ANNUAL REPORT OF SLATINSKA BANKA d.d. SLATINA FOR 2019

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SLATINSKA BANKA

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MANAGEMENT REPORT

MANAGEMENT REPORT ON THE FINANCIAL POSITION AND ANALYSIS OF BUSINESS PERFORMANCE

Dear clients and shareholders and employees,

In 2019, Slatinska banka d.d. recorded successful business operation. Gross profits of HRK 3,920 thousand were recorded.

Even though Slatinska banka belongs to a group of “small-sized” banks in the Croatian banking market, we have managed to adequately respond to all business challenges facing the Bank, improve the organisation of the Bank, and accomplish growth in target markets.

The balance of the Bank was reduced by about HRK 74 million compared to the previous year and amounts to HRK 1,494 million. Significant activities during 2019 were directed to optimisation of both the amount and the structure of the total liabilities of the Bank with the view of ensuring complementarity with the investment business policy of the Bank, which was achieved. The result of such an activity is visible in the growth of the net interest income in 2019 by 9.98% compared to the previous year.

The financial data for 2019 is the confirmation of the good business of Slatinska banka d.d.

The operation of the bank during 2019 took place in conditions of stable liquidity, which is the long-term policy of the Bank.

In 2019, loans and advance payments of the Bank increased with the expansion of the offer of credit services and renewal of the existing credit lines, while paying regard to the business risks and creditworthiness of clients.

Risk exposure, in particular exposure to credit risk, is monitored constantly, and the Bank will try to reduce their impact on the business performance in the following period.

Significant activities are aimed at improving the processes of collection of exposure and assets, which is evident through other revenue generated in this period.

We recorded increase of net loans and advance payments by HRK 61 million (+6.85%) compared to 2018, which points out that the Bank monitors its clients successfully and adjusts to their needs.

Optimisation of cost efficiency is implemented on a continuous basis, with investment in human resource expertise with a view of increasing the efficiency, improving the process and internal controls, and promoting the business performance.

In 2019, the Bank invested in increasing the security and development of internal controls, development of card operation in compliance with the European standards, and continuing education of the employees of the Bank, all aimed at improving the bank services and ensuring better accessibility for clients.

Together with redesigning the website, the modern approach of the Bank regarding its services offers new and innovative opportunities to clients to use the services by means of modern distribution channels, while maintaining high levels of security. Given that adjustment of the operation to the market conditions and the requirements of clients is necessary for the accomplishment of goals, further activities of the Bank in the next period will be directed to digitisation of the operation, that is, investments in new technologies and solutions.

Responsible cost management and business risk management, seeking new markets, along with regulatory adjustments still pose challenges, which we will try to meet successfully.

We can assess the business 2019 year as a very successful year based on the accomplished business performance, especially because during 2019 we created realistic assumptions and progress for further stable and successful operation.

The Bank adapts to challenges posed by Covid 19, which affects change of the operation of the whole financial sector and the economy at large. Models are being conceived in an attempt to mitigate the negative impact of the newly created situation on the financial condition of clients. Availability of services through electronic channels as well as possibilities of withdrawing cash at all ATMs without a fee are increasing.

Our goal is to achieve sustainable and long-term development of the Bank, along with success, satisfaction and prosperity of our clients, employees, the local environment in which we act, and the Croatian society as a whole.

DEVELOPMENT OF SLATINSKA BANKA d.d. SLATINA

SLATINSKA BANKA d.d. was founded on 9 October 1992 and is the only banking institution seated in the County of Virovitica and Podravina, in Slatina, Vladimira Nazora 2.

In terms of the organisation, the Bank is divided in 11 Sectors, within which specialist departments are defined.

On 31 December 2019, the Bank operated through a business network of 15 branch offices in the counties: Virovitica-Podravina, Osijek-Baranja, Požega-Slavonia, Brod-Posavina, Bjelogar-Bilogora, Koprivnica-Križevci, Primorje-Gorski Kotar County, and the city of Zagreb.

Besides providing services to clients through the network of branch offices, the banking services are available through an ATM network and through other distribution channels, such as Internet banking, mobile banking and a network of EFTPOS devices.

Given the specific activity it deals with, R&D activities of the Bank are directed to research and analysis of the market with a view of improving the offer and enhancing the services it provides to its clients.

The business model of the Bank is based on the principle of a universal local Bank, which is capable to provide its clients with a complete financial service, which will determine its future operations as well.

The operation of the Bank focuses on citizens, craftsmen, and small-sized and middle-sized entrepreneurs. Furthermore, the financial monitoring of local self-government units is a part of the directions of the Bank development. In late 2017, services of the Bank were expanded to include the investment banking service.

According to the requirements of the market, the operation of the Corporate Sector is primarily oriented to financial monitoring of the small-sized and middle-sized entrepreneurship, craftsmen, and holders of family farms, from both its own funds and the funds of HBOR, as well as through credit lines in cooperation with local self-government units.

The Bank directs a significant part of its activities to increasing collection of outstanding receivables, negotiating rescheduling of debts, and a series of activities for sale of new services are undertaken.

An online cash credit service for private individuals has been introduced with favourable terms so that clients and non-clients are enabled simpler funding. Furthermore, the Consolidation for 5 Service, a loan for closure of existing liabilities in other banks has been introduced. Taking out a cash loan for refinancing loans at any bank is fast and simple. Clients are offered a possibility to unburden their budget, while collecting all liabilities in other banks in one loan.

In addition to a modern approach to presenting the services of the Bank, site visitors are offered new benefits from redesigned websites, and clients are provided a clearer view of the services, a possibility for filing an application for retail loan online as well as an application for opening a current and transaction account, and competitive terms of crediting.

Moreover, the Bank is present in social media in order to ensure easier communication and presentation of services of the Bank to clients and potential clients.

New technologies accelerate changes to which the Bank responds by improving the operation and carrying out changes and education of employees for adoption of new knowledge, all with a view of enhancing clients' satisfaction.

In accordance with the market trends, the Bank has introduced Mastercard and Maestro contactless cards that use the state-of-the-art technology for payment and enable contactless payment.

Further activities of the Bank in the next period will be directed to digitalising the operation and improving the process.

The 2019 business year is also important because trends of the Bank operation were directed to positive courses, and realistic assumptions for future profitable and stable operation were created.

Sustainable and long-term development of the Bank and success, satisfaction and prosperity of our clients, employees, local environment in which we operate and the Croatian society as a whole is the goal of the operation of the Bank.

In the next period, we will strive to meet the challenges imposed on us as adequately as possible, profiling ourselves in a modern financial institution with our clients and employees in the centre.

ANALYSIS OF THE BANK OPERATION IN 2019

Table: Basic financial indicators of the operation of the Bank

	2019 (in HRK 000)	2018 (in HRK 000)	2019/2018 Index
ASSETS	1,494,336	1,568,629	95.27
PROFIT AND LOSS STATEMENT			
- Net interest-based income	51,956	47,241	109.98
- Net income from commissions and fees	9,047	9,022	100.28
- Other income from operation	24,948	6,096	409.25
- Other expenses from operation	-3,586	-4,560	78.64
- Administrative expenses from operation	-38,196	-35,979	106.16
- Depreciation	-4,294	-3,304	129.96
Result before impairment of value and provisions	39,875	18,515	215.37
- Impairment of value and provisions	-35,955	-11,974	300.28
Gross profit	3,920	6,541	59.93
- Profit tax	-1,651	-1764	93.59
Net profit	2,269	4,777	47.50
TOTAL CAPITAL	165,620	164,276	100.82
REGULATORY CAPITAL	159,444	156,585	101.83
TOTAL CAPITAL RATE	17.59%	17.72%	99.27
ROA	0.15%	0.30%	50.00
ROE	1.38%	2.90%	47.59
CIR	73%	73%	100.00
NUMBER OF EMPLOYEES	176	180	97.78

Profit and Loss Account

In 2019, the Bank made profit in the net amount of HRK 2,269 thousand.

Compared to 2018, net interest income increased by 9.98% or HRK 4.7 million and amounted to HRK 51,956 thousand.

The share of interest income in the total income was 60.82% as on 31 December 2019, which points out that the Bank significantly relies on the interest income. With the reduction of the interest income by 0.79% in 2019, interest expenses that made 9.19% of the total expenses were reduced by 37.09% in 2019 as a result of good management of deposits, which resulted in the growth of the net interest income.

Net income from commissions and fees was generated in the amount of HRK 9,047 thousand, which was up by 0.28% compared to 2018. Income from commissions and fees generated 1.76% growth in 2019 whereas expenses from commissions and fees increased by 5.09%, which in the end resulted in increasing net income from fees and commissions.

Costs of provisions and impairment of value were HRK 35,955 thousand in 2019, up by HRK 24 million compared to 2018.

Complying with its policies and procedures, the Bank conducts regular assessment of exposure and makes adequate value adjustments of the exposures in question.

The general administrative costs increased by 6.16%, and the depreciation costs increased by 29.96%, mostly because of the application of IFRS 16 Leases.

The indicator ratio of the operating costs and the operating income (CIR) was 52% in 2019, including one-time effects (which was a downturn by 31% in relation to 2018 when the ratio was 67%). Excluding one-time effects, the indicator ratio of the operating costs and the operating income (CIR) was at the same level (73%) in 2019 as in the previous year.

Other costs from operation were lowered by 21.36%.

Other revenues were generated by the sale of securities in the amount of HRK 11,361 thousand, by gains from trade in foreign means of payment in the amount of HRK 2,764 thousand, and other income from operation due to higher one-time effects of collection in 2019, in the amount of HRK 10,823 thousand. This income increased in aggregate by 409% compared to the previous year.

Balance of the Bank

The balance of the Bank as at 31 December 2019 amounted to HRK 1,494,336 thousand, which was a decline by HRK 74,293 thousand, or 4.73% compared to 2018.

The optimisation of source of assets, planned in line with the planned policy of placements, is carried out with a purpose of profitability, while maintaining high levels of liquidity.

Loans and advance payments to clients amounted to HRK 957,135 thousand, they were higher by HRK 61,328 thousand (+6,85%), mostly due to the increase in retail loans.

Towards the end of the fourth quarter, The Bank sold its 100% share in Turbina d.o.o. Slatina (which made 0.36% of the total assets of the Bank in 2018), so there are no other companies that would be included in consolidation.

Deposits, which make the primary source of funding, together with received loans, amounted to HRK 1,302 million and were lowered by HRK 79,090 thousand (-5.73%).

Increase of HRK 99,017 thousand (+23.32%) was achieved in retail and corporate sight deposits, whereby time deposits, which generate interest cost, were reduced by HRK 137,624 thousand (-16%).

Liabilities for received loans amounted to 55,980 and pointed to a decline by HRK 40,483 thousand (-41.97%).

An overview of the placement structure per sector and the asset sources is given below

Table: Placement structure per sector

(in HRK 000)

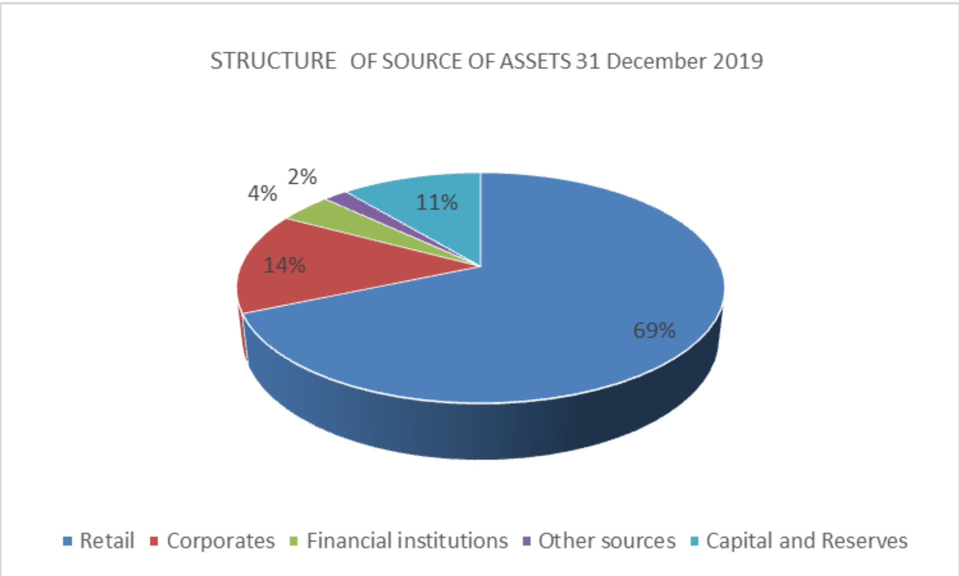
	31.12.2019	%	31.12.2018	%
CORPORATES	400,723	26.82	355,526	22.66
- Companies	294,593		264,641	
- Private individuals (craftsmen, family farm holders, etc..)	81,504		63,631	
- Local government and non-profit organisations	19,963		22,043	
- Other	4,663		5,211	

RETAIL	406,473	27.20	379,499	24.19
FINANCIAL INSTITUTIONS	45,051	3.01	50,623	3.23
INVESTMENT BANKING	30,075	2.01	24,912	1.59
DEBT SECURITIES	278,224	18.62	330,446	21.07
OTHER PLACEMENTS AND ASSETS	333,790	22.34	427,623	27.26
TOTAL:	1,494,336	100.00	1,568,629	100.00

Table: Asset source structure per sector

(in HRK 000)

	31.12.2019	%	31.12.2018	%
RETAIL	1,024,457	68.56	1,066,389	67.98
CORPORATES	212,868	14.25	215,349	13.73
- Companies	115,094		115,270	
- Private individuals (craftsmen, family farm holders, etc..)	50,652		45,438	
- Local government and non-profit organisations	47,122		54,641	
FINANCIAL INSTITUTIONS	62,327	4.17	97,278	6.20
OTHER SOURCES	29,064	1.94	25,338	1.62
CAPITAL AND RESERVES	165,620	11.08	164,275	10.47
TOTAL:	1,494,336	100.00	1,568,629	100.00



Retail Banking

Slatinska banka d.d. has maintained its market position in the retail banking segment by monitoring the market trends and on-going improvement of operations and service quality.

Monitoring the needs of clients and orienting to their satisfaction, the Bank offers innovative and universal financial services, combining traditional and modern distribution channels.

Having in mind the importance of socially responsible operation and sustainable development, the Bank focuses on the satisfaction and creation of encouraging surroundings for its employees, as well as development of the community in which it operates, including care for people.

By expanding the range and functionality of its services and introducing new technologies, the Bank offers the retail segment the traditional and market-acceptable forms of savings, credit lines primarily for non-purpose loans, payment transaction services and online banking services.

Maintaining the trust between the Bank and its clients is evident through the increase of the number of current accounts by 4% and credit cards by 14% compared to the previous year. The Bank recorded increase of the net placements to retail market by HRK 27 million, in relation to the previous year. Placements in the retail segment maintain a significant share in the placements of the Bank and account for 27% of the total structure of the Bank assets. The Bank improved its credit portfolio in 2019 as well, by the sale of a part of the portfolio of non-income receivables.

In the area of the retail credit operations, the Bank adjusted the conditions of crediting of customers to their needs through simple loan products and introduction of new credit lines. The Bank strives to digitally transform and modernise its operations through new digital channels of product distribution. It offers customers an opportunity for repayment of loans in up to 12 years for consumer credits, and concerning housing loans, a repayment term of up to 20 years. The Bank offers loans with fixed interest rates and variable interest rates related to the National Reference Rate (NRR).

The operation of the Bank in retail encompasses the following organisational parts: The Sales Management Department, which organises, develops, coordinates and monitors the operation of the business network, shapes the model of goal setting and measurement of performance of the set goals of the business network, setting of sales plans and monitoring thereof, and the Product Development and Marketing Department, assigned with monitoring new and existing market trends and developing Bank’s products, in compliance with the market requirements, with a purpose of providing support to the business (sales) network and organising and implementing marketing campaigns and selecting the most effective communication channels for certain products to private individuals.

By investing in human potentials and their continuing education and personal development, clients are ensured superb service, whereby a personal approach between the client and the Bank is developed.

Corporate Transactions

Banking in the corporate segment is primarily directed to financial monitoring of the micro, small-sized and middle-sized entrepreneurship, craftsmen and family farm holders, predominantly from own funds and through credit lines in cooperation with local government units.

Placements in the corporate segment in 2019 were HRK 400 million, which accounted for 26.8% in the total assets of the Bank.

The Bank has developed business cooperation with the Croatian Agency for SMEs, Innovations and Investments (HAMAG BICRO) for the issuance of individual guarantees funded from the European and structural investment funds, whose goal is to create in the best possible manner a financial model that would provide a complete and high quality financial service adjusted to the dynamic market conditions. Furthermore, the business cooperation with the Croatian Bank for Reconstruction and Development (HBOR) enables a more diverse offer of credit lines for clients of the Bank using loans from the HBOR sources.

Along with crediting micro, small and middle entrepreneurship, craftsmen and family farms, the Bank takes active part in funding the local government and self-government units, which ensures addressing developmental infrastructure needs in a proper manner and creating a good basis for further economic development of areas in which the Bank operates.

The aim we want to achieve is to be recognisable as a reliable partner to entrepreneurs on the local financial market by an individual approach to a client and high quality services.

Besides the above, the Bank issues all forms of guarantees, from HRK to foreign currency guarantees, bid, performance and payment guarantees, letters of credit, and other forms of guarantees required by the present conditions of operation.

Credit worthiness, good development programmes and competence of the management make the fundamental preconditions for financial monitoring of clients.

Together with developing and improving its operations, the Bank also offers legal entities other services that ensure faster, simpler and more efficient operation using the EFTPOS terminal, MBCARD/Maestro cards, MasterCard Business Charge cards, SMS services, and especially Internet banking online services and Mobile banking.

The basic activities of the Bank in its operations with the corporate sector will further on also be directed to development and increasing the quality of services that the Bank offers to legal entities, and to further common development of mutual business trust and partnership.

Payment Transactions

Successful and safe functioning of the payment transactions (national, cross-border, and international) is of exceptional importance for all the clients of the Bank and other participants in the payment transactions. The payment transactions are performed through a network of branches (counters) of the Bank, ATMs, daily-and-nightly safety vaults, through the network of branches of FINA as well as by modern electronic payments (internet banking and mobile banking). We bear witness to the gradual change of payment habits due to development of new technologies, e.g. smart phones. Cash payments are gradually becoming replaced with card payments, and internet and mobile banking.

Quality and speed of service is still a guide in management and running of payment transactions in the Bank.

The Bank has a developed network of correspondent banks. Foreign currency payments are made through the SWIFT Alliance application, and the Bank is an active participant in the HSVP and TARGET2 systems. Moreover, it is also an active participant in the EuroNKS and NKSkn systems, by which it is directly involved in the Single Euro Payments Area (SEPA) payment system.

Since 2017, the Bank has been an active participant in the SEPA Direct Debit basic and business payment scheme.

For the payment transaction operations, the Bank uses its own programme support that makes the technical basis for quality provision of payment transaction services both in the country and abroad.

During 2019, the Bank established a dedicated interface PSD2-API, through which new providers of payment services are enabled access to clients' accounts kept in the Bank, in line with the Directive 2015/2366 on payment services in the internal market (PSD2) and supplements with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication (RTS).

Continuing increase of the number and volume of transactions shows clients' satisfaction with the new payment transaction services and competitive fee rates, which in return enable the clients to better manage their assets at transaction accounts.

The activities of the Bank towards development of the payment transaction services are carried out with a purpose of the Bank's enabling its clients and participants in the payment transactions an acceptable, efficient, good and above all financially advantageous offer of services while respecting the maximum safety and speed as well as simplicity in the payment transactions.

Information System of the Bank

Information technology is present in all parts of our banking operations, and special care shall be given to the management and development planning of our IT system. The primary function of the Bank's information system is to ensure business users and Bank clients access to information and services necessary for their everyday business, as well as confidentiality, availability, and integrity of information within continued development of the Bank's business.

The technological basis of the Bank IT is comprised of servers for banking and non-banking applications. IBM Power7 8202 server is used as the server for the bank application. External locations (financial centres, branches and branch offices) are connected through the virtual private network (VPN). In addition to the business network, banking services are also made available through other distribution channels such as the internet banking, Mobile banking and the EFTPOS device of ATM network.

The Bank also has a backup system, which includes a backup location with redundant hardware, software and data on which, in case of disastrous events or any other emergency, the entire production environment can be started during a defined recovery time, all in accordance with legal provisions.

An introduction of cards with contactless functionality was completed in 2019. The website of the Bank was redesigned.

The Bank established a dedicated interface PSD2-API, through which new providers of payment services are enabled access to clients' accounts kept in the Bank, in line with the Directive 2015/2366 on payment services in the internal market (PSD2) and Commission Delegated Regulation (EU) 2018/389 supplementing Directive (EU) 2015/2366 of the European Parliament and the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication (RTS).

RISK MANAGEMENT

Risk Management Policy and Strategy

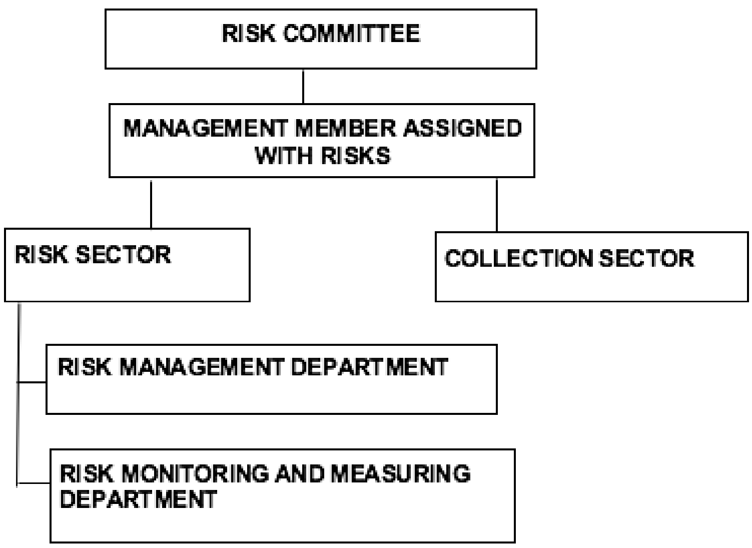
Risk is defined as a possibility for occurrence of events that can unfavourably affect the Bank's capital, income and its sustainability and goal accomplishment.

The risk management system is comprehensiveness of the organisation structure, rules, processes, procedures, systems and resources for determining, measuring, i.e. assessing, mastering, monitoring and reporting exposure to risks, or risk managing on the whole, and implies establishment of adequate corporate management, risk culture and adoption of strategy, policy and other internal acts for risk management.

Risk management is an overall process of determining, assessing and monitoring risk, taking into consideration the goals of the Bank and taking the necessary actions, all with a purpose of lowering risk.

Risk Management Organisation

Risk management in the bank is carried out by the Risk Sector. The Collection Sector also takes part in the credit risk management segment. Also, risk management is carried out in all the segments of operation through an established internal control system.



Risk Committee

The Risk Committee is a central organisation body for the risk management completeness.

The Risk Committee continually discusses all the risks the Bank is exposed to through a defined reporting system, with a purpose of defining future business policies of the Bank.

Risk Sector

The Risk Sector carries out operational management of total risks, and monitoring and measuring of all the risks the Bank is exposed to.

The Risk Control Function is performed by the Risk Sector Director.

Key employees of the Risk Management Department are as follows:

- Senior Professional Associate for Market and Other Risk Management;
- Senior Professional Associate for Credit Risk and Credit Related Risk Management;
- Senior Professional Associate for Credit Risk Management;

Key employees of the Risk Monitoring and Measuring Department are as follows:

- Senior Professional Associate for Credit Risk Monitoring and Measuring;
- Senior Professional Associate for Market and Other Risk Monitoring and Measuring.

Collateral management jobs are also performed within the Risk Sector, which includes review of the collateral assessment, monitoring of collateral values, and giving opinion of collaterals that the Bank accepts in the loan approval procedure.

Collection Sector

The Collection Sector operatively manages all credit exposures where default in meeting liabilities exists. Collection Sector undertakes all the measures for collection of receivables, both voluntarily and in an enforced manner if agreed collection cannot be achieved. Besides the above, the Collection Sector also proposes loan restructuring, and gives proposals for sale of part of non-interest bearing investments.

Risk Exposure

The Bank is exposed to the following risks in its operation:

1) Credit risk
    - Credit risk of the other contracting party,
    - Currency induced credit risk,
    - Interest induced credit risk,
2) Market risks
    - Position risk,
    - Foreign exchange risk,
    - Commodity risk,

3) Interest rate risk in the Bank book,
4) Liquidity risk (liquidity financing risk, market liquidity risk),
   - Liquidity financing risk,
   - Market liquidity risk,
5) Operational risk within which lack of internal controls,
6) Compliance risk,
7) Concentration risk,
8) Residual risk,
9) Country risk,
10) Strategic risk including new product and business line risk,
11) Excessive financial leverage risk,
12) Exposure to entities of shadow banking,
13) Reputation risk,
14) Other risks (strategic risk, country risk, dilution risk, securitisation risk, managing risk, model risk, risk of adjustment to credit valuation, risk of free delivery, business risk, legal risk, migration risk, risk of externalisation, profitability risk, risk of investment in property, information system risk, risk of settlement, risk of non-conscientious conduct, and other risks which the Bank is or might be exposed to in its operations).

The risk level which the Bank is exposed to depends on multiple factors and all the stated risks do not influence the Bank in an equal manner. Detailed management of individual risks is prescribed in policies, ordinances, and procedures for respected risks.

Risk Profile

The Bank is not exposed to the securitisation risk because it does not perform securitisation jobs and will not enter jobs that condition dilution risk, so it will not be exposed thereto.

Furthermore, the Bank will not trade in goods in the market or in derived financial instruments related to goods, that is, it will not be exposed to the commodity risk.

Risk culture in terms of assuming and managing risk is presented to all the workers at all the levels so that they are clearly informed of the authority assigned to them.

Approach to Risk Management

A systemic approach to risk management is a key element for setting the strategy of the Bank in risk management.

The Bank management ensures that risk management is embedded in all business processes and all organisation segments.

The goal of risk management is achievement of optimum level of profitability with an acceptable risk level.

The Management and the Supervisory Board, in line with their competences, are fully responsible for establishment, implementation and supervision of the management system.

Risk Management Process

The risk management process has to be adjusted to the type of risks which it relates to. Every process must contain the following as a minimum:

- risk determination,
- risk measurement,

- risk mitigation,
- monitoring and reporting on the risk,
- risk control.

Acceptable Risk Level

The Bank is obliged to ensure to have at any time an amount of capital adequate to the type, scope and complexity of the services provided and the risks it is exposed or could be exposed to in the provision of these services.

The Bank is obliged, for the purpose of safe and stable business, i.e. fulfilment of obligations towards its creditors, to maintain adequate regulatory capital adequacy. The regulatory capital of a credit institution should not be less than the law prescribed amount of the share capital or the Decision on the prescribed internal capital.

The Bank is obliged to operate in such a manner so as to be able at any time to timely meet due payment obligations (liquidity principle) and to be permanently able to meet all of its obligations (solvency principle).

In its risk-related policies, the Bank prescribes the level of acceptable risks for defined risks.

Reporting on Risk Exposure

The Management and the Supervisory Board of the Bank are informed regularly, from various risk aspects, about the portfolio quality, the indicators of the Recovery Plan and are provided with all information necessary for the assessment of risks which the Bank is exposed to. The report contains detailed information on exposures, risk assessments, concentrations and changes in the risk profile. The Risk Sector also creates additional reports that provide it with information necessary for proactive risk management,

Control functions make individual and periodic reports in accordance with the Rules of Procedure of the Risk Control Function, the Rules of Procedure of the Compliance Monitoring Function and the Rules of Procedure of the Internal Audit.

In order to adequately protect its exposure, the Bank contracts collaterals for receivables from which it will possibly collect its claims if a debtor of the Bank does not meet its obligations, i.e. ensure minimum credit risk.

Credit Risk

Credit risk is the most significant risk for the Bank. Credit risk is a risk of loss due to failure of debtors to meet their monetary liability towards the Bank.

Currency-induced credit risk and interest rate-induced risk are derivatives of credit risk and the Bank considers them separately.

The Bank has stipulated its credit risk management policy. The purpose of the policy is prescribing clear lines of authority and responsibility for the credit risk management within the Bank, the methodology for determining and measuring, i.e. assessment of the credit risk the Bank is exposed or could be exposed to, procedures for the risk mitigation and monitoring of the credit risk, including putting in place appropriate limits, procedures and measures if crisis situations occur.

The process of monitoring individual loans includes assessing the credit worthiness of the debtor, a group of persons related to the debtor, regularity in meeting the obligations and the quality of collaterals for securing the claims during the validity of the legal relation that makes the exposure.

Senior Professional Associate for Credit Risk Monitoring and Measuring makes an analysis of the loan portfolio and is responsible for its production. The analysis is made every three months after the completion of the value adjustments and is presented to the Risk Committee.

We measure the credit risk through the process of monitoring loans and analysis of the portfolio in line with the Loan Monitoring Policy and the analysis of the credit portfolio and through the process of classification of loans according to risk levels, which is prescribed by the Ordinance on Classification of Exposures into Risk Categories and the Method of Determining Credit Loss.

The totality of compliance with the provisions of the Policy is implemented through the Risk Control Function, Sector Control Departments and the Internal Audit, according to the adopted annual plans.

