PODRAVSKA BANKA

ANNUAL REPORT 2018

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

REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

On the behalf of the Supervisory Board of the Podravska banka and myself, I present you the 2018 business results of the Bank.

In a highly competitive financial environment, the Podravska banka was stable and maintained its position as the leading small bank in the Croatian financial market.

In 2018, positive macroeconomic trends were recorded, with the continuing decrease in the level of general government debt and public debt. Croatian economy grew at a rate of 2.6% with the largest positive contribution from exports of goods and services and personal consumption. The trend of positive trends in the labor market continued, along with the reduction of the unemployment rate, which is largely the consequence of the emigration.

Positive developments were certainly contributed by tax cuts and reduction of administrative burden within the framework of the tax reform that began in early 2017. In order for potential growth rates to continue sustainable growth, it is necessary to implement a long-announced comprehensive structural reform.

In March 2019, after almost seven years, a Croatian credit rating was upgraded to the investment grade. The raised forecast reflects the improved metrics in the budget, backed by the recovery of the economy in the past period due to increase in domestic demand as well as fiscal consolidation measures carried out by the government.

The Croatian economy is solid and balanced. Growth is accompanied by the surplus in the current account of the balance of payments, fueled by a large inflow of tourism revenue. Gross external debt has been reduced by about seven percentage points over the previous year and amounts to about 75% of GDP. In 2019, the global economy is expected to grow by 3.3%, with developing countries being the main contributors. Risks that could jeopardize the predicted global growth rates are primarily related to political risks and the possibility of introducing protectionist measures.

In spite of the challenging market environment, Podravska banka managed to achieve good business results and achieve a net profit of HRK 12.1 million.

By size of assets, the Bank is ranked 11th, while in terms of the size of the total capital it occupies the 9th place, among 21 banks in Croatia. The total assets of the Bank at the end of 2018 amounted to HRK 3.38 billion, an increase of 3.19% over the previous year. Revenues from the Bank's regular operations amounted to HRK 119.2 million.

The Bank remains highly capitalized in relation to the risks to which it is exposed and the regulatory capital ratio at the end of 2018 was 18.22%. Regulatory capital at the end of 2018 is 461.5 million kuna.

During 2018, the Bank continued its activities to improve technological support in all business segments. In the forthcoming period, the Bank will continue to effectively manage the risks by continuous improvement of processes, methodologies, models and controls. The Bank will continue to have a primary focus on the needs of its clients and, accordingly, develop products in order to maintain long-term relationships with clients. It will strengthen commercial activities towards both the civil and corporate sectors, avoiding highly concentrated placements.

Through active risk management, market diversification and quality service improvement, Podravska banka holds its position as a leading small bank in the Croatian banking market. With the further strengthening of commercial activities as well as the optimization of business processes and costs in all business segments, a special emphasis will be placed on the Treasury's operations in the area of investment and securities portfolio management.

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

Miljan Todorovic
Chairman of the Supervisory Board

ANNUAL REPORT OF THE MANAGEMENT BOARD

The Management Board of Podravska banka d.d. presents the results of its operations for the year 2018.

It is estimated that global economic growth in 2018 slowed down moderately from 3.1% to 3%, primarily as the consequence of trade tensions and the slowdown in investments at global level, as well as the pressures of financial markets on specific emerging economies.

Emerging markets played the major role in global growth again, albeit to a lesser extent relative to the previous estimates of the World Bank (–0.3%). In 2019, emerging markets should contribute to global growth at a rate of 4.2%, which is identical to the previous year's contribution, but significantly lower than the earlier estimates.

The slowdown of global growth was mostly evident in Europe, where in the second half of 2018 the slowest growth was recorded in the last several years. In contrast to the global trend, economic activity in the USA increased additionally on the back of personal and government consumption and capital investments, while the contribution of foreign trade was negative.

The price of borrowing of emerging markets is partially the result of the activity of central banks of developed economies, which continued to decrease market incentives in different volumes. In the USA, the central bank (the Fed) continued with the tightening of monetary policy in the previous year and raised the reference interest rate on four occasions during the year, while the ECB kept it steady.

In the Republic of Croatia, the first estimates suggest that in 2018 GDP increased 2.6%. Personal consumption was the component that made the largest contribution to GDP, while exports had a negative impact on the growth rate, as a result of weakening foreign demand. Other macroeconomic indicators also showed positive shifts, so that the registered unemployment rate fell to 8.9% in the last quarter of 2018, in addition to the increase in wages and the rise of inflation of 1.5%.

In 2018, the unemployment rate continued to decrease, and pressures resulting from the increase in unit labour costs strengthened. The general government deficit amount will be conditioned by the outcome of the situation at shipyards for which the Republic of Croatia has issued guarantees, some of which were due for payment at the end of the year. In 2018, the risk premium for the Republic of Croatia shown through the CDS spread remained at almost the same level of about 95.50 bps, and reached the risk level of Central and Eastern European (CEE) countries.

The Croatian banking system remains stable, highly capitalised and liquid. According to unaudited data, the capital adequacy of the system in 2018 stood at 22.9%. In October, OTP banka Hrvatska completed the process of merger by acquisition of Societe General Splitska banka, thus becoming the fourth largest bank in the domestic market. After the merger by acquisition of Splitska banka, 21 banks and 4 housing savings banks operated in the Croatian market at the end of the year.

The Croatian National Bank (CNB) continued to lead an expansionary monetary policy, with operations in the open market to ensure short-term liquidity through regular operations, and long-term liquidity through structural operations for the banking sector. At the end of the year, the central bank issued a total of HRK 1.397 billion of liquidity with the 5-year maturity through a structural operation. In the conditions of high liquidity in the domestic and international markets, as well as due to competitive pressures, interest rates on loans of domestic credit institutions continued to decrease. Favourable financing conditions, consumer confidence, movements in the labour market and the government programme of subsidised housing loans contributed to the acceleration of the annual growth in retail loans, with emphasis on general-purpose consumer loans. In the forthcoming period, monetary policy will maintain its expansionary character. Such an environment will favour the maintenance of favourable financing conditions of the domestic sectors and the continued directing of credit activity towards the private sector. The costs of corporate financing also continued to fall. When compared with the average of the first six months of 2018, the average interest rate on short-term kuna loans without a currency clause fell by 0.4 percentage points in the period from July to October, and held steady below 4%. The interest rates on retail loans on average also continued a downward trend. The average interest rate on long-term loans with a currency clause, excluding housing loans, fell sharply in the period from July to October. The continued several-year trend of more favourable conditions for corporate and retail financing was still due to the very high liquidity in domestic and international financial markets, and the continued fall in the costs of funding sources of the Croatian banking system. Throughout 2018, in addition to interests on loans, interest rates on term deposits of individuals continued to fall.

As regards 2019, global growth is expected to slow down to 2.9 percent. International trade and investments are decreasing, trade tensions are still high and financing conditions are tightening. Amid the recent episodes of financial stress, growth in emerging markets and developing economies lost momentum and it is estimated that this year it will fall to 4.2 percent, with a weaker than expected recovery of the exporters of goods and the slowdown of the importers of goods. Negative risks, with regard to growth prospects, have become more acute. Pressures on financial markets and trade tensions might escalate and affect global activities.

In 2019 in the Republic of Croatia, economic activity is expected to hold steady at 2.7%. Growth of gross fixed capital formation might intensify noticeably, particularly in view of the assumed stronger general government investments driven by a stronger utilisation of EU funds. Personal consumption growth might also be accelerated by the steady rise in employment and wages and tax disburdening. Relatively favourable trends in the labour market will push the unemployment rate down further, so that it might drop to 7.2% of the labour force in 2019. Though sluggish economic activity in Croatia's main trading partners might lead to a slightly lower growth rate in exports of goods and services than in 2018, foreign demand has remained one of the main drivers of economic growth in Croatia. The growth in government consumption is also expected to decelerate, due to the slower increase in the number of civil servants and government employees.

Podravska banka has achieved a good business result in the above described macroeconomic environment. In the 2018 financial year, Podravska banka continued enhancing its commercial efforts in the entire territory of the Republic of Croatia. The Bank continued the activities to improve and develop products and services and worked on an ongoing basis at optimising its operating costs.

In terms of assets, at the end of 2018, the Bank ranked 11th, and in terms of total capital, it ranked 9th of a total of 21 banks in Croatia. At the end of 2018, the Bank's total assets amounted to HRK 3.38 billion, which is an increase by 3.19% than in the prior year.

Total customer deposits increased by 1.35% year-on-year and amounted to HRK 2.45 billion. Retail deposits in the total deposits increased by 1.8% from 2017. Retail deposits accounted for 77.85% and corporate deposits represented 22.15% of total customer deposits.

In the field of credit operations, total gross loans to customers were up by 5.69%, with retail loans up 13.77%, while corporate loans increased by 0.8%. The shares of loans to individuals and corporate customers of the total loans changed from the previous year, with the first having increased by 2.6 percentage points and accounting for 40.6%, and the latter decreased and represented 59.4% of total loans.

The Bank remains highly capitalised considering the risks to which it is exposed, with a regulatory capital rate of the high 18.26% at the end of 2018. The regulatory capital at the end of 2018 amounted to HRK 461.4 million. As regards the capital structure, Core Tier 1 capital amounts to HRK 375.6 million, and Tier 2 capital in the form of subordinated bonds amounts to HRK 85.821 million.

The income from Bank's regular operations stood at HRK 119.2 million. Net interest income accounted for 65%, net fee and commission income represented 19%, while other income accounted for 16% of operating income, which mostly referred to financial income. The profit for the year amounts to HRK 12.11 million.

In 2018, the Bank continued to work on improving the IT support in all business segments, including qualitative improvements to risk management. In risk management, or more precisely in credit portfolio validation, the Bank adjusted its operations to the new IFRS 9 standards.

The risk management framework has been designed in accordance with regulatory quantitative and qualitative requirements, through the system of internal acts, organisation and control mechanisms, which include risk concentration, validation and assessment as well as the risk appetite by individual business segments.

The Bank seeks to manage its risk effectively by continuously improving its processes, methodologies, models, controls and systems.

In the forthcoming period, the Bank will further try to strengthen its commercial activities, in particular towards the retail, but also towards the corporate sector, at the same time avoiding highly concentrated placements.

As in previous business years, the contribution of the Financial Markets Division will play the key role, primarily with the aim of ensuring sufficient liquidity and sources of funding for a continued and stable operation of the Bank. Apart from managing the securities portfolio and the currency structure of the balance sheet, the Financial Markets Division will be involved in the process of developing new financial products to expand the scope of operations and reduce the Bank's financing cost.

The Bank will remain committed to meeting the needs of its customers and developing its lines of products and services with the aim of maintaining long-term customer relationships.

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

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

President of the Management Board
Goran Varat


Kornati

DESCRIPTION OF OPERATIONS

GLOBAL ECONOMY IN 2018

After the dynamic growth recorded in the second half of 2017, global economic growth started to decelerate in 2018. The growth slowdown was increasingly pronounced during the current year as uncertainty at a global level grew due to rising trade tensions and political risks. This was particularly seen in the euro area, which in the third quarter of 2018 recorded the slowest growth in the past several years. The slowdown in economic activity and the absence of any very significant increase in the prices of raw materials kept global inflation at a relatively low level. Due to accommodative monetary policies, still prevailing in the majority of large economies, financing conditions remained relatively favourable, with the exception of several very unstable emerging markets.

In contrast to the global trend, economic activity in the USA increased additionally in 2018. American economic growth reached 3.0% in the third quarter as personal and government consumption and capital investments provided a boost to its acceleration. On the other hand, the negative contribution of foreign trade increased. The robust labour market continued to support personal consumption. A contribution to the growth of domestic demand came from the tax reform and the transfer of gains from the previous periods from the rest of the world to the USA, which were driven by tax changes. Inflation, which stood at 2.4% in October 2018, did not threaten the foreseen dynamics of further monetary policy tightening.

Following a slight deceleration in the second quarter, the growth of the euro area economy slowed down additionally in the third quarter and stood at 1.7%, the lowest rate since 2014. Slower growth was broadly based among member states, including Germany, Italy and the Netherlands, while growth accelerated in a small number of countries. In the case of Germany, the slowdown can partially be attributed to temporary factors related to the adjustment of the automobile industry to new environmental rules, while the other sectors of the leading European economy, e.g. construction, also decelerated. In Italy, however, political uncertainty started to have a negative impact on business and consumer sentiment and caused concern with regard to the sustainability of public finance and overall macroeconomic stability in the country.

Increased global uncertainty and volatility in financial markets do not benefit either the developing or emerging market economies. Thus, the economic crisis in Latin American countries was further exacerbated during the third quarter, while in Turkey a currency crisis broke out in August, after which the economy entered a recession. Large Asian emerging market economies saw the continuation of relatively favourable developments, despite the tightened trade relations with the USA. Russia also continued to recover and higher crude oil prices than in the previous year were also favourable to other oil-exporting countries.

As regards global economic activity, IMF projections suggest that global economic growth could stand at 3.7% and 3.5% in 2018 and 2019 respectively. However, global growth is becoming less balanced and more exposed to uncertainty and negative risks. Global economic growth is increasingly generated by emerging market countries, which will continue to grow twice as fast as the developed countries in the projection period. By contrast, developed countries are heading towards a further slight deceleration of growth. As demand from developed countries is weakening and the growth of the prices of raw materials is limited, no significant acceleration of inflation is expected in the forthcoming period. Financing conditions should remain relatively favourable in the majority of the countries.

As regards Europe, the IMF estimates that economic growth could slow down to 1.8% and 1.6% in 2018 and 2019 respectively from 2.4% in 2017. Economic growth will slow down gradually due to weaker foreign demand under the negative impact of the heightened trade tension and the anticipated appreciation of the euro. Growth will continue to be driven mostly by personal consumption and investments. Thanks to the recent price movements, the inflation estimate in the euro area is slightly increased for the current year, but due to low inflationary expectations it might remain below the ECB target during the projection period.

Economic growth in the USA could reach 2.9% in 2018, the highest growth rate in the past few years. According to IMF projections, the growth might slow down subsequently to 2.5% in 2019. Growth slowdown is mainly expected due to the gradual wearing off of the positive impact of the 2017 tax reform since some of the measures are temporary. In addition, the negative effects of higher import duty might spill over to corporate sector earnings and reduce the room for investments. In addition to the negative contribution of foreign demand to US economic growth and pressures on the real appreciation of the exchange rate of the dollar, the foreign trade deficit is expected to deepen, which could continue to heat up trade tensions.

CROATIAN ECONOMY IN 2018

The available monthly indicators for the fourth quarter of 2018 point to a further slowdown in economic activity growth on a quarterly level, with the expectations for real GDP growth in 2018 as a whole standing at 2.7%. Consumer price inflation fell from 1.3% in November to 0.8% in December, mostly as a result of a considerable fall in the annual rate of change in the price of petroleum products. The CNB continued to pursue an expansionary monetary policy and, amid pronounced appreciation pressures, continued to purchase foreign exchange from the banks. This resulted at the end of December in the highest ever level of banks' free reserves. The annual growth of bank placements slowed down at the end of December, reflecting a slowdown in corporate lending and the fact that retail lending held steady at the previous month's level.

According to CNB estimates, economic activity increased only slightly at the end of 2018 from the previous quarter, despite unfavourable developments in industry. In the last quarter of last year, industrial production continued to fall (by 1.2% from the last quarter's average). Broken down by main industrial groupings, production of capital goods fell the most and unfavourable developments were also recorded in all other components except non-durable consumer goods. In addition, total construction activity also fell slightly in October and November (down 0.2% from the third quarter average). Data show further acceleration in civil engineering works, however this was not sufficient to compensate for the fall in construction works on buildings which recorded a fall on a quarterly level for the first time since mid-2016. By contrast, the same period saw a fast growth in real retail trade turnover (2.0%), which suggests the temporary character of stagnant developments in trade in the third quarter.

The results of the consumer confidence survey show that household expectations held steady from October to December 2018 at the average third quarter level, with the confidence index rising towards the end of the year. Throughout 2018, consumer confidence held steady on average at the high levels achieved at the beginning of the year. Consumer expectations regarding household financial situations were slightly more favourable in the fourth quarter than at the beginning of the year, while the expectations regarding the economic situation in Croatia were slightly less so. Business entities' expectations were higher in the fourth quarter of 2018 than in the previous three months in all activities except trade. However, the level of confidence remained lower in all activities, except construction, than at the beginning of the year.

Favourable developments in the labour market continued in the fourth quarter of 2018 at a somewhat faster pace than during the previous three months. As a result, the total number of employed persons rose by 0.7% from the previous quarter. The number of employed persons rose in all activities, except in financial and insurance activities with the biggest contribution to total growth being the increase in the number of employed persons in the public sector and other service activities. Unemployment continued to decrease, driven slightly more by employment from the Croatian Employment Service (CES) register than clearings from the records for the reasons other than employment (non-compliance with legal provisions, registration cancellation and failure to report regularly).

After falling by a slight 0.3% in November, consumer prices in December fell by 0.8% from the previous month. The December fall in prices was mostly driven by the seasonal discounting of clothing and footwear prices, and, similarly as in November, the fall in retail prices of petroleum products (due to a fall in crude oil prices on the global market).

The annual overall consumer price inflation rate fell from 1.3% in November to 0.8% in December. This was mostly due to a slowdown in the annual growth in energy prices (as a result of the mentioned considerable fall in the price of petroleum products).

The exchange rate of the kuna against the euro was exposed to appreciation pressures for most of December. To mitigate excessive strengthening of the kuna, the central bank intervened strongly in the foreign exchange market, purchasing at three interventions a total of EUR 1.1 billion from the banks. In the last ten days of December, the nominal exchange rate of the kuna against the euro depreciated and stood at EUR/HRK 7.42 at the end of the month, the same as at end-November, having fallen 1.3% from the end of 2017 when it stood at EUR/HRK 7.51. In December, the kuna depreciated slightly against most other currencies within the currency basket for the calculation of effective exchange rates, but this was offset by the strengthening of the kuna against the Turkish lira, American dollar and pound sterling, reflecting the strengthening of the euro against these currencies on the global foreign exchange market.

Influenced by the expansionary monetary policy of the ECB and high euro area banking system liquidity, short-term interest rates on the European money market remained in negative territory until the end of 2018. The overnight interest rate on the euro area banking market, EONIA, ended the month of December at −0.36%, and the six-month EURIBOR at −0.24%. The risk premium for European emerging market countries did not change significantly over the last quarter of the previous year. At the end of 2018, the risk premium for Croatia of 96 basis points remained almost the same as the year before.

The liquidity of the domestic banking system, fuelled by the expansionary monetary policy of the CNB, reached its record high. A total of HRK 8.0 billion was created in December by purchases of foreign exchange from the banks, which contributed to a record surplus of kuna liquidity of HRK 33.2 billion at the end of 2018. At the level of 2018 as a whole, the average surplus kuna liquidity stood at HRK 24.9 billion, and for the sake of comparison, a year before it stood at HRK 15.1 billion. Amid such conditions, no turnover has been recorded on the domestic interbank overnight market since July 2018. The interest rate on one-year kuna T-bills without a currency clause at the auctions of the Ministry of Finance stood at 0.09% in December, the level that had held steady since February of the same year. The interest rate on one-year kuna T-bills with a currency clause in euro also remained unchanged, standing at 0.00%, the level that had held steady since May 2018.

General government surplus rose from July to September to HRK 5.4 billion, from HRK 4.0 billion in the same period of 2017. Such developments reflect a faster growth in total revenues than in expenditures. Total general government revenues thus increased by 8.6% in the period from July to September, largely due to a noticeable strong positive contribution of VAT (spurred by growth in personal consumption and favourable results in tourism), and growth in most other revenue categories. Total expenditures also grew (6.1%), mostly driven by expenditures for intermediate consumption and social benefits and investments, which brought to a halt the negative contribution of capital investments to changes in total expenditures present for the five consecutive quarters.

According to monthly data of the Ministry of Finance, in October and November a surplus of HRK 2.1 billion was generated on central government level, while, for purposes of comparison, the surplus generated in the same period of the previous year stood at HRK 0.2 billion. The increase in the surplus reflects a faster growth in revenues than in expenditures. Nevertheless, the available data point to a possible widening of the general government deficit in the fourth quarter on an annual level due to the payment of government guarantees issued to shipyards. At the end of October 2018, the consolidated general government debt stood at HRK 280.3 billion, a decrease of approximately HRK 3 billion from the end of 2017, deriving partly from the appreciation of the exchange rate of the kuna against the euro in the observed period. Favourable fiscal developments, coupled with a growth in the gross domestic product led at the end of October to a fall in the public debt to GDP ratio to 74.1%, from 77.5% at the end of the previous year. In early January 2019, the interest rates on kuna T-bills at Ministry of Finance auctions held steady at low levels, suggesting further favourable conditions and high liquidity on the domestic financial market.

CROATIAN MACROECONOMIC INDICATORS

	2018	2017	2016	2015
GROSS DOMESTIC PRODUCT, HRK BILLION AT CURRENT PRICES	381.8	365.4	351.3	339.6
GROSS DOMESTIC PRODUCT (GDP), % CHANGE	2.6	2.9	3.5	2.4
GDP PER CAPITA, IN EUR	12,594	11,882	11,180	10,616
PERSONAL CONSUMPTION, % CHANGE	3.2	3.8	3.5	1.0
PUBLIC CONSUMPTION, % CHANGE	3.3	1.7	1.9	(0.9)
INVESTMENTS, % CHANGE	3.7	4.2	5.3	3.8
EXPORTS OF GOODS AND SERVICES, % CHANGE	3.6	6.6	5.6	9.4
IMPORTS OF GOODS AND SERVICES, % CHANGE	5.1	8.5	6.2	9.2
INDUSTRIAL PRODUCTION, % CHANGE	−0,4[1]	1.4	5.3	2.7
UNEMPLOYMENT RATE (ILO) (% OF ACTIVE POPULATION)	9.0[1]	11.2	13.1	16.2
CONSUMER PRICES, % CHANGE	1.5	1.1	(1.1)	(0.5)
GENERAL GOVERNMENT BUDGET BALANCE (% GDP)	0.2[1]	0.71	(0.9)	(3.3)
BALANCE OF PAYMENTS ON CURRENT ACCOUNT (% GDP)	2.9[1]	4.0	2.6	4.5
EXTERNAL DEBT (% GDP)	75.1	81.8	89.3	101.7
CURRENCY EXCHANGE RATE: EUR, YEAR AVERAGE	7.41	7.46	7.53	7.61

Data source: Croatian National Bank
[1]Estimate – Addiko Economic Research

DESCRIPTION OF BANK OPERATIONS

PRODUCTS AND SERVICES

Consumer expectations, changes in the market environment and competition were the main determinants that shaped the activities of improvement and management of Bank's products and services in 2018.

In accordance with the strategic guidelines of operation, intensified commercial activities continued, directed at the retail and small and medium-sized enterprises (SME) sectors.

Despite the strong competition and regulatory pressures (IFRS 9, PSD 2...), which generate large costs and impact the profitability, the Bank realised growth in the strategic segments of operations.

The ongoing monitoring of market trends helped identify positive movements in individuals' consumption (as a result of lifting the tax burden on personal income, the higher GDP, the good tourist season, etc.), which the Bank has recognised as an opportunity for growth.

Growth continued, in particular in the segment of retail loans, through larger investments in promotion, continuous monitoring of competition and adjustments of the requirements of the existing products to growing consumer demands.

The Bank participated in the programme of the Real Estate Agency (APN) for the financing of the purchase of real estate, i.e. the building of houses through subsidised housing loans, as an assistance measure of the Government of the Republic of Croatia facilitating the meeting of Croatian citizens' housing needs through the repayment of a part of housing loans. The Bank continues its participation in the programme in 2019, and it has also engaged in similar local programmes of subsidised housing loans.

In cooperation with the Ministry of Tourism and the Croatian Bank for Reconstruction and Development (HBOR), the Bank has also been active in the programme of lending to private accommodation rentals. The objective of the programme is to harmonise the standards of accommodation facilities in which hospitality services are provided by households, raise the overall level of quality and additional private accommodation offer and to improve the occupancy rates and strengthen year-round tourism.

In 2018, the Bank worked intensively on improving its products and services. Thus, in addition to the existing functionalities of Mastercard Standard and Gold credit cards (revolving and delayed payment), it introduced the option of purchase in instalments, which enables a subsequent distribution of expenses to up to 24 instalments.

In 2018, several projects were launched in the segment of card operations: the implementation of additional authorisation for card transactions (Mastercard, Maestro and VISA) during online purchase (3D Secure Issuing service), the implementation of Mastercard ABU mandate and the migration of Bank's cards to the contactless functionality (Mastercard, Maestro and VISA).

With the introduction of the PAD (Payment Accounts Directive) regulation, customers are also offered the service of switching accounts from another bank – simply and free of charge.

The Bank continues receiving deposits from German citizens using a web-based platform it operates together with Raisin GmbH (ex Saving Global GmbH), a market leader in this type of business in the German market. This allows German customers to invest their funds in EU member states through a sophisticated online platform. The deposits have a positive impact on the maturity profiles of the Bank's deposits, as German depositors are known to invest the surplus funds in a diversified manner and over longer terms.

In addition to a continued strengthening of operations with individuals, the Bank has further strengthened its operations with the SME segment of customers in 2018.

By renewing the framework credit programmes for working capital and investments directed at the SME market, the Bank has continued its good business cooperation with HBOR, supporting entrepreneurs in implementing their entrepreneurial projects, which bring new jobs and create added value. The Bank and HBOR cooperate in many specialised credit programmes, which are also designed for SMEs.

In 2018, in cooperation with the Croatian Agency for SME, Innovation and Investments (HAMAG-BICRO), the Bank signed the Financial Agreement for issuing individual guarantees for rural development, financed from the EU Agricultural Fund for Rural Development and intended for SMEs that invest in projects in accordance with the Rural Development Programme of the Republic of Croatia for the Period 2014-2020.

