



ANNUAL REPORT 2019

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## ANNUAL REPORT 2019

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Koprivnica





**REPORT OF THE CHAIRMAN  
OF THE SUPERVISORY BOARD  
AND REPORT OF THE  
MANAGEMENT BOARD**





# REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

On behalf of the Supervisory Board of the Podravska banka and myself, I present you the 2019 business results of the Bank. In a highly competitive financial environment, the Podravska banka accomplished a remarkably good result and maintained its position as the leading small bank in the Croatian financial market.

Regarding the general economic environment in 2019, positive macroeconomic trends were recorded, despite the increase in the level of general government debt and public debt. Croatian economy grew at a rate of 2.9% with the largest positive contribution from exports of goods and services and personal consumption. The trend of positive movements in the labour market continued, along with the reduction of the unemployment rate and wage growth.

In March 2019, after seven consecutive years, Croatian credit rating was upgraded to investment grade.

According to all main indicators, the Croatian economy in 2019 was solid and balanced. Growth is accompanied by the surplus in the current account of the balance of payments, fuelled by a large inflow of value added tax revenue. Gross external debt has been reduced by about seven percentage points over the previous year and amounts to about 75% of GDP.

Coronavirus pandemic outbreak, in February 2020, presents a great challenge for Croatian as well as world economy. According to projections, a decline of 1.9% in the global economy is expected, while the decline for Croatian economy is estimated to be about 9% - 10%. The second wave of the coronavirus pandemic is not included in this estimation, which leaves the possibility that the economic decline of year 2020 will be even greater than 10%.

As already mentioned Podravska banka managed to achieve good business results and made a net profit of HRK 21.3 million. By size of assets, the Bank is ranked 11th, while in terms of the size of the total capital it occupies the 9th place, among 20 banks operating in the Croatian market. The total assets of the Bank at the end of 2019 amounted to HRK 3.62 billion, an increase of 7.9% over the previous year. Revenues from the Bank's regular operations amounted to HRK 139.6 million.

The Bank remains highly capitalized in relation to the risks to which it is exposed to and the regulatory capital ratio at the end of 2019 was 18.4%. Regulatory capital at the end of 2019 was HRK 491.2 million.

During 2019, the Bank continued its activities to improve technological support in all business segments. In the forthcoming period, the Bank will continue to effectively manage the risks by continuous improvement of processes, methodologies, models and controls. The Bank will continue to have a primary focus on the needs of its clients and, accordingly, develop products in order to maintain long-term relationships with clients. It will strengthen commercial activities towards both the retail and corporate sectors, avoiding highly concentrated placements. Great effort and resources will be devoted to significant investments in strengthening the bank's digitalization.

Through active risk management, market diversification and quality service improvement, Podravska banka holds its position as a leading small bank in the Croatian banking market. With the further strengthening of commercial activities as well as

the optimization of business processes and costs in all business segments, a special emphasis will be placed on the Treasury's operations in the area of investment and securities portfolio management.

On behalf of the Supervisory Board, I would like to express my gratitude and give my acknowledgement to the management and all employees of the Podravska banka for their dedication and contribution to the business. I would also like to express my gratitude to all colleagues in the Supervisory Board for actively supporting the development of the Bank, as well as to the members of the Risk and Audit Committee on advice and input.

Miljan Todorovic  
Chairman of the Supervisory Board



## ANNUAL REPORT OF THE MANAGEMENT BOARD

The Management Board of Podravska banka d.d. presents the results of its operations for the year 2019.

According to the available data, global economic growth decelerated in 2019 from 3.6% to 2.9%, primarily as the consequence of weaker global trade and the fall in demand for capital goods, cars and car parts, as well as the negative performance of some emerging market countries, such as India, Mexico and the Republic of South Africa. The cause of weaker trade can also be found in rising trade protectionism and political uncertainties arising from the UK's exit from the EU. According to IMF estimates, the main contribution to global growth in 2019 again came from emerging market economies, which grew by 3.7%. By contrast to the year before, in 2019, economic growth in the USA started to converge towards its potential rate and slowed from 2.9% to 2.3%.

The European Central Bank (ECB) and the IMF have announced that in 2019, according to the available data, the Eurozone economy grew by 1.2%, while growth in the group of European emerging market economies stood at 1.8%. Eurozone growth in 2019 was marked by divergent trends in the largest member states. For example, according to preliminary data, growth in Germany was only 0.5% and the Italian economy stagnated. By contrast, economic growth in France and Spain was relatively dynamic.

Due to the accommodative monetary policies of central banks worldwide, financing conditions were relatively favourable, except in several unstable emerging market economies. The IMF estimates that global growth would have been lower by 0.5% without these stimulus measures. In the USA, the Fed lowered its interest rates on three occasions in the last year and eased its monetary policy, while the ECB kept its own policy unchanged, but at the same time launched the quarterly targeted long-term refinancing operations (TLTRO III) programme in September.



In the Republic of Croatia, according to the available data, GDP grew by 2.9% in 2019. The largest positive contribution to GDP growth and the budget surplus resulted from the growth in the export of goods and services and a positive contribution was also made by domestic demand and investments. Other macroeconomic indicators also showed positive shifts. The registered unemployment rate fell to 7.9% in the last quarter of 2019 whilst there was an increase in wages, and a rise in inflation of 0.8%.

Following a surplus in 2018, the government budget probably ran a slight deficit of 0.1% of GDP in 2019. The credit default swap (CDS) value dropped, standing at 63 bps at the end of 2019, down from 96 bps at the end of 2018.

Standard & Poor's and Fitch upgraded Croatia's credit rating from BB+ to BBB– in the first half of the year (raising the country's credit rating to investment grade after a period of several years), while Moody's changed the country's outlook from stable to positive, maintaining the credit rating two notches below investment grade, at Baa2.

The Croatian banking system remains stable, highly capitalised and liquid. According to unaudited data, the total capital adequacy of the system in 2019 stood at 23.2%. In total, 20 banks and three housing savings banks were operating in the Croatian market at the end of the year.

With regard to 2020, in April 2020, following the start of the global health crisis due to the outbreak of the coronavirus pandemic, Fitch Ratings estimated that the global economy will probably sink into recession. According to this agency's forecasts, global GDP might decline by 1.9%, with US GDP expected to decline by 3.3% and the Eurozone GDP by 4.2%. It is also possible that China's recovery from the disruptions caused by the pandemic will slow down and annual growth of the Chinese economy in 2020 will be around 2%. Before the outbreak of the world health crisis, Fitch forecasted Croatia's GDP growth at 2.5% in 2020, but in early April, due to the new circumstances, it estimated that Croatia's GDP will fall by 5.5%.

In the macroeconomic environment in 2019 described above, Podravska banka achieved one of its best business results.

Podravska banka continued enhancing its commercial activities across the entire territory of the Republic of Croatia. The Bank also continued its activities in improvement and development of products and services, organisational restructuring, education of its staff, and new employment opportunities, and worked continuously to optimise its operating costs.

In terms of assets, at the end of 2019, the Bank ranked 11th, and in terms of total capital, it ranked 9th out of a total of 20 banks in Croatia. At the end of 2019, the Bank's total assets amounted to HRK 3.62 billion, which is an increase of 7.1% over the prior year. Total customer deposits increased by 8.7% year-on-year and amounted to HRK 2.66 billion. Retail deposits as a proportion of total deposits increased by 4.6% compared to 2018. Retail deposits accounted for 69.8% and corporate deposits represented 27.8% of total customer deposits.

With regard to lending, total net loans to customers were up by 12.3%, with retail loans up 16.1%, and corporate loans increasing by 9.7%. The shares of loans to individuals and corporate customers out of the total loans changed from the previous year, with the first having increased by 1.6 percentage points and accounting for 47.6%, and the latter decreased and represented 48.3% of total loans.

The Bank remains highly capitalised taking into consideration the risks to which it is exposed, with a regulatory capital rate peaking at 18.4% at the end of 2019. The regulatory capital at the end of 2019 amounted to HRK 491.2 million.

The income from the Bank's regular operations stood at HRK 139.6 million. Net interest income accounted for 59%, net fee and commission income represented 17%, and other income accounted for 24% of operating income, which mostly related to financial income. The profit for the year amounts to HRK 21.3 million.

In 2019, the Bank continued to work on improving its IT support in all business segments, including qualitative improvements to risk management. The risk management framework has been designed in accordance with regulatory quantitative and qualitative requirements through the system of internal acts, organisation and control mechanisms, which include risk concentration, validation and assessment, and the risk appetite of individual business segments. The Bank seeks to manage its risk effectively by continuously improving its processes, methodologies, models, controls and systems.

In the forthcoming period, Bank operations will be strongly affected by the external factors connected with the world health crisis. The Bank will primarily try to provide support to its customers within the framework of the measures adopted by government authorities concerning the overall health crisis issue and seek to support commercial activities within the limitations.

As in previous business years, the activities of the Financial Markets Division will play a key role, mainly by ensuring sufficient liquidity and sources of funding for the continued and stable operation of the Bank. The Bank will remain committed to meeting the needs of its customers and developing its lines of products and services with the aim of maintaining and improving long-term customer relationships. In this regard, there are plans for significant investments in digitalisation of processes.

Finally, I would like to take this opportunity to thank all our customers and business partners for the trust they have placed in us as well as for their cooperation, which creates a responsibility for us to continue improving our business relationships.

I also wish to thank our shareholders and the Members of the Supervisory Board for their exceptional cooperation and support, and all the Bank's employees for their effort and commitment.

Goran Varat  
President of the Management Board



Zagreb





# DESCRIPTION OF OPERATIONS





## GLOBAL ECONOMY IN 2019

The slowdown in the growth rates of the global economy that marked 2018 continued in 2019. Thus, the USA, which stood out among the developed economies in terms of growth in 2018, started the convergence towards its potential growth rate (from 2.9% in 2018 to 2.3% in 2019). This was primarily the consequence of weaker global trade as a response to the strengthening of trade protectionism and the fears concerning the UK's exit from the EU. The monetary policies of central banks worldwide were expansionary, which made the cost of financing relatively favourable. The main components of growth in 2019 were personal consumption, fuelled by favourable conditions in the labour market and government consumption, coupled with slower investment activity. Inflationary pressures remained subdued, taking into account the fall in the prices of crude oil and the previously mentioned slowdown in economic growth.

From the beginning of the year, economic activity in the Eurozone was characterised by divergent trends between export-oriented economies, such as Germany, and economies that are more oriented towards the service sector and domestic demand, such as France. Within the EU, a significant decline in activities was recorded in Croatia's main trading partners, Germany and Italy.

The slump in foreign demand and the fall in car sales in the global markets, in particular China and the Eurozone, led to a sharp drop in the production of the German manufacturing industry. In 2020, inflation in the Eurozone might remain below the ECB target while inflationary pressures are expected to diminish even more (according to the latest ECB projections, after 1.8% in 2018 and 1.2% expected in 2019, inflation should dip further to 1.0% in 2020).

In the group of developing countries and emerging market countries there was a noticeable slowdown in growth in the first nine months of 2019 compared with the previous years' performance. The Chinese economic slowdown continued, driven by accumulated macroeconomic imbalances and the trade tensions with the USA. The Chinese economy grew by 6.0% on an annualised level in the third quarter of 2019, which was the lowest rate of the last several decades. Growth deceleration in emerging market countries was also largely a result of the economic slump in India, owing to structural weaknesses, particularly in the financial sector, and the downturn in the crisis-hit markets, such as Turkey, Iran and Argentina.

The most recent IMF projections (WEO, January 2020) suggest that global economic growth might decelerate significantly in 2019, to 2.9% (from 3.6% in 2018), the lowest growth rate since the global financial crisis.

The global economic growth outlook for 2020 has deteriorated significantly under the impact of the outbreak of the global coronavirus pandemic. The credit rating agency Fitch estimates that the impact of the health crisis on the global economy will be at the level of the 2008 financial crisis, but that the unfavourable impact on global economic activity and job losses in the first half of the year will be even more pronounced and it forecasts a 1.9% decline in the global economy. The final performances of the individual economies will greatly depend on the duration of the health crisis and the measures that individual governments take to subdue the crisis, and on fiscal and monetary policies to support such economies.

## CROATIAN ECONOMY IN 2019

The monthly indicators available for the fourth quarter of 2019 point to a slowdown in the growth of economic activity on a quarterly level, with real GDP growth in 2019 as a whole standing at 2.9%. Consumer price inflation accelerated from 0.7% in November to 1.4% in December. The biggest contribution to this increase came from food and refined petroleum products (as a result of the base period effect). Inflation decelerated to 0.8% on an annualised basis, mostly as a result of a decrease in the contribution of energy prices and a cut on VAT on food and pharmaceutical products. Financing costs mostly continued to decrease, reflecting the accommodative monetary policy. The annual growth of bank placements accelerated to 4.2% at the end of 2019, as a result of the growth of retail and corporate lending. The stronger growth of retail lending was spurred predominantly by the continued acceleration of annual growth of housing loans and to a lesser degree of general-purpose cash loans.

According to CNB estimates, economic activity slowed down at the end of 2019 from the previous quarter. Industrial production decreased by 1.4% in the last quarter of the previous year. Broken down by main industrial groupings, all MIG components registered a decline in production, except for durable consumer goods. In contrast, construction and trade saw favourable developments. The growth of construction activity thus intensified in October and November compared to the previous three months, during which it increased by 1.4%. The volume of construction works increased both in the segment of buildings and in civil engineering works. Real retail trade growth also accelerated, increasing by 1.5% in the last quarter from the prior quarter.

The results of the consumer confidence survey show that consumer optimism continued to improve in October and November 2019, reaching record highs in the history of the household optimism survey. Growth in optimism was the result of the improvement of all index components. With regard to business optimism, business entities' expectations were also high relative to the historical average over several years. In the last three months of 2019, expectations increased in all activities except construction.

Favourable trends continued in the labour market, i.e. growth in the number of employed persons and wages and a fall in the unemployment rate. Favourable labour market trends marked the end of 2019. In the fourth quarter, the growth of employment accelerated on a quarterly basis. The number of employed persons rose mostly in construction, information and communication, and trade. The number of employed persons in industry also increased after two consecutive quarters of decline. The fall in registered unemployment also accelerated in the last quarter of 2019. The decrease in unemployment was equally due to the increased clearings from the Croatian Employment Service (CES) records and new employment. The end of the year was marked by a slowdown in the growth of the nominal gross wage (0.4% compared to 1.1% in the third quarter), due to wage stagnation in the private sector, while wage growth in the public sector accelerated.

At the end of 2019, the exchange rate of the kuna against the euro was stable. The daily nominal exchange rate in December moved within a narrow band of  $\pm 0.1\%$  around its average value of EUR/HRK 7.44. At the end of December, the nominal exchange rate stood at EUR/HRK 7.44, slightly higher than at the end of January of the previous year.



Short-term interest rates on the European money market remained in negative territory at the end of 2019, influenced by the expansionary monetary policy of the ECB and high liquidity in the Eurozone banking system. The overnight interest rate on the Eurozone banking market, EONIA, ended the month of December at -0.45%, and the six-month EURIBOR at -0.32%.

Risk premiums for all European emerging market countries were favourable at the end of last and at the beginning of this year, Bulgaria, Croatia and Hungary boasting the greatest risk reduction. The risk premium for Croatia stood at 63 basis points at the end of December 2019, compared with 96 basis points at the end of 2018.

The turnover in the domestic interbank overnight market at the end of 2019 was very modest due to the record high system liquidity and the central bank's expansionary monetary policy. The cost of short-term government debt ranged close to 0%, and the average surplus liquidity of the domestic banking market stood at HRK 38 billion in January 2020.

In 2019, the interest rates on retail and corporate loans continued a downward trend, while there was a mild increase in the interest rates on original new housing loans. Interest rates on deposits also continued to decrease, consequently recording a trend of liquidity shifting away from term deposits to demand deposits.

The general government surplus rose from July to September to HRK 6.2 billion compared to HRK 5.1 billion in the same period of 2018. Such developments reflect a faster growth in total revenues than in expenditures. Total general government revenues thus increased by 8.1% in the period from July to September, largely driven by the increase in VAT revenues, brought about in turn by the growth in personal consumption and last but not least by other current revenues and revenues from the sale of goods and services. Total revenues increased by 6.6%, predominantly due to government investments, subsidies paid and capital transfers.

According to data from the Ministry of Finance of the Republic of Croatia for October 2019, a surplus of HRK 1.3 billion was generated on a consolidated central government level, lower than that registered in the same month of the prior year. Consolidated general government debt totalled HRK 298.1 billion at the end of October 2019, up some HRK 12 billion from the end of 2018. Despite the favourable influence of economic growth, the public debt-to-GDP ratio increased slightly in October to 75.3% of GDP, from 74.7% at the end of 2018.

## CROATIAN MACROECONOMIC INDICATORS

	2019	2018	2017	2016
GROSS DOMESTIC PRODUCT, HRK BILLION AT CURRENT PRICES	396.4 <sup>1</sup>	382.6	366.4	351.2
GROSS DOMESTIC PRODUCT (GDP), % CHANGE	2.9	2.6	3.1	3.5
GDP PER CAPITA, IN EUR	13,193 <sup>1</sup>	12,621	11,907	11,174
PERSONAL CONSUMPTION, % CHANGE	3.5	3.2	3.2	3.1
PUBLIC CONSUMPTION, % CHANGE	3.2	1.3	2.2	0.5
INVESTMENTS, % CHANGE	8.2	4.1	5.1	6.5
EXPORTS OF GOODS AND SERVICES, % CHANGE	3.7	3.7	6.8	7.0
IMPORTS OF GOODS AND SERVICES, % CHANGE	5.3	7.5	8.4	6.5
INDUSTRIAL PRODUCTION, % CHANGE	0.5 <sup>1</sup>	-1.0	1.9	5.0
UNEMPLOYMENT RATE (ILO) (% OF ACTIVE POPULATION)	6.7	8.4	11.2	13.1
CONSUMER PRICES, % CHANGE	0.8	1.5	1.1	-1.1
GENERAL GOVERNMENT BUDGET BALANCE (% GDP)	-0.1	0.3	0.8	-1.1
BALANCE OF PAYMENTS ON CURRENT ACCOUNT (% GDP)	1.9	1.9	3.4	2.1
EXTERNAL DEBT (% GDP)	75.7	82.8	88.9	95.9
CURRENCY EXCHANGE RATE: EUR, YEAR AVERAGE	7.41	7.41	7.46	7.53

Data source: Croatian National Bank

<sup>1</sup>Estimate – Addiko Economic Research

In 2020, after the outbreak of the health crisis, the cost of government borrowing on average increased by about 1%. Taking into account the economic measures announced, a significant rise in the country's public debt and an increase in government budget deficit is expected. In addition, apart from the growth in the cost of government borrowing and a decline in GDP, the depreciation of the exchange rate of the kuna against the euro and the US dollar is expected to have an additional effect on the public debt-to-GDP relative ratio.

Based on the new circumstances, the credit agency Fitch Ratings revised the credit rating of the Republic of Croatia, maintaining the country's credit rating at investment grade (BBB-), but downgrading the outlook from positive to stable. The CNB eased its monetary policy further and placed additional liquidity into the system through further measures and at the same time conducted foreign exchange interventions to defend the significant depreciation of the exchange rate of the kuna against the euro.

# DESCRIPTION OF BANK OPERATIONS

## PRODUCTS AND SERVICES

In accordance with the strategic guidelines of Bank operations, intensification of commercial activities continued in 2019, directed at the retail and small and medium-sized enterprises (SMEs) sectors. Despite the strong competition and regulatory requirements, which generate considerable costs and impact the profitability, the Bank realised growth in the strategic segments of operations.

The Bank has successfully responded to the growing needs and expectations of individuals, small entrepreneurs and businesses, as well as target customers, by advancing its offer and investing in the development of new technologies, so that competitiveness and adaptability have become the underlying principles of the provision of financial support to customers.

The ongoing monitoring of market trends helped identify positive movements in individuals' consumption (as a result of lifting the tax burden on personal income, the higher GDP, the good tourist season, etc.), which the Bank has recognised as an opportunity for growth. The strong focus of activities on the retail sector reflects the Bank's desire to provide its services as effectively and as broadly as possible to the largest number of customers from different generations, and to be the institution that sees this as its strongest niche and source of long-term sustainable profitability.

The trend of growth continued in the retail segment through larger investments in marketing, continuous monitoring of competition, adjustments of the offer to the expectations of the target market, improvements in business processes, the development of new products, and the education and motivation of the sales force.

The adjustment to the changes in the environment, as well as consumer expectations, were the main determinants that shaped the activities of the management of products and services in the course of the previous year. For this reason, the Bank intensified its activities in the investment products and services segment. These intensified activities resulted in the confirmation of the Croatian Financial Services Supervisory Agency and the accreditation of internal qualifications for the education of staff for the sale of investment and investment-savings products. These products and services are an important part of the Bank's offer, meaning that the development of this segment of operation will continue in 2020 by focusing on the strengthening of the deposit base and further growth of total deposits.

The Bank also continues receiving deposits from German citizens using a web-based platform it operates together with Raisin GmbH, a market leader in this type of business in the German market. This allows German customers to invest their funds in EU member states through a sophisticated online platform.

In the retail segment, in addition to cash and housing loans, 2019 was also marked by the demand for tourist loans and energy efficiency project funding loans for multi-storey buildings, which the Bank also recognised as an additional opportunity to acquire new customers, both individuals and businesses engaged in residential facility management.

In 2019, in the segment of card operations, the Bank implemented additional authorisation for card transactions (Mastercard, Maestro and VISA) during online purchases



(3D Secure Issuing service). The Bank also implemented the contactless acquiring of cards in the Bank's EFTPOS network and migrated the cards to contactless functionality (Mastercard, Maestro and VISA).

The project to replace the entire ATM network was launched in order to provide customers with a technologically higher level of functionality and enhance their user experience. By observing the trends in digital technologies, which are required for better and faster communication with customers, the Bank has been continually improving its technological processes, resulting in the improvement of customer relationship management, profitability management, sales channels management and product and service management.

The Bank participated in the programme of the Real Estate Agency (APN) for the financing of the purchase of real estate, i.e. the building of houses through subsidised housing loans, as an assistance measure by the Government of the Republic of Croatia to facilitate the meeting of Croatian citizens' housing needs through the partial repayment of housing loans. The Bank continues its participation in the programme in 2020, and it has also engaged in similar local programmes on subsidised housing loans. In cooperation with the Ministry of Tourism and the Croatian Bank for Reconstruction and Development (HBOR), the Bank has also been active in the programme of lending for private accommodation rentals. The goal of the programme is to harmonise the standards of accommodation facilities in which hospitality services are provided by households, to raise the overall level of quality and additional private accommodation offer, and finally to improve the occupancy rates and strengthen year-round tourism. In addition, in 2019, the Bank concluded the Business Cooperation Agreement with the Koprivnica-Križevci County on granting housing loans to physicians employed at health institutions founded by the County, in which the local government and self-government subsidises interest rates in the amount of 1.5% over the period of seven years.

Despite the complex situation in the banking market, Podravska banka continued its upward trend in placements in 2019, thanks to the additional strengthening of the segment of micro-enterprises and SMEs, while successfully retaining existing customers and acquiring new ones in the targeted market group. The competition of large banks coupled with the decrease in the cost of money on the interbank level, in particular in large legal entities, had an additional impact on the downward trend in lending interest rates.

In corporate lending in 2019, the Bank additionally focused on the more profitable market segments while maintaining the existing customers – business entities – and turned to customers with smaller exposures and profitable businesses. The Bank's strong progress in previous years, and in particular in 2019, in segmenting its credit portfolio by shifting the structure of its exposure towards quality investments and good collateral coverage, has produced results in the form of an improved credit portfolio and improved collection. In 2019, the Bank continued the implementation of the policy of reducing large exposures to individual customers, additionally strengthened collaterals and worked towards its exit from certain placements in which the Bank does not recognise long-term sustainability or the possibility of strengthening a profitable operation.

The Bank had significant business cooperation with HBOR by renewing the framework credit programmes for working capital and investments directed at the SME market. Through its cooperation with HBOR, the Bank supports entrepreneurs in implementing their entrepreneurial projects, which bring new jobs and create added

value. At the end of 2019, the Bank and HBOR signed a new credit programme for working capital intended for exporters as an additional measure to stimulate and offer lending for SME exports.

Business cooperation continued with the Croatian Agency for SMEs, Innovation and Investments (HAMAG-BICRO), which the Bank works with to support SMEs by issuing government guarantees for credit programmes and/or activities whose development is supported by the Republic of Croatia. Through their joint cooperation, the Bank and HAMAG-BICRO support business entities in agriculture and related activities, as well as any other entrepreneurs with eligible projects that invest in the territory of the Republic of Croatia.

In cooperation with the local government and self-government, the Bank implemented credit programmes in 2019, in which the local government and self-government subsidised the interest on entrepreneurial loans, all with the aim of strengthening economic activities in local areas. In accordance with the above, the Bank has agreed business collaborations with the Ministry of Entrepreneurship and Crafts and counties in different programmes, such as A Credit to Competitiveness, which provides entrepreneurial credits for certain less developed areas. In this way, the Bank has expanded a good quality and long-term sustainable customer base and focused on creditworthy customers with good entrepreneurial investments, i.e. strengthening investments in entrepreneurs' capital assets and working capital.

The Bank increasingly engaged in the financing of projects from certain growing activities, such as tourism, environmental management and protection, energy projects, projects in agriculture, i.e. healthy food production. Projects are also supported through shorter maturity bringing more favourable financial results and the coverage by government guarantees minimising risk.

An upward trend in corporate loans was recorded in 2019 as a consequence of the market recovery, the utilisation of EU funds and the demand for structured loans that support new investments.

By means of its POBA EU Desk, the Bank provides expert guidance through the complex tender procedure to interested craftsmen, farmers, SMEs and large entrepreneurs. If a customer wishes to submit a development project to one of the tenders for the absorption of EU funds, such a customer is assisted from the beginning to the end – from timely information on open and expected tenders, to the preparation of the project application and expert and specialised counselling to enhance the prospects of winning the tender. Customers can obtain information about all open tenders for EU funds, as well as tenders in the pipeline, the possibilities of utilising grants from EU funds, deadlines for calls for tenders and how to apply, etc.

The digital strategy is the central element of the Bank's business strategy for the coming years. Since today's consumers demand a simple and modern interaction with the Bank, the Bank's aim is to enhance their user experience (through a fluid use of all distribution channels), and to optimise business processes. In addition to a competitive offer, a recognisable brand and a stable customer base, we continue to develop our operations to improve the products and services portfolio and business processes, as well as to develop and integrate all of the Bank's digital channels.

## DEPOSIT OPERATIONS

As at 31 December 2019, total customer deposits stood at HRK 2.71 billion, having increased by 2.2% from 2018.

Based on the maturity structure, relative to the end of the previous year, demand deposits increased noticeably by 31.6% (totalling HRK 1.6 billion), and term deposits decreased by 11.3% (totalling HRK 1.1 billion), which is a direct consequence of the historically low interest rates present in the Croatian market in 2019.

Analysing the structure of received deposits by sector, at 31 December 2019, corporate deposits stood at HRK 757 million, and retail deposits amounted to approximately HRK 1.9 billion.

In 2020, the Bank intends to stimulate the receipt of new retail deposits with longer maturities through its offer and continue the development of the investment-savings segment of its products and services, with the aim of broadening the offer and ensuring the loyalty of the new and the old customers to the Bank. At 31 December 2019, customer assets under custody stood at HRK 727.6 million, of which HRK 133.1 million are funds originating from the Croatian market, assets worth HRK 25.7 million are in the territory of Montenegro, and other foreign assets represent the amount of HRK 568.8 million.

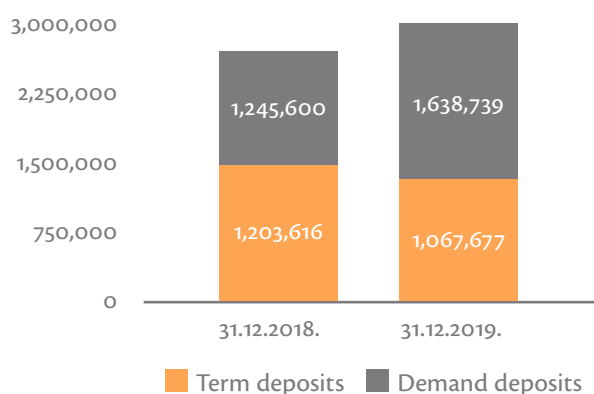
CUSTOMER DEPOSITS, AMOUNTS IN HRK 000			CHANGE
	31/12/2019	31/12/2018	2019/2018
RETAIL	1,949,358	1,906,698	2.24%
CORPORATE	757,058	542,518	39.55%
<b>TOTAL DEPOSITS</b>	<b>2,706,416</b>	<b>2,449,216</b>	<b>10.50%</b>

CUSTOMER TERM DEPOSITS, AMOUNTS IN HRK 000			CHANGE
	31/12/2019	31/12/2018	2019/2018
RETAIL	870,472	1,047,987	-16.94%
CORPORATE	197,205	155,629	26.71%
<b>TOTAL TERM DEPOSITS</b>	<b>1,067,677</b>	<b>1,203,616</b>	<b>-11.29%</b>

CUSTOMER DEMAND DEPOSITS, AMOUNTS IN HRK 000			CHANGE
	31/12/2019	31/12/2018	2019/2018
RETAIL	1,078,886	858,711	25.64%
CORPORATE	559,853	386,889	44.71%
<b>TOTAL DEMAND DEPOSITS</b>	<b>1,638,739</b>	<b>1,245,600</b>	<b>31.56%</b>



#### CUSTOMERS DEPOSITS, IN HRK 000



## LENDING

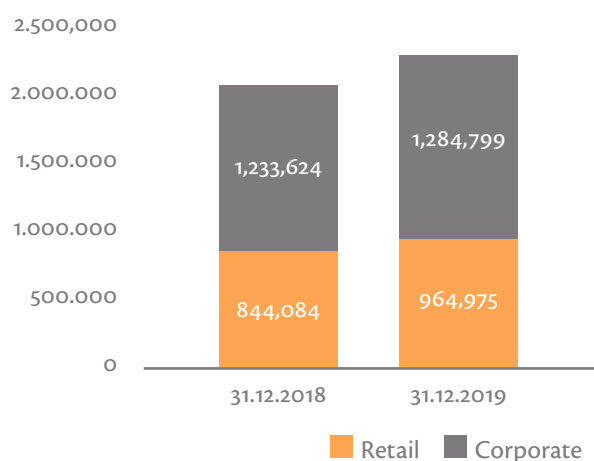
At 31 December 2019, total gross loans to customers stood at HRK 2.3 billion, or 8.3% higher than at the end of 2018. If analysed by sector, at 31 December 2019, corporate loans stood at HRK 1.3 billion and retail loans stood at HRK 965 million.

A slight growth in loans to corporates of 4.2% was observed in 2019, which was the result of the market recovery and the demand for structured loans that support new investments in housing construction, tourism and energy.

Retail loans grew 14.3% from the end of the previous year.

	TOTAL LOANS TO CUSTOMERS, AMOUNTS IN HRK 000		CHANGE
	31/12/2019	31/12/2018	2019/2018
TOTAL LOANS, GROSS	2,249,774	2,077,708	8.28%
OF WHICH RETAIL	964,975	844,084	14.32%
OF WHICH CORPORATE	1,284,799	1,233,624	4.15%
TOTAL LOAN PROVISIONS	-222,828	-243,062	-8.32%
TOTAL LOANS, NET	2,026,947	1,834,646	10.48%

#### LOANS TO CUSTOMERS, IN HRK 000



## FINANCIAL MARKETS DIVISION

The Financial Markets Division continued to operate in an environment of historically low yields and the low cost of money, allowing positive business results to be reported by all of the Treasury's desks.

The surplus of the kuna-denominated funds was invested mainly in short-term bond funds, government bonds in the capital market, domestic and foreign equity securities focusing on issues with a substantial dividend yield and, to a lesser extent, deposits and reverse repo transactions with money-market participants.

Taking into account the divergent monetary policies of the Fed on one side and the ECB and the CNB on the other side, in 2019, the emphasis was on investing in dollar issues in the market of fixed yield and short maturity instruments. The consequence of such a strategic decision was the increase in the dollar share of the portfolio to almost 20%, which eventually led to a significant rise in the profitability of the overall portfolio, as well as to shortening the average maturity, since most of the issues purchased had a very short duration. The interest rates on Treasury's deposits remained very low so that the total number of corrections on savings approved in 2019 was low.

In addition to the above, the Financial Markets Division also initiated the replacement of one of the existing trading platforms at the Treasury Division, resulting in the generation of recurrent annual savings, without the loss of functionality and coupled with the improvement of business processes.

At 31 December 2019, the market value of the debt securities portfolio of Podravska banka amounted to HRK 645.8 million, and at 31 December 2018, it was HRK 506.2 million. The currency structure of the portfolio of debt securities consisted of kuna-denominated instruments accounting for 54.3%, followed by EUR-denominated debt securities, which accounted for 23.2% and USD- and CHF-denominated instruments representing respectively 19.1% and 3.4%. By geographic exposure, the majority of the portfolio consists of issuers based in Croatia, followed by those from the USA and the EU.

At 31 December 2019, customer assets under custody stood at HRK 727.6 million, of which HRK 133.1 million were assets originating from the Croatian market, assets worth HRK 25.7 million were in the territory of Montenegro, and those in the amount of HRK 568.8 million were other foreign assets.

## PAYMENT OPERATIONS

Total external payment operations of Podravska banka d.d. stood at HRK 19.6 billion in 2019, or more than 3.3 million payment orders made. Thus, the Bank recorded an increase in the number of executed payment transactions on all payment operations channels of 6.4%, and of 4.8% in terms of value, from 2018. The simple act of payment using contactless cards, payment via mobile phone, as well as switching to digital e-commerce, demonstrate continued innovation and advancement of the offer of payment services implemented by banks. Podravska banka d.d. records constant growth in precisely such payments.

