CROATIA BANKA d.d.

ANNUAL REPORT FOR 2019

C O N T E N T

Introduction

The Annual report includes the Management Board Report on the Bank's position, financial overview and overview of operations, audited financial statements with the Independent auditor's report and other statutory and regulatory reports for the Croatian National Bank. Unless otherwise noted, all amounts in the Annual Report are presented in thousands of kuna (HRK).

Legal form

The Annual report has been prepared in line with the Accounting Act and the Companies Act which require reporting to the shareholders at the annual meeting of shareholders by the company management. Pursuant to the Companies Act, the basic financial statements include the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and notes to the financial statements, and the Companies Act stipulates in Article 250a an obligation to submit an annual report on the Bank's position.

The financial statements have been prepared in line with the legal requirements for bank accounting in Croatia and audited in accordance with International Standards on Auditing.

Abbreviations

In this Annual Report, Croatia banka d.d. is referred to as the "Bank", the Croatian National Bank as the "CNB", the Croatian Bank for Reconstruction and Development as the "CBRD", the State Agency for Deposit Insurance and Bank Rehabilitation as the "DAB", the Financial Agency as "FINA", European Union as the "EU", International Financial Reporting Standards as "IFRS", Other comprehensive income as "OCI", Available for sale as "AFS", Profit and loss account as P&L and gross domestic product as the "GDP".

Exchange rates

For the purpose of translating the amounts in foreign currencies into HRK amounts, the following mid exchange rates of the CNB were used:

31 December 2019	EUR 1= HRK 7.442580	USD 1 = HRK 6.649911
31 December 2018	EUR 1= HRK 7.417575	USD 1 = HRK 6.469192

Operational summary and key financial indicators
(amounts in millions of HRK)

Indicator/Year	2019	2018	2017	2016	2015
Key indicators					
Profit/(loss) before tax	(25)	(22)	(31)	3	2
Net profit/(loss)	(25)	(25)	(31)	2	(15)
Total assets	1,969	2,306	2,491	3,110	3,109
Loans and advances to customers	1,125	1,081	1,153	1,591	1,893
Total deposits received	1,638	2,037	2,156	2,609	2,616
Capital and reserves	107	130	152	190	182

Other indicators					
Ratio of operating expenses in operating income	82.3%	99.9%	72.7%	71.5%	73.00%
Return on equity	(19.1%)	(17.7%)	(17.9%)	0.9%	(8.3%)
Return on assets	(1.2%)	(0.9%)	(1.1%)	0.1%	(0.5%)
Regulatory capital	104	126	146	174	175
Total capital ratio	13.20%	14.98%	15.85%	16.81%	15.91%

Historical development of the Bank

Croatia banka d.d., Zagreb was founded on 22 December 1989, under the name Banka male privrede, d.d., Zagreb. On that day, 50 shareholders paid in socially owned capital contributions to form the initial (share) capital of 22,340,435,000 former Yugoslav dinars, equivalent to DEM 319,149 (which was then the condition for establishing a bank), which was subsequently divided into 4,565 founders' shares. On 25 January 1990 the Bank received from the Yugoslav National Bank the Decision granting full banking licence and had it registered at the court on 18 July 1990. On 4 May 1990 the Bank changed its name from Banka male privrede d.d. Zagreb into Croatia banka male privrede d.d. Zagreb, (abbreviated: "Croatia banka d.d. Zagreb"), and on 21 June 1995 it changed its name into Croatia banka d.d. Zagreb.

As a result of difficulties faced by the Bank, a procedure to rehabilitate the Bank was initiated in 1999 and, pursuant to Article 15(1), Article 16(1) and Article 17(1) of the Bank Rehabilitation and Restructuring Act (Croatian Official Gazette no 44/94) and Section VII of the Decision of the Government of the Republic of Croatia on the rehabilitation and restructuring of Croatia banka d.d. Zagreb of 27 September 1999 and the Decision of the Government of the Republic of Croatia on amendments to the Decision on rehabilitation and restructuring of Croatia banka d.d. Zagreb of 24 May 2000, the General Assembly of Croatia banka d.d. adopted on 13 September 2000 a Decision on issuing new replacement shares in the amount of HRK 204.6 million and a Decision on amendments to the Statute of Croatia banka d.d., which formally ended the process of the Bank's rehabilitation. The DAB contributed capital to the Bank in the amount of the replacement shares, and the Bank continued to operate as a Croatian public limited company (Croatian: 'dioničko društvo') wholly owned by the State.

Information on economic trends[1]

During the third quarter of 2019, economic activity growth intensified compared to the past three months. This was mainly due to the growth of personal consumption and exports of goods and services, which was stronger than in the previous quarter. On the other hand, there was a sharp slowdown in the growth of total imports. Therefore, the real GDP growth rate at the 2019 level as a whole could amount to 3%. The outbreak of the Covid-19 coronavirus in late February 2020 and the earthquake that struck Zagreb on 22 March 2020 will certainly have a negative impact on the realisation of the most recent expected positive macroeconomic trends in 2020.

Labour market

Due to the new circumstances resulting from the coronavirus outbreak in Croatia and the earthquake in Zagreb earlier this year, at this time it is not possible to provide a realistic estimate of the labour market trends in 2020.

Prices

The slowdown in consumer price inflation to an estimated 0.8% in 2019 is mainly due to a decrease in the average annual rate of increase in energy prices and food prices resulting from the decline in the prices of petroleum products and a decrease in the VAT rate on certain food products at the beginning of the year.
Due to the aforementioned new circumstances in early 2020, it is not possible to provide a realistic estimate of the price movements in 2020 at this time.

Current and capital account in the balance of payments

In 2019, the current account and capital account surplus could account for 3.9% of GDP in 2019, up by 0.6 percentage points on the previous year. This was driven by a continued growth of the positive balance in the international exchange of services (especially tourism), intensified use of the EU funds and the growth of net income from personal transfers. With respect to foreign capital flows, the expected net outflow of capital in 2019 relates to a further decline in net debt obligations of domestic sectors and an increase in international reserves. Due to the aforementioned new circumstances in early 2020, it is not possible to provide a realistic estimate of the price movements in 2020 at this time.

[1] Macroeconomic trends and forecast, CNB, December 2019

Information on economic trends (continued)

Monetary policy

In 2019, the CNB continued to implement its expansionary monetary policy by supporting high liquidity of the monetary system and maintaining a stable exchange rate of the kuna against the euro. In such circumstances, there was no interest of banks for short-term HRK funds on regular weekly operations. High liquidity continued to fuel the long-standing trend of improving the conditions of domestic sectors financing. In the first nine months of 2019, the annual growth in total domestic placements of credit institutions slowed down, with placements to non-financial enterprises declining due to multiple one-off effects. After several consecutive years of growth, placements to individuals have stabilised, influenced by the CNB's Recommendation on actions in granting non-housing consumers loans, issued by the CNB on late February 2019. On the other hand, the growth of housing loans was affected by the implementation of the Croatian government's programme for subsidising housing loans.

Fiscal policy

After the amendments to the 2019 budget, following the general government surplus in 2018, a mild general government deficit of 0.1% of GDP could be recorded in 2019. The 2020 budget projects a general government surplus of 0.2% of GDP, which could increase slightly in the coming years. On the other hand, the structural budget balance over the projection period should not exceed the medium-term budgetary objective, and the general government debt is likely to continue to decline in line with the prescribed fiscal rules.
However, due to the aforementioned new circumstances in early 2020, it is expected that this year's budget will be revised, and it is not possible to provide a realistic estimate of the respective changes at this time.

Global trends

The slowdown in global economic growth that began last year continued into the first nine months of 2019 and was accompanied by a decline in world trade (especially capital goods, automobiles and auto parts). Global trade was most adversely affected by the uncertainty in the context of growing trade protectionism and the exit of the United Kingdom from the EU, and, consequently, the weakening of investment spending and the crisis in some emerging market countries. At the same time, the economic activities of the largest Croatian foreign trade partners also weakened significantly. The slowdown in economic growth and the decline in crude oil prices have driven further easing of global inflationary pressures. Financing conditions were generally favourable except in some volatile emerging markets.
Following a slowdown in 2018, growth in the euro area stabilised in 2019, up by 1.2% in the third quarter from the same period last year. However, the economic activity of the largest Croatian foreign trade partners in 2019 weakened considerably, especially concerning partners from the euro area.
In the global foreign exchange market, the US dollar continued to strengthen against the euro during the third quarter of 2019. Thus, in late November 2019, the USD/EUR exchange rate was EUR 1.10/USD, which is a drop of 3.5% compared to the end of June 2019 and a drop of 4.1% compared to the end of 2018.
Financing conditions for emerging European markets, including Croatia, have improved further over the past few months.
The outbreak of the Covid-19 coronavirus in late February will certainly have a negative impact on macroeconomic developments in 2020, but at the moment they cannot be realistically estimated.

Description of operations

The Bank's activities include all types of deposit and loan operations for legal and natural persons, domestic and foreign payments, issuing guarantees, avals and other forms of guarantees, purchase and sale of securities and other banking activities.

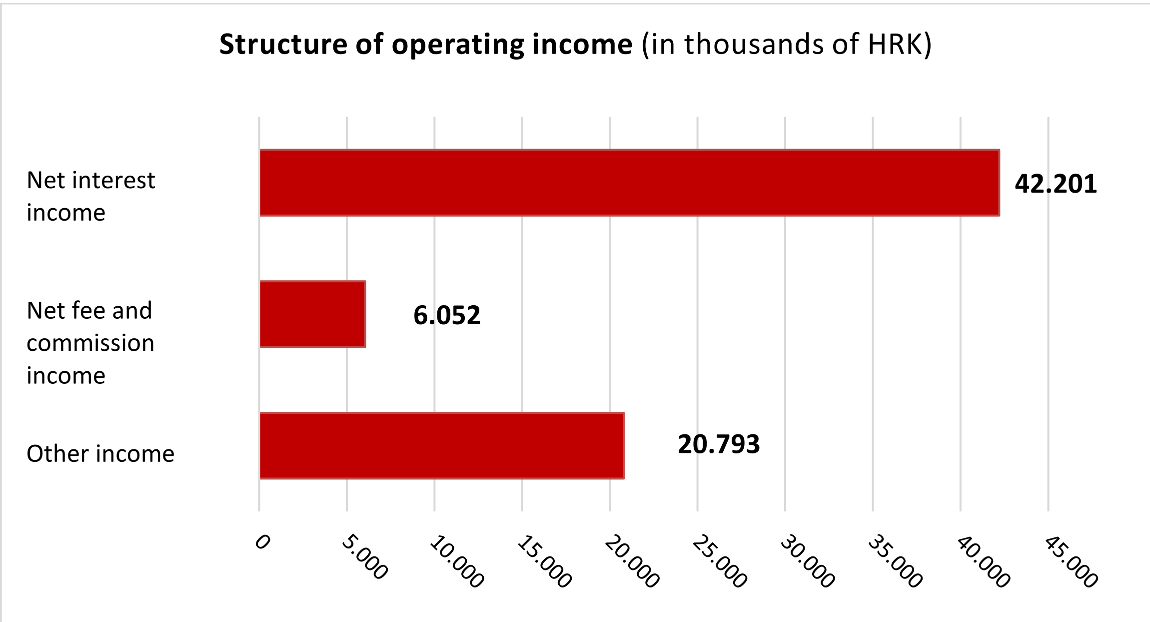
The Bank is wholly-owned (100%) by the state and in terms of assets (HRK 2 billion) it ranks 14th among the total of 20 banks. As at 31 December 2019, the Bank has 9 branches and 3 outlets.

As at 31 December 2019, the regulatory capital amounts to HRK 103,555 thousand, and the total capital adequacy ratio is 13.20%.

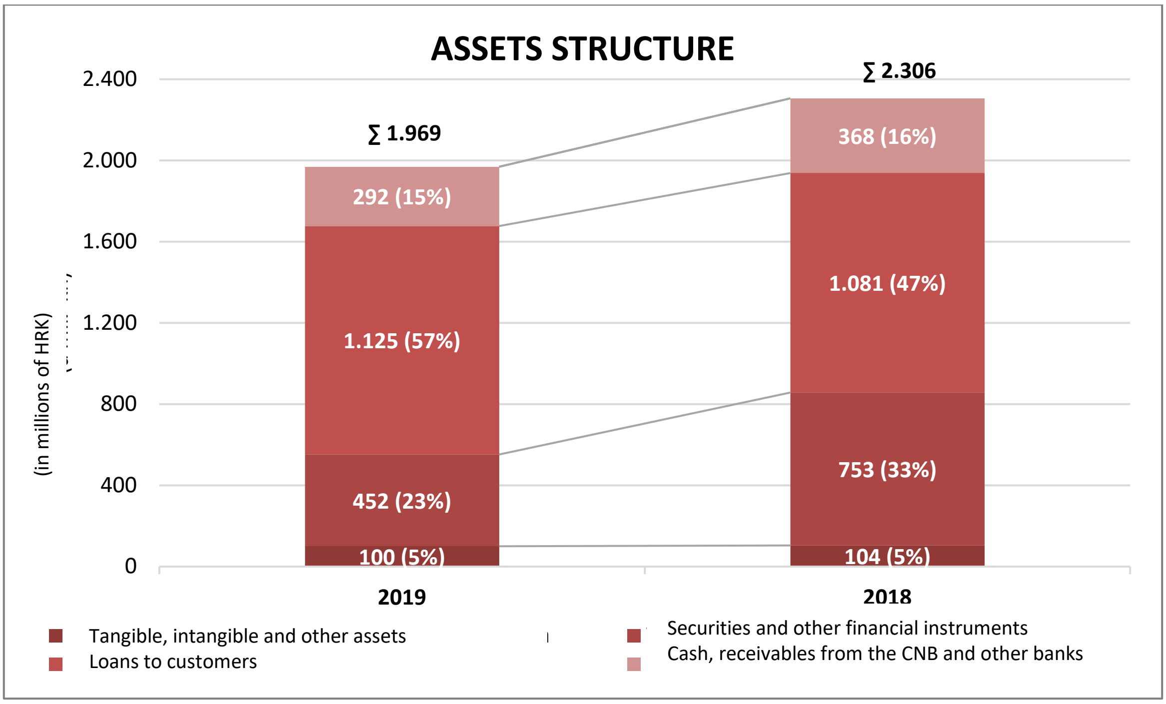
In 2019, the Bank incurred loss before tax in the amount of HRK 25,012 thousand and after-tax loss in the amount of HRK 24,982 thousand.

The operating profit amounts to HRK 12,189 HRK thousand, and the impairment and provisioning expense amounts to HRK 37,201 HRK thousand.

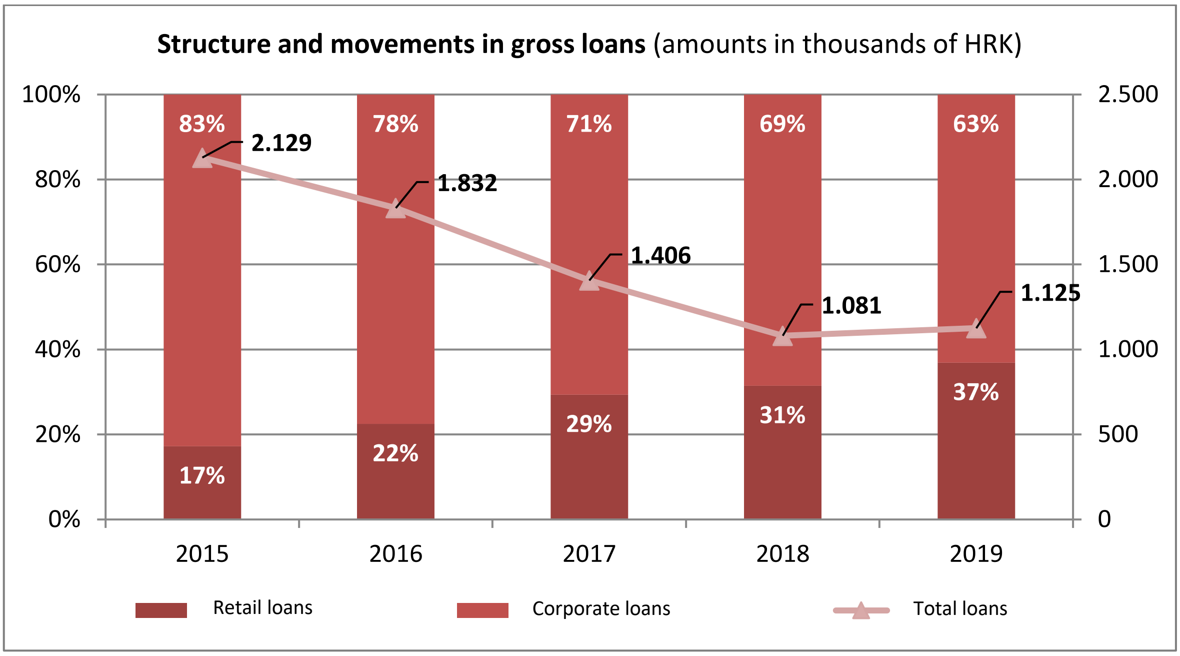
Total net operating income increased by 13.4 percent, while operating expenses are down by 6.5 percent over 2018, which led to an increase in the 2019 operating result. The most significant portion of operating income is net interest income, accounting for 61.1 percent (HRK 42,201 thousand) of total income.



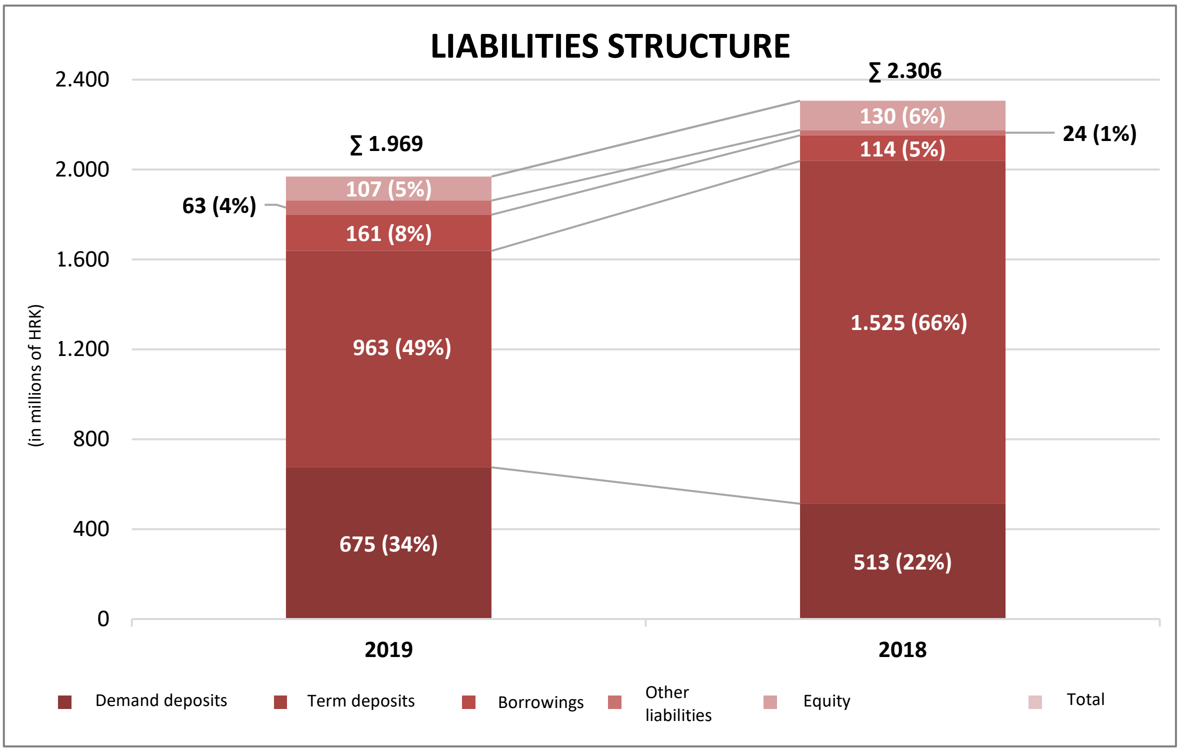
The Bank's assets amounted to HRK 1,969 million at the end of 2019, down by HRK 337 million compared to 2018. Loans and receivables from customers (57 percent), followed by securities and other instruments (23 percent) and cash, receivables from the Croatian National Bank and other banks (15 percent) account for the largest share in the asset structure.



As at 31 December 2019, total gross loans to customers amounted to HRK 1,125 million and are up by 4.1 percent compared to 2018, mostly due to an increase in retail loans. In the structure of loans to customers, 63 percent are corporate loans, and 37 percent are loans to individuals (including loans to sole traders).

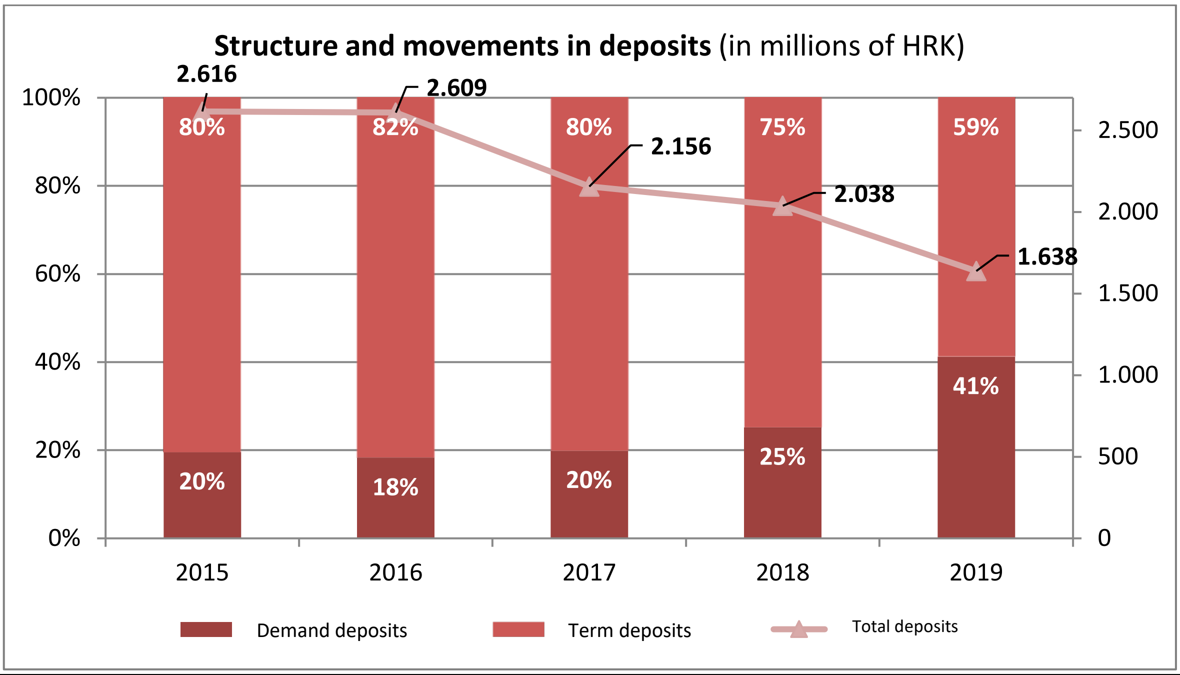


In the liabilities structure, the most significant share of 49 percent relates to term deposits, followed by demand deposits with 34 percent.



Total deposits at the end of 2019 amounted to HRK 1,638 million and recorded a decrease of 19.6 percent compared to the end of 2018, with retail deposits falling by 19.0 percent and corporate deposits by 0.8 percent.

Total deposits mainly comprise term deposits (58.8 percent), followed by demand deposits (41.2 percent). Total term deposits decreased by 36.9 percent, and their share in the structure of total deposits decreased by 16.0 percentage points. In 2019, demand deposits recorded a 31.8 percent increase.



Retail banking operations

The past 2019 has been marked by significant growth in lending activity throughout the business network. On the other hand, retail deposits decreased by HRK 293 million. This was mainly driven by the expiration of the savings promotion in the period from 31 March 2019 to 30 June 2019 and partly by the maturity of deposits in business units that were closed. Given the decrease in interest rates, the share of demand deposits in total retail deposits increased significantly (32.6% compared to 14.5% as at 31 December 2018). Consequently, interest costs have decreased significantly and interest margins have increased.

The number of current accounts increased by 8% and the number of the Internet and mobile banking users by 48%. Furthermore, sales of third-party products have also increased significantly.
The above results were achieved along with further reduction of the business network (closing of the Drenovci outlet at the end of April 2019).

Corporate banking operations

Corporate deposits (excluding deposits from other banks) account for 23 percent of the Bank's total deposits. Compared to the end of 2018, corporate deposits decreased by 0.8% and amounted to HRK 370 million. Of these, demand deposits amount to HRK 262 million, while term deposits amount to HRK 108 million.

At the end of 2019, the total gross loan portfolio of corporate customers amounted to HRK 773 million, which is a decrease of HRK 144 million compared to the end of 2018. This was primarily the result of the sale of non-performing placements and a decrease in the volume of loans to corporations, while loans to small and medium-sized enterprises increased.

The 2019 business plan relating to corporate customers aimed at retaining the existing quality customers, as well as at continuous improvement of the quality of business processes in cooperation with other organisational units of the Bank, with an emphasis on the lending process, which was largely realised, and the plan is to continue with such a strategy in 2020. Fee income from payment transactions has largely decreased due to lower fees and increased volume of payments through other channels.

Treasury operations

The Bank maintains its liquidity using available liquid instruments denominated in HRK and foreign currencies (balances on account with the Bank, securities, inter-bank loans and repo loans). Among other instruments, the Bank uses foreign currency exchange and FX swaps to adjust its liquidity position. During 2019, the Bank maintained a high liquidity rate as well as a balanced foreign exchange position on all currencies.

In 2019, the securities portfolio (bonds and treasury bills) decreased by 39.9% or HRK 301 million. During 2019, the restructuring of the securities portfolio continued with a view to adjusting the Bank to changes in regulatory requirements. The amount of foreign currency bonds of the Republic of Croatia in the portfolio was reduced to HRK 9 million (nominal EUR 1 million), i.e. decreased by 39.9% (HRK 301 million), and the amount of Treasury bills of the Republic of Croatia decreased by HRK 237 million.

Furthermore, during 2019 the Bank balanced the holdings of certain types of securities in its portfolio. The amount of the Treasury bills of the Republic of Croatia decreased from 50.0% to 30.8%, while the amount of bonds of the European Monetary Union countries with the highest credit rating increased.

Regardless of the volatility of prices on the capital market, the planned income from trading in securities was considerably outperformed, thus fully compensating for the shortfall in interest income caused by the continuation of the trend of interest rate decrease and the increase in the cost of the Bank's assets denominated in EUR and CHF.

Investment banking operations

The Bank has secured all of the prerequisites and obtained permits from the Croatian National Bank and the Croatian Financial Services Supervisory Agency for the provision of investment services and activities and ancillary services referred to in Article 5 of the Capital Market Act (OG 65/18), paragraph 1, items 1 to 3. ., 6 to 7, paragraph 2, items1 to 2, and 4 and 6. In the field of investment banking, the Bank offers brokerage services to its customers, as well as loans, storage and administration of financial instruments for the customer, including custody and custody-related services. When providing lending services, the Bank offers its customers margin short-term HRK specific-purpose loans for the purchase of financial instruments and general-purpose short-term HRK loans secured by financial instruments placed into the Bank's custody.

The provision of brokerage services was discontinued by the Bank on 7 November 2019 and the necessary changes were also made to the court registry.

Despite the challenging situation on the Croatian capital market, characterised by low transaction volumes and low investor activity, the Bank achieved good results in the investment banking segment. Considering that the provision of brokerage services was discontinued, this business segment is not expected to grow in the coming period.

Internal controls system and internal audit

The internal controls system has been established at the Bank’s level by internal acts that vertically and horizontally divide responsibilities among the Bank’s organisational units.

The internal controls system at the Bank has been established as a set of processes and procedures designed for the purpose of adequate risk control, monitoring the efficiency and effectiveness of the Bank’s operations, reliability of its financial and other information, and compliance with regulations, internal acts, standards and codes to ensure stability of the Bank’s operations.

The internal audit in the course of the audit implementation evaluates the internal control system of specific business segments.

Internal audit

The internal audit function has been set up as a separate organisational unit, functionally and organisationally independent of activities it audits and other organisational units of the Bank.

The Annual Audit Plan is based on documented risk assessments and contains all the relevant elements from the Decision on the internal control system and internal acts. The annual work plan of the Internal Audit function is approved by the Bank’s Management Board based on a prior consent of the Audit Committee and/or the Supervisory Board.

