KentBank d.d.

ANNUAL REPORT
FOR THE YEAR 2018

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MANAGEMENT BOARD REPORT

About the Bank

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

In July 2011, the Süzer Holding (former Eksen Holding) took over Banka Brod d.d. and at the beginning of 2012, it increased the capital by an additional EUR 10 million, to HRK 117,029 thousand. After acquisition, the major shareholder increased the capital of the Bank in the following years as follows;

- In April 2013 the capital was increased by EUR 10 million (as of 31 December 2013 the ordinary share capital amounted to HRK 192,025 thousand);
- In 2014 the capital was increased by EUR 5 million (as of 31 December 2014 the ordinary share capital amounted to HRK 230,235 thousand);
- In 2015, the capital was increased by EUR 5 million (as of 31 December 2015 the ordinary share capital amounted to HRK 268,333 thousand).

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

In 2016 the Bank issued subordinated debt in the amount of EUR 1,5 million, and in 2017 issued subordinated debt amounted to EUR 3,5 million. The debt was financed by the major shareholder.

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

Thanks to the high capitalization and a strong capital adequacy ratio JCR Eurasia Rating, an international institution for credit rating aimed at Euroasia market, has assigned to the Bank the long term credit rating 'A-(Crt)' and the short term credit rating 'A-1 (Crt)' with the 'stable' prospects for both ratings.

In July 2012, the Bank changed its name to KentBank d.d. ("the Bank") and moved its headquarters to Zagreb (Gundulićeva 1). At that time, the Bank had 9 branches (in Zagreb, Slavonski Brod, Požega, Nova Gradiška, Osijek, Pula, Rijeka) and 2 affiliated branches (in Zagreb and Slavonski Brod). During 2012 and 2013, the Bank opened new branches in Zagreb, Split and Dubrovnik. In 2015, new branches in Zadar and Varaždin were opened. In 2016, new branches in Šibenik and Zagreb were opened, while one branch in Slavonski Brod was closed.

At the end of 2018, total number of branches (15) remained the same as it was at the end of 2017.
At the beginning of 2019 the Bank opened second branch in Split.

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

About the Süzer Group

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

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

Business activities of the Bank

KentBank provides banking services based on the activities registered in the court register, comprising corporate and retail banking. In an effort to improve its position on the market, the Bank proceeded with development of new products. In 2015 the Bank expanded its activities and registered for two more of them, i.e. the issuing of electronic money and insurance brokerage.

In 2016 the Bank introduced saving product for children, packages of products and services for retail clients and started acquisition of international deposits via web platforms in Germany, Austria and Netherlands. In corporate, the Bank started cooperation with Croatian bank for reconstruction and development in loan disbursements as well as activities with trade finance products. Within SME the Bank continues with the efforts in work with building reserves and building reserves managing companies, and participates in tenders published by Fund for environment protection and energetic efficiency for subsidy of energetic façade renewal. In 2016 the Bank implemented SEPA and introduced access to e-Citizens system for the clients of the Bank.

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

In 2017 the Bank implemented Internet and mobile banking, POS devices, DCC service (dynamic currency conversion), packages for clients and safe deposit boxes.

In 2018. The Bank introduced contactless debit cards and started cooperation with exchange offices.
ATM network of the Bank expanded to 20 ATM's by the end of 2018.
The Bank continuously works on development of product portfolio.

Operations of the Bank in 2018

On 31 December 2018, the total assets of the Bank amounted to HRK 2,424 million, representing an increase of 17% compared to 31 December 2017, while the category of customer loans recorded an increase of 21%, with loans amounting to HRK 1,417 million on 31 December 2018. During 2018, the share of the corporate loans in the total loans increased in relation to previous year. The ratio between the corporate and the retail gross loans at the end of 2018 was 55% compared to 45%, while at the end of 2017 it was 53% compared to 47%. The deposits increased by 14%. The major shareholder financed subordinated debt that amounted to HRK 37.2 million.

In 2018, the Bank generated HRK 88 million of interest income, while the interest expenses amounted to HRK 20 million. Net interest income amounted to HRK 67,6 million and it increased by 13% comparing to the previous year. Net income from fees and commissions in 2018 amounted to HRK 11 million, which is a 7% increase compared to the previous year.

In 2018 the Bank continued with record of positive result. It reflects an increase in business activities over the last few years as the Bank has expanded its network and activities and implemented new products for clients. In the course of 2018, net specific provision expenses decreased by 2% compared to 2017. During 2018, expenses for expected losses amounted to HRK 4.7 million (Stage 1+Stage 2).

Development plan

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

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

The focus of the Bank is on the portfolio growth and increase in the number of customers and number of products per customers which will result with growth in fee and commission income. This was especially contributed by the implementation of card operations in 2016, and new internet and mobile banking in 2017. Through the increase in the number of clients, the aim is to increase the share of a vista funds in total deposits of the Bank and reduce the cost of funding sources.

The Bank recognized importance of various sales channels and related trends on the market, especially in digital banking, so the Bank is continuously working on development of mobile banking as well as on improvements of net banking service.

Human resources policy is based on strategic management of human resources in all aspects of the Bank, with intention to become desirable employer on the market for new employees, as well as for existing employees. At the end of 2018 the Bank had 197 employees. The Bank continues to invest in employees' education as it considers it as base for further development.

Strategic objectives

- Raising the market share and strengthening the competitiveness of the Bank on the market;
- Maintenance of good asset quality;
- Improvement of sales orientation in all business segments;
- Continue to generate a positive business result;
- Strong increase of the customer base;
- Further orientation to SME clients;
- Intensive cross-selling activities between all market segments of business operations;
- With the introduction of new products, establish the KentBank as a flexible, efficient and innovative bank that creates value for shareholders, clients, employees and the environment in which it works and operates;
- 'Cross border' - presence in the global market
- Strengthening of existing and implementing new sales channels with emphasis on strenghtening the digitalization services of the Bank (internet banking, ATM network and implementation of mobile banking);

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

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

Financial risk management

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

a) Credit risk

Credit risk management is described in notes 28, 29 and 34b to the financial statements.

b) Liquidity risk

Liquidity risk management is described in notes 30 and 34c to the financial statements.

c) Market risk

Market risk management is described in notes 31, 32, 33 and 34d to the financial statements.

d) Operational risk management

Operational risk management is described in note 34f to the financial statements.

Supervisory Board

During 2018, the Supervisory Board of the Bank consisted of three members. Their term of office is four years and they may be reappointed. After the changes in the membership of the Supervisory Board, it currently has three members chosen by the majority shareholder pursuant to the Companies Act and one independent member.

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

The members of the Supervisory Board in office from 1 January 2018 to the date of issuance of these financial statements, are as follows:

Meriç Uluşahin	President of the Supervisory Board (appointed from 25 January 2017)
Hakan Özgüz	Deputy President of the Supervisory Board
Danijela Roguljić Novak	Supervisory Board Member (appointed from 5 May 2018)
Boris Zenić	Supervisory Board Member (end of appointment on 5 May 2018)

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

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

Management Board

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

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

The members of the Management Board in office from 1 January 2018 to the date of issuance of these financial statements, are as follows:

Murat Betoner	President of the Management Board (appointed on 20 November 2018)
Ivo Bilić	President of the Management Board (end of appointment on 19 November 2018)
Fikret Kartal	Management Board Member
Damir Brkić	Management Board Member (appointed on 15 March 2018)
Feyza Onen	Management Board Member (appointed on 2 August 2018; end of appointment on 8 January 2019)

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

For and on behalf of KentBank d.d.

Murat Betoner
President of the Management Board

Fikret Kartal
Member of the Management Board

Damir Brkić
Member of the Management Board

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

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

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

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

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

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

The financial statements set out on pages 13 to 75 as well as the schedules prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 26 April 2018 (Official Gazette 42/18) presented on pages 76-80 with the reconciliation to statutory financial statements presented on pages 81 to 85 were authorized by the Management Board on 25 April 2019 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of KentBank d.d.

Murat Betoner
President of the Management Board

Fikret Kartal
Member of the Management Board

Damir Brkić
Member of the Management Board

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Independent auditors' report

To the Shareholders of KentBank d.d.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of KentBank d.d. (the Bank), which comprise the statement of financial position as at 31 December 2018, income statement and the statement of other comprehensive income, statement of changes in shareholders' equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for banks in Republic of Croatia.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

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

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

Impairment allowances of loans to and receivables from customers	
The key audit matter	**How the matter was addressed in our audit**
Impairment allowances on loans to and receivables from customers represent management's best estimate of the expected credit losses within the loan portfolios at the reporting date. This area is determined to be a key audit matter as the determination of the appropriate amount of impairment losses requires the application of significant judgement and use of subjective assumptions by management. Judgments and subjective assumptions are especially seen in the area of individual significant exposures (those in excess of HRK 500 thousand, individually on borrower level) and individually non-significant exposures secured by hard collateral (as defined by the Central National Bank ("the CNB")), where	Our work covered impairment of both Retail receivables and Receivables from corporate counterparties. We assessed the design and tested the operating effectiveness of the controls over impairment calculations including the quality of underlying data and systems. With the assistance of the specialist, we assessed the methodology developed to calculate loan loss provision under IFRS 9, concentrating on such aspects as factors for determining a "significant increase in credit risk", allocating loans to stages, appropriateness of models used for calculation of stage 1 (A1) and stage 2 (A2) allowances and estimation of key provisioning parameters. We tested matrices used in the calculation of probability of default ("PD") and loss given default ("LGD") with focus on mathematical accuracy. We also tested on a sample basis allocation of loans in a correct staging as defined in the

Independent auditors' report

expected credit loss is determined on an individual basis by means of a discounted cash flow analysis, Furthermore, allocation of loan exposures in a proper stage in accordance with *International financial reporting standards 9: Financial instruments* ("IFRS 9") depends on Bank judgment and assumptions on proper selection of triggers for identification of significant increase in credit risk of customers. Accounting policies for impairment allowances of loans to and receivables from is given in Note 3.g) Impairment of financial assets.	methodology developed by the Bank. Additionally, we tested whether the allowances for A1 and A2 exposures amount to at least minimum required by Croatian National Bank regulation on determination of expected credit losses. Our audit procedures for individually significant exposures included testing of a sample of loans and receivables, focusing on those with largest amounts and high-risk, such as watch-listed, restructured or rescheduled exposures or non-performing loans with lower provision coverage. For impairment allowances in a selected sample, we assessed the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral, estimates of recovery on default and assessing whether the specific CNB provisioning requirements were complied with. This also included taking into consideration the impact of forbearance. We also assessed whether the financial statement disclosures appropriately reflect the Bank's exposure to credit risk and are compliant with the statutory accounting requirements for banks in Republic of Croatia. Refer to Note 28 Credit risk, Note 29 Credit portfolio quality and Note 34b) Risk and capital management for further details.

