KentBank d.d.

ANNUAL REPORT
FOR THE YEAR 2019

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MANAGEMENT BOARD REPORT

About the Bank

In 1998, Štedionica Brod was founded which grew into Banka Brod d.d. in 2002 with its headquarters in Slavonski Brod and a founding share capital of HRK 20,216 thousand. In July 2005, Banka Brod d.d. had a capital increase following which the total share capital amounted to HRK 41,158 thousand.

In July 2011, the Süzer Holding (former Eksen Holding) took over Banka Brod d.d. and at the beginning of 2012, it increased the capital by an additional EUR 10 million, to HRK 117,029 thousand. After acquisition, the Bank was repeatedly recapitalized by its owners, and in 2016 the Bank issued subordinated debt in the amount of EUR 1,5 million, while in 2017 issued subordinated debt amounted to EUR 3,5 million. The debt was financed by the major shareholder.

In 2017 the Bank finished squeeze out process of preference shares and preference shares have been delisted from Zagreb Stock Exchange. In previous years preference shares were classified as a liability in the statement of financial position, and included as a capital in the calculation of the capital adequacy and were also registered with the Commercial Court of Zagreb.

The Bank had not acquired its own shares in the previous financial years.

In July 2012, the Bank changed its name to KentBank d.d. ("the Bank") and moved its headquarters to Zagreb (Gundulićeva 1). At that time, the Bank had 9 branches (in Zagreb, Slavonski Brod, Požega, Nova Gradiška, Osijek, Pula, Rijeka) and 2 affiliated branches (in Zagreb and Slavonski Brod) and at the end of 2019, total number of branches (15) remained the same as it was at the end of 2018. At the beginning of 2019 the Bank opened second branch in Split.

In 2016 the Bank achieved an asset growth of 57%, confirming the status of the fastest growing bank in Croatia.

Thanks to an improvement in the quality and structure of the balance sheet, in 2019. the Bank is affirmed with a long-term credit rating 'A-' and a short-term credit rating 'A-1' with a 'stable' outlook for both ratings. The rating was confirmed by JCR Eurasia Rating, an international credit rating institution focused on the Eurasia market.

In 2019 Executive Board of the Croatian-Turkish Friendship Association rewarded KentBank with the jubilee recognition for special support and contribution to the development of Croatian-Turkish relations.

Over the past few years, the Management Board and the major Shareholder of the Bank have been investing considerable effort in modernization and business improvement. The most important achievements during this period include the modernization of business systems and processes, digitalization of services, introduction of new products, the expansion of the branch network and the strengthening of the capital base and balance sheet.

MANAGEMENT BOARD REPORT (CONTINUED)

About the Süzer Group

The Süzer Group was established in Gaziantep in 1952, as a local construction and trading company. The Group grew by rapid, yet balanced expansion beginning in the 1960's and the 1970's in the fields of construction, tourism and foreign trade. With the liberalization of the Turkish economy starting in the 1980s the Group embarked on a new phase of expansion, becoming in due course one of the few Turkish companies whose foreign trade volume exceeds one billion dollars. Today Süzer Group represents Turkey in the international field and has partnerships with world-wide leaders in their own sectors and is one of the leading groups of Turkey with a sustainable growth mission, an innovative vision and domestic, as well as foreign investments.

The Süzer Group portfolio covers a wide range of sectors including real estate development, retail, finance, tourism, service and energy. In Turkey, Süzer Group owns the Ritz Carlton Hotel in Istanbul. Its energy interests are represented by a majority share of Bahçeşehir Gas Distribution Inc., which is the first private company dealing with natural gas distribution in Turkey. The latest projects of the Süzer Group comprise real estate development in the United States.

Business activities of the Bank

KentBank provides banking services based on the activities registered in the court register, comprising corporate and retail banking. In an effort to strengthen and improve its position on the market, the Bank continuously works on development of new services and products, while improving the quality of existing products and services.

The Bank acquires international deposits via web platforms in Germany, Austria and Netherlands. In corporate and SME, the Bank cooperates with Croatian bank for reconstruction and development in loan disbursements as well as activities with trade finance products. The Bank also participates in tenders published by Fund for environment protection and energetic efficiency for subsidy of energetic façade renewal. In 2015 the Bank expanded its activities and registered for two more of them, i.e. the issuing of electronic money and insurance brokerage.

At the end of 2017 the Bank opened Representative office in Istanbul with the goal to strengthen business cooperation between Turkey and Croatia. Through Turkish Desk in Zagreb and Representative office in Istanbul, KentBank enables small, medium and big companies full access to comprehensive financial solutions as well as access to the international banking products and services. The Bank's goal is to create new business opportunities for Croatian and Turkish companies, as well as to become a bridge connecting economies of the two countries. In 2018. The Bank started cooperation with exchange offices.

In 2019 the Bank enabled to its customers, Maestro and Mastercard users to make purchases online with the highest level of protection against unauthorized use of card data through the 3-D Secure system. During 2019 the Bank finalized the project to harmonize internet and mobile banking with EU Directive related with PSD2

(Payment Service Directive) and RTS. The Directive on payment sevices in the internal market or PSD2 (Payment Service Directive) defines the integration and optimization of the European payment market, fostering innovation and competitiveness and enhancing the security of electronic payment methods while RTS defines the application of reliable authorization and the exemption from the application of reliable payment authorization.

For 2019 the Bank has been awarded as "the Most Innovative SME Banking Services Provider" by International Finance, premium business and finance magazine published by UK's International Finance Publications.

The global banking sector is constantly evolving due to many regulations, technology developments and market reforms. The International Finance Banking Awards highlight the accomplishments of banks leading in innovation, infrastructure development and commitment to customers, and KentBank is one of them.

Operations of the Bank in 2019

On 31 December 2019, the total assets of the Bank amounted to HRK 2,488 million, representing an increase of 3% compared to 31 December 2018.

Category of customer loans recorded an increase of 2% compared to 2018, with loans amounting to HRK 1,449 million on 31 December 2019. The ratio between the corporate and the retail gross loans at the end of 2019 was 57% compared to 43%, while at the end of 2018 it was 55% compared to 45%.

Total deposits amounted to HRK 2,032 million, representing an increase of 6% compared to 31 December 2018. The ratio between term and current deposits at the end of 2019 was 72%: 28%, while at the end of 2018 it was 76% : 24%. Deposits from customers represent 92% of total deposits, and represent an increase of 3% compared to 31 December 2018. Deposits from banks and financial institutions represent an increase of 76% compared to 31 December 2018.

In the structure of the Bank's funding sources, deposits represent 82% of total sources of funds (HRK 2,032 million at 31 December 2019), while the Bank's capital represent 11% of total sources of funds (HRK 268 million at 31 December 2019). Subordinated debt amounted to HRK 37 million.

In 2019, the Bank generated HRK 93 million of interest income, while the interest expenses amounted to HRK 15,5 million. Net interest income amounted to HRK 78 million and it increased by 15% comparing to the previous year. Net income from fees and commissions in 2019 amounted to HRK 12 million, which is a 10% increase compared to the previous year.

In the structure of income, net interest income has share of 71%, net fee and commission income 11%, while other revenues have share of 18%.

MANAGEMENT BOARD REPORT (CONTINUED)

Total income amounted to HRK 110 million, representing an increase of 19% compared to 2018.

Total general and administrative expenses amounted to HRK 71.5 million, which is an increase of 8% compared to the previous year. In the expenses structure, 58% refers to staff costs, 31% to administrative expenses, and 11% to depreciation and amortization. The cost / income ratio of the Bank was 65% (2018 72%).

Impairment losses and provisions amounted to HRK 18 million, 1% less than in the previous year.

Profit before tax amounted to HRK 20 million, representing an increase of HRK 12.5 million or 166% compared to the previous year. Profit after tax is HRK 17.9 million, return on assets (ROA) is 0.73% and return on equity (ROE) 7.15%.

Development plan

The basic strategic direction of the Bank is to achieve continuous growth of the banking activities which will ensure the preservation of the loan portfolio quality, good liquidity management practice and capital adequacy, business cost optimization, i.e. income growth and profit realization.

The key concept of the operations of the Bank is an individual approach to clients, as well as flexibility and efficiency in decision-making in relation to the larger banking system. Moreover, after changing the owner, the Bank expanded its network and product range to ensure healthy growth and to become an international bank rather than a regional bank.

The focus of the Bank is on the growth of: portfolio, interest earning asset and profit while continuing to increase the number of customers and number of products per customers which will result with growth in fee and commission income. Through the increase in the number of clients, the aim is to increase the share of a vista funds in total deposits of the Bank and reduce the cost of funding sources.

Following the needs of its clients and the trends in the market, especially in the field of digital banking, the Bank is continuously working on the development of new and improvement of existing products, mobile banking and Internet banking, in order to maintain long-term business relationships with clients.

Human resources policy is based on strategic management of human resources in all aspects of the Bank. At the end of 2019 the Bank had 184 employees. The Bank continues to invest in employees' education through internal educations and external seminars as it considers it as base for further development.

MANAGEMENT BOARD REPORT (CONTINUED)

Strategic objectives

- Raising the market share and strengthening the competitiveness of the Bank on the market;
- Maintenance of good asset quality;
- Maintaining and securing liquidity and funding sources;
- Continue to generate a positive business result;
- Improvement of sales orientation in all business segments focusing on intensive cross-selling activities between all market segments of business operations
- Strong increase of the customer base;
- Increase of a vista deposits
- Orientation to SME clients;
- Continued investments in IT
- Continuous development and strengthening of the Bank's digital services
- Investments in projects that contribute to the optimization of business processes (payment machine, simpler and faster loan approval process)
- Improving the security of electronic payment services with aim to improve quality and security of services (mobile and physical tokens)
- Strengthening of existing and implementing new sales channels (internet banking, mobile banking, ATM network and card business);
- With the introduction of new products, establish the KentBank as a flexible, efficient and innovative bank that creates value for shareholders, clients, employees and the environment in which it works and operates;
- 'Cross border' - presence in the global market

By further development of Turkish Desk and an open representative office of the Bank in Istanbul, aim is to be recognized as the only Turkish bank in Croatia which connects Turkish investors with Croatia.

In the coming period and in accordance with the applicable regulations and economic circumstances, the Bank intends to continue its activities aimed at establishing the Bank as a dynamic, fast, flexible, efficient, innovative organization, capable of creating new values for shareholders, clients, employees and the environment in which it works and operates.

MANAGEMENT BOARD REPORT (CONTINUED)

Financial risk management

The operations of the Bank are exposed to various types of risks, which arise from the uncontrollable character of the financial market. The Bank tries to control and minimize them. The most significant types of financial risks to which the Bank is exposed are the credit risk, the liquidity risk, market risk and operational risk. The market risk includes the risk of change of interest rates, the risk of change of foreign exchange rates and the change of market value of securities.

a) Credit risk

Credit risk management is described in notes 28, 29 and 33b to the financial statements.

b) Liquidity risk

Liquidity risk management is described in notes 30 and 33c to the financial statements.

c) Market risk

Market risk management is described in notes 31, 32 and 33d to the financial statements.

d) Operational risk management

Operational risk management is described in note 33f to the financial statements.

MANAGEMENT BOARD REPORT (CONTINUED)

Supervisory Board

During 2019, the Supervisory Board of the Bank consisted of three members. Their term of office is four years and they may be reappointed. After the changes in the membership of the Supervisory Board, it currently has three members chosen by the majority shareholder pursuant to the Companies Act and one independent member.

The powers of the Supervisory Board are governed by the Articles of Association of the Bank and by the Operating Procedures Manual of the Supervisory Board, in accordance with the applicable provisions of the Companies Act and the Credit Institutions Act.

The members of the Supervisory Board in office from 1 January 2019 to the date of issuance of these financial statements, are as follows:

Meriç Uluşahin	President of the Supervisory Board
Hakan Özgüz	Deputy President of the Supervisory Board
Danijela Roguljić Novak	Supervisory Board Member

The Supervisory Board established an Audit and Risk Committee which consists of all the members of the Supervisory Board. Audit & Risk Committee has the following tasks:

- to monitor the financial reporting process;
- to monitor the effectiveness of internal control system, internal audit and risk management system;
- to oversee internal audit reports;
- to supervise the audit of annual financial and consolidated statements;
- to monitor the independence of the independent auditors or audit firm that performs audit and in particular contracts for additional services,
- to cooperate with the external auditor;
- to discuss the plans and annual internal audit report and the significant issues relating to this area;
- to advise the Supervisory Board on the overall current risk appetite and risk strategy;
- to assist in monitoring the implementation of the risk strategy;
- to examine whether the pricing policy of assets and liabilities takes into account the Bank´s business model and risk strategy;
- to propose the Management Board a correction plan if the pricing policy does not reflect the risk taken in relation to the business model and risk strategy;
- to revise the Bank´s incentives system;
- to perform other duties in accordance with applicable regulations and its internal act which regulates Committee's operations.

MANAGEMENT BOARD REPORT (CONTINUED)

Management Board

In accordance with the provisions of the Articles of Association of the Bank, the Management Board may consist of up to five (5) members. The members of the Management Board, including the President of the Management Board, may be appointed by the Supervisory Board for a term of up to five (5) years, with possibility of re-election. Only the person who meets the conditions prescribed by the Credit Institutions Act, the Companies Act and the Decision on Suitability of the Croatian National Bank (CNB) may be appointed member of the Management Board with prior approval from the Croatian National Bank.

The Management Board has rights, duties and obligations prescribed by the Companies Act, the Credit Institutions Act and the Articles of Association of the Bank. The Management Board manages the operations of the Bank and its assets and it has the responsibility and the powers to take all the actions and make all the decisions necessary for successful management of the operations of the Bank and its performance.

The members of the Management Board in office from 1 January 2019 to the date of issuance of these financial statements, are as follows:

Murat Betoner	President of the Management Board
Fikret Kartal	Management Board Member
Damir Brkić	Management Board Member

The Management Board, together with the Bank's team, will continuously work on improving the management system of the business processes, the risk management system, the expansion of the product range and the branch network, increasing the Bank's market share and enhancing the overall stability and reputation of the Bank.

For and on behalf of KentBank d.d.

Murat Betoner
President of the Management Board

Fikret Kartal
Member of the Management Board

Damir Brkić
Member of the Management Board

KENTBANK d.d.
Zagreb

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the annual report

The Management Board of 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 of the results of their operations and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It 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 to conform with applicable accounting standards and then apply them consistently; making judgments and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank together with the annual financial statements for acceptance. If the Supervisory Board approves the annual financial statements, they are deemed confirmed by the Management Board and Supervisory Board.

The Management Board is also responsible for the preparation and content of the management report in accordance with the Croatian Accounting Act.

The Management Board is also responsible for the preparation and fair presentation of the supplementary information prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 26 April 2018 (Official Gazette 42/18).

The financial statements set out on pages 16 to 84 as well as the schedules prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 26 April 2018 (Official Gazette 42/18) presented on pages 85-90 with the reconciliation to statutory financial statements presented on pages 91 to 95 were authorized by the Management Board on 11 March 2020 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of KentBank d.d.

Murat Betoner
President of the Management Board

Fikret Kartal
Member of the Management Board

Damir Brkić
Member of the Management Board

KENTBANK d.d.
Zagreb

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Independent auditors' report

To the Shareholders of KentBank d.d.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of KentBank d.d. (the Bank), which comprise the statement of financial position as at 31 December 2019, income statement and the statement of other comprehensive income, statement of changes in shareholders' equity and cash flow statement of for the year then ended, and 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 then ended in accordance with statutory accounting requirements for banks in Republic of Croatia.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Independent auditors' report (continued)

<table>
<tr><th colspan="2">Impairment allowances of Loans to and receivables from customers</th></tr>
<tr><td>Impairment allowances on Loans to and receivables from customers represent management's best estimate of the expected credit losses within the loan portfolios at the reporting date.

This area is determined to be a key audit matter as the determination of the appropriate amount of impairment losses requires the application of significant judgement and use of subjective assumptions by management. Judgments and subjective assumptions are especially seen in the area of individual significant exposures (those in excess of HRK 500 thousand, individually at a borrower level) and individually non-significant exposures secured by hard collateral (as defined by the Central National Bank ("the CNB")), where expected credit loss is determined on an individual basis by means of a discounted cash flow analysis.

Furthermore, allocation of loan exposures in a proper stage in accordance with International financial reporting standards 9: Financial instruments ("IFRS 9") depends on Bank's judgment and assumptions on proper selection of triggers for identification of significant increase in credit risk of customers.

Accounting policies for impairment allowances of loans to and receivables from customers are disclosed in Note 3.g) Impairment of financial assets.</td>
<td>Our work covered impairment of both Retail receivables and Receivables from corporate counterparties. We assessed the design and tested the operating effectiveness of the controls over impairment calculations, including the quality of underlying data and systems.

With the assistance of a specialist, we assessed the methodology developed to calculate loan loss provision under IFRS 9, concentrating on such aspects as factors for determining a "significant increase in credit risk", allocating loans to stages, appropriateness of models used for calculation of Stage 1 (A1) and Stage 2 (A2) allowances and estimation of key provisioning parameters. We evaluated matrices used in the calculation of probability of default ("PD") and loss given default ("LGD") with a focus on mathematical accuracy. We examined a sample of exposures and performed procedures to evaluate the adequacy and application of significant parameters for significant increase in credit risk, the possibility for the Bank to use alternative triggers based on availability of historical information, timely identification of exposures with a significant deterioration in credit quality and the classification of instruments in stages according to IFRS 9 (recalculate the creditworthiness of clients, review input parameters such as probability of default, days past due, watch list, restructurings). We also tested on a sample basis allocation of loans in a correct staging as defined in the methodology developed by the Bank. Additionally, we tested whether the allowances for A1 and A2 exposures amount to at least minimum required by the CNB regulation on determination of expected credit losses

Our audit procedures for individually significant exposures included testing of a sample of loans and receivables, focusing on those with largest amounts and high-risk, such as watch-listed, restructured or rescheduled exposures or non-performing loans with lower provision coverage.

For impairment allowances in a selected sample, we assessed the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral, estimates of recovery on default and assessing whether the specific CNB provisioning requirements were complied with. This also included taking into consideration the impact of forbearance.

