	0	18.683
Liabilities to CNB /c/	25.348	25.043
Total	**96.463**	**136.002**

a. Liabilities to HBOR as at 31 December 2018 were HRK 71,115 thousand (31 December 2017 HRK 92,276 thousand). These sources are intended for the approval of loans to legal and natural persons in accordance with HBOR's programs. Depending on the purpose of the interest rate loan, they ranged from 0% to 5% (in 2017 from 0% to 5%).

b. On December 31, 2018, the Bank has no liabilities towards domestic non-bank financial institutions (31 December 2017 HRK 18,683 thousand). In 2018, based on REPO deals concluded with AUCTOR PLUS d.o.o., the REPO rate was fixed for each contract in the range of 0.6% to 1.0%, depending on the contract.

c. Liabilities to the CNB as at 31 December 2018 amount to HRK 25,348 thousand (31 December 2017: HRK 25,043 thousand) and refer to the CNB's structural operations at an interest rate of 1.20% and the treasury bills of the Ministry of Finance and bonds of the Republic of Croatia in the total nominal amount of HRK 29 million as an insurance instrument.

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

25. Other financial liabilities

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Liabilities for dividends	122	122
Other liabilities	0	1
Total	**122**	**123**

26. Provisions

	Legal and tax procedures – in progress	Provisions for contingent liabilities and guarantees	Total
Balance at 1 January 2018	3.080	1.747	4.827
The effect of initial application of IFRS 9	0	(468)	(468)
Net charge to the statement of profit or loss – Note 13	74	244	318
Balance at 31 December 2018	**3.154**	**1.523**	**4.677**
Balance at 1 January 2017	2.975	1.940	4.916
Net charge to the statement of profit or loss – Note 13	105	(193)	(88)
Balance at 31 December 2018	**3.080**	**1.747**	**4.827**

Provisions for contingencies and guarantees and legal and tax proceedings in progress (legal claims) are recognized within other impairment losses and provisions in the statement of profit or loss (Note 13).

	Balance at 1 January 2018	Changes in credit risk (net)	Balance at 31 December 2018
Contingent liabilities and financial guarantees (stage 1)	1.231	125	1.357
Contingent liabilities and financial guarantees (stage 2)	27	33	60
Contingent liabilities and financial guarantees (stage 3)	20	86	106
Total provisions for contingent liabilities and guarantees	**1.279**	**244**	**1.523**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

27. Other liabilities

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Commitments for the overpayment on loans	6.306	5.004
Accounts payable	1.331	1.692
Liabilities towards employees	1.755	1.741
Liabilities for compensation to members of SB	38	31
Deferred interest income	6.795	5.306
Liabilities for taxes and contributions from income	7	10
Value added tax liability	11	36
Other liabilities	2.415	3.279
Total	**18.658**	**17.099**

28. Capital

Share capital as at 31 December 2018 amounted to HRK 91,897 thousand divided into 918,972 shares of HRK 100 nominal value per share.

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

Largest shareholders of the Bank as at 31 December 2017 are shown as follows (data source: www.skdd.hr):

Number	Balance	Share %
ADDIKO BANK D.D./SZAIF D.D. – custodial account	220.552	24,00
CERP/REPUBLIK OF CROATIA	75.694	8,24
SOKAČIĆ DRAGUTIN	73.781	8,03
SB-S D.D. (1/1)	71.374	7,77
BANKA SPLITSKO - DALMATINSKA D.D. U STEČAJU	60.000	6,53
BERIŠIĆ LJUBICA	36.432	3,96
GALIĆ JOSIP	29.962	3,26
MRKOCI MILIVOJ	29.960	3,26
FINE SA CREDOS D.D., CONSULTING FINANC. KOMPANIJA	29.073	3,16
MIKULIĆ EMIL	26.554	2,89
OTHER SHAREHOLDERS	265.590	28,91
TOTAL 1.144 SHAREHOLDERS	**918.972**	**100,00**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

29. Earning per share

Description	31 Dec 2018	31 Dec 2017
Profit for the year (HRK '000)	4.777	649
Number of shares	918.972	918.972
Earning per share	**5,20 kuna**	**0,71 kuna**
Profit for the year (HRK '000)	4.777	649
Number of shares after reduction for regular treasury shares	847.598	847.598
Basic and diluted earnings per share (expressed in HRK per share)	5,64	0,77

30. Commitments and contingent liabilities

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Guarantees	17.108	15.243
Revolving loans	4.612	3.928
Framework loans and financing obligations	82.935	82.948
Other risk off-balance sheet items	0	210
Total	**104.655**	**102.329**
Provisions for contingent liabilities	(1.523)	(1.747)
Total	**103.132**	**100.582**

	Phase 1	Phase 2	Phase 3	Total
Guarantees	16.781	328	0	17.108
Revolving loans	4.458	44	110	4.612
Framework margin loans	10.475	0	0	10.475
Other loans and financing obligations	71.586	584	290	72.460
OFF-BALANCE SHEET LIABILITIES	103.299	956	400	104.655
Total provisions for off-balance sheet liabilities	**1.357**	**60**	**106**	**1.523**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

31. Assets held for and on behalf third parties

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Total sources	11.351	11.344
Less: assets	(10.545)	(10.621)
Unused resources	806	723

Custodial assets:

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Custodial assets	48.715	40.779
Unused resources	1.066	1.158

32. Transactions with persons in a special relationship with the Bank and their related parties

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 and the Supervisory Board and the Procurator
3. persons that have an employment contract with a Bank, which implies a significant influence of those persons in the Bank's business,
4. legal entities in which the Bank, a member of the management board, a member of the supervisory board or a procurator has a participating interest.
5. legal entities whose member of the Management board or the Supervisory board or procurator is at the same time a member of the Management or a member of the Supervisory board or procurator of the bank.
6. legal entities whose member of the board has 10% or more of the voting rights of the Bank at the General Assembly of the Bank.
7. a member of the Board of directors, a member of the Supervisory board and a procurator of a company that is, directly or indirectly, a parent of a credit institution or a subsidiary of a credit institution.
8. a third person acting for the account of person referred to point 1 to 7 of this paragraph related to transactions that would cause or increase the exposure of the Bank.