There was a significant increase in the number of customers' orders initiated using the POBAklik service. Domestic payment operations thus recorded an increase of 16.8% in volume and over 20.6% in value of payment transactions executed.

The growth in the number of active corporate customers engaged in cross-border and international payment operations continued, increasing by 12.5% compared to 2018. Based on customers' orders, the number of payment transactions executed in cross-border and international payment operations increased by 1%, and the value of payment transactions increased by 5.5% from the previous year.

In 2019, the Bank completed the PSD 2 directive project, which opens the Bank up to third parties for the initiation of payment transactions and provides an overall view of the payment account balances. The alignment with this directive is particularly interesting for customers because it is more cost-efficient, accessible 24/7 and raises the level of security and authentication of payments.

The business cooperation with Euroclear Bank Brussels continued successfully in 2019, especially in the settlement and the depository services involving equity and debt securities from the Bank's portfolio, brokerage and custody services. The value of the executed settlements of purchase or sale of securities on the above transactions stood at (in the kuna equivalent) over HRK 1.5 billion.

In Croatia, the Bank was an active participant in the capital market, with the payment transactions executed through the Central Clearing and Depository Company worth slightly over HRK 797 million, which is an increase of 34% compared with 2018. In accordance with its strategy and business plans, the Bank actively invested in foreign and domestic funds, buying and selling units/shares. Based on these transactions, the turnover was HRK 138 million. The total settlements of contracted purchases and sales of securities from the Bank's portfolio, brokerage and custody operations exceeded HRK 2.4 billion of the Bank's payment operations.

While strictly taking account of the costs of payment operations and adhering to the regulatory requirements of the internal payments market of the EU as well as following the trends in the market, the Bank harmonised the fees for the domestic and cross-border payment operations and, in December 2019, offered favourable fees for payment services provided to its customers. Customer satisfaction is demonstrated by the larger number of payment transactions and the opening of new transaction accounts.

## BUSINESS NETWORK AND DIRECT CHANNELS

At the end of 2019, the Bank's sales network consisted of a total of 22 branches spread across almost the whole of Croatia. Apart from the well-developed sales network, the Bank is also available to its customers through other distribution channels – POBAklik online banking and mPOBA mobile banking services, ATMs, day-night safety vaults and EFTPOS terminals. Business information is also available to the users of Bank's services through the Info Centre.

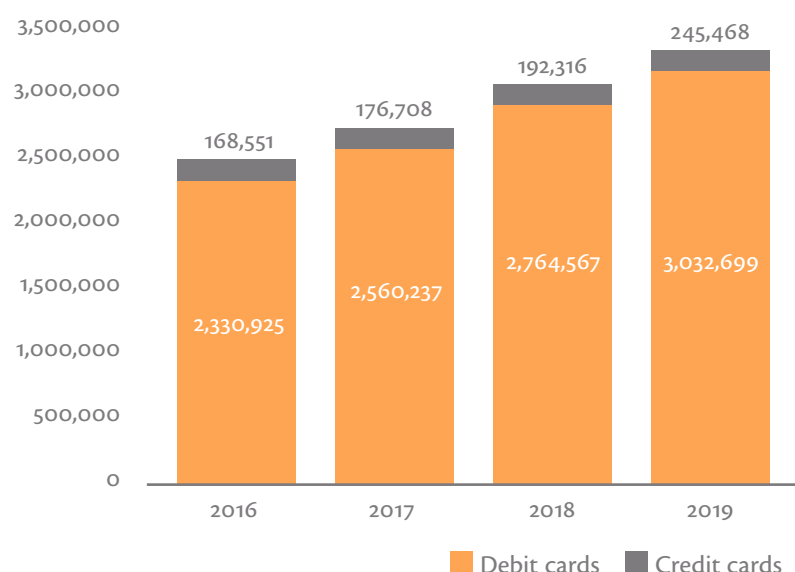
The Bank's ATM devices accept Maestro, MasterCard, VISA, American Express and Diners cards. In addition to the Bank's own ATM network, the Bank offers its customers free-of-charge cash withdrawals at over 1,000 ATMs within the MB NET throughout Croatia. The Bank has 544 installed EFTPOS terminals. In 2019, 587,000 transactions were executed through the Bank's own EFTPOS terminals, or 1,079 transactions per EFTPOS terminal on average.

The number of transactions executed using debit and credit cards is also increasing. At the end of 2019, compared to the previous year, the number of transactions ex-



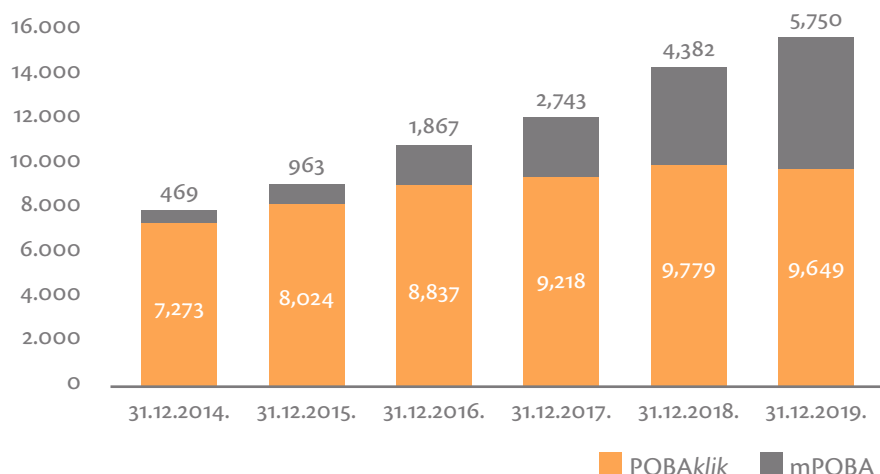
ecuted using debit cards increased by 9.7%, and the growth of transactions executed using credit cards stood at 27.6%.

#### NUMBER OF CARD TRANSACTIONS



The total number of users of electronic services increased by 8.7% by the end of 2019 compared with the previous year. The largest increase was recorded by the mobile banking service (mPOBA), which was used by over 30% more users than in 2018, while the number of online banking (POBAklik service) users held steady with a notably small decline due to the trend of existing users migrating to the benefit of the mobile banking service.

#### NUMBER OF USERS OF ELECTRONIC SERVICES



In the future, customer needs and preferences will be covered by integrated distribution channels. For this reason, within the scope of the digitalisation project as the Bank's strategic determinant, the Bank will continue improving its communication channels and customer follow-up activities at its branches, through the internet, self-service devices, the telephone, and mobile devices.



## ORGANISATION AND STAFF

At 31 December 2019, Podravska banka had 232 employees, which represents an increase of 5% from the previous year. In the course of 2019, the Bank employed 25 new employees, mostly specialists in the field of risk, IT and development and investment banking. During the same period, 15 employees left the Bank. The employee turnover rate at the Bank in 2019 was 6.6%. The average age of employees was 46, with female employees accounting for 72% of the total staff, and over 46% of the total number of employees having university undergraduate and graduate degrees. The front-office staff account for 62% of the Bank's employees.

The Bank continually optimises its business processes by implementing new software within the existing applications, which, in addition to certain organisational changes in operations, results in the improvement of business processes, increased efficiency and optimised operations. The Bank pays particular attention to the continuous advanced training of its employees through various forms of in-house and externally organised education. Thus, in 2019, 130 working days were dedicated to education, involving almost two thirds of the employees.

In 2020, the Bank intends to continue investing in the advanced training of its staff and potentially hire additional skilled professionals, mainly in the sales, risk management and IT areas. In parallel with investing in the advanced training of its staff, in dialogue with the Trade Union and in accordance with relevant regulations, the Bank also is continuing to improve the material position of its employees. The new Collective Agreement was concluded in late 2019, effective from 1 January 2020.

## CAPITAL

The Bank's shareholders' equity, net of the 2019 profit, amounts to HRK 454.4 million. This represents an increase of HRK 35.9 million, or 8.2% in total capital compared to the prior year, as a result of the increase in the positive fair value reserve on securities, the allocation of the entire previous year's profit to reserves and the business result generated for the current year. The Bank's shareholders' equity accounts for 13% of the total sources of funding.

At the end of 2019, the share capital amounted to HRK 267.5 million and consisted of 668,749 ordinary shares, each with a par value of HRK 400.00. At 31 December 2019, the Bank held 1,153 treasury shares, which it carries at cost.

A group of the Bank's foreign equity holders (both private individuals and legal persons), considered to form a single group, held 86.2% of the Bank's shares. No significant changes were recorded in the Bank's shareholder structure in 2019.

The Bank's regulatory capital at the end of 2019 amounts to a high HRK 491.2 million, of which HRK 410.5 million represents Core Tier 1 capital and HRK 80.7 million is Tier 2 capital. Tier 2 capital includes a respective share of subordinated bonds issued in the total amount of HRK 97.3 million.

The capital adequacy ratio (CAR) was 18.46% at the end of 2019.

## PROFIT AND LOSS ACCOUNT

In the current financial year, the Bank generated a pre-tax profit of HRK 27.4 million, with a net profit for the year of HRK 21.3 million, up by HRK 9.2 million, or 76.3% relative to the net profit generated in the previous financial year.

Operating income generated in the current year is 23.4% higher than in the previous year and totals HRK 147.1 million.

Net interest income increased by 14.1% from the previous year, largely owing to the significant decrease in interest expenses. Interest income increased by 4.8%, and savings of 27.8% were achieved in interest expenses when compared with the previous year. Thanks to the growth in total placement, mostly in the segment of retail lending, the Bank generated HRK 4.8 million higher interest income than in 2018. In terms of the structure of interest income, interest income from corporate customers accounted for 38.5%, retail accounted for 46.2%, and income from other customers accounted for the remaining share.

When compared with the previous year, the Bank generated savings of HRK 6.2 million on interest expenses. The most significant decrease in interest expenses was registered in retail deposit operations, where interest expenses decreased by HRK 4.2 million from 2018.

Net fee and commission income generated in 2019 stood at HRK 23.4 million, or up by 3.1% from the previous year. Lending charges and charges for card operations increased slightly, while at the same time income from charges for trading in securities and payment operations charges decreased.

Net interest income accounts for 60.2% and net fee and commission income represents 15.9% of the Bank's operating income. Net income from the sale of securities, net FX trading gains and other income account for 23.9% of the total operating income. Other net income of HRK 35.1 million consists mainly of net gains on securities of HRK 20.5 million and income from the purchase and sale of foreign currencies of HRK 5.6 million.

Operating expenses, which include depreciation and amortisation, increased by 4.7% compared to the previous year and amounted to HRK 96.6 million. Depreciation and amortisation expenses, standing at HRK 2.7 million, increased mainly as the consequence of the application of IFRS 16 Leases from 1 January 2019.

The impairment and provision charge stood at HRK 23.1 million for the financial year and was considerably higher than in 2018. The costs of provisions on customer loans account for the largest share, in the amount of HRK 22.4 million. At the end of 2019, the share of provisions in gross loans was 9.9%, while at the end of 2018 it was 11.7%. Costs of materials and services account for 46.7% and staff costs account for 53.3% of administrative expenses.

## MANAGEMENT AND GOVERNANCE

### Corporate Governance Code Statement

In accordance with the provisions of Article 272p, the Management and Supervisory Boards hereby declare that Podravska banka d.d. applies the Corporate Governance Code developed jointly by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange.

The completed 2019 Annual Questionnaire is an integral part of these Statements, also available on the Bank's website, which reflects the corporate governance practice at the Bank in relation to the recommendations contained in the Code, including explanations of certain derogations.

The information about internal controls and risk management as well as about the Bank's shareholders is provided in the Notes to the Financial Statements. The rules on the appointment and removal of Management Board Members are contained in the Bank's Statutes.

The number of Management Board Members is determined by the Supervisory Board, and pursuant to its decision, the Management Board of the Bank consisted of four Members until 18 April 2019, and since that date, the Management Board of the Bank has consisted of the President and two Members. The Supervisory Board adopts decisions regarding proposed Members and the President of the Management Board of the Bank, who must meet the requirements specified by the legislation governing banking operations and other relevant regulations.

Once the Croatian National Bank approves the candidates, the Supervisory Board appoints the President and Members of the Management Board with a mandate of up to five years, with the possibility of re-appointment. The Supervisory Board may withdraw its decision appointing the President or a Member of the Management Board for just cause as defined in the applicable legislation, and the President and Members of the Management Board may resign by providing a written notice.

The powers of the Bank's Management Board are defined in the Companies Act, the Credit Institutions Act, the Bank's Statutes, and a separate decision has been adopted regarding the segregation of the duties and responsibilities of the Management Board Members.

The Supervisory Board has nine Members that are elected and removed from office by the General Shareholders' Meeting. Two Members of the Supervisory Board are independent. Only those persons who meet the conditions prescribed by law and subordinate legislation regulating the operation of credit institutions and who have obtained the prior approval of the Croatian National Bank to perform the function of a Member of the Supervisory Board may be elected as Member of the Supervisory Board.

The powers of the Supervisory Board are regulated by law and subordinate legislation and the Bank's Statutes. In accordance with legislation, the Supervisory Board has established the Risk and Audit Committee as its ancillary body. Further information about the composition and activities of the Bank's Management and Supervisory Boards is provided in the enclosed Annual Questionnaire.

The rules applicable to amending the Bank's Statutes are provided in the Statute. Decisions on such amendments are adopted by the Bank's General Shareholders' Meeting in accordance with the applicable legislation and the Statutes by votes representing at least three-quarters of the share capital in a General Shareholders' Meeting at which such a decision is to be adopted.

Amendments to the Statutes may be proposed by the Supervisory Board, the Management Board or the shareholders of the Bank. In order to protect the interest of all investors, shareholders, customers, employees and other stakeholders, the Bank has implemented high corporate governance standards.





Split





**CORPORATE GOVERNANCE CODE –  
ANNUAL QUESTIONNAIRE FOR 2019**





# CORPORATE GOVERNANCE CODE – ANNUAL QUESTIONNAIRE FOR 2019

*All the questions contained in this questionnaire relate to the period of one business year, to which the annual financial statements also relate.*

## COMPANY HARMONISATION WITH THE PRINCIPLES OF THE CORPORATE GOVERNANCE CODE

1. **Has the company accepted implementation of the Code of Corporate Governance of the Zagreb Stock Exchange?**  
☒ YES ☐ NO
2. **Does the company have its own code of corporate governance?**  
☐ YES ☒ NO
3. **Have any principles of the Code of Corporate Governance been adopted as part of the company's internal policies?**  
☒ YES ☐ NO
4. **Does the company disclose harmonisation with the principles of corporate governance in its annual financial statements?**  
☒ YES ☐ NO

## SHAREHOLDERS AND GENERAL ASSEMBLY

5. **Is the company in a cross-shareholding relationship with another company or other companies? (If so, explain)**  
☐ YES ☒ NO
6. **Does each share of the company have one voting right? (If not, explain)**  
☒ YES ☐ NO
7. **Are there any cases of different treatment of any shareholders?? (If so, explain)**  
☐ YES ☒ NO
8. **Has the procedure for issuing power of attorney for voting at the General Assembly been fully simplified and freed of any strict formal requirements? (If not, explain)**  
☒ YES ☐ NO

9. Has the company ensured that the shareholders of the company who, for whatever reason, are not able to vote at the Assembly in person have proxies who are obliged to vote in accordance with instructions received from the shareholders, with no extra costs for those shareholders? (If not, explain)

☒ YES ☐ NO

10. Did the management or Management Board of the company when convening the Assembly set as the date for defining shareholders' status in the register of shares, which will be relevant for exercising voting rights at the General Assembly of the company, a date prior to the day of holding the Assembly and not earlier than six days prior to the day of holding the Assembly? (If not, explain)

☒ YES ☐ NO

11. Were the agenda of the Assembly and all relevant data and documentation with explanations relating to the agenda, announced on the website of the company and put at the disposal of shareholders at the company's premises as of the date of the first publication of the agenda? (If not, explain)

☒ YES ☐ NO

12. Does the decision on dividend payment or advance dividend payment include information on the date when shareholders acquire the right to the dividend payment, and information on the date or period during which the dividend will be paid? (If not, explain)

☐ YES ☒ NO, there were no dividend payments

13. Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the date of decision making? (If not, explain)

☐ YES ☒ NO, please refer to the answer under 12

14. Were any shareholders favoured while receiving their dividends or advance dividends? (If so, explain)

☐ YES ☒ NO

15. Are the shareholders allowed to participate and to vote at the General Assembly of the company using modern communication technology? (If not, explain)

☐ YES ☒ NO, there were no such requests from shareholders

16. Have the conditions for participating in the General Assembly by voting through proxy voting (irrespective of whether this is permitted pursuant to the law and Statute) been defined, such as registration for participation in advance, certification of powers of attorney etc.? (If so, explain)

☒ YES ☐ NO

participation in advance within the statutory deadline in order to efficiently prepare for the General Assembly, taking into account the large number of participants



**17. Did the management of the company publish the decisions of the General Assembly of the company?**

☒ YES ☐ NO

**18. Did the management of the company publish the data on legal actions, including if any, challenges to those decisions? (If not, explain)**

☐ YES ☒ NO, there were no legal actions

## MANAGEMENT AND SUPERVISORY BOARD

**PLEASE PROVIDE THE NAMES OF MANAGEMENT BOARD MEMBERS AND THEIR FUNCTIONS:**

up to 18.04.2019: Julio Kuruc, President, Davorka Jakir, Member, Daniel Unger, Member and Goran Varat, Member

from 18.04.2019: Goran Varat, President, Renata Vinković, Member and Daniel Unger, Member

**PLEASE PROVIDE THE NAMES OF SUPERVISORY BOARD MEMBERS AND THEIR FUNCTIONS:**

Miljan Todorovic – Chairman, Sigilfredo Montinari – Deputy Chairman, Maurizio Dallochio – Member, Filippo Disertori – Member, Dario Montinari – Member, Dolly Predovic – Member, Antonio Moniaci – Member, Michele Calcaterra Borri – Member and Ezio Simonelli – Member

**19. Did the Supervisory or Management Board adopt a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board Members, regularly and in a timely manner? (If not, explain)**

☐ YES ☒ NO, meetings are organised as needed

**20. Did the Supervisory or Management Board forward its internal code of conduct?**

☒ YES ☐ NO

**21. Does the company have any Independent Members on its Supervisory or Management Board? (if not, please explain)**

☒ YES ☐ NO

**22. Is there a long-term succession plan in the company? (If not, explain)**

☒ YES ☐ NO

**23. Is the remuneration received by the Members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company's business performance? (If not, explain)**

☒ YES ☐ NO



**24. Is the remuneration to the Members of the Supervisory or Management Board determined by a decision of the General Assembly or in the Statute of the company? (If not, explain)**

☒ YES ☐ NO

**25. Have detailed records on all remunerations and other earnings of each member of the management or each executive director received from the company or from other persons related to the company, including the structure of such remuneration, been made public (in annual financial statements)? (If not, explain)**

☐ YES ☒ NO, aggregate data was published in a special note in the Annual Report

**26. Have detailed records on all remunerations and other earnings of each Member of the Supervisory or Management Board received from the company or from other persons related to the company, including the structure of such remuneration, been made public (in annual financial statements)? (If not, explain)**

☐ YES ☒ NO, a General Assembly Resolution which defines their remunerations is made publicly available

**27. Does every Member of the Supervisory or Management Board inform the company of every change relating to their acquisition or disposal of shares of the company, or to the possibility of exercising voting rights arising from the company's shares promptly and no later than three business days after such a change occurs? (If not, explain)**

☒ YES ☐ NO

**28. Were all transactions involving Members of the Supervisory or Management Board or persons related to them and the company and persons related to it clearly presented in reports of the company? (If not, explain)**

☒ YES ☐ NO

**29. Are there any contracts or agreements between Members of the Supervisory or Management Board and the company?**

☒ YES ☐ NO

**30. Did they obtain prior approval of the Supervisory or Management Board? (If not, explain)**

☒ YES ☐ NO

**31. Are the important elements of all such contracts or agreements included in the Annual Report? (If not, explain)**

☒ YES ☐ NO

**32. Did the Supervisory or Management Board establish the Appointment Committee?**

☐ YES ☒ NO

**33. Did the Supervisory or Management Board establish the Remuneration Committee?**

☐ YES ☒ NO

**34. Did the Supervisory or Management Board establish the Audit Committee?**

☒ YES ☐ NO

**35. Was the majority of Audit Committee Members selected from the group of independent Members of the Supervisory Board? (If not, explain)**

☐ YES ☒ NO, composition of the Audit Committee is in accordance with the Credit Institutions Act

**36. Did the Committee monitor the integrity of the financial information of the company, especially the correctness and consistency of the accounting methods used by the company and the group it belongs to, including the criteria for the consolidation of financial reports of the companies belonging to the group? (If not, explain)**

☒ YES ☐ NO

**37. Did the Audit Committee assess the quality of the internal control and risk management system, with the aim of adequately identifying and publishing the main risks the company is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (If not, explain)**

☒ YES ☐ NO

**38. Has the Audit Committee been working on ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (If not, explain)**

☒ YES ☐ NO

**39. If there is no internal audit system in the company, did the Audit Committee consider the need to establish it? (If not, explain)**

☐ YES ☒ NO, the Bank has formed its own internal audit function

**40. Did the Audit Committee monitor the independence and impartiality of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company pays for services provided by external auditors? (If not, explain)**

☒ YES ☐ NO

**41. Did the Committee monitor the nature and quantity of services other than audit received by the company from the audit company or from persons related to it? (If not, explain)**

☒ YES ☐ NO

**42. Did the Audit Committee prepare rules defining which services may not be provided to the company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (If not, explain)**

☐ YES ☒ NO, this is defined by law

**43. Did the Audit Committee analyse the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (If not, explain)**

☒ YES ☐ NO

**44. Was the documentation relevant to the work of the Supervisory Board submitted to all Members on time? (If not, explain)**

☒ YES ☐ NO

**45. Do Supervisory Board or Management Board meeting minutes contain all adopted decisions, accompanied by data on voting results? (If not, explain)**

☒ YES ☐ NO

**46. Has the Supervisory or Management Board evaluated their work in the preceding period, including evaluation of the contribution and competence of individual Members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?**

☒ YES ☐ NO

**47. Is detailed data on all earnings and remunerations received by each member of the management or each executive director from the company published in the Annual Report of the company? (If not, explain)**

☐ YES ☒ NO, the Bank publishes aggregated data on related parties as well as data on calculated and acknowledged remuneration amounts for the management of the Bank in its Annual Report which is prepared in accordance with IFRS and published on the website of the Bank



48. Are all forms of remuneration to the Members of the management, Management Board and Supervisory Board, including options and other benefits to the management, made public, broken down by items and persons, in the Annual Report of the company? (If not, explain)

☒ YES ☐ NO

49. Are all transactions involving members of the management or executive directors, and persons related to them, and the company and persons related to it, clearly presented in reports of the company? (If not, explain)

☒ YES ☐ NO

50. Does the report to be submitted by the Supervisory or Management Board to the General Assembly include, apart from minimum information defined by law, the evaluation of total business performance of the company, of activities of the management of the company, and a special comment on its cooperation with the management? (If not, explain)

☒ YES ☐ NO

## AUDIT AND MECHANISMS OF INTERNAL AUDIT

51. Does the company have an external auditor?

☒ YES ☐ NO

52. Is the external auditor of the company related to the company in terms of ownership or interests?

☐ YES ☒ NO

53. Is the external auditor of the company providing to the company, him/herself or through related persons, other services?

☐ YES ☒ NO

54. Has the company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (If not, explain)

☐ YES ☒ NO, audit charges are defined by the contracts

55. Does the company have internal auditors?

☒ YES ☐ NO

56. Does the company have an internal audit system in place? (If not, explain)

☒ YES ☐ NO

## TRANSPARANCY AND PUBLICATION OF ORGANISATION OF BUSINESS

57. Are the semi-annual, annual and quarterly reports available to the shareholders?

☒ YES ☐ NO

58. Did the company prepare the calendar of important events?

☐ YES ☒ NO, the Bank announces important events online

59. Did the company establish mechanisms to ensure that persons who have access to or possess inside information understand the nature and importance of such information and the limitations related to it?

☒ YES ☐ NO

60. Did the company establish mechanisms to ensure supervision of the flow of inside information and possible abuse thereof?

☒ YES ☐ NO

61. Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the company or outside shortcomings in the application of rules or ethical norms within the company? (if yes, explain)

☐ YES ☒ NO

62. Did the management of the company hold meetings with interested investors in the last year?

☒ YES ☐ NO

63. Do all the Members of the management, Management Board and Supervisory Board agree that the answers provided in this questionnaire are, to the best of their knowledge, entirely truthful?

☒ YES ☐ NO

Osijek





**FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 31 DECEMBER 2019 TOGETHER WITH  
THE INDEPENDENT AUDITOR'S REPORT**





## RESPONSIBILITIES OF THE MANAGEMENT AND SUPERVISORY BOARDS FOR THE PREPARATION AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Management Board of the PODRAVSKA BANKA d.d. (the "Bank") is required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank and the results of its operations and cash flows in accordance with International Financial Reporting Standards as adopted by the European Commission and published in the Official Journal of the European Union (IFRS) and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. The Management Board has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies that conform with the applicable IFRSs and then applying them consistently, for making reasonable and prudent judgements and estimates, and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue its business.

The Management Board produce the Annual Report, together with the annual financial statements, and forward them to the Supervisory Board for approval. After receiving approval from the Supervisory Board, the Annual Report and financial statements are adopted by the Management Board and the Supervisory Board and are referred to the General Assembly.

The financial statements of the Bank, set out on pages 10 to 94, were authorised by the Management Board on 3 April 2020 for submission to the Supervisory Board, in witness whereof they are signed, as below.

The financial statements were approved by the Bank's Management Board on 23 April 2020 and signed by:

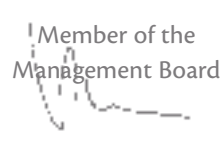
Goran Varat  
President of the  
Management Board



Daniel Unger  
Member of the  
Management Board



Renata Vinković  
Member of the  
Management Board



Koprivnica, 23 April 2020

## INDEPENDENT AUDITOR'S REPORT

To the shareholders of Podravska banka d.d., Koprivnica

### Report on the Audit of the Financial Statement

#### Opinion

We have audited the financial statements of Podravska banka d.d., Opatička 3, Koprivnica ("the Bank"), which comprise the Statement of Financial Position as at 31 December 2019, the Statement of Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Equity for the year that ended on that date and the Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the year that ended on that date in accordance with the Accounting Act and the International Financial Reporting Standards, as adopted by the European Commission and published in the Official Journal of the EU (IFRS).

#### Basis for Opinion

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

#### Key audit matters

Key audit matters are those which were, in our professional judgment, of the utmost importance for our audit of the financial statements of the current period and include the most significant recognised risks of significant misstatement as a result of error or fraud and which have the greatest impact on our audit strategy, the allocation of our available resources and the time spent by the audit team engaged. We have dealt with these matters in the context of our audit of the annual financial statements as a whole and in forming our opinion about them and we do not give a separate opinion on these matters.

We have determined that the following matters were key audit matters and should be published in our Independent Auditor's Report.

December 2019, in the financial statements gross loans to customers amount to HRK 2,250 million, the related impairment allowance amounts to HRK 223 million and the impairment loss recognised in the Statement of Profit and Loss amounts to HRK 23 million (31 December 2018: gross loans to customers: HRK 2,078 million, impairment allowance: HRK 243 million, impairment loss recognised in the Statement of Profit and Loss: HRK 12 million).

## Key audit matter

Impairment allowances represent management's best estimate of the risk of default and the expected credit losses associated with the loans to customers at the reporting date. We focused on this area due to the significance of the amounts involved for the annual financial statements and also because of the nature of the judgements and assumptions that management are required to make.

It requires management to make judgments about the future and various items in the financial statements are subject to estimation uncertainty. The estimates required for credit loss allowances for loans to customer are significant estimates.

The key areas of judgement associated with credit loss allowances for loans to customer are the identification of loans that are deteriorating in credit quality, the assessment of significant increases in credit risk, forecasts of future cash flows as well as expected proceeds from the realisation of collateral and the determination of the expected credit losses from loans to customers, which are all inherently uncertain.

The impairment allowance is measured as either 12 months expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

For defaulted loans that are considered to be individually significant or non-performing corporate and retail exposures exceeding HRK 300 thousand individually, the impairment assessment is based on the knowledge about each individual borrower and often on an estimation of the fair value of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flow analysis.

Impairment allowances for performing exposures and non-performing retail exposures as well as non-performing corporate exposures below HRK 300 thousand individually (together "collective impairment allowance") are determined by modelling techniques.

Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated

## How we addressed the key audit matter

### Audit procedures

Our audit procedures in this area included, among others:

- reviewing the methodology of the Bank for the calculation of the expected credit loss and assessing its compliance with the requirements of International Financial Reporting Standards 9: Financial Instruments ("IFRS 9"),
- obtaining an understanding of the provisioning process, IT applications used therein, and key data sources and assumptions for data used in the expected credit loss model,
- assessing and testing of the IT control environment for data security and access, evaluating the design, implementation and operational effectiveness of controls in credit risk management and lending processes, and testing key controls related to the approval, recording and monitoring of loans,
- testing the design, implementation and operational effectiveness of selected key controls, as well as the controls relating to the identification of loss events and default, appropriateness of classification of exposures between performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the impairment allowances,
- testing, on a sample basis, whether the definition of default and the staging criteria were consistently applied in accordance with relevant policies,
- evaluating the overall modelling approach of calculation of expected credit losses (ECLs), including the calculation of main risk parameters and macroeconomic factors (probability of default (PD), loss given default (LGD) and exposure at default (EAD)),
- testing the adequacy of individual loan loss allowances, on a sample basis, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items that we independently assessed as high-risk,

into the model assumptions. The Bank is continuously recalibrating the model parameters, which also requires our increased attention in the audit.

#### **Related disclosures accompanying the annual financial statements**

For additional information see note 2 Significant accounting policies and note 14 Loans to customers.

- conducting an evidentiary test of the selected sample to assess the correctness of the loan classification,
- in certain cases, we used our own judgment to determine the parameters for calculating impairment losses on loans and compared our calculations with the impairment of the value calculated by the Bank,
- evaluating the accuracy and completeness of the financial statement disclosures.

#### **Valuation of investment property**

As at 31 December 2019, the Bank's investment properties amount to HRK 41,379 thousand (31 December 2018: HRK 43,129 thousand). During 2019, the Bank conducted assessment and valuation of investment properties. Based on the valuation carried out by independent qualified valuers (the "Valuers"), the Bank decreased the value of the investment properties, more specifically as a result of a change in the key assumptions of the aforementioned valuations compared to the previous period, and recognised a decrease in the value of Bank's investment properties in the amount of HRK 671 thousand (31 December 2018: an increase of HRK 185 thousand).

#### **Key audit matter**

The Bank has significant repossessed assets obtained as part of collection of non-performing loans. The assets classified as investment properties mainly refer to the repossessed assets obtained as part of collection of non-performing loans, and a portion relates to properties owned by the Bank, not intended for the ordinary course of business and leased for the purpose of generating rental income. The underlying investment properties are measured at fair value under IAS 40, with changes in fair value recognised in profit or loss in the period in which they arise. Fair value is based on the valuation carried out by independent qualified valuers. Management is required to continuously review the credibility of valuations carried out by independent qualified valuers due to their significance and because significant judgement is involved in determining the inputs used in the valuation (such as future rental income, discount rate applied, and market comparison correction factors). We identified the valuation of investment properties as a key audit matter due to their significance and because significant judgement is involved in determining the inputs used in the valuation. Related disclosures accompanying the annual financial statements For additional information see note 2 Significant accounting policies and note 16 Investment properties.

#### **How we addressed the key audit matter**

##### **Audit procedures**

- Our procedures in relation to the valuation of the investment properties included: assessing the appropriateness and reasonableness of the valuation methodology, assessing the expertise and independence of the qualified valuers, on a sample basis, based on evidence of comparable market transactions and other publicly available information about the property industry, we assessed key assumptions and estimates used in the valuations, we tested the adequacy of projected cash flows in terms of determining the estimated value of properties using the revenue method with supporting lease agreements, we considered the valuation methodologies used compared to those applied by other valuers for similar property types, we considered the adequacy of the disclosures in the financial statements and whether the disclosures are compliant with IAS 40.

### **Other matters**

The annual financial statements of the Bank for the year ended 31 December 2018 were audited by Ernst & Young d.o.o., Zagreb who expressed in the Independent Auditor's Report an unmodified opinion on those annual financial statements on 29 April 2019.

### **Other information in the Annual Report**

Management is responsible for the other information. The other information consists of the information included in the Annual Report, which includes the Management Report and Corporate Governance Statement but does not include the annual financial statements and our Independent Auditor's Report on them.

Our opinion on the annual financial statements does not include the other information and, except to the extent otherwise explicitly stated in our report, we do not express any kind of assurance conclusion on them.

In relation with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or with our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. We do not have anything to report in relation to this.

With respect to the Management Board Report of the Bank and the Statement on the Implementation of the Corporate Governance Code, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Board Report of the Bank has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act;
- the specific information in the Statement on the Implementation of Corporate Governance Code required by Article 22, Paragraph 1, Items 3 and 4 of the Accounting Act ("relevant sections of the Implementation of Corporate Governance Code") has been prepared in accordance with the requirements of Article 22 of the Accounting Act; and
- the Statement on the Implementation of Corporate Governance Code includes the information specified in Article 22, Paragraph 1, Items 2, 5, 6 and 7 of the Accounting Act.