We also assessed whether the financial statement disclosures appropriately reflect the Bank's exposure to credit risk and are compliant with the statutory accounting requirements for banks in Republic of Croatia. Refer to Note 3.g) Impairment of financial assets, Note 29 Credit portfolio quality and Note 33 Risk and capital management for further details.</td></tr>
</table>

Independent auditors' report (continued)

Other information included in The Bank's 2019 Annual Report
Management is responsible for the other information. Other information consists of the information included in the Annual Report which includes the Management report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the Other information including the Management report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.
With respect to the Management Report we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management report for the 2019 financial year are consistent, in all material respects, with the enclosed financial statements;

2.the enclosed Management report for 2019 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

In addition, in the 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 and Annual report. We have nothing to report in this respect.

Responsibilities of management and Audit Committee for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with statutory accounting requirements for banks in Republic of Croatia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
Audit Committee is responsible for overseeing the Bank's financial reporting process.

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

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

Independent auditors' report (continued)

error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Bank on 29 March 2017. Our appointment has been renewed annually by shareholders' resolution, with the most recent reappointment on 25 March 2019, representing a total period of uninterrupted engagement appointment of 3 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on 9 March 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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Independent auditors' report (continued)

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Bank and its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Bank and its controlled undertakings and which have not been disclosed in the financial statements.

Report on Regulatory requirements

In accordance with the Bylaw on the structure and content of the annual financial statements of credit institutions (National Gazette no 42/18) (hereinafter "the Bylaw") the Bank's management has prepared forms which are presented on pages 85 to 95, and which contain a balance sheet as at 31 December 2019, profit and loss account, statement on other comprehensive income, statement of changes in equity and cash flow statement for the year then ended together with reconciliation with the financial statements of the Bank ("financial information"). This financial information is the responsibility of the Bank's management and is, pursuant to statutory accounting regulation as applicable to banks in Croatia, not a required part of the financial statements, but is required by the Bylaw.
Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited financial statements of the Bank which were prepared in accordance with statutory accounting regulation as applicable for banks in Croatia as presented on pages 16 to 84 and are based on underlying accounting records of the Bank.

The partner in charge of the audit resulting in this independent auditor's report is Zvonimir Madunić.

Zvonimir Madunić
Certified auditor and Board member
Ernst & Young d.o.o.
Radnička cesta 50, Zagreb
10 March 2020

Statement of financial position
As at

	Notes	31 December 2019	31 December 2018
		HRK 000	HRK 000
ASSETS			
Cash and current accounts with banks	12	321,679	323,738
Obligatory reserve with the Croatian National Bank	14	144,228	133,971
Financial assets at fair value through other comprehensive income	15a)	449,201	413,891
Financial investments at amortised cost	15b)	46,522	83,668
Loans to and receivables from customers	17a)	1,449,256	1,417,154
Placements with other banks	16	2,754	2,745
Property, plant and equipment	18a)	38,925	39,006
Right-of-use asset	18b)	9,934	-
Intangible assets	18c)	7,507	4,520
Foreclosed assets	19	809	1,146
Income tax prepayment		-	274
Other assets	20	17,484	3,965
TOTAL ASSETS		**2,488,299**	**2,424,078**
LIABILITIES			
Current accounts and deposits from banks and financial institutions	21a)	157,109	89,127
Current accounts and deposits from customers	21b)	1,874,619	1,825,833
Interest-bearing borrowings	21c)	109,982	219,044
Provisions for liabilities and charges	23	1,657	1,524
Deferred tax liability		2,740	-
Income tax liability	11	1,782	-
Other liabilities	24	34,759	17,293
Subordinated liabilities	22	37,306	37,180
Total liabilities		**2,219,954**	**2,190,001**
EQUITY			
Ordinary share capital	25,25a)	278,012	278,012
Legal reserves	25,25b)	2,137	2,137
Accumulated losses	25	(25,662)	(43,613)
Fair value reserve	25,25c)	13,858	(2,459)
Total equity		**268,345**	**234,077**
TOTAL LIABILITIES AND EQUITY		**2,488,299**	**2,424,078**

The accompanying notes on pages 21 to 84 form an integral part of these financial statements.

Statement of changes in shareholders' equity
As at and for the year ended

HRK 000	Ordinary share capital (Note 25a)	Legal reserves (Note 25b)	Accumulated losses (Note 25)	Fair value reserve (Note 25c)	Total
Balance at 1 January 2018	**278,012**	**2,137**	**(51,147)**	**3,736**	**232,738**
First adoption of IFRS 9	**-**	**-**	**1,377**	**995**	**2,372**
Change in fair value of financial assets at fair value through other comprehensive income, net of amounts realised	**-**	**-**	**-**	**(6,195)**	**(6,195)**
Total other comprehensive income/(loss)	-	-	-	(6,195)	**(6,195)**
Profit for the year	-	-	7,535	-	**7,535**
Total comprehensive income / (loss)	**-**	**-**	**7,535**	**(6,195)**	**1,340**
Transactions with owners recognised directly in equity:					
	-	-	-	-	-
Balance at 31 December 2018	**278,012**	**2,137**	**(43,612)**	**(2,459)**	**234,078**
Balance at 1 January 2019	**278,012**	**2,137**	**(43,612)**	**(2,459)**	**234,078**
Change in fair value of financial assets at fair value through other comprehensive income, net of amounts realised and deferred tax	**-**	**-**	**-**	**16,318**	**16,318**
Total other comprehensive income/(loss)	-	-	-	16,318	**16,318**
Profit for the year	-	-	17,950	-	**17,950**
Total comprehensive income / (loss)	**-**	**-**	**17,950**	**16,318**	**34,268**
Transactions with owners recognised directly in equity:					
	-	-	-	-	-
Balance at 31 December 2019	**278,012**	**2,137**	**(25,662)**	**13,859**	**268,346**

The accompanying notes on pages 21 to 84 form an integral part of these financial statements.

Income statement
For the year ended 31 December

	Notes	2019	2018
		HRK 000	*HRK 000*
Interest and similar income	5	93,460	87,861
Interest expense and similar charges	6	(15,529)	(20,225)
Net interest income		**77,931**	**67,636**
Fee and commission income	8a)	16,337	14,803
Fee and commission expense	8b)	(4,245)	(3,789)
Net fee and commission income		**12,092**	**11,014**
Net realised gains from financial assets at fair value through other comprehensive income	9a)	6,886	7,997
Net realised gains from financial investments at amortised cost	9b)	5,071	-
Net gains/(losses) from translation of monetary assets and liabilities and foreign exchange spot trading	9c)	7,347	5,288
Other income	9d)	473	93
		19,777	**13,378**
Total income		**109,800**	**92,028**
Depreciation and amortization	18a); 18b)	(7,724)	(4,062)
Staff costs	10a)	(41,685)	(38,653)
Other administrative expenses	10b)	(22,143)	(23,323)
Total general and administrative expenses		**(71,552)**	**(66,038)**
Impairment losses and provisions	7	(18,242)	(18,455)
PROFIT BEFORE TAX		**20,006**	**7,535**
Income tax expense	11	(2,056)	-
PROFIT FOR THE YEAR		**17,950**	**7,535**

The accompanying notes on pages 21 to 84 form an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December

	2019 *HRK 000*	2018 *HRK 000*
PROFIT / (LOSS) FOR THE YEAR	17,950	7,535
Other comprehensive income, net of income tax		
Change in fair value of financial assets at fair value through other comprehensive income, net of amounts realised and deferred tax	16,318	(6,195)
Other comprehensive income for the year	**16,318**	**(6,195)**
TOTAL COMPREHENSIVE INCOME / (LOSS)	**34,268**	**1,340**

The accompanying notes on pages 21 to 84 form an integral part of these financial statements.

Cash flow statement
For the year ended 31 December

	Note	2019	2018
		HRK 000	*HRK 000*
Cash flow from operating activities			
Profit / (loss) for the year		17,951	7,535
Depreciation and amortization	18a),18b),18c)	7,724	4,062
Impairment losses and provisions	7	18,242	18,454
Other changes		1,235	1,655
Changes in operating assets and liabilities			
Increase in obligatory reserve and compulsory treasury bills with Croatian National Bank		(10,257)	(16,197)
Increase in placements with other banks with maturity over three months		(9)	35
Increase in loans to and receivables from customers		(47,794)	(263,764)
Increase in other assets		(14,169)	(1,493)
Increase in deposits from banks and financial institutions		67,982	(11,082)
Increase in current accounts and deposits from customers		48,786	246,908
Increase in other liabilities and provisions		12,162	2,430
Net cash from operating activities		***101,853***	***(11,457)***
Cash flow from investment activities			
Payments for purchases of financial investments at amortised cost		(842,605)	(855,899)
Proceeds from redemption of financial investments at amortised cost		877,924	838,880
Payments for purchases of financial assets at fair value through other comprehensive income		(286,681)	(472,263)
Proceeds from sale and redemption of financial assets at fair value through other comprehensive income		267,529	630,058
Payments for purchase of property, plant and equipment and intangible assets		(21,800)	(1,397)
Receipts from sale of property, plant and equipment		623	226
Net cash from investment activities		***(5,010)***	***139,605***
Cash flow from financing activities			
Receipts from issued share capital		-	-
Receipts from interest-bearing borrowings	21d)	1,101,512	452,251
Repayments of interest-bearing borrowings	21d)	(1,210,574)	(349,102)
Receipts from subordinated liabilities	21d)	126	(435)
Payments for the principal portion of the lease liability		10,033	-
Net cash from financing activities		***(98,903)***	***102,714***
Net (decrease) / increase of cash and cash equivalents		(2,059)	230,862
Cash and cash equivalents as at 1 January		323,738	92,876
Cash and cash equivalents as at 31 December	13	**321,679**	**323,738**
Operational cash flows from interest			
Interest paid		12,368	13,783
Interest received		91,583	86,354

The accompanying notes on pages 21 to 84 form an integral part of these financial statements.

Notes to the financial statements (continued)

1. General information

KentBank d.d. (hereinafter: the Bank), with its headquarters in Zagreb, Gundulićeva 1, was established in the Republic of Croatia and provides commercial banking services. The Bank is entered in the register of the Commercial Court in Zagreb. The Bank's parent company is SUZER HOLDING Anonim Sirketi and the majority stocholder is Mr. Mustafa Suzer.

2. Basis for preparation of the financial statements

a) Statement of Compliance

The Bank's operations are subject to the Credit Institutions Act. The Croatian National Bank ("the CNB") is the central regulatory institution of the banking system in Croatia, which also prescribes accounting banking regulations. In accordance with CNB regulations the financial statements of banks and other credit institutions are prepared in accordance with statutory accounting regulations for banks in the Republic of Croatia. These financial statements are prepared in line with the above-mentioned banking regulations. Where accounting policies of the Bank are aligned with International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU"), reference may be made to certain standards, in force as at 31 December 2019.

These financial statements have been approved by the Management Board for issue to the Supervisory Board on 18 March 2020. These financial statements are a translation based on separately issued statutory financial statements in Croatian.

The accounting regulations of the CNB differ from the IFRS as adopted by the EU especially with regards to measurement and recognition. The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of IFRS as adopted by the EU are as follows:

- The CNB requires banks to recognise impairment losses on assets not identified as impaired at prescribed rates. In accordance with the CNB Decision on the Classification of Exposure to Risk Groups and the Method of Determining Credit Loss, the total impairment of exposures classified in the risk subgroups A-1 and A-2 may not be less than 0,8% of the gross exposure value of these exposure subgroups, except for financial assets measured at fair value through other comprehensive income.
- In line with the above-mentioned requirements, the Bank made portfolio-based provisions in the amount of HRK 16,109 thousand (2018: HRK 15,830 thousand), and recognised an expense in the amount of HRK 1,282 thousand related to these provisions within impairment losses for the year (2018: HRK 3,923 thousand). Such off-balance-sheet related provisions as at 31 December 2019 amounted to HRK 1,459 thousand (31 December 2018: HRK 1,419 thousand) and the Bank recognised income in the amount of HRK 73 thousand (2018: HRK 756 thousand). The Bank recognises such provisions as a substitute for expected impairment losses calculated in accordance with the requirements of IFRS 9.
- Additionally, the CNB prescribes minimum levels of impairment allowance against certain specifically identified impaired exposures, irrespective of the net present value of expected future cash flows, which may be different from the impairment allowance required to be recognised in accordance with IFRS 9.
- In accordance with local regulations, interest income on impaired exposures is recognised on a cash basis, as opposed to IFRS 9, which prescribes recognition of interest income on impaired exposures through unwinding of the discount.

Notes to the financial statements (continued)

2. Basis for preparation of the financial statements (continued)

a) Statement of Compliance (continued)

- In accordance with local regulations, the Bank recognises provisions for court cases incorporating the likelihood of the loss into measurement of the provision (i.e. if the likelihood of the loss is estimated to be 10%, the provision will be calculated as 10% of the potential loss), which is contrary to IFRS, which prescribes recognition of the full amount of potential loss, once it is probable that the court case will be lost.

Standards, interpretations and amendments to published standards that are not yet effective

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. Management has assessed that application of this standard will not have a significant impact on the financial statements.

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional

2. Basis for preparation of the financial statements (continued)

Standards, interpretations and amendments to published standards that are not yet effective (continued)
disclosures around uncertainty arising from the interest rate benchmark reform. Management has assessed that application of this standard will not have a significant impact on the financial statements.

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)
The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. Management has assessed that application of this standard will not have a significant impact on the financial statements.

Standards, interpretations and amendments to published standards that are effective as of January 1, 2019
IFRS 16: Leases
IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Management has made an assessment of the effect of the standard and decided to apply modified retrospective approach from January 01, 2020. As at January 01, 2020 Bank recognized HRK 12,679 thousand of right of use and lease liability. For further information please see note 18b and 24.

IFRS 9: Prepayment features with negative compensation (Amendment)
The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. Management has assessed that application of this amendment will not have a significant impact on the financial statements.

IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. Management has assessed that application of this interpretation will not have a significant impact on the financial statements.

The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. Management has assessed that application of this improvement will not have a significant impact on the financial statements.

IAS 12 Income Taxes: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

b) Basis of measurement

These financial statements are prepared on an amortised or historical cost basis except for financial assets recognized on the fair value through other comprehensive income.

The financial statements have been prepared in a format generally adopted and internationally recognised by banks.

c) Judgments and estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments of management in the implementation of standards which have a risk of significant adjustment in the following year are described in Note 4.

d) Functional and reporting currency

Financial statements are prepared in kuna which is the official currency of the environment in which the Bank operates (functional currency), and the amounts are presented in HRK, rounded to the nearest thousand.

2.1. Changes in accounting policies and disclosures

IFRS 16-Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

2.1. Changes in accounting policies and disclosures (continued)

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019.

Instead, the Bank applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Bank has lease contracts for various branches, cars and IT equipment.

Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised.

Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate (1.43%) at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 January 2019:

- Right-of -use assets of HRK 13,063 thousand were recognised and presented separately in the statement of financial position.
- Lease liabilities of HRK 13,063 thousand (included in other liabilities) were recognised.
- Incremental borrowing rate used was 1,43%.

Notes to the financial statements (continued)

3. Accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these financial statements.

a) Interest income and expense

Interest income and expenses are recognised in the income statement for all interest-bearing instruments using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank does not consider future credit losses. The calculation includes all fees and percentage points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

b) Fee and commission income and expense

Fee and commission income and expense are recognised in the income statement when the related service is provided. Fee and commission income and expense mainly comprise fees receivable for guarantees and letters of credit issued by the Bank on behalf of customers, and fees for domestic and foreign payment transactions.

c) Defined contribution pension plans

The Bank pays contributions to obligatory pension funds on a mandatory contractual basis calculated as percentage of gross salaries. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as staff costs in profit or loss as they accrue.

d) Short term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability for bonus is recognised in the amount expected to be paid under short-term cash bonuses based on the Company's formal plan and when past practice has created a valid expectation by management/key employees that they will receive a bonus as a result of past service provided by the employee and the obligation can be estimated reliably.

The Bank also recognised a liability for other employees' benefits in the amount expected to be paid under jubilee awards based on the management decision.

e) Foreign currencies

Transactions in foreign currencies are translated into Croatian Kuna ("HRK") at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are re-measured at each reporting date at the official mid spot foreign exchange rate of the Croatian National Bank ruling on the reporting date or at the Bank's selling rate if the placement is contracted accordingly.

Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates ruling at the dates when the fair values were determined.

Notes to the financial statements (continued)

3. Accounting policies (continued)

e) Foreign currencies (continued)

Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of at fair value through other comprehensive income equity instruments, which are recognized in other comprehensive income (refer below). Changes in the fair value of monetary (debt) securities denominated in or linked to foreign currency classified as asset recognized through fair value in other comprehensive income are analyzed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences are recognised in income as a part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within financial income or financial expense in the profit or loss. Other changes in the carrying amounts are recognised in other comprehensive income. The translation differences on revaluation of non-monetary financial assets denominated in or linked to foreign currency are classified as asset recognised in other comprehensive income, along with other changes in their fair value.

Official mid spot exchange rates effective as at 31 December 2019 were:

7.44258= 1 EUR;

6.649911 = 1 USD;

6.838721 = 1 CHF.

Official mid spot exchange rates effective as at 31 December 2018 were:

7.417575= 1 EUR;

6.469192 = 1 USD;

6.588129 = 1 CHF.

f) Financial instruments

Classification

Financial assets can be classified in the first two categories and valued at amortized cost or fair value through other comprehensive income only if it is proved that it leads to cash flows that are solely principal and interest payments (SPPI test - "solely payment of principal and interest").

In order to comply with IFRS 9, the methods of implementing the test of contractual cash flow test (SPPI Test) have been defined and business models have been adopted.

Regarding the SPPI Test on financial assets, an analysis of the composition of the existing portfolio of securities and loans was carried out in order to identify the correct classification at the time of the application of the new standard. Currently, the characteristics of existing portfolio fulfill SPPI tests.