Following the audit, the Internal Audit Service submits an operational report on each audit performed to each member of the Management Board and to the responsible persons of the organisational segment of the Bank competent for the business segment that was subject to audit, and to the Audit and Risk Committee.

The Internal Audit submits quarterly reports on internal audit activities to the Bank's Management Board, the Audit and Risk Committee, the semi-annual and annual report on operations also to the Bank's Supervisory Board, and the annual report also to the Croatian National Bank.

Corporate Governance Statement

Pursuant to the provisions of Article 272p of the Companies Act and Article 22 of the Accounting Act, the Management Board of Croatia banka d.d. Zagreb hereby declares that the Bank implements the Corporate Governance Positions for banks on a voluntary basis.

In 2019, the Bank continuously followed and applied the recommendations determined in the CNB's Positions, disclosing all information the disclosure of which is provided by positive regulations as well as making disclosures that are in the interest of the Bank's owners and customers.

Pursuant to the corporate governance requirements and in line with the provisions of the Companies Act, the Supervisory Board performs the internal oversight by regular controls of submitted reports. Members of the Supervisory Board regularly obtain detailed information on the Bank's management and operations. At the Supervisory Board meetings, all issues from the Board's area of responsibilities are discussed and decided on.

The Bank maintains business and other records and business documentation, prepares accounting documents, realistically assesses assets and liabilities, prepares financial statements and other reports in accordance with accounting regulations and standards and the applicable legislation.

Corporate governance at the Bank is implemented not only by meeting regulatory requirements, but it also derives from the culture of corporate and personal integrity of the management and employees. The description of main characteristics in carrying out internal supervision and risk management in relation to financial reporting are contained in this Annual report.

Nominees for the president and members of the Bank's Management Board must meet all requirements prescribed by legislation governing banking operations and other relevant regulations. Once the Croatian National Bank approves the nominees, the Supervisory Board appoints the president and members of the Management Board with a mandate of up to four years. The powers of the Bank's Management Board are defined by law and the Statute. The division of the respective responsibilities of the Management Board and its president are determined in a separate decision adopted with the consent of the Supervisory Board.

Decisions on amendments to the Statute are adopted at the Bank's General Assembly, in line with the Act and the Statute.
For the purpose of protecting the interests of the owners, clients, employees and all other stakeholders, Croatia banka d.d. Zagreb aims to fully align its operations with the highest corporate governance standards.

Bank's management structure

In accordance with the Companies Act, the Credit Institutions Act and the Bank's Statute, the Bank's governance structure comprises the Supervisory Board and the Management Board, whose duties and responsibilities are also regulated by the above regulations.

Other information

The Bank did not carry out any research and development activities during 2019.
The Bank did not purchase any treasury shares during 2019.
The Bank does not own other legal entities.
Purchase and sale of financial instruments constitute an integral part of the Bank's operations and are described in detail in these financial statements.
Details about the Bank's financial risk management goals and policies, its exposure to price risk, credit risk, liquidity risk and other risks are provided in the accompanying financial statements.

Independent auditor's report

To the Shareholder of Croatia banka d.d.

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respect, the financial position of Croatia banka d.d. (the "Bank") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with statutory accounting regulations for banks in the Republic of Croatia as defined in note 3 to the financial statements.

Our opinion is consistent with our additional report to the Audit Committee dated 25 March 2020.

What we have audited

The Bank's financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2019;
- the statement of financial position as at 31 December 2019;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014, and furthermore, we have not provided any non-audit services to the Bank in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

Materiality	• Overall Bank materiality: HRK 1,2 million, which represents 5% of loss before tax.
Key audit matters	• Impairment of loans and advances to customers.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Bank materiality	HRK 1.2 million
How we determined it	5 % of loss before tax
Rationale for the materiality benchmark applied	We chose loss before tax as the benchmark because, based on our judgment, it represents benchmark which is commonly used to indicated the performance of Bank's operations.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers See Note 19 to the financial statements under heading 'Loans and advances to customers', Note 4.20.1. under subheading 'Losses on impairment of loans and receivables'. As at 31 December 2019, the Bank had impairment provisions for loans and advances to customers in the amount of HRK 80 million. Impairment provisions are the management's best estimate of expected credit losses on loans and advances portfolio at the reporting date. The amount of the provisions is determined in accordance with accounting regulations applicable to banks in Croatia as explained in Note 3 to the financial statements. The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition. For loans in Stage 1 and Stage 2, the Bank applied IFRS 9 methodology, however the loan loss provision has been determined as minimum of 0.8% of exposure to which it applies as prescribed by the Croatian National Bank. For loans in Stage 3, it is determined as the difference between the book value and the recoverable amount, which represents the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the loans' original effective interest rate.	We tested controls for approving and monitoring of loans and advances to customers, including appropriateness of classification of loans, calculation of days past due and calculation of impairment provisions. We have selected a sample of loans and advances to customers with the focus on exposures with potentially highest impact on the financial statements due to their size and/or risk profile. We have also focused on other exposures that we assessed as highly risky, such as restructured exposures and non-performing loans. We have reviewed supporting documentation for selected stage 3 exposures and discussed any issues with responsible persons in the Bank. For impaired exposures, we have re-examined key assumptions used in future cash flows estimates, such as value of collateral to ensure the exposures have been classified and measured in accordance with accounting regulations applicable to banks in Croatia. We have reviewed that expected credit loss calculation methodology and policies for impairment losses recognized are appropriate and in line with the requirements of IFRS 9. Furthermore, we evaluated whether key components of expected credit loss calculation are correctly incorporated in the models and tested on a sample basis the correctness of stage allocation according to the relevant policies. We performed analytical procedures that include benchmark analyses and market comparison in order to determine the appropriateness of expected credit losses.

Reporting on other information including the Management Report

Management is responsible for the other information. The other information comprises the Management Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act.

If based on the work we have performed on the other information that we obtained prior to the date of this auditor's report and in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with statutory accounting regulations for banks in the Republic of Croatia as defined in note 3 to the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Bank on 27 September 2018. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 30 September 2019, representing a total period of uninterrupted engagement appointment of 2 years.

Forms in accordance with regulatory requirements

Based on the Decision on the structure and content of annual financial statements of credit institutions (Official Gazette 42/18), (the "Decision"), the Management Board of the Bank prepared the forms presented on pages 105 to 120 (the "Forms"), which are entitled the Statement of financial position of the Bank as at 31 December 2019, the Income statement of the Bank, the Statement of changes in shareholders' equity of the Bank and the Cash flows statement of the Bank for the year then ended together with information to reconcile the Forms to the Bank's financial statements. The Bank's management is responsible for the preparation of the Forms and information on reconciliation and they do not represent an integral part of these audited financial statements, but contain information required by the Decision. The financial information in the Forms is derived from the Bank's audited financial statements prepared in accordance with statutory accounting regulations for banks in the Republic of Croatia as presented on pages 20 to 104 and adjusted for the purposes of the Decision.

The engagement partner on the audit resulting in this independent auditor's report is Siniša Dušić.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
25 March 2020

This version of our report is a translation from the original, which was prepared in Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that the financial statements are prepared for each financial year in accordance with legal accounting regulations applicable to banks in the Republic of Croatia, in order to give a true and fair view of the financial position and operating results of Croatia banka d.d. (the "Bank") for that period.

The Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing financial statements.

In preparing the financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also ensure that the financial statements comply with the Croatian Accounting Act in force (Official Gazette 78/15, 134/15, 120/16 and 116/18). The Management Board is also responsible for safeguarding the assets of the Bank and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is responsible for the preparation and the content of the annual report in accordance with Article 19 and 21 of the Accounting Act (Official Gazette 78/15, 134/15, 120/16 and 116/18), and also for the supplementary regulatory reports.

Signed on behalf of the Management Board:

25 March 2020

Danijel Luković
President of the Management Board

Tadija Vrdoljak
Member of the Management Board

CROATIA BANKA
d.d. Zagreb
UPRAVA

in thousands of HRK	*Note*	**2019**	**2018**
Interest income	*5*	53,109	67,424
Interest expense	*6*	(10,908)	(23,602)
Net interest income		**42,201**	**43,822**
Fee and commission income	*7*	9,741	9,116
Fee and commission expense	*8*	(3,689)	(3,546)
Net fee and commission income		**6,052**	**5,570**
Net financial gains	*9*	10,801	3,021
Net foreign exchange losses	*10*	(23)	(47)
Other operating income	*11*	10,015	8,522
Total other income		**20,793**	**11,496**
Other operating expenses	*12*	(56,857)	(60,842)
Impairment losses and provisions	*13*	(37,201)	(22,132)
Total other expenses		**(94,058)**	**(82,974)**
Loss before tax		**(25,012)**	**(22,086)**
Income tax	*14*	**30**	**(2,903)**
Loss for the year		**(24,982)**	**(24,989)**
Other comprehensive loss			
Items subsequently transferred to profit or loss		**3,125**	**304**
Unrealised gains on valuation of financial assets at fair value through other comprehensive income		2,872	(219)
Cumulative loss on sale of financial assets at fair value through other comprehensive income transferred to profit or loss		711	591
Deferred tax		(458)	(68)
TOTAL COMPREHENSIVE LOSS		**(21,857)**	**(24,685)**

in thousands of HRK	*Note*	**31 December 2019**	**31 December 2018**
ASSETS			
Cash	*15*	152,322	206,351
Receivables from the Croatian National Bank	*16*	120,447	142,387
Placements with banks	*17*	18,971	19,249
Financial assets at fair value through OCI	*18*	452,045	752,681
Financial assets at fair value through profit or loss		434	492
Financial assets at amortised cost		1,203	496
Loans and advances to customers	*19*	1,125,460	1,081,330
Investment property	*20*	35,350	34,446
Property and equipment	*21*	8,189	5,646
Intangible assets	*21*	3,152	3,506
Foreclosed assets	*22*	25,758	28,518
Assets held for sale	*23*	5,280	5,280
Deferred tax assets	*14*	693	1,119
Other assets	*24*	19,306	24,159
Total assets		**1,968,610**	**2,305,660**
EQUITY AND LIABILITIES			
Liabilities to banks	*25*	18,206	110,543
Demand deposits	*26*	668,867	508,601
Term deposits	*27*	951,015	1,418,110
Borrowings	*28*	160,891	114,311
Lease liabilities		3,377	-
Other liabilities	*29*	9,963	10,054
Provisions	*30*	49,132	13,944
Total liabilities		**1,861,451**	**2,175,563**
EQUITY			
Share capital	*31*	474,600	474,600
Accumulated loss	*31*	(369,445)	(343,382)
Reserves	*31*	2,004	(1,121)
Total equity		**107,159**	**130,097**
Total liabilities and equity		**1,968,610**	**2,305,660**

CROATIA BANKA d.d.
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

in thousands of HRK	Share capital	Accumulated loss	Reserves	Total
Balance at 1 January 2018	**474,600**	**(321,167)**	**(1,425)**	**152,008**
Changes in equity in 2018				
Effects of IFRS 9 adoption	1,367	2,774	-	2,774
At 1 January 2018 - restated	**474,600**	**(318,393)**	**(1,425)**	**154,782**
Unrealised change in fair value of available-for-sale financial assets	-	-	(219)	(219)
Cumulative loss on sale of available-for-sale financial assets transferred to profit and loss	-	-	591	591
Deferred tax on available-for-sale financial assets	-	-	(68)	(68)
Net income recognised in other comprehensive income	-	-	*304*	*304*
Loss for the year	-	(24,989)	-	(24,989)
Total comprehensive income	*474,600*	*(343,382)*	*(1,121)*	*130,097*
Balance at 31 December 2018	**474,600**	**(343,382)**	**(1,121)**	**130,097**
At 1 January 2019	**474,600**	**(343,382)**	**(1,121)**	**130,097**
Changes in equity in 2019				
Correction of effects of IFRS 9 adoption	-	(931)	-	(931)
Correction of effects of IFRS 16 adoption	-	(150)	-	(150)
Balance at 1 January 2019 - restated	**474,600**	**(344,463)**	**(1,121)**	**129,016**
Unrealised change in fair value of financial assets at fair value through other comprehensive income	-	-	2,872	2,872
Cumulative gains on sale of financial assets at fair value through other comprehensive income transferred to profit and loss	-	-	711	711
Deferred tax on financial assets	-	-	(458)	(458)
Net income recognised in other comprehensive income	-	-	*3,125*	*3,125*
Loss for the year	-	(24,982)	-	(24,982)
Total comprehensive income	*474,600*	*(369,445)*	*2,004*	*107,159*
At 31 December 2019	**474,600**	**(369,445)**	**2,004**	**107,159**

in thousands of HRK	2019	2018
NET CASH FLOW FROM OPERATING ACTIVITIES		
Loss before tax	**(25,012)**	**(22,086)**
Adjustment to net cash from operating activities		
Impairment of loans and other assets (net) (Note 13)	(1,205)	15,962
Reversal of provisions for contingent liabilities (net) (Note 13)	985	149
Provisions for legal disputes – net (Note 13)	36,528	6,325
Other provisions (net) (Note 13, Note 30)	1,046	177
Gains on realisation financial assets at fair value through OCI (Note 9)	(8,734)	(639)
Fair valuation gains on investment property (Note 11)	(904)	(816)
Gains on foreign currency trading (Note 9)	(2,067)	(2,382)
Amortisation and depreciation (Note 22)	3,610	2,964
Foreign exchange losses on translation to the CNB mid exchange rate (Note 10)	23	47
Gains on sale of foreclosed assets (Note 11)	(1,761)	(1,883)
Write-off of tangible assets	152	4
Other non-cash items	(5,336)	-
Changes in assets and liabilities from operating activities		
Decrease in receivables from the Croatian National Bank	23,121	7,203
Increase in loans and advances to customers	(104,983)	(12,269)
Decrease in other assets	6,904	10,353
Interest received	62,203	64,248
Interest paid	(910)	(3,091)
Increase/(decrease) in liabilities to banks	(92,337)	48,370
Increase/(decrease) in demand deposits	160,266	96,719
Decrease in term deposits	(468,843)	(253,101)
(Decrease in) other liabilities	(404)	(622)
Net cash flow from operating activities	**(417,659)**	**(44,368)**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through OCI	(427,560)	(513,513)
Sale of financial assets at fair value through OCI	738,264	631,450
Interest received	1,825	-
Increase in financial assets at amortised cost	(711)	(499)
Decrease in financial assets at fair value through OCI	58	-
Purchase of property, equipment and intangible assets	(1,665)	(1,653)
Proceeds from the sale of property	4,377	4,793
Net cash flow from investing activities	**314,588**	**120,578**
CASH FLOW FROM FINANCING ACTIVITIES		
Repayments of borrowings	(919)	(139,181)
New borrowings	48,954	90,000
Interest paid	(1,455)	-
Lease liabilities	3,377	-
Provisions paid for legal disputes	(2,648)	(776)
Other payments	(395)	-
Net cash flow from financing activities	**46,914**	**(49,957)**
Net change in cash and cash equivalents	**(56,157)**	**26,253**
Cash and cash equivalents at beginning of year (Note 35)	**227,673**	**201,420**
Effects of exchange rate changes on cash equivalents	-	-
Cash and cash equivalents at end of year (Note 35)	**171,516**	**227,673**

1. GENERAL INFORMATION ABOUT THE BANK

Legal framework and activities

Croatia banka d.d. Zagreb ("Bank") was registered in the court register as a joint stock company in 1989 under registration number 080007370. The registered office of the Bank is at Roberta Frangeša Mihanovića 9, Zagreb, Croatia.

The Bank's activities include all types of deposit and loan operations for legal and natural persons, domestic and foreign payments, issuing guarantees, avals and other forms of guarantees, purchase and sale of securities and other banking activities.

The Bank has 9 branches - Branch Čakovec, Branch Osijek, Branch Pula, Branch Slavonski Brod, Branch Split, Branch Vinkovci, Branch Virovitica, Branch Vukovar, Branch Županja, and 3 outlets: Outlet Šubićeva, Outlet Sky Office, and Outlet Požega.

Bank bodies

Supervisory Board

The Supervisory Board operates in accordance with the Companies Act, the Credit Institutions Act and the Bank's Statute, whereby its main responsibility is the supervision of Bank's operations and appointment and dismissal of the president and members of the Management Board. In addition, the Supervisory Board approves the Management Board's business policies, financial plans, strategies and policies of risk taking and management, strategies and procedures for assessing the adequacy of internal capital, acts that establish and ensure adequate functioning of the internal control system, plans of control functions operations, salary and other benefits policy, organizational structure of the Bank, and it also decides on other issues as determined by law or the Bank's internal acts.

Members of the Supervisory Board are elected i.e. appointed for a period of four years.

In 2019, the members of the Supervisory Board were:
1 January - 31 December 2019
Maruška Vizek, President
Branka Grabovac, Deputy President
Zdenka Pogarčić, Member
Ana Michieli Pavuna, Member

In 2018, the members of the Supervisory Board were:
1 January - 29 August 2018
Maruška Vizek, President
Josip Lozančić, Deputy President
Zdenka Pogarčić, Member
Ana Michieli Pavuna, Member

30 August - 31 December 2018
Maruška Vizek, President
Josip Lozančić, Deputy President
Zdenka Pogarčić, Member
Ana Michieli Pavuna, Member
Branka Grabovac, Member

1. GENERAL INFORMATION ABOUT THE BANK (continued)

Management Board

Competences, duties and responsibilities of the Bank's Management Board in conducting business and representing the Bank are determined by the Companies Act, the Credit Institutions Act, the Statute and the Rules of the Bank's Management Board operations.

Management Board manages its business and manages its assets, and it has the responsibility and power to take any action and make any decision necessary for the successful management of the Bank. In the managing of business operations Management Board in particular is responsible for ensuring that the Bank operates in accordance with the rules on risk management in accordance with the Credit Institutions Act and other legislation and internally set regulations and laws; approving and regularly reviewing risk management strategies and policies, including managing risks that arise from the macroeconomic environment in which the Bank operates, and the state of the business cycle of the Bank; ensuring systematic monitoring, assessment and the strategy for maintaining or reaching the adequate amount of capital in relation to risks to which the Bank is exposed in its operations ensuring functioning of the internal controls system for all areas of the Bank's operations; ensuring unobstructed internal audit; ensuring that the Bank keeps business and other records and business documentation, prepares accounting documents, realistically estimates assets and liabilities, prepares financial and other reports in accordance with accounting regulations and standards and the Credit Institutions Act and other regulations adopted on the basis of law; ensuring that the Bank reports and informs the Croatian National Bank in line with the Credit Institutions Act and other regulations adopted on the basis of law; and ensuring the implementation of measures ordered by the Croatian National Bank.

The Management Board consists of at least two to maximum three members, one of which is appointed as the President of the Management Board. The President of the Management Board represents the Bank solely and independently, and a member of the Management Board represents the Bank jointly with another member of the Management Board.

The Bank's Management Board is appointed by the Supervisory for a period of not more than four years, with the option of reappointment.

In 2019, the Management Board Members were as follows:

Danijel Luković - President of the Management Board
Tadija Vrdoljak – Member of the Management Board

In 2018, the Management Board Members were as follows:

1 January 2018
Ivan Šverko, Member of the Management Board

2 January - 31 January 2018
Branka Grabovac, Deputy Member of the Management Board
Ivan Šverko, Member of the Management Board

31 January - 2 April 2018
Branka Grabovac, Deputy Member of the Management Board
Zoran Sabolić, Member of the Management Board

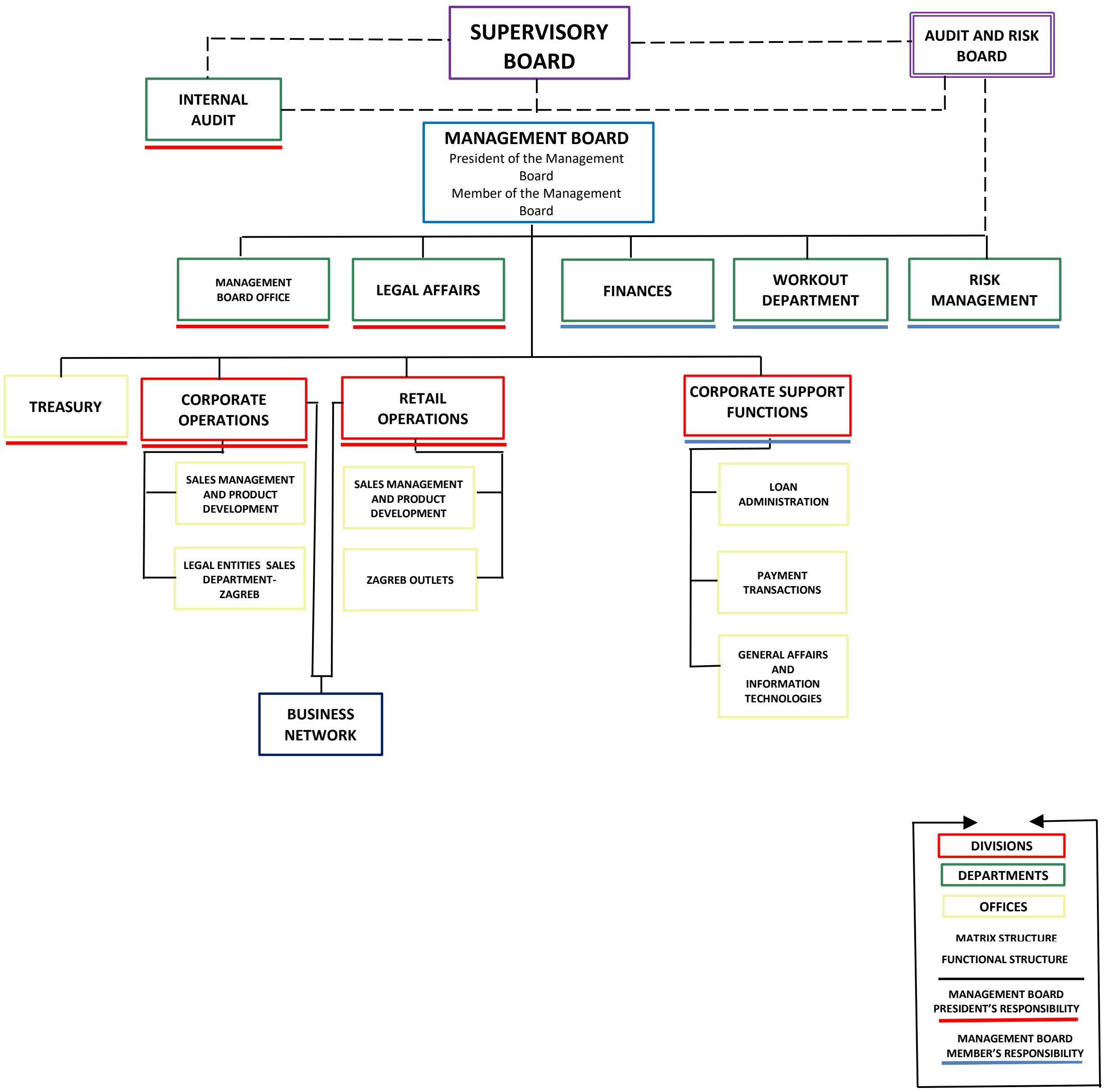
3 April - 30 June 2018
Branka Grabovac, Member of the Management Board
Zoran Sabolić, Member of the Management Board

1 January - 22 July 2018
Danijel Luković, President of the Management Board
Zoran Sabolić, Member of the Management Board

23 January - 31 December 2018
Danijel Luković, President of the Management Board
Tadija Vrdoljak , Member of the Management Board

1. GENERAL INFORMATION ABOUT THE BANK (continued)

Organisational structure



2. GOING CONCERN

Capital management

In the previous period, the Bank's owners increased its share capital on several occasions. The most recent increase was made in October 2012 in the amount of HRK 200 million, by converting bonds into equity bonds, representing in aggregate a hybrid instrument, i.e. additional capital in the amount of HRK 70 million and contributing HRK 130 million in cash.

Similar to the previous year, in 2019 the Bank's lending activities continued to be focused on extending loans to the government and state-owned companies guaranteed by the Republic of Croatia that, under the applicable regulations, are not subject to capital requirements and still bring a satisfactory level of interest income. Regarding the sources of funds, the Bank recorded a decline in total deposits (especially retail deposits) primarily as a result of the closure of two branches. Therefore, the Bank reduced excessive and unnecessary liquidity reserves, which resulted in a significant reduction of interest costs.

As at 31 December 2019, the Bank's regulatory capital amounted to HRK 103,555 thousand, and as at 29 February 2020, it amounts to HRK 104,708 thousand. As at 31 December 2019, the total capital ratio is 13.20% , and as at 29 February 2020 it amounted to 13.52%).

As at 31 December 2019, the Bank did not meet all capital requirements (the prescribed minimum total capital ratio amounts to 15.91%). In 2019, the Bank activated a new Capital Conservation Plan in accordance with the by-laws defining procedures in cases of non-compliance with capital requirements, which was approved by the CNB. In 2019, the Bank regularly submitted reports on the implementation of measures under the Capital Conservation Plan. Apart from the above, no additional measures were taken by the CNB. By implementing the planned measures from the Capital Conservation Plan, the Bank should achieve a minimum total capital ratio. On 3 February 2020, the State Agency for Deposit Insurance and Bank Rehabilitation, as the owner of the Bank, issued a call for the procurement of legal advisory and support services in the process of selling 100% of shares of Croatia banka dd, Zagreb.

The outbreak of the Covid-19 coronavirus in late February 2020 and the earthquake that struck Zagreb on 22 March 2020 will certainly have a negative impact on the Bank's operations in 2020. The Bank's assessment of the impact of the above on its operations is set out in more detail in Note 41. Events after the balance sheet date.

3. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with the legal requirements applicable to accounting for banks in the Republic of Croatia. The Bank's operations are subject to the Credit Institutions Act under which the Bank's financial reporting is regulated by the Croatian National Bank (the "CNB") as the central institution overseeing the banking system in Croatia. These financial statements have been prepared in accordance with the above-mentioned banking regulations.

The accounting regulations of the CNB are based on International Financial Reporting ("IFRS") but they differ from those standards both in terms of presentation and in terms of recognition and measurement.

The accounting regulations on the basis of which these financial statements have been prepared differ from IFRS. The main differences between the accounting regulations of the CNB and the recognition and measurement requirements under IFRS in 2018 are provided below.

- The CNB requires banks to recognise impairment losses in the income statement at the prescribed minimum rate of 0.8% for exposures measured at amortised cost and performing off-balance sheet exposures (including central government risk). In accordance with the CNB regulation, the Bank continues to recognise these

3. BASIS OF PREPARATION (continued)

provisions as a replacement for expected losses accounted for in accordance with IFRS requirements.

- For certain non-performing exposures, the CNB prescribes minimum amounts of impairment provisions. These amounts may differ from impairment calculated in accordance with IFRS.
- The CNB prescribes minimum impairment ratios and minimum collection periods for certain non-performing exposures for which future cash flows are estimated by collection from collateral. Therefore, impairment losses under IFRS may be lower for certain non-performing exposures.
- The CNB sets minimum provisions for legal disputes filed against the Bank in the amount of 1% of the total amount of the legal dispute in the event that the total amount of the legal dispute exceeds 0.1% of the Bank's assets according to the audited financial statements of the previous year.

Details of the CNB regulations regarding the determination of credit losses are provided in the "Decision on the classification of exposures into risk categories and the method of determining credit losses" (OG 114/2017 and OG 110/2018), and the minimum provisions for legal disputes filed against the Bank in "Decision on the obligation to make provisions for litigations conducted against a credit institution" (OG 1/2009, 75/2009 and 2/2010).

Basis of measurement

The financial statements have been prepared on the fair value basis for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are carried at amortised or historical cost.

Functional and presentation currency

The financial statements have been prepared in HRK, which is the primary currency of the economic environment in which the Bank operates ("the functional currency"), and amounts are rounded to nearest thousand. The official exchange rate as at 31 December 2019 was HRK 7.442580 for EUR 1 (2018: HRK 7.417575) and HRK 6.649911 for USD 1 (2018: HRK 6.469192).

3. BASIS OF PREPARATION (continued)

New and amended standards adopted by the Bank

The Bank first applied IFRS 16 Leases as of 1 January 2019.

IFRS 16, adopted in the European Union on 31 October 2017, is effective for the period beginning on 1 January 2019. IFRS 16 has introduced a new definition of a lease, distinguishing between lessor and lessee accounting. For more information, see Accounting policies, section 4.16. Leases.

Therefore, the Bank has made adjustments to its accounting framework as a result of the IFRS 16 adoption. The main change relates to the lessee's accounting for leases. Under the new accounting standard, entities must recognise right-of-use assets and liabilities for future payments under lease contracts for all leases.

