# Corporate Credit & Issue Rating

☒New ☐Update

Sector: Banking
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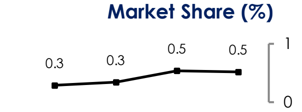
## RATINGS

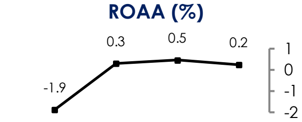
| | | | Long | Short |
|---|---|---|---|---|
| International | Foreign Currency | | BBB- | A-3 |
| International | Local Currency | | BBB- | A-3 |
| International | Outlook | FC | Stable | Stable |
| International | Outlook | LC | Stable | Stable |
| International | Issue Rating | | BBB- | A-3 |
| National | Local Rating | | A- (Crt) | A-1 (Crt) |
| National | Outlook | | Stable | Stable |
| National | Issue Rating | | A- (Crt) | A-1 (Crt) |
| Sponsor Support | | | 2 | - |
| Stand-Alone | | | B | - |
| Sovereign* | Foreign Currency | | BBB- | A-3 |
| Sovereign* | Local Currency | | BBB- | A-3 |
| Sovereign* | Outlook | FC | Stable | - |
| Sovereign* | Outlook | LC | Stable | - |

*Assigned by JCR-ER on October 25, 2018

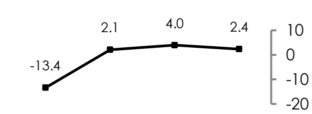
Market Share (%)



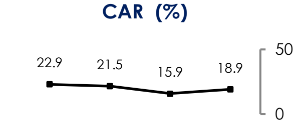

ROAA (%)



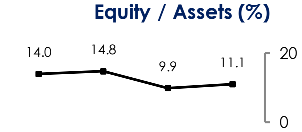

ROAE (%)



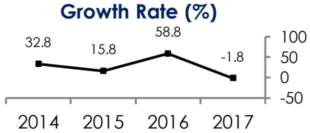

CAR (%)




Equity / Assets (%)




Growth Rate (%)




# KentBank d.d.

## Company Overview

| Financial Data | 2Q2018** | 2017* | 2016* | 2015* | 2014* |
|---|---|---|---|---|---|
| **Total Assets (000 HRK)** | 2,202,204 | 2,078,596 | 2,129,355 | 1,354,826 | 1,173,993 |
| **Total Assets (000 EUR)** | 298,419 | 276,630 | 281,735 | 177,449 | 153,243 |
| **Equity (000 EUR)** | 31,391 | 30,658 | 27,865 | 26,301 | 21445 |
| **Loans (000 EUR)** | 197,306 | 155,771 | 134,717 | 97,876 | 78,066 |
| **Deposits (000 EUR)** | 264,873 | 223,467 | 230,433 | 147,200 | 129,139 |
| **Net Profit (000 EUR)** | 699 | 697 | 1,076 | 513 | -1436 |
| **Market Share (%) **** | 0.56 | 0.52 | 0.54 | 0.34 | 0.29 |
| **ROAA (%)** | n.a | 0.25 | 0.47 | 0.31 | -1.07 |
| **ROAE (%)** | n.a | 2.38 | 3.97 | 2.15 | -7.37 |
| **Equity/Assets (%)** | 10.52 | 11.08 | 9.89 | 14.82 | 13.99 |
| **CAR - Capital Adequacy Ratio (%) **** | 17.34 | 18.92 | 15.90 | 21.46 | 22.93 |
| **Asset Growth Rate (Annual) (%)** | n.a | -1.81 | 58.77 | 15.80 | 32.78 |

*** Audited financial statements ** Based on CNB Reporting**

**KentBank d.d.** (referred to as "the Bank" or "KentBank") was initially founded as Stedionica Brod in 1998, later took form of Banka Brod d.d. in 2002. The Bank was later acquired by Süzer Holding A.S. in 2012 and recapitalized considerably. Currently fully owned by Süzer Holding, KentBank serves its retail and corporate clients as a deposit collecting credit institution.

The Bank is positioned in the small-asset size cohort of the considerably fragmented Croatian Banking Sector and is adequately capitalized. The Bank's superior asset quality, compared to the Sector and its peer group, supports its operating capabilities, is enhanced by the parent Holding's financial and management support. KentBank's margins are healthy and sufficient, even though the operating expenses indicate room for better economies of scale due to asset size.

KentBank operates in the Republic of Croatia through 15 branches. The Bank's total workforce is approximately 200.

## Strengths

- Widespread and core deposit base, supporting the liquidity profile and enlarging the funding pool
- Net interest margin wide enough to generate a reasonable foundation to support internal resource generation
- Lower NPL ratios and better asset quality compared to the peers, accompanied with higher provision coverage ratios and absence of material asset sales
- Loan/deposit ratios accommodating room for further growth
- Prudent underwriting procedures and reasonable risk management
- Demonstrated support from the parent Holding

## Constraints

- Low market share and constrained business position necessitating additional equity injection so as to capture a greater market share
- Challenging operating environment due to unemployment, emigration trend and wage growth dynamics
- High operating expenses stemming from current business structure and limited economies of scale in the market
- Limited returns on assets and equity
- Market risk stemming from sizable share of treasury bonds & bills portfolio, inducing susceptibility to interest rates and engendering hedging requirements, despite reducing share in the recent periods

# 1. Rating Rationale

KentBank's ratings reflect a consolidated analysis of its quantitative and qualitative performance and business position indicators such as; reasonable interest margins, sticky deposit base with comfortable maturity profile, sound liquidity position, prudent and stronger lending structure than the Sector's average asset quality, adequate shareholder support, as well as relatively small market share in the fragmented market dominated by few foreign owned banks, challenges in the retail lending market and sizable operating expenses compared to the asset base and loanbook.

JCR Eurasia Rating utilizes the independent audit reports based on IFRS reporting as the basis of the analysis of financial performance. However, reports submitted to Croatian National Bank (CNB), the central bank of Croatia, and financials prepared in accordance with CNB regulations were used for comparisons of the Bank and the Sector. The Bank's audit reports are prepared in Croatian Kunas, as it is the functional currency. The financial tables have been translated into EUR and USD using end of year exchange rates for reference. Due to the methodology applied to the financial statements, classification of certain items might differ from audited or CNB sourced data. No separate rating report has been compiled as the resources obtained from a potential bond issue is expected to be carried in the Bank's balance sheet. In this sense a prospective issuance carries no difference in comparison to the Bank's other liabilities with respect to its legal standing and collateralisation. As such, the notations outlined in the credit rating report also reflect the issue rating but do not cover any structured finance instruments.

JCR Eurasia Rating has assigned KentBank d.d. a National Local Rating of **'A- (Crt)'** in the long term, which denotes a high-level investment grade, and **'A-1 (Crt)'** in the short term with **'Stable'** outlooks on both ratings. The Bank's International Long Term Local and Foreign Currency ratings, which account for convertibility and transfer risks, are assigned as **'BBB-'** which is the country ceiling assigned to Republic of Croatia. The outlook on the International Local and Foreign currency ratings are **'Stable'**. The Bank's international ratings are capped at the country ceiling and could be re-evaluated in the event of a rating upgrade to Republic of Croatia, or Republic of Turkey which is the base of the parent Süzer Holding A.Ş.

**Fundamental Rating Considerations are as follows;**

**Long average maturity term of customer deposits with a sticky profile**

Customer deposits, by far the most important funding source for the Bank, were HRK 1,679mn at FYE2017 (EUR 223.47mn) and 1,955mn as of 2Q2018. The vast majority of KentBank's deposits are long-term, with a notable concentration in the 3-12-month section, 82.66% of time deposits. The relatively longer maturity-based deposits structure eases liquidity management.

Additionally, predominance of the deposit base are received from retail customers, as opposed to corporate deposits which tend to be more sensitive and less sticky.

| FY2017 | ROA (%) | ROE (%) |
|---|---|---|
| **KentBank** | **0.25** | **2.08** |
| Small Banks | -0.02 | -0.19 |
| Medium Banks** | -1.66 | -5.35 |
| Large Banks | 1.22 | 9.20 |
| **Croatian Banking S.** | **1.06** | **7.95** |

* Based on CNB compliant figures & net income, without averaging

** Due to EUR 19.6mn loss reported by Sberbank d.d.

**Adequate capitalization level supported by the cash injections of the parent following acquisition**

KentBank's Capital Adequacy Ratio was 17.34% as of 2Q2018, decreasing slightly with loan growth realized in 2018. The Bank's CAR is below the Croatian Banking Sector average (2Q2018: 22.56%), however easily exceeds the CAR requirements set by the regulatory institutions.

The seven-year subordinated debt, financed by the primary shareholder, at the equivalent of EUR5mn provides an additional capital buffer. As such, KentBank's CAR level indicates adequate room to expand the loan portfolio without suffering limit breaches.