Based on the analysis and current business practices, the Bank has classified the existing portfolio under IAS 39 into new business models under IFRS9 as follows:

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Financial instruments (continued)

Classification (continued)

- HTM Portfolio (Hold to maturity) reclassify in model (Hold to collect/ HTC) or model of amortized costs. Current HTM Portfolio (Hold to maturity) includes loan portfolio and these debt financial instruments: factoring, forfaiting, bonds and bills of exchange;
- AFS Portfolio (Available for sale portfolio) reclassify in business model: FVOCI (Fair value through other comprehensive income) or hold to collect & sell model; a model that is held for the purpose of collecting contractual cash flows on securities but also selling before maturity.
- Current credit portfolio („KIP“) reclassify in model (Hold to collect / HTC) or model of amortized costs

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money to a debtor with no intention of trading with the receivable and include placements with, and loans to, other banks and loans to and receivables from customers and various other receivables.

Financial investments based on amortized costs

Financial investments based on amortized costs are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. These include debt securities.

Financial assets recognized at fair value through other comprehensive income

Financial assets recognized at fair value through other comprehensive income are those non-derivative financial assets that are classified in those category or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit and loss.

Financial assets recognized at fair value through other comprehensive income intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices.

Financial assets recognized at fair value through other comprehensive income comprise various debt securities.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss. Other financial liabilities include current accounts and deposits from financial institutions and customers and various payables.

Recognition and derecognition

Loans and receivables and other financial liabilities are recognised when cash is advanced to borrowers or received from lenders. Regular way purchases of financial assets recognized at fair value through other comprehensive income and financial assets recognized at amortized costs are recognized on the settlement date.

The Bank de-recognises financial assets (in full or in part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights on those financial assets. It occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realised, surrendered or have expired. The Bank derecognises financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change significantly, the

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Financial instruments (continued)

Recognition and derecognition (continued)

Bank will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, except from the financial assets at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank measures financial assets valued at fair value through other comprehensive income at their fair value. Equity instruments classified as valued at fair value through other comprehensive income, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any impairment. Loans and receivables and held-to-maturity financial investments are measured at amortised cost, decreased if appropriate, for any impairment. Other financial liabilities are measured at amortised cost.

Gains and losses

Gains and losses from a change in the fair value of monetary assets recognized at fair value through other comprehensive income are recognized directly in a fair value reserve within equity and are disclosed in the statement of changes in equity and reserves.

Impairment losses, foreign exchange gains and losses, interest income, amortization of premium or discount on an effective-interest-rate basis on monetary assets are recognised in the income statement.

Foreign exchange differences on non-monetary equity instruments classified as assets valued at fair value through other comprehensive income are recognised in other comprehensive income.

Dividend income is recognized in the income statement when the right to receive has been established. Upon sale or other derecognition of assets valued at fair value through other comprehensive income, any cumulative gains of losses on the instrument are transferred to the income statement. Gains or losses arising from financial assets and financial liabilities carried at amortised cost may also arise, and are included in the income statement when a financial instrument is derecognised or when its value (in the case of assets) is impaired.

Determination of fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability also reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

3. Accounting policies (continued)

f) Financial instruments (continued)

Determination of fair value of financial instruments (continued)

The Bank recognises the transfer between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Offsetting of financial instruments

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

g) Impairment of financial assets

IFRS 9 impact

Effective January 1, 2018, in respect of impairment, for the instruments valued at amortized costs and at fair value through other comprehensive income, the Bank is using a model based on the concept of expected losses instead of so far used „loss incurred“, with an aim of faster loss recognition.

IFRS 9 requires companies to enter the expected losses at the level of losses expected in the next 12 months (stage 1) from the initial entry of the financial instrument. The time horizon for calculating the expected loss becomes the entire remaining life of the asset that is the subject of the valuation where the credit quality of the financial instrument has experienced a "significant" credit risk deterioration in relation to the initial measurement (stage 2) or in case the asset is partially or fully non-performing (Stage 3).

For the calculation of impairment, the Bank has been aligned with Decision on the classification of the exposures into risky groups and the manner on determining credit losses. Based on the CNB Decision, The Bank adopted the Rulebook on the classification of the exposure of the Bank into risk categories defining the rules for assessing the deterioration of credit risk and for determining 12-month and lifetime expected credit losses, factoring in macroeconomic projections reflecting the credit cycle (such as GDP growth rate, unemployment, inflation etc). New models had been developed and Bank decided to build models based on migration matrices per days-past due buckets.

In addition, staging for all segments is based on deterioration of credit rating since origination and observed days past due of credit exposures.

Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has direct impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Notes to the financial statements (continued)

3. Accounting policies (continued)

g) Impairment of financial assets (continued)

Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Bank about the following loss events:

i. significant financial difficulty of the borrower;
ii. a breach of contract, such as a default or delinquency in interest or principal payments;
iii. the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that it would not otherwise consider;
iv. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
v. the disappearance of an active market for the financial asset because of financial difficulties;
vi. measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets

If there is objective evidence that an impairment loss on loans and receivables or hold-to-collect assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate or in accordance with the percentage prescribed by the CNB in certain eligible circumstances. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

As described in Note 4, portfolio-based provisions are calculated in accordance with the provisions of the Decision on the classification of the exposures into risk categories and the method of determining credit losses (Official Gazette 110/2018) and IFRS 9 standard (see also Note 4).

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan is uncollectible, it is written off against the related impairment allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as reversals of impairment losses in the income statement.

When possible, the Bank implements loan restructuring rather than initiate enforcement action. This may include the extension of repayment period and other changes in credit conditions. After changing conditions, any further impairment calculation is made with the original effective interest rate applicable prior to changing conditions. The management continuously monitors restructured loans with regards to the fulfillment of the new conditions and security of future payments. These loans are subject to further regular testing of impairment on an individual or group basis (if they are not individually assessed as impaired or if they belong to the portfolio of collectively provisioned loans) using the original effective interest rate.

3. Accounting policies (continued)

g) Impairment of financial assets (continued)

Financial assets carried at fair value through other comprehensive income

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for financial assets carried at fair value through other comprehensive income, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from other comprehensive income and reserves and is recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument instrument classified as financial assets carried at fair value through other comprehensive income increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through income statement. Impairment losses on equity instruments carried at fair value through other comprehensive income are not reversed through income statement until the final derecognition of the asset.

h) Specific financial instruments

Treasury bills and debt securities

Short-term treasury bills are classified as financial assets carried at fair value through other comprehensive income. Debt securities that the Bank has the intent and ability to hold to maturity are classified as financial investments carried at amortised cost. Other debt securities are classified as financial assets carried at fair value through other comprehensive income.

Placements with other banks

Placements with other banks are classified as loans and receivables and are carried at amortised cost less any impairment losses.

Loans to customers

Loans and advances are presented net of impairment allowances to reflect the estimated recoverable amounts.

Current accounts and deposits from banks and customers

Current accounts and deposits from banks and customers are classified as other liabilities and stated at amortised cost.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

i) Property and equipment

Property and equipment are held for use in the supply of services or administrative purposes.

Items of property and equipment are shown at cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The Bank capitalise the cost of replacing part of such an item when it is probable that future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other expenditures on repairs and maintenance are expensed as incurred.

Notes to the financial statements (continued)

3. Accounting policies (continued)

i) Property and equipment (continued)

Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful life. Land and assets under construction are not depreciated. The estimated useful lives are as follows:

	2019 *Years*	**2018** *years*
Buildings	10-50	10-50
Electronic equipment and computers	4-5	4-5
Other equipment	2-10	2-10
Furniture and vehicles	4-5	4-5

The residual value of assets, depreciation method and useful lives are reviewed and adjusted, if necessary, at each reporting date. The net carrying value of an asset is immediately impaired to the recoverable amount if the carrying value of the asset is higher than the estimated recoverable amount. Gains and losses from sale are measured as the difference between the collected amount and the net carrying value, and recognised in the income statement.

From 2014, the Bank applies component approach for newly acquired buildings.

j) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is provided on a straight- line basis to write down the cost of assets to their residual values over their estimated useful life.

The estimated useful lives are as follows:

	2019 *Years*	**2018** *years*
Software	5	5
Leasehold improvements	up to 5	up to 5

Leasehold improvements are amortised over the shorter of the life of the lease or 5 years. Costs incurred in order to enhance or extend the benefits of computer software programmes beyond their original specifications and lives which can be measured reliably are capitalised to the original cost of the software. All other maintenance is expensed as incurred.

k) Impairment of non-financial assets

The recoverable amount of non-financial assets, other than deferred tax assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest groups of assets that generate separately identifiable cash inflows (cash-generating units).
In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

3. Accounting policies (continued)

l) Foreclosed assets

Foreclosed assets are stated at lower of the net recoverable value of property and the value of the related receivables. The carrying value of these assets approximates their market value.

m) Leases

Effective January 1, 2019 IFRS 16 applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Leasehold 5 to 10 years
- Motor vehicles and other equipment 2 to 5 years

The right-of-use assets are presented within Note 18b.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate.

n) Provisions for liabilities and charges

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, 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.

The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

3. Accounting policies (continued)

Notes to the financial statements (continued)

o) Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded in off-balance sheet accounts, such as guarantees, commitments to extend credit and letters of credit and undrawn loan commitments. These financial instruments are recorded in the balance sheet if and when they become payable.

p) Income tax

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

Deferred taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the period in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognised only to the extent that 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 reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

r) Ordinary share capital and reserves

Ordinary share capital is denominated in HRK at its nominal value. The amounts paid for repurchase of ordinary share capital, including direct costs, are recognised as a decrease in equity and classified as preference shares.

s) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, current accounts with banks and amounts due from banks on demand or with an original maturity of three months or less.

t) Treasury shares

Acquisition of treasury shares is conducted in cases envisaged by the Companies Act, in order to eliminate contingent losses. Redeemed treasury shares are recognised at acquisition cost. Any positive difference created by the sale of treasury shares at a price higher than the acquisition cost is recognised as a capital gain, and any negative difference generated below the cost of acquisition is recognised as a capital loss.

4. Significant accounting estimates and judgments

Accounting estimates and judgments

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. Significant judgments made in determining the most appropriate methodology for estimating the fair value of financial instruments carried at fair value are also described below.

Classification of exposures in risk categories and determination of impairment losses

Subject to classification are:

- the criteria for the classification of exposures into risk categories,
- the method of determining credit losses arising from credit risk,
- the method for making balance sheet items' impairment and provisions for off-balance sheet items
- the definitions of eligible instruments of collateral for exposures for the purposes of determining the expected future cash flows.

The Bank shall classify portfolio in risk categories according to the credit risk in accordance with IFRS 9 for the following types of instruments:

- Financial assets carried at amortized costs and
- Financial assets carried at fair value through other comprehensive income except for equity instruments

Throughout the whole contract period the Bank observes and estimates customers' creditworthiness and classifies it into risk categories based on all three indicators:

i. Customer's creditworthiness;
ii. Customer's ability to meet the obligations towards the Bank;
iii. Collaterals quality per each exposure.

The Bank's small loan portfolio comprises the total exposure to one person or group of related persons whose balance in the gross amount on the valuation date is less than 500,000 kunas. Notwithstanding the exposure level, the Bank shall, as a matter of particular importance, observe all exposures approved with the appropriate collaterals.

These placements have the same or similar characteristics in terms of purpose, interest rate and collaterals and are allocated to risk categories only on the basis of the customers' ability to meet the obligations towards the Bank (in accordance with criterion 2).

Guiding with Decision on the classification of the exposures into risk categories and the method of determining credit losses (Official Gazette 110/2018) the Bank will assess credit risk or recovery of placements on a small loan portfolio basis and act in accordance with the criteria of days-past due buckets applicable to partially recoverable placements on an individual basis.

4. Significant accounting estimates and judgments (continued)

Classification of exposures in risk categories and determination of impairment losses (continued)

RISK GROUP	IMPAIRMENT	NUMBER OF DAYS
B 1	10%	91-120
B 1	20%	121-180
B 2	30%	181-210
B 2	40%	211-230
B 2	50%	231-250
B 2	60%	251-270
B 3	70%	271-300
B 3	80%	301-330
B 3	90%	331-365
C	100%	More than 365

Risk categories "A-1" and "A-2"

Classification for risk category A is only for those customers who are not in the status of default. The Bank portfolio is classified in following risk subcategories:

i. A-1 if after the initial recognition of customers' exposure credit risk has not increased considerably;

ii. A-2 if after the initial recognition of customers' exposure credit risk has increased considerably. The Bank portfolio is segmented in two groups, one is retail and other is SME&Corporate. The Bank has taken the orderliness of the debtor in settling due obligations as a mandatory indicator; if the debtor is late for paying its due exposures to the Bank for longer than 30 days, but still within the deadlines not exceeding 90 days, the Bank shall classify it to the risk subcategory A -2. Additional indicators are used for the requirements of determining the increased credit risk:

   a. For SME/Corporate portfolio:
      i. Negative opinion of the Credit Analysis Unit
      ii. Decrease in the credit rating in accordance with the Rulebook on clients' ranking (from A to B)
      iii. Loss from the regular operations
      iv. Negative EBIDTA
      v. Decrease in EBITDA for more than 50% in relation to the same period of the previous year
      vi. Debtor is listed on the list of employers who do not disburse the contributions

   b. For retail portfolio:
      i. Negative opinion of the Credit Analysis Unit
      ii. Debtor has deceased
      iii. Debtor has opened a special protected account
      iv. Debtor's current account is in the blockage
      v. Employer where the debtor works is in the blockage
      vi. Employer where the debtor works is on the list of employers who do not disburse contributions

For calculation of PD Bank uses available historical data and calculate it through transition matrix. The Bank uses macro variables with three scenarios for purpose of calculation of forward looking element. Bearing in mind the complexity of the IFRS 9 standard in terms of LGD model development on the one hand, as well as the size of the Bank, the relatively simple portfolio structure and a small number of data on the other hand, the Bank decided to use the LGD parameters defined by the Basel Framework. In accordance with its estimate of LGD parameters, the Bank will, if necessary, add a conservative factor of 5 pp. The Bank also use other criteria for classification (financial indicators and other information available for the respective client).

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments (continued)

Classification of exposures in risk categories and determination of impairment losses (continued)

The Bank is obliged to, in accordance with IFRS 9, recognize expected losses and portfolio impairment in the same amount:

i. expected credit losses in the 12-month period for risk subcategory A-1;
ii. expected credit losses through entire life of the asset for risk subcategory A-2.

The total impairment of exposures classified in risk subcategories A-1 and A-2 in the period up to 31 December 2018 may not be less than 0.8% of the gross book value of exposure in those risk subcategories proscribed by the Decision on the classification of the exposures into risk categories and the method of determining credit losses (Official Gazette 110/2018), except for financial assets measured at fair value through other comprehensive income.

Risk categories „B“ and „C“

Exposure to the customers classified as in default are classified in risk subcategory B-1 or worse and appropriate impairment is recognized. Impairment according to the risk subcategory B-1 must be at least 2%.

Exceptionally, the Bank may estimate that impairment of exposure to a customer in the status of default in risk subgroup B-1 is less than 2%, but the Bank shall take into account the likelihood or probability of credit loss in a way that reflects the probability of the credit loss and likelihood of a lack of credit loss, even if the likelihood of credit loss is very small.

At the year end, the ratio of impairment allowance in the total gross value of impaired loans was as follows:

				2019				**2018**
				HRK 000				***HRK 000***
	Corporate	Retail	Other	**Total**	Corporate	Retail	Other	**Total**
Gross value of impaired loans	65,890	62,617	4,469	**132,976**	51,983	60,861	860	**113,704**
Impairment rate	65%	88%	77%	**77%**	63%	83%	100%	**73%**

Assuming that the portfolio remains at the same level, each additional increase of one percentage point in the impairment rate on the gross impaired portfolio at 31 December 2019 would cause an additional impairment loss in the amount of HRK 561 thousand (in 2018: HRK 445 thousand).

Impairment losses estimated on a portfolio basis as at 31 December 2019 amounted to HRK 17,568 thousand (in 2018: HRK 17,248 thousand) of the relevant on- and off-balance-sheet exposure.

The Management Board believes that both individual and collective impairment losses and provisions are sufficient.

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments (continued)

Legal cases

The Bank performs a risk classification of lawsuits taking into consideration the following principles: legal grounds of the claim; prior legal practice; opinions of relevant outsourced attorneys and other independent legal or other experts.

Lawsuits are classified into three groups: where the Bank expects a fully successful outcome; where the Bank expects to lose the case; and uncertain lawsuits, where the probability of a successful or unsuccessful outcome cannot be readily determined.

The Management Board believes that the provisions for legal cases are sufficient at the reporting date.

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of a taxpayer's records. The Bank did not recognise deferred tax asset on tax losses carried forward as it is not probable there would be sufficient taxable profits to utilise them before their expiry.

Fair value hierarchy

Fair value hierarchy is presented in Note 34.