In applying IFRS 16 for the first time, in accordance with the standard, the Bank calculated the lease liability as the present value of future lease payments at 1 January 2019 and determined the right of use based on the value of the lease liability.

In applying IFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Bank has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Bank relied on its assessment made applying IAS 17, *Leases* and IFRIC 4, *Determining whether an Arrangement contains a Lease*.

As at 1 January 2019, the Bank thus initially recognised new right-of-use assets and additional lease liabilities as follows (in thousands of HRK):

Right-of-use assets	3,059
Lease liabilities	3,209
- of which current liabilities	*924*
Capital	(150)

In calculating the lease liability for leases classified as operating leases, the Bank discounted lease payments using the incremental borrowing rate as at 1 January 2019, at rates ranging from 0.3 to 2.25%, depending on the lease term and the currency of the lease amount.

Operating lease liabilities as at 31 December 2018	6,223
Effect of discounting using the incremental borrowing rate as at 1 January 2019	(148)
Recognition exemption for leases of low-value assets	(777)
Recognition exemption for leases with a lease term of 12 months or less at the time of first application	(2,089)
Lease liabilities recognised as at 1 January 2019	3,209

Low-value leases relate to photocopying machines and the outlets' protection and surveillance system.

3. BASIS OF PREPARATION (continued)

Short-term leases are those leases whose original or remaining maturity as at 1 January was less than one year, and they mainly relate to leases of office space.

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Bank:

- *IFRIC 23 – Uncertainty over Income Tax Treatments* (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019)
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

3. BASIS OF PREPARATION (continued)

Standards and interpretations not yet adopted

Certain new standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Bank.

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Bank is currently assessing the impact of the amendments on its financial statements.

Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020) The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80 - 125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. The Bank is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies provided below have been consistently applied to all the years presented, unless otherwise stated.

Where the accounting policies are consistent with the accounting principles of International Financial Reporting Standards (hereinafter: "IFRS" or "Standards"), the Bank may refer to specific Standards in the description of the its accounting policies. Unless otherwise stated, these are Standards that have been applied as at 31 December 2019.

4.1. Financial assets and liabilities

Measurement techniques

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition, net of prepayments, increased or decreased by the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the amount of maturity and, in the case of financial assets, less the amount of the provision.

An effective interest rate is the rate used to discount the expected future proceeds or payments over the expected life of a financial asset or financial liability of the gross carrying amount of financial assets or the amount of the amortised cost of the financial liability. The calculation does not take into account the expected credit loss and includes transaction costs, premiums or discounts, fees and other payments and proceeds that are considered an integral part of the effective interest rate. An audit of expected future cash flows is carried out using the original effective interest rate.

Interest income and expense

Interest income is accounted for using the effective interest rate method applied to the gross carrying amount of financial assets, except for:

- Purchased or originated credit-impaired financial assets. For such assets, a credit-adjusted effective interest rate is used,
- Financial assets that are not purchased or originated credit-impaired financial assets but that subsequently became credit-impaired financial assets. For such assets, the effective interest rate is applied to the amortised cost of such assets in subsequent reporting periods.

The Bank recognises interest income only upon collection of financial assets allocated to Stage 3 of expected credit losses.

Initial recognition and measurement

The Bank recognises a financial asset or liability in the statement of financial position only if it becomes a party to the contractual provisions of the instrument.

The Bank initially recognises financial assets (other than trade receivables) or financial liabilities at their fair value, which, in the case of financial assets or financial liabilities not designated at fair value through profit or loss, increases or decreases by transaction costs that may be directly attributed to the acquisition or issue of a financial asset or financial liability.

FINANCIAL ASSETS

The Bank classifies financial assets into three basic categories:

- assets subsequently measured at amortised cost,
- assets subsequently at fair value through other comprehensive income, and
- assets subsequently measured at fair value through profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1. Financial assets and liabilities (continued)

Financial assets measured at amortised cost are assets whose purpose is to collect cash flows that are solely payments of principal and interest. The carrying amount is adjusted for the expected credit losses. Interest income is accounted for by applying the effective interest rate.
Financial assets measured at fair value through other comprehensive income are assets whose purpose is to collect contractual cash flows and to sell financial assets where cash flows of an asset are solely principal and interest payments. Changes in the carrying amounts are recognised in other comprehensive income, except for gains or losses on impairment, interest income and exchange rate differences that are recognised in the income statement. Upon derecognition of these financial assets the accumulated gains and losses previously recognised in other comprehensive income are reclassified from equity to profit and loss.
Financial assets measured at fair value through profit or loss are assets that are not measured at amortised cost or at fair value through other comprehensive income.

Business model
The Bank decides on a business model at a level that reflects the method of joint management of financial asset groups (portfolios) to achieve a specific business objective. In assessing the business model for managing financial assets the Bank relies on judgments based on the following information:

- Whether the strategic focus of management is to achieve interest income, in particular maintaining the interest rate profile, adjusting the maturity of financial assets to the maturity of the liabilities that are the source of the asset or the realisation of cash flows by selling assets,
- How to determine and report on portfolio performance,
- Risks affecting the business model's performance and how these risks are managed,
- How the managers are rewarded,
- Frequency, volume and time of sales in previous periods.

With the hold-to-collect business model for the purpose of collecting contracted cash flows or collecting cash flows and selling, the Bank estimates whether the cash flows of a financial instrument represent solely payments of principal and interest (SPPI test).

Impairment
The Bank recognises impairment allowances for the expected credit losses for the financial assets measured at amortised cost or measured at fair value through other comprehensive income and for the exposure arising from contingencies. At the reporting date, the Bank reviews whether there has been a change in the credit risk of the financial instrument after initial recognition and recognises the impairment gains or losses in profit and loss in the amount of expected losses or gains.
The measurement of expected credit losses reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- the time value of money and
- reasonable and supportable information on the reporting date that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

Loan modifications

The Bank sometimes modifies the contracted cash flows of customer loans. When this happens, the Bank reviews whether the new conditions differ significantly from the terms of the contract initially agreed upon. The Bank then takes into account different circumstances:

- If a debtor has financial difficulties, does the modification only reduce the contracted cash flows to the amounts that the debtor expects to be able to pay,
- Has a new significant term been contracted affecting the repayment of the loan, which has a significant impact on the risk profile of the loan,
- A more significant extension of the loan repayment period when the borrower has no financial difficulties,
- Significant changes in the interest rate,
- Changes in the original currency of the loan,
- Adding collaterals, other security instruments or credit enhancement instruments that have a significant impact on credit risk.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1. Financial assets and liabilities (continued)

If the terms of the loan have changed considerably, the Bank derecognises the original loan and recognises a new loan at fair value and calculates the new effective interest rate on the loan. The date of the new contract is considered to be the date of initial recognition for the purposes of the calculation of the impairment, including any need for a significant increase in credit risk. Any difference in the carrying amount of the loan will be recognised in the income statement as a gain or loss on derecognition.

Derecognition other than on modification

Financial assets or a portion thereof, are derecognised when the Bank loses the rights to the cash flows from a financial asset or when it transfers the financial asset in a transaction by which substantially all the risks and rewards of ownership have been transferred to another entity.

The Bank enters into transactions where it retains contractual rights to cash flows from assets, but assumes a contractual obligation to pay those cash flows and transfers all of the significant risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Bank:

- has no obligation to make payments unless it collects equivalent amounts from the assets,
- is prohibited from selling or pledging the assets, and
- has an obligation to remit any cash it collects from the assets without material delay.

FINANCIAL LIABILITIES

Classification and subsequent measurement

The Bank classifies the financial liabilities and subsequently measures them at amortised cost, except for

- Financial liabilities (including derivatives) designated at fair value through profit or loss.
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or is accounted for using the continuing involvement approach.
- Financial guarantee contracts.

Derecognition of financial liabilities

The Bank derecognises financial liabilities only when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.
The difference between the carrying amount of a financial liability (or a portion of a financial liability) that has been settled or transferred to another party and the consideration paid, including any non-cash transferred assets or liabilities assumed, is recognised in the income statement.

Contingent liabilities and commitments

Financial guarantees are contracts that require the Bank to make specific payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. In the ordinary course of business, the Bank enters into arrangements by which it assumes contingent liabilities maintained on off-balance-sheet accounts and that primarily include guarantees, letters of credit and undrawn loan commitments and limits on lines of credit. Such financial commitments are recognised in the Bank’s statement of financial position if and when they become payable.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2. Income tax

Income tax is based on taxable income for the year and comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case the tax is recognised in equity or other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted at the reporting date, and any adjustments to tax payable in respect of previous years

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities, based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are not discounted and are classified as long-term assets and/or liabilities in the balance sheet. Deferred tax assets are recognised only to the extent that it is probable that they could be utilised as a tax benefit. At each financial reporting date, the Bank reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

4.3. Cash and cash equivalents

Cash and cash equivalents includes cash and current accounts with the Croatian National Bank with an original maturity of up to 90 days and with other banks, net of any impairment allowances on a collective basis and uncollectible amounts, and items in process of collection.

4.4. Property and equipment

Items of property and equipment are recognised at historical cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight-line basis to allocate the cost of assets to their residual values over their estimated useful lives. Land and assets under construction are not depreciated.

Assets' residual values, depreciation method and estimated useful life are reviewed at each balance sheet date and adjusted if appropriate. The carrying value of an asset is written down immediately to its recoverable amount if the asset's carrying amount exceeds its recoverable amount. Profits and losses on disposals are determined by comparing the amount collected and the carrying amount, and are included in the profit and loss account.

Tangible assets are depreciated on a straight-line basis over their estimated useful lives as follows:

	2019	**2018**
Buildings	2.50-5%	2.50%
Computers	25%	25%
Furniture and equipment	10% - 25%	10% - 20%
Vehicles	20%	25%
Other not listed tangible assets	5% - 20%	5% - 10%).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5. Intangible assets

Intangible assets are carried at cost less accumulated amortisation and impairment. Expenditure on development activities is recognised as an intangible asset if it satisfies all the requirements in accordance with IAS 38 "Intangible Assets". Amortisation is calculated on a straight-line basis over the estimated useful lives of intangible assets.

Intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

	2019	**2018**
Intangible assets (other)	10% - 20%	10% - 20%
Intangible assets – software	20% - 25%).	20% - 25%

4.6. Foreclosed assets

For assets acquired in lieu of uncollected receivables the Bank assesses the marketability and only marketable assets, the value of which can be measured reliably, are recognised. Such assets are stated at the lower of the cost of related outstanding receivables and the current fair value of that asset. The Bank's intention is to sell such assets as soon as possible (such assets are not amortised). After initial recognition the foreclosed assets are subsequently measured in accordance with IAS 2 Inventories.

4.7. Assets held for sale

Tangible assets repossessed in exchange for uncollected receivables are stated in the statement of financial position on the assets held for sale if the following conditions are met:

- there is a sales plan and activities are carried out to find a buyer,
- the assets are ready for sale in the present state,
- sales are highly probable,
- assets are offered for sale at a reasonable price, or when the price of an asset is acceptable in relation to its market value, and it is unlikely that there will be significant deviations from the sale or resignation plan,
- sales should be completed within one year from the date of classification, unless the delay is caused by events or circumstances beyond the control of the Bank and there is sufficient evidence that it will remain in compliance with the asset sales plan.

In cases where due to the aggravating circumstances of sales caused by events or circumstances beyond the control of the Bank and there is sufficient evidence that the Bank has remained consistent with its sales plan, tangible assets repossessed in exchange for uncollected receivables will continue to be recognised, measured and disclosed as an asset held for sale.

This asset category is initially recognised at fair value, net of estimated expected selling costs.

After initial recognition, these assets are subsequently measured at the lower of the net carrying amount and fair value net of transaction costs.
If the above conditions are not met, the Bank's tangible assets repossessed in exchange for uncollected receivables are initially recognised as repossessed assets in accordance with International Accounting Standard 2 Inventories.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8. Investment property

Investment property is property held by the Bank either to earn rentals or for capital appreciation purposes.

Investment property is carried at cost. At subsequent measurement of investment property, the Bank applies the fair value model. The Bank conducts measurement of fair value on an income basis annually by an independent valuer.

The purchase cost is the amount of money or cash equivalents paid or the fair value of other consideration paid for the purpose of acquiring such property. Transaction costs are included in the initial measurement.

4.9. Impairment of non-financial assets

Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Property, plant and equipment and intangible assets are reviewed for impairment when circumstances indicate that the carrying amount of an asset may not be recoverable.

When the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of property, plant and equipment and intangible assets carried at acquisition cost.

4.10. Provisions for liabilities and charges

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and if it is probable that an outflow of economic resources will be required to settle the obligation, and the amount can be reliably estimated.
Provisions for liabilities and charges are maintained at a level which the Bank's Management Board believes is adequate to absorb probable future losses. Management determines the adequacy of the provisions based upon reviews of individual items, current economic conditions, the risk characteristics of the various categories of transactions, as well as other relevant factors.
When an outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed. Provisions are released only for those costs in respect of which provisions are recognised at inception.

4.11. Employee benefits

The Bank makes payments to the mandatory pension funds on behalf of its employees as required by law. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

The Bank recognises a provision for bonuses where there is a constructive obligation resulting from a contract or past practice. Furthermore, the Bank recognises accrued benefits on the basis of annual vacation days outstanding at the date of the financial statements.

In calculating provisions for severance payments and jubilee rewards, discounted expected future cash flows arising from the liabilities is preformed, using discount rates that, in the opinion of management, best represent the time value of money.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12. Share capital and reserves

Share capital is denominated in HRK at nominal value.

4.13. Accumulated losses

If the Bank recognises a loss for the financial year, it is transferred to accumulated losses.

4.14. Fee and commission income and expense

Fee and commission income comprises mainly of fees received from customers for loans, guarantees, letters of credit and other services provided by the Bank. Fees are recognised as income upon the maturity date of services.

Fee and commission expense consist of fees paid to licensed banks for payments services performed in the foreign exchange, as well as for the Financial Agency services (FINA) for domestic payments.

4.15. Foreign currencies

Transactions in foreign currencies are translated into HRK applying the middle exchange rate of CNB at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the financial statements' date are translated at the exchange rate defined at the financial statement's date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into HRK at the foreign exchange rate prevailing at the date on which their fair value was determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated at the exchange rate at the transaction date and are not retranslated at the date of the statement of financial position.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the securities. Exchange differences are recognised in the income statement as part of the foreign exchange gains or losses on translation of monetary assets and liabilities.

4.16. Leases

Accounting policy applicable before 1 January 2019

At the inception of the contract, the Bank assesses whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration.

Bank as lessor
The accounting treatment of leases in which the Bank is the lessor distinguishes between operating and finance leases. The accounting for finance leases remained largely unchanged from accounting under IAS 17.
Leases in which the Bank does not transfer a significant portion of the risks and rewards of ownership are classified as operating leases. Lease income from operating leases is recognised on a straight-line basis over the lease term and included in the income statement. The same principle applies to direct costs attributable to negotiating and arranging an operating lease.

Bank as lessee
The Bank as a lessee recognises liabilities under lease payments and the right-of-use assets, which is the right to use the underlying asset, except for short-term leases and leases of low-value assets.

The Bank recognises right-of-use assets at the inception of a lease contract, that is at the date at which the underlying asset is available for use. These assets are measured at cost less accumulated amortisation and impairment losses, adjusted for any remeasurement of the lease liability. The cost includes any initial direct costs and lease payments, less any lease incentives received. Right-of-use assets are amortised on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16. Leases (continued)

At the inception of a lease contract the Bank also recognises lease liabilities measured at the present value of future payments over the contract term. These payments include fixed and variable payments that are based on an index or a rate as well as amounts expected to be payable under residual value guarantees. Lease payments may also include the exercise price of a purchase option if it is reasonably certain that this option will be exercised and payments of penalties for terminating the lease. Variable lease payments that are not based on an index or a rate are recognised as an expense as incurred.

Tangible assets are depreciated on a straight-line basis over their estimated useful lives as follows:

	2019
Buildings (office space)	6.8%-50%
Cars	20%
Equipment	50%

Accounting policy applicable before 1 January 2019

The Bank leases office space to perform operations that are treated as operating leases. The underlying asset is not recognised in the statement of financial position, and payments under operating leases are recognised in the income statement or loss on a straight-line basis over the lease term.
The Bank recognises rental income under operating leases in the income statement on a straight-line basis over the term of the lease.

4.17. Borrowings

Borrowings are recognised initially at fair value, net of associated costs. Subsequent measurement is carried at amortised cost and the difference between proceeds net of transaction costs, and the amount payable at maturity is recognised in the income statement over the term of the borrowings as interest expense.

4.18. Activities for and on behalf of third parties

The Bank manages funds for and on behalf of corporate customers. These amounts do not represent the Bank's assets and are excluded from the statement of financial position. For the services provided the Bank charges a fee which is recognised in the statement of profit or loss.

4.19. Segment reporting

A business segment is an integral part of the Bank that engages in business activities from which it may earn revenues or expenses, including transactions with other segments of the Bank. In 2019, the Bank did not apply the internal transfer pricing when determining business performance of individual segments.

4.20. Accounting estimates and judgments in applying accounting policies

In preparing the financial statements, the Management Board is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent liabilities at the reporting date, as well as amounts of income and expense for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the result of which form the basis for making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which they are incurred if affecting only that period or the period in which they are incurred and future periods if they impact current and future periods.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20. Accounting estimates and judgments in applying accounting policies (continued)

An estimate of impairment losses of a portfolio exposed to credit risk and an estimate of fair value of collateral in the form of real estate as an integral part of the estimate, represent the most significant source of estimate uncertainty. This and other key sources of estimate uncertainty (provisions for court disputes), that carry considerable risk of possible significant adjustments of assets' and liabilities' carrying value in the next business year, are described below.

4.20.1. Losses on impairment of loans and advances

The Bank monitors the creditworthiness of its customers on an ongoing basis. On-balance sheet and off-balance sheet credit risk exposures are reviewed for impairment on a quarterly basis. Impairment losses are generally charged to the carrying amount of loans and receivables issued to retail and corporate customers and as provisions for risk and charges arising from off-balance sheet exposures to customers, which mostly take on the form of approved, but not utilised loans, guarantees and letters of credit. In addition to individually identified impairment losses, the Bank monitors and recognises, on an ongoing-basis, impairment losses that are known to exist at the financial statements date, but have not been separately identified. In assessing unidentified impairment losses on a portfolio basis, the Bank seeks to collect sufficient reliable information about appropriate loss rates, based on its historical experience, adjusted to reflect the current circumstances and the period in which the loss is identified.
For more details please refer to Note 37.1. Credit risk.

4.20.2. Legal disputes

The Bank conducts individual assessments of all court proceedings against the Bank. The assessment is conducted by the Bank's Legal Affairs department. As set out in Note 31, the Bank has provided for HRK 46,355 thousand in principal and interest on liabilities for legal disputes (2018: HRK 12,614 thousand). These amounts represent the Bank's best estimate of losses on legal disputes.

4.20.3. Property

Investment property is initially carried at cost. At subsequent measurement of investment property, the Bank applies the fair value model. The Bank conducts measurement of fair value on an income basis annually by an independent valuer.
The sensitivity analysis with regard to changes in property prices (increase or decrease in market price by 1%) is disclosed in Note 20 Investment property, 22 Foreclosed assets and 23 Assets held for sale.

5. INTEREST INCOME

in thousands of HRK

5.1. Interest income by type of customer	*2019*	2018
Corporate	25,637	36,708
Retail	23,991	23,545
Government units	2,851	6,684
Banks and other financial institutions	597	444
Other organisations	33	43
Total	**53,109**	**67,424**

Interest income comprises income from partially recoverable placements in the amount of HRK 4,769 thousand (2018: HRK 8,051 thousand) of which HRK 4,023 thousand (2018: HRK 7,628 thousand) relates to corporate transactions, and remaining HRK 745 thousand (2018: HRK 423 thousand) relates to retail transactions.

5.2. Interest income by portfolio

in thousands of HRK

	2019	2018
Financial assets at amortised cost	51,284	62,022
Financial assets at fair value through other comprehensive income	1,825	5,391
Financial assets at fair value through profit or loss	-	11
Total	**53,109**	**67,424**

6. INTEREST EXPENSE

6.1. Interest expense by type of customer

in thousands of HRK

	2019	2018
Retail	7,604	17,932
Croatian National Bank	1,395	1,893
Non-residents	1,000	1,383
Corporate	429	999
Banks and other financial institutions	340	1,074
Government units	93	179
Other organisations	47	142
Total	**10,908**	**23,602**

6. INTEREST EXPENSE

6.2. Interest expense by portfolio

in thousands of HRK

	2019	2018
Financial liabilities at amortised cost	10,908	23,602
Total	**10,908**	**23,602**

7. FEE AND COMMISSION INCOME

7.1. Income from fees by type of customer

in thousands of HRK

	2019	2018
Corporate	4,370	4,571
Retail	3,509	3,341
Financial institutions	1,289	631
Non-profit institutions	251	240
Government units	163	222
Non-residents	159	111
Total	**9,741**	**9,116**

7.2. Income from fees by type

in thousands of HRK

	2019	2018
Payment transaction fees	3,224	3,398
Fees from guarantees and letters of credit	1,431	1,607
Account maintenance fees	1,148	1,168
Online banking fees	996	903
Income from fees - sales of third-party products	843	151
Card transaction fees	581	532
Brokerage and custodial fees	483	275
Other commissions	1,035	1,082
Total	**9,741**	**9,116**

8. FEE AND COMMISSION EXPENSE

8.1. Fee and commission expense by type of customer

in thousands of HRK

	2019	2018
Domestic customers	(2,101)	(1,819)
Service fees and commissions to FINA	(1,369)	(1,438)
Foreign banks	(179)	(240)
Republic of Croatia	(40)	(49)
Total	**(3,689)**	**(3,546)**

8.2. Fee and commission expense by type

in thousands of HRK

	2019	2018
Credit card commission	(1,611)	(1,371)
FINA's non-cash and cash payment services (customers)	(1,352)	(1,418)
Financial institutions service costs	(525)	(545)
Authorised exchange office services	(89)	(61)
Other commissions	(112)	(151)
Total	**(3,689)**	**(3,546)**

9. NET FINANCIAL GAINS

in thousands of HRK

	2019	2018
Net gains on assets at fair value through other comprehensive income	8,734	639
Income from foreign currency trading	2,060	2,382
Other	7	-
Total	**10,801**	**3,021**

10. NET FOREIGN EXCHANGE LOSSES

in thousands of HRK

	2019	2018
Net foreign exchange gains/(losses) on translation of monetary balance sheet items to CNB's middle foreign exchange rate	2,788	(8,655)
Net foreign exchange gains/(losses) on translation of impairment of provisions for potential losses on loans to CNB's middle foreign exchange rate	(153)	682
Net foreign exchange gains/(losses) on translation of foreign currency balance sheet items to CNB’s middle exchange rate	(2,658)	7,926
Total	**(23)**	**(47)**

11. OTHER OPERATING INCOME

		in thousands of HRK
	2019	**2018**
Rental income	4,559	4,560
Net gain on sale of property, plant and equipment and foreclosed assets	1,761	1,883
Gain on fair value adjustment of Investment property	904	816
Collection under suspended interest income	17	50
Other income	2,774	1,213
Total	**10,015**	**8,522**

12. OTHER OPERATING EXPENSES

		in thousands of HRK
	2019	**2018**
Net salaries	15,438	16,647
Contributions, taxes and surtaxes	5,942	6,764
Pension contributions	4,446	4,814
Other staff costs	1,985	2,266
Provisions for employee benefits (Note 30)	(327)	170
Total staff costs	**27,484**	**30,661**
Depreciation and amortisation (Note 22)	3,610	2,964
Total depreciation and amortisation	**3,610**	**2,964**
Material and services	15,248	14,514
Deposits insurance premiums	4,467	5,266
Rental expenses	3,246	4,838
Marketing	466	236
Judicial and administrative fees	65	895
Other	2,271	1,468
Total other operating expenses	**25,763**	**27,217**
Total	**56,857**	**60,842**

As at 31 December 2019, the Bank had 169 employees (31 December 2018: 175 employees).

Staff costs include HRK 4,446 thousand (2018: HRK 4,814 HRK thousand) of prescribed pension contributions paid into mandatory pension funds. Contributions are determined at a certain percentage of employees' gross salaries. Contributions are calculated as a percentage of employees' gross salaries.

12. OTHER OPERATING EXPENSES (continued)

12.1. Rental costs

Rental costs mainly relate to rental costs of office space in which the Bank performs its activities.

In 2019, the rental costs amounted to HRK 3,246 thousand (2018: HRK 4,838 thousand).
Minimum payments under operating lease are presented below:

31 December 2019

in thousands of HRK

	Up to 1 year	1 to 2 years	2 to 5 years
Rental cost / payment	4,100	4,100	4,100

31/12/2018

in thousands of HRK

	Up to 1 year	1 to 2 years	2 to 5 years
Rental cost / payment	4,838	4,433	4,433

13. IMPAIRMENT LOSSES AND PROVISIONS

in thousands of HRK

	2019	2018
Impairment of loans and advances to customers (Note 19.2)	60	59
Impairment of securities (Note 18)	30	(12,054)
Impairment of other assets	(429)	(669)
Impairment of tangible and foreclosed assets (Note 22)	(717)	(184)
Impairment of loans and advances to customers (Note 19.2)	(772)	(2,695)
Incomes from collection of written-off loans in previous years	153	311
Provisions and impairment of deposits with banks	3,033	(419)
Provisions for contingencies (Note 30)	(985)	(149)
Provision for litigation against the Bank (Note 30)	(36,528)	(6,325)
Other provisions	(1,046)	(7)
Total expenses of impairment losses and provisions	**(37,201)**	**(22,132)**

14. INCOME TAX

in thousands of HRK

	2019	2018
Accounting loss before tax	**(25,012)**	**(22,086)**
Effect of tax base increasing items	31,637	9,353
Effect of tax base decreasing items	(4,513)	(5,262)
Tax base	**2,112**	**(17,995)**
Income tax (18%)	380	-

Movement in tax losses carried forward

in thousands of HRK

	2019	2018
Tax losses carried forward from the previous period	**(56,116)**	**(149,379)**
Increase in tax losses from the previous period	**2,112**	**(17,995)**
Utilisation of tax losses	-	-
Expiration of tax losses carried forward	11,010	111,258
Tax loss available for carry forward in future periods	**(42,994)**	**(56,116)**
Deferred tax assets at 18% (2018: 18%)	(7,739)	(10,101)
Recognised deferred tax assets	-	-
Unrecognised deferred tax assets	(7,739)	(10,101)

Tax losses expire as follows:

in thousands of HRK

Tax loss expiry	**Tax loss**
2022	24,999
2023	17,995
Total	**42,994**

Deferred tax assets arising from tax losses carried forward were not recognised, as their utilisation in future periods is uncertain.

Movements in deferred tax assets

in thousands of HRK

	Deferred fee income included in effective interest rate on given loans	Impairment of foreclosed assets	Unrealised fair value of financial assets AFS/OCI	Amortisation exceeding allowable tax rates	Tax losses	Total
At 1 January 2018	**1,208**	**2,178**	**313**	**106**	**285**	**4,090**
Recognised in profit or loss	(430)	(2,178)	-	(10)	(285)	(2,903)
Recognised in other comprehensive income	-	-	(68)	-	-	(68)
At 31 December 2018	**778**	**-**	**245**	**96**	**-**	**1,119**
Recognised in profit or loss	43	-	-	(13)	-	30
Recognised in other comprehensive income	-	-	(456)	-	-	(458)
At 31 December 2019	**821**	**-**	**(211)**	**83**	**-**	**693**

15. CASH

in thousands of HRK

	31 December 2019	31 December 2018
Giro account	111,917	178,191
Cash on hand:		
- HRK	11,033	11,782
- foreign currency	6,255	6,772
Cash in foreign currency accounts with domestic banks	19,684	9,142
Cash in foreign currency accounts with foreign banks	3,568	2,409
Cash in foreign currency accounts with domestic financial institutions	87	-
Checks and other assets in the course of collection	-	1
Expected credit losses	(222)	(1,946)
Total	**152,322**	**206,351**

16. RECEIVABLES FROM THE CROATIAN NATIONAL BANK

in thousands of HRK

	31 December 2019	31 December 2018
Reserve requirement		
- HRK	120,744	143,865
Expected credit losses	*(297)*	*(1,478)*
Total	**120,447**	**142,387**

The CNB determines the reserve requirement for banks, which is deposited with the CNB and held in the form of other liquid receivables.

The reserve requirement ratio as at 31 December 2019 was 12% (2018: 12%) for HRK and foreign currency deposits, borrowings and issued debt securities.