The guarantee programme, in accordance with the Agreement, will be implemented in 2019 and 2020, and it will provide significant assistance to the segment of small and medium-sized entrepreneurs in strengthening collateral coverage and a better acceptance of investment projects by the Bank.

The Bank also uses the credit programmes under Measure 1 – A Credit to Competitiveness in cooperation with the Ministry of Entrepreneurship and Crafts and counties, which it will continue to implement in 2019. By joining business cooperation and the financing of subsidised credit programmes with state institutions, local government and self-government, the Bank has expanded a good quality and long-term sustainable customer base and focused on creditworthy customers with good entrepreneurial ideas, i.e. investments in entrepreneurs' capital assets and working capital.

The objective of the programmes, supported by the Croatian government, is to enhance the competitiveness of the Croatian economy.

The Bank increasingly engages in the financing of projects from certain growing activities, such as tourism, since the indicators of growth and development of tourism in Croatia guarantee success of such projects. The Bank supports the projects that are appropriate for its capacities in terms of the amount of financing, located at top locations and that are profitable within a short or medium term.

The business environment, driven by technological development, is changing at a very fast rate.

In considering the fact that digitalisation is the next area of real competition in the financial market, the digital strategy is becoming the key part of the business strategy of the Bank in the following years.

Since today's consumers demand a simple and modern interaction with the Bank, the Bank's aim is to enhance their user experience (through a fluid use of all distribution channels), and to optimise the business processes.

In addition to a competitive offer, a recognisable brand and a stable customer base, we continue to develop our operations to improve the products and services portfolio and business processes, as well as to develop and integrate all of the Bank's digital channels.

DEPOSIT OPERATIONS

At 31 December 2018, total customer deposits stood at HRK 2.45 billion and increased by 1.35% from 2017.

According to the maturity structure, relative to the end of the previous year, demand deposits increased noticeably by 28% (totalling HRK 1.24 billion), and term deposits decreased by 16.7% (totalling HRK 1.20 billion), which is the direct consequence of the historically low interest rates present in the Croatian market in 2018.

If the structure of received deposits is analysed by sector, at 31 December 2018, corporate deposits stood at HRK 5.42 million and retail deposits amounted to approximately HRK 1.91 billion.

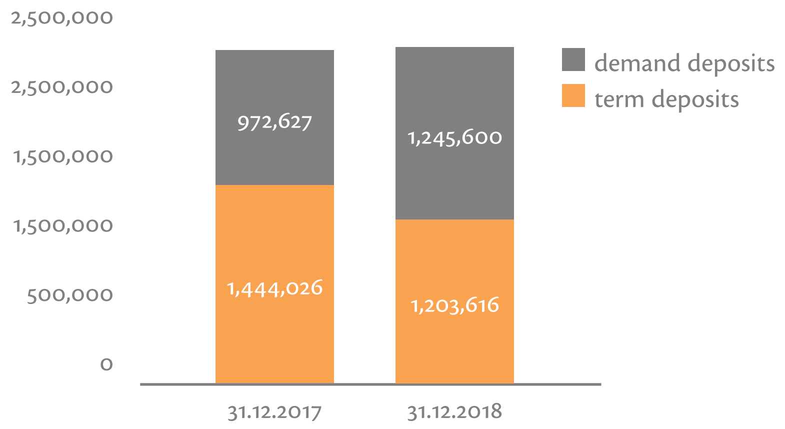
In 2019, the Bank intends to stimulate the receipt of new retail deposits of longer maturities and encourage its customers to engage in the alternative forms of investments, such as the purchase of bonds, with the aim of broadening the offer and tying the new and the old customers to the Bank.

CUSTOMER DEPOSITS, AMOUNTS IN HRK 000	31/12/2018	31/12/2017	CHANGE 2018/2017
RETAIL	1,906,698	1,872,969	1.80%
CORPORATE	542,518	543,684	−0.21%
TOTAL DEPOSITS	**2,449,216**	**2,416,653**	**1.35%**

CUSTOMER TERM DEPOSITS, AMOUNTS IN HRK 000	31/12/2018	31/12/2017	CHANGE 2018/2017
RETAIL	1,047,987	1,216,305	−13.84%
CORPORATE	155,629	227,721	−31.66%
TOTAL TERM DEPOSITS	**1,203,616**	**1,444,026**	**−16.65%**

CUSTOMER DEMAND DEPOSITS, AMOUNTS IN HRK 000	31/12/2018	31/12/2017	CHANGE 2018/2017
RETAIL	858,711	656,664	30.77%
CORPORATE	386,889	315,963	22.45%
TOTAL DEMAND DEPOSITS	**1,245,600**	**972,627**	**28.07%**

CUSTOMER DEPOSITS, IN HRK 000



LENDING

Despite the complex situation in the banking market in terms of competition and the continued trend of decreasing lending interest rates, Podravska banka continued the upward trend in placements in 2018, thanks to the intensified activities in the retail and SME segments, aimed both at acquiring the target groups in the market and keeping the existing ones.

The operation in 2018 was marked by the additional restructuring of the market, which started to stabilise after the extraordinary management procedure at the Agrokor Group.

The Bank recognised new opportunities in the market and turned to the acquisitions of new SME customers and factoring transactions related to tourism, environmental protection, the renewable sources of energy and pharmaceutics, exporters and activities for which financing has been ensured in advance, transactions with the government as debtor, etc.

The outreach towards SME customers marked a qualitative improvement in the Bank's portfolio, intended to serve as a guideline and focus in the forthcoming period. In addition, the SME market, although being more complex, brings more opportunities for long-term business cooperation through individual approach and offers a better risk dispersion.

The Bank primarily cooperates with big business systems by offering non-risk products and services, while possible placements are preferred in the domain of factoring or supporting short-term transactions based on commercial contracts.

In the retail segment, in addition to cash loans, housing loans and loans for settling the liabilities with other banks, 2018 was marked by the demand for tourist loans, investment maintenance and energy efficiency project funding loans for multi-storey buildings, which the Bank identified as an additional opportunity to acquire new customers, both individuals and businesses engaged in residential facility management.

At 31 December 2018, total gross loans to customers were approximately HRK 2.08 billion, or 5.7% higher than at the end of 2017.

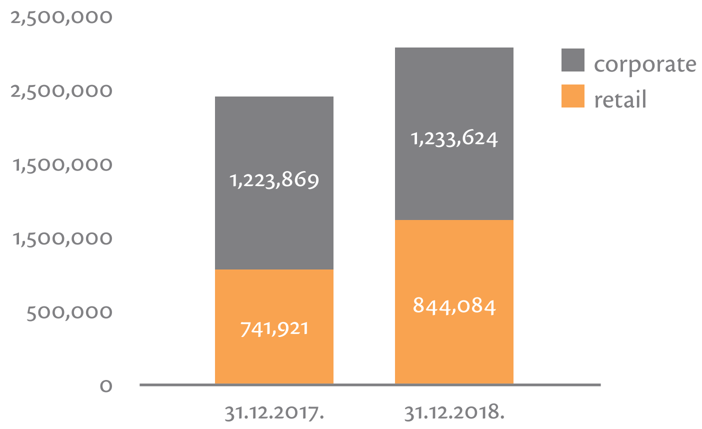
If analysed by sector, at 31 December 2018, corporate loans stood at HRK 1.23 billion and retail loans stood at HRK 844 million.

A slight growth in loans to corporates of 0.80% was observed in 2018, which was the result of market recovery and demand for structured loans that support new investments in housing construction, tourism and energy.

Retail loans grew 13.8% from the end of the previous year, in which cash general-purpose loans and loans for the settlement of credit obligations with other banks accounted for the largest number of granted loans.

TOTAL LOANS TO CUSTOMERS, AMOUNTS IN HRK 000			**CHANGE**
	31/12/2018	**31/12/2017**	**2018/2017**
TOTAL LOANS, GROSS	2,077,708	1,965,790	5.69%
OF WHICH RETAIL	*844,084*	*741,921*	*13.77%*
OF WHICH CORPORATE	*1,233,624*	*1,223,869*	*0.80%*
TOTAL LOAN PROVISIONS	−243,062	−253,098	−3.97%
TOTAL LOANS, NET	1,834,646	1,712,692	7.12%

LOANS TO COSTUMERS, IN HRK 000



FINANCIAL MARKETS DIVISION

The Financial Markets Division continued to decrease the interest rate levels and expand the maturities of the sources of funding, mainly by reducing the interest rates on term deposits in the treasury portfolio and utilising the funding mechanisms made available by the Croatian National Bank through structural operations. The only exemption were interest rates on deposits in USD, where interest rates were raised.

The surplus of the kuna-denominated funds was invested mainly in cash funds, government bonds in the capital market and, to a lesser extent, reverse repo transactions with money-market participants.

In 2018, cooperation was continued with Raisin GmbH, a partner company based in Berlin, through which the Bank continued the acceptance of savings from the Republic of Germany.

Debt securities account for 71.2% of the total securities portfolio, followed by investments in the units/shares of investment funds, which account for 21.9%, while equity investments make up 6.9% of the total securities portfolio.

At 31 December 2018, the market value of the debt securities portfolio of Podravska banka amounted to HRK 506.2 million, and at 31 December 2017, it was HRK 284.6 million. The currency structure of the portfolio of debt securities shows the prevalence of kuna-denominated instruments (60%), followed by EUR-denominated debt securities (22%) and USD- and CHF-denominated instruments with the respective shares of 14% and 4%. By geographic exposure, the majority of the portfolio consists of issuers based in Croatia, followed by those from Western Europe and CEE.

At 31 December 2018, customer assets under custody stood at HRK 815.48 million, of which HRK 118.44 million are funds originating from the Croatian market, assets worth HRK 17.28 million are in the territory of Montenegro, and those in the amount of HRK 679.76 million are other foreign assets.

PAYMENT OPERATIONS

Safe, fast and cheaper are the main characteristics of the payment services carried out by the Bank's customers with full confidence through the Bank's network of branches, ATMs, day-night safety vaults, in the network of FINA branches, through online and card payments. Cash payments are replaced by contactless payments, online and mobile banking, in which Podravska banka has been recording continued growth.

Total payment operations to external customers on all payment system channels reached HRK 18.7 billion, or more than 3.1 million payment orders made. Thus, the Bank recorded an increase in the number of executed payment transactions by 4% from 2017.

There was a significant increase in payment orders of customers made using the POBA*klik* service. Domestic payment operations recorded an increase of 7.4% of the number of payment transactions executed. The number of active business customers engaged in cross-border and international payment operations increased by 34% from 2017, which led to the increase of 5.7% of payment transactions executed in cross-border and international payment operations using the POBA*klik* service.

In 2018, the Bank successfully implemented the contracted migration of customers to the new SEPA direct debit payment scheme, which is applied in 34 EU member states and Island, Lichtenstein, Norway, Switzerland, Monaco and San Marino. This has enabled the Bank's customers to execute payment transactions in accordance with single standards, rules and procedures within the EU.

The business cooperation with Euroclear Bank Brussels continued successfully in 2018, especially in the settlement services and the depositary services involving equity and debt securities from the Bank's portfolio, brokerage and custody services. The value of the executed settlements of purchase or sale of securities on the above transactions stood at EUR 148 million.

In Croatia, the Bank was an active participant in the capital market, with the payment transactions executed through Central Clearing and Depository Company, worth slightly over HRK 594 million, which is an increase of 47% compared with 2017.

In accordance with its strategy and set business plans, the Bank actively invested in foreign and domestic funds, buying and selling units/shares. Based on these transactions, the turnover was HRK 128 million and EUR 14 million. The total settlements of contracted purchases and sales of securities from the Bank's portfolio, brokerage and custody operations exceeded HRK 1.9 billion of the Bank's payment operations.

Particular attention is paid to the costs of payment operations, fostering cooperation with other payment system participants and following the trends in the market, the Bank has offered favourable fees for payment services to its customers. Customer satisfaction stems from the larger number of payment transactions and the opening of new transaction accounts.

The fast development of new electronic services and the changing regulatory rules create new room for changes in customer habits and expectations, primarily with regard to digital banking. For this reason, in the last quarter of 2018, the Bank initiated a project to align online and mobile banking with the PSD 2 EU directive, which opens the Bank up to third parties, fin tech companies, for the initiation of payment transactions and provides an overall view of the payment account balances. The alignment with this directive is particularly interesting for clients because it is more cost efficient, accessible 24/7 and raises the level of security and authentication of payments.

BUSINESS NETWORK AND DIRECT CHANNELS

At the end of 2018, the Bank's sales network consisted of a total of 22 branches spread almost all over Croatia.

Apart from the well-developed sales network, the Bank is also available to its customers through other distribution channels – POBA*klik*, e-banking and mPOBA, ATMs, day-night safety vaults and EFTPOS terminals.

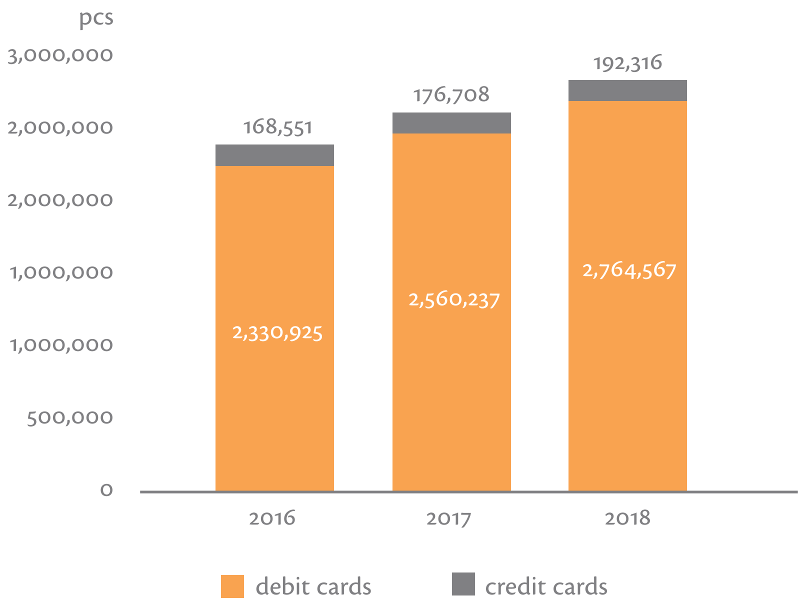
Business information is also available to the users of Bank's services through the Info Centre.

The Bank's ATM devices accept Maestro, MasterCard, VISA, American Express and Diners Club cards. Apart from the Bank's own ATM network, the Bank offers its customers free-of-charge cash withdrawals at over 1,000 ATMs within the MB NET throughout Croatia.

The Bank has 556 installed EFTPOS terminals. In 2018, 693 thousand transactions were executed through the Bank's own EFTPOS terminals, or 1,246 transactions per EFTPOS terminal on average.

The number of transactions executed using debit and credit cards is increasing. At the end of 2018, compared to the previous year, the number of transactions executed using debit cards increased by 8%, and the growth of transactions executed using credit cards stood at 9%.

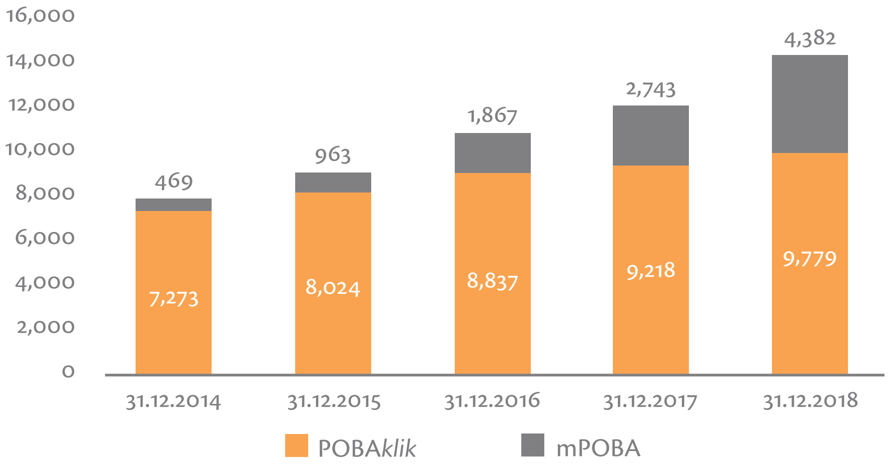
NUMBER OF CARD TRANSACTIONS



The number of the online banking (POBA*klik*) service users increased by 6% at the end of 2018 compared with the previous year.

The number of users using mobile banking also increased by almost 60% from the prior year.

NUMBER OF USERS OF ELECTRONIC SERVICES



In the future, customer needs and preferences will be covered by all types of distribution channels integrated.

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

ORGANISATION AND STAFF

At 31 December 2018, Podravska banka had 221 employees. The average age of employees was 46, with female employees accounting for 71.0% of the total staff, and over 46% of the total number of employees have university undergraduate and graduate degrees. The front-office staff account for 60% of the Bank's employees.

The Bank optimises its business processes continually by implementing new software into the existing applications, which in addition to certain organisational changes in the operations, results in the improvements of business processes, increased efficiency and optimised operations.

The Bank pays particular attention to the continuous education and professional training of its employees by arranging various forms of in-house training courses and externally organised seminars.

In 2019, the Bank intends to continue investing in the advanced training of its staff and potentially hire competent professionals, mainly in the sales, risk management and IT areas.

CAPITAL

The Bank's shareholders' equity, net of the 2018 profit, amounts to HRK 427.7 million. This represents an increase of HRK 3.6 million, or 0.8% in total capital compared to the prior year.

The Bank's shareholders' equity accounts for 13% of the total sources of funding.

At the end of 2018, the share capital amounted to HRK 267.5 million and consisted of 668,749 ordinary shares, each with a par value of HRK 400.00.

At 31 December 2018, the Bank held 1,153 treasury shares.

A group of the Bank's foreign equity holders (both private individuals and legal persons), considered to form a whole, held 86.17% of the Bank's shares. No significant changes were recorded in the Bank's shareholder structure in 2018.

The Bank's regulatory capital at the end of 2018 amounts to HRK 461.5 million, of which HRK 375.7 million represents Core Tier 1 capital and HRK 85.8 million is Tier 2 capital. Tier 2 capital includes a respective share of subordinated bonds in the amount of HRK 96.7 million.

The capital adequacy ratio (CAR) is 18.22%.

PROFIT AND LOSS ACCOUNT

In the current financial year, the Bank generated a pre-tax profit of HRK 15.3 million, with a net profit for the year of HRK 12.1 million.

Operating income generated in the current year is 12.4% lower than in the previous year and totals HRK 119.2 million.

Net interest income increased by 1.9% from the previous year, with a noticeable decrease of interest expenses. Interest income decreased by 9.8%, and savings were achieved in interest expenses, which decreased 35.7% compared with the expenses of the previous year. Despite the larger volume of corporate loans, interest rates decreased due to the decrease in interest rates in the market, which had the largest impact on the total decrease in interest income.

In the retail loans segment, the generated interest income was higher than in the previous financial year, while lower interest charge was reported equally in all segments of deposit operations.

Net fee and commission income generated in 2018 stood at HRK 22.7 million, or down by 2% from the previous year. Payment operations charges and charges for card operations increased slightly, while at the same time income from lending charges and trading in securities decreased.

Net interest income accounts for 65.2% and net fee and commission income represents 19.0% of the Bank's operating income. Net income on the sale of securities, net FX trading gains and other income account for 15.8% of the total operating income. Other net income of HRK 18.9 million consists mainly of net gains on securities of

HRK 5.3 million and income from the purchase and sale of foreign currencies of HRK 5.4 million.

Operating expenses, which include depreciation and amortisation, decreased by 2.5% compared to the previous year and amounted to HRK 92.2 million.

The impairment and provision charge stood at HRK 11.7 million for 2018 and were considerably lower than in 2017. The costs of provisions on customer loans account for the largest share in the amount of HRK 9.7 million and the costs of provisions for off-balance sheet potential liabilities in the amount of HRK 1.4 million.

Costs of materials and services account for 50.3% and staff costs account for 49.7% of administrative expenses.

At the end of 2018, the share of provisions in gross loans was 11.7%, while at the end of 2017 it was 12.9%.

MANAGEMENT AND GOVERNANCE

Corporate Governance Code Statement

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

The completed 2018 Annual Questionnaire is an inseparable part of this Statement, also available on the Bank's website, which reflects the corporate governance practice at the Bank in relation to the recommendations contained in the Code, including explanations with certain derogations.

The information about internal controls and risk management as well as about the Bank's shareholders is provided in the notes to the financial statements.

The rules on the appointment and removal of Management Board members are contained in the Bank's Statute.

The number of the Management Board members is determined by the Supervisory Board, and pursuant to its decision, the Management Board consists of four members. The Supervisory Board adopts decisions regarding proposed members and president of the Management Board of the Bank who have to meet the requirements specified by the legislation governing banking operations and other relevant regulations.

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

The authorities of the Bank's Management Board have been defined in the Companies Act, the Credit Institutions Act, the Bank's Statute, and a separate decision has been adopted regarding the segregation of the duties and responsibilities of the Management Board members.

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

The authorities of the Supervisory Board are regulated by legislation and the Bank's Statute. In accordance with legislation, the Supervisory Board has established the Risk and Audit Committee as its ancillary body.

Further information about the composition and activities of the Bank's Management and Supervisory Boards is provided in the enclosed Annual Questionnaire.

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

Amendments to the Statute may be proposed by the Supervisory Board, the Management Board and the shareholders of the Bank.

In order to protect the interest of all investors, shareholders, customers, employees and other stakeholders, the Bank has implemented high corporate governance standards.


Krka

CORPORATE GOVERNANCE CODE - ANNUAL QUESTIONNAIRE FOR 2018

CORPORATE GOVERNANCE CODE - ANNUAL QUESTIONNAIRE FOR 2018

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

COMPANY HARMONIZATION WITH THE PRINCIPLES OF CORPORATE GOVERNANCE CODE

1. **Has the company accepted implementation of the code of corporate governance of the Zagreb Stock Exchange?**

   ☑ YES ☐ NO

2. **Does the company have its own code of corporate governance?**

   ☐ YES ☑ NO

3. **Have any principles of the code of corporate governance been adopted as part of the company's internal policies?**

   ☑ YES ☐ NO

4. **Does the company disclose harmonization with the principles of corporate governance in its annual financial statements?**

   ☑ YES ☐ NO

SHAREHOLDERS AND GENERAL MEETING

5. **Is the company in a cross-shareholding relationship with another company or other companies? (If so, explain)**

   ☐ YES ☑ NO

6. **Does each share of the company have one voting right? (If not, explain)**

   ☑ YES ☐ NO

7. **Are there cases of different treatment of any shareholders?? (If so, explain)**

   ☐ YES ☑ NO

8. **Has the procedure for issuing power of attorney for voting at the general assembly been fully simplified and free of any strict formal requirements? (If not, explain)**

   ☑ YES ☐ NO

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

☑ YES ☐ NO

10. **Did the management or Management Board of the company, when convening the assembly, set the date for defining the status in the register of shares, which will be relevant for exercising voting rights at the general assembly of the company, by setting that date prior to the day of holding the assembly and not earlier than 6 days prior to the day of holding the assembly? (If not, explain)**

☑ YES ☐ NO

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

☑ YES ☐ NO

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

☐ YES ☑ NO, there were no dividend payments

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

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

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

☐ YES ☑ NO

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

☐ YES ☑ NO, there was no such requests from shareholders

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

☑ YES ☐ NO

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

17. **Did the management of the company publish the decisions of the general assembly of the company?**

☑ YES ☐ NO

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

☐ YES ☑ NO, there were no legal actions

MANAGEMENT AND SUPERVISORY BOARD

PLEASE PROVIDE THE NAMES OF MANAGEMENT BOARD MEMBERS AND THEIR FUNCTIONS: Julio Kuruc, President, Davorka Jakir, Member, Daniel Unger, Member and Goran Varat, Member

PLEASE PROVIDE THE NAMES OF SUPERVISORY BOARD MEMBERS AND THEIR FUNCTIONS: Miljan Todorovic - Chairman, Sigilfredo Montinari - Deputy Chairman, Maurizio Dallocchio - Member, Filippo Disertori - Member, Dario Montinari - Member, Dolly Predovic - Member, Antonio Moniaci - Member, Michele Calcaterra Borri - Member and Ezio Simonelli - Member

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

☐ YES ☑ NO, meetings are organized as needed

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

☑ YES ☐ NO

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

☑ YES ☐ NO

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

☑ YES ☐ NO

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

☑ YES ☐ NO

24. **Is the remuneration to the members of the Supervisory or Management Board determined by a decision of the general assembly or in the articles of association of the company? (If not, explain)**

☑ YES ☐ NO

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

☐ YES ☑ NO, aggregate data was published under special note in the Annual report

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

☐ YES ☑ NO, General assembly Decision which defines their remunerations is made publicly available

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

☑ YES ☐ NO

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

☑ YES ☐ NO

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

☑ YES ☐ NO

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

☑ YES ☐ NO

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

☑ YES ☐ NO

32. **Did the Supervisory or Management Board establish the appointment committee?**

☐ YES ☑ NO

33. **Did the Supervisory or Management Board establish the remuneration committee?**

☐ YES ☑ NO

34. **Did the Supervisory or Management Board establish the audit committee?**

☑ YES ☐ NO

35. **Was the majority of the audit committee members selected from the group of independent members of the Supervisory Board? (If not, explain)**

☐ YES ☑ NO, composition of the audit committee is in accordance with the Credit Institutions Act

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

☑ YES ☐ NO

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

☑ YES ☐ NO

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

☑ YES ☐ NO

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

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

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

☑ YES ☐ NO

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

☑ YES ☐ NO

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

☐ YES ☑ NO, this is defined by law

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

☑ YES ☐ NO

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

☑ YES ☐ NO

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

☑ YES ☐ NO

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

☑ YES ☐ NO

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

☐ YES ☑ NO, the Bank publiches aggregated data on related parties as well as data on calculated and acknowledged remuneration amounts for the management of the Bank in its annual report which is made in accordance with IFRS and published on the website of the Bank

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

☑ YES ☐ NO

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

☑ YES ☐ NO

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

☑ YES ☐ NO

AUDIT AND MECHANISMS OF INTERNAL AUDIT

51. **Does the company have an external auditor?**

☑ YES ☐ NO

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

☐ YES ☑ NO

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

☐ YES ☑ NO

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

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

55. **Does the company have internal auditors?**

☑ YES ☐ NO

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

☑ YES ☐ NO

TRANSPARANCY AND THE PUBLIC OF ORGANISATION OF BUSINESS

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

☑ YES ☐ NO

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

☐ YES ☑ NO, the Bank announces important events by web

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

☑ YES ☐ NO

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

☑ YES ☐ NO

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

☐ YES ☑ NO

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

☑ YES ☐ NO

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

☑ YES ☐ NO


Risnjak

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 TOGETHER WITH THE INDEPENDENT AUDITOR`S REPORT

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

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

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

The Management Board determines annual report, together with the annual financial statements, and forwards to the Supervisory Board for approval. After the approval by the Supervisory Board the annual and financial statements are determined by the Management Board and the Supervisory Board and are referred to the General Assembly.