Notes to the financial statements (continued)

5. Interest and similar income

a) Interest income analyzed by product:

	2019	2018
	HRK 000	*HRK 000*
Interest income from loans to and receivables from customers	83,649	78,703
Interest income from financial assets at fair value through other comprehensive income	4,678	7,326
Interest income from financial investments at amortised cost	5,121	1,828
Interest income from deposits	12	4
TOTAL	**93,460**	**87,861**

b) Interest income analyzed by sectors:

	2019	2018
	HRK 000	*HRK 000*
Companies	42,518	37,277
Financial institutions	2,954	2,039
Individuals (retail)	39,836	41,871
Central government and local authorities	7,550	5,919
Other	602	755
TOTAL	**93,460**	**87,861**

6. Interest expense and similar charges

a) Interest expense analyzed by product:

	2019	2018
	HRK 000	*HRK 000*
Interest expense from term deposits	12,691	17,777
Interest expense demand deposits	302	270
Interest expense from borrowings	1,812	1,831
Other	724	347
TOTAL	**15,529**	**20,225**

Notes to the financial statements (continued)

6. Interest expense and similar charges (continued)

b) Interest expense analyzed by sector:

	2019	2018
	HRK 000	*HRK 000*
Interest expense to individuals (retail)	9,056	13,295
Interest expense to non-residents	1,473	1,642
Interest expense to companies	1,517	1,861
Interest expense to financial institutions	3,201	3,203
Other	282	224
TOTAL	**15,529**	**20,225**

7. Impairment losses and provisions

				2019.
				HRK 000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment of loans to and receivables from customers	(1,112)	1,678	15,126	15,692
Impairment of other assets (Note 20a)	(30)	-	394	362
Impairment of financial investments at amortised cost *(Note 15b)*	427	-	1,402	1,829
Impairment of financial investments at fair value through OCI	159	-	-	159
Provisions for court cases (Note 23a)	161	-	-	161
Provisions for off-balance-sheet exposure to credit risk (Note 23b)	158	(231)	112	39
TOTAL	**(237)**	**1,447**	**17,032**	**18,242**

				2018.
				HRK 000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment of loans to and receivables from customers	735	2,875	13,465	17,075
Impairment of other assets (Note 20a)	(48)	-	261	213
Impairment of financial investments at amortised cost *(Note 15b)*	156	-	-	156
Impairment of financial investments at fair value through OCI	210	-	-	210
Provisions for court cases (Note 23a)	46	-	-	46
Provisions for off-balance-sheet exposure to credit risk (Note 23b)	464	292	-	756
TOTAL	**1,563**	**3,167**	**13,726**	**18,456**

Notes to the financial statements (continued)

8. Fee and commission income and expense

a) Fee and commission income

	2019	2018
	HRK 000	*HRK 000*
Payment transaction fees	12,873	11,862
Loan origination fees	2,241	1,704
Other banking services	1,223	1,237
TOTAL	**16,337**	**14,803**

b) Fee and commission expenses

	2019	2018
	HRK 000	*HRK 000*
FINA commission	1,252	1,242
CNB	52	45
Domestic banks	1,237	1,064
Domestic clients	220	176
Other	1,484	1,262
TOTAL	**4,245**	**3,789**

9a. Net realised gains from financial assets at fair value through other comprehensive income

	2019	2018
	HRK 000	*HRK 000*
Domestic sovereign bonds at fair value through other comprehensive income	6,648	9,612
Domestic corporate bonds at fair value through other comprehensive income	-	-
Foreign sovereign bonds at fair value through other comprehensive income	215	(1,613)
Financial institutions bonds at fair value through other comprehensive income	23	-
Investment funds at fair value through other comprehensive income	-	(2)
TOTAL	**6,886**	**7,997**

Notes to the financial statements (continued)

9b. Net realised gains from financial investments at amortised cost

	2019	2018
	HRK 000	*HRK 000*
Foreign sovereign bonds at amortised cost	5,071	-
TOTAL	**5,071**	**-**

9c. Net gains/(losses) from translation of monetary assets and liabilities and foreign exchange spot trading

	2019	2018
	HRK 000	*HRK 000*
Net gains/(losses) from translation of monetary assets and liabilities		
- items denominated in foreign currency	(2,409)	7,831
- items linked to foreign currency	2,614	(8,422)
Net gain from foreign exchange spot trading	7,142	5,879
TOTAL	**7,347**	**5,288**

9d. Other income

	2019	2018
	HRK 000	*HRK 000*
Income from invoiced notaries expenses	159	150
Net gain from sale of assets	13	(112)
Other	301	55
TOTAL	**473**	**93**

10. Staff costs and other administrative expenses

a) Staff costs

	2019	2018
	HRK 000	*HRK 000*
- Net salaries to employees	22,652	21,793
- Contributions on salaries	5,127	5,204
- Contributions, taxes and surtaxes from salaries	11,437	10,866
- Other	2,469	790
TOTAL	**41,685**	**38,653**

Notes to the financial statements (continued)

10. Staff costs and other administrative expenses (continued)

Staff costs include HRK 6,134 thousand (2018: HRK 6,249 thousand) of defined pension contributions payable into obligatory pension plans.

During 2019, average number of employees was 189 (2018: 199).

b) Other administrative expenses

	2019	2018
	HRK 000	*HRK 000*
Rent expenses	817	3,803
Intellectual services	1,088	1,044
Other services	3,098	3,234
Marketing and advertisement expenditure	1,132	1,515
Material costs and similar charges	1,160	1,178
Costs of deposit insurance	4,110	4,077
Mail and phone expenditure	1,266	1,292
Maintenance expenses	3,491	2,853
Insurance and protection expenses	890	857
Other expenditure	5,091	3,470
TOTAL	**22,143**	**23,323**

11. Income tax

	2019	2018
	HRK 000	*HRK 000*
Accounting profit before tax	**20,006**	**7,535**
Income tax at 18% (2018: 18%)	3,601	1,356
Non-deductible expenses	1,230	1,031
Non-taxable income	(1,008)	(872)
Taxable profit / (loss) for the year	**3,823**	**1,515**
Increase in carry forward tax losses	-	-
Utilization of carry forward tax losses	(1,767)	(1,515)
Income tax expense recognised in profit or loss	**2,056**	**-**
Effective income tax rate	**10%**	**-**

12. Cash and current accounts with banks

	2019			2018		
	HRK 000			*HRK 000*		
	HRK	Foreign currency	Total	HRK	Foreign currency	HRK
Current accounts with the CNB	157,760	107,891	265,651	146,472	78,362	224,834
Current accounts with other banks	0	22,143	22,143	-	57,924	57,924
Cash in hand	24,130	9,755	33,885	30,821	10,159	40,980
TOTAL	**181,890**	**139,789**	**321,679**	**177,293**	**146,445**	**323,738**

13. Cash and cash equivalents

	2019	2018
	HRK 000	*HRK 000*
Cash on accounts with the CNB (Note 12)	265,651	224,834
Cash on accounts with other banks (Note 12)	22,143	57,924
Cash in hand (Note 12)	33,885	40,980
Placements with banks with original maturity less than 3 months (Note 16)	-	-
TOTAL	**321,679**	**323,738**

14. Obligatory reserve with Croatian National Bank

The obligatory reserve represents amounts required to be deposited with the CNB and is not available for use in the Bank's day-to-day operations.

Banks are obliged to calculate obligatory reserve in kuna and foreign currency at a rate which, as at 31 December 2019, accounted for 12% of kuna and foreign currency funds (31 December 2018: 12%).

The part of the obligatory reserve calculated in kuna is increased by 75% (31 December 2018: 75%) of the calculated obligatory reserve on eligible foreign currency funding sources. 70% of the obligatory reserve should be deposited into a special account held with the CNB, while the rest may be maintained in eligible liquid assets.

After reduction by 75% (31 December 2018: 75%) which is added to obligatory reserve requirement calculated in kuna, the remainder of 25% of obligatory reserve calculated in foreign currency is maintained in foreign currency. Foreign currency obligatory reserve calculated on the basis of foreign currency funds from non-residents and foreign funds received from legal entities in a special relationship with the bank amounts 100% (31 December 2018: 100%) and can be maintained in eligible liquid assets.

	2019	2018
	HRK 000	*HRK 000*
Allocated obligatory reserve in HRK	144,228	133,971
Allocated obligatory reserve in foreign currency	-	-
Total	**144,228**	**133,971**

Notes to the financial statements (continued)

15. Financial investments

a) Financial assets at fair value through other comprehensive income

	2019	2018
	HRK 000	*HRK 000*
Domestic sovereign bonds	320,170	247,077
Domestic corporate bonds	-	8,894
Foreign sovereign bonds	29,512	14,390
Foreign corporate bonds	20,005	34,383
Domestic sovereign treasury bills	79,514	109,147
From which		
Listed	369,687	304,744
Unlisted	79,514	109,147
TOTAL	**449,201**	**413,891**

Financial assets at fair value through other comprehensive income are all in Stage 1 and there were no transfer between stages during the 2019.

b) Financial investments at amortised cost

	2019	2018
	HRK 000	*HRK 000*
Bills of exchange – companies	412	412
Factoring – receivables from companies	6,402	7,232
Factoring – receivables from state and local authorities	3,284	7,604
Factoring – receivables from craftsmen	-	-
Forfaiting fin.institutions	-	2,479
Foreign sovereign bonds	15,320	43,691
Foreign corporate bonds	23,500	22,817
Impairment allowance	(2,396)	(567)
TOTAL	**46,522**	**83,668**

Movement in impairment allowance against financial investments at amortised cost:

	2019	2018
	HRK 000	*HRK 000*
Balance at 1 January	**567**	**410**
Charge recognized in profit or loss (Note 7)	1,829	157
Balance at 31 December	**2,396**	**567**

Notes to the financial statements (continued)

16. Placements with other banks

	2019	2018
	HRK 000	*HRK 000*
Placements with other domestic banks - in HRK	10,221	10,220
Impairment allowance on placements with other banks in HRK	(10,221)	(10,220)
Placements with other domestic banks - in foreign currency with original maturity over 3 months	2,754	2,745
Placements with other foreign banks – in foreign currency with original maturity of up to 3 months (Note 13)	-	-
TOTAL	**2,754**	**2,745**

a) Movement in impairment allowance against placements with other banks in HRK:

	2019	2018
	HRK 000	*HRK 000*
Balance at 1 January	10,221	10,220
Charge / (release) recognized in profit or loss	-	-
Balance at 31 December	**10,221**	**10,220**

17. Loans to and receivables from customers

a) Analysis according to types of loans

	2019	2018
	HRK 000	*HRK 000*
Short-term loans:		
Companies	222,667	297.828
Retail customers	77,321	83.403
Other customers	624	2.215
Total short-term loans	**300,612**	**383,446**
Long-term loans:		
Companies	672,740	539,312
Retail customers	568,489	569,159
Other customers	23,436	30,409
Total long-term loans	**1,264,665**	**1,138,880**
Total short-term and long-term loans	**1,565,277**	**1,522,326**
Impairment allowance	(116,021)	(105,172)
TOTAL	**1,449,256**	**1,417,154**

Impairment allowance against loans to and receivables from customers includes also expected credit losses calculated against placements with banks and other receivables.

Notes to the financial statements (continued)

17. Loans to and receivables from customers (continued)

a) Analysis according to types of loans (continued)

The classification above is based on original contractual maturity, while the remaining contractual maturities are analyzed in Note 30.

b) Loans by industry/product

	2019	2018
	HRK 000	*HRK 000*
Manufacturing	188,290	221,996
Trade	128,195	124,368
Tourism	102,685	117,221
Agriculture	43,550	53,140
Construction	108,156	86,519
Services	294,615	208,479
Other	30,541	25,418
Gross corporate	***896,032***	***837,141***
Cash loans	411,230	424,417
Mortgage loans	4,343	58,113
Overdraft	7,508	6,778
Housing loans	107,550	77,303
Educational loans	4	8
Tourist loans	36,313	30,549
Credit card receivables	5,632	5,698
Other	73,231	49,694
Retail gross	***645,811***	***652,560***
Other gross	***23,436***	***32,625***
Total gross	**1,565,279**	**1,522,326**
Impairment allowance	(116,021)	(105,172)
TOTAL	**1,449,258**	**1,417,154**

Notes to the financial statements (continued)

17. Loans to and receivables from customers (continued)

c) Impairment allowance for loans and receivables from customers

				2019
				HRK 000
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	**1,398,623**	**10,411**	**113,292**	**1,522,326**
New assets originated or purchased	567,632	13,710	2,336	583,678
Assets derecognised or repaid (excluding write offs)	3,061	513	1,982	5,556
Transfers to Stage 1	5,366	(3,268)	(2,098)	-
Transfers to Stage 2	(3,267)	3,395	(128)	-
Transfers to Stage 3	(16,523)	(715)	17,238	-
Collection	(540,584)	(2,612)	(665)	(543,861)
Amounts written off	-	-	(2,464)	(2,464)
Foreign exchange adjustments	-	-	41	41
At 31 December 2019	**1,414,308**	**21,434**	**129,534**	**1,565,276**

				2019
				HRK 000
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	**12,821**	**3,009**	**89,342**	**105,172**
New assets originated or purchased	5,743	630	8,650	15,023
Assets derecognised or repaid (excluding write offs)	(3,061)	(513)	(1,982)	(5,556)
Transfers to Stage 1	4,829	(1,495)	(3,334)	-
Transfers to Stage 2	(934)	1,707	(773)	-
Transfers to Stage 3	(910)	(10)	920	-
Increase / Reversal of provisions	(5,298)	(410)	9,595	3,887
Amounts written off	-	-	(2,464)	(2,464)
Foreign exchange adjustments	-	-	(41)	(41)
At 31 December 2019	**13,190**	**2,918**	**99,913**	**116,021**

Notes to the financial statements (continued)

17. Loans to and receivables from customers (continued)

c) Impairment allowance for loans and receivables from customers

				2018
				HRK 000
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	**1,142,991**	**12,807**	**105,490**	**1,261,288**
New assets originated or purchased	676,160	507	2,173	678,840
Assets derecognised or repaid (excluding write offs)	(2,106)	(59)	(1,033)	(3,198)
Transfers to Stage 1	4,965	(3,443)	(1,522)	-
Transfers to Stage 2	(7,979)	8,168	(189)	-
Transfers to Stage 3	(12,990)	3,084	9,906	-
Collection	(402,414)	(10,652)	(527)	(413,593)
Amounts written off	-	-	(948)	(948)
Foreign exchange adjustments	(4)	(1)	(58)	(63)
At 31 December 2018	**1,398,623**	**10,411**	**113,292**	**1,522,326**

				2018
				HRK 000
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 31 December 2017				**90,824**
First adoption IFRS 9				(1,780)
ECL allowance as at 1 January 2018	**12,085**	**134**	**76,825**	**89,044**
New assets originated or purchased	3,568	153	245	3,966
Assets derecognised or repaid (excluding write offs)	(2,106)	(59)	(1,033)	(3,198)
Transfers to Stage 1	6,108	(2,174)	(3,934)	-
Transfers to Stage 2	(1,367)	1,908	(541)	-
Transfers to Stage 3	(791)	(43)	835	-
Increase / Reversal of provisions	(4,676)	3,091	17,893	16,308
Amounts written off	-	-	(948)	(948)
Foreign exchange adjustments	-	-	-	-
At 31 December 2018	**12,821**	**3,010**	**89,342**	**105,172**

Net impairment charge for loans to and receivables from customers is included in the analysis within Note 7 Impairment losses and provisions and is recognized in profit or loss.

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets

a) Movement in property, plant and equipment in thousand HRK

	Land	Buildings	Equipment	Furniture and vehicles	Assets under construction	Total
Cost						
Balance at 1 January 2019	425	39,661	14,788	3,642	104	58,620
Additions	-	6	2,385	31	801	3,223
Transfer	-	-	400	-	(400)	-
Write-off and disposals	-	(640)	(87)	(151)	-	(878)
Balance 31 December 2019	**425**	**39,027**	**17,486**	**3,522**	**505**	**60,965**
Depreciation						
Balance as at 1 January 2019	-	6,439	10,248	2,927	-	19,614
Charge for the year	-	905	1,401	255	-	2,561
Write-off and disposals	-	(26)	(25)	(84)	-	(135)
Balance 31 December 2019	**-**	**7,318**	**11,624**	**3,098**	**-**	**22,040**
Net carrying amount 1 January 2019	**425**	**33,222**	**4,540**	**715**	**104**	**39,006**
Net carrying amount 31 December 2019	**425**	**31,709**	**5,862**	**424**	**505**	**38,925**

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets (continued)

a) Movement in property, plant and equipment in thousand HRK (continued)

	Land	Buildings	Equipment	Furniture and vehicles	Assets under construction	Total
Cost						
Balance at 1 January 2018	425	39,931	15,144	3,733	183	59,416
Additions	-	8	523	142	103	776
Transfer	-	-	182	-	(182)	-
Write-off and disposals	-	(278)	(1,061)	(233)	-	(1,572)
Balance 31 December 2018	**425**	**39,661**	**14,788**	**3,642**	**104**	**58,620**
Depreciation						
Balance as at 1 January 2018	-	5,529	10,073	2,856	-	18,458
Charge for the year	-	917	1,236	295	-	2,448
Write-off and disposals	-	(7)	(1,061)	(224)	-	(1,292)
Balance 31 December 2018	**-**	**6,439**	**10,248**	**2,927**	**-**	**19,614**
Net carrying amount 1 January 2018	**425**	**34,402**	**5,071**	**877**	**183**	**40,958**
Net carrying amount 31 December 2018	**425**	**33,222**	**4,540**	**715**	**104**	**39,006**

18. Property, plant and equipment and intangible assets (continued)

b) Movement in right-of-use assets thousand HRK

	Leasehold	Motor vehicles	Other equipment	Total
Cost				
Balance at 1 January 2019	12,679	385	-	13,063
Additions	345	83	-	428
Disposal	(381)	-	-	(381)
Balance 31 December 2019	**12,643**	**468**	-	**13,111**
Depreciation				
Balance as at 1 January 2019	-	-	-	-
Charge for the year	3,115	171	-	3,286
Disposal	(109)	-	-	(109)
Balance 31 December 2019	**3,006**	**171**	-	**3,177**
Net carrying amount 1 January 2019	-	-	-	-
Net carrying amount 31 December 2019	**9,637**	**297**	-	**9,934**

Notes to the financial statements (continued)

c) Movement in intangible assets in thousand HRK

	Leasehold improvements	Software	Assets in preparation	Total
Cost				
Balance at 1 January 2019	11,891	12,311	471	24,673
Additions	5	3,835	1,244	5,084
Transfer	-	471	(471)	-
Write off	(519)	-	-	(519)
Balance 31 December 2019	**11,377**	**16,617**	**1,244**	**29,238**
Amortisation				
Balance as at 1 January 2019	10,434	9,719	-	20,153
Charge for the year	583	1,294	-	1,877
Write off	(299)	-	-	(299)
Balance 31 December 2019	**10,718**	**11,013**	**-**	**21,731**
Net carrying amount 1 January 2019	**1,457**	**2,592**	**471**	**4,520**
Net carrying amount 31 December 2019	**659**	**5,604**	**1,244**	**7,507**

18. Property, plant and equipment and intangible assets (continued)

c) Movement in intangible assets in thousand HRK (continued)

	Leasehold improvements	Software	Assets in preparation	Total
Cost				
Balance at 1 January 2018	12,143	11,494	851	24,488
Additions	130	18	472	620
Transfer	-	852	(852)	-
Write off	(382)	(53)	-	(435)
Balance 31 December 2018	**11,891**	**12,311**	**471**	**24,673**
Amortisation				
Balance as at 1 January 2018	10,150	8,826	-	18,976
Charge for the year	667	946	-	1,613
Write off	(383)	(53)	-	(436)
Balance 31 December 2018	**10,434**	**9,719**	**-**	**20,153**
Net carrying amount 1 January 2018	**1,993**	**2,668**	**851**	**5,512**
Net carrying amount 31 December 2018	**1,457**	**2,592**	**471**	**4,520**

19. Foreclosed assets

	2019	2018
	HRK 000	*HRK 000*
Properties acquired in exchange for uncollectible receivables	809	1,146
TOTAL	**809**	**1,146**

The book value of the foreclosed assets approximates the fair value of these assets.