After the controls have been carried out, the Risk Control Function, Sector Control Departments and the Internal Audit inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board.

Credit risk protection is ensured by means of a continuous monitoring of individual loans in order to allow timely appropriate measures with the purpose of reducing the credit risk in the event of deterioration in the credit worthiness of the debtor or the provider of collateral for securing the claim.

Over the entire validity of the contractual relationship, the Bank assesses the credit quality of the exposure and classifies those exposures into the appropriate risk groups, based on the following criteria:

1) Creditworthiness of the debtor,
2) Regularity in the fulfilment of liabilities of the debtor toward the credit institution and other creditors, and
3) Quality of the collateral per individual exposure.

Three categories of value adjustment calculation are prescribed in line with the IFRS 9 requirements:

STAGE 1 (S1) – calculation of expected annual credit losses on an aggregate basis,

STAGE 2 (S2) – calculation of expected annual credit losses for the entire life time of exposure on an aggregate basis,

STAGE 3 (S3) – calculation of expected annual credit losses on individual basis

The main criteria/relevant data for classification of exposure into risk group are as follows:

- Days of delay,
- Status of the claims – Restructured loans,
- Blocking the account,
- Internal credit rating,
- Status of a dead person.

Indicators suggesting that the debtor will not fully meet their liabilities are as follows:

1) evident significant financial difficulties of the debtor,
2) violation of the agreement, like default or delay in paying interest rates and/or the principal, or failure to meet other provisions of the agreement,
3) existence of a real possibility for initiation of a bankruptcy procedure or undertaking some other legal activity (financial reorganisation) that is caused by the bad financial status of the debtor,
4) based on the analysis of the System for early determination of increased credit risk and qualitative indicators on the loan portfolio of legal entities with early detected increased credit risk, they are as follows: reputation of the client, negative experiences in connection with the delivery of information to the Bank and initiated litigations.

Definition of the default status

The default status of individual debtors occurs when one of the following requirements or both following requirements are met:

(a) the Bank considers it probable that the debtor will not fully meet its obligations towards the Bank, its parent company or any of its subsidiaries without taking into account the possibility of collection of collateral;

(b) the debtor in default for more than 90 days has not fulfilled its liability accrued on any significant credit obligations toward the Bank, its parent company or any of its subsidiaries. Competent authorities may replace 90 days with 180 days for exposures that are secured with residential property or commercial real estate of SMEs in the category of exposures towards the retail segment, as well as the exposures towards the public sector entities. The replacement with 180 days is applied for the needs of Article 127 of the Regulation (EU) No. 575/2013.

Reassigning the status of fulfilment of obligations is possible in cases where all causes that led to the default status are removed in a period of minimum three months.

It is necessary to analyse criteria that have led to the improvement of the financial situation of the debtor, which allows full and timely repayment of the credit obligations and make the debt repayment likely. The bank needs to be convinced that the improvement in credit quality is real and permanent, and that the financial condition of the debtor is satisfactory in order to change the status of default into the status of fulfilment of liabilities.

Based on this, we will monitor and analyse changes in the status of debtors or products where the status of default will occur shortly after the reassignment of the status of fulfilment of liabilities with the aim of re-examining our policies in relation to the reclassification of exposure.

Criteria for Classification and Reduction of Exposure in the A Risk Group

Only exposures towards the debtor who is not in the status of default can be classified in the A Risk Group.

The Bank is obliged to classify the exposures in the risk subgroup:

1) A-1 if after the initial recognition the credit risk of a certain debtor's exposure did not increase significantly,
2) A-2 if after the initial recognition the credit risk of a certain debtor's exposure increased significantly.

The Bank is obliged, in line with the IFRS-9 provisions, to conduct appropriate impairments and provisions for exposures in the amount equal to:

1) expected credit losses in the twelve-month period for the A-1 Risk Subgroup,
2) expected credit losses during the life time for the A-2 Risk Subgroup.

General requirements for the method of assessment of credit losses

Indicators for determination of increased credit risk of a debtor that is used for transition of exposure from the A-1 Risk Subgroup to the A-2 Risk Subgroup are as follows:

1. days of delay,
2. blocking of the client,
3. worsening of the credit worthiness assessment,
4. natural person's death,
5. appearing on monitoring lists of the Watch List and the System for Early Detection of Increased Credit Risk.

The Bank takes the regularity of the debtor in settling arrears as a mandatory indicator. If the debtor is in delay with the payment of their due exposures towards the Bank for more than 30 days, though it is still within the terms not exceeding 90 days, the Bank is obliged to assign them into the A-2 Risk Subgroup.

Model of Calculation of the Expected Credit Loss (ECL) on an Aggregate Base

$$ECL = \sum_{n=1}^{r} (EAD_n * \mathrm{MPD_n} * \mathrm{LGD_n} * \mathrm{DF_n})$$

EAD

Calculation of exposure due to the default status (EAD) is exposure at the time of default of the client/claim. The discounted cash flows are taken into account as well as potential additional withdrawals from the credit lines.

MPD model

The MPD model applies the basic approach of calculation of the probability of default occurrence, based on the transition matrices using the Markov chain, after which the macroeconomic anticipations are implemented in a z-shift model. The time dimension is obtained by simply multiplying the appropriate matrices based on projections for future periods.

LGD

The Bank has defined the loss in the case of occurrence of a default status of the given financial mean depending on the segment and existence of collateral for the claim

DF

DF is abbreviation of the term Discount Factor, i.e. it represents the discount factor for a given period based on the initial effective interest rate. DF is calculated depending on the value of the effective interest rate, maturity of the exposure, and the delay or application of the expected credit loss.

Strategic Risk

The Bank has prescribed the Policy for management of the strategic risk whose purpose is to define the strategic risk which the Bank is exposed to. The strategic risk is a possibility of occurrence of loss due to the lack of a long-term development component of the Bank, adverse business decisions, bad implementation of adopted decisions or lack of sensitivity to market changes.

The Risk Control Function is obliged to inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board on a semi-annual basis about the implementation of the annual plans of the balance.

The strategic risk is risk of loss that may arise due to adverse business decisions, lack of responsiveness to changes in the economic environment, etc.

This risk is linked to the strategic objectives of the Bank, developed business strategy in order to achieve strategic objectives, resources used to achieve those objectives and quality of implementation. Necessary resources for implementation of the business strategy consist of tangible and intangible assets, including the communication channels, operating systems, networks for the delivery and management capacities and capabilities. Through the process of measuring, the Bank will determine the realisation of adopted plans and the level of deviation from the adopted plans and strategic objectives of the Bank in order to establish in a timely manner the cause for the deviations and initiate actions to achieve the strategic objectives of the Bank.

Protection of the strategic risk is a set of guidelines, strategies, methods and activities that clearly define what the Bank wants and how to achieve it, or how to rule out or alleviate certain deviations. The Bank may use services of external institutions in the process of mastering the strategic risk.

Residual Risk

The Bank has prescribed the Residual Risk Management Policy whose purpose is determination, measurement, mastering and monitoring and reporting about the residual risk. The residual risk is the risk of loss that occurs if the recognised techniques for reduction of the credit risk used by a credit institution are less efficient than expected.

Monitoring and reporting about the residual risk is carried out within the Risk Sector and the Risk Control Function.

Senior Professional Associate for Credit Risk Monitoring and Measuring submits a report to the Management on the residual risk management at least once in six months.

The Bank measures the residual risk by the ratio of bad debts (which are estimated to have been fully secured by the credit protection) and totally insured claims by the same kind of credit protection.

Another measure is monitoring the records of sold property in legal/enforcement/bankruptcy proceedings and records of initiated and still unsold properties with the purpose of obtaining information about the period of marketability of certain types of collaterals. Then making projections of taking property for a period of two years with a purpose of controlling the limits for further taking over the property.

Within the process of the residual risk management, if the credit risk mitigation techniques prove less efficient than expected during the loan approval, measures to control/reduce the credit risk shall be put in place.

Effects of the credit protection can be improved by a smaller proportion of the amount of claims in the estimated value of the instrument that is used as credit protection, avoiding the use of instruments used as credit protection that prove to be ineffective, and greater legal safety of used mitigation techniques, etc.

Reputation Risk

The Bank has prescribed the Reputation Risk Management Policy with a purpose of defining the reputation risk management. The reputation risk is potential negative impact on earnings and capital arising from negative public opinion.

Continuous monitoring of threats to the reputation in the context in which the Bank is mentioned in media, or which occur in the form of complaints from customers, or through reporting on the operational risk or through analysis.

Reputation risk measurement system:

Reputation is shaped by three factors: communication, media coverage (online and print), and experience of customers and the public.

In accordance with the foregoing, the reputation risk is measured in a way that we perform the following:

- analysis of customers' complaints,
- analysis of media articles in whose context the Bank is mentioned (positively or negatively),
- analysis of reported reputation risks within the operational risk.

Control is made through the performance of applied results obtained from the analysis on the basis of which the removal of negative reputation that referred to the Bank was targeted.

The totality of compliance with the provisions of the Policy is implemented through the Risk Control Function, Sector Control Departments, and the Internal Audit, according to the adopted annual plans. After controls have been carried out, the Risk Control Function, Sector Control Departments and the Internal Audit inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board.

The way for risk protection is to master the reputation risk in a way as to direct the public opinion about the Bank as desired.

Interest Rate Risk

The Policy of Interest Rate Risk Management in the Non-Trading Book defines the process of interest rate risk management and the process of interest rate risk management in the non-trading book that is linked to Decision on Interest Rate Risk Management in the Non-Trading Book. The process of the interest rate risk management in the non-trading book includes determination and identification of the interest rate risk, measuring, mastering and management; along with monitoring, control and reporting on the interest rate risk. In addition to the foregoing, the acceptable level of the interest rate risk is also prescribed.

The totality of compliance with the provisions of adopted policies is implemented through the Risk Control Function, Sector Control Departments, and the Internal Audit, according to the adopted annual plans. After the controls have been carried out, the Risk Control Function, Sector Control Departments, and the Internal Audit inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board, and put in place specific measures depending on the situation.

The control of the interest rate risk in the non-trading book is made through a quarterly Report on Exposure to the Interest Rate Risk in the Non-Trading Book, through an internal quarterly report on the interest rate risk, and through a semi-annual report on the operation of the Risk Control Function.

The Management of the Bank is informed by internal reporting on the interest rate risk by the Risk Committee, and on a quarterly basis, by the regulator through the Report on Exposure to the Interest Rate Risk in the

Non-Trading Book. Based on the received information from the reports, the Management of the Bank manages the interest rate risk using interest rate risk management instruments.

Continuous monitoring of the interest rate risk using the method of analysis of movements of the interest rates in the market, the interest margin analysis, analysis of net interest income and analysis of the static gap model.

The acceptable level of interest rate risk based on analysis of the static gap model is to determine the Bank's exposure to the interest rate risk in the event of price changes per loan, that is per sources of funds and to ensure that the maximum cumulative gap between assets and liabilities in the periods up to 12 months does not exceed the limit of 20% of net assets. As long as the realised net interest income covers the total administrative costs, this is an acceptable level of risk based on the analysis of net interest income.

In addition to the above, we use the prescribed limit in accordance with the Decision on Interest Rate Risk Management in the Non-Trading Book, where the ratio of change in the economic value of the non-trading book and the regulatory capital of the Bank should not exceed 20%.

When prescribing and determining the annual plan (by which the Bank determines amounts of its planned loans and sources for individual products as well as the pace of their realisation, and the absolute value of the asset to which the Bank has a contracted right to accrue interest in relation to the liabilities to which the Bank has commitment to pay interest); then the Decision on Interest Rates (which affect the value of the interest rates, the variability of the interest rates and the possibility of contracting the variable interest rates, the method and the way of calculation of interest rates); and credit policies (which can affect the sectoral structure of loans by individual credit lines); and the Asset and Liability Management Policy (which affects the structure of assets and liabilities of the Bank), the impact of interest rate risk is taken into account, i.e. they influence the reduction of interest rate risk.

Operational Risk

The Risk Management Strategy of Slatinska banka d.d. provides for management of all risks, including the operational risk as well and the total process of determining, assessment and monitoring of the risk, taking into account the objectives of the Bank and undertaking the required activities, with a purpose of mitigating the risk. The Risk Management Strategy defines the levels of acceptable risks and responsibilities for the risk management.

The Operational Risk Management Policy defines the process of the operational risk management, methods, ways and procedures of monitoring of operational risks, identification, assessment, control, responsibilities and reporting on operational risks.

The totality of compliance with the provisions of adopted policies is implemented through the Risk Control Function, Sector Control Departments, and the Internal Audit, according to the adopted annual plans. After the controls have been carried out, the Risk Control Function, Sector Control Departments, and the Internal Audit inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board, and put in place specific measures depending on the situation.

The control of the operational risk is made through a quarterly internal operational risk reporting, then through a semi-annual report on the operation of the Risk Control Function.

Risk assessment is performed by the self-assessment method, using the open assessment method, and structural questionnaires and workshops. Results of the assessment are presented through the risk matrix, which is defined with the amount of loss, frequency of loss and risk levels.

In case of emergence of a crisis situation, actions will be taken in compliance with the Going Concern Plan.

Crisis Situation Plans and Going Concern Plans

An Operational Risk Management Committee has been founded in the Bank. The main task of the Operational Risk Management Committee is ensuring continuity of operation and restricting losses in case of significant disturbance or cessation of operation. A significant operational risk for Slatinska banka is posed by possible financial loss above HRK 1 million, whereas significant disturbance of operation is loss above the amount of the allocated capital requirement for operational risk. From the perspective of non-financial indicator, determining the significance of the operational risk is the number of reported events that exceeds usual occurrences in the past periods for similar events.

An important aspect of the operational risk management is carried out through the mechanism of internal control of business activities in sectors, financial centres and branches as well as control functions.

Internal practices that are adequate for control of the operational risks are as follows: supervision of compliance with the assigned limits, protection against access to assets and records, ensuring the corresponding professionalism of the staff, determining business activities or services where profits seem not to be in line with the realistic expectations, regular check and adjustment of transactions and accounts.

Adequate control of procedures (verification of compliance with policies, system of documented approvals and authorisations), which are a component of regular activities, enables fast response to changing conditions and avoiding unnecessary expenses, and the control culture promotes good practices of risk management.

Foreign Exchange Risk

The Risk Management Strategy of Slatinska banka d.d. provides for management of all risks, including the foreign exchange risk as well and the total process of determining, assessment and monitoring of the risk, taking into account the objectives of the Bank and undertaking the required activities, with a purpose of mitigating the risk. The Risk Management Strategy defines the levels of acceptable risks and responsibilities for the risk management.

According to the definition of market risks, besides the foreign exchange risk, the position risk and the commodity risk are considered to be market risks. Therefore, the Strategy has established that the Bank is not and does not plan to be exposed to the position and commodity risk since it will not enter into deals that can derive such risks.

The Market Risk Management Policy defines determination or identification, measuring, mastering and managing the foreign exchange risk; then monitoring, control and reporting on the foreign exchange risk, as well as an acceptable level of foreign exchange risk.

The totality of compliance with the provisions of adopted policies is implemented through the Risk Control Function, Sector Control Departments, and the Internal Audit, according to the adopted annual plans. After the controls have been carried out, the Risk Control Function, Sector Control Departments, and the Internal Audit inform the Management of the Bank, the Risk and Audit Committee, and the Supervisory Board, and put in place specific measures depending on the situation.

The control of the foreign exchange risk is made through a quarterly internal foreign exchange risk reporting, then through a semi-annual report on the operation of the Risk Control Function.

The continuing analysis of exchange rate movement is made by the Treasury Department, which informs the Management thereof. The Liquidity Committee also informs the Management of the Bank on all important changes forthwith.

Measuring the foreign exchange risk is made on a monthly and daily level, through the following methods, i.e. approaches:

- gap report - the basic foreign exchange risk measurement model. This contrasts foreign exchange asset and liability items and off-balance items, and calculates open positions of the bank in different currencies.

- daily measurement of the exposure of the bank to foreign exchange risk according to Decision on the Limitation of Bank's Exposure to Foreign Exchange Risk.

The total open foreign exchange position (increased by the position in gold) at the end of each business day, adopted internally, shall not exceed the amount of 30% of the regulatory capital of the Bank in conditions of stable exchange rate, otherwise, the instrument of foreign exchange risk management will influence its reduction.

Mastering and managing the foreign exchange risk is carried out by planning the foreign exchange structure of the assets and liabilities of the Bank, and continuing monitoring of the movement of the exchange rates of certain currencies and projection of their movement and influence on the operation of the Bank in the following manners: Annual plan, monthly liquidity plan, analysis of the exchange rate monthly movement.

Based on the determined plans and submitted reports, the Management of the Bank and the Liquidity Committee adopt specific measures with a view of as better management of foreign exchange risk.

Liquidity Risk

The Bank has instituted a process of liquidity risk management and adopted internal acts that are compliant with the respective provisions of applicable regulations in this segment of operation. Internal acts that relate to the said areas are as follows:

- Liquidity Risk Management Policy,
- Ordinance on the Liquidity Committee Operation,
- Action Plan in Case of Liquidity Crisis.

The liquidity risk management process consists of determining the liquidity risk and its measuring, mastering, monitoring, reporting, and control.

The Treasury Department informs the Liquidity Committee of the liquidity position of the Bank on a daily, weekly and monthly basis.

The liquidity risk reporting system includes:

- Monitoring of compliance with the adopted policies, internal acts and limits.
- Monitoring of liquidity position in total in HRK and foreign currencies.
- Monitoring of the results of testing of stress resistance.

Concentration Risk

The Concentration Risk Management Policy, which is a constituent part of the Risk Management Strategy, prescribes a set of procedures and methods for determining, measuring, or assessing, mastering and monitoring the concentration risk.

The concentration risk is any individual, direct or indirect, exposure to a person, or a group of associated persons or a group of exposures that are connected with common risk factors such as the same economy sector, or geographic area, same type of jobs or commodity or application of credit risk lowering techniques, which can lead to such loss that could threaten further operation of the Bank.

The Risk Control Function is carried out in the Risk Sector, within which Senior Professional Associate for Credit Risk Management makes independent analysis of the concentration and credit risk, and gives a written opinion for a loan proposal for individually significant exposures.

The Risk Sector notifies the Management of the concentration risk once in three months. Furthermore, the concentration risk is analysed through semi-annual reports of the Risk Control Function in which all important risks which the Bank is exposed to are controlled and submitted to the Supervisory Board, Risk and Audit Committee and Bank Management.

The Bank carries out the concentration risk management in five manners:

1. Exposure to the corporate sector (excluding exposure to the Retail Sector, credit institutions, the Republic of Croatia and the Croatian National Bank) is measured by the ratio between exposure to the corporate sector and the total exposure of the Bank, as well as the proportion of value adjustments in the total exposure of a certain corporate sector. The corporate sector is represented by activity codes in the National Classification of Activities.
2. Exposure to investment funds is measured with the ratio between the exposure to a certain investment fund and the regulatory capital.
3. Exposure to collateral providers and credit protection providers is measured with the ratio between such secured exposures and the regulatory capital.
4. Exposure according to the Herfindahl-Hirschman Index is measured in three manners:
   a) ratio of exposure to fifty largest clients and their associated persons, and the total exposure,
   b) ratio between net individual exposure of activity (except financial institutions) and total exposure per activity,
   c) ratio between the sum of large exposure, after the application of exemption and CRM, and the regulatory capital.
5. Exposure to groups of associated persons through identification and measurement of concentration that relates to individual persons and groups of associated persons.

The Concentration Risk Management Policy provides for the level of allowed exposure to the corporate sector, to investment funds and collateral provides and credit protection providers, and measures for the lowering thereof.

Country Risk

The Country Risk Management Policy, which is an integral part of the Risk Management Strategy, prescribes the policy and procedures for identification, measuring, monitoring and control of risk of the country where the debtor has a registered office, or residence.

The country risk is determined based on assessment of probability of default by the other contracting party with the registered office, or residence outside the Republic of Croatia, which derives from the economic and political factors that are specific for a certain country, and assessment of enforceability of the contract based on which a loan has occurred and the possibility for cashing the instrument for securing claims to the legislation of a country in a certain period.

For the purpose of monitoring the country risk, the Treasury Department is obliged to monitor the movement of the credit worthiness of the country, or the credit institution where the invested free foreign exchange currencies are found, about which it undertakes to notify the Management of the Bank twice a year. For those credit institutions that do not have credit worthiness of a selected external institution for assessment of credit risk, its credit capacity should be determined semi-annually.

The Treasury Department shall be obliged to submit a semi-annual report to the Credit Committee of the Bank about the good standing of legal entities where the Bank has invested money abroad. Based on the submitted reports, the Credit Committee will propose individual limits of maximum exposure to individual legal entities with the registered office or residence outside the Republic of Croatia, while paying regard to the country risk and the profitability of operations.

Excessive Financial Leverage Risk

The excessive financial leverage risk means risk that is derived from the vulnerability of an institution due to the financial leverage or potential financial leverage, which can lead to unwanted changes of its business plan, including enforceable sales of property that can result in loss or adjustment of valuation of its remaining property.

The extent of the financial leverage is calculated in a way that the measure of the capital of the institution is divided with the measure of the total exposure of the institution, and is expressed in percentage.

The Bank calculates the proportion of the financial leverage on the reference day of reporting.

Measure of the capital is basic capital.

Measure of the total exposure is a sum of value exposures to:

1) property,
2) derivative,
3) increases for credit risk of the other contracting party in repo transactions, transactions of lending/borrowing securities or goods to the other contracting party or from the other contracting party, transactions with good term of settling and other credit margins,
4) Off-balance items.

Risks Derived from Exposure to Shadow Banking Entities

This is a risk of credit brokerage system that involves entities and activities outside the regulated banking system.

By defining its credit brokerage activities, the Bank has put emphasis on all the entities that perform activities similar to banking activities, are exposed to similar risks, and are not subject to similar regulatory framework. Such exposures will be determined and defined as exposures to shadow banking.

When processing an application for exposures of the Bank towards a client, it should be necessarily determined whether it is about shadow banking entities by the credit official/official of the Treasury Department who processes the application. Control in form of opinion is performed by Senior Professional Associate for Credit Risk Management. If the assets of the client have an item - loans lent and/or the profit and loss statement has an item - financial income, such a client should be processed further in terms of determining whether this is about a shadow banking entity. The processing should include determining the share of loans given, deposits in the total assets and share of financial income in total income.

Summary of the Internal Capital Adequacy Assessment

Significant risks	*Assessment of risk significance*	*Explanation of the significance assessment*	*Treatment in ICAAP*	
			Qualitative	*Quantitative*
			(YES/NO)	*(YES/NO)*
Credit Risk	*5*	*The risk is assessed as high risk (5) in the economic and RDG terms, and accordingly, the final assessment of significance is 5.*	*NO*	*YES*
Concentration Risk	*3*	*The risk is assessed as low risk (2) in the economic terms, and medium risk (3) in the RDG terms, and because of the importance of management of this risk and quantification of the risk within ICAAP, the final significance of the risk is assessed as medium (3)*	*NO*	*YES*
Management risk	*2*	*The risk is assessed in qualitative terms as low risk (2), and the final significance of the risk is assessed as low (2).*	*YES*	*NO*
Currency induced credit risk	*3*	*The risk is assessed as low risk (2) in the economic terms, and medium risk (3) in the RDG terms, and because of the significance of management of this risk and quantification of risk within ICAAP, the final significance of the risk is assessed as medium.*	*NO*	*YES*
Interest risk in the non-trading book	*3*	*The risk is assessed as medium risk (3) in both the economic and RDG terms, and accordingly, the final assessment of the significance of the risk is medium significance (3).*	*NO*	*YES*
Foreign Exchange Risk	*3*	*The risk is assessed as immaterial (1) in both the economic and RDG terms because the Bank as a rule holds a very low open position and as a rule does not allocate regulatory capital requirements. But because of the significance of management of this risk and because by methodology, this risk is quantified through capital requirements, it is given the medium significance (3).*	*NO*	*YES*

Significant risks	Assessment of risk significance	Explanation of the significance assessment	Treatment in ICAAP	
			Qualitative	Quantitative
			(YES/NO)	(YES/NO)
Liquidity risk including a possibility of collection of additional capital	*3*	*The liquidity risk is assessed as low risk (2) but because of the significance of management of this risk, the final significance of risk is assessed as of medium significance (3).*	*YES*	*NO*
Operational Risk	*4*	*The risk is assessed as medium risk (3) in the economic terms, and as very high risk (4) in the RDG terms, and very high (4) in the qualitative terms, and accordingly, it is a very high significance of the risk (4).*	*NO*	*YES*
Strategic Risk	*2*	*The risk is assessed in the RDG and qualitative terms as low risk (2) and the final significance is assessed as low (2).*	*YES*	*NO*
Excessive Financial Leverage Risk	*2*	*The risk is assessed as low risk (2) in qualitative terms, and is given low significance (2).* *Based on the preferred risk profile and planned growth, the Bank will control and monitor risk of excessive financial leverage as a tool of supervision of disproportional growth of exposure in relation to regulatory capital.*	*YES*	*NO*
Influence of external factors	*2*	*In qualitative terms, the risk is assessed as low risk, and it is given the low significance (2).*	*YES*	*NO*
Country risk	*2*	*In qualitative terms, the risk is assessed as low risk, and it is given the low significance (2). The quantification itself is carried out through the basic credit risk (standardised approach).*	*YES*	*NO*
Residual risk (Risk of marketability of real property)	*3*	*The risk is assessed as immaterial (1) in both the economic and RDG terms, however because of the significant share of the credit portfolio insured and classified based on the instrument of insurance of real property, due to the importance of this risk management and the fact that the risk is quantified in ICAAP-u, the significance of the risk is assessed as medium (3).*	*NO*	*YES*
Shadow banking	*2*	*In qualitative terms, the risk is assessed as low risk, and it is given the low significance (2).*	*YES*	*NO*
Compliance risk (risk of violation of regulation and conflict of interest)	*2*	*In qualitative terms, the risk is assessed as low risk, and it is given the low significance (2).*	*YES*	*NO*
Risk of non-dedicated cash retail loans	*3*	*The risk is assessed as medium (3), therefore the significance of the risk is assessed as medium (3).*	*NO*	*YES*

DECLARATION ON APPLICATION OF THE CORPORATE MANAGEMENT CODE

In compliance with the rules of the Zagreb Stock Exchange, the Management and the Supervisory Board of Slatinska banka d.d. hereby declare that Slatinska banka d.d. applies the Corporate Management Code drafted together by the Croatian Agency for Supervision of Financial Services and the Zagreb Stock Exchange.

Enclosed to this Declaration is the Annual Questionnaire for the 2019 Business Year.

The Bank has instituted a system of internal controls that is carried out with parallel actions of three mutually independent functions: Risk Control Function, Compliance Monitoring Function, and Internal Audit Function. The main features of the internal control system of the Bank are reflected in independent holders of control functions responsible for identification, assessment and management of risk, including the Risk Control and Compliance Functions, whereas the Internal Audit supervises the overall operation of the Bank.

Data on implementation of internal supervision and risk management, and data on shareholders of the Bank is contained in the Notes to Financial Statements.

Pursuant to the provision of the Bank Statute, the Management is prescribed to consist of two to five members.

Decision on the number of members of the Management is issued by the Supervisory Board of the Bank.

Members of the Management have to meet the conditions for the performance of the function member of the Management prescribed by the Company Act, Credit Institutions Act, and relevant by-laws and internal acts of the Bank (suitability, good image, required professional knowledge and competence, requirement for continuing education, experience, avoiding conflict of interest, and requirement for commitment in duty performance). Members of the Management together have to have professional knowledge, competences and experience required for independent and autonomous running of the credit institution affairs.

Suitability of an individual member of the Bank Management for performance of the respective function is the extent to which that person has features and meets the prescribed preconditions which ensure that they will perform their duties in a legal, safe, and stable manner.

Competence of the members of the Management is stipulated in the Rules of Procedure of the Management. The Management adopts decisions and conclusions in meetings.

On 31 December 2019, the Management duties were performed by 3 members (President of the Management and two members of the Management).

The Supervisory Board supervises the Bank's affairs and is responsible to perform jobs stipulated by the Companies Act, the Credit Institutions Act, the Bank Statute and the Rules of Procedure of the Supervisory Board including appointing (upon previous consent of the Croatian National Bank) and recalling members of the Bank Management.

The Supervisory Board adopts decisions in meetings. Convening and holding meetings, the decision making procedure and authorisations are provided for in the Rules of Procedure of the Supervisory Board.

The members of the Supervisory Board of the Bank, in accordance with the performed assessment of their appropriateness in compliance with the internal acts, together as a whole meet all the prescribed requirements concerning diversity of knowledge and experience.

On 31 December 2019, one member of the Supervisory Board out of the total five members is a woman. A procedure for selection of the fifth member is under way.

Professional diversity is represented during evaluation and selection of members of the Management and the Supervisory Board.

Data on the composition and action of the Management and the Supervisory Board of the Bank is shown in the enclosed Annual Questionnaire.

The shareholders of the Bank exercise their rights at the General Assembly of the Bank.

The General Assembly decides on issues provided for under the legal regulations and the Bank Statute. The General Assembly is convened by the Management or the Supervisory Board at least once in a year and when the interests of the Bank require so.

Rules on amendment of the Bank's Statute are contained in the Statute. A decision on amending is adopted by the General Assembly of the Bank in compliance with the law and the Statute, by votes representing at least three quarters of the equity represented at the General Assembly at the time the decision is made.