**Low loan to deposit ratio, providing room for additional credit growth**

The Bank's loan to deposit ratio (LTD) stood at approx. 70-75%. The Sector as a whole also maintains a low LTD, though slightly higher compared to the Bank. Subsequently, Sector's and Bank's balance sheet composition and funding profile indicates a sizable loan growth potential, parallel to the overview driven from CAR profile.

As a result of low LTD, the Bank invest in government securities and private borrowing instruments to a certain extent. The margins on the securities are naturally tighter compared to loans and generate market risk due to fluctuating interest rates.

**Comparatively high provision coverage of impaired loans, partly countering better than Sector yet notable NPL level**

Croatian banking sector's impaired loan ratio is high, despite improvements in the recent years and claim sales & write-offs. KentBank's impaired loans ratio compared to the Sector is better, which is more striking given that the Bank resorts to much more limited claim sales compared to the Sector.

In addition to lower NPL ratio, KentBank has high loan loss coverage ratio (allowances to non-performing loans) reflecting a conservative portfolio management policy. In this sense, the Bank's asset quality, while facing the challenges of the Croatian banking market, is modest.

**Highly skewed market structure with few banks controlling a large share of the banking system assets**

Croatian banking system, comprising 23 banks is marked by the highly skewed market share distribution with largest 2 and 4 banks comprising approx. 40% and 62% of total system assets. Therefore, the competitive environment is challenging and necessitates a significant capital base to have a strong business position.

**Sizable operating expenses and provisions limiting the equity support via internal resource generation**

The Bank operates with comparable and modest net interest margin on average, with certain segments overperforming. However, net interest & commissions income is downplayed by the operating expenses, which account for up to 55-60% of total expenses. Due to low interest rate environment and challenges in the market to optimize cost of risk across the board, efficient management of operating expenses is deemed important.

## 2. Outlook

JCR Eurasia Rating has assigned a **"Stable"** outlook on the short and long term national and international ratings of KentBank, considering the Bank's solid asset quality and liquidity position, its adequate capitalization, core deposit base, prudent lending policies, macro banking environment in Croatia, GDP & wage growth projections and key demographic indicators.

Key considerations which would pressurize the outlooks on the ratings include a material deterioration in NPL, poor macroeconomic performance, weakened debt-servicing capabilities of the real sector, erosion of capital, difficulties in accessing funding resources, deteriorating profitability ratios and changes to the sovereign rating level of Croatia.

Additionally, possible difficulties in accessing fund resources stemming from turmoil in the markets, increased political tension, downgraded sovereign rating of Turkey, and alterations in its outlook are the substantial influences that may exert downward pressure on future changes in ratings and outlook status.

Outlook could be positively revised in the event of rating or outlook upgrade to Croatia and/or Turkey, which is not expected in the near term. Additionally, stronger than expected profitability metrics, significantly more efficient operating income, material increase in market share could engender a rating outlook upgrade in the national and international rating scales.

JCR Eurasia Rating will continue to monitor developments regarding the projections and the factors listed above.

## 3. Sponsor Support and Stand-Alone Assessment

KentBank d.d.'s Sponsor Support Rating has been determined by taking into account the financial strength and willingness of support of Süzer Holding A.Ş., the sole owner of the Bank. The Holding is a conglomerate based in Turkey with operations in finance, energy, tourism and real estate development.

Considering Süzer Group's financial and operational positions and the capital injections realized in the previous years, EUR 30mn following its acquisition of the Bank, it is considered that the Holding has the willingness to supply liquidity and equity within its financial capability when financial needs arise in the short or long term and has the sufficient experience to provide operational support to the Bank when required. Regarding the above factors, JCR Eurasia Rating has assigned the Bank's Sponsor Support Note as **"2"** denoting adequate external support.

The Stand-Alone rating of the Bank is determined as **"B"** considering its capital adequacy ratio, profitability indicators, liquidity level and market position. This Stand-Alone note indicates that the Bank is expected to be able to manage its balance sheet risks successfully even if the shareholders or public authorities do not provide any assistance.

## 4. Company Profile

### a) History & Activities

KentBank was initially founded as Stedionica Brod in 1998, later took form of Banka Brod d.d. in 2002. The Bank was later acquired by Süzer Holding A.S. in 2012 and recapitalized considerably. Currently fully owned by Süzer Holding, KentBank serves its retail and corporate clients as a deposit collecting credit institution.

The Bank serves the Croatian banking clients via its 15 branches, in addition to the digital banking services. The customer profile includes retail, SME and corporate segment borrowers & depositors. KentBank's treasury department engages in securities trade.

### b) Organization & Employees

KentBank operates in the Republic of Croatia through 15 branches. The head office of the Bank is located in Zagreb.

In addition to its physical branch network, the Bank facilitates the use of alternative delivery channels (ADC), including, ATMs, mobile and internet banking facilities. The Bank has workforce of circa. 200.

The Bank's organizational structure includes Risk Management, Financial Planning & Control, Operations, IT, Treasury, HR, Legal Affair and divisions for Corporate, SME and Retail segments of credit and deposit customers. Executive divisions report to the Management Board, which in turn is supervised by Supervisory Board. Internal Audit unit reports to the Supervisory Board.

The Management Board, executive senior management, consists of 4 members. The Management Board members are senior banking & finance sector executives.

| Management Board | |
|---|---|
| Murat Betoner | President |
| Fikret Kartal, PhD | Board Member |
| Damir Brkić | Board Member |
| Feyza Önen | Board Member |

The Supervisory Board is the non-executive board and has the ultimate responsibility for the Bank's operations.

| Supervisory Board | |
|---|---|
| Meriç Uluşahin | President |
| Hakan Özgüz | Deputy President |
| Daniela Roguljić Novak | Board Member |

### c) Shareholders, Subsidiaries & Affiliates

| Shareholder | Paid Capital (000 HRK) | FY2017 (%) | Paid Capital (000 HRK) | FY2016 (%) |
|---|---|---|---|---|
| Süzer Holding A.Ş. | 278,012 | 100 | 268,333 | 100 |

Süzer Holding A.Ş. is owned by Süzer Family and has roots dating back to 1952. The Holding operates principally in the sectors of energy, construction & real estate, finance and tourism.

### d) Corporate Governance

The Bank's internal systems are structured in accordance with the legislative framework applicable to the banks in Croatia. Croatian Code of Corporate Governance, the umbrella legislation concerning the subject, reflecting OECD principles to a certain extent. While the corporate governance compliance of the Bank is not examined exhaustively within the scope of this rating report, KentBank's overall corporate governance framework is overviewed with respect to the Corporate Governance best practices.

The Bank has a double board system, with the supervisory board giving approval to the management board's decisions and providing oversight. Both of the boards' members are considered to possess the necessary qualifications to serve their duties in their respective positions.

The Bank's annual financial results are published on the corporate webpage, as legally required. However, as a non-listed bank, KentBank's disclosures are mostly limited to risk management and financial figures.

### e) Company and Group Strategies

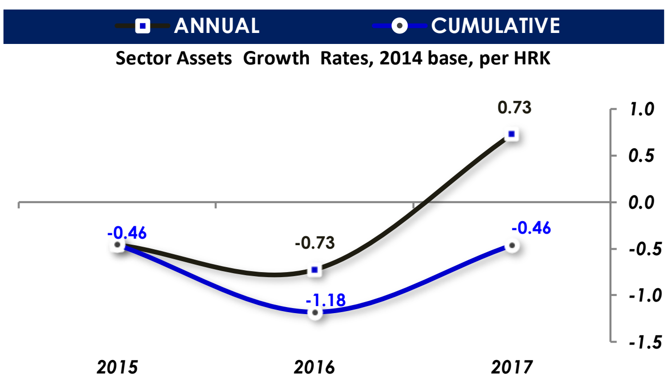
KentBank is positioned in the small asset size bracket of the Sector, which is dominated by 4 foreign owned banks accounting for more than 68% of the banking sector's assets. With 23 banks in the system, KentBank is focusing on sustainable and profitable growth with prudent lending, effective cost management and increasing its market share particularly in SME segment.

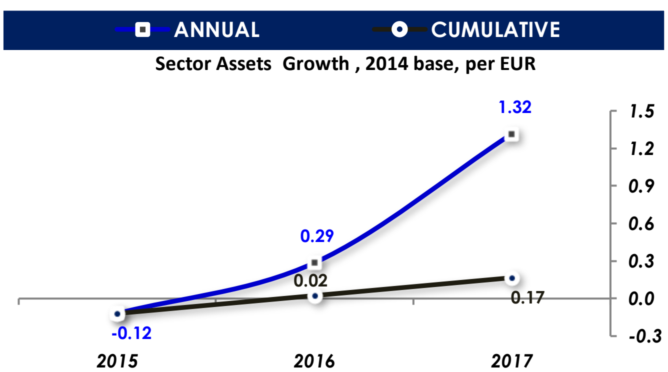
Management of the Bank is focusing on controlling operating expenses so as to improve profitability and increase efficiency. Additionally, the branch network, currently comprising 15 branches, is planned to be increased in areas with strong commission and business origination potential.