At 31 December 2019, the HRK-denominated portion of the required reserve with the CNB amounted to 70% (2018: 70%) and the foreign-currency denominated portion 0% (2018: 0%), while the remaining 30% (2018: 30%) was held in the form of other liquid receivables. This includes the foreign currency portion of required reserve held in HRK. The foreign-currency portion of the required reserve is maintained through daily balances of foreign-currency receivables on the Target 2 foreign-currency account with the Croatian National Bank as well as on accounts with foreign banks with appropriate ratings. The minimum amount of the foreign-currency required reserve on the CNB Target2 reserve account is 2%, whereas 75% of the foreign-currency portion of the required reserve is included in the calculated HRK-denominated required reserve portion and maintained in HRK.

17. PLACEMENTS WITH BANKS

in thousands of HRK

	31 December 2019	31 December 2018
Deposits with foreign banks	18,547	18,952
Deposits with domestic banks	420	418
Accrued interest	5	6
Expected credit losses	*(1)*	*(127)*
Total	**18,971**	**19,249**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in thousands of HRK

	31 December 2019	31 December 2018
Foreign government bonds	152,097	94,483
Bonds of the Republic of Croatia with a currency clause	103,696	196,622
Treasury bills with a currency clause of the Republic of Croatia	89,311	140,934
HRK-denominated treasury bills of the Republic of Croatia	49,987	79,981
HRK-denominated bonds of the Republic of Croatia	45,379	12,181
Foreign currency bonds of the Republic of Croatia	8,876	66,668
Shares	493	439
Foreign corporate bonds	218	-
Corporate bills of exchange	132	774
Treasury bills of the Republic of Croatia denominated in foreign currency	-	155,754
Expected credit losses	*(132)*	*(774)*
Accrued interest	1,988	5,619
Total	**452,045**	**752,681**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

Changes in financial assets at fair value through other comprehensive income during the year are presented in the table below:

in thousands of HRK

	Treasury bills	Bonds	Shares	Accrued interest	TOTAL
At 1 January 2019	**376,669**	**369,954**	**439**	**5,619**	**752,681**
Purchase	188,967	238,539	54	-	427,560
Change in fair value	-	2,542	-	-	2,542
Sale	(427,910)	(310,354)	-	-	(738,264)
Other (write-off, foreign exchange differences)	1,572	9,585	-	(3,631)	7,526
At 31 December 2019	**139,298**	**310,266**	**493**	**1,988**	**452,045**

	Treasury bills	Bonds	Shares	Accrued interest	TOTAL
At 1 January 2018	**462,839**	**407,985**	**439**	**3,434**	**874,697**
Purchase	220,184	293,329	-	2,185	515,698
Change in fair value	-	371	-	-	371
Sale	(303,339)	(333,502)	-	-	(636,841)
Other (write-off, foreign exchange differences)	(3,015)	1,771	-	-	(1,244)
At 31 December 2018	**376,669**	**369,954**	**439**	**5,619**	**752,681**

As at 31 December 2019, the Bank has pledged, based on received HRK 110,000 thousand of structured loans with financial insurance by the Croatian National Bank (2018: HRK 110,000 thousand of structured loans received from the Croatian National Bank and HRK 40,000 thousand of repo loans received from Erste&Steiermärkische Bank) the treasury bills in the total amount of HRK 168,451 thousand (2018: HRK 116,167 thousand of treasury bills and government bonds).
There were no securities received as pledge as at 31 December 2019, since there were no placements in repo loans (2018: no pledges).

Financial instruments carried at fair value are categorised into three levels of the IFRS fair value hierarchy, as follows:

- Level 1 - instruments that are valued using quoted prices in active markets, liquid markets. These instruments include: liquid debt securities that are traded on liquid stock markets and shares in investment funds.
- Level 2 - instruments that are valued using valuation techniques that use available market data. These are instruments whose fair value is determined in the amount of similar instruments traded in active markets, or where all the inputs used for valuation techniques are available on the market.
  These instruments include less liquid debt securities that are valued based on a model that uses level 1 input.
- Level 3 - instruments measured using valuation techniques that are based on market data not readily available in the market. These are instruments whose fair value cannot be determined directly by reference to available market information and for whose value calculation different valuation techniques are used. These instruments include illiquid debt securities and illiquid equity securities.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

The following note shows net financial assets categorised according to the stated IFRS fair value hierarchy (shown without interest receivable):

in thousands of HRK

	31 December 2019				31 December 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Foreign currency bonds	160,973	-	218	161,191	161,151	-	-	161,151
HRK-denominated bonds	149,075			149,075	208,803			208,803
Treasury bills	-	139,298	-	139,298	-	376,669	-	376,669
Shares	-	-	493	493	-	-	439	439
Total	**310,048**	**139,298**	**711**	**450,057**	**369,954**	**376,669**	**439**	**747,062**

19. LOANS AND ADVANCES TO CUSTOMERS

19.1. Analysis by type of customer

Analysis by type of customer and credit quality levels (including accrued interest and provision for interest):

in thousands of HRK

	31 December 2019				31 December 2018			
	Level 1	Level 2	Level 3	TOTAL	Level 1	Level 2	Level 3	TOTAL
Retail								
Cash loans	200,944	10,936	9,795	221,675	143,872	9,772	10,805	164,449
Loans for agriculture	46,172	4,867	6,158	57,197	49,405	1,883	2,420	53,708
Housing loans	45,637	1,009	1,042	47,688	29,388	2,534	13,405	45,327
Margin loans	26,765	-	-	26,765	13,950	2,999	24,445	41,394
Other loans	12,943	5,382	1,598	19,923	25,319	490	-	25,809
Overdrafts on transaction accounts	15,256	114	1,573	16,943	13,725	88	1,752	15,565
Mortgage loans	13,033	352	1,207	14,592	1,026	4,877	6,471	12,374
Loans for tourism	3,258	4,942	3,129	11,329	11,236	734	19	11,989
Lombard loans	10,699	71	144	10,914	6,638	379	1,295	8,312
Total retail loans	**374,707**	**27,673**	**24,646**	**427,026**	**294,559**	**23,756**	**60,612**	**378,927**
Expected credit losses (principal)	(4,520)	(663)	(8,294)	(13,477)	*(2,616)*	*(201)*	*(37,471)*	*(40,288)*
Expected credit loss (interest)	-	-	(139)	(139)	-	-	*(282)*	*(282)*
Total expected credit losses	**(4,520)**	**(663)**	**(8,433)**	**(13,616)**	***(2,616)***	***(201)***	***(37,753)***	***(40,570)***
Accrued interest	1,854	202	139	2,195	1,625	160	282	2,067
Total retail loans, net	**375,470**	**27,212**	**16,352**	**415,605**	**293,568**	**23,715**	**23,141**	**340,424**
Corporate								
Syndicated loan	394,709	-	-	394,709	373,419	-	-	373,419
Investment loans	49,836	45,914	69,947	165,697	45,718	35,680	152,670	234,068
Working-capital loans	49,292	8,348	19,148	76,788	61,099	10,629	63,065	134,793
Other loans	16,836	7,812	50,398	75,046	23,446	31	81,516	104,993
Lombard loans	458	45,401	-	45,859	1,723	45,210	-	46,933
Overdrafts on transaction accounts	8,051	2,790	1,332	12,173	6,551	3,003	2,417	11,971
Loans for agriculture	1,456	1,284	139	2,879	3,439	87	5,493	9,019
Loans for payments under guarantees	282			282	-	-	2,129	2,129
Total corporate loans	**520,920**	**111,549**	**140,964**	**773,433**	**515,395**	**94,640**	**307,290**	**917,325**
Expected credit losses (principal)	(2,439)	(1,205)	(62,878)	(66,522)	*(3,593)*	*(651)*	*(175,196)*	*(179,440)*
Expected credit losses (interest)	-	-	(30)	(30)	-	-	*(928)*	*(928)*
Total expected credit losses	**(2,439)**	**(1,205)**	**(62,908)**	**(66,552)**	***(3,593)***	***(651)***	***(176,124)***	***(180,368)***
Accrued interest	2,261	683	30	2,974	2,205	816	928	3,949
Total corporate loans, net	**520,742**	**111,027**	**78,086**	**709,855**	**514,007**	**94,805**	**132,094**	**740,906**
Total loans (gross)	**899,742**	**140,107**	**165,779**	**1,205,628**	***813,784***	***119,372***	***369,112***	***1,302,268***
Total provisions for loans	(6,959)	(1,868)	(71,341)	(80,168)	*(6,209)*	*(852)*	*(213,877)*	*(220,938)*
Total loans and advances to customers, net	**892,783**	**138,239**	**94,438**	**1,125,460**	**807,575**	**118,520**	**155,235**	**1,081,330**

As at 31 December 2019, the gross exposure arising from partly recoverable and non-recoverable loans was HRK 165,779 (2018: HRK 369,112 thousand), and the associated impairment losses amounted to HRK 71,341 thousand (2018: HRK 213,877 thousand).

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

19.2. Changes in impairment losses and provisions for potential losses

Changes in impairment losses and provisions for potential losses are as follows:

in thousands of HRK

	2019				2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January	**6,209**	**852**	**213,877**	**220,938**	**9,636**	**-**	**250,895**	**260,531**
Impact on profit or loss								
Net impairment losses i.e. provisions (Note 13)	761	1,980	(1,969)	772	(3,396)	848	5,243	2,695
Net impairment on interest receivable (Note 13)	2	6	(68)	(60)	6	(12)	(52)	(58)
Foreign exchange differences	(13)	(8)	(134)	(155)	(37)	16	(674)	(695)
Without impact on P&L								
Write-off	-	(962)	(140,365)	(141,327)	-	-	(41,535)	**(41,535)**
At 31 December	**6,959**	**1,868**	**71,341**	**80,168**	**6,209**	**852**	**213,877**	**220,938**

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

19.2. Changes in impairment losses and provisions for potential losses (continued)

The table below sets out an analysis of impairment losses by different types of loans within the Retail and Corporate category:

HRK thousand

	2019				2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January								
Retail								
At 1 January	**2,616**	**202**	**37,181**	**39,999**	**3,557**	**-**	**38,988**	**42,545**
Overdrafts on transaction accounts	416	4	(118)	302	88	1	300	389
Mortgage loans	77	4	12	93	(8)	2	(359)	(365)
Housing loans	91	11	(1,046)	(944)	(212)	16	-	(196)
Cash loans	432	72	(2,589)	(2,085)	(254)	104	1,325	1,175
Loans for agriculture	671	124	(5,350)	(4,555)	(146)	17	7	(122)
Margin loans	(72)	(3)	-	(75)	(149)	3	-	(146)
Lombard loans	17	(4)	23	36	(72)	5	-	(67)
Loans for tourism	76	152	(1,618)	(1,390)	(60)	31	326	297
Other loans	196	101	(18,062)	(17,765)	(128)	23	(3,406)	(3,511)
At 31 December	**4,520**	**663**	**8,433**	**13,616**	**2,616**	**202**	**37,181**	**39,999**
Corporate								
At 1 January	**3,593**	**650**	**176,696**	**180,939**	**6,079**	**-**	**211,907**	**217,986**
Investment loans	52	33	(1,348)	(1,263)	(9)	24	(274)	(259)
Loans for payments under guarantees	-	-	(2,056)	(2,056)	-	-	(229)	(229)
Working-capital loans	(1,336)	-	-	(1,336)	(1,381)	-	-	(1,381)
Loans for agriculture	(152)	(4)	(35,677)	(35,833)	(264)	81	(8,490)	(8,673)
Loans for tourism	222	655	(46,062)	(45,185)	(590)	241	(16,472)	(16,821)
Lombard loans	(7)	30	(4,016)	(3,993)	(42)	1	(24)	(65)
Other loans	(9)	(293)	-	(302)	2	303	-	305
Overdrafts on transaction accounts	(1)	2	(671)	(670)	(6)	-	170	164
Syndicated loan	77	132	(23,958)	(23,749)	(196)	-	(9,892)	(10,088)
At 31 December	**2,439**	**1,205**	**62,908**	**66,552**	**3,593**	**650**	**176,696**	**180,939**
Total retail and corporate	**6,959**	**1,868**	**71,341**	**80,168**	**6,209**	**852**	**213,877**	**220,938**
At 31 December	**6,959**	**1,868**	**71,341**	**80,168**	**6,209**	**852**	**213,877**	**220,938**

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

19.3. Changes in gross loans and impairment losses by credit risk stages

19.3.1. Changes in gross loans by credit risk stages

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	**889,823**	**64,752**	**451,922**	**1,406,497**
From Stage 1 to Stage 2	(8,490)	8,490	-	-
From Stage 1 to Stage 3	(8,177)	-	8,177	-
From Stage 2 to Stage 1	3,612	(3,612)	-	-
From Stage 2 to Stage 3	-	(9,813)	9,813	-
From Stage 3 to Stage 2	-	398	(398)	-
New assets	425,053	22,666	2,567	450,286
Derecognition of assets	(491,868)	35,517	(104,180)	(560,531)
At 31 December 2018	**809,953**	**118,398**	**367,901**	**1,296,252**
At 1 January 2019	**809,953**	**118,398**	**367,901**	**1,296,252**
From Stage 1 to Stage 2	(8,830)	8,830	-	-
From Stage 1 to Stage 3	(4,880)	-	4,880	-
From Stage 2 to Stage 1	3,478	(3,478)	-	-
From Stage 2 to Stage 3	-	(450)	450	-
From Stage 3 to Stage 2	-	336	(336)	-
New assets	292,727	147,740	134,534	575,001
Derecognition of assets	(192,706)	(131,269)	(341,650)	(665,625)
At 31 December 2019	**899,742**	**140,107**	**165,779**	**1,205,628**

Note: The above amounts do not include interest receivable.

19.3.2. Changes in impairment losses by credit risk stages

in thousands of HRK

	2019				2018			
	Stage 1	Stage 2	Stage 3	TOTAL	Stage 1	Stage 2	Stage 3	TOTAL
Retail								
From Stage 1 to Stage 2	-	(67)	-	(67)	-	(6)	-	(6)
From Stage 1 to Stage 2	-	-	(923)	(923)	-	-	445	445
From Stage 2 to Stage 1	(3)	-	-	(3)	(18)	-	-	(18)
New assets	2,215	(187)	2,804	4,832	668	18	16	702
Derecognition and changes in provisions	(343)	(111)	(2,207)	(2,661)	(900)	(92)	2,708	1,716
Foreign exchange differences	(5)	-	-	(5)	(9)	(1)	(16)	(26)
Corporate								
From Stage 1 to Stage 2	-	19	-	19	--	-	-	-
From Stage 1 to Stage 3	-	-	(390)	(390)			142	142
From Stage 2 to Stage 1	(6)	-	-	(6)	(1)	-	-	(1)
Issues and acquisitions	685	(452)	8,476	8,709	2,307	997	6,247	9,551
Derecognition and changes in provisions	(1,785)	2,784	(9,797)	(8,798)	(5,446)	(81)	(4,367)	(9,894)
Foreign exchange differences	(8)	(8)	(134)	(150)	(28)	17	(658)	(669)
Total (impact on P&L)	**750**	**1,978**	**(2,171)**	**557**	**(3,427)**	**852**	**4,517**	**1,942**

In 2019, the Bank sold a portion of its non-performing loans to corporate customers and individuals. Gross loans sold amounted to HRK 148,920 thousand.

20. INVESTMENT PROPERTY

in thousands of HRK

	31 December 2019	31 December 2018
Investment property	35,350	34,446
Total	**35,350**	**34,446**

Investment property is property held by the Bank either to earn rentals or for capital appreciation purposes. In 2019, the Bank performed an increase in the value of the said asset in accordance with a new estimate of its market value.

Investment property is initially measured at cost and the fair value is subsequently adjusted under the income method by an independent valuer. Revenue is determined on the basis of income earned on the market and is determined from the sum of the capitalised pure income and the determined value of land that is discounted on the day of valuation. The Bank conducts fair value measurement on an annual basis.
Investment property contains one property on the basis of which the Bank earns income from the lease. The contract with the lessee was concluded for an indefinite period and due to a very good business relationship of many years and the attractive location, the Bank does not expect to terminate the contract in the subsequent period of 5 years. Under the contract, the Bank has no obligation to invest in the premises, and incurred no costs in this respect.

Sensitivity to fluctuations in property prices by 1 percent is presented in the table below:

in thousands of HRK	31 December 2019		31 December 2018	
	Decrease	Increase	Decrease	Increase
Investment property	(354)	354	(344)	344

20.1. Rental income

The Bank has one real estate classified as an investment property and it realised rental income from this real estate in the amount of HRK 4,263 thousand (2018: HRK 4,031 thousand).
Future expected operating rental income is given below:

31 December 2019

in thousands of HRK	Up to 1 year	1 to 2 years	2 to 5 years
Rental income/collection	4,400	4,400	4,400

31 December 2018

in thousands of HRK	Up to 1 year	1 to 2 years	2 to 5 years
Rental income/collection	4,560	4,560	4,560

20. INVESTMENT PROPERTY (CONTINUED)

20.2. Fair value hierarchy

in thousands of HRK

	Level 1	Level 2	Level 3	Total
At 31 December 2019				
Investment property	-	-	35,350	35,350
Total assets	**-**	**-**	**35,350**	**35,350**

in thousands of HRK

	Level 1	Level 2	Level 3	Total
At 31 December 2018				
Investment property	-	-	34,446	34,446
Total assets	**-**	**-**	**34,446**	**34,446**

21. *Property, equipment and intangible assets*

in thousands of HRK

	Land and buildings	Furniture and vehicles	Equipment and other tangible assets	Tangible assets under construction	Total tangible assets	Intangible assets	Intangible assets under construction	Total intangible assets	Total
Cost									
At 1 January 2018	**12,403**	**4,852**	**18,921**	**14**	**36,190**	**30,754**	**180**	**30,934**	**67,124**
Additions		37	168	177	382	1,271	-	1,271	1,653
Transfer from account during the year		-	-	-	-	180	(180)	-	-
Disposals and retirements		(743)	(659)	-	(1,402)	(93)	-	(93)	(1,495)
At 31 December 2018	**12,403**	**4,146**	**18,430**	**191**	**35,170**	**32,112**	**-**	**32,112**	**67,282**
Effects of first-time IFRS 16 adoption	2,035	1,023	229	-	3,287	-	-	-	3,287
At 1 January 2019	14,438	5,169	18,659	191	38,457	32,112	-	32,112	70,569
Additions	-	5	172	-	177	1,488	-	1,488	1,665
Transfer from account during the year	-	-	-	(131)	(131)	-	-	-	(131)
Disposals and retirements	-	(172)	(479)	-	(651)	(54)	-	(54)	(705)
At 31 December 2019	**14,438**	**5,002**	**18,352**	**60**	**37,852**	**33,546**	**-**	**33,546**	**71,398**
Accumulated depreciation/ amortisation									
At 1 January 2018	**8,682**	**4,531**	**16,697**	**-**	**29,910**	**26,747**	**-**	**26,747**	**56,657**
Charge for the year 2018	187	245	580	-	1,012	1,952	-	1,952	2,964
Disposals and retirements	-	(741)	(657)	-	(1,398)	(93)	-	(93)	(1,491)
At 31 December 2018	**8,869**	**4,035**	**16,620**	**-**	**29,524**	**28,606**	**-**	**28,606**	**58,130**
Charge for the year 2019	187	43	539	-	769	1,842	-	1,842	2,611
Disposals and retirements	-	(172)	(458)	-	(630)	(54)	-	(54)	(684)
At 31 December 2019	**9,056**	**3,906**	**16,701**	**-**	**29,663**	**30,394**	**-**	**30,394**	**60,057**
Net book amount at 31 December 2018	**3,534**	**111**	**1,810**	**191**	**5,646**	**3,506**	**-**	**3,506**	**9,152**
Net book amount at 31 December 2019	**5,382**	**1,096**	**1,651**	**60**	**8,189**	**3,152**	**-**	**3,152**	**11,341**

During the year, the Bank retired certain items of property and equipment with a total cost of HRK 682 thousand (2018: HRK 1,439 thousand) and sold a portion in the amount of HRK 23 thousand (2018: HRK 55 thousand).

As at 31 December 2019, the Bank does not own any assets pledged as collateral, nor did it have any such assets in 2018.

At 31 December 2019, the balance of assets still in use although fully written off amounts to HRK 26,766 thousand (2018: HRK 24,894 thousand).

22. Assets - IFRS 16

Movements in assets subject to IFRS 16 requirements are as follows:

	Office space/outlets	Cars	Plant and equipment/other fixed assets	Total
31 December 2018	x	x	x	x
IFRS 16 adjustments	2,386	164	509	3,059
At 1 January 2019	**2,386**	**164**	**509**	**3,059**
New lease contracts	310	1,078	-	1,388
Termination of lease contracts	-	(123)	(39)	(161)
Depreciation and amortisation	(661)	(96)	(241)	(998)
At 31 December 2019	**2,035**	**1,023**	**230**	**3,287**

23. FORECLOSED ASSETS

Changes in foreclosed assets for uncollected receivables are as follows:

in thousands of HRK

	31 December 2019	31 December 2018
At 1 January	**28,518**	**15,397**
Increase based on foreclosing assets	573	16,215
Decrease due to impairment (Note 13)	(717)	(184)
Decrease due to sale of foreclosed assets	(2,616)	(2,910)
Balance	**25,758**	**28,518**

In 2019, the Bank sold foreclosed assets in the amount of HRK 2,616 thousand (2018: HRK 2,910 thousand) and realised gains in the amount of HRK 1,761 thousand (2018: HRK 1,883 thousand).

Sensitivity to fluctuations in property prices by 1 percent is presented in the table below:

in thousands of HRK

	31 December 2019		31 December 2018	
	Decrease	Increase	Decrease	Increase
Foreclosed assets	(258)	258	(285)	285

24. ASSETS HELD FOR SALE

in thousands of HRK

	31 December 2019	31 December 2018
Assets held for sale	5,280	5,280
Total	**5,280**	**5,280**

The Bank has reclassified tangible assets no longer used for business activities (business premises in Zadar and Poreč) to assets held for sale at their net book value, since the assets' fair value exceeds their net book value.

Sensitivity to fluctuations in property prices by 1 percent is presented in the table below:

in thousands of HRK

	31 December 2019		31 December 2018	
	Decrease	Increase	Decrease	Increase
Assets held for sale	(53)	53	(53)	53

25. OTHER ASSETS

ı thousands of HRK

	31 December 2019	31 December 2018
Receivables from the state	17,759	17,759
Other receivables from employees	4,462	4,551
Other receivables	2,479	5,333
Fees and commissions receivable	2,347	4,161
Trade receivables	2,216	8,004
Cash in transit	1,953	1,899
Receivables from domestic legal entities based on paid court costs	913	2,641
Receivables for third-party deposits made at court	13	13
Provisions for expected credit losses (IFRS 9)	(12,836)	(20,202)
Total other assets	**19,306**	**24,159**

26. LIABILITIES TO BANKS

in thousands of HRK

	31 December 2019	31 December 2018
Demand deposits		
- in HRK	5,823	3,286
- in foreign currencies	630	647
Total demand deposits	**6,453**	**3,933**
Term deposits		
- in HRK	11,750	105,238
- in foreign currencies	-	1,230
Total term deposits	**11,750**	**106,468**
Accrued interest	3	142
Total	**18,206**	**110,543**

27. DEMAND DEPOSITS

in thousands of HRK

	31 December 2019	31 December 2018
Demand deposits - retail		
- in HRK	129,848	103,341
- in foreign currencies	245,116	101,857
Total retail	**374,964**	**205,198**
Demand deposits - corporate		
- in HRK	139,826	173,204
- in foreign currencies	19,250	14,458
Total corporate	**159,076**	**187,662**
Demand deposits - financial institutions		
- in HRK	488	563
- in foreign currencies	2	2
Total financial institutions	**490**	**565**
Demand deposits - government and other institutions		
- in HRK	67,551	60,863
- in foreign currencies	16,309	17,334
Total government and other institutions	**83,860**	**78,197**
Restricted deposits		
- in HRK	4,184	4,268
- in foreign currencies	14,903	14,904
Total restricted deposits	**19,087**	**19,172**
Deposits of foreign entities		
- in HRK	2,281	2,456
- in foreign currencies	29,109	15,351
Total foreign entities	**31,390**	**17,807**
Total	**668,867**	**508,601**

28. TERM DEPOSITS

		in thousands of HRK
	31 December 2019	**31 December 2018**
Deposits - retail		
- in HRK	139,164	154,694
- in foreign currencies	631,340	1,065,740
Total retail	**770,504**	**1,220,434**
Deposits - corporate		
- in HRK	93,224	56,740
- in foreign currencies	1,415	482
Total corporate	**94,639**	**57,222**
Deposits - financial institutions		
- in HRK	-	17,000
- in foreign currencies	-	-
Total financial institutions	**0**	**17,000**
Deposits of government and other institutions - in HRK	**13,109**	**13,609**
Deposits of foreign entities		
- in HRK	1,621	1,647
- in foreign currencies	66,390	92,418
Total foreign entities	**68,011**	**94,065**
Deposits of non-profit organisations - in foreign currencies	**213**	**211**
Accrued interest	**4,539**	**15,569**
Total	**951,015**	**1,418,110**

29. BORROWINGS

		in thousands of HRK
	31 December 2019	**31 December 2018**
Croatian National Bank	110,000	110,000
Domestic banks	49,210	3,974
Accrued interest	1,681	337
Total	**160,891**	**114,311**

30. OTHER LIABILITIES

in thousands of HRK

	31 December 2019	31 December 2018
Other liabilities	3,766	1,641
Amounts due to employees	2,239	2,859
Deferred income and accrued expenses	1,738	2,634
Liabilities for savings deposit insurance	1,036	1,110
Trade payables	1,007	1,361
Fees and commissions payable	177	204
Liabilities for payment of insured deposits of bankrupt banks /i/	-	245
Total	**9,963**	**10,054**

31. PROVISIONS

in thousands of HRK

	31 December 2019	31 December 2018
Provisions for legal disputes	46,355	12,614
Provisions for contingent liabilities and commitments	1,944	959
Provisions for unused vacation days	156	193
Provisions for termination benefits	-	123
Other provisions	677	55
Total	**49,132**	**13,944**

Movements in provisions are presented as follows:

in thousands of HRK

	2019	2018
At 1 January	**13,944**	**8,370**
Income from reversal of provisions for legal disputes against the bank (Note 13)	(2,601)	(1,003)
New provisions for legal disputes (Note 13)	39,129	7,328
Changes in provisions for commitments and contingencies (Note 13)	985	(152)
Cost of provisions for termination benefits, vacation days etc. (Note 13)	(37)	170
Changes in other provisions (Note 13)	483	7
Changes in payments made under legal disputes	(2,648)	(776)
Changes in payments made under termination benefits	(123)	-
At 31 December	**49,132**	**13,944**

In 2019, the Bank paid HRK 2,648 thousand from the provisions for legal disputes (2018: HRK 776 thousand). Provisions for off-balance-sheet exposure to credit risk and legal disputes are recognised as other impairment losses and provisions in profit or loss (Note 13).

32. SHARE CAPITAL

The only shareholder of the Bank as at 31 December 2019 and 2018 is the State Agency for Deposit Insurance and Bank Rehabilitation.

		in thousands of HRK
	31 December 2019	31 December 2018
Share capital	474,600	474,600
Accumulated loss	(344,463)	(318,393)
Reserves	2,004	(1,121)
Loss for the period	(24,505)	(24,989)
Total equity	**107,636**	**130,097**

Share capital in the amount of HRK 474,600 thousand (2018: HRK 474,600 thousand) consists of 4,746,000 shares with a nominal value of HRK 100 per share (2018: 4,746,000 shares with a nominal value of HRK 100 per share). Each share carries one vote.

33. CONTINGENT LIABILITIES AND COMMITMENTS

		in thousands of HRK
	31 December 2019	31 December 2018
Guarantees	56,837	63,519
Other common risk-bearing off-balance sheet items	41,462	20,642
Revolving loans	37,068	29,391
Unbacked letters of credit	2,194	3,780
Total	**137,561**	**117,332**

34. LEGAL DISPUTES

More than 200 legal disputes have been initiated against the Bank by former shareholders of the Bank, as well as forty legal disputes on other grounds.

In accordance with internal by-laws and legal regulations, the Bank assesses the potential outflow of cash regarding disputes carrying a risk of loss and forms appropriate provisions.

As at 31 December 2019, the provisions for losses from legal disputes filed against the Bank amounted to HRK 46,355 thousand (2018: HRK 12,614 thousand).