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

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

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

32. Transactions with persons in a special relationship with the Bank and their related parties (continued)

Members of the close family of the related parties are:

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

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

Bank activities with the related parties are conducted in the course of ordinary operations, which include loans and deposits assignation. Mentioned transactions are conducted under commercial conditions and market rates. Total amount of transactions with related parties, closing balances at the end of the year and related income and expense for the year are shown as follows:

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Loans and advance payments to clients		
Shareholders having 5 or more percent of voting shares	21.335	23.882
Management	166	57
Other	22.055	36.105
Total loans and advance payments to clients	**43.556**	**60.044**
Contingent liabilities		
Shareholders having 5 or more percent of voting shares	69	0
Management	25	16
Other	2.819	2.133
Total contingent liabilities	**2.913**	**2.149**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

32. Transactions with persons in a special relationship with the Bank and their related parties (continued)

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Deposits on demand		
Shareholders having 5 or more percent of voting shares	142	150
Others (employees and associated parties)	13.726	8.156
Turbina d.o.o., Slatina	1.948	523
Management	179	102
Supervisory Board and associated parties	66	230
Total deposits on demand	**16.061**	**9.161**
Term deposits		
Shareholders having 5 or more percent of voting shares	595	10.384
Others (employees and associated parties)	825	8.869
Turbina d.o.o., Slatina	2.395	3.774
Supervisory Board and associated parties	78	203
Total term deposits	**3.893**	**23.230**
Other assets		
Turbina d.o.o. Slatina	5.698	5.723
Total other assets	5.698	5.723
Other liabilities		
Shareholders having 5 or more percent of voting shares	9	18.692
Others	2	9
Turbina d.o.o., Slatina	1	2
Supervisory Board and associated parties	24	31
Total other liabilities	**36**	**18.734**
Income		
Shareholders having 5 or more percent of voting shares	718	855
Supervisory Board and associated parties	3	16
Management	53	
Other	1.108	2.151
Turbina d.o.o. Slatina	6	6
Total income	**1.888**	**3.028**
Expenses		
Shareholders having 5 or more percent of voting shares	130	456
Other	29	241
Turbina d.o.o. Slatina	50	48
Supervisory Board and associated parties	451	411
Total expenses	**660**	**1.156**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

32. Transactions with persons in a special relationship with the Bank and their related parties (continued)

Information on transactions with the Republic of Croatia - Ministry of Finance (based on securities (treasury bills and bonds), tax and other receivables and liabilities) are not included.

Management's remuneration is presented as follows:

	31 Dec 2018	31 Dec 2017
Description	HRK '000	HRK '000
Net salaries	1.390	1.340
Taxes and contributions	1.073	1.086
Total	**2.463**	**2.426**

In 2018, remuneration-severance indemnities totalling HRK 400,000 (gross) were paid, which is included in the Management's remuneration.

33. Fair value of financial assets and liabilities

Fair value represents the amount in which the assets can be exchanged or settled in the best interest of all parties. Given that market prices for most of the financial assets and liabilities of the Bank are not available, the fair value of these items is based on the Board's estimates of the type of assets and liabilities. According to the Board's estimates, market values do not differ significantly from the carrying values of all classes of assets and liabilities.

	31 Dec 2018		
ASSETS	Level 1	Level 2	Level 3
Financial assets at fair value through other comprehensive income	333.237	7.552	141
Equity securities	8.676	7.552	141
Debt securities	324.561	0	0

	31 Dec 2017		
ASSETS	Level 1	Level 2	Level 3
Financial assets at fair value through other comprehensive income	264.671	141	0
Equity securities	21.115	141	0
Debt securities	243.556	0	0

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

33. Fair value of financial assets and liabilities (continued)

Financial assets at fair value through other comprehensive income	Fair value at 31 Dec 2018	Fair value hierarchy	Valuation method and principal entry data
Debt securities			
Bonds – Republic of Croatia	138.279	level 1	market price-average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Treasury bills – Republic of Croatia	186.282	level 1	market price-average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Equity instruments			
Share in HROK d.o.o.	141	level 3	carrying amount at cost
Share in open investment funds	8.676	level 1	market price-published share price on the day of valuation
Share in an alternative venture capital investment fund with a private offering	7.552	level 3	market price-published share price on the day of valuation

VI. FINANCIAL RISK MANAGEMENT

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 equity and debt securities).

The risk management system is continually being upgraded at the level of the Bank by introducing new policies and procedures for assessment, measurement, control and management of risks and by determining the limits of risk exposure adjusted to the legal provisions and the Bank's risk profile. The Bank's Management Board is accountable for recognition and control of risk. There are separate bodies and organizational parts within the Bank's organizational structure responsible for individual risk management and control.

The Bank is exposed to credit risk, which presents the risk of the other party's failure to settle the amounts outstanding in full on maturity. The Bank classifies the credit risk by setting the limits for the amount of the accepted risk expected to occur in relation to one borrower or group of borrowers and in certain branches of business. The Bank regularly monitors these risks and reviews them once a year or more frequently.

The Bank manages credit risk through a regular analysis of the ability of existing and potential borrowers to repay their principal and interest liabilities and change credit limits as needed. In addition, its exposure to credit risk is partially managed by obtaining collateral, corporate and personal guarantees. The main purpose of the borrowing commitments assumed is to ensure the availability of funds according to the needs of the clients. Guarantees that constitute irrevocable guarantees that the Bank will make a payment in the event that a client cannot meet their obligations to third parties bear the same credit risk as the loans.

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

34. Credit risk

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

Maximum credit risk exposure before lien/mortgage or other collaterals at 31 December 2018 is shown as follows:

Exposure to credit risk related to balance sheet assets is as follows:	**Gross placements**	**Reserves PHASE 1**	**Reserves PHASE 2**	**Reserves PHASE 3**	**Net placements**
Cash	265.066	546	0	0	264.520
Financial assets at fair value through other comprehensive income	341.733	803	0	0	340.930
Financial assets – debt securities at amortised cost	20.003	10	0	14.108	5.885
Financial assets – loans and advances at amortised cost	1.019.673	9.085	1.573	113.207	895.808
Receivables from Croatian National Bank	93.199	229	0	0	92.970
Placements to credit institutions	22.798	40	0	36	22.722
Loans and advances to clients	903.676	8.816	1.573	113.171	780.116
Investments in subsidiary	5.698	0	0	0	5.698
Property, plant and equipment	24.146	0	0	0	24.146
Intangible assets	7.005	0	0	0	7.005
Current tax assets	3.309	0	0	0	3.309
Other assets	21.328	0	0	0	21.328
Total balance sheet exposure	**1.707.961**	**10.444**	**1.573**	**127.315**	**1.568.629**
Exposure to credit risk related to off-balance sheet assets is as follows:					
Guarantees	17.108	179	13	0	16.916
Letters of credit	0	0	0	0	0
Contingent loan and other liabilities	87.547	1.178	47	106	86.216
Total off-balance sheet exposure	104.655	1.357	60	106	103.132
Total at 31 December 2018	**1.812.616**	**11.801**	**1.633**	**127.421**	**1.671.761**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