## 5. Sector Overview & Operational Environment

The Croatian Banking System, regulated by the 'Croatian National Bank', is under the control of foreign-owned banks. The sector is composed of 23 banks, of which 3 are state owned. 14 of the banks are foreign-owned.

More than 90% of the banking sector assets are controlled by foreign owned banks, with top 2 and 4 banks accounting for 46% and 68% of total banking assets. The total asset size of the Croatian Banking Sector is in excess of EUR 53bn as of 2Q2018.




*CNB, asset growth data includes banks and housing savings banks*

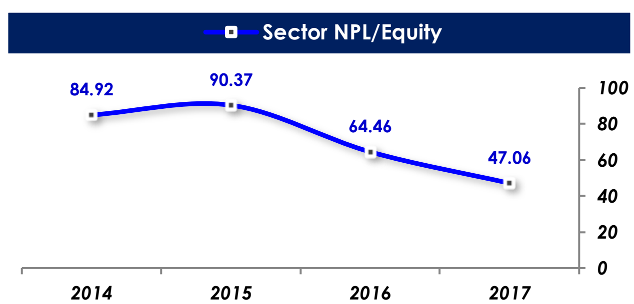
Deposits-to-GDP, credits-to-GDP and credits-to-deposits are the fundamental indicators of the development of financial intermediation and the depth of a financial system. The aforementioned ratios were 83.5%, 63.5% and 76.0% as of YE2017. Loans to deposits at 2Q2018 was 81.62% with a slight increase, still indicating a significant room for credit growth, particularly considering the CAR ratio of the Sector materialized at 22.56% provided that domestic loan demand is resilient enough.

Deposits account for 82.63% of total assets as of 2Q2018. While Croatia is an EU member, the country has not entered the Eurozone yet and the Kuna is still the official currency. Regardless, use of Euro is highly common in Croatia and a sizable portion of the deposits are Euro deposits. Likewise, there is a high demand for Euro and Euro linked loans, balancing the liability exposure of the banking sector and limiting the market risk related to the exchange rate volatility.

Due to the fact that vast majority of the banks are held by foreigners, mostly EU based banks from Italy and Germany, EUR transactions play a major role.

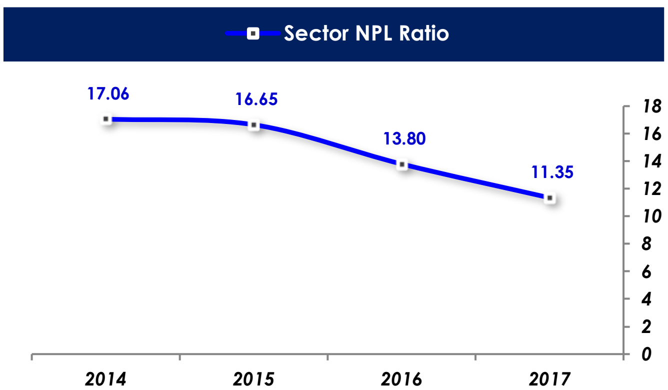
Government and private sector issuances are the second major interest generating portfolio holdings accounting for 10-15% of total banking system assets, whereas the ratio increases significantly for certain banks. Low interest rate environment in the EU is reflected in Croatia as well with CNB keeping the rates low to stimulate demand. However, as the leading global economies commence monetary tightening, CNB is expected to follow suit.

This results in a competition challenge as the leading 4 banks of the system which account for nearly 70% of the Sector's assets are much more likely than the other banks to already have customer risk data, reducing their need to the pooled database. Smaller banks however, with a much lower customer base information, require access to the database, which is currently unavailable.




*Based on data by CNB*

The Croatian Banking System's non-performing loans to equity ratio improved to 47.06% at FYE2017 from 64.46% as of FYE2016 owing to write-offs. Given the stronger 2018 results, further improvement in the NPL to equity ratio is expected to improve further. Changes in the bankruptcy law also affect the insolvency proceedings. Amendments to the bankruptcy law would have a prominent impact on the outlook of the Sector's legacy impaired assets and new additions, via affecting the collection speed. As of 2Q2018, Sector's NPL ratio was 11.19% per CNB reporting, which is still high but followed a significant decreasing trend since 2014.

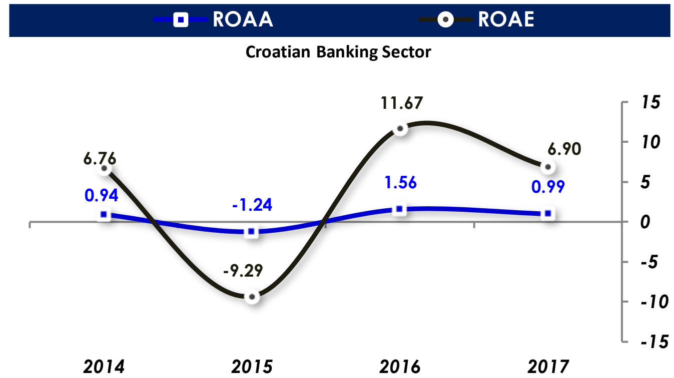



*Based on data by CNB*

The balancing factor for the financial system's notable NPL ratios, particularly after adding back the sold claims, the Croatian Banking Sector's capitalization level is solid, with CAR levels in excess of 22% which is far above the EU average that is around 17% as of 2Q2018. As such, the current capitalization level, well above the required minimum levels, indicates that the banks are able to absorb moderate shocks and have a potential for further growth in loans.

| | 2014 | 2015 | 2016 | 2017 | 2Q2018 |
|---|---|---|---|---|---|
| Sector CAR % | 20.88 | 20.88 | 22.93 | 23.74 | 22.56 |

In 2Q2018, the sectors' pre-tax income was EUR 468.46mn, signalling a stronger year-end compared to 2017. However, the concentration of net income should be noted, as it follows closely the asset concentration; top 5 banks with respect to pre-tax income constituting approximately 84% of system's total pre-tax income. It should be noted that at the same period, 4 banks out of 23 posted losses. The current profitability levels indicate room for improvement for the system as a whole while leading banks of the Sector have satisfactory ratios.




Based on CNB data, including banks and savings banks, EUR

As a result of the general macro outlook; recovery of growth and fiscal conditions, Croatian banking sector's business profile is considered moderately positive, despite significant challenges in retail lending due to operational obstacles and limited demand. Tourism revenues and subsequent demand for particularly commission generating operations and restructuring could support further growth, though the heavily skewed asset distribution of the Sector creates an uneven playing field for smaller banks.

## 6. Financial Foundation

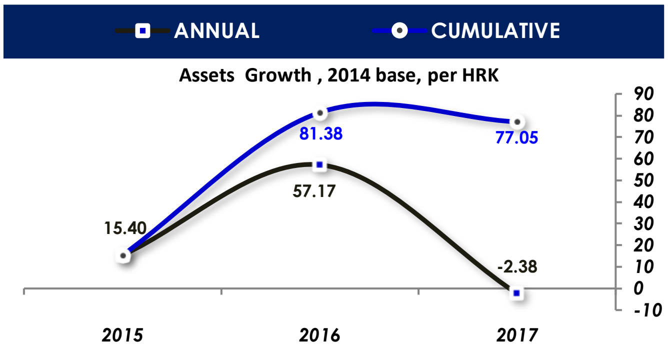
### a) Financial Indicators & Performance

#### i. Indices relating to size

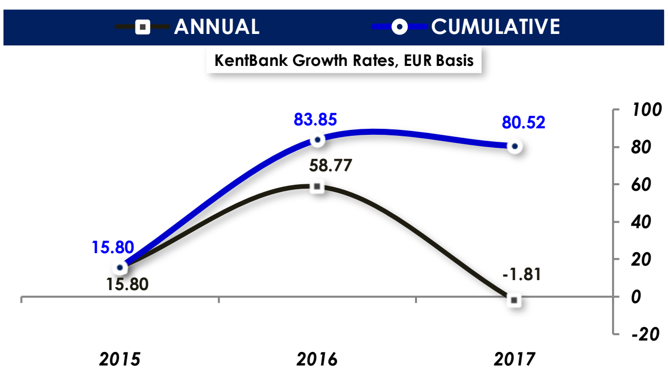
Croatian banking system is highly concentrated at the top, with the largest 4 banks accounting for more than 68% of banking assets. Rest of the banks in the system are mostly fragmented, with 14 banks maintaining market shares less than 1%. KentBank's market share is in the neighbourhood of 0.5%, positioning the Bank in the top 14th place in the Sector. The largest banks have a stronger business position due to their more extensive branch network, cumulative client information and better operating efficiencies stemming from economies of scale.