In 2019, the Bank received court rulings for two legal disputes that extended over several years and therefore increased the provisions for legal disputes by HRK 37.2 million. In this regard, the Bank has taken all additional legal steps to protect its interests. As to the disputes filed by former shareholders until 31 December 2019, 221 disputes

34. LEGAL DISPUTES (continued)

have been finalised, and only three disputes are formally active although they have been interrupted for several years (from 2008 to 2012) and are not expected to continue.

Until the date of this report almost all disputes were completed, with the majority being ruled in favour of the Bank, while only several proceedings were ruled in favour of the shareholders. However, as these proceedings pertain to the ownership of shares, they do not have a significant impact on the financial operations of the Bank. Constitutional appeals were filed in cases where the judgements were in favour of the shareholders, and the Constitutional Court made the decision to acknowledge the Bank's constitutional appeals and returned the cases to the commercial court for retrial.

35. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purposes of preparing the cash flow statement are presented in the table below:

in thousands of HRK

	31 December 2019	31 December 2018
Cash on hand and on current accounts with banks (Note 15)	152,544	208,297
Balances with other banks with maturities up to 3 months (Note 17)	18,972	19,376
Total	**171,516**	**227,673**

36. RELATED PARTY TRANSACTIONS

The Bank is wholly owned (100%) by the State Agency for Deposit Insurance and Bank Rehabilitation (DAB). The Bank considers to be directly related to its shareholder, Supervisory Board and Management Board members and other executives (jointly referred to as "the key management personnel"), their close family members, companies under common control or under significant influence of Management Board members and their close family members, in accordance with the definition of related parties provided in International Accounting Standard 24 "Related Party Disclosures" (IAS 24). Key management includes members of the Management Board, Sector directors, directors of branches and control function directors. As at 31 December 2019, key management personnel comprised 20 employees (2018: 23 employees).

The balances of assets and liabilities as well as income and expenses as at 31 December 2019 and 31 December 2018 and for the years then ended resulting from key transactions with related parties are as follows:

in thousands of HRK

2019	Receivables	Liabilities	Income	Expenses
DAB (sole shareholder)	9	39,522	7	4,493
Key management				
Short-term (a vista deposits, bonuses, salaries, benefits)	395	710	7	4,974
Pension contributions	-	-	-	982
Long-term (loans, term deposits and other)	3,055	1,331	45	17
State in narrow and broad definitions	653,008	124,230	10,560	5,674
Total	**656,467**	**165,793**	**10,619**	**16,140**

in thousands of HRK

2018	Receivables	Liabilities	Income	Expenses
DAB (sole shareholder)	2,216	18,565	14	5,581
Key management				
Short-term (a vista deposits, bonuses, salaries, benefits)	4	486	28	6,978
Pension insurance contributions	-	-	-	1,524
Long-term (loans, term deposits and other)	7,003	2,591	290	51
State in narrow and broad definitions	1,357,850	110,504	56,214	6,981
Total	**1,367,073**	**132,146**	**56,546**	**21,115**

36. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management personnel

Key management personnel does not hold any of the Bank's shares. Loans and receivables from customers include HRK 3,055 thousand (2018: HRK 4,379 thousand) of loans to key management personnel. During the year, the Bank collected interest in the amount of HRK 45 thousand (2018: 134 HRK thousand) from loans and receivables from key management personnel granted at annual interest rates ranging from 1.25% to 5.00% (2014: from 3.00% to 5.00%). The balance of current accounts and customer deposits includes term deposits of key management personnel in the amount of HRK 1,331 thousand (2018: HRK 2,387 thousand). The interest that the Bank paid on those deposits in 2018 amounted to HRK 17 thousand (2018: 10 HRK thousand) at an annual interest rate ranging from 0.15% - 2.00% (2018: 0.20% - 2.75%).

In 2019, costs of the Supervisory Board amounted to HRK 373 thousand (2018: HRK 554 thousand).

In 2019, costs of the Management Board of the Bank amounted to HRK 1,505 thousand (2018: HRK 1,237 thousand).

State in narrow and broad definition

Transactions with the state in narrow and broad definition comprise transactions with:

- the Central Government
- local governments
- public non-financial companies
- public insurance companies and pension funds
- public auxiliary financial institutions
- other public monetary financial institutions
- other public financial intermediaries.

Most significant receivables from the state in narrow and broad definition are as follows:

As at 31 December 2019, the exposure to the state in narrow and broad definitions comprises the exposure to the state-owned company Hrvatske autoceste d.o.o. in the amount of HRK 329,822 thousand (2018: HRK 297,362 thousand) under a syndicated loan.

The Bank's exposure to HŽ Cargo amounted to HRK 65,431 thousand (2018: HRK 75,121 thousand). The receivables from Borovo d.d. amounted to HRK 48,523 thousand (2018: HRK 45,988 thousand). The receivables from Đuro Đaković Holding amounted to HRK 4,446 thousand (2018: HRK 21,131 thousand).

The Bank's exposures to the Ministry of Finance under the Ministry's quoted bonds in the amount of HRK 159,925 thousand (2018: HRK 436,316 thousand), and treasury bills issued by the Ministry of Finance in the amount of HRK 139,927 thousand (2018: HRK 220,915 thousand).

Most significant liabilities to the state in narrow and broad definition are as follows:

The restricted deposit of the Ministry of Finance amounted HRK 14,885 thousand (2018: HRK 14,906 thousand).

As at 31 December 2019, the Restructuring and Sale Centre holds HRK 17,803 thousand on the transaction account at the Bank (2018: HRK 22,191 thousand).

As at 31 December 2019, the Bank’s shareholder, the State Agency for Deposit Insurance and Bank Rehabilitation, holds HRK 39,483 thousand on the transaction account (2018: HRK 22,042 thousand).

As at 31 December 2019, the amount owed by the Bank for loans received from the Croatian Bank for Reconstruction and Development (joint customer funding with CBRD) was HRK 4,216 thousand (31 December 2018: HRK 3,976 HRK thousand).

All the above-mentioned significant transactions with the state and state-owned companies were entered into at arm’s length.

36. RELATED PARTY TRANSACTIONS (CONTINUED)

Most significant income and expenses from the state in narrow and broad definition are as follows:

Income recognised in the income statement in 2019 treated as key transactions is as follows:

- income from loans to Hrvatske autoceste in the amount of HRK 5,983 thousand (2018: HRK 13,238 thousand).
- income from loans to HŽ Cargo in the amount of HRK 3,164 thousand (2018: HRK 3,604 thousand).
- income from bonds issued by the Ministry of Finance in the amount of HRK 1,756 thousand (2018: : HRK 4,935 thousand).
- income from treasury bills issued by the Ministry of Finance in the amount of HRK 64 thousand (2018: HRK 386 thousand).

Expenses recognised in the income statement treated as key transactions are as follows:

- costs of loans received from CBRD in 2019 in the amount of HRK 113 thousand (2018: HRK 200 thousand).
- expenses in respect of DAB relating to expenses for the savings deposit insurance in the amount of HRK 4,467 thousand

Off-balance sheet contingent liabilities to key management personnel and the state in narrow and broad definition:

in thousands of HRK

31 December 2019	Key management personnel	State in narrow and broad definition
Credit lines and other off-balance-sheet items	267	2,028

31 December 2018		
Credit lines and other off-balance-sheet items	339	2,821

The Bank’s maximum off-balance sheet exposure within the group State in narrow and broad definition relates to Zračna luka Osijek in the amount of HRK 993 thousand (2018: Narodne novine d.d. in the amount of HRK 993 thousand). All exposures presented in this note are on a net basis (i.e. less any identified and unidentified impairment losses).

37. RISK MANAGEMENT POLICIES

Details on the Bank's exposure to risks and methods applied by the Management for risk control are described below. The most significant types of financial risks the Bank is exposed to are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and price risk.

37.1. Credit risk

In its business activities the Bank is continuously exposed to credit risk arising from its lending and investing and in cases where it acts as an intermediary on behalf of customers or other third parties.

The Bank’s primary exposure to credit risk arises from loans and receivables from customers and banks and investment securities. In addition, the Bank is exposed to credit risk on its off-balance sheet items, reflecting its commitments under undrawn facilities and guarantees issued.

Credit risk is the greatest individual risk arising from the Bank's operations; therefore, all organisational units and functions of the Bank monitor the risk closely. Credit risk management and control are centralised in the Risk Management Department which regularly reports to the Management Board, other bodies of the Bank, the Supervisory Board and senior management.

For the purpose of credit risk management, the Bank has spread its principal credit risk management activities over the following processes:

- loan approval
- loan monitoring
- loan portfolio analysis
- non-performing loans
- early warning of increased credit risk
- loan classification according to risk degrees.

Establishing appropriate relations between the individual processes is a particularly important process, as it helps prevent any process overlaps and misalignment and establishes the necessary level of segregation of duties and responsibilities for the processes.

Organisational responsibilities for credit risk management are divided among the responsibility structures of sales and back-office/organisational units/functionalities, among control and management functions, and operation support, and are additionally positioned for all credit risk management segments, including:

- risk identification,
- risk measurement and assessment,
- risk management,
- risk controls and risk reporting.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.1. Credit risk (continued)

Loan analysis is organisationally placed within the Risk Management Department whose scope of responsibilities directly affect the credit risk management, primarily in developing analyses and opinions regarding the Bank's credit risk appetite, which includes the following sub-processes:

- Providing opinion on new credit placements
- Providing opinion on proposals for changes in conditions of existing placements
- Analysing the viability of proposed renewal and restructuring of the existing placements
- Periodic reviews of all existing placements

In analysing placements that belong to the credit risk management area, the Risk Management Department also estimates the acceptability of credit risk by individual placements, in accordance with the standards and criteria of best banking practice, i.e. application of the effective (external and internal) normative regulations. It communicates its views/principles of assessing the credit risk acceptability to decision-making individuals and bodies responsible for loans.

Further responsibilities of staff engaged in loan analysis include monitoring credit risk exposure, including the early warning of increased credit risk. The duties and responsibilities of the Risk Management Department include the credit portfolio control activity, which ensures, in cooperation with other organisational units at the Bank, timely identification of clients with potential risk. Such an approach involves a complex management of business relations with customers aiming at decreasing credit risk costs and improving the quality of the Bank's credit portfolio.

Credit risk control is based on an individual approach to the credit risk assessment specifically tailored to individual clients, including identification of clients with a potential risk, analysis and classification of clients with potential risk, determining the form and manner of managing business relations with clients, and following-up.

Special attention is paid to managing exposures to related parties by reference to the effective organisational normative and operational rules, as well as other aspects of credit risk exposure defined by the Credit Institutions Act and the related by-laws and internal acts governing its implementation.

37.1.1. Credit risk management

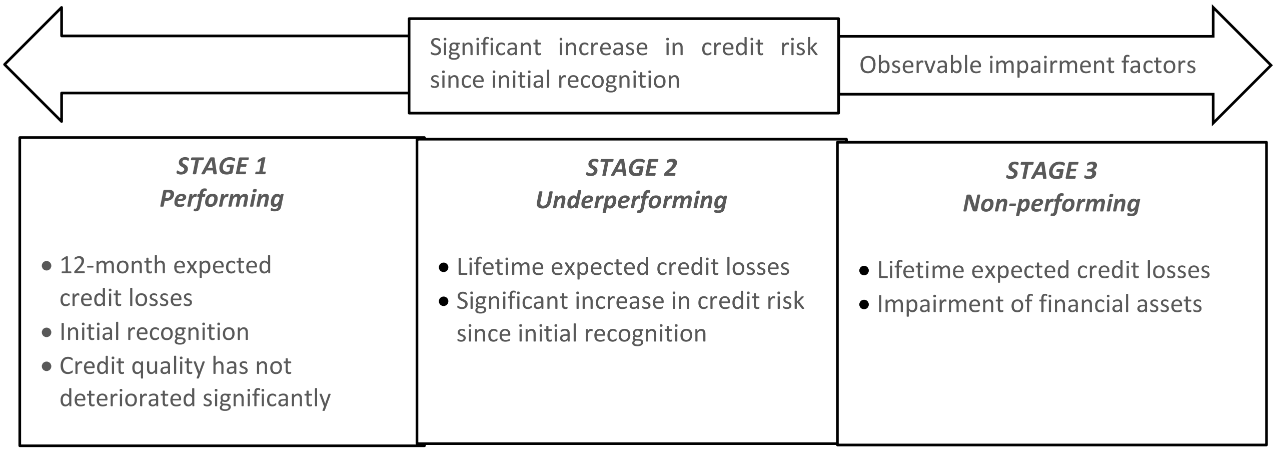
The expected credit losses are calculated as a sum of PD (Probability of Default), Loss Given Default (LGD) and Exposure at Default (EAD) over the remaining expected life of the financial asset and are discounted at the reporting date at the effective interest rate for exposures with a significant increase in credit risk (Stage 2 Contracts). On the other hand, for exposures classified as Stage 1, the expected credit loss is calculated over a one-year period, i.e. the expected credit loss of 1 year is estimated.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.1 Credit risk (continued)

37.1.1. Credit risk management (continued)

Increase in credit risk since initial recognition



When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers quantitative and qualitative information and expert credit assessments based on historical experience. For the purpose of proper allocation of income-based exposures, criteria for determining a significant increase in credit risk (transition from Stage 1 to Stage 2) were defined:

- If the debtor defaults on payment of due exposures for more than 30 days, but does not exceed a period of 90 days. This provision does not apply to exposures to the central government and other exposures for which the Bank can prove that a 30-day default is not a relevant indicator;
- The debtor has watch-list or exit status/monitoring and days of delay do not exceed 90 days;
- The debtor meets the blockage criterion (in line with internal segmentation, for natural persons if continuous blockage exceeds 10 days, and for others if continuous blockage exceeds 15 days) and the number of days of default does not exceed 90 days.

In addition to assessing the risk of default, the Bank also defines the default status. It is considered that the status of default of a particular debtor (Stage 3) has occurred when one of the following conditions or both of the following conditions have been met:

a) the Bank considers it likely that the debtor will not fully meet its obligations, not taking into account the possibility of recovery from the collateral;

b) the debtor is more than 90 days past due.

Exceptionally, for the exposures from the retail exposures category the Bank assesses the default status based on an individual product and if it has a balance sheet exposure towards a debtor with the default status and the gross carrying amount of exposure with the default status accounts for more than 20% of gross carrying amount of all balance sheet exposures to that debtor, all on-balance sheet and off-balance sheet exposures by all products of that debtor are considered to be in default.

When defining the default status, the Bank uses objective evidence of partial or complete irrecoverability of placements.

The following is considered as objective evidence of partial recoverability of placements:

- observable significant financial difficulties of the debtor;
- if the debtor is in default for more than 90 days or in the event of a frequent delinquency in interest and/or principal payments or failure to perform other contractual provisions;

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.1. Credit risk (continued)

37.1.1. Credit risk management (continued)

- if the Bank makes a payment on the given guarantees and the debtor does not settle the obligation within 90 days;
- if cash flows from operations and secondary sources (insurance instruments) are not sufficient to settle the contractual obligations, taking into account the timeliness of settlement (days of default);
- if the debtor requires exposure restructuring, write-offs of liabilities and other actions that result in the decrease of the client's original liabilities

The following is considered to be objective evidence of total irrecoverability/loss:

- bankruptcy, liquidation or termination of business for other reasons, while at the same time the Bank has no recognised and separate satisfaction and/or exclusion rights over the assets of the debtor or other collaterals and it is estimated that the Bank cannot expect to collect a portion of its receivables due to the debtor's insufficient funds and/or the recovery priority order in bankruptcy proceedings;
- if the debtor is in continuous default for more than 365 days, and the Bank does not have adequate collaterals;
- if the placement is the subject of a legal dispute for which it is presumed that the Bank could lose it in its entirety.

In order to determine the increased credit risk in addition to the quantitative indicators, the Bank conducts a placements monitoring process and a system of early increased credit risk detection for the purpose of timely identification of clients with increased risk exposure and for the purpose of establishing adequate placement / client monitoring at an already established increased degree of risk, all in order to avoid and/or reduce potential losses on placements.

The following monitoring statuses (risk zones) were established for the placement/client portfolio:

- STANDARD - standard exposure - monitored every 12 months, with the exception of the Financial Markets Sector for which exposure is monitored every 3 months
- WATCH - potentially problematic exposure - monitored within a year, every 3 to 9 months,
- EXIT - problematic exposure where the Bank exits from a business relationship with a client - exposure is monitored every 3 months,
- NO MONITORING NECESSARY

Expected credit loss measurement

The key inputs for measuring the expected credit loss are the following variables:

- PD - probability of default
- LGD - loss given default
- EAD - exposure at default

Expected credit losses for the exposures (ECL) in Stage 1 are calculated by multiplying the 12-month PD with LGD and EAD.

Lifetime expected credit losses are calculated by multiplying the lifetime PD with LGD and EAD and discounting it at the reporting date.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.1. Credit risk (continued)

37.1.1. Credit risk management (continued)

Probability of default (PD) i.e. the probability of a transition from a performing to the non-performing status.

The basis for estimating lifetime PD is the empirical default rate. The empirical default rates and consequently the estimated lifetime PDs are calculated at the segment level:

- Corporate
- SME
- Retail
- Public
- Financials
- Retail Overdraft

Loss given default (LGD, loss expressed in percentage given default). The Bank decided to apply the 45% LGD on all exposures until it develops an internal collection model.

Exposure at default (EAD) is the value a bank is exposed to when a loan defaults. The Bank calculates the exposure at default:

- For products with cash flows (mortgages, long-term loans, investment loans, bonds...) EAD is calculated based on cash flows received from repayment plans.

For other products with no cash flow the CFF factor 1 applies.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.2. Credit risk measurement

Loans and receivables (including contingent liabilities)

The Bank assesses the probability of default by individual clients using internal assessment tools created for all groups of customers in line with the internal acts and applicable laws.

Loans and contingent liabilities are classified into the following three key risk groups:

1.1. fully recoverable placements (risk class A) – placements that are estimated will be fully collected (principal and interest) or contingent liabilities that are not expected to result in an outflow of the Bank's resources or if there is an outflow, that will be fully recovered The Bank must allocate the exposures in risk group A to the following risk subgroups:

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

1.2. partly recoverable loans (risk group B) – loans assessed as not recoverable at contractual amounts (principal and interest) or contingent liabilities expected to result in an outflow of the Bank's resources in excess of the estimated recoverable amount.

1.3. irrecoverable loans (risk group C) – loans estimated as fully irrecoverable or insignificantly recoverable and contingent liabilities expected to result in an outflow of the Bank's resources estimated as fully irrecoverable.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.2. Credit risk measurement (continued)

Managing credit risk of a portfolio of workout or non-performing (bad) loans is the responsibility of a separate unit within the Bank which is in charge of working out such debt (Workout Department), both owed by legal entities and natural persons. These activities are primarily aimed at realising positive effects of the implementation of various forms of financial consolidation of clients' business, including various forms of prolongation, renewal or restructuring of loans with the aim of their recovery and realisation of the maximum possible level of receivables collection and improvement in the credit and guarantee portfolio of the Bank, as well as cases of full or partial stabilisation of the clients' business by taking consolidation measures, enabling the inclusion of such loans in "performing" ones.

The Risk Management Department estimates future cash flows from non-performing loans on the basis of which provisions for impairment are determined. Such assessment is prepared for all loans managed.

In accordance with the provisions of IFRS 9 for performing loans the Bank appropriately impairs and provides for exposures equalling the following:

- 12-month expected credit losses for risk subgroup A-1,
- lifetime expected credit losses for risk subgroup A-2.

The CNB requires the banks to recognise impairment losses in profit or loss at the prescribed minimum rate of 0.8%, for performing exposures.

The Bank makes provisions for expected credit losses on loans and their impairment as follows:

a) on an individual basis

   - for loans classified in the "large loans portfolio"

b) on a collective basis

   - for loans classified in the "small loans portfolio" and current accounts

The small loans portfolio comprises the total Bank's exposure to one person or a group of related persons that is not individually significant, i.e. at the date of assessment does not exceed HRK 250,000. Thereby the total exposure amount includes all active balance sheet and off-balance sheet items that are subject to classification in risk groups.

The large loans portfolio, individually significant exposure, make the total exposure to one person or a group of related persons whose total exposure at the date of assessment exceeds HRK 250,000.

The credit risk assessment on an individual basis is a separate estimation of future cash flows and determining the existence or non-existence of expected credit losses for each individual loan and each individual off-balance sheet liability that the Bank is obliged to apply in assessing loans and off-balance sheet liabilities that are an integral part of individually significant exposure.

Credit risk assessment on a collective basis is a collective estimation of future cash flows and determining the existence or non-existence of expected credit losses for groups with similar characteristics of credit risk and off-balance sheet liabilities, and is performed in the following cases:

- in assessing expected credit losses for loans included in the small loans portfolio and current accounts.

Finally, it should be noted that in the first half of 2017 the Bank introduced a new internal rating model. During 2018, the model continued to improve and it is expected to enhance credit risk assessment and estimation, for the purpose of accurate and timely credit risk management in the Bank.

The credit risk exposure is also managed by a regular analysis of the ability of the existing clients and potential clients to settle their liabilities of repaying interest and principal and by changing credit limitations where necessary. Further specific measures for credit risk control and mitigation are stated below.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.3. Risk limit control and mitigation policies

(a) Security instruments

The Bank uses policies of security instruments for receivables that prescribe the main rules aimed at minimising the risk from credit operations. Security instruments for receivables represent the secondary collection source, while the clients' operations and their ability to generate sufficient cash funds for settling financial liabilities are the primary source of collecting the Bank's receivables. The rules that prescribe the obligation to take security instruments for which the normative acts prescribe the conditions for acceptability, individually for each of the specific security instruments categories are standardised. Also, specific modalities of credit protection aimed at decreasing or mitigating credit risks are determined.

The most significant types of security instruments for loans and receivables are as follows:

a) Mortgage over property,
b) Pledge over operating/tangible assets,
c) Pledge over financial instruments such as debt and equity securities,
d) Insurance policies for loan receivables, life insurance policies with redemption values and other instruments whose quality based on evidence may be equalised with the quality of other above-mentioned instruments.

Non-current financial assets, loans to companies and natural persons are generally secured by appropriate security instruments.

In addition, in order to reduce credit loss, the Bank requires additional collaterals from the contractual parties as soon as indicators of impairment for individual relevant loans and advances are determined. The collateral held as security for all financial assets other than loans and advances is determined on the basis of the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(b) Commitments to extend credit

Loan commitments are unused granted loan amounts in the form of loans, guarantees or letters of credit. With respect to credit risk from loan commitments, the Bank is potentially exposed to loss in the amount equal to the total unused commitments.

However, the potential loss amount is lower than the total amount of unused commitments, since the majority of commitments depends on maintaining specific credit standards by the clients. The Bank monitors the remaining period to loan maturities as non-current liabilities generally have a higher degree of credit risk compared to current liabilities.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.4. Impairment and provisioning policies

The amount of provisions for expected credit losses in the portfolio of clients monitored on an individual basis is determined using the dynamic approach, on the basis of the calculation of the loan's recoverable value, calculated as the net present value of estimated future cash flows discounted at the effective interest rate of the loan at the moment when it was assessed as "non-performing" (for loans granted at fixed rates it is the original effective rate calculated at the moment of granting). The regulations of the Croatian National Bank on minimum rates of provisions for expected credit losses are also taken into account.

Security instruments for which the nominal value is discounted are as follows:

- pledge over housing property
- pledge over other property and movables for which a market exists and which may be sold in acceptable time periods.

Discounting future cash flows to the present value is calculated individually for all long-term loans from the large loans portfolio for which an impairment loss was identified and it is estimated that their future cash flow from operating activities and cash flow from security instruments will not be sufficient.

Based on the timely repayment criteria, loans in the large loans portfolio are classified into the following risk groups:
1) risk group "A" includes loans that meet the following criteria:

- the debtor's current financial situation and estimated future cash flows do not rise any doubts with respect to the debtor's further operations and settlement of their current and future liabilities to the Bank and other creditors,
- the debtor settles their liabilities to the Bank in contracted terms, and only exceptionally and occasionally after their maturity,
- the loans are secured by adequate security instruments for receivables.

The Bank must allocate the exposures in risk group A to the following risk subgroups:

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

The Bank has prescribed the following indicators for determining increased credit risk of the debtor and classifying it in risk subgroup A-2:

- If the debtor defaults on payment of due exposures for more than 30 days, but does not exceed a period of 90 days. This provision does not apply to exposures to the central government and other exposures for which the Bank can prove that a 30-day default is not a relevant indicator;
- The debtor has watch-list or exit status/monitoring and days of delay do not exceed 90 days;
- The debtor meets the blockage criterion (in line with internal segmentation, for natural persons if continuous blockage exceeds 10 days, and for others if continuous blockage exceeds 15 days) and the number of days of delay does not exceed 90 days.

2) risk group B1 - loans for which expected credit losses do not exceed 30% of the nominal carrying amount of individual loans.
3) risk group B2 - loans for which expected credit losses are over 30% and less than 70% of the nominal carrying amount of individual loans.
4) risk group B3 - loans for which expected credit losses are over 70% and less than 100% of the nominal carrying amount of individual loans.

5) risk group C - fully irrecoverable loans are considered to be the Bank's receivables arisen on a disputable legal basis and other receivables for which, due to an exceptionally poor asset and financial position of the debtor, and due to the lack of adequate security instruments, no cash flows may be expected for settling the debtor's liabilities to the Bank. The Bank is obliged to classify such loans in risk group C. Loans classified in risk group C, 100% impaired, are recorded by the Bank in the balance sheet until all legal procedures are finalised related to the termination of the debtor's liability, in line with the policies and procedures of the credit institution and the law that regulates civil obligations.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.4. Impairment and provisioning policies (continued)

Specific provisions for impairment for the remaining portfolio of non-performing small loans (exposures below HRK 250 thousand) are calculated by reference to the regularity of payment.

Based on the timely repayment criteria, loans in the small loans portfolio and current accounts are classified into the following risk groups:

1) Risk group "A" includes fully recoverable loans. For a loan to remain classified in the risk group "A" (whereby the criteria for risk groups A1 and A2 are the same as for large loans), the following conditions must be met:

   - the debtor's past due liabilities to the Bank are not older than 90 days

   - the full loan amount is covered by a guarantee deposit.

2) Risk group "B" or "C" loans must be provided for on the basis of the number of default days.

3) Risk group "C" includes loans that do not meet the conditions for classification in risk groups "A" and "B", i.e. 100% irrecoverable loans, as follows:

- loans with default in payments more than 365 days;
- loans classified in the 100% provision position according to specially determined tables.

37.5. Debt securities

For the purpose of realising future yield, the Bank usually invests surplus liquid funds in high-quality government debt securities and foreign bonds.

37.6. Past due loans and not past due loans and receivables

Past due and not past due loans and receivables by type at 31 December 2019

in thousands of HRK

Past due	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Up to 30 days	174	2,403	567	4,958	4	896	9,002
31-60 days	79	15,149	364	-	2	939	16,533
61-90 days	104	-	-	-	2	5	111
Over 90 days	2,072	56,255	1,794	1,414	-	23,991	85,526
Not past due	219,246	190,934	68,681	22,744	47,680	545,171	1,094,456
Total	**221,675**	**264,741**	**71,406**	**29,116**	**47,688**	**571,002**	**1,205,628**

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.6 Past due loans and receivables (continued)

Past due loans and receivables by type at 31 December 2018

in thousands of HRK

Past due	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Up to 30 days	111	2,899	2,106	4,177	8	643	9,944
31-60 days	56	2,364	268	20	2	1,286	3,996
61-90 days	222	-	-	-	-	49	271
Over 90 days	5,337	162,327	17,197	2,713	1,818	64,109	253,501
Not past due	158,723	232,046	48,618	20,627	51,881	522,661	1,034,556
Total	**164,449**	**399,636**	**68,189**	**27,537**	**53,709**	**588,748**	**1,302,268**

37.7. Unimpaired loans

Unimpaired loans at 31 December 2019

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Not past due	211,731	171,424	61,469	22,599	46,643	518,071	1,031,937
Past due	149	3,049	521	3,611	3	758	8,091
Total	**211,880**	**174,473**	**61,990**	**26,210**	**46,646**	**518,829**	**1,040,028**

Unimpaired loans at 31 December 2018

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Not past due	153,546	168,762	39,485	20,441	51,282	490,462	923,978
Past due	98	3,124	2,075	2,926	7	948	9,178
Total	**153,644**	**171,886**	**41,560**	**23,367**	**51,289**	**491,410**	**933,156**

Unimpaired loans and receivables refer to placements classified in risk groups A1 and A2. The placements in risk groups A1 and A2 are loans and receivables regularly repaid by clients and not impaired by the Bank.