The financial statements of the Bank, set out on pages 7 to 95, were authorised by the Management Board on 25 April 2019 for issue to the Supervisory Board, in witness thereof they are signed as provided below.

The financial statements were approved by the Bank's Management Board on 25 April 2019 and signed by:

Goran Varat	Daniel Unger	Renata Vinković
President of the Management Board	Member of the Management Board	Member of the Management Board

Koprivnica, 25 April 2018

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Podravska banka d.d.

Report on the audit of the financial statements

Opinion
We have audited the financial statements of Podravska banka d.d. ("the Bank"), which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows 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 2018 and of its financial performance and its cash flows for the year then ended in accordance with statutory accounting regulation applicable for banks in 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 each 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 these matters. 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 matters below, provide the basis for our audit opinion on the accompanying financial statements.

Impairment allowance of loans and advances from clients

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 300 thousand, individually on 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 the Bank's judgment and assumptions on proper selection of triggers for identification of significant increase in credit risk of customers. Additionally, forward looking element incorporated in the Bank's IFRS 9 model also represents significant judgment involved in calculation on expected credit losses.

Due to the significance of loans and advances from clients (representing 54% of Total assets of the Bank) and the related estimation uncertainty, this is considered a key audit matter

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.

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 and estimation of key provisioning parameters with the assistance of the credit risk specialist, including assessment of appropriateness of forward looking element embedded within IFRS 9 methodology. We tested matrices used in the calculation of probability of default and loss given default parameters with focus on mathematical accuracy. We also tested on a sample basis allocation of loans in a correct staging as defined in the methodology developed by the Bank.

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 allowance 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 32 Financial risk management principles and Note 37 Credit risk for further details.

Valuation of investment property and repossessed assets

The Bank has significant repossessed assets obtained as part of collection of non-performing loans. Most of the repossessed assets are classified as investment property based on its current usage.

As at 31 December 2018, the Bank's investment properties amount to HRK 43 million which represents 1% of the Bank's total assets. The Bank's investment properties are stated at fair value based on the valuation carried out by independent qualified valuers (the "Valuers"). The valuations are dependent on certain key estimates, such as future rental income, discount rate applied, or market comparison correction factors, which require significant judgement.

We identified the valuation of investment properties as a key audit matter due to their significance and because significant judgement is involved in determining the inputs used in the valuation.

Our procedures in relation to the valuation of the investment properties included assessing the appropriateness and reasonableness of the valuation methodology, key assumptions and estimates used in the valuations on a sample basis, based on evidence of comparable market transactions and other publicly available information of the property industry. We also evaluated the accuracy of the key inputs used in the valuation on a sample basis.

We considered the valuation methodologies used against those applied by other valuers for similar property types, taking into consideration comparability and market factors. We also considered other alternative valuation methods. We tested the integrity of inputs of the projected cash flows used in the valuations to supporting leases and other documents.

We also considered the adequacy of the disclosures in the financial statements and whether the disclosures are compliant with the statutory accounting requirements for banks in Republic of Croatia. Refer to Note 16 Investment property for further details.

Other matter
The financial statements of the Bank for the year ended 31 December 2017 were audited by another auditor who expressed unmodified opinion on those financial statements on 26 April 2018.

Other information included in The Bank's 2018 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 and Corporate Governance Statement, 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 and Corporate Governance Statement.

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 and Corporate Governance Statement, 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, and whether the Corporate Governance Statement includes the information specified in Article 22 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 2018 financial year are consistent, in all material respects, with the enclosed financial statements;

2. the enclosed Management report for 2018 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;
3. Corporate Governance Statement, included in the Bank's Annual Report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and
4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Bank's and Annual Report are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed financial statements;

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, Corporate Governance Statement 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 regulation as applicable for banks in 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 '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 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 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 appointed as the auditors of the Bank by the General Assembly on 27 June 2018 and our uninterrupted engagement has lasted for 1 year.

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 26 April 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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 in European Union 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 96 to 110, and which contain a balance sheet as at 31 December 2018, 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 7 to 95 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.

ERNST & YOUNG
d.o.o.
Zagreb, Radnička cesta 50

Zvonimir Madunić
Certified auditor and Member of the Board
Ernst & Young d.o.o.
Radnička cesta 50, Zagreb
30 April 2019

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

IN HRK THOUSANDS	NOTE	2018	2017
INTEREST AND SIMILAR INCOME	3	99,879	110,775
INTEREST AND SIMILAR EXPENSE	3	(22,202)	(34,540)
NET INTEREST INCOME		**77,677**	**76,235**
FEE AND COMMISSION INCOME	4	37,161	37,238
FEE AND COMMISSION EXPENSE	4	(14,471)	(14,078)
NET FEE AND COMMISSION INCOME		**22,690**	**23,160**
OTHER OPERATING INCOME, NET	5	18,857	36,712
OPERATING INCOME		**119,224**	**136,107**
IMPAIRMENT LOSSES AND PROVISIONS	6	(11,677)	(24,061)
ADMINISTRATIVE EXPENSES	7	(86,441)	(87,808)
DEPRECIATION AND AMORTIZATION	8	(5,807)	(6,838)
PROFIT BEFORE TAXATION		**15,299**	**17,400**
INCOME TAX EXPENSE	9	(3,193)	(3,304)
NET PROFIT FOR THE YEAR		**12,106**	**14,096**
OTHER COMPREHENSIVE INCOME			
NET (DECREASE)/INCREASE IN THE FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE TROUGH OTHER COMPREHENSIVE INCOME	15.2.	(3,996)	(3,401)
DEFERRED TAX RECOGNISED IN EQUITY	9	782	612
OTHER COMPREHENSIVE (LOSS)/INCOME THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS IN THE FUTURE		**(3,214)**	**(2,789)**
NET (DECREASE)/INCREASE IN THE FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE TROUGH OTHER COMPREHENSIVE INCOME	15.2.	(11,933)	-
DEFERRED TAX RECOGNISED IN EQUITY	9	2,148	-
OTHER COMPREHENSIVE INCOME THAT IS NOT RECLASSIFIED TO PROFIT OR LOSS IN THE FUTURE		**(9,785)**	**-**
OTHER COMPREHENSIVE INCOME		**(12,999)**	**-**
TOTAL COMPREHENSIVE INCOME AFTER TAX		**(893)**	**11,307**
EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS	**10**	**HRK 18.10**	**HRK 21.08**

The accompanying accounting policies and notes on pages 51 to 119 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

IN HRK THOUSANDS	NOTE	31 DECEMBER 2018	31 DECEMBER 2017
ASSETS			
CASH AND AMOUNTS DUE FROM BANKS	11	432,190	574,998
BALANCES WITH THE CROATIAN NATIONAL BANK	12	190,575	188,657
PLACEMENTS WITH OTHER BANKS	13	66,313	17,186
LOANS TO CUSTOMERS	14	1,834,646	1,712,694
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS STATEMENT	15.1	26,589	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	15.2	674,016	-
FINANCIAL ASSETS AVAILABLE FOR SALE	15.3	-	624,016
INVESTMENT PROPERTY	16	43,129	36,780
INTANGIBLE ASSETS	17	44,080	44,063
PROPERTY AND EQUIPMENT	18	44,837	54,046
NON-CURRENT ASSETS HELD FOR SALE	19	1,214	2,557
DEFFERED TAX ASSETS	9	6,028	1,880
OTHER ASSETS	20	14,883	15,400
TOTAL ASSETS		**3,378,500**	**3,273,141**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
AMOUNTS DUE TO BANKS	21	7,730	38,901
AMOUNTS DUE TO CUSTOMERS	22	2,449,215	2,416,653
OTHER BORROWINGS	23	325,095	204,111
OTHER LIABILITIES	24	53,915	41,867
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	25	5,748	4,397
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	26	97,004	129,032
TOTAL LIABILITIES		**2,938,707**	**2,834,961**
SHARE CAPITAL			
SHARE CAPITAL	27	267,500	267,500
SHARE PREMIUM		3,015	3,015
TREASURY SHARES		(1,388)	(11,082)
RESERVES	28	154,079	164,651
PROFIT FOR THE YEAR		12,106	14,096
RETAINED EARNINGS		4,481	-
TOTAL SHAREHOLDERS' EQUITY		**439,793**	**438,180**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**3,378,500**	**3,273,141**

The accompanying accounting policies and notes on pages 51 to 119 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

IN HRK THOUSANDS	NOTE	2018	2017
PROFIT FOR THE YEAR BEFORE TAX	**9**	**15,299**	**17,400**
ADJUSTED BY:			
DEPRECIATION AND AMORTISATION	8	5,807	6,838
NET INCOME ON DISPOSAL OF NON-CURRENT TANGIBLE ASSETS	5	(1,117)	(120)
NET INCOME ON THE SALE OF REPOSSESSED ASSETS	5	(266)	(495)
INCREASE IN PROVISIONS FOR LOANS AND OTHER PROVISIONS	6	11,677	24,061
DIVIDEND INCOME	5	(816)	(688)
NET FOREIGN EXCHANGE GAIN FROM ISSUED HYBRID INSTRUMENTS		-	(781)
PROFIT FROM OPERATIONS BEFORE CHANGES IN OPERATING ASSETS		30,584	46,215
CHANGES IN OPERATING ASSETS			
NET INCREASE IN BALANCES WITH THE CROATIAN NATIONAL BANK		(1,918)	(540)
NET (INCREASE) / DECREASE IN LOANS TO CUSTOMERS		(131,124)	156,022
NET (INCREASE)/ DECREASE IN PLACEMENTS WITH BANKS		(1,698)	1,449
NET (INCREASE) IN OTHER ASSETS		(3,826)	(5,097)
DECREASE / (INCREASE) / IN OTHER LIABILITIES		18,151	(5,599)
(DECREASE) / INCREASE IN AMOUNTS DUE TO OTHER BANKS		(31,171)	(104,845)
INCREASE IN DEPOSITS FROM CUSTOMERS		32,563	43,033
INCOME TAXES PAID		(4,493)	(12,020)
NET CASH FROM OPERATIONS		**(92,932)**	**118,588**
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASES OF PROPERTY AND EQUIPMENT	18	(159)	(560)
PURCHASE OF INTANGIBLE ASSETS	17	(2,403)	(1,315)
DISPOSAL OF PROPERTY AN EQUIPMENT		1,151	593
PURCHASE / (DISPOSAL) OF FINANCIAL ASSETS AVAILABLE FOR SALE		-	331,680
NET INCREASE IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		(91,905)	-
DIVIDENDS RECEIVED		821	688
SALE OF REPOSSESSED ASSETS		1,628	3,786
NET CASH FLOW FROM FINANCING ACTIVITIES		**(90,867)**	**334,872**
CASH FLOWS FROM FINANCING ACTIVITIES			
RECEIPTS FROM BORROWINGS		120,984	(113,143)
(REPAYMENTS) / PROCEEDS FROM / FOR ISSUED BONDS		(31,028)	23
NET CASH FLOW FROM FINANCING ACTIVITIES		**88,956**	**(113,120)**
NET CASH (PAID) / RECEIVED		**(94,843)**	**340,340**
CASH AT THE BEGINNING OF THE PERIOD	**11**	**588,133**	**247,793**
CASH AT THE END OF THE PERIOD	**11**	**493,290**	**588,133**

The accompanying accounting policies and notes on pages 51 to 119 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

IN HRK THOUSANDS	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	CAPITAL GAINS	RESERVES	RETAINED EARNINGS/ (LOSSES)	PROFIT FOR THE YEAR	TOTAL
BALANCE AT 1 JANUARY 2017	**267,500**	**3,015**	**(11,082)**	**4,802**	**151,485**	**(14,879)**	**26,032**	**426,873**
PROFIT FOR THE YEAR	-	-	-	-	-	-	14,096	14,096
OTHER COMPREHENSIVE INCOME	-	-	-	-	(2,789)	-	-	(2,789)
ALLOCATION OF THE 2016 PROFIT	-	-	-	-	11,153	14,879	(26,032)	-
BALANCE AT 31 DECEMBER 2017	**267,500**	**3,015**	**(11,082)**	**4,802**	**159,849**	**-**	**14,096**	**438,180**
BALANCE AT 1 JANUARY 2018	**267,500**	**3,015**	**(11,082)**	**4,802**	**159,849**	**-**	**14,096**	**438,180**
IMPACT OF IFRS 9 – EXPECTED CREDIT LOSS		-	-	-	904	(8)	-	896
IMPACT OF IFRS 9 – CLASSIFICATION CHANGES	-	-	-	-	(2,591)	2,591	-	-
BALANCE AT 1 JANUARY 2018 - RESTATED	**267,500**	**3,015**	**-11,082**	**4,802**	**158,162**	**2,583**	**14,096**	**439,076**
PROFIT FOR THE YEAR	-	-	-	-	-	-	12,106	12,106
CHANGES IN THE FAIR VALUE RESERVES	-	-	-	-	(12,999)	-	-	
SALE OF EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	-	-	-	(1,898)	1,898	-	-
ALLOCATION OF OWN SHARES	-	-	9,694	(8,084)	-	-	-	1,610
ALLOCATION OF 2017 PROFIT	-	-	-	-	14,096	-	(14,096)	-
BALANCE AT 31 DECEMER 2018	**267,500**	**3,015**	**(1,388)**	**(3,282)**	**157,361**	**4,481**	**12,106**	**439,793**

The accompanying accounting policies and notes on pages 51 to 119 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL INFORMATION

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

Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards as adopted by the European Union, reference may be made to certain Standards in describing the accounting policies of the Bank; unless otherwise stated, these references are to Standards applicable at 31 December 2018.

2. BASIC ACCOUNTING POLICIES

Statement of compliance

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

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

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

The CNB's accounting rules are based on International Financial Reporting Standards (IFRSs) adopted by the EU. The main differences between the accounting rules of the CNB and the recognition and measurement requirements for IFRS are as follows:

- In accordance with the CNB Decision on the Classification of Exposure to Risk Groups and the Method of Determining Credit Loss that entered into force on 1 January 2018, the CNB prescribes minimum amounts of provisions for impairment losses for certain exposures for which impairment is recognized and which may differ from the impairment loss calculated in accordance with IFRS
- According to the Decision on classification of exposure CNB prescribes minimum haircut factors and collection period of certain collateral for the purposes of assessing the future cash flows arising from collection through collateral.

These future cash flows may be different from future cash flows calculated in accordance with IFRS.

- In accordance with the Decision on classification of exposures, the CNB prescribes a minimum total impairment on exposures classified into risk subgroups A-1 and A-2, which may be different from the impairment losses calculated in accordance with IFRS
- Suspended interest represents the accrued interest past due on assets individually identified as impaired. For part of the exposure where the passage of time from the default is more than two years, the Bank performs a 100% impairment of accrued unpaid interest with charge to profit and loss statement, and further calculation of interest is recorded as an off-balance sheet item until it is recovered. This is not in accordance with IFRS 9 "Financial Instruments" that require interest income on credit impaired financial assets to be calculated using the effective interest rate method.

Pursuant to the applicable CNB Decision governing the obligation to recognise provisions for legal actions against a credit institution, minimum levels of provisions are defined which a credit institution should recognise for this purpose. According to the Decision, a credit institution has to classify a legal action into a risk group and, depending on the probability of losing the court case, form appropriate provisions. In certain circumstances, the levels of the provisions specified by the CNB may differ from the provisions calculated in accordance with IFRSs.

Standards and Interpretations effective in the current period

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

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

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15"** - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions** – adopted by the EU on 27 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts** – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IAS 40 "Investment Property" - Transfers of Investment Property** – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 -2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording** – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

Except for the impact of the adoption of IFRS 9, the adoption of these standards and the above amendments to existing standards have not led to material changes in the Bank's financial statements.

The effects of IFRS 9 are described in the section IFRS 9 Financial Instruments.

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation** – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Bank has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates.The Bank anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Bank in the period of initial application, except for IFRS 16 "Leases" whose application will result in changes in the presentation of financial statements as described in the section IFRS 16 "Leases".

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at 1 March 2019 (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments** (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendements to IFRS 3 "Business Combinations"** - Definition of business (effective for business combinations for which the acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to the acquisition of assets occurring on or after the beginning of the period).
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates of Misconduct"** - Definition of significance (effective for annual periods beginning on or after 1 January 2020)

- **Amendments to IAS 19 “Employee Benefits” - Plan Amendment, Curtailment or Settlement** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015 -2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to the Conceptual Framework Guidelines in IFRSs** (effective for annual periods beginning on or after 1 January 2020).

IFRS 9 Financial instruments

New accounting standard IFRS 9, published in July 2014 by IASB and endorsed by European Union Regulation no. 2067/2016, as of 1 January 2018 amends IAS 39, that regulated classification and measurement of financial assets up to 31 December 2017. IFRS 9 covers 3 different areas: classification and measurement of financial assets, impairment and hedge accounting.

In relation to the above, IFRS 9 requires that classification of financial assets is determined by business model assessment on one side and cash flow characteristics on the other side

IFRS 9 provides three business models:
- Business model “hold to collect”: Financial assets acquired or originated with intention to hold to collect cash flows is measured at amortised cost provided SPPI test is passed,
- Business model “hold to collect and sell”: Financial asset acquired or originated with intention to hold to collect or sell is measured at fair value through other comprehensive income provided SPPI test is passed,
- Other business models not meeting criteria of first two business models (including financial instruments held for trading): Other financial assets not acquired or originated to be held in previous two models are measured at fair value through profit or loss statement.

Changes in accounting policies - an overview of financial asset categories

The first implementation of IFRS 9 has affected the classification and measurement categories. The category Loans and receivables (in accordance with IAS 39) is classified to the category of financial assets measured at amortized cost. The category of assets available for sale (in accordance with IAS 39) is classified mainly to the category of financial assets at fair value through other comprehensive income and to a lesser extent to the category of financial assets measured at amortized cost and financial asset at fair value through profit or loss. The Bank took advantage of the irrevocable option of classifying equity securities in the category of financial assets at fair value through other comprehensive income.

Changes of measurement categories due to introduction of IFRS 9 are as follows:

	IAS 39		IFRS 9	
FINANCIAL ASSETS	MEASUREMENT CATEGORY	AMOUNT	MEASUREMENT CATEGORY	AMOUNT
DEPOSITS WITH BANKS	**AMORTIZED COST (LOANS AND RECEIVABLES)**	**529,378**	**AMORTIZED COST**	**529,378**
OBLIGATORY RESERVES AT CNB	AMORTIZED COST (LOANS AND RECEIVABLES)	188,657	AMORTIZED COST	188,657
LOANS AND TERM DEPOSITS WITH BANKS	AMORTIZED COST (LOANS AND RECEIVABLES)	17,186	AMORTIZED COST	17,186
LOANS TO CUSTOMERS	AMORTIZED COST (LOANS AND RECEIVABLES)	1,508,443	AMORTIZED COST	1,508,443
DEBT SECURITIES				
BILLS OF EXCHANGE	FINANCIAL ASSETS AVAILABLE FOR SALE	98,500	AMORTIZED COST	98,500
BONDS	FINANCIAL ASSETS AVAILABLE FOR SALE	284,171	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	284,171
FACTORING	AMORTIZED COST (LOANS AND RECEIVABLES)	105,750	AMORTIZED COST	105,750
EQUITY SECURITIES				
	FINANCIAL ASSETS AVAILABLE FOR SALE	314,997	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	314,997
	FINANCIAL ASSETS AVAILABLE FOR SALE	25,692	FAIR VALUE THROUGH PROFIT OR LOSS	25,692

The adoption of IFRS 9 resulted in a re-measurement of expected credit losses for financial assets and differences arising from first-time adoption were recognized in retained earnings as at 1 January 2018, as explained below:

	IMPAIREMENT OF IAS 39	RE-MEASUREMENT 1.1.2018.	EXPECTED CREDIT LOSSES OF IFRS 9
ASSETS / POTENTIAL LIABILITES			
CASH AND BALANCES WITH BANKS	5,270	1,694	(3,576)
BALANCES WITH CNB	1,887	0	(1,887)
PLACEMENTS WITH OTHER BANKS	172	55	(117)
FINANCIAL ASSETS AVAILABLE FOR SALE	9,491	10,395	904
LOANS TO CUSTOMERS	245,715	250,576	4,861
OTHER ASSETS	15,124	14,960	(164)
PROVISIONS FOR POTENTIAL LIABILITIES AND COSTS	4,100	4,087	(13)
TOTAL	**281,759**	**281,767**	**8**

In relation to initial application of IFRS 9, it is necessary to recall the general choices that the Bank has applied in the area of application of the new standard, to the impact of the application of new rules on the impairment of financial assets to regulatory capital and to the comparability of comparative balances during the accounting period of initial application of the standard, especially:

- On 12 December 2017, European Parliament and Council issued Regulation EU 2017/2395 "Transitional requirements for mitigating IFRS 9 impact on regulatory capital" amending Regulation 575/2013 by introducing article 473 "Adoption of IFRS 9", enabling banks to decrease IFRS 9 effect on regulatory capital in transition period of 5 years (from March 2018 to December 2022) by gradually including in CET1 downward ampunt of effect itself. The Bank opted for "static approach", that would be applied on effect resulting from IAS 39 and IFRS 9 difference, i.e. instant recognition of effects in profit or loss
- Considering initial application requirements, the Bank has adopted option provided in paragraph 7.2.15 of IFRS 9, points E1 and E2 of IFRS 1 "Initial application of IFRS", that, not omitting retrospective application of new requirements, comparative information disclosure is not required in financial statements upon initial application of Standard.

IFRS 16 „Leases"

The Bank made the initial estimation of the impact of the addoption of IFRS 16 – Leases. All objects under operating lease and related lease contracts have been analysed. The Bank has no assets under financial lease.

While estimating the impact of IFRS 16 on the operating leased assets, the Bank was guided by the principle of materiality. The Bank has in total nine leased office properties as a leasee and those contracts have been estimated as materially significant and included in the estimation of the impact of IFRS 16.

The total impact on the increase of assets and liabilities is estimated in the amount of HRK 15,441 thousand.

Functional and presentation currency

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

At 31 December 2018 the exchange rate of the Croatian kuna against 1 euro and 1 US dollar was HRK 7.417575 and HRK 6.469192, respectively (31 December 2017: HRK 7.513648 to EUR 1 and HRK 6.269733 to USD 1).

2.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of accounting

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

Interest and similar income and expenses

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

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

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

Fee and commission income

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

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

Operating income

Operating income includes net interest income, net fee and commission income, foreign exchange trading gains, realised gains on securities classified as assets available for sale, net foreign exchange translation gains (by reference to middle exchange rates), gains from disposal of property and equipment, dividends received and other income from operations.

Foreign currencies

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

The Bank has assets and liabilities originated in Croatian kunas, which are linked to a foreign currency with one-way currency clause. The clause provides the Bank the option to remeasure the underlying assets at the higher of the foreign exchange rate valid as of the date of maturity and the foreign exchange rate valid as of the date of origination of the financial instrument. In case of a liability linked to this clause, the counterparty has this option. Due to the specifics of the market in the Republic of Croatia the fair value of this option cannot be calculated, as forward rates for the Croatian kuna for periods over 9 months are not available. Therefore, the Bank revalues such assets and liabilities at the higher of the middle rate of the Croatian National Bank valid at the reporting date and the rate specified in the contractual foreign exchange option.

Staff costs

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

Personnel social contributions

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

	2018	2017
PENSION CONTRIBUTIONS	20%	20%
HEALTH INSURANCE CONTRIBUTIONS	15%	15%
CONTRIBUTIONS FOR THE STATE EMPLOYMENT BUREAU	1.7%	1.7%
INJURIES AT WORK	0.5%	0.5%

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

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

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

Taxation

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

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

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

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with maturities less than 90 days, including cash, balances on current accounts as well as loans and advances to other banks.

Financial instruments

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

The Bank recognises financial assets and liabilities on its statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument.

Classification

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

Investments in financial instruments are classified into three business models:

- the “hold to collect” business model
  It implies financial assets acquired with the intent to hold it for the purpose of collecting contractual cash flows and is measured at amortization cost with condition that the asset has passed the SPPI test.

- the “hold to collect and sell” business model
  It implies financial assets acquired with intent to hold for the purpose of collecting contracted cash flow and sale and is measured at fair value through other comprehensive income, also subject to the passing of the SPPI test.

- Other business models that do not meet the criteria for the first two models
  This model implies a financial asset that is not held intentionally in one of the two previous business models and is measured at fair value through profit and loss statement.

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

Financial assets is classified as “Financial assets at fair value through profit and loss statement”,” Financial assets at fair value through other comprehensive income” and “Financial assets measured at amortized cost”. Financial liabilities are classified as “Financial liabilities at amortized cost”. The principal difference among the portfolios relates to the measurement of financial assets and the recognition of their fair values in the financial statements, as described further below.

Regular way transactions with financial instruments are accounted for in the statement of financial position at the settlement date. Under the settlement date accounting, the underlying asset or liability is not recognised until the settlement date, and the changes in the fair value of the underlying asset or liability are recognised starting from the trade date.