KentBank's market share has been relatively stable as the Bank is not planning to expand aggressively following the sizable NPL problems experienced in the Sector and lack of adequate demand. As one of the few banks managing to preserve asset quality during this period, the Bank is well-positioned to increase its loanbook. On the other hand, growth in the retail segment is expected to be limited due to incremental wage increases/limited improvement in the purchasing power of the households despite lower levels of unemployment and the suspension of the banks' access to the pooled credit background information network with

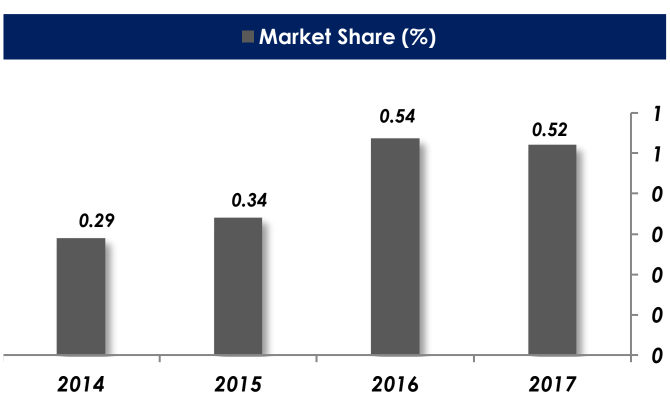
GDPR concerns by the data provider institution, which constrains the Bank's evaluation process of retail loan applications. In this regard, KentBank's primary driver for loan growth is expected to be commercial lending, in particular the SME segment. Due to inherent riskiness of the aforementioned segment, the Bank's asset quality will be monitored closely.




The main assets of the Bank consist of the loan, reaching HRK 1.46bn as of 2Q2018. The Bank's total assets were HRK 2.20bn (YE2017: HRK 2.08bn, or EUR 276.63mn) in the same period.




KentBank's market share has increased notably in 2016. The Bank's ability to distance itself from the sizable and disruptive collapse of the Agrokor Group's bankruptcy incident provided a strong support for this growth.

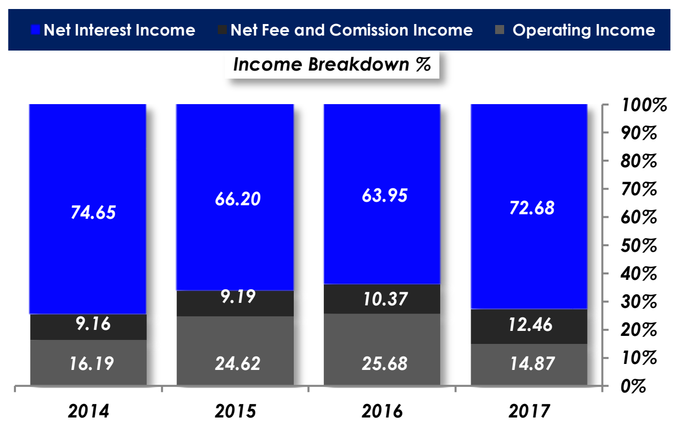



As per CNB reports, KentBank's market share as of 2Q2018 is 0.56%. Given the concentration in the Sector and dominance of the few leading banks, capturing a greater market share is dependent on additional equity injection.

### ii. Indices relating to profitability

KentBank reported net income of HRK 5.24mn per IFRS-compliant financials as at YE2017 (FYE2016: HRK 8.13mn. Net income for 2Q2018 was HRK 5.16mn, compared to HRK 4.42mn in 2Q2017. The Bank's net interest margin, calculated as net interest income over average earning assets hover around 3.00 – 3.20%, comparable to and slightly higher than the Sector averages.

The Bank however, is distinguished from the Sector with respect to lower provision expenses stemming from a better asset quality and prudent underwriting policies, along with the advantage of having an expanding and less-aged loan book. The nominal of the provisions were still considerable however, considering the total income.




As of 2Q2018, interest income was HRK 43.20mn versus interest expenses of HRK 10.03mn. KentBank reported HRK 5.07mn net fee and commission revenues, which are much lower in scale in comparison to the Sector averages that the Bank needs to improve due to the importance of the commission income in a relatively low interest rate environment. In fact, increasing the nominal value of commission revenues if not the share among total revenue structure, so as to approach the Sector breakdown of approx. 66% to 23% interest and fee income as opposed to 75% to 12% of KentBank could support the bottom-line provided that economies of scale are positively managed.

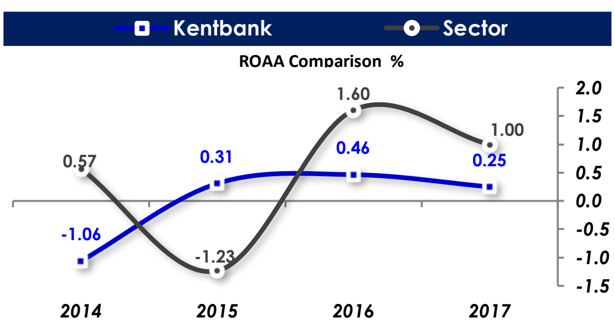
The share of operating expenses among total expenses is higher compared to the Sector average, reaching up to 55-

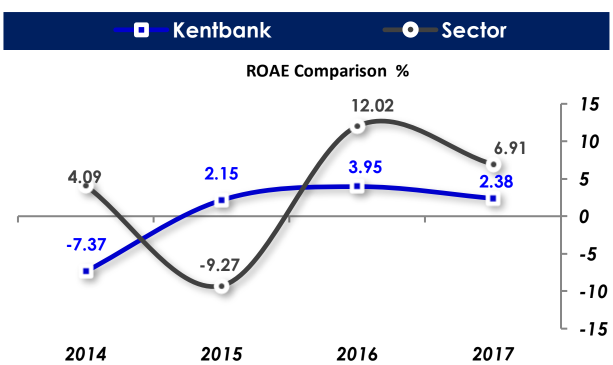
60% of total expenses. Due to low interest rate environment and challenges in the market to optimize cost of risk across the board, efficient management of operating expenses is deemed important. As at YE2017 and 2Q2018, total operating expenses were HRK 62.29mn and HRK 32.36mn.

One of the primary strengths of KentBank is to have a more resilient asset quality of the loan book, manifesting itself in lower provision expenses for impaired loans. As for the provisions for financial assets apart from loans, such as debt securities, the Bank management estimates to counterbalance the trade positions before the end of the current year, normalizing the gains/losses.

The net income for 2018 year-end is expected to reach EUR 1.28, mainly stemming from EUR 8.7mn net interest & EUR 1.5mn net fee & commission income. KentBank's increasing interest & stronger fee generation estimates along with subsequently better economies of scale reflecting in better opex to assets ratio underpins the net income projections.

KentBank's ROAAs and ROAEs, calculated pre-tax income over year-end averages using CNB methodology data, lag behind the Sector averages despite the Bank's lower provision expenses compared to the peers, due to high operating cost for interest & fee income generated.

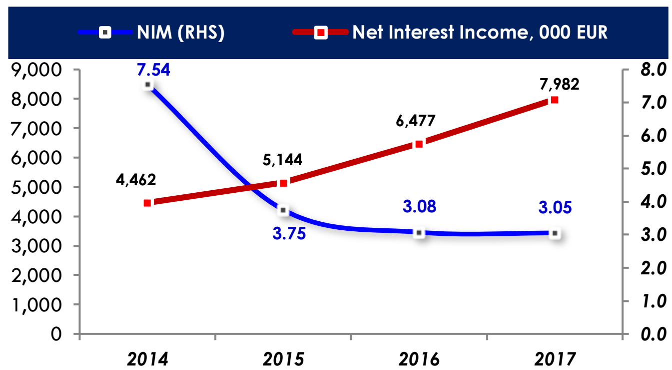



*Based on EUR translated financials with year-end rates*

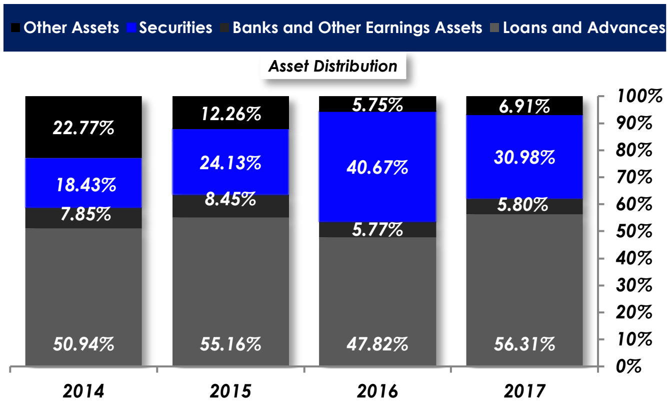
We note the management's plans to improve the operational efficiency via new scheduling systems across 15 existing branches and one prospective branch in a potential bearing zone as important factors concerning the rating & outlook. Our rating and outlook take into account a material improvement in the cost management.

Net interest margin is generally on par with Sector averages, with slight differences depending on the customer segment. KentBank plans to prioritize SME lending due to higher profitability potential and economic and operational challenges in the retail & household lending, which limit the demand for loans and impedes underwriting due to the information asymmetries.