34. Credit risk (continued)

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

Exposure to credit risk related to balance sheet assets is as follows:	**Gross placements**	**Aggregated reserves**	**Individual reserves**	**Net placements**
Cash	352.641	0	0	352.641
Financial assets at fair value through other comprehensive income	264.812	0	0	264.812
Financial assets – debt securities at amortised cost	23.175	49	8.349	14.777
Financial assets – loans and advances at amortised cost	1.017.323	9.898	115.481	891.944
Receivables from Croatian National Bank	89.992	0	0	89.992
Placements to credit institutions	12.208	0	36	12.172
Loans and advances to clients	915.123	9.898	115.445	789.780
Investments in subsidiary	5.723	0	0	5.723
Property, plant and equipment	27.348	0	0	27.348
Intangible assets	7.192	0	0	7.192
Tax assets	3.863	0	0	3.863
Other assets	25.561	0	0	25.561
Total balance sheet exposure	**1.727.638**	**9.947**	**123.830**	**1.593.861**
Exposure to credit risk related to off-balance sheet assets is as follows:				
Guarantees	15.244	168	0	15.076
Letters of credit				0
Contingent loan and other liabilities	87.086	1.572	7	85.507
Total off-balance sheet exposure	102.330	1.740	7	100.583
Total at 31 December 2017	**1.829.968**	**11.687**	**123.837**	**1.694.444**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

34. Credit risk (continued)

Received collaterals and reduction of credit risk

An overview of received collaterals is as follows:

2018	Gross loans and advances to clients
Gross loans	903.677
Secured loans	
Deposits	37.492
Guarantees	55.466
Housing properties	72.755
Business properties	136.456
Other properties	60.995
Credit insurance	14.581
Shares	28.921
Movables	10.279
Total	**416.945**
Insured share	**46,14%**

2017	Gross loans and advances to clients
Gross loans	915.123
Secured loans	
Deposits	39.328
Guarantees	56.029
Housing properties	82.462
Business properties	157.436
Other properties	75.380
Credit insurance	34.481
Shares	27.190
Movables	2.990
Total	**475.296**
Insured share	**51,94%**

Sale of receivables

In 2018, the Bank sold HRK 25.6 million in gross receivables (HRK 5.5 million in net claims) to third parties for HRK 14.3 million, which resulted in the release of HRK 8.6 million of impairment provision.

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

34. Credit risk (continued)

Reprogrammed and restructured loans

Placement restructuring is done with clients where there has been a change in the focus from the point of earning income to reducing the losses stemming from credit exposure at a stage when legal procedures for reducing losses are not yet needed. The aim is to identify clients in a timely manner, where restructuring can enable business continuation and mitigate and prevent further losses.

Overview of restructured loans is as follows:

31 Dec 2018			Phase 1		Phase 3	
Restructured exposures	Total gross book value	Total provisions for impairment of restructured loans	Gross book value	Provisions for impairment of restructured loans	Gross book value	Provisions for impairment of restructured loans
Loans and advances						
Corporate	56.623	(25.214)	4.626	(46)	51.996	(25.168)
Retail	24.959	(5.373)	10.572	(144)	14.388	(5.228)
Total	**81.582**	**(30.587)**	**15.198**	**(191)**	**66.384**	**(30.396)**

31 Dec 2017			Phase 1		Phase 3	
Restructured exposures	Total gross book value	Total provisions for impairment of restructured loans	Gross book value	Provisions for impairment of restructured loans	Gross book value	Provisions for impairment of restructured loans
Debt securities – non-financial entities	244	(2)	0	0	244	(2)
Loans and advances:						
Non-financial entities	59.428	(24.428)	6.047	(67)	53.381	(24.361)
Retail	28.257	(5.687)	9.165	(147)	19.092	(5.540)
Total	**87.929**	**(30.117)**	**15.212**	**(214)**	**72.717**	**(29.903)**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

35. 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 2018.

	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
ASSETS							
Cash	29.077	235.443	0	0	0	0	264.520
Financial assets at fair value through other comprehensive income	14.442	1.525	89.011	234.455	1497,49	0	340.930
Financial assets at amortised cost – debt securities	46	437	537	765	4100,34	0	5.885
Financial assets at amortised cost – loans and advances	17.165	38.119	33.100	264.285	234.676	308.463	895.808
Investments in subsidiaries, joint ventures and associates	5.698	0	0	0	0	0	5.698
Tangible assets	24.146	0	0	0	0	0	24.146
Intangible assets	7.005	0	0	0	0	0	7.005
Tax assets	3.309	0	0	0	0	0	3.309
Other assets	21.327	0	0	0	0	0	21.327
Total assets	**122.215**	**275.524**	**122.648**	**499.505**	**240.274**	**308.463**	**1.568.629**
LIABILITIES							
Financial liabilities measured at amortised cost:							
Demand deposits	2.045	113	0	422.414	0	0	424.572
Term deposits	30.380	116.158	136.680	387.972	178.979	9.691	859.860
Liabilities for loans	189	1.193	5.452	10.175	25.325	54.129	96.463
Other financial liabilities	122	0	0	0	0	0	122
Provisions	4.677	0	0	0	0	0	4.677
Other liabilities	18.660	0	0	0	0	0	18.660
Total liabilities	**56.072**	**117.464**	**142.132**	**820.561**	**204.304**	**63.820**	**1.404.353**
CAPITAL							
Total capital	**164.276**	**0**	**0**	**0**	**0**	**0**	**164.276**
Total equity	**220.348**	**117.464**	**142.132**	**820.561**	**204.304**	**63.820**	**1.568.629**
NET ASSETS/EQUITY	**(98.133)**	**158.060**	**(19.484)**	**(321.056)**	**35.970**	**244.643**	**0**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

35. Interest risk (continued)

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

	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
ASSETS							
Cash	23.607	329.034	0	0	0	0	352.641
Financial assets at fair value through other comprehensive income	12.742	23.197	20.125	117.691	91057	0	264.812
Financial assets at amortised cost – debt securities	472	1.267	1.312	1.712	9966	47	14.776
Financial assets at amortised cost – loans and advances	21.367	44.536	32.222	262.860	250.973	279.985	891.943
Investments in subsidiaries, joint ventures and associates	5.723	0	0	0	0	0	5.723
Tangible assets	27.349	0	0	0	0	0	27.349
Intangible assets	7.192	0	0	0	0	0	7.192
Tax assets	3.863	0	0	0	0	0	3.863
Other assets	25.562	0	0	0	0	0	25.562
							0
Total assets	**127.877**	**398.034**	**53.659**	**382.263**	**351.996**	**280.032**	**1.593.861**
LIABILITIES							
Financial liabilities measured at amortised cost:							
Demand deposits	4.421	33	0	351.029	0	0	355.483
Term deposits	35.203	163.765	161.273	404.422	136.572	14.269	915.504
Liabilities for loans	1.975	20.133	8.102	15.247	29.134	61.411	136.002
Other financial liabilities	123	0	0	0	0	0	123
Provisions	4.827	0	0	0	0	0	4.827
Tax liabilities	0	0	0	0	0	0	0
Other liabilities	17.102	0	0	0	0	0	17.102
Total liabilities	**63.651**	**183.931**	**169.375**	**770.698**	**165.706**	**75.680**	**1.429.041**
CAPITAL							
Total capital	**164.820**	**0**	**0**	**0**	**0**	**0**	**164.820**
Total equity	**228.471**	**183.931**	**169.375**	**770.698**	**165.706**	**75.680**	**1.593.861**
NET ASSETS/EQUITY	**(100.594)**	**214.103**	**(115.716)**	**(388.435)**	**186.290**	**204.352**	**0**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