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

Financial assets at fair value through profit or loss

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

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

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

Financial assets at fair value through other comprehensive income

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

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

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

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

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

Interest and dividends, impairment and exchange rate differences are recognized in the profit and loss statement.

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

Subsequent measurement is carried out at fair value and the effects of subsequent measurement are recognized in other comprehensive income. Interest and dividends are recognized in the profit and loss statement and impairment and exchange rate differences are recognized in other comprehensive income.

In the case of derecognition of a financial instrument is recognized in other comprehensive income are not recognized in the profit and loss statement.

Financial assets at amortized cost

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

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

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

Subsequent measurement is carried out at amortized cost, and the effects of subsequent measurement are recognized in the profit and loss statement. Profit and loss statement also includes interest and dividends, impairment and exchange rate differences.

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

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

Impairment of financial assets

Changes in impairment

The adoption of IFRS 9 involves the widening of the underlying concept of valuing of financial instruments measured by the amortized cost method, in such manner that in addition to the identification and estimation of the level of incurred impairment losses (IAS 39), the concept also includes the identification of credit losses that still did not arise at the time of the valuation of the instrument in question.

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

Via impairment methodology the Bank defines increase in credit risk based on changes in creditworthiness, timeliness in meeting debt obligations and quality of collaterals.

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

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

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

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

In risk category A2 (increased level of credit risk) - in accordance with the internal act, exposures are allocated for which significant increase in credit risk from initial recognition has been identified, however, there is no objective evidence of impairment. The impairment allowances and provisions for credit losses are determined on the basis of lifetime expected credit losses.

The Bank as indicators for determining a significant increase in credit risk of the borrower considers the debtor's delay in settling liabilities towards the Bank for more than 30 days, but less than 90 days, followed by a blockage of the borrower for a continuous period of more than 15 days in the last year and a significant deterioration in the debtor's credit rating in relation to credit rating at the time of initial recognition (for more than three rating classes).

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

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

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

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

ECL = PD x LGD x EAD
PD – Probability of default
LGD – Loss given default
EAD – Exposure at default
ECL – Expected Credit Loss

For the purpose of assessing the value of the PD parameter, the Bank has all the segments of the credit clients assigned to the rating class and each class rating considered to be a PD homogeneous group appropriately assigned 12-month PD as well as the corresponding multi-year maturity structure of the PD.

Loss given default (LGD) represents an internal estimate of the level of losses related to credit exposure at default. The resulting LGD values are grouped in LGD-homogeneous groups and for each of them the representative value of the LGD parameter is estimated. The Bank has estimated the value of the LGD parameter through the so-called "work-out" method based on the analysis of historical post-default collection cases. In each such case, a number of cash flows incurred during the collection process (inflows on the basis of debtor's payment, collection of borrower's funds and exposure collateral as well as outflows related to internal and external costs of the collection process itself) are discounted by the original effective interest rate to get the current post-default collections. The Bank has defined the minimums ("floors"), 35% as LGD for collateralized placements and 45% for uncollateralized placements. If LGD calculated through the model is lower than the related floor, the value of the relevant LGD floor is assigned. In other cases (when the value of model-calculated LGD is higher than LGD floor) the model-calculated LGD is used.

Exposure at default (EAD) represents the total amount of exposure for which impairment allowance should be recognized.

The Bank applies conversion factor 1 to estimate provisions for off-balance sheet items.

Expected Credit Losses (ECL) for exposures where no significant increase in credit risk from initial recognition has been identified is accounted for as a 12-month expected credit loss that represents a part of life-long expected credit losses that would occur if (risk subgroup A1 - stage 1), while at exposures where significant credit risk increases have been identified after the initial recognition, the Lifelong Credit Loss (risk subgroup A2 - stage 2) is calculated on the reporting date.

For Groups B and C exposures (stage 3), for small loan portfolios expected credit, losses are determined by due days, taking into account minimum impairment levels prescribed by the internal acts and the CNB decision.

For Groups B and C exposures (stage 3), for significabt loan portfolios and placements with adequate collaterals expected credit losses are calculated using the standard DCF method (the present value method of estimated future cash flows discounted using the effective interest rate), taking into account minimum impairment stages prescribed by the internal acts and the CNB decision.

Foreclosed assets

Occasionally, by means of the enforcement procedure, the Bank acquires assets in exchange for outstanding receivables. Foreclosed assets are classified on the balance sheet as other assets held for sale. The Bank acquires the ownership of such assets on the basis of a ruling on award. The assets are recognised at cost of acquisition, ie the net recoverable amount, depending on what is less. Foreclosed assets are reviewed for impairment on an annual basis. An impairment loss is determined as the difference between the carrying amount of an asset and its recoverable amount and recognised in the profit or loss for the period in which the loss is determined. The recoverable amount is the fair value of an asset less costs to sell the asset. Fair values of those assets are determined on the basis of independent market value appraisal performed by a licensed appraiser or based on a tentative agreement on the sale of property.

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

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequental to initial recognition, investment properties are measured at fair value. All of the Banks's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they have arisen.

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

Non-current assets held for sale

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

Sale and repurchase agreements

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

Property and equipment

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

	2018	2017
BUILDINGS	40	40
FURNITURE	5	5
COMPUTERS	4	4
MOTOR VEHICLES	5	5
EQUIPMENT AND OTHER ASSETS	2 – 10	2 – 10

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

Intangible assets

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

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

Impairment of non-financial assets

Property, equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where the carrying amount of an asset exceeds its recoverable amount, an impairment loss for items of property and equipment and intangibles carried at cost is recognised in the statement of profit or loss and, for assets carried at revalued amounts, it is treated as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same asset. The recoverable amount is the higher of an asset's net selling price and its value in use.

Goodwill

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

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

Provisions for contingent liabilities

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

Managed funds

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

Dividend policy

The Bank has a policy to pay dividends to its shareholders based on the audited annual results. No dividends were paid in 2018 and 2017.

2.2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Judgements

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

Estimating uncertainty

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provisions for impairment losses on loans and receivables

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

Litigation provisions

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

Provisions for employee benefits

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

Income tax expense

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

3. INTEREST AND SIMILAR INCOME AND EXPENSES

IN HRK THOUSANDS	2018	2017
INTEREST INCOME		
CORPORATE CUSTOMERS	40,097	50,620
INDIVIDUALS	43,823	40,155
SECURITIES	9,416	13,792
BANKS	619	510
PUBLIC AND OTHER SECTORS	5,924	5,698
	99,879	**110,775**
INTEREST EXPENSE		
CORPORATE CUSTOMERS	(1,997)	(4,516)
INDIVIDUALS	(12,707)	(19,718)
BANKS	(5,506)	(7,683)
PUBLIC AND OTHER SECTORS	(1,992)	(2,623)
	(22,202)	**(34,540)**
NET INTEREST INCOME	**77,677**	**76,235**

Interest income also includes deferred fees on loans in the total amount of HRK 5,067 thousand (2017: HRK 5,194 thousand), which are recognised by applying the effective interest rate method.

IN HRK THOUSANDS	2018	2017
INTEREST INCOME ON:		
PARTLY RECOVERABLE LOANS	3,144	5,146
FULLY IRRECOVERABLE LOANS	896	683
	4,040	**5,829**

4. FEE AND COMMISSION INCOME AND EXPENSE

IN HRK THOUSANDS	2018	2017
FEE AND COMMISSION INCOME		
PAYMENT TRANSACTION RELATED FEES AND COMMISSIONS	14,694	14,635
CARD-RELATED FEES AND COMMISSIONS	15,083	14,459
FEES AND COMMISSIONS FROM LENDING OPERATIONS	2,144	2,497
FEES AND COMMISSIONS ON SECURITIES TRADING	1,178	1,399
OTHER FEE AND COMMISSION INCOME	4,062	4,248
	37,161	**37,238**
FEE AND COMMISSION EXPENSE		
CASH OPERATION FEES AND COMMISSIONS	(3,845)	(3,891)
PAYMENT OPERATION CHARGES	(2,630)	(2,609)
INTERBANK SERVICE FEES	(498)	(460)
CARD-RELATED FEES	(4,952)	(4,527)
OTHER FEE AND COMMISSION EXPENSES	(2,546)	(2,591)
	(14,471)	**(14,078)**
NET FEE AND COMMISSION INCOME	**22,690**	**23,160**

Other fee and commission income consists mainly of fees collected on the Bank's counters from customers for the payments made and amounts to HRK 2,518 thousand (2017: HRK 2,376 thousand).

5. OTHER OPERATING INCOME, NET

IN HRK THOUSANDS	2018	2017
NET REALISED GAINS ON THE SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE	-	26,272
NET REALIZED GAIN / (LOSS) ON SALE OF SECURITIES CLASSIFIED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	4,091	-
FOREIGN EXCHANGE TRADING GAINS	5,447	5,496
RENTAL INCOME	2,566	1,987
REVENUES FROM THE SALE OF SECURITIES CLASSIFIED AS AT FAIR VALUE THROUGH PROFIT AND LOSS STATEMENT	1,213	-
NET INCOME / (LOSS) ON SALE OF PROPERTY AND EQUIPMENT	1,117	120
DIVIDEND INCOME	816	688
REFUND OF COURT COSTS	1,446	1,446
NET LOSS ON THE SALE OF FORECLOSED ASSETS	266	495
INCOME ON SUBSEQUENT COLLECTION OF RECEIVABLE PREVIOUSLY WRITTEN OFF	2	6
NET FX DIFFERENCES ON RETRANSLATION AT THE MIDDLE EXCHANGE RATE	(677)	(978)
OTHER INCOME	3,325	1,180
	18,857	**36,712**

6. IMPAIRMENT LOSSES AND PROVISIONS

IN HRK THOUSANDS	2018	2017
PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS AND BANKS (NOTE 11,12,13,14D)	(10,482)	(16,064)
IMPAIRMENT OF DEBT SECURITIES IN THE AFS PORTFOLIO (NOTE 15.3.B)	-	(457)
IMPAIRMENT OF DEBT SECURITIES IN THE PORTFOLIO AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (NOTE 15.2)	556	-
IMPAIRMENT OF EQUITY SECURITIES (NOTE 15.3.E)	-	(2,207)
(PROVISIONS)/REVERSAL OF PROVISIONS FOR GUARANTEES AND CONTINGENT LIABILITIES (NOTE 25)	(1,365)	(683)
IMPAIRMENT OF OTHER ASSETS (NOTE 20)	(287)	(186)
IMPAIRMENT OF FORECLOSED ASSETS (NOTE 20)	(284)	(1,261)
IMPAIRMENT OF INVESTMENT PROPERTIES (NOTE 16)	185	(2,776)
IMPAIRMENT OF NON-CURRENT ASSETS HELD FOR SALE (NOTE 19)	-	(495)
REVERSAL OF PROVISIONS/(PROVISIONS) FOR LEGAL CASES (NOTE 25)	-	68
	(11,677)	**(24,061)**

7. ADMINISTRATIVE EXPENSES

IN HRK THOUSANDS	2018	2017
STAFF COSTS	42,994	44.595
COST OF MATERIAL AND SERVICES	28,502	26.594
RENTAL COSTS	7,820	7.903
DEPOSIT INSURANCE PREMIUMS	5,452	5.475
TAXES AND CONTRIBUTIONS	1,105	1.347
OTHER EXPENSES	568	1.894
	86,441	**87.808**

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

Staff costs

IN HRK THOUSANDS	2018	2017
NET SALARIES	24,075	25,292
PENSION INSURANCE COSTS	6,103	6,246
HEALTH INSURANCE COSTS	5,285	5,595
OTHER COMPULSORY CONTRIBUTIONS	775	847
TAXES AND SURTAXES	5,059	5,756
REVERSAL OF PROVISIONS/(PROVISIONS) FOR EMPLOYEE BENEFITS	317	(134)
OTHER STAFF COSTS	1,380	993
	42,994	**44,595**

At 31 December 2018 the Bank had 221 employees (2017: 221 employees).

8. DEPRECIATION AND AMORTISATION

IN HRK THOUSANDS	2018	2017
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 18)	3,019	3,856
DEPRECIATION OF LEASEHOLD IMPROVEMENTS (NOTE 18)	403	449
AMORTISATION (NOTE 17)	2,385	2,533
	5,807	**6,838**

9. INCOME TAX EXPENSE

Corporate income tax is determined by applying the rate of 18% (2017: 18%) to taxable profits.

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

The tax expense comprises the following:

IN HRK THOUSANDS	2018	2017
CURRENT TAX EXPENSE	4,608	3,435
DEFERRED TAX	(431)	(131)
INCOME TAX EXPENSE OF THE REALIZED EFFECTS OF THE EQUITY SECURITIES TO CAPITAL	(984)	-
TAX EXPENSE	**3,193**	**3,304**

The reconciliation between accounting profit and taxable profit is set out below:

IN HRK THOUSANDS	2018	2017
PROFIT BEFORE TAXATION	**15,299**	**17,400**
STATUTORY TAX RATE	18%	18%
EXPECTED TAX AT THE RATE	**2,754**	**3,132**
TEMPORARY DIFFERENCES		
UNREALISED LOSSES FROM FINANCIAL ASSETS	-	-
DEFERRED LOAN ORIGINATION FEES	1,121	816
PROVISIONS FOR PAYMENTS TO EMPLOYEES	300	-
REALISED LOSSES – FINALISED LIQUIDATION	-	-
REALISED LOSSES – SALE OF FORECLOSED ASSETS (INVESTMENTS)	(450)	(1,220)
IMPAIRMENT OF FORECLOSED ASSETS	1,424	2,879
LOSSES ON AFS SECURITIES	-	-
REVERSAL OF PROVISIONS FOR EMPLOYEE PAYMENTS	-	(1,750)
NET TEMPORARY DIFFERENCES	**2,395**	**725**
PERMANENT DIFFERENCES		
TAX EFFECT OF NON-TAXABLE INCOME	(738)	(535)
DIVIDENDS RECEIVED	(738)	(535)
EFFECT OF TAX NON-DEDUCTIBLE EXPENSES	**8,645**	**1,490**
ENTERTAINMENT AND TRANSPORT	678	447
DEPRECIATION ABOVE THE PRESCRIBED AMOUNTS	177	177
INTEREST FROM RELATED-PARTY RELATIONSHIPS	-	-
WRITTEN-OFF RECEIVABLES	2,315	657
RETAINED EARNINGS FROM THE SALE OF EQUITY SECURITIES	5,464	-
OTHERS	11	209
NET PERMANENT DIFFERENCES	**7,907**	**955**
TAXABLE PROFIT	25,601	19,080
TAX BASE	25,601	19,080
TAX RATE	18%	18%
INCOME TAX PAYABLE	4,608	3,435
CURRENT TAX EXPENSE	**4,608**	**3,435**
DEFERRED TAX (INCOME)/EXPENSE	**(431)**	**(131)**
INCOME TAX ON REALIZED GAINS ON EQUITY SECURITIES	**(984)**	**-**
TOTAL TAX EXPENSE	**3,193**	**3,304**
EFFECTIVE TAX RATE	**30.12%**	**19.74%**

Movements in deferred tax assets and tax liabilities are presented below:

2018

IN HRK THOUSANDS	OPENING BALANCE	TAX CHARGED TO PROFIT OR LOSS	RECOGNISED IN EQUITY	CLOSING BALANCE
LOSSES FROM FINANCIAL ASSETS	535	-	-	535
LOSSES ON OTHER INVESTMENTS	1,879	175	-	2,054
DEFERRED LOAN ORIGINATION FEES	858	202	-	1,060
FINANCIAL ASSETS AVAILABLE FOR SALE	(1,772)	-	3,716	1,944
IMPAIRMENT OF FINANCIAL ASSETS	363	-	-	363
PROVISIONS FOR LEGAL CASES – INTEREST	18	-	-	18
PROVISIONS FOR PAYMENTS TO EMPLOYEES	-	54	-	54
	1,881	**431**	**3,716**	**6,028**

2017

IN HRK THOUSANDS	OPENING BALANCE	CHARGED TO PROFIT OR LOSS	RECOGNISED IN OTHER COMPREHENSIVE INCOME	CLOSING BALANCE
LOSSES FROM FINANCIAL ASSETS	535	-	-	535
LOSSES ON OTHER INVESTMENTS	1,580	299	-	1,879
DEFERRED LOAN ORIGINATION FEES	711	147	-	858
FINANCIAL ASSETS AVAILABLE FOR SALE	(2,384)	-	612	(1,772)
IMPAIRMENT OF FINANCIAL ASSETS	363	-	-	363
PROVISIONS FOR LEGAL CASES – INTEREST	18	-	-	18
PROVISIONS FOR PAYMENTS TO EMPLOYEES	315	(315)	-	-
TAX LOSS	-	-	-	-
LOSSES ON AFS SECURITIES	-	-	-	-
	1,138	**131**	**612**	**1,881**

The deferred tax assets and deferred tax liabilities are recognised by applying a rate of 18% (2017: 18%).

10. EARNINGS PER SHARE

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

	2018	2017
PROFIT FOR THE YEAR (IN HRK'000)	12,106	14,096
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR THE YEAR	668,749	668,749
EARNINGS PER SHARE (IN KUNAS) – BASIC AND DILUTED	**18.10**	**21.08**

11. CASH AND CASH EQUIVALENTS

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
GIRO ACCOUNT WITH THE CROATIAN NATIONAL BANK	303,029	374,595
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	51,401	112,068
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	20,432	30,328
CASH IN HAND	45,208	45,574
OTHER ITEMS	12,444	12,433
	432,514	**574,998**
PROVISIONS FOR IMPAIRMENT	(324)	-
	432,190	**574,998**

Changes in provisions for losses

IN HRK THOUSANDS	2018	2017
RECLASSIFICATION 1 JANUARY 2018 FROM LOANS TO CUSTOMERS	5,270	-
BALANCE AT 1 JANUARY	**5,270**	**-**
IMPACT OF IFRS 9	(3,576)	-
BALANCE AT 1 JANUARY – RESTATED	**1,694**	**-**
INCREASE/ (DECREASE)	(1,281)	-
EXCHANGE DIFFERENCES	(89)	
BALANCE AT 31 DECEMBER	**324**	**-**

The provision i.e. allowance for cash and balances with other banks classified into the risk group A amounts to HRK 5,270 thousand and is included in the total provisions for impairment (Note 14 – Loans to customers).

For purposes of the statement of cash flows, cash and cash equivalents comprise the following:

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
GIRO ACCOUNT WITH THE CROATIAN NATIONAL BANK	303,029	374,595
CASH EQUIVALENTS – TERM DEPOSITS WITH OTHER BANKS (NOTE 13)	60,777	13,135
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH FOREIGN BANKS	51,401	112,068
CURRENT ACCOUNTS AND DEMAND DEPOSITS WITH DOMESTIC BANKS	20,432	30,328
CASH IN HAND	45,208	45,574
OTHER ITEMS	12,444	12,433
	493,291	**588,133**

12. BALANCES WITH THE CROATIAN NATIONAL BANK

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
OBLIGATORY RESERVE	190,575	188,657
	190,575	**188,657**
IMPAIRMENT ALLOWANCES	-	-
	190,575	**188,657**

The obligatory reserve represents the amount of liquid assets banks are required to place with the Croatian National Bank. The obligatory reserve is calculated every second Wednesday in a month on certain average balances of liabilities from the previous month. The calculation base includes the daily average balance of received loans and deposits, issued debt securities, hybrid and subordinated instruments and other financial liabilities, along with certain deductible items. The obligatory reserve allocation rate of 12% remained unchanged throughout 2017 and 2018.

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

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

Changes in provision for losses

IN HRK THOUSANDS	2018	2017
RECLASSIFICATION 1 JANUARY 2018 FROM LOANS TO CUSTOMERS	1,887	-
BALANCE AT 1 JANUARY	**1,887**	**-**
IMPACT OF IFRS 9	(1,887)	-
BALANCE AT 1 JANUARY - RESTATED	**0**	**-**
INCREASE/ (DECREASE)	-	-
BALANCE AT 31 DECEMBER	**-**	**-**

The allowance for the obligatory reserve balances classified into the risk group A amounts to HRK 1.887 thousand and is included in the total provisions for impairment (Note 14 – Loans to customers).

13. BALANCES WITH OTHER BANKS

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
TERM DEPOSITS	60,777	13,135
REVERSE REPO LOANS	5,749	4,051
	66,526	**17,186**
LESS: PROVISION FOR LOAN IMPAIRMENT	(213)	-
	66,313	**17,186**

Term deposits with other banks amount to HRK 60,777 thousand and represent term deposits with foreign financial institutions bearing interest a rate of 2.75% annually (2017: up to 2.75%). Reverse repo loans in the amount of HRK 5,749 thousand (2017: HRK 4,050 thousand) were granted to domestic customers based on bonds of the Croatian Ministry of Finance with the ticker ISIN XS0997000251 nominal value USD 800,000 and ISIN XS1713475306 nominal value EUR 100,000.

Changes in provision for losses

IN HRK THOUSANDS	2018	2017
RECLASSIFICATION 1 JANUARY 2018 FROM LOANS TO CUSTOMERS	172	-
BALANCE AT 1 JANUARY	**172**	**-**
IMPACT OF IFRS 9	(117)	-
BALANCE AT 1 JANUARY – RESTATED	**55**	**-**
INCREASE/ (DECREASE)	95	-
EXCHANGE DIFFERENCES	63	-
BALANCE AT 31 DECEMBER	**213**	**-**

The provision recognised on a collective basis for balances with other banks classified into the risk group A amounts to HRK 172 thousand (2017: HRK 172 thousand) and is included in the total provisions for impairment (Note 14 – Loans to customers).

Geographical analysis

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

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
AUSTRIA	26,129	19,868
BELGIUM	10,694	47,517
UNITED STATES OF AMERICA	7,337	7,093
GERMANY	2,001	17,208
CANADA	1,987	1,957
MONTENEGRO	992	14,320
AUSTRALIA	949	2,540
ITALY	473	329
SLOVENIA	343	708
SPAIN	304	133
DENMARK	117	153
SWEDEN	74	241
	51,400	**112,067**

14. LOANS TO CUSTOMERS

a) Analysis by type of customer

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
RETAIL CUSTOMERS		
- HRK DENOMINATED, INCLUDING LOANS WITH A CURRENCY CLAUSE	820,996	718,514
- FOREIGN-CURRENCY DENOMINATED	23,088	23,408
	844,084	**741,922**
CORPORATE CUSTOMERS		
- HRK DENOMINATED, INCLUDING LOANS WITH A CURRENCY CLAUSE	1,081,903	1,080,087
- FOREIGN-CURRENCY DENOMINATED	151,721	143,783
	1,233,624	**1,223,870**
GROSS LOANS TO CUSTOMERS	**2,077,708**	**1,965,792**
LESS: PROVISION FOR LOAN IMPAIRMENT	(243,062)	(253,098)
NET LOANS TO CUSTOMERS	**1,834,646**	**1,712,694**

The total balance of the provisions for impairment includes impairment provisions based on a collective assessment for the risk group A in the amount of HRK 22,052 thousand, of which HRK 14,669 thousand relate to loans to customers, HRK 1,887 thousand to obligatory reserve funds, HRK 5,270 thousand to cash and demand deposits with other banks, HRK 172 thousand to balances with other banks and HRK 54 thousand to other assets.

b) Analysis by sector

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
RETAIL CUSTOMERS	844,083	741,922
WHOLESALE AND RETAIL TRADE	380,273	448,344
PROCESSING AND MANUFACTURING	288,206	233,424
REAL ESTATE OPERATIONS	102,604	67,272
AGRICULTURE AND FORESTRY	99,004	127,536
CONSTRUCTION	85,754	72,822
HOTELS AND RESTAURANTS	69,792	66,116
FOOD AND BEVERAGE PRODUCTION	41,235	53,350
TRANSPORT, STORAGE, COMMUNICATIONS	26,855	34,768
ENERGY, GAS AND WATER SUPPLY	14,597	23,063
OTHER SECTORS	125,305	97,175
	2,077,708	**1,965,792**
LESS: IMPAIRMENT ALLOWANCE	(243,062)	(253,098)
	1,834,646	**1,712,694**

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

BANK		2018	
IN THOUSANDS HRK	STAGE 1	STAGE 2	STAGE 3
BALANCE AT 1 JANUARY	1,485,233	19,011	461,548
TRANSFER FROM STAGE 1	(13,522)	6,300	7,222
TRANSFER FROM STAGE 2	12,861	(14,829)	1,968
TRANSFER FROM STAGE 3	2,312	1,208	(3,520)
CHARGE	(169,286)	(1,664)	(15,584)
REPAYMENT + WRITE-OFFS	(467,589)	(2,119)	(35,592)
NEW ASSETS	781,664	19,779	2,306
BALANCE AT 31 DECEMBER	**1,631,673**	**27,686**	**418,348**

BANK IN THOUSANDS HRK	2017 PARTIALLY RECOVERABLE LOANS	FULLY IRRECOVERABLE LOANS
BALANCE AT 1 JANUARY	**225,427**	**154,759**
TRANSFER FROM FULLY RECOVERABLE LOANS	107,872	1,173
TRANSFER FROM FULLY IRRECOVERABLE LOANS	3	(3)
TRANSFER FROM PARTIALLY RECOVERABLE LOANS	(4,913)	4,913
TRANSFER TO FULLY RECOVERABLE LOANS	(938)	(60)
CHARGE	(22,105)	(4,447)
WRITE-OFFS	-	(422)
OTHER CHANGES	-	-
BALANCE AT 31 DECEMBER	**305,346**	**155,913**

During 2018, HRK 21,539 thousand was repaid to customers loans (in 2017: HRK 47,347 thousand).