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

To protect interests of all investors, shareholders, clients, employees and others who have interest, the Bank has established high corporate management standards.

CORPORATE MANAGEMENT CODE

BASIC DATA ABOUT THE COMPANY:	Slatinska banka d.d.
CONTACT PERSON AND PHONE NUMBER:	Nataša Vedrina Jarić, T: +385 (0) 1 647 0613 M: +385 (0) 99 3591136
DATE OF COMPLETING THE QUESTIONNAIRE:	_March 2020

All questions contained in this questionnaire refer to the period of one fiscal year which the annual financial statements refer to.

Explanations should be given for questions contained in the questionnaire only if a question specifically requires so.

Replies in the questionnaire are valued under a certain protocol, which is stated at the beginning of each chapter.

COMMITMENT TO THE CORPORATE MANAGEMENT AND SOCIAL RESPONSIBILITY PRINCIPLES

Answers to this set of questions provide 20 % of the whole indicator concerning compliance of the company with the Corporate Management Code.

	Question no.	Question	Answer YES/NO	Explanation
	1	Has the company accepted implementation of the Corporate Management Code of the Zagreb Stock Exchange?	YES	
	2	Does the company have its own Corporate Management Code?	YES	
	3	Have Corporate Management Code principles been adopted within the internal policies of the company?	YES	The Bank adopted internal acts of the Code of Corporate Conduct and Ethics and the Conflict of Interest Management Policy, which define in their broadest terms the modalities of the preferred, or prohibited conduct. Also, there are other internal acts that regulate in more detail the matter in question, which are compliant with the positive regulations.
	4	Does the company report compliance with the corporate management principles within its annual financial statements?	YES	

SHAREHOLDERS AND GENERAL ASSEMBLY

Answers to this set of questions provide 30 % of the whole indicator concerning compliance of the company with the Corporate Management Code.

	Question no.	Question	Answer YES/NO	Explanation

	5	Is the company in a cross-shareholding relationship with another company or companies? (If yes, explain)	NO	
	6	Does each share of the company give one vote? (If not, explain)	YES	
	7	Are there cases when a shareholder is treated differently? (If yes, explain)	NO	
	8	Is the issuance of power of attorney for voting at the General Assembly simplified and free of strict formal requirements? (If not, explain)	YES	
	9	Has the company provided proxies, free of charge, to the shareholders who are not able to vote at the meeting for whatever reason, and those proxies are obliged to vote according to the shareholders' instructions? (If not, explain)	NO	The shareholders themselves ensure proxies. The Bank provides a power of attorney form.
	10	Has the Management, or the Management Board of the company, when convening the General Assembly, set a date by which the status in the register of shares will be determined, which will be relevant for exercising of the voting rights at the meeting, in that the date is before the General Assembly and may be up to six days at most before the General Assembly? (If not, explain)	YES	
	11	Are the agenda of the General Meeting and all relevant information and documents with explanations relating to the agenda posted on the website of the company and made available to shareholders in the premises of the company from the date of the first public announcement of the agenda? (If not, explain)	YES	
	12	Does the decision on dividend payment or advance of the dividend contain the date on which the person who is a shareholder becomes entitled to the dividend payment and the date or period when the dividend is paid? (If not, explain)	NO	The company has not paid dividend.
	13	Is the date of dividend payment or advance payment up to 30 days at most after the date of decision making? (If not, explain)	NO	The company has not paid dividend.
	14	Have there been instances when the payment of dividend or advance payment favoured some shareholders? (If yes, explain)	NO	The company has not paid dividend.
	15	Are the shareholders allowed to participate and vote at the General Assembly using devices of the modern communication technology? (If not, explain)	NO	No need for such participation and voting has been recorded.

	16	Have the conditions for participation in the General Assembly and exercising the voting right (irrespective of whether they are permitted pursuant to the law or the statute), such as reporting the participation in advance, certification of the power of attorney and similar been set? (If yes, explain)	YES	Participation in the work of the General Assembly is conditioned to prior application to the company, in line with the Companies Act, the Statute
	17	Has the Management of the company publicly announced the decisions of the General Assembly?	YES	
	18	Has the Management of the company published data on possible civil actions to challenge these decisions? (If not, explain)	NO	There were no such actions.

MANAGEMENT AND SUPERVISORY BODIES

LIST THE NAMES OF THE MANAGEMENT MEMBERS AND THEIR FUNCTIONS:	Andrej Kopilaš - Management President Marin Prskalo - Management Member Oliver Klesinger - Management Member
LIST THE NAMES OF THE SUPERVISORY BOARD AND THEIR FUNCTIONS:	Ružica Vađić - SB President Krunoslav Lisjak - SB Member Dušan Banović - SB Member Srećko Vukić - SB Member

Answers to this set of questions provide 20 % of the whole indicator concerning compliance of the company with the Corporate Management Code.

	Question no.	Question	Answer YES/NO	Explanation
	19	Has the Supervisory Board, or the Management Board adopted a decision on the framework plan of its activities that includes a list of regular meetings and data that has to be regularly and timely put at the disposal of the members of the Supervisory Board? (If not, explain)	NO	The Supervisory Board holds meetings and makes decisions within its competence in accordance with the Statute and Rules of Procedure of the Supervisory Board
	20	Has the Supervisory Board, or Management Board adopted its internal rules of procedure?	YES	
	21	Are there independent members in the company's Supervisory Board, or Management Board? (If not, explain)	YES	
	22	Is there a long term succession plan in the company? (If not, explain)	YES	
	23	Is the compensation or remuneration received by the members of the Supervisory Board, or the Management Board determined entirely or partly by their contribution to the performance of the company? (If not, explain)	NO	The amount of the remuneration of the Supervisory Board is fixed and defined by the General Assembly. It is not determined by the contribution to the performance of the company.

	24	Is the remuneration to the members of the Supervisory Board, or Management Board defined by a decision of the General Assembly or by the Statute? (If not, explain)	YES	It is determined by a decision of the General Assembly.
	25	Is detailed data on all remunerations and other earnings from the company or its related entities of each individual member of the Management, or executive directors, including the structure of remuneration, publicly announced (in the annual financial report)? (If not, explain)	NO	Financial data on aggregate respective expenses of the company, which contains total data for the members of the Management, is visible in the annual report and public announcement.
	26	Is detailed data on all remunerations and other earnings from the company or persons related to the company for every individual member of the Supervisory Board, or Management Board, including the structure of the remuneration, publicly announced (in the annual financial report)? (If not, explain)	NO	Financial data on the total respective expenses of the company, which contains total data for the members of the Supervisory Board, is visible in the annual report and public announcement.
	27	Does every member of the Supervisory Board, or the Management Board inform the company about all the changes concerning his/her acquisition, dismissal or possibility for exercising the voting rights to shares immediately, and not later than three working days from the date of the transaction? (If not, explain)	YES	
	28	Are all transactions involving the members of the Supervisory Board, or Management Board or persons related to them, and the company or persons related to it, clearly stated in the reports of the company? (If not, explain)	YES	
	29	Are there contracts or agreements between members of the Supervisory Board, or Management Board and the company itself?	NO	
	30	Were they previously approved by the Supervisory Board, or Management Board? (If not, explain)		See answer under 29.
	31	Are important elements of all such contracts or agreements included in the annual report? (If not, explain)		See answer under 29.
	32	Has the Supervisory Board, or Management Board constituted an Appointment Commission?	NO	The Supervisory Board performs the jobs of the Board.
	33	Has the Supervisory Board, or Management Board constituted a Reward Commission?	NO	The Supervisory Board performs the jobs of the Board.
	34	Has the Supervisory Board, or Management Board constituted an Audit Commission (Audit Committee)?	YES	A Risk and Audit Committee, has been constituted as the committee of the Supervisory Board.
	35	Are most members of the Audit Committee from the ranks of the independent members of the Supervisory Board? (If not, explain)	YES	

	36	Has the Audit Committee monitored 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 which it belongs to, including the criteria for consolidation of financial statements of companies belonging to the group? (If not, explain)	YES	
	37	Has the Audit Committee evaluated the quality of the internal control and risk management system, with the purpose that the main risks which the Company is exposed to (including the risks related to compliance with regulations) are adequately identified and publicly disclosed, and that they are properly managed? (If not, explain)	YES	
	38	Has the Audit Committee worked on ensuring the effectiveness of the internal audit system, especially by preparing recommendations during the selection, appointment, reappointment and change of the Head of the Internal Audit Department and regarding the resources at their disposal, and assessment of the proceeding of the Management following the findings and recommendations of the internal audit? (If not, explain)	YES	Quarterly reports of the internal audit, which are presented to the Audit Committee, contain a part that relates to professional improvement and education of workers of the internal audit. Furthermore, the Audit Committee gives recommendations to the Supervisory Board for the selection, appointment, reappointment and change of the Head of the Internal Audit Department based on the implemented procedure of assessment of suitability (fit and proper). Any possible limitations related to the budget of implementation of the planned activities of functions of the Internal Audit, if any, also include quarterly reports on operation.
	39	If the Internal Audit Function does not exist in the company, has the Committee made assessment of the need for establishing such a function? (If not, explain)	NO	There is the Internal Audit Function in the Bank.
	40	Has the Audit Committee supervised the independence and objectivity of an external auditor, in particular with regard to the rotation of authorised auditors within the audit company and the fees paid by the Company for external audit services? (If not, explain)	YES	
	41	Has the Audit Committee monitored the nature and quantity of services other than audit, and the company receives them from the audit company or entities related to it? (If not, explain)	NO	There were no such services
	42	Has the Audit Committee prepared rules regarding the services which the external audit company and entities related to it may not render to the company, the services that may be rendered only upon prior consent of the Committee, and services that may be rendered without prior consent? (If not, explain)	NO	Rules related to non-audit services are defined with a legal framework and thus there is no need for defining additional rules by the Risk and Audit Board.

	43	Has the Audit Committee considered the efficiency of external audit and actions of senior management given the recommendations made by the external auditor? (If not, explain)	YES	The Internal Audit monitors continuously the status of resolution of recommendations made by the external auditor. The Internal Audit notifies the Risk and Audit Committee and the Supervisory Board about their movement and status of implementation of corrective measures, through quarterly reports.
	44	Is the documentation relevant for the work of the Supervisory Board, or the Management Board submitted on time to all members? (If not, explain)	YES	
	45	Are all adopted decisions with the voting results recorded in the minutes from the meetings of the Supervisory Board, or the Management Board? (If not, explain)	YES	
	46	Has the Supervisory Board, or Management Board evaluated their work in the past period including the validation of contributions and competence of each member, as well as the joint work of the committee, evaluation of the work of the committees established by them and achievements in relation to the set objectives of the company?	YES	Mostly, in the report on the work of the Supervisory Board for the previous year that is submitted to the General Assembly.
	47	Is detailed data on all earnings and remunerations which each member of the Management or executive director receives from the company publicly announced in the Company's annual report? (If not, explain)	NO	Financial data on aggregate respective expenses of the company, which contains total data for the members of the Management, is visible in the annual report and public announcement.
	48	Are all forms of remunerations to the members of the Management and the Supervisory Board, including options and other benefits for the Management, publicly announced as per detailed single items and persons in the annual report of the company? (If not, explain)	NO	Data on the members of the Management and key management in aggregate amounts is published in the Annual Report. Data on remuneration of members of the Supervisory Board is published within decisions of the General Assembly.
	49	Are all transactions involving the members of the Management or the executive directors and persons related to them, and the company or persons related to it, clearly stated in the reports of the company? (If not, explain)	YES	
	50	Does the report that the Supervisory , or Management Board submits to the General Assembly, in addition to the contents of the report defined by law, contain the evaluation of the total business performance of the company, operation of the Management of the company and a special review of its cooperation with the Management? (If not, explain)	YES	

AUDIT AND INTERNAL CONTROL MECHANISMS

Answers in this area provide 10% of the total indicator with regard to the compliance of the Bank with the Corporate Management Code.

	Question no.	Question	Answer YES/NO	Explanation
	51	Does the company have an external auditor?	YES	
	52	Is the external auditor of the company related by the ownership or interest relation to the company?	NO	
	53	Does the external auditor of the company provide other services to the company by itself or through related persons?	NO	
	54	Has the company publicly disclosed the amounts of the fees paid to the external auditor for audit and other services rendered? (If not, explain)	NO	In its 2019 external financial report, the Bank presented costs of audit for 2019 within the service costs.
	55	Does the company have internal auditors in place? (If not, explain)	YES	
	56	Does the company have an internal control system in place? (If not, explain)	YES	

TRANSPARENCY AND PUBLICITY OF OPERATION

Answers in this chapter provide 20% of the total indicator with regard to the compliance of the company with the Corporate Management Code

	Question no.	Question	Answer YES/NO	Explanation
	57	Are the annual, semi-annual and quarterly reports available to shareholders?	YES	
	58	Has the company prepared a calendar of important events?	NO	
	59	Has the company established mechanisms to ensure that persons who posses or have access to privileged information are informed about the nature and importance of that information and limitations in this regard?	YES	
	60	Has the company established mechanisms to ensure control of the flow of privileged information and its possible misuse?	YES	
	61	Has anybody suffered negative consequences for indicating any shortcomings in the application of rules or ethical norms within the company to the competent authorities or bodies in the company or outside it? (If yes, explain)	NO	
	62	Did the Management of the company hold meetings with interested investors in the past year?	NO	The Bank has a stable shareholder structure and keeps continuous communication with majority investors. For that reason, there was no reason for special meetings with the shareholders, i.e. Investors in addition to the General Assembly meetings.
	63	Do all the members of the management and the Supervisory or Management Board agree that the statements stated in the answers to this Questionnaire are at their best knowledge truthful in its entirety?	YES	

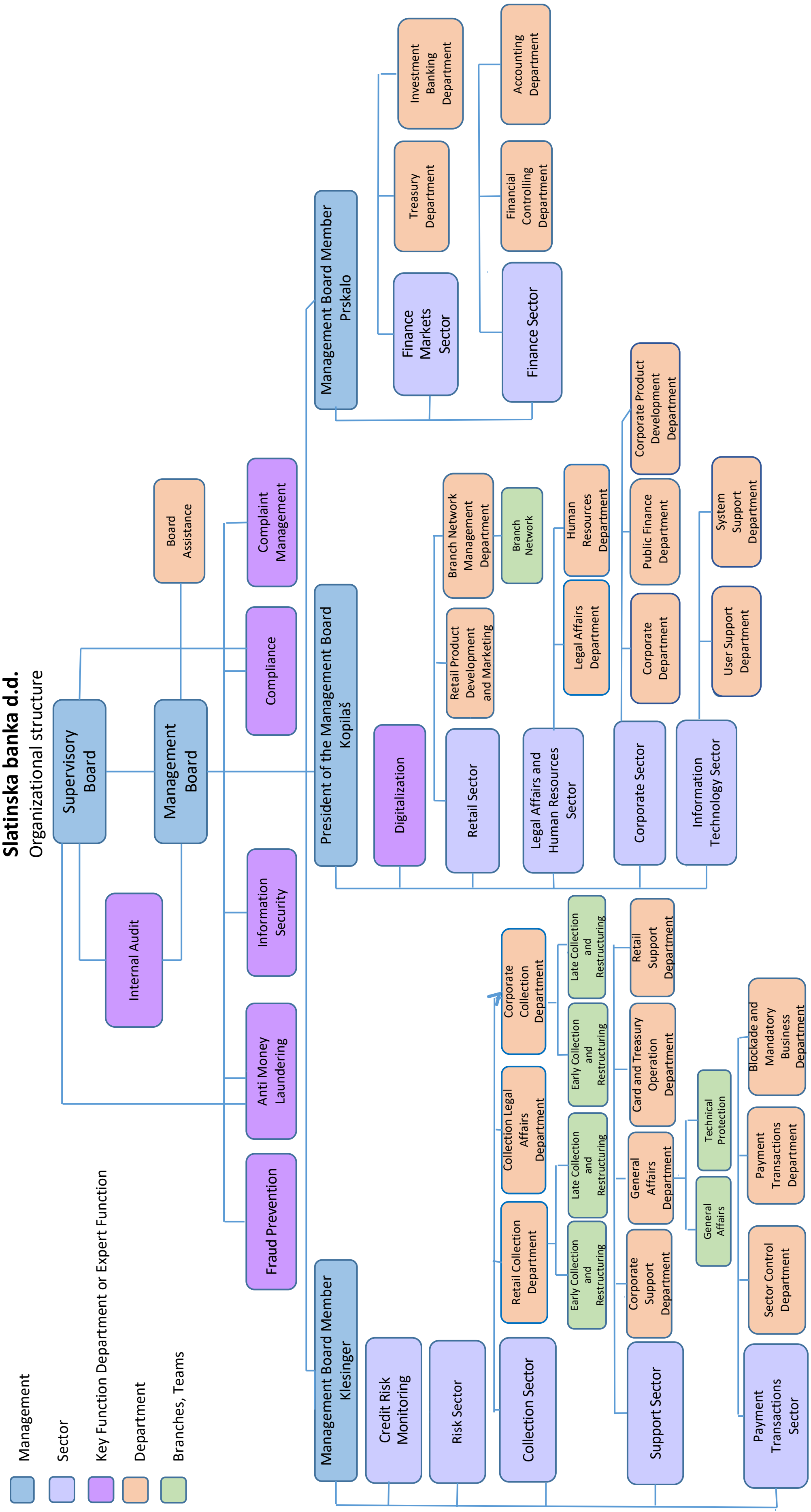
INFORMATION ON SHARES

In 2019, the Bank did not repurchase its own shares.

The share of the repurchased own shares in the equity capital amounts to a total of 7.77%.

Members of the Management of Slatinska banka do not own shares of Slatinska banka.

Slatinska banka d.d.
Organizational structure



Business network of Slatinska banka d.d.

ZAGREB OFFICE
Trg žrtava fašizma 2, 10 000 Zagreb
phone: 01/645-9020

ZAGREB BRANCH
Tomašićeva 2, 10000 Zagreb
phone: 01/645-9005

RIJEKA BRANCH
Jelačićev trg 1, 51000 Rijeka
phone: 051/563-505

VALPOVO BRANCH
Trg kralja Tomislava 6, 31550 Valpovo
phone: 031/628-165

DONJI MIHOLJAC BRANCH
Vukovarska 4, 31540 D.Miholjac
phone: 031/628-185

NAŠICE BRANCH
Trg Izidora Kršnjavog 3, 31500 Našice
phone: 031/628-145

ĐAKOVO BRANCH
Stjepana Radića 9, 31400 Đakovo
phone: 031/628-455

SLAVONSKI BROD BRANCH
Matije Gupca 39, 35000 Slavonski Brod
phone: 035/637-005

SLATINA BRANCH – MAIN OFFICE OF THE BANK
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phone: 033/637-011

OSIJEK BRANCH
Županijska 13, 31000 Osijek
phone: 031/628-205

VIROVITICA BRANCH
Trg kralja Tomislava 6, 33000 Virovitica
phone: 033/637-185

DARUVAR BRANCH
Kralja Tomislava 22, 43500 Daruvar
phone: 043/638-305

POŽEGA BRANCH
Kamenita vrata 4, 34000 Požega
phone: 034/638-505

ORAHOVICA BRANCH
Kralja Zvonimira 9, 33515 Orahovica
phone: 033/637-145

PITOMAČA BRANCH
Trg kralja Tomislava bb, 33405 Pitomača
phone: 033/637-165

KOPRIVNICA BRANCH
Dr. Željka Selingera 2, 48000 Koprivnica
phone: 048/617-105

SLATINSKA BANKA d.d.

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Website: www.slatinska-banka.hr

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SLATINSKA BANKA D.D.

Management President	Management Member	Management Member
Andrej Kopilaš	Marin Prskalo	Oliver Klesinger S

ANNUAL FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR 2019.

REPORT ON PERFORMED AUDIT OF FINANCIAL STATEMENTS FOR 2019

CONTENTS

SLATINSKA BANKA

RESPONSIBILITY FOR THE ANNUAL REPORT

The Management Board of Slatinska banka dd, Vladimira Nazora 2, Slatina (hereinafter "the Bank") is obliged to ensure that the annual financial statements for 2019 and each business year are prepared in accordance with the Accounting Act (OG 78/15, 134/15, 120/16 and 116/18) and International Financial Reporting Standards, ("IFRS") established by the European Commission and published in the Official Journal of the European Union, so as to provide a true and fair view of the financial position, results of operations and cash flow of the Bank for that period. The Management Board is responsible for keeping true and proper accounting records, which permit the preparation of the financial statements and their compliance with the Accounting Act and IFRS.

The Management Board is responsible for selecting and applying appropriate accounting policies that are consistent with applicable financial reporting standards and for applying them consistently, making reasonable and prudent judgments and estimates, and preparing financial statements based on the going concern principle, unless it is inappropriate to presume that the Bank will continue in business.

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

The Management Board has the responsibility to take the steps reasonably available to enable it to preserve the Bank's assets and to take reasonable steps to prevent and detect fraud and other irregularities.

The Management Board is responsible for the preparation and content of the Management Report, the Statement on the Application of the Corporate Governance Code and other information in accordance with the Accounting Act, as well as for the preparation and fair presentation of additional information prepared in accordance with the Decision on the structure and content of annual financial statements of banks (OG 42/18).

Annual financial statements presented on pages 9 to 78, supplementary financial statements for the Croatian National Bank and compliance with statutory financial statements shown on pages 81 to 89, as well as the Management report, Statement on the application of the Corporate Governance Code and other information attached to these annual financial statements were approved by the Bank's Management Board on 28 April 2020 and submitted to the Supervisory Board for approval. As a sign of confirmation, the financial statements were signed by authorized persons:

Andrej Kopilaš President of the Management Board	Marin Prskalo Member of the Management Board	Oliver Klesinger Member of the Management Board

Slatinska banka d.d.
Vladimira Nazora 2, 33520 Slatina
Republic of Croatia

Slatina, 28 April 2020

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SLATINSKA BANKA d.d., Slatina

Report on the Audit of the Financial Statements

OPINION

We performed an audit of the attached annual financial statements of Slatinska banka d.d. Slatina, Vladimira Nazora 2 (hereinafter "the Bank"), which include the Statement of comprehensive income for the year ended 31 December 2019, Statement of financial position as at 31 December 2019, Statement of changes in equity for the year then ended and the Statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

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

BASIS FOR OPINION

We performed our audit in accordance with the Accounting Act, the Audit Act and International Standards on Auditing (ISAs). Our responsibilities under these standards are described in detail in our Independent Auditor's Report in the section on the Auditor's responsibilities for auditing the annual financial statements.

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants (IESBA Code) and have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KEY AUDIT MATTERS

The key audit matters are those matters that were, in our professional judgment, of the utmost importance for our audit of the annual financial statements for the current period. We have designed our audit to assess the risks of material misstatement of the financial statements, which includes considering significant accounting estimates that involve assumptions and take into account uncertain events. We also performed procedures related to the circumvention of the internal control system by the management, which pose a risk of error as a result of fraud with the greatest effect on the annual financial statements.

INDEPENDENT AUDITOR'S REPORT (continued)

KEY AUDIT MATTERS (CONTINUED)

We have addressed these matters in the course of our audit of the annual financial statements as a whole and in forming our opinion on them, and we do not give a separate opinion thereon. We have identified the following key audit matters to be disclosed in our Independent Auditor's Report.

Key audit matter	How we addressed this matter in our audit
Impairment allowances for expected credit losses on loans and advances to customers The note to the Bank's annual financial statements No. 19 - Loans and advances shows the gross value of loans and advances to customers in the amount of HRK 996 million, the corresponding impairment of loans (provision for impairment) in the amount of HRK 144 million, and impairment loss recognized in the statement of profit or loss in the amount of HRK 35 million (as at 31 December 2018 Loans and advances to customers with a gross value of HRK 904 million, impairment of loans of HRK 124 million, and impairment loss of HRK 6 million). This area has been identified as a key audit matter because credit risk is the most important financial risk to which the Bank is exposed and directly affects the preservation of capital. Determining the appropriate impairment uses subjective assumptions and judgments in estimating the amount of impairment provisions by the Bank's Management, and which relates to determining the time and the amount of the impairment. The Management performed an assessment of the entire remaining portfolio by estimating the expected credit loss (hereinafter "ECL") for individual loans in accordance with the requirements of International Financial Reporting Standard 9: Financial Instruments (hereinafter "IFRS 9"). In determining the time and amount of required impairments for loans and advances to customers, the Management Board used subjective judgments in the measurement model in for the following significant areas of assessment:	***Audit procedures*** The audit procedures formed in response to a key audit matter included: - Review of the business model of financial asset management and review of placement groups; - Gaining an understanding of the functioning of the internal control system related to the process of assessing the required impairment of loans and advances to customers and the related provision for ECL, established by the Management Board and verifying their effectiveness; - Review and assessment of the methodology for recognizing provisions for ECLs, including estimates of the probability of default (PD), loss in the event of default (LGD) and exposure at default (EAD); - Verification of the quality of historical financial information used, assessing the appropriateness of the related collateral valuations, the appropriateness of the assumptions used, checking the circumstances and events related to financial assets, and used macroeconomic prospective information which cause impairment due to ECL; - Verification of loan classification into regular loans, loans with a significant increase in credit risk and loans that require a reduction, in accordance with IFRS 9, but also in accordance with the Decision on the classification of placements and off-balance sheet liabilities of credit institutions; - Assessment of the adequacy of disclosures in relation to International Financial Reporting Standards. For impairment that are determined on an individual basis we:

INDEPENDENT AUDITOR'S REPORT (continued)

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How we addressed this matter in our audit
• The level of reliance on historical data in the process of determining risk parameters, • Allocating credit risk to an appropriate level for individual and total exposure, • Assessment of changes that indicate a significant deterioration that requires a change in the level of credit risk and related ECL over the life of the instrument, • Estimation of expected future cash flows from operating activities, • Estimation of the value of the collateral and the duration of its realization. The Bank continuously adjusts the parameters of the model, which also requires our increased attention during the audit. Due to the financial significance of impairment provisions, their impact on the financial statements, the intensity of the use of subjective assumptions and judgments in estimating the amount of impairment provisions required, and the complexity of the valuation models used, we conclude that impairment as the consequence of provisions and related loans and advances to customers is our key audit issue during the audit of the Bank's financial statements for the year ended 31 December 2019. ***Related disclosures in the accompanying annual financial statements*** See Notes 3.9. - Significant accounting policies, Financial assets, 13. - Impairment costs and provisions, 19. - Loans and advances to customers and 37. - Credit risk, Financial risk management	• Selected a sample of loans, namely those with the largest amount and the highest risk, and a randomly selected sample by individual characteristic groups of placements; • Checked the way the level of credit risk is determined: • Verified the adequacy of the criteria used to determine the significant deterioration of credit risk and the accuracy of financial information to identify loans with which the need for impairment exists, • Assessed the appropriateness of the assumptions used to calculate the probability of default over the life of the instrument (PD) and the loss in the event of default (LGD); • Assessed the appropriateness of measuring the required impairment for ECL through the acceptability of assessing financial position and performance, estimating expected future cash flows, time required to collect exposures, the appropriateness of valuing collateral and assessing the financial impact of using collateral to collect outstanding exposures; • Assessed the adequacy of the exposure classification and the calculation of the ECLs of individual exposures at the Balance Sheet date, as well as their compliance with the requirements of the CNB; • Performed evidence-based testing of a selected sample of loans and related receivables to assess the correctness of the classification and valuation of loans. Or test results were satisfactory and the audit evidence obtained sufficient. We agree that the impairments carried out at the Balance Sheet date are appropriate.

INDEPENDENT AUDITOR'S REPORT (continued)

OTHER MATTERS

The audit of the financial statements for the year ended 31 December 2018 was performed by another audit firm, which expressed an unmodified opinion on those financial statements in its Independent Auditor's Report of 25 April 2019 .

OTHER INFORMATION IN THE ANNUAL REPORT

Management is responsible for the other information. The other information comprises the information included in the Annual Report containing the Management Report. Our opinion on the financial statements does not cover the other information or the Management Report.

Our opinion on the annual financial statements does not include other information, except to the extent explicitly stated in the part of our independent auditor's report entitled Report on Other Legal Requirements, and we do not express any form of conclusion expressing assurance thereon.

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

With respect to the Management Report we have also performed the procedures prescribed by the Accounting Act. Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

- Information included in the other information is, in all material respects, consistent with the attached financial statements of the Bank.
- Management Report has been prepared, in all material respects, in accordance with the Article 21 of the Accounting Act.
- Statement on the application of the Corporate Governance Code is prepared in accordance with Article 22 paragraphs 3 and 4 of the Accounting Act and contains publications in accordance with Article 22 paragraphs 2, 5, 6 and 7 of the Accounting Act.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In that sense, we have nothing to report.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE AND SUPERVISION FOR THE FINANCIAL STATEMENTS

The Management Board is responsible for compiling annual financial statements that give a true and fair view in accordance with the Accounting Act and International Financial Reporting Standards established by the European Commission and published in the Official Journal of the European Union, and for those internal controls required by the Management Board to enable the preparation of annual financial statements that are free from material misstatement due to fraud or error.

In preparing the financial statements, the Management Board has applied the going concern assumption, which fully corresponds to the position of the Bank. Those charged with governance are responsible for overseeing the financial reporting process established by the Bank.