35. Interest risk (continued)

The table below summarizes the current interest rate for interest-bearing assets and liabilities:

	2018.	2017.
	%	%
Assets		
Placement to credit institutions	1,56	0,26
Loans and advances to clients	7,12	7,52
Liabilities		
Demand deposits	0	0,02
Term deposits	1,33	1,77
Loan liabilities	1,82	2,02

36. Concentration of assets, liabilities and off-balance sheet items

Description			31 Dec 2018			31 Dec 2017
	Assets	Liabilities	Off-balance sheet items	Assets	Liabilities	Off-balance sheet items
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Geographical area						
Croatia	1.555.678	1.392.810	104.655	1.584.738	1.416.395	102.329
Europe	12.951	11.544	0	9.123	12.646	1
Other	0	164.275	0	0	164.820	0
Total geographical area	**1.568.629**	**1.568.629**	**104.655**	**1.593.861**	**1.593.861**	**102.330**
Sector						
Republic of Croatia	352.172	55.381	311	264.269	44.962	2.746
Croatian National Bank	307.620	25.348	0	408.252	25.043	0
Trade	59.210	25.774	4.658	107.974	25.408	5.613
Finance	76.010	72.051	2.366	56.705	126.727	2.694
Tourism	36.442	3.767	2.029	24.245	2.764	2.206
Agriculture, Fisheries	45.118	4.949	3.207	65.895	10.528	7.627
Industry	53.608	20.506	10.976	117.222	19.026	5.138
Retail (private persons including craftsmen and other freelancers)	474.097	1.100.407	64.730	444.110	1.131.634	55.551
Non-residents	12.951	11.544	0	9.123	12.646	1
Other	151.401	248.902	16.378	96.066	195.124	20.754
Total – sectorial analysis	**1.568.629**	**1.568.629**	**104.655**	**1.593.861**	**1.593.861**	**102.330**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

37. Currency risk

Foreign currency assets and liabilities as at 31 Dec 2018 are summarized as follows:

	EUR	USD	Other currencies	HRK with currency clause	Total foreign currency equivalents	HRK	Total
ASSETS							
Cash	102.837	1.073	8.645	0	112.555	151.965	264.520
Financial assets at fair value through other comprehensive income	89.002	0	0	106.404	195.406	145.524	340.930
Financial assets at amortised cost – debt securities	0	0	0	0	0	5.885	5.885
Financial assets at amortised cost – loans and advances	15.698	6.469	480	471.267	493.914	401.894	895.808
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	5.698	5.698
Tangible assets	0	0	0	0	0	24.146	24.146
Intangible assets	0	0	0	0	0	7.005	7.005
Tax assets	0	0	0	0	0	3.309	3.309
Other assets	0	0	0	0	0	21.327	21.327
Total assets	**207.537**	**7.542**	**9.125**	**577.671**	**801.875**	**766.754**	**1.568.629**
LIABILITIES							
Financial liabilities measured at amortised cost:					0		0
Demand deposits	162.892	3.259	6.672	0	172.823	251.749	424.572
Term deposits	584.551	4.123	1.982	5.039	595.695	264.165	859.860
Liabilities for loans	0	0	0	43.854	43.854	52.609	96.463
Other financial liabilities	0	0	0	0	0	122	122
Provisions	0	0	0	0	0	4.677	4.677
Other liabilities	0	0	0	0	0	18.660	18.660
Total liabilities	**747.443**	**7.382**	**8.654**	**48.893**	**812.372**	**591.981**	**1.404.353**
CAPITAL							
Total capital	**0**	**0**	**0**	**0**	**0**	**164.276**	**164.276**
Total equity	**747.443**	**7.382**	**8.654**	**48.893**	**812.372**	**756.257**	**1.568.629**
NET ASSETS/EQUITY	**(539.906)**	**160**	**471**	**528.778**	**(10.497)**	**10.497**	**0**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

37. Currency risk (continued)

Foreign currency assets and liabilities as at 31 Dec 2017 are summarized as follows:

	EUR	USD	Other currencies	HRK with currency clause	Total foreign currency equivalents	HRK	Total
ASSETS							
Cash	138.447	1.290	9.532	0	149.269	203.372	352.641
Financial assets at fair value through other comprehensive income	0	0	0	33.239	33.239	231.573	264.812
Financial assets at amortised cost – debt securities	0	0	0	0	0	14.776	14.776
Financial assets at amortised cost – loans and advances	914	8.777	500	527.047	537.238	354.705	891.943
Receivables from Croatian National Bank	0	0	0	0	0	89.992	89.992
Placements to banks	914	8.777	500	0	10.191	1.981	12.172
Loans and advances to clients	0	0	0	527.047	527.047	262.732	789.779
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	5.723	5.723
Tangible assets	0	0	0	0	0	27.349	27.349
Intangible assets	0	0	0	0	0	7.192	7.192
Tax assets	0	0	0	0	0	3.863	3.863
Other assets	0	0	0	0	0	25.562	25.562
							0
Total assets	**139.361**	**10.067**	**10.032**	**560.286**	**719.746**	**874.115**	**1.593.861**
LIABILITIES							
Financial liabilities measured at amortised cost:							
Demand deposits	121.049	3.805	7.052	0	131.906	223.577	355.483
Term deposits	617.444	6.212	2.705	13.504	639.865	275.639	915.504
Liabilities for loans	0	0	0	51.777	51.777	84.225	136.002
Other financial liabilities	0	0	0	0	0	123	123
Provisions	0	0	0	0	0	4.827	4.827
Tax liabilities	0	0	0	0	0	0	0
Other liabilities	0	0	0	0	0	17.102	17.102
Total liabilities	**738.493**	**10.017**	**9.757**	**65.281**	**823.548**	**605.493**	**1.429.041**
CAPITAL							
Total capital	**0**	**0**	**0**	**0**	**0**	**164.820**	**164.820**
Total equity	**738.493**	**10.017**	**9.757**	**65.281**	**823.548**	**770.313**	**1.593.861**
NET ASSETS/EQUITY	**(599.132)**	**50**	**275**	**495.005**	**(103.802)**	**103.802**	**0**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