d) Provisions for losses

IN THOUSAND HRK	2018	2017
TRANSFER 1.1.2018 ON CASH AND ACCOUNTS WITH BANKS	(5,270)	-
TRANSFER 1.1.2018 ON FUNDS WITH THE CNB	(1,887)	-
TRANSFER 1.1.2018 ON PLACEMENT WITH OTHER BANKS	(172)	-
TRANSFER 1.1.2018 ON OTHER ASSETS	(54)	-
BALANCE AT 1 JANUARY	**245,715**	**237,456**
IMPACT OF IFRS 9	4,861	-
BALANCE AT 1 JANUARY - RESTATED	**250,576**	**-**
INCREASE IN IMPAIRMENT ALLOWANCE	77,582	70,579
AMOUNTS COLLECTED	(63,624)	(52,444)
EXCHANGE RATE DIFFERENCES	(2,264)	(2,071)
AMOUNTS WRITTEN OFF	(19,208)	(422)
BALANCE AT 31 DECEMBER	**243,062**	**253,098**

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

15.1. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS STATEMENT

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
INVESTMENT IN INVESTMENT FUNDS	26,589	-
	26,589	**-**
IMPAIRMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS STATEMENT	-	-
	26,589	**-**

Changes in investment during the year:

IN HRK THOUSANDS	2018.	2017.
BALANCE AT 1 JANUARY	**22,541**	**-**
INCREASE	-	-
RETAINED EARNINGS	3,160	-
CHANGE IN FAIR VALUE	1,213	-
EXCHANGE DIFFERENCES	(325)	-
BALANCE AT 31 DECEMBER	**26,589**	**-**

15.2. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
BONDS	506,192	-
INVESTMENTS IN INVESTMENT FUNDS	128,970	-
EQUITY SECURITIES	49,281	-
	684,443	**-**
IMPAIRMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(10,427)	-
	674,016	**-**

Investments in debt securities are presented as follows:

a) Bonds

IN HRK THOUSANDS	2018	2017
BALANCE 1 JAUNARY	**284,171**	**-**
PURCHASE	718,521	-
SALE/COLLECTION	(497,054)	-
REALIZED GAIN	4,092	-
CHANGE IN FAIR VALUE	(3,995)	-
IMPAIRMENT ALLOWANCE	(15)	-
BALANCE 31 DECEMBER	**505,720**	**-**

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

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
BONDS OF DOMESTIC ISSUERS		
- CROATIAN MINISTRY OF FINANCE	282,521	-
- FINANCIAL INSTITUTIONS	24,450	-
- NON-FINANCIAL INSTITUTIONS	30,732	-
	337,703	**-**
BONDS OF FOREIGN ISSUERS		
- FOREIGN GOVERNMENT BONDS	81,278	-
- FINANCIAL INSTITUTIONS	69,808	-
- NON-FINANCIAL INSTITUTIONS	17,403	-
	168,489	**-**
	506,192	**-**
IMPAIRMENT	(472)	-
	505,720	**-**

Investments in debt securities are shown as follows:

b) Units/shares in investment funds

IN HRK THOUSANDS	2018	2017
BALANCE AT 1 JANUARY	**258,233**	**-**
PURCHASES	4,666	-
SOLD / COLLECTED	(130,216)	-
REALISED GAINS	-	-
CHANGE IN THE FAIR VALUE	(3,713)	-
BALANCE AT 31 DECEMBER	**128,970**	**-**

c) Equity securities

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
LISTED SECURITIES	41,031	-
UNLISTED SECURITIES	8,250	-
	49,281	**-**
IMPAIRMENT OF EQUITY SECURITIES	(9,955)	-
TOTAL	**39,326**	**-**

Movements in equity securities during the year:

IN HRK THOUSANDS	2018	2017
BALANCE AT 1 JANUARY	**59,916**	**-**
PURCHASES	19,637	-
DISPOSALS	(26,712)	-
CHANGE IN THE FAIR VALUE	(12,593)	-
IMPAIRMENT OF EQUITY SECURITIES	(922)	-
BALANCE AT 31 DECEMBER	**39,326**	**-**

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

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
EQUITY SECURITIES OF DOMESTIC ISSUERS		
- FINANCIAL INSTITUTIONS		
- NON-FINANCIAL INSTITUTIONS	724	-
	30,352	**-**
	31,076	-
EQUITY SECURITIES OF FOREIGN ISSUERS		
- FINANCIAL INSTITUTIONS	11,491	-
- NON-FINANCIAL INSTITUTIONS	6,714	-
	18,205	**-**
	49,281	**-**
IMPAIRMENT OF EQUITY SECURITIES	(9,955)	-
	39,326	**-**

d) Fair value reserve from financial assets at fair value through comprehensive income

TYPE OF SECURITIES IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
BY SECURITY TYPE:		
DEBT SECURITIES	(2,188)	-
UNITS/SHARES IN INVESTMENT FUNDS	(87)	-
EQUITY SECURITIES	(8,177)	-
DEFERRED TAX (NOTE 9)	1,944	-
TOTAL FAIR VALUE RESERVE	**(8,508)**	**-**

Movements in the fair value reserve

IN HRK THOUSANDS	2018	2017
BALANCE AT 1 JANUARY	**8,075**	**-**
IMPACT OF IFRS 9 – EXPECTED CREDIT LOSS	904	-
IMPACT OF IFRS 9 – CHANGE IN CLASIFICATION	(2,591)	-
BALANCE AT 1 JANUARY - RESTATED	**6,388**	
CHANGE IN THE FAIR VALUE OF DEBT SECURITIES	(4,343)	-
CHANGE IN THE FAIR VALUE OF UNITS/SHARES IN INVESTMENT FUNDS	(1,122)	-
CHANGE IN THE FAIR VALUE OF EQUITY SECURITIES	(12,592)	-
ACCUMULATED FAIR VALUE CHANGE TRANSFERRED TO PROFIT OR LOSS AS IMPAIRMENT	(556)	
DEFERRED TAX RECOGNISED IN EQUITY (NOTE 9)	3,717	-
BALANCE AT 31 DECEMBER	**(8,508)**	**-**

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

IN HRK THOUSANDS	2018	2017
BALANCE AT 1 JANUARY	**9,491**	**-**
ADDITIONS	2,797	-
DECREASE	(1,861)	-
BALANCE AT 31 DECEMBER	**10,427**	**-**

15.3. FINANCIAL ASSETS FOR SALE

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
CROATIAN TREASURY BILLS	-	-
BONDS	-	284,628
INVESTMENTS IN INVESTMENT FUNDS	-	280,774
EQUITY SECURITIES	-	68,949
	-	**634,351**
IMPAIRMENT OF FINANCIAL ASSETS FOR SALE	-	(9,491)
	-	**624,860**

Investments in debt securities are presented as follows:

a) Treasury bills of Republic of Croatia

IN HRK THOUSANDS	2018	2017
BALANCE 1 JANUARY	**-**	**22,478**
PURCHASE	-	1,155
SOLD/COLLECTED	-	(23,681)
CHANGE OF FAIR VALUE	-	48
BALANCE 31 DECEMBER	**-**	**-**

b) Bonds

IN HRK THOUSANDS	2018	2017
BALANCE 1 JANUARY	**-**	**523,816**
PURCHASE	-	785,166
SOLD/COLLECTED	-	(1,039,249)
REALIZED GAIN	-	19,773
CHANGE IN FAIR VALUE	-	(4,878)
IMPAIRMENT ALLOWANCE	-	(457)
BALANCE 31 DECEMBER	**-**	**284,171**

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

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
BONDS OF DOMESTIC ISSUERS		
- CROATIAN MINISTRY OF FINANCE	-	109,454
- FINANCIAL INSTITUTIONS	-	2,736
- NON-FINANCIAL INSTITUTIONS	-	31,207
	-	**143,397**
	-	
BONDS OF FOREIGN ISSUERS		
- FOREIGN GOVERNMENT BONDS	-	31,253
- FINANCIAL INSTITUTIONS	-	92,973
- NON-FINANCIAL INSTITUTIONS	-	17,005
	-	**141,231**
	-	**284,628**
IMPAIRMENTS	-	(457)
	-	**284,171**

Investments in debt securities are shown as follows:

c) Units/shares in investment funds

IN HRK THOUSANDS	2018	2017
BALANCE 1 JANUARY	**-**	**380,609**
PURCHASE	-	290,445
SOLD/COLLECTED	-	(394,670)
REALISED GAIN	-	7,361
CHANGE IN FAIR VALUE	-	(2,971)
BALANCE 31 DECEMBER	**-**	**280,774**

d) Equity securities

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
LISTED SECURITIES	-	62,532
UNLISTED SECURITIES	-	6,417
	-	**68,949**
IMPAIRMENT OF EQUITY SECURITIES	-	(9,033)
TOTAL	**-**	**59,916**

Movements in equity securities during the year:

IN HRK THOUSANDS	2018	2017
BALANCE 1 JANUARY	**-**	**35,703**
PURCHASE	-	54,934
DISPOSALS	-	(32,053)
REALISED (LOSS)/GAIN	-	(862)
CHANGE IN FAIR VALUE	-	4,401
WRITE-OFFS	-	-
IMPAIRMENT OF EQUITY SECURITIES	-	(2,207)
BALANCE 31 DECEMBER	**-**	**59,916**

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

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
EQUITY SECURITIES OF DOMESTIC ISSUERS		
- FINANCIAL INSTITUTIONS	-	691
- NON-FINANCIAL INSTITUTIONS	-	27,814
	-	**28,505**
EQUITY SECURITIES OF FOREIGN ISSUERS		
- FINANCIAL INSTITUTIONS	-	13,158
- NON-FINANCIAL INSTITUTIONS	-	27,286
	-	**40,444**
	-	**68,949**
IMPAIRMENT OF EQUITY SECURITIES	-	(9,033)
	-	**59,916**

e) Fair value reserve from financial assets for sale

TYPE OF SECURITIES IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
BY SECURITY TYPE:		
DEBT SECURITIES	-	1,807
UNITS/SHARES IN INVESTMENT FUNDS	-	3,626
EQUITY SECURITIES	-	4,416
DEFERRED TAX (NOTE 9)	-	(1,773)
TOTAL FAIR VALUE RESERVE	**-**	**8,076**

Movements in the fair value reserve

IN HRK THOUSANDS	2018	2017
BALANCE AT 1 JANUARY	**-**	**10,864**
CHANGE IN THE FAIR VALUE OF DEBT SECURITIES	-	(4,831)
CHANGE IN THE FAIR VALUE OF UNITS/SHARES IN INVESTMENT FUNDS	-	(2,971)
CHANGE IN THE FAIR VALUE OF EQUITY SECURITIES	-	6,608
PERMANENT IMPAIRMENT OF EQUITY SECURITIES	-	(2,207)
DEFERRED TAX RECOGNISED IN EQUITY (NOTE 9)	-	612
BALANCE AT 31 DECEMBER	**-**	**8,075**

Movement of impairment of financial assets for sale

IN HRK THOUSANDS	2018	2017
BALANCE AT 1 JANUARY	**-**	**6,826**
INCREASE	-	2,757
DECREASE	-	(92)
WRITE-OFFS	-	-
BALANCE AT 31 DECEMBER	**-**	**9,491**

16. INVESTMENT PROPERTY

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
INVESTMENTS IN PROPERTIES	46,915	-
RECLASSIFIED FROM OTHER ASSETS	252	30,672
RECLASSIFIED FROM PROPERTY AND EQUIPMENT	5,912	20,131
ACCUMULATED DEPRECIATION	-	(3,888)
	53,079	**46,915**
IMPAIRMENT OF INVESTMENT PROPERTY	(9,950)	(10,135)
	43,129	**36,780**

Movement of impairment of investment property

IN HRK THOUSANDS	2018	2017
BALANCE AT 1 JANUARY	**10,135**	**-**
IMPAIRMENT	(185)	2,776
RECLASSIFICATION OF OTHER ASSETS	-	7,359
BALANCE AT 31 DECEMBER	**9,950**	**10,135**

Investment property relates to repossessed assets and own assets not used for business operations and that are leased without constraining clauses with for the purpose of earning income from assets and saving maintenance costs. Operating costs related to leased assets are charged to lessees. Subsequent measurement of assets in 2018 shows an increase in the value of assets in the total amount of 185 thousand HRK (in 2017: decrease of 2,776 thousand HRK).

All investment properties are valued at fair value less costs to sell. The fair value of such assets is estimated annually on the basis of an independent valuer's estimate, and any impairment loss is recognized in the income statement. Profits on the income statement other than prepayments are recognized at the end of recognition.

The fair value of investment property of the Bank was determined on the basis of the valuations from 2018. Valuations of real estate value were made by external valuators, who possess the required professional qualifications and recent experience in estimating the fair value of real estate in relevant locations and have no interest in the assets in question or interests related to the estimated value of the property. The fair value is estimated in accordance with the Property Valuation Act (OG 78/2015), and the related Property Value Assessment Methods (NN 105/2015), according to law prescribed and appropriate methods, taking into account a number of factors when determining its current market value. The valuation method has not changed during the year.

Entire portfolio of investment properties is classified as Level 3. During the year there were no items that would be reclassified from level 3 indicator to level 1 indicator or vice versa by hierarchy of fair value.

17. INTANGIBLE ASSETS

IN HRK THOUSANDS	SOFTWARE	GOODWILL	ASSETS UNDER DEVELOPMENT	TOTAL INTANGIBLE ASSETS
COST OR VALUATION				
BALANCE AT 1 JANUARY 2017	**46,496**	**16,867**	**48**	**63,411**
ADDITIONS	1,315	-	-	1,315
TRANSFER FROM ASSETS UNDER DEVELOPMENT	24	-	(24)	-
DISPOSALS AND WRITE-OFFS	-	-	-	-
BALANCE AT 31 DECEMBER 2017	**47,835**	**16,867**	**24**	**64,726**
ADDITIONS	2,550	-	-	2,550
TRANSFER FROM ASSETS UNDER DEVELOPMENT	(148)	-	-	(148)
DISPOSALS AND WRITE-OFFS	(1,865)	-	-	(1,865)
BALANCE AT 31 DECEMBER 2018	**48,372**	**16,867**	**24**	**65,263**
AMORTISATION				
BALANCE AT 1 JANUARY 2017	**18,130**	**-**	**-**	**18,130**
CHARGE FOR THE YEAR	2,533	-	-	2,533
DISPOSALS AND RETIREMENTS	-	-	-	-
BALANCE AT 31 DECEMBER 2017	**20,663**	**-**	**-**	**20,663**
CHARGE FOR THE YEAR	2,385	-	-	2,385
DISPOSALS AND WRITE-OFFS	(1,865)	-	-	(1,865)
BALANCE AT 31 DECEMBER 2018	**21,183**	**-**	**-**	**21,183**
NET BOOK VALUE				
BALANCE AT 31 DECEMBER 2018	**27,189**	**16,867**	**24**	**44,080**
BALANCE AT 31 DECEMBER 2017	**27,172**	**16,867**	**24**	**44,063**

Goodwill has been allocated to the cash generating units acquired on the merger of Požeška Banka d.d. The recoverable amount of the cash generating units is determined on the basis of profitability calculation. For the purposes of calculation, cash flow forecasts have been developed on the basis of financial projection over a time horizon of five years. The discount rate applied to determine the value in use was 9,5% (2017: 10,0%) and the long-term growth rate was 2% (2017: 2%).

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

The Bank carries out stress tests on individual inputs used in determining the value in use, with three scenarios. The specific scenario in which the discount rate equals the used rate, while anticipated profitability is 59 percent lower as a result of lower interest and fee income and the interest and fee expenses increase simultaneously by 30 percent, and the systemic scenario uses an increase of the discount rate increases to 11.7 percent due to the worsening of the credit rating of the Republic of Croatia, and there is also a mixed scenario in which the anticipated profitability is lower by 59% and the macroeconomic indicators and the credit rating of the state are worse those applied in the specific and systemic scenarios.

The test results are provided below:

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

	31 DECEMEBER 2017	SPECIFIC SCENARIO	SYSTEMIC SCENARIO	COMBINED SCENARIO
INVESTMENT COST	43,465	43,465	43,465	43,465
TOTAL PRESENT VALUE	94,506	48,369	76,664	39,228
LESS: IMPAIRMENT	-	-	-	**(4,237)**

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

Goodwill was created by merger of Požeška Banka and was calculated and posted on the date of acquisition of the entity.

18. PROPERTY AND EQUIPMENT

IN HRK THOUSANDS

COST OR VALUATION	LAND AND BUILDINGS	FURNITURE AND EQUIPMENT	MOTOR VEHICLES	IT EQUIPMENT	LEASEHOLD IMPROVEMENTS AND LONG-TERM LEASES	ASSETS UNDER CONSTRUCTION	TOTAL
BALANCE AT 1 JANUARY 2017	**111,602**	**47,910**	**2,537**	**30,221**	**10,478**	**11**	**202,759**
ADDITIONS	-	309	-	253	-	-	562
TRANSFERRED TO OTHER ASSETS	(11,228)	-	-	-	-	-	(11,228)
DISPOSALS AND WRITE-OFFS	(1,101)	-	-	(8)	-	-	(1,109)
BALANCE AT 31 DECEMBER 2017	**99,273**	**48,219**	**2,537**	**30,466**	**10,478**	**11**	**190,984**
ADDITIONS	49	32	-	65	-	-	146
TRANSFERRED TO INVESTMENT PROPERTY	(9,844)	-	-	-	-	-	(9,844)
DISPOSALS AND WRITE-OFFS	-	(7,823)	-	(4,703)	-	-	(12,526)
BALANCE AT 31 DECEMBER 2018	**89,478**	**40,428**	**2,537**	**25,828**	**10,478**	**11**	**168,760**
DEPRECIATION							
BALANCE AT 1 JANUARY 2017	**49,970**	**44,584**	**1,407**	**30,055**	**9,138**	**-**	**135,154**
CHARGE FOR THE YEAR	2,264	1,142	366	114	449	-	4,305
TRANSFERRED TO OTHER ASSETS	(1,888)	-	-	-	-	-	(1,888)
DISPOSALS AND WRITE-OFFS	(625)	-	-	(8)	-	-	(633)
BALANCE AT 31 DECEMBER 2017	**49,721**	**45,726**	**1,743**	**30,161**	**9,587**	**-**	**136,938**
CHARGE FOR THE YEAR	1,551	1,034	337	97	403	-	3,422
TRANSFERRED TO INVESTMENT PROPERTY	(3,932)	-	-	-	-	-	(3,932)
DISPOSALS AND RETIREMENTS	-	(7,823)	-	(4,682)	-	-	(12,505)
BALANCE AT 31 DECEMBER 2018	**47,340**	**38,937**	**2,080**	**25,576**	**9,990**	**-**	**123,923**
NET BOOK VALUE							
AT 31 DECEMBER 2018	**42,138**	**1,491**	**457**	**252**	**488**	**11**	**44,837**
AT 31 DECEMBER 2017	**49,552**	**2,493**	**794**	**305**	**891**	**11**	**54,046**

The Bank has no tangible assets pledged as collateral for deposits for accepted deposits or other assets in 2018 and 2017.

19. NON-CURRENT ASSETS HELD FOR SALE

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
ASSETS HELD FOR SALE	1,260	3,072
	1,260	**3,072**
IMPAIRMENT OF ASSETS HELD FOR SALE	(46)	(495)
	1,214	**2,577**

Movements of impairment od non-current assets held for sale

IN HRK THOUSANDS	2018	2017
BALANCE AT 1 JANUARY	**495**	**-**
IMPAIRMENT	-	495
DISPOSALS	(449)	-
BALANCE AT 31 DECEMBER	**46**	**495**

A portfolio of assets destined for sale refers to the property acquired in exchange for non-repayable receivables. In 2018, there was no change in the value of the portfolio of property intended for sale, whereas in 2017, subsequent measurements of the acquired assets recorded impairment losses in the total amount of HRK 495 thousand. Assets are marketed for sale through foreign real estate agencies with which the Bank has concluded Mediation Contracts. The expected sales deadline is one year. In 2018, sale of assets of book value of HRK 1,363 thousand was realized.

20. OTHER ASSETS

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
FORECLOSED ASSETS	11,029	10,230
ACCRUED FEES AND COMMISSIONS	5,227	5,684
PREPAID EXPENSES	1,944	2,652
OTHER PREPAYMENTS	1,111	716
INCOME TAX RECEIVABLES	-	1,523
OTHER ASSETS	2,221	1,688
	21,532	**22,493**
LESS: IMPAIRMENT	(6,649)	(7,093)
	14,883	**15,400**

The provision recognised on a collective basis for A-graded other assets amounts to HRK 54 thousand in 2017 and is included in the total provisions for impairment (Note 14 – Loans to customers).

Foreclosed property and equipment are not used for the purposes of the Bank and amount to HRK 9,284 thousand at 31 December 2018 (31 December 2017: HRK 8,769 thousand). The Bank has reclassified part of foreclosed assets portfolio to investment property and to non-current assets held for sale, based on purpose.

Subsequent measurement of foreclosed assets resulted in total impairment amount of HRK 284 thousand in 2018 (2017: HRK 1,261 thousand).

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

IN HRK THOUSANDS	2018	2017
RECLASSIFICATION 1 JANUARY 2018 FROM CUSTOMER LOANS	54	-
BALANCE AT 1 JANUARY	**7,147**	**14,346**
IMPACT OF IFRS 9	(164)	-
BALANCE AT 1 JANUARY - RESTATED	**6,983**	**-**
IMPAIRMENT OF OTHER ASSETS	2,567	1,138
AMOUNTS COLLECTED	(2,271)	(949)
EXCHANGE DIFFERENCES	(9)	(3)
AMOUNTS WRITTEN-OFF	(905)	(121)
SALE OF FORECLOSED ASSETS	284	(1,220)
IMPAIRMENT OF FORECLOSED ASSETS	-	1,261
RECLASSIFICATION OF ASSETS	-	(7,359)
BALANCE AT 31 DECEMBER	**6,649**	**7,093**

21. AMOUNTS DUE TO OTHER BANKS

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
DEMAND DEPOSITS, IN FOREIGN CURRENCIES	5,792	14,399
DEMAND DEPOSITS, IN HRK	1	1
TERM DEPOSITS OF DOMESTIC AND FOREIGN BANKS, IN FOREIGN CURRENCIES	1,937	24,501
	7,730	**38,901**

The interest rates on foreign currency term deposits is 9.25% (in 2017. from 0.15% to 0.25%).

22. AMOUNTS DUE TO CUSTOMERS

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
RETAIL CUSTOMERS		
DEMAND DEPOSITS		
- HRK DENOMINATED	467,153	371,863
- FOREIGN-CURRENCY DENOMINATED	391,558	284,801
TERM DEPOSITS		
- HRK DENOMINATED	311,689	344,838
- FOREIGN-CURRENCY DENOMINATED	736,298	871,467
TOTAL RETAIL DEPOSITS	**1,906,698**	**1,872,969**
CORPORATE		
DEMAND DEPOSITS		
- HRK DENOMINATED	331,020	262,946
- FOREIGN-CURRENCY DENOMINATED	55,868	53,017
TERM DEPOSITS		
- HRK DENOMINATED	136,387	198,151
- FOREIGN-CURRENCY DENOMINATED	19,242	29,570
TOTAL LOANS TO LEGAL PERSONS	**542,517**	**543,684**
TOTAL DEPOSITS FROM CUSTOMERS	**2,449,215**	**2,416,653**

23. OTHER BORROWINGS

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
BORROWINGS FROM CBRD	131,930	143,033
REPO LOANS FROM THE CNB, HRK DENOMINATED	92,009	61,078
REPO LOANS FROM DOMESTIC BANKS, FOREIGN-CURRENCY DENOMINATED	16,320	-
REPO LOANS OF DOMESTIC BANKS, HRK DENOMINATED	70,001	-
LOANS FROM DOMESTIC BANKS	14,835	-
	325,095	**204,111**

The CBRD loans are utilised for extending loans to legal and natural persons in accordance with the HBOR SME, Tourist Trade and Agriculture Promotion Programme.

Repo loans comprise loans for which the Bank has pledged securities as collateral, with the obligation to repurchase them at a certain future date. In 2018, the Bank has two repo loan arrangements entered into with the Croatian National Bank, with interest rates of 1.20% and 1.80% respectively (2017: interest rates were 1.20% and 1.80% respectively). Three short-term repo loans were contracted with domestic banks, two with interest rate of 0.03% and one with interest rate of 0.20%).

For all repo loans in 2018 and 2017 the Bank has pledged the bonds of the Ministry of Finance of Republic of Croatia as security.

A short-term loan was made with domestic banks at an interest rate of 0.08% per year.

24. OTHER LIABILITIES

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
ITEMS IN COURSE OF PAYMENT UNDER GIVEN LOANS	32,078	21,968
OTHER FOREIGN-CURRENCY DENOMINATED LIABILITIES	5,393	250
ACCOUNTS PAYABLE	3,586	2,851
LIABILITIES TO EMPLOYEES	3,310	7,050
LIABILITIES IN ACCRUAL BASED ON RECEIVED FUNDS	2,255	1,498
OBLIGATIONS IN THE PAYMENT PROCESS	2,000	1,259
OTHER HRK DENOMINATED LIABILITIES	1,864	3,783
PREPAID DEPOSIT INSURANCE PREMIUMS	1,212	1,396
ACCRUED FEES AND COMMISSIONS	864	891
CURRENT TAX LIABILITY	666	551
PROVISIONS FOR RETIREMENT AND OTHER BENEFITS TO EMPLOYEES	574	256
DIVIDENDS PAYABLE	113	114
	53,915	**41,867**

25. PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES

a) Analysis

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
PROVISIONS FOR FRAME LOANS	4,308	3,415
PROVISIONS FOR GUARANTEES	1,082	527
PROVISIONS FOR LEGAL CASES	297	297
PROVISIONS FOR UNCOVERED LETTERS OF CREDIT	47	20
PROVISIONS FOR OTHER CONTINGENT LIABILITIES	14	138
	5,748	**4,397**

b) Movements in provisions

IN HRK THOUSANDS	2018	2017
BALANCE AT 1 JANUARY	4,397	3,782
IMPACT OF IFRS 9	(13)	-
BALANCE AT 1 JANUARY - RESTATED	4,384	-
ADDITIONAL PROVISIONS MADE WITH RESPECT TO CREDIT RISK	14,959	10,983
DECREASE IN THE BALANCE OF PROVISIONS DURING THE YEAR WITH RESPECT TO CREDIT RISK	(13,594)	(10,300)
(DECREASE) / INCREASE IN PROVISIONS FOR LEGAL CASES	-	(68)
BALANCE AT 31 DECEMBER	5,749	4,397

26. ISSUED HYBRID AND SUBORDINATED INSTRUMENTS

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
ISSUED HYBRID BONDS	-	77,023
ISSUED SUBORDINATED BONDS	97,004	52,009
	97,004	129,032

On 22 August 2011 the Bank subscribed hybrid instruments by issuing bonds with a ticker symbol PDBA-O-188A. ISIN: HRPDBAO188A5. These are non-materialised registered bonds equivalent to HRK 10 million, issued originally in 1-euro denomination. The interest rate is fixed and amounts to 7% per year, payable on a semi-annual basis. The principal is due in 2018.