INDEPENDENT AUDITOR'S REPORT (continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures 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 given 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 the Management Board.
- Conclude on the appropriateness of the Management's Board use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Independent Auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Independent Auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

INDEPENDENT AUDITOR'S REPORT (continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Among the issues to communicate with those charged with governance, we determine those issues that are of paramount importance in the audit of the annual financial statements for the current period and are therefore key audit matters. We describe these matters in our Independent Auditor's Report unless the law or regulation prevents public disclosure or when we decide in extremely rare circumstances that the matter should not be disclosed in our Independent Auditor's Report as it can reasonably be expected that the negative consequences of disclosure will outweigh the public interest benefits in such communication.

Report on Other Legal and Regulatory Requirements

REPORT BASED ON THE REQUIREMENTS OF REGULATION (EU) NO. 537/2014

- On 26 Audit 2019, the General Assembly of the Bank appointed us on to perform the audit of the annual financial statements for 2019. For the first time, we have been appointed as the Bank's auditor for 2019. The audit of the financial statements for the year ended 31 December 2019 represents our first year of audit.
- Apart from the issues we have identified in our independent auditor's report as key audit matters within the subtitle Audit Report on the Annual Financial Statements, we have nothing to report on point (c) of Article 10 of Regulation (EU) No 537/2014.
- Through our statutory audit of the Bank's annual financial statements for the year 2019, we are able to detect irregularities, including fraud in accordance with Section 225, Responding to Non-Compliance with the IESBA Code of Conduct, which requires us to, during our audit engagement, see if the Bank has complied with laws and regulations which are generally recognized to have a direct impact on the determination of significant amounts and disclosures in the annual financial statements, as well as other laws and regulations that do not have a direct effect on the determination of significant amounts and disclosures in the annual financial statements, but compliance with which may be crucial for operational aspects of the Bank's business, its ability to continue with going concern or to avoid significant penalties.

  Except where we encounter or gain knowledge about disrespect of any of the aforementioned laws or regulations that is apparently insignificant, in our judgment of its content and its influence, financial or other, for the Bank, its stakeholders and the general public, we are obliged to inform the Bank and ask it to investigate this case and take appropriate measures to resolve the irregularities and to prevent the reappearance of these irregularities in the future. If the Bank does not correct any irregularities, that, in the audited annual consolidated financial statements are cumulatively equal to or greater than the amount of significance to the consolidated financial statements as a whole; until the date of the revised balance sheet; we are required to modify our opinion in the Independent Auditor's report.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements (continued)

REPORT BASED ON THE REQUIREMENTS OF REGULATION (EU) NO. 537/2014 (CONTINUED)

- We confirm that our audit opinion on the financial statements is in accordance with the supplementary report to the Supervisory Board of the Bank issued on 28 April 2020 in accordance with Art. 11. Regulation (EU) No 537/2014 of the European Parliament and of the Council.
- To the best of our knowledge and belief, we declare that we did not provide non-audit services that are prohibited by Art. 5 (1) of Regulation (EU) No. 537/2014, and we did not provide other permitted non-audit services to the Bank in the period from 1 January to 31 December 2019, i.e. until the date of this Report, as well as in the year preceding that period.

REPORT BASED ON REQUIREMENTS FROM THE ACCOUNTING ACT

- Based on the Decision on the Structure and Content of the Annual Financial Statements of Banks (Official Gazette 42/18; hereinafter referred to as the “Decision”), the Management Board prepared the forms shown on pages 81 to 89, under the heading Statement of Financial Position (Balance Sheet) as at 31 December 2019, Statement of Profit or Loss, Statement of Cash Flows and Statement of Changes in Equity of the Bank for the year then ended, together with information on compliance with the Bank's financial statements. The Management Board is responsible for the preparation of these forms and information on compliance with the Bank's annual financial statements, and they do not form an integral part of these annual financial statements, but contain the information prescribed by the Decision. The financial information in the forms is based on the audited annual financial statements of the Bank prepared in accordance with the legal requirements for accounting of banks in the Republic of Croatia are presented on pages 81 to 89 and are adjusted to the requirements of the Decision.
- The partner engaged in the audit of the Bank's annual financial statements for the year ended 31 December 2019 resulting in this Independent Auditor's Report is Jeni Krstičević, Certified Auditor

Zagreb, 28 April 2020

Daniela Šunjić, dipl. oec.	Jeni Krstičević, dipl. oec.
President of the Management Board and Certified Auditor	Certified Auditor

FACT revizija d.o.o.
Radnička cesta 45
10000 Zagreb

POSITION	Note	2019	2018
		HRK '000	HRK '000
Interest income	4	60,779	61,265
Interest expenses	5	(8,823)	(14,024)
Net interest income		**51,956**	**47,241**
Fee and commission income	6	13,251	13,022
Fee and commission expenses	7	(4,204)	(4,000)
Net fee and commission income		**9,047**	**9,022**
Dividend income		0	0
Net gains (losses) on derecognition of financial assets and liabilities at fair value through general comprehensive income	8	11,361	911
Net gains (losses) on financial assets and liabilities at fair value through profit or loss		2,764	2,939
Net income from exchange rate differences		(3)	(294)
Other operating income	9	10,823	2,246
Other business expenses	10	(3,582)	(4,266)
Net trading profit and other income		**82,366**	**57,799**
Administrative expenses	11	(38,196)	(35,979)
Depreciation	12	(4,294)	(3,304)
Operating expenses		**(42,490)**	**(39,283)**
Profit before impairment and other provisions		**39,876**	**18,516**
Provisions or cancellation of provisions	13	(1,856)	(318)
Impairment or impairment reversal of financial assets not measured at fair value through profit or loss	13	(34,231)	(11,429)
Impairment or impairment reversal of investments in subsidiaries and associates	13	952	(26)
Other impairment losses and provisions	13	(821)	(202)
Impairment costs and provisions		**(35,956)**	**(11,975)**
Profit before tax		3,920	6,541
Income tax	14	(1,651)	(1,764)
Profit for the year		**2,269**	**4,777**

P O S I T I ON	Note	2019	2018
		HRK '000	HRK '000
Profit for the year		**2,269**	**4,777**
Items that will not be reclassified to profit or loss			
Changes in the fair value of equity instruments measured at fair value through other comprehensive income		44	37
Items that can be reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income		(894)	175
Other comprehensive income		**(850)**	**212**
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**1,419**	**4,989**

The accompanying notes I to IX below form an integral part of these financial statements.

POSITION	Note	2019	2018
		HRK '000	HRK '000
ASSETS			
Cash and cash equivalents	15	203,594	264,521
Financial assets at fair value through profit or loss	16	4,163	0
Financial assets at fair value through OCI	17	278,682	340,930
Financial assets at amortized cost (debt securities)	18	3,971	5,885
Receivables from the Croatian National Bank	19	89,361	92,970
Loans and receivables from banks	19	16,360	22,722
Loans and advances to customers	19	851,414	780,116
Investments in subsidiaries and associates	20	0	5,698
Property, plant and equipment	21	25,389	24,146
Intangible assets	22	7,773	7,005
Deferred and current tax assets	23	1,752	3,309
Other assets	24	11,877	21,327
Total assets		**1,494,336**	**1,568,629**
LIABILITIES AND EQUITY			
LIABILITIES			
Current accounts and deposits of customers and banks	25	1,245,824	1,284,431
Liabilities for received loans	25	55,980	96,463
Lease liabilities - IFRS 16	26	3,140	0
Other financial liabilities		122	122
Provisions for liabilities and expenses	27	6,533	4,677
Current tax liability	28	105	0
Other liabilities	29	17,012	18,660
Total liabilities		**1,328,716**	**1,404,353**
EQUITY	30		
Share capital		91,897	91,897
Share premium		149	149
Fair value reserves		(706)	240
Other reserves		15,183	15,183
Reserves on own shares		(6,592)	(6,592)
Retained earnings		65,689	63,399
Total equity		**165,620**	**164,276**
Total liabilities and equity		**1,494,336**	**1,568,629**

The accompanying notes I to IX below form an integral part of these financial statements.

	Share capital	Own shares	Accumulated other comprehensive income (loss)	Capital gain	Reserves			Retained earnings	Profit/loss for the year	Total
					Legal reserves	Reserves for own shares	Other reserves			
	HRK '000	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*	*HRK '000*
Balance at 1 January 2018	**91,897**	**(6,592)**	**21**	**149**	**4,729**	**7,425**	**3,028**	**63,514**	**649**	**164,820**
Effects of application of IFRS 9	**0**	0	546	0	0	0	0	(5,541)	0	**(4,995)**
Allocation of profit 2017	0	0	0	0	0	0	0	649	(649)	**0**
Other increase or decrease in equity instruments	0	0	(538)	0	0	0	0	0	0	**(538)**
Total comprehensive income for the current year	0	0	212	0	0	0	0	0	0	**212**
Profit for the current period	0	0	0	0	0	0	0	0	4,777	**4,777**
Balance at 31 December 2018	**91,897**	**(6,592)**	**241**	**149**	**4,729**	**7,425**	**3,028**	**58,622**	**4,777**	**164,276**
Allocation of profit 2018	0	0	(22)	0	0	0	0	4,799	(4,777)	**0**
Other increase or decrease in equity instruments	0	0	(75)	0	0	0	0	0	0	**(75)**
Total comprehensive income for the current year	0	0	(849)	0	0	0	0	0	0	**(838)**
Profit for the current period	0	0	0	0	0	0	0	0	2,269	**2,269**
Balance at 31 December 2019	**91,897**	**(6,592)**	**(706)**	**149**	**4,729**	**7,425**	**3,028**	**63,422**	**2,269**	**165,620**

The accompanying notes I to IX below form an integral part of these financial statements.

POSITION	2019	2018
	HRK '000	HRK '000
Operating activities and adjustments		
Profit before tax	3,920	6,541
Changes in equity	(926)	(5,322)
Impairment losses and provisions	35,956	11,975
Depreciation	4,294	3,304
Changes in assets and liabilities from operating activities		
Financial assets at fair value through profit or loss	(4,163)	0
Financial assets at fair value through OCI	62,536	(76,375)
Financial assets at amortized cost	1,888	3,210
Receivables from the Croatian National Bank	3,815	(2,792)
Loans and receivables from banks	5,844	(10,592)
Loans and advances to customers	(105,479)	4,028
Other assets from operating activities	1,234	494
Increase/decrease in operating liabilities		
Current accounts and deposits of customers and banks	(38,607)	13,442
Provisions for liabilities and expenses	0	(468)
Deferred tax liability	105	0
Other liabilities	814	(205)
A) Net cash flows from operating activities	**(28,769)**	**(52,759)**
Investing activities		
Proceeds from sale / payments for purchase / tangible and intangible assets and leases - IFRS 16	2,647	4,177
Proceeds from sale / payments for purchase / investment in subsidiaries, joint ventures and associates	6,650	0
B) Net cash flows from investing activities	**9,297**	**4,177**
Financing activities		
Liabilities for received loans	(40,483)	(39,539)
Lease liabilities - IFRS 16	(972)	0
Other receipts/payments from financing activities	0	0
C) Net cash flows from financing activities	**(41,455)**	**(39,539)**
D) Net increase / decrease in cash and cash equivalents	**(60,927)**	**(88,121)**
Cash and cash equivalents at the beginning of the year	**264,521**	**352,642**
Cash and cash equivalents at the end of the year	**203,594**	**264,521**

The accompanying notes I to IX below form an integral part of these financial statements.

I GENERAL INFORMATION

1.1. Legal framework

SLATINSKA BANKA d.d. SLATINA ('' Bank '') is registered with the Commercial Court in Bjelovar. The Bank's registered office is in Slatina, Vladimira Nazora 2.

The bank is registered to perform transactions with foreign means of payment in the country, perform monetary intermediation, receive all types of deposits, give all types of loans, open documentary letters of credit, issue bank guarantees, perform transactions with bills, checks, lending, selling and buying for own account or for the account of its clients, perform securities' transactions for its own account or for the account of other persons, issue and manage means of payment, perform financial leasing and factoring operations, provide information on clients' creditworthiness at their request, perform foreign payment operations and international transactions, payment transactions in the country, provision of representation services in the sale of insurance policies, provision of other financial services, participation in the issuance of financial instruments and provision of services, services of bid execution, i.e. sale of financial instruments without obligation to repurchase, custody of financial instruments and related services, investment and ancillary services and activities.

1.2. Governance and Management

The governing bodies of the Bank are the Management Board, the Supervisory Board and the Assembly.

Members of the Bank's Management Board are:

1. Andrej Kopilaš, Member of the Management Board (from 20 July 2017 to 10 April 2018); represents the Bank individually and independently by the decision of the Supervisory Board of 16 January 2018; President of the Management Board from 10 April 2018 for a term until 19 July 2020)
2. Marin Prskalo, Member of the Management Board (from 20 July 2017 for the term of office until 19 July 2020)
3. Oliver Klesinger, Member of the Management Board (from 14 November 2019 for the term of office until 19 July 2020)
    i. Marko Brnić, Member of the Management Board (until 20 July 2017); President of the Management Board (from 20 July 2017 to 16 January 2018)
4. Elvis Mališ - Member of the Management Board (from 10 April 2018 to 26 August 2019)

Members of the Supervisory Board are:

1. Ružica Vađić - President of the Supervisory Board
2. Krunoslav Lisjak - Deputy President of the Supervisory Board
3. Dušan Banović - Member of the Supervisory Board (since 1 July 2018)
4. Srećko Vukić - Member of the Supervisory Board (since 1 July 2018)
5. Goran Kovač - Member of the Supervisory Board (until 3 May 2019)

As at 31 December 2019, the Bank had 176 employees (31 December 2018, 180 employees).

II BASIS OF PREPARATION

2.1. Compliance statement and basis of preparation

The annual financial statements have been prepared in accordance with the legal accounting regulations for banks in the Republic of Croatia. The Bank's operations are subject to the Credit Institutions Act (OG 153/09, 19/15, 102/15, 15/18 and 70/19), according to which the Bank's financial reporting is determined by the Croatian National Bank ("CNB"), which is the central supervisor of the banking system in Croatia. These financial statements have been prepared in accordance with the above banking regulations.

The CNB's accounting regulations are based on International Financial Reporting Standards (IFRS), which include International Accounting Standards (IAS), their amendments and related interpretations, and International Financial Reporting Standards (IFRS), their amendments and related interpretations, which are established by the European Commission and published in the Official Journal of the European Union and which were in force on 31 December 2019.

The main differences in a reclassification between the CNB's accounting regulations and the requirements for recognition and measurement under IFRS are not materially significant, they are accepted as Management estimates, and relate to:

- The CNB requires banks to recognize impairment losses in the Statement of Comprehensive Income at the prescribed minimum rate for exposures measured at amortized cost and for off-balance sheet exposures. In its financial statements, the Bank has recognized these provisions as a substitute for expected losses calculated in accordance with the requirements of IFRS 9 - Financial Instruments;
- The CNB prescribes minimum impairment provisions for individual exposures in default, which may differ from those required by IFRS;
- The CNB prescribes the minimum values of impairment and the minimum time period for collection of individual exposures (foreclosed assets) in the status of default of contractual obligations whose collection is expected from the realization of collateral, which may differ from those required by IFRS.

2.2. Measurement basis

The financial statements have been prepared on a fair value basis: for financial assets and liabilities at fair value through profit or loss, and for financial assets at fair value through other comprehensive income. Other financial assets and liabilities are stated at amortized cost or historical cost.

2.3. Uncertainty of estimates and impact of judgments

In preparing the financial statements, Management has made judgments, estimates and assumptions that affect the application of accounting policies, as well as the reported amounts of the Bank's assets and liabilities, the Bank's income and expenses, and the disclosure of the Bank's contingent liabilities.
Future events and their impacts cannot be predicted with certainty, therefore actual results may differ from those estimated. The estimates used in the preparation of the financial statements are subject to change as new events arise, additional experience is gained, additional information and insights are gained and the environment in which the Bank operates changes.

II BASIS OF PREPARATION (continued)

Estimates and related assumptions are reviewed regularly, and effects are recognized in the period in which they change if they affect only that period, or in the period in which the change affects future periods.

The key estimates used in applying the accounting policies in preparing the financial statements relate to the calculation of depreciation and amortization of long-term intangible and tangible assets, impairment of assets, impairment of receivables and provisions, and the disclosure of contingent liabilities.

The financial statements are presented in the commonly used form and are internationally accepted as the publication of financial statements of banks and similar financial institutions.

2.4. Functional and reporting currency

The functional and reporting currency is the Croatian Kuna, and the financial statements are presented in thousands of Kuna (unless otherwise stated).

III SUMMARY OF ACCOUNTING POLICIES

A summary of significant accounting policies adopted in preparing the financial statements is set out below. Policies have been applied consistently to all periods included in these reports, unless otherwise stated.

3.1. Changes in accounting policies

Adoption of new and amended International Financial Reporting Standards

The following new standards and amended existing standards issued by the International Accounting Standards Board through the International Financial Reporting Interpretations Committee and which are adopted in the European Union and in force in the current period:

- **IFRS 16 *Leases***

IFRS 16 Leases (issued on 13 January 2016, effective for annual periods beginning on or after 1 January 2019). The Bank has decided to apply the standard from the date of its mandatory adoption on 1 January 2019 by applying a modified retroactive method, without revising comparative information and by applying certain simplifications allowed by the standard. Right-of-use assets are measured at the amount of the lease liability at the date of adoption of the standard (adjusted for early repayments or calculated lease expense).

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

- the application of a single discount rate to a portfolio of leases with relatively similar characteristics,
- reliance on previous assessments of the harmfulness of leases as an alternative solution to the impairment test - on 1 January 2019 there were no harmful contracts,

III SUMMARY OF ACCOUNTING POLICIES (continued)

- presentation of operating leases whose remaining lease period on 1 January 2019 is less than 12 months as short-term leases,
- the exclusion of initial direct costs from the measurement of right-of-use assets at the date of the first application, and
- use of recent knowledge in determining the lease period if the contract contains the possibility of extending or terminating the lease.

The Bank has also decided not to re-evaluate whether the item is a lease or a contract containing a lease on the date of the first application. Instead, for contracts entered into before the transition date, the Bank relied on its assessment based on the application of IAS 17 Leases and on Interpretations (IFRIC) 4 Determining Whether an Arrangement Contains a Lease.

As at 31 December 2019, the Bank had liabilities for irrevocable leases related to short-term leases and low-value leases whose total payments in 2019 were less than HRK 125 thousand, and both amounts are recognized linearly as an expense in current profit.

When IFRS 16 was first applied on 1 January 2019, the Bank recognized right-of-use assets for those leases whose lease term does not expire within 12 months from the date of the first application of IFRS 16 and which are not low-value leases or short-term leases.

The Bank has applied a simplified modified approach.

Impact of the application of IFRS 16 from 1 January 2019

The Bank recognized right-of-use assets in the amount equal to the lease liability of HRK 3,922 thousand. When calculating lease liabilities for leases that are classified as operating leases, the Bank discounts lease payments at the rate of 5%.

The right-of-use asset is measured at an amount equal to the lease liability adjusted for the amounts of the advance or the lease payments recognized in the statement of financial position immediately before the date of the first application. For all leases, except short-term leases and leases of lower value assets, the Bank applies a single approach to recognition and measurement, and the right to use is amortized on a straight-line basis over the term of the lease.

- **IFRIC 23: Uncertainty over Income Tax Treatments**

The Interpretation is effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The interpretation relates to the determination of taxable profit (tax losses), tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty regarding the treatment of income tax under IAS 12. In particular, it considers: should tax treatments be considered jointly; preconditions for tax authorities' controls; determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax reliefs and tax rates; and the effect of changes in facts and circumstances. This interpretation has not yet been adopted in the European Union.

III SUMMARY OF ACCOUNTING POLICIES (continued)

- **Features of early repayment with negative fee (Amendments to IFRS 9)**
  The amendments entered into force for annual periods beginning on or after 1 January 2019, with earlier application permitted. It amends the existing requirements in IFRS 9 regarding termination rights to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative fees.

- **Long-term interests in associates and joint ventures (Amendments to IAS 28)**
  The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. It clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of a net investment in an associate or joint venture but to which the equity method does not apply. These amendments have not yet been adopted in the European Union.

- **The IASB has published the Annual Improvements of IFRS Standards 2015-2017 Cycle,** which is the sum of the amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019. They relate to the amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017)

- **Amendments to IAS 19 Amendments, Limitations or a Plan Settlement,** which was published on 7 February 2018 and is effective for annual periods beginning on or after 1 January 2019.

Standards and interpretations that are published but not yet in force and not yet adopted by the Bank

At the date of these financial statements, the following standards, amendments and interpretations adopted by the International Standards Board have not been adopted in the European Union

- **Amendments to the Conceptual Financial Reporting Framework (effective for annual periods beginning on or after 1 January 2020).** The revised conceptual framework includes a new chapter on measurement; guidelines for reporting the financial result; improved definitions and guidelines - in particular, the definition of liability; and clarifications in important areas, such as the role of governance, prudence, and measurement uncertainty in financial reporting.

- **Definition of materiality - Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020).** The amendments clarify the definition of materiality and how it should be applied to encompass guidance that has hitherto been contained elsewhere in IFRSs. Furthermore, the explanations along with the definition itself have been improved. Finally, the amendments ensure the consistency of the definition of materiality in all IFRSs. Information is material if it can reasonably be expected that its omission or misstatement will affect the decisions made by the primary users of general purpose financial statements based on those financial statements that provide financial information about a particular reporting entity.

III SUMMARY OF ACCOUNTING POLICIES (continued)

- **Reform of reference interest rates - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).** The amendments result from the replacement of reference interest rates such as LIBOR and other interbank bid interest rates ("IBORs"), which provide a temporary exemption from the application of certain hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under IFRS 9 and IAS 39 requires that future hedged cash flows be "highly probable". If these cash flows depend on the IBOR, the exemption provided for in the amendments requires the entity to apply the assumption that the interest rate on which the cash flows are based will not change as a result of the reform. IAS 39 and IFRS 9 require an estimate of expected future events for the application of hedge accounting. While the cash flows to which IBOR interest rates apply and the interest rates that replace it are currently expected to be broadly equal, thus minimizing any inefficiencies, this may no longer be the case as the reform date approaches. According to the amendments, the entity may assume that the reference interest rate on which the cash flows of the hedged item, hedging instrument or hedged risk are based has not been affected by the IBOR reform. Due to the reform of the IBOR, protection could be found outside the range of 80-125%, which is mandatory for retroactive testing in accordance with IAS 39. IAS 39 has therefore been amended to allow an exemption from retroactive performance testing in such a way that hedging is not interrupted during the period of uncertainty caused by the IBOR simply because retroactive inefficiency is outside this range. However, even then, other requirements for the application of hedge accounting should still be met, including an assessment of expected events. For some hedges, the hedged item or hedged risk refers to a non-contractual component of the IBOR. In order to apply hedge accounting, IFRS 9 and IAS 39 require that the identified risk component can be determined separately and measured reliably. According to the appendices, the risk component should be able to be determined separately at the beginning of the determination of the protection relationship, and not continuously. In the context of a macro protection, where the subject often harmonizes the protection relationship, the exemption applies from the moment the protected item was originally established within that protection relationship. Any hedging inefficiencies will continue to be recognized in the income statement in accordance with IAS 39 and IFRS 9. The amendments set out the reasons for the cessation of the exemption, including the uncertainty arising from the reference interest rate reform, which is no longer applicable. The amendments require entities to provide additional information to investors about their protection relationships directly affected by these uncertainties, including the nominal amount of hedging instruments to which the exemptions apply, any significant assumptions or judgments made during the application of the exemption, and qualitative disclosure of how the entity is affected by the IBOR reform and how it manages the transition process.

- **Sale or entry of assets between an investor and its associate or joint venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after the date determined by the IASB, not yet approved by the European Union).** These amendments address the inconsistency between the requirements of IFRS 10 and the requirements of IAS 28 relating to the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of allowances is that full profit or loss is recognized when the transaction involves business. Partial gain or loss is recognized when the transaction involves non-business assets, even if they are subsidiary assets.

III SUMMARY OF ACCOUNTING POLICIES (continued)

- **IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021, not yet approved by the European Union).** IFRS 17 replaces IFRS 4 which has allowed companies to continue to present insurance contracts using existing practices. For this reason, it was difficult for investors to compare the financial performance of otherwise similar insurance companies. IFRS 17 is a standard that applies a single principle to the disclosure of all types of insurance contracts, including reinsurance contracts. The standard requires the recognition and measurement of groups of insurance contracts at: (i) the present value of future risk-adjusted cash flows (contractual cash flows) that includes all available information about contractual cash flows to match the information available in the market; increased (if this value is a liability) or decreased (if this value is an asset) by (ii) the amount representing the unrealized gain of the contract group (contract service margin). Insurers will recognize profits for a group of insurance contracts during the coverage period and as they are hedged. If a group of contracts incurs or will incur a loss, the entity shall recognize that loss as incurred.

Definition of business - Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of the annual reporting period beginning on or after 1 January 2020, not yet approved by the European Union). The amendments change the definition of business. The business must have inputs and a detailed process that together significantly contribute to the ability to generate results. The new guidelines provide a framework for assessing if input and a detailed process exist, including early-stage entities that have not generated results. In the absence of results, there should be an organized workforce for the purposes of classification as a business. The definition of 'results' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are able to replace missing elements or integrate acquired activities and assets. The subject may apply a "concentration test". Acquired assets would not be business if almost the entire fair value of gross assets acquired was concentrated in a single asset (or group of similar assets).

The Management Board anticipates that the application of these standards, amendments and interpretations will not have a significant impact on the financial statements in the period of their first application..

3.2. Interest income and expenses

Interest income on fully recoverable placements is recognized in the income statement, using the effective interest rate, for all interest-bearing financial instruments. Effective interest rate is the interest rate that discounts estimated future cash outflows or receipts over the expected life of the financial instrument or over a shorter period.

The effective interest rate method involves calculating the amortized cost of a financial asset or financial liability and allocating interest over the relevant period, up to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The calculation of the effective interest rate includes any fees paid or received between the parties that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts.

III SUMMARY OF ACCOUNTING POLICIES (continued)

When calculating the effective interest rate adjusted for the expected credit risk for financial assets, the contractual terms of the financial instrument are taken into account in the calculation of future cash flows, but not the expected credit loss. In calculating interest income and expense, the effective interest rate is calculated on the gross carrying amount of the financial asset or the amortized cost of the liability.

For financial assets purchased or recognized for impairment, the effective interest rate is adjusted for credit risk, and the contractual terms of the financial instrument, including the credit loss, are taken into account in calculating future cash flows. In calculating interest income and expense, the effective interest rate is calculated on the amortized cost of the financial asset or on the amortized cost of the liability. If the asset is subsequently no longer reduced for credit losses on remeasurement, the calculation of income will again be based on the gross carrying amount of the financial asset.

These income and expenses are recognized in the income statement as interest income or interest expense. Interest income and expense also include income and expenses from fees and commissions related to loans and receivables from customers and banks, borrowings, finance leases, and debt securities issued, amortization of premiums or discounts, as well as other fees between the initial carrying value of the interest-bearing financial instrument and its value at maturity, which are recognized using the effective interest rate method.

Interest income on debt securities at fair value through profit or loss is recognized at the nominal interest rate and is included in interest income.

If the loan is value-adjusted due to the expected credit loss, i.e. in the amount of its estimated recoverable amount, interest income is recognized based on the interest rate used to discount future cash flows to measure the recoverable amount.

Interest income on partially recoverable and non-recoverable placements (Stage 3) is recognized in the income statement when and if they are collected.

3.3. Fee and commission income and expenses

Fee and commission income comprises the Bank's fees for guarantees and other services provided, fees for managing funds on behalf and for the account of legal entities and individuals, guarantee operations, asset management and commissions for domestic and international payments.

Fee and commission income is recorded on the principle of invoiced realization after performing the banking service in the period when they were earned, i.e. according to the principle of the event, or during the performance of the service, except for cases when they are included in calculation of the effective interest rate.

III SUMMARY OF ACCOUNTING POLICIES (continued)

3.4. Net gains and losses on financial instruments at fair value through profit or loss and the result of the currency trade and exchange differences arising on the translation of monetary assets and liabilities

This category includes earnings from the purchase and sale of currencies, realized and unrealized gains and losses on debt and equity securities held for trading, other financial instruments measured at fair value through profit or loss, as well as net gains or losses on exchange differences arising on translation of monetary assets and liabilities denominated in foreign currencies.

Within this category are the effects of the realization or sale of financial instruments that are measured at fair value through other comprehensive income, whereby the effects recognized in other comprehensive income are recognized in the income statement.

3.5. Employee benefits

Costs of pension benefits and employee benefits

The Bank does not manage defined benefit plans after retirement for its employees and managers in Croatia and has no provisions for these costs, as the system in the Republic of Croatia does not allow it.

The Bank is obliged to pay contributions to pension and health insurance funds in Croatia in accordance with legal regulations. This obligation applies to all persons who are employed under an employment contract. Contributions from and on the salary are paid based on the taxable income using following percentages:

	2018	2019
Pension insurance contribution	20.0%	20.0%
Health insurance contribution	15.0%	16.5%
Contribution to the employment fund	1.7%	0.0%
Contribution to the occupational health fund	0.5%	0.0%

Accrued contributions and taxes on behalf and for the account of the employee are suspended from his gross salary, while the contribution to salary is calculated and suspended by the Bank in its own name and for its own account. Contributions on behalf of the employee and on behalf of the employer are calculated as an expense in the period in which they are incurred.