Based on the work that we performed during the audit of the financial statements and procedures above, in our opinion:

- the information given in Management Board Report of the Bank and the relevant sections of the Statement on the Implementation of Corporate Governance Code as part of the Annual Report of the Bank for the year 2019 is in accordance with the financial information stated in the annual financial statements of the Bank set out on pages 10 to 94, on which we expressed our opinion as stated in the Opinion section above;
- the information given in Management Board Report of the Bank and the relevant sections of the Statement on the Implementation of Corporate Governance Code is prepared in accordance with the requirements of Articles 21, 22 and 24 of the Accounting Act, respectively;
- the Implementation of Corporate Governance Code includes the information specified in Article 22 Paragraph 1, Items 2, 5, 6 and 7 of the Accounting Act.



In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report, Corporate Governance Statement or Annual Report. We have nothing to report in this respect.

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

The management is responsible for the preparation of annual financial statements that give a true and fair view in accordance with IFRS, and for such internal controls as the management determines to be necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern assumption 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 responsibility for the audit of the annual financial statements**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a higher level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect any material misstatement that exist. 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 made based on these annual financial statements.

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

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures in response 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 overriding of internal controls.
- Obtain an understanding of the internal controls 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 the accounting estimates and related disclosures made by the management.
- Make a conclusion on the appropriateness of the 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 Auditor's Report to the related disclosures in the annual financial statements or if such disclosures are inadequate, to modify our opinion. Our conclusions are

based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit. We also give a statement to those charged with governance that we have acted in accordance with relevant ethical requirements regarding independence and that we will communicate with them on all relationships and other issues that can reasonably be considered to affect our independence as well as, where applicable, about related protections.

Among the matters that we communicate with those charged with governance, we determine those matters that are of utmost importance in reviewing the current financial statements for the current period and are therefore key audit matters. We describe these matters in our Independent Auditor's Report unless the law or regulations prevents public disclosure or when, in exceptionally rare circumstances, we decide that the matter should not be reported in our Independent Auditor's Report as it could reasonably be expected that the negative effects of the announcement would surpass the welfare of public interest in such disclosure.

#### **Report on other legal and regulatory requirements**

On 17 July 2019, the General Assembly of the Bank appointed us to conduct an audit of the Bank's annual financial statements for 2019.

We were first engaged as auditors of the Bank in carrying out the Bank's statutory audits of the Bank's annual financial statements for 2019.

In the audit of the Bank's annual financial statements for 2019, we have determined the following materiality levels for the financial statements as a whole:

- for the annual financial statements: HRK 9.5 million, which represents approximately 2% of the of the Bank's net assets for 2019.

We chose net assets as the benchmark because, in our view, it is the benchmark against which the performance of the Bank is commonly measured by users and is a generally acceptable benchmark.

Our audit opinion is consistent with the Additional Report for the Bank's Auditing Committee prepared in accordance with the provisions of Article 11 of Regulation (EU) No. 537/2014.

During the period between the initial date of the audited annual financial statements of the Bank for the year 2019 and in the business year prior to the aforementioned period, we did not provide the Bank with prohibited non-assurance services, and we have maintained independence in relation to the Bank during the performance of the audit.

Pursuant to the Decision on the structure and contents of annual financial statements published by the Croatian National Bank on 9 May 2018 (OG 42/18), the Bank's

management prepared the forms presented on pages 95 to 110 (hereinafter “the Forms”). The financial information in the Forms is derived from the financial statements of the Bank set out on pages 10 to 94, on which we expressed our opinion as stated in the Opinion section above.

Pursuant to the requirements of the Credit Institutions Act (OG 159/13, 19/15, 102/15 and 15/18, 70/19), the Bank disclosed required information on pages 111 to 112 containing all the information as stipulated by the Article 164, Paragraph 1. The disclosed information is derived from the Bank’s financial statements presented on pages 10 to 94, on which we expressed our opinion as stated in the Opinion section above.

The partner engaged in the audit of the Bank’s annual financial statements for the year 2019 resulting in this Independent Auditor’s Report is Ivan Čajko, Certified Auditor.

Zagreb, 23 April 2020  
BDO Croatia d.o.o.  
Trg J. F. Kennedy 6b  
10000 Zagreb

**BDO CROATIA**  
BDO Croatia d.o.o.  
za pružanje revizijskih, konsalting  
i računovodstvenih usluga  
Zagreb, J. F. Kennedy 6b

Ivan Čajko  
Member of the  
Management Board



Ivan Čajko  
Certified Auditor



# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

IN HRK THOUSANDS	NOTE	2019	2018
INTEREST AND SIMILAR INCOME	3	104,639	99,879
INTEREST AND SIMILAR EXPENSES	3	(16,032)	(22,202)
<b>NET INTEREST INCOME</b>		<b>88,607</b>	<b>77,677</b>
FEE AND COMMISSION INCOME	4	38,313	37,161
FEE AND COMMISSION EXPENSES	4	(14,929)	(14,471)
<b>NET FEE AND COMMISSION INCOME</b>		<b>23,384</b>	<b>22,690</b>
OTHER OPERATING INCOME, NET	5	35,118	18,857
<b>OPERATING INCOME</b>		<b>147,109</b>	<b>119,224</b>
IMPAIRMENT LOSSES AND PROVISIONS	6	(23,101)	(11,677)
ADMINISTRATIVE EXPENSES	7	(88,294)	(86,441)
DEPRECIATION AND AMORTISATION	8	(8,300)	(5,807)
<b>PROFIT BEFORE TAXATION</b>		<b>27,414</b>	<b>15,299</b>
INCOME TAX EXPENSE	9	(6,068)	(3,193)
<b>NET PROFIT FOR THE YEAR</b>		<b>21,346</b>	<b>12,106</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
NET INCREASE / (DECREASE) IN THE FAIR VALUE OF FINANCIAL ASSETS THROUGH OTHER COMPREHENSIVE INCOME	15.2.	11,523	(3,996)
DEFERRED TAX RECOGNISED IN EQUITY	9	(2,137)	782
<b>OTHER COMPREHENSIVE INCOME / (LOSS) THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS IN THE FUTURE</b>		<b>9,386</b>	<b>(3,214)</b>
NET INCREASE / (DECREASE) IN THE FAIR VALUE OF FINANCIAL ASSETS THROUGH OTHER COMPREHENSIVE INCOME	15.2.	6,161	(11,933)
DEFERRED TAX RECOGNISED IN EQUITY	9	(960)	2,148
<b>OTHER COMPREHENSIVE INCOME THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN THE FUTURE</b>		<b>5,201</b>	<b>(9,785)</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>14,587</b>	<b>(12,999)</b>
<b>TOTAL COMPREHENSIVE INCOME AFTER TAX</b>		<b>35,933</b>	<b>(893)</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS</b>	<b>10</b>	<b>HRK 31.92</b>	<b>HRK 18.10</b>

The accompanying accounting policies and Notes on pages 52 to 118 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

IN HRK THOUSANDS	NOTE	31 DECEMBER 2019	31 DECEMBER 2018
<b>ASSETS</b>			
CASH AND AMOUNTS DUE FROM BANKS	11	402,320	432,190
BALANCES WITH THE CROATIAN NATIONAL BANK	12	198,946	190,575
PLACEMENTS WITH OTHER BANKS	13	5,828	66,313
LOANS TO CUSTOMERS	14	2,026,946	1,834,646
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	15.1	137,853	157,474
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	15.2	685,958	543,131
INVESTMENT PROPERTY	16	41,379	43,129
INTANGIBLE ASSETS	17	43,333	44,080
PROPERTY AND EQUIPMENT	18	43,458	44,837
RIGHT-OF-USE ASSETS	18.1	13,941	-
NON-CURRENT ASSETS HELD FOR SALE	19	998	1,214
DEFERRED TAX ASSETS	9	3,935	6,028
OTHER ASSETS	20	13,592	14,883
<b>TOTAL ASSETS</b>		<b>3,618,487</b>	<b>3,378,500</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
AMOUNTS DUE TO OTHER BANKS	21	7,834	7,730
AMOUNTS DUE TO CUSTOMERS	22	2,706,416	2,449,215
OTHER BORROWED FUNDS	23	260,197	325,095
OTHER LIABILITIES	24	65,512	53,915
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	25	5,465	5,748
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	26	97,337	97,004
<b>TOTAL LIABILITIES</b>		<b>3,142,761</b>	<b>2,938,707</b>
<b>SHARE CAPITAL</b>			
SHARE CAPITAL	27	267,500	267,500
SHARE PREMIUM		3,015	3,015
TREASURY SHARES		(1,388)	(1,388)
RESERVES	28	179,943	154,079
PROFIT FOR THE YEAR		21,346	12,106
RETAINED EARNINGS		5,310	4,481
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>475,726</b>	<b>439,793</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>3,618,487</b>	<b>3,378,500</b>

The accompanying accounting policies and Notes on pages 52 to 118 form an integral part of these financial statements.



# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

IN HRK THOUSANDS	NOTE	2019	2018
<b>PROFIT FOR THE YEAR BEFORE TAX</b>	<b>9</b>	<b>27,414</b>	<b>15,299</b>
<b>ADJUSTED BY:</b>			
DEPRECIATION AND AMORTISATION	8	8,300	5,807
NET INCOME ON DISPOSAL OF NON-CURRENT TANGIBLE ASSETS	5	(178)	(1,117)
NET INCOME / (EXPENSE) ON THE SALE OF REPOSSESSED ASSETS	5	28	(266)
INCREASE IN PROVISIONS FOR LOANS AND OTHER PROVISIONS	6	23,101	11,677
DIVIDEND INCOME	5	(1,446)	(816)
NET FOREIGN EXCHANGE GAIN / (LOSS) FROM ISSUED HYBRID INSTRUMENTS		(716)	-
<b>PROFIT FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS</b>		<b>56,503</b>	<b>30,584</b>
<b>CHANGES IN OPERATING ASSETS</b>			
NET INCREASE IN BALANCES WITH THE CROATIAN NATIONAL BANK		(8,371)	(1,918)
NET INCREASE IN LOANS TO CUSTOMERS		(214,894)	(131,124)
NET (INCREASE) / DECREASE IN PLACEMENTS WITH BANKS		5,749	(1,698)
NET INCREASE IN OTHER ASSETS		(7,286)	(3,826)
INCREASE / (DECREASE) IN OTHER LIABILITIES		(444)	18,151
INCREASE / (DECREASE) IN AMOUNTS DUE TO OTHER BANKS		103	(31,171)
INCREASE IN DEPOSITS FROM CUSTOMERS		257,201	32,563
INCOME TAXES PAID		(4,597)	(4,493)
<b>NET CASH FROM OPERATIONS</b>		<b>83,964</b>	<b>(92,932)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
PURCHASES OF PROPERTY AND EQUIPMENT	18	(2,190)	(159)
PURCHASE OF INTANGIBLE ASSETS	17	(1,692)	(2,403)
DISPOSAL OF PROPERTY AND EQUIPMENT		584	1,151
NET DECREASE / (INCREASE) IN FINANCIAL ASSETS		20,338	-
NET INCREASE IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		(125,277)	(91,905)
DIVIDENDS RECEIVED		1,453	821
SALE OF REPOSSESSED ASSETS		2,568	1,628
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>(104,216)</b>	<b>(90,867)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
EXPENDITURE / (RECEIPTS) FROM BORROWED FUNDS		(64,898)	120,984
(REPAYMENTS FOR) / PROCEEDS FROM ISSUED BONDS		333	(32,028)
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>(64,565)</b>	<b>88,956</b>
<b>NET CASH RECEIVED / (PAID)</b>		<b>(84,817)</b>	<b>(94,843)</b>
<b>CASH AT THE BEGINNING OF THE PERIOD</b>	<b>11</b>	<b>493,290</b>	<b>588,133</b>
<b>CASH AT THE END OF THE PERIOD</b>	<b>11</b>	<b>408,473</b>	<b>493,290</b>

The accompanying accounting policies and Notes on pages 52 to 118 form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

IN HRK THOUSANDS	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	CAPITAL GAINS	RESERVES	RETAINED EARNINGS/ (LOSSES)	PROFIT FOR THE YEAR	TOTAL
<b>BALANCE AT 1 JANUARY 2018</b>	<b>267,500</b>	<b>3,015</b>	<b>(11,082)</b>	<b>4,802</b>	<b>159,849</b>	<b>-</b>	<b>14,096</b>	<b>438,180</b>
IMPACT OF IFRS 9 – EXPECTED CREDIT LOSS	-	-	-	-	904	(8)	-	896
IMPACT OF IFRS 9 – CLASSIFICATION CHANGES	-	-	-	-	(2,591)	2,591	-	-
<b>BALANCE AT 1 JANUARY 2018 – RESTATE</b>	<b>267,500</b>	<b>3,015</b>	<b>(11,082)</b>	<b>4,802</b>	<b>158,162</b>	<b>2,583</b>	<b>14,096</b>	<b>439,076</b>
PROFIT FOR THE YEAR	-	-	-	-	-	-	12,106	12,106
CHANGES IN THE FAIR VALUE OF RESERVES	-	-	-	-	(12,999)	-	-	(12,999)
SALE OF EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	-	-	-	(1,898)	1,898	-	-
ALLOCATION OF OWN SHARES	-	-	9,694	(8,084)	-	-	-	1,610
ALLOCATION OF 2017 PROFIT	-	-	-	-	14,096	-	(14,096)	-
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>267,500</b>	<b>3,015</b>	<b>(1,388)</b>	<b>(3,282)</b>	<b>157,361</b>	<b>4,481</b>	<b>12,106</b>	<b>439,793</b>
PROFIT FOR THE YEAR	-	-	-	-	-	-	21,346	21,346
CHANGES IN THE FAIR VALUE OF RESERVES	-	-	-	-	14,587	-	-	14,587
SALE OF EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	-	-	-	(829)	829	-	-
ALLOCATION OF THE 2018 PROFIT	-	-	-	-	12,206	-	(12,106)	-
<b>BALANCE AT 31 DECEMBER 2019</b>	<b>267,500</b>	<b>3,015</b>	<b>(1,388)</b>	<b>(3,282)</b>	<b>183,225</b>	<b>5,310</b>	<b>21,346</b>	<b>475,726</b>

The accompanying accounting policies and Notes on pages 52 to 118 form an integral part of these financial statements.

## 1. GENERAL INFORMATION

Podravska banka d.d., Koprivnica (the "Bank") was incorporated in the Republic of Croatia and registered as a joint stock company at the Commercial Court in Bjelovar on 12 July 1995. The registered seat of the Bank is in Koprivnica, Opatička 3.

## 2. BASIC ACCOUNTING POLICIES

### Basis of preparation

The annual financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), adopted by the European Commission and published in the Official Journal of the EU (IFRS).

The Bank's operations are subject to the Credit Institutions Act, according to which the financial reporting of the Bank is determined by the Croatian National Bank ("CNB"), which is the central supervisory institution of the banking system in Croatia.

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

The financial statements are intended for general use and information; they are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

### Standards and Interpretations effective in the current period

#### *Initial application of new amendments to the existing standards effective for the current reporting period*

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019), and came into force in October 2017, replacing IAS 17, and a set of international accounting principles and interpretations applicable to leasing.
- **IAS 28 "Investments in Associates and Joint Ventures"**: "Long-term Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019)
- **IAS 19 "Plan Amendment, Curtailment or Settlement" (Amendments)**: Amendments to the plan, curtailments or settlements.
- **IFRS 9 "Prepayment Features with Negative Compensation" (Amendments)**: Overpayment features with negative compensation.
- **Annual Improvements to IFRS Standards 2015-2017 Cycle** (amendment to IFRS 3, IFRS 11, IAS 12 and IAS 23).

The Bank has decided to adopt these new standards and amendments to existing standards prior to their entry into force. The Bank estimates that the adoption of these standards and amendments to existing standards does not have a material impact on the Bank's financial statements in the period of initial application, except for the impact of IFRS 16 "Leases", the application of which brings about the changes in the presentation of the financial statements as explained under IFRS 16 "Leases".

***Amendments to the existing standards published by the IASB and adopted in the European Union but not yet effective***

By 31 December 2019, the following new standards promulgated by the IASB had been adopted but were not yet in force in the European Union:

- **Amendments to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).
- **Amendments to IFRS 3 "Business Combinations"** – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and for the acquisitions of assets that occur on or after the beginning of that period).
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors":** Definition of "Material".

The Bank has decided not to adopt these new standards and amendments to existing standards prior to their entry into force. These standards, amendments to existing standards and interpretations of the standards are not material to the Bank's operations and will not have a material impact on the financial statements.

***Standards and amendments to the existing standards published by IASB, not yet adopted in the European Union***

IFRSs currently adopted in the European Union do not differ significantly from those published by the International Accounting Standards Board (IASB), except for the following standards, amendments to existing standards and interpretations not yet adopted by the European Union as of 1 March 2019 (effective dates set out below apply to IFRSs in general):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided to postpone the transposition of this transitional standard until its final version is published,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" and further amendments (the original date of entry into force was postponed until the completion of the research project on the application of the equity method),
- **Amendments to IFRS 3 "Business Combinations"** – Definition of a business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and for the acquisitions of assets that occur on or after the beginning of this period),
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates of Errors"** – defini-



tion of materiality (effective for annual periods beginning on or after 1 January 2020),

- Amendments to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

## IFRS 16 "Leases"

In 2019, the Bank implemented the new IFRS 16 "Leases".

The provisions of IFRS 16 require that a lessee recognises in its financial records a right-of-use asset and a lease obligation for all leases, including operating leases.

Exemptions are short-term leases where the lease term is less than 12 months or is a low-value rental property (up to USD 5,000, for example renting a laptop, printer, telephone, money counter, small office furniture, etc.). All payments related to such leases in the lessee's books of account are recognised as an expense over the term of the lease.

In the financial records, the right-of-use assets are recorded as leased assets depending on the subject of the lease (e.g. buildings, equipment, motor vehicles, etc.)

When applying IFRS 16 in 2019, the Bank reviewed all terms of the existing lease agreements and assessed for which to apply the provisions of the new standard.

Commercial lease agreements are recorded as buildings with a right of use, and according to the financial records for 2019 their estimated value is HRK 14,659 thousand.

The amortised cost of buildings with a right of use in 2019 amounts to HRK 2,492 thousand, meaning that their net book value as of 31 December 2019 amounted to HRK 12,167 thousand.

Car rental agreements from earlier years were due for payment in 2019 and are exempted from applying IFRS 16 for initial recognition on 1 January 2019 as they are short-term contracts where the lease term is less than 12 months.

IFRS 16 has been applied to new car lease agreements contracted in 2019, which are recorded in the Bank's financial records as motor vehicles with a right of use in the amount of HRK 1,980 thousand.

The amortised cost of right-of-use motor vehicles in 2019 is HRK 205 thousand and their net book value as of 31 December 2019 amounted to HRK 1,774 thousand.

Lease liabilities are initially measured at the present value of all lease payments not made on the first day of the lease, plus fixed lease payments. VAT is not included in the monthly discounted instalment.

## Functional and publication currency

These financial statements are presented in Croatian Kuna (HRK), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

The HRK exchange rate as at 31 December 2019 was HRK 7.442580 to EUR 1 and HRK 6.649911 to USD 1 (at 31 December 2018 the HRK exchange rate was HRK 7.417575 to EUR 1 and HRK 6.469192 to USD 1).

## 2.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Bank's principal accounting policies is set out below.

### Basis of accounting

The Bank maintains its accounting records in Croatian kuna (HRK) in accordance with the legal requirements for accounting by banks in the Republic of Croatia.

### Interest and similar income and expenses

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rates applicable, which reflect the rates that exactly discount estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount.

Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective yield of the loan and as such adjust the interest income.

When loans become impaired, they are written down to their recoverable amounts, and interest income thereafter is carried off-balance sheet by applying the interest rate used to discount the future cash flows for the purpose of measuring the recoverable amount. Other fees are recognised as income when earned. Dividend income is recognised after dividends are declared.

### Fee and commission income

Fees and commission income consists mainly of fees for loans and guarantees issued and for other services provided by the Bank, together with commissions for managing funds on behalf of legal and natural persons and fees for foreign and domestic payment transactions.

Fees and commission income is recognised when the related service is rendered. Loan origination fees for loans which are likely to be drawn down are deferred and recognised as an adjustment to the effective yield on the loan.

### Operating income

Operating income includes net interest income, net fee and commission income, foreign exchange trading gains, realised gains on securities classified as financial assets at fair value through other comprehensive income, proceeds from the sale and value adjustment of financial assets at fair value through profit or loss, net foreign exchange translation gains (by reference to middle exchange rates), gains from disposal of property and equipment, dividends received, and other income from operations.

### Foreign currencies

Income and expenses on transactions denominated in foreign currencies are translated to Croatian kunas at the official exchange rates effective at the transaction dates. Monetary assets and liabilities denominated in a foreign currency are translated at the middle exchange rate of the CNB in place on the last day of the accounting period. Gains and losses resulting from foreign currency translation are included in profit or loss for the year to which they relate.

The Bank has assets and liabilities originated in Croatian kunas, which are linked to a foreign currency with a one-way currency clause. The clause provides the Bank the option to remeasure the underlying assets at the higher of the foreign exchange rate valid as of the date of maturity and the foreign exchange rate valid as of the date

of origination of the financial instrument. Should there be a liability linked to this clause, the counterparty has this option. Due to the specifics of the market in the Republic of Croatia the fair value of this option cannot be calculated as forward rates for the Croatian kuna for periods over nine months are not available. Therefore, the Bank values such assets and liabilities at the higher of the middle rate of the Croatian National Bank valid at the reporting date and the rate specified in the contractual foreign exchange option.

## Personnel costs

The Bank recognises a provision for bonuses when there is a contractual obligation or past practice that gives rise to such a constructive obligation. Furthermore, the Bank recognises accrued benefits based on annual leave days outstanding at the reporting date.

## Personnel social contributions

Under national legislation, the Bank has the obligation to pay contributions into pension and health insurance plans (funds). This obligation applies to all employees working under employment contracts and requires employers to pay contributions determined on the basis of gross salary as follows:

	2019	2018
PENSION CONTRIBUTIONS	20%	20%
HEALTH INSURANCE CONTRIBUTIONS	16.5%	15%
CONTRIBUTIONS FOR THE STATE EMPLOYMENT BUREAU	0%	1.7%
INJURIES AT WORK	0%	0.5%

The Bank is also obliged to withhold the contributions from the gross salaries on behalf of the employees.

The contributions on behalf of the employees and the employer from and on salaries are charged to expenses in the period in which they arise (see Note 7).

In the normal course of operations, the Bank makes payments through salary deductions to mandatory pension funds on behalf of its employees, as required by law. All contributions paid to the mandatory pension funds are included in the payroll costs when accrued. The Bank has no other pension scheme and consequently no further obligations in respect of employee pensions. In addition, the Bank has no obligation to provide any post-employment benefits to its employees.

## Taxation

The corporate income tax payable is applied to the taxable profits for the year at the currently applicable rate. Deferred taxes are determined using the balance-sheet liability method. Deferred income tax reflects the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases used for calculating the income tax. Deferred tax assets and deferred tax liabilities are determined using the tax rates expected to apply to taxable profit in the years in which the underlying temporary difference is expected to reverse and the liability is to be settled or the asset realised.

Deferred tax assets and liabilities are recognised regardless of when a timing difference is expected to reverse. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Bank re-assesses unrecognised deferred tax assets and the appropriateness of the carrying amount of the tax assets.

The Bank pays corporate income tax by applying a tax rate of 18% to taxable profits, in accordance with the Profit Tax Act.

### Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents are comprised of balances with maturities of less than 90 days, including cash, balances on current accounts, and loans and advances to other banks.

### Financial instruments

The Bank's financial assets and financial liabilities reported in the Statement of Financial Position include cash and cash equivalents, marketable securities, accounts receivable and payable, long-term loans, deposits and investments. The accounting methods applied to these instruments are disclosed in the corresponding accounting policies.

The Bank recognises financial assets and liabilities in its Statement of Financial Position when, and only when, it becomes a party to the contractual provisions of the instrument.

### Classification

The classification of a financial instrument is determined by the intent of managing (business model) the financial instrument and on the characteristics of the associated contractual cash flows.

Investments in financial instruments are classified into three business models:

- the "hold to collect" business model – collecting the contracted cash flow  
This applies to financial assets acquired with the intent to hold them for the purpose of collecting contractual cash flows, which are measured at amortisation cost provided that the asset has passed the SPPI test.

- the "hold and sell" business model – collecting the contracted cash flow and selling financial assets

This applies to financial assets acquired with the intent to hold for the purpose of collecting contracted cash flow and the purpose of sale, which are measured at fair value through other comprehensive income, also subject to the passing of the SPPI test.

- Other business models that do not meet the criteria of the first two models  
This model applies to financial assets that are not held intentionally in one of the two previous business models and are measured at fair value through profit or loss.

The Bank's financial assets are classified into portfolios in accordance with the Bank's intent at acquisition and the characteristics of the cash flows.

Financial assets are classified as "Financial assets at fair value through profit or loss", "Financial assets at fair value through other comprehensive income" and "Financial assets measured at amortised cost". Financial liabilities are classified as "Financial liabilities at amortised cost". The principal difference between the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements, as described further below.

Regular transactions with financial instruments are accounted for in the Statement of Financial Position at the settlement date. Under the settlement date approach, the underlying asset or liability is not recognised until the settlement date, and the



changes in the fair value of the underlying asset or liability are recognised starting from the trade date.

The Bank recognises financial assets and financial liabilities initially at their fair value plus, except for financial assets at fair value through profit or loss, transaction costs directly attributable to the acquisition or delivery of a financial asset or a financial liability.

#### Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit or loss are assets that do not meet the requirement that the contractual cash flows comprise only the payment of principal and interest on the outstanding amount of the principal, that is, assets that do not meet the criteria of the other two categories of financial asset.

Financial assets included in this portfolio are those held for trading, which have been acquired to generate profits from short-term fluctuations in prices or brokerage fees, or are securities included in a portfolio with a pattern of short-term profit taking.

Such instruments are initially recognised at cost and subsequently measured at fair value, which is based on the quoted bid prices in an active market.

#### Financial assets at fair value through other comprehensive income

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

- financial assets are held within the business model whose objective is to be achieved through the collection of contractual cash flows and the sale of financial assets and
- based on the contractual terms of financial assets at certain dates, the cash flows arise only from payment of principal and interest on unpaid principal

Within this portfolio, we differentiate between investments in debt securities and investments in equity securities.

At initial recognition of financial assets measured at fair value through other comprehensive income for debt securities investments, assets are recorded at their fair value plus transaction costs that can be attributed directly to the acquisition of that financial asset.

Subsequent measurement is carried out at fair value and the effects of subsequent measurement are recognised in other comprehensive income.

Interest and dividends, impairment and exchange rate differences are recognised in the Statement of Profit and Loss.

At initial recognition of financial assets measured at fair value through other comprehensive income for equity investments, assets are recorded at their fair value plus transaction costs that can be attributed directly to the acquisition of that financial asset.

Subsequent measurement is carried out at fair value and the effects of subsequent measurement are recognised in other comprehensive income.

Interest and dividends are recognised in the Statement of Profit and Loss and impairment and exchange rate differences are recognised in other comprehensive income.

In the event of derecognition of a financial instrument recognised in other comprehensive income, it is not recognised in the Statement of Profit and Loss.

## Financial assets at amortised cost

Financial assets are measured at amortised cost if both conditions are met:

- Financial assets are held within a business model whose objective is to hold a financial asset for the purpose of collecting contractual cash flows and
- based on the contractual terms of financial assets at certain dates, the cash flows are only payment of principal and interest on unpaid principal

At initial recognition of financial assets measured at amortised cost, assets are recorded at their fair value plus transaction costs that can be attributed directly to the acquisition of that financial asset.

Subsequent measurement is carried out at amortised cost, and the effects of subsequent measurement are recognised in the Statement of Profit and Loss. The Statement of Profit and Loss also includes interest and dividends, impairment and exchange rate differences.

Into this portfolio the Bank primarily classifies loans and advances granted to clients and other receivables.

Loans and receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method, less any allowance for impairment. Third party expenses, such as legal fees incurred in securing a loan, are treated as part of the cost of the transaction as well as fees received from customers. Loan origination fees for loans which are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loan and as such adjust the interest income.

## Impairment of financial assets

In the area of impairment, the Bank has established a methodology for calculating expected credit losses (ECL) and modelling of risk parameters, which includes all the parameters required to project future expectations.

Using its impairment methodology, the Bank defines an increase of credit risk based on changes in creditworthiness, timeliness in meeting debt obligations and quality of collateral instruments.

The Bank classifies financial assets measured at amortised cost, including off-balance sheet exposures from borrowing commitments and financial guarantee contracts, as well as financial assets measured at fair value through other comprehensive income, other than equity instruments, and receivables for which the impairment terms and conditions are applicable into the following categories on the reporting dates in order to estimate the level of impairment losses and credit loss provisions on the basis of estimates of credit loss levels:

1. Risk category A1 – Stage 1
2. Risk category A2 – Stage 2
3. Risk categories B (B1, B2, B3) and C – Stage 3

based on changes in creditworthiness, timeliness in meeting their obligations and quality of collateral.

Risk category A1 – according to the internal act, exposures where no significant increase in credit risk (from the moment of initial recognition) has been determined are allocated to the category A1. Impairment losses and provisions for impairment losses are determined based on 12-month expected credit loss, which represents that part of the lifetime expected credit losses that would occur in the event of the default of the obligation within the next 12 months.

Into risk category A2 (increased level of credit risk), in accordance with the internal act, are allocated exposures where a significant increase in credit risk has been determined from the point of initial recognition, but where there is no objective evidence of impairment. The impairment allowances and provisions for credit losses are determined based on lifetime expected credit losses.

The Bank considers as indicators of a significant increase in the debtor's credit risk the following: the debtor's delay in settling liabilities towards the Bank for more than 30 days, not exceeding 90 days, followed by a block of the debtor for a continuous period of more than 15 days in the last year and a significant deterioration in the debtor's credit rating in relation to its credit rating at the time of initial recognition (for more than three rating classes).

Into risk categories B and C (impairment losses), according to internal acts, are classified exposures currently in default, i.e. exposures in which objective evidence of impairment has been identified. The Bank also considers restructured exposures to be in default as well as exposures to debtors over which bankruptcy or liquidation has been initiated.

The level of impairment for certain exposures classified in risk categories B and C is determined as a positive difference between the gross carrying amount of each exposure and the present value of the estimated future debtor's cash flows discounted using the effective interest rate, taking into account the minimum levels of impairment prescribed by the internal acts and the CNB Decision.

The Bank establishes whether an impairment is required based on the calculation of expected credit losses, whereby the chosen approach and future horizons for the respective credit losses relate depend on the status and type of exposure. Calculation of expected credit losses is based on the calculation of risk parameters. They are modelled based on historical data.

The percentage of expected loan losses is calculated using the formula:

$$\text{ECL} = \text{PD} \times \text{LGD} \times \text{EAD}$$

PD – Probability of Default

LGD – Loss Given Default

EAD – Exposure At Default

ECL – Expected Credit Loss

For the purpose of assessing the value of the PD parameter, the Bank has assigned all segments of credit clients into rating classes and each rating class which is considered to be a PD-homogeneous group was assigned the corresponding one-year value of the PD as well as the corresponding multi-annual maturity structure of the PD.

Loss Given Default (LGD) represents an internal estimate of the level of loss related to credit exposure at default. The LGD values obtained are grouped by LGD-homogeneous groups, each with an estimate of the representative value of the LGD parameter. The Bank has estimated the value of the LGD parameter through the so-called "work-out" method based on the analysis of historical post-default collection cases. In each such case, a number of cash flows incurred during the collection process (inflows on the basis of debtor's payment, collection of borrower's funds and exposure collateral, and outflows related to internal and external costs of the billing process itself) are discounted by the original effective interest rate to arrive at the current post-default

billing value. The Bank has defined the minimums ("floors") as 35% for LGD for collateralised placements and 45% for uncollateralised placements. If the LGD calculated in the model is below the relevant floor, the value of the related LGD floor is assigned. In other cases (in which the value of LGD calculated in the model is above the LGD floor) the LGD calculated in the model is used.

Exposure at default (EAD) represents the total amount of exposure for which it is necessary to recognise an impairment.

The Bank applies a conversion factor of 1 in estimating provisions for off-balance sheet items.

The value of Expected Credit Losses (ECL) for exposures where no significant increase in credit risk from initial recognition has been identified after initial recognition is accounted for as a 12-month expected credit loss that represents a part of the life-long expected credit losses that would occur in the event of default within the next 12 months (risk subcategory A1 – stage 1), while for exposures where significant credit risk increases have been identified after the initial recognition, the life-long expected credit loss is calculated (risk subcategory A2 – stage 2) on the reporting date.

For exposures in risk categories B and C (stage 3), expected credit losses within the small loans portfolio are determined according to the days past due, taking into account the minimum levels of impairment prescribed by the internal acts and the CNB Decision.

For exposures in risk categories B and C (stage 3), expected credit losses within the large loans portfolio and placements with adequate collateral are calculated using the standard DCF method (the present value method of estimated future cash flows discounted using the effective interest rate), taking into account the minimum levels of impairment prescribed by the internal acts and the CNB Decision.

## Foreclosed assets

Occasionally, by means of the enforcement procedure, the Bank acquires assets in exchange for outstanding claims. In the Statement of Financial Position, foreclosed assets are classified as other assets held for sale. The Bank acquires the ownership of such assets based on the Order awarding ownership. The assets are recognised at the lower of cost of acquisition or the net recoverable amount. Foreclosed assets are reviewed for impairment annually. An impairment loss is determined as the difference between the carrying amount of the asset and its recoverable amount and is recognised in the profit or loss for the period in which the loss is determined. The recoverable amount is the fair value of an asset less costs to sell the asset. The fair values of such assets are determined based on an independent market value appraisal performed by a licensed appraiser or based on a tentative agreement on the sale of property.