On 23 December 2013 the Bank subscribed subordinated instruments by issuing bonds with a ticker symbol PDBA-O-21CA, ISIN: HRPDBAO21CA3. These are non-materialised registered bonds equivalent to HRK 6.9 million, issued originally in 1-euro denomination. The interest rate is fixed and amounts to 6.5% per year, payable on a semi-annual basis. The principal is due in 2021.

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

Subordinated bonds were issued by public offering without publishing the prospectus, with the simultaneous early repurchase of all or part of the issue of PDBA-O-188A and PDBA-O-21CA bonds.

After the termination and completion of the public offer, PDBA-O-188A, ISIN: HRPDBAO188A5, and the subordinated PDBA-O-21CA, ISIN: HRPDBAO21CA3 bonds, amounting to EUR 3,280,000 were early redeemed and canceled hybrid bonds of PDBA-O-188A.

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

27. SHARE CAPITAL

The share capital consists of ordinary shares. The total number of ordinary shares in issue at the end of 2018 was 668,749 ordinary shares (2017: 668,749 ordinary shares) with a nominal value of HRK 400.00 per share.

At 31 December 2018, the Bank held 1.523 treasury shares which it carries at cost (2017: 9,203 treasury shares).

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

	2018		2017	
IN HRK THOUSANDS	NUMBER OF SHARES	ORDINARY SHARES, IN%	NUMBER OF SHARES	ORDINARY SHARES, IN%
ANTONIA GORGONI	66,278	9.91	66,278	9.91
LORENZO GORGONI	66,002	9.87	66,002	9.87
ASSICURAZIONI GENERALI S.P.A.	63,791	9.54	63,791	9.54
CERERE S.P.A. TRIESTE	63,735	9.53	63,735	9.53
MILJAN TODOROVIC	55,731	8.33	55,731	8.33
SIGILFREDO MONTINARI	38,529	5.76	38,529	5.76
DARIO MONTINARI	38,526	5.76	38,526	5.76
ANDREA MONTINARI	38,515	5.76	38,515	5.76
PIERO MONTINARI	38,515	5.76	38,515	5.76
GIOVANNI SEMERARO	27,494	4.11	27,494	4.11
MARIO GORGONI	22,868	3.42	20,670	3.09
MIROSLAV BLAŽEV	-	0.00	26,011	3.89
OTHER SHAREHOLDERS (INDIVIDUALLY BELOW 3%)	148,765	22.25	124,952	18.69
	668,749	**100.00**	**668,749**	**100.00**

28. RESERVES

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
LEGAL RESERVES	143,935	129,839
RESERVES FOR OWN SHARES	16,830	16,830
GENERAL BANKING RISK RESERVE	5,104	5,104
NON-DISTRIBUTABLE RESERVES	165,869	151,773
CAPITAL GAINS ON TRADING IN TREASURY SHARES	(3,282)	4,802
FAIR VALUE RESERVE	(8,508)	8,076
DISTRIBUTABLE RESERVES	(11,790)	12,878
	154,079	164,651

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

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

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

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

Assets and liabilities on loans managed for and on behalf of third parties can be presented as follows:

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
ASSETS		
LOANS TO INDIVIDUALS	11,361	11,986
CORPORATE LOANS	879	874
CASH	560	573
TOTAL ASSETS	**12,800**	**13,433**

LIABILITIES		
FINANCIAL INSTITUTIONS	8,376	8,484
PUBLIC SECTOR	2,397	2,763
CORPORATE	2,027	2,186
TOTAL LIABILITIES	**12,800**	**13,433**

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

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
VALUE OF FINANCIAL INSTRUMENTS	815,484	997,499

30. CONTINGENT LIABILITIES AND COMMITMENTS

a) Legal cases

At 31 December 2018 there were several legal cases outstanding against the Bank. Based on the Management's estimate, a provision for potential losses on the litigations has been made in the amount of HRK 297 thousand (2017: HRK 297 thousand).

b) Guarantees, letters of credit and undrawn frame loans commitmens

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

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
COMMITMENTS – UNDRAWN LOANS	235,441	216,665
COMMITMENTS – UNDRAWN FRAME LOANS ON TRANSACTION ACCOUNTS	143,689	136,565
GUARANTEES	66,602	58,113
FX LETTERS OF CREDIT	2,909	1,984
	448,641	**413,327**

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

c) Operating lease

Future minimum payments under operating leases are as follows:

IN HRK THOUSANDS	31 DECEMBER 2018	31 DECEMBER 2017
UP TO 1 YEAR	3,375	4,278
FROM 2 TO 5 YEARS	4,466	8,343
OVER 5 YEARS	1,475	2,146
TOTAL	**9,316**	**14,767**

Upon the expiry of the lease term, the lease agreements are renewable at the market price. The Bank has operating lease agreements for business premises, vehicles and equipment. In operating lease expense structure, the most significant share relates to business premises operating lease cost in amount of HRK 3,606 (2017: HRK 3,932 thousand).

31. RELATED-PARTY TRANSACTIONS

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

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

IN HRK THOUSANDS	KEY MANAGEMENT PERSONNEL AND THEIR RELATED PERSONS		SUPERVISORY BOARD	
	2018	2017	2018	2017
LOANS				
BALANCE AT BEGINNING OF THE YEAR	**2,021**	**2,116**	**22,807**	**23,043**
INCREASE/ (DECREASE) DURING YEAR	(80)	(95)	(340)	(236)
BALANCE AT THE END OF THE YEAR	**1,941**	**2,021**	**22,467**	**22,807**
REALISED INTEREST INCOME	**74**	**67**	**1,397**	**1,431**

DEPOSITS RECEIVED				
BALANCE AT BEGINNING OF THE YEAR	**6,502**	**5,730**	**343**	**60**
INCREASE / (DECREASE) DURING THE YEAR	122	771	664	283
BALANCE AT THE END OF THE YEAR	**6,624**	**6,501**	**1,007**	**343**
REALISED INTEREST EXPENSE	67	103	-	-

Management remuneration

IN HRK THOUSANDS	2018	2017
GROSS SALARIES AND OTHER SHORT-TERM BENEFITS	14,854	15,693

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

Expenses for bonuses management are not scheduled in 2018 (in 2017: HRK 1,330 thousand). Remuneration of the members of the Supervisory Board in 2018 amounted to HRK 3,929 thousand (in 2017: HRK 3,646 thousand).

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

IN HRK THOUSANDS	2018	2017
DUE FROM BANKS		
OPENING BALANCE	14,320	803
INCREASE / (DECREASE) DURING YEAR	(13,328)	13,517
CLOSING BALANCE	**992**	**14,320**
DUE TO BANKS AND LIABILITIES FROM ISSUED HYBRID AND SUBORDINATED INSTRUMENTS		
OPENING BALANCE	16,180	46,873
INCREASE / (DECREASE) DURING YEAR	(992)	(30,693)
CLOSING BALANCE	**15,188**	**16,180**

	2018	2017
INTEREST INCOME	3	7
FEE AND COMMISSION INCOME	476	418
TOTAL INCOME	**479**	**425**
INTEREST EXPENSE	743	970
FEE AND COMMISSION EXPENSE	1	3
TOTAL EXPENSE	**744**	**973**

32. FINANCIAL RISK MANAGEMENT OBJECTIVES

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

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

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

Credit risk

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

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

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

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

In order to better manage credit risk, the Bank estimates the creditworthiness of its clients and, in order to reduce the credit risk, obtains the appropriate collaterals.

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

When assessing the credit risk of placements, it is estimated:
(1) client's creditworthiness,
(2) timeliness in settling debtor's obligations to the Bank and other creditors,
(3) collateral quality per exposure.

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

Depending on the assessment of the above criteria, the Bank allocates all placements to the following categories:
a) the risk group A, which consists of the risk subgroups A1 and A2,
b) a risk group B, consisting of risk subgroups B1, B2 and B3 and
c) a risk group C.

The bank allocates credit exposures for which no significant increase in credit risk has been established since the initial recognition date in the risk subgroup A1 (stage 1). Impairment losses and provisions for credit losses are determined on the basis of the 12-month expected credit losses that represent part of the life-long expected credit losses that would occur if the default status of the obligation within the next 12 months is reached.

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

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

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

Risk class C (stage 3) allocates placements with a 100% impairment allowance.

Liquidity risk

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

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

The Bank identifies three basic forms of liquidity risk:

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

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

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

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

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

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

Liquidity risk management is organized through the Board, the Financial market sector, the Risk management sector, the Risk control department and the Asset and liability management committee.

Market risk

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

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

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

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

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

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

Currency risk

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

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

Interest rate risk

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

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

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

Interest rate risk is reported through an interest rate gap report by which the Management Board approves internally set limits for individual time horizons. The Bank's Management Board and Asset and Liability Committee control and manage the interest rate risk by involving all organisational units that operatively apply the prescribed interest rates.

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

Equity and debt security price risk

Equity and debt security price risk is the risk that equity and debt security prices will fluctuate, affecting the fair value of the underlying investments and other derived financial instruments. The primary exposure to equity price risk arises from the available-for-sale equity securities.

Derivative financial assets and liabilities

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

Operational risk

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

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

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

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

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

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

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

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

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

Capital management

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

Based on the capital adequacy levels, the Bank meets all of the limits prescribed in Article 92 of Directive (EU) No. 575/2013 of the European Parliament and of the Council dated 26 June 2013 on prudential requirements for credit institutions and investment funds and amending Directive (EU) No. 648/2012 (EU Official Journal L 176/2013), according to which institutions must meet the following capital requirements:
(a) a Common Equity Tier 1 capital ratio of 4.5 percent;
(b) a Tier 1 capital ratio of 6 percent;
(c) a total capital ratio of 8 percent.

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

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

Supplementary (Tier 2) capital items include debt securities issued by the Bank, specifically, subordinated bonds in the amount of HRK 85,821 thousand (2017: HRK 41,319 thousand subprdinated bonds and HRK 9,629 thousand hybrid bonds).

IN HRK THOUSANDS	2018	2017
REGULATORY CAPITAL		
CORE TIER 1 CAPITAL	375,647	363,351
COMMON EQUITY TIER 1 CAPITAL	375,647	363,351
TIER 2 CAPITAL	85,821	50,947
TOTAL REGULATORY CAPITAL	**461,468**	**414,298**
CAPITAL ADEQUACY RATIO IN %	**18.22%**	**16.75%**
MINIMUM CAPITAL ADEQUACY RATIO IN %	**8.00%**	**8.00%**

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

Fair value of financial assets other than those at fair value

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

2018 IN HRK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS STATEMENT				
EQUITY SECURITIES	26,589	-	-	26,589
TOTAL	**26,589**	**-**	**-**	**26,589**

2018 IN HRK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME				
EQUITY SECURITIES	157,815	-	10,009	167,824
DEBT SECURITIES	496,332	-	9,860	506,192
TOTAL	**654,147**	**-**	**19,869**	**674,016**

2017 IN HRK THOUSANDS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS FOR SALE				
EQUITY SECURITIES	325,368	-	14,864	340,232
DEBT SECURITIES	282,945	1,683	-	284,628
TOTAL	**608,313**	**1,683**	**14,864**	**624,860**

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

Level 3 includes the debt securities of JGL d.d.

During the year Proficio d.d. and SNH Alfa d.d. reclassified from level 1 to level 3.

During the year, bonds Jadran Galenski Laboratorij d.d. reclassified from level 1 to 3 and Privatbank from level 2 to level 1.

Fair value measurement

FINANCIAL ASSETS AND FINANCIAL LIABILITIES	FAIR VALUE AT (IN HRK'000)		FAIR VALUE HIERARCHY	VALUATION TECHNIQUE(S) AND KEY INPUT(S)	SIGNIFICANT UNOBSERVABLE INPUT(S)
	31 DECEMBER 2018	31 DECEMBER 2017			
EQUITY SECURITIES	157,815	325,368	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	N/A
EQUITY SECURITIES	10,009	14,864	LEVEL 3	IMPAIRMENT TEST (ILLIQUID SHARES) OR COST VALUATION CONSIDERING IMMATERIAL INVESTMENT	N/A
TOTAL EQUITY SECURITIES:	**167,824**	**340,232**			
DEBT SECURITIES	496,332	282,945	LEVEL 1	VALUATION ACCORDING TO MARKET PRICES	N/A
DEBT SECURITIES	-	1,683	LEVEL 2	VALUATION ACCORDING TO THE SIMILAR ASSETS (TREASURY BILLS AND COMMERCIAL BILLS ARE ADJUSTED TO PRICES FROM THE MOST RECENT AUCTION OF TREASURY BILLS)	N/A
DEBT SECURITIES	9,860	-	LEVEL 3	VALUATION BY USING THE EFFECTIVE INTEREST RATE (NO PRICE AND/OR MARKET AVAILABLE FOR THESE SECURITIES, ILLIQUID SECURITIES)	N/A
TOTAL DEBT SECURITIES:	**506,192**	**284,628**			
TOTAL SECURITIES	**674,016**	**624,860**			

Movement of financial assets in Level 3

2018	FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME '000 HRK
OPENING BALANCE	**14,864**
TOTAL LOSSES	(5,618)
ACQUISITION OF ASSETS	-
DISPOSAL OF ASSETS	-
MATURED ASSETS	-
RECLASSIFIED FROM LEVEL 3	10,606
CLOSING BALANCE	**19,852**

2017	UNLISTED SHARES AVAILABLE FOR SALE
	'000 HRK
OPENING BALANCE	**62,667**
TOTAL LOSSES	(203)
ACQUISITION OF ASSETS	-
DISPOSAL OF ASSETS	(3,321)
MATURED ASSETS	(22,478)
RECLASSIFIED FROM LEVEL 3	(21,801)
CLOSING BALANCE	**14,864**

34. INTEREST RATE RISK

The tables below provide the Bank's interest rate sensitivity position at 31 December 2018 and 2017 based upon the known repricing dates of fixed and floating rate assets and liabilities and the assumed repricing dates of other items.

AT 31 DECEMBER 2018 IN HRK THOUSANDS	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON-INTEREST BEARING	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	6,389	-	-	-	425,801	432,190
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	190,575	190,575
BALANCES WITH OTHER BANKS	42,700	22,245	-	-	1,368	66,313
LOANS TO CUSTOMERS	1,139,104	109,211	159,968	426,363	-	1,834,646
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	-	-	26,589	26,589
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	9,055	21,290	474,767	168,904	674,016
TOTAL ASSETS	**1,188,193**	**140,511**	**181,258**	**901,130**	**813,237**	**3,224,329**
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	1,270	-	1,937	-	4,523	7,730
AMOUNTS DUE TO CUSTOMERS	1,447,201	193,995	621,975	180,490	5,554	2,449,215
OTHER BORROWINGS	113,571	70,444	18,747	122,333	-	325,095
HYBRID INSTRUMENTS ISSUED	-	-	91,442	5,562	-	97,004
TOTAL LIABILITIES	**1,562,042**	**264,439**	**734,101**	**308,385**	**10,077**	**2,879,044**
NET INTEREST EXPOSURE	**(373,849)**	**(123,928)**	**(552,843)**	**592,745**	**803,160**	**345,285**

AT 31 DECEMBER 2017 IN HRK THOUSANDS	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	OVER 1 YEAR	NON-INTEREST BEARING	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	-	-	-	-	574,998	574,998
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	188,657	188,657
BALANCES WITH OTHER BANKS	4,508	12,678	-	-	-	17,186
LOANS TO CUSTOMERS	1,194,635	106,515	197,929	213,615	-	1,712,694
FINANCIAL ASSETS AVAILABLE FOR SALE	6,409	1,683	15,082	260,996	340,690	624,860
TOTAL ASSETS	1,205,552	120,876	213,011	474,611	1,104,345	3,118,395
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	21,916	15,028	-	1,957	-	38,901
AMOUNTS DUE TO CUSTOMERS	1,124,131	300,224	733,226	259,072	-	2,416,653
OTHER BORROWINGS	673	22,056	17,185	164,197	-	204,111
HYBRID INSTRUMENTS ISSUED	-	-	77,023	52,009	-	129,032
TOTAL LIABILITIES	**1,146,720**	**337,308**	**827,434**	**477,235**	**-**	**2,788,697**
NET INTEREST EXPOSURE	**58,832**	**(216,432)**	**(614,423)**	**(2,624)**	**1,104,345**	**329,698**

In 2018, the weighted effective interest rates on loans to customers stood at 5.07% (2017: 5.51%).

In 2018, the weighted effective interest rates on deposits received from customers stood at 0.50% (2017: 0.88%).

The table below presents the sensitivity of the Bank's assets and liabilities at variable interest rates to changes in the interest rates. The growth assumptions were derived from the actual growth or decline in the interest rates in 2018 and 2017 A change in the interest rates has a direct impact on the net interest income. By applying the same percentages to simulate a decline in interest rates, the result would be an interest expense in the same amount.

IN HRK THOUSANDS	ASSUMED INCREASE IN INTEREST RATE	IMPACT ON 2018 PROFIT OR LOSS	IMPACT ON 2017 PROFIT OR LOSS
ASSETS	5% RELATIVE	2,920	1,761
LIABILITIES	5% RELATIVE	(299)	(649)
IMPACT ON THE NET INTEREST INCOME		**2,621**	**1,112**

35. CURRENCY RISK

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

AT 31 DECEMBER 2018 IN HRK THOUSANDS	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	115,518	14,622	13,771	143,911	288,279	432,190
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	190,575	190,575
BALANCES WITH OTHER BANKS	60,582	-	-	60,582	5,731	66,313
LOANS TO CUSTOMERS	930,773	1,910	-	932,683	901,963	1,834,646
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	26,589	-	-	26,589	-	26,589
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	124,898	74,957	21,170	221,025	452,991	674,016
INTANGIBLE ASSETS	-	-	-	-	44,080	44,080
PROPERTY AND EQUIPMENT	-	-	-	-	44,837	44,837
DEFERRED TAX ASSETS	-	-	-	-	6,028	6,028
INVESTMENT PROPERTY	-	-	-	-	43,129	43,129
NON-CURRENT ASSETS HELD FOR SALE	-	-	-	-	1,214	1,214
OTHER ASSETS	16	-	-	16	14,867	14,883
TOTAL ASSETS	**1,258,376**	**91,489**	**34,941**	**1,384,806**	**1,993,694**	**3,378,500**
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	7,639	-	90	7,729	1	7,730
AMOUNTS DUE TO CUSTOMERS	1,087,977	91,383	32,528	1,211,888	1,237,327	2,449,215
OTHER BORROWINGS	57,712	-	-	57,712	267,383	325,095
OTHER LIABILITIES	12,754	23	15	12,792	41,123	53,915
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	1,001	4	-	1,005	4,743	5,748
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	97,004	-	-	97,004	-	97,004
TOTAL LIABILITIES	**1,264,087**	**91,410**	**32,633**	**1,388,130**	**1,550,577**	**2,938,707**
EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(1,388)	(1,388)
OTHER RESERVES	-	-	-	-	154,079	154,079
PROFIT FOR THE YEAR	-	-	-	-	12,106	12,106
RETAINED EARNINGS / (ACCUMULATED LOSSES)	-	-	-	-	4,481	4,481
TOTAL SHAREHOLDERS' EQUITY	**-**	**-**	**-**	**-**	**439,793**	**439,793**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,264,087**	**91,410**	**32,633**	**1,388,130**	**1,990,370**	**3,378,500**
NET FX EXPOSURE	**(5,711)**	**79**	**2,308**	**(3,324)**	**3,324**	**-**

AT 31 DECEMBER 2017 IN HRK THOUSANDS	EUR	USD	OTHER CURRENCIES	TOTAL FOREIGN CURRENCIES	HRK	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	199,764	10,987	30,206	240,957	334,041	574,998
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	188,657	188,657
BALANCES WITH OTHER BANKS	13,135	-	-	13,135	4,051	17,186
LOANS TO CUSTOMERS	913,718	8,737	-	922,455	790,239	1,712,694
FINANCIAL ASSETS AVAILABLE FOR SALE	259,783	8,497	8,255	276,535	348,325	624,860
INTANGIBLE ASSETS	-	-	-	-	44,063	44,063
PROPERTY AND EQUIPMENT	-	-	-	-	54,046	54,046
DEFERRED TAX ASSETS	-	-	-	-	1,880	1,880
INVESTMENT PROPERTY	-	-	-	-	36,780	36,780
NON-CURRENT ASSETS HELD FOR SALE	-	-	-	-	2,577	2,577
OTHER ASSETS	23	-	-	23	15,377	15,400
TOTAL ASSETS	**1,386,423**	**28,221**	**38,461**	**1,453,105**	**1,820,036**	**3,273,141**
LIABILITIES AND SHAREHOLDERS' EQUITY						
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	33,438	1,189	4,273	38,900	1	38,901
AMOUNTS DUE TO CUSTOMERS	1,190,250	28,714	31,126	1,250,090	1,166,563	2,416,653
OTHER BORROWINGS	34,378	-	-	34,378	169,733	204,111
OTHER LIABILITIES	2,390	14	16	2,420	39,447	41,867
PROVISIONS FOR CONTINGENT LIABILITIES AND CHARGES	236	4	-	240	4,157	4,397
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	129,032	-	-	129,032	-	129,032
TOTAL LIABILITIES	**1,389,724**	**29,921**	**35,415**	**1,455,060**	**1,379,901**	**2,834,961**
EQUITY						
SHARE CAPITAL	-	-	-	-	267,500	267,500
SHARE PREMIUM	-	-	-	-	3,015	3,015
TREASURY SHARES	-	-	-	-	(11,082)	(11,082)
OTHER RESERVES	-	-	-	-	164,651	164,651
PROFIT FOR THE YEAR	-	-	-	-	14,096	14,096
RETAINED EARNINGS / (ACCUMULATED LOSSES)	-	-	-	-	-	-
TOTAL SHAREHOLDERS' EQUITY	-	-	-	-	438,180	438,180
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,389,724	29,921	35,415	1,455,060	1,818,081	3,273,141
NET FX EXPOSURE	**(3,301)**	**(1,700)**	**3,046**	**(1,955)**	**1,955**	**-**

The table below details the sensitivity of the Bank's net assets to an upward change of the mid-point exchange rate of the CNB i.e. an increase in the relevant exchange rate and its impact on profit or loss, showing a summary amount of the simplified increase in all currencies by 2%. By applying the same assumed percentage to a decrease in the mid-point exchange rate of the CNB, there would be the same but opposite impact on profit or loss by currency on a net principle i.e. the sum of the effects for all currencies would result in an expense for 2017 and an income for 2017. The change in the interest rates would be reflected through the income statement as foreign exchange gains or losses.