Severance pay and jubilee awards

The Bank pays jubilee awards and one-time severance pay to employees upon retirement, and the liability is determined at the present value of estimated future cash outflows by applying a discount rate similar to the interest rate on government bonds in the Republic of Croatia quoted in currencies and maturities in accordance with currencies and the estimated duration of the benefit obligation.
The Bank pays its employees some benefits for long-term work (jubilee awards) and severance pay upon retirement in the amount of tax-permitted payments.

III SUMMARY OF ACCOUNTING POLICIES (continued)

3.6. Foreign currency translation

Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities are translated into the functional currency at the middle exchange rate of the CNB valid on the balance sheet date.

Monetary assets and liabilities denominated in foreign currencies are translated into HRK at the balance sheet date at the exchange rate ruling at that date. Foreign exchange differences arising from the translation of foreign currencies are recognized in the income statement.

Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are stated at cost are translated using the exchange rates at the dates of the transactions. Gains and losses arising from the translation of foreign currencies and the purchase and sale of foreign currency are shown in the income statement for the year.

3.7. Taxation

Income tax represents the sum of the tax currently payable and deferred tax.

Current taxes

Current tax liability is based on taxable profit for the year. Taxable profit differs from the net profit for the period presented in the income statement for amounts not included in the tax base as well as for amounts of non-tax-deductible expenses. The Bank's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Management periodically assesses tax return positions in relation to situations in which applicable tax laws are subject to interpretation, and the Bank makes provisions, when possible.

Deferred tax

Deferred tax is provided using the liability method, providing for tax effects on all time differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

3.8. Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits, current accounts with banks and cash receivables from central banks.

III SUMMARY OF ACCOUNTING POLICIES (continued)

3.9. Financial assets

Financial assets are assets that are:

(a) money;

(b) the contractual right to receive money or other financial assets of another entity;

(c) the contractual right to exchange financial instruments with other entities on terms that are potentially more favourable;

(d) equity instruments of another entity.

Classification of financial assets

The Bank's financial assets in accordance with IFRS 9 are divided into basic categories:

(a) Financial assets measured at amortized cost

(b) Financial assets measured at fair value through other comprehensive income

(c) Financial assets measured at fair value through profit or loss

There is a fundamental difference between the mentioned categories in the way of measuring financial assets in the financial statements. All ordinary transactions in financial instruments are recognized in the balance sheet at the trade date or the settlement date. Under the settlement date method, in which the underlying assets or liabilities are not recognized until the settlement date, changes in the fair value of the underlying assets and liabilities are recognized in the balance sheet starting from the trade date. Upon initial recognition, the Bank measures financial assets or financial liabilities at their fair value plus, in the case of financial assets, transaction costs that are directly attributable to the acquisition or delivery of the financial asset or financial liability.

a) **Financial assets measured at amortized cost -** this portfolio includes financial assets and financial liabilities measured at amortized cost in accordance with IFRS 9 - Financial Instruments (paragraphs 4.1.2 and 4.2.1).

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

- Financial assets are held within a business model whose objective is to hold financial assets for the purpose of collecting contractual cash flows, i.e. a business model for the purpose of collection
- Based on the contractual terms of financial assets, cash flows arise on certain dates that are only the payment of principal and interest on the outstanding principal amount.

Financial assets measured at amortized cost are primarily loans, deposits and receivables originated by the Bank and are financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank has created by placing money, goods or services directly to the debtor. Purchased debt securities that the Bank has the intent and ability to hold to maturity are also classified in this category.

III SUMMARY OF ACCOUNTING POLICIES (continued)

b) Financial assets at fair value through other comprehensive income - this portfolio includes financial assets at fair value through other comprehensive income in accordance with IFRS 9 - Financial Instruments (clause 4.1.2.A).

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

- Financial assets are held within the business model whose goal is achieved by collecting contractual cash flows and selling financial assets or business model for collection and sale
- Based on the contractual terms of financial assets, cash flows arise on certain dates that are only the payment of principal and interest on the outstanding principal amount.

This category includes purchased debt securities that the Bank intends to hold for earnings in the form of interest or dividends, but may, if the conditions are met, sell them.

The Bank may irrevocably decide that subsequent changes in the fair value of equity investments are measured at fair value through other comprehensive income.

c) Financial assets that must be measured at fair value through profit or loss - this portfolio includes financial assets that do not meet the condition that the related cash flows are only the payment of principal and interest on the outstanding principal amount and, consequently, are measured at fair value through profit or loss in accordance with IFRS 9 - Financial Instruments (paragraph 4.1.4).

Financial assets are measured at fair value through profit or loss, if they are not measured at amortized cost or at fair value through other comprehensive income. Purchased debt and equity securities that the Bank intends to trade, as well as all derivative financial instruments (derivatives) are classified in this category.

Recognition and measurement of financial assets

The Bank has identified criteria for classifying financial instruments into new categories provided by the standard, based on the business model and characteristics of related contractual cash flows, and has applied the criteria identified in the classification of existing portfolios (corporate and retail clients). During this process, the analysis of the business model is conducted by mapping the business areas to which certain business models are assigned.

The “held for collection” and “held for collection and sale” models are assigned to the business areas related to the banking part of the Bank's portfolio, while the “other” business model is assigned to the Bank's trading portfolio, which reflects the intention to trade. For the purpose of classifying financial assets in IFRS Category 9, the analysis of the business model is supplemented by the analysis of contractual cash flows (“SPPI test”).

III SUMMARY OF ACCOUNTING POLICIES (continued)

The Bank has developed processes to analyse the portfolio of securities and loans to assess whether the characteristics of contractual cash flows allow measurement at amortized cost (portfolio held for collection) or at fair value through other comprehensive income (portfolio held for collection and sale"). This analysis was conducted at the level of individual contracts or at the level of exposure groups where possible. Equity instruments will be measured at fair value through profit or loss or other comprehensive income, depending on their characteristics and intent to acquire.

The expected credit loss (ECL) calculation model on an aggregate basis is calculated using the following formula:

$$ECL=\sum_{t=1}^{t} EADt*MPDt*LDGt*DFt$$

For exposure in risk group A-1, a loss is calculated in the twelve-month period, while for risk group A-2, a credit loss is calculated over the entire duration of the exposure.

For risk groups B and C (phase 3), the credit loss is determined by discounting the estimated cash flows by exposure or by discounting the value of collateral.

Exposure is divided into the following homogeneous groups:

- Economy (companies, craftsmen and other natural persons performing a registered activity),
- Natural persons,
- Financial institutions, and
- Central government and local self-government.

Determining the Marginal Probability of Default represents the marginal probability of loss status for a particular financial instrument in a given period. In calculating the MPD, the Bank uses an approach based on transition matrices using the Markov chain technique with homogeneous matrices over time. This principle is used to calculate the PD for the Economy segment and the Retail segment.

For the segment of financial institutions, the value of PD is taken as the estimated PD by the rating agencies for each financial institution or alternatively the country of domicile of the financial institution.

For the central government and local government segment, the value of the PD is taken as the estimated PD by the rating agencies for the state.

The following macroeconomic indicators are used in the calculation

- Gross domestic product
- Unemployment rate
- Inflation rate

III SUMMARY OF ACCOUNTING POLICIES (continued)

Determining Loss given default represents the estimated percentage of losses for a particular financial instrument.

The Bank has defined the estimated percentage of loss of a specific financial instrument depending on the segment and the existence of collateral on receivables as follows:

1. Economy - 50%
2. Natural persons:
   a) financial instrument secured by collateral - 40%
   b) financial instrument without collateral - 80%
3. Financial institutions - 45%
4. Central government and local self-government - 45%

<u>Derecognition and subsequent measurement of financial assets</u>

Financial assets are initially stated at cost, including transaction costs. Acquisition cost represents the fair value of assets given for a financial asset or received for financial liability

Subsequent to initial recognition, all financial assets at fair value through other comprehensive income and which are measured at fair value through profit or loss are stated at fair value at the balance sheet date.

Financial assets measured at amortized cost are stated at amortized cost less impairment losses. Depreciation expense is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the instrument and are amortized based on the effective interest rate of the instrument. The fair value of financial assets is based on the daily market price, net of transaction costs.

If the discounted cash flow method is used, the estimated future cash receipts are based on management's best estimate, and the discount rate is the market rate valid at the balance sheet date for an instrument with similar characteristics and conditions.

The fair value of derivatives that are not traded in a regulated market is estimated based on the amount of receipts or expenses that the Bank would have had if the contract had been terminated at the balance sheet date, taking into account current market conditions and counterparty credit risk. Gains or losses on financial assets classified at fair value are recognized in the income statement.

Gains or losses on financial assets at fair value through other comprehensive income are recognized directly in equity, except for impairment losses and foreign exchange differences, until the instrument is derecognised, when the cumulative gain or loss previously recognized in equity, are recognized in the income statement.

III SUMMARY OF ACCOUNTING POLICIES (continued)

Impairment loss on financial assets

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated.

The recoverable amount of a financial asset measured at amortized cost is calculated as the present value of expected future cash flows, discounted at the instrument's original effective interest rate. If future cash flows are expected within one year from the balance sheet date, the cash flows need not be discounted.

The recoverable amount of the Bank's investment in securities measured at amortized cost is calculated as the present value of expected future cash inflows and outflows, discounted at the asset's original effective interest rate, as explained in the impairment policies of financial instruments.

A recognized impairment loss in respect of securities or receivables measured at amortized cost is recognized if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. Revenue cannot exceed the value of the original loss.

Derecognition of financial assets

Financial assets are derecognised when the Bank ceases to have control over the contractual rights to the assets, or when the rights are exercised, matured or transferred.

A financial liability is derecognised if the contractual obligation has been settled, adjusted or expired.

When an asset measured at fair value through other comprehensive income, which must be measured at fair value through profit or loss and held for trading is being sold, it is derecognised and the related trade receivables are recognized on the settlement date of the sold receivable. Assets measured at amortized cost are derecognised on the date that the Bank loses control of them.

Special financial instruments

Investments in debt securities

Debt securities include bills of exchange, bills and bonds with a variable or fixed interest rate and other instruments that recognize the debt, regardless of the issuer. Debt securities are registered at the name or at the bearer and are issued in series (there are a number of securities with the same characteristics).

Debt securities can be classified on acquisition into any of the existing categories of financial assets, depending on the specifics of the debt security and in accordance with the aforementioned classification criteria. Debt securities classified as financial assets at fair value through other comprehensive income, which are measured at fair value through profit or loss and held for trading are adjusted to their estimated or fair value at the balance sheet date.

III SUMMARY OF ACCOUNTING POLICIES (continued)

For debt securities for which a quoted price is published in an active market, fair value is determined based on the price valid on the day.

Debt securities measured at amortized cost are stated at amortized cost less impairment losses. Amortized cost is calculated using the effective interest rate method. Discounts and premiums, including initial transaction costs, are included in the carrying amount of the instrument and amortized based on the effective interest rate, and are reported as interest income or expense. The principal, discount or premium, as well as the related interest per individual security, are recorded separately in the business books.

Investments in equity securities

Equity securities include shares or stakes in companies. Equity securities give the Bank the right to participate in the company's profits and assets after the rights of creditors and other financial providers have been fulfilled.

Equity securities are classified as financial assets at fair value through other comprehensive income and at fair value through profit or loss.

Equity securities classified as financial assets at fair value through other comprehensive income and at fair value through profit or loss are adjusted to fair value at the balance sheet date. For equity securities listed on an active market, fair value is determined based on the closing price on the same. If equity security is not quoted in an active market it can be measured at fair value if fair value can be measured reliably.

It is considered that fair value can be measured reliably if:

- The change in value within a reasonable series of estimates of the fair value of the instrument is not significant, or
- •The certainty of different estimates within a range of estimates can be reasonably estimated and used in estimating fair value.

If a set of reasonable estimates of the fair value of an equity instrument is significant and the certainty of different estimates cannot be reasonably estimated, such an instrument is not measured at fair value but at cost.

The sale of a part of the portfolio of certain equity security is recorded at the carrying amount of the investment. When an investment is sold, the difference between the net investment income and the carrying amount of the investment is recognized as a gain or loss on the sale.

Loans to banks and customers

Loans are short-term and long-term receivables based on:

- approved loans and advances
- payments made under guarantees and other
- used framework loans

III SUMMARY OF ACCOUNTING POLICIES (continued)

If there is a permanent decrease in the value of loans, due to the existence of objective evidence that the claim will not be fully settled, the value adjustment (provision) of placements is made in which potential losses are identified on an individual basis. Depending on the degree of collection and quality of the collateral, Bank's on-balance sheet and off-balance sheet receivables are allocated to the appropriate groups A1, A2, B, and C in accordance with the provisions of the Decision on the classification of placements and off-balance sheet liabilities of credit institutions in accordance with IFRS 9.

Provisions or impairment of placements referred to in the previous paragraph shall be made at the expense of provisions.

If the loan is uncollectible and all legal procedures have been completed and the final amount of the loss is known, the loan is written off. If in the next period the amount of impairment loss decreases due to collection, the amount collected is recognized in the income statement.

Classification and valuation of financial instruments and reconciliation of book value based on valuation category

Total placements and contingent liabilities classified in 2019 decreased from HRK 1,705,683 thousand to HRK 1,663,908 thousand; which resulted in a decrease in value adjustments for exposures in phase 1 and phase 2 by HRK 1,699 thousand, while value adjustments for losses on exposures and contingent liabilities in phase 3 increased by HRK 9,011 thousand.

Exposures and impairments	**31 Dec 2018**	**31 Dec 2019**	**Change 2019-2018**
1. Total impairments for exposures and provisions for contingent liabilities	140,855	148,198	7,343
1.1. Exposure impairments and provisions for contingent liabilities PHASE 3	127,422	136,433	9,011
1.2. Impairments and provisions PHASE 2	1,633	1,452	-181
1.3. Impairments and provisions PHASE 1	11,800	10,313	-1,487
2. Total exposures and contingent liabilities	1,705,683	1,663,908	-41,762
3. Relative ratio (%): total impairments and provisions / total exposures and contingent liabilities	8.26	8.91	0.65

In 2019, despite the growth of impairments for losses on exposure and contingent liabilities in phase 3, the Bank significantly reduced its This led to better coverage of total placements, according to which the Bank better protected itself and allocated additional value adjustments. The coverage of total placements in phase 3 as at 31 December 2019 was 70.11%, while on 31 December 2018 it was 61.88%. Share of NPL per loan principal on 31 December 2019 is 15.84%, while on 31 December 2018 it was 20.09%. The share of NPLs by exposures classified as at 31 December 2019 is 11.70%, while as at 31 December 2018 it was 12.07%.

III SUMMARY OF ACCOUNTING POLICIES (continued)

3.10. Fair value of financial instruments

The fair value of financial instruments traded in active markets is determined at each reporting date in relation to the quoted market price or the quotation price of the distributor without deduction for transaction costs.

For financial instruments that are not traded in an active market, fair value is determined using appropriate valuation techniques. Such techniques may include the use of a more recent unbiased market transaction; given the current fair values of another instrument that is substantially the same; discounted cash flow analyses or other valuation model.

3.11. Property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses and are tangible assets if their useful lives are longer than one year. The purchase value includes the purchase price, the cost of spare parts for plant and equipment, borrowing costs for long-term construction projects, and other dependent costs and the estimated value of future dismantling costs if the conditions for recognition are met, while the liability is recorded as a commission.

Property is carried at cost less accumulated depreciation and impairment losses recognized after the date of revaluation, based on periodic appraisals by professional appraisers.

Depreciation is calculated by writing off the cost of assets, other than land and investments in progress, over the estimated useful lives of the assets using the straight-line method at the following rates:

DESCRIPTION	2019 %	2018 %
Buildings	2.00 – 2.50	2.00 – 2.50
Computer equipment	25	25
Furniture	20	20
Personal vehicles	40	40
Other equipment	10 - 25	10 - 25

Depreciation is calculated by individual assets until their complete write-off. Property, plant and equipment and any significant portion thereof are derecognised upon full write-off or when no future economic benefits are expected from their use.

Gains or losses arising from the disposal or disposition of an asset are determined as the difference between the sales proceeds and the carrying amount of the asset and are recognized in profit or loss. Residual (present) value, useful life and depreciation methods are reviewed at the end of each financial year and adjusted, if appropriate.

III SUMMARY OF ACCOUNTING POLICIES (continued)

3.12. Intangible assets

Intangible assets refer to IT programs and investments in third party assets that are initially measured at cost and amortized on a straight-line basis over their estimated useful lives. Separately acquired intangible assets are initially recognized at cost. The cost of an intangible asset acquired in a business combination is the fair value at the acquisition date.

Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortization and any accumulated impairment losses. Intangible assets arising from own production, excluding capitalized development costs, are not capitalized and costs are recognized in the statement of comprehensive income in the year in which they are incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with a fixed useful life are amortized over their estimated useful lives and are reduced when the conditions exist. The amortization period and the method of amortization of intangible assets with a fixed useful life are reviewed at least at the end of each financial year. For the purpose of compiling these financial statements, the Bank has calculated the amortization of intangible assets at the following rates:

DESCRIPTION	2019	2018
	%	%
Leasehold improvements	3.3 - 10	3.3 - 10
Software	10 - 25	10 - 25
Other intangible assets	20 - 50	20 - 50

The cost of amortization of intangible assets with a fixed life is recognized in the income statement as an expense in accordance with the role of intangible assets. Intangible assets with indefinite useful lives are not amortized but are assessed for impairment on an annual basis, either individually or at the cash-generating unit level.

3.13. Foreclosed tangible assets

Foreclosed assets in exchange for outstanding receivables on placements are recorded at the lower of the net book value or the net realizable value based on the estimate.

3.14. Share capital and reserves

Share capital represents the non-distributable capital of the Bank. The profit, after allocation for legal reserves and payment of dividends, is transferred to reserves. Reserves include the Bank's legal reserves, retained earnings and other reserves prescribed by the Articles of Association or the Decision of the Assembly.

III SUMMARY OF ACCOUNTING POLICIES (continued)

3.15. Commitments and contingencies

During its operations, the Bank disclosed contingent and assumed liabilities in off-balance sheet records by issuing guarantees, letters of credit, granting loans that have not been fully used and other contingent liabilities. These financial instruments are presented in the balance sheet at the time when and if the Bank settles the due liability.

Provisions for possible losses on contingent liabilities and commitments are maintained at a level that the Bank's Management Board deems sufficient to absorb possible future losses. Management determines the adequacy of provisions based on insights into individual items, current economic circumstances, risk characteristics of different transaction categories, as well as other relevant factors.

3.16. Cash flow statement

For cash flow reporting purposes, cash and cash equivalents include cash on hand (includes national and foreign banknotes and coins commonly used for payments), cash receivables and liabilities at central banks (including balances of receivables on-demand from central banks), other demand deposits (including on-demand balances in credit institutions).

3.17. Operational segments

Operating segments are accounted for in accordance with internal reporting to the chief operating decision-maker. The main business decision-maker, i.e. the function responsible for allocating resources and evaluating the work of operating segments is the Management Board, which makes strategic decisions.

The Bank has identified four main segments: companies, households, banks/credit institutions and others. Segment information is based on information provided to the Management Board for management purposes. Where possible, balance sheet and comprehensive income statements are presented by segment.

3.18. Legal environment

The bank is obliged to act in accordance with the Croatian National Bank (CNB) regulation, which sets limits and other restrictions related to minimum capital adequacy, classification of loans and commitments in off-balance-sheet records, as well as provisions to cover credit risk, liquidity risk, interest rate risk and those related to the foreign exchange position.

3.19. Significant estimates and judgements

The preparation of the Bank's financial statements, in accordance with IFRS, requires the Bank's management to make estimates and assumptions that affect the amounts presented in these financial statements and accompanying notes.

III SUMMARY OF ACCOUNTING POLICIES (continued)

Estimates and related assumptions are based on historical experience and various other factors believed to be realistic in the circumstances and the information available at the date of preparation of the financial statements. The result forms the basis for judging the carrying amount of assets and liabilities not easily determined from other sources. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are recognized in the period in which they arise if they affect only that period, or in the period in which they occur and in future periods if they affect current and future periods.

The estimate of provisions for credit losses represents the best estimate of the management of the risk of default and expected credit losses on financial assets for balance sheet items but also for receivables on excluded interest recognized in off-balance-sheet records. On-balance sheet and off-balance sheet exposures are included in the Bank's total exposure to the client. The Bank's placements are mostly secured by collateral, of which the most significant is real estate. The assessment of the value of the real estate is the best assessment of the Management Board, but there is uncertainty in that assessment. Historical transactions, as well as transactions in 2019, confirmed that the realized values of real estate in foreclosures are higher than the Management Board's estimates in line with CNB regulations and recognized in the financial statements.

In particular, the Bank is considering the timing of a significant increase in credit risk. As the Bank's loan portfolio is mostly focused on individuals, credit risk is considered individually for each significant exposure.

Indicators for possible impairment are based on default days, internal credit risk assessments based on historical information, current and forward-looking information, adjusted for macroeconomic indicators and expectations.

The required value adjustment or provision is determined based on the measured expected credit loss calculated as the product of the probability of default, the amount of expected loss due to default and exposure to defaulting customers during the remaining expected life of the financial instrument and discounted by the effective interest rate at balance sheet date.

Expected losses from exposures classified as “level 1” measure the expected loss in the next 12 months, while exposures classified as “level 2” measure the expected loss until the end of the remaining expected life of the financial instrument and are exposures with a significant increase in credit risk. On this basis, the Bank did not have a negative net effect on the value adjustment or increase in provisions at the balance sheet date.

3.20. Events after the reporting date

Events after the statement of financial position / balance sheet date are those favourable and unfavourable events that occurred between the balance sheet date and the date on which the financial statements were authorized to be issued. The Bank adjusts the amounts it has recognized in its financial statements for events after the statement of financial position / balance sheet date that require adjustment.

NOTES TO THE STATEMENT OF PROFIT OR LOSS

4. Interest income

	2019	2018
Description	HRK '000	HRK '000
Companies	17,100	18,496
Natural persons and craftsmen	39,630	38,977
Credit institutions	156	122
Other	3,893	3,670
Total	**60,779**	**61,265**

Depending on the type of financial instrument, interest income is presented as follows:

	2019	2018
Description	HRK '000	HRK '000
Non-traded financial assets that are measured at fair value through profit or loss	61	0
Financial assets at fair value through other comprehensive income - debt securities	1,644	1,957
Financial assets - debt securities at amortized cost	262	245
Financial assets - loans and advances at amortized cost	58,800	59,063
Other assets	12	0
Total	**60,779**	**61,265**

5. Interest expenses

	2019	2018
Description	HRK '000	HRK '000
Companies	214	470
Natural persons and craftsmen	7,280	10,940
Credit institutions	1,094	2,262
Other	235	352
Total	**8,823**	**14,024**

5. Interest expenses (continued)

Depending on the type of financial instrument, interest expenses are presented as follows:

	2019	2018
Description	HRK '000	HRK '000
Financial liabilities at amortized cost	8,587	14,024
Interest expenses on lease liabilities	180	0
Interest expenses on financial assets	57	0
Total	**8,823**	**14,024**

6. Fee and commission income

	2019	2018
Description	HRK '000	HRK '000
Companies (fee income)	4,286	4,031
Retail	7,804	7,801
Other (fee income)	1,161	1,190
Total	**13,251**	**13,022**

7. Fee and commission expenses

	2019	2018
Description	HRK '000	HRK '000
Commission for FINA services	1,961	1,871
Foreign institutions	318	211
Domestic banks and clients	1,925	1,918
Total	**4,204**	**4,000**

8. Net gains (losses) on derecognition of financial assets and liabilities at fair value through general comprehensive income

	2019	2018
Description	HRK '000	HRK '000
Gain from assets measured at fair value through other comprehensive income	11,361	911
Total	**11,361**	**911**

9. Other operating income

Description	2019 HRK '000	2018 HRK '000
Collected court and similar expenses	6	23
Sale of tangible assets	6,946	689
Deferred income	3,454	1,220
Other	417	314
Total	**10,823**	**2,246**

10. Other operating expenses

Description	2019 HRK '000	2018 HRK '000
Deposit insurance premiums	2,891	3,025
Cost of tangible asset sale	427	388
Other	264	853
Total	**3,582**	**4,266**

11. Administrative expenses

Description	2019 HRK '000	2018 HRK '000
Employee costs /i/	23,794	21,976
Compensation to the members of Supervisory Board	404	450
Other administrative expenses /ii/	13,998	13,553
Total	**38,196**	**35,979**

/i/ Employee costs are as follows

Description	2019 HRK '000	2018 HRK '000
Net salaries	13,295	12,533
Contributions from and on salaries	6,643	6,427
Tax and surtax	1,702	1,643
Other employee benefits	2,154	1,373
Total	**23,794**	**21,976**

/ii/ Other administrative expenses are as follows:

11. Administrative expenses (continued)

	2019	2018
Description	HRK '000	HRK '000
Cost of material	1,381	1,427
Cost of services	10,935	11,001
Entertainment, advertising and promotion	996	688
Other	686	437
Total	**13,998**	**13,553**

12. Depreciation and amortisation

	2019	2018
Description	HRK '000	HRK '000
Depreciation of leased assets (note 21)	922	0
Depreciation of property, plant and equipment (note 21)	2,332	2,312
Amortisation of intangible assets (note 22)	1,040	992
Total	**4,294**	**3,304**

13. Impairment or reversal of an impairment loss on a financial asset that is not measured at fair value through profit or loss

	2019	2018
Description	HRK '000	HRK '000
Impairment of financial assets	**34,231**	**11,429**
- financial assets valued through other comprehensive income (note 17)	(288)	257
- financial assets – debt securities valued at amortised cost / held to maturity (note 18)	26	5,682
- financial assets valued at amortised cost / loans and advances (CNB, credit institutions, clients) and cash	34,505	5,600
- Cash (note 15)	(177)	(204)
- Loans and advances (note 19)	34,682	5,804
Collected receivables- previously written off	(12)	(110)
Impairment of non-financial assets (notes 21 and 24)	***821***	***202***
Impairment of investments in subsidiaries (note 20)	**(952)**	**26**
Provisions or reversal of provisions	**1,856**	**318**
Provisions for litigation (note 27)	1,705	74
Other provisions (note 27)	379	0
Provisions for contingent liabilities (note 27)	(229)	244
Total	**35,955**	**11,975**

14. Income tax

Tax calculation for the given period is as follows:

Description	2019 HRK '000	2018 HRK '000
Accounting profit before tax	3,920	6,541
Effect of IFRS 9 first application	0	(6,757)
Items increasing tax base	5,394	4,458
Items decreasing tax base	(4,010)	(44)
Profit/loss after increase and decrease	5,304	4,198
Tax loss carried forward	(473)	(4,671)
Tax loss to be carried forward	0	(473)
Income tax rate	18%	18%
Income tax liability	(870)	0
Deferred tax cost	(782)	(1,764)
Tax expense	(1,651)	(1,764)

Income tax is calculated in accordance with Croatian regulations. The tax rate on taxable profit is 18% (2018: 18%). As at 31 December 2019, the liability to pay income tax amounts to HRK 870 thousand after the fully used transferred tax loss (2018: no tax liability due to the transferred tax loss).

Deferred tax assets based on the transferred tax loss were fully used in 2019 (as at 31 December 2018, they amounted to HRK 85 thousand). Deferred tax assets based on deferred income amount to HRK 1,752 thousand (31 December 2018: HRK 2,459 thousand).

NOTES TO THE STATEMENT OF FINANCIAL POSITION/BALANCE SHEET

15. Cash, cash receivables from central banks and other demand deposits

	2019	2018
Description	HRK '000	HRK '000
Giro account	100,925	134,085
Cash in hand		
- kunas	17,267	18,203
- foreign currencies	8,347	10,875
Money in foreign currency current accounts of foreign banks	16,639	6,483
Money in foreign currency current accounts of domestic banks	11,588	14,343
Foreign currency current account with the CNB	49,189	81,070
Other deposits with the CNB	7	7
Total	**203,962**	**265,066**
Impairment	(368)	(546)
Total	**203,594**	**264,521**

Value adjustments for financial assets without increase in credit risk after initial recognition (phase 1):

Balance at 1 January 2018 – effect of IFRS 9 first application	(750)
Net changes in credit risk – note 13	204
Balance at 31 December 2018	(546)
Net changes in credit risk – note 13	177
Balance at 31 December 2019	(368)

16. Financial assets at fair value through profit or loss

	31 Dec 2019	31 Dec 2018
Description	HRK '000	HRK '000
Deposit certificates	820	0
Bonds	3,343	0
Total	**4,163**	**0**

The carrying amount of non-trading financial assets that are measured at fair value through profit or loss as at 31 December 2019 amounts to HRK 4,163 thousand (as at 31 December 2018 HRK 0). During 2019, in the settlement procedure based on the Extraordinary Management Procedure Act in companies of systemic importance for the Republic of Croatia, receivables from debt securities valued at amortized cost (Note 18) of the Agrokor Group were converted into Fortenova group securities. The Bank estimates that the fair value of the financial asset as it is recognized in the books at the date of acquisition does not differ from the fair value at the balance sheet date.