38. Liquidity risk

Remaining maturity of assets and liabilities of the Bank as at 31 December 2018 are shown as follows:

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS						
Cash	264.520	0	0	0	0	264.520
Financial assets at fair value through other comprehensive income	333.237	0	0	0	7.693	340.930
Financial assets at amortised cost – debt securities	4.588	532	765	0	0	5.885
Financial assets at amortised cost – loans and advances	111.662	77.565	178.591	198.620	329.370	895.808
Investments in subsidiaries, joint ventures and associates	0	0	0	0	5.698	5.698
Tangible assets	0	0	0	0	24.146	24.146
Intangible assets	0	0	0	0	7.005	7.005
Tax assets	0	0	2.361	344	604	3.309
Other assets	67	124	0	0	21.136	21.327
Total assets	**714.074**	**78.221**	**181.717**	**198.964**	**395.653**	**1.568.629**
LIABILITIES						
Financial liabilities measured at amortised cost:						
Demand deposits	424.572	0	0	0	0	424.572
Term deposits	117.670	138.427	384.343	193.527	25.893	859.860
Liabilities for loans	1.214	3.376	11.456	25.485	54.932	96.462
Other financial liabilities	122	0	0	0	0	122
Provisions	1.268	57	117	3.192	42	4.677
Other liabilities	18.660	0	0	0	0	18.660
Total liabilities	**563.506**	**141.860**	**395.916**	**222.204**	**80.867**	**1.404.353**
CAPITAL						
Total capital	**0**	**0**	**0**	**0**	**164.276**	**164.276**
Total equity	**563.506**	**141.860**	**395.916**	**222.204**	**245.143**	**1.568.629**
NET ASSETS/EQUITY	**150.568**	**(63.639)**	**(214.199)**	**(23.240)**	**150.510**	**0**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2018 (continued)

38. Liquidity risk (continued)

Preostalo dospijeće imovine i obveza Banke na dan 31. prosinca 2017. godine prikazano je kako slijedi:

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS						
Cash	352.641	0	0	0	0	352.641
Financial assets at fair value through other comprehensive income	257.193	0	0	0	7.619	264.812
Financial assets at amortised cost – debt securities	11.631	1.296	1.685	164	0	14.776
Financial assets at amortised cost – loans and advances	126.204	73.405	197.054	205.948	289.332	891.943
Receivables from Croatian National Bank	0	41.700	31.500	13.175	3.617	89.992
Placements to banks	11.259	150	763	0	0	12.172
Loans and advances to clients	114.945	31.555	164.791	192.773	285.715	789.779
Investments in subsidiaries, joint ventures and associates	0	0	0	0	5.723	5.723
Tangible assets	0	0	0	0	27.349	27.349
Intangible assets	0	0	0	0	7.192	7.192
Tax assets	765	0	2.224	426	448	3.863
Other assets	63	116	0	0	25.383	25.562
	0	0	0	0	0	0
Total assets	**748.497**	**74.817**	**200.963**	**206.538**	**363.046**	**1.593.861**
LIABILITIES						
Financial liabilities measured at amortised cost:						0
Demand deposits	355.483	0	0	0	0	355.483
Term deposits	167.784	164.930	403.147	155.757	23.886	915.504
Liabilities for loans	22.314	4.224	16.530	30.929	62.005	136.002
Other financial liabilities	123	0	0	0	0	123
Provisions	1.586	20	103	3.118	0	4.827
Tax liabilities	0	0	0	0	0	0
Other liabilities	17.102	0	0	0	0	17.102
Total liabilities	**564.392**	**169.174**	**419.780**	**189.804**	**85.891**	**1.429.041**
CAPITAL						
Total capital	**0**	**0**	**0**	**0**	**164.820**	**164.820**
Total equity	**564.392**	**169.174**	**419.780**	**189.804**	**250.711**	**1.593.861**
NET ASSETS/EQUITY	**184.105**	**(94.357)**	**(218.817)**	**16.734**	**112.335**	**0**

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

39. Capital management

Managing capital

Credit institutions in the Republic of Croatia are required to calculate and report the prudential information in accordance with Regulation (EU) No. 575/2013, Directive 2013/36/EU, Implementation 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 consists entirely of the equity capital, which includes equity generated by ordinary shares, capital gains, retained earnings, reserves, accrued other comprehensive income, other transitional adjustments (transitional provisions when IFRS 9 is introduced), less equity acquired, intangible property, unrealized losses from changes in fair value of financial assets

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

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

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

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

Supervisory assessment of the required rate of the total capital amounted to 15.88% (12% + 3.88% regulatory hedging for 2018).

Description	Basel III 31 Dec 2018 HRK '000	Basel III 31 Dec 2017 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	58.622	63.514
Reserves and retained earnings	73.953	78.845
Intangible assets	(7.005)	(7.192)
Unreturned amount of credits/loans approved for purchase of credit institution shares	0	0

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

39. Capital management (continued)

(continued)	Basel III	Basel III
Accumulated other comprehensive income	(585)	0
Impairment due to prudential valuation	(347)	(415)
Other transitional adjustments	5.264	0
Loss for the year	0	0
TIER 1 CAPITAL	**156.585**	**156.543**
TIER 2 CAPITAL	0	0
REGULATORY CAPITAL	156.585	156.543
CAPITAL ADEQUACY RATE	**17,72%**	**18,16%**

VII. EVENTS AFTER THE REPORTING PERIOD

After the balance sheet date there were no events that would have a significant impact on the Bank's 2018 annual financial statements, which should subsequently be disclosed.

VIII. LEGAL DISPUTES AND CONTINGENT LIABILITIES

As at 31 December 2018, there are several court claims 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.

SLATINSKA BANKA d.d., Slatina

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2018 (continued)

VIII. LEGAL DISPUTES AND CONTINGENT LIABILITIES (continued)

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 Croatian number: 52,Pž-6092 / 08-3 of 30 October 2012 in the way that the part of the judgment of the Commercial Court in Bjelovar the number P-167 / 08-27 of 19 June 2008, which denied request to establish the nullity of the Assumption Agreement the rights and obligations of 26 October 1992 had dismissed the appeal of the plaintiff as unfounded and in that part confirmed the first-instance judgment. This made the decision of the Commercial Court in Bjelovar on 19 June 2008 in respect of the rejection of the claim Jugobanka a.d., in bankruptcy, Belgrade, for the nullity of the Treaty established in 1992 legal and final.