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

CURRENCY AT 31 DECEMBER 2017 IN HRK THOUSANDS	ASSUMED INCREASE OF THE CNB'S MIDDLE EXCHANGE RATE	IMPACT ON PROFIT OR LOSS ASSETS	IMPACT ON PROFIT OR LOSS LIABILITIES	IMPACT ON PROFIT OR LOSS NET
ASSETS	2.00%	29,062	-	29,062
LIABILITIES	2.00%	-	29,101	29,101
NET ASSETS / (LIABILITIES)		**29,062**	**29,101**	**(39)**

36. LIQUIDITY RISK

AT 31 DECEMBER 2018 IN HRK THOUSANDS	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 MONTH TO 3 YEARS	OVER 3 YEARS	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	432,190	-	-	-	-	432,190
BALANCES WITH THE CROATIAN NATIONAL BANK	190,575	-	-	-	-	190,575
BALANCES WITH OTHER BANKS	42,700	23,613	-	-	-	66,313
LOANS TO CUSTOMERS	282,448	173,993	380,835	380,945	616,425	1,834,646
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	26,589	-	-	-	-	26,589
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	169,844	11,676	22,722	124,158	345,616	674,016
FINANCIAL ASSETS	**1,144,346**	**209,282**	**403,557**	**505,103**	**962,041**	**3,224,329**
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	5,793	-	1,937	-	-	7,730
AMOUNTS DUE TO CUSTOMERS	1,411,200	172,328	627,073	209,982	28,632	2,449,215
OTHER BORROWED FUNDS	101,554	15,068	22,901	79,609	105,963	325,095
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	-	287	26,932	69,785	97,004
FINANCIAL LIABILITIES	**1,518,547**	**187,396**	**652,198**	**316,523**	**204,380**	**2,879,044**
CUMULATIVE GAP	**(374,201)**	**21,886**	**(248,641)**	**188,580**	**757,661**	**345,285**

AT 31 DECEMBER 2017 IN HRK THOUSANDS	UP TO 1 MONTH	1 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 MONTH TO 3 YEARS	OVER 3 YEARS	TOTAL
ASSETS						
CASH AND AMOUNTS DUE FROM BANKS	574.998	-	-	-	-	574.998
BALANCES WITH THE CROATIAN NATIONAL BANK	188.657	-	-	-	-	188.657
BALANCES WITH OTHER BANKS	4.508	12.678	-	-	-	17.186
LOANS TO CUSTOMERS	298.240	158.788	368.727	382.920	504.019	1.712.694
FINANCIAL ASSETS AVAILABLE FOR SALE	340.689	1.683	15.082	104.599	162.807	624.860
FINANCIAL ASSETS	**1.407.092**	**173.149**	**383.809**	**487.519**	**666.826**	**3.118.395**
LIABILITIES						
AMOUNTS DUE TO OTHER BANKS	21.916	15.028	-	1.957	-	38.901
AMOUNTS DUE TO CUSTOMERS	1.121.365	300.224	734.028	230.966	30.070	2.416.653
OTHER BORROWED FUNDS	673	22.056	17.185	69.703	94.494	204.111
ISSUED HYBRID AND SUBORDINATED INSTRUMENTS	-	-	77.023	-	52.009	129.032
FINANCIAL LIABILITIES	**1.143.954**	**337.308**	**828.236**	**302.626**	**176.573**	**2.788.697**
CUMULATIVE GAP	**263.138**	**(164.159)**	**(444.427)**	**184.893**	**490.253**	**329.698**

37. CREDIT RISK

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

IN HRK THOUSANDS AT 31 DECEMBER 2018	GROSS EXPOSURE	IMPAIRMENT ALLOWANCES	NET EXPOSURE
A. BALANCE-SHEET EXPOSURE			
BALANCES WITH THE CROATIAN NATIONAL BANK	190,575	-	190,575
BALANCES WITH OTHER BANKS	66,526	(213)	66,313
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	26,589	-	26,589
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	684,443	(10,427)	674,016
LOANS TO CUSTOMERS			
- LEVEL 1	1,631,674	(18,269)	1,613,405
- LEVEL 2	27,686	(895)	26,791
- LEVEL 3	418,348	(223,898)	194,450
TOTAL BALANCE SHEET EXPOSURE	**3,045,841**	**(253,702)**	**2,792,139**
B. OFF-BALANCE SHEET EXPOSURE			
CLIENTS			
- LEVEL 1	446,802	(5,401)	441,401
- LEVEL 2	1,767	(34)	1,733
- LEVEL 3	72	(17)	55
TOTAL OFF-BALANCE SHEET EXPOSURE	**448,641**	**(5,452)**	**443,189**
TOTAL EXPOSURE (A+B)	**3,494,482**	**(259,154)**	**3,235,328**

IN HRK THOUSANDS AT 31 DECEMBER 2017	GROSS EXPOSURE	SPECIFIC PROVISIONS (INDIVIDUAL ASSESSMENT)	PORTFOLIO-BASED PROVISIONS (COLLECTIVE ASSESSMENT)	NET EXPOSURE
A. BALANCE-SHEET EXPOSURE				
BALANCES WITH THE CROATIAN NATIONAL BANK	188,657	-	-	188,657
BALANCES WITH OTHER BANKS	17,186	-	-	17,186
ASSETS AVAILABLE FOR SALE	634,351	(9,491)	-	624,860
LOANS TO CUSTOMERS				
- FULLY RECOVERABLE (PERFORMING)	1,504,533	-	(22,052)	1,482,481
- PARTLY RECOVERABLE (SUBSTANDARD)	305,346	(75,133)	-	230,213
- FULLY IRRECOVERABLE (BAD)	155,913	(155,913)	-	-
TOTAL BALANCE SHEET EXPOSURE	**2,805,986**	**(240,537)**	**(22,052)**	**2,543,397**
B. OFF-BALANCE SHEET EXPOSURE				
CLIENTS				
- FULLY RECOVERABLE (PERFORMING)	413,247	-	(4,079)	409,168
- PARTLY RECOVERABLE (SUBSTANDARD)	74	(14)	-	60
- FULLY IRRECOVERABLE (BAD)	7	(7)	-	-
TOTAL OFF-BALANCE SHEET EXPOSURE	**413,328**	**(21)**	**(4,079)**	**409,228**
TOTAL EXPOSURE (A+B)	**3,219,314**	**(240,558)**	**(26,131)**	**2,952,625**

b) Past due but unpaid receivables

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

IN HRK THOUSANDS AT 31 DECEMBER 2018	PAST DUE UP TO 30 DAYS	PAST DUE FROM 31 TO 90 DAYS	PAST DUE FROM 91 TO 180 DAYS	PAST DUE FROM 181 TO 365 DAYS	PAST DUE BETWEEN 1 AND 2 YEARS	PAST DUE BETWEEN 2 AND 3 YEARS	PAST DUE BEYOND 3 YEARS
LOANS TO CUSTOMERS:							
INDIVIDUALS	5,411	626	654	980	3,333	2,726	33,656
CORPORATE CUSTOMERS	4,815	3,309	1,023	7,174	75,396	12,321	155,964
PUBLIC AND OTHER SECTORS	1,085	1	1	-	-	2,218	3,692
OTHER RECEIVABLES PAST DUE	1,703	875	912	422	740	373	2,920
TOTAL PAST DUE BUT UNPAID RECEIVABLES	**13.014**	**4.811**	**2.590**	**8.576**	**79.469**	**17.638**	**196.232**

IN HRK THOUSANDS AT 31 DECEMBER 2017	PAST DUE UP TO 30 DAYS	PAST DUE FROM 31 TO 90 DAYS	PAST DUE FROM 91 TO 180 DAYS	PAST DUE FROM 181 TO 365 DAYS	PAST DUE BETWEEN 1 AND 2 YEARS	PAST DUE BETWEEN 2 AND 3 YEARS	PAST DUE BEYOND 3 YEARS
LOANS TO CUSTOMERS:							
INDIVIDUALS	5,915	785	951	1,576	2,399	3,505	46,658
CORPORATE CUSTOMERS	5,132	3,244	6,490	67,788	23,152	14,447	155,423
PUBLIC AND OTHER SECTORS	195	8	-	-	1	-	353
OTHER RECEIVABLES PAST DUE	2,269	28	82	23	1,844	400	6,461
TOTAL PAST DUE BUT UNPAID RECEIVABLES	**13,511**	**4,065**	**7,523**	**69,387**	**27,396**	**18,352**	**208,895**

c) Coverage by collateral

AT 31 DECEMBER 2018 IN HRK THOUSANDS	DEPOSIT	MORTGAGE ON RESIDENTIAL PROPERTY	MORTGAGE ON COMMERCIAL PROPERTY	OTHER SECURITY INSTRUMENTS	NO INSTRUMENT OF COLLATERAL
A. BALANCE-SHEET EXPOSURE					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	190,575
BALANCES WITH OTHER BANKS	-	-	-	5,731	60,582
FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-	-	-	26,589
FINANCIAL ASSETSAT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	-	-	-	674,016
LOANS TO CUSTOMERS	25,914	233,713	384,321	66,585	1,124,114
TOTAL BALANCE SHEET EXPOSURE	**25,914**	**233,713**	**384,321**	**72,316**	**2,075,876**
B. OFF-BALANCE SHEET EXPOSURE					
CLIENTS	7,408	3,261	43,224	1,872	392,876
TOTAL OFF-BALANCE SHEET EXPOSURE	**7,408**	**3,261**	**43,224**	**1,872**	**392,876**
TOTAL EXPOSURE (A+B)	**33,322**	**236,973**	**427,545**	**74,188**	**2,468,752**

AT 31 DECEMBER 2017 IN HRK THOUSANDS	DEPOSIT	MORTGAGE ON RESIDENTIAL PROPERTY	MORTGAGE ON COMMERCIAL PROPERTY	OTHER SECURITY INSTRUMENTS	NO INSTRUMENT OF COLLATERAL
A. BALANCE-SHEET EXPOSURE					
BALANCES WITH THE CROATIAN NATIONAL BANK	-	-	-	-	188,657
BALANCES WITH OTHER BANKS	-	-	-	4,011	13,176
LOANS TO CUSTOMERS	25,086	214,201	424,138	65,746	982,549
ASSETS AVAILABLE FOR SALE	-	-	-	-	627,536
TOTAL BALANCE SHEET EXPOSURE	25,086	214,201	424,138	69,757	1,811,918
B. OFF-BALANCE SHEET EXPOSURE					
CLIENTS	8,834	5,725	15,046	50	383,672
TOTAL OFF-BALANCE SHEET EXPOSURE	**8,834**	**5,725**	**15,046**	**50**	**383,672**
TOTAL EXPOSURE (A+B)	**33,920**	**219,926**	**439,184**	**69,807**	**2,195,590**

d) Provision ratio in loans to customers

IN HRK THOUSANDS	LOANS TO CUSTOMERS (%)	PROVISION RATIO IN LOANS (%)
		2018
STAGE 1	78.53	1.12
STAGE 2	1.33	3.23
STAGE 3	20.14	53.52
TOTAL	**100.00**	

IN HRK THOUSANDS	LOANS TO CUSTOMERS (%)	PROVISION RATIO IN LOANS (%)
		2017
FULLY RECOVERABLE LOANS (PERFORMING)	76.54	1.47
PARTLY RECOVERABLE (SUBSTANDARD)	15.53	24.61
FULLY IRRECOVERABLE (BAD)	7.93	100.0
TOTAL	**100.00**	

38. RISK OF PRICE FLUCTUATIONS

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

IN HRK THOUSANDS	ASSUMED PRICE CHANGE	IMPACT OF PRICE INCREASE ON PROFIT AND LOSS STATEMENT	IMPACT OF PRICE INCREASE ON REVALUATION RESERVES
AT 31 DECEMBER 2018	3%	798	20,533
AT 31 DECEMBER 2017	3%	-	18,746

39. CONCENTRATIONS OF ASSETS AND LIABILITIES

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

IN HRK THOUSANDS	2018	2017
GIRO ACCOUNT AT CNB	303,029	374,594
BONDS OF THE REPUBLIC OF CROATIA	282,521	109,454
OBLIGATORY RESERVES AND TREASURY NOTES WITH THE CROATIAN NATIONAL BANK	190,575	188,657

IN HRK THOUSANDS	2018	2017
OTHER CASH RESERVE FUNDS	10,000	10,000
DEFERRED TAX ASSETS/LIABILITES	6,028	1,880
OTHER ASSETS	368	232
REPUBLIC OF CROATIA TREASURY BILLS	0	0
OTHER LIABILITIES	(26)	(65)
DEPOSITS RECEIVED	(40)	(40)
CURRENT TAX ASSETS/LIABILITIES	(624)	972
CNB REPO LOAN AGREEMENTS	(92,009)	(61,078)
	699,822	**624,606**

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

IN HRK THOUSANDS	2018	2017
OTHER LOANS	43,130	26,831
CUSTOMER LOANS GUARANTEED BY THE STATE	9,997	15,570
OTHER LIABILITIES	(155)	(6,760)
STATE AGENCY FOR DEPOSIT INSURANCE AND BANK REHABILITATION	(1,212)	(1,396)
DEPOSITS RECEIVED	(76,263)	(44,428)
BORROWINGS FROM HBOR	(131,930)	(143,033)
	(156,433)	**(153,216)**

40. EVENTS AFTER THE BALANCE SHEET DATE

Based on Management Board opinion, in 2018 up to date of approval of financial statements, there were no business events that significantly affect regular business of the Bank.

41. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Management Board on 25 April 2019 and were signed on its behalf by:

Goran Varat	Daniel Unger	Renata Vinković
President of the Management Board	Member of the Management Board	Member of the Management Board

ABOUT THE BANK

BANK'S MANAGEMENT AND ORGANISATIONAL STRUCTURE

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

Supervisory Board

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

Management Board

Management Board until 17.04.2019:
Julio Kuruc, President
Davorka Jakir, Member
Daniel Unger, Member
Goran Varat, Member

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

Chief Executive Officer

Moreno Marson

Units

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

Divisions

Financial Markets Division – Goran Varat
Corporate Customers Division – Daniel Unger
Retail Customers Division – Sanda Fuček Šanjić
Risk Management Division – Renata Vinković
Operations & Support Division – Snježana Pobi
Development Division – Sanda Fuček Šanjić

Legend

Commercial Centre

Branches

RETAIL CENTRES

Commercial Centre Zagreb

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

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

Commercial Centre Koprivnica

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

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

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

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

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

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

Commercial Centre Bjelovar

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

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

Veliki Grđevac, Kralja Tomislava 26,
tel. 072 655 840, fax. 072 655 849

Đurđevac, Stjepana Radića 16,
tel. 072 655 370, fax. 072 655 379

Križevci, I. Z. Dijankovečkog 2,
tel. 072 655 360, fax. 072 655 369

Commercial Centre Požega

Požega, Republike Hrvatske 1b,
tel. 072 655 700, fax. 072 655 709

Pleternica, Ivana Šveara 4,
tel. 072 655 770, fax. 072 655 779

Kutjevo, Kralja Tomislava 2,
tel. 072 655 780, fax. 072 655 789

Osijek, Kapucinska 38,
tel. 072 655 790, fax. 072 655 799

Commercial Centre Rijeka

Rijeka, Ivana Zajca 18,
tel. 072 655 660, fax. 072 655 669

Commercial Centre Split

Split, Ulica slobode 33,
tel. 072 655 630, fax. 072 655 639

Zadar, Stjepana Radića 2f,
tel. 072 655 650, fax. 072 655 659

Commercial Centre Varaždin

Varaždin, Trg slobode 2,
tel. 072 655 600, fax. 072 655 609

Ludbreg, Petra Zrinskog 32,
tel. 072 655 620, fax. 072 655 629

Info centre: 072 20 20 20
www.poba.hr
info@poba.hr

APPENDIX 1
SUPPLEMENTARY REPORTS
FOR THE CROATIAN NATIONAL BANK

Based on article 19 paragraph 6 of the Accounting Law (NN no. 78/2015., 134/2015. and 120/2016.) and article 43 paragraph 2 point 9 of the Croatian National Bank Law (NN no. 75/2008. and 54/2013.), Croatinan national Bank made the Decision on structure and content of annual financial reports of credit institutions (NN 42/2018). The following tables present financial reports in accordance with the stated decision.

BALANCE SHEET AS AT 31.12.2018.

POSITION NAME	AOP CODE	NOTE NUMBER	PREVIOUS PERIOD	CURRENT PERIOD
1	2	3	4	5
UNAUDITED (IN HRK THOUSANDS)				
ASSETS				
1. CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS (AOP 002 TO 004)	**001**		**567,295**	**429,745**
1.1 CASH ON HAND	**002**		45,574	45,208
1.2 CASH BALANCES AT CENTRAL BANKS	**003**		380,748	312,935
1.3 OTHER DEMAND DEPOSITS	**004**		140,973	71,602
2. FINANCIAL ASSETS HELD FOR TRADING (AOP 006 TO 009)	**005**		**0**	**0**
2.1 DERIVATIVES	**006**		0	0
2.2 EQUITY INSTRUMENTS	**007**		0	0
2.3 DEBT SECURITIES	**008**		0	0
2.4 LOANS AND ADVANCES	**009**		0	0
3. NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS (AOP 011 TO 013)	**010**		**0**	**26,589**
3.1 EQUITY INSTRUMENTS	**011**		0	26,589
3.2 DEBT SECURITIES	**012**		0	0
3.3 LOANS AND ADVANCES	**013**		0	0
4. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (AOP 015 + 016)	**014**		**0**	**0**
4.2 DEBT SECURITIES	**015**		0	0
4.3 LOANS AND ADVANCES	**016**		0	0
5. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (AOP 018 TO 020)	**017**		**723,361**	**674,016**
5.1 EQUITY INSTRUMENTS	**018**		59,916	168,296
5.1 DEBT SECURITIES	**019**		663,445	505,720
5.2 LOANS AND ADVANCES	**020**		0	0
6. FINANCIAL ASSETS AT AMORTISED COST (AOP 022+023)	**021**		**1,829,954**	**2,097,252**
6.1 DEBT SECURITIES	**022**		105,750	116,174
6.2 LOANS AND ADVANCES	**023**		1,724,204	1,981,078
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**
10. TANGIBLE ASSETS	**027**		**98,706**	**87,480**
11. INTANGIBLE ASSETS	**028**		**44,952**	**44,566**
12. TAX ASSETS	**029**		**5,220**	**6,116**
13. OTHER ASSETS	**030**		**2,849**	**2,238**
14. NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	**031**		**2,577**	**10,498**
15. TOTAL ASSETS (AOP 001 + 005 + 010 + 014 + 017 + 021 + 024 TO 031)	**032**		**3,274,914**	**3,378,500**

POSITION NAME	AOP CODE	NOTE NUMBER	PREVIOUS PERIOD	CURRENT PERIOD
1	2	3	4	5
LIABILITIES				
16. FINANCIAL LIABILITIES HELD FOR TRADING (AOP 034 TO 038)	**033**		**0**	**0**
16.1 DERIVATIVES	034		0	0
16.2 SHORT 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 (AOP 040 TO 042)	**039**		**0**	**0**
17.1 DEPOSITS	040		0	0
17.2 DEBT SECURITIES ISSUED	041		0	0
17.3 OTHER FINANCIAL LIABILITIES	042		0	0
18. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST (AOP 044 TO 046)	**043**		**2,789,588**	**2,880,565**
18.1 DEPOSITS	044		2,659,665	2,782,040
18.2 DEBT SECURITIES ISSUED	045		129,032	97,004
18.3 OTHER FINANCIAL LIABILITIES	046		891	1,521
19. DERIVATIVES – HEDGE ACCOUNTING	**047**		**0**	**0**
20. FAIR VALUE CHANGES OF THE HEDGED ITEMS IN PORTFOLIO HEDGE OF INTEREST RATE RISK	**048**		**0**	**0**
21. PROVISIONS	**049**		**4,653**	**5,748**
22. TAX LIABILITIES	**050**		**2,442**	**806**
23. SHARE CAPITAL REPAYABLE ON DEMAND	**051**		**0**	**0**
24. OTHER LIABILITIES	**052**		**39,308**	**50,816**
25. LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	**053**		**0**	**0**
26. TOTAL LIABILITIES (AOP 033 + 039 + 043 + 047 TO 053)	**054**		**2,835,991**	**2,937,935**
CAPITAL				
27. CAPITAL	**055**		**267,500**	**267,500**
28. SHARE PREMIUM	**056**		**3,015**	**3,015**
29. EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	**057**		**0**	**0**
30. OTHER EQUITY	**058**		**0**	**0**
31. ACCUMULATED OTHER COMPREHENSIVE INCOME	**059**		**8,076**	**(8,508)**
32. RETAINED EARNINGS	**060**		**0**	**4,481**
33. REVALUATION RESERVES	**061**		**0**	**0**
34. OTHER RESERVES	**062**		**157,318**	**163,359**
35. (-) TREASURY SHARES	**063**		**(11,082)**	**(1,388)**
36. PROFIT OR LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT	**064**		**14,096**	**12,106**
37. (-) INTERIM DIVIDENDS	**065**		**0**	**0**
38. MINORITY INTERESTS [NON-CONTROLLING INTERESTS]	**066**		**0**	**0**
39. TOTAL EQUITY (AOP 055 TO 066)	**067**		**438,923**	**440,565**
40. TOTAL EQUITY AND TOTAL LIABILITIES (AOP 054+067)	**068**		**3,274,914**	**3,378,500**

INCOME STATEMENT FOR THE PERIOD 01.01.2018. TO 31.12.2018.

POSITION NAME		AOP CODE	NOTE NUMBER	PREVIOUS PERIOD	CURRENT PERIOD
1		2	3	4	5
UNAUDITED (IN HRK THOUSANDS)					
1.	INTEREST INCOME	**069**		110,312	99,879
2.	INTEREST EXPENSES	**070**		34,540	22,202
3.	EXPENSES ON SHARE CAPITAL REPAYABLE ON DEMAND	**071**		0	0
4.	DIVIDEND INCOME	**072**		688	816
5.	FEE AND COMMISSION INCOME	**073**		37,119	37,161
6.	FEE AND COMMISSION EXPENSES)	**074**		14,078	14,471
7.	GAINS OR LOSSES ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	**075**		26,272	3,774
8.	GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING, NET	**076**		0	5,447
9.	GAINS OR LOSSES ON NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	**077**		0	1,213
10.	GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	**078**		0	0
11.	GAINS OR LOSSES FROM HEDGE ACCOUNTING, NET	**079**		0	0
12.	EXCHANGE DIFFERENCES [GAIN OR LOSS], NET	**080**		6,523	1,612
13.	GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS, NET	**081**		0	185
14.	OTHER OPERATING INCOME	**082**		4,582	6,927
15.	(OTHER OPERATING EXPENSES)	**083**		11,148	10,798
16.	**TOTAL OPERATING INCOME, NET** (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 TO 082 - 083)	**084**		**125,730**	**109,543**
17.	ADMINISTRATIVE EXPENSES	**085**		77,831	75,299
18.	DEPRECIATION	**086**		8,491	5,807
19.	MODIFICATION GAINS OR LOSSES, NET	**087**		0	0
20.	PROVISIONS OR REVERSAL OF PROVISIONS	**088**		(1,269)	1,354
21.	IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	**089**		20,331	12,512
22.	IMPAIRMENT OR REVERSAL OF IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	**090**		0	0
23.	IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON NON-FINANCIAL ASSETS	**091**		2,879	0
24.	NEGATIVE GOODWILL RECOGNISED IN PROFIT OR LOSS	**092**		0	0
25.	SHARE OF THE PROFIT OR LOSS OF INVESTMENTS IN SUBSIDARIES, JOINT VENTURES AND ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD	**093**		0	0
26.	PROFIT OR LOSS FROM NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE NOT QUALIFYING AS DISCONTINUED OPERATIONS	**094**		0	(284)
27.	**PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS** (AOP 084 - 085 - 086 + 087 - 088 DO 091+ 092 TO 094)	**095**		**17,467**	**14,287**
28.	TAX EXPENSE OR INCOME RELATED TO PROFIT OR LOSS FROM CONTINUING OPERATIONS	**096**		3,304	3,193
29.	**PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS** (AOP 095 - 096)	**097**		**14,163**	**11,094**
30.	**PROFIT OR LOSS AFTER TAX FROM DISCONTINUED OPERATIONS** (AOP 099 - 100)	**098**		**(67)**	**1,012**
	30.1. PROFIT OR LOSS BEFORE TAX FROM DISCONTINUED OPERATIONS	**099**		(67)	1,012
	30.2. (TAX EXPENSE OR INCOME RELATED TO DISCONTINUED OPERATIONS)	**100**		0	0
31.	**PROFIT OR LOSS FOR THE YEAR** (AOP 097 + 098; 102 + 103)	**101**		**14,096**	**12,106**
32.	ATTRIBUTABLE TO MINORITY INTEREST [NON-CONTROLLING INTERESTS]	**102**		0	0
33.	ATTRIBUTABLE TO OWNERS OF THE PARENT	**103**		14,096	12,106

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 01.01.2018. TO 31.12.2018.

POSITION NAME	AOP CODE	NOTE NUMBER	PREVIOUS PERIOD	CURRENT PERIOD
1	2	3	4	5
UNAUDITED (IN HRK THOUSANDS)				
STATEMENT OF COMPREHENSIVE INCOME				
1. PROFIT OR LOSS FOR THE YEAR (AOP 101)	**104**		**14,096**	**12,106**
2. OTHER COMPREHENSIVE INCOME (AOP 106 + 118)	**105**		**(2,788)**	**(16,584)**
2.1. ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (AOP 107 DO 113 + 116 + 117)	**106**		**1,173**	**(13,371)**
2.1.1. TANGIBLE ASSETS	107		0	0
2.1.2. INTANGIBLE ASSETS	108		0	0
2.1.3. ACTUARIAL GAINS OR LOSSES ON DEFINED BENEFIT PENSION PLANS	109		0	0
2.1.4. NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	110		0	0
2.1.5. SHARE OF OTHER RECOGNISED INCOME AND EXPENSE OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	111		0	0
2.1.6. FAIR VALUE CHANGES OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, NET	112		1,430	(16,306)
2.1.7. GAINS OR LOSSES FROM HEDGE ACCOUNTING OF EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, NET	113		0	0
2.1.8. FAIR VALUE CHANGES OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME [HEDGING INSTRUMENT]	114		0	0
2.1.9. FAIR VALUE CHANGES OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME [HEDGING INSTRUMENT]	115		0	0
2.1.10. FAIR VALUE CHANGES OF FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS ATTRIBUTABLE TO CHANGES IN THEIR CREDIT RISK	116		0	0
2.1.11. INCOME TAX RELATING TO ITEMS THAT WILL NOT BE RECLASSIFIED	117		(257)	2,935
2.2. ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS (AOP 119 DO 126)	**118**		**(3,961)**	**(3,213)**
2.2.1 HEDGE OD NET INVESTMENTS IN FOREIGN OPERATION (EFFECTIVE PORTION)	119		0	0
2.2.2. FOREIGN CURRENCY TRANSLATION	120		0	0
2.2.3. CASH FLOW HEDGES [EFFECTIVE PORTION]	121		0	0
2.2.4. HEDGING INSTRUMENTS [NOT DESIGNATED ELEMENTS]	122		0	0
2.2.5. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	123		(4,830)	(3,995)
2.2.6. NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	124		0	0
2.2.7. SHARE OF OTHER RECOGNISED INCOME AND EXPENSE OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	125		0	0
2.2.8. INCOME TAX RELATING TO ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	126		869	782
3. TOTAL COMPREHENSIVE INCOME FOR THE YEAR (AOP 104 + 105 I AOP 128 + 129)	**127**		**11,308**	**(4,478)**
4. ATTRIBUTABLE MINORITY INTEREST (NON-CONTROLLING INTEREST)	128		0	0
5. ATTRIBUTABLE TO OWNERS OF THE PARENT	129		11,307	(4,478)

CASH FLOW STATEMENT FOR THE PERIOD 01.01.2018. TO 31.12.2018.