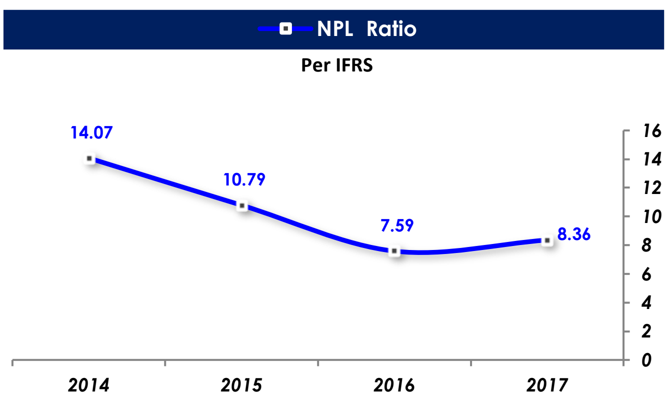



### b) Asset quality

Croatian banking system has NPL ratios around 11% which have peaked in 2014 (17%) after a period of steady increases following the crisis in 2012. The decline to the current levels at low double-digits has partly been due to the collections together with improvement in economic conditions, however, the effect of impaired asset sales have been the most significant. In this regard, we estimate that the actual NPL ratio of the Sector would be in excess of 15% if there were no asset sales. On the other hand, KentBank did not have material impaired asset sales, which underlines the strength of KentBank's underwriting policies as the NPL comparison would then be 8% vs 15%.

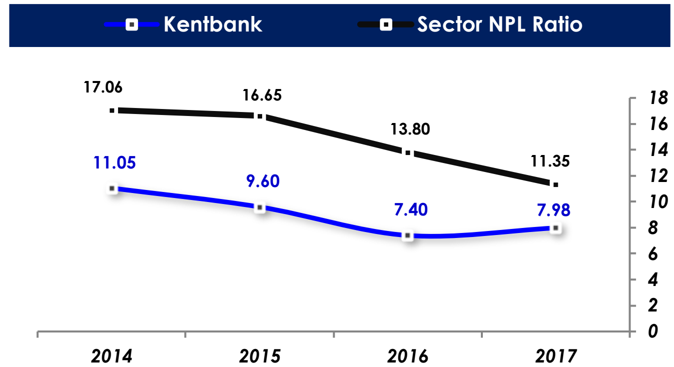



According to audited financial statements the Bank's gross non-performing loans portfolio was EUR 14.0mn as of YE2017. NPL balance, gross, is reported as EUR 16.04mn according to CNB compliant reporting by the management, resulting in an NPL ratio of 6.77% as of 2Q2018.



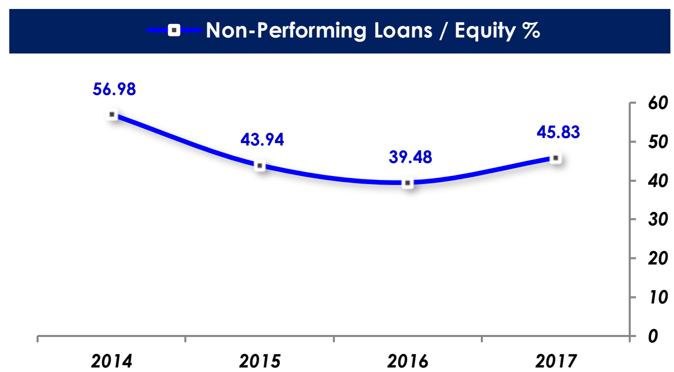

In 2017, the Bank wrote off HRK 1.23mn (FY2016: HRK 2.23mn) in non-performing loans which were thought to be uncollectible accounting for only 0.1% of total loans, compared to sold claims of the Sector corresponding to 3.4% of total loans. In this sense, credit portfolio quality of the Bank is identified as a primary positive rating driver.

The Comparison of impaired loans with the Sector are carried out with respect to CNB methodology compliant data, where KentBank demonstrates its more favourable position.

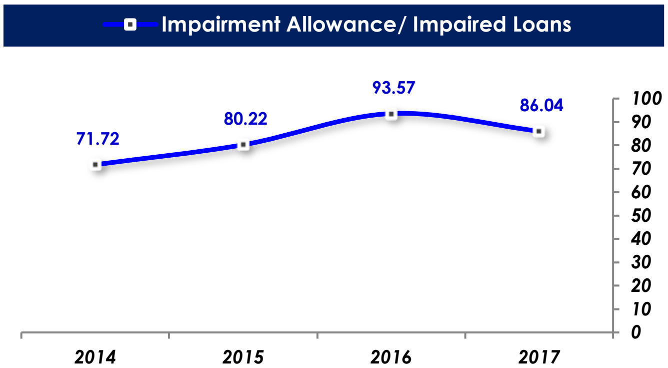



Per CNB methodology

As of YE2017, KentBank's non-performing loans portfolio to equity ratio was 45.83%, much higher than the Sector averages, due to larger capitalization of the top 6 banks accounting for more than two thirds of the Sector assets, despite the lower NPL ratio of the Bank compared to the peers.




The Bank's loan loss reserves covered 86.04% of non-performing loans at FYE2017 and maintained its high coverage share as per audited figures. The bank uses a conservative provisioning policy compared to the peers, which is evaluated as a positive factor supporting the asset quality. Additionally, the Bank has established procedures for IFRS 9 framework, internally calculating core credit metrics such as PD, EAD and LGD and is able to report the figures on demand.




In addition to the loan portfolio, the Bank maintains a securities portfolio for treasury operations and managing liquidity. Based on the sovereign rating assigned to Republic of Croatia as BBB-, treasury bonds and bills held by the Bank are evaluated as of reasonable asset quality.

### c) Funding & Adequacy of Capital

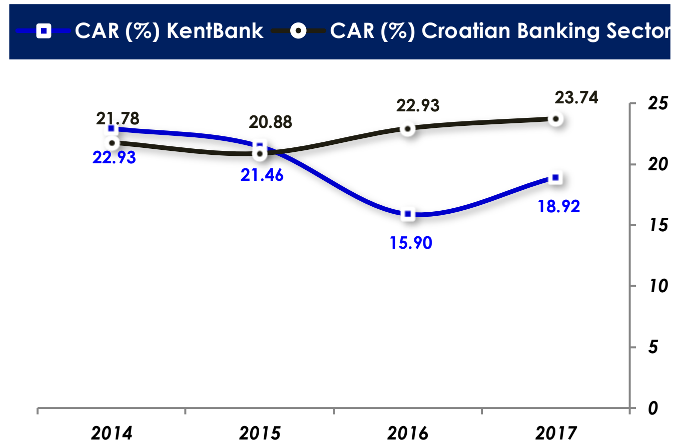
Customer deposits are by far the most important funding source for the Bank, whose total customer deposits were HRK 1,679mn at FYE2017 (EUR 223.47mn) and 1.955mn as of 2Q2018.

The vast majority of the deposits are long-term, with a notable concentration in the 3-12-month section, 82.66% of time deposits. The relatively longer maturity-based deposits structure eases liquidity management.

Croatian households have a tendency for holding savings in hard currencies, resulting in a fairly large foreign currency share in deposits. Euroisation is an important theme, with more approximately 80% of savings & time deposits denominated in foreign currencies. KentBank's deposit base is similarly heavy on foreign currency, though the share of local currency deposits is higher than the Sector average, around 30-35% of total deposits. The weighted average of the interest rates on the deposits is around 1.24%.

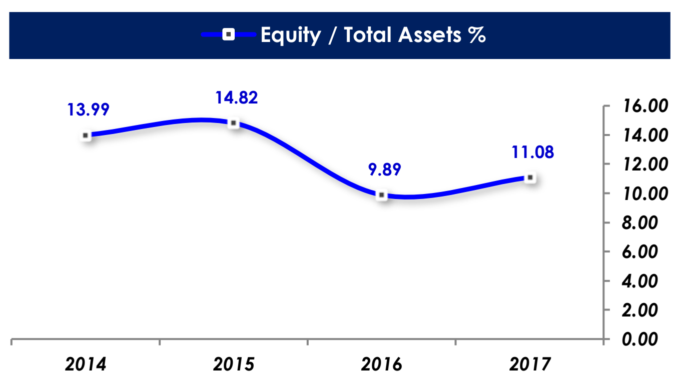
As per regulations in effect in Croatia, up to EUR 100,000 equivalent of Kuna or foreign currency equivalent of individual deposit accounts in branches operating in Croatia are to be insured by the State Agency for Deposit Insurance and Bank Resolution.

As of 2Q2018, KentBank's Capital Adequacy Ratio was (CAR) 17.34% (YE2017: 18.92%), easily surpassing the mandated 8%. Common equity Tier 1 and Tier 1 capital ratios were 14.77% as at 2Q2018, again surpassing 4.5% and 6% mandated thresholds. In this regard, the Bank's capital base is sufficient to fund projected loan book growth plans.




As nominal terms, KentBank's equity as of 2Q2018 was EUR 31.38mn. The losses incurred in the previous periods, amounting to EUR -6.93mn in retained earnings as of the same period undermines the capital base. In this sense, in line with its articles of association, the Bank does not pay dividends to the parent Holding until the accumulated losses are eliminated with retained earnings. In fact, parent Süzer Holding has increased the capital of the Bank by EUR 30mn since acquisition in 2012 with the latest cash capital increase realized in 2015 with an amount of EUR 5mn.