The Bank does not depreciate assets classified as assets held for sale. Impairment losses on subsequent measurement of non-current assets are recognised in profit or loss. Gains on subsequent increases in the fair value of assets previously impaired are recognised in profit or loss following the sale. The Bank derecognises an asset held for sale when it is sold. Gains or losses from the sale of assets held for sale are recognised in profit and loss.

## Investment property

Investment properties are properties held to earn rent and/or for capital appreciation (including property under construction for such purposes). Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recog-



nitition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they have arisen. All the Bank's property interests held under operating leases in order to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are recognised in profit or loss in the period in which they have arisen.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) is recognised in profit or loss in the period in which the property is derecognised.

### Assets held for sale

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition and only subject to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. The Bank's management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

### Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are included in the financial statements and the liability to the counterparty is included in amounts due to customers. Securities purchased under agreements to resell them (reverse repo) are recognised as amounts due from banks or loans to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements.

### Property and equipment

Property and equipment are carried at cost less accumulated depreciation and permanent impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from the disposal is included in profit or loss. The initial cost of property and equipment is comprised of its purchase price, including customs duties and non-refundable taxes and any costs directly attributable to bringing an asset to its working condition and location for its intended use. Expenditures incurred after an item of property or equipment has been put into use, such as repairs and maintenance, are normally charged to profit or loss in the period in which the expenditure is incurred. Assets under construction include those properties and equipment that are in progress and are carried at cost. The cost includes the cost of construction and other direct costs. Assets under development are not depreciated until they are completed and put into use and classified into the appropriate category of property and equipment. Property and equipment are depreciated on a straight-line basis over the useful life of the assets, which is as follows:

	2019	2018
BUILDINGS	40	40
FURNITURE	5	5
COMPUTERS	4	4
MOTOR VEHICLES	5	5
EQUIPMENT AND OTHER ASSETS	2 – 10	2 – 10

Land is not depreciated. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end. The carrying amounts of property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

### Intangible assets

Intangible assets are recognised initially at cost. Intangible assets are recognised if it is probable that the future economic benefits attributable to an asset will flow to the Bank and the cost of the asset can be measured reliably. Subsequent to initial recognition, intangible assets are recognised at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed in each reporting period.

Intangible assets are amortised over periods of 5-15 years (software). The amortisation period and amortisation method are reviewed at least at each year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in an asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

### Impairment of non-financial assets

Property, equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where the carrying amount of an asset exceeds its recoverable amount, an impairment loss for items of property and equipment and intangibles carried at cost is recognised in profit or loss. The recoverable amount is the higher of an asset's net selling price and its value in use.

### Right-of-use assets

Right-of-use assets consist of leased property for which, under the lease agreement, the right of direct use and control over its use has been granted for a fixed period of time in exchange for compensation.

Exemptions are short-term leases where the lease term is less than 12 months or is a low-value rental property (up to USD 5,000, for example, renting a laptop, printer, telephone, money counter, small office furniture, etc.). All payments related to such leases in the lessee's books of account are recognised as an expense over the lease term.

In the financial records, right-of-use assets are recorded as leased assets depending on the subject of the lease (e.g. buildings, equipment, motor vehicles, etc.).

Usable assets are initially measured at cost, which includes:

- amount of the initial lease obligation

- all lease payments made on or before the first day of the lease, less any payments received in connection with the lease
- all initial direct costs incurred by the lessee (e.g. brokerage fees, legal, administrative costs of contract processing, etc.).

After initial disclosure, the right-of-use assets are subsequently measured using the cost model, that is, depreciated until the expiration of the lease period or until the end of its useful life, whichever is earlier, and reduced by accumulated depreciation.

## Lease liabilities

The lease liability is initially measured at the present value of all lease payments that were not made on the first day of the lease, plus fixed lease payments. VAT is not included in the monthly amount of the discounted instalment.

Payments must be discounted at the interest rate contained in the lease. If the interest rate is not included in the lease contract and it is not easy to determine, the discounting should be carried out at the incremental interest rate of borrowing.

The borrower's incremental interest rate of borrowing refers to the rate that the lessee would have to pay to borrow, within a similar timeframe and with similar guarantees, the funds needed for the purchase of assets of similar value to the right-of-use assets concerned in a similar economic environment.

The lease liability is subsequently measured in such a way that:

- increases the carrying amount of the liability by the amount of interest on the lease liability,
- reduces the carrying amount of the lease payment obligation (excluding VAT),
- remeasures and adjusts the book value to reflect any reassessment, lease modification or revision of fixed lease payments.

## Goodwill

An impairment test is performed annually to identify potential losses. Testing for impairment is carried out using the cost method of capital – CAPM model (Capital Asset Pricing Model) – which includes both general and specific risks. For the purpose of the impairment testing, goodwill is allocated to each cash-generating unit arisen on acquisition from which future benefits are expected. The organisational (cash-generating) units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that such an organisational unit may be impaired.

Where the recoverable amount of a unit is below its carrying amount, the impairment loss is first allocated to reduce the carrying amount of the goodwill allocated to that unit and then proportionally to all other organisational units generating cash. Any gain or loss on remeasurement at fair value is included in profit or loss. Any impairment loss applied to goodwill is not reversed in the subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## Provisions for contingent liabilities

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

### Managed funds

The Bank manages a significant amount of assets on behalf of third parties and charges a fee for these services. These assets are not included in the Bank's Statement of Financial Position (see Note 29).

### Dividend policy

The Bank has a policy to pay dividends to its shareholders based on the audited annual results. No dividends were paid in 2019 or 2018.

## 2.2 RECLASSIFICATION IN COMPARATIVE PERIODS

ON 31 DECEMBER 2018 IN HRK THOUSANDS	FS 2018	RECLASSIFICATION	RESTATED
<b>ASSETS</b>			
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	26,589	130,885	157,474
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	674,016	(130,885)	543,131
	<b>700,605</b>	<b>-</b>	<b>700,605</b>

At the beginning of 2019, the Bank reclassified a portion of its equity portfolio, which was classified in accordance with its economic substance, from its fair value portfolio through other comprehensive income to its fair value portfolio through profit or loss. The total value of the reclassified assets from the portfolio of financial assets at fair value through other comprehensive income in the amount of HRK 130,885 thousand relates to investments in several domestic and foreign investment funds in the total amount of HRK 128,970 thousand and to the reclassification of investments in one equity security in the amount of HRK 1,914 thousand.

## 2.3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

### *Judgements*

The Bank makes certain judgments about and estimates concerning uncertain events, including estimates and judgments concerning the future. Such accounting assumptions and estimates are regularly reviewed and are based on past experience and other factors, such as the expected course of future events based on reasonable current assumptions in the given circumstances, but which nevertheless represent sources of uncertainty. In applying the Bank's accounting policies, the key areas of judgement made by the Management Board, other than those involving estimates, having the most significant impact on the amounts reported in the financial statements are as follows.

### *Estimating uncertainty*

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date that have a significant risk of causing a material adjust-



ment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### *Provisions for impairment losses on loans and receivables*

The Bank regularly reviews its loans and receivables (Note 14) to assess whether there is any objective evidence of impairment. The Bank uses its experience-based judgement to estimate the amount of any impairment loss where a borrower is in financial difficulties and there is little historical data available about borrowers with similar characteristics. Similarly, the Bank estimates changes in future cash flows based on the relevant observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experience-based judgement to revise the relevant observable data in accordance with the current circumstances.

#### *Litigation provisions*

Provisions (Note 25) are recognised when the Bank has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Management maintains provisions at the level which is considered to be sufficient to cover the estimated losses and determines the sufficiency of provisions by reviewing individual items receivable, the current legal circumstances, and other relevant factors.

#### *Provisions for employee benefits*

Provisions for employee benefits are based on the Bank's Employee Benefit Policy and the related internal rules, which constitute a framework defining the basic principles and rules applying to employee benefits. The concerned by-laws define the general requirements for benefits that apply to all employees as well as specific requirements applicable only to certain qualifying employees, along with the components, types and ratios of fixed and variable benefit components. Variable benefits include bonuses, individual awards, incentives for the overall performance and similar payments, awarded in cash or financial instruments. The liabilities arising from the employee benefits are recognised in the period in which the related service is rendered and at the amounts expected to be paid.

#### *Income tax expense*

The Bank's profit is subject to corporate income tax in Croatia. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional tax liabilities will arise. If the ultimate outcome of the tax issues differs from the initially determined tax liability, any difference will be reflected in the provisions for the income tax as well as deferred taxes in the period in which the additional tax assessment is determined. Calculations supporting the tax returns are subject to audit and approval by the local tax authorities.

### 3. INTEREST AND SIMILAR INCOME AND EXPENSES

IN HRK THOUSANDS	2019	2018
<b>INTEREST INCOME</b>		
CORPORATE CUSTOMERS	40,270	40,097
INDIVIDUALS	48,286	43,823
SECURITIES	10,432	9,416
BANKS	454	619
PUBLIC AND OTHER SECTORS	5,197	5,924
	<b>104,639</b>	<b>99,879</b>
<b>INTEREST EXPENSE</b>		
CORPORATE CUSTOMERS	(886)	(1,997)
INDIVIDUALS	(8,471)	(12,707)
BANKS	(5,865)	(5,506)
PUBLIC AND OTHER SECTORS	(810)	(1,992)
	<b>(16,032)</b>	<b>(22,202)</b>
<b>NET INTEREST INCOME</b>	<b>88,607</b>	<b>77,677</b>

Interest income also includes deferred fees on loans in the total amount of HRK 5,499 thousand (2018: HRK 5,067 thousand), which are recognised on the basis of the effective interest rate method.

IN HRK THOUSANDS	2019	2018
<b>INTEREST INCOME ON:</b>		
PARTLY RECOVERABLE LOANS	923	3,144
FULLY IRRECOVERABLE LOANS	965	896
	<b>1,888</b>	<b>4,040</b>

## 4. FEE AND COMMISSION INCOME AND EXPENSES

IN HRK THOUSANDS	2019	2018
<b>FEE AND COMMISSION INCOME</b>		
PAYMENT TRANSACTION RELATED FEES AND COMMISSIONS	14,527	14,694
CARD-RELATED FEES AND COMMISSIONS	16,185	15,083
FEES AND COMMISSIONS FROM LENDING OPERATIONS	2,668	2,144
FEES AND COMMISSIONS ON SECURITIES TRADING	941	1,178
OTHER FEE AND COMMISSION INCOME	3,992	4,062
	<b>38,313</b>	<b>37,161</b>
<b>FEE AND COMMISSION EXPENSES</b>		
CASH OPERATION FEES AND COMMISSIONS	(3,884)	(3,845)
PAYMENT OPERATION CHARGES	(2,631)	(2,630)
INTERBANK SERVICE FEES	(362)	(498)
CARD-RELATED FEES	(5,587)	(4,952)
OTHER FEE AND COMMISSION EXPENSES	(2,565)	(2,546)
	<b>(14,929)</b>	<b>(14,471)</b>
<b>NET FEE AND COMMISSION INCOME</b>	<b>23,384</b>	<b>22,690</b>

Other fee and commission income consists mainly of fees collected at the Bank's counters from customers for the payments made and amounts to HRK 2,657 thousand (2018: HRK 2,518 thousand).

## 5. OTHER OPERATING INCOME, NET

IN HRK THOUSANDS	2019	2018
NET REALISED GAIN ON SALE OF SECURITIES CLASSIFIED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	19,570	4,091
FOREIGN EXCHANGE TRADING GAINS	5,582	5,447
RENTAL INCOME	2,453	2,566
REVENUES FROM THE SALE OF SECURITIES CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS	918	1,213
NET INCOME ON SALE OF PROPERTY AND EQUIPMENT	178	1,117
DIVIDEND INCOME	1,446	816
REFUND OF COURT COSTS	1,613	691
NET GAIN / (LOSS) ON THE SALE OF FORECLOSED ASSETS	(28)	266
INCOME ON SUBSEQUENT COLLECTION OF RECEIVABLES PREVIOUSLY WRITTEN OFF	9	2
NET FX DIFFERENCES ON RETRANSLATION AT THE MIDDLE EXCHANGE RATE	1,415	(677)
OTHER INCOME	1,962	3,325
	<b>35,118</b>	<b>18,857</b>

## 6. IMPAIRMENT LOSSES AND PROVISIONS

IN HRK THOUSANDS	2019	2018
PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS AND BANKS (NOTE 11,12,13,14D)	(22,381)	(10,482)
IMPAIRMENT OF DEBT SECURITIES IN THE PORTFOLIO AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (NOTE 15.2)	(114)	556
IMPAIRMENT OF EQUITY SECURITIES (NOTE 15.2)	(16)	-
REVERSAL OF PROVISIONS / (PROVISIONS) FOR GUARANTEES AND CONTINGENT LIABILITIES (NOTE 25)	609	(1,365)
REVERSAL OF IMPAIRMENT / (IMPAIRMENT) OF OTHER ASSETS (NOTE 20)	132	(287)
IMPAIRMENT OF FORECLOSED ASSETS (NOTE 20)	(334)	(284)
APPRECIATION / (IMPAIRMENT) OF INVESTMENT PROPERTIES (NOTE 16)	(671)	185
PROVISIONS FOR LEGAL CASES (NOTE 25)	(326)	-
	<b>(23,101)</b>	<b>(11,677)</b>

## 7. ADMINISTRATIVE EXPENSES

IN HRK THOUSANDS	2019	2018
PERSONNEL COSTS	47,055	42,994
COSTS OF MATERIAL AND SERVICES	28,689	28,502
RENTAL COSTS	4,262	7,820
DEPOSIT INSURANCE PREMIUMS	5,663	5,452
TAXES AND CONTRIBUTIONS	1,116	1,105
OTHER EXPENSES	1,539	568
	<b>88,294</b>	<b>86,441</b>

Other expenses include advertising and promotion, sponsorships, donations and other costs.

### Staff costs

IN HRK THOUSANDS	2019	2018
NET SALARIES	25,007	24,075
PENSION INSURANCE COSTS	6,386	6,103
HEALTH INSURANCE COSTS	6,010	5,285
OTHER COMPULSORY CONTRIBUTIONS	0	775
TAXES AND SURTAXES	5,029	5,059
PROVISIONS FOR EMPLOYEE BENEFITS	3,237	317
OTHER STAFF COSTS	1,386	1,380
	<b>47,055</b>	<b>42,994</b>

As at 31 December 2019 the Bank had 232 employees (2018: 221 employees).



## 8. DEPRECIATION AND AMORTISATION

IN HRK THOUSANDS	2019	2018
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 18)	2,752	3,019
DEPRECIATION OF LEASEHOLD IMPROVEMENTS (NOTE 18)	411	403
DEPRECIATION OF PROPERTY WITH RIGHT OF USE (NOTE 18.1)	2,698	-
AMORTISATION (NOTE 17)	2,439	2,385
	<b>8,300</b>	<b>5,807</b>

## 9. INCOME TAX EXPENSE

Corporate income tax is determined by applying the rate of 18% (2018: 18%) to taxable profits.

Tax returns are not final and are subject to review and audit for at least a three-year period. The Management Board believes that tax obligations have been adequately provided for in these financial statements.

The tax expense is comprised of the following:

IN HRK THOUSANDS	2019	2018
CURRENT TAX EXPENSE	7,253	4,608
DEFERRED TAX LIABILITIES	(1,003)	(431)
INCOME TAX ON REALISED EFFECTS ON EQUITY SECURITIES	(182)	(984)
<b>TAX EXPENSE</b>	<b>6,068</b>	<b>3,193</b>

Reconciliation of accounting profit and taxable profit:

IN HRK THOUSANDS	2019	2018
PROFIT BEFORE TAXATION	27,414	15,299
STATUTORY TAX RATE	18%	18%
<b>EXPECTED TAX AT THAT RATE</b>	<b>4,935</b>	<b>2,754</b>
<b>TEMPORARY DIFFERENCES</b>		
DEFERRED LOAN ORIGATION FEES	994	1,121
PROVISIONS FOR COURT COSTS – INTEREST	118	-
PROVISIONS FOR PAYMENTS TO EMPLOYEES	3,200	300
REALISED LOSSES – SALE OF FORECLOSED ASSETS (INVESTMENTS)	(46)	(450)
IMPAIRMENT OF FORECLOSED ASSETS	1,005	1,424
<b>NET TEMPORARY DIFFERENCES</b>	<b>5,271</b>	<b>2,395</b>
<b>PERMANENT DIFFERENCES</b>		
<b>TAX EFFECT OF NON-TAXABLE INCOME</b>	<b>(1,417)</b>	<b>(738)</b>
DIVIDENDS RECEIVED	(1,417)	(738)
<b>EFFECT OF TAX NON-DEDUCTIBLE EXPENSES</b>	<b>9,028</b>	<b>8,645</b>
ENTERTAINMENT AND TRANSPORT	515	678
DEPRECIATION ABOVE THE PRESCRIBED AMOUNTS	111	177
INTEREST FROM RELATED-PARTY RELATIONSHIPS	161	-
WRITTEN-OFF RECEIVABLES	7,135	2,315
RETAINED EARNINGS FROM THE SALE OF EQUITY SECURITIES	1,012	5,464
OTHERS	94	11
<b>NET PERMANENT DIFFERENCES</b>	<b>7,611</b>	<b>7,907</b>
TAXABLE PROFIT	40,296	25,601
TAX BASE	40,296	25,601
TAX RATE	18%	18%
INCOME TAX PAYABLE	7,253	4,608
<b>CURRENT TAX EXPENSE</b>	<b>7,253</b>	<b>4,608</b>
<b>DEFERRED TAX ASSETS / (LIABILITIES)</b>	<b>(1,003)</b>	<b>(431)</b>
<b>INCOME TAX ON REALISED GAINS ON EQUITY SECURITIES</b>	<b>(182)</b>	<b>(984)</b>
<b>TOTAL TAX EXPENSE</b>	<b>6,068</b>	<b>3,193</b>
<b>EFFECTIVE TAX RATE</b>	<b>26.46%</b>	<b>30.12%</b>

Changes in deferred tax assets and tax liabilities:

2019

IN HRK THOUSANDS	OPENING BALANCE	TAX CHARGED TO PROFIT OR LOSS	RECOGNISED IN EQUITY	CLOSING BALANCE
LOSSES FROM FINANCIAL ASSETS	535	-	-	535
LOSSES ON OTHER INVESTMENTS	2,054	173	-	2,227
DEFERRED LOAN ORIGATION FEES	1,060	179	-	1,239
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	1,944	-	(3,097)	(1,152)
IMPAIRMENT OF FINANCIAL ASSETS	363	-	-	363
PROVISIONS FOR LEGAL CASES – INTEREST	18	21	-	39
PROVISIONS FOR PAYMENTS TO EMPLOYEES	54	630	-	684
	<b>6,028</b>	<b>1,003</b>	<b>(3,097)</b>	<b>3,935</b>

2018

IN HRK THOUSANDS	OPENING BALANCE	CHARGED TO PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	CLOSING BALANCE
LOSSES FROM FINANCIAL ASSETS	535	-	-	535
LOSSES ON OTHER INVESTMENTS	1,879	175	-	2,054
DEFERRED LOAN ORIGATION FEES	858	202	-	1,060
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(1,772)	-	3,716	1,944
IMPAIRMENT OF FINANCIAL ASSETS	363	-	-	363
PROVISIONS FOR LEGAL CASES – INTEREST	18	-	-	18
PROVISIONS FOR PAYMENTS TO EMPLOYEES	-	54	-	54
	<b>1,881</b>	<b>431</b>	<b>3,716</b>	<b>6,028</b>

The deferred tax assets and deferred tax liabilities are recognised by applying a rate of 18% (2018: 18%).

## 10. EARNINGS PER SHARE

For the purposes of calculating earnings per share, earnings are calculated as the net profit after tax for the period attributable to ordinary shareholders after deducting preference dividends.

	2019	2018
PROFIT FOR THE YEAR (IN HRK 000)	21,346	12,106
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR THE YEAR	668,749	668,749
<b>EARNINGS PER SHARE (IN KUNAS) – BASIC AND DILUTED</b>	<b>31.92</b>	<b>18.10</b>

## 11. CASH AND CASH EQUIVALENTS

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
GIRO ACCOUNT WITH THE CROATIAN NATIONAL BANK	273,314	303,029
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	49,657	51,401
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	19,455	20,432
CASH IN HAND	47,761	45,208
OTHER ITEMS	12,439	12,444
	<b>402,626</b>	<b>432,514</b>
PROVISIONS FOR IMPAIRMENT	(306)	(324)
	<b>402,320</b>	<b>432,190</b>

### Changes in provisions for losses

IN HRK THOUSANDS	2019	2018
RECLASSIFICATION AS OF 1 JANUARY 2018 FROM LOANS TO CUSTOMERS	-	5,270
<b>BALANCE AT 1 JANUARY</b>	<b>324</b>	<b>5,270</b>
IMPACT OF IFRS 9	-	(3,576)
<b>BALANCE AT 1 JANUARY – RESTATED</b>	<b>-</b>	<b>1,694</b>
INCREASE / (DECREASE)	(22)	(1,281)
EXCHANGE DIFFERENCES	4	(89)
<b>BALANCE AT 31 DECEMBER</b>	<b>306</b>	<b>324</b>

For the purposes of the Statement of Cash Flows, cash and cash equivalents are comprised of the following:

IN HRK THOUSANDS	31 DECEMBER	31 DECEMBER
	2019	2018
GIRO ACCOUNT WITH THE CROATIAN NATIONAL BANK	273,314	303,029
CASH EQUIVALENTS – TERM DEPOSITS WITH OTHER BANKS (NOTE 13)	5,847	60,777
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	49,657	51,401
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	19,455	20,432
CASH IN HAND	47,761	45,208
OTHER ITEMS	12,439	12,444
	<b>408,473</b>	<b>493,291</b>

## 12. BALANCES WITH THE CROATIAN NATIONAL BANK

IN HRK THOUSANDS	31 DECEMBER	31 DECEMBER
	2018	2017
OBLIGATORY RESERVE	198,946	190,575
	<b>198,946</b>	<b>190,575</b>
IMPAIRMENT ALLOWANCES	-	-
	<b>198,946</b>	<b>190,575</b>

The obligatory reserve represents the amount of liquid assets banks are required to place with the Croatian National Bank. The obligatory reserve is calculated every second Wednesday in a month on certain average balances of liabilities from the previous month. The calculation base includes the daily average balance of received loans and deposits, issued debt securities, hybrid and subordinated instruments and other financial liabilities, along with certain deductible items. The obligatory reserve allocation rate of 12% remained unchanged throughout 2018 and 2019.

Of the total balance of the calculated obligatory reserve funds, 75% are included in the kuna-denominated reserve funds. The Bank has the obligation to allocate to a separate mandatory reserve account with the CNB 70% of the total kuna-denominated reserve funds. These funds are maintained at the level of the average balance on the settlement account and on the negative balance reserve account at the National Clearing System. Banks do not allocate the obligatory reserve but must maintain at least 2 percent of the FX obligatory reserve funds in their own euro-denominated accounts with the CNB.

The obligatory reserve balances with the Croatian National Bank are not interest-bearing.



## Changes in provision for losses

IN HRK THOUSANDS	2019	2018
RECLASSIFICATION AS OF 1 JANUARY 2018 FROM LOANS TO CUSTOMERS	-	1,887
<b>BALANCE AT 1 JANUARY</b>	-	<b>1,887</b>
IMPACT OF IFRS 9	-	(1,887)
<b>BALANCE AT 1 JANUARY – RESTATED</b>	-	-
INCREASE/ (DECREASE)	-	-
<b>BALANCE AT 31 DECEMBER</b>	-	-

## 13. BALANCES WITH OTHER BANKS

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
TERM DEPOSITS	5,847	60,777
REVERSE REPO LOANS	-	5,749
	<b>5,847</b>	<b>66,526</b>
LESS: PROVISION FOR LOAN IMPAIRMENT	(19)	(213)
	<b>5,828</b>	<b>66,313</b>

Term deposits with other banks amount to HRK 5,847 thousand and represent term deposits with foreign financial institutions bearing interest at a rate of 2.75% annually (2018: up to 2.75%)

In 2019, the Bank had no approved reverse repo loans. In 2018, reverse repo loans in the amount of HRK 5,749 thousand were granted to domestic customers based on bonds issued by the Croatian Ministry of Finance with the ISIN XS0997000251, nominal value USD 800,000, and ISIN XS1713475306, nominal value EUR 100,000.

## Changes in provision for losses

IN HRK THOUSANDS	2019	2018
RECLASSIFICATION AS OF 1 JANUARY 2018 FROM LOANS TO CUSTOMERS	-	172
<b>BALANCE AT 1 JANUARY</b>	<b>213</b>	<b>172</b>
IMPACT OF IFRS 9	-	(117)
<b>BALANCE AT 1 JANUARY – RESTATED</b>	-	<b>55</b>
INCREASE / (DECREASE)	(194)	95
EXCHANGE DIFFERENCES	-	63
<b>BALANCE AT 31 DECEMBER</b>	<b>19</b>	<b>213</b>

*Geographical analysis*

The analysis includes term deposits and current accounts (Note 11) with foreign banks:

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
AUSTRIA	19,893	26,129
BELGIUM	18,389	10,694
UNITED STATES OF AMERICA	7,561	7,337
ITALY	4,775	22,790
MONTENEGRO	2,251	992
UNITED KINGDOM	1,377	1,372
SLOVENIA	552	343
CANADA	491	1,987
SWEDEN	214	74
GERMANY	-	2,001
AUSTRALIA	-	949
SPAIN	-	304
	<b>55,503</b>	<b>75,089</b>

## 14. LOANS TO CUSTOMERS

### *a) Analysis by type of customer*

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
<b>RETAIL CUSTOMERS</b>		
- HRK DENOMINATED, INCLUDING LOANS WITH A CURRENCY CLAUSE	941,913	820,996
- FOREIGN-CURRENCY DENOMINATED	23,062	23,088
	<b>964,975</b>	<b>844,084</b>
<b>CORPORATE CUSTOMERS</b>		
- HRK DENOMINATED, INCLUDING LOANS WITH A CURRENCY CLAUSE	1,125,393	1,081,903
- FOREIGN-CURRENCY DENOMINATED	159,406	151,721
	<b>1,284,799</b>	<b>1,223,624</b>
<b>GROSS LOANS TO CUSTOMERS</b>	<b>2,249,774</b>	<b>2,077,708</b>
LESS: PROVISION FOR LOAN IMPAIRMENT	(222,828)	(243,062)
<b>NET LOANS TO CUSTOMERS</b>	<b>2,026,946</b>	<b>1,834,646</b>

*b) Analysis by sector*

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
RETAIL CUSTOMERS	964,975	844,083
WHOLESALE AND RETAIL TRADE	335,677	380,273
PROCESSING AND MANUFACTURING	316,252	288,206
REAL ESTATE OPERATIONS	127,101	102,604
AGRICULTURE AND FORESTRY	128,697	99,004
CONSTRUCTION	71,244	85,754
HOTELS AND RESTAURANTS	60,247	69,792
FOOD AND BEVERAGE PRODUCTION	49,298	41,235
TRANSPORT, STORAGE, COMMUNICATIONS	31,058	26,855
ENERGY, GAS AND WATER SUPPLY	15,647	14,597
OTHER SECTORS	149,580	125,305
	<b>2,249,776</b>	<b>2,077,708</b>
LESS: PROVISION FOR LOAN IMPAIRMENT	(222,828)	(243,062)
	<b>2,026,946</b>	<b>1,834,646</b>

*c) Movements in the principal of fully recoverable, partially and fully irrecoverable (non-performing) loans*

BANK IN THOUSANDS HRK	2019		
	STAGE 1	STAGE 2	STAGE 3
<b>BALANCE AT 1 JANUARY</b>	<b>1,631,673</b>	<b>27,686</b>	<b>418,348</b>
TRANSFER FROM STAGE 1	(24,086)	4,527	19,560
TRANSFER FROM STAGE 2	22,373	(26,286)	3,913
TRANSFER FROM STAGE 3	2,007	436	(2,443)
CHARGE	(140,147)	1,457	(10,598)
REPAYMENT AND WRITE-OFFS	(539,335)	(2,352)	(133,651)
NEW ASSETS	903,979	2,012	90,701
<b>BALANCE AT 31 DECEMBER</b>	<b>1,856,464</b>	<b>7,480</b>	<b>385,830</b>

BANK IN THOUSANDS HRK	2018		
	STAGE 1	STAGE 2	STAGE 3
<b>BALANCE AT 1 JANUARY</b>	<b>1,458,233</b>	<b>19,011</b>	<b>461,548</b>
TRANSFER FROM STAGE 1	(13,522)	6,300	7,222
TRANSFER FROM STAGE 2	12,861	(14,829)	1,968
TRANSFER FROM STAGE 3	2,312	1,208	(3,520)
CHARGE	(169,286)	(1,664)	(15,584)
REPAYMENT AND WRITE-OFFS	(467,589)	(2,119)	(35,592)
NEW ASSETS	781,664	19,779	2,306
<b>BALANCE AT 31 DECEMBER</b>	<b>1,631,673</b>	<b>27,686</b>	<b>418,348</b>

During 2019, HRK 76,309 thousand of customer loans were rescheduled (in 2018: HRK 21,539 thousand).

**d) Provisions for losses**

IN THOUSAND HRK	2019	2018
TRANSFER AT 1 JANUARY 2018 TO CASH AND ACCOUNTS WITH BANKS	-	(5,270)
TRANSFER AT 1 JANUARY 2018 TO FUNDS WITH THE CNB	-	(1,887)
TRANSFER AT 1 JANUARY 2018 TO PLACEMENT WITH OTHER BANKS	-	(172)
TRANSFER AT 1 JANUARY 2018 TO OTHER ASSETS	-	(54)
<b>BALANCE AT 1 JANUARY</b>	<b>243,062</b>	<b>245,715</b>
IMPACT OF IFRS 9	-	4,861
<b>BALANCE AT 1 JANUARY – RESTATED</b>	<b>-</b>	<b>250,576</b>
INCREASE IN IMPAIRMENT ALLOWANCE	86,414	77,582
AMOUNTS COLLECTED	(64,347)	(63,624)
EXCHANGE RATE FLUCTUATIONS	526	(19,208)
AMOUNTS WRITTEN OFF	(42,827)	(422)
<b>BALANCE AT 31 DECEMBER</b>	<b>222,828</b>	<b>243,062</b>

The Bank manages its exposure to credit risk by applying a variety of control measures: regular assessment using agreed credit criteria, diversification of sector risk to avoid concentration in a single industry. Where required, the Bank also obtains acceptable collateral to reduce the level of credit risk.

## 15.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
INVESTMENT IN INVESTMENT FUNDS	137,853	157,474
	<b>137,853</b>	<b>157,474</b>

Changes in investment during the year:

IN HRK THOUSANDS	2019.	2018
<b>BALANCE AT 1 JANUARY</b>	<b>157,474</b>	<b>22,541</b>
INCREASE	142,047	-
DECREASE	(162,586)	-
RETAINED EARNINGS	-	3,160
CHANGE IN FAIR VALUE	918	1,213
EXCHANGE DIFFERENCES	-	(325)
<b>BALANCE AT 31 DECEMBER</b>	<b>137,853</b>	<b>26,589</b>
RECLASSIFICATION	-	130,885
<b>BALANCE AT 31 DECEMBER – RESTATED</b>	<b>-</b>	<b>157,474</b>

At the beginning of 2019, the Bank reclassified a portion of its equity portfolio, which was treated according to its economic substance, from its fair value portfolio through other comprehensive income to its fair value portfolio through profit or loss. The total value of the reclassified assets from the portfolio of financial assets at fair value through other comprehensive income in the amount of HRK 130,885 thousand relates to investments in several domestic and foreign investment funds in the total amount of HRK 128,970 thousand and to the reclassification of investments in one equity security in the amount of 1,914 thousand.

## 15.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
TREASURY BILLS OF THE REPUBLIC OF CROATIA	40,440	-
BONDS	605,866	506,192
INVESTMENTS IN INVESTMENT FUNDS	-	-
EQUITY SECURITIES	49,624	47,366
	<b>695,930</b>	<b>553,558</b>
IMPAIRMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(9,972)	(10,427)
	<b>685,958</b>	<b>543,131</b>

Investments in debt securities are as follows:

### a) Treasury bills of the Republic of Croatia

IN HRK THOUSANDS	2019	2018
<b>BALANCE 1 JANUARY</b>	-	-
PURCHASE	99,892	-
SALE / (PAYMENT)	(59,484)	-
REALISED GAIN / (LOSS)	6	-
CHANGE IN FAIR VALUE	14	-
<b>IMPAIRMENT ALLOWANCE</b>	<b>12</b>	-
<b>BALANCE 31 DECEMBER</b>	<b>40,440</b>	-



**b) Bonds**

IN HRK THOUSANDS	2019	2018
<b>BALANCE 1 JANUARY</b>	<b>505,720</b>	<b>284,171</b>
PURCHASE	800,074	718,521
SALE	(730,989)	(497,054)
REALISED GAIN	19,564	4,092
CHANGE IN FAIR VALUE	10,923	(3,995)
TRANSFER UPDATES TO OCI	472	-
IMPAIRMENT ALLOWANCE	102	(15)
<b>BALANCE 31 DECEMBER</b>	<b>605,866</b>	<b>505,720</b>

The table below presents the Bank's bond i.e. debt instrument portfolio structure:

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
<b>BONDS OF DOMESTIC ISSUERS</b>		
- CROATIAN MINISTRY OF FINANCE	404,951	282,521
- FINANCIAL INSTITUTIONS	15,128	24,450
- NON-FINANCIAL INSTITUTIONS	43,246	30,732
	<b>463,325</b>	<b>337,703</b>
<b>BONDS OF FOREIGN ISSUERS</b>		
- FOREIGN GOVERNMENT BONDS	60,614	81,278
- FINANCIAL INSTITUTIONS	72,291	69,808
- NON-FINANCIAL INSTITUTIONS	9,636	17,403
	<b>142,541</b>	<b>168,489</b>
	<b>605,866</b>	<b>506,192</b>
IMPAIRMENT	-	(472)
	<b>605,866</b>	<b>505,720</b>

Investments in debt securities are as follows:

**c) Units/shares in investment funds**

IN HRK THOUSANDS	2019	2018
<b>BALANCE AT 1 JANUARY</b>	<b>-</b>	<b>258,233</b>
PURCHASES	185	4,666
SOLD / COLLECTED	272	(130,216)
REALISED GAINS	-	-
CHANGE IN THE FAIR VALUE	87	(3,713)
<b>BALANCE AT 31 DECEMBER</b>	<b>-</b>	<b>128,970</b>
RECLASSIFICATION	-	(128,970)
<b>BALANCE AT 31 DECEMBER – RESTATED</b>	<b>-</b>	<b>-</b>

The reclassification relates to the transfer of investments into the portfolio of financial assets at fair value through profit or loss (Note 15.1).