POSITION NAME		AOP CODE	NOTE NUMBER	PREVIOUS PERIOD	CURRENT PERIOD
1		2	3	4	5
UNAUDITED (IN HRK THOUSANDS)					
OPERATING ACTIVITIES AND ADJUSTMENTS					
1.	PROFIT/(LOSS) BEFORE TAX	001		17,400	15,299
2.	IMPAIRMENT LOSSES AND PROVISIONS	002		21,941	13,964
3.	DEPRECIATION	003		8,491	5,807
4.	NET UNREALIZED (PROFIT)/LOSS FROM FINANCIAL ASSETS AND LIABILITIES THROUGH PROFIT AND LOSS	004		0	(1,213)
5.	(GAINS)/LOSSES FROM SALE OF TANGIBLE ASSETS	005		(615)	(1,117)
6.	OTHER NON-MONETARY ITEMS	006		0	(266)
CHANGES IN ASSETS AND LIABILITIES FROM OPERATING ACTIVITIES					
7.	DEPOSITS WITH THE CROATIAN NATIONAL BANK	007		(540)	(1,918)
8.	DEPOSITS WITH BANKS AND LOANS TO FINANCIAL INSTITUTIONS	008		(576)	(37,590)
9.	LOANS TO OTHER CUSTOMERS	009		(64,992)	(275,144)
10.	FVOCI SECURITIES AND OTHER FINANCIAL INSTRUMENTS	010		313,241	(98,881)
11.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD FOR TRADING	011		0	0
12.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS WHICH ARE NOT TRADED, BUT ARE DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS	012		0	0
13.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS WHICH ARE MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS	013		0	0
14.	SECURITIES AND OTHER FINANCIAL INSTRUMENTS AT AMORTISED COST	014		121,310	84,768
15.	OTHER ASSETS FROM OPERATING ACTIVITIES	015		(1,247)	242
NET INCREASE/DECREASE IN OPERATING LIABILITIES					
16.	DEPOSITS WITH FINANCIAL INSTITUTIONS	016		(104,841)	(31,253)
17.	DEMAND DEPOSITS FROM CUSTOMERS	017		307,132	223,719
18.	SAVINGS DEPOSITS	018		(165,643)	49,636
19.	TERM DEPOSITS	019		(74,752)	(224,972)
20.	DERIVATIVE LIABILITIES AND OTHER LIABILITIES FOR SALE	020		0	0
21.	OTHER LIABILITIES	021		(4,280)	16,559
22.	INTEREST RECEIVED FROM OPERATING ACTIVITIES	022		118,465	98,987
23.	RECEIVED DIVIDENDS FROM OPERATING ACTIVITIES	023		688	821
24.	PAID INTEREST FROM OPERATING ACTIVITIES	024		(37,302)	(26,812)
25.	INCOME TAX PAID	025		(12,020)	(4,493)
A)	**NET CASH FLOW FROM OPERATING ACTIVITIES** (AOP 001 TO 025)	**026**		**441,860**	**(193,857)**

POSITION NAME	AOP CODE	NOTE NUMBER	PREVIOUS PERIOD	CURRENT PERIOD
1	2	3	4	5
INVESTING ACTIVITIES				
1. RECEIPT FROM SALE/(PAYMENT FOR BUYING) OF TANGIBLE AND INTANGIBLE ASSETS	027		(1,135)	(833)
2. RECEIPT FROM SALE/(PAYMENT FOR BUYING) OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE	028		0	0
3. RECEIPT FROM SALE/(PAYMENT FOR BUYING) OF SECURITIES AND OTHER FINANCIAL INSTRUMENTS HELD TO MATURITY	029		0	0
4. DIVIDEND INCOME FROM INVESTING ACTIVITIES	030		0	0
5. OTHER RECEIPTS/(PAYMENTS) FROM INVESTING ACTIVITIES	031		0	0
B) NET CASH FLOW FROM INVESTING ACTIVITIES (AOP 027 TO 031)	**032**		**(1,135)**	**(833)**
FINANCING ACTIVITIES				
1. NET INCREASE /(DECREASE) IN BORROWINGS	033		(108,213)	123,580
2. NET INCREASE /(DECREASE) IN ISSUED DEBT SECURITIES	034		7,828	(23,733)
3. NET INCREASE /(DECREASE) IN SUBORDINATED AND HYBRID INSTRUMENTS	035		0	0
4. RECEIPTS FROM TRANSMITTED SHARE CAPITAL	036		0	0
5. DIVIDENDS PAID	037		0	0
6. OTHER RECEIPTS/(PAYMENTS) FROM FINANCING ACTIVITIES	038		0	0
C) NET CASH FLOW FROM FINANCING ACTIVITIES (AOP 033 TO 038)	**039**		**(100,385)**	**99,847**
D) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (AOP 026+032+039)	**040**		**340,340**	**(94,843)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**041**		**247,793**	**588,133**
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**042**		**0**	**0**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (AOP 040+041+042)	**043**		**588,133**	**493,290**

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

	POSITION NAME	AOP CODE	NOTE NUMBER	CAPITAL	SHARE PREMIUM	EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	OTHER EQUITY	ACCUMU-LATED OTHER COMPRE-HENSIVE INCOME
1		2	3	4	5	6	7	8
UNAUDITED (IN HRK THOUSAND)								
1.	**OPENING BALANCE (BEFORE RESTATEMENT)**	**01**		**267.500**	**3.015**	**0**	**0**	**8.076**
2.	EFFECTS OF CORRECTIONS OF ERRORS	02		0	0	0	0	0
3.	EFFECTS OF CHANGE IN ACCOUNTING POLICIES	03		0	0	0	0	0
4.	**OPENING BALANCE (CURRENT PERIOD)** (AOP 01 TO 03)	**04**		**267.500**	**3.015**	**0**	**0**	**8.076**
5.	ISSUANCE OF ORDINARY SHARES	05		0	0			
6.	ISSUANCE OF PREFERENCE SHARES	06		0	0	0		
7.	ISSUANCE OF OTHER EQUITY INSTRUMENTS	07				0		
8.	EXERCISE OR EXPIRATION OF OTHER EQUITY INSTRUMENTS ISSUES	08				0		
9.	CONVERSION OF DEBT EQUITY	09		0	0	0	0	
10.	CAPITAL REDUCTION	10		0	0			
11.	DIVIDENDS	11		0	0	0	0	
12.	SALE OR CANCELLATION OF TREASURY SHARES	12						
13.	PURCHASE OF TREASURY SHARES	13						
14.	RECLASSIFICATION OF FINANCIAL INSTRUMENTS FROM EQUITY TO	14		0	0	0	0	
15.	RECLASSIFICATION OF FINANCIAL INSTRUMENTS FROM LIABILITY TO	15		0	0	0	0	
16.	TRANSFERS AMONG COMPONENTS OF EQUITY	16				0	0	0
17.	EQUITY INCREASE OR DECREASE RESULTING FROM BUSINESS	17		0	0	0	0	0
18.	SHARE BASED PAYMENTS	18		0	0		0	
19.	OTHER INCREASE OR DECREASE IN EQUITY	19				0	0	
20.	TOTAL COMPREHENSIVE INCOME FOR THE YEAR	20						(16.584)
21.	**CLOSING BALANCE (CURRENT PERIOD)** (AOP 04 TO 20)	**21**		**267.500**	**3.015**	**0**	**0**	**(8.508)**

ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK						MINORITY INTERESTS		
RETAINED EARNINGS	REVALUATION RESERVES	OTHER RESERVES	TREASURY SHARES	PROFIT/ LOSS ATTRIBUTABLE TO OWNERS OF THE PARTNER	INTERIM DIVIDENDS	ACCUMULATED OTHER COMPREHENSIVE INCOME	OTHER INCOME	TOTAL
9	10	11	12	13	14	15	16	17 (4 TO 16)
0	**0**	**157.318**	**(11.082)**	**14.096**	**0**	**0**	**0**	**438.923**
0	0	0	0	0	0	0	0	0
2.584	0	0	0	0	0	0	0	2.584
2.584	**0**	**157.318**	**(11.082)**	**14.096**	**0**	**0**	**0**	**441.507**
0	0	0					0	0
0	0	0					0	0
0	0	0					0	0
0	0	0					0	0
0	0	0					0	0
0	0	0	0	0			0	0
0	0	0	0		0		0	0
0	0	0	0			0	0	0
0	0	0	0			0	0	0
							0	0
							0	0
0	0	0		0	0	0	0	0
0	0	0	0				0	0
			0				0	0
1.897		6.041	9.694	(14.096)	0	0	0	3.536
0	0	0		12.106			0	(4.478)
4.481	**0**	**163.359**	**(1.388)**	**12.106**	**0**	**0**	**0**	**440.565**

Since the data in the financial reports compiled in accordance with the CNB Decision are classified differently than data in the financial reports compiled in accordance with regulation for banking accounting in Republic of Croatia, the following tables present comparative data.

	SIDE BY SIDE COMPARISON OF BALANCE SHEET AS AT 31 DECEMBER 2018 POSITION NAME	CNB DECISION	ANNUAL REPORT	DIFFERENCE
	ASSETS			
1.	**CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS** (AOP 002 TO 004)	**429,745**	**622,765**	**193,020**
	1.1 CASH ON HAND	45,208	45,257	49
	1.2 CASH BALANCES AT CENTRAL BANKS	312,935	503,510	190,575
	1.3 OTHER DEMAND DEPOSITS	71,602	73,998	2,396
2.	**FINANCIAL ASSETS HELD FOR TRADING** (AOP 006 TO 009)	**0**	**0**	**0**
	2.1 DERIVATIVES	0	0	0
	2.2 EQUITY INSTRUMENTS	0	0	0
	2.3 DEBT SECURITIES	0	0	0
	2.4 LOANS AND ADVANCES	0	0	0
3.	**NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS** (AOP 011 TO 013)	**26,589**	**26,589**	**0**
	3.1 EQUITY INSTRUMENTS	26,589	26,589	0
	3.2 DEBT SECURITIES	0	0	0
	3.3 LOANS AND ADVANCES	0	0	0
4.	**FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS** (AOP 015 + 016)	**0**	**0**	**0**
	4.2 DEBT SECURITIES	0	0	0
	4.3 LOANS AND ADVANCES	0	0	0
5.	**FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME** (AOP 018 TO 020)	**674,016**	**674,016**	**0**
	5.1 EQUITY INSTRUMENTS	168,296	168,296	0
	5.1 DEBT SECURITIES	505,720	505,720	0
	5.2 LOANS AND ADVANCES	0	0	0
6.	**FINANCIAL ASSETS AT AMORTISED COST** (AOP 022+023)	**2,097,252**	**1,900,959**	**(196,293)**
	6.1 DEBT SECURITIES	116,174	116,174	0
	6.2 LOANS AND ADVANCES	1,981,078	1,784,785	(196,293)
7.	**DERIVATIVES – HEDGE ACCOUNTING**	**0**		**0**
8.	**FAIR VALUE CHANGES OF THE HEDGED ITEMS IN PORTFOLIO HEDGE OF INTEREST RATE RISK**	**0**		**0**
9.	**INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES**	**0**		**0**
10.	**TANGIBLE ASSETS**	**87,480**	**87,966**	**486**
11.	**INTANGIBLE ASSETS**	**44,566**	**44,080**	**(486)**
12.	**TAX ASSETS**	**6,116**	**6,028**	**(88)**
13.	**OTHER ASSETS**	**2,238**	**14,883**	**12,645**
14.	**NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE**	**10,498**	**1,214**	**(9,284)**
15.	**TOTAL ASSETS** (AOP 001 + 005 + 010 + 014 + 017 + 021 + 024 TO 031)	**3,378,500**	**3,378,500**	**0**

POSITION NAME	CNB DECISION	ANNUAL REPORT	DIFFERENCE
LIABILITIES			
16. FINANCIAL LIABILITIES HELD FOR TRADING (AOP 034 TO 038)	**0**	**0**	**0**
16.1 DERIVATIVES	0	0	0
16.2 SHORT POSITIONS	0	0	0
16.3 DEPOSITS	0	0	0
16.4 DEBT SECURITIES ISSUED	0	0	0
16.5 OTHER FINANCIAL LIABILITIES	0	0	0
17. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (AOP 040 TO 042)	**0**	**0**	**0**
17.1 DEPOSITS	0	0	0
17.2 DEBT SECURITIES ISSUED	0	0	0
17.3 OTHER FINANCIAL LIABILITIES	0	0	0
18. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST (AOP 044 TO 046)	**2,880,565**	**2,879,045**	**(1,520)**
18.1 DEPOSITS	2,782,040	2,782,041	1
18.2 DEBT SECURITIES ISSUED	97,004	97,004	0
18.3 OTHER FINANCIAL LIABILITIES	1,521	0	(1,521)
19. DERIVATIVES – HEDGE ACCOUNTING	**0**	**0**	**0**
20. FAIR VALUE CHANGES OF THE HEDGED ITEMS IN PORTFOLIO HEDGE OF INTEREST RATE RISK	**0**	**0**	**0**
21. PROVISIONS	**5,748**	**5,748**	**0**
22. TAX LIABILITIES	**806**	**0**	**(806)**
23. SHARE CAPITAL REPAYABLE ON DEMAND	**0**	**0**	**0**
24. OTHER LIABILITIES	**50,816**	**53,914**	**3,098**
25. LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	**0**		**0**
26. TOTAL LIABILITIES (AOP 033 + 039 + 043 + 047 TO 053)	**2,937,935**	**2,938,707**	**772**
CAPITAL			
27. CAPITAL	**267,500**	**267,500**	**0**
28. SHARE PREMIUM	**3,015**	**3,015**	**0**
29. EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	**0**	**0**	**0**
30. OTHER EQUITY	**0**	**0**	**0**
31. ACCUMULATED OTHER COMPREHENSIVE INCOME	**(8,508)**	**0**	**8,508**
32. RETAINED EARNINGS	**4,481**	**4,481**	**0**
33. REVALUATION RESERVES	**0**	**0**	**0**
34. OTHER RESERVES	**163,359**	**154,079**	**(9,280)**
35. (-) TREASURY SHARES	**(1,388)**	**(1,388)**	**0**
36. PROFIT OR LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT	**12,106**	**12,106**	**0**
37. (-) INTERIM DIVIDENDS	**0**	**0**	**0**
38. MINORITY INTERESTS [NON-CONTROLLING INTERESTS]	**0**	**0**	**0**
39. TOTAL EQUITY (AOP 055 TO 066)	**440,565**	**439,793**	**(772)**
40. TOTAL EQUITY AND TOTAL LIABILITIES (AOP 054+067)	**3,378,500**	**3,378,500**	**0**

Difference in positions of the Bank's balance sheet published in annual financial report and balance sheet compiled in accordance with structure and content regulated by the CNB Decision relates to following positions and reclassifications:

Assets

Difference on position of Cash on hand relates to receivables for payment cheques abroad in the amount of HRK 49 thousand which in accordance to the CNB Decision are included into position Other Assets.

Difference in the amount of HRK 190,575 thousand relates to obligatory reserve outstanding, which has its own position in the annual report Balances with Croatian National bank and in accordance with the CNB Decision these receivables are included into position Loans and advances at amortised cost.

Difference on the position Other demand deposits in the amount of HRK 2,396 thousand relates to deposit at financial institution which in accordance with the CNB Decision is included into position Loans and advances at amortised cost.

Difference on the position Loans and advances at amortised cost in the amount of HRK 66,313 thousand relates to current deposits at financial institutions in the amount of HRK 60,582 thousand and reverse repo loans to financial institutions in the amount of HRK 5,731 thousand which in accordance with the CNB Decision are included into position Loans and advances and in the annual report into Placements with other banks.

Difference in the amount of HRK 3,323 thousand relates to receivables for fees which in the audited reports are included into Other assets and in accordance with the CNB Decision are included into Loans and advances at amortised cost.

In accordance with the CNB Decision investment into property, plant and equipment (IAS 16) in the amount of HRK 44,351 thousand and investment property (IAS 40) in the amount of HRK 43,129 thousand are included into tangible assets, while in the annual report these investments each have its own positions: Tangible assets (for investments per IAS 16) and Investment property (for investments per IAS 40). Investment with the goal to improve tangible assets in operative lease is included in accordance with the CNB Decision into Intangible assets, while in the annual report it is included into Tangible assets in the amount of HRK 486 thousand.

Difference relates to current tax receivables in the amount of HRK 88 thousand which are included into Other assets in the annual report.

Difference relates to repossessed assets' reclassification in the amount of HRK 9,284 thousand (which are not IFRS 5 nor IAS 40) which is included into Other assets in the annual report, while in accordance with the CNB Decision it is included into Non-current assets and disposal groups classified as held for sale.

Liabilities and Capital

In accordance with the CNB Decision all deposits and loans received from clients in the amount of HRK 2,782,040 thousand are included into Deposits at amortised cost while in the annual report they are presented in their own positions: deposits in the position Liabilities to banks in the amount of HRK 7,730 thousand and in the position Liabilities to clients in the amount of HRK 2,449,215 thousand and loans received in the position Other borrowed funds.

Difference on the position Other financial liabilities at amortized cost in the total amount of HRK 1,521 thousand relates to liabilities for fees in the amount of HRK 864 thousand, liabilities for unpaid dividends in the amount of HRK 83 thousand and other liabilities in the amount of HRK 574 thousand. These liabilities are included into Other liabilities in the annual report.

Difference on the position Tax liabilities relates to reclassification in the annual report in which these liabilities are included into Other liabilities.

In accordance with the CNB Decision other comprehensive income in the amount of HRK 8,508 thousand is included into special position of capital, while in the annual report it is included into Other reserves.

Difference in the amount of HRK 772 thousand in the capital and total liabilities relates to reserves formed based on unsold appartments with tenancy rights, which are included into Other reserves in accordance with the CNB Decision, while in the annual report they are included into total liabilities in the position Other liabilities.

Other differences relate to rounding reclassification.

SIDE BY SIDE COMPARISON OF INCOME STATEMENT AND COMPREHENSIVE INCOME STATEMENT AS AT 31 DECEMBER 2018

POSITION NAME		CNB DECISION	ANNUAL REPORT	DIFFERENCE
1.	INTEREST INCOME	99,879	99,879	0
2.	INTEREST EXPENSES	22,202	22,202	0
3.	EXPENSES ON SHARE CAPITAL REPAYABLE ON DEMAND	0	0	0
4.	DIVIDEND INCOME	816	0	(816)
5.	FEE AND COMMISSION INCOME	37,161	37,161	0
6.	FEE AND COMMISSION EXPENSES	14,471	14,471	0
7.	GAINS OR LOSSES ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	3,774	0	(3,774)
8.	GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING, NET	5,447	0	(5,447)
9.	GAINS OR LOSSES ON NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	1,213	0	(1,213)
10.	GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	0	0	0
11.	GAINS OR LOSSES FROM HEDGE ACCOUNTING, NET	0	0	0
12.	EXCHANGE RATE DIFFERENCES [GAIN OR LOSS], NET	1,612	0	(1,612)
13.	GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS, NET	185	0	(185)
14.	OTHER OPERATING INCOME	6,927	18,857	11,930
15.	(OTHER OPERATING EXPENSES)	10,798	0	10,798
16.	**TOTAL OPERATING INCOME, NET** (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 TO 082 - 083)	**109,543**	**119,224**	**9,681**
17.	ADMINISTRATIVE EXPENSES	75,299	86,441	(11,142)
18.	DEPRECIATION	5,807	5,807	0
19.	MODIFICATION GAINS OR LOSSES, NET	0	0	0
20.	PROVISIONS OR REVERSAL OF PROVISIONS	1,354	0	1,354
21.	IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	12,512	11,677	835
22.	IMPAIRMENT OR REVERSAL OF IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	0	0	0
23.	IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON NON-FINANCIAL ASSETS	0	0	0
24.	NEGATIVE GOODWILL RECOGNISED IN PROFIT OR LOSS	0	0	0
25.	SHARE OF THE PROFIT OR LOSS OF INVESTMENTS IN SUBSIDARIES, JOINT VENTURES AND ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD	0	0	0
26.	PROFIT OR LOSS FROM NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE NOT QUALIFYING AS DISCONTINUED OPERATIONS	(284)	0	284
27.	**PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS** (AOP 084 - 085 - 086 + 087 - 088 DO 091+ 092 TO 094)	**14,287**	**15,299**	**1,012**
28.	TAX EXPENSE OR INCOME RELATED TO PROFIT OR LOSS FROM CONTINUING OPERATIONS	3,193	3,193	0

POSITION NAME		CNB DECISION	ANNUAL REPORT	DIFFERENCE
29.	**PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS** (AOP 095 - 096)	**11,094**	**12,106**	**1,012**
30.	**PROFIT OR LOSS AFTER TAX FROM DISCONTINUED OPERATIONS** (AOP 099 - 100)	**1,012**	**0**	**(1,012)**
	30.1. PROFIT OR LOSS BEFORE TAX FROM DISCONTINUED OPERATIONS	1,012	0	(1,012)
	30.2. (TAX EXPENSE OR INCOME RELATED TO DISCONTINUED OPERATIONS)	0	0	0
31.	**PROFIT OR LOSS FOR THE YEAR** (AOP 097 + 098; 102 + 103)	**12,106**	**12,106**	**0**
32.	ATTRIBUTABLE TO MINORITY INTEREST [NON-CONTROLLING INTERESTS]	0	0	0
33.	ATTRIBUTABLE TO OWNERS OF THE PARENT	12,106	12,106	0

POSITION NAME		CNB DECISION	ANNUAL REPORT	DIFFERENCE
COMPREHENSIVE INCOME STATEMENT				
1.	**PROFIT OR LOSS FOR THE YEAR** (AOP 101)	**12,106**	**12,106**	**0**
2.	**OTHER COMPREHENSIVE INCOME** (AOP 106 + 118)	**(16,584)**	**(12,999)**	**(3,585)**
	2.1. ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (AOP 107 DO 113 + 116 + 117)	**(13,371)**	**(9,785)**	**(3,586)**
	2.1.1. TANGIBLE ASSETS	0	0	0
	2.1.2. INTANGIBLE ASSETS	0	0	0
	2.1.3. ACTUARIAL GAINS OR LOSSES ON DEFINED BENEFIT PENSION PLANS	0	0	0
	2.1.4. NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	0	0	0
	2.1.5. SHARE OF OTHER RECOGNISED INCOME AND EXPENSE OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	0	0	0
	2.1.6. FAIR VALUE CHANGES OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, NET	(16,306)	(11,933)	(4,373)
	2.1.7. GAINS OR LOSSES FROM HEDGE ACCOUNTING OF EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, NET	0	0	0
	2.1.8. FAIR VALUE CHANGES OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME [HEDGING INSTRUMENT]	0	0	0
	2.1.9. FAIR VALUE CHANGES OF EQUITY INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME [HEDGING INSTRUMENT]	0	0	0
	2.1.10. FAIR VALUE CHANGES OF FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS ATTRIBUTABLE TO CHANGES IN THEIR CREDIT RISK	0	0	0
	2.1.11. INCOME TAX RELATING TO ITEMS THAT WILL NOT BE RECLASSIFIED	2,935	2,148	787
	2.2. ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS (AOP 119 DO 126)	**(3,213)**	**(3,214)**	**1**
	2.2.1 HEDGE OD NET INVESTMENTS IN FOREIGN OPERATION (EFFECTIVE PORTION)	0	0	0
	2.2.2. FOREIGN CURRENCY TRANSLATION	0	0	0
	2.2.3. CASH FLOW HEDGES [EFFECTIVE PORTION]	0	0	0

POSITION NAME		CNB DECISION	ANNUAL REPORT	DIFFERENCE
	2.2.4. HEDGING INSTRUMENTS [NOT DESIGNATED ELEMENTS]	0	0	0
	2.2.5. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(3,995)	(3,996)	1
	2.2.6. NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	0	0	0
	2.2.7. SHARE OF OTHER RECOGNISED INCOME AND EXPENSE OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	0	0	0
	2.2.8. INCOME TAX RELATING TO ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	782	782	0
3.	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR** (AOP 104 + 105 I AOP 128 + 129)	**(4,478)**	**(893)**	**(3,585)**
4.	ATTRIBUTABLE MINORITY INTEREST (NON-CONTROLLING INTEREST)	0	0	0
5.	ATTRIBUTABLE TO OWNERS OF THE PARENT	(4,478)	(893)	(3,585)

In accordance with the CNB Decision dividend income is stated in its own position, while in the annual report it is included into Other net operating income.

Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net consist of net realized gains for securities measured at fair value through other comprehensive income vrijednosnim papirima koji se vin the amount of HRK 4,092 thousand which are included into Other net operating income in the annual report and other liablities cost in the amount of HRK 317 thousand which is included into administrative cost in the annual report.

Total amount of foreign currency trading income in the amount of HRK 5,447 thousand is included into Other net operating income in the annual report.

Total amount of HRK 1,213 thousand of non-trading financial assets mandatorily at fair value through profit or loss income is included into Other net operating income in the annual report.

In accordance with the CNB Decision exchange rate differences in the amount of HRK 1,612 thousand are presented in its own position, out of which HRK 2,290 thousand relate to net exchange rate for impairment which are included into Impairment and provision costs in the annual report in the amount of HRK 677 thousand for other net exchange rate differences which are included into Other net operating income.

Net gains on derecognition of non-financial assets in the amount of HRK 185 thousand are included into Impairment and provision costs in the annual report.

Other operating expenses consist of tax costs, contributions, fees and similar costs in the amount of HRK 10,763 thousand which are included into Administrative costs and expense in the amount of HRK 35 thousand which relates to unimpaired value of sold tangible assets which is included into Other net operating income in the annual report.

In accordance with the CNB Decision provision for potential liabilities cost is presented in its own position, while in the annual report it is included into Impairment and provison cost.

Payment from written-off receivables from prior years income in the amount of HRK 2 thousand are included into Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss in accordance with the CNB Decision, while in the annual report it is included into Other net operating income.

In accordance with the CNB Decision impairment of repossessed assets held for sale is presented in its own position, while in the annual reort it is included into Impairment and provision cost.

In accordance with the CNB Decision extraordinary income in the amount of HRK 1,072 thousand are included into Profit or loss after tax from discontinued operations, which in the annual report is included into Other net operating income and other non-standard cost in the amount of HRK 61 thousand which is included into Administrative cost in the annual report.

Difference in the amount of 3,585 thousand consists of changes in fair value of equity securities (HRK -4,373 thousand) and tax on profit which relates to those positions (HRK 787 thousand). The difference is the result of different sale measurement of equity securities and reclassification of assets at fair value through other comprehensive income at 1 January 2018.

Other differences relate to rounding reclassification.