The line item 'Other' comprises the participation in syndicated loans which in 2019 amounted to HRK 396,335 thousand (2018: HRK 373,419 thousand), as well as lombard loans in the amount of HRK 56,774 thousand (2018: HRK 58,903 thousand), margin loans in the amount of HRK 26,960 thousand (2018: HRK 25,809 thousand) and mortgage loans in the amount of HRK 13,442 thousand (2018: HRK 7,014 thousand). The remaining balance consists of individual smaller loans intended for diverse purposes.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.7. Impaired loans (continued)

Impaired loans at 31 December 2019

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Not past due	7,515	19,510	7,212	145	1,037	27,100	62,519
Past due	2,280	70,758	2,204	2,761	5	25,073	103,081
Total	**9,795**	**90,268**	**9,416**	**2,906**	**1,042**	**52,173**	**165,600**
Impairment	**4,253**	**38,797**	**1,580**	**2,165**	**81**	**24,465**	**71,341**

Impaired loans at 31 December 2018

in thousands of HRK

	Cash	Investments and working capital	Agriculture and tourism	Credit cards and overdrafts	Housing	Other	Total
Not past due	5,177	63,284	9,133	186	599	32,199	110,578
Past due	5,628	164,466	17,496	3,984	1,821	65,139	258,534
Total	**10,805**	**227,750**	**26,629**	**4,170**	**2,420**	**97,338**	**369,112**
Impairment	**6,710**	**129,469**	**13,170**	**3,576**	**1,093**	**59,859**	**213,877**

The line item 'Other' mainly comprises loans to customers undergoing pre-bankruptcy in the amount of HRK 14,248 thousand (2018: HRK 26,345 thousand), loans for financial restructuring in the amount of HRK 17,972 thousand (2018: HRK 49,671 thousand) and mortgage loans in the amount of HRK 1,207 thousand (2018: HRK 1,297 thousand). The remaining balance consists of individual smaller loans intended for diverse purposes.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.8. Structure of loans and off-balance sheet contingent liabilities by type of activity

Structure of loans and off-balance sheet contingent liabilities by type of activity as at 31 December 2019 in thousands of HRK

Activity sector	Total loans and off-balance sheet liabilities	Unimpaired loans and off-balance sheet liabilities	Impaired loans and off-balance sheet liabilities	Impairment and provisions	% of impairment and provisions
Agriculture, hunting, forestry and fishing	106,778	97,551	9,227	7,004	**6.56**
Processing industry	195,325	144,568	50,757	25,927	**13.27**
Construction	397,007	358,415	38,592	27,791	**7.00**
Wholesale and retail trade, repair of motor vehicles and household items	66,513	41,535	24,978	6,724	**10.11**
Service activities	174,630	147,710	26,920	2,031	**1.16**
Financial intermediation	16,004	16,004	0	242	**1.51**
Foreign financial institutions	0	0	0	0	**0.00**
CNB	0	0	0	0	**0.00**
Other activities	36,315	31,002	5,312	2,605	**7.17**
Sectors outside the National Classification of Activities	350,617	336,501	14,117	9,682	**2.76**
TOTAL	**1,343,189**	**1,173,286**	**169,903**	**82,006**	**6.11**

Structure of loans and off-balance sheet contingent liabilities by type of activity as at 31 December 2019 in thousands of HRK

Activity sector	Total loans and off-balance sheet liabilities	Unimpaired loans and off-balance sheet liabilities	Impaired placements	Impairment and provisions	% of impairment and provisions
Agriculture, hunting, forestry and fishing	103,029	75,615	27,414	19,524	**18.95**
Processing industry	231,259	146,809	84,450	43,478	**18.80**
Construction	398,570	311,267	87,303	67,333	**16.89**
Wholesale and retail trade, repair of motor vehicles and household items	113,354	44,868	68,486	45,006	**39.70**
Service activities	205,890	144,416	61,474	24,389	**11.85**
Financial intermediation	13,174	13,174	0	137	**1.04**
Foreign financial institutions	-	-	-	-	**-**
CNB	-	-	-	-	**-**
Other activities	51,044	28,822	22,222	4,896	9.59
Sectors outside the National Classification of Activities	303,280	282,228	21,052	17,134	5.65
TOTAL	**1,419,600**	**1,047,199**	**372,401**	**221,897**	**15.63**

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.9. Loans and advances to customers in risk groups B and C for which provisions have been made

in thousands of HRK

	Retail customers	Corporate customers	Total
31 December 2019			
Total exposure	24,785	140,994	165,779
Provisions	8,433	62,908	71,341
Total net exposure	16,352	78,086	94,438
Market value of collateral	11,821	79,106	90,927
% of collateral coverage	72.29%	101.31%	96.28%

in thousands of HRK

	Retail customers	Corporate customers	Total
31 December 2018			
Total exposure	60,894	308,218	**369,112**
Provisions	37,753	176,124	**213,877**
Total net exposure	23,141	132,094	155,235
Market value of collateral	36,733	150,988	**187,721**
% of collateral coverage	158.74%	114.30%	**120.93%**

37.10. Credit risk sensitivity analysis

As part of the macroeconomic factors sensitivity analysis regarding credit risk provisions, the Bank analyses the effects of macroeconomic indicators and parameters on future operations by increasing the B and C placements, the "bad" migration of NPLs etc.

The Bank uses the stress test scenario of the Croatian National Bank as published in Financial Stability from July 2015 as the basis for creating a stress test scenario. In this document, the CNB develops two stress scenarios (baseline and adverse), and the Bank uses a combination of both.

On this basis, the Bank uses the following parameters and indicators in stress testing:

- Increase in B and C placements in total placements by 20%,
- Arranging new defaults in a way that in B1 risk group comprises 60% of placements, and the remaining 40% of newly-defaulted placements is included in B2,
- Transfer from risk group B1 to B2, from B2 to B3 and from B3 to C at 5% exposure,
- VICR stress tests are subtracted from the projected new value adjustments.

The result of the applied test according to the latest testing would be a decline in regulatory capital of the Bank by 11%.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.11. Credit quality of financial assets

The credit quality of financial assets as rated by external agencies is given below:

in thousands of HRK

	Rating agency	31 December 2019	31 December 2018
Cash		**152,322**	**206,351**
Ba2	Moody's	132,074	199,879
A1	Moody's	3,408	1,268
A3	Moody's	-	97
Ba3	Moody's	3,626	-
Baa1	Moody's	158	320
Aa3	Moody's	-	724
BBB-	Fitch	1,498	448
No rating	-	11,558	3,615
Receivables from the Croatian National Bank		**120,447**	**142,387**
Ba2	Moody's	120,447	142,387
Placements with banks		**18,971**	**19,249**
Aaa	Moody's	18,552	18,831
No rating	-	419	418
Financial assets at fair value through OCI		**452,045**	**752,681**
Ba2	Moody's	335,808	657,760
Aaa	Moody's	47,343	53,835
Aa2	Moody's	68,401	40,648
Aa3		36,353	-
No rating	-	493	438
Financial assets at fair value through profit or loss		**434**	**492**
No rating	-	434	492
Financial assets at amortised cost		**1,203**	**496**
No rating	-	1,203	496
Loans and advances to customers		**1,125,460**	**1,081,330**
No rating	-	1,125,460	1,081,330
Other financial assets	-	**5,566**	**15,444**
No rating		5,566	15,444

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.12. Concentration risk

The Bank manages, limits and controls concentrations of credit risk in accordance with the Credit Policy wherever such risk is identified – in particular, with respect to individual clients and groups, industries and countries. Concentration is determined at the level of exposure of a particular debtor (at the level of a group of related persons) in relation to regulatory capital (over 10% of the recognised capital) and also by exposure of a particular activity to the total exposure of the Bank.

The Bank establishes credit risk levels it undertakes by placing limitations on the amount of risk accepted in relation to one client, or a group of clients, and to geographical and industry segments. Limitations on the credit risk level to products, industry sectors and countries are approved by the Bank's Management.

The exposure to any borrower is further limited by sub-limits covering both balance sheet and off-balance sheet exposures, as well as daily limits (the liability settlement risk) in relation to the items traded. The actual exposure in relation to limitations is monitored on a daily basis.

37.13. Liquidity risk

Liquidity risk is the risk of loss arising from the existing or expected Bank's inability to settle its cash liabilities when due. This risk arises due to a mismatch of maturities of assets and liabilities, and is manifested as the risk that it will not be possible to convert a receivable into cash within a suitable term and at a suitable price, i.e. that it will not be possible to convert any non-cash form of assets into cash within a certain period without loss.

The Treasury, the Risk Management Department and the Asset-Liability Committee (hereinafter: the ALCO) are responsible for liquidity risk management, while the Bank's Management Board makes decisions, whereby precise roles in the liquidity management process are allocated to the following organisational parts or Bank's functionalities.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.13. Liquidity risk (continued)

The allowed excess of liquidity indicators and the strategy defining the reasons for allowing the excess are documented in the minutes of the ALCO meeting.

If the limits are not exceeded, but the early warning indicators related to the limits have been reached, the Treasury prepares a written explanation for the Management Board and the Liquidity Committee within not more than 3 working days about the reasons why the early warning indicator has been reached and with the proposal of possible solutions. The Management Board and the Liquidity Committee make the decision on further action.

The Risk Management Department controls limits within the monthly report, and reports the exceeding of limits on the ALCO meetings.

Sources of Bank financing are deposits and equity capital. The Bank continually reassesses liquidity risk by identifying and following changes in financing that are necessary for accomplishing business aims set according to Bank strategy. Moreover, the Bank manages a portfolio of liquid assets as part of its liquidity risk management strategy.

The Bank adjusts its operations concerning liquidity risk according to legal provisions and internal policies. The Bank manages assets and sources of funds from a viewpoint of financial flows, cash flows and concentration, all with the aim of adjusting cash inflows with Bank outflows.

Managing in that way assumes identification of known, expected and potential cash outflows and the production of different asset and liabilities management strategies in order to secure the Bank's needs for cash inflows. According to the stated, the liquidity risk management system comprises the evaluation and measurement of liquidity risk exposure, setting limits of liquidity risk exposure and reporting and supervision of limit utilization.

Liquidity risk management is realized by operative management of short-term liquidity and by management of long-term liquidity. Management of short-term liquidity is realized with maintenance of a regular liquidity reserve in HRK and by planning and forecasting daily and weekly cash flows. The Bank produces daily, weekly, monthly and annual liquidity plans and evaluates current and future outflows and inflows based on them.

Indicators related to a possible crisis in the Bank’s liquidity and general crisis of the banking system liquidity are monitored by the Risk Management Department and the Treasury, they are determined by the Risk Management Department and reported to the Management Board, Liquidity Committee and/or the Asset-Liability Committee.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.13. Liquidity risk (continued)

Future outflows under financial liabilities that as at 31 December 2019 reflect undiscounted cash flows including future interest payments in the amount of HRK 11,446 thousand on received deposits and borrowings, classified by remaining maturities. Asset items are classified by maturities of the carrying amounts.

in thousands of HRK

2019	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS						
Cash	152,322	-	-	-	-	**152,322**
Receivables from the Croatian National Bank	120,447	-	-	-	-	**120,447**
Placements with banks	7,218	-	11,753	-	-	**18,971**
Financial assets at fair value through other comprehensive income	1,035	44,337	152,835	112,200	141,638	**452,045**
Financial assets at fair value through profit or loss	-	-	-	-	434	**434**
Financial assets at amortised cost	1,203	-	-	-	-	**1,203**
Loans and advances to customers	130,122	46,680	143,120	233,954	571,584	**1,125,460**
Other financial assets	-	-	-	-	5,566	**5,566**
Total assets	**412,347**	**91,017**	**307,708**	**346,154**	**719,222**	**1,876,448**
EQUITY AND LIABILITIES						
Liabilities to banks	6,455	11,753	-	-	-	**18,208**
Demand deposits	668,867	-	-	-	-	**668,867**
Term deposits	79,887	103,691	439,734	314,441	17,710	**955,463**
Borrowings	53,382	314	714	21,623	91,854	**167,887**
Lease liabilities	103	206	849	1,228	991	**3,377**
Other financial liabilities	8,228	-	-	-	-	**8,228**
Total equity and liabilities	**816,922**	**115,964**	**441,297**	**337,292**	**110,555**	**1,822,030**

Off-balance-sheet items	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Guarantees	6,847	13,188	17,398	16,522	2,882	56,837
Unbacked letters of credit	2,194	-	-	-	-	2,194
Revolving loans and credit lines	30,478	-	162	1	6,427	37,068
Other common risk-bearing off-balance sheet items	547	399	9,043	19,708	11,765	41,462
TOTAL OFF-BALANCE SHEET ITEMS	**40,066**	**13,587**	**26,603**	**36,231**	**21,074**	**137,561**

Net assets/liabilities and equity	**(444,641)**	**(38,534)**	**(160,192)**	**(27,369)**	**587,593**	**(83,143)**

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.13. Liquidity risk (continued)

Future outflows under financial liabilities that as at 31 December 2018 reflect undiscounted cash flows including future interest payments in the amount of HRK 10,787 thousand on received deposits and borrowings, classified by remaining maturities. Asset items are classified by maturities of the carrying amounts.

in thousands of HRK

2018	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS	206,351	-	-	-	-	**206,351**
Cash	142,387	-	-	-	-	**142,387**
Receivables from the Croatian National Bank	18,834	-	415	-	-	**19,249**
Placements with banks	4,982	206,327	225,638	29,613	286,121	**752,681**
Available-for-sale financial assets	-	-	-	-	492	**492**
Held-to-maturity financial assets	496	-	-	-	-	**496**
Loans and advances to customers	104,983	38,602	152,060	240,115	545,570	**1,081,330**
Other financial assets	14,868	-	295	246	35	**15,444**
Total assets	**492,901**	**244,929**	**378,408**	**269,974**	**832,218**	**2,218,430**
EQUITY AND LIABILITIES						
Liabilities to banks	98,671	11,893	-	-	-	**110,564**
Demand deposits	508,600	-	-	-	-	**508,600**
Term deposits	82,520	105,883	967,043	258,564	14,552	**1,428,562**
Borrowings	374	276	691	1,678	111,607	**114,626**
Other financial liabilities	7,420	-	-	-	-	**7,420**
Total equity and liabilities	**697,585**	**118,052**	**967,734**	**260,242**	**126,159**	**2,169,772**

Off-balance sheet items	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Guarantees	3,292	12,887	25,663	15,376	5,843	63,061
Unbacked letters of credit	3,754	-	-	-	-	3,754
Revolving loans and credit lines	28,673	-	26	1	484	29,184
Other common risk-bearing off-balance sheet items	-	751	12,926	4,121	2,576	20,374
Total OFF-BALANCE SHEET ITEMS	**35,719**	**13,638**	**38,615**	**19,498**	**8,903**	**116,373**

Net assets/liabilities and equity	**(240,403)**	**113,239**	**(627,941)**	**(9,766)**	**697,156**	**(67,715)**

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.14. Market risk

Market risks represent potential effects that external conditions may have on the value of assets, liabilities and off-balance sheet positions of the Bank, and are caused by changes in prices and movements in financial markets.

All instruments held for trading are subject to market risk, the risk that future changes in market conditions can make an instrument unfavourable or lead to value reduction.

The Bank manages financial instruments available for sale according to changes in market conditions. Exposure to market risk is formally managed by buying or selling instruments according to limits set by Management.

Market risk is the risk of loss on balance sheet and off-balance sheet positions arising from unfavourable movements in prices on some of the 4 fundamental markets: debt securities, foreign currencies, commodity and equity securities markets.

Market risks are as follows:

- Interest rate risk
- Currency risk
- Price risk – risk of a change in prices of equity and debt securities

Interest rate risk is defined by the impact of changes in market interest rates on the Bank's financial results. The Bank's daily activities depend on the interest rate risk impacted by the terms of collection of assets and liabilities in relation to interest income and expenses or the terms in which interest rates change. These terms are controlled by the ALCO by defining the interest rate limits and coordinating activities that the Bank has to take.

Interest rate risk is described in more detail in section 38.3.2. of the Report

The Bank's activities are exposed to the risk of changes in the value of the main currencies, which impacts the Bank's financial result and cash flow. The Bank controls foreign currency assets and foreign currency liabilities with the aim to avoid an inadequate currency risk.
The Management Board defined internal limits of the open foreign currency position.

Currency risk is described in more detail in the following section of the Report (item 38.3.1.).

Market risk is managed by the Treasury, Risk Management Department and the ALCO, with the Bank's Management Board being informed of everything and making relevant decisions.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.14 Market risk (continued)

37.14.1. Currency risk

Currency risk is the risk of loss from fluctuating foreign exchange rates.

Exposure to currency risk materializes from holding assets and liabilities and/or off-balance sheet items denominated and/or indexed in foreign currency, or when they are structurally unadjusted in cases of unfavourable movement of the kuna towards international currencies as well as unfavourable mutual movements of currencies.

The currency risk management process includes: identifying the Bank's exposure to currency risk, measuring currency risk exposure, defining boundaries and limits of currency risk exposure, instruments and processes for risk optimisation, currency risk management process supervision, reporting on the currency risk exposure.

At the end of each working day, the Bank adjusts its total open FX position so that the total open FX position (increased by the position in gold) does not exceed the amount of regulatory capital determined in line with the regulations of the Croatian National Bank.

The Bank uses the Value at Risk methodology (VaR) to evaluate exposure to market risk and expected maximum loss for the position in trading and other activities. VaR represents a statistically based evaluation of potential losses on the existing portfolio due to unfavourable market movements.

The Value at Risk method measures the maximum expected loss for the Bank in case of most unfavourable foreign currency movements in an observed time interval with normal market conditions and a given level of significance based on historical data. The Bank directs its business activities primarily trying to minimize the mismatch between assets' and liabilities' items denominated in foreign currency or carrying a FX clause. The Bank manages its assets and liabilities by matching the currencies of the individual asset and liability items to optimise the relationship between risk and profitability in unfavourable inter-currency movements.

The potential maximum daily loss of the open foreign currency position (VaR: 95% reliability) as of 31 December 2019 amounted to HRK 5.9 thousand (2018: HRK 7.9 thousand).

The sensitivity of currency risk measurement is carried out using monthly stress tests. Stress test is based on the simulation of the exchange rate fluctuation with respect to the openness of the position of the most significant currencies (EUR, USD, CHF, AUD). Data used are based on the historical movements of the Kuna exchange rate according to the 4 most significant currencies mentioned above in the last 2 years.
When performing the testing, 3 levels of intensity are used: the geometric mean of the exchange rate fluctuations that exclude extreme fluctuations; 95 percentile or maximum possible exchange rate fluctuation with 95% probability of fluctuation; 99 percentile or maximum possible exchange rate fluctuation with 99% probability of fluctuation.

in thousands of HRK

CURRENCY	LONG/SHORT POSITIONS 31 Dec. 2018	% OF RECOGNISED CAPITAL	Scenario 1	Scenario 2	Scenario 3
EUR - OPEN POSITION	-300,000	-0.29%	-94	-374	-596
USD - OPEN POSITION	-263,000	-0.25%	-521	-2,218	-3,562
CHF - OPEN POSITION	110,000	0.11%	166	690	918
AUD - OPEN POSITION	38,000	0.04%	76	288	504
TOTAL			**-373**	**-1,615**	**-2,735**

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.14. Market risk (continued)

37.14.1. Currency risk (continued)

FX assets and liabilities of the Bank as at 31 December 2019 are presented as follows:

in thousands of HRK

2019	EUR	USD	Other	HRK, currency clause	Total FX equivalents	HRK	Total
ASSETS							
Cash	8,396	1,468	19,660	-	29,524	122,798	**152,322**
Receivables from the Croatian National Bank	-	-	-	-	-	120,447	**120,447**
Placements with banks	419	10,645	7,907	-	18,971	-	**18,971**
Financial assets at fair value through other comprehensive income	162,305	-	-	193,911	356,216	95,829	**452,045**
Financial assets at fair value through profit or loss	-	-	-	-	-	434	**434**
Financial assets at amortised cost	-	-	-	-	-	1,203	**1,203**
Loans and advances to customers	5,883	3,772	86	628,486	638,227	487,233	**1,125,460**
Investment property	-	-	-	-	-	35,350	**35,350**
Property and equipment	-	-	-	-	-	8,189	**8,189**
Intangible assets	-	-	-	-	-	3,152	**3,152**
Foreclosed assets	-	-	-	-	-	25,758	**25,758**
Assets held for sale	-	-	-	-	-	5,280	**5,280**
Deferred tax assets	-	-	-	-	-	693	**693**
Other assets	-	-	-	-	-	19,306	**19,306**
Total assets	**177,003**	**15,885**	**27,653**	**822,397**	**1,042,938**	**925,672**	**1,968,610**
EQUITY AND LIABILITIES							
Liabilities to banks	540	91	187	-	818	17,388	**18,206**
Demand deposits	307,046	6,045	11,774	-	324,865	344,002	**668,867**
Term deposits	676,199	10,194	16,099	11,297	713,789	237,226	**951,015**
Borrowings	-	-	-	1,157	1,157	159,734	**160,891**
Lease liabilities	-	-	-	2,934	2,934	443	**3,377**
Other liabilities	132	2	-	-	134	9,832	**9,963**
Provisions	-	-	-	-	-	49,132	**49,132**
Total liabilities	**983,917**	**16,332**	**28,060**	**15,388**	**1,043,697**	817,757	1,861,451
EQUITY							
Share capital	-	-	-	-	-	474,600	474,600
Accumulated loss	-	-	-	-	-	(369,445)	**(369,445)**
Revaluation reserves	-	-	-	-	-	2,004	2,004
Total equity	-	-	-	-	-	**107,159**	**107,159**
Total liabilities and equity	**983,917**	**16,332**	**28,060**	**15,388**	**1,043,697**	**924,916**	**1,968,610**
Net assets/liabilities and equity	(806,914)	(447)	(407)	807,009	(759)	(756)	-

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.14. Market risk (continued)

37.14.1. Currency risk (continued)

FX assets and liabilities of the Bank as at 31 December 2018 are presented as follows:

in thousands of HRK

2018	EUR	USD	Other	HRK, currency clause	Total FX equivalents	HRK	Total
ASSETS							
Cash	12,363	1,737	4,103	-	18,203	188,148	**206,351**
Receivables from the Croatian National Bank	-	-	-	-	-	142,387	**142,387**
Placements with banks	7,261	415	11,573	-	19,249	-	**19,249**
Financial assets at fair value through other comprehensive income	319,140	-	-	340,920	660,060	92,621	**752,681**
Financial assets at fair value through profit or loss	-	-	-	-	-	492	**492**
Financial assets at amortised cost	-	-	-	-	-	496	**496**
Loans and advances to customers	1,432	3,816	416	627,105	632,769	448,561	**1,081,330**
Investment property	-	-	-	-	-	34,446	**34,446**
Property and equipment	-	-	-	-	-	5,646	**5,646**
Intangible assets	-	-	-	-	-	3,506	**3,506**
Foreclosed assets	-	-	-	-	-	28,518	**28,518**
Assets held for sale	-	-	-	-	-	5,280	**5,280**
Deferred tax assets	-	-	-	-	-	1,119	**1,119**
Other assets	-	-	4	2	6	24,153	**24,159**
Total assets	**340,196**	**5,968**	**16,096**	**968,027**	**1,330,287**	**975,373**	**2,305,660**
EQUITY AND LIABILITIES							
Liabilities to banks	1,789	88	187	0	2,064	108,479	**110,543**
Demand deposits	149,393	3,370	11,142	0	163,905	344,696	**508,601**
Term deposits	1,144,486	14,890	12,848	11,518	1,183,742	234,368	**1,418,110**
Borrowings	-	-	-	-	-	114,311	**114,311**
Other liabilities	131	2	2	-	135	9,919	**10,054**
Provisions	-	-	-	-	-	13,944	**13,944**
Total liabilities	**1,295,799**	**18,350**	**24,179**	**11,518**	**1,349,846**	**825,717**	**2,175,563**
EQUITY							
Share capital	-	-	-	-	-	474,600	**474,600**
Accumulated loss	-	-	-	-	-	(343,382)	**(343,382)**
Revaluation reserves	-	-	-	-	-	(1,121)	**(1,121)**
Total equity	-	-	-	-	-	130,097	**130,097**
Total liabilities and equity	**1,295,799**	**18,350**	**24,179**	**11,518**	**1,349,846**	**955,814**	**2,305,660**
Net assets/liabilities and equity	(955,603)	(12,382)	(8,083)	956,509	(19,559)	19,559	-

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.14. Market risk (continued)

37.14.2. Interest rate risk

Interest rate risk in the banking book is the risk of loss arising from possible changes in interest rates, impacting the items in the banking book. This risk arises due to a mismatch of assets and liabilities with respect to their type, base and amount of interest rates.

The risk of interest rate change is the risk of a decrease in net interest income due to changes in interest rates and a decrease in the economic value of capital due to changes in interest rates.

Interest rate risk is the result of a temporary mismatch in the revaluation of assets, liabilities and off-balance sheet items; early repayment of loans, deposit withdrawal (term and without term) or the difference in the movements of active and passive interest rates (basic (primary) risk).

The Bank's operations are subject to the risk of interest rate changes to the extent that interest-bearing assets and liabilities mature or their interest rates change in different periods or in different amounts. Risk management activities are directed to optimising net interest income according to the Bank's business strategy, at the given market rates.

Activities of managing “asset-liability” risks are performed in the context of the Bank's sensitivity to interest rate changes. Exposure to risk of interest rate changes is a consequence of assets' and liabilities' items mismatch considering the possibility of interest rate changes, and it is supervised by applying an analysis of the assets' and liabilities' mismatch. The aim of interest rate risk management is to secure an optimal and stable net interest margin, and thus net profit. Interest rate risk is minimized by accepting deposits and approving loans as well as with investments carrying fixed interest rates.