KentBank maintains a seven-year subordinated debt at the equivalent of EUR 5mn. The debt is financed by the parent shareholder.




## 7. Risk Profile and Management

### a) Risk Management Organization & its Function – General Information

KentBank has written policies to manage the risks arising from credit, liquidity, market and operations. These manuals comprise the guidelines and authorisation limits for credit policy, environmental policy, underwriting principles, collateralisation and monitoring procedures.

The Supervisory Board has the ultimate responsibility of establishing and supervising the Bank's risk management framework. In order to minimize risk exposures, the Bank has formed effective risk management mechanisms and established numerous committees to identify, avoid, mitigate and report risks. These committees include; Audit, Credit, Asset & Liability, Liquidity and Risk Management Committees. Compliance issues are managed with specific departments reporting to the Management Board.

The risk management department oversees underwriting, portfolio monitoring, risk monitoring and collection divisions. According to the statements received from the Bank officials, KentBank was not subject to any material sanctions by the regulatory institutions throughout 2018.

### b) Credit Risk

The Bank's maximum credit risk exposure was HRK 1.91bn as of YE2017. While the dominant portion of the credit risk stems from the loan portfolio as expected from a retail deposit bank, investment securities portfolio is an important source of credit risk (YE2017: HRK 566mn).

The Bank management continuously monitors customer credit assessments, takes necessary precautions and reviews allocated limits depending on the results of the internal credit assessment system. Substandard or high-risk class customers' limits are reviewed at least twice a year while standard exposures are typically reviewed annually.

The Bank has finalized the infrastructure preparations to accommodate the requirements of IFRS 9 reporting standards, allowing KentBank to calculate PD, EAD, LGD metrics on-demand.

The Bank's underwriting policy requires sufficient collaterals from borrowers so as to minimize the exposure in case of a default. In this regard KentBank collects guarantees, mortgages and other types of credit enhancing facilities.

An important issue concerning the Croatian banking system as a whole is the limited access to the pooled credit risk data supplied by HROK, Croatian Registrar of Liabilities. The retail customer credit data channelled to HROK by the underwriting banks are made temporarily unavailable to the system as a whole, stating GDPR concerns. As such, no bank can resort to the pooled risk assessment database offered by HROK for retail loan decisions. Several banks, including KentBank are trying to find alternative methods to mitigate the information asymmetry, however that remains as a credit risk management challenge. In this sense, we note the Bank's plan to focus on SME segment and commercial loan for growth as a less risky alternative, given that the pooled data access for commercial customers is still available.

The concentration of risk is examined with respect to the monetary thresholds. Customer with a loan balance of HRK 1mn and more have a total loan balance of HRK 623.54mn. Approximately top 10% of HRK and EUR cash loans are provided to 24 and 40 customers as of 2Q2018, respectively.

Government issued bonds and bills, amounting to 25-30% of assets are evaluated as of reasonable credit quality given the BBB- sovereign credit rating of Republic of Croatia.

### c) Market Risk

KentBank is principally exposed to foreign currency and interest rates risks due to changes in foreign exchange rates and interest rates.

Principal foreign currency risk stems from the use of Euro while the official currency is Croatian Kuna. Euro and Euro linked credits are common and majority of the system deposits are Euro deposits. The Bank manages its foreign currency risk by establishing and monitoring limits on FX positions and by ensuring that these positions remain in compliance with the Bank of Croatia's guidelines.

KentBank has a long Euro position, owing to Euro and Euro linked loans underwritten to customers. The treasury of the Bank monitors the position and uses derivative operations when necessary to maintain the exposure at limited levels.

The Treasury Department monitors interest rate risk and takes the necessary measurements with the approval of the Asset and Liability Committee.

### d) Liquidity Risk

Liquidity committee, having weekly meetings and monthly projections, manages the liquidity position of the Bank. In addition to day-to-day management of liquidity, level of liquidity risk and overseeing compliance to pre-determined limits are under the authority of the Risk Management Department. In this scope, appropriate and timely measures through a corporate procedure are taken by the LRM units.

Long average maturity profile of the deposits and high renewal rates support the liquidity position of the Bank.

### e) Operational, Legal Regulatory & Other Risks

Several main banking operations are centralized so as to improve efficiency and reduce transaction errors. KentBank facilitates segregation of duties, applying pre-determined limits of transactions, timely monitoring of transactions, establishing contingency plans, training employees, compliance with regulatory and other legal requirements, periodically assessing operational risks faced and implementing ethical rules as well as making insurance for mitigating risks.

The Bank did not face material monetary or administrative penalties from regulatory institutions. Compliance department reviews regulatory environment so as to adapt and implement changes.

In order to evaluate the legal risk exposed by the Bank, summary of ongoing judicial proceedings is examined. Several ongoing litigations concern the impaired loan collection cases. The Bank's management does not expect material losses stemming from the ongoing litigations.

## 8. Budget & Debt Issue

KentBank management expects to increase fee & commission income, limit the operating expenses and increase the share of SME segment in its loan portfolio. Given the internal ruling, KentBank will continue to retain earnings so as to support the equity base.

| **(EUR 000)** | **2017*** | **3Q2018**** | **Budget 2019** |
|---|---|---|---|
| Cash | 5,648 | 6,352 | 7,145 |
| Current account at CNB | 3,391 | 21,686 | 14,452 |
| Obligatory reserve | 15,675 | 17,987 | 17,958 |
| Deposits at banking institutions | 3,691 | 10,450 | 5,093 |
| MS | 76,317 | 68,282 | 54,008 |
| Total loans | 167,262 | 180,311 | 214,955 |
| Gross NPL loans | 13,853 | 15,004 | 17,405 |
| Provisions | -10,059 | -11,422 | -13,829 |
| Other | -1,524 | -1,221 | -2,280 |
| Tangible assets | 5,451 | 5,281 | 6,852 |
| Intangible assets | 734 | 623 | 1,427 |
| **TOTAL ASSETS** | **276,645** | **309,749** | **319,611** |
| Loans from financial institutions (repo) | 12,313 | 14,143 | 12,146 |
| Sub loan | 5,000 | 5,000 | 5,000 |
| Deposits | 221,972 | 250,569 | 254,744 |
| Interest, fees and other liabilities and HBOR | 6,701 | 8,222 | 13,437 |
| **TOTAL LIABILITIES** | **245,985** | **277,934** | **285,327** |
| Share capital | 37,001 | 37,448 | 37,518 |
| Other | -7,038 | -6,891 | -5,624 |
| Current year profit | 697 | 1,097 | 2,101 |
| **TOTAL EQUITY** | **30,660** | **31,815** | **34,284** |
| **TOTAL LIABILITIES AND EQUITY** | **276,645** | **309,749** | **319,611** |

* Audited, year-end ** Unaudited, CNB reporting

| **(EUR 000)** | **2017*** | **3Q2018*** | **Budget 2019** |
|---|---|---|---|
| Total Interest Income | 11,206 | 8,845 | 13,223 |
| Total Interest Expense | -3,648 | -2,484 | -2,802 |
| **Net Interest Income** | **7,558** | **6,361** | **10,420** |
| Net Income From Comm. & Fees | 1,379 | 1,098 | 1,823 |
| Other Non Interest Income | 1,639 | 1,503 | 1,767 |
| **Net Non Interest Income** | **3,017** | **2,601** | **3,589** |
| **Net Operating Income** | **10,575** | **8,962** | **14,010** |
| G&A Expenses And Depreciation | -7,874 | -6,113 | -9,814 |
| **Net Income Before Loss Provisions** | **2,701** | **2,849** | **4,196** |
| Total Loss Provision Expense | -2,003 | -1,752 | -1,919 |
| **Profit / Loss Before Taxes** | **697** | **1,097** | **2,277** |
| Income Tax | 0 | 0 | 176 |
| **Current Year Profit (Loss)** | **697** | **1,097** | **2,101** |

* Internal reporting

Croatian economy is expected to maintain a stable growth, laying a foundation for banking system. While the retail segment loan growth faces certain headwinds particularly due to limited income growth and suspension of access to pooled credit risk data, commercial segment loans and commission generation promise further growth across the customer base.