**d) Equity securities**

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
LISTED SECURITIES	40,622	39,116
UNLISTED SECURITIES	9,002	8,250
	<b>49,624</b>	<b>47,366</b>
IMPAIRMENT OF EQUITY SECURITIES	(9,972)	(9,955)
<b>TOTAL</b>	<b>39,652</b>	<b>37,411</b>

Movements in equity securities during the year:

IN HRK THOUSANDS	2019	2018
<b>BALANCE AT 1 JANUARY</b>	<b>37,412</b>	<b>59,916</b>
PURCHASES	28,872	19,637
DISPOSALS	(31,861)	(26,712)
CHANGE IN THE FAIR VALUE	5,245	(12,593)
IMPAIRMENT OF EQUITY SECURITIES	(16)	(922)
<b>BALANCE AT 31 DECEMBER</b>	<b>39,652</b>	<b>39,326</b>
RECLASSIFICATION	-	(1,914)
<b>BALANCE AT 31 DECEMBER – RESTATED</b>	<b>-</b>	<b>37,412</b>

The reclassification relates to the transfer of investments into the portfolio of financial assets at fair value through profit or loss (Note 15.1).

The table below presents the Bank's equity instrument portfolio structure:

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
<b>EQUITY SECURITIES OF DOMESTIC ISSUERS</b>		
- FINANCIAL INSTITUTIONS	1,550	724
- NON-FINANCIAL INSTITUTIONS	33,020	30,352
	<b>34,570</b>	<b>31,076</b>
<b>EQUITY SECURITIES OF FOREIGN ISSUERS</b>		
- FINANCIAL INSTITUTIONS	5,257	9,577
- NON-FINANCIAL INSTITUTIONS	9,797	6,714
	<b>15,054</b>	<b>16,291</b>
	<b>49,624</b>	<b>47,367</b>
IMPAIRMENT OF EQUITY SECURITIES	(9,972)	(9,955)
	<b>39,652</b>	<b>37,412</b>

*e) Fair value reserve for financial assets at fair value through comprehensive income*

TYPE OF SECURITIES IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
<b>BY SECURITY TYPE:</b>		
DEBT SECURITIES	9,335	(2,188)
UNITS/SHARES IN INVESTMENT FUNDS	-	(87)
EQUITY SECURITIES	(2,932)	(8,177)
DEFERRED TAX (NOTE 9)	(1,153)	1,944
<b>TOTAL FAIR VALUE RESERVE</b>	<b>5,250</b>	<b>(8,508)</b>

Movements in the fair value reserve

IN HRK THOUSANDS	2019	2018
<b>BALANCE AT 1 JANUARY</b>	<b>(8,508)</b>	<b>8,075</b>
IMPACT OF IFRS 9 – EXPECTED CREDIT LOSS	-	904
IMPACT OF IFRS 9 – CHANGE OF CLASSIFICATION	-	(2,591)
<b>BALANCE AT 1 JANUARY – RESTATED</b>	<b>-</b>	<b>6,388</b>
CHANGE IN THE FAIR VALUE OF DEBT SECURITIES	10,937	(4,343)
CHANGE IN THE FAIR VALUE OF UNITS/SHARES IN INVESTMENT FUNDS	87	(1,122)
CHANGE IN THE FAIR VALUE OF EQUITY SECURITIES	5,245	(12,592)
CHANGES IN PROVISIONS FOR EXPECTED CREDIT LOSSES ON FVOCI FINANCIAL ASSETS	114	(556)
TRANSFER UPDATES TO OCI	472	-
DEFERRED TAX RECOGNISED IN EQUITY (NOTE 9)	(3,097)	3,717
<b>BALANCE AT 31 DECEMBER</b>	<b>5,250</b>	<b>(8,508)</b>

Movements in the impairment of financial assets at fair value through comprehensive income

IN HRK THOUSANDS	2019	2018
<b>BALANCE AT 1 JANUARY</b>	<b>10,427</b>	<b>9,491</b>
ADDITIONS	1,113	2,797
DECREASE	(1,568)	(1,861)
<b>BALANCE AT 31 DECEMBER</b>	<b>9,972</b>	<b>10,427</b>

## 16. INVESTMENT PROPERTIES

IN HRK THOUSANDS	31 DECEMBER	31 DECEMBER
	2019	2018
INVESTMENTS IN PROPERTIES	52,000	46,915
RECLASSIFIED FROM OTHER ASSETS	-	252
RECLASSIFIED FROM PROPERTY AND EQUIPMENT	-	5,912
	<b>52,000</b>	<b>53,079</b>
FAIR VALUE CHANGE	(10,621)	(9,950)
	<b>41,379</b>	<b>43,129</b>

Movement of impairment of investment property

IN HRK THOUSANDS	2019	2018
<b>BALANCE AT 1 JANUARY</b>	<b>9,950</b>	<b>10,135</b>
IMPAIRMENT	671	(185)
<b>BALANCE AT 31 DECEMBER</b>	<b>10,621</b>	<b>9,950</b>

Investment property relates to repossessed assets and own assets not used for business operations and leased without constraining clauses for the purpose of earning income from assets and saving on maintenance costs. Operating costs related to leased assets are charged to lessees. Subsequent measurement of assets in 2019 shows a decrease in the value of assets in the total amount of HRK 671 thousand (in 2018: increase of 185 thousand HRK).

Investments in properties are measured at fair value less costs to sell. The fair value of such assets is estimated annually. Gains in the Statement of Profit and Loss in addition to previously recognised impairments are recognised upon derecognition. To assess the fair value of assets, the Bank employs independent and certified appraisers who have experience in valuing similar assets and have no interest in the property in question or interest in the amount of the assessed value of the property. The appraisers prepare the assessment report in accordance with the Law on Real Estate Valuation (OG 78/2015), and the accompanying Rulebook on Methods of Valuation of Real Estate (OG 105/2015), according to statutory and appropriate methods, considering a number of factors in determining its fair value.

The valuation method has not changed during the year.

## 17. INTANGIBLE ASSETS

IN HRK THOUSANDS	SOFTWARE	GOODWILL	ASSETS UNDER DEVELOPMENT	TOTAL INTANGIBLE ASSETS
<b>COST OR VALUATION</b>				
<b>BALANCE AT 1 JANUARY 2018</b>	<b>47,835</b>	<b>16,867</b>	<b>24</b>	<b>64,726</b>
ADDITIONS	2,550	-	-	2,550
TRANSFER FROM ASSETS UNDER DEVELOPMENT	(148)	-	(24)	(148)
DISPOSALS AND WRITE-OFFS	(1,865)	-	-	(1,865)
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>48,372</b>	<b>16,867</b>	<b>24</b>	<b>65,263</b>
ADDITIONS	513	-	1,179	1,692
TRANSFER FROM ASSETS UNDER DEVELOPMENT	-	-	-	-
DISPOSALS AND WRITE-OFFS	-	-	-	-
<b>BALANCE AT 31 DECEMBER 2019</b>	<b>48,885</b>	<b>16,867</b>	<b>1,203</b>	<b>66,955</b>
<b>AMORTISATION</b>				
<b>BALANCE AT 1 JANUARY 2018</b>	<b>20,663</b>	-	-	<b>20,663</b>
CHARGE FOR THE YEAR	2,385	-	-	2,385
DISPOSALS AND WRITE-OFFS	(1,865)	-	-	(1,865)
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>21,183</b>	-	-	<b>21,183</b>
CHARGE FOR THE YEAR	2,439	-	-	2,439
DISPOSALS AND WRITE-OFFS	-	-	-	-
<b>BALANCE AT 31 DECEMBER 2019</b>	<b>23,622</b>	-	-	<b>23,622</b>
<b>NET BOOK VALUE</b>				
<b>BALANCE AT 31 DECEMBER 2019</b>	<b>25,263</b>	<b>16,867</b>	<b>1,203</b>	<b>43,333</b>
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>27,189</b>	<b>16,867</b>	<b>24</b>	<b>44,080</b>

Goodwill has been allocated to the cash generating unit acquired on the merger with Požeška Banka d.d. The recoverable amount of the cash generating units is determined based on a profitability calculation. For the purposes of the calculation, cash flow forecasts have been developed based on a financial projection over a time horizon of five years. The discount rate applied to determine the value in use was 9.0% (2018: 9.5%) and the long-term growth rate was 2% (2018: 2%).

The budgeted gross margin has been determined on the basis of past experience and the expected market development. The discount rate applied reflects the specific risks of the relevant business segment.

The Bank carries out stress tests on individual inputs used in determining the value in use under three scenarios. In the specific scenario in which the discount rate equals the rate applied, anticipated profitability is 38% lower as a result of lower interest and fee income and the interest and fee expenses increase simultaneously by 35%. The



systemic scenario uses an increase in the discount rate to 10.8% due to the worsening of the credit rating of the Republic of Croatia. There is also a combined scenario in which the anticipated profitability is lower by 38% and the macroeconomic indicators and the credit rating of the state are worse than those applied in the specific and systemic scenarios.

The test results are provided below:

	31 DECEMBER 2019	SPECIFIC SCENARIO	SYSTEMIC SCENARIO	COMBINED SCENARIO
INVESTMENT COST	43,465	43,465	43,465	43,465
TOTAL PRESENT VALUE	92,951	48,232	73,641	38,214
<b>LESS: IMPAIRMENT</b>	-	-	-	<b>(5,251)</b>

	31 DECEMBER 2018	SPECIFIC SCENARIO	SYSTEMIC SCENARIO	COMBINED SCENARIO
INVESTMENT COST	43,465	43,465	43,465	43,465
TOTAL PRESENT VALUE	100,220	47,904	77,885	37,231
<b>LESS: IMPAIRMENT</b>	-	-	-	<b>(6,234)</b>

The stress test results in the specific and systemic scenarios are positive, while in the combined scenario contradictory assumptions are required in order to achieve a negative result. The test has shown that the recoverable amount of the cash generating unit exceeds its carrying amount and that no impairment should be recognised.

Goodwill was created on the acquisition of Požeška Banka d.d. and is calculated and posted on the acquisition date or on the date of merger of the entity if later.

## 18. PROPERTY AND EQUIPMENT

IN HRK THOUSANDS COST OR VALUATION	LAND AND BUILDINGS	FURNITURE AND EQUIPMENT	MOTOR VEHICLES	IT EQUIPMENT	LEASEHOLD IMPROVE- MENTS	ASSETS UNDER CON- STRUCTION	TOTAL
<b>BALANCE AT 1 JANUARY 2018</b>	<b>99,273</b>	<b>48,219</b>	<b>2,537</b>	<b>30,466</b>	<b>10,478</b>	<b>11</b>	<b>190,984</b>
ADDITIONS	49	32	-	65	-	-	146
TRANSFERS TO OTHER ASSETS	(9,844)	-	-	-	-	-	(9,844)
DISPOSALS AND WRITE- OFFS	-	(7,823)	-	(4,703)	-	-	(12,526)
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>89,478</b>	<b>40,428</b>	<b>2,537</b>	<b>25,828</b>	<b>10,478</b>	<b>11</b>	<b>168,760</b>
ADDITIONS	-	645	954	590	-	-	2,189
DISPOSALS AND WRITE- OFFS	-	(965)	(1,684)	(521)	-	-	(3,170)
<b>BALANCE AT 31 DECEMBER 2019</b>	<b>89,478</b>	<b>40,108</b>	<b>1,807</b>	<b>25,897</b>	<b>10,478</b>	<b>11</b>	<b>167,779</b>
<b>DEPRECIATION</b>							
<b>BALANCE AT 1 JANUARY 2018</b>	<b>49,721</b>	<b>45,726</b>	<b>1,743</b>	<b>30,161</b>	<b>9,587</b>	<b>-</b>	<b>136,938</b>
CHARGE FOR THE YEAR	1,551	1,034	337	97	403	-	3,422
TRANSFERS TO OTHER ASSETS	(3,932)	-	-	-	-	-	(3,932)
DISPOSALS AND WRITE- OFFS	-	(7,823)	-	(4,682)	-	-	(12,505)
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>47,340</b>	<b>38,937</b>	<b>2,080</b>	<b>25,576</b>	<b>9,990</b>	<b>-</b>	<b>123,923</b>
CHARGE FOR THE YEAR	1,551	844	211	146	411	-	3,163
DISPOSALS AND WRITE- OFFS	-	(965)	(1,279)	(521)	-	-	(2,765)
<b>BALANCE AT 31 DECEMBER 2019</b>	<b>48,891</b>	<b>38,816</b>	<b>1,012</b>	<b>25,201</b>	<b>10,401</b>	<b>-</b>	<b>124,321</b>
<b>NET BOOK VALUE</b>							
<b>AT 31 DECEMBER 2019</b>	<b>40,587</b>	<b>1,292</b>	<b>795</b>	<b>696</b>	<b>77</b>	<b>11</b>	<b>43,458</b>
<b>AT 31 DECEMBER 2018</b>	<b>42,138</b>	<b>1,491</b>	<b>457</b>	<b>252</b>	<b>488</b>	<b>11</b>	<b>44,837</b>

The Bank has no tangible assets pledged as collateral for deposits or other assets in 2019 and 2018.

## 18.1. RIGHT-OF-USE ASSETS

IN HRK THOUSANDS	LAND AND BUILDINGS	MOTOR VEHICLES	TOTAL
<b>COST OR ESTIMATED VALUE</b>			
IFRS 16 – INITIAL RECOGNITION	14,659	-	14,659
<b>BALANCE AT 1 JANUARY 2019</b>	<b>14,659</b>	<b>-</b>	<b>14,659</b>
ADDITIONS	-	1,980	1,980
DISPOSALS AND WRITE-OFFS	-	-	-
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>14,659</b>	<b>1,980</b>	<b>16,639</b>
<b>DEPRECIATION</b>			
<b>BALANCE AT 1 JANUARY 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>
CHARGE FOR THE YEAR	2,492	206	2,698
DISPOSALS AND WRITE-OFFS	-	-	-
<b>BALANCE AT 31 DECEMBER 2019</b>	<b>2,492</b>	<b>206</b>	<b>2,698</b>
<b>NET BOOK VALUE</b>			
<b>BALANCE AT 31 DECEMBER 2019</b>	<b>12,167</b>	<b>1,774</b>	<b>13,941</b>

The new IFRS 16 standard, effective 1 January 2019, requires a lessee to recognise a right-of-use asset and associated lease liability in its financial records.

Right-of-use assets consist of leased property for which, under the lease agreement, the right of direct use and control over its use has been granted for a fixed period in exchange for compensation. Exempt are short-term lease agreements where the lease term is less than 12 months or where the lease object is of a low value.

In the accounting records, right-of-use assets are recorded as leased assets depending on the subject of the lease (e.g. buildings, equipment, motor vehicles, etc.).

## 19. ASSETS HELD FOR SALE

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
ASSETS HELD FOR SALE	998	1,260
	<b>998</b>	<b>1,260</b>
IMPAIRMENT OF ASSETS HELD FOR SALE	-	(46)
	<b>998</b>	<b>1,214</b>

## Movements in impairment of assets held for sale

IN HRK THOUSANDS	2019	2018
<b>BALANCE AT 1 JANUARY</b>	<b>46</b>	<b>495</b>
IMPAIRMENT	-	-
DISPOSALS	(46)	(449)
<b>BALANCE AT 31 DECEMBER</b>	<b>-</b>	<b>46</b>

The portfolio of assets held for sale refers to the property acquired in exchange for non-repayable receivables. In 2019 and 2018, there was no change in the value of the portfolio of property intended for sale. Assets are marketed for sale through foreign real estate agencies with which the Bank has concluded mediation contracts. The expected sales deadline is one year. In 2019, sale of assets with a book value of HRK 216 thousand was realised.

## 20. OTHER ASSETS

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
FORECLOSED ASSETS	10,194	11,029
ACCRUED FEES AND COMMISSIONS	4,576	5,227
PREPAID EXPENSES	1,717	1,944
OTHER PREPAYMENTS	1,485	1,111
OTHER ASSETS	1,856	2,221
	<b>19,828</b>	<b>21,532</b>
LESS: IMPAIRMENT	(6,236)	(6,649)
	<b>13,592</b>	<b>14,883</b>

Property and equipment taken over in exchange for uncollected receivables are not used for the Bank's needs and as at 31 December 2018 the net value of the assets taken over is HRK 8,115 thousand (in 2018: HRK 9,284 thousand).

Subsequent measurement of assets acquired in exchange for uncollectible receivables in 2019 recorded a decrease in the value of acquired assets in the total amount of HRK 334 thousand (in 2018: HRK 284 thousand).

Movements in the provision for potential losses on other assets are as follows:

IN HRK THOUSANDS	2019	2018
RECLASSIFICATION AS OF 1 JANUARY 2018 FROM CUSTOMER LOANS	-	54
<b>BALANCE AT 1 JANUARY</b>	<b>6,649</b>	<b>7,147</b>
IMPACT OF IFRS 9	-	(164)
<b>BALANCE AT 1 JANUARY – RESTATED</b>	<b>-</b>	<b>6,983</b>
IMPAIRMENT OF OTHER ASSETS	2,014	2,567
AMOUNTS COLLECTED	(2,147)	(2,271)
EXCHANGE DIFFERENCES	1	(9)
AMOUNTS WRITTEN-OFF	(615)	(905)
SALE OF FORECLOSED ASSETS	334	284
<b>BALANCE AT 31 DECEMBER</b>	<b>6,236</b>	<b>7,093</b>

## 21. AMOUNTS DUE TO OTHER BANKS

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
DEMAND DEPOSITS, IN FOREIGN CURRENCIES	7,831	5,792
DEMAND DEPOSITS, IN HRK	3	1
TERM DEPOSITS WITH DOMESTIC AND FOREIGN BANKS, IN FOREIGN CURRENCIES	-	1,937
	<b>7,833</b>	<b>7,730</b>

Bank term deposits in foreign currencies were received at an interest rate of 0.25% in 2018, while no bank term deposits were received in 2019.

## 22. AMOUNTS DUE TO CUSTOMERS

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
<b>RETAIL CUSTOMERS</b>		
<b>DEMAND DEPOSITS</b>		
- HRK DENOMINATED	572,047	467,153
- FOREIGN-CURRENCY DENOMINATED	506,839	391,558
<b>TERM DEPOSITS</b>		
- HRK DENOMINATED	260,355	311,689
- FOREIGN-CURRENCY DENOMINATED	610,117	736,298
<b>TOTAL RETAIL DEPOSITS</b>	<b>1,949,358</b>	<b>1,906,698</b>



<b>CORPORATE</b>		
<b>DEMAND DEPOSITS</b>		
- HRK DENOMINATED	476,196	331,020
- FOREIGN-CURRENCY DENOMINATED	83,657	55,868
<b>TERM DEPOSITS</b>		
- HRK DENOMINATED	176,673	136,387
- FOREIGN-CURRENCY DENOMINATED	20,532	19,242
<b>TOTAL LOANS TO LEGAL PERSONS</b>	<b>757,058</b>	<b>542,517</b>
<b>TOTAL DEPOSITS FROM CUSTOMERS</b>	<b>2,706,416</b>	<b>2,449,215</b>

## 23. OTHER BORROWINGS

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
BORROWINGS FROM HBOR (CROATIAN DEVELOPMENT BANK)	145,979	131,930
REPO LOANS FROM THE CNB, HRK DENOMINATED	93,287	92,009
REPO LOANS FROM DOMESTIC BANKS, FOREIGN-CURRENCY DENOMINATED	13,488	16,320
REPO LOANS FROM DOMESTIC BANKS, HRK DENOMINATED	-	70,001
LOANS FROM DOMESTIC BANKS	7,443	14,835
	<b>260,197</b>	<b>325,095</b>

The HBOR loans are intended for granting loans to legal and natural persons in accordance with the HBOR SME, Tourism and Agriculture Loan Programmes.

Repo loans are comprised of loans for which the Bank has pledged securities as collateral, with the obligation to repurchase them at a certain future date. In 2019, the Bank has three repo loan arrangements entered with the Croatian National Bank, with interest rates of 1.20% and 1.80% respectively (2018: interest rates were 1.20% and 1.80% respectively). One short-term repo loan with an interest rate of 2.80% was contracted with a domestic bank (in 2018: three short-term repo loans, two of which had an interest rate of 0.03% and one of which had an interest rate of 0.20%)

For all repo loans in 2019 and 2018 the Bank has pledged the bonds of the Ministry of Finance of Republic of Croatia as security.

A short-term loan was made with domestic banks at an annual interest rate of 0.10% (in 2018: 0.08%).

## 24. OTHER LIABILITIES

IN HRK THOUSANDS	31 DECEMBER	31 DECEMBER
	2018	2019
ITEMS IN THE COURSE OF PAYMENT UNDER LOANS ISSUED	25,598	32,078
LIABILITIES FOR USE OF PROPERTY	14,169	-
OTHER FOREIGN-CURRENCY DENOMINATED LIABILITIES	5,408	5,393
ACCOUNTS PAYABLE	2,779	3,586
LIABILITIES TO EMPLOYEES	3,437	3,310
LIABILITIES ACCRUED ON THE BASIS OF RECEIVED FUNDS	1,488	2,255
OBLIGATIONS IN THE PAYMENT PROCESS	1,617	2,000
OTHER HRK DENOMINATED LIABILITIES	1,674	1,864
PREPAID DEPOSIT INSURANCE PREMIUMS	1,437	1,212
ACCRUED FEES AND COMMISSIONS	662	864
CURRENT TAX LIABILITY	3,322	666
PROVISIONS FOR RETIREMENT AND OTHER BENEFITS TO EMPLOYEES	3,810	574
DIVIDENDS PAYABLE	111	113
	<b>65,512</b>	<b>53,915</b>

## 25. PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES

### a) Analysis

IN HRK THOUSANDS	31 DECEMBER	31 DECEMBER
	2019	2018
PROVISIONS FOR FRAMEWORK LOANS	3,382	4,308
PROVISIONS FOR GUARANTEES	1,444	1,082
PROVISIONS FOR LEGAL CASES	622	297
PROVISIONS FOR UNCOVERED LETTERS OF CREDIT	2	47
PROVISIONS FOR OTHER CONTINGENT LIABILITIES	15	14
	<b>5,465</b>	<b>5,748</b>

### b) Movements in provisions

IN HRK THOUSANDS	2019	2018
<b>BALANCE AT 1 JANUARY</b>	<b>5,748</b>	<b>4,397</b>
IMPACT OF IFRS 9	-	(13)
<b>BALANCE AT 1 JANUARY – RESTATED</b>	<b>-</b>	<b>4,384</b>
ADDITIONAL PROVISIONS MADE WITH RESPECT TO CREDIT RISK	17,574	14,959
DECREASE IN THE BALANCE OF PROVISIONS DURING THE YEAR WITH RESPECT TO CREDIT RISK	(18,183)	(13,594)
(DECREASE) / INCREASE IN PROVISIONS FOR LEGAL CASES	326	-
<b>BALANCE AT 31 DECEMBER</b>	<b>5,465</b>	<b>5,749</b>

## 26. ISSUED HYBRID AND SUBORDINATED INSTRUMENTS

IN HRK THOUSANDS	31 DECEMBER 31 DECEMBER	
	2019	2018
ISSUED SUBORDINATED BONDS	97,337	97,004
	<b>97,337</b>	<b>97,004</b>

On 23 December 2013, the Bank carried out the subscription of subordinated instruments by issuing PDBA-O-21CA bonds, ISIN: HRPDBAO21CA3. The bonds were issued in book-entry form, with a total issue value of HRK 6.9 million, denominated in EUR 1. The interest rate is fixed at 6.5% per annum, with a semi-annual payment and a one-off principal maturity of 2021.

On 29 May 2018, the Bank issued a new series of PDBA-O-255E subordinated bonds, ISIN: HRPDBAO255E4, in book-entry form, for a total amount of EUR 9,406,590 denominated in EUR 1, with a fixed interest rate of 4.0% per annum and a half-yearly payment, and a one-off principal maturity on 29 May 2025.

Subordinated bonds were issued with a public offering in 2018, without the prospectus being published, with the simultaneous early redemption of all or part of the PDBA-O-188A and PDBA-O-21CA bond issues.

Upon completion and the end of the public offering, hybrid bonds PDBA-O-188A, ISIN: HRPDBAO188A5 in the amount of EUR 6,126,590 and subordinate bonds PDBA-O-21CA, ISIN: HRPDBAO21CA3 in the amount of EUR 3,280,000 were redeemed early and cancelled.

The remaining amount of the PDBA-O-188A hybrid bonds, ISIN: HRPDBAO188A5, in the amount of EUR 3,873,410, was paid out upon maturity on 22 August 2018.

The Bank's additional capital includes the unamortised amount of subordinated bonds issued.

## 27. SHARE CAPITAL

The share capital consists of ordinary shares. The total number of issued shares at the end of 2019 was 668,749 ordinary shares (2018: 668,749 ordinary shares) with a nominal value of HRK 400.00 per share.

As at 31 December 2019, the Bank held 1,523 treasury shares carried at cost (2018: 1,523 treasury shares).

The key shareholders of the Bank at 31 December were as follows:

IN HRK THOUSANDS	2019		2018	
	NUMBER OF SHARES	ORDINARY SHARES, IN %	NUMBER OF SHARES	ORDINARY SHARES, IN %
ANTONIA GORGONI	66,278	9.91	66,278	9.91
LORENZO GORGONI	66,002	9.87	66,002	9.87
ASSICURAZIONI GENERALI S.P.A.	63,791	9.54	63,791	9.54
CERERE S,R,L, TRIESTE	63,735	9.53	63,735	9.53
MILJAN TODOROVIC	55,731	8.33	55,731	8.33
SIGILFREDO MONTINARI	38,529	5.76	38,529	5.76
DARIO MONTINARI	38,526	5.76	38,526	5.76
ANDREA MONTINARI	38,515	5.76	38,515	5.76
PIERO MONTINARI	38,515	5.76	38,515	5.76
GIOVANNI SEMERARO	27,494	4.11	27,494	4.11
MARIO GORGONI	22,868	3.42	22,868	3.42
OTHER SHAREHOLDERS (INDIVIDUALLY BELOW 3%)	148,765	22.25	148,765	22.25
	<b>668,749</b>	<b>100.00</b>	<b>668,749</b>	<b>100.00</b>

## 28. RESERVES

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
LEGAL RESERVES	156,041	143,935
RESERVES FOR OWN SHARES	16,830	16,830
GENERAL BANKING RISK RESERVE	5,104	5,104
NON-DISTRIBUTABLE RESERVES	177,975	165,869
CAPITAL GAINS ON TRADING IN TREASURY SHARES	(3,282)	(3,282)
FAIR VALUE RESERVE	5,250	(8,508)
DISTRIBUTABLE RESERVES	1,968	(11,790)
	<b>179,943</b>	<b>154,079</b>

Under the Croatian Companies Act, the Bank is required to allocate part of the net profit to a non-distributable legal reserve until the reserve funds reach 5% of the share capital or more if specified by the Bank's Statutes. The general banking risk reserve was allocated in accordance with the CNB regulations out of the net profits for 2006. The general banking risk reserve funds may be allocated upon the expiry of three consecutive years in which the Bank's exposure has been increasing at a rate below 15% annually. Other reserves are distributable only with the approval by the General Assembly of Shareholders.

Both the distributable and non-distributable reserves of the Bank have been determined and presented in these financial statements in accordance with Croatian regulations and decisions of the Croatian National Bank.

## 29. FUNDS MANAGED FOR AND ON BEHALF OF THIRD PARTIES AND CUSTODY SERVICES

The Bank manages funds on behalf of third parties, both individuals and other persons. Those funds are accounted for separately from those of the Bank. Income and expenses arising from these funds are credited and charged to third parties, and the Bank has no liabilities with respect to these transactions. The Bank charges a fee for these services.

Assets and liabilities on loans managed for and on behalf of third parties are as follows:

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
<b>ASSETS</b>		
LOANS TO INDIVIDUALS	9,064	11,361
CORPORATE LOANS	691	879
CASH	533	560
<b>TOTAL ASSETS</b>	<b>10,288</b>	<b>12,800</b>
<b>LIABILITIES</b>		
FINANCIAL INSTITUTIONS	7,473	8,376
PUBLIC SECTOR	948	2,397
CORPORATE	1,867	2,027
<b>TOTAL LIABILITIES</b>	<b>10,288</b>	<b>12,800</b>

The Bank provides security custody services on behalf of third parties. The values of the instruments held in the Bank's custody are shown below:

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
VALUE OF FINANCIAL INSTRUMENTS	727,645	815,484

## 30. CONTINGENT LIABILITIES AND COMMITMENTS

### a) Legal cases

At 31 December 2019 there were several legal cases outstanding against the Bank. Based on the management's estimate, a provision for potential losses on the litigations has been made in the amount of HRK 622 thousand (2018: HRK 297 thousand).

### b) Guarantees, letters of credit and undrawn framework loans commitments

Total outstanding amounts under guarantees, letters of credit and undrawn loans i.e. lending commitments at the year-end were as follows:



IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
COMMITMENTS – UNDRAWN LOANS	182,207	235,441
COMMITMENTS – UNDRAWN FRAMEWORK LOANS ON TRANSACTION ACCOUNTS	141,665	143,689
GUARANTEES	80,043	66,602
FX LETTERS OF CREDIT	95	2,909
	<b>404,010</b>	<b>448,641</b>

The primary purpose of commitments and contingencies is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans.

### c) Operating lease

Future minimum payments under operating leases are as follows:

IN HRK THOUSANDS	31 DECEMBER 2019	31 DECEMBER 2018
UP TO 1 YEAR	69	3,375
FROM 2 TO 5 YEARS	-	4,466
OVER 5 YEARS	-	1,475
<b>TOTAL</b>	<b>69</b>	<b>9,316</b>

Upon the expiry of the lease term, the lease agreements are renewable at the market price. The Bank has operating lease agreements for business premises, vehicles and equipment.

With the application of the new IFRS 16 standard in 2019, the value of operating lease liabilities decreased significantly and amounted to HRK 69 thousand (2018: HRK 9,316 thousand). The new IFRS 16 standard requires a lessee to recognise in its financial records both the property with the right of use and the lease obligations for all leases, including operating leases. Short-term leases (up to 12 months) and low-value property leases (up to USD 5,000) are exempted from the application of IFRS 16, such as the rental of ATM premises and low-value equipment. Commitments in the amount of HRK 69 thousand relate to the lease of ATM premises, and contracts for this type of lease are classified as leases of low value assets.

All payments related to such leases in the lessee's books of account are recognised as an expense over the lease term. In 2018, contingent liabilities and commitments also included commitments to lease office space and motor vehicles, while in 2019, under IFRS 16 these contracts were recorded as assets in use.

## 31. RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Such transactions are made in the ordinary course of business at market terms and conditions, and market interest rates. In considering each possible related party relationship, the substance of the relationship is considered, and not merely the legal form.

Transactions with key management personnel and related persons are presented in the following table:

IN HRK THOUSANDS	KEY MANAGEMENT PERSONNEL AND THEIR RELATED PERSONS		SUPERVISORY BOARD	
	2019	2018	2019	2018
<b>LOANS</b>				
BALANCE AT BEGINNING OF THE YEAR	1,941	2,021	22,467	22,807
INCREASE / (DECREASE) DURING YEAR	(317)	(80)	178	(340)
<b>BALANCE AT THE END OF THE YEAR</b>	<b>1,624</b>	<b>1,941</b>	<b>22,645</b>	<b>22,467</b>
REALISED INTEREST INCOME	64	74	1,248	1,431
<b>DEPOSITS RECEIVED</b>				
BALANCE AT BEGINNING OF THE YEAR	6,623	6,502	1,007	343
INCREASE / (DECREASE) DURING THE YEAR	(1,761)	122	1,793	664
<b>BALANCE AT THE END OF THE YEAR</b>	<b>4,862</b>	<b>6,624</b>	<b>2,800</b>	<b>1,007</b>
REALISED INTEREST EXPENSE	15	67	1	-

### Management remuneration

IN HRK THOUSANDS	2019	2018
GROSS SALARIES AND OTHER SHORT-TERM BENEFITS	14,925	14,854

The Bank's Management Board consists of three members. The gross salaries and other short-term benefits are comprised of the total payroll costs and benefits in kind provided to the Members of the Management Board, the Bank's officers holding general power of attorney as well as provisions for bonuses and fees to the Supervisory Board Members.

Expenses for bonuses management are not scheduled in 2019.

Remuneration of the Members of the Supervisory Board in 2019 amounted to HRK 3,991 thousand (in 2018: HRK 3,929 thousand).