Other information included in The Bank's 2018 Annual Report
Management is responsible for the other information. Other information consists of the information included in the Annual Report which includes the Management report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the Other information including the Management report.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.
With respect to the Management Report we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act.

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

1. the information given in the enclosed Management report for the 2018 financial year are consistent, in all material respects, with the enclosed financial statements;
2. the enclosed Management report for 2018 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

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

Responsibilities of management and Audit Committee for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with statutory accounting requirements for banks in Republic of Croatia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going

Independent auditors' report

concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
Audit Committee is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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Independent auditors' report

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were initially appointed as the auditors of the Bank by the General Meeting of Shareholders on 29 March 2017 and our uninterrupted engagement has lasted for 2 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on 22 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

Report on Regulatory requirements

In accordance with the Bylaw on the structure and content of the annual financial statements of credit institutions (National Gazette no 42/18) (hereinafter "the Bylaw") the Bank's management has prepared forms which are presented on pages 76 to 85, and which contain a balance sheet as at 31 December 2018, profit and loss account, statement on other comprehensive income, statement of changes in equity and cash flow statement for the year then ended together with reconciliation with the financial statements of the Bank ("financial information"). This financial information is the responsibility of the Bank's management and is, pursuant to statutory accounting regulation as applicable to banks in Croatia, not a required part of the financial statements, but is required by the Bylaw.
Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited financial statements of the Bank which were prepared in accordance with statutory accounting regulation as applicable to banks in Croatia as presented on pages 13 to 75 and are based on underlying accounting records of the Bank.

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

Zvonimir Madunić
Certified auditor and Board member

Ernst & Young d.o.o.
Radnička cesta 50, Zagreb
22 March 2019

Statement of financial position
As at

	Notes	31 December 2018	31 December 2017
		HRK 000	HRK 000
ASSETS			
Cash and current accounts with banks	12	323,738	92,876
Obligatory reserve with the Croatian National Bank and compulsory CNB bills	14	133,971	117,774
Financial assets available for sale	15a)	-	577,096
Financial assets at fair value through other comprehensive income	15a)	413,891	-
Financial investments held to maturity	15b)	-	66,805
Financial investments at amortised cost	15b)	83,668	-
Loans to and receivables from customers	17a)	1,417,154	1,170,464
Placements with other banks	16	2,745	2,780
Property, plant and equipment	18a)	39,006	40,958
Intangible assets	18b)	4,520	5,512
Foreclosed assets	19	1,146	1,050
Income tax prepayment		274	274
Other assets	20	3,965	3,007
TOTAL ASSETS		**2,424,078**	**2,078,596**
LIABILITIES			
Current accounts and deposits from banks and financial institutions	21a)	89,127	100,209
Current accounts and deposits from customers	21b)	1,825,833	1,578,925
Interest-bearing borrowings	21c)	219,044	115,895
Provisions for liabilities and charges	23	1,524	1,303
Other liabilities	24	17,293	14,283
Subordinated liabilities	22	37,180	37,615
Total liabilities		**2,190,001**	**1,848,230**
EQUITY			
Ordinary share capital	25,25a)	278,012	278,012
Legal reserves	25,25b)	2,137	2,137
Accumulated losses	25	(43,613)	(52,524)
Fair value reserve	25,25c)	(2,459)	2,741
Total equity		**234,077**	**230,366**
TOTAL LIABILITIES AND EQUITY		**2,424,078**	**2,078,596**

The accompanying notes on pages 18 to 75 form an integral part of these financial statements.

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

HRK 000	Ordinary share capital (Note 25a)	Legal reserves (Note 25b)	Accumulated losses (Note 25)	Fair value reserve (Note 25c)	Total
Balance at 1 January 2017	**268,333**	**2,137**	**(58,119)**	**(1,747)**	**210,604**
Change in fair value of financial assets at fair value through other comprehensive income, net of amounts realised	-	-	-	**4,488**	**4,488**
Total other comprehensive income/(loss)	-	-	-	4,488	**4,488**
Profit for the year	-	-	5,238	-	**5,238**
Total comprehensive income / (loss)	-	-	**5,238**	**4,488**	**9,726**
Transactions with owners recognised directly in equity:					
Conversion of preference shares into ordinary shares	9,679	-	-	-	**9,679**
Debt forgiveness from the principal shareholder	-	-	357	-	**357**
Balance at 31 December 2017	**278,012**	**2,137**	**(52,524)**	**2,741**	**230,366**
Balance at 31 December 2017	**278,012**	**2,137**	**(52,524)**	**2,741**	**230,366**
First adoption of IFRS 9	-	-	**1,377**	**995**	**2,372**
Balance at 1 January 2018	**278,012**	**2,137**	**(51,147)**	**3,736**	**232,738**
Change in fair value of financial assets at fair value through other comprehensive income, net of amounts realised and deferred tax	-	-	-	**(6,195)**	**(6,195)**
Total other comprehensive income/(loss)	-	-	-	(6,195)	**(6,195)**
Profit for the year	-	-	7,535	-	**7,535**
Total comprehensive income / (loss)	-	-	**7,535**	**(6,195)**	**1,340**
Transactions with owners recognised directly in equity:					
	-	-	-	-	-
Balance at 31 December 2018	**278,012**	**2,137**	**(43,613)**	**(2,459)**	**234,077**

The accompanying notes on pages 18 to 75 form an integral part of these financial statements.

Income statement
For the year ended 31 December

	Notes	2018	2017
		HRK 000	HRK 000
Interest and similar income	5	87,861	83,467
Interest expense and similar charges	6	(20,225)	(23,491)
Net interest income		**67,636**	**59,976**
Fee and commission income	8a)	14,803	13,388
Fee and commission expense	8b)	(3,789)	(3,110)
Net fee and commission income		**11,014**	**10,278**
Net realised gains from financial assets at fair value through other comprehensive income	9a)	7,997	6,639
Net gains/(losses) from translation of monetary assets and liabilities, administrative fixing of CHF exchange rate and foreign exchange spot trading	9b)	5,288	4,659
Other income	9c)	93	969
		13,378	**12,267**
Total income		**92,028**	**82,521**
Depreciation and amortization	18a); 18b)	(4,062)	(5,693)
Staff costs	10a)	(38,653)	(35,463)
Other administrative expenses	10b)	(23,323)	(21,132)
Total general and administrative expenses		**(66,038)**	**(62,288)**
Impairment losses and provisions	7	(18,455)	(14,995)
PROFIT BEFORE TAX		**7,535**	**5,238**
Income tax expense	11	-	-
PROFIT FOR THE YEAR		**7,535**	**5,238**

The accompanying notes on pages 18 to 75 form an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December

	2018	2017
	HRK 000	*HRK 000*
PROFIT / (LOSS) FOR THE YEAR	7,535	5,238
Other comprehensive income, net of income tax		
Change in fair value of financial assets at fair value through other comprehensive income, net of amounts realised and deferred tax	(6,195)	4,488
Other comprehensive income for the year	**(6,195)**	**4,448**
TOTAL COMPREHENSIVE INCOME / (LOSS)	**1,340**	**9,726**

The accompanying notes on pages 18 to 75 form an integral part of these financial statements.

Cash flow statement
For the year ended 31 December

	Note	2018	2017
		HRK 000	*HRK 000*
Cash flow from operating activities			
Profit / (loss) for the year		7,535	5,238
Depreciation and amortization	18a),18 b)	4,062	5,693
Impairment losses and provisions	7	18,454	14,995
Other changes		1,655	460
Changes in operating assets and liabilities			
Increase in obligatory reserve and compulsory treasury bills with Croatian National Bank		(16,197)	2,193
Increase in placements with other banks with maturity over three months		35	16
Increase in loans to and receivables from customers		(263,764)	(166,530)
Increase in other assets		(1,493)	(1,207)
Increase in deposits from banks and financial institutions		(11,082)	1.864
Increase in current accounts and deposits from customers		246,908	(64,345)
Increase in other liabilities and provisions		2,430	(10,511)
Net cash from operating activities		***(11,457)***	***(212,134)***
Cash flow from investment activities			
Payments for purchases of financial investments at amortised cost		(855,899)	(629,175)
Proceeds from redemption of financial investments at amortised cost		838,880	700,837
Payments for purchases of financial assets at fair value through other comprehensive income		(472,263)	(1,409,025)
Proceeds from sale and redemption of financial assets at fair value through other comprehensive income		630,058	1,563,966
Payments for purchase of property, plant and equipment and intangible assets		(1,397)	(2,002)
Receipts from sale of property, plant and equipment		226	883
Net cash from investment activities		***139,605***	***225,484***
Cash flow from financing activities			
Receipts from issued share capital		-	9,679
Receipts from interest-bearing borrowings	21d)	452,251	509,263
Repayments of interest-bearing borrowings	21d)	(349,102)	(533,640)
Receipts from subordinated liabilities	21d)	(435)	26,254
Net cash from financing activities		***102,714***	***11,556***
Net (decrease) / increase of cash and cash equivalents		230,862	24,906
Cash and cash equivalents as at 1 January		92,876	67,970
Cash and cash equivalents as at 31 December	13	**323,738**	**92,876**
Operational cash flows from interest			
Interest paid		13,783	*22,343*
Interest received		86,354	*78,627*

The accompanying notes on pages from 18 to 75 form an integral part of these financial statements,

Notes to the financial statements (continued)

1. General information

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

2. Basis for preparation of the financial statements

a) Statement of Compliance

The Bank's operations are subject to the Credit Institutions Act. The Croatian National Bank ("the CNB") is the central regulatory institution of the banking system in Croatia, which also prescribes accounting banking regulations. In accordance with CNB regulations the financial statements of banks and other credit institutions are prepared in accordance with statutory accounting regulations for banks in the Republic of Croatia. These financial statements are prepared in line with the above-mentioned banking regulations. Where accounting policies of the Bank are aligned with International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU"), reference may be made to certain standards, in force as at 31 December 2018.