The main elements of the interest rate risk management are as follows:

- interest rate risk sensitivity analysis;
- establishing internal limits and boundaries (limit of a decrease in economic value or maturity periods);
- control of performing/fulfilling/meeting the set limits;
- testing the resistance to stress for interest rate risk and the analysis of the results obtained;
- introducing hedging operations if required.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.14. Market risk (continued)

37.14.2. Interest rate risk (continued)

The table below shows the carrying amounts of the Bank's assets and liabilities at 31 December 2019, classified into categories by the earlier of contractual repricing and maturity.

in thousands of HRK

2019	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Non-interest-bearing	Total
ASSETS							
Cash	-	-	-	-	-	152,322	**152,322**
Receivables from the Croatian National Bank	-	-	-	-	-	120,447	**120,447**
Placements with banks	18,971	-	-	-	-	-	**18,971**
Financial assets at fair value through other comprehensive income	-	43,295	151,314	108,013	133,042	16,381	**452,045**
Financial assets at fair value through profit or loss	-	112	322	-	-	-	**434**
Financial assets at amortised cost	57	858	288	-	-	-	**1,203**
Loans and advances to customers	213,439	337,930	364,257	68,463	106,315	35,056	**1,125,460**
Investment property	-	-	-	-	-	35,350	**35,350**
Property and equipment	-	-	-	-	-	8,189	**8,189**
Intangible assets	-	-	-	-	-	3,152	**3,152**
Foreclosed assets	-	-	-	-	-	25,758	**25,758**
Assets held for sale	-	-	-	-	-	5,280	**5,280**
Deferred tax assets	-	-	-	-	-	693	**693**
Other assets	-	-	-	-	-	19,306	**19,306**
Total assets	**232,467**	**382,195**	**516,181**	**176,476**	**239,357**	**421,934**	**1,968,610**
EQUITY AND LIABILITIES							
Liabilities to banks	6,455	11,751	-	-	-	-	**18,206**
Demand deposits	15,938	-	648,941	-	-	3,988	**668,867**
Term deposits	79,484	102,805	435,727	313,114	15,858	4,027	**951,015**
Borrowings	45,012	290	650	21,495	91,777	1,667	**160,891**
Lease liabilities	103	206	849	1,228	991	-	**3,377**
Other liabilities	-	-	-	-	-	9,963	**9,963**
Provisions	-	-	-	-	-	49,132	**49,132**
Total liabilities	**146,992**	**115,052**	**1,086,167**	**335,837**	**108,626**	**68,777**	**1,861,451**
EQUITY							
Share capital	-	-	-	-	-	474,600	**474,600**
Accumulated loss	-	-	-	-	-	(369,445)	**(369,445)**
Revaluation reserves	-	-	-	-	-	2,004	**2,004**
Total equity	-	-	-	-	-	**107,159**	**107,159**
Total liabilities and equity	**146,992**	**115,052**	**1,086,167**	**335,837**	**108,626**	**175,936**	**1,968,610**
Net assets/liabilities and equity	**85,475**	**267,143**	**(569,986)**	**(159,361)**	**130,731**	**245,998**	**-**

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.14. Market risk (continued)

37.14.2. Interest rate risk (continued)

The table below shows the carrying amounts of the Bank's assets and liabilities at 31 December 2018, classified into categories by the earlier of contractual repricing and maturity.

in thousands of HRK

2018	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Non-interest-bearing	Total
ASSETS							
Cash	-	-	-	-	-	206,351	**206,351**
Receivables from the Croatian National Bank	-	-	-	-	-	142,387	**142,387**
Placements with banks	19,243	-	-	-	-	6	**19,249**
Financial assets at fair value through other comprehensive income	-	205,754	225,154	29,613	286,121	6,039	**752,681**
Financial assets at fair value through profit or loss	492	-	-	-	-	-	**492**
Financial assets at amortised cost	496	-	-	-	-	-	**496**
Loans and advances to customers	133,624	337,245	146,347	335,017	69,029	60,068	**1,081,330**
Investment property	-	-	-	-	-	34,446	**34,446**
Property and equipment	-	-	-	-	-	5,646	**5,646**
Intangible assets	-	-	-	-	-	3,506	**3,506**
Foreclosed assets	-	-	-	-	-	28,518	**28,518**
Assets held for sale	-	-	-	-	-	5,280	**5,280**
Deferred tax assets	-	-	-	-	-	1,119	**1,119**
Other assets	-	-	-	-	-	24,159	**24,159**
Total assets	**153,855**	**542,999**	**371,501**	**364,630**	**355,150**	**517,525**	**2,305,660**
EQUITY AND LIABILITIES							
Liabilities to banks	95,055	11,600	3,746	-	-	142	**110,543**
Demand deposits	15,938	-	492,663	-	-	-	**508,601**
Term deposits	87,540	102,604	944,139	254,712	13,547	15,568	**1,418,110**
Borrowings	39	260	619	1,539	111,530	324	**114,311**
Other liabilities	-	-	-	-	-	10,054	**10,054**
Provisions	-	-	-	-	-	13,944	**13,944**
Total liabilities	**198,572**	**114,464**	**1,441,167**	**256,251**	**125,077**	**40,032**	**2,175,563**
EQUITY							
Share capital	-	-	-	-	-	474,600	**474,600**
Accumulated loss	-	-	-	-	-	(343,382)	**(343,382)**
Revaluation reserves	-	-	-	-	-	(1,121)	**(1,121)**
Total equity	-	-	-	-	-	**130,097**	130,097
Total liabilities and equity	**198,572**	**114,464**	**1,441,167**	**256,251**	**125,077**	**170,129**	**2,305,660**
Net assets/liabilities and equity	**(44,717)**	**428,535**	**(1,069,666)**	**108,379**	**230,073**	**347,396**	-

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.14. Market risk (continued)

37.14.2. Interest rate risk (continued)

The table below shows effective interest rates for interest-bearing assets and liabilities.

in thousands of HRK

	2019	2018
	in %	*in %*
Assets		
Cash	(0.71)-0.00	(0.65)-0.00
Placements with banks	(1.13)-2.45	0.00-3.50
Financial assets at fair value through other comprehensive income	0.08-6.50	0.00-4.98
Loans and advances to customers	1.60-7.49	1.95-8.50
Equity and liabilities		
Liabilities to banks	0.00-0.15	0.01-1.20
Demand deposits	0.00-1.50	0.00-0.06
Term deposits	0.01-1.50	0.03-2.10
Borrowings	0.05-1.20	0.00-1.80

37.14.3. Price risk

Price risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The risk is managed by setting maximum volumes, limits and other restrictions. The Bank manages the risk by setting Trading Book limits (generally not applied, and the Bank had no positions in the Trading Book at 31 December 2019), with the durations of portfolios of financial assets through OCI and at amortised cost being measured, monitored and reported regularly.

Stress testing interest rate risk in the banking book

Interest rate risk in the banking book is the risk of loss arising from possible changes in interest rates, impacting the items in the banking book. For the purposes of the stress tests, the Bank uses a simplified calculation of the changes in the economic value of the banking book, as defined in the Decision on interest rate risk in the banking book.
The Bank performs the shock-test to determine the impact of a one-off increase or decrease of interest rates by 100 basis points over a one-year period. As at 31 December 2019 it amounted to HRK 3,205 thousand or 7.71% (2018: HRK 1,510 thousand or 2.44%). The impact relates to the impact of the interest gap on the expected annual interest margin at 100 basis points. Potential risk is due to premature repayment of asset items due to the potential downward interest rates movement of the competition together with the equity and liabilities contracted for a longer term at a fixed interest rate.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.15. Market risk measurement techniques

Measurement techniques used for measuring and controlling market risks are the Value at Risk (VaR) method and stress tests.

VaR method

The VaR method measures the Bank's maximum loss (the maximum expected loss) in case of unfavourable movements in FX exchange rates in a set time interval under normal market conditions and the set level of reliability on the basis of historical data.

Currency exposure limits

The Bank is obliged to adjust its operations so that at any time the following structural principles are followed:

- the Bank internally determines that the Bank's total open FX position does not exceed 25% of the Bank's regulatory capital,
- the maximum allowed open FX position in EUR amounts to 20% of the regulatory capital,
- the maximum allowed open FX position in USD amounts to 10% of the regulatory capital,
- the maximum allowed open FX position by individual currencies, other than EUR and USD, amounts to 5% of the regulatory capital.

	Internal limit	At 31 December 2019
Bank's total open FX position	25.00%	6.39 %
Maximum open FX position in EUR	20.00%	- 0.29 %
Maximum open FX position in USD	10.00%	- 0.25 %
Maximum open FX position in other currencies	5.00%	0.11 % for CHF

Daily VAR calculation

In accordance with the provisions of the Basel II agreement on market risk measurement, the Bank has opted for the VaR method for calculating its FX position exposure to changes in foreign currency exchange rates (the impact of unfavourable movements in rates on the amount of open FX position).
For calculating VAR, the Bank is developing the application of the Variance-Covariance Model, which implies the assessment of the present open risk on the basis of movements in exchange rates.
The Risk Management Department reports on the Bank's FX Department under Value-at-Risk methodology on a daily basis, and to the ALCO at their meetings.

Stress tests

Stress testing is a risk management technique used for assessing potential impacts of specific events and/or changes in several risk factors on the Bank's financial position.
The purpose of the stress testing is to determine whether the Bank has an appropriate level of capital in case of the occurrence of specific events and/or changes in several risk factors. These are unfavourable events that are difficult to foresee (extreme, but possible) and that impact the Bank's capital, risk profile and profit. The stress test may be divided into the scenario analysis and sensitivity analysis.

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.15. Market risk measurement techniques (continued)

The scenario analysis is a type of stress test which estimates the impact of simultaneous changes of several risk factors on the Bank's financial position in clearly defined stress circumstances. The sensitivity analysis is a type of stress test which estimates the impact of a particular risk factor on the Bank's financial position without the stress cause being identified. The stress test is performed semi-annually.

In performing liquidity stress tests, the Bank assumes a liquidity shock on the market, such as deposit withdrawal or inability to place on the market the instruments the Bank possesses without incurring significant loss. In doing so, potential outflows are estimated under scenario and sensitivity analyses. In defining a scenario, the Bank considers the circumstances that may arise upon the expiry of a significant volume of deposits or losing a part of its unsecured sources of funding, including deposits from major customers etc. The baseline scenarios used for the purpose of the analysis, with individual factors having two levels of disturbance intensity, are defined as follows:
1) Internal crisis of the Bank,
2) Market crisis
3) A combination of both.

VaR is not used in performing liquidity stress tests, as in extreme circumstances the losses exceed the expected losses in a much larger number of instances than envisaged using VaR.

Stress testing interest rate risk in the banking book

Interest rate risk in the banking book is the risk of loss arising from possible changes in interest rates, impacting the items in the banking book. For the purposes of the stress tests, the Bank uses a simplified calculation of the changes in the economic value of the banking book, as defined in the Decision on interest rate risk in the banking book.
The Bank performs the shock-test to determine the impact of a one-off increase or decrease of interest rates by 100 basis points over a one-year period.

TIME ZONES *	ESTIMATED MODIFIED DURATION *	WEIGHTED (200bp)*
UP TO 1 MONTH	0.04	0.08%
FROM 1 TO 3 MONTHS	0.16	0.32%
FROM 3 TO 6 MONTHS	0.36	0.72%
FROM 6 TO 12 MONTHS	0.71	1.43%
FROM 1 TO 2 YEARS	1.38	2.77%
FROM 2 TO 3 YEARS	2.25	4.49%
FROM 3 TO 4 YEARS	3.07	6.14%
FROM 4 TO 5 YEARS	3.85	7.71%
FROM 5 TO 7 YEARS	5.08	10.15%
FROM 7 TO 10 YEARS	6.63	13.26%
FROM 10 TO 15 YEARS	8.92	17.84%
FROM 15 TO 20 YEARS	11.21	22.43%
OVER 20 YEARS	13.01	26.03%

The change in economic value in relation to regulatory capital, pursuant to the methodology of the CNB (200 bp), calculated on 31 December 2018, is as follows:

	Internal limit	**Internal early warning system**	**At 31 December 2019**
Change in economic value/regulatory capital	15%	13%	9.91 %

37. RISK MANAGEMENT POLICIES (CONTINUED)

37.16. Operational risk

The Bank is exposed to operational risk in all of its business activities. The objective of operational risk management is to identify all occurrences of operational risk, to control and minimise operational risk exposure.

The Bank seeks to achieve optimum operational risk management in accordance with the principles defined by the Bank's regulator and policies, with a view to mitigating and avoiding operational risks. In this regard, the Bank collects data on operational risk events, monitors key risk indicators, conducts scenario analysis, assesses operational risk in its operations, reports to Management on operational risk exposure and proposes measures to reduce, avoid and transfer operational risk. Operational risk does not have a material effect on the Bank’s operations.

38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined as the price that would be received from selling an asset or paid for transferring a liability in an orderly transaction between market participants at the measurement date, the so-called exit price. Financial assets measured at fair value through other comprehensive income are stated at fair value.

The table below summarises the year-end fair value estimates made by the Management Board.

in thousands of HRK

	Carrying amount		Fair value	
	2019	**2018**	**2019**	**2018**
Financial assets				
Cash	152,322	206,351	152,322	206,351
Receivables from the Croatian National Bank	120,447	142,387	120,447	142,387
Placements with banks	18,971	19,249	18,971	19,249
Loans and advances to customers	1,125,460	1,081,330	1,096,750	1,055,336
Financial assets at FV through OCI	452,045	752,681	452,045	752,681
Financial assets at FV through P&L	434	492	434	492
Financial liabilities				
Deposits from banks	18,206	110,543	18,206	110,543
Deposits from customers	1,619,882	1,926,711	1,603,686	1,898,022
Borrowings	160,891	114,311	160,891	114,311

Loans and receivables from customers and deposits from customers represent aggregate balances received from/owed to corporate and retail customers that bear interest at different average variable rates, and their effects are presented separately in the following tables.

in thousands of HRK

Corporate customers	Carrying amount		Fair value	
	2019	**2018**	**2019**	**2018**
Financial assets				
Loans and receivables from customers	792,142	740,906	789,527	732,491
Financial liabilities				
Deposits from customers	375,013	389,207	374,928	389,065

38. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

in thousands of HRK

Retail customers	Carrying amount		Fair value	
	2019	**2018**	**2019**	**2018**
Financial assets				
Loans and receivables from customers	333,318	340,424	307,223	322,845
Financial liabilities				
Deposits from customers	1,244,869	1,537,504	1,228,758	1,508,957

An overview of key methods and assumptions used in estimating the fair values of financial instruments is set out below.

Loans and receivables from banks

Loans and receivables are reported net of provision for impairment. The estimated fair value of loans and receivables represents the discounted amount of future cash flows. Future cash flows are discounted using the current market rates to arrive at the fair value of those assets.

Loans and receivables from customers

Loans and receivables are reported net of provision for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows. Future cash flows are discounted using current market rates to arrive at their fair value. Future expected losses are not considered, and no adjustment is performed to reflect any amounts doubtful of collection (including timing uncertainty) for exposures under due and reprogrammed amounts as well as under exposures not yet due but required to be monitored more closely.

Deposits from banks

The fair value estimate of fixed-maturity deposits is based on expected cash flows discounted at currently valid market rates on deposits with similar remaining maturities, however, the fair value cannot be lower than the nominal amount for those deposits that may be called by customers at any time.

Due to their short maturity, Management considers that their carrying amounts do not differ from their fair values.

Deposits from customers

The fair value estimate of fixed-maturity deposits is based on cash flows discounted at currently valid market rates on deposits with similar remaining maturities, however, the fair value cannot be lower than the nominal amount for those deposits that may be called by customers at any time. The value of client relationships is not taken into account in fair value evaluation.

39. CAPITAL MANAGEMENT

The main goal in managing the Bank's capital is to ensure the compliance with all regulatory capital requirements and maintain the credit rating and total capital rate to improve operations.

The Bank manages its capital structure and adjusts it in accordance with changes in economic conditions and the characteristics of its business risks.

In managing capital, the Bank also follows the principles of:

- Compliance with all legally prescribed capital requirements
- Maintaining the Bank's ability to continue as a going concern and achieve the Bank's objectives
- Maintaining a strong capital base that will enable a continued and sustainable development with the aim to achieve positive results in the income statement.

The Bank's regulatory capital and the total capital rate, calculated in accordance with the requirements of Regulation (EU) No. 575/2013 only for the Bank, were as follows:

in thousands of HRK

	31 December 2019	31 December 2018
Regulatory capital		
Tier 1 capital		
Issued share capital	474,600	474,600
Share premium	-	-
Accumulated loss	(369,445)	(343,382)
Legal, statutory and other reserves	-	-
Deductions according to the Regulation (EU) No. 575/2013 /i/	(1,600)	(5,381)
Total Tier 1 capital	103,555	125,837
Additional capital	-	-
Total additional capital	-	-
Deductions from investments in banks and other financial institutions	-	-
Total regulatory capital	**103,555**	**125,837**

/i/ The amount includes intangible assets, unrealised losses on financial assets at fair value through other comprehensive income and 0.1% on the entire portfolio of financial assets and liabilities measured at fair value.

At 31 December 2019, the Bank's regulatory capital amounted to HRK 103,555 thousand (2018: HRK 125,837 thousand).

39. CAPITAL MANAGEMENT (CONTINUED)

in thousands of HRK

	31 December 2019	31 December 2018
Total capital ratio according to Regulation EU No. 575/2013		
Capital requirements		
Credit risk exposure	52,965	55,976
Balance sheet items	*51,377*	*54,376*
Off-balance sheet items	*1,588*	*1,600*
Currency risk exposure	-	232
Operational risk exposure	9,797	11,009
Capital requirements for total capital ratio	**62,762**	**67,217**
Additional capital requirements		
Capital requirements for prescribed additional capital rate	25,027	26,803
Capital conservation buffer	19,613	21,005
Systemic risk buffer	11,768	12,603
Total capital requirements	**119,170**	**127,628**
Common Equity Tier 1 capital ratio	**13.20%**	**14.98%**
Tier 1 capital ratio	**13.20%**	**14.98%**
Total capital ratio	**13.20%**	**14.98%**

The comparative information presents the total capital ratio in accordance with the requirements of Regulation (EU) No. 575/2013. As at 31 December 2019, the total capital ratio is 13.20% (2018: 14.98%).

As at 31 December 2019 and 31 December 2018, the Bank did not meet all capital requirements (the prescribed minimum total capital ratio amounts to 15.91%). In 2019, the Bank activated a new Capital Conservation Plan in accordance with the by-laws defining procedures in cases of non-compliance with capital requirements, which was approved by the CNB. In 2019, the Bank regularly submitted reports on the implementation of measures under the Capital Conservation Plan. Apart from the above, no additional measures were taken by the CNB.

Legal reserves

The Companies Act requires that 5% of profit for the year is added to this reserve until 5% of issued share capital is reached. The legal reserve, amounting to 5% of the issued share capital, may be used to cover the current and prior year losses.

Fair value reserve

The fair value reserve includes unrealised gains and losses on changes in fair value of financial assets through other comprehensive income as well as foreign exchange differences resulting from non-monetary financial assets through other comprehensive income.

Accumulated loss

Accumulated loss includes losses accumulated from previous years.

40. CONCENTRATION OF ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS

The concentration of assets, liabilities and off-balance sheet items is presented below:

in thousands of HRK

	31 December 2019			31 December 2018		
	Assets	Liabilities	Off-balance sheet items	Assets	Liabilities	Off-balance sheet items
Geographical region						
Republic of Croatia	1,792,798	1,868,382	137,537	2,189,210	2,192,066	117,373
Europe	124,521	37,581	11	115,607	46,017	10
Other	51,291	62,647	13	843	67,577	21
Total by geographical region	**1,968,610**	**1,968,610**	**137,561**	**2,305,660**	**2,305,660**	**117,404**
Sector						
Republic of Croatia (state)	326,783	25,358	1,050	697,616	31,680	1,550
Croatian National Bank	210,868	236,915	-	327,015	125,444	-
Trade and commerce	57,541	29,377	11,499	104,697	24,235	14,027
Finance	75,620	61,602	2,513	39,657	160,524	1,184
Tourism	33,280	2,702	964	33,715	2,179	9
Agriculture	105,935	12,327	2,001	103,376	8,730	1,447
Industry	537,171	35,534	70,816	597,705	35,920	53,460
Individuals	344,886	1,240,549	16,661	291,380	1,534,733	18,718
Other	276,526	324,246	32,057	110,499	382,215	27,010
Total by sector	**1,968,610**	**1,968,610**	**137,561**	**2,305,660**	**2,305,660**	**117,404**

41. EVENTS AFTER THE BALANCE SHEET DATE

As at 31 December 2019, the Bank did not meet all capital requirements (the prescribed minimum total capital ratio amounts to 15.91%). In 2019, the Bank activated a new Capital Conservation Plan in accordance with the by-laws defining procedures in cases of non-compliance with capital requirements, which was approved by the CNB.

In 2019, the Bank regularly submitted reports on the implementation of measures under the Capital Conservation Plan. Apart from the above, no additional measures were taken by the CNB. On 3 February 2020, the State Agency for Deposit Insurance and Bank Rehabilitation, as the owner of the Bank, issued a call for the procurement of legal advisory and support services in the process of selling 100% of shares of Croatia Banka d.d., Zagreb.

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, and in late February to Croatia, causing disruptions to businesses and economic activity. The Bank considers this outbreak to be a non-adjusting post balance sheet event.

The impact of the COVID-19 virus on the Bank's operations is currently difficult to analyse as it is not possible to estimate the length of time and the extent of this event. The preliminary analyses conducted by the Bank indicate the expected negative impact on the economy as a whole and as such on the Bank's operations.

Based on the preliminary analysis, the Bank expects a potential decrease in capital adequacy (as a result of a decrease in regulatory capital and an increase in risk-weighted assets).

However, the Government of the Republic of Croatia has adopted a number of measures aimed at assisting the economy of the Republic of Croatia as a whole. The Croatian National Bank has also adopted a number of measures related to the current situation, which include, inter alia, measures relating to the preservation of banks' capital structures and the liquidity of the banking system. The Management expects that these measures will have a positive impact or mitigate the potential reduction in capital adequacy shown by today's analysis.

Due to the above, the impact of the COVID-19 virus on the Bank's business and financial position and regulatory capital is difficult to estimate at this time. However, the Management Board expects the Bank to have adequate resources to continue in business for the foreseeable future given the favourable maturity matching, portfolio structure, stated measures of the Government of the Republic of Croatia and the Croatian National Bank. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK

The basic financial statements provided below have been prepared within the reporting framework and the basic financial statements stipulated by the CNB's Decision on the structure and content of annual financial statements of banks (hereinafter referred to as the 'Decision').

Statement of financial position (Balance sheet)
as at 31 December 2019

BAN-BIL form

Entity: CROATIA BANKA d.d.				
Description	AOP mark	Note no.	Previous year (net)	Current year (net)
1	2	3	4	5
Assets				
1. Cash receivables from central banks and other demand deposits (AOP 002 to 004)	001		206,349,913	152,320,941
1.1. Cash on hand	002		17,683,366	17,119,913
1.2. Cash receivables from central banks	003		182,262,035	114,953,255
1.3. Other demand deposits	004		6,404,512	20,247,773
2. Financial assets held for trading (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 that are not traded and that must be carried at fair value through profit or loss (AOP 011 to 013)	010		491,574	434,448
3.1. Equity instruments	011		0	0
3.2. Debt securities	012		0	0
3.3. Loans and advances	013		491,574	434,448
4. Financial assets at fair value through profit or loss (AOP 015 to 024)	014		0	0
4.2. Debt securities	015		0	0
4.3. Loans and advances	016		0	0
5. Financial assets at fair value through other comprehensive income (AOP 018 to 020)	017		752,680,191	452,045,966
5.1. Equity instruments	018		438,500	493,233
5.1. Debt securities	019		752,241,691	451,552,734
5.2. Loans and advances	020		0	0
6. Financial assets at amortised cost (AOP 022+023)	021		1,270,699,912	1,290,076,531
6.1. Debt securities	022		495,940	1,203,271
6.2. Loans and advances	023		1,270,203,972	1,288,873,260
7. Derivatives - hedge accounting	024		0	0
8. Changes in fair value of hedged items in edging the portfolio against interest rate risk	025		0	0
9. Investments in subsidiaries, joint ventures and associates	026		0	0
10. Tangible assets	027		40,091,701	43,538,625
11. Intangible assets	028		3,506,467	3,151,982
12. Tax assets	029		1,126,724	906,625
13. Other assets	030		29,387,044	26,345,198
14. Non-current assets and disposal groups held for sale	031		5,280,062	5,280,062
15. TOTAL ASSETS (AOP 001 + 005 + 010 + 014 + 017 + 021 + 024 to 031)	032		2,309,613,588	1,974,100,378

Description	AOP mark	Note no.	Previous year (net)	Current year (net)
1	2	3	4	5
Liabilities				
16. Financial liabilities held for trading (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. Debt securities issued	**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. Debt securities issued	**041**		0	0
17.3. Other financial liabilities	**042**		0	0
18. Financial liabilities at amortised cost (AOP 044 to 046)	**043**		2,149,934,510	1,800,866,310
18.1. Deposits	**044**		2,149,730,449	1,797,317,094
18.2. Debt securities issued	**045**		0	0
18.3. Other financial liabilities	**046**		204,061	3,549,216
19. Derivatives - hedge accounting	**047**		0	0
20. Changes in fair value of hedged items in hedging the portfolio against interest rate risk	**048**		0	0
21. Provisions	**049**		13,627,903	48,975,404
22. Tax payable	**050**		216,214	765,439
23. Share capital repayable on demand	**051**		0	0
24. Other liabilities	**052**		15,738,417	16,333,654
25. Liabilities of disposal groups held for sale	**053**		0	0
26. TOTAL LIABILITIES(AOP 033 + 039 + 043 + 047 to 053)	**054**		2,179,517,044	1,866,940,807
Equity				
27. Share capital	**055**		474,600,000	474,600,000
28. Share premium	**056**		0	0
29. Issued equity instruments except for equity	**057**		0	0
30. Other equity instruments	**058**		0	0
31. Accumulated other comprehensive income	**059**		-1,121,432	2,004,350
32. Retained earnings	**060**		-318,392,941	-344,462,904
33. Revaluation reserves	**061**		0	0
34. Other reserves	**062**		0	0
35. Treasury shares	**063**		0	0
36. Profit or loss attributable to owners of the parent company	**064**		-24,989,083	-24,981,875
37. Dividends for the year	**065**		0	0
38. Minority (non-controlling) interests	**066**		0	0
39. TOTAL EQUITY(AOP 055 to 066)	**067**		130,096,544	107,159,571
40. TOTAL LIABILITIES AND EQUITY (AOP 054+067)	**068**		2,309,613,588	1,974,100,378

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Income statement for the period from 1 January 2019 to 31 December 2019 - BAN-RDG form

Entity: CROATIA BANKA d.d.				
Description	AOP mark	Note no.	Previous year	Current year
1	2	3	4	5
1. Interest income	069		67,426,958	53,109,928
2. Interest expense	070		23,603,538	10,910,069
3. Expenses from share capital repayable on demand	071		0	0
4. Dividend income	072		0	0
5. Fee and commission income	073		9,115,691	9,741,076
6. Fee and commission expense	074		3,545,644	3,688,501
7. Gains or losses on derecognition of financial assets and liabilities not carried at fair value through profit or loss, net	075		638,848	8,734,036
8. Gains or losses on financial assets and liabilities held for trading, net	076		2,408,865	2,039,512
9. Gains or losses on financial assets not traded and carried at fair value through profit or loss, net	077		0	0
10. Gains or losses on financial assets and liabilities at fair value through profit or loss, net	078		0	0
11. Hedging gains/losses, net	079		0	0
12. Foreign exchange gains or losses, net	080		-73,988	3,208
13. Gains or losses on derecognition of non-financial assets, net	081		0	0
14. Other operating income	082		8,471,423	9,953,186
15. Other operating expenses	083		418,088	547,190
16. TOTAL OPERATING INCOME; NET(AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 to 082 - 083)	084		60,420,527	68,435,185
17. Administrative expenses	085		57,405,215	52,959,791
18. Depreciation and amortisation	086		2,963,885	3,609,957
19. Gains or losses on changes, net	087		0	0
20. Provisions or reversal of provisions	088		6,481,311	38,222,183
21. Impairment or reversal of impairment of financial assets not carried at fair value through profit or loss	089		15,418,184	-2,090,865
22. Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	090		0	0
23. Impairment or reversal of impairment of non-financial assets	091		183,798	716,507
24. Negative goodwill recognised in profit or loss	092		0	0
25. Share of profit or loss on investments in subsidiaries, joint ventures and associates accounted for using the equity method	093		0	0
26. Gains or losses on non-current assets and disposal group classified as held for sale not qualifying for classification as discontinued operations	094		0	0
27. PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS (AOP 084 - 085 - 086 + 087 - 088 do 091+ 092 to 094)	095		-22,031,866	-24,982,389
28. Tax expense or income relating to profit or loss from continuing operations	096		2,903,068	-30,138

Description	AOP mark	Note no.	Previous year	Current year
1	2	3	4	5
29. PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS (AOP 095 - 096)	**097**		-24,934,934	-24,952,251
30. Profit or loss after tax from discontinued operations (AOP 099 - 100)	**098**		-54,149	-29,624
30.1. Profit or loss before tax from discontinued operations	**099**		**-54,149**	**-29,624**
30.2. Tax expense or income relating to discontinued operations	**100**			
31. PROFIT OR LOSS FOR THE YEAR (AOP 097 + 098; 102 + 103)	**101**		-24,989,083	-24,981,875
32. Attributable to minority (non-controlling) interest	**102**			
33. Attributable to owners of the parent company	**103**			
STATEMENT OF OTHER COMPREHENSIVE INCOME				
1. Profit or loss for the year (AOP 101)	**104**		-24,989,083	-24,981,875
2. Other comprehensive income (AOP 106 to 118)	**105**		303,197	3,125,782
2.1. Items that will not be reclassified to profit or loss (AOP 107 to 113 + 116 + 117)	**106**		0	0
2.1.1. Tangible assets	**107**		0	0
2.1.2. Intangible assets	**108**		0	0
2.1.3. Actuarial gains/(losses) on defined benefit pension plans	**109**		0	0
2.1.4. Non-current assets and disposal groups held for sale	**110**		0	0
2.1.5. Share of other recognised income and expenses from entities accounted for using the equity method	**111**		0	0
2.1.6. Changes in fair value of equity instruments carried at fair value through other comprehensive income	**112**		0	0
2.1.7. Gains or losses on hedge accounting of equity instruments carried at fair value through other comprehensive income, net	**113**		0	0
2.1.8. Change in fair value of equity instruments carried at fair value through other comprehensive income	**114**		0	0
2.1.9. Changes in fair value of equity instruments carried at fair value through other comprehensive income	**115**		0	0
2.1.10. Changes in fair value of financial liabilities carried at fair value through profit or loss attributable to changes in credit risk	**116**		0	0
2.1.11 Income tax relating to items that will not be reclassified	**117**		0	0
2.2. Items that may be reclassified to profit or loss (AOP 119 to 126)	**118**		303,197	3,125,782
2.2.1. Net investment in foreign operations hedge (effective share)	**119**		0	0
2.2.2. Foreign currency translation	**120**		0	0
2.2.3. Cash flow hedges (effective share)	**121**		0	0
2.2.4. Hedging instruments (not determined elements)	**122**		0	0
2.2.5. Debt instruments at fair value through other comprehensive income	**123**		369,752	3,583,366
2.2.6. Non-current assets and disposal groups held for sale	**124**		0	0
2.2.7. Share of other recognised income and expenses from investments in subsidiaries, joint ventures and associates	**125**		0	0
2.2.8. Income tax on items that may be reclassified to profit or loss	**126**		-66,555	-457,584
3. Total comprehensive income for the year (AOP 104 + 105 and AOP 128 + 129)	**127**		-24,685,886	-21,856,093
4. Attributable to minority (non-controlling) interest	**128**			
5. Attributable to owners of the parent company	**129**			

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Statement of cash flows, indirect method – POD-NTI form

Entity; CROATIA BANKA d.d.