17. Financial assets at fair value through other comprehensive income

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Investment in equity securities /i/	141	141
Investment in funds /i/	7,631	16,228
Investment in debt securities		
Bonds – Republic of Croatia	192,590	138,279
Bonds – EU Member States	54,086	0
Treasury bills of the Republic of Croatia	21,994	186,282
Company bonds	2,240	0
Total	**278,682**	**340,930**
Associated provisions for expected credit losses for debt securities (recognized in other comprehensive income)	(514)	(803)

/i/ Equity instruments

The carrying amount of equity instruments whose fair value is measured through other comprehensive income as at 31 December 2019 is HRK 7,772 thousand (31 December 2018 HRK 16,369 thousand).
During 2019, the sale of shares in the investment fund amounted to HRK 8.6 million and was caused by strategic business decisions. In 2019, the realized gain on financial assets at fair value through other comprehensive income, net of tax, amounts to HRK 47 thousand and is stated in other comprehensive income until the decision on the transfer of profit to retained earnings is made.

The value of the funds is determined on the basis of the NAV (semi-annually for an open-ended alternative venture capital investment fund with a private offering).

/ii/ Debt instruments

Debt securities as at 31 December 2019 amount to HRK 270,910 thousand (31 December 2018 HRK 324,561 thousand). They consist of bonds of the Republic of Croatia, bonds of EU countries, treasury bills of the Ministry of Finance of the Republic of Croatia and company bonds. Government bonds are listed on the stock exchange, treasury bills, company bond, share in the fund and share in the company are not listed.

Value adjustments for financial assets without an increase in credit risk after initial recognition (phase 1):

Balance at 1 January 2018 – effect of IFRS 9 first application	(546)
Net changes in credit risk – note 13	(257)
Balance at 31 December 2018	(803)
Net changes in credit risk – note 13	288
Balance at 31 December 2019	(514)

18. Debt securities valued at amortized cost

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Company bills of exchange	5,572	18,901
Bills of exchange of state units	0	1,102
Value adjustment	(1,601)	(14,118)
Total	**3,971**	**5,885**

Debt securities in the portfolio of financial assets measured at amortized cost include bills of exchange of companies and local governments and are not quoted in active markets and are intended to be held to maturity.

- *Financial assets at amortised cost – debt securities in phases at 31 December 2019*

Gross carrying amount	Phase 1	Phase 2	Phase 3	Total
Bills of exchange of state units	0	0	0	0
Company bills of exchange	3,991	0	1,581	5,572
Total	**3,991**	**0**	**1,581**	**5,572**

Impairment	Phase 1	Phase 2	Phase 3	Total
Bills of exchange of state units	0	0	0	0
Company bills of exchange	(20)	0	(1,581)	(1,601)
Total	**(20)**	**0**	**(1,581)**	**(1,601)**

- *Financial assets at amortised cost – debt securities in phases at 31 December 2019*

Gross carrying amount	Phase 1	Phase 2	Phase 3	Total
Bills of exchange of state units	1,102	0	0	1,102
Company bills of exchange	685	0	18,216	18,901
Total	**1,787**	**0**	**18,216**	**20,003**

Impairment	Phase 1	Phase 2	Phase 3	Total
Bills of exchange of state units	(2)	0	0	(2)
Company bills of exchange	(7)	0	(14,109)	(14,116)
Total	**(9)**	**0**	**(14,109)**	**(14,118)**

18. Debt securities valued at amortized cost (continued)

Changes in value adjustments for financial assets at amortized cost - debt securities are shown as follows:

Description	2019 HRK '000	2018 HRK '000
Balance 1 January	(14,118)	(8,399)
Impact of the first application of IFRS 9 - 1 January 2018	0	(37)
Net value adjustment - Phase 1	(9)	30
Net value adjustment - Phase 2	0	45
Net value adjustment - Phase 3	12,527	(5,755)
Balance 31 December	(1,601)	(14,118)

Changes in value adjustments for financial assets at amortized cost - debt securities by phases are shown as follows:

Value adjustment	Phase 1	Phase 2	Phase 3	Total
Balance at 1 January 2018	(40)	(45)	(8,353)	(8,438)
Net changes in credit risk – note 13	30	45	(5,756)	(5,682)
Balance at 31 December 2018	(10)	(0)	(14,109)	(14,118)
Net changes in credit risk – note 13	(10)	0	(16)	(26)
Write off	0	0	12,543	12,543
Balance at 31 December 2019	(20)	(0)	(1,581)	(1,601)

19. Loans and advances valued at amortised cost

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Receivables from Croatian National Bank /i/	89,361	92,970
Placements with credit institutions /ii/	16,360	22,722
Loans and advances to clients /iii/	851,414	780,116
Total	**957,135**	**895,808**

/i/ Receivables from Croatian National Bank are as follows:

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Reserve requirement	89,567	93,199
Value adjustment	(206)	(229)
Total	**89,361**	**92,970**

19. Loans and advances valued at amortised cost (continued)

The obligation to allocate required reserves is prescribed by the CNB. It is allocated in the form of deposits with the CNB and maintained through the balances of other liquid receivables. The reserve requirement rate as at 31 December 2019 was 12% (2018: 12%) of short-term and long-term deposits and borrowings.

As at 31 December 2019, the percentage of allocation of the kuna part of the reserve requirement with the CNB was 70% (2018: 70%), while the remaining 30% (2018: 30%) is maintained in the form of other liquid receivables. This also includes the foreign currency portion (75%) of the reserve requirement, which needs to be kept in HRK (2018: 75%) and forms an integral part of the reserve requirement in HRK.

During 2019, 100% of the foreign currency portion of the reserve requirement is held in the form of other liquid receivables (2018: 100%).

The reserve requirement is not interest-bearing in 2019 (it was not interest-bearing in 2018 either).

/ii/ Placements with credit institutions were as follows

	31 Dec 2019	31 Dec 2018
Description	HRK '000	HRK '000
Short-term deposits with domestic banks	2,177	1,377
Short-term deposits with foreign banks	6,657	6,470
Short-term loans to domestic banks	7,444	14,836
Short-term receivables in settlement	1	0
Receivables based on card business	102	79
Other	36	36
Total	**16,417**	**22,798**
Value adjustment	(57)	(76)
Total	**16,360**	**22,722**

/iii/ Loans and advances to clients are as follows

	31 Dec 2019	31 Dec 2018
Description	HRK '000	HRK '000
Companies	366,959	356,384
Natural persons and craftsmen	587,469	511,812
Other	41,144	35,481
Impairment of loans	(144,157)	(123,561)
Total	**851,414**	**780,116**

19. Loans and advances valued at amortised cost (continued)

Risk concentration by economic sector in the customer loan portfolio is shown as follows:

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Manufacturing	73,085	83,533
Trade	83,388	87,228
Tourism	38,994	40,056
Agriculture	62,745	58,150
Construction	30,345	25,382
Services	78,401	62,035
Retail	587,469	511,812
Other	41,144	35,481
Total	**995,571**	**903,677**
Impairment and provision for losses on loans	(144,157)	(123,561)
Total	**851,414**	**780,116**

- *Financial assets at amortised cost – loans and advances in phases – 31 December 2019*

Gross carrying amount	Phase 1	Phase 2	Phase 3	Total
Central bank	89,567	0	0	89,567
Credit institutions	16,381	0	36	16,417
Trading companies	248,009	9,475	109,475	366,959
Retail	501,022	4,365	82,082	587,469
Other	39,847	295	1,001	41,143
Total	894,826	14,135	192,594	1,101,555

Impairment	Phase 1	Phase 2	Phase 3	Total
Central bank	(206)	0	0	(206)
Credit institutions	(21)	0	(36)	(57)
Trading companies	(1,249)	(459)	(73,492)	(75,200)
Retail	(6,634)	(937)	(60,835)	(68,406)
Other	(134)	(44)	(373)	(551)
Total	(8,244)	(1,440)	(134,736)	(144,420)

19. Loans and advances valued at amortised cost (continued)

- *Financial assets at amortised cost – loans and advances in phases – 31 December 2019*

Gross carrying amount	Phase 1	Phase 2	Phase 3	Total
Central bank	93,199	0	0	93,199
Credit institutions	22,760	0	36	22,796
Trading companies	218,429	11,936	126,019	356,384
Retail	445,143	6,636	60,033	511,812
Other	34,178	83	1,220	35,481
Total	813,709	18,655	187,308	1,019,672

Impairment	Phase 1	Phase 2	Phase 3	Total
Central bank	(229)	0	0	(229)
Credit institutions	(40)	0	(36)	(76)
Trading companies	(2,237)	(330)	(82,627)	(85,194)
Retail	(6,437)	(1,238)	(30,020)	(37,695)
Other	(142)	(5)	(525)	(672)
Total	(9,085)	(1,573)	(113,208)	(123,866)

Changes in impairment of financial assets at amortized cost - loans and advances are shown as follows:

Impairment	Phase 1	Phase 2	Phase 3	Total
Balance as at 1 January 2018	(7,404)	(5,781)	(118,083)	(131,268)
Changes in credit risk (net) - note 13	(1,681)	4,208	(8,331)	(5,804)
Deferred income transfer	0	0	1,168	1,168
Exchange rate differences	0	0	118	118
Write-offs	0	0	11,920	11,920
Balance as at 31 December 2018	(9,085)	(1,573)	(113,208)	(123,866)
Changes in credit risk (net) - note 13	841	133	(35,656)	(34,682)
Deferred income transfer	0	0	1,077	1,077
Exchange rate differences	0	0	(198)	(198)
Write-offs	0	0	13,250	13,250
Balance as at 31 December 2018	(8,244)	(1,440)	(134,736)	(144,420)

Changes in impairments and provisions for possible losses on loans are as follows:

19. Loans and advances valued at amortised cost (continued)

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Balance 1 January	(123,866)	(125,378)
Impact of the first application of IFRS 9 - 1 January 2018	0	(5,892)
Net value adjustment - Phase 1	841	(1,681)
Net value adjustment - Phase 2	133	4,208
Net value adjustment - Phase 3	(21,528)	4,877
Balance 31 December	(144,420)	(123,866)

20. Investment in subsidiaries and associates

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Turbina d.o.o., Slatina	0	9,500
Impairment	0	(3,802)
Balance 31 December	0	5,698

In 2019, the bank sold a 100% stake in the company. Investment in a subsidiary in the previous period is stated using the investment cost method, less the carrying amount of these assets - investments to its recoverable amount. Changes to the value adjustment are shown as follows:

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Balance 1 January	(3,802)	(3,777)
Net impairment (note 13)	952	(25)
Write off	2,850	
Balance 31 December	0	(3,802)

21. Tangible assets

Description	Land	Buildings	Leased buildings – IFRS 16	Equipme nt	Furniture and transport assets	Leased furniture and transport assets	Tangible assets under construction	Total property, plant and equipment
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000		HRK '000	HRK '000
Purchase value								
Balance 1 January 2018	**1,105**	**35,915**	**0**	**19,026**	**8,026**	**0**	**1,609**	**65,681**
Direct increase	0	0	0	0	0	0	629	**629**
Transfer from assets under construction	0	0	0	788	9	0	(797)	**0**
Sale and write-off	(145)	(192)	0	(811)	(489)	0	(1,200)	**(2,837)**
Balance 31 December 2018	**960**	**35,723**	**0**	**19,003**	**7,546**	**0**	**241**	**63,473**
Impact of IFRS 16 application on 1 January 2019	0	0	3,318	0	0	604	0	**3,922**
Transfer from intangible assets	0	0	80	0	0	281	0	**361**
Direct increase	0	0		0	0		754	**754**
Transfer from assets under construction	0	0	0	391	192	0	(583)	**0**
Sale and write-off	(25)	(533)	(80)	(1,941)	(509)	0	0	**(3,088)**
Balance 31 December 2018	**935**	**35,190**	**3,318**	**17,454**	**7,229**	**884**	**412**	**65,422**
Value adjustment								
Balance 1 January 2018	**0**	**15,531**	**0**	**15,513**	**7,289**	**0**	**0**	**38,333**
Depreciation for 2018	0	799	0	1,322	191	0	0	**2,312**
Sale and write-off	0	(32)	0	(811)	(489)	0	0	**(1,332)**
Impairment – note 13	0	14	0	0	0	0	0	**14**
Balance 31 December 2018	**0**	**16,312**	**0**	**16,024**	**6,991**	**0**	**0**	**39,327**
Depreciation for 2018	0	798	700	1,325	208	222	0	**3,254**
Transfer from intangible assets	0	0	80	0	0	77	0	**157**
Sale and write-off	0	(175)	(80)	(1,941)	(509)	0	0	**(2,705)**
Balance 31 December 2019	**0**	**16,935**	**700**	**15,409**	**6,690**	**299**	**0**	**40,033**
Net carrying value								
Balance 1 January 2018	**1,105**	**20,384**	**0**	**3,513**	**737**	**0**	**1,609**	**27,348**
Balance 31 December 2018	**960**	**19,411**	**0**	**2,979**	**555**	**0**	**241**	**24,146**
Balance 31 December 2019	**935**	**18,255**	**2,618**	**2,045**	**538**	**585**	**412**	**25,389**

As at 31 December 2019, the Bank had no pledged assets with other legal entities. Leased property, plant and equipment also include leased property in accordance with IFRS 16.

22. Intangible assets

Description	Software	Leasehold investment	Intangible assets under construction	Total intangible assets
	HRK '000	HRK '000	HRK '000	HRK '000
Purchase value				
Balance 1 January 2018	**16,174**	**2,407**	**1,572**	**20,153**
Direct increase	0	0	805	**805**
Transfer from assets under construction	1,513	0	(1,513)	**0**
Write-off	0	(460)	0	**(460)**
Balance 31 December 2018	**17,687**	**1,947**	**864**	**20,498**
Direct increase	0	0	2,011	**2,011**
Transfer from assets under construction	540	0	(540)	**0**
Transfer of assets to tangible assets	0	(361)	0	**(361)**
Balance 31 December 2019	**18,227**	**1,586**	**2,335**	**22,148**
Value adjustment				
Balance 1 January 2018	**11,100**	**1,861**	**0**	**12,961**
Amortisation for 2018	867	125	0	**992**
Write-off	0	(460)	0	**(460)**
Balance 31 December 2018	**11,967**	**1,526**	**0**	**13,493**
Amortisation for 2019	995	44	0	**1.040**
Transfer of amortisation to tangible assets	0	(157)	0	**(157)**
Balance 31 December 2019	**12,962**	**1,413**	**0**	**14,375**
Net carrying value				
Balance 1 January 2018	**5,074**	**546**	**1,572**	**7,192**
Balance 31 December 2018	**5,720**	**421**	**864**	**7,005**
Balance 31 December 2019	**5,264**	**173**	**2,335**	**7,773**

23. Deferred and current tax assets

Description	31 Dec 2019	31 Dec 2018
	HRK '000	HRK '000
Current tax assets	0	765
Deferred tax assets		
Deferred tax assets based on fees and other	1,752	2,459
Deferred tax assets based on deferred tax carried forward	0	85
Total	**1,752**	**3,309**

23. Deferred and current tax assets (continued)

As at 31 December 2019, the Bank has no unused tax losses (2018: HRK 473 thousand) or deferred tax assets based on loss carried forward (2018: HRK 85 thousand). The Bank had the right to use tax-loss (from 2015) as a deduction item from the calculated income tax base in the next 5 accounting periods (until 2020).

24. Other assets

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Paid advances and deferred income	857	487
Foreclosed assets /i/	10,876	20,649
Other	144	191
Total	**11,877**	**21,327**

/i/ Foreclosed assets is presented as follows

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Land	2,330	8,751
Buildings	8,546	11,898
Other assets	0	0
Total	**10,876**	**20,649**

Changes on foreclosed assets are as follows:

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Balance 1 January	20,649	24,943
Increase		
- Property Tax and other	223	0
- new assets	5,644	5,916
Decrease		
- sale	(14,819)	(10,022)
- impairment – note 13	(821)	(188)
Balance 31 December	10,876	20,649

25. Current accounts and deposits of customers and banks

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Demand deposits /i/	523,589	424,572
Fixed-term deposits /ii/	722,236	859,859
Liabilities for loans received	55,980	96,463
Total	**1,301,804**	**1,380,894**

/i/ Demand deposits are as followed

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Demand deposits - retail		
- Kuna	157,382	129,810
- foreign currency	223,477	159,636
Total retail	***380,859***	***289,446***
Demand deposits - companies		
- Kuna	82,494	71,989
- foreign currency	8,326	7,902
Total companies	***90,820***	***79,891***
Demand deposits – financial institutions		
- Kuna	222	263
Total financial institutions	***222***	***263***
Demand deposits – state and other institutions		
- Kuna	42,339	47,593
- foreign currency	47	29
Total state and other institutions	***42,386***	***47,622***
Limited deposits		
- Kuna	2,260	2,045
Total limited deposits	***2,260***	***2,045***
Demand deposits – foreign persons		
- Kuna	16	50
- foreign currency	7,026	5,255
Total foreign persons	***7,042***	***5,305***
Grand total	**523,589**	**424,572**

26. Current accounts and deposits of customers and banks (continued)

/i/ Fixed term deposits are as follows:

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Deposits retail		
- Kuna	218,361	229,720
- foreign currency	465,706	581,229
Total retail	**684,067**	**810,949**
Deposits companies		
- Kuna	21,990	32,056
- foreign currency	2,080	3,109
Total companies	**24,070**	**35,165**
Deposit financial institutions		
- Kuna	6,125	551
Total financial institutions	**6,125**	**551**
Deposit state and other institutions		
- Kuna	4,657	6,877
- foreign currency	79	78
Total state and other institutions	**4,736**	**6,955**
Deposit foreign persons		
- foreign currency	3,238	6,239
Total foreign persons	**3,238**	**6,239**
Grand total	**722,236**	**859,859**

/iii/ Liabilities for loans received are as follows:

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Liabilities to CBRD /a/	30,328	71,115
Liabilities to CNB /b/	25,652	25,348
Total	**55,980**	**96,463**

/a/ As at 31 December 2019, liabilities to CBRD amounted to HRK 30,328 thousand (31 December 2018: HRK 71,115 thousand). These sources are intended for granting loans to legal entities and individuals in accordance with CBRD's programs. Depending on the purpose of the loan, interest rates ranged from 0% to 5% (in 2018 from 0% to 5%).

/b/ As at 31 December 2019, liabilities to the CNB amount to HRK 25,652 thousand (31 December 2018: HRK 25,348 thousand) and relate to structural operations of the CNB with an interest rate of 1.20% and treasury bills of the Ministry of Finance and bonds of the Republic of Croatia in the total nominal amount of HRK 27.5 million as a security instrument.

26. Lease liabilities – IFRS 16

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Lease liabilities	3,140	0
Total	**3,140**	**0**

27. Provisions

	Legal and tax proceedings in progress and other provisions	Provisions for commitments and guarantees	Total
Balance at 1 January 2018	3,080	1,747	4,827
Impact of IFRS 9 first application	0	(468)	(468)
Net debit in the income statement and – note 13	74	244	318
Balance at 31 December 2018	**3,154**	**1,523**	**4,677**
Net debit in the income statement and – note 13	2,084	(229)	1,855
Balance at 31 December 2019	**5,238**	**1,295**	**6,533**

Provisions for commitments and guarantees and ongoing legal and tax proceedings (litigation) and other provisions based on estimates are recognized within other impairment losses and provisions in the income statement (Note 13).

Provisions for commitments and financial guarantees

Impairment	Phase 1	Phase 2	Phase 3	Total
Balance at 1 January 2018	1,231	27	20	1,279
Net changes in credit risk – note 13	125	33	86	60
Balance at 31 December 2018	1,357	60	106	1,523
Net changes in credit risk – note 13	(191)	(49)	11	(229)
Balance at 31 December 2019	1,166	12	117	1,295

28. Current tax liability

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Current tax liability	105	0
Total	**105**	**0**

29. Other liabilities

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Liabilities for loan overpayments	5,461	6,306
Accounts payable	1,764	1,331
Liabilities to employees	1,921	1,755
Liabilities for fees to members of the Supervisory Board	31	38
Deferred interest income and accrued expenses	3,948	6,795
Taxes and contributions from income	17	7
Value added tax liabilities	12	11
Other liabilities	3,857	2,417
Total	**17,012**	**18,660**

30. Capital

As at 31 December 2019, the share capital of the Bank amounts to HRK 91,897 thousand and is divided into 918,972 shares, with a nominal value of HRK 100.

The decision of the General Assembly of 29 June 2006 on the abolition of preference shares established that the Bank's share capital of HRK 91,897 thousand was divided into 172,412 dematerialized shares, of which 114,662 ordinary dematerialized Series A shares with a nominal value of HRK 600 each. 57,750 preference dematerialized shares of series B with a nominal value of HRK 400, and this Decision abolishes the preference in its entirety, so that these shares become ordinary dematerialized shares, with a nominal value of HRK 400 each. By the decision of the General Assembly of 29 June, 2006 on the division of shares, one ordinary share of the Bank with a nominal value of HRK 600 is divided into 6 ordinary shares of the Bank with a nominal value of HRK 100, and one previous preferential share of the Bank with a nominal value of HRK 400 is divided into 4 ordinary registered shares of the Bank, with a nominal value of HRK 100.

As at 31 December 2019, the ten largest Bank's shareholders (data downloaded from www.skdd.hr) are presented as follows:

No.	Balance	% of share
ADDIKO BANK D.D./SZAIF D.D. – Custody account	220,552	24.00
SOKAČIĆ DRAGUTIN	73,781	8.03
SB-S D.D. (1/1)	71,374	7.77
BANKA SPLITSKO - DALMATINSKA D.D. U STEČAJU	60,000	6.53
CERP/REPUBLIKA HRVATSKA	48,094	5.23
MIKULIĆ EMIL	36,554	3.98
BERIŠIĆ LJUBICA	36,432	3.96
GALIĆ JOSIP	29,962	3.26
MRKOCI MILIVOJ	29,960	3.26
FINE SA CREDOS D.D., CONSULTING FINANC. KOMPANIJA	29,073	3.16
OTHER	283,190	30.82
TOTAL 1.120 SHAREHOLDERS	918,972	100.00

31. Earning per share

Description	31 Dec 2019	31 Dec 2018
Profit for the year (in HRK '000)	2,269	4,777
Number of shares	918,972	918,972
Earning per share	**HRK 2,47**	**HRK 5,20**
Profit for the year (in HRK '000)	2,269	4,777
Number of shares after deduction for ordinary treasury shares	847,598	847,598
Basic and diluted earnings per share (in HRK per share)	2,68	5,64

32. Contingent liabilities

Description	31 Dec2019 HRK '000	31 Dec 2018 HRK '000
Guarantees	13,254	17,108
Revolving loans	4,724	4,612
Indicative margin loans	11,285	10,475
Revolving loans and financing commitments	77,745	72,460
Total	**107,008**	**104,655**
Provisions for contingent liabilities	(1,295)	(1,523)
Grand total	**105,713**	**103,132**

Contingent liabilities as at 31 December 2019

	Phase 1	Phase 2	Phase 3	Total
Guarantees	13,215	40	0	13,254
Revolving loans	4,594	12	118	4,724
Indicative margin loans	11,285	0	0	11,285
Revolving loans and financing commitments	77,335	93	317	77,744
OFF BALANCE SHEET LIABILITIES	106,428	145	435	107,008
Total provision for off-balance sheet liabilities	1,166	12	117	1,295

Contingent liabilities as at 31 December 2018

	Phase 1	Phase 2	Phase 3	Total
Guarantees	16,781	328	0	17,108
Revolving loans	4,458	44	110	4,612
Indicative margin loans	10,475	0	0	10,475
Revolving loans and financing commitments	71,586	584	290	72,460
OFF BALANCE SHEET LIABILITIES	103,299	956	400	104,655
Total provision for off-balance sheet liabilities	1,357	60	106	1,523

33. Funds in the name and for the account

Mandate tasks:

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Total sources	11,119	11,351
Less: assets	(10,221)	(10,545)
Unspent funds	**898**	**806**

The Bank manages funds on behalf and for the account of third parties. These assets are recorded separately from the Bank's assets. Income and expenses on the basis of these funds are recorded in favour or at the expense of appropriate sources. The Bank charged a fee for its services, which charged these funds.

Custody assets

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Custody assets	62,308	48,715
Unspent funds	1,255	1,066

34. Leases

When IFRS 16 was first applied on 1 January 2019, the Bank recognized property, plant and equipment for those leases that do not expire within 12 months of the date of the first application of IFRS 16 and are not low-value or short-term leases.

The Bank applied a simplified modified approach by recognizing right-of-use assets in an amount equal to the lease liability in the amount of HRK 3,922 thousand. When calculating the lease liability for leases that are classified as operating leases, the Bank discounts lease payments at the rate of 5%.

For all leases, except short-term leases and leases of lower value, the Bank applies a single approach to recognition and measurement. The Bank recognizes lease payments and the right to use the asset, which is the right-of-use asset in question.

<u>Right-of-use assets</u>

The Bank recognizes right-of-use assets at the time of concluding the lease agreement (i.e. at the time when the assets are available for use). Right-of-use assets are measured at cost less accumulated depreciation and impairment losses and are adjusted for remeasurement of lease obligations. The cost of the right-of-use asset includes the amount of recognized lease liabilities, initial direct costs and lease payments made on or before the conclusion of the contract. Right-of-use assets are depreciated on a straight-line basis over the term of the lease.

The bank leases branches and business premises, as well as cars.

34. Leases (continued)

Right-of-use assets are disclosed in Note 21 Property and equipment. Leases are usually concluded for 5-10 years, with the possibility of renewal after expiration. In the case of leases without a defined useful life, the Bank recognizes right-of-use assets based on an assessment of the possible useful life of the assets.

Certain leases provide for changes in payments based on changes in local price indices.

The Bank also has leased certain equipment and business premises that are short-term and/or represent a lease of low-value assets. The Bank does not recognize the right-of-use asset under this type of lease.

The right-of-use assets are shown below and refer to branches and rented business premises and cars.

Description	Buildings	Transport	Total property, plant and equipment
	HRK '000	HRK '000	HRK '000
Purchase value			
Effects of the IFRS 16 application on 1 January 2019	3,318	604	**3,922**
Prepayments of rent (transfer of assets in use from intangible assets)	80	281	**361**
Disposals	-80	0	**-80**
Balance at 31 December 2019	**3,318**	**884**	**4,202**
Value adjustment			
Depreciation for 2019	700	222	**922**
Depreciation transfer for pre-paid lease payments (transfer from intangible assets)	80	76	**156**
Disposals	-80	0	**-80**
Balance at 31 December 2019	**700**	**299**	**998**
Net carrying value			
Balance at 31 December 2019	**2,618**	**586**	**3,204**

Lease liabilities

When concluding a lease, the Bank recognizes lease liabilities measured at the present value of future payments over the term of the lease. Lease payments include fixed payments, variable payments that depend on an index or rate, and amounts that are expected to be paid on a residual value guarantee basis.

34. Leases (continued)

Lease payments may include the value of a purchase option that is expected to be exercised with reasonable certainty and the payment of a penalty for terminating the lease if the terms of the contract provide for a termination option. Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which the event or condition that conditions the payment occurs.

	31 Dec 2019	01 Jan 2019
	HRK '000	HRK '000
Maturity analysis - contractual undiscounted cash flows		
Up to one year	975	972
Between one and two years	975	972
Between two and three years	657	972
Between three and four years	215	655
Between four and five years	155	213
Over five years	578	731
Total	3,555	4,515
Discounting effect	415	593
Total discounted lease liabilities at 31 December	3,140	3,922

Following are the expenses associated with operating leases

	2019
	HRK '000
Depreciation of leased property	
Building	700
Transport	222
Depreciation of leased property	922
Lease costs	
Interest expenses on lease liability	180
Expenses related to short-term leases	83
Costs related to low-value leases, excluding short-term low-value leases	40
Exchange rate differences	11
Cost of tax on long-term operating lease	216
Lease costs	530

34. Leases (continued)

Total cash flows for leases are as follows:

Cash flow	2019
	HRK '000
Cash payment for part of the lease liability relating to equity	793
Cash payment for part of the lease liability relating to interest	180
Tax-related payments	216
Short-term lease payments, lease payments of low value assets	123
Total lease payments	1,312

35. Transactions with persons in a special relationship with the Bank and related persons

Persons in a special relationship with a credit institution are:

1) shareholders of the Bank holding 5 or more percent of the Bank's voting rights at the General Assembly of the Credit Institution, including the holders of shares of the credit institution
2) members of the Management and the Supervisory Board and the Procurator
3) persons that have an employment contract with a Bank, which implies a significant influence of those persons in the Bank's business,
4) legal entities in which the Bank, a member of the management board, a member of the supervisory board or a procurator has a participating interest.
5) legal entities whose member of the Management board or the Supervisory board or procurator is at the same time a member of the Management or a member of the Supervisory board or procurator of the bank.
6) legal entities whose member of the board has 10% or more of the voting rights of the Bank at the General Assembly of the Bank.
7) a member of the Board of directors, a member of the Supervisory board and a procurator of a company that is, directly or indirectly, a parent of a credit institution or a subsidiary of a credit institution.
8) a third person acting for the account of person referred to point 1 to 7 of this paragraph related to transactions that would cause or increase the exposure of the Bank.

Persons with a special relationship with a credit institution are also considered as related persons as defined below: related parties are two or more legal entities or persons and members of their closer family who, unless proven otherwise, have a risk to a credit institution because:

1) one of them has, directly or indirectly, control over the other or others or
2) are interrelated so that there is a high probability that the deterioration or improvement of the economic and financial condition of a person will deteriorate or improve the economic and financial condition of one or more other persons, especially if between them exists a possibility of transferring loss, gain, credit ability or if difficulties in the financing sources or a person's obligations may cause difficulties in the financing sources of funding or settlement of the obligations of one or more other persons.