These financial statements have been approved by the Management Board for issue to the Supervisory Board on 25 March 2019. These financial statements are a translation based on separately issued statutory financial statements in Croatian.

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

- The CNB requires banks to recognise impairment losses on assets not identified as impaired at prescribed rates. In accordance with the CNB Decision on the Classification of Exposure to Risk Groups and the Method of Determining Credit Loss, the total impairment of exposures classified in the risk subgroups A-1 and A-2 may not be less than 0,8% of the gross exposure value of these exposure subgroups, except for financial assets measured at fair value through other comprehensive income.
- In line with the above-mentioned requirements, the Bank made portfolio-based provisions in the amount of HRK 15,830 thousand (2017: HRK 13,958 thousand), and recognised an expense in the amount of HRK 3.923 thousand related to these provisions within impairment losses for the year (2017: HRK 892 thousand). Such off-balance-sheet related provisions as at 31 December 2018 amounted to HRK 1,419 thousand (31 December 2017: HRK 1,244 thousand) and the Bank recognised expense in the amount of HRK 756 thousand (2017: HRK 577 thousand). The Bank recognises such provisions as a substitute for expected impairment losses calculated in accordance with the requirements of IFRS 9.
- Additionally, the CNB prescribes minimum levels of impairment allowance against certain specifically identified impaired exposures, irrespective of the net present value of expected future cash flows, which may be different from the impairment allowance required to be recognised in accordance with IFRS 9.
- In accordance with local regulations, interest income on impaired exposures is recognised on a cash basis, as opposed to IFRS 9, which prescribes recognition of interest income on impaired exposures through unwinding of the discount.

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

a) Statement of Compliance (continued)

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

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

A number of new standards, amendments to standards and interpretations have been issued by the International Accounting Standards Board and IFRS Interpretations Committee but are not effective for the accounting period ending 31 December 2018 and / or were not adopted by the European Union and have not been applied in preparation of these financial statements.

IFRS 16 – Effective January 1, 2019 IFRS 16 shall require subjects following IFRS guidance to follow rules for classification, measurement, recognition and reporting of leases. Standard defines unique lease accounting model at lessee according to which the user of the lease shall recognize all leases as assets and liabilities, except for the leases having lease term 12 months or less or whose underlying asset is assessed as low-value leases.
In accordance with that the Bank shall treat every contract as leases contract, or of contract contains lease if with such there is a given control on the property throughout period in exchange for fee.

I. Assets classified as a lease:

The Bank in its books is classifying as a lease following contracts:

- Lease contracts for rent of premises
- Vehicles in leasing

II. Exemptions from recognition

The Bank shall use exemption from recognition for following leases:

- Leases subject to 12 or less months not containing purchase option
- Leases where the new asset is subject to low value leases (i.e. small items of office furniture)

III. Separating components of the contract

For a contract that contains a lease component, the Bank shall account for each lease component within the contract separately from non-lease components (i.e. asset lease and maintenance services) while non-lease components shall not be recognized in the balance sheet.
Based on assessments undertaken to date, the total estimated adjustment (before tax) of the adoption of IFRS 16 on the opening balance of the Bank´s assets at 1 January 2019 is 13.02m HRK representing increase in assets.

Standards, interpretations and amendments to published standards that are effective as of January 1, 2018

IFRS 15 - Revenue from Contracts with Customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Management anticipates that the adoption had no material impact on the financial statements of the Bank.

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

Standards, interpretations and amendments to published standards that are effective as of January 1, 2018 (continued)

IFRS 9 impact - Effective January 1, 2018, in respect of impairment, for the instruments valued at amortized costs and at fair value through other comprehensive income, the Bank is using a model based on the concept of expected losses instead of so far used „loss incurred“, with an aim of faster loss recognition. Based on assessments undertaken, the total adjustment (before tax) of the adoption of IFRS 9 on the opening balance of the Bank´s assets at 1 January 2018 was 1.376m HRK representing increase in equity. The reason for the decrease in provisions on the portfolio valued at amortized cost lies in the fact that the new adjustment for general provisions was lower than the previously prescribed 1%.

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

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

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

Assets carried at amortized costs

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

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

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

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

Standards, interpretations and amendments to published standards that are effective as of January 1, 2018 (continued)

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

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

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

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

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

Financial assets carried at fair value through other comprehensive income

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

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

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

Standards, interpretations and amendments to published standards that are effective as of January 1, 2018 (continued)

Hedge accounting

The Bank did not implement any kind of hedge accounting.

b) Basis of measurement

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

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

c) Judgments and estimates

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

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

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

d) Functional and reporting currency

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

3. Accounting policies

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

a) Interest income and expense

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

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

b) Fee and commission income and expense

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

c) Defined contribution pension plans

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

d) Short term employee benefits

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

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

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

e) Foreign currencies

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

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

Notes to the financial statements (continued)

3. Accounting policies (continued)

e) Foreign currencies (continued)

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

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

7.417575= 1 EUR;
6.469192 = 1 USD;
6.588129 = 1 CHF.

Official mid spot exchange rates effective as at 31 December 2017 were:

7.513648= 1 EUR;
6.269733 = 1 USD;
6.431816 = 1 CHF.

f) Financial instruments

Classification

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

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

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

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

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Financial instruments (continued)

Classification (continued)

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

Loans and receivables

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

Financial investments based on amortized costs

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

Financial assets recognized at fair value through other comprehensive income

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

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

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

Other financial liabilities

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

Recognition and derecognition

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

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

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Financial instruments (continued)

Recognition and derecognition (continued)

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

Initial and subsequent measurement

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

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

Gains and losses

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

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

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

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

Determination of fair value of financial instruments

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

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

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

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

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Financial instruments (continued)

Determination of fair value of financial instruments (continued)

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

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

Offsetting of financial instruments

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

g) Impairment of financial assets

IFRS 9 impact

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

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

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

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

Assets carried at amortised cost

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

3. Accounting policies (continued)

g) Impairment of financial assets (continued)

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

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

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

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

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

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

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

g) Impairment of financial assets (continued)

Financial assets carried at fair value through other comprehensive income

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

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

h) Specific financial instruments

Treasury bills and debt securities

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

Placements with other banks

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

Loans to customers

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

Current accounts and deposits from banks and customers

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

Borrowings

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

i) Property and equipment

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

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

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

Notes to the financial statements (continued)

3. Accounting policies (continued)

i) Property and equipment (continued)

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

	2018 *Years*	2017 *years*
Buildings	10-50	10-50
Electronic equipment and computers	4-5	4-5
Other equipment	2-10	2-10
Furniture and vehicles	4-5	4-5

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

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

j) Intangible assets

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

The estimated useful lives are as follows:

	2018 *Years*	2017 *years*
Software	5	5
Leasehold improvements	up to 5	up to 5

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

k) Impairment of non-financial assets

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

Notes to the financial statements (continued)

3. Accounting policies (continued)

l) Foreclosed assets

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

m) Leases

If the Bank as a lessee, in accordance with the terms of the lease, assumes substantially all the risks and rewards of ownership, such leases are classified as finance leases. All other leases are classified and accounted for as operating leases. For operating leases in which the Bank is a lessee, the related assets are not recognised on the Bank's statement of financial position. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.
Effective January 1, 2019 IFRS 16 shall require subjects following IFRS guidance to follow rules for classification, measurement, recognition and reporting of leases. Standard defines unique lease accounting model at lessee according to which the user of the lease shall recognize all leases as assets and liabilities, except for the leases having lease term 12 months or less or whose underlying asset is assessed as low-value leases.

n) Provisions for liabilities and charges

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

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

o) Off-balance-sheet commitments and contingent liabilities

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

p) Income tax

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

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

Notes to the financial statements (continued)

3. Accounting policies (continued)

p) Income tax (continued)

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

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Bank reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

r) Ordinary share capital and reserves

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

s) Cash and cash equivalents

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

t) Treasury shares

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

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments

Accounting estimates and judgments

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

Classification of exposures in risk categories and determination of impairment losses

Subject to classification are:

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments (continued)

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

RISK GROUP	IMPAIRMENT	NUMBER OF DAYS
B 1	10%	91-120
B 1	20%	121-180
B 2	31%	181-210
B 2	40%	211-230
B 2	50%	231-250
B 2	60%	251-270
B 3	71%	271-300
B 3	80%	301-330
B 3	90%	331-365
C	100%	More than 365

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

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

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

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

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

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

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

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments (continued)

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

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

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

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

Risk categories „B" and „C"

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

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

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

				2018				**2017**
				HRK 000				***HRK 000***
	Corporate	Retail	Other	**Total**	Corporate	Retail	Other	**Total**
Gross value of impaired loans	51,983	60,861	860	**113,704**	51,178	53,528	860	**105.566**
Impairment rate	63%	83%	100%	**73%**	63%	83%	100%	**73%**

Assuming that the portfolio remains at the same level, each additional increase of one percentage point in the impairment rate on the gross impaired portfolio at 31 December 2018 would cause an additional impairment loss in the amount of HRK 445 thousand (in 2017: HRK 506 thousand).