JCR-ER JCR Eurasia Rating
"JCR-ER, Group of Japan Credit Rating Agency, Ltd." JCR

| Kentbank D.D. BALANCE SHEET - ASSET (000) | FYE 2017 USD (Converted) | FYE 2017 EUR (Original) | FYE 2017 EUR (Average) | FYE 2016 EUR (Original) | FYE 2016 EUR (Average) | FYE 2015 EUR (Original) | FYE 2015 EUR (Average) | FYE 2014 EUR (Original) | As % of 2017 Assets (Original) | As % of 2016 Assets (Original) | As % of 2015 Assets (Original) | FYE 2017 Growth Rate % | FYE 2016 Growth Rate % | FYE 2015 Growth Rate % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **A- TOTAL EARNING ASSETS ( I+II+III )** | **307,336** | **257,509** | **261,526** | **265,543** | **210,615** | **155,687** | **137,018** | **118,350** | **93.09** | **94.25** | **87.74** | **-3.03** | **70.56** | **31.55** |
| **I- LOANS AND LEASING RECEIVABLES (net)** | **185,913** | **155,771** | **145,244** | **134,717** | **116,297** | **97,876** | **87,971** | **78,066** | **56.31** | **47.82** | **55.16** | **15.63** | **37.64** | **25.38** |
| **a)** Loans | 183,571 | 153,809 | 143,910 | 134,010 | 114,800 | 95,590 | 85,100 | 74,610 | 55.60 | 47.57 | 53.87 | 14.77 | 40.19 | 28.12 |
| **b)** Lease Assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | n.a | n.a | n.a | n.a | n.a |
| **c)** Over Due Loans | 16,768 | 14,049 | 12,524 | 11,000 | 11,279 | 11,558 | 11,889 | 12,220 | 5.08 | 3.90 | 6.51 | 27.72 | -4.83 | -5.42 |
| **d)** Others | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | n.a | n.a | n.a | n.a | n.a |
| **e)** Receivable from Customer due to Brokerage Activities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | n.a | n.a | n.a | n.a | n.a |
| **f)** Allowance for Loan and Receivables Losses (-) | -14,426 | -12,087 | -11,190 | -10,293 | -9,782 | -9,272 | -9,018 | -8,764 | -4.37 | -3.65 | -5.22 | 17.44 | 11.01 | 5.79 |
| **II- OTHER EARNING ASSETS** | **19,148** | **16,044** | **16,143** | **16,243** | **15,622** | **15,000** | **13,519** | **12,037** | **5.80** | **5.77** | **8.45** | **-1.22** | **8.28** | **24.62** |
| **a)** Balance with Banks | 442 | 370 | 370 | 370 | 1,871 | 3,371 | 2,836 | 2,301 | 0.13 | 0.13 | 1.90 | 0.01 | -89.03 | 46.52 |
| **b)** Money Market Placements | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | n.a | n.a | n.a | n.a | n.a |
| **c)** Reserve Deposits at CB (*) | 18,707 | 15,674 | 15,773 | 15,873 | 13,751 | 11,629 | 10,682 | 9,736 | 5.67 | 5.63 | 6.55 | -1.25 | 36.49 | 19.44 |
| **d)** Balance With CB- Demand Deposits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | n.a | n.a | n.a | n.a | n.a |
| **III- SECURITIES AT FAIR VALUE THROUGH P/L** | **102,275** | **85,694** | **100,138** | **114,583** | **78,697** | **42,810** | **35,529** | **28,247** | **30.98** | **40.67** | **24.13** | -25.21 | 167.65 | 51.56 |
| **a)** Government & Corporate Bonds | 91,664 | 76,803 | 86,532 | 96,262 | 65,035 | 33,809 | 27,291 | 20,773 | 27.76 | 34.17 | 19.05 | -20.21 | 184.73 | 62.75 |
| **b)** Other Investment | 10,611 | 8,891 | 13,606 | 18,321 | 13,661 | 9,002 | 8,238 | 7,474 | 3.21 | 6.50 | 5.07 | -51.47 | 103.52 | 20.44 |
| **c)** Repurchase Agreement | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | n.a | n.a | n.a | n.a | n.a |
| **B- INVESTMENTS IN ASSOCIATES + EQUITY SHARE** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **n.a** | **n.a** | **n.a** | **n.a** | **n.a** | **n.a** |
| **a)** Investments in Associates (Net) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | n.a | n.a | n.a | n.a | n.a |
| **b)** Equity Share | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | n.a | n.a | n.a | n.a | n.a |
| **C- NON-EARNING ASSETS** | **22,821** | **19,121** | **17,657** | **16,192** | **18,978** | **21,763** | **28,328** | **34,893** | **6.91** | **5.75** | **12.26** | **18.09** | **-25.60** | **-37.63** |
| **a)** Cash and Cash Equivalents | 14,752 | 12,360 | 10,677 | 8,993 | 11,820 | 14,648 | 21,332 | 28,016 | 4.47 | 3.19 | 8.25 | 37.44 | -38.60 | -47.72 |
| **b)** Balance With Banks - Current Accounts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | n.a | n.a | n.a | n.a | n.a |
| **c)** Financial Assets at Fair Value through P/L | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | n.a | n.a | n.a | n.a | n.a |
| **d)** Accrued Interest from Loans and Lease | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | n.a | n.a | n.a | n.a | n.a |
| **e)** Other | 8,069 | 6,761 | 6,980 | 7,199 | 7,157 | 7,115 | 6,996 | 6,877 | 2.44 | 2.56 | 4.01 | -6.09 | 1.19 | 3.45 |
| - Intangible Assets | 876 | 734 | 837 | 940 | 964 | 988 | 969 | 950 | 0.27 | 0.33 | 0.56 | -21.93 | -4.90 | 4.04 |
| - Property and Equipment | 6,506 | 5,451 | 5,581 | 5,711 | 5,682 | 5,653 | 5,628 | 5,602 | 1.97 | 2.03 | 3.19 | -4.55 | 1.02 | 0.92 |
| - Prepaid Tax | 44 | 36 | 36 | 36 | 36 | 36 | 36 | 36 | 0.01 | 0.01 | 0.02 | 0.59 | 1.02 | 0.34 |
| - Other | 644 | 540 | 526 | 512 | 475 | 438 | 364 | 290 | 0.20 | 0.18 | 0.25 | 5.36 | 17.10 | 50.80 |
| **TOTAL ASSETS** | **330,158** | **276,630** | **279,183** | **281,735** | **229,592** | **177,449** | **165,346** | **153,243** | **100.00** | **100.00** | **100.00** | **-1.81** | **58.77** | **15.80** |

| Kentbank D.D. BALANCE SHEET LIABILITIES & SHAREHOLDERS' EQUITY (000) | FYE 2017 USD (Converted) | FYE 2017 EUR (Original) | FYE 2017 EUR (Average) | FYE 2016 EUR (Original) | FYE 2016 EUR (Average) | FYE 2015 EUR (Original) | FYE 2015 EUR (Average) | FYE 2014 EUR (Original) | As % of 2017 Assets (Original) | As % of 2016 Assets (Original) | As % of 2015 Assets (Original) | FYE 2017 Growth Rate % | FYE 2016 Growth Rate % | FYE 2015 Growth Rate % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **A- COST BEARING RESOURCES ( I+II )** | **291,091** | **243,897** | **247,861** | **251,824** | **200,747** | **149,671** | **140,087** | **130,504** | **88.17** | **89.38** | **84.35** | **-3.15** | **68.25** | **14.69** |
| **I- DEPOSIT** | **266,708** | **223,467** | **226,950** | **230,433** | **188,817** | **147,200** | **138,170** | **129,139** | **80.78** | **81.79** | **82.95** | **-3.02** | **56.54** | **13.99** |
| **a)** HRK Deposit | 250,791 | 210,131 | 213,776 | 217,421 | 178,403 | 139,385 | 133,820 | 128,256 | 75.96 | 77.17 | 78.55 | -3.35 | 55.99 | 8.68 |
| **b)** FC Deposit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | n.a | n.a | n.a | n.a | n.a |
| **c)** FC & LC Banks Deposits | 15,917 | 13,336 | 13,174 | 13,012 | 10,413 | 7,815 | 4,349 | 884 | 4.82 | 4.62 | 4.40 | 2.49 | 66.50 | 784.21 |
| **II- BORROWING FUNDING LOANS & OTHER** | **24,383** | **20,430** | **20,910** | **21,390** | **11,931** | **2,471** | **1,918** | **1,364** | **7.39** | **7.59** | **1.39** | **-4.49** | **765.76** | **81.08** |
| **a)** Borrowing From Domestic Market | 18,408 | 15,424 | 16,992 | 18,559 | 9,780 | 1,000 | 500 | 0 | 5.58 | 6.59 | 0.56 | -16.89 | 1,755.45 | n.a |
| **b)** Borrowing From Overseas Markets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | n.a | n.a | n.a | n.a | n.a |
| **c)** Borrowing from Interbank | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | n.a | n.a | n.a | n.a | n.a |
| **d)** Securities Sold Under Repurchase Agreements | 0 | 0 | 664 | 1,328 | 1,399 | 1,470 | 1,417 | 1,364 | n.a | 0.47 | 0.83 | -100.00 | -9.70 | 7.77 |
| **e)** Subordinated Loans & Others | 5,975 | 5,006 | 3,255 | 1,503 | 752 | 0 | 0 | 0 | 1.81 | 0.53 | n.a | 233.03 | n.a | n.a |
| **B- NON-COST BEARING RESOURCES** | **2,476** | **2,074** | **2,060** | **2,046** | **1,762** | **1,478** | **1,386** | **1,294** | **0.75** | **0.73** | **0.83** | **1.36** | **38.49** | **14.21** |
| **a)** Provisions | 207 | 173 | 134 | 94 | 86 | 78 | 68 | 58 | 0.06 | 0.03 | 0.04 | 84.34 | 20.31 | 33.71 |
| **b)** Current & Deferred Tax Liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | n.a | n.a | n.a | n.a | n.a |
| **c)** Other Liabilities | 2,269 | 1,901 | 1,927 | 1,952 | 1,676 | 1,399 | 1,317 | 1,235 | 0.69 | 0.69 | 0.79 | -2.64 | 39.51 | 13.29 |
| **C- TOTAL LIABILITIES** | **293,567** | **245,972** | **249,921** | **253,870** | **202,509** | **151,148** | **141,473** | **131,798** | **88.92** | **90.11** | **85.18** | **-3.11** | **67.96** | **14.68** |
| **D- MINORITY INTEREST** | **0** | **0** | **0** | **0** | 0 | **0** | **0** | **0** | **n.a** | **n.a** | **n.a** | **n.a** | **n.a** | **n.a** |
| **E- EQUITY** | **36,591** | **30,658** | **29,262** | **27,865** | **27,083** | **26,301** | **23,873** | **21,445** | **11.08** | **9.89** | **14.82** | **10.02** | **5.95** | **22.64** |
| **a)** Prior Year's Equity | 33,452 | 28,028 | 27,299 | 26,569 | 26,179 | 25,788 | 21,648 | 17,509 | 10.13 | 9.43 | 14.53 | 5.49 | 3.03 | 47.29 |
| **b)** Equity Added from Internal & External this year | 2,307 | 1,933 | 1,077 | 220 | 110 | 0 | 2,686 | 5,372 | 0.70 | 0.08 | n.a | 776.89 | n.a | -100.00 |
| **c)** Profit & Loss | 832 | 697 | 886 | 1,076 | 794 | 513 | -461 | -1,436 | 0.25 | 0.38 | 0.29 | -35.19 | 109.59 | -135.75 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **330,158** | **276,630** | **279,183** | **281,735** | **229,592** | **177,449** | **165,346** | **153,243** | **100.00** | **100.00** | **100.00** | **-1.81** | **58.77** | **15.80** |
| | **USD Rates 1=EUR** | **0.8379** | | **0.9479** | | **0.9165** | | **0.8230** | | | | | | |