35. Transactions with persons in a special relationship with the Bank and related persons (continued)

Members of the close family of the related parties are:

1) a spouse or a person, with whom he or she lives in a common household which, according to a special law, has the same status in the marriage community,
2) son, adopted son, daughter or adopted daughter of that person
3) son, adopted son, daughter or adopted daughter of the person mentioned in the point 1 of this paragraph,
4) another person who has no full business capacity and who is placed under the custody of that person.

A credit institution may enter into a legal transaction with a person in a special relationship with the Bank and its related person only if such employment is contracted under terms that are no longer favourable than the normal conditions of the credit institution.

Bank activities with the related parties are conducted in the course of ordinary operations, which include loans and deposits assignation. Mentioned transactions are conducted under commercial conditions and market rates. Total amount of transactions with related parties, closing balances at the end of the year and related income and expense for the year are shown as follows:

	31 Dec 2019	31 Dec 2018
Description	HRK '000	HRK '000
Loans and advances to customers, securities		
Shareholders holding 5 or more percent of the voting shares	2	21,335
Management	22	166
Supervisory Board	5	0
Others	24,584	22,055
Total loans and advances to customers	**24,614**	**43,556**
Contingent liabilities		
Shareholders holding 5 or more percent of the voting shares	0	69
Management	29	25
Others	2,821	2,819
Total contingent liabilities	**2,850**	**2,913**

35. Transactions with persons in a special relationship with the Bank and related persons (continued)

Description	31 Dec 2019 HRK '000	31 Dec 2018 HRK '000
Demand deposits		
Shareholders holding 5 or more percent of the voting shares	12,726	142
Others	13,270	13,726
Turbina d.o.o. Slatina	0	1,948
Management	374	179
Supervisory Board and related persons	115	66
Total demand deposits	**26,486**	**16,061**
Fixed-term deposits		
Shareholders holding 5 or more percent of the voting shares	0	595
Others	5,925	825
Turbina d.o.o. Slatina	0	2,395
Management	250	0
Supervisory Board and related persons	79	78
Total fixed-term deposits	**6,254**	**3,893**
Other assets		
Turbina d.o.o. Slatina	0	5,698
Total other assets	**0**	**5,698**
Other liabilities		
Shareholders holding 5 or more percent of the voting shares	0	9
Others	9	2
Turbina d.o.o. Slatina	0	1
Management	193	0
Supervisory Board and related persons	31	24
Total Other liabilities	**233**	**36**

Description	2019 HRK '000	2018 HRK '000
Income		
Shareholders holding 5 or more percent of the voting shares	25	718
Supervisory Board and related persons	99	3
Management	85	53
Others	1,504	1,108
Turbina d.o.o. Slatina	6	6
Total income	**1,720**	**1,888**
Expenses		
Shareholders holding 5 or more percent of the voting shares	0	130
Others	21	29
Turbina d.o.o. Slatina	2	50
Supervisory Board and related persons	405	451
Total expenses	**428**	**660**

36. Transactions with persons in a special relationship with the Bank and related persons (continued)

Information on transactions with the Republic of Croatia-Ministry of Finance (based on securities (treasury bills and bonds), tax and other receivables and liabilities) is not included.

Remuneration of the Management Board is presented as follows:

Description	2019 HRK '000	2018 HRK '000
Net salaries	1,432	1,390
Taxes and contributions	986	1,073
Total	**2,418**	**2,463**

In 2019, severance pay in the total amount of HRK 331 thousand (gross) is included in the remuneration of the Management Board.

36. Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. As market prices for most of the Bank's financial assets and liabilities are not available, the fair value of these items is based on Management's estimates by type of assets and liabilities. According to the Management Board, market values do not differ significantly from the carrying amounts of all categories of assets and liabilities.

	31 Dec 2019		
ASSETS	**Level 1**	**Level 2**	**Level 3**
Non-trading financial assets that are measured at fair value through profit or loss	**0**	**0**	**4,163**
Equity instruments	0	0	820
Debt securities	0	0	3,343
Financial assets at fair value through other comprehensive income	**268,670**	**7,631**	**2,381**
Equity instruments	0	7,631	141
Debt securities	268,670	0	2,240

	31 Dec 2018		
ASSETS	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through other comprehensive income	333,237	7,552	141
Equity instruments	8,676	7,552	141
Debt securities	324,561	0	0

36. Fair value of financial assets and liabilities (continued)

Fair value of financial assets as at 31 December 2019

Financial assets at fair value	Fair value at 31 Dec 2019	Fair value levels	Valuation method and main entry data
Non-trading financial assets that are measured at fair value through profit or loss			
Debt securities			
Bonds	3,343	Level 3	carrying amount at cost
Equity instruments			
Deposit certificates	820	Level 3	carrying amount at cost
Financial assets at fair value through other comprehensive income			
Debt securities			
Bonds – Republic of Croatia	192,590	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Treasury bills – Republic of Croatia	21,994	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Bonds – EU Member states	54,086	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Company bonds – Samoborka d.d.	2,240	Level 3	carrying amount at cost
Equity instruments			
Share in HROK d.o.o.	141	Level 3	carrying amount at cost
Shares in an alternative venture capital investment fund with a private offering	7,631	Level 2	market price - published share price on the valuation day

Fair value of financial assets as at 31 December 2018

Financial assets at fair value	Fair value at 31 Dec 2018	Fair value levels	Valuation method and main entry data
Debt securities			
Bonds – Republic of Croatia	138,279	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Treasury bills – Republic of Croatia	186,282	Level 1	market price - average daily price on the active market on the day of valuation or on the last trading day preceding the valuation
Equity interest			
Share in HROK d.o.o.	141	Level 3	carrying amount at cost
Shares in open-end investment funds	8,676	Level 1	market price - published share price on the valuation day
Shares in an alternative venture capital investment fund with a private offering	7,552	Level 2	market price - published share price on the valuation day

VI FINANCIAL RISK MANAGEMENT

This Note shows details of Bank's exposure to risks which arise from unpredictability of the financial market as well as briefly described methods which the Management uses for identification, measuring and management of risks. The Bank makes an effort to control the same risks, i.e. to reduce them to lowest possible level. The most significant types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes the risk of interest rate changes, exchange rate changes and price risk (price changes of equity and debt securities).

The risk management system is continually being upgraded at the level of the Bank by introducing new policies and procedures for assessment, measurement, control and management of risks and by determining the limits of risk exposure adjusted to the legal provisions and the Bank's risk profile.

In 2019, the Bank improved its internal control system by prescribing new procedures, dynamics and methodologies, strengthening control functions, rotating branch managers and opening a project to improve operational risk management.

The Bank's Management Board is accountable for recognition and control of risk. There are separate bodies and organizational parts within the Bank's organizational structure responsible for individual risk management and control.

The Bank is exposed to credit risk, which presents the risk of the other party's failure to settle the amounts outstanding in full on maturity. The Bank classifies the credit risk by setting the limits for the amount of the accepted risk expected to occur in relation to one borrower or group of borrowers and in certain branches of business. The Bank regularly monitors these risks and reviews them once a year or more frequently.

The Bank manages credit risk through a regular analysis of the ability of existing and potential borrowers to repay their principal and interest liabilities and change credit limits as needed. In addition, its exposure to credit risk is partially managed by obtaining collateral, corporate and personal guarantees.

The main purpose of the borrowing commitments assumed is to ensure the availability of funds according to the needs of the clients. Guarantees that constitute irrevocable guarantees that the Bank will make a payment in the event that a client cannot meet their obligations to third parties bear the same credit risk as the loans.

In its operations, the Bank is exposed to liquidity risk, which is the risk that it will not be able to successfully meet expected and unexpected current and future cash needs and collateral needs without affecting its regular day-to-day operations or its own financial results.

Part of liquidity risk monitoring and reporting is done through the analysis of maturity matching of assets and liabilities, which includes determining the maturity matching of assets and liabilities observed on a net basis and determining the gap according to certain maturities. Based on the performed analyses and projections of expected outflows, financial liabilities are stated (note 41)

37. Credit risk

Contingent credit liabilities represent unused approved amounts in the form of credits/loans or guarantees. In connection with credit risk tied to them, the Bank is potentially exposed to losses in the amount equal to total contingent liabilities. However, the probable amount of losses is lower than their total amount because most of them are tied to maintaining specific credit-based standards by the client. The Bank monitors the period to maturity, since these non-current liabilities generally represent a greater credit risk than current ones.

Maximum credit risk exposure before lien/mortgage or other collaterals at 31 December 2019 is shown as follows:

Credit risk exposure related to balance sheet assets is as follows:	**Gross placement**	**Reserves PHASE 1**	**Reserves PHASE 2**	**Reserves PHASE 3**	**Net placements**
Cash	203,962	368			203,594
Non-traded financial assets at fair value through profit or loss	4,163	0	0	0	4,163
Financial assets at fair value through other comprehensive income	279,196	514	0	0	278,682
Financial assets-debt securities at amortized cost	5,572	20	0	1,581	3,971
Financial assets-loans and advances at amortized cost	1,101,555	8,245	1,440	134,735	957,135
Receivables from the Croatian National Bank	*89,567*	*206*			*89,361*
Placements with credit institutions	*16,417*	*20*		*37*	*16,360*
Loans and advances to customers	*995,571*	*8,019*	*1,440*	*134,698*	*851,414*
Investment in an affiliated company	0	0	0	0	0
Property, plant and equipment	25,389	0	0	0	25,389
Intangible assets	7,773	0	0	0	7,773
Current tax assets	1,752	0	0	0	1,752
Other assets	11,877	0	0	0	11,877
Total balance sheet exposure	**1,641,239**	**9,147**	**1,440**	**136,316**	**1,494,336**
Credit risk exposure related to off-balance sheet assets is as follows:					
Guarantees	13,254	90	1	0	13,164
Letters of credit	0	0	0	0	0
Credit and other commitments	93,754	1,076	11	117	92,550
Total off-balance sheet exposure:	***107,008***	***1,166***	***12***	***117***	***105,713***
Total 31 December 2019	**1,748,247**	**10,313**	**1,452**	**136,433**	**1,600,049**

37. Credit risk (continued)

Maximum credit risk exposure before lien/mortgage or other collaterals at 31 December 2018 is shown as follows:

Credit risk exposure related to balance sheet assets is as follows:	**Gross placements**	**Reserves PHASE 1**	**Reserves PHASE 2**	**Reserves PHASE 3**	**Net placements**
Cash	265,066	546	0	0	264,520
Financial assets at fair value through other comprehensive income	341,733	803	0	0	340,930
Financial assets-debt securities at amortized cost	20,003	10	0	14,108	5,885
Financial assets-loans and advances at amortized cost	1,019,673	9,085	1,573	113,207	895,808
Receivables from the Croatian National Bank	93,199	229	0	0	92,970
Placements with credit institutions	22,798	40	0	36	22,722
Loans and advances to customers	903,676	8,816	1,573	113,171	780,116
Investment in an affiliated company	5,698	0	0	0	5,698
Property, plant and equipment	24,146	0	0	0	24,146
Intangible assets	7,005	0	0	0	7,005
Current tax assets	3,309	0	0	0	3,309
Other assets	21,328	0	0	0	21,328
Total balance sheet exposure	***1,707,961***	***10,444***	***1,573***	***127,315***	***1,568,629***
Credit risk exposure related to off-balance sheet assets is as follows:					
Guarantees	17,108	179	13	0	16,916
Letters of credit	0	0	0	0	0
Credit and other commitments	87,547	1,178	47	106	86,216
Total off-balance sheet exposure:	***104,655***	***1,357***	***60***	***106***	***103,132***
Total 31 December 2019	**1,812,616**	**11,801**	**1,633**	**127,421**	**1,671,761**

- **Received collaterals and reduction of credit risk**

An overview of received collaterals is as follows

37. Credit risk (continued)

2019	Gross loans and advances to clients
Gross loans	**995,572**
Secured loans:	
Deposits	30,875
Guarantees	56,356
Residential real estate	83,347
Commercial real estate	167,355
Other real estate	52,041
Credit insurance	6,285
Stocks	34,051
Movables	30,106
TOTAL	**460,416**
Insured share	**46.25%**

2018	Gross loans and advances to clients
Gross loans	**903,677**
Secured loans:	
Deposits	37,492
Guarantees	55,466
Residential real estate	72,755
Commercial real estate	136,456
Other real estate	60,995
Credit insurance	14,581
Stocks	28,921
Movables	10,279
TOTAL	**416,945**
Insured share	**46.14%**

- **Sale of receivables**

In 2019, the Bank sold HRK 23.3 million in gross receivables (HRK 5.2 million net receivables) to third parties for HRK 12.3 million, resulting in the release of impairment provisions of HRK 7.1 million.

In 2018, the Bank sold HRK 25.6 million in gross receivables (HRK 5.5 million net receivables) to third parties for HRK 14.3 million, which resulted in the release of impairment provisions of HRK 8.6 million.

37. Credit risk (continued)

- ***Reprogrammed and restructured loans***

Placement restructuring is done with clients where there has been a change in the focus from the point of earning income to reducing the losses stemming from credit exposure at a stage when legal procedures for reducing losses are not yet needed. The aim is to identify clients in a timely manner, where restructuring can enable business continuation and mitigate and prevent further losses.

Overview of restructured loans is as follows:

31 Dec 2019			Phase 1		Phase 3	
Restructured exposure	Total gross carrying value	Total provisions for impairment of restructured loans	Gross carrying value	Provisions for impairment of restructured loans	Gross carrying value	Provisions for impairment of restructured loans
Loans and advances						
Economy	49,228	(18,483)	4,598	(23)	44,630	(18,460)
Retail	20,142	(5,360)	8,574	(103)	11,568	(5,257)
Total	**69,370**	**(23,843)**	**13,172**	**(126)**	**56,198**	**(23,717)**

31 Dec 2018			Phase 1		Phase 3	
Restructured exposure	Total gross carrying value	Total provisions for impairment of restructured loans	Gross carrying value	Provisions for impairment of restructured loans	Restructured exposure	Total gross carrying value
Loans and advances						
Economy	56,623	(25,214)	4,626	(46)	51,996	(25,168)
Retail	24,959	(5,373)	10,572	(144)	14,388	(5,228)
Total	**81,582**	**(30,587)**	**15,198**	**(191)**	**66,384**	**(30,396)**

38. Interest rate risk

The following table shows assets and liabilities of the Bank as per carrying value, categorized at contractually changed price or maturity, depending on which term is earlier, as at 31 December 2019.

	Not sensitive to interest rate changes	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	TOTAL
ASSETS							
Cash	25,245	178,349	0	0	0	0	203,594
Non-trading financial assets at fair value through profit or loss	882	0	0	0	0	3,281	4,163
Financial assets at fair value through other comprehensive income	22,781	0	23,133	230,780	514	1,474	278,682
Financial assets at amortized cost - debt securities	0	842	1,534	1,595	0	0	3,971
Financial assets at amortized cost - loans and advances	7,778	42,119	34,514	467,501	178,311	226,912	957,135
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	0	0
Material property	25,389	0	0	0	0	0	25,389
Intangible assets	7,773	0	0	0	0	0	7,773
Tax assets	1,752	0	0	0	0	0	1,752
Other assets	11,877	0	0	0	0	0	11,877
							0
Total assets	103,477	221,310	59,181	699,876	178,825	231,667	1,494,336
LIABILITIES							
Financial liabilities measured at amortized cost:	2,300	137	0	521,152	0	0	523,589
Demand deposits	22,721	87,860	125,762	310,964	164,481	10,447	722,235
Fixed-term deposits	611	367	2,732	4,761	35,070	12,439	55,980
Liabilities for received loans	122	68	137	631	1,482	822	3,262
Other financial liabilities	105	0	0	0	0	0	105
Tax liabilities	6,533	0	0	0	0	0	6,533
Provisions	17,012	0	0	0	0	0	17,012
Total liabilities	49,404	88,432	128,631	837,508	201,033	23,708	1,328,716
CAPITAL							
Total capital	165,620	0	0	0	0	0	165,620
Total liabilities and capital	215,024	88,432	128,631	837,508	201,033	23,708	1,494,336
NET ASSETS / EQUITY AND LIABILITIES	-111,547	132,878	-69,450	-137,632	-22,208	207,959	

38. Interest rate risk (continued)

The following table shows assets and liabilities of the Bank as per carrying value, categorized at contractually changed price or maturity, depending on which term is earlier, as at 31 December 2018.

	Not sensitive to interest rate changes	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	TOTAL
ASSETS							
Cash	29,077	235,443	0	0	0	0	264,520
Financial assets at fair value through other comprehensive income	14,442	1,525	89,011	234,455	1497,49	0	340,930
Financial assets at amortized cost - debt securities	46	437	537	765	4100,34	0	5,885
Financial assets at amortized cost - loans and advances	17,165	38,119	33,100	264,285	234,676	308,463	895,808
Investments in subsidiaries, joint ventures and associates	5,698	0	0	0	0	0	5,698
Material property	24,146	0	0	0	0	0	24,146
Intangible assets	7,005	0	0	0	0	0	7,005
Tax assets	3,309	0	0	0	0	0	3,309
Other assets	21,327	0	0	0	0	0	21,327
Total assets	**122,215**	**275,524**	**122,648**	**499,505**	**240,274**	**308,463**	**1,568,629**
LIABILITIES							
Financial liabilities measured at amortized cost:							
Demand deposits	2,045	113	0	422,414	0	0	424,572
Fixed-term deposits	30,380	116,158	136,680	387,972	178,979	9,691	859,860
Liabilities for received loans	189	1,193	5,452	10,175	25,325	54,129	96,463
Other financial liabilities	122	0	0	0	0	0	122
Provisions	4,677	0	0	0	0	0	4,677
Other liabilities	18,660	0	0	0	0	0	18,660
Total liabilities	**56,072**	**117,464**	**142,132**	**820,561**	**204,304**	**63,820**	**1,404,353**
CAPITAL							
Total capital	**164,276**	**0**	**0**	**0**	**0**	**0**	**164,276**
Total liabilities and capital	**220,348**	**117,464**	**142,132**	**820,561**	**204,304**	**63,820**	**1,568,629**
NET ASSETS / EQUITY AND LIABILITIES	**(98,133)**	**158,060**	**(19,484)**	**(321,056)**	**35,970**	**244,643**	**0**

38. Interest rate risk (continued)

The table below summarizes the current average interest rates for interest-bearing assets and liabilities:

	2019	2018
	%	%
Assets		
Placements with credit institutions	1.59	1.56
Loans and advances to clients	6.76	7.12
Liabilities		
Demand deposits	0	0
Fixed-term deposits	0.98	1.33
Loan liabilities	1.34	1.82

39. Concentration of assets, liabilities and off-balance sheet items

	31 Dec 2019			31 Dec 2018		
Description	Assets	Liabilities	Off-balance sheet items	Assets	Liabilities	Off-balance sheet items
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Geographical region						
Republic of Croatia	1,412,675	1,315,124	106,988	1,555,678	1,392,810	104,655
Europe	81,661	13,523	20	12,951	11,544	0
	0	69	0			
Other	0	165,620	0	0	164,275	0
Total geographical region	**1,494,336**	**1,494,336**	**107,008**	**1,568,629**	**1,568,629**	**104,655**
Sector						
Republic of Croatia	240,254	75,957	6,834	352,172	55,381	311
Croatian National Bank	239,138	25,701	0	307,620	25,348	0
Trade	51,703	19,552	2,572	59,210	25,774	4,658
Finance	108,578	9,476	8,622	76,010	72,051	2,366
Tourism	34,456	2,716	3,477	36,442	3,767	2,029
Agriculture, fisheries	49,525	16,842	718	45,118	4,949	3,207
Industry	98,539	48,170	15,144	53,608	20,506	10,976
Retail (including craftsmen and other independent occupations)	518,984	1,068,136	66,302	474,097	1,100,407	64,730
Non-residents	81,661	13,592	20	12,951	11,544	0
Other	71,498	214,194	3,320	151,401	248,902	16,378
Total sectorial analysis	**1,494,336**	**1,494,336**	**107,008**	**1,568,629**	**1,568,629**	**104,655**

40. Currency risk

The Bank's foreign currency assets and liabilities as at 31 December 2019 are presented as follows:

	EUR	USD	Other currencies	HRK with currency clause	Total foreign currency equivalents	HRK	Total
ASSETS							
Cash	77,581	793	7,254	0	85,628	117,966	203,594
Non-trading financial assets measured at fair value	4,163	0	0	0	4,163	0	4,163
Financial assets at fair value through other comprehensive income	54,087	0	0	100,631	154,718	123,964	278,682
Financial assets at amortized cost - debt securities	0	0	0	0	0	3,971	3,971
Financial assets at amortized cost - loans and advances	8,329	6,656	1,273	463,173	479,431	477,704	957,135
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	0	0
Tangible assets	0	0	0	0	0	25,389	25,389
Intangible assets	0	0	0	0	0	7,773	7,773
Tax assets	0	0	0	0	0	1,752	1,752
Other assets	0	0	0	0	0	11,877	11,877
Total assets	144,160	7,449	8,527	563,804	723,940	770,396	1,494,336
LIABILITIES							
Financial liabilities measured at amortized cost:	229,366	3,170	6,340	0	238,876	284,713	523,589
Demand deposits	465,602	4,127	1,374	2,368	473,471	248,764	722,235
Fixed-term deposits	0	0	0	17,960	17,960	38,020	55,980
Liabilities for received loans	0	0	0	2,304	2,304	958	3,262
Other financial liabilities	0	0	0	0	0	105	105
Provisions	2	0	0	0	2	6,531	6,533
Other liabilities	112	3	3	0	118	16,894	17,012
Total liabilities	695,082	7,300	7,717	22,632	732,731	595,985	1,328,716
CAPITAL							
Total capital	0	0	0	0	0	165,620	165,620
Total capital and liabilities	695,082	7,300	7,717	22,632	732,731	761,605	1,494,336
NAT ASSETS / EQUITY AND LIABILITIES	-550,922	149	810	541,172	-8,791	8,791	0

40. Currency risk (continued)

The Bank's foreign currency assets and liabilities as at 31 December 2019 are presented as follows:

	EUR	USD	Other currencies	HRK with currency clause	Total foreign currency equivalents	HRK	Total
ASSETS							
Cash	102,837	1,073	8,645	0	112,555	151,965	264,520
Financial assets at fair value through other comprehensive income	89,002	0	0	106,404	195,406	145,524	340,930
Financial assets at amortized cost - debt securities	0	0	0	0	0	5,885	5,885
Financial assets at amortized cost - loans and advances	15,698	6,469	480	471,267	493,914	401,894	895,808
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	5,698	5,698
Tangible assets	0	0	0	0	0	24,146	24,146
Intangible assets	0	0	0	0	0	7,005	7,005
Tax assets	0	0	0	0	0	3,309	3,309
Other assets	0	0	0	0	0	21,327	21,327
Total assets	**207,537**	**7,542**	**9,125**	**577,671**	**801,875**	**766,754**	**1,568,629**
LIABILITIES							
Financial liabilities measured at amortized cost:					0		0
Demand deposits	162,892	3,259	6,672	0	172,823	251,749	424,572
Fixed-term deposits	584,551	4,123	1,982	5,039	595,695	264,165	859,860
Liabilities for received loans	0	0	0	43,854	43,854	52,609	96,463
Other financial liabilities	0	0	0	0	0	122	122
Provisions	0	0	0	0	0	4,677	4,677
Other liabilities	0	0	0	0	0	18,660	18,660
Total liabilities	**747,443**	**7,382**	**8,654**	**48,893**	**812,372**	**591,981**	**1,404,353**
CAPITAL							
Total capital	**0**	**0**	**0**	**0**	**0**	**164,276**	**164,276**
Total capital and liabilities	**747,443**	**7,382**	**8,654**	**48,893**	**812,372**	**756,257**	**1,568,629**
NET ASSETS / EQUITY AND LIABILITIES	**(539,906)**	**160**	**471**	**528,778**	**(10,497)**	**10,497**	**0**

41. Liquidity risk

The remaining maturity of the Bank's assets and liabilities as at 31 December 2019 is shown as follows:

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS						
Cash	203,594	0	0	0	0	203,594
Non-trading financial assets measured at fair value	0	0	0	0	4,163	4,163
Financial assets at fair value through other comprehensive income	270,910	0	0	0	7,772	278,682
Financial assets at amortized cost - debt securities	842	1,534	1,595	0	0	3,971
Financial assets at amortized cost - loans and advances	95,496	83,423	197,877	212,617	367,722	957,135
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	0
Tangible assets	0	0	0	0	25,389	25,389
Intangible assets	0	0	0	0	7,773	7,773
Tax assets	0	0	990	291	471	1,752
Other assets	47	96	0	0	11,734	11,877
Total assets	**570,889**	**85,053**	**200,462**	**212,908**	**425,024**	**1,494,336**
Liabilities						
Financial liabilities measured at amortized cost:						
Demand deposits	401,390	6,983	31,423	83,793	0	523,589
Fixed-term deposits	67,410	127,707	310,756	193,937	22,425	722,235
Liabilities for received loans	365	1,997	5,002	35,828	12,788	55,980
Other financial liabilities	190	137	631	1,482	822	3,262
Tax liabilities	0	0	105	0	0	105
Provisions	1,156	392	117	4,867	1	6,533
Other liabilities	16,994	0	18	0	0	17,012
Total liabilities	**487,505**	**137,216**	**348,052**	**319,907**	**36,036**	**1,328,716**
CAPITAL						
Total capital	0	0	0	0	165,620	165,620
Total capital and liabilities	487,505	137,216	348,052	319,907	201,656	1,494,336
NET ASSETS / EQUITY AND LIABILITIES	83,384	-52,163	-147,590	-106,999	223,368	0

41. Liquidity risk (continued)

The remaining maturity of the Bank's assets and liabilities as at 31 December 2018 is shown as follows:

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
ASSETS						
Cash	264,520	0	0	0	0	264,520
Financial assets at fair value through other comprehensive income	333,237	0	0	0	7,693	340,930
Financial assets at amortized cost - debt securities	4,588	532	765	0	0	5,885
Financial assets at amortized cost - loans and advances	111,662	77,565	178,591	198,620	329,370	895,808
Investments in subsidiaries, joint ventures and associates	0	0	0	0	5,698	5,698
Tangible assets	0	0	0	0	24,146	24,146
Intangible assets	0	0	0	0	7,005	7,005
Tax assets	0	0	2,361	344	604	3,309
Other assets	67	124	0	0	21,136	21,327
Total assets	**714,074**	**78,221**	**181,717**	**198,964**	**395,653**	**1,568,629**
LIABILITIES						
Financial liabilities measured at amortized cost:						
Demand deposits	424,572	0	0	0	0	424,572
Fixed-term deposits	117,670	138,427	384,343	193,527	25,893	859,860
Liabilities for received loans	1,214	3,376	11,456	25,485	54,932	96,462
Other financial liabilities	122	0	0	0	0	122
Provisions	1,268	57	117	3,192	42	4,677
Other liabilities	18,660	0	0	0	0	18,660
Total liabilities	**563,506**	**141,860**	**395,916**	**222,204**	**80,867**	**1,404,353**
CAPITAL						
Total capital	**0**	**0**	**0**	**0**	**164,276**	**164,276**
Total capital and liabilities	**563,506**	**141,860**	**395,916**	**222,204**	**245,143**	**1,568,629**
NET ASSETS / EQUITY AND LIABILITIES	**150,568**	**(63,639)**	**(214,199)**	**(23,240)**	**150,510**	**0**

42. Capital management

Capital management

Credit institutions in the Republic of Croatia are required to calculate and report the prudential information in accordance with Regulation (EU) No. 575/2013, Directive 2013/36/EU, Implementation technical standards and other relevant regulations of the European supervisory authorities for banking ("EBA") and also, the local regulator, the CNB.

The regulatory capital of the Bank consists entirely of the equity capital, which includes equity generated by ordinary shares, capital gains, retained earnings, reserves, accrued other comprehensive income, other transitional adjustments (transitional provisions when IFRS 9 is introduced), less equity acquired, intangible property, and adjustments to regular share capital due to prudential filters.

The prescribed minimum capital ratios in accordance with Art. 92 of Regulation (EU) No. 575/2013 is the following:

- The rate of regular share capital 4.5% of total risk exposure
- The rate of core capital 6% of the total risk exposure
- The rate of the total capital of 8% of the total risk exposure

In addition to the set of minimum regulatory capital adequacy and according to Articles 117 and 130 of the Credit Institutions Act and Articles 129 and 133 of Directive 2013/36/EU, the Bank is also obliged to provide the following hedges:

- Hedging for preservation of capital of 2.5% of the total risk exposure
- Hedging for structural system risk of 1.5% of the total risk exposure

Supervisory assessment of the required rate of the total capital amounted to 15.88% (12% + 3.88% regulatory hedging for 2019).
The Bank received a Decision from the supervisor according to which the required total capital ratio as of 1 January 2020 is 16.18%.