20. Other assets

	2019	2018
	HRK 000	*HRK 000*
Receivables for advances	333	787
Receivables for fees and commissions	1,385	1,434
Prepaid expenses	754	935
Receivables from customers	98	126
Other receivables	16,247	1,822
Impairment allowance	(1,333)	(1,139)
TOTAL	**17,484**	**3,965**

In other receivables 14,604 HRK refers to financial instruments in process of collection and are collected as of January 02, 2020..

a) Movement in impairment allowance against other assets

	2019	2018
	HRK 000	*HRK 000*
Balance at 1 January	**1,139**	**1,035**
Charge	458	314
Reversal	(94)	(101)
Net charge recognized in profit or loss (Note 7)	*364*	*213*
Write off	(170)	(109)
Balance at 31 December	**1,333**	**1,139**

21. Current accounts and deposits and interest-bearing borrowings

a) Current accounts and deposits from banks and financial institutions

HRK 000

	2019			2018		
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Current accounts	1,040	1	**1,041**	2,233	-	**2,233**
Term deposits	109,180	46,888	**156,068**	82,889	4,005	**86,894**
TOTAL	**110,220**	**46,889**	**157,109**	**85,122**	**4,005**	**89,127**

b) Current accounts and deposits from customers

ba) Current accounts from customers

HRK 000

	2019			2018		
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Retail	78,796	129,089	**207,885**	63,338	108,820	**172,158**
Corporate	246,714	49,838	**296,552**	194,743	78,550	**273,293**
State and other institutions	15,257	92	**15,349**	11,263	-	**11,263**
Total current accounts	340,767	179,019	**519,786**	269,344	187,370	**456,714**

bb) Term deposits from customers

HRK 000

	2019			2018		
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Retail	250,422	912,077	**1,162,499**	244,364	991,841	**1,236,205**
Corporate	125,341	57,798	**183,139**	103,794	25,301	**129,095**
State and other institutions	9,195	-	**9,195**	3,820	-	**3,820**
Total term deposits	384,958	969,875	**1,354,833**	351,978	1,017,142	**1,369,120**

Notes to the financial statements (continued)

21. Current accounts and deposits and interest-bearing borrowings (continued)

b) Current accounts and deposits from customers (continued)

bc) Total current accounts and deposits from customers

HRK 000

	2019			2018		
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Retail	329,218	1,041,166	**1,370,384**	307,702	1,100,661	**1,408,363**
Corporate	372,055	107,636	**479,691**	298,537	103,851	**402,388**
State and other institutions	24,452	92	**24,544**	15,083	-	**15,083**
TOTAL	725,725	1,148,894	**1,874,619**	621,322	1,204,512	**1,825,834**

c) Interest-bearing borrowings

	2019	**2018**
	HRK 000	***HRK 000***
Repo loan	55,707	194,708
Borrowings from Croatian Bank for Reconstruction and Development	54,276	24,336
TOTAL	**109,983**	**219,044**

Repo loans are contracted with maturity up to five years with interest rate 1,20% (2018: up to 17 days and up to five years with interest rates from 0,05% - 1,40%). Domestic sovereign bond are used as collateral (note 15a). Fair value of the related collaterals (domestic sovereign bonds at fair value through other comprehensive income) is HRK 65,978 thousand (2018: HRK 276,277 thousand).

d) Net cash from financing activities

	1 January 2019	**Cash flow**	**Foreign exchange movement**	**Changes in fair values**	**Other**	**31 December 2019**
Short-term loans	(129,336)	20,027	33	-	-	(109,276)
Long-term loans	(89,708)	89,128	(126)	-	-	(706)
Dividend payable	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-
Subordinated loan	(37,180)	(2)	(124)	-	-	(37,306)
Total liabilities	**(256,224)**	**109,153**	**(217)**	**-**	**-**	**(147,288)**

22. Subordinated liabilities

Subordinated liabilities in the amount of HRK 37,306 thousand relate to a borrowing from Suzer Holding approved in 2016 and 2017 in the amount of EUR 5,000 thousand, with final maturity of 7 years and a fixed interest rate of 1,45%. At the date 20 December 2018 the Bank got approval from CNB to prolonge subordinated liabilities till 22 October 2025. The repayment of the debt is subordinated to all other liabilities of the Bank.

23. Provisions for liabilities and charges

	2019	2018
	HRK 000	*HRK 000*
Provisions for legal cases initiated against the Bank	199	105
Provisions for identified losses for off-balance-sheet exposure to credit risk (Note 27)	1,458	1,419
TOTAL	**1,657**	**1,524**

Movements in provisions are included in the analysis in Note 7 Impairment losses and provisions and are recognized in profit or loss.

a) Movements in provisions for legal cases initiated against the Bank:

	2019	2018
	HRK 000	*HRK 000*
Balance at 1 January	105	60
Increase in provisions	335	65
Release of unused amounts	(80)	(20)
Net charge recognized in profit or loss (Note 7)	*255*	45
Used during year	(161)	-
Balance at 31 December	**199**	**105**

b) Movements in provisions for identified losses on off-balance-sheet exposure to credit risk

	2019	2018
	HRK 000	*HRK 000*
Balance at 31 December 2018	**1,419**	**1,244**
First time adoption IFRS 9	-	(580)
Balance at 1 January 2019	**1,419**	**664**
(Release) / charge in provisions recognised in profit or loss (Note 7)	39	756
Write offs	-	(1)
Balance at 31 December	**1,458**	**1,419**

Notes to the financial statements (continued)

24. Other liabilities

	2019	2018
	HRK 000	*HRK 000*
Liabilities to suppliers	3,621	3,175
Liabilities for loan prepayments	8,826	6,478
Liabilities to employees	5,731	3,777
Liabilities for taxes and contributions	157	206
Liabilities for leasing	10,033	-
Other liabilities	6,391	3,657
TOTAL	**34,759**	**17,293**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2019	2018
	HRK 000	*HRK 000*
Balance at 1 January 2019	**13,063**	**-**
Additions	517	-
Accretion of interest	214	-
Payments	(3,484)	-
Disposals	(277)	-
Balance at 31 December 2019	**10,033**	**-**

25. Equity

	2019	2018
	HRK 000	*HRK 000*
Ordinary share capital (Note 25a)	278,012	278,012
Legal reserves (Note 25b)	2,137	2,137
Accumulated losses	(25,662)	(43,613)
Fair value reserve (Note 25c)	13,858	(2,459)
TOTAL	**268,345**	**234,077**

a) Ordinary share capital

In February 2017 the Bank finished squeeze out process of minority holders of preference shares and Suzer holding became the only owner of preference shares. All preference shares were converted to ordinary shares during 2017.

25. Equity (continued)

a) Ordinary share capital (continued)

Ordinary share capital amounts to HRK 278,012 thousand (31 December 2018: HRK 278,012 thousand) and is divided into 73,161 ordinary shares (31 December 2018: 73,161 shares) with a nominal value of HRK 3,800.00 each.

The shareholder structure was as follows:

Shareholder	ISIN	**Number of ordinary shares at 31 December 2019**	**% of the ordinary share capital**	**Number of ordinary shares at 31 December 2018**	**% of the ordinary share capital**
SÜZER HOLDING A.S.	BRBA-R-A	73,161	100.00	73,161	100.00
TOTAL		**73,161**	**100.00**	**73,161**	**100.00**

b) Legal reserves

Legal reserves represent accumulated transfers from retained earnings in accordance with the Croatian Company Law, which stipulates that a minimum of 5% of current profits is transferred to undistributable legal reserves, until such reserves along with other capital reserves reach a minimum of 5% of the issued capital. The legal reserve can be used for covering losses from previous years if the losses are not covered from the profit of the current year, or if there are no other available reserves.

	2019	**2018**
	HRK 000	***HRK 000***
Legal reserves	2,137	2,137
TOTAL	**2,137**	**2,137**

Notes to the financial statements (continued)

c) Fair value reserve

Fair value reserve comprises positive fair value of HRK 13,858 thousand (negative in 2018: HRK 2,459 thousand). Deferred tax asset is recognized in the amount of HRK 2.740 thousand.

During the year HRK 6,886 thousand was realized to profit or loss (Note 9a) (2018: HRK 7,997 thousand).

	2019	2018
	HRK 000	*HRK 000*
Balance at 31 December		
Gross fair value reserve	(2,459)	3,736
Deferred tax	-	(602)
First time adoption IFRS 9	-	995
Balance at 1 January	**(2,459)**	**3,343**
Gross fair value reserve at 1 January	(3,217)	3,343
Deferred tax	602	(602)
Accumulated impairment	210	995
Net gains/(losses) from change in fair value of financial assets at fair value through other comprehensive income	30,855	990
Deferred tax (charge)/gain on net losses from change in fair value of financial assets at fair value through other comprehensive income	(2,740)	602
Net gains on disposal of financial assets at fair value through other comprehensive income - transfer to income statement	(11,956)	(7,997)
Deferred tax (charge) on net gains transferred to income statement on disposal of financial assets at fair value through other comprehensive income – transfer to income statement	-	-
Net impairment charge recognised in profit or loss	159	210
Gross fair value reserve change	18,889	(7,007)
Deferred tax change	(2,740)	602
Impairment allowance change	159	210
Balance at 31 December	**13,859**	**(2,459)**

Notes to the financial statements (continued)

26. Related parties transactions

The Bank considers that it has an immediate related-party relationship with its key shareholders and their direct and indirect subsidiaries, the Supervisory Board members, Management Board members and other executive management (together "key management personnel"), close family members of key management personnel, and entities controlled by key management personnel or their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures".

The majority owner of the Bank is Süzer Holding Anonim Sirketi which is headquartered in Turkey. The Bank entered into banking transactions with the majority owner during the year, generating income and expense for the year, and assets and liabilities at year end.

Related party transactions as at and for the year ended 31 December 2019 and 31 December 2018 were as follows:

SUZER HOLDING	**2019**	**2018**
	HRK 000	***HRK 000***
Loans to and receivables from customers	156	-
Other receivables	-	-
	156	**-**
Received deposits		
Current accounts	163	415
Term deposits	7,681	35,139
Subordinated liability	37,213	37,180
Other liabilities	-	-
	45,057	**72,734**

SÜZER HOLDING	**2019**	**2018**
	HRK 000	***HRK 000***
Interest income on loans to and receivables from customers	1	-
Other income	4	3
	5	**3**
Expenses on received deposits		
Current accounts	-	-
Term deposits	(735)	(659)
Other expenses	-	-
	(735)	**(659)**

Notes to the financial statements (continued)

26. Related parties transactions (continued)

Key management personnel	2019	2018
	HRK 000	*HRK 000*
Loans to and receivables from customers	2,358	1,755
Other receivables	-	-
	2,358	**1,755**
Received deposits		
Current accounts	2,266	621
Term deposits	2,407	3,332
Other liabilities	-	-
	4,673	**3,953**

	2019	2018
	HRK 000	*HRK 000*
Interest income on loans to and receivables from customers	132	56
Other income	6	5
	138	**61**
Expenses on received deposits		
Current accounts	-	-
Term deposits	(16)	(32)
	(16)	**(32)**

Compensation to key management personnel was:

	2019	2018
	HRK 000	*HRK 000*
Compensation to key management personnel	11,802	9,610
	11,802	**9,610**

The key management personnel in the Bank are the members of the Management and Supervisory Board, procurators and executive directors and other senior management. The expense of contributions paid to mandatory pension funds in the year ended 31 December 2019 for key management personnel amounted to HRK 1,564 thousand (for year ended 31 December 2018: HRK 1,514 thousand).

27. Contingencies and commitments

Commitments include guarantees and unused overdraft facilities on current accounts of retail customers.

				2019
				HRK 000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Issued guarantees and letter of intent	164,395	0	0	164,395
Issued letters of credit	0	0	0	0
Unused overdraft facilities	118,888	0	226	119,114
TOTAL	**283,283**	**0**	**226**	**283,509**
Identified provisions for off-balance-sheet exposure to credit risk (Note 23)	(1,253)	-	(205)	(1,458)
TOTAL	**282,030**	**-**	**21**	**282,051**

				2018
				HRK 000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Issued guarantees and letter of intent	96,192	-	-	96,192
Issued letters of credit	363	-	-	363
Unused overdraft facilities	123,546	2,521	159	126,226
TOTAL	**220,101**	**2,521**	**159**	**222,781**
Identified provisions for off-balance-sheet exposure to credit risk (Note 23)	(1,090)	(233)	(96)	(1,419)
TOTAL	**219,011**	**2,288**	**63**	**221,362**

Notes to the financial statements (continued)

28. Maximum exposure to credit risk and concentration of credit risk

a) Maximum exposure to credit risk

	Note	2019	2018
		HRK 000	*HRK 000*
Current accounts with the CNB and other banks	12	287,794	282,758
Obligatory reserve with the CNB and compulsory CNB bills	14	144,228	133,971
Placements with other banks	16	2,754	2,744
Debt securities at fair value through other comprehensive income	15a)	449,201	413,891
Financial investments at amortised cost	15b)	46,522	83,668
Loans to and receivables from customers	17a)	1,449,256	1,417,154
Income tax prepayment		-	274
Other assets	20	16,731	3,031
Total exposure to credit risk from balance-sheet items		**2,396,486**	**2,337,491**
Exposure to credit risk from off balance sheet items is as follows:			
Guarantees and letters of intent	28	163,705	95,730
Letters of credit	28	0	361
Unused overdraft facilities	28	118,352	125,271
Total exposure to credit risk from off-balance-sheet items		**282,057**	**221,362**
TOTAL		**2,678,543**	**2,558,853**

b) Concentration of credit risk

Concentration of credit risk towards State and local authorities

	Note	2019	2018
		HRK 000	*HRK 000*
Current account with the CNB	12	265,651	224,834
Obligatory reserve with the CNB and compulsory CNB bills	14	144,228	133,971
Treasury bills issued by Ministry of Finance at fair value through other comprehensive income	15a)	79,514	109,147
Bonds issued by Republic of Croatia at fair value through other comprehensive income	15a)	320,170	247,077
Financial investments at amortised cost	15b)	3,284	7,604
Income tax prepayment		-	274
Other receivables		91	64
Impairment allowance		(3,295)	(1,818)
TOTAL		**809,643**	**721,153**

28. Maximum exposure to credit risk and concentration of credit risk (continued)

The impairment allowance presented in the above table relates to expected credit losses calculated on the related balances, which is in these financial statements offset against loans to and receivables from customers and is presented for illustrative purpose only. Income tax prepayment is not a financial asset, but is also presented for illustrative purposes.

Apart from exposures towards state and local authorities, the maximum exposure to credit risk towards one customer (including groups of related parties) at the end of 2019 amounted to HRK 52,631 thousand (2018: HRK 59,788 thousand).

29. Credit portfolio quality

The Bank applies an internal system of assessment of portfolio quality based on the assessment system prescribed by the CNB. The tables below present the credit quality by class of financial asset and ageing analysis of due outstanding receivables.

Collateral and other security instruments

The amount and type of the necessary collateral depends on the assessment of counterparty credit risk. The Bank has defined guidelines for acceptance of the type of collateral and evaluation of collateral.

Basic types of collateral are:

- Deposits
- Mortgages over real estate
- Charges over movable property
- Guarantees.

In the following tables, category other customers and companies from note 17 are included within corporate.