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

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

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

IX. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were signed and authorized for issuing by the Management Board on 25 April 2019:

For and on behalf of the Management Board:

Andrej Kopilaš, President of the Management Board ______________________

Marin Prskalo, Member of the Management Board ______________________

Elvis Mališ, Member of the Management Board ______________________

SLATINSKA BANKA d.d. • 1 Slatina •

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

SLATINSKA BANKA d.d., Slatina

Appendix - Other legal and regulatory requirements

The Bank, in accordance with Article 164 of the Credit Institutions Act, publishes the following information:

The Bank is registered for the following activities:

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

In 2018, the Bank operated through its headquarters in Slatina and branches Osijek, Rijeka, Zagreb, D. Miholjac, Daruvar, Đakovo, Koprivnica, Našice, Orahovica, Pitomača, Požega, Slavonski Brod, Slatina, Valpovo, Virovitica and Pleternica.

SLATINSKA BANKA d.d., Slatina

Appendix - Other legal and regulatory requirements (continued)

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

	2018 / HRK '000.
Total revenue	80.383
Profit before tax	6.541
Income tax	(1.764)
Number of employees on 31 December 2018	180
Number of full-time employees (paid working hours) in 2018	159
The number of workers on the basis of equivalent full working time in 2018	133

In 2018 Slatinska Banka d.d. did not receive public subsidies.

SLATINSKA BANKA d.d., Slatina

Appendix - Annual Financial Statements of the Bank (in HRK) composed in accordance with the Decision on the structure and content of the annual financial statements of banks (OG 42/18)

Statement of financial position (Balance sheet) as at 31 December

Description	AOP code	Note no.	Preceding year	Current year
1	2	3	4	5
ASSETS				
1. Cash, cash receivables from central banks and other sight deposits (AOP 002 to 004)	001		352.641.414	264.520.327
1.1. Cash	002		23.607.655	29.077.648
1.2. Cash receivables from central banks	003		318.259.820	214.634.825
1.3. Other sight deposits	004		10.773.939	20.807.854
2. Financial assets held for trade (AOP 006 to 009)	**005**		**0**	**0**
2.1. Derivatives	006		0	0
2.2. Equity instruments	007		0	0
2.3. Debt securities	008		0	0
2.4. Loans and advances	009		0	0
3. Financial assets not held for trade which is measured at fair value through profit or loss (AOP 011 to 013)	**010**		**0**	**0**
3.1. Equity instruments	011		0	0
3.2. Debt securities	012		0	0
3.3. Loans and advances	013		0	0
4. Financial assets at fair value through profit or loss (AOP 015+016)	**014**		**0**	**0**
4.1. Debt securities	015		0	0
4.2. Loans and advances	016		0	0
5. Financial assets at fair value through other comprehensive income (AOP 018 to 020)	**017**		**264.812.105**	**340.930.278**
5.1. Equity instruments	018		21.256.106	16.369.377
5.2. Debt securities	019		243.555.999	324.560.901
5.3. Loans and advances	020		0	0
6. Financial assets at amortised cost (AOP 022+023)	**021**		**906.720.151**	**901.692.557**
6.1. Equity instruments	022		14.776.555	5.885.175
6.2. Loans and advances	023		891.943.596	895.807.382
7. Derivatives – hedge accounting	**024**		**0**	**0**
8. Changes in fair value of hedged items in interest risk portfolio	**025**		**0**	**0**
9. Investments in subsidiaries, joint ventures and affiliates	**026**		**5.723.243**	**5.697.640**
10. Tangible assets	**027**		**27.348.332**	**24.146.108**
11. Intangible assets	**028**		**7.192.158**	**7.005.482**
12. Tax assets	**029**		**3.862.807**	**3.309.371**
13. Other assets	**030**		**25.560.970**	**21.327.332**
14. Fixed assets and disposal groups classified as ready-to –sale	**031**		**0**	**0**
15. TOTAL ASSETS (AOP) 001+005+010+014+017+021+024TO031)	**032**		**1.593.861.180**	**1.568.629.095**

SLATINSKA BANKA d.d., Slatina

Appendix - Annual Financial Statements of the Bank (in HRK) composed in accordance with the Decision on the structure and content of the annual financial statements of banks (OG 42/18) (continued)

Statement of financial position (Balance sheet) as at 31 December (continued)

Description	AOP code	Note no.	Preceding year	Current year
1	2	3	4	5
Liabilities				
16. Financial liabilities held for trade (AOP 034 to 038)	**033**		**0**	**0**
16.1. Derivatives	034		0	0
16.2. Short term items	035		0	0
16.3. Deposits	036		0	0
16.4. Issued debt securities	037		0	0
16.5. Other financial liabilities	038		0	0
17. Financial liabilities at fair value through profit or loss (AOP 040 to 042)	**039**		**0**	**0**
17.1. Deposits	040		0	0
17.2. Issued debt securities	041		0	0
17.3. Other financial liabilities	042		0	0
18. Financial liabilities measured at amortised cost (AOP 044 to 046)	**043**		**1.407.114.012**	**1.381.016.851**
18.1. Deposits	044		1.406.990.907	1.380.894.539
18.2. Issued debt securities	045		0	0
18.3. Other financial liabilities	046		123.105	122.312
19. Derivatives – hedge accounting	**047**		**0**	**0**
20. Changes in fair value of hedged items in interest risk portfolio	**048**		**0**	**0**
21. Provisions	**049**		**4.827.368**	**4.676.977**
22. Tax liabilities	**050**		**0**	**0**
23. T1 capital returned at request	**051**		**0**	**0**
24. Other liabilities	**052**		**17.100.141**	**18.659.663**
25. Laiblilities included in disposal groups classified as ready for sale	**053**			
26. TOTAL LIABILITIES (AOP 033+039+043+047 to 053)	**054**		**1.429.041.521**	**1.404.353.491**
EQUITY				
27. Share capital	**055**		**91.897.200**	**91.897.200**
28. Share premium	**056**		**148.620**	**148.620**
29. Issued equity instruments (excluding capital)	**057**		**0**	**0**
30. Other equity instruments	**058**		**0**	**0**
31. Accumulated other comprehensive profit	**059**		**20.517**	**240.321**
32. Retained earnings	**060**		**63.513.889**	**58.622.089**
33. Revaluation reserves	**061**		**0**	**0**
34. Other reserves	**062**		**15.182.803**	**15.182.803**
35. Treasury shares	**063**		**-6.592.348**	**-6.592.348**
36. Profit or loss belonging to owners of parent company	**064**		**648.978**	**4.776.919**
37. Dividend during the business year	**065**		**0**	**0**
38. Minority (non-controlling share)	**066**		**0**	**0**
39. TOTAL CAPITAL (AOP 055 to 066)	**067**		**164.819.659**	**164.275.604**
40. TOTAL LIABILITIES AND CAPITAL (AOP 054+067)	**068**		**1.593.861.180**	**1.568.629.095**