Impairment losses estimated on a portfolio basis as at 31 December 2018 amounted to HRK 17,248 thousand (in 2017: HRK 15,202 thousand) of the relevant on- and off-balance-sheet exposure.

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

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments (continued)

Legal cases

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

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

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

Taxation

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

Fair value hierarchy

Fair value hierarchy is presented in Note 35.

Notes to the financial statements (continued)

5. Interest and similar income

a) Interest income analyzed by product:

	2018	2017
	HRK 000	*HRK 000*
Interest income from loans to and receivables from customers	78,703	73,504
Interest income from financial assets at fair value through other comprehensive income	7,326	5,492
Interest income from financial investments at amortised cost	1,828	4,435
Interest income from deposits	4	36
TOTAL	**87,861**	**83,467**

b) Interest income analyzed by sectors:

	2018	2017
	HRK 000	*HRK 000*
Companies	37,277	36,885
Financial institutions	2,039	1,034
Individuals (retail)	41,871	40,785
Central government and local authorities	5,919	4,151
Other	755	612
TOTAL	**87,861**	**83,467**

6. Interest expense and similar charges

a) Interest expense analyzed by product:

	2018	2017
	HRK 000	*HRK 000*
Interest expense from term deposits	17,777	21,834
Interest expense demand deposits	270	179
Interest expense from borrowings	1,831	1,417
Other	347	61
TOTAL	**20,225**	**23,491**

Notes to the financial statements (continued)

6. Interest expense and similar charges (continued)

b) Interest expense analyzed by sector:

	2018	2017
	HRK 000	*HRK 000*
Interest expense to individuals (retail)	13,295	15,195
Interest expense to non-residents	1,642	3,564
Interest expense to companies	1,861	1,736
Interest expense to financial institutions	3,203	2,857
Other	224	139
TOTAL	**20,225**	**23,491**

7. Impairment losses and provisions

				2018.
				HRK 000
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment of loans to and receivables from customers	735	2,875	13,465	17.075
Impairment of other assets (Note 20a)	(48)	-	261	213
Impairment of financial investments at amortised cost *(Note 15b)*	156	-	-	156
Impairment of financial investments at fair value through OCI	210	-	-	210
Provisions for court cases (Note 23a)	46	-	-	46
Provisions for off-balance-sheet exposure to credit risk (Note 23b)	464	292	-	756
TOTAL	**1,563**	**3,167**	**13,726**	**18,456**

	2017
	HRK 000
Impairment of loans to and receivables from customers	14,260
Specific impairment losses (Note 17c)	*13,368*
Unidentified losses (Note 17c)	*892*
Impairment of other assets *(Note 20a)*	141
Impairment of financial investments held to maturity *(Note 15b)*	-
Provisions for court cases *(Note 23a)*	17
Provisions for off-balance-sheet exposure to credit risk *(Note 23b)*	577
TOTAL	**14,995**

Notes to the financial statements (continued)

8. Fee and commission income and expense

a) Fee and commission income

	2018	2017
	HRK 000	*HRK 000*
Payment transaction fees	11,862	10,614
Loan origination fees	1,704	924
Other banking services	1,237	1,850
TOTAL	**14,803**	**13,388**

b) Fee and commission expenses

	2018	2017
	HRK 000	*HRK 000*
FINA commission	1,242	1,155
CNB	45	67
Domestic banks	1,064	668
Domestic clients	176	158
Other	1,262	1,062
TOTAL	**3,789**	**3,110**

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

	2018	2017
	HRK 000	*HRK 000*
Domestic sovereign bonds at fair value through other comprehensive income	9,612	5,711
Domestic corporate bonds at fair value through other comprehensive income	-	564
Foreign sovereign bonds at fair value through other comprehensive income	(1,613)	295
Financial institutions bonds at fair value through other comprehensive income	-	-
Investment funds at fair value through other comprehensive income	(2)	69
TOTAL	**7,997**	**6,639**

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

	2018	2017
	HRK 000	*HRK 000*
Net gains/(losses) from translation of monetary assets and liabilities		
- items denominated in foreign currency	7,831	3,645
- items linked to foreign currency	(8,422)	(4,167)
Net gain from foreign exchange spot trading	5,879	5,181
TOTAL	**5,288**	**4,659**

9c. Other income

	2018	2017
	HRK 000	*HRK 000*
Income from invoiced notaries expenses	150	108
Net gain from sale of assets	(112)	520
Other	55	341
TOTAL	**93**	**969**

10. Staff costs and other administrative expenses

a) Staff costs

	2018	2017
	HRK 000	*HRK 000*
- Net salaries to employees	21,793	20,284
- Contributions on salaries	5,204	4,829
- Contributions, taxes and surtaxes from salaries	10,866	9,760
- Other	790	590
TOTAL	**38,653**	**35,463**

Staff costs include HRK 6,249 thousand (2017: HRK 5,863 thousand) of defined pension contributions payable into obligatory pension plans.

During 2018, average number of employees was 199 (2017: 196).

Notes to the financial statements (continued)

10. Staff costs and other administrative expenses (continued)

b) Other administrative expenses

	2018	2017
	HRK 000	*HRK 000*
Rent expenses	3,803	3,364
Intellectual services	1,044	982
Other services	3,234	3,222
Marketing and advertisement expenditure	1,515	1,696
Material costs and similar charges	1,178	1,186
Costs of deposit insurance	4,077	3,721
Mail and phone expenditure	1,292	1,052
Maintenance expenses	2,853	2,357
Insurance and protection expenses	857	905
Other expenditure	3,470	2,647
TOTAL	**23,323**	**21,132**

11. Income tax

	2018	2017
	HRK 000	*HRK 000*
Accounting profit before tax	**7,535**	**5,238**
Income tax at 18% (2017: 18%)	1,356	943
Non-deductible expenses	1,031	1,074
Non-taxable income	(872)	(1,096)
Taxable profit / (loss) for the year	**1,515**	**921**
Increase in carry forward tax losses	-	-
Utilization of carry forward tax losses	(1,515)	(921)
Income tax expense recognised in profit or loss	**-**	**-**
Effective income tax rate	**-**	**-**

On the reporting date the Bank did not recognize any deferred tax asset in respect of tax losses carried forward on the grounds of uncertainty as to whether sufficient future taxable profits will be available to utilize those losses before their expiry.

The effect of availability of tax losses in future periods, calculated at the 18% rate enacted at the reporting date as a result of change in corporate profit tax rate from 1 January 2018, subject to review by the Ministry of Finance, is as follows:

	31 December 2018
	HRK 000
No later than 1 year	1,767
No later than 2 years	-
No later than 3 years	-
No later than 4 years	-
Effect of the total tax losses carried forward not recognised as deferred tax assets	**1,767**

Notes to the financial statements (continued)

12. Cash and current accounts with banks

	2018			2017		
	HRK 000			*HRK 000*		
	HRK	Foreign currency	Total	HRK	Foreign currency	HRK
Current accounts with the CNB	146,472	78,362	224,834	9,896	15,584	25,480
Current accounts with other banks	-	57,924	57,924	-	24,956	24,956
Cash in hand	30,821	10,159	40,980	30,027	12,413	42,440
TOTAL	**177,293**	**146,445**	**323,738**	**39,923**	**52,953**	**92,876**

13. Cash and cash equivalents

	2018	2017
	HRK 000	*HRK 000*
Cash on accounts with the CNB (Note 12)	224,834	25,480
Cash on accounts with other banks (Note 12)	57,924	24,956
Cash in hand (Note 12)	40,980	42,440
Placements with banks with original maturity less than 3 months (Note 16)	-	-
TOTAL	**323,738**	**92,876**

14. Obligatory reserve with Croatian National Bank and compulsory CNB bills

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

Banks are obliged to calculate obligatory reserve in kuna and foreign currency at a rate which, as at 31 December 2018, accounted for 12% of kuna and foreign currency funds (31 December 2017: 12%).

The part of the obligatory reserve calculated in kuna is increased by 75% (31 December 2017: 75%) of the calculated obligatory reserve on eligible foreign currency funding sources. 70% of the obligatory reserve should be deposited into a special account held with the CNB, while the rest may be maintained in eligible liquid assets.

After reduction by 75% (31 December 2017: 75%) which is added to obligatory reserve requirement calculated in kuna, the remainder of 25% of obligatory reserve calculated in foreign currency is maintained in foreign currency. Foreign currency obligatory reserve calculated on the basis of foreign currency funds from non-residents and foreign funds received from legal entities in a special relationship with the bank amounts 100% (31 December 2017: 100%) and can be maintained in eligible liquid assets.