29. Credit portfolio quality (continued)

As at 31 December 2019

	Neither past due nor impaired				
	Low-risk grades	Standard and sub-standard grades	Past due but not impaired	Specifically impaired	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Current accounts with banks (Note 12)	-	287,794	0	0	**287,794**
Obligatory reserve with CNB and compulsory CNB bills (Note 14)	-	144,228	0	0	**144,228**
Debt securities at fair value through other comprehensive income (Note 15a)	-	449,201	0	0	**449,201**
Financial investments at amortised cost (Note 15b)	-	44,897	0	1,625	**46,522**
Placements with other banks (Note 16)	-	2,754	0	0	**2,754**
Loans to and receivables from customers (Note 17a)	**-**	**1,401,651**	**17,982**	**29,622**	**1,449,255**
* retail	-	568,835	5,973	7,373	**582,181**
* corporate and other	-	832,816	12,009	22,249	**867,074**
Other assets	-	16,731	-	-	**16,731**
TOTAL	**-**	**2,347,256**	**17,982**	**31,247**	**2,396,485**

As at 31 December 2018

	Neither past due nor impaired				
	Low-risk grades	Standard and sub-standard grades	Past due but not impaired	Specifically impaired	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Current accounts with banks (Note 12)	-	282,758	-	-	**282,758**
Obligatory reserve with CNB and compulsory CNB bills (Note 14)	-	133,971	-	-	**133,971**
Debt securities at fair value through other comprehensive income (Note 15a)	-	413,891	-	-	**413,891**
Financial investments at amortised cost (Note 15b)	-	83,667	1	-	**83,668**
Placements with other banks (Note 16)	-	2,745	-	-	**2,745**
Loans to and receivables from customers (Note 17a)	**-**	**1,372,242**	**20,962**	**23,949**	**1,417,153**
* retail	-	578,135	6,831	9,714	**594,680**
* corporate and other	-	794,107	14,131	14,235	**822,473**
Tax prepayment	-	273	0	0	**273**
Other assets	-	2,116	0	0	**2,116**
TOTAL	**-**	**2,291,663**	**20,963**	**23,949**	**2,336,575**

Notes to the financial statements (continued)

29. Credit portfolio quality (continued)

Gross exposure (per Stages)				2019. HRK 000
	Stage 1	Stage 2	Stage 3	Total
Current accounts with the CNB and other banks	287,794	-	-	**287,794**
Obligatory reserve with the CNB and compulsory CNB bills	144,228	-	-	**144,228**
Placements with other banks	449,201	-	-	**449,201**
Debt securities at fair value through other comprehensive income	44,897	-	1,625	**46,522**
Financial investments at amortised cost	2,754	-	-	**2,754**
Loans to and receivables from customers	1,401,118	18,516	29,622	**1,449,256**
Other assets	16,712	12	7	**16,731**
Total exposure to credit risk from balance-sheet items	**2,346,704**	**18,528**	**31,254**	**2,396,486**
Exposure to credit risk from off balance sheet items is as follows:				
Guarantees and letters of intent	164,395	-	-	**164,395**
Letters of credit	-	-	-	**-**
Unused overdraft facilities	118,888	6	21	**118,915**
Total exposure to credit risk from off balance-sheet items	**283,283**	**6**	**21**	**283,310**
Total exposure to credit risk from balance and off balance-sheet items	**2,629,987**	**18,534**	**31,275**	**2,679,795**

29. Credit portfolio quality (continued)

Gross exposure (per Stages)				2018. HRK 000
	Stage 1	Stage 2	Stage 3	Total
Current accounts with the CNB and other banks	282,758	-	-	**282,758**
Obligatory reserve with the CNB and compulsory CNB bills	133,971	-	-	**133,971**
Placements with other banks	2,745	-	-	**2,745**
Debt securities at fair value through other comprehensive income	417,795	-	-	**417,795**
Financial investments at amortised cost	83,823	-	412	**84,235**
Loans to and receivables from customers	1,398,624	10,411	113,292	**1,522,327**
Income tax prepayment	274	-	-	**274**
Other assets	3,121	10	1,039	**4,170**
Total exposure to credit risk from balance-sheet items	**2,323,111**	**10,421**	**114,743**	**2,448,275**
Exposure to credit risk from off balance sheet items is as follows:				
Guarantees and letters of intent	95,730	-	-	**95,730**
Letters of credit	361	-	-	**361**
Unused overdraft facilities	122,824	2,288	159	**125,271**
Total exposure to credit risk from off balance-sheet items	**218,915**	**2,288**	**159**	**221,362**
Total exposure to credit risk from balance and off balance-sheet items	**2,542,026**	**12,709**	**114,902**	**2,669,637**

Notes to the financial statements (continued)

29. Credit portfolio quality (continued)

Analysis of past due but not impaired loans:

	As at 31 December 2019						
	Due up to 30 days	Due 31 - 90 days	Due 91 – 180 days	Due 181- 365 days	Due 1 to 2 years	Due over 2 years	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Loans to and receivables from customers	16,122	1,416	331	105	6	2	**17,982**
Financial investments at amortised cost	-	635	-	-	-	-	**635**
Total	**16,122**	**2,051**	**331**	**105**	**6**	**2**	**18,617**

	As at 31 December 2018						
	Due up to 30 days	Due 31 - 90 days	Due 91 – 180 days	Due 181- 365 days	Due 1 to 2 years	Due over 2 years	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Loans to and receivables from customers	19,495	1,047	392	28	-	-	**20,962**
Financial investments at amortised cost	1	-	-	-	-	-	**1**
Total	**19,496**	**1,047**	**392**	**28**	**-**	**-**	**20,963**

29. Credit portfolio quality (continued)

Analysis of individually impaired loans (net):

	As at 31 December 2019							
	Undue	**Due up to 30 days**	**Due 31 - 90 days**	**Due 91 – 180 days**	**Due 181-365 days**	**Due 1 to 2 years**	**Due over 2 years**	**Total**
	HRK 000	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***
Retail loans to and receivables from customers	1,375	5	562	1,111	3,119	189	1,012	7,373
Corporate loans to and receivables from customers	6,595	-	-	8,546	2,975	3,637	496	22,249
Financial investments at amortised cost	-	-	-	1,625	-	-	-	1,625
Total	**7,970**	**5**	**562**	**11,282**	**6,094**	**3,826**	**1,508**	**31,247**

	As at 31 December 2018							
	Undue	**Due up to 30 days**	**Due 31 - 90 days**	**Due 91 – 180 days**	**Due 181-365 days**	**Due 1 to 2 years**	**Due over 2 years**	**Total**
	HRK 000	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***	***HRK 000***
Retail loans to and receivables from customers	2,850	18	755	1,022	4,093	368	608	9,714
Corporate loans to and receivables from customers	2,875	380	3,804	3,001	1,970	-	2,205	14,235
Financial investments at amortised cost	-	-	-	-	-	-	-	-
Total	**5,725**	**398**	**4,559**	**4,023**	**6,063**	**368**	**2,813**	**23,949**

Anaysis of due amounts is based on the highest delay category per individual exposures.

Undue individually impaired loans relate to restructured loans retained in category impaired after restructuring.

Notes to the financial statements (continued)

30. Maturity profile of assets and liabilities

Assets and liabilities are allocated within time buckets according to their remaining contractual maturity period. Obligatory reserve is analyzed according to the time buckets of the funds representing the base for its calculation. Other items without contractual maturity are presented in the bucket over 3 years.

As at 31 December 2019 *HRK 000*

ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Cash and current accounts with banks	321,679	-	-	-	-	**321,679**
Obligatory reserve with CNB and compulsory CNB bills	48,766	12,356	50,242	27,127	5,737	**144,228**
Financial assets at fair value through other comprehensive income	-	19,996	59,518	23,551	346,136	**449,201**
Financial investments at amortised cost	-	29,758	15.138	1,625	-	**46,521**
Loans to and receivables from customers	115,229	77,830	260,513	396,935	598,749	**1,449,256**
Placements with other banks	-	521	2,233	-	-	**2,754**
Property, plant and equipment	-	-	-	-	38,925	**38,925**
Right of use assets	276	552	2,405	4,213	2,488	**9,934**
Intangible assets	-	-	-	-	7,507	**7,507**
Foreclosed assets	-	-	-	-	809	**809**
Other assets	17,485	-	-	-	-	**17,485**
TOTAL ASSETS	**503,435**	**141,013**	**390,049**	**453,451**	**1,000,351**	**2,488,299**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	64,536	28,482	54,040	-	10,051	**157,109**
Current accounts and deposits from customers	622,419	145,580	653,713	382,140	70,767	**1,874,619**
Interest-bearing borrowings	59,831	14,565	21,832	9,319	4,436	**109,983**
Subordinated liability	-	-	-	-	37,306	**37,306**
Provisions for liabilities and charges	-	-	-	-	1,657	**1,657**
Lease liability	273	548	2,402	4,250	2,560	**10,033**
Other liabilities	29,277	-	15	(5)	15	**29,248**
TOTAL LIABILITIES	**776,282**	**189,175**	**732,002**	**395,704**	**126,762**	**2,219,955**
EQUITY						
Ordinary share capital	-	-	-	-	278,012	**278,012**
Legal and other reserves	-	-	-	-	2,137	**2,137**
Fair value reserve	-	(1)	11	(123)	13,970	**13,857**
Accumulated losses	-	-	-	-	(25,662)	**(25,662)**
TOTAL EQUITY	**-**	**(1)**	**11**	**(123)**	**268,457**	**268,344**
TOTAL LIABILITIES AND EQUITY	**776,282**	**189,175**	**732,013**	**395,581**	**395,249**	**2,488,299**
MATURITY GAP	**(272,847)**	**(48,161)**	**(341,964)**	**57,870**	**605,102**	**-**

Notes to the financial statements (continued)

30. Maturity profile of assets and liabilities (continued)

As at 31 December 2018 *HRK 000*

ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Cash and current accounts with banks	323,738	-	-	-	-	**323,738**
Obligatory reserve with CNB and compulsory CNB bills	39,459	11,731	52,042	26,792	3,947	**133,971**
Financial assets at fair value through other comprehensive income	-	-	7,466	297,279	109,146	**413,891**
Financial investments at amortised cost	5.571	8.123	3.621	22.712	43.641	**83,668**
Loans to and receivables from customers	125,428	83,928	238,305	377,056	592,437	**1,417,154**
Placements with other banks	-	519	2,226	-	-	**2,745**
Property, plant and equipment	-	-	-	-	39,006	**39,006**
Intangible assets	-	-	-	-	4,520	**4,520**
Foreclosed assets	-	-	-	-	1,146	**1,146**
Income tax prepayment	-	-	-	-	274	**274**
Other assets	3,965	-	-	-	0	**3,965**
TOTAL ASSETS	**498,161**	**104,301**	**303,660**	**723,839**	**794,117**	**2,424,078**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	30,225	18,835	40,068	-	-	**89,128**
Current accounts and deposits from customers	533,790	148,851	703,809	382,958	56,425	**1,825,833**
Interest-bearing borrowings	88,801	1,604	3,167	28,276	97,195	**219,043**
Subordinated liability	-	-	-	-	37,180	**37,180**
Provisions for liabilities and charges	-	-	-	-	1,524	**1,524**
Other liabilities	16,634	3	704	(48)	-	**17,293**
TOTAL LIABILITIES	**669,450**	**169,293**	**747,748**	**411,186**	**192,324**	**2,190,001**
EQUITY						
Ordinary share capital	-	-	-	-	278,012	**278,012**
Legal and other reserves	-	-	-	-	2,137	**2,137**
Fair value reserve	-	(32)	-	(10)	(2,417)	**(2,459)**
Accumulated losses	-	-	-	-	(43,613)	**(43,613)**
TOTAL EQUITY	**-**	**(32)**	**-**	**(10)**	**234,119**	**234,077**
TOTAL LIABILITIES AND EQUITY	**669,450**	**169,261**	**747,748**	**411,176**	**426,443**	**2,424,078**
MATURITY GAP	**(171,289)**	**(64,960)**	**(444,088)**	**312,663**	**367,674**	**-**

Notes to the financial statements (continued)

31. Exposure to foreign currency risk

Foreign currency structure of the balance sheet is presented in the following tables:

As at 31 December 2019 *HRK 000*

ASSETS	EUR (and EUR linked)	USD	CHF	Other currencies	HRK	Total
Cash and current accounts with banks	15,083	3,355	9,763	3,697	289,781	**321,679**
Obligatory reserve with CNB and compulsory CNB bills	-	-	-	-	144,228	**144,228**
Financial assets at fair value through other comprehensive income	134,112	36,965	-	-	278,124	**449,201**
Financial investments at amortised cost	18,215	23,100	-	-	5,207	**46,522**
Loans to and receivables from customers	1,331,285	969	-	(53)	117,054	**1,449,255**
Placements with other banks	2,754	-	-	-	-	**2,754**
Property, plant and equipment	-	-	-	-	38,925	**38,925**
Right of use assets					9,934	**9,934**
Intangible assets	-	-	-	-	7,507	**7,507**
Foreclosed assets	-	-	-	-	809	**809**
Other assets	-	-	-	-	17,485	**17,485**
TOTAL ASSETS	**1,501,449**	**64,389**	**9,763**	**3,644**	**909,054**	**2,488,299**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	46,889	-	-	-	110,220	**157,109**
Current accounts and deposits from customers	1,043,753	83,341	10,971	2,890	733,664	**1,874,619**
Interest-bearing borrowings	109,982	-	-	-	-	**109,982**
Subordinated liability	37,306	-	-	-	-	**37,306**
Provisions for liabilities and charges	-	-	-	-	1,657	**1,657**
Other liabilities	-	-	-	-	39,281	**39,281**
TOTAL LIABILITIES	**1,237,930**	**83,341**	**10,971**	**2,890**	**884,822**	**2,219,954**
EQUITY						
Ordinary share capital	-	-	-	-	278,012	**278,012**
Legal and other reserves	-	-	-	-	2,137	**2,137**
Fair value reserve	-	-	-	-	13,858	**13,858**
Accumulated losses	-	-	-	-	(25,662)	**(25,662)**
TOTAL EQUITY	-	-	-	-	**268,345**	**268,345**
TOTAL LIABILITIES AND EQUITY	**1,237,930**	**83,341**	**10,971**	**2,890**	**1,153,167**	**2,488,299**
NET ASSETS/ LIABILITIES AND EQUITY	**263,519**	**(18,952)**	**(1,208)**	**754**	**(244,113)**	**-**

31. Exposure to foreign currency risk (continued)

As at 31 December 2018 *HRK 000*

ASSETS	EUR (and EUR linked)	USD	CHF	Other currencies	HRK	Total
Cash and current accounts with banks	45,244	10,136	4,889	7,814	255,655	**323,738**
Obligatory reserve with CNB and compulsory CNB bills	-	-	-	-	133,971	**133,971**
Financial assets at fair value through other comprehensive income	168,206	38,156	-	-	207,529	**413,891**
Financial investments at amortised cost	50,015	22,712	-	-	10,941	**83,668**
Loans to and receivables from customers	111,411	18,574	-	-	1,287,169	**1,417,154**
Placements with other banks	2,745	-	-	-	-	**2,745**
Property, plant and equipment	-	-	-	-	39,006	**39,006**
Intangible assets	-	-	-	-	4,520	**4,520**
Foreclosed assets	-	-	-	-	1,146	**1,146**
Income tax prepayment	-	-	-	-	274	**274**
Other assets	-	-	-	-	3,965	**3,965**
TOTAL ASSETS	**377,621**	**89,578**	**4,889**	**7,814**	**1,944,176**	**2,424,078**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	4,005	-	-	-	85,122	89,127
Current accounts and deposits from customers	1,092,412	93,207	7,606	2,155	630,453	1,825,833
Liabilities for preference shares	-	-	-	-	-	-
Interest-bearing borrowings	18,544	-	-	-	200,500	219,044
Subordinated liability	37,180	-	-	-	-	37,180
Provisions for liabilities and charges	-	-	-	-	1,524	1,524
Other liabilities	-	-	-	-	17,293	17,293
TOTAL LIABILITIES	**1,152,141**	**93,207**	**7,606**	**2,155**	**934,892**	**2,190,001**
EQUITY						
Ordinary share capital	-	-	-	-	278,012	**278,012**
Legal and other reserves	-	-	-	-	2,137	**2,137**
Fair value reserve	-	-	-	-	(2,459)	**(2,459)**
Accumulated losses	-	-	-	-	(43,613)	**(43,613)**
TOTAL EQUITY	-	-	-	-	**234,077**	**234,077**
TOTAL LIABILITIES AND EQUITY	**1,152,141**	**93,207**	**7,606**	**2,155**	**1,168,969**	**2,424,078**
NET ASSETS/ LIABILITIES AND EQUITY	**(774,520)**	**(3,629)**	**(2,717)**	**5,659**	**775,207**	**-**

31. Exposure to foreign currency risk (continued)

Sensitivity of profit and loss to exchange rate fluctuations

The table below represents sensitivity of the profit or loss to exchange rate fluctuations. The effect of exchange rate fluctuations is presented using VaR (value-at-risk - 500 observations and 99% confidence level) on the currencies for which the Bank has significant exposures as follows:

Currency risk	2019	2018
Maximum overall open foreign currency position including options (% of the regulatory capital)	2.94%	5.48%
Open FX position including options in u EUR (% of the regulatory capital)	2.41%	2.98%
Open FX position including options in u USD (% of the regulatory capital)	0.77%	0.32%
VaR (EUR) / open FX position of the Bank in EUR (% of the regulatory capital)	0.10%	0.15%
VaR (USD) / open FX position of the Bank in USD (% of the regulatory capital)	0.58%	0.78%

32. Exposure to interest-rate risk

The following table shows sensitivity of Bank equity (economic value) to reasonable interest rate movements (parallel shift), on condition that all other variables are constant. The sensitivity presented below is prepared based on methodology used to prepare sensitivity report "EVKI" as reported to regulator (Croatian National Bank).

				2019
Currency	Changes in interest rate	Sensitivity of equity value to interest rate movements	Changes in interest rate	Sensitivity of equity value to interest rate movements
		HRK 000		*HRK 000*
HRK	100 bp	11,192	200 bp	22,385
EUR	100 bp	(5,668)	200 bp	(11,335)
Other	100 bp	68	200 bp	136
TOTAL		**5,592**		**11,186**

				2018
Currency	Changes in interest rate	Sensitivity of equity value to interest rate movements	Changes in interest rate	Sensitivity of equity value to interest rate movements
		HRK 000		*HRK 000*
HRK	100 bp	9,454	200 bp	18,908
EUR	100 bp	(1,890)	200 bp	(3,781)
Other	100 bp	(617)	200 bp	(1,233)
TOTAL		**6,947**		**13,894**

32. Exposure to interest-rate risk (continued)

Analysis of loans by type of interest rate

	As at 31 December 2019		As at 31 December 2018	
	Interest rate type			
	Fixed	Variable	Fixed	Variable
Assets	55.60%	44.40%	58.01%	41.99%
Liabilities	75.51%	24.49%	77.98%	22.02%

Average effective interest rates

The average effective interest rates for interest-earning financial assets and interest-bearing financial liabilities during the year calculated on average quarterly balances for the Bank are as follows:

	2019 Effective interest rate	2018 Effective interest rate
Cash and current accounts with banks	(0.22%)	(0.15%)
Obligatory reserve with the CNB and compulsory CNB bills	-	-
Placements with other banks	0.04%	-
Debt securities at fair value through other comprehensive income	1.13%	1.57%
Financial assets at amortised cost	6.89%	3.53%
Loans to and receivables from customers	5.84%	6.14%
Current accounts and deposits from banks and financial institutions	0.61%	1.20%
Current accounts from customers	0.06%	0.08%
Term deposits from customers	0.89%	1.20%
Liability for preference shares	-	-
Interest–bearing borrowings	1.08%	1.31%
Subordinated liability	1.45%	1.45%

33. Risk and capital management

Note 33 complements notes 28 to 32, whereby note 33 provides general risk management policies and principles, notes 28 to 32 provide quantitative disclosures of exposure to various risks.

a) Financial risk management

The operations of the Bank are exposed to various types of risk, which arise from the uncontrollable character of the financial market. The Bank tries to control and minimize the risks. The most significant types of financial risk to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes the risk of change of interest rates, risk of change of foreign exchange rates and change of market value of securities.

b) Credit risk

Credit risk is the most significant type of risk to which the Bank is exposed in its operations. Credit risk arises from the inability of the other party to service their liabilities as they fall due. The Bank monitors the exposure to credit risk and the quality of the portfolio on a regular basis.