SLATINSKA BANKA d.d., Slatina

Appendix - Annual Financial Statements of the Bank (in HRK) composed in accordance with the Decision on the structure and content of the annual financial statements of banks (OG 42/18) (continued)

Statement of profit or loss for the period from 1 January 2018 to 31 December 2018

Description	AOP code	Note no.	Preceding year	Current year
1	2	3	4	5
1. Interest income	069		63.391.084	61.264.843
2. Interest expenses	070		19.432.442	14.024.235
3. Expenses from T1 capital returned upon request	071		0	0
4. Income from dividends	072		7.801	0
5. Fee and commission income	073		12.829.715	13.022.120
6. Fee and comission expenses	074		3.632.215	4.000.143
7. Gains or losses after ceasing recognition of financial assets and financial liabilities not measured at fair value through profit or loss, net	075		5.920.295	910.838
8. Gains or losses from financial assets and financial liabilities held for trade, net	076		3.210.555	2.938.906
9. Gains or losses from financial assets not held for trade, measured at fair value through profit or loss, net	077		0	0
10. Gains and losses from financial assets and financial liabilities at fair value through profit or loss, net	078		0	0
11. Gains or losses from hedge accounting, net	079		246	0
12. Exchange differences (profit or loss), net	080		177.038	-294.217
13. Gains or losses after ceasing recognition of non-financial assets, net	081		0	0
14. Other operating income	082		5.230.529	2.245.842
15. Other operating expenses	083		4.967.382	4.265.796
16. TOTAL OPERATING INCOME (AOP069-070-071+072+073-074+075 to 082-083)	**084**		**62.735.224**	**57.798.158**
17. Administrative expenses	085		35.118.388	35.978.754
18. Amortisation	086		3.296.261	3.304.390
19. Gains or losses due to change, ner	087		0	0
20. Provisions or discontinuation of provisions	088		-88.146	317.812
21. Impairment or discontinuation of impairment of financial assets not measured at fair value through profit or loss	089		23.192.740	11.428.688
22. Impairment or discontinuation of impairment of investment in subsidiaries, joint ventures and affiliates	090		-53.383	25.603
23. Impairment or discontinuation of impairment of non-financial assets	091		0	201.632
24. Negative goodwill recognised in profit or loss	092		0	0
25. Share in profit or loss from investemnts in subsidiaries, joint ventures and affiliates, calculated by share method	093		0	0
26. Profit or loss from fixed assets and disposal groups classified as ready for sale and not qualified as non-continuing	094		0	0
27. PROFIT OR LOSS BEFORE TAXATION (FROM CONTINUING OPERATIONS) AOP 084-085+087-088 to091+092 to 094	**095**		**1.269.364**	**6.541.279**
28. Tax income or expenses from continuing operations	096		620.386	1.764.360
29. PROFIT OR LOSS AFTER TAXATION (FROM CONTINUING OPERATIONS) AOP 095-096	**097**		**648.978**	**4.776.919**
30. Profit or loss after taxation (from non-continuing concern operations) (AOP 099—100)	**098**		**0**	**0**
30.1. Profit or loss before taxation (from non-continuing operations)	099		0	0
30.2. Tax income or expenses from non-continuing operations	100		0	0
31. PROFIT OR LOSS FOR THE CURRENT YEAR (AOP 097+098; 102+103)	**101**		**648.978**	**4.776.919**
32. Attributed to minority (non-controlling) share	**102**		**0**	**0**
33. Attributed to owners of mother company	**103**		**0**	**0**

SLATINSKA BANKA d.d., Slatina

Appendix - Annual Financial Statements of the Bank (in HRK) composed in accordance with the Decision on the structure and content of the annual financial statements of banks (OG 42/18) (continued)

Statement of other comprehensive income for the period from 1 January 2018 to 31 December 2018

Description	AOP code	Note no.	Preceding year	Current year
1	2	3	4	5
1. Profit or loss for the current year (AOP 101)	**104**		**648.978**	**4.776.919**
2. Other comprehensive income (AOP 106 + 118)	**105**		**499.205**	**211.947**
2.1. Items not reclassified into profit or loss (AOP 107 to 113+116+117)	**106**		**0**	**37.021**
2.1.1. Tangible assets	107		0	0
2.1.2. Intangible assets	108		0	0
2.1.3. Actuarial gains or losses on employer sponsored pension plans	109		0	0
2.1.4. Fixed assets and disposal groups ready for sale	110		0	0
2.1.5. Share of other recognised income and expenses from subjects calculated by share method	111		0	0
2.1.6. Changes of fair value of equity instruments measured at fair value through other comprehensive income	112		0	37.021
2.1.7. Gains or losses from hedge accounting of equity instruments measured at fair value through other comprehensive income, net	113		0	0
2.1.8. Changes of fair value of equity instruments measured at fair value through other comprehensive income (hedged item)	114		0	0
2.1.9. Changes of fair value of equity instruments measured at fair value through other comprehensive income (hedged instrument)	115		0	0
2.1.10. Changes of fair value of financial liabilities measured at fair value through profit or loss, attibuted to changes in currency risk	116		0	0
2.1.11. Corporate income tax related to non-reclassified items	117		0	0
2.2. Items that can be reclassified into profit or loss (AOP 119 to 126)	**118**		**499.205**	**174.926**
2.2.1. Hedging of net investment in foreign operations (effective shares)	119		0	0
2.2.2. Calculation of foreign currency	120		0	0
2.2.3. Hedging of cash flows (effective shares)	121		0	0
2.2.4. Risk protection insrtruments (not determined)	122		0	0
2.2.5. Debt instruments at fair value through other comprehensive income	123		499.205	174.926
2.2.6. Fixed assets and disposal groups ready for sale	124		0	0
2.2.7. Share of other recognised income and expenses from investment in subsidiaries, joint ventures and affiliates	125		0	0
2.2.8. Corporate incoem tax related to items that can be classified into profit or loss	126		0	0
3. Total comprehensive income of the current year (AOP 104+106 and AOP 128+129)	**127**		**1.148.183**	**4.988.866**
4. Attributed to minority (non-controlling) share	128		0	0
5. Attributed to owners of mother company	129		0	0

SLATINSKA BANKA d.d., Slatina

Appendix - Annual Financial Statements of the Bank (in HRK) composed in accordance with the Decision on the structure and content of the annual financial statements of banks (OG 42/18) (continued)

STATEMENT OF CASH FLOWS – Indirect method for the period from 1 January 2018 to 31 December