| Kentbank D.D. INCOME STATEMENT (000) EUR | FY 2017 | FY 2016 | FY 2015 |
|---|---|---|---|
| **Net Interest Income** | **7,982** | **6,477** | **5,144** |
| **a)** Interest Income | 11,108 | 10,496 | 8,854 |
| **b)** Interest Expense | 3,126 | 4,019 | 3,710 |
| **Net Fee and Commission Income** | **1,368** | **1,050** | **714** |
| **a)** Fee and Commission Income | 1,782 | 1,425 | 994 |
| **b)** Fee and Commission Expense | 414 | 375 | 281 |
| **Total Operating Income** | **1,633** | **2,601** | **1,913** |
| Foreign Exchange Gain or Loss (net) (+/-) | 620 | 659 | 912 |
| Gains from Investment Securities (Net) | 884 | 1,739 | 925 |
| Other Operating Income (Expense) | 129 | 203 | 75 |
| **Provisions** | **1,996** | **1,266** | **751** |
| Provision for Impairment of Loan and Trade Receivables | 1,996 | 1,266 | 751 |
| Other Provision | 0 | 0 | 0 |
| **Total Operating Expense** | **8,290** | **7,787** | **6,506** |
| Salaries and Employee Benefits | 4,720 | 4,243 | 3,447 |
| Depreciation and Amortization | 758 | 870 | 761 |
| Other Expenses | 2,812 | 2,674 | 2,299 |
| **Profit from Operating Activities before Income Tax** | **697** | **1,076** | **513** |
| Income Tax – Current | 0 | 0 | 0 |
| Income Tax – Deferred | 0 | 0 | 0 |
| **Net Profit for the Period** | **697** | **1,076** | **513** |

| | | | |
|---|---|---|---|
| **Total Income** | **10,982** | **10,128** | **7,771** |
| **Total Expense** | **8,290** | **7,787** | **6,506** |
| **Provision** | **1,996** | **1,266** | **751** |
| **Pre-tax Profit** | **697** | **1,076** | **513** |

| Kentbank D.D. FINANCIAL RATIOS % | FY 2017 | FY 2016 | FY 2015 |
|---|---|---|---|
| **I. PROFITABILITY & PERFORMANCE** | | | |
| 1. ROA - Pretax Profit / Total Assets (avg.) | 0.25 | 0.47 | 0.31 |
| 2. ROE - Pretax Profit / Equity (avg.) | 2.38 | 3.97 | 2.15 |
| 3. Total Income / Equity (avg.) | 37.09 | 34.96 | 32.55 |
| 4. Total income / Total Assets (avg.) | 3.89 | 4.12 | 4.70 |
| 5. Provisions / Total Income | 18.39 | 13.37 | 9.67 |
| 6. Total Expense / Total Liabilities (avg.) | 3.27 | 3.52 | 4.60 |
| 7. Net Profit for the Period / Total Assets (avg.) | 0.25 | 0.47 | 0.31 |
| 8. Total Income / Total Expenses | 133.00 | 132.85 | 119.43 |
| 9. Non-Cost Bearing Liabilities + Equity- Non-Earning Assets / Total Assets | 4.92 | 4.87 | 3.39 |
| 10. Non-Cost Bearing Liabilities – Non-Earning Assets / Total Assets | -6.16 | -5.02 | -11.43 |
| 11. Total Operating Expenses / Total Income | 76.38 | 82.23 | 83.73 |
| 12. Interest Margin | 3.05 | 3.08 | 3.75 |
| 13. Operating ROAA (avg.) | 1.37 | 2.22 | 2.55 |
| 14. Operating ROAE (avg.) | 13.07 | 18.81 | 17.69 |
| 15. Net Profit Margin | 6.42 | 11.36 | 6.60 |
| 16. Gross Profit Margin | 6.42 | 11.36 | 6.60 |
| 17. Market Share in Croatia Banking Sector * | 0.52 | 0.54 | 0.34 |
| 18. Growth Rate | -1.81 | 58.77 | 15.80 |
| **II. CAPITAL ADEQUACY (year end)** | | | |
| 1. Equity Generation / Prior Year's Equity | 6.90 | 0.83 | 0.00 |
| 2. Internal Equity Generation / Previous Year's Equity | 2.49 | 4.05 | 1.99 |
| 3. Equity / Total Assets | 11.08 | 9.89 | 14.82 |
| 4. Core Capital / Total Assets | 10.30 | 9.15 | 14.38 |
| 5. Supplementary Capital / Total Assets | 1.81 | 0.53 | 0.00 |
| 6. Tier 1 / Risk Weighted Assets * | 16.10 | 15.03 | 21.46 |
| 7. Capital / Total Assets | 12.11 | 9.69 | 14.38 |
| 8. Own Fund / Total Assets | 12.11 | 9.69 | 14.38 |
| 9. Standard Capital Adequacy Ratio * | 18.92 | 15.90 | 21.46 |
| 10. Surplus Own Fund | 55.25 | 49.69 | 62.72 |
| 11. Free Equity / Total Assets | 8.85 | 7.53 | 11.08 |
| 12. Equity / Total Guarantees and Commitments + Equity | 65.17 | 75.89 | 84.66 |
| **III. LIQUIDITY (year end)** | | | |
| 1. Liquidity Management Position (Up to 1 Month) | 97.48 | 99.10 | 102.88 |
| 2. Liquidity Management Position (1 to 3 Months) | 98.56 | 96.83 | 98.97 |
| 3. Liquidity Management Position (3 to 12 Months) | 90.07 | 95.33 | 93.00 |
| 4. Liquidity Management Position (1 year and over) | 113.89 | 108.74 | 105.16 |
| **IV. ASSET QUALITY** | | | |
| 1. Loan and Receivable's Loss Provisions / Total Loans and Receivables | 7.20 | 7.10 | 8.65 |
| 2. Total Provisions / Profit Before Provision and Tax | 74.11 | 54.07 | 59.42 |
| 3. Impaired Loans / Gross Loans | 8.37 | 7.59 | 10.79 |
| 4. Impaired Loans / Equity | 45.83 | 39.48 | 43.94 |
| 5. Loss Reserves for Loans / Impaired Loans | 86.04 | 93.57 | 80.22 |
| 6. Total FX Position / Total Assets | 1.10 | 0.99 | 0.45 |
| 7. Total FX Position / Equity | 9.95 | 9.98 | 3.00 |
| 8. Assets / Total Guarantees and Commitments + Assets | 94.41 | 96.95 | 97.38 |

Based on audited and EUR converted financial statements unless otherwise stated.

* Based on CNB data submitted in HRK