	2018	2017
	HRK 000	*HRK 000*
Allocated obligatory reserve in HRK	133,971	117,774
Allocated obligatory reserve in foreign currency	-	-
Total	**133,971**	**117,774**

Notes to the financial statements (continued)

15. Financial investments

a) Financial assets at fair value through other comprehensive income

	2018	2017
	HRK 000	*HRK 000*
Domestic sovereign bonds	247,077	260,973
Domestic corporate bonds	8,894	-
Foreign sovereign bonds	14,390	129,017
Foreign corporate bonds	34,383	19,108
Domestic sovereign treasury bills	109,147	89,999
From which		
Listed	304,744	409,098
Unlisted	109,147	89,999
	413,891	**499,097**
Open-ended cash investment funds	**-**	**77,999**
From which		
Quoted	-	77,999
TOTAL	**413,891**	**577,096**

Financial assets at fair value through other comprehensive income are all in Stage 1 and there were no transfer between stages during the 2018.

b) Financial investments at amortised cost

	2018	2017
	HRK 000	*HRK 000*
Bills of exchange – companies	412	22,060
Factoring – receivables from companies	7,232	38,905
Factoring – receivables from state and local authorities	7,604	4,265
Factoring – receivables from craftsmen	-	1,987
Forfaiting fin.institutions	2,479	-
Foreign sovereign bonds	43,691	-
Foreign corporate bonds	22,817	-
Impairment allowance	(567)	(412)
TOTAL – UNLISTED	**83,668**	**66,805**

Movement in impairment allowance against financial investments at amortised cost:

	2018	2017
	HRK 000	*HRK 000*
Balance at 1 January	**412**	**412**
Charge recognized in profit or loss (Note 7)	157	-
Balance at 31 December	**567**	**412**

Notes to the financial statements (continued)

16. Placements with other banks

	2018	2017
	HRK 000	*HRK 000*
Placements with other domestic banks - in HRK	10,220	10,220
Impairment allowance on placements with other banks in HRK	(10,220)	(10,220)
Placements with other domestic banks - in foreign currency with original maturity over 3 months	2,745	2,780
Placements with other foreign banks – in foreign currency with original maturity of up to 3 months (Note 13)	-	-
TOTAL	**2,745**	**2,780**

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

	2018	2017
	HRK 000	*HRK 000*
Balance at 1 January	10,220	10,220
Charge / (release) recognized in profit or loss	-	-
Balance at 31 December	**10,220**	**10,220**

17. Loans to and receivables from customers

a) Analysis according to types of loans

	2018	2017
	HRK 000	*HRK 000*
Short-term loans:		
Companies	297.828	185,288
Retail customers	83.403	69,216
Other customers	2.215	818
Total short-term loans	**383,446**	**255,322**
Long-term loans:		
Companies	539,312	479,155
Retail customers	569,159	517,088
Other customers	30,409	9,723
Total long-term loans	**1,138,880**	**1,005,966**
Total short-term and long-term loans	**1,522,326**	**1,261,288**
Impairment allowance	(105,172)	(90,824)
TOTAL	**1,417,154**	**1,170,464**

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

Notes to the financial statements (continued)

17. Loans to and receivables from customers (continued)

a) Analysis according to types of loans (continued)

The classification above is based on original contractual maturity, while the remaining contractual maturities are analyzed in Note 29.

b) Loans by industry/product

	2018	2017
	HRK 000	*HRK 000*
Manufacturing	221,996	151,079
Trade	124,368	124,585
Tourism	117,221	101,813
Agriculture	53,140	45,249
Construction	86,519	97,870
Services	208,479	135,712
Other	25,418	8,135
Gross corporate	***837,141***	***664,443***
Cash loans	424,417	454,258
Mortgage loans	58,113	27,524
Overdraft	6,778	6,488
Housing loans	77,303	33,144
Educational loans	8	23
Tourist loans	30,549	19,267
Credit card receivables	5,698	5,608
Other	49,694	39,992
Retail gross	***652,560***	***586,304***
Other gross	***32,625***	***10,541***
Total gross	**1,522,326**	**1,261,288**
Impairment allowance	(105,172)	(90,824)
TOTAL	**1,417,154**	**1,170,464**

17. Loans to and receivables from customers (continued)

c) Impairment allowance for loans and receivables from customers

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

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

		2017	
HRK 000	Specific impairment	Unidentified losses	Total
Balance at 1 January	**64,705**	**13,087**	**77,792**
Increase in provisions	17,089	892	**17,981**
Reversal of provisions	(1,347)	-	**(1,347)**
Collections	(2,374)	n/a	**(2,374)**
Net impairment charge recognised in profit or loss	13,368	892	**14,260**
Write off and foreclosure	(1,207)	(21)	(1,228)
Balance at 31 December	**76,866**	**13,958**	**90,824**

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

18. Property, plant and equipment and intangible assets

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

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

Notes to the financial statements (continued)

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

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

	Land	Buildings	Equipment	Furniture and vehicles	Assets under construction	Total
Cost						
Balance at 1 January 2017	472	39,914	14,470	3,831	286	58,973
Additions	-	16	420	89	183	708
Transfer	-	1	285	-	(286)	-
Write-off and disposals	(47)	-	(31)	(187)	-	(265)
Balance 31 December 2017	**425**	**39,931**	**15,144**	**3,733**	**183**	**59,416**
Depreciation						
Balance as at 1 January 2017	-	4,613	8,711	2,486	-	15,810
Charge for the year	-	916	1,390	549	-	2,855
Write-off and disposals	-	-	(28)	(179)	-	(207)
Balance 31 December 2017	**-**	**5,529**	**10,073**	**2,856**	**-**	**18,458**
Net carrying amount 1 January 2017	**472**	**35,301**	**5,759**	**1,345**	**286**	**43,163**
Net carrying amount 31 December 2017	**472**	**34,402**	**5,071**	**877**	**183**	**40,958**

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

b) Movement in intangible assets in thousand HRK

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

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

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

	Leasehold improvements	Software	Assets in preparation	Total
Cost				
Balance at 1 January 2017	12,176	9,973	1,091	23,240
Additions	13	430	851	1,294
Transfer	-	1,091	(1,091)	-
Write off	(46)	-	-	(46)
Balance 31 December 2017	**12,143**	**11,494**	**851**	**24,488**
Amortisation				
Balance as at 1 January 2017	8,220	7,918	-	16,138
Charge for the year	1,930	908	-	2,838
Write off	-	-	-	-
Balance 31 December 2017	**10,150**	**8,826**	**-**	**18,976**
Net carrying amount 1 January 2017	**3,956**	**2,055**	**1,091**	**7,102**
Net carrying amount 31 December 2017	**1,993**	**2,668**	**851**	**5,512**

19. Foreclosed assets

	2018	2017
	HRK 000	*HRK 000*
Properties acquired in exchange for uncollectible receivables	1,146	1,050
TOTAL	**1,146**	**1,050**

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

20. Other assets

	2018	2017
	HRK 000	*HRK 000*
Receivables for advances	787	582
Receivables for fees and commissions	1,434	1,059
Prepaid expenses	935	892
Receivables from customers	126	104
Other receivables	1,822	1,405
Impairment allowance	(1,139)	(1,035)
TOTAL	**3,965**	**3,007**

a) Movement in impairment allowance against other assets

	2018	2017
	HRK 000	*HRK 000*
Balance at 1 January	**1,035**	**919**
Charge	314	253
Reversal	(101)	(112)
Net charge recognized in profit or loss (Note 7)	*213*	*141*
Write off	(109)	(25)
Balance at 31 December	**1,139**	**1,035**

21. Current accounts and deposits and interest-bearing borrowings

a) Current accounts and deposits from banks and financial institutions

HRK 000

	2018			2017		
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Current accounts	2,233	-	**2,233**	846	-	**846**
Term deposits	82,889	4,005	**86,894**	71,487	27,876	**99,363**
TOTAL	**85,122**	**4,005**	**89,127**	**72,333**	**27,876**	**100,209**

b) Current accounts and deposits from customers

ba) Current accounts from customers

HRK 000

	2018			2017		
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Retail	63,338	108,820	**172,158**	45,256	84,037	**129,293**
Corporate	194,743	78,550	**273,293**	125,863	47,180	**173,043**
State and other institutions	11,263	-	**11,263**	4,126	-	**4,126**
Total current accounts	269,344	187,370	**456,714**	175,245	131,217	**306,462**

bb) Term deposits from customers

HRK 000

	2018			2017		
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Retail	244,364	991,841	**1,236,205**	234,260	900,199	**1,134,459**
Corporate	103,794	25,301	**129,095**	88,079	44,899	**132,978**
State and other institutions	3,820	-	**3,820**	4,989	37	**5,026**
Total term deposits	351,978	1,017,142	**1,369,120**	327,328	945,135	**1,272,463**

Notes to the financial statements (continued)

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

b) Current accounts and deposits from customers (continued)

bc) Total current accounts and deposits from customers

HRK 000

	2018			2017		
	HRK	Foreign currency	**Total**	HRK	Foreign currency	**Total**
Retail	307,702	1,100,661	**1,408,363**	279,516	984,236	**1,263,752**
Corporate	298,537	103,851	**402,388**	213,942	92,079	**306,021**
State and other institutions	15,083	-	**15,083**	9,115	37	**9,152**
TOTAL	621,322	1,204,512	**1,825,834**	502,573	1,076,352	**1,578,925**

c) Interest-bearing borrowings

	2018	**2017**
	HRK 000	***HRK 000***
Repo loan	194,708	94,179
Borrowings from Croatian Bank for Reconstruction and Development	24,336	21,716
TOTAL	**219,044**	**115,895**

Repo loans are contracted with maturity up to 17 days and up to five years with interest rates from 0,05% - 1,4% (2017: up to 25 days and up to five years with interest rates from 0,13% - 1,80%). Domestic sovereign bond and domestic sovereign treasury bills are used as collateral (note 15a). Fair value of the related collaterals (domestic sovereign bonds at fair value through other comprehensive income and domestic sovereign treasury bills) is HRK 276,277 thousand (2017: HRK 232,048 thousand).

d) Net cash from financing activities

	1 January 2018	**Cash flow**	**Foreign exchange movement**	**Changes in fair values**	**Other**	**31 December 2018**
Short-term loans	(106,716)	(22,372)	(248)	-	-	(129,336)
Long-term loans	(9,179)	(80,156)	(374)	-	-	(89,709)
Dividend payable	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-
Subordinated loan	(37,615)	(46)	481	-	-	(37,180)
Total liabilities	**(153,510)**	**(102,574)**	**(141)**	**-**	**-**	**(256,225)**

Notes to the financial statements (continued)

22. Subordinated liabilities

Subordinated liabilities in the amount of HRK 37,179 thousand relate to a borrowing from Suzer Holding approved in 2016 and 2017 in the amount of EUR 5,000 thousand, with final maturity of 7 years and a fixed interest rate of 1,45%. At the date 20 December 2018 the Bank got approval from CNB to prolonge subordinated liabilities till 22 October 2025. The repayment of the debt is subordinated to all other liabilities of the Bank.