Credit risk management is principally implemented through the selection of customers with good credit-standing and seeking adequate collateral.

In granting placements, the quality, i.e. creditworthiness of the customer, is the main criteria. The Bank additionally reduces exposure to credit risk by securing placements with collateral. The Bank has established a Risk Assessment and Measurement Unit, (within the Risk Management Department) in charge of regular credit risk management and monitoring. Risk Management Department also participates in the process of granting all significant placements, as well as in the process of approving the Bank's lending policies.

In measurement of credit risk of loans and advances to customers and banks, the Bank uses three major factors:

(i) the creditworthiness;
(ii) regular settlement of contractual obligations;
(iii) the quality of collateral, as explained below.

i) The Bank assesses creditworthiness using internal rating tools. They have been developed internally and combine statistical and empirical analysis based on loan officers' judgment, and if required, they are assessed in comparison with available external data.

ii) Settlement of obligations means payment of all obligations within contractual maturities, without establishing a new receivable.

(iii) The quality of the collateral is determined by marketability, protection of legal documentation and the possibility of enforcing collection.

33. Risk and capital management (continued)

b) Credit risk (continued)

The Bank structures the levels of credit risk by placing limits on the amount of risk accepted in relation to one borrower and a group of related parties, and industrial segments. Limits on the level of credit risk by industry sectors are regularly reviewed.

Exposure to credit risk is also managed by regular analysis of the ability of borrowers and potential borrowers to meet all obligations to the Bank and by changing lending limits where appropriate. The assessment of possible losses is monitored on a regular basis to enable timely identification of such placements and calculation of impairment losses.

c) Liquidity risk

Liquidity risk represents the risk that the Bank will not be able to settle its liabilities as they fall due, and finance or liquidate assets on the basis of acceptable prices.

In order to ensure the quality of funding sources, the Bank funds itself from various sources: deposits of retail customers, special participations, assets from the money market funds, and share capital, which reduces dependence on only one source, and consequently liquidity risk.

The Bank prepares strategies in order to ensure that the needs of the Bank for cash funds in certain currencies are covered. The Bank's strategy is oriented towards ensuring adequate liquidity level which meets both estimated and unforeseen needs for cash funding. In case of an unforeseen need for cash funds, the Bank could take actions such as control of the Bank's credit activity, withdrawal of the available lines of credit and other necessary measures.

The Bank manages its assets and sources of funding taking into consideration financial flows, cash flows and concentrations, all with the aim of matching the cash inflows and outflows of the Bank. Such management includes the identification of known, expected and potential cash outflows and making different strategies of assets and liabilities management in order to ensure the needs of the Bank for cash inflows. Accordingly, liquidity risk management system includes: assessment and measurement of liquidity risk exposure, setting and monitoring limits as well as reporting on their utilization.

Liquidity risk management is achieved by operational short-term liquidity management and long-term liquidity management.

The Management Board of the Bank is responsible for liquidity risk management.

d) Market risk

- *Foreign currency risk* mainly arises from transactions in EUR, USD and CHF, or linked to EUR, USD, CHF and to a lesser extent, other currencies.

Control and mitigation of foreign currency risk is implemented by monitoring foreign currency deposit and simultaneous contracting of loans with foreign currency clause. Foreign currency risk is controlled on a daily basis, according to regulatory, but also internally determined limits of certain currencies.

33. Risk and capital management (continued)

d) Market risk (continued)

The Bank directs its business activities trying to minimize gaps between assets and liabilities denominated in foreign currency directly or with foreign currency clauses. The Bank manages its assets and liabilities by matching certain foreign currency assets with liabilities in order optimize the risk and profitability relationship due to currency movements.

- *Interest rate risk* is the risk of change of the prices of financial assets at fair value through other comprehensive income

as a result of the changes in interest rates. Interest rate risk is controlled through monitoring the interest rate sensitivity of assets and liabilities.

Risk management activities are mainly carried out in the context of the Bank's sensitivity to interest rate changes. Exposure to interest rate risk is the result of mismatch between assets and liabilities, which carry variable and /or fixed rates and / or reprice at a different time and it is monitored using the analysis of mismatch between assets and liabilities.

The objective of interest rate risk management is to ensure an optimal and stable net interest margin. In accordance with its asset and liability management policy, the Bank monitors the mismatch between assets and liabilities in the statement of financial position, using various criteria for possible change of interest rate. The calculation represents the amount of changes in the value of equity resulting from simultaneous changes in interest rates by 100 basis points (stress test 200 basis points). The above amount should be within 10% change of economic value of regulatory capital.

- *Price risk* is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than fluctuations resulting from currency and interest rate), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Bank's investment in open-ended investment funds represent its exposure to price risk.

e) Capital management

The primary goals of the Bank related to capital management are alignment with all legal capital requirements, by concurrently retaining sufficient capital adequacy for the purpose of supporting business activity, in order to maximise the value for shareholders.

The Bank manages the structure of equity and risks arising from its business activity.

The Bank's regulatory capital requirements were based on EU Regulation No 575/2013 in 2019 and 2018.

The Bank's regulatory capital consists of Tier 1 capital (all qualifies as Common Equity Tier 1 ("CET1") capital, which includes ordinary share capital, accumulated losses, reserves and loss for the period after adjustment intangible assets. In 2018 The Bank's regulatory capital consists of Tier 1 capital (all qualifies as Common Equity Tier 1 ("CET1") capital, which includes ordinary share capital, accumulated losses, reserves and loss for the period after adjustment intangible assets. In 2019 the HRK 37,213 thousand of subordinated liability contracted in 2016 and 2017 is included fully in Tier 2 capital (2018: 37,008 thousand).

Notes to the financial statements (continued)

33. Risk and capital management (continued)

e) Capital management (continued)

The table below summarises the composition of regulatory capital and ratios of the Bank (risk weighted assets have been unaudited as of the date of the issuance of these financial statements):

	Unaudited 31 December 2019 *HRK 000*	Audited 31 December 2018 *HRK 000*
Regulatory capital		
Issued ordinary share capital and preference shares	278,012	278,012
Reserves – legal	2,137	2,137
Losses in previous years	(43,613)	(51,147)
Profit or loss eligible	14,036	7,535
Subordinated liability	37,213	37,088
Total qualifying capital of the bank	**287,785**	**273,624**
Adjustment for intangible assets	(7,507)	(4,520)
Adjustment for financial assets at fair value through other comprehensive income	(449)	(413)
Adjustment for negative revaluation reserve	13,858	(2,459)
Other adjustment for regulatory capital	-	-
Total regulatory capital	**293,687**	**266,233**
Risk-weighted assets		
Credit risk-weighted assets	1,538,330	1,473,718
Exposure to operational risk	158,092	138,238
Exposure to currency risk	8,626	14,117
Total risk weighted assets	**1,705,048**	**1,626,073**
Common Equity Tier 1 capital ratio	**15.04%**	**14.09%**
Tier 1 capital ratio	**15.04%**	**14.09%**
Total capital adequacy ratio	**17.22%**	**16.37%**

Prescribed minimal capital ratios in accordance with Article 92 of EU Regulation No 575/2013 are as follows:

- Common Equity Tier 1 capital ratio of 4.5% of the total risk exposure amount,
- Tier 1 capital ratio of 6% of the total risk exposure amount,
- Total capital ratio of 8% of the total risk exposure amount.

In addition to regulatory prescribed minimal capital adequacy ratios and in accordance with Articles 117 and 130 of CNB's Credit Institutions Act and Articles 129 and 133 of CRD IV, the Bank is also obliged to maintain specifically set capital buffers.

The Bank is compliant with the CNB prescribed total capital ratio in both 2019 and 2018.

f) Operational risk management

Operational risk represents risk of loss due to inadequate or unsuccessful internal processes, employees or due to external events.

Responsibility for the implementation of operational risk management system and control of operational risk management at the level of the Bank is assigned to the Risk control function.

Notes to the financial statements (continued)

34. Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

Cash and balances with Croatian National Bank

The carrying value of cash and balances with the CNB approximate their fair value due to short-term maturity of these financial instruments.

Placements with other banks

Placements with other banks are stated at amortized cost. The fair value calculated by discounting the expected future cash flows of principal and interest is not significantly different from their book values in light of their short-term maturities.

Loans and advances

Management has considered the fair value of loans and advances. As most of the Bank's loan portfolio is contracted with variable interest rates and the Bank's portfolio of loans and advances with fixed rates and longer-term maturity were predominantly originated recently, management considers that the fair value of the overall portfolio of loans and advances, calculated by discounting expected future principal and interest cash flows (assuming that loan repayments will occur at contractual repayment dates taking into account existing identified impairment losses) would not be significantly different from the carrying amount before allowances for expected credit losses. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis.

It is not possible for the Bank to estimate the difference between the effect of expected credit losses calculated in accordance with the CNB regulations, which are included in the carrying value of loans and advances, and the effect on the discounted cash flow calculations referred to above as an estimate of the fair value of expected future losses which would reduce future cash flows.

Financial investments at amortised cost

The fair value of financial investments at amortised cost in the opinion of the Management Board, also approximates their book value.

Deposits from banks and customers

For demand deposits, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values. As most of the Bank's deposits with fixed interest rates are due within one year, although the interest rate being above the market rate, there is no significant difference between the fair value of these deposits and their carrying value.

Interest-bearing borrowings

There is no significant difference between carrying and fair value.

34. Fair values (continued)

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

There were no transfers between levels in 2019 and 2018.

Financial assets	LEVEL 1 *HRK 000*	LEVEL 2 *HRK 000*	LEVEL 3 *HRK 000*	2019 TOTAL *HRK 000*
Financial assets at fair value through other comprehensive income				
Local Government bonds	320,170	-	-	**320,170**
Local Corporate bonds	-	-	-	**-**
Local treasury bills	-	79,514	-	**79,514**
Foreign sovereign bonds	29,512	-	-	**29,512**
Foreign corporate bonds	20,005	-	-	**20,005**
Cash funds	-	-	-	**-**
Total	**369,687**	**79,514**	**-**	**449,201**

Financial assets	LEVEL 1 *HRK 000*	LEVEL 2 *HRK 000*	LEVEL 3 *HRK 000*	2018 TOTAL *HRK 000*
Financial assets at fair value through other comprehensive income				
Local Government bonds	247,077	-	-	**247,077**
Local Corporate bonds	8,894	-	-	**8,894**
Local treasury bills	-	109,147	-	**109,147**
Foreign sovereign bonds	14,390	-	-	**14,390**
Foreign corporate bonds	34,383	-	-	**34,383**
Cash funds	-	-	-	**-**
Total	**304,744**	**109,147**	**-**	**413,891**

Appendix 1 – Supplementary schedules for CNB

Croatian National Bank adopted on 10 May 2018 the Decision on the Structure and Content of the Financial Statements of Banks (Official Gazette 42/18).

Supplementary schedules for the CNB prepared pursuant to the above Decision are presented below along with the reconciliation of the supplementary schedules for CNB with the statutory financial statements, prepared in accordance with the accounting regulations applicable for banks in Croatia

Appendix 1 – Supplementary schedules for CNB

INCOME STATEMENT for the period 01.01.2019. to 31.12.2019.

Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
1.Interest income	**069**	87.888.370	88.839.730
2.Interest expenses	**070**	19.727.142	15.443.215
3.Expenses on share capital repayable on demand	**071**		
4.Dividend income	**072**		
5.Fee and commission income	**073**	14.775.250	5.520.335
6.Fee and commission expenses)	**074**	3.939.901	4.327.059
7.Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**075**	7.999.699	5.687.108
8.Gains or (-) losses on financial assets and liabilities held for trading, net	**076**	5.878.480	7.142.021
9.Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**077**		
10. Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	**078**		
11. Gains or (-) losses from hedge accounting, net	**079**		
12. Exchange differences [gain or (-) loss], net	**080**	-654.083	246.318
13. Gains or (-) losses on derecognition of non-financial assets, net	**081**		
14. Other operating income	**082**	519.819	1.655.636
15. (Other operating expenses)	**083**	5.005.381	6.719.976
16. TOTAL OPERATING INCOME, NET (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 to 082 - 083)	**084**	**87.735.111**	**82.600.898**
17. Administrative expenses	**085**	57.725.262	58.837.532
18. Depreciation	**086**	4.061.981	7.724.182
19. Modification gains or (-) losses, net	**087**		
20. Provisions or (-) reversal of provisions	**088**	821.229	374.419
21. Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	**089**	17.592.093	-4.342.217
22. Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates	**090**		0
23. Impairment or (-) reversal of impairment on non-financial assets	**091**		0
24. Negative goodw ill recognised in profit or loss	**092**		0
25. Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates accounted for using the equity method	**093**		0
26. Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	**094**		0
27. PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**095**	**7.534.546**	**20.006.982**
28. Tax expense or (-) income related to profit or loss from continuing operations	**096**		2.056.498
29. PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (AOP 095 - 096)	**097**	**7.534.546**	**17.950.484**
30. Profit or (-) loss after tax from discontinued operations (AOP 099 - 100)	**098**	0	0
30Profit or (-) loss before tax from discontinued operations	**099**		
30Tax expense or (-) income related to discontinued operations	**100**		
31. PROFIT OR (-) LOSS FOR THE YEAR (AOP 097 + 098; 102 + 103)	**101**	**7.534.546**	**17.950.484**
32. Attributable to minority interest [non-controlling interests]	**102**		
33. Attributable to owners of the parent	**103**		

Appendix 1 – Supplementary schedules for CNB

BALANCE SHEET AS AT 31.12.2019.
Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
Assets			
1.Cash, cash balances at central banks and other demand deposits	001	**322.909.875**	**320.973.836**
1.1 Cash on hand	002	40.979.652	33.884.674
1.2 Cash balances at central banks	003	224.271.821	265.040.295
1.3 Other demand deposits	004	57.658.402	22.048.867
2.Financial assets held for trading	005	**0**	**0**
2.1 Derivatives	006		
2.2 Equity instruments	007		
2.3 Debt securities	008		
2.4 Loans and advances	009		
3.Non-trading financial assets mandatorily at fair value through profit or loss	010	**0**	**15**
3.1 Equity instruments	011		15
3.2 Debt securities	012		
3.3 Loans and advances	013		
4.Financial assets designated at fair value through profit or loss	014	**0**	**0**
4.2 Debt securities	015		
4.3 Loans and advances	016		
5.Financial assets at fair value through other comprehensive income	017	**412.686.638**	**449.200.565**
5.1 Equity instruments	018		0
5.1 Debt securities	019	412.686.638	449.200.565
5.2 Loans and advances	020		0
6.Financial assets at amortised cost	021	**1.639.004.235**	**1.658.615.885**
6.1 Debt securities	022	66.352.743	38.238.688
6.2 Loans and advances	023	1.572.651.492	1.620.377.197
7.Derivatives – Hedge accounting	024		
8.Fair value changes of the hedged items in portfolio hedge of interest rate risk	025		
9.Investments in subsidiaries, joint ventures and associates	026		
10. Tangible assets	027	**39.006.252**	**48.860.500**
11. Intangible assets	028	**4.519.720**	**7.506.805**
12. Tax assets	029	**347.996**	**352.729**
13. Other assets	030	**4.466.648**	**3.129.153**
14. Non-current assets and disposal groups classified as held for sale	031		
15. TOTAL ASSETS	032	**2.422.941.364**	**2.488.639.488**
Liabilities			
16. Financial liabilities held for trading	033	**0**	**0**
16.1 Derivatives	034		
16.2 Short positions	035		
16.3 Deposits	036		
16.4 Debt securities issued	037		
16.5 Other financial liabilities	038		
17. Financial liabilities designated at fair value through profit or loss	039	**0**	**0**
17.1 Deposits	040		
17.2 Debt securities issued	041		
17.3 Other financial liabilities	042		
18. Financial liabilities measured at amortised cost	043	**2.171.308.673**	**2.189.182.018**
18.1 Deposits	044	2.171.288.904	2.179.122.804
18.2 Debt securities issued	045		

18.3 Other financial liabilities	046	19.769	10.059.214
19. Derivatives – Hedge accounting	**047**		
20. Fair value changes of the hedged items in portfolio hedge of interest rate risk	**048**		
21. Provisions	**049**	**1.789.209**	**2.081.595**
22. Tax liabilities	**050**	**530.223**	**5.262.723**
23. Share capital repayable on demand	**051**		
24. Other liabilities	**052**	**16.440.528**	**23.767.754**
25. Liabilities included in disposal groups classified as held for sale	**053**		
26. TOTAL LIABILITIES	**054**	**2.190.068.633**	**2.220.294.090**
Capital			
27. Capital	**055**	**278.011.800**	**278.011.800**
28. Share premium	**056**		
29. Equity instruments issued other than capital	**057**		
30. Other equity	**058**		
31. Accumulated other comprehensive income	**059**	**-3.663.848**	**13.858.335**
32. Retained earnings	**060**	**-51.147.128**	**-43.612.584**
33. Revaluation reserves	**061**		
34. Other reserves	**062**	**2.137.362**	**2.137.362**
35. (-) Treasury shares	**063**		
36. Profit or loss attributable to owners of the parent	**064**	**7.534.545**	**17.950.485**
37. (-) Interim dividends	**065**		
38. Minority interests [Non-controlling interests]	**066**		
39. TOTAL EQUITY	**067**	**232.872.731**	**268.345.398**
40. TOTAL EQUITY AND TOTAL LIABILITIES	**068**	**2.422.941.364**	**2.488.639.488**