Transactions with other parties related with the Bank are presented in the following table:

IN HRK THOUSANDS	2019	2018
<b>DUE FROM BANKS</b>		
OPENING BALANCE	992	14,320
INCREASE / (DECREASE) DURING YEAR	1,259	(13,328)
<b>CLOSING BALANCE</b>	<b>2,251</b>	<b>992</b>
<b>DUE TO BANKS AND LIABILITIES FROM SUBORDINATED INSTRUMENTS ISSUED</b>		
OPENING BALANCE	15,188	16,180
INCREASE / (DECREASE) DURING YEAR	706	(992)
<b>CLOSING BALANCE</b>	<b>15,894</b>	<b>15,188</b>
	<b>2019</b>	<b>2018</b>
INTEREST INCOME	25	3
FEE AND COMMISSION INCOME	224	476
<b>TOTAL INCOME</b>	<b>249</b>	<b>479</b>
INTEREST EXPENSE	593	743
FEE AND COMMISSION EXPENSE	19	1
<b>TOTAL EXPENSE</b>	<b>612</b>	<b>744</b>

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES

This note provides details of the Bank's exposure to financial risks and describes the methods used by the management to control the risk.

The Bank's operations are exposed to various types of financial risks. These operations include analysing, assessing, accepting and managing a certain level of risk, or a combination of risks. It is assumed that risk is a fundamental feature of financial operations, with risks being inherent to such operations. The Bank's aim is to achieve an appropriate balance between the risk and return, whilst minimising potential negative effects on its financial performance.

Risk management policies have been designed to identify and analyse those risks in order to define appropriate limits and controls, and to monitor those risks and ensure compliance by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect any changes in its markets, products and best practices. The most significant types of financial risks to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and equities and debt securities price risk. Limits are set for all the risk types. Methodologies and models for managing the operational risk have been developed.

## Credit risk

The Bank takes on exposure to credit risk, which may be defined as the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank. Major changes in the economy or the status of an industry in which the portfolio is concentrated may lead to losses not provided for at the reporting date. Therefore, the Management Board manages its exposure to credit risk with a high level of prudence. The exposure to credit risk arises primarily in respect of loans and advances, debt and other securities. Credit risk is also present in off-balance sheet financial arrangements, such as commitments to extend credit and guarantees issued. Credit risk management is the responsibility of the Credit Risk Management Division, and risk control is the responsibility of the Risk Management Division.

Credit risk is managed in accordance with policies, procedures and other internal guidelines. The Credit Policy defines the focus of considerations to be taken into account in performing credit operations. If a proposal to extend a loan departs from the Credit Policy, the final decision is made by the Bank's Management Board.

The structure of loans over a certain period is defined by the Credit Policy. Loans are structured by type of customer, or groups of customers, type or group of products, by sector and industry. Given that loans are approved using the "four eyes" principle, it is very unlikely that any loan authorised by overriding the procedures could remain undetected.

The Credit Policy defines and sets out policies and procedures for extending loans to legal persons and individuals. Credit risk is reviewed on an ongoing basis and reported on regularly in order to promptly identify any indication of impairment in the loan portfolio. The Bank applies prudent methods and models in the process of assessing credit risk.

In order to improve credit risk management, the Bank estimates the creditworthiness of its clients and, in order to reduce the credit risk, takes out the appropriate insurance instruments.

Credit risk management includes assessing the credit risk of placements, subsequently monitoring and estimating the recoverability of placements and off-balance sheet liabilities and carrying out the required impairment losses and provisions for identified losses on placements and off-balance sheet liabilities.

When assessing the credit risk of placements, the following is estimated:

- (1) client's creditworthiness,
- (2) debtor's timeliness in settling obligations to the Bank and other creditors and
- (3) collateral quality per exposure.

In the placement monitoring process, there is a continuous check on whether there is any deterioration in the client's financial position, currency risk exposure, or risk due to a reduction in the value of the insurance instrument.

Depending on the assessment of the above criteria, the Bank allocates all placements to the following categories:

- a) risk group A, which consists of the risk subgroups A1 and A2,
- b) risk group B, consisting of risk subgroups B1, B2 and B3 and
- c) risk group C.

The bank allocates credit exposures for which no significant increase in credit risk has been established since the initial recognition date into risk subgroup A1 (stage

1). Impairment losses and provisions for credit losses are determined on the basis of the 12-month expected credit losses that represent the part of the life-long expected credit losses that would occur in the event of the default of the obligation within the next 12 months.

Loans to customers classified into risk category A1 are placements where the delay in settling the liability is no longer than 30 days and there is no significant increase in credit risk after initial recognition.

The Bank classifies into risk subgroup A2 (stage 2) credit risk exposures that have been identified as a significant increase in credit risk since the initial recognition date, but where there is no objective evidence of impairment. The impairment allowances and provisions for credit losses are determined based on lifelong expected credit losses. The Bank considers the following as indicators for determining a significant increase in debtor's credit risk: the debtor's delay in settling liabilities to the Bank for a term longer than 30 days, not exceeding 90 days, a block of debtor's account for an uninterrupted duration of more than 15 days in the last year and a significant deterioration in the credit rating compared to credit rating at the time of initial recognition (for more than three rating classes).

The Bank allocates credit exposures with the status of non-fulfilment of financial liabilities into risk group B (stage 3 – impairment loss). These are exposures in which the non-fulfilment of obligations under the Decision on Risk Classification and the Method of Determining Credit Losses have occurred. The Bank also considers restructured exposures as classified into the status of non-fulfilment of liabilities along with exposures to debtors against which bankruptcy or liquidation is initiated. The level of impairment for certain exposures classified in risk group B is determined as a positive difference between the gross carrying amount of each exposure and the present value of the estimated future borrower's cash flows discounted using the effective interest rate, taking into account the minimum levels of impairment prescribed by the Decision. Exposures in risk group B, depending on the percentage of placement value adjustments, are classified into risk subgroup B-1 (placements for which the determined loss does not exceed 30% of the amount of receivables), B-2 (placements for which the determined loss amounts to more than 30% and less than 70% of the amount of receivables) and B-3 (placements for which the determined loss amounts to more than 70% and less than 100% of the amount of receivables).

Risk group C (stage 3) covers placements with a 100% value correction.

## Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and the managing of its positions. It includes both the risk of being unable to fund assets at the relevant maturities and rates, and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including different types of deposits, borrowings, subordinated liabilities including deposits, borrowings and equity. Liquidity risk is continually assessed by identifying and monitoring changes in the level of funding required to meet business goals and targets set in terms of the overall Bank's strategy. In addition, the Bank holds a portfolio of liquid assets as a part of its liquidity risk management.

The Bank identifies three basic forms of liquidity risk:

- the risk of mismatching liquidity (arising from the mismatch between the assets and liabilities of the Bank)
- the risk of increased liquidity (arising from the need to maintain higher levels of liquid assets that may be needed in the future) and
- market liquidity risk (resulting from potential lower liquidity of the financial market, resulting in the impossibility of selling or obtaining liquid assets).

The Bank adjusts its business activities related to the liquidity risk according to regulatory and internal policies for maintenance of liquidity reserves by matching liabilities and assets, monitoring compliance with the externally and internally set limits, preferred liquidity ratios and contingency planning procedure. The Financial Markets Division manages liquidity reserves daily and makes sure to respond adequately to customer needs.

Concentration indicators indicate the concentration in the deposit portfolio (top 100 individual and corporate depositors in the total deposits), which is regularly reported to the Bank's Management Board on a monthly basis.

In addition to the regulatory requirements set out above, the Bank has an obligation to monitor the structural indicators of the liquidity and concentration levels that have been set in the internal regulations of the Bank.

The structural liquidity level indicators reflect the correlations between certain items of assets and liabilities such as: the ratio of total loans to total deposits received; the ratio of total loans to total assets; the ratio of liquid assets to total deposits received; the ratio of total loans to total liabilities.

The Bank has prescribed and established appropriate control activities and distributed duties, provided adequate internal controls and appropriate administrative and accounting procedures to be followed within the Bank's daily activities.

Liquidity risk management is organised through the Board, the Financial Markets Division, the Risk Management Division, the Risk Control Department and the Asset and Liability Management Committee.

## Market risk

The majority of instruments available for sale are subject to market risk, which is the risk that an instrument may be impaired as a result of future changes in market conditions. Market risks represent the potential effects of external factors on the value of assets, liabilities and off-balance sheet items of the Bank. Changes in market rates influence all changes in interest rates, exchange rates, prices of financial instruments, indices, or other market factors that affect the value of financial instruments. The instruments are recognised at fair value and all changes in market conditions directly affect the revaluation reserves. The Bank manages its instruments traded on the market in response to changing market conditions.

Limits are defined in accordance with the Bank's requirements and strategy, and the Senior Management Risk Policy Guidelines. The exposure to market risk is formally managed within the risk limits approved by the Management Board and revised at least annually.

The Bank has established clearly defined responsibilities and responsibilities in the process of managing market risk.



Market Risk Management is organised through the Board of Directors, the Risk Management Division, the Risk Control Department, through the operational and organisational separation of the transaction management function from the function of supporting the Treasury's business operations and functions, and through the Asset and Liability Management Committee.

Key liquidity data about the liquidity positions in the local and foreign currency is provided to the Bank's Management Board and senior management on a daily basis, with a focus on the most significant fluctuations in interest and foreign exchange rates. The Financial Markets Division provides weekly reports on currency risk exposure to the Management Board. In addition, the Risk Management Division reports the overall currency risk exposure to the Management Board on a monthly basis.

In managing its market risks, the Bank resorts to various risk hedging strategies. A Value-at-Risk (VaR) methodology is applied to the Bank's open foreign currency position to estimate the maximum potential losses on the basis of certain assumptions regarding various changes in market conditions. The methodology defines the maximum loss that the Bank may suffer with a confidence level of 99% based on 260 days. However, this approach does not preclude the occurrence of losses beyond the defined limits in the event of major changes in market terms and conditions.

## Currency risk

The Bank manages the risk of fluctuations in the relevant foreign currency exchange rates that may affect its financial position and cash flows. The currency risk is monitored on the overall balance sheet level in terms of foreign exchange open positions, as specified by applicable legislation, as well as by internal limits on a daily basis.

The currency position is monitored daily through the report on the open foreign currency positions in accordance with the CNB requirements. For the purposes of analysing the currency risk exposure, the Risk Management Division prepares regular management reports. The overall exposure arising from a foreign currency position is reflected in the percentages prescribed.

## Interest rate risk

The interest rate risk represents the sensitivity of the Bank's financial position to movements in interest rates. Interest rate risk arises as a result of mismatched maturities or repricing of assets, liabilities and off-balance sheet instruments in a given period.

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that the interest-bearing assets and liabilities mature or reprice at different times or in differing amounts. In the case of the floating rate, the assets and liabilities are also exposed to the basis risk, which is the difference in repricing characteristics of the various floating rate indices.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. The exposure to interest rate risk is monitored and measured using repricing gap analysis, which reflects the sensitivity to changes in interest rates, the net interest income and the economic value of equity. When market interest rates are consistent with the Bank's business strategy, risk management activities are aimed at optimising the net interest income and economic value of equity.

Interest rate risk is reported through an interest rate gap report by which the Management Board approves internally set limits for individual time horizons. The Bank's Management Board and Asset and Liability Committee control and manage the in-

terest rate risk by involving all organisational units that operationally apply the prescribed interest rates.

The Bank's interest rate risk management system is established in accordance with the Bank's needs with regard to the size, volume and complexity of business processes, and as such has the function of identifying, measuring, monitoring and controlling all significant sources of interest rate risk. The management of interest rate risk is organised through the Board of Directors, the Risk Management Division, the Risk Control Department, the Financial Market Sector and the Asset and Liability Management Committee, with the participation of all organisational units that take on interest rate risk.

#### Equity and debt security price risk

The equity and debt security price risk is the risk that equity and debt security prices will fluctuate, affecting the fair value of the underlying investments.

#### Derivative financial assets and liabilities

The Bank enters into derivative financial assets and liabilities primarily to satisfy the needs and requirements of its customers. Derivative financial assets and liabilities used by the Bank include a one-way foreign currency clause.

#### Operational risk

The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk but excludes strategic and reputation risk.

Operational risk management falls within the area of competence of the Directorate for Market, Operational and Other Risk Management and includes the collection of data, preparation of reports and analyses of the current and potential operational risk events and the underlying root causes, as well as providing information that will allow operational risk to be managed effectively.

Operational risk events are aggregated into a single database using a web application.

According to the Basel II guidelines and EU Directives, there are three operational risk assessment methods, which are as follows:

- Basic Indicator Approach (BIA)
- Standardised Approach (SA)
- Advanced Measurement Approach (AMA).

The Bank has opted to adopt the Basic Indicator Approach (BIA).

The Directorate for Market, Operational and Other Risk Management monitors the operational risk exposure by reference to the defined internal by-laws and standards, collecting operational risk data (risk events, key risk indicators, sensitivity analyses), proposing measures to reduce and/or avoid operational risk, monitoring of and reporting on the Bank's operational risk profile, participating in the implementation of new products and significant changes, organising operational risk training and providing regular operational risk exposure reports to the Bank's Management Board, the Operational Risk Board and senior management.

The purpose and main principles of taking-on and managing operational risk as well as the Bank's operational risk appetite are defined in the Operational Risk Management Policy and other internal by-laws of the Bank.

For the purpose of protection against operational risk, the Bank has developed a risk map and implemented an operational risk monitoring system. Given the nature of operational risk, the controls are performed by comparing the losses against the risk assessment. The risk assessment is defined using an internal methodology or by reference to operational risk losses. Key risk indicators are monitored on an ongoing basis.

## Capital management

Since 1 January 2014 credit institutions in the Republic of Croatia have been engaged in prudential calculations and reporting pursuant to the Capital Requirements Regulation (EU) No. 575/2013 (CRR), Directive 2013/36/EU (CRD IV), technical standards and other relevant regulations prescribed by the European Banking Authority (EBA) and the Croatian National Bank. The Bank has successfully managed capital to cover the risks arising from its operations and meet all the capital requirements set by the Croatian National Bank and the European Banking Authority. At 31 December 2018, the total capital adequacy ratio was 18.22%, and the Tier 1 capital i.e. Common Equity Tier 1 (CET1) capital ratio amounted to 14.83%.

Based on the capital adequacy levels, the Bank meets all of the limits prescribed in Article 92 of Directive (EU) No. 575/2013 of the European Parliament and of the Council dated 26 June 2013 on prudential requirements for credit institutions and investment funds and amending Directive (EU) No. 648/2012 (EU Official Journal L 176/2013), according to which institutions must meet the following capital requirements:

- (a) a Common Equity Tier 1 capital ratio of 4.5%;
- (b) a Tier 1 capital ratio of 6%;
- (c) a total capital ratio of 8%.

Furthermore, the Bank's capital includes the capital conservation buffer which, pursuant to Article 117 of the Credit Institutions Act (Official Gazette No. 159/2013) amounts to 2.5%, and the structural systemic risk buffer of 1.5% based on the Decision on the Application of the Structural Systemic Risk Buffer (Official Gazette 61/2014).

Included in the Common Equity Tier 1 capital are the share capital, the share premium, accumulated other comprehensive income, other and general banking risk reserve funds. Items deducted from the capital are accumulated losses, intangible assets and purchased own (treasury) shares.

Supplementary (Tier 2) capital items include debt securities issued by the Bank, which are specifically subordinated bonds in the amount of HRK 80,709 thousand (2018: HRK 85,821 thousand in subordinated bonds).

IN HRK THOUSANDS	2019	2018
REGULATORY CAPITAL		
CORE TIER 1 CAPITAL	410,472	375,647
COMMON EQUITY TIER 1 CAPITAL	410,472	375,647
TIER 2 CAPITAL	80,709	85,821
<b>TOTAL REGULATORY CAPITAL</b>	<b>491,181</b>	<b>461,468</b>
<b>CAPITAL ADEQUACY RATIO IN %</b>	<b>18.46%</b>	<b>18.22%</b>
<b>MINIMUM CAPITAL ADEQUACY RATIO IN %</b>	<b>8.00%</b>	<b>8.00%</b>

### 33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions, i.e. an exit price regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Bank considers the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date.

Furthermore, for the purposes of financial reporting, fair value measurements were classified into Level 1, Level 2 or Level 3 inputs based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement, which are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

The tables below analyse financial instruments that have been reduced to fair value after their initial recognition, classified into three groups depending on the availability of observable fair value indicators:

2019 IN HRK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>				
EQUITY SECURITIES	137,853	-	-	137,853
<b>TOTAL</b>	<b>137,853</b>	<b>-</b>	<b>-</b>	<b>137,853</b>
2019 IN HRK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME</b>				
EQUITY SECURITIES	28,867	-	10,785	39,652
DEBT SECURITIES	617,105	-	29,200	646,305
<b>TOTAL</b>	<b>645,972</b>	<b>-</b>	<b>39,985</b>	<b>685,957</b>
2018 IN HRK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>				
EQUITY SECURITIES	157,474	-	-	157,474
<b>TOTAL</b>	<b>157,474</b>	<b>-</b>	<b>-</b>	<b>157,474</b>

2018 IN HRK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME</b>				
EQUITY SECURITIES	26,930	-	10,009	26,939
DEBT SECURITIES	496,332	-	9,860	506,192
<b>TOTAL</b>	<b>523,262</b>	<b>-</b>	<b>19,869</b>	<b>543,131</b>

Level 3 includes the equity securities of Bilokalnik d.d., Spin Valis d.d., HROK d.d., Central Clearing Depository Company, Tržište novca d.d., SWIFT Belgium, Franck d.d., VISA Inc., Atlas banka a.d. Podgorica, SNH Alfa d.d. and Proficio d.d., which are valued according to the model or the cost of procurement.

Level 3 contains the debt securities of JGL d.d., Nexa group d.d. and Montenegro government bonds.

There was no change in levels for equity securities during the year.

There was no change in levels for debt securities during the year.

*Fair value measurement*

**a) Assets at fair value through profit or loss**

FINANCIAL ASSETS AND FINANCIAL LIABILITIES	FAIR VALUE AT (IN HRK 000)		FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)
	31 DECEMBER 2019	31 DECEMBER 2018			
EQUITY SECURITIES	137,853	157,474	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	N/A
<b>TOTAL EQUITY SECURITIES:</b>	<b>137,853</b>	<b>157,474</b>			

b) Assets at fair value through other comprehensive income

FINANCIAL ASSETS AND FINANCIAL LIABILITIES	FAIR VALUE AT (IN HRK 000)		FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)
	31 DECEMBER 2019	31 DECEMBER 2018			
EQUITY SECURITIES	28,867	26,930	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	N/A
EQUITY SECURITIES	10,785	10,009	LEVEL 3	VALUATION IN ACCORDANCE WITH VALUATION TECHNIQUES OR VALUATION AT COST DUE TO IMMATERIALITY OF THE INVESTMENT	N/A
<b>TOTAL EQUITY SECURITIES:</b>	<b>39,652</b>	<b>36,939</b>			
DEBT SECURITIES	617,105	496,332	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	N/A
DEBT SECURITIES	-	-	LEVEL 2	VALUATION ACCORDING TO SIMILAR ASSETS (TREASURY BILLS AND COMMERCIAL BILLS ARE ADJUSTED TO PRICES FROM THE MOST RECENT AUCTION OF TREASURY BILLS)	N/A
DEBT SECURITIES	29,200	9,860	LEVEL 3	VALUATION USING THE DISCOUNTED CASH FLOW (DCF) METHOD	N/A
<b>TOTAL DEBT SECURITIES:</b>	<b>646,305</b>	<b>506,192</b>			
<b>TOTAL SECURITIES</b>	<b>685,957</b>	<b>543,131</b>			

Movement of financial assets in Level 3

2019 HRK 000	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
<b>OPENING BALANCE</b>	<b>19,869</b>
TOTAL LOSSES	10,246
ACQUISITION OF ASSETS	9,870
DISPOSAL OF ASSETS	-
MATURED ASSETS	-
RECLASSIFIED INTO LEVEL 3	-
<b>CLOSING BALANCE</b>	<b>39,985</b>





2018 HRK 000	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
<b>OPENING BALANCE</b>	<b>14,864</b>
TOTAL LOSSES	(5,601)
ACQUISITION OF ASSETS	-
DISPOSAL OF ASSETS	-
MATURED ASSETS	-
RECLASSIFIED INTO LEVEL 3	10,606
<b>CLOSING BALANCE</b>	<b>19,869</b>

## 34. INTEREST RATE RISK

The tables below provide the Bank's interest rate sensitivity position at 31 December 2019 and 2018 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of other items.

AT 31 DECEMBER 2019 IN HRK THOUSANDS	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON- INTEREST BEARING	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	68,890	-	-	2,393	331,037	402,320
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	198,946	198,946
BALANCES WITH OTHER BANKS	-	4,455	-	-	1,373	5,828
LOANS TO CUSTOMERS	1,299,966	176,748	275,925	274,307	-	2,026,946
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	137,853	137,853
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	8,413	32,460	63,308	540,625	41,152	685,958
<b>TOTAL ASSETS</b>	<b>1,377,269</b>	<b>215,036</b>	<b>339,233</b>	<b>817,325</b>	<b>708,988</b>	<b>3,457,851</b>
<b>LIABILITIES</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	1,698	-	1,937	-	6,136	7,834
AMOUNTS DUE TO CUSTOMERS	1,806,648	148,107	447,093	295,732	8,836	2,706,416
OTHER BORROWINGS	21,353	49,565	23,936	165,343	-	260,197
HYBRID INSTRUMENTS ISSUED	-	-	302	97,035	-	97,337
<b>TOTAL LIABILITIES</b>	<b>1,829,699</b>	<b>197,672</b>	<b>471,331</b>	<b>558,110</b>	<b>14,972</b>	<b>3,071,784</b>
<b>NET INTEREST EXPOSURE</b>	<b>(452,430)</b>	<b>15,991</b>	<b>(132,098)</b>	<b>259,215</b>	<b>695,389</b>	<b>386,067</b>

AT 31 DECEMBER 2018 IN HRK THOUSANDS	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON- INTEREST BEARING	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	6,389	-	-	-	425,801	432,190
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	190,575	190,575
BALANCES WITH OTHER BANKS	42,700	22,245	-	-	1,368	66,313
LOANS TO CUSTOMERS	1,139,104	109,211	159,968	426,363	-	1,834,646
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	157,474	157,474
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	9,055	21,290	474,767	38,019	543,131
<b>TOTAL ASSETS</b>	<b>1,188,193</b>	<b>140,511</b>	<b>181,258</b>	<b>901,130</b>	<b>813,237</b>	<b>3,224,329</b>
<b>LIABILITIES</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	1,270	-	1,937	-	4,523	7,730
AMOUNTS DUE TO CUSTOMERS	1,447,201	193,995	621,975	180,490	5,554	2,449,215
OTHER BORROWINGS	113,571	70,444	18,747	122,333	-	325,095
HYBRID INSTRUMENTS ISSUED	-	-	91,442	5,562	-	97,004
<b>TOTAL LIABILITIES</b>	<b>1,562,042</b>	<b>264,439</b>	<b>734,101</b>	<b>308,385</b>	<b>10,077</b>	<b>2,879,044</b>
<b>NET INTEREST EXPOSURE</b>	<b>(373,849)</b>	<b>(123,928)</b>	<b>(552,843)</b>	<b>592,745</b>	<b>803,160</b>	<b>345,285</b>

In 2019, the weighted effective interest rates on loans to customers stood at 4.85% (2018: 5.07%).

In 2019, the weighted effective interest rates on deposits received from customers stood at 0.29% (2018: 0.50%).

The table below presents the sensitivity of the Bank's assets and liabilities at variable interest rates to changes in the interest rates. The growth assumptions were derived from the actual growth or decline in the interest rates in 2019 and 2018. Any change in the interest rates has a direct impact on the net interest income. By applying the same percentages to simulate a decline in interest rates, the result would be an interest expense in the same amount.

IN HRK THOUSANDS	ASSUMED INCREASE IN INTEREST RATE	IMPACT ON 2019 PROFIT OR LOSS	IMPACT ON 2018 PROFIT OR LOSS
ASSETS	5% RELATIVE	2,828	2,920
LIABILITIES	5% RELATIVE	(216)	(299)
<b>IMPACT ON THE NET INTEREST INCOME</b>		<b>2,612</b>	<b>2,621</b>

## 35. CURRENCY RISK

The Bank manages its exposure to currency risk through a variety of measures, including the use of a currency clause, which has the same effect as denominating HRK assets in other currencies.

AT 31 DECEMBER 2019 (IN HRK THOUSANDS)	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	102,450	12,194	14,237	128,881	273,439	402,320
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	198,946	198,946
BALANCES WITH OTHER BANKS	5,828	-	-	5,828	-	5,828
LOANS TO CUSTOMERS	860,731	3,698	-	864,429	1,162,517	2,026,946
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	34,728	-	-	34,728	103,125	137,853
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	200,278	126,569	22,275	349,122	336,836	685,958
INTANGIBLE ASSETS	-	-	-	-	43,333	43,333
PROPERTY AND EQUIPMENT	-	-	-	-	43,458	43,458
RIGHT-OF-USE ASSETS	-	-	-	-	13,941	13,941
DEFERRED TAX ASSETS	-	-	-	-	3,935	3,935
INVESTMENT PROPERTY	-	-	-	-	41,379	41,379
NON-CURRENT ASSETS HELD FOR SALE	-	-	-	-	998	998
OTHER ASSETS	23	-	1	24	13,568	13,592
<b>TOTAL ASSETS</b>	<b>1,204,038</b>	<b>142,461</b>	<b>36,513</b>	<b>1,383,012</b>	<b>2,235,475</b>	<b>3,618,487</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	5,244	-	2,587	7,831	3	7,834
AMOUNTS DUE TO CUSTOMERS	1,061,750	129,892	32,618	1,224,260	1,482,156	2,706,416
OTHER BORROWINGS	33,642	13,488	-	47,130	213,067	260,197
OTHER LIABILITIES	5,105	21	17	5,143	60,369	65,512
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	596	24	-	620	4,845	5,465
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	97,337	-	-	97,337	-	97,337
<b>TOTAL LIABILITIES</b>	<b>1,203,674</b>	<b>143,425</b>	<b>35,222</b>	<b>1,382,321</b>	<b>1,760,440</b>	<b>3,142,761</b>
<b>EQUITY</b>						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(1,388)	(1,388)
OTHER RESERVES	-	-	-	-	179,943	179,943
PROFIT FOR THE YEAR	-	-	-	-	21,346	21,346
RETAINED EARNINGS / (ACCUMULATED LOSSES)	-	-	-	-	5,310	5,310
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>475,726</b>	<b>475,726</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,203,674</b>	<b>143,425</b>	<b>35,222</b>	<b>1,382,321</b>	<b>2,236,166</b>	<b>3,618,487</b>
<b>NET FX EXPOSURE</b>	<b>364</b>	<b>(964)</b>	<b>1,291</b>	<b>691</b>	<b>(691)</b>	<b>-</b>

AT 31 DECEMBER 2018 (IN HRK THOUSANDS)	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	115,518	14,622	13,771	143,911	288,279	432,190
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	190,575	190,575
BALANCES WITH OTHER BANKS	60,582	-	-	60,582	5,731	66,313
LOANS TO CUSTOMERS	930,773	1,910	-	932,683	901,963	1,834,646
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	33,821	1,914	-	35,735	121,739	157,474
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	117,666	73,043	21,170	211,879	331,252	543,131
FINANCIAL ASSETS AVAILABLE FOR SALE	-	-	-	-	44,080	44,080
INTANGIBLE ASSETS	-	-	-	-	44,837	44,837
PROPERTY AND EQUIPMENT	-	-	-	-	6,028	6,028
DEFERRED TAX ASSETS	-	-	-	-	43,129	43,129
INVESTMENT PROPERTY	-	-	-	-	1,214	1,214
NON-CURRENT ASSETS HELD FOR SALE	16	-	-	16	14,867	14,883
OTHER ASSETS	115,518	14,622	13,771	143,911	288,279	432,190
<b>TOTAL ASSETS</b>	<b>1,258,376</b>	<b>91,489</b>	<b>34,941</b>	<b>1,384,806</b>	<b>1,993,694</b>	<b>3,378,500</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	7,639	-	90	7,729	1	7,730
AMOUNTS DUE TO CUSTOMERS	1,087,977	91,383	32,528	1,211,888	1,237,327	2,449,215
OTHER BORROWINGS	57,712	-	-	57,712	267,383	325,095
OTHER LIABILITIES	12,754	23	15	12,792	41,123	53,915
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	1,001	4	-	1,005	4,743	5,748
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	97,004	-	-	97,004	-	97,004
<b>TOTAL LIABILITIES</b>	<b>1,264,087</b>	<b>91,410</b>	<b>32,633</b>	<b>1,388,130</b>	<b>1,550,577</b>	<b>2,938,707</b>
<b>EQUITY</b>						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(1,388)	(1,388)
OTHER RESERVES	-	-	-	-	154,079	154,079
PROFIT FOR THE YEAR	-	-	-	-	12,106	12,106
RETAINED EARNINGS / (ACCUMULATED LOSSES)	-	-	-	-	4,481	4,481
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>439,793</b>	<b>439,793</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,264,087</b>	<b>91,410</b>	<b>32,633</b>	<b>1,388,130</b>	<b>1,990,370</b>	<b>3,378,500</b>
<b>NET FX EXPOSURE</b>	<b>(5,711)</b>	<b>79</b>	<b>2,308</b>	<b>(3,324)</b>	<b>3,324</b>	<b>-</b>

The table below details the sensitivity of the Bank's net assets to an upward change of the middle exchange rate of the CNB i.e. an increase in the relevant exchange rate and its impact on profit or loss, showing a summary effect of a simplified increase in all currencies by 2%. By applying the same assumed percentage to a decrease in the

mid-point exchange rate of the CNB, there would be the same but opposite impact on profit or loss by currency on a net principle i.e. the sum of the effects for all currencies would result in an expense for 2019 and an income for 2019. The change in the interest rates would be reflected through the Statement of Profit and Loss as foreign exchange gains or losses.

CURRENCY AT 31 DECEMBER 2019 IN HRK THOUSANDS	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	IMPACT ON	IMPACT ON	IMPACT ON
		PROFIT OR LOSS	PROFIT OR LOSS	PROFIT OR LOSS
		ASSETS	LIABILITIES	NET
ASSETS	2.00%	27,660	-	27,660
LIABILITIES	2.00%	-	27,646	27,646
<b>NET ASSETS / (LIABILITIES)</b>		<b>27,660</b>	<b>27,646</b>	<b>14</b>

CURRENCY AT 31 DECEMBER 2018 IN HRK THOUSANDS	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	IMPACT ON	IMPACT ON	IMPACT ON
		PROFIT OR LOSS	PROFIT OR LOSS	PROFIT OR LOSS
		ASSETS	LIABILITIES	NET
ASSETS	2.00%	27,696	-	27,696
LIABILITIES	2.00%	-	27,763	27,763
<b>NET ASSETS / (LIABILITIES)</b>		<b>27,696</b>	<b>27,763</b>	<b>(67)</b>

## 36. LIQUIDITY RISK

AT 31 DECEMBER 2019 IN HRK THOUSANDS	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 MONTH TO 3 YEARS	OVER 3 YEARS	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	402,320	-	-	-	-	402,320
BALANCES WITH THE CROATIAN NATIONAL BANK	198,946	-	-	-	-	198,946
BALANCES WITH OTHER BANKS	-	5,828	-	-	-	5,828
LOANS TO CUSTOMERS	235,301	208,557	446,042	374,474	762,572	2,026,946
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	137,853	-	-	-	-	137,853
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	49,565	32,460	63,308	102,409	438,216	685,958
<b>FINANCIAL ASSETS</b>	<b>1,023,985</b>	<b>246,845</b>	<b>509,350</b>	<b>476,883</b>	<b>1,200,788</b>	<b>3,457,851</b>
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	7,834	-	-	-	-	7,834
AMOUNTS DUE TO CUSTOMERS	1,814,025	148,107	447,287	274,912	22,085	2,706,416
OTHER BORROWED FUNDS	21,353	49,565	23,936	78,902	86,441	260,197
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	-	302	27,023	70,012	97,337
<b>FINANCIAL LIABILITIES</b>	<b>1,843,212</b>	<b>197,672</b>	<b>471,525</b>	<b>380,837</b>	<b>178,538</b>	<b>3,071,784</b>
<b>CUMULATIVE GAP</b>	<b>(819,227)</b>	<b>49,173</b>	<b>37,825</b>	<b>96,046</b>	<b>1,022,250</b>	<b>386,067</b>
AT 31 DECEMBER 2018 IN HRK THOUSANDS	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 MONTH TO 3 YEARS	OVER 3 YEARS	TOTAL
<b>ASSETS</b>						
CASH AND AMOUNTS DUE FROM BANKS	432,190	-	-	-	-	432,190
BALANCES WITH THE CROATIAN NATIONAL BANK	190,575	-	-	-	-	190,575
BALANCES WITH OTHER BANKS	42,700	23,613	-	-	-	66,313
LOANS TO CUSTOMERS	282,448	173,993	380,835	380,945	616,425	1,834,646
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	157,474	-	-	-	-	157,474
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	38,959	11,676	22,722	124,158	345,616	543,131
<b>FINANCIAL ASSETS</b>	<b>1,144,346</b>	<b>209,282</b>	<b>403,557</b>	<b>505,103</b>	<b>962,041</b>	<b>3,224,329</b>
<b>LIABILITIES</b>						
AMOUNTS DUE TO OTHER BANKS	5,793	-	1,937	-	-	7,730
AMOUNTS DUE TO CUSTOMERS	1,411,200	172,328	627,073	209,982	28,632	2,449,215
OTHER BORROWED FUNDS	101,554	15,068	22,901	79,609	105,963	325,095
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	-	287	26,932	69,785	97,004
<b>FINANCIAL LIABILITIES</b>	<b>1,518,547</b>	<b>187,396</b>	<b>652,198</b>	<b>316,523</b>	<b>204,380</b>	<b>2,879,044</b>
<b>CUMULATIVE GAP</b>	<b>(374,201)</b>	<b>21,886</b>	<b>(248,641)</b>	<b>188,580</b>	<b>757,661</b>	<b>345,285</b>



## 37. CREDIT RISK

### a) Overall exposure to credit risk – on-balance sheet and off-balance sheet

IN HRK THOUSANDS AT 31 DECEMBER 2019	GROSS EXPOSURE	IMPAIRMENT ALLOWANCES	NET EXPOSURE
<b>A. BALANCE-SHEET EXPOSURE</b>			
BALANCES WITH THE CROATIAN NATIONAL BANK	198,946	-	198,946
BALANCES WITH OTHER BANKS	5,847	(19)	5,828
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	137,853	-	137,853
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	695,930	(9,972)	685,958
LOANS TO CUSTOMERS			
- LEVEL 1	1,856,464	(18,740)	1,837,724
- LEVEL 2	7,480	(328)	7,152
- LEVEL 3	385,830	(203,760)	182,070
<b>TOTAL BALANCE SHEET EXPOSURE</b>	<b>3,288,350</b>	<b>(232,819)</b>	<b>3,055,531</b>
<b>B. OFF-BALANCE SHEET EXPOSURE</b>			
CLIENTS			
- LEVEL 1	397,866	(4,151)	393,715
- LEVEL 2	3,249	(120)	3,129
- LEVEL 3	2,895	(572)	2,323
<b>TOTAL OFF-BALANCE SHEET EXPOSURE</b>	<b>404,010</b>	<b>(4,843)</b>	<b>399,167</b>
<b>TOTAL EXPOSURE (A+B)</b>	<b>3,692,360</b>	<b>(237,662)</b>	<b>3,454,698</b>

IN HRK THOUSANDS AT 31 DECEMBER 2018	GROSS EXPOSURE	IMPAIRMENT ALLOWANCES	NET EXPOSURE
<b>A. BALANCE-SHEET EXPOSURE</b>			
BALANCES WITH THE CROATIAN NATIONAL BANK	190,575	-	190,575
BALANCES WITH OTHER BANKS	66,526	(213)	66,313
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	157,474	-	157,474
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	553,558	(10,427)	543,131
LOANS TO CUSTOMERS			
- LEVEL 1	1,631,674	(18,269)	1,613,405
- LEVEL 2	27,686	(895)	26,791
- LEVEL 3	418,348	(223,898)	194,450
<b>TOTAL BALANCE SHEET EXPOSURE</b>	<b>3,045,841</b>	<b>(253,702)</b>	<b>2,792,139</b>
<b>B. OFF-BALANCE SHEET EXPOSURE</b>			
CLIENTS			
- LEVEL 1	446,802	(5,401)	441,401
- LEVEL 2	1,767	(34)	1,733
- LEVEL 3	72	(17)	55
<b>TOTAL OFF-BALANCE SHEET EXPOSURE</b>	<b>448,641</b>	<b>(5,452)</b>	<b>443,189</b>
<b>TOTAL EXPOSURE (A+B)</b>	<b>3,494,482</b>	<b>(259,154)</b>	<b>3,235,328</b>

**b) Past due but unpaid receivables**

Outstanding receivables are comprised of amounts with an unimpaired principal, determined on the level of the individual placement, including outstanding interest. Other receivables past due are comprised of outstanding balances, the collection of which is still in progress.