23. Provisions for liabilities and charges

	2018	2017
	HRK 000	*HRK 000*
Provisions for legal cases initiated against the Bank	105	59
Provisions for identified losses for off-balance-sheet exposure to credit risk (Note 28)	1,419	1,244
TOTAL	**1,524**	**1,303**

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

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

	2018	2017
	HRK 000	*HRK 000*
Balance at 1 January	60	**42**
Increase in provisions	65	17
Release of unused amounts	(20)	-
Net charge recognized in profit or loss (Note 7)	45	*17*
Used during year	-	-
Balance at 31 December	**105**	**59**

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

	2018	2017
	HRK 000	*HRK 000*
Balance at 31 December 2017	**1,244**	**669**
First time adoption IFRS 9	(580)	-
Balance at 1 January 2018	**664**	
(Release) / charge in provisions recognised in profit or loss (Note 7)	756	577
Write offs	(1)	(2)
Balance at 31 December	**1,419**	**1,244**

24. Other liabilities

	2018	2017
	HRK 000	*HRK 000*
Liabilities to suppliers	3,175	2,550
Liabilities for loan prepayments	6,478	5,186
Liabilities to employees	3,777	3,056
Liabilities for taxes and contributions	206	212
Other liabilities	3,657	3,279
TOTAL	**17,293**	**14,283**

25. Equity

	2018	2017
	HRK 000	*HRK 000*
Ordinary share capital (Note 25a)	278,012	278,012
Legal reserves (Note 25b)	2,137	2,137
Accumulated losses	(43,613)	(52,524)
Fair value reserve (Note 25c)	(2,459)	2,741
TOTAL	**234,077**	**230,366**

a) Ordinary share capital

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

Ordinary share capital amounts to HRK 278,012 thousand (31 December 2017: HRK 278,012 thousand) and is divided into 73,161 ordinary shares (31 December 2017: 73,161 shares) with a nominal value of HRK 3,800.00 each.

The shareholder structure was as follows:

Shareholder	ISIN	Number of ordinary shares at 31 December 2018	% of the ordinary share capital	Number of ordinary shares at 31 December 2017	% of the ordinary share capital
SÜZER HOLDING A.S.	BRBA-R-A	73,161	100.00	73,161	100.00
TOTAL		**73,161**	**100.00**	**73,161**	**100.00**

25. Equity (continued)

b) Legal reserves

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

	2018	2017
	HRK 000	*HRK 000*
Legal reserves	2,137	2,137
TOTAL	**2,137**	**2,137**

c) Fair value reserve

Fair value reserve comprises negative fair value of HRK 2,459 thousand (positive in 2017: HRK 2,741 thousand). Deferred tax asset is not recognized.

During the year HRK 7,997 thousand was realized to profit or loss (Note 9a) (2017: HRK 6,639 thousand).

	2018	2017
	HRK 000	*HRK 000*
Balance at 31 December		
Gross fair value reserve	3,736	*(1,747)*
Deferred tax	(602)	-
First time adoption IFRS 9	995	-
Balance at 1 January	**3.736**	-
Gross fair value reserve at 1 January	3,343	-
Deferred tax	(602)	-
Accumulated impairment	995	-
Net gains/(losses) from change in fair value of financial assets at fair value through other comprehensive income	990	11,729
Deferred tax (charge)/gain on net losses from change in fair value of financial assets at fair value through other comprehensive income	602	(602)
Net gains on disposal of available-for-sale financial assets - transfer to income statement	(7,997)	(6,639)
Deferred tax (charge) on net gains transferred to income statement on disposal of financial assets at fair value through other comprehensive income – transfer to income statement	-	-
Net impairment charge recognised in profit or loss	210	-
Gross fair value reserve change	(7,007)	5,090
Deferred tax change	602	(602)
Impairment allowance change	210	
Balance at 31 December	**(2,459)**	**2,741**

26. Related parties transactions

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

The majority owner of the Bank is Süzer Holding Anonim Sirketi which is headquartered in Turkey. In addition to an increase of ordinary share capital in 2015 the Bank also entered into banking transactions with the majority owner during the year, generating income and expense for the year, and assets and liabilities at year end.

Related party transactions as at and for the year ended 31 December 2018 and 31 December 2017 were as follows:

SUZER HOLDING	**2018**	**2017**
	HRK 000	*HRK 000*
Loans to and receivables from customers	-	1
Other receivables	-	-
	-	1
Received deposits		
Current accounts	415	333
Term deposits	35,139	7,569
Subordinated liability	37,180	37,614
Other liabilities	-	-
	72,734	45,516

SÜZER HOLDING	**2018**	**2017**
	HRK 000	*HRK 000*
Other income	3	9
	3	9
Expenses on received deposits		
Current accounts	-	-
Term deposits	(659)	(539)
Other expenses	-	-
	(659)	(539)

Key management personnel	**2018**	**2017**
	HRK 000	*HRK 000*
Loans to and receivables from customers	1,755	1,646
Other receivables	-	-
	1,755	1,646
Received deposits		
Current accounts	621	931
Term deposits	3,332	4,570
Other liabilities	-	-
	3,953	5,501

Notes to the financial statements (continued)

26. Related parties transactions (continued)

	2018	2017
	HRK 000	*HRK 000*
Interest income on loans to and receivables from customers	56	84
Other income	5	8
	61	92
Expenses on received deposits		
Current accounts	-	-
Term deposits	(32)	(65)
	(32)	(65)

Compensation to key management personnel was:

	2018	2017
	HRK 000	*HRK 000*
Compensation to key management personnel	7,973	7,872
	7,973	**7,872**

The key management personnel in the Bank are the members of the Management and Supervisory Board, procurators and executive directors and other senior management. The expense of contributions paid to mandatory pension funds in the year ended 31 December 2018 for key management personnel amounted to HRK 1,303 thousand (for year ended 31 December 2017: HRK 1,399 thousand).

27. Contingencies and commitments

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

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

27. Contingencies and commitments (continued)

	2017
	HRK 000
Issued guarantees and letter of intent	41,570
Issued letters of credit	428
Unused overdraft facilities	81,122
TOTAL	**123,120**
Identified provisions for off-balance-sheet exposure to credit risk (Note 23)	(1,244)
TOTAL	**121,876**

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

a) Maximum exposure to credit risk

	Note	2018	2017
		HRK 000	*HRK 000*
Current accounts with the CNB and other banks	12	282,758	50,436
Obligatory reserve with the CNB and compulsory CNB bills	14	133,971	117,774
Placements with other banks	16	2,744	2,780
Debt securities at fair value through other comprehensive income	15a)	413,891	499,097
Financial investments at amortised cost	15b)	83,668	66,805
Loans to and receivables from customers	17a)	1,417,154	1,170,464
Income tax prepayment		274	274
Other assets	20	3,031	2,116
Total exposure to credit risk from balance-sheet items		**2,337,491**	**1,909,746**
Exposure to credit risk from off balance sheet items is as follows:			
Guarantees and letters of intent	28	95,730	41,154
Letters of credit	28	361	424
Unused overdraft facilities	28	125,271	80,311
Total exposure to credit risk from off-balance-sheet items		**221,362**	**121,889**
TOTAL		**2,558,853**	**2,031,635**

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

b) Concentration of credit risk

Concentration of credit risk towards State and local authorities

	Note	2018 HRK 000	2017 HRK 000
Current account with the CNB	12	224,834	25,480
Obligatory reserve with the CNB and compulsory CNB bills	14	133,971	117,774
Treasury bills issued by Ministry of Finance at fair value through other comprehensive income	15a)	109,147	89,999
Bonds issued by Republic of Croatia at fair value through other comprehensive income	15a)	247,077	260,973
Financial investments at amortised cost	15b)	7,604	4,265
Income tax prepayment		274	274
Other receivables		64	53
Impairment allowance		(1,818)	(1,478)
TOTAL		**721,153**	**497,340**

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

Apart from exposures towards state and local authorities, the maximum exposure to credit risk towards one customer (including groups of related parties) at the end of 2018 amounted to HRK 59,788 thousand (2017: HRK 46,597 thousand).

29. Credit portfolio quality

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

Collateral and other security instruments

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

Basic types of collateral are:

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

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

29. Credit portfolio quality (continued)

	As at 31 December 2018				
	Neither past due nor impaired				
	Low-risk grades	Standard and sub-standard grades	Past due but not impaired	Specifically impaired	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Current accounts with banks (Note 12)	-	282,758	0	0	**282,758**
Obligatory reserve with CNB and compulsory CNB bills (Note 14)	-	133,971	0	0	**133,971**
Debt securities at fair value through other comprehensive income (Note 15a)	-	413,891	0	0	**413,891**
Financial investments at amortised cost (Note 15b)	-	83,667	1	0	**83,668**
Placements with other banks (Note 16)	-	2,745	0	0	**2,745**
Loans to and receivables from customers (Note 17a)	**-**	**1,372,242**	**20,962**	**23,949**	**1,417,153**
* retail	-	578,135	6,831	9,714	**594,680**
* corporate and other	-	794,107	14,131	14,235	**822,473**
Tax prepayment	-	273	0	0	**273**
Other assets	-	2,116	0	0	**2,116**
TOTAL	**-**	**2,291,663**	**20,963**	**23,949**	**2,336,575**

Gross exposure (per Stages)				2018.	2017.
				HRK 000	*HRK 000*
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
Current accounts with the CNB and other banks	282.758	-	-	**282.758**	**50.436**
Obligatory reserve with the CNB and compulsory CNB bills	133.971	-	-	**133.971**	**117.774**
Placements with other banks	2.745	-	-	**2.745**	**12.780**
Debt securities at fair value through other comprehensive income	417.795	-	-	**417.795**	**496.769**
Financial investments at amortised cost	83.823	-	412	**84.235**	**67.217**
Loans to and receivables from customers	1.398.624	10.411	113.292	**1.522.327**	**1.261.288**
Income tax prepayment	274	-	-	**274**	**274**
Other assets	3.121	10	1.039	**4.170**	**3.152**
Total exposure to credit risk from balance-sheet items	**2.323.111**	**10.421**	**114.743**	**2.448.275**	**2.009.690**
Exposure to credit risk from off balance sheet items is as follows:					
Guarantees and letters of intent	95.730	-	-	**95.730**	**41.570**
Letters of credit	361	-	-	**361**	**428**
Unused overdraft facilities	122.824	2.288	159	**125.271**	**81.122**
	218.915	**2.288**	**159**	**221.362**	**123.120**
	2.542.026	**12.709**	**114.902**	**2.669.637**	**2.132.810**