Description	AOP code	Note no.	Preceding year	Current year
1	2	3	4	5
Operating activities				
1. Profit / loss before taxation	001		1.269.364	6.541.279
2. Impairment ad provisions	002		22.887.281	11.973.735
3. Depreciationa	003		3.296.261	3.304.390
4. Net gains/ losses from financial assets at fair value in P&L Statement	004		0	0
5. Gains/losses from sale of tangible assets	005		0	0
6. Other non-monetary items	006		0	0
Changes in operating assets and liabilities				
7. Deposits with CNB	007		-167.129.337	100.832.378
8. Deposits with banking institutions and loans to credit institutions	008		95.564.054	-25.516.606
9. Loans to other clients	009		-166.763.970	6.653.812
10. Securities and other financial instruments at fair value through other comprehensive income	010		197.926.874	-76.064.263
11. Securities and other financial instruments held for trade	011		0	0
12. Securities and other financial instruments not actively traded and evaluated at fair value through profit and loss	012		0	0
13. Securities and other financial instruments measured at fair value through profit or loss	013		0	0
14. Securities and other financial instruments measured at amortised cost	014		24.064.297	3.202.866
15. Other operating assets	015		758.196	-2.035.700
Increase / reduction in operating liabilities				
16.Deposits from financial institutions	016		0	0
17. Transaction accounts of other clients	017		32.966.241	45.679.394
18. Saving depostis of other clients	018		29.971.959	23.409.282
19. Term deposits of other clients	019		-85.206.659	-53.735.401
20. Derived financial liabilities and other trading liabilities	020		-684	0
21. Other liabilities	021		-1.924.697	1.090.525
22. Collected interest from operating activities	022		66.287	2.728.573
23. Received dividends from operating activities	023		0	0
24. Paid interest from perating activities	024		-1.204.594	-1.909.907
25. Paid corporate income tax	025		0	0
A) Net cash flow from operating activities (AOP 021 to 024)	**026**		**-13.459.127**	**46.154.357**
Investment activities				
1. Receipts from sale / purchase / tangible and intangible assets	027		2.497.800	4.176.346
2. Receipts from sale / purchase / investments in subsidiaries, joint ventures and affiliates	028		0	0
3. Collection/ purchase / debt and other financial instruments from investin activities	029		0	0
4. Received dividents from investing activities	030		0	0
5. Other receipts / payments / from investing activities	031		0	0
B) Net cash flow from investing activities (AOP 026 to 030)	**032**		**2.497.800**	**4.176.346**
Financial activities				
1. Net increase / reduction in received loans	033		15.380.935	-39.539.736
2. Net increase / reduction in issued debt securities	034		0	0
3. Net increase / reduction in subordinate and hybrid instruments	035		0	0
4. Increase in T1 capital	036		0	0
5. Paid dividends	037		0	0
6. Other receipts / payments from financial activities	038		-4.751.075	-5.320.974
C) Net cash flow from financial activities (AOP 032 to 037)	**039**		**10.629.860**	**-44.860.710**
D) Net increase / reduction in cash and cash equivalents (AOP 025+031+038))	**040**		**-331.467**	**5.469.993**
Cash and cash equivalents at the beginning of the year	**041**		**23.939.122**	**23.607.655**
Influence of changes in exchange rate on cash and cash equivalents	**042**			
Cash and cash equivalents at the end of the year (AOP 039+040+041)	**043**		**23.607.655**	**29.077.648**

SLATINSKA BANKA d.d., Slatina

Appendix - Annual Financial Statements of the Bank (in HRK) composed in accordance with the Decision on the structure and content of the annual financial statements of banks (OG 42/18) (continued)

STATEMENT OF CHANGES IN EQUITY for the period from 1 January 2018 to 31 December 2018

Description	AOP code	Available to shareholders of mother-company							Total
		Share capital	Share premium	Acumulated retained compr. income	Retianed earnings	Other reserves	Treasury shares	Profit or loss belonging to the owner of parent company	
1	2	4	5	8	9	11	12	13	17 (4 do 16)
1. Opening balance (before corrections)	**01**	**91.897.200**	**148.620**	**20.517**	**63.513.889**	**15.182.803**	**-6.592.348**	**648.978**	**164.819.659**
2. Effect of corrections	02	0	0	0	0	0	0	0	0
3. Effects of changes in accounting policies	03	0	0	545.947	-5.540.778	0	0	0	-4.994.831
4. Opening balance (current period) (AOP 01 to 03)	**04**	**91.897.200**	**148.620**	**566.464**	**57.973.111**	**15.182.803**	**-6.592.348**	**648.978**	**159.824.828**
5. Issuing regular shares	05	0	0		0	0			0
6. Issuing preferred shares	06	0	0		0	0			0
7. Issuing other equity instruments	07				0	0			0
8. Execution or expiration of other issued equity instruments	08				0	0			0
9. Transfering liabilities into equity instruments	09	0	0		0	0			0
10. Reduction in capital	10	0	0		0	0	0	0	0
11. Dividends	11	0	0		0	0	0		0
12. Purchase of treasury shares	12				0	0	0		0
13. Sale or cancellation of trasury shares	13				0	0	0		0
14. Reclassification of financial instruments from equity to liability	14	0	0						0
15. Reclassification of financial instruments from laibility to equity	15	0	0						0
16. Transfer between equity instruments components	16			0	648.978	0		-648.978	0
17. increase or decrease of equity instruments as a consequence of business combinations	17	0	0	0	0	0	0		0
18. increase based on shares	18	0	0				0		0
19. other increase or decrease of equity instruments	19			-538.090	0	0	0	0	-538.090
20. total comprehensive profit for the current year	20			211.947	0	0		4.776.919	4.988.866
21. closing balance (current period) (AOP 04 to 20)	**21**	**91.897.200**	**148.620**	**240.321**	**58.622.089**	**15.182.803**	**-6.592.348**	**4.776.919**	**164.275.604**

SLATINSKA BANKA d.d., Slatina

Appendix - Annual Financial Statements of the Bank (in HRK) composed in accordance with the Decision on the structure and content of the annual financial statements of banks (OG 42/18) (continued)

Off-balance sheet items:

1	OFF-BALANCE SHEET ITEMS	31 Dec 2017	31 Dec 2018
2	Guarantees	15.243.498	17.108.179
3	Letters of credit	0	0
4	Letters of guarantee,	0	0
5	Accepted bills of exchange	0	0
6	Revolving loans	3.928.292	4.611.916
7	Indicative margin loans	0	10.474.913
8	Other credit lines and commitments	82.948.216	72.459.726
9	Other risk off-balance sheet items	210.000	0
10	Total off-balance items	102.330.006	104.654.734

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