IN HRK THOUSANDS AT 31 DECEMBER 2019	PAST DUE UP TO 30 DAYS	PAST DUE FROM 31 TO 90 DAYS	PAST DUE FROM 91 TO 180 DAYS	PAST DUE FROM 181 TO 365 DAYS	PAST DUE BETWEEN 1 AND 2 YEARS	PAST DUE BETWEEN 2 AND 3 YEARS	PAST DUE BEYOND 3 YEARS
<b>LOANS TO CUSTOMERS:</b>							
INDIVIDUALS	5,247	670	588	1,691	1,413	2,972	31,784
CORPORATE CUSTOMERS	6,874	4,479	3,760	6,791	11,209	9,293	119,384
PUBLIC AND OTHER SECTORS	362	-	-	-	1	-	43
OTHER RECEIVABLES PAST DUE	1,322	105	235	666	1,214	659	2,892
<b>TOTAL PAST DUE BUT UNPAID RECEIVABLES</b>	<b>13,805</b>	<b>5,254</b>	<b>4,583</b>	<b>9,148</b>	<b>13,837</b>	<b>12,924</b>	<b>154,103</b>

IN HRK THOUSANDS AT 31 DECEMBER 2018	PAST DUE UP TO 30 DAYS	PAST DUE FROM 31 TO 90 DAYS	PAST DUE FROM 91 TO 180 DAYS	PAST DUE FROM 181 TO 365 DAYS	PAST DUE BETWEEN 1 AND 2 YEARS	PAST DUE BETWEEN 2 AND 3 YEARS	PAST DUE BEYOND 3 YEARS
<b>LOANS TO CUSTOMERS:</b>							
INDIVIDUALS	5,411	626	654	980	3,333	2,726	33,656
CORPORATE CUSTOMERS	4,815	3,309	1,023	7,174	75,396	12,321	155,964
PUBLIC AND OTHER SECTORS	1,085	1	1	-	-	2,218	3,692
OTHER RECEIVABLES PAST DUE	1,703	875	912	422	740	373	2,920
<b>TOTAL PAST DUE BUT UNPAID RECEIVABLES</b>	<b>13,014</b>	<b>4,811</b>	<b>2,590</b>	<b>8,576</b>	<b>79,469</b>	<b>17,638</b>	<b>196,232</b>

*c) Coverage by collateral*

AT 31 DECEMBER 2019 IN HRK THOUSANDS	DEPOSIT	MORTGAGE ON RESIDENTIAL PROPERTY	MORTGAGE ON COMMERCIAL PROPERTY	OTHER SECURITY INSTRUMENTS	NO INSTRUMENT OF COLLATERAL
<b>A. BALANCE-SHEET EXPOSURE</b>					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	198,946
BALANCES WITH OTHER BANKS	-	-	-	-	5,828
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	137,853
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	-	-	-	685,958
LOANS TO CUSTOMERS	25,895	289,815	428,029	76,413	1,206,794
<b>TOTAL BALANCE SHEET EXPOSURE</b>	<b>25,895</b>	<b>289,815</b>	<b>428,029</b>	<b>76,413</b>	<b>2,235,379</b>
<b>B. OFF-BALANCE SHEET EXPOSURE</b>					
CLIENTS	3,292	11,429	14,016	6,389	368,884
<b>TOTAL OFF-BALANCE SHEET EXPOSURE</b>	<b>3,292</b>	<b>11,429</b>	<b>14,016</b>	<b>6,389</b>	<b>368,884</b>
<b>TOTAL EXPOSURE (A+B)</b>	<b>29,187</b>	<b>301,244</b>	<b>442,045</b>	<b>82,802</b>	<b>2,604,263</b>
AT 31 DECEMBER 2018 IN HRK THOUSANDS	DEPOSIT	MORTGAGE ON RESIDENTIAL PROPERTY	MORTGAGE ON COMMERCIAL PROPERTY	OTHER SECURITY INSTRUMENTS	NO INSTRUMENT OF COLLATERAL
<b>A. BALANCE-SHEET EXPOSURE</b>					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	190,757
BALANCES WITH OTHER BANKS	-	-	-	5,731	60,582
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	157,474
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	-	-	-	543,131
LOANS TO CUSTOMERS	25,914	233,713	384,321	66,585	1,124,114
<b>TOTAL BALANCE SHEET EXPOSURE</b>	<b>25,914</b>	<b>233,713</b>	<b>384,321</b>	<b>72,316</b>	<b>2,075,876</b>
<b>B. OFF-BALANCE SHEET EXPOSURE</b>					
CLIENTS	7,408	3,261	43,224	1,872	392,876
<b>TOTAL OFF-BALANCE SHEET EXPOSURE</b>	<b>7,408</b>	<b>3,261</b>	<b>43,224</b>	<b>1,872</b>	<b>392,876</b>
<b>TOTAL EXPOSURE (A+B)</b>	<b>33,322</b>	<b>236,973</b>	<b>427,545</b>	<b>74,188</b>	<b>2,468,752</b>

d) Provision ratio in loans to customers

IN HRK THOUSANDS

2019

	LOANS TO CUSTOMERS (%)	PROVISION RATIO IN LOANS (%)
STAGE 1	82.52	1.01
STAGE 2	0.33	4.39
STAGE 3	17.15	52.81
<b>TOTAL</b>	<b>100.00</b>	

IN HRK THOUSANDS

2018

	LOANS TO CUSTOMERS (%)	PROVISION RATIO IN LOANS (%)
STAGE 1	78.53	1.12
STAGE 2	1.33	3.23
STAGE 3	20.14	53.2
<b>TOTAL</b>	<b>100.00</b>	

## 38. RISK OF PRICE FLUCTUATIONS

The equity and debt financial instrument price risk represents the sensitivity of the portfolio of securities at fair value through profit or loss and securities at fair value through other comprehensive income to fluctuations in market prices, which affects the profit or loss as well as the revaluation reserve within the Bank's equity.

IN HRK THOUSANDS	ASSUMED PRICE CHANGE	IMPACT OF PRICE INCREASE ON PROFIT AND LOSS	IMPACT OF PRICE INCREASE ON REVALUATION RESERVES
<b>AT 31 DECEMBER 2019</b>	<b>3%</b>	<b>4,136</b>	<b>20,878</b>
<b>AT 31 DECEMBER 2018</b>	<b>3%</b>	<b>798</b>	<b>20,533</b>

## 39. CONCENTRATIONS OF ASSETS AND LIABILITIES

There is a significant concentration of the Bank's assets in the Republic of Croatia, which is analysed as follows:

IN HRK THOUSANDS	2019	2018
GIRO ACCOUNT AT CNB	273,314	303,029
BONDS OF THE REPUBLIC OF CROATIA	404,951	282,521
OBLIGATORY RESERVES AND TREASURY NOTES WITH THE CROATIAN NATIONAL BANK	198,946	190,575
OTHER CASH RESERVE FUNDS	10,000	10,000
DEFERRED TAX ASSETS / LIABILITIES	3,935	6,028
OTHER ASSETS	662	368
OTHER LIABILITIES	(40)	(26)
DEPOSITS RECEIVED	(99)	(40)
CURRENT TAX ASSETS / (LIABILITIES)	(3,301)	(624)
CNB REPO LOAN AGREEMENTS	(93,287)	(92,009)
	<b>795,081</b>	<b>699,822</b>

The Bank's indirect exposure to the Republic of Croatia as at 31 December in respect of loans and other exposures is as follows:

IN HRK THOUSANDS	2018	2018
OTHER LOANS	38,533	43,130
CUSTOMER LOANS GUARANTEED BY THE STATE	8,711	9,997
OTHER LIABILITIES	(2,883)	(155)
STATE AGENCY FOR DEPOSIT INSURANCE AND BANK REHABILITATION	(1,437)	(1,212)
DEPOSITS RECEIVED	(152,721)	(76,263)
BORROWINGS FROM HBOR	(145,979)	(131,930)
RIGHT-OF-USE ASSETS	2,586	-
	<b>(253,170)</b>	<b>(156,433)</b>

## 40. EVENTS AFTER THE REPORTING DATE

The Bank is closely following the latest developments regarding COVID-19, both in Croatia and worldwide, as well as current recommendations from the Croatian Institute of Public Health, the Ministry of Health and the Directorate of Civil Protection of the Ministry of the Interior and has taken all available risk management measures.


The Bank is ensuring business continuity in accordance with the Crisis Management Plan and has taken organisational measures to reduce the risks associated with ensuring business continuity, such as working from home and / or from remote locations.

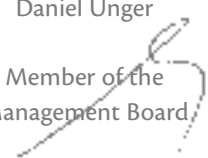
In order to implement measures based on the Conclusions of the Government of the Republic of Croatia for the preservation of employment and assistance to economic entities and citizens affected by the coronavirus pandemic, the Bank is undertaking activities and taking appropriate decisions in order to comply with the recommendations and requirements of the legislative and executive authorities, regulatory bodies, the CNB and HANFA.

The Bank also regularly conducts annual stress testing for risks. For market risks, the worst-case model scenario has a minimal impact on the total capital rate, reducing it by 0.21 b.p. For credit risk, the Bank models various scenarios and potential losses and in each scenario has enough capital to cover potential losses.

## 41. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Management Board on 23 April 2020 and were signed on its behalf by:

Goran Varat  
  
President of the  
Management Board

Daniel Unger  
  
Member of the  
Management Board

Renata Vinković  
  
Member of the  
Management Board







# ABOUT THE BANK



# BANK'S MANAGEMENT AND ORGANISATIONAL STRUCTURE

The Bank's operations are supervised by the Supervisory Board and managed by the Management Board.

## Supervisory Board

Miljan Todorovic, Chairman  
Sigilfredo Montinari, Deputy Chairman  
Michele Cakcaterra Borri, Member  
Maurizio Dallochio, Member  
Filippo Disertori, Member  
Antonio Moniaci, Member  
Dario Montinari, Member  
Dolly Predović, Member  
Ezio Simonelli, Member

## Management Board

### **Management Board until 18.04.2019:**

Julio Kuruc, President  
Davorka Jakir, Member  
Daniel Unger, Member  
Goran Varat, Member

### **Management Board from 18.04.2019:**

Goran Varat, President  
Daniel Unger, Member  
Renata Vinković, Member

## Chief Executive Officer

Moreno Marson

## Units

Internal Audit Unit – Krunoslav Vnučec  
Risk Control Unit – Hrvoje Miloš  
Compliance Unit – Mario Brajnić  
Legal Affairs – Krunoslav Grošić  
Administration and HR Management Unit – Božana Kovačević

## Divisions

Financial Markets Division – Daniel Varga  
Development and Investment Banking Sector – Maja Bešević Vlajo  
Corporate Customers Division – Branko Faletar  
Retail Customers Division – Sanda Fuček Šanjić  
Risk Management Division – Vesna Laloš  
Accounting Sector – Snježana Pobi  
Operations & Support Division – Snježana Pobi  
ICT Sector – Saša Lončarić





#### Legend

 Commercial Centre

 Branches

## COMMERCIAL CENTRES

### Commercial Centre Zagreb

**Zagreb**, Green Gold – Ulica grada Vukovara 269f,  
tel. 072 655 450, fax. 072 655 459

**Zagreb**, Trg Petra Preradovića 3,  
tel. 072 655 400, fax. 072 655 409

### Commercial Centre Koprivnica

**Koprivnica**, Opatička 1a,  
tel. 072 655 310, fax. 072 655 319

**Koprivnica**, Trg Eugena Kumičića 11,  
tel. 072 655 330, fax. 072 655 339

**Koprivnica**, Ivana Meštrovića bb,  
tel. 072 655 340, fax. 072 655 349

**Gola**, Trg kardinala A. Stepinca 6b,  
tel. 072 655 352, fax. 072 655 353

**Đelekovec**, P. Kvakana bb,  
tel. 072 655 354, fax. 072 655 355

**Legrad**, Trg Svetog Trojstva bb,  
tel. 072 655 356, fax. 072 655 357

**Križevci**, I. Z. Dijankovečkog 2,  
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### Commercial Centre Bjelovar

**Bjelovar**, Trg Eugena Kvaternika 12,  
tel. 072 655 800, fax. 072 655 809

**Grubišno Polje**, 77. samostalnog bataljuna ZNG 1,  
tel. 072 655 820, fax. 072 655 829

**Veliki Grđevac**, Kralja Tomislava 26,  
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**Đurđevac**, Stjepana Radića 16,  
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### Commercial Centre Požega

**Požega**, Republike Hrvatske 1b,  
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**Pleternica**, Ivana Šveara 4,  
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**Kutjevo**, Kralja Tomislava 2,  
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**Osijek**, Kapucinska 38,  
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**Commercial Centre  
Rijeka**

**Rijeka**, Ivana Zajca 18,  
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**Commercial Centre  
Varaždin**

**Varaždin**, Trg slobode 2,  
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**Ludbreg**, Petra Zrinskog 32,  
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**Commercial Centre  
Split**

**Split**, Ulica slobode 33,  
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**Commercial Centre  
Zadar**

**Zadar**, Stjepana Radića 2f,  
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**APPENDIX I**  
**SUPPLEMENTARY REPORTS FOR**  
**THE CROATIAN NATIONAL BANK**

**APPENDIX II**  
**OTHER LEGAL AND**  
**REGULATORY REQUIREMENTS**



Pursuant to Article 19, Paragraph 6 of the Accounting Act (Official Gazette 78/2015, 134/2015 and 120/2016) and Article 43, Paragraph 2, Item 9 of the Law on the Croatian National Bank (Official Gazette 75 / 2008 and 54/2013), the Croatian National Bank has adopted the Decision on the Structure and Content of the Annual Financial Statements of Credit Institutions (OG 42/2018). The following tables present the financial statements in accordance with the aforementioned Decision.

## STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

POSITION TITLE UNAUDITED (IN HRK THOUSANDS)	AOP TAG	NO. NOTES	PREVIOUS YEAR (NET)	CURRENT YEAR (NET)
1	2	3	4	5
<b>ASSETS</b>				
<b>1. FUNDS, CENTRAL BANK MONETARY CLAIMS AND OTHER DEMAND DEPOSITS</b> (AOP 002 TO 004)	<b>001</b>		<b>429,745</b>	<b>399,880</b>
1.1. CASH IN HAND	002		45,208	47,761
1.2. MONETARY CLAIMS ON CENTRAL BANKS	003		312,935	283,229
1.3. OTHER DEMAND DEPOSITS	004		71,602	68,890
<b>2. FINANCIAL ASSETS HELD FOR TRADING</b> (AOP 006 TO 009)	<b>005</b>		<b>0</b>	<b>0</b>
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
<b>3. NON-TRADABLE FINANCIAL ASSETS THAT ARE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS</b> (AOP 011 TO 013)	<b>010</b>		<b>157,474</b>	<b>137,853</b>
3.1. EQUITY INSTRUMENTS	011		157,474	137,853
3.2. DEBT SECURITIES	012		0	0
3.3. LOANS AND ADVANCES	013		0	0
<b>4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b> (AOP 015 + 016)	<b>014</b>		<b>0</b>	<b>0</b>
4.2. DEBT SECURITIES	015		0	0
4.3. LOANS AND ADVANCES	016		0	0
<b>5. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME</b> (AOP 018 TO 020)	<b>017</b>		<b>543,131</b>	<b>685,958</b>
5.1. EQUITY INSTRUMENTS	018		37,411	39,652
5.1. DEBT SECURITIES	019		505,720	646,306
5.2. LOANS AND ADVANCES	020		0	0
<b>6. FINANCIAL ASSETS AT AMORTISED COST</b> (AOP 022 + 023)	<b>021</b>		<b>2,097,252</b>	<b>2,237,376</b>
6.1. DEBT SECURITIES	022		116,174	68,029
6.2. LOANS AND ADVANCES	023		1,981,078	2,169,347
<b>7. DERIVATIVES – HEDGE ACCOUNTING</b>	<b>024</b>		<b>0</b>	<b>0</b>
<b>8. CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN THE PORTFOLIO HEDGING AGAINST INTEREST RATE RISK</b>	<b>025</b>		<b>0</b>	<b>0</b>
<b>9. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES</b>	<b>026</b>		<b>0</b>	<b>0</b>
<b>10. TANGIBLE ASSETS</b>	<b>027</b>		<b>87,480</b>	<b>98,703</b>
<b>11. INTANGIBLE ASSETS</b>	<b>028</b>		<b>44,566</b>	<b>43,408</b>
<b>12. TAX ASSETS</b>	<b>029</b>		<b>6,116</b>	<b>4,001</b>
<b>13. OTHER ASSETS</b>	<b>030</b>		<b>2,238</b>	<b>2,195</b>
<b>14. NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE</b>	<b>031</b>		<b>10,498</b>	<b>9,113</b>
<b>15. TOTAL ASSETS</b> (AOP 001 + 005 + 010 + 014 + 017 + 021 + 024 TO 031)	<b>032</b>		<b>3,378,500</b>	<b>3.618.487</b>

POSITION TITLE	AOP TAG	NO. NOTES	PREVIOUS YEAR (NET)	CURRENT YEAR (NET)
1	2	3	4	5
<b>LIABILITIES</b>				
<b>16. FINANCIAL LIABILITIES HELD FOR TRADING</b> (AOP 034 TO 038)	<b>033</b>		<b>0</b>	<b>0</b>
16.1. DERIVATIVES	034		0	0
16.2. SHORT POSITIONS	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
<b>17. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b> (AOP 040 TO 042)	<b>039</b>		<b>0</b>	<b>0</b>
17.1. DEPOSITS	040		0	0
17.2. DEBT SECURITIES ISSUED	041		0	0
17.3. OTHER FINANCIAL LIABILITIES	042		0	0
<b>18. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST</b> (AOP 044 TO 046)	<b>043</b>		<b>2,880,565</b>	<b>3,090,506</b>
18.1. DEPOSITS	044		2,782,040	2,974,447
18.2. DEBT SECURITIES ISSUED	045		97,004	97,337
18.3. OTHER FINANCIAL LIABILITIES	046		1,521	18,722
<b>19. DERIVATIVES – HEDGE ACCOUNTING</b>	<b>047</b>		<b>0</b>	<b>0</b>
<b>20. CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN THE PORTFOLIO HEDGING AGAINST INTEREST RATE RISK</b>	<b>048</b>		<b>0</b>	<b>0</b>
<b>21. RESERVES</b>	<b>049</b>		<b>5,748</b>	<b>5,465</b>
<b>22. TAX LIABILITIES</b>	<b>050</b>		<b>806</b>	<b>3,525</b>
<b>23. SHARE CAPITAL RETURNED ON DEMAND</b>	<b>051</b>		<b>0</b>	<b>0</b>
<b>24. OTHER LIABILITIES</b>	<b>052</b>		<b>50,816</b>	<b>43,265</b>
<b>25. LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE</b>	<b>053</b>		<b>0</b>	<b>0</b>
<b>26. TOTAL LIABILITIES</b> (AOP 033 + 039 + 043 + 047 TO 053)	<b>054</b>		<b>2,937,935</b>	<b>3,142,761</b>
<b>CAPITAL</b>				
<b>27. SHARE CAPITAL</b>	<b>055</b>		<b>267,500</b>	<b>267,500</b>
<b>28. SHARE PREMIUM</b>	<b>056</b>		<b>3,015</b>	<b>3,015</b>
<b>29. EQUITY INSTRUMENTS ISSUED OTHER THAN EQUITY</b>	<b>057</b>		<b>0</b>	<b>0</b>
<b>30. OTHER EQUITY INSTRUMENTS</b>	<b>058</b>		<b>0</b>	<b>0</b>
<b>31. ACCUMULATED OTHER COMPREHENSIVE INCOME</b>	<b>059</b>		<b>(8,508)</b>	<b>5,250</b>
<b>32. RETAINED PROFIT</b>	<b>060</b>		<b>4,481</b>	<b>5,310</b>
<b>33. REVALUATION RESERVES</b>	<b>061</b>		<b>0</b>	<b>0</b>
<b>34. OTHER RESERVES</b>	<b>062</b>		<b>163,359</b>	<b>174,693</b>
<b>35. TREASURY STOCKS</b>	<b>063</b>		<b>(1,388)</b>	<b>(1,388)</b>
<b>36. PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY</b>	<b>064</b>		<b>12,106</b>	<b>21,346</b>
<b>37. DIVIDENDS DURING THE BUSINESS YEAR</b>	<b>065</b>		<b>0</b>	<b>0</b>
<b>38. MINORITY INTERESTS (NON-CONTROLLING INTERESTS)</b>	<b>066</b>		<b>0</b>	<b>0</b>
<b>39. TOTAL CAPITAL</b> (AOP 055 TO 066)	<b>067</b>		<b>440,565</b>	<b>475,726</b>
<b>40. TOTAL LIABILITIES AND CAPITAL</b> (AOP 054 + 067)	<b>068</b>		<b>3,378,500</b>	<b>3,618,487</b>

# STATEMENT OF PROFIT AND LOSS FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

POSITION TITLE 1	AOP TAG 2	NO. NOTES 3	PREVIOUS YEAR 4	CURRENT YEAR 5
<b>UNAUDITED (IN HRK THOUSANDS)</b>				
1. INTEREST INCOME	069		99,879	104,639
2. INTEREST EXPENSES	070		22,202	16,032
3. EXPENDITURE ON SHARE CAPITAL RETURNED ON REQUEST	071		0	0
4. DIVIDEND INCOME	072		816	1,446
5. FEE AND COMMISSION INCOME	073		37,161	38,313
6. FEE AND COMMISSION EXPENSES	074		14,471	14,929
7. GAINS OR LOSSES ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	075		3,774	16,333
8. GAINS OR LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES HELD FOR TRADING, NET	076		5,447	5,582
9. GAINS OR LOSSES ON NON-TRADABLE FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	077		1,213	918
10. GAINS OR LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	078		0	0
11. GAINS OR LOSSES ON HEDGE ACCOUNTING, NET	079		0	0
12. FOREIGN EXCHANGE DIFFERENCES (PROFIT OR LOSS), NET	080		1,612	849
13. GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS, NET	081		185	(671)
14. OTHER OPERATING INCOME	082		6,927	5,468
15. OTHER OPERATING EXPENSES	083		10,798	11,768
<b>16. TOTAL INCOME FROM OPERATIONS, NET</b> (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 TO 082 - 083)	<b>084</b>		<b>109,543</b>	<b>130,148</b>
17. ADMINISTRATIVE EXPENDITURE	085		75,299	73,124
18. AMORTISATION	086		5,807	8,300
19. GAINS OR LOSSES ON CHANGES, NET	087		0	0
20. RESERVATIONS OR CANCELLATIONS	088		1,354	(288)
21. IMPAIRMENT OR REVERSAL OF IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	089		12,512	21,808
22. IMPAIRMENT OR ELIMINATION OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	090		0	0
23. IMPAIRMENT OR ELIMINATION OF IMPAIRMENT OF NON-FINANCIAL ASSETS	091		0	0
24. NEGATIVE GOODWILL RECOGNISED IN PROFIT OR LOSS	092		0	0
25. SHARE OF PROFIT OR LOSS FROM INVESTING IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES CALCULATED USING THE EQUITY METHOD	093		0	0
26. PROFIT OR LOSS ON NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE THAT DO NOT QUALIFY AS GOING CONCERNS	094		(284)	(334)
<b>27. PROFIT OR LOSS FROM OPERATIONS BEFORE TAX</b> (AOP 084 - 085 - 086 + 087 - 088 TO 091 + 092 TO 094)	<b>095</b>		<b>14,287</b>	<b>26,870</b>
28. TAX EXPENSE OR INCOME RELATED TO THE PROFIT OR LOSS FROM CONTINUING OPERATIONS	096		3,193	6,068
<b>29. PROFIT OR LOSS AFTER TAX FROM OPERATIONS THAT WILL CONTINUE</b> (AOP 095 - 096)	<b>097</b>		<b>11,094</b>	<b>20,802</b>
<b>30. PROFIT OR LOSS AFTER TAX FROM OPERATIONS THAT WILL NOT CONTINUE</b> (AOP 099 - 100)	<b>098</b>		<b>1,012</b>	<b>544</b>
30.1. PRE-TAX PROFIT OR LOSS FROM OPERATIONS THAT WILL NOT CONTINUE	099		1,012	544
30.2. TAX OR BUSINESS-RELATED EXPENSES THAT WILL NOT CONTINUE	100		0	0
<b>31. PROFIT OR LOSS FOR THE CURRENT YEAR</b> (AOP 097 + 098; 102 + 103)	<b>101</b>		<b>12,106</b>	<b>21,346</b>
32. ATTRIBUTABLE TO MINORITY INTEREST (NON-CONTROLLING INTERESTS)	102		0	0
33. ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	103		12,106	21,346



# STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

POSITION TITLE 1	AOP TAG 2	NO. NOTES 3	PREVIOUS YEAR 4	CURRENT YEAR 5
<b>UNAUDITED (IN HRK THOUSANDS)</b>				
<b>OTHER COMPREHENSIVE INCOME REPORT</b>				
<b>1. PROFIT OR LOSS FOR THE CURRENT YEAR (AOP 101)</b>	<b>104</b>		<b>12,106</b>	<b>21,346</b>
<b>2. OTHER COMPREHENSIVE INCOME (AOP 106 + 118)</b>	<b>105</b>		<b>(16,584)</b>	<b>14,587</b>
<b>2.1. ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (AOP 107 TO 113 + 116 + 117)</b>	<b>106</b>		<b>(13,371)</b>	<b>5,201</b>
2.1.1. TANGIBLE ASSETS	107		0	0
2.1.2. INTANGIBLE ASSETS	108		0	0
2.1.3. ACTUARIAL GAINS OR LOSSES ON EMPLOYER-SPONSORED RETIREMENT PLANS	109		0	0
2.1.4. NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	110		0	0
2.1.5. SHARES OF OTHER RECOGNISED INCOME AND EXPENSES FROM ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	111		0	0
2.1.6. CHANGES IN THE FAIR VALUE OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	112		(16,306)	6,161
2.1.7. GAINS OR LOSSES ON ACCOUNTING FOR THE PROTECTION OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, NET	113		0	0
2.1.8. CHANGES IN THE FAIR VALUE OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (HEDGED ITEM)	114		0	0
2.1.9. CHANGES IN THE FAIR VALUE OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (HEDGING INSTRUMENT)	115		0	0
2.1.10. CHANGES IN THE FAIR VALUE OF FINANCIAL LIABILITIES MEASURED 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		2,935	(960)
<b>2.2. ITEMS THAT CAN BE RECLASSIFIED TO PROFIT OR LOSS (AOP 119 TO 126)</b>	<b>118</b>		<b>(3,213)</b>	<b>9,386</b>
2.2.1. HEDGING OF NET INVESTMENT IN FOREIGN OPERATIONS (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. RISK PROTECTION INSTRUMENTS (ELEMENTS NOT SPECIFIED)	122		0	0
2.2.5. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	123		(3,995)	11,523
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 RELATING TO ITEMS THAT CAN BE RECLASSIFIED TO PROFIT OR LOSS	126		782	(2,137)
<b>3. TOTAL COMPREHENSIVE INCOME FOR THE CURRENT YEAR (AOP 104 + 105 AND AOP 128 + 129)</b>	<b>127</b>		<b>(4,478)</b>	<b>35,933</b>
4. ATTRIBUTABLE TO MINORITY INTEREST (NON-CONTROLLING INTEREST)	128		0	0
5. ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	129		(4,478)	35,933



# STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

POSITION TITLE	AOP TAG	NO. NOTES	PREVIOUS YEAR	CURRENT YEAR
1	2	3	4	5
<b>UNAUDITED (IN HRK THOUSANDS)</b>				
<b>BUSINESS ACTIVITIES AND RECONCILIATIONS</b>				
1. PROFIT / (LOSS) BEFORE TAX	001		15,299	27,414
2. IMPAIRMENT AND PROVISIONS	002		13,964	22,526
3. AMORTISATION	003		5,807	8,300
4. NET UNREALISED GAINS / (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH RDG	004		(1,213)	(716)
5. PROFIT / (LOSS) FROM SALE OF TANGIBLE ASSETS	005		(1,117)	33
6. OTHER NON-MONETARY ITEMS	006		(266)	(183)
<b>CHANGES IN ASSETS AND LIABILITIES FROM OPERATING ACTIVITIES</b>				
7. CNB FUNDS	007		(1,918)	(8,371)
8. DEPOSITS WITH FINANCIAL INSTITUTIONS AND LOANS TO FINANCIAL INSTITUTIONS	008		(37,590)	36,808
9. LOANS AND ADVANCES TO OTHER CUSTOMERS	009		(275,144)	(389,879)
10. SECURITIES AND OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	010		(98,881)	(137,677)
11. SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	011		0	0
12. SECURITIES AND OTHER FINANCIAL INSTRUMENTS THAT ARE NOT ACTIVELY TRADED AND ARE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	012		0	0
13. SECURITIES AND OTHER FINANCIAL INSTRUMENTS THAT ARE CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS	013		0	20,338
14. SECURITIES AND OTHER FINANCIAL INSTRUMENTS CARRIED AT AMORTISED COST	014		84,768	51,620
15. OTHER ASSETS FROM BUSINESS ACTIVITIES	015		242	(942)
<b>INCREASE / DECREASE IN BUSINESS LIABILITIES</b>				
16. DEPOSITS FROM FINANCIAL INSTITUTIONS	016		(31,253)	177
17. OTHER CUSTOMER TRANSACTION ACCOUNTS	017		223,719	332,511
18. SAVINGS DEPOSITS OF OTHER CUSTOMERS	018		49,636	60,880
19. TIME DEPOSITS OF OTHER CUSTOMERS	019		(224,972)	(125,555)
20. DERIVATIVE FINANCIAL LIABILITIES AND OTHER TRADING LIABILITIES	020		0	0
21. OTHER LIABILITIES	021		16,559	(4,035)
22. UNPAID INTEREST FROM BUSINESS ACTIVITIES	022		98,987	104,021
23. DIVIDENDS RECEIVED FROM OPERATING ACTIVITIES	023		821	1,453
24. INTEREST PAID FROM BUSINESS ACTIVITIES	024		(26,812)	(17,434)
25. PAID INCOME TAXES	025		(4,493)	(4,597)
<b>A) NET CASH FLOWS FROM OPERATING ACTIVITIES (AOP 001 TO 025)</b>	<b>026</b>		<b>(193,857)</b>	<b>(23,308)</b>