Description	AOP mark	Note no.	Previous year	Current year
1	2	3	4	5
Operating activities and adjustments				
1. Profit/loss before tax	001		-22,086,015	-25,012,013
2. Impairment losses and provisions	002		22,614,059	37,338,896
3. Depreciation and amortisation	003		2,963,885	3,609,957
4. Net unrealised gains/losses on financial assets and liabilities at fair value through profit or loss	004		-3,020,791	-10,800,470
5. Gains/losses on sale of tangible assets	005		-1,883,096	-1,761,091
6. Other non-cash items	006		-765,495	-6,050,806
Movements in assets and liabilities from operating activities				
7. Deposits with CNB	007		7,203,482	23,120,738
8. Deposits with financial institutions and loans to financial institutions	008		0	0
9. Loans and advances to other customers	009		-14,357,428	-68,956,904
10. Securities and other financial instruments at fair value through other comprehensive income	010		117,936,817	312,529,449
11. Securities and other financial instruments held for trading	011		0	0
12. Securities and other financial instruments not actively traded but carried at fair value through profit or loss	012		0	0
13. Securities and other financial instruments mandatorily carried at fair value through profit or loss	013		0	0
14. Securities and other financial instruments carried at amortised cost	014		-499,232	-710,876
15. Other assets from operating activities	015		11,906,084	-32,105,029
Increase/decrease in operating liabilities				
16. Deposits from financial institutions	016		48,367,837	-92,336,649
17. Transaction accounts of other customers	017		-673,938	159,233,318
18. Savings deposits of other customers	018		97,391,843	1,030,673
19. Term deposits of other customers	019		-253,099,806	-468,843,981
20. Derivative financial liabilities and other trading liabilities	020		0	0
21. Other liabilities	021		-861,681	1,144,462
22. Outstanding interest from operating activities	022		64,248,203	64,028,243
23. Dividend received from operating activities	023		0	0
24. Interest paid from operating activities	024		-3,091,256	-909,595
25. Income tax paid	025		0	0
A) Net cash flows from operating activities (AOP 001 to 025)	026		72,293,472	-105,451,679
Investing activities				
1. Proceeds from sale/payments for purchase/of tangible and intangible assets	027		3,140,250	2,713,530
2. Proceeds from sale/payments for purchases/of investments in subsidiaries, joint ventures and associates	028		0	0
3. Proceeds from collection/payments for purchases/of securities and other financial instruments from investing activities	029		0	0
4. Dividends received from investing activities	030		0	0
5. Other proceeds/payments from investment activities	031		0	0
A) Net cash flows from investing activities (AOP 027 to 031)	032		3,140,250	2,713,530
Financing activities				
1. Net increase/decrease in borrowings from financing activities	033		-49,180,510	46,579,748
2. Net increase/decrease in issued debt securities	034		0	0
3. Net increase/decrease in instruments of additional capital	035		0	0
4. Share capital increase	036		0	0
5. Dividend paid	037		0	0
6. Other proceeds/payments from financing activities	038		0	0
C) Net cash flows from financing activities (AOP 033 to 038)	039		-49,180,510	46,579,748
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (+032+039)	040		26,253,212	-56,158,401
Cash and cash equivalents at beginning of year	041		201,419,632	227,672,844
Effects of foreign currency exchange rate fluctuations on cash and cash equivalents	042		0	0
Cash and cash equivalents at end of year (AOP 040+041+042)	043		227,672,844	171,514,443

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

CHANGES IN EQUITY for the period from 1 January 2019 to 31 December 2019 - BANK-PK form

Position description	AOP mark	Note no.	Attributable to equity holders of the parent											Minority interest		Total
			Equity	Share premium	Issued equity instruments except for equity	Other equity stakes	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	Treasury shares	Profit / loss attributable to owners of the parent company	Dividends for the year	Accumulated other comprehensive income	Other items	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17 (4 to 16)
1. Opening balance (before restatement)	**01**		**474,600,000**				**-1,121,432**	**-343,382,024**								**130,096,544**
2. Effects of corrections of errors	**02**							-930,512								-930,512
3. Effects of changes in accounting policies	**03**							-150,368								-150,368
4. Opening balance (current period) (AOP 01 to 03)	**04**		**474,600,000**	**0**	**0**	**0**	**-1,121,432**	**-344,462,904**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**129,015,664**
5. Issue of ordinary shares	**05**															0
6. Issue of preference shares	**06**															0
7. Issue of other equity instruments	**07**															0
8. Execution or expiry of other issued equity instr.	**08**															0
9. Debt to equity swaps	**09**															0
10. Capital reduction	**10**															0
11. Dividends	**11**															0
12. Purchase of treasury shares	**12**															0
13. Sale or extinguishment of treasury shares	**13**															0
14. Reclassification of financial instruments from equity instruments to liabilities	**14**															0
15. Reclassification of financial instruments from liabilities to equity instruments	**15**															0
16. Transfers between equity instr. components	**16**															0
17. Increase or decrease in equity instruments resulting from business combinations	**17**															0
18. Share-based payments	**18**															0
19. Other increase or decrease in equity instruments	**19**															0
20. Total comprehensive income for the year	**20**						3,125,782					-24,981,875				-21,856,093
21. Closing balance (current period) (AOP 04 to 20)	**21**		**474,600,000**	**0**	**0**	**0**	**2,004,350**	**-344,462,904**	**0**	**0**	**0**	**-24,981,875**	**0**	**0**	**0**	**107,159,571**

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Balance sheet reconciliation as at 31 December 2019

Mismatches of items in the balance sheet disclosed in the Annual Report in relation to the standard prescribed in CNB's Decision relate to the following categories:

in thousands of HRK

Item		CNB Decision	Annual report	Difference
1. Cash, cash receivable from central banks and other demand deposits	**001**	**152,321**	**291,740**	**(139,419)**
1.1. Cash on hand	002	17,120	-	17,120
1.2. Cash receivable from central banks	003	114,953	-	114,953
1.3. Other demand deposits	004	20,248	-	20,248
Cash		-	152,322	(152,322)
Receivables from the Croatian National Bank		-	120,447	(120,447)
Placements with banks		-	18,971	(18,971)
2. Financial assets held for trading (AOP 006 to 009)	**005**	-	-	-
2.1. Derivatives	006	-	-	-
2.2. Equity instruments	007	-	-	-
2.3. Debt securities	008	-	-	-
2.4. Loans and advances	009	-	-	-
3. Financial assets that are not traded and mandatorily carried at fair value through profit or loss (AOP 011 to 013)	**010**	**434**	**434**	**-**
3.1. Equity instruments	011	-		-
3.2. Debt securities	012	-		-
3.3. Loans and advances	013	434		434
Financial assets at fair value through profit or loss			434	(434)
4. Financial assets at fair value through profit or loss (AOP 015+016)	**014**	-	-	-
4.2. Debt securities	015	-	-	-
4.3. Loans and advances	016	-	-	-
5. Financial assets at fair value through other comprehensive income (AOP 018 to 020)	**017**	**452,046**	**452,045**	**1**
5.1. Equity instruments	018	493	-	493
5.1. Debt securities	019	451,553	-	451,553
5.2. Loans and advances	020	-	-	-
Financial assets at fair value through profit or loss		-	452,045	(452,045)
6. Financial assets at amortised cost (AOP 022+023)	**021**	**1,290,077**	**1,126,663**	**163,414**
6.1. Debt securities	022	1,203	-	1,203
Financial assets at amortised cost		-	1,203	(1,203)
6.2. Loans and advances	023	1,288,873	-	1,288,873
Loans and advances to customers		-	1,125,460	(1,125,460)
7. Derivatives - hedge accounting	**024**	-	-	-
8. Changes in fair value of hedged items in hedging the portfolio against interest rate risk	**025**	-	-	-
9. Investments in subsidiaries, joint ventures and associates	**026**	-	-	-
10. Tangible assets	**027**	**43,539**	**-**	**43,539**
Investment property		-	35,350	(35,350)
Property, plant and equipment		-	8,189	(8,189)
Foreclosed assets		-	25,758	(25,758)
11. Intangible assets	**028**	**3,152**	**-**	**3,152**
12. Tax assets	**029**	**907**	**-**	**907**
Deferred tax assets		-	693	(693)
13. Other assets	**030**	**26,345**	**-**	**26,345**
Other assets		-	19,306	(19,306)
14. Non-current assets and disposal groups held for sale	**031**	**5,280**	**5,280**	**-**
15. TOTAL ASSETS (AOP 001+005+010+014 +017+021+024 to 031)	**032**	**1,974,100**	**1,968,610**	**5,490**

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Balance sheet reconciliation as at 31 December 2019 (continued)

in thousands of HRK

Item		CNB Decision	Annual report	Difference
Liabilities				
16. Financial liabilities held for trading (AOP 034 to 038)	**033**	**-**	**-**	**-**
16.1. Derivatives	034	-	-	-
16.2. Short-term items	035	-	-	-
16.3. Deposits	036	-	-	-
16.4. Debt securities issued	037	-	-	-
16.5. Other financial liabilities	038	-	-	-
17. Financial liabilities at fair value through profit or loss (AOP 040 to 042)	**039**	**-**	**-**	**-**
17.1. Deposits	040	-	-	-
17.2. Debt securities issued	041	-	-	-
17.3. Other financial liabilities	042	-	-	-
18. Financial liabilities at amortised cost (AOP 044 to 046)	**043**	**1,800,866**	**1,798,979**	**1,887**
18.1. Deposits	044	1,797,317	-	1,797,317
18.2. Debt securities issued	045	-	-	-
18.3. Other financial liabilities	046	3,549	-	3,549
Bank borrowings		-	18,206	(18,206)
Demand deposits		-	668,867	(668,867)
Term deposits		-	951,015	(951,015)
Borrowings		-	160,891	(160,891)
19. Derivatives - hedge accounting	**047**	-	-	-
20. Changes in fair value of hedged items in hedging the portfolio against interest rate risk	**048**	-	-	-
21. Provisions	**049**	**48,976**	**49,132**	**(156)**
22. Tax payable	**050**	**765**	**-**	**765**
23. Share capital repayable on demand	**051**	**-**	**-**	**-**
24. Other liabilities	**052**	**16,334**		**16,334**
Lease liabilities		-	3,377	(3,377)
Other liabilities		-	9,963	(9,963)
25. Liabilities of disposal group classified as held for sale	**053**	-	-	-
26. TOTAL LIABILITIES (AOP 033 + 039 + 043 + 047 to 053)	**054**	**1,866,941**	**1,861,451**	**5,490**
Equity				
27. Share capital	**055**	**474,600**	**474,600**	**-**
28. Share premium	**056**	**-**	**-**	**-**
29. Issued equity instruments except for equity	**057**	**-**	**-**	**-**
30. Other equity instruments	**058**	**-**	**-**	**-**
31. Accumulated other comprehensive income	**059**	**2,004**	**2,004**	**-**
32. Retained earnings	**060**	**(344,463)**	**(344,463)**	**-**
33. Revaluation reserves	**061**	**-**	**-**	**-**
34. Other reserves	**062**	**-**	**-**	**-**
35. Treasury shares	**063**	**-**	**-**	**-**
36. Profit or loss attributable to owners of the parent company	**064**	**(24,982)**	**(24,982)**	**-**
37. Dividends for the year	**065**	**-**	**-**	**-**
38. Minority (non-controlling) interests	**066**	**-**	**-**	**-**
39. TOTAL EQUITY (AOP 055 to 066)	**067**	**107,159**	**107,159**	**-**
40. TOTAL CAPITAL AND RESERVES (AOP 054+067)	**068**	**1,974,100**	**1,968,610**	**5,490**

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Balance sheet reconciliation as at 31 December 2019 (continued)

ASSETS

Cash on hand, Cash receivable from central banks and Other demand deposits are items separately dislosed under the CNB standard, while in the Annual Report those items are disclosed within Cash, Receivables from the CNB and Placements with banks. The exception is the required reserve with the CNB, which is disclosed within Receivables from the Croatian National Bank in the Annual Report, while it is disclosed within "Loans and advances (at amortised cost)" in the CNB report.

In the Annual Report, Loans and advances to customers include amounts of principal and accrued interest, less any loan prepayments and collected interest income relating to future periods. In the CNB report, the principal and interest amounts net of the accrued interest income of the future period are disclosed under Loans and advances (at amortised cost) and the amounts of the loan prepayments are disclosed under Other liabilities (not offset). This item also includes the separate required reserve with the CNB, which is disclosed within Receivables from the Croatian National Bank in the Annual Report. Other receivables are disclosed within Loans and advances in the CNB Report, while in the Annual Report they are disclosed within Other assets.

Also, the item Tangible assets consists of the inventory amount in the CNB report, while inventories in the Annual Report are disclosed within Other assets. Foreclosed assets are disclosed separately in the Annual Report, while they are disclosed within Other assets in the CNB report

Finally, the balance sheet disclosed in the Annual Report and the CNB Report differ due to the reduction in the prepayment of Loans and advances in the Annual Report.

LIABILITIES AND EQUITY

Financial liabilities carried at amortised cost disclosed in the CNB report in the Annual Report are disclosed within Liabilities to Banks, Demand Deposits, Term Deposits and Borrowings. The difference in amounts refers to Deposits for Custody and Brokerage Services that are reported in the CNB Statement under Other Liabilities and Fees and Commissions payable that are disclosed within Other Liabilities in the Annual Report.

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Income statement reconciliation as at 31 December 2019

in thousands of HRK

Item		CNB Decision	Annual report	Difference
1. Interest income	069	53,109	53,109	-
2. Interest expense	070	10,908	10,908	-
3. Expenses from share capital repayable on demand	071	-	-	-
4. Dividend income	072	-	-	-
5. Fee and commission income	073	9,741	9,741	-
6. Fee and commission expense	074	3,689	3,689	-
7. Gains or losses on derecognition of financial assets and liabilities not carried at fair value through profit or loss, net	075	8,734	-	8,734
8. Gains or losses on financial assets and liabilities held for trading, net	076	2,040	-	2,040
Net (expense)/income from financial operations		-	*10,801*	*(10,801)*
9. Gains or losses on financial assets not traded and carried at fair value through profit or loss, net	077	-	-	-
10. Gains or losses on financial assets and liabilities at fair value through profit or loss, net	078	-	-	-
11. Hedging gains/losses, net	079	-	-	-
12. Foreign exchange gains or losses, net	080	3		3
Net foreign exchange losses		-	*(23)*	*23*
13. Gains or losses on derecognition of non-financial assets, net	081	-	-	-
14. Other operating income	082	9,953	10,015	(62)
15. Other operating expenses	083	547		547
16. TOTAL OPERATING INCOME; NET (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 to 082 - 083)	084	68,436	69,046	(610)
17. Administrative expenses	085	52,960		52,960
18. Depreciation and amortisation	086	3,610		3,610
Other operating expenses			*56,857*	*(56,857)*
19. Gains or losses on changes, net	087	-	-	-
20. Provisions or reversal of provisions	088	38,223	-	38,223
21. Impairment or reversal of impairment of financial assets not carried at fair value through profit or loss	089	(2,091)	-	(2,091)
22. Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	090	-	-	-
23. Impairment or reversal of impairment of non-financial assets	091	717		717
Impairment losses and provisions		-	*37,201*	*(37,201)*
24. Negative goodwill recognised in profit or loss	092	-	-	-
25. Share of profit or loss on investments in subsidiaries, joint ventures and associates accounted for using the equity method	093	-	-	-
26. Gains or losses on non-current assets and disposal group classified as held for sale not qualifying for classification as discontinued operations	094	-	-	-
27. PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS (AOP 084 - 085 - 086 + 087 - 088 to 091+ 092 to 094)	**095**	**(24,982)**	**(25,012)**	**30**
28. Tax expense or income relating to gains or losses on continuing operations	096	(30)	(30)	-
29. PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS (AOP 095 - 096)	**097**	**(24,952)**	**(24,982)**	**30**
30. Profit or loss after tax from discontinued operations (AOP 099 - 100)	098	(30)	-	(30)
30.1. Profit or loss before tax from discontinued operations	099	24,982)	(24,982)	-
30.2. Tax expense or income relating to discontinued operations	100	-	-	
31. PROFIT OR LOSS FOR THE YEAR (AOP 097 + 098; 102 + 103)	**101**	**(24,982)**	**(24,982)**	**-**
32. Attributable to minority (non-controlling) interest	102	-	-	-
33. Attributable to owners of the parent company	103	-	-	-

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Income statement reconciliation as at 31 December 2019 (continued)

The item Net income from financial operations in the Annual Report consists of gains from trading in securities and foreign exchange gains that are disclosed separately in the CNB statement within Gains or losses on derecognition of financial assets and financial liabilities not carried at fair value through profit or loss and Gains or losses on financial assets and liabilities held for trading. The difference results from the gains on swap transactions disclosed in the CNB form within Gains or losses on financial assets and liabilities held for trading", while in the Annual Report it is disclosed within Net Foreign Exchange Losses.

Other operating expenses in the Annual Report in the CNB are disclosed separately within Administrative Expenses, Depreciation and Amortisation and Other Operating Expenses.

Impairment losses and provisions in the Annual Report in the CNB report are presented separately within Provisions or reversal of provisions, Impairment or reversal of impairment of financial assets not carried at fair value through profit or loss and Impairment or reversal of impairment of non-financial assets.

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED

Cash flow statement reconciliation for 2019

in thousands of HRK

Item		CNB Decision	Annual report	Difference
Operating activities and adjustments				
1. Profit/loss before tax	001	(25,012)	(25,012)	-
2. Impairment losses and provisions	002	37,339		37,339
Impairment allowance for loans and other assets (net)		-	(1,205)	1,205
Provisions for contingent liabilities (net)		-	985	(985)
Provisions for legal disputes (net)		-	36,528	(36,528)
Other provisions (net)		-	1,046	(1,046)
3. Depreciation and amortisation	003	3,610	3,610	-
4. Net unrealised gains/losses on financial assets and liabilities at fair value through profit or loss	004	(10,800)		(10,800)
(Gains)/losses on realisation of available-for-sale financial assets		-	(8,734)	8,734
Gains on currency trading		-	(2,067)	2,067
5. Gains/losses on sale of tangible assets	005	(1,761)	(1,761)	(0)
6. Other non-cash items	006	(6,051)	-	(6,051)
Investment property fair valuation		-	(904)	904
Foreign exchange losses on translation to mid-exchange rate of CNB		-	23	(23)
Write-off of tangible assets		-	152	(152)
Other non-cash items		-	(5,336)	5,336
Movements in assets and liabilities from operating activities				-
7. Deposits with CNB	007	23,121	23,121	-
8. Deposits with financial institutions and loans to financial institutions	008	-	-	-
9. Loans and advances to other customers	009	(68,957)	-	(68,957)
Increase in loans and advances to customers		-	(104,983)	104,983
10. Securities and other financial instruments at fair value through other comprehensive income	010	312,529		312,529
11. Securities and other financial instruments held for trading	011	-	-	-
12. Securities and other financial instruments not actively traded but measured at fair value through profit or loss	012	-	-	-
13. Securities and other financial instruments mandatorily carried at fair value through profit or loss	013	-	-	-
14. Securities and other financial instruments carried at amortised cost	014	(711)		(711)
Increase in financial assets at amortised cost		-	(711)	711
15. Other assets from operating activities	015	(32,104)		(32,104)
Decrease in other assets		-	6,904	(6,904)
Increase/(decrease) in other liabilities		-	(404)	(404)
Increase/decrease in operating liabilities				
16. Deposits from financial institutions	016	(92,337)	-	(92,337)
Increase/(decrease) in bank borrowings		-	(92,337)	92,337
17. Transaction accounts of other customers	017	159,233	-	159,233
18. Savings deposits of other customers	018	1,031	-	1,031
Increase/(decrease) in demand deposits		-	160,266	(160,266)
19. Term deposits of other customers	019	(468,844)	-	(468,844)
Decrease in term deposits		-	(468,843)	468,843
20. Derivative financial liabilities and other trading liabilities	020	-	-	-
21. Other liabilities	021	1,144	-	1,144
22. Outstanding interest from operating activities	022	64,028	-	64,028
Interest received		-	62,203	(62,203)
23. Dividend received from operating activities	023			0
24. Interest paid from operating activities	024	(910)	-	(910)
Interest paid		-	(910)	910
25. Income tax paid	025	-	-	-
A) Net cash flows from operating activities (AOP 001 to 025)	**026**	**(105,451)**	**(417,659)**	**312,208**

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Statement of cash flows reconciliation for 2019 (continued)

in thousands of HRK

Item		CNB Decision	Annual report	Difference
Investing activities				
1. Proceeds from sale/payments for purchases/of tangible and intangible assets	027	2,714		2,714
Purchase of property, equipment and intangible assets		-	(1,665)	1,665
Proceeds from the sale of property		-	4,377	(4,377)
2. Proceeds from sale/payments for purchases/investments in subsidiaries, associates and joint ventures	028	-	-	-
3. Proceeds from collection/payments for purchases of/securities and other financial instruments from investing activities	029	-	-	-
4. Dividends received from investing activities	030	-	-	-
5. Other proceeds/payments from investment activities	031	-	-	-
Interest received		-	1,825	(1,825)
Purchase of financial assets at fair value through OCI		-	(427,560)	427,560
Sale of financial assets at fair value through OCI		-	738,264	(738,264)
Decrease in financial assets at fair value through profit or loss			58	(58)
A) Net cash flows from investing activities (AOP 027 to 031)	**032**	**2,714**	**315,298**	**-312,584**
Financing activities				
1. Net increase/decrease in borrowings from financing activities	033	46,580	-	46,580
Repayments of borrowings		-	(919)	919
New borrowings		-	48,954	(48,954)
Interest paid		-	(1,455)	
2. Net increase/decrease in issued debt securities	034	-	-	-
3. Net increase/decrease in T2 capital instruments	035	-	-	-
4. Share capital increase	036	-	-	-
5. Dividend paid	037	-	-	-
6. Other proceeds/payments from financing activities	038	-	-	-
Lease liabilities		-	3,377	(3,377)
Provisions paid for legal disputes		-	(2,648)	2,648
Other payments		-	(395)	395
C) Net cash flows from financing activities (AOP 033 to 038)	**039**	**46,580**	**46,914**	**(334)**
D) Net increase/decrease in cash and cash equivalent (AOP 026+032+039)	**040**	**(56,157)**	**(56,157)**	-
Cash and cash equivalents at the beginning of year	**041**	**227,673**	**227,673**	-
Effects of foreign currency exchange rate fluctuations on cash and cash equivalents	**042**	-	-	-
Cash and cash equivalents at end of year (AOP 040+041+042)	**043**	**171,516**	**171,516**	-

Mismatches of items in the income statement disclosed in the Annual Report in relation to the structure and contents prescribed in CNB's decision relate to the following categories:

According to the CNB's instruction, impairment losses and provisions are disclosed in one amount within Impairment losses and provisions, while in the Annual Report they are disclosed within Impairment of loans and other assets, Provisions for contingent liabilities, Provisions for legal disputes and Other provisions.

Items Transaction accounts of other customers and Savings deposits of other customers are disclosed separately in the CNB report, while in the Annual Report they are disclosed together within the Increase/(Decrease in demand deposits.

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Purchase of financial assets at fair value through OCI and Sale of financial assets at fair value through OCI are disclosed in the Annual Report within Investing activities, while they are disclosed within Securities and other financial instruments at fair value through the OCI within the operating activities in the CNB report.

Reconciliation of the statement of comprehensive income and statement of changes in equity

The Statement of comprehensive income and the Statement of changes in equity prepared under the CNB standard do not differ from the Annual Report.

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

In accordance with Article 164 of the Credit Institutions Act, the Bank is obliged to disclose the following data relating to the previous financial year:

1. Banking and financial services provided, the nature of its activities and the geographic location of services provision;
2. Total income;
3. Number of employees on a full-time equivalent basis;
4. Amount of income tax; and
5. Amount of state subsidies received.

Ad.1.

In accordance with the Credit Institutions Act, the Bank engages in the following banking and financial services in the country and abroad:

- Receiving cash deposits,
- Granting of loans and other placements on its own behalf and for its own account,
- Issuing means of payment in the form of electronic money,
- Issuing guarantees and other commitments,
- Factoring,
- Finance leasing,
- Lending, including customer loans, mortgage loans and financing commercial transactions (including forfeiting),
- Trading on its own behalf and for its own account or on its own behalf and for the account of the client: money market instruments and other transferable securities, foreign currencies, including currency exchange, financial futures and options, currency and interest rate instruments,
- Payment transactions in the country and abroad in accordance with special laws,
- Collection, analysis and provision of information on the creditworthiness of legal entities and natural persons who perform activities independently,
- Issuing and management of payment instruments,
- Rental of safe deposit boxes,
- Representation in insurance,
- Receipt and transfer of orders in relation to one or more financial instruments,
- Execution of orders on behalf of clients,
- Trading for own account,
- Underwriting services, i.e. the sale of financial instruments with a purchase obligation,
- Underwriting Services, i.e. the sale of financial instruments without a purchase obligation,
- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash management and security instruments,

SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

- Providing loans to investors to allow carrying out transactions with one or more financial instruments, if the transactions involve a company that grants loans,
- Foreign exchange services, if related to the provision of investment services,
- Services related to underwriting or selling financial instruments with a purchase obligation.

In accordance with the National Classification of Activities, the activities of Croatia banka are defined as: 64.19 Other monetary mediation.

In 2019, Croatia banka performed its services in the Republic of Croatia.

Ad.2.

In 2019, Croatia banka realised a total net income of HRK 69,046 thousand.

Ad.3.

As at 31 December 2019, Croatia banka had 162 employees based on the number of hours of work, and at the end of 2018 the number of employees was 164.

Ad. 4.

Income tax is based on taxable income for the year and comprises current and deferred tax. In 2019, the Bank realised a tax profit of HRK 2,097 thousand. No income tax was paid as the Bank used the tax relief from previous periods.

The amount reported under income tax relates to net deferred tax assets on prepaid/paid benefits.

Ad.5.

In 2019, Croatia banka did not receive any state subsidies.

REGISTERED OFFICE

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Telephone	0800 57 57
Fax	01 2391 244
E-mail	info@croatiabanka.hr
IBAN:	HR0324850031000009027

BUSINESS NETWORK

City	Address	Telephone	Fax
Čakovec Branch	Ulica Ivana Mažuranića 2 40000 Čakovec	040 310 160 040 311 672	040 310 643
Osijek Branch	Ulica Josipa Jurja Strossmayera 4 31000 Osijek	031 203 001 031 203 005	031 203 002
Pula Branch	Istarska ulica 14 52100 Pula	052 451 202 052 451 304	052 451 505
Slavonski Brod Branch	Trg Ivane Brlić Mažuranić 15 35000 Slavonski Brod	035 442 112	035 442 110
Požega Outlet	Cehovska ulica 3 34000 Požega	034 274 460	034 274 440
Split Branch	Ulica Domovinskog rata 49A 21000 Split	021 539 795	021 539 794
Vinkovci Branch	Duga ulica b.b. 32100 Vinkovci	032 331 377 032 331 453	032 331 213

City	Address	Telephone	Fax
Virovitica Branch	Trg kralja Zvonimira 10 33000 Virovitica	033 725 441	033 725 602
Vukovar Branch	Josipa Jurja Strossmayera 5 32000 Vukovar	032 450 520	032 450 490
Šubićeva Outlet, Zagreb	Šubićeva 67 10000 Zagreb	01 4623 024	01 4623 027
Sky Office Outlet	R.F. Mihanovića 9 10110 Zagreb	01 2391 294 01 2391 282	01 2391 240
Saleo corporate customers	R.F. Mihanovića 9 10110 Zagreb Sky Office Tower	0800 57 57	01 2391 288
Županja Branch	Strossmayerova 5 32270 Županja	032 831 051	032 833 424