Description	Basel III 31 Dec 2019 HRK '000	Basel III 31 Dec 2018 HRK '000
Ordinary shares paid-in	*91,897*	*91,897*
Own/treasury shares	(6,592)	(6,592)
Regular and non-cumulative preferred shares	85,305	85,305
Reserves	*15,182*	*15,182*
Capital profit from purchase and sale of own shares	*149*	*149*
Retained earning	*63,421*	*58,622*
Reserves and retained earnings	78,752	73,953
Intangible assets	(7,773)	(7,005)
Unreturned amount of credits/loans approved for purchase of credit institution shares	0	0

42. Capital management (continued)

	Basel III	Basel III
(continued)	31 Dec 2019	31 Dec 2018
Description	HRK '000	HRK '000
Accumulated other comprehensive income	(1,268)	(585)
Impairment due to prudential valuation	(283)	(347)
Other transitional adjustments	4,710	5,264
Loss for the year	0	0
TIER 1 CAPITAL	**159,444**	**156,585**
REGULATORY CAPITAL	159,444	156,585
CAPITAL ADEQUACY RATE	**17.59%**	**17.72%**

VII EVENTS AFTER THE REPORTING DATE

In early 2020, the Covid-19 coronavirus spread to the almost entire world, causing disruptions in business and economic activity. The Bank considers this a post-balance sheet event that does not require adjustment as it is not feasible to provide a quantitative assessment of the potential impact of the Covid-19 virus on the Bank. The impact on macroeconomic forecasts will be incorporated into estimates of expected loan loss provisions (IFRS9) in 2020.

VIII LITIGATION AND CONTINGENT LIABILITIES

As at 31 December 2019, there are several court claims currently being held against the Bank; they are all of lesser value except the claim initiated by Jugobanka d.d., in bankruptcy, Belgrade. The Commercial court in Bjelovar rendered its verdict on 19 June 2008 (decision VP-167/08-27), whereby the claim of the plaintiff was dismissed as baseless. Appeal was filed against this Decision. At the same time, the plaintiff brought forward a claim for temporary court injunction, to which claim the High Commercial Court of the Republic of Croatia rendered its verdict on 3 June 2008, Decision Pž-3109/08-4, whereby the claim of the plaintiff was dismissed as baseless, and the Decision of the Commercial court in Bjelovar was held up.

The High Commercial Court also rendered its verdict on the claim of the plaintiff, as well as the Decision 53 Pž-6092/08-3 as of 30 October 2012, amending a part of the judgment of the Commercial Court in Bjelovar with respect to the question of annulment of the Contract dated 26 October 1992 and decided the Contract is null and void. At the same time, the High Commercial Court dismissed the remainder of the first-instance judgment pertaining to damage claims through a separate decision, feeling that these issues have not been sufficiently argued on, and the case in that part was returned to the Commercial Court in Bjelovar for re-trial, noting that it should be ascertained whether there are any basis for damage compensation, especially due to and with respect to objection to expiration of statute of limitations.

The Bank lodged a request for revision against this Decision, due to erroneous use of material law and significant breaches of civil case provisions. In the re-trial, the Commercial Court in Bjelovar rendered its verdict Reg. No. 5 P-9/2013-33 dated 1 August 2013, whereby the plaintiff's claims were dismissed in full as baseless. The plaintiff lodged an appeal against the above ruling. The procedure of the second instance before the High Commercial Court of the Republic of Croatia is on-going.

VIII LITIGATION I CONTINGENT LIABILITIES (continued)

Croatian Supreme Court, by judgment of 7 May 2014, No Revt 156 / 13-2, reversed the judgment of the High Commercial Court of the Republic of Croatian number: 52,Pž-6092 / 08-3 of 30 October 2012 in the way that the part of the judgment of the Commercial Court in Bjelovar the number P-167 / 08-27 of 19 June 2008, which denied request to establish the nullity of the Assumption Agreement the rights and obligations of 26 October 1992 had dismissed the appeal of the plaintiff as unfounded and in that part confirmed the first-instance judgment. This made the decision of the Commercial Court in Bjelovar on 19 June 2008 in respect of the rejection of the claim Jugobanka a.d., in bankruptcy, Belgrade, for the nullity of the Treaty established in 1992 legal and final.

On 13 February 2015, the Bank received Resolution from the Supreme Court of the Republic of Croatia in the case of prosecutor Jugobanka a.d. in bankruptcy, Belgrade, by which it has accepted the appeal of the Bank against the verdict of the High Commercial Court of the Republic of Croatia dated 30 October 2012.

In October 2016, the Bank received Resolution from High Commercial Court of the Republic of Croatia, No. Pž-8979/2013-2 of 15 September 2016 which denied the appeal of Jugobanka a.d. in bankruptcy, Belgrade, and confirmed the judgment of the Commercial court in Bjelovar No. P-9/13-33 of 1 August 2013 which rejected the entire plaintiff's claim for damages. To the specified judgment Jugobanka a.d. in bankruptcy, Belgrade, submitted a request for revision on the Supreme Court of the Republic of Croatia. On the plaintiff's revision, the Bank submitted a response which denies all the audit states, and audit has not been resolved until the day of the adoption of the financial statements.

The Bank has reserved assets for said case in accordance with Article 8; Decision on obligatory provisions of assets for court claims against credit institutions (OG 1/09, 75/09 and 2/10). Until the Bank in relation to the claim for damages has not had a final judgment in its favour, or judgment, by which would legally reject plaintiff's claim in its entirety as unfounded.

IX APPROVAL OF FINANCIAL STATEMENTS

These financial statements were signed and authorized for issuing by the Management Board on 28 April 2020.

For and on behalf of the Management Board:

Andrej Kopilaš,	Marin Prskalo	Oliver Klesinger
President of the Management Board	Member of the Management Board	Member of the Management Board

Slatinska banka d.d.
Vladimira Nazora 2
33520 Slatina

Croatia

The Bank, in accordance with Article 164 of the Credit Institutions Act, publishes the following information:

The Bank is registered for the following activities:

- Receiving deposits or other public funds and approving loans from these funds and for own account
- Receipt of deposits or other means of return
- Approval of loans, including consumer credits and loans, and mortgage loans, if permitted under a special law and financing of commercial transactions, including export-based discount-based and non-repayable long-term debt receivables
- Purchase of claims with and without recourse
- Financial leases
- Issuance of guarantees or other warranties
- Trading for own account or for a client account: money market instruments, transferable securities, foreign exchange funds, including exchange transactions, financial rosters and options, currency and interest instruments
- Payment services in accordance with special laws
- Credit-related services, such as data collection, analysis and information on the creditworthiness of legal and natural persons who independently carry out their activity
- Issuance of other payment instruments and their management if the provision of these services is not considered to be a service within the meaning of Article 5 (7) of the Credit Institutions Act and in accordance with a special law
- Intermediary work on the money market
- Activities related to the sale of insurance policies in accordance with the regulations governing insurance
- Participation in the issuance of financial instruments and provision of financial instruments in accordance with the law regulating the capital market
- Provision of supply or sale of financial instruments without the obligation of redemption
- Custody activities over financial instruments and custodial services in accordance with the law regulating the capital market
- Investment and ancillary services and activities prescribed by a special law regulating the capital market and not included in the services referred to in points 1, 16, paragraph 1, Article 8 of the Credit Institutions Act - granting a loan to an investor to enable him the conclusion of a transaction with one or more financial instruments, if the transaction involves a loan or credit institution.

In 2018, the Bank operated through its headquarters in Slatina, office in Zagreb and branches Osijek, Rijeka, Zagreb, D. Miholjac, Daruvar, Đakovo, Koprivnica, Našice, Orahovica, Pitomača, Požega, Slavonski Brod, Slatina, Valpovo and Virovitica.

The Bank states, as follows, the other requirements in accordance with Article 164 of the Credit Institutions Act:

	2019 HRK '000
Total revenue	99,931
Profit before tax	3,920
Income tax	(1,651)
Number of employees on 31 December 2019	176
Number of full-time employees (paid working hours) in 2019	162
The number of employees on the basis of equivalent full working time in 2019	136

The cost of the audit of the annual financial statements and the related audit for the needs of the Croatian National Bank amounted to HRK 140 thousand plus VAT. During 2019 and in the two years preceding the year of the audit, the auditor did not perform any other assignments for the Bank.

The Bank did not receive public subsidies in 2019.

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

	Description	AOP code	Note no.	Preceding year	Current year
	1	2	3	4	5
ASSETS					
1.	**Cash, cash receivables from central banks and other sight deposits (AOP 002 to 004)**	**001**		264,520,327	203,594,237
1.1.	Cash	**002**		29,077,648	25,613,804
1.2.	Cash receivables from central banks	**003**		214,643,825	149,776,877
1.3.	Other sight deposits	**004**		20,807,854	28,203,556
2.	**Financial assets held for trade (AOP 006 to 009)**	**005**		0	0
2.1.	Derivatives	**006**		0	0
2.2.	Equity instruments	**007**		0	0
2.3.	Debt securities	**008**		0	0
2.4.	Loans and advances	**009**		0	0
3.	**Financial assets not held for trade which is measured at fair value through profit or loss (AOP 011 to 013)**	**010**		0	4,162,942
3.1.	Equity instruments	**011**		0	820,306
3.2.	Debt securities	**012**		0	3,342,636
3.3.	Loans and advances	**013**		0	0
4.	**Financial assets at fair value through profit or loss (AOP 015+016)**	**014**		0	0
4.1.	Debt securities	**015**		0	0
4.2.	Loans and advances	**016**		0	0
5.	**Financial assets at fair value through other comprehensive income ((AOP 018 to 020)**	**017**		340,930,278	278,682,116
5.1.	Equity instruments	**018**		16,369,377	7,772,458
5.2.	Debt securities	**019**		324,560,901	270,909,658
5.3.	Loans and advances	**020**		0	0
6.	**Financial assets at amortised cost (AOP 022+023)**	**021**		901,692,557	961,106,690
6.1.	Equity instruments	**022**		5,885,175	3,971,401
6.2.	Loans and advances	**023**		895,807,382	957,135,289
7.	**Derivatives – hedge accounting**	**024**		0	0
8.	**Changes in fair value of hedged items in interest risk portfolio**	**025**		0	0
9.	**Investments in subsidiaries, joint ventures and affiliates**	**026**		5,697,640	0
10.	**Tangible assets**	**027**		24,146,108	25,389,403
11.	**Intangible assets**	**028**		7,005,482	7,772,537
12.	**Tax assets**	**029**		3,309,371	1,751,508
13.	**Other assets**	**030**		21,327,332	11,876,571
14.	**Fixed assets and disposal groups classified as ready-to –sale**	**031**		0	0
15.	**TOTAL ASSETS (AOP) 001+005+010+014+017+021+024TO031)**	**032**		1,568,629,095	1,494,336,004

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

	Description	AOP code	Note no.	Preceding year	Current year
	1	2	3	4	5
Liabilities					
1.	**Financial liabilities held for trade (AOP 034 to 038)**	**033**		0	0
1.1.	Derivatives	**034**		0	0
1.2.	Short term items	**035**		0	0
1.3.	Deposits	**036**		0	0
1.4.	Issued debt securities	**037**		0	0
1.5.	Other financial liabilities	**038**		0	0
2.	**Financial liabilities at fair value through profit or loss (AOP 040 to 042)**	**039**		0	0
2.1.	Deposits	**040**		0	0
2.2.	Issued debt securities	**041**		0	0
2.3.	Other financial liabilities	**042**		0	0
3.	**Financial liabilities measured at amortised cost (AOP 044 to 046)**	**043**		1,381,016,851	1,305,066,150
3.1.	Deposits	**044**		1,380,894,539	1,301,803,916
3.2.	Issued debt securities	**045**		0	0
3.3.	Other financial liabilities	**046**		122,312	3,262,234
4.	**Derivatives – hedge accounting**	**047**		0	0
5.	**Changes in fair value of hedged items in interest risk portfolio**	**048**		0	0
6.	**Provisions**	**049**		4,676,977	6,532,715
7.	**Tax liabilities**	**050**		0	104,688
8.	**T1 capital returned at request**	**051**		0	0
9.	**Other liabilities**	**052**		18,659,663	17,012,152
10.	**Laiblilities included in disposal groups classified as ready for sale**	**053**		0	0
11.	**TOTAL LIABILITIES (AOP 033+039+043+047 to053)**	**054**		1,404,353,491	1,328,715,705
EQUITY					
12.	Share capital	**055**		91,897,200	91,897,200
13.	Share premium	**056**		148,620	148,620
14.	Issued equity instruments (excluding capital)	**057**		0	0
15.	Other equity instruments	**058**		0	0
16.	Accumulated other comprehensive profit	**059**		240,321	-706,282
17.	Retained earnings	**060**		58,622,089	63,421,523
18.	Revaluation reserves	**061**		0	0
19.	Other reserves	**062**		15,182,803	15,182,803
20.	Treasury shares	**063**		-6,592,348	-6,592,348
21.	Profit or loss belonging to owners of parent company	**064**		4,776,919	2,268,783
22.	Dividend during the business year	**065**		0	0
23.	**Minority (non-controlling share)**	**066**		0	0
24.	**TOTAL CAPITAL (AOP 055 to 066)**	**067**		164,275,604	165,620,299
25.	**TOTAL LIABILITIES AND CAPITAL (AOP 054+067)**	**068**		1,568,629,095	1,494,336,004

Statement of profit or loss for the period 1 January to 31 December 2019

Description		AOP code	Note no.	Preceding year	Current year
1		2	3	4	5
1.	Interest income	**069**		61,264,843	60,779,451
2.	Interest expenses	**070**		14,024,235	8,823,325
3.	Expenses from T1 capital returned upon request	**071**		0	0
4.	Income from dividends	**072**		0	0
5.	Fee and commission income	**073**		13,022,120	13,251,172
6.	Fee and comission expenses	**074**		4,000,143	4,203,749
7.	Gains or losses after ceasing recognition of financial assets and financial liabilities not measured at fair value through profit or loss, net	**075**		910,838	11,361,027
8.	Gains or losses from financial assets and financial liabilities held for trade, net	**076**		2,938,906	2,764,119
9.	Gains or losses from financial assets not held for trade, measured at fair value through profit or loss, net	**077**		0	0
10.	Gains and losses from financial assets and financial liabilities 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 (profit or loss), net	**080**		-294,217	-3,062
13.	Gains or losses after ceasing recognition of non-financial assets, net	**081**		0	0
14.	Other operating income	**082**		2,245,842	10,822,546
15.	Other operating expenses	**083**		4,265,796	3,582,846
16.	**TOTAL OPERATING INCOME (AOP069-070-071+072+073-074+075 to082-083)**	**084**		57,798,158	82,365,333
17.	Administrative expenses	**085**		35,978,754	38,196,232
18.	Amortisation	**086**		3,304,390	4,293,612
19.	Gains or losses due to change, ner	**087**		0	0
20.	Provisions or discontinuation of provisions	088		317,812	1,855,738
21.	Impairment or discontinuation of impairment of financial assets not measured at fair value through profit or loss	**089**		11,428,688	34,231,033
22.	Impairment or discontinuation of impairment of investment in subsidiaries, joint ventures and affiliates	**090**		25,603	-952,360
23.	Impairment or discontinuation of impairment of non-financial assets	091		201,632	820,825
24.	Negative goodwill recognised in profit or loss	**092**		0	0
25.	Share in profit or loss from investemnts in subsidiaries, joint ventures and affiliates, calculated by share method	**093**		0	0
26.	Profit or loss from fixed assets and disposal groups classified as ready for sale and not qualified as non-continuing	**094**		0	0
27.	**PROFIT OR LOSS BEFORE TAXATION (FROM CONTINUING OPERATIONS) AOP 084-085+087-088 to091+092 to 094**	**095**		6,541,279	3,920,253
28.	Tax income or expenses from continuing operations	**096**		1,764,360	1,651,470
29.	**PROFIT OR LOSS AFTER TAXATION (FROM CONTINUING OPERATIONS) AOP 095-096**	**097**		4,776,919	2,268,783
30.	Profit or loss after taxation (from non-continuing concern operations) (AOP 099—100)	**098**		0	0
30.1.	Profit or loss before taxation (from non-continuing operations)	**099**		0	0
30.2.	Tax income or expenses from non-continuing operations	**100**		0	0
31.	**PROFIT OR LOSS FOR THE CURRENT YEAR (AOP 097+098; 102+103)**	**101**		4,776,919	2,268,783
32.	Attributed to minority (non-controlling) share	**102**		0	0
33.	Attributed to owners of mother company	**103**		0	0

Statement of other comprehensive income for the period 1 January to 31 December 2019

Description	AOP code	Note no.	Preceding year	Current year
1	2	3	4	5
STATEMENT OF OTHER COMPREHENSIVE INCOME				
1. Profit or loss for the current year (AOP 101)	104		4,776,919	2,268,783
2. Other comprehensive income (AOP 106+118)	**105**		211,947	-849,238
2.1. Items not reclassified into profit or loss (AOP 107 to 113+116+117)	**106**		37,021	44,375
2.1.1. Tangible assets	**107**		0	0
2.1.2. Intangible assets	**108**		0	0
2.1.3. Actuarial gains or losses on employer sponsored pension plans	**109**		0	0
2.1.4. Fixed assets and disposal groups ready for sale	**110**		0	0
2.1.5. Share of other recognised income and expenses from subjects calculated by share method	**111**		0	0
2.1.6. Changes of fair value of equity instruments measured at fair value through other comprehensive income	**112**		37,021	44,378
2.1.7. Gains or losses from hedge accounting of equity instruments measured at fair value through other comprehensive income, net	**113**		0	0
2.1.8. Changes of fair value of equity instruments measured at fair value through other comprehensive income (hedged item)	**114**		0	0
2.1.9. Changes of fair value of equity instruments measured at fair value through other comprehensive income (hedged instrument)	**115**		0	0
2.1.10. Changes of fair value of financial liabilities measured at fair value through profit or loss, attibuted to changes in currency risk	**116**		0	0
2.1.11. Corporate income tax related to non-reclassified items	**117**		0	0
2.2. Items that can be reclassified into profit or loss (AOP 119 to 126)	**118**		174,926	-893,613
2.2.1. Hedging of net investment in foreign operations (effective shares)	**119**		0	0
2.2.2. Calculation of foreign currency	**120**		0	0
2.2.3. Hedging of cash flows (effective shares)	**121**		0	0
2.2.4. Risk protection insrtruments (not determined)	**122**		0	0
2.2.5. Debt instruments at fair value through other comprehensive income	**123**		174,926	-893,613
2.2.6. Fixed assets and disposal groups ready for sale	**124**		0	0
2.2.7. Share of other recognised income and expenses from investment in subsidiaries, joint ventures and affiliates	**125**		0	0
2.2.8. Corporate incoem tax related to items that can be classified into profit or loss	**126**		0	0
3. Total comprehensive income of the current year (AOP 104+106 and AOP 128+129)	**127**		**4,988,866**	**1,419,545**
4. Attributed to minority (non-controlling) share	**128**		**0**	**0**
5. Attributed to owners of mother company	**129**		**0**	**0**

STATEMENT OF CASH FLOWS – Indirect method for the period from 1 January 2018 to 31 December 2019

Description	AOP code	Note no.	Preceding year	Current year
1	2	3	4	5
1. Profit / loss before taxation	001		6,541,279	3,920,253
2. Impairment ad provisions	002		11,973,735	35,955,236
3. Depreciationa	003		3,304,390	4,293,612
4. Net gains/ losses from financial assets at fair value in P&L Statement	004		0	0
5. Gains/losses from sale of tangible assets	005		0	0
6. Other non-monetary items	006		-5,320,974	-924,088
Changes in operating assets and liabilities				
7. Deposits with CNB	007		-2,792,617	3,815,231
8. Deposits with banking institutions and loans to credit institutions	008		-10,589,694	2,822,965
9. Loans to other clients	009		993,700	-102,706,583
10. Securities and other financial instruments at fair value through other comprehensive income	010		-76,064,263	62,724,584
11. Securities and other financial instruments held for trade	011		0	0
12. Securities and other financial instruments not actively traded and evaluated at fair value through profit and loss	012		0	0
13. Securities and other financial instruments measured at fair value through profit or loss	013		0	-4,101,531
14. Securities and other financial instruments measured at amortised cost	014		3,202,866	1,619,352
15. Other operating assets	015		495,775	1,235,175
Increase / reduction in operating liabilities				
16. Deposits from financial institutions	016		0	0
17. Transaction accounts of other clients	017		45,679,394	41,189,570
18. Saving depostis of other clients	018		23,409,282	57,826,654
19. Term deposits of other clients	019		-53,735,401	-134,746,462
20. Derived financial liabilities and other trading liabilities	020		0	0
21. Other liabilities	021		-673,835	918,106
22. Collected interest from operating activities	022		2,728,573	266,039
23. Received dividends from operating activities	023		0	0
24. Paid interest from perating activities	024		-1,909,907	-2,878,120
25. Paid corporate income tax	026		0	0
A) Net cash flow from operating activities (AOP 021 to 024)	026		-52,757,697	-28,769,707
1. Receipts from sale / purchase / tangible and intangible assets	027		4,176,346	2,648,662
2. Receipts from sale / purchase / investments in subsidiaries, joint ventures and affiliates	028		0	6,650,000
3. Collection/ purchase / debt and other financial instruments from investin activities	029		0	0
4. Received dividents from investing activities	030		0	0
5. Other receipts / payments / from investing activities	031		0	0
B) Net cash flow from investing activities (AOP 026 to 030)	032		**4,176,346**	**9,298,662**
1. Net increase / reduction in received loans	033		-39,539,736	-40,482,566
2. Net increase / reduction in issued debt securities	034		0	0
3. Net increase / reduction in subordinate and hybrid instruments	035		0	0
4. Increase in T1 capital	036		0	0
5. Paid dividends	037		0	0
6. Other receipts / payments from financial activities	038		0	-972,479
C) Net cash flow from financial activities (AOP 032 to 037)	039		-39,539,736	-41,455,045
D) Net increase / reduction in cash and cash equivalents (AOP 025+031+038))	040		-88,121,087	-60,926,090
Cash and cash equivalents at the beginning of the year	041		352,641,414	264,520,327
Influence of changes in exchange rate on cash and cash equivalents	042			
Cash and cash equivalents at the end of the year (AOP 039+040+041)	043		264,520,327	203,594,237

STATEMENT OF CHANGES IN EQUITY for the period from 1 January 2018 to 31 December 2018

Position	ADP	Note	Attributable to the owner of parent											Minority interest		Total
			Share capital	Share premium	Equity instruments (other than share capital)	Other shares	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	Treasury shares	Profit/loss attributable to the owners of parent	Dividend	Accumulated other comprehensive income	Other items	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. Opening balance (before corrections)	01		91,897,200	148,620	0	0	240,321	58,622,089	0	15,182,803	-6,592,348	4,776,919	0	0	0	164,275,604
2. Effect of corrections	02		0	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Effects of changes in accounting policies	03		0	0	0	0	0	0	0	0	0	0	0	0	0	0
4. Opening balance (current period) (AOP 01 to 03)	04		91,897,200	148,620	0	0	240,321	58,622,089	0	15,182,803	-6,592,348	4,776,919	0	0	0	164,275,604
5. Issuing regular shares	05		0	0	0	0	0	0	0	0	0	0	0	0	0	0
6. Issuing preferred shares	06		0	0	0	0	0	0	0	0	0	0	0	0	0	0
7. Issuing other equity instruments	07		0	0	0	0	0	0	0	0	0	0	0	0	0	0
8. Execution or expiration of other issued equity instruments	08		0	0	0	0	0	0	0	0	0	0	0	0	0	0
9. Transfering liabilities into equity instruments	09		0	0	0	0	0	0	0	0	0	0	0	0	0	0
10. Reduction in capital	10		0	0	0	0	0	0	0	0	0	0	0	0	0	0
11. Dividends	11		0	0	0	0	0	0	0	0	0	0	0	0	0	0
12. Purchase of treasury shares	12		0	0	0	0	0	0	0	0	0	0	0	0	0	0
13. Sale or cancellation of trasury shares	13		0	0	0	0	0	0	0	0	0	0	0	0	0	0
14. Reclassification of financial instruments from equity to liability	14		0	0	0	0	0	0	0	0	0	0	0	0	0	0
15. Reclassification of financial instruments from laibility to equity	15		0	0	0	0	0	0	0	0	0	0	0	0	0	0
16. Transfer between equity instruments components	16		0	0	0	0	-22,515	4,799,434	0	0	0	-4,776,919	0	0	0	0
17. increase or decrease of equity instruments as a consequence of business combinations	17		0	0	0	0	0	0	0	0	0	0	0	0	0	0
18. increase based on shares	18		0	0	0	0	0	0	0	0	0	0	0	0	0	
19. other increase or decrease of equity instruments	19		0	0	0	0	-74,850	0	0	0	0	0	0	0	0	-74,850
20. total comprehensive profit for the current year	20		0	0	0	0	-849,238	0	0	0	0	0	0	0	0	1,419,545
21. closing balance (current period) (AOP 04 to 20)	21		91,897,200	148,620	0	0	-706,282	63,421,523	0	15,182,803	-6,502,348	2,268,783	0	0	0	165,620,299

Off-balance sheet items:

1	OFF-BALANCE SHEET ITEMS	31 Dec 2018	31 Dec 2019
2	Guarantees	17,108,179	13,254,300
3	Letters of credit	0	0
4	Letters of guarantee,	0	0
5	Accepted bills of exchange	0	0
6	Revolving loans	4,611,915	4,723,791
7	Indicative margin loans	10,474,913	11,285,316
8	Other credit lines and commitments	72,459,727	77,744,488
9	Other risk off-balance sheet items	0	0
10	Total off-balance sheet items	104,654,734	107,007,895

APPENDIX 1 – IN ACCORDANCE WITH THE ACCOUNTING ACT AND THE DECISION ON THE STRUCTURE AND CONTENT OF ANNUAL FINANCIAL STATEMENTS OF BANKS

The basic financial statements have been prepared in accordance with the Decision of the Croatian National Bank (''CNB'') on the structure and content of the annual financial statements of credit institutions (OG 42/2018).

Credit institutions are required to prepare annual financial statements referred to in Article 19 of the Accounting Act (Official Gazette 78/2015, 134/2015, 120/2016 and 116/2018) according to the structure and content of the Guidelines for the implementation of the Decision on the structure and content of the annual financial statements of credit institutions and in accordance with the provisions of International Financial Reporting Standards.

Data in the Statement of Financial Position (Balance Sheet), Statement of Profit or Loss, Statement of Other Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity are presented in HRK for the current and previous year.

The annual financial statements of the Bank for the period ended 31 December 2019 and the accompanying accounting policies and notes as an integral part thereof were signed and approved by the Bank's Management Board on 28 April 2020.

The reconciliation between the annual financial statements and the AFS-BAN consists exclusively in the division of individual items that are significant in the front of the annual financial statements into several items equal in sum, all presented as follows:

Position	CNB Decision		Position	Note	Financial statements		Difference
	in HRK '000				in HRK '000		
Assets			ASSETS				
1. Cash, receivables in cash from credit institutions and other demand deposits (ADP 002 to 004)	203,594		Cash and cash equivalents	15	203,594		0
3. Non-traded financial assets measured at fair value through profit or loss (ADP 011 to 013)	4,163		Financial instruments at fair value through profit or loss	16	4,163		0
5. Financial assets at fair value through other comprehensive income (ADP 018 to 020)	278,682		Financial assets at fair value through other comprehensive income	17	278,682		0
6.1. Debt securities	3,971		Financial assets at amortised cost debt securities	18	3,971		0
6.2. Loans and advances	957,135						957,135
			Receivables from Croatian National Bank	19	89,361		-89,361
			Loans and receivables from banks	19	16,360		-16,60
			Loans and advances – clients	19	851,414		-851,414
10. Tangible assets	25,389		Property, plant and equipment	21	25,389		0
11. Intangible assets	7,773		Intangible assets	22	7,773		0
12. Tax assets	1,752		Deferred tax assets	23	1,752		0
13. Other assets	11,877		Other assets	24	11,877		0
15. TOTAL ASSETS (ADP 001+005+010+014+017+021+024 to 031	1,494,336		Total assets		1,494,336		0
Liabilities			LIABILITIES				
18.1. Deposits	1,301,804						1,301,804
			Current accounts and client and bank deposits	25	1,245,824		-1,245,824
			Liabilities under received loans	25	55,980		-55,980
18.3. Other financial liabilities	3,262			26			3,262
			Lease liabilities – IFRS 16		3,140		-3,140
			Other financial liabilities	27	122		-122
21. Provisions	6,533		Provisions for liabilities and expenses	28	6,533		0
22. Tax liabilities	105		Tax liability	29	105		0
24. Other liabilities	17,012		Other liabilities		17,012		0
26. TOTAL LIABILITIES (ADP 033+039+043+047 to 053)	1,328,716		Total liabilities		1,328,716		0
Capital			CAPITAL	30			
27. Share capital	91,897		Share capital		91,897		
28. Share premium	149		Share premium		149		
29. Equity instruments issued (other than share capital)	0						
30. Other equity instruments	0						
31. Accumulated other comprehensive income	-706		Fair value reserve		-706		
32. Retained earnings	63,422		Retained earnings		65,689		
33. Revaluation reserves	0						
34. Other reserves	15,183		Other reserves		15,183		
35. Treasury shares	-6,592		Reserves on own shares		-6,592		
36. Profit or loss attributable to the owners of parent	2,269						
37. Dividends	0						
38. Minority (non-controlling) interest	0						
39. TOTAL CAPITAL (ADP 055to 066)	165,620		Total capital		165,620		0
40. TOTAL EQUITY AND LIABILITIES (ADP 054+067)	1,494,336		Total equity and capital		1,494,336		0

Adjustments consist exclusively in the division of individual balance sheet items, while in other reports there are no adjustments. In cash flow, there are no differences in the total of the three basic activities, only in the presentation of individual balance sheet items.