POSITION TITLE	AOP TAG	NO. NOTES	PREVIOUS YEAR	CURRENT YEAR
1	2	3	4	5
<b>INVESTING ACTIVITIES</b>				
1. RECEIPTS FROM SALES / PURCHASE PAYMENTS / TANGIBLE AND INTANGIBLE ASSETS	027		(833)	(5,128)
2. RECEIPTS FROM SALES / PURCHASE PAYMENTS / INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	028		0	0
3. RECEIPTS FROM COLLECTION / PURCHASE PAYMENTS / SECURITIES AND OTHERS FINANCIAL INSTRUMENTS FROM INVESTING ACTIVITIES	029		0	0
4. DIVIDENDS RECEIVED FROM INVESTING ACTIVITIES	030		0	0
5. OTHER RECEIPTS / PAYMENTS / FROM INVESTING ACTIVITIES	031		0	1,234
<b>B) NET CASH FLOWS FROM INVESTING ACTIVITIES</b> (AOP 027 TO 031)	<b>032</b>		<b>(833)</b>	<b>(3,894)</b>
<b>FINANCING ACTIVITIES</b>				
1. NET INCREASE / DECREASE / LOANS RECEIVED FROM FINANCING ACTIVITIES	033		123,580	(62,488)
2. NET INCREASE / DECREASE / DEBT SECURITIES ISSUED	034		(23,733)	4,873
3. NET INCREASE / DECREASE IN TIER 2 INSTRUMENTS	035		0	0
4. INCREASE IN SHARE CAPITAL	036		0	0
5. DIVIDEND PAID	037		0	0
6. OTHER RECEIPTS / PAYMENTS FROM FINANCING ACTIVITIES	038		0	0
<b>C) NET CASH FLOWS FROM FINANCING ACTIVITIES</b> (AOP 033 TO 038)	<b>039</b>		<b>99,847</b>	<b>(57,615)</b>
<b>D) NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b> (AOP 026 + 032 + 039)	<b>040</b>		<b>(94,843)</b>	<b>(84,817)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>041</b>		<b>588,133</b>	<b>493,290</b>
<b>EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS</b>	<b>042</b>		<b>0</b>	<b>0</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b> (AOP 040 + 041 + 042)	<b>043</b>		<b>493,290</b>	<b>408,473</b>

# STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK

POSITION NAME	AOP CODE	NOTE NUMBER	CAPITAL	SHARE PRE- MIUM	EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	OTHER EQUITY SHARES	ACCUMULATED OTHER COM- PREHENSIVE INCOME
1	2	3	4	5	6	7	8
<b>UNAUDITED (IN HRK THOUSAND)</b>							
<b>1. INITIAL STATE (BEFORE REMODELLING)</b>	<b>01</b>		<b>267,500</b>	<b>3,015</b>	<b>0</b>	<b>0</b>	<b>(8,508)</b>
2. EFFECT OF BUG FIXES	02		0	0	0	0	0
3. EFFECT OF CHANGES IN ACCOUNTING POLICIES	03		0	0	0	0	0
<b>4. INITIAL STATE (CURRENT PERIOD) (AOP 01 TO 03)</b>	<b>04</b>		<b>267,500</b>	<b>3,015</b>	<b>0</b>	<b>0</b>	<b>(8,508)</b>
5. ISSUANCE OF ORDINARY SHARES	05		0	0			
6. ISSUANCE OF PREFERRED SHARES	06		0	0	0		
7. ISSUANCE OF OTHER EQUITY INSTRUMENTS	07					0	
8. EXECUTION OR EXPIRATION OF OTHER ISSUED EQUITY INSTRUMENTS	08					0	
9. CONVERTING DEBT INTO EQUITY INSTRUMENTS	09		0	0	0	0	
10. REDUCTION OF CAPITAL	10		0	0			
11. DIVIDENDS	11		0	0	0	0	
12. PURCHASE OF TREASURY SHARES	12						
13. SALE OR CANCELLATION OF TREASURY SHARES	13						
14. RECLASSIFICATION OF FINANCIAL INSTRUMENTS FROM EQUITY INSTRUMENTS TO LIABILITIES	14		0	0	0	0	
15. RECLASSIFICATION OF FINANCIAL INSTRUMENTS FROM LIABILITIES TO EQUITY INSTRUMENTS	15		0	0	0	0	
16. TRANSFERS BETWEEN COMPONENTS OF EQUITY	16					0	0
17. INCREASE OR DECREASE IN EQUITY INSTRUMENTS AS A RESULT OF BUSINESS COMBINATIONS	17		0	0	0	0	0
18. STOCK BASED PAYMENTS	18		0	0		0	
19. OTHER INCREASE OR DECREASE IN EQUITY INSTRUMENTS	19					0	(829)
20. TOTAL COMPREHENSIVE INCOME FOR THE CURRENT YEAR	20						14,587
<b>21. FINAL (CURRENT PERIOD) (AOP 04 TO 20)</b>	<b>21</b>		<b>267,500</b>	<b>3,015</b>	<b>0</b>	<b>0</b>	<b>5,250</b>



ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK					MINORITY INTERESTS			
RETAINED EARNINGS	REVALUATION RESERVES	OTHER RE- SERVES	TREASURY STOCKS	PROFIT / (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY	DIVIDENDS DURING THE BUSINESS YEAR	ACCUMULATED OTHER COM- PREHENSIVE INCOME	OTHER ITEMS	TOTAL
				13				
9	10	11	12		14	15	16	17 (4 TO 16)
4,481	0	163,359	(1,388)	12,106	0	0	0	440,565
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
4,481	0	163,359	(1,388)	12,106	0	0	0	440,565
0	0	0					0	0
0	0	0					0	0
0	0	0					0	0
0	0	0					0	0
0	0	0					0	0
0	0	0	0	0			0	0
0	0	0	0		0		0	0
0	0	0	0			0	0	0
0	0	0	0			0	0	0
							0	0
							0	0
0	0	12,106		(12,106)	0	0	0	0
0	0	0	0				0	0
			0				0	0
829		(772)	0	0	0	0	0	(772)
0	0	0		21,346			0	35,933
5,310	0	174,693	(1,388)	21,346	0	0	0	475,726

# STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 01.01.2018. TO 31.12.2018

ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK

POSITION NAME	AOP CODE	NOTE NUMBER	CAPITAL	SHARE PRE- MIUM	EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	OTHER EQUITY SHARES	ACCUMULATED OTHER COM- PREHENSIVE INCOME
1	2	3	4	5	6	7	8
<b>UNAUDITED (IN HRK THOUSAND)</b>							
<b>1. INITIAL STATE (BEFORE REMODELLING)</b>	<b>01</b>		<b>267,500</b>	<b>3,015</b>	<b>0</b>	<b>0</b>	<b>8,076</b>
2. EFFECT OF BUG FIXES	02		0	0	0	0	0
3. EFFECT OF CHANGES IN ACCOUNTING POLICIES	03		0	0	0	0	0
<b>4. INITIAL STATE (CURRENT PERIOD) (AOP 01 TO 03)</b>	<b>04</b>		<b>267,500</b>	<b>3,015</b>	<b>0</b>	<b>0</b>	<b>8,076</b>
5. ISSUANCE OF ORDINARY SHARES	05		0	0			
6. ISSUANCE OF PREFERRED SHARES	06		0	0	0		
7. ISSUANCE OF OTHER EQUITY INSTRUMENTS	07					0	
8. EXECUTION OR EXPIRATION OF OTHER ISSUED EQUITY INSTRUMENTS	08					0	
9. CONVERTING DEBT INTO EQUITY INSTRUMENTS	09		0	0	0	0	
10. REDUCTION OF CAPITAL	10		0	0			
11. DIVIDENDS	11		0	0	0	0	
12. PURCHASE OF TREASURY SHARES	12						
13. SALE OR CANCELLATION OF TREASURY SHARES	13						
14. RECLASSIFICATION OF FINANCIAL INSTRUMENTS FROM EQUITY INSTRUMENTS TO LIABILITIES	14		0	0	0	0	
15. RECLASSIFICATION OF FINANCIAL INSTRUMENTS FROM LIABILITIES TO EQUITY INSTRUMENTS	15		0	0	0	0	
16. TRANSFERS BETWEEN COMPONENTS OF EQUITY	16					0	0
17. INCREASE OR DECREASE IN EQUITY INSTRUMENTS AS A RESULT OF BUSINESS COMBINATIONS	17		0	0	0	0	0
18. STOCK BASED PAYMENTS	18		0	0		0	
19. OTHER INCREASE OR DECREASE IN EQUITY INSTRUMENTS	19					0	0
20. TOTAL COMPREHENSIVE INCOME FOR THE CURRENT YEAR	20						(16,584)
<b>21. FINAL (CURRENT PERIOD) (AOP 04 TO 20)</b>	<b>21</b>		<b>267,500</b>	<b>3,015</b>	<b>0</b>	<b>0</b>	<b>(8,508)</b>



ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK					MINORITY INTERESTS			
RETAINED EARNINGS	REVALUATION RESERVES	OTHER RE-SERVES	TREASURY STOCKS	PROFIT / (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY	DIVIDENDS DURING THE BUSINESS YEAR	ACCUMULATED OTHER COM-PREHENSIVE INCOME	OTHER ITEMS	TOTAL
9	10	11	12	13	14	15	16	17 (4 TO 16)
0	0	157,318	(11,082)	14,096	0	0	0	438,923
0	0	0	0	0	0	0	0	0
2,584	0	0	0	0	0	0	0	2,584
2,584	0	157,318	(11,082)	14,096	0	0	0	441,507
0	0	0					0	0
0	0	0					0	0
0	0	0					0	0
0	0	0					0	0
0	0	0					0	0
0	0	0	0	0			0	0
0	0	0	0		0		0	0
0	0	0	0			0	0	0
0	0	0	0			0	0	0
							0	0
							0	0
0	0	0		0	0	0	0	0
0	0	0	0				0	0
			0				0	0
1,897		6,041	9,694	(14,096)	0	0	0	3,536
0	0	0		12,106			0	(4,478)
4,481	0	163,359	(1,388)	12,106	0	0	0	440,565

Since the information included in the financial statements prepared in accordance with the decision of the Croatian National Bank ("CNB") diverges from that in the financial statements prepared in accordance with the statutory accounting requirements for banks in the Republic of Croatia, the tables below show comparative information.

## COMPARATIVE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

POSITION TITLE	CNB DECISION	ANNUAL REPORT	DIFFERENCE
<b>ASSETS</b>			
<b>1. FUNDS, CENTRAL BANK MONETARY CLAIMS AND OTHER DEMAND DEPOSITS (AOP 002 TO 004)</b>	<b>399,880</b>	<b>601,265</b>	<b>(201,385)</b>
1.1. CASH IN HAND	47,761	47,807	(46)
1.2. MONETARY CLAIMS ON CENTRAL BANKS	283,229	482,175	(198,946)
1.3. OTHER DEMAND DEPOSITS	68,890	71,283	(2,393)
<b>2. FINANCIAL ASSETS HELD FOR TRADING (AOP 006 TO 009)</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1. DERIVATIVES	0	0	0
2.2. EQUITY INSTRUMENTS	0	0	0
2.3. DEBT SECURITIES	0	0	0
2.4. LOANS AND ADVANCES	0	0	0
<b>3. NON-TRADABLE FINANCIAL ASSETS THAT ARE MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (AOP 011 TO 013)</b>	<b>137,853</b>	<b>137,853</b>	<b>0</b>
3.1. EQUITY INSTRUMENTS	137,853	137,853	0
3.2. DEBT SECURITIES	0	0	0
3.3. LOANS AND ADVANCES	0	0	0
<b>4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (AOP 015 + 016)</b>	<b>0</b>	<b>0</b>	<b>0</b>
4.2. DEBT SECURITIES	0	0	0
4.3. LOANS AND ADVANCES	0	0	0
<b>5. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (AOP 018 TO 020)</b>	<b>685,958</b>	<b>685,958</b>	<b>0</b>
5.1. EQUITY INSTRUMENTS	39,652	39,652	0
5.1. DEBT SECURITIES	646,306	646,306	0
5.2. LOANS AND ADVANCES	0	0	0
<b>6. FINANCIAL ASSETS AT AMORTISED COST (AOP 022+023)</b>	<b>2,237,376</b>	<b>2,032,774</b>	<b>204,602</b>
6.1. DEBT SECURITIES	68,029	68,029	0
6.2. LOANS AND ADVANCES	2,169,347	1,964,745	204,602
<b>7. DERIVATIVES – HEDGE ACCOUNTING</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>8. CHANGES IN THE FAIR VALUE OF THE HEDGED ITEMS IN THE PORTFOLIO HEDGING AGAINST INTEREST RATE RISK</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>9. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>10. TANGIBLE ASSETS</b>	<b>98,703</b>	<b>98,778</b>	<b>(75)</b>
<b>11. INTANGIBLE ASSETS</b>	<b>43,408</b>	<b>43,333</b>	<b>75</b>
<b>12. TAX ASSETS</b>	<b>4,001</b>	<b>3,935</b>	<b>66</b>
<b>13. OTHER ASSETS</b>	<b>2,195</b>	<b>13,593</b>	<b>(11,398)</b>
<b>14. NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE</b>	<b>9,113</b>	<b>998</b>	<b>8,115</b>
<b>15. TOTAL ASSETS (AOP 001 + 005 + 010 + 014 + 017 + 021 + 024 TO 031)</b>	<b>3,618,487</b>	<b>3,618,487</b>	<b>0</b>



POSITION TITLE	CNB DECISION	ANNUAL REPORT	DIFFERENCE
<b>LIABILITIES</b>			
<b>16. FINANCIAL LIABILITIES HELD FOR TRADING (AOP 034 TO 038)</b>	<b>0</b>	<b>0</b>	<b>0</b>
16.1. DERIVATIVES	0	0	0
16.2. SHORT POSITIONS	0	0	0
16.3. DEPOSITS	0	0	0
16.4. DEBT SECURITIES ISSUED	0	0	0
16.5. OTHER FINANCIAL LIABILITIES	0	0	0
<b>17. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (AOP 040 TO 042)</b>	<b>0</b>	<b>0</b>	<b>0</b>
17.1. DEPOSITS	0	0	0
17.2. DEBT SECURITIES ISSUED	0	0	0
17.3. OTHER FINANCIAL LIABILITIES	0	0	0
<b>18. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST (AOP 044 TO 046)</b>	<b>3,090,506</b>	<b>3,071,784</b>	<b>18,722</b>
18.1. DEPOSITS	2,974,447	2,974,447	0
18.2. DEBT SECURITIES ISSUED	97,337	97,337	0
18.3. OTHER FINANCIAL LIABILITIES	18,722	0	18,722
<b>19. DERIVATIVES – HEDGE ACCOUNTING</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>20. CHANGES IN THE FAIR VALUE OF THE HEDGED ITEMS IN THE PORTFOLIO HEDGING AGAINST INTEREST RATE RISK</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>21. RESERVATIONS</b>	<b>5,465</b>	<b>5,465</b>	<b>0</b>
<b>22. TAX LIABILITIES</b>	<b>3,525</b>	<b>0</b>	<b>3,525</b>
<b>23. SHARE CAPITAL RETURNED ON DEMAND</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>24. OTHER LIABILITIES</b>	<b>43,265</b>	<b>65,512</b>	<b>(22,247)</b>
<b>25. LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE</b>	<b>0</b>		<b>0</b>
<b>26. TOTAL LIABILITIES (AOP 033 + 039 + 043 + 047 TO 053)</b>	<b>3,142,761</b>	<b>3,142,761</b>	<b>0</b>
<b>CAPITAL</b>			
<b>27. SHARE CAPITAL</b>	<b>267,500</b>	<b>267,500</b>	<b>0</b>
<b>28. STOCK PREMIUM</b>	<b>3,015</b>	<b>3,015</b>	<b>0</b>
<b>29. EQUITY INSTRUMENTS ISSUED OTHER THAN EQUITY</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>30. OTHER EQUITY INSTRUMENTS</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>31. ACCUMULATED OTHER COMPREHENSIVE INCOME</b>	<b>5,250</b>	<b>0</b>	<b>5,250</b>
<b>32. RETAINED EARNINGS</b>	<b>5,310</b>	<b>5,310</b>	<b>0</b>
<b>33. REVALUATION RESERVES</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>34. OTHER RESERVES</b>	<b>174,693</b>	<b>179,943</b>	<b>(5,250)</b>
<b>35. TREASURY STOCKS</b>	<b>(1,388)</b>	<b>(1,388)</b>	<b>0</b>
<b>36. PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY</b>	<b>21,346</b>	<b>21,346</b>	<b>0</b>
<b>37. DIVIDENDS DURING THE BUSINESS YEAR</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>38. MINORITY INTERESTS (NON-CONTROLLING INTERESTS)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>39. TOTAL CAPITAL (AOP 055 TO 066)</b>	<b>475,726</b>	<b>475,726</b>	<b>0</b>
<b>40. TOTAL LIABILITIES AND CAPITAL (AOP 054+067)</b>	<b>3,618,487</b>	<b>3,618,487</b>	<b>0</b>

The differences in the Bank's Statement of Financial Position items published in the annual financial statements and the Statement of Financial Position drawn up in accordance with the structure and content prescribed by the CNB's Decision relate to the following positions and reclassifications:

## Assets

The difference in the position Cash on hand relates to receivables for cheques sent abroad in the amount of HRK 46 thousand, which are included in the item Other assets under the CNB Decision.

The difference in the amount of HRK 198,946 thousand relates to the allocated reserve requirements, which are held in a separate position within the Annual Report as funds held at the Croatian National Bank, and according to the CNB Decision these receivables are included in the item Loans and advances at amortised cost.

The difference in the item Other demand deposits in the amount of HRK 2,393 thousand relates to a deposit with a financial institution that, according to the CNB Decision, is included in the item Loans and advances at amortised cost, while in the Annual Report the deposit in question is included in the item Placements with other banks.

The difference within Loans and advances at amortised cost in the amount of HRK 5,828 thousand relates to short-term deposits with financial institutions, which are included in the Loans and advances item under the CNB Decision, and in the Annual Report the deposits in question are included in the item Placements with other banks.

The difference in the amount of HRK 3,262 thousand relates to receivables on fees, which are presented in the item Other assets in the Annual Report, and according to the CNB Decision are shown in the item Loans and advances at amortised cost.

According to the CNB Decision, tangible assets include investments in property, plant and equipment (IAS 16) in the amount of HRK 43,383 thousand, right-of-use assets (IFRS 16) in the amount of HRK 13,941 thousand and investments in property carried under IAS 40 in the amount of HRK 41,379 thousand, while in the Annual Report these investments are included in separate items of property: Tangible assets (for investments under IAS 16), Right-of-use assets (for assets under IFRS 16) and Investments in property (for investments under IAS 40). Investments for the purpose of improving tangible assets under operating leases are disclosed under the CNB Decision under the heading Intangible assets, while in the Annual Report those are included in the item Tangible assets in the amount of HRK 75 thousand.

The difference relates to current tax receivables in the amount of HRK 66 thousand, which are presented in the item Other assets in the Annual Report.

The difference refers to the reclassification of acquired assets in exchange for uncollected receivables in the amount of HRK 8,115 thousand (which is not governed by IFRS 5 or IAS 40) and is included in Other Assets in the Annual Report but included in the position of Assets and disposal groups classified as held for sale under the CNB Decision.

## Liabilities and equity

According to the CNB's Decision, Deposits at amortised cost include all deposits and loans received from customers in the amount of HRK 2,974,447 thousand, while in the Annual Report these items are presented in separate positions: deposits in the item Bank liabilities in the amount of HRK 7,834 thousand as well as in the item Loans

to customers in the amount of HRK 2,706,416 thousand and loans received in the item Other borrowed funds in the amount of HRK 260,197 thousand.

The difference in the item Other financial liabilities at amortised cost in the total amount of HRK 18,722 thousand refers to payables related to right-of-use assets in the amount of HRK 14,169 thousand, fee payables in the amount of HRK 662 thousand, liabilities for unpaid dividends in the amount of HRK 81 thousand and other liabilities in the amount of HRK 3,810 thousand. These liabilities are included in the Other liabilities item in the Annual Report.

The difference in the item Tax liabilities in the amount of HRK 3,525 thousand relates to the reclassification in the Annual Report in which these liabilities are included in the item Other liabilities.

According to the CNB Decision, accumulated other comprehensive income in the amount of HRK 5,250 thousand is presented in a separate item within Capital, while in the Annual Report this amount is included in the item Other reserves.

# COMPARATIVE VIEW OF THE STATEMENT OF PROFIT AND LOSS AND THE STATEMENT OF OTHER COMPREHENSIVE INCOME AS AT 31 DECEMBER 2019

POSITION TITLE	CNB DECISION	ANNUAL REPORT	DIFFERENCE
1. INTEREST INCOME	104,639	104,639	0
2. INTEREST EXPENSES	16,032	16,032	0
3. EXPENDITURE ON SHARE CAPITAL RETURNED ON REQUEST	0	0	0
4. DIVIDEND INCOME	1,446	0	1,446
5. FEE AND COMMISSION INCOME	38,313	38,313	0
6. FEE AND COMMISSION EXPENSES	14,929	14,929	0
7. GAINS OR LOSSES ON DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	16,333	0	16,333
8. GAINS OR LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES HELD FOR TRADING, NET	5,582	0	5,582
9. GAINS OR LOSSES ON NON-TRADABLE FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	918	0	918
10. GAINS OR LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	0	0	0
11. GAINS OR LOSSES ON HEDGE ACCOUNTING, NET	0	0	0
12. FOREIGN EXCHANGE DIFFERENCES (PROFIT OR LOSS), NET	849	0	849
13. GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS, NET	(671)	0	(671)
14. OTHER OPERATING INCOME	5,468	35,118	(29,650)
15. OTHER OPERATING EXPENSES	11,768	0	11,768
<b>16. TOTAL INCOME FROM OPERATIONS, NET</b> (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 TO 082 - 083)	<b>130,148</b>	<b>147,109</b>	<b>(16,961)</b>
17. ADMINISTRATIVE EXPENDITURE	73,124	88,294	(15,170)
18. AMORTISATION	8,300	8,300	0
19. GAINS OR LOSSES ON CHANGES, NET	0	0	0
20. RESERVATIONS OR CANCELLATIONS	(288)	0	(288)
21. IMPAIRMENT OR REVERSAL OF IMPAIRMENT OF FINANCIAL ASSETS THAT ARE NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	21,808	23,101	(1,293)
22. IMPAIRMENT OR REVERSAL OF IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	0	0	0
23. IMPAIRMENT OR ELIMINATION OF IMPAIRMENT OF NON-FINANCIAL ASSETS	0	0	0
24. NEGATIVE GOODWILL RECOGNISED IN PROFIT OR LOSS	0	0	0
25. SHARE OF PROFIT OR LOSS FROM INVESTING IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES CALCULATED USING THE EQUITY METHOD	0	0	0
26. PROFIT OR LOSS ON NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS INTENDED FOR SALE THAT DO NOT QUALIFY AS A BUSINESS THAT WILL NOT CONTINUE	(334)	0	(334)
<b>27. PROFIT OR LOSS FROM OPERATIONS BEFORE TAX</b> (AOP 084 - 085 - 086 + 087 - 088 TO 091 + 092 TO 094)	<b>26,870</b>	<b>27,414</b>	<b>(544),</b>

28. TAX EXPENSE OR INCOME RELATED TO THE PROFIT OR LOSS FROM CONTINUING OPERATIONS	6,068	6,068	0
<b>29. PROFIT OR LOSS FROM OPERATIONS AFTER TAX (AOP 095 - 096)</b>	<b>20,802</b>	<b>21,346</b>	<b>(544)</b>
<b>30. PROFIT OR LOSS AFTER TAX FROM OPERATIONS THAT WILL NOT CONTINUE (AOP 099 - 100)</b>	<b>544</b>	<b>0</b>	<b>544</b>
30.1. PRE-TAX PROFIT OR LOSS FROM OPERATIONS THAT WILL NOT CONTINUE	544	0	544
30.2. TAX OR BUSINESS-RELATED EXPENSES THAT WILL NOT CONTINUE	0	0	0
<b>31. PROFIT OR LOSS FOR THE CURRENT YEAR (AOP 097 + 098; 102 + 103)</b>	<b>21,346</b>	<b>21,346</b>	<b>0</b>
32. ATTRIBUTABLE TO MINORITY INTERESTS (NON-CONTROLLING INTERESTS)	0	0	0
33. ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	21,346	21,346	0

POSITION TITLE	CNB DECISION	ANNUAL REPORT	DIFFERENCE
<b>OTHER COMPREHENSIVE INCOME REPORT</b>			
1. PROFIT OR LOSS FOR THE CURRENT YEAR (AOP 101)	0	0	0
2. OTHER COMPREHENSIVE INCOME (AOP 106 + 118)	14,587	14,587	0
<b>2.1. ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (AOP 107 TO 113 + 116 + 117)</b>	<b>5,201</b>	<b>5,201</b>	<b>0</b>
2.1.1. TANGIBLE ASSETS	0	0	0
2.1.2. INTANGIBLE ASSETS	0	0	0
2.1.3. ACTUARIAL GAINS OR LOSSES ON EMPLOYER-SPONSORED RETIREMENT PLANS	0	0	0
2.1.4. NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	0	0	0
2.1.5. SHARE OF OTHER RECOGNISED INCOME AND EXPENSES FROM ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	0	0	0
2.1.6. CHANGES IN THE FAIR VALUE OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	6,161	6,161	0
2.1.7. GAINS OR LOSSES ON ACCOUNTING FOR THE PROTECTION OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, NET	0	0	0
2.1.8. CHANGES IN THE FAIR VALUE OF EQUITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (HEDGED ITEM)	0	0	0
2.1.9. CHANGES IN THE FAIR VALUE OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (HEDGING INSTRUMENT)	0	0	0
2.1.10. CHANGES IN THE FAIR VALUE OF FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS ATTRIBUTABLE TO CHANGES IN CREDIT RISK	0	0	0
2.1.11. INCOME TAX RELATING TO ITEMS THAT WILL NOT BE RECLASSIFIED	(960)	(960)	0
<b>2.2. ITEMS THAT CAN BE RECLASSIFIED TO PROFIT OR LOSS (AOP 119 TO 126)</b>	<b>9,386</b>	<b>9,386</b>	<b>0</b>
2.2.1. HEDGING OF NET INVESTMENT IN FOREIGN OPERATIONS (EFFECTIVE SHARE)	0	0	0
2.2.2. FOREIGN CURRENCY TRANSLATION	0	0	0
2.2.3. CASH FLOW HEDGES (EFFECTIVE INTEREST RATE)	0	0	0

2.2.4.	RISK PROTECTION INSTRUMENTS (ELEMENTS NOT SPECIFIED)	0	0	0
2.2.5.	DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	11,523	11,523	0
2.2.6.	NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	0	0	0
2.2.7.	SHARE OF OTHER RECOGNISED INCOME AND EXPENSES FROM INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	0	0	0
2.2.8.	INCOME TAX RELATING TO ITEMS THAT CAN BE RECLASSIFIED TO PROFIT OR LOSS	(2,137)	(2,137)	0
3.	<b>TOTAL COMPREHENSIVE INCOME FOR THE CURRENT YEAR</b> (AOP 104 + 105 AND AOP 128 + 129)	<b>35,933</b>	<b>35,933</b>	<b>0</b>
4.	ATTRIBUTABLE TO MINORITY INTEREST (NON-CONTROLLING INTEREST)	0	0	0
5.	ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	35,933	35,933	0

According to the CNB Decision, dividend income is presented in a separate position, while in the Annual Report this income is included in the item Other net operating income.

Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss including net realised gains on securities that are measured at fair value through other comprehensive income in the amount of HRK 19,570 thousand are included in the item Other net operating income in the Annual Report and expenses on other liabilities in the amount of HRK 3,237 thousand are included in the administrative expenses in the Annual Report.

In the Annual Report, the total amount of gains on foreign currency sale and purchase transactions in the amount of HRK 5,582 thousand is included in Other net operating income.

The total amount of HRK 918 thousand from the adjustment and sale / purchase of securities within the portfolio at fair value through profit or loss is included in the item Other net operating income in the Annual Report.

In accordance with the CNB Decision, foreign exchange differences in the amount of HRK 849 thousand are presented in a separate position, of which HRK 566 thousand relates to foreign exchange losses on adjustments included in the item Impairment and provisioning costs in the Annual Report and gains in the amount of HRK 1,415 thousand from other net exchange differences included in the item Other net operating income in the Annual Report.

Net gains on derecognition of non-financial assets in the amount of HRK 671 thousand are included in the item Impairment and provisioning expenses in the Annual Report.

Other operating expenses include other non-interest expenses such as taxes, contributions, membership fees and similar expenses in the amount of HRK 11,484 thousand included in the item Administrative expenses in the Annual Report as well as expenses of HRK 283 thousand related to the unrecorded value of tangible assets included in the item Other net operating income in the Annual Report.

According to the CNB Decision, provisions for contingent liabilities in the amount of HRK 228 thousand are stated in a separate position while in the Annual Report they are stated in the item Impairment and provisioning costs.

Revenues from the collection of written-off receivables from previous years in the amount of HRK 9 thousand are included in the item (Impairment) or reversal of impairment of financial assets not measured at fair value through profit or loss according to the CNB Decision, while these revenues are included in Other net operating income in the Annual Report.

In accordance with the CNB Decision, the impairment of acquired assets held for sale is stated in a separate position, while in the Annual Report this impairment amounting to HRK 334 thousand is included in the item Impairment and provisioning costs.

According to the CNB Decision, extraordinary income in the amount of HRK 993 thousand is included in the item Other net operating income and other non-standard expenses in the amount of HRK 446 thousand are included in the item Profit or loss before tax from operations which will not be continued, while these are included in the item Administrative Costs in the Annual Report.

Other differences relate to the reclassification of the rounding.

#### Reconciliation of the Statement of Cash Flows and the Statement of Changes in Equity

Inconsistencies within positions of the Statement of Cash Flows in the Annual Report and the Statement of Cash Flows prepared in accordance with the CNB Decision are caused by a different methodology and arise from different structures and contents, that is, differences in the classification of individual positions of assets, liabilities and capital. The same applies to the Statement of Changes in Equity.



## APPENDIX II – OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Law on Credit Institutions, Article 164, Podravska Bank publishes the following information.

The Bank provides banking and other financial services in the Republic of Croatia in accordance with the Law, in particular:

1. receiving deposits or other payments from the public and granting loans from these funds on its own behalf,
2. receiving deposits or other repayable funds,
3. granting of loans and borrowings, including consumer credits and loans and mortgage credits and loans, if permitted by special law, and the financing of commercial transactions, including export financing on a discounted basis and without recourse to long-term overdue claims secured by financial instruments (forfeiting),
4. purchase of receivables with or without recourse (factoring),
5. financial leasing (leasing),
6. issuing guarantees or other warranties,
7. trading on its own behalf or on behalf of customers:
  - money market instruments,
  - transferable securities,
  - foreign exchange, including exchange transactions,
  - financial futures and options,
  - currency and interest rate instruments,
8. payment services, as follows:
  - 1) services that allow cash to be deposited into a payment account as well as all the procedures required to maintain a payment account;
  - 2) services that enable cash withdrawals from the payment account as well as all the procedures required to maintain the payment account;
  - 3) payment transaction execution services, including the transfer of funds to a payment account via a payment service user or another payment service provider:
    - execution of direct debits, including one-off direct debits,
    - execution of payment transactions by payment cards or similar means,
    - execution of credit transfers, including standing orders;
  - 4) payment transaction execution services in which funds are covered by a credit line for a payment service user:
    - execution of direct debits, including one-off direct debits,
    - execution of payment transactions by payment cards or similar means,
    - execution of credit transfers, including standing orders;
  - 5) services of issuing and / or accepting payment instruments;
  - 6) money delivery services,
9. services related to lending activities, such as collecting data, preparation of analysis and providing information on the creditworthiness of legal and natural persons carrying out their business independently;
10. issuing and managing other payment instruments if the provision of these services is not considered to be a payment service provision in accordance with a separate law,
11. renting safes,
12. mediation in concluding money market transactions,
13. advising legal entities on capital structure, business strategy and similar issues

- and providing services related to business combinations and acquisition of shares and interests in other companies,
14. issuing of electronic money,
  15. investment and ancillary services and activities prescribed by a special law governing the capital market, as follows:
    - receiving and transferring orders regarding one or more financial instruments
    - execution of orders on behalf of customers
    - trading on its own behalf
    - portfolio management
    - investment consulting
    - services for the implementation of offers, i.e. sale of financial instruments subject to a repurchase obligation
    - services for the implementation of the offering or sale of financial instruments without a repurchase obligation
    - storage and administration of financial instruments on behalf of customers, including custody and related services such as cash management and insurance instruments
    - granting credits or loans to an investor to enable it to conclude a transaction with one or more financial instruments if the transaction involves the company granting the loan or credit
    - advising on capital structure, business strategies and related issues, as well as consulting and services related to mergers and acquisitions of companies
    - foreign exchange services if they are related to the provision of investment services
    - investment research and financial analysis, as well as other recommendations related to transactions involving financial instruments
    - services related to the implementation of the offer, i.e. sale of financial instruments with a repurchase obligation
    - investment services and activities and ancillary services related to the basic assets of the derivatives referred to in Article 3, Paragraph 1 Item 2, Subparagraph d), Indents 2, 3, 4 and 7 of the Capital Market Act when these investment services and activities are supplemented by investment services or ancillary services,
  16. performing activities related to the sale of insurance policies in accordance with the regulations governing insurance.

**31 DECEMBER  
2019**

TOTAL REVENUE	147,109
PROFIT BEFORE TAX	27,414
CORPORATE INCOME TAX	(6,068)
NUMBER OF FULL-TIME EQUIVALENT WORKERS (PAID HOURS WORKED) IN 2019	181

The Bank did not receive any public subsidies in 2019.