	Neither past due nor impaired				As at 31 December 2017
	Low-risk grades	Standard and sub-standard grades	Past due but not impaired	Specifically impaired	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Current accounts with banks (Note 12)	-	50,436	-	-	**50,436**
Obligatory reserve with CNB and compulsory CNB bills (Note 14)	-	117,774	-	-	**117,774**
Debt securities available for sale income (Note 15a)	-	499,097	-	-	**499,097**
Financial investments held to maturity (Note 15b)	-	66,247	558	-	**66,805**
Placements with other banks (Note 16)	-	2,780	-	-	**2,780**
Loans to and receivables from customers (Note 17a)	-	**1,127,395**	**14,783**	**28,286**	**1,170,464**
* retail	-	520,814	5,514	9,359	535,687
* corporate and other	-	606,581	9,269	18,927	634,777
Tax prepayment	-	274	-	-	**274**
Other assets	-	2,116	-	-	**2,116**
TOTAL	**-**	**1,866,119**	**15,341**	**28,286**	**1,909,746**

Analysis of past due but not impaired loans:

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

							As at 31 December 2017
	Due up to 30 days	Due 31 - 90 days	Due 91 – 180 days	Due 181-365 days	Due 1 to 2 years	Due over 2 years	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Loans to and receivables from customers	12,244	1,876	604	59	-	-	**14,783**
Financial investments held to maturity	558	-	-	-	-	-	**558**
Total	**12,802**	**1,876**	**604**	**59**	**-**	**-**	**15,341**

Notes to the financial statements (continued)

29. Credit portfolio quality (continued)

Analysis of individually impaired loans (net):

As at 31 December 2018

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

As at 31 December 2017

	Undue	Due up to 30 days	Due 31 - 90 days	Due 91 – 180 days	Due 181-365 days	Due 1 to 2 years	Due over 2 years	Total
	HRK 000	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*	*HRK 000*
Retail loans to and receivables from customers	1,232	-	538	1,717	3,719	397	1,756	**9,359**
Corporate loans to and receivables from customers	11,465	-	985	1,233	2,762	-	2,482	**18,927**
Financial investments held to maturity	-	-	-	-	-	-	-	-
Total	**12,697**	**-**	**1,523**	**2,950**	**6,481**	**397**	**4,238**	**28,286**

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

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

30. Maturity profile of assets and liabilities

Assets and liabilities are allocated within time buckets according to their remaining contractual maturity period. Obligatory reserve is analyzed according to the time buckets of the funds representing the base for its calculation. Open-ended investment funds available for sale are presented in bucket to 1 month as at 31 December 2017, based on their high secondary liquidity. Other items without contractual maturity are presented in the bucket over 3 years.

As at 31 December 2018 *HRK 000*

ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Cash and current accounts with banks	323,738	-	-	-	-	**323,738**
Obligatory reserve with CNB and compulsory CNB bills	39,459	11,731	52,042	26,792	3,947	**133,971**
Financial assets at fair value through other comprehensive income	-	-	7,466	297,279	109,146	**413,891**
Financial investments at amortised cost	5.571	8.123	3.621	22.712	43.641	**83,668**
Loans to and receivables from customers	125,428	83,928	238,305	377,056	592,437	**1,417,154**
Placements with other banks	-	519	2,226	-	-	**2,745**
Property, plant and equipment	-	-	-	-	39,006	**39,006**
Intangible assets	-	-	-	-	4,520	**4,520**
Foreclosed assets	-	-	-	-	1,146	**1,146**
Income tax prepayment	-	-	-	-	274	**274**
Other assets	3,965	-	-	-	0	**3,965**
TOTAL ASSETS	**498,161**	**104,301**	**303,660**	**723,839**	**794,117**	**2,424,078**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	30,225	18,835	40,068	-	-	**89,128**
Current accounts and deposits from customers	533,790	148,851	703,809	382,958	56,425	**1,825,833**
Interest-bearing borrowings	88,801	1,604	3,167	28,276	97,195	**219,043**
Subordinated liability	-	-	-	-	37,180	**37,180**
Provisions for liabilities and charges	-	-	-	-	1,524	**1,524**
Other liabilities	16.634	3	704	(48)	-	17.293
TOTAL LIABILITIES	**669,450**	**169,293**	**747,748**	**411,186**	**192,324**	**2,190,001**
EQUITY						
Ordinary share capital	-	-	-	-	278,012	**278,012**
Legal and other reserves	-	-	-	-	2,137	**2,137**
Fair value reserve	-	(32)	-	(10)	(2,417)	**(2,459)**
Accumulated losses	-	-	-	-	(43,613)	**(43,613)**
TOTAL EQUITY	**-**	**(32)**	**-**	**(10)**	**234,119**	**234,077**
TOTAL LIABILITIES AND EQUITY	**669,450**	**169,261**	**747,748**	**411,176**	**426,443**	**2,424,078**
MATURITY GAP	**(171,289)**	**(64,960)**	**(444,088)**	**312,663**	**367,674**	**-**

Notes to the financial statements (continued)

30. Maturity profile of assets and liabilities (continued)

As at 31 December 2017 *HRK 000*

ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Cash and current accounts with banks	92,876	-	-	-	-	**92,876**
Obligatory reserve with CNB and compulsory CNB bills	28,201	11,978	-	74,191	3,404	**117,774**
Financial assets available for sale	77,999	-	25,459	75,050	398,588	**577,096**
Financial investments held to maturity	15,460	36,154	15,191	-	-	**66,805**
Loans to and receivables from customers	100,978	62,891	217,711	322,387	466,497	**1,170,464**
Placements with other banks	-	526	2,254	-	-	**2,780**
Property, plant and equipment	-	-	-	-	40,958	**40,958**
Intangible assets	-	-	-	-	5,512	**5,512**
Foreclosed assets	-	-	-	-	1,050	**1,050**
Income tax prepayment	-	-	-	-	274	**274**
Other assets	3,007	-	-	-	-	**3,007**
TOTAL ASSETS	**318,521**	**111,549**	**260,615**	**471,628**	**916,283**	**2,078,596**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	6,483	35,334	58,392	-	-	**100,209**
Current accounts and deposits from customers	395,577	135,439	612,070	387,303	48,536	**1,578,925**
Liabilities for preference shares	-	-	-	-	-	**-**
Interest-bearing borrowings	7,714	594	2,964	63,536	41,087	**115,895**
Subordinated liability	-	46	-	-	37,569	**37,615**
Provisions for liabilities and charges	-	-	-	-	1,303	**1,303**
Other liabilities	13,680	-	2	-	601	**14,283**
TOTAL LIABILITIES	**423,454**	**171,413**	**673,428**	**450,839**	**129,096**	**1,848,230**
EQUITY						
Ordinary share capital	-	-	-	-	278,012	**278,012**
Legal and other reserves	-	-	-	-	2,137	**2,137**
Fair value reserve	(1)	(6)	8	-	2,740	**2,741**
Accumulated losses	-	-	-	-	(52,524)	**(52,524)**
TOTAL EQUITY	**(1)**	**(6)**	**8**	**-**	**230,365**	**230,366**
TOTAL LIABILITIES AND EQUITY	**423,453**	**171,407**	**673,436**	**450,839**	**359,461**	**2,078,596**
MATURITY GAP	**(104,932)**	**(59,858)**	**(412,821)**	**20,789**	**556,822**	**-**

Notes to the financial statements (continued)

31. Exposure to foreign currency risk

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

As at 31 December 2018 ***HRK 000***

ASSETS	EUR (and EUR linked)	USD	CHF	Other currencies	HRK	Total
Cash and current accounts with banks	45,244	10,136	4,889	7,814	255,655	**323,738**
Obligatory reserve with CNB and compulsory CNB bills	-	-	-	-	133,971	**133,971**
Financial assets at fair value through other comprehensive income	168,206	38,156	-	-	207,529	**413,891**
Financial investments at amortised cost	50,015	22,712	-	-	10,941	**83,668**
Loans to and receivables from customers	111,411	18,574	-	-	1,287,169	**1,417,154**
Placements with other banks	2,745	-	-	-	-	**2,745**
Property, plant and equipment	-	-	-	-	39,006	**39,006**
Intangible assets	-	-	-	-	4,520	**4,520**
Foreclosed assets	-	-	-	-	1,146	**1,146**
Income tax prepayment	-	-	-	-	274	**274**
Other assets	-	-	-	-	3,965	**3,965**
TOTAL ASSETS	**377,621**	**89,578**	**4,889**	**7,814**	**1,944,176**	**2,424,078**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	4,005	-	-	-	85,122	89,127
Current accounts and deposits from customers	1,092,412	93,207	7,606	2,155	630,453	1,825,833
Liabilities for preference shares	-	-	-	-	-	-
Interest-bearing borrowings	18,544	-	-	-	200,500	219,044
Subordinated liability	37,180	-	-	-	-	37,180
Provisions for liabilities and charges	-	-	-	-	1,524	1,524
Other liabilities	-	-	-	-	17,293	17,293
TOTAL LIABILITIES	**1,152,141**	**93,207**	**7,606**	**2,155**	**934,892**	**2,190,001**
EQUITY						
Ordinary share capital	-	-	-	-	278,012	**278,012**
Legal and other reserves	-	-	-	-	2,137	**2,137**
Fair value reserve	-	-	-	-	(2,459)	**(2,459)**
Accumulated losses	-	-	-	-	(43,613)	**(43,613)**
TOTAL EQUITY	-	-	-	-	**234,077**	**234,077**
TOTAL LIABILITIES AND EQUITY	**1,152,141**	**93,207**	**7,606**	**2,155**	**1,168,969**	**2,424,078**
NET ASSETS/ LIABILITIES AND EQUITY	**(774,520)**	**(3,629)**	**(2,717)**	**5,659**	**775,207**	**0**