Appendix 1 – Supplementary schedules for CNB

CASH FLOW STATEMENT - Indirect method in the period from 01.01.2019. to 31.12.2019.
Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
OPERATING ACTIVITIES AND ADJUSTMENTS			
1. Profit / (loss) before tax	001	7.534.545	17.950.484
2. Impairment	002	17.592.093	-4.342.217
3. Depreciation	003	4.061.982	7.724.181
4. Net unrealised profit/(loss) from financial assets and liabilities at fair value through income statement	004		
5. (Gains) / losses from sale of tangible assets	005		
6. Other non-monetary items	006		
Change from assets and liabilities from operating activities			
7. Deposits with CNB	007	-16.197.237	-10.257.404
8. Deposits at financial institiution and loans to fininancial institutions	008		
9. Loans to other clients	009	-236.634.557	-33.126.084
10. Financial assets at fair value through other comprehensive income	010	159.429.369	-18.991.744
11. Financial assets held for trading	011	0	0
12. Non-trading financial assets mandatorily at fair value through profit or loss	012	0	-15
13. Financial assets designated at fair value through profit or loss	013	0	0
14. Financial assets at amortised cost	014	0	0
15. Other assets from operating activities	015	574.100	2.866.921
Net increase/(decrease) in operating liabilities			
16. Deposits with banking institutions	016	0	0
17. Current accounts	017	147.269.339	66.390.092
18. Saving accounts	018	334.701	-176.116
19. Time deposits	019	87.683.522	50.664.851
20. Derivative financial liabilities and other financial liabilities held for sale	020	0	0
21. Other liabilities	021	2.764.309	12.059.726
22. Unpaid interest from operating activities	022	0	0
23. Dividends received	023	0	0
24. Paid interest from operating activities	024	0	0
25. Paid income tax	025	0	0
A) Net cash inflow / (outflow) from operating activities (AOP 001 do 025)	026	**174.412.166**	**90.762.675**
INVESTMENT ACTIVITIES			
1. Cash receipts from (payments to acquire) tangible and intangible assets	027	-2.105.650	-21.798.647
2. Cash receipts from the disposal of (payments for the investment in) subsidiaries, associates and joint ventures	028	0	0
3. Cash receipts from sales of (cash payments to acquire) securities and other financial instruments from investment acitivities	029	-44.921.194	28.114.056
4. Dividends received	030	0	0
5. Other receipts from(payments for) investments	031	0	10.039.445
B) Net cash inflow / (outflow) from investment activities (AOP 027 do 031)	032	**-47.026.844**	**16.354.854**
FINANCIAL ACTIVITIES			
1. Net increase / (decrease) in received loans	033	103.148.539	-109.044.927
2. Net increase / (decrease) of issued debt securities	034	0	0
3. Net increase / (decrease) of subordinated and hybrid instruments	035	0	0
4. Proceeds from issue of share capital	036	0	0
5. (Dividends paid)	037	0	0
6. Other proceeds(payments) from financing activities	038	0	0
C) Net cash inflow / (outflow) from financial activities (AOP 033 do 038)	039	**103.148.539**	**-109.044.927**
D) Net increase / (decrease) of cash and cash equivalents (AOP 026+032+039)	040	**230.533.861**	**-1.927.398**
Cash and cash equivalents at the beginning of the year	041	92.376.014	322.909.875
Effect of currency exchange rate conversion on cash and cash equivalents	042		
Cash and cash equivalents at the end of the year (AOP 040+041+042)	043	**322.909.875**	**320.982.477**

Appendix 1 – Supplementary schedules for CNB

STATEMENT OF CHANGES IN EQUITY in the period from 1.1.2019. to 31.12.2019.
Amounts in HRK

Position name	AOP code	Atributable to shareholders of the Bank											Minority interest		Total equity and reserves
		Share capital	Share premium	Equity instruments issued except capital	Other equity holdings	Accumulated other comprehensive income	Retained earnings/loss	Revaluation reserves	Other reserves	Treasury shares	Profit / loss attributable to owners of the parent company	Dividends during the business year	Accumulated other comprehensive income	Other items	
1	2	4	5	6	7	8	9	10	11	12	13	14	15	16	17 (4 to16)
1. Balance at 1 January 2019	01	278.011.800				-2.459.483	-43.612.583		2.137.362						234.077.096
2. Effect of error correction	02														0
3. Changes in accounting policies	03														0
4. Restated balance at 1 January 2018 (001+002)	04	278.011.800	0	0	0	-2.459.483	-43.612.583	0	2.137.362	0	0	0		0	234.077.096
5. Issuance of ordinary shares	05														0
6. Issuance of Preferred Shares	06														0
7. Issuance of other equity instruments	07														0
8. Execution or expiration of other issued equity instruments	08														0
9. Converting Debt to Owners instruments	09														0
10. Reduction of capital	10														0
11. Dividends	11														0
12. Purchase of treasury shares	12														0
13. Sale or cancellation of treasury shares	13														0
14. Reclassification of Financial Instruments from equity instruments in liabilities	14														0
15. Reclassification of Financial Instruments from liabilities to equity instruments	15														0
16. Transfers between components of equity instruments	16														0
17. Increase or decrease in ownership instruments as a result of business combination	17														0
18. Share-based payments	18														0
19. Other increase or decrease in ownership instruments	19														0
20. Total comprehensive income for the current year	20					16.317.817	17.950.484								34.268.301
Balance at 31 December 2013 (003+010+011+012+013+016)	22	278.011.800	0	0	0	13.858.334	-25.662.099	0	2.137.362	0	0	0	0	0	268.345.397

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1

a) Comparison of profit and loss account

Statutory financial statements		Supplementary schedules for CNB				
Position name	**Amount in HRK '000**	**Position name**	**AOP code**	**Amount in HRK '000**	**Difference**	**Explanation of difference**
Interest and similar income	93.460	1. Interest income	069	88.840	4.620	HRK -33 thousand of Interest income from placements to non-banking financial institutions is presented w ithin Fees nad commision income for CNB reporting (Note 1), HRK 878 of Cancellation interest w ith premature deliverance of deposit is presented in interest expense in financial statmenets (Note 2), 158 of Interest expense is presented in Interest expense in financial statements (Note 3), HRK 5,373 of Inerest of Financila insturment through other comprensive income is presented under Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss (Note 4)
Interest expense and similar charges	- 15.529	2. Interest expense	070	- 15.443	- 86	HRK -81 thousand of Expenses based on commissions/fees for banking services of residents is presented w ithin Fees nad commision expense for CNB reporting (Note 5) and HRK -724 thousand of Interest expenses banks is presented w ithin Other operating expenses for CNB reporting (Note 6) -158 HRK see Note 3 above, HRK 878 refer to Note 2 above, HEK 1 is rounding difference
		3.Expenses on share capital repayable on demand	071			
		4.Dividend income	072			
Fee and commission income	16.337	5.Fee and commission income	073	5.520	10.817	HRk 33 see Note 1 above, 10,784 of Fee income is present for CNB reporting Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss (Note 7)
Fee and commission expense	- 4.245	6.Fee and commission expenses)	074	- 4.327	82	HRK 81 Refer to Note 5 above, 1 represent rounding difference
Net realised gains from financial assets available for sale	11.957	7.Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	075	5.687	6.270	HRK -246 thousand of foreign exchange differences in relation to dealing w ith foreign currencies reclassified to Exchange differences [gain or (-) loss], net for CNB reporting (Note 8), HRK -6,227 thousand of Realized gain/loss from assets at fair value through other comprehensive income is presented w ithin Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss for CNB reporting (Note 9) 1 HRK is rounding diference
Net gains from translation of monetary assets and liabilities, fixing of CHF rate and foreign exchange spot trading	7.347	8.Gains or (-) losses on financial assets and liabilities held for trading, net	076	7.142	205	
		9.Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	077			
		10. Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	078	-	-	
		11. Gains or (-) losses from hedge accounting, net	079	-	-	
		12. Exchange differences [gain or (-) loss], net	080	246	- 246	Refer to Note 8 above
		13. Gains or (-) losses on derecognition of non-financial assets, net	081	-	-	
Other income	473	14. Other operating income	082	1.656	- 1.183	income from reversal of unused vacation day provision (HRK 54 thousand) included in staff costs in statutory financial statements. (Note 10). and HRK 174 thousand of Income from reversal of provisions for litigation initiated against the bank is presented w ithin Impairment losses and provisions in Financial statements (Note 11) Cost of sale of tangible asset (HRK 951 thousand) netted w ith income from sale in statutory financial statements (Note 12), 878 HRK fefer to Note 2 above, 1 is rounding difference

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1 (continued)

b) Comparison of profit and loss account continued

Statutory financial statements		Supplementary schedules for CNB				
Position name	**Amount in HRK '000**	**Position name**	**AOP code**	**Amount in HRK '000**	**Difference**	**Explanation of difference**
		15. (Other operating expenses)	**083**	- 6.720	6.720	Refer to Note 2, Note 12, Note11, and HRK 4,831 of other expenses is presented in other administrative expenses in financial reporting (Note 13), 213 epenses for unused vacarion is presented as Staff cost in financial reporting (Note14)
Staff costs	- 41.685				- 41.685	HRK -41,527 thousand of expenses for salaties, taxes and contribution and other expenses related to employees are presented w tihin Administrative expenses for CNB reporting (Note 15), HRK 54 thousand refer to Note 10 above, HRK -213 reffer to Note 14 above
Other administrative expenses	- 22.143	17. Administrative expenses	**085**	- 58.838	36.695	HRK 41,527 refer to Note 15 above HRK -4,831 refer to Note 13 above,-1 is rounding difference
Depreciation and amortisation	- 7.724	18. Depreciation	**086**	- 7.724	-	
		19. Modification gains or (-) losses, net	**087**	-	-	
		20. Provisions or (-) reversal of provisions	**088**	- 374	374	HRk 374 of provisions and reversal of provisions for court cases are presented in Impairment losses and provisions in Financial statements (Note16)
Impairment losses and provisions	- 18.242	21. Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	**089**	4.342	- 22.584	Refer to Note 3, Note7, Note 9, Note 11 and Note 16 above
		22. Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates	**090**		-	
		23. Impairment or (-) reversal of impairment on non-financial assets	**091**		-	
		24. Negative goodw ill recognised in profit or loss	**092**		-	
		25. Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates accounted for using the equity method	**093**		-	
		26. Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	**094**	-		
PROFIT (LOSS) BEFORE TAX	**20.006**	**22. PROFIT/(LOSS) BEFORE TAX**		**20.007**	1	HRK 1 represents rounding difference
Income tax expense	- 2.056	**23. INCOME TAX**		- 2.056	-	
LOSS FOR THE YEAR	**17.950**	**24. PROFIT/(LOSS) FOR THE PERIOD**	**095**	**17.951**	**- 1**	

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1 (continued)

b) Comparison of statement of financial position

Statutory financial statements		Supplementary schedules for CNB				
Name of line	Amount in HRK '000	Name of position	AOP code	Amount in HRK '000	Difference	Explanation of difference
ASSETS		ASSETS				
Cash and current accounts with banks	321.679	1.Cash, cash balances at central banks and other demand deposits	001	320.974	-705	
		1.1 Cash on hand	002	33.885	0	HRK -705 thousand of Reservations that are determined on an aggregate basis is presented in Financial statements in Financial investments at amortised cost (Note 1)
		1.2 Cash balances at central banks	003	265.040	0	
		1.3 Other demand deposits	004	22.049	0	
Obligatory reserve with Croatian National Bank and compulsory CNB bills	144.228				144.228	HRK 144,228 thousand of Obligatory reserve with Croatian National Bank and compulsory CNB bills is presented in Financial assets at amortised costs for CNB reporting (Note 2)
Placements with other banks	2.754				2.754	HRK 2,754 thousand of Placements with other banks is presented in Financial assets at amortised costs for CNB reporting (Note 3)
		2.Financial assets hold for trading	005	0	0	
		2.1 Derivatives	006	-	0	
		2.2 Equity instruments	007	-	0	
		2.3 Debt securities	008	-	0	
		2.4 Loans and advances	009	-	0	
		3.Non-trading financial assets mandatorily at fair value through profit or loss	010	0	0	
		3.1 Equity instruments	011	-	0	
		3.2 Debt securities	012	-	0	
		3.3 Loans and advances	013	-	0	
		4.Financial assets designated at fair value through profit or loss	014	0	0	
		4.2 Debt securities	015	-	0	
		4.3 Loans and advances	016	-	0	
Financial assets at fair value through other comprehensive income	449.201	5.Financial assets at fair value through other comprehensive income	017	449.201	0	
		5.1 Equity instruments	018	-	0	
		5.1 Debt securities	019	449.201	0	
		5.2 Loans and advances	020	-	0	
		6.Financial assets at amortised cost	021	1.658.616	0	
Financial investments at amortised cost	46.522	6.1 Debt securities	022	38.239	8.283	HRK 8,283 of Factoring is presented in Loans and advances in CNB reporting (Note 4)
Loans to and receivables from customers	1.449.256	6.2 Loans and advances	023	1.620.377	-171.121	HRK -144,228 thousand refer to Note 2 above, HRK -2,754 thousand refer to Note 3 above, HRK -8,283 refer to Note 4 above, HRK -705 thousand refer to Note 1, HRK -15,101 thousand of Recivables of Noninterest income and Accrued fees on Loans is presented in Other assets in Financial statements (Note 5), -49 HRk of deferred fees is presented in Ohter Llabilitie in financial statement (Note 14) 1 is rounding difference
		7.Derivatives – Hedge accounting	024	0	0	
		8.Fair value changes of the hedged items in portfolio hedge of interest rate risk	025	0	0	
		9.Investments in subsidiaries, joint ventures and associates	026	0	0	
Foreclosed assets	809				809	HRk 809 of Foreclosed assets is Presented in Other assets in CNB reporting (Note 6)
Property, plant and equipment	38.925	10. Tangible assets	027	48.861	-9.936	HRK -9,934 of Tangamble assets presentted in CNB reporting is shown under Right of use assets (Note 7), -2 thousand is rounding difference
Right of use assets	9.934				9.934	Refer to Note 7 above
Intangible assets	7.507	11. Intangible assets	028	7.507	0	
Income tax prepayment	274	12. Tax assets	029	353	-79	HRK79 thousand payemt for other taxes to Tax Goverment is presented in Other assets in Financial statements (Note 8)
Other assets	17.484	13. Other assets	030	3.129	14.355	HRK 79 thousand refer to Note 8, HRK -809 refer to Note 8, HRK 15,101 thousand refer to Note 5 above, HRK -16 of Deffered fees for HBOR is presented in Financial liabilities measured at amortised cost in financial statement (Note 9),
		14. Non-current assets and disposal groups classified as held for sale	031	0	0	
TOTAL ASSETS	2.488.573	15. TOTAL ASSETS	032	2.488.639	-66	

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1 (continued)

b) Comparison of statement of financial position (continued)

Statutory financial statements		Supplementary schedules for CNB				
Name of line	Amount in HRK '000	Name of position	AOP code	Amount in HRK '000	Difference	Explanation of difference
LIABILITIES		LIABILITIES				
		16. Financial liabilities held for trading	033	0	0	
		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	
		17. Financial liabilities designated at fair value through profit or loss	039	0		
		17.1 Deposits	040	0		
		17.2 Debt securities issued	041	0		
		17.3 Other financial liabilities	042	0		
Subordinated liabilities	37.306				37.306	Refer to Note 10 above
Current accounts and deposits from banks and financial in	157.109	**18. Financial liabilities measured at amortised cost**	043	2.189.182	-47.472	Difference of HRK -37,306 thousand of Subordinated liabilities is presented separately in Financial statements (Note 10) HRK -10149 thousand of Payables for income distribution and Fees for deposits snd Llabilities for leasing is presented tatements under Other Liabilities (Note 11), difference -16 HRK see Note 9 above
Current accounts and deposits from customers	1.874.619	18.1 Deposits	044	2.179.123		
Interest-bearing borrow ings	109.982	18.2 Debt securities issued	045	0		
		18.3 Other financial liabilities	046	10.059		
		19. Derivatives – Hedge accounting	047	0		
		20. Fair value changes of the hedged items in portfolio hedge of interest rate risk	048	0	0	
Provisions for liabilities and charges	1.657	**21. Provisions**	049	2.082	-425	HRK -424 of Accruals for unused vacation is presented in Financial statements as Other liabilites (Note 12), -1 HRK represent round difference
		22. Tax liabilities	050	5.263	-5.263	HRK -5.263 of Tax liabilities is presented in Financial statements as Other liabilities (Note 13)
		23. Share capital repayable on demand	051	0	0	
Other liabilities	39.555	**24. Other liabilities**	052	23.768	15.787	HRK 424 refer to Note 12 above, HRK 5,263 refer to Note 13 above, HRK 49 refer to Note 14 above, 10.149 refer to Note 11
		25. Liabilities included in disposal groups classified as held for sale	053	0	0	
Total liabilities	**2.220.228**	**26. TOTAL LIABILITIES**	054	2.220.294	-66	
EQUITY		EQUITY			0	
Issued share capital	278.012	**27. Capital**	055	278.012	0	
		28. Share premium	056	0	0	
		29. Equity instruments issued other than capital	057	0	0	
		30. Other equity	058	0	0	
Fair value reserve	13.858	**31. Accumulated other comprehensive income**	059	13.858	0	
Accumulated loss	- 25.662	**32. Retained earnings**	060	-43.613	17.951	Profit for the year is a separate line of equity for CNB reporting, 1 thousand is rounding difference
		33. Revaluation reserves	061	0	0	
Legal and other reserves	2.137	**34. Other reserves**	062	2.137	0	
		35. (-) Treasury shares	063	0	0	
		36. Profit or loss attributable to owners of the parent	064	17.950	-17.950	Profit for the year is a separate line of equity for CNB reporting.
		37. (-) Interim dividends	065	0	0	
		38. Minority interests [Non-controlling interests]	066	0	0	
Total equity	**268.345**	**39. TOTAL EQUITY**	067	232.873	35.472	
TOTAL LIABILITIES AND EQUITY	**2.488.573**	**40. TOTAL EQUITY AND TOTAL LIABILITIES**	068	2.422.941	65.632	

Appendix 2
Reconciliation of the statutory financial statements with the suplementary schedules for CNB from Appendix 1 (continued)

c) Comparison of cash flow statement

Differences in Cash and cash equivalents arise from different classification of items of statement of financial position for statutory reporting and CNB reporting as well as elimination of non-cash transactions from movements for statutory financial reporting purposes.

d) Comparison of statement of changes in equity

In statutory financial statements loss for the year and accumulated loss are both included in accumulated loss, while they are separately presented for CNB reporting.