Notes to the financial statements (continued)

31. Exposure to foreign currency risk (continued)

As at 31 December 2017 ***HRK 000***

ASSETS	EUR (and EUR linked)	USD	CHF	Other currencies	HRK	Total
Cash and current accounts with banks	37,322	9,160	3,421	3,050	39,923	**92,876**
Obligatory reserve with CNB and compulsory CNB bills	-	-	-	-	117,774	**117,774**
Financial assets available for sale	310,370	19,108	-	-	247,618	**577,096**
Financial investments held to maturity	3,687	-	-	-	63,118	**66,805**
Loans to and receivables from customers	792,771	4,351	5,469	-	367,873	**1,170,464**
Placements with other banks	2,780	-	-	-	-	**2,780**
Property, plant and equipment	-	-	-	-	40,958	**40,958**
Intangible assets	-	-	-	-	5,512	**5,512**
Foreclosed assets	-	-	-	-	1,050	**1,050**
Income tax prepayment	-	-	-	-	274	**274**
Other assets	-	-	-	-	3,007	**3,007**
TOTAL ASSETS	**1,146,930**	**32,619**	**8,890**	**3,050**	**887,107**	**2,078,596**
LIABILITIES						
Current accounts and deposits from banks and financial institutions	27,876	-	-	-	72,333	**100,209**
Current accounts and deposits from customers	1,032,528	34,786	7,653	1,385	502,573	**1,578,925**
Interest-bearing borrowings	26,734	-	-	-	89,161	**115,895**
Subordinated liability	37,615	-	-	-	-	**37,615**
Provisions for liabilities and charges	-	-	-	-	1,303	**1,303**
Other liabilities	-	-	-	-	14,283	**14,283**
TOTAL LIABILITIES	**1,124,753**	**34,786**	**7,653**	**1,385**	**679,653**	**1,848,230**
EQUITY						
Ordinary share capital	-	-	-	-	278,012	**278,012**
Legal and other reserves	-	-	-	-	2,137	**2,137**
Fair value reserve	-	-	-	-	2,741	**2,741**
Accumulated losses	-	-	-	-	(52,524)	**(52,524)**
TOTAL EQUITY	**-**	**-**	**-**	**-**	**230,366**	**230,366**
TOTAL LIABILITIES AND EQUITY	**1,124,753**	**34,786**	**7,653**	**1,385**	**910,019**	**2,078,596**
NET ASSETS/ LIABILITIES AND EQUITY	**22,177**	**(2,167)**	**1,237**	**1,665**	**(22,912)**	**-**

31. Exposure to foreign currency risk (continued)

Sensitivity of profit and loss to exchange rate fluctuations

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

Currency risk	2018	2017
Maximum overall open foreign currency position including options (% of the regulatory capital)	5.48%	14.99%
Open FX position including options in u EUR (% of the regulatory capital)	2.98%	13.92%
Open FX position including options in u USD (% of the regulatory capital)	0.32%	1.03%
VaR (EUR) / open FX position of the Bank in EUR (% of the regulatory capital)	0.15%	0.15%
VaR (USD) / open FX position of the Bank in USD (% of the regulatory capital)	0.78%	0.79%

32. Exposure to interest-rate risk

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

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

				2017
Currency	Changes in interest rate	Sensitivity of equity value to interest rate movements	Changes in interest rate	Sensitivity of equity value to interest rate movements
		HRK 000		***HRK 000***
HRK	100 bp	9,454	200 bp	18,908
EUR	100 bp	3,308	200 bp	6,616
Other	100 bp	558	200 bp	1,116
TOTAL		**13,320**		**26,640**

32. Exposure to interest-rate risk (continued)

Analysis of loans by type of interest rate

	As at 31 December 2018		As at 31 December 2017	
	Interest rate type			
	Fixed	Variable	Fixed	Variable
Assets	58.01%	41.99%	61.83%	38.17%
Liabilities	77.98%	22.02%	81.17%	18.83%

Average effective interest rates

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

	2018 Effective interest rate	2017 Effective interest rate
Cash and current accounts with banks	(0.15%)	(0.06%)
Obligatory reserve with the CNB and compulsory CNB bills	0.00%	-
Placements with other banks	0.00%	0.42%
Debt securities at fair value through other comprehensive income	1.57%	1,12%
Financial assets at amortised cost	3.53%	4.90%
Loans to and receivables from customers	6.14%	6.76%
Current accounts and deposits from banks and financial institutions	1.20%	1.40%
Current accounts from customers	0.08%	0.07%
Term deposits from customers	1.20%	1.53%
Liability for preference shares	0.00%	0.00%
Interest–bearing borrowings	1.31%	1.20%
Subordinated liability	1.45%	1.45%

33. Exposure to price risk

At the end of 2018 the Bank did not have investments in open-ended investment funds.

For 2017 The Bank's investment in open-ended investment funds represent its exposure to price risk.

Sensitivity to price risk	Impact on other comprehensive income before tax 2018 HRK'000	Impact on other comprehensive income before tax 2017 HRK'000
Change in price by ± 3%	-/-	2,340/(2,340)

34. Risk and capital management

Note 34 complements notes 28 to 33, whereby note 34 provides general risk management policies and principles, notes 28 to 33 provide quantitative disclosures of exposure to various risks.

a) Financial risk management

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

b) Credit risk

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

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

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

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

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

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

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

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

34. Risk and capital management (continued)

b) Credit risk (continued)

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

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

c) Liquidity risk

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

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

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

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

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

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

d) Market risk

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

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

34. Risk and capital management (continued)

d) Market risk (continued)

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

- *Interest rate risk* is the risk of change of the prices of financial assets at fair value through other comprehensive income as a result of the changes in interest rates. Interest rate risk is controlled through monitoring the interest rate sensitivity of assets and liabilities.

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

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

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

e) Capital management

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

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

The Bank's regulatory capital requirements were based on EU Regulation No 575/2013 in 2018 and 2017.

The Bank's regulatory capital consists of Tier 1 capital (all qualifies as Common Equity Tier 1 ("CET1") capital, which includes ordinary share capital, accumulated losses, reserves and loss for the period after adjustment intangible assets. In 2017 The Bank's regulatory capital consists of Tier 1 capital (all qualifies as Common Equity Tier 1 ("CET1") capital, which includes ordinary share capital, accumulated losses, reserves and loss for the period after adjustment intangible assets. In 2018 the HRK 37,088 thousand of subordinated liability contracted in 2016 and 2017 is included fully in Tier 2 capital (2017: 37,568 thousand).

Notes to the financial statements (continued)

34. Risk and capital management (continued)

e) Capital management (continued)

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

	Unaudited 31 December 2018 *HRK 000*	Audited 31 December 2017 *HRK 000*
Regulatory capital		
Issued ordinary share capital and preference shares	278,012	278,012
Reserves – legal	2,137	2,137
Losses in previous years	(51,147)	(57,762)
Subordinated liability	37,088	37,568
Total qualifying capital of the bank	**266,090**	**259,955**
Adjustment for intangible assets	(4,520)	(5,512)
Adjustment for financial assets at fair value through other comprehensive income	(413)	(577)
Adjustment for negative revaluation reserve	(3,664)	2,741
Other adjustment for regulatory capital	-	(4,858)
Total regulatory capital	**257,493**	**251,749**
Risk-weighted assets		
Credit risk-weighted assets	1,473,313	1,253,620
Exposure to operational risk	138,238	116,697
Exposure to currency risk	14,117	37,772
Total risk weighted assets	**1,625,668**	**1,408,089**
Common Equity Tier 1 capital ratio	**13.56%**	**15.21%**
Tier 1 capital ratio	**13.56%**	**15.21%**
Total capital adequacy ratio	**15.84%**	**17.88%**

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

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

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

The Bank is compliant with the CNB prescribed total capital ratio in both 2018 and 2017.

f) Operational risk management

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

34. Risk and capital management (continued)

f) Operational risk management (continued)

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

35. Fair values

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

Cash and balances with Croatian National Bank

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

Placements with other banks

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

Loans and advances

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

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

Financial investments at amortised cost

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

Deposits from banks and customers

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

Interest-bearing borrowings

There is no significant difference between carrying and fair value.

35. Fair values (continued)

Determination of fair value and fair value hierarchy

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

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

There were no transfers between levels in 2018 and 2017.

Financial assets	LEVEL 1 *HRK 000*	LEVEL 2 *HRK 000*	LEVEL 3 *HRK 000*	2018 TOTAL *HRK 000*
Financial assets at fair value through other comprehensive income				
Local Government bonds	247,077	-	-	**247,077**
Local Corporate bonds	8,894	-	-	**8,894**
Local treasury bills	-	109,147	-	**109,147**
Foreign sovereign bonds	14,390	-	-	**14,390**
Foreign corporate bonds	34,383	-	-	**34,383**
Cash funds	-	-	-	**-**
Financial assets at amortised cost				
Foreign sovereign bonds	43,691	-	-	**43,691**
Foreign corporate bonds	22,817	-	-	**22,817**
Total financial assets	**371,252**	**109,147**	**-**	**480,399**

Financial assets	LEVEL 1 *HRK 000*	LEVEL 2 *HRK 000*	LEVEL 3 *HRK 000*	2017 TOTAL *HRK 000*
Financial assets available for sale	-	-	-	**-**
Local Government bonds	260,973	-	-	**260,973**
Local treasury bills	-	89,999	-	**89,999**
Foreign sovereign bonds	129,017	-	-	**129,017**
Foreign corporate bonds	19,108	-	-	**19,108**
Cash funds	77,999	-	-	**77,999**
Total financial assets	**487,097**	**89,999**	**-**	**577,096**

Appendix 1 – Supplementary schedules for CNB (continued)

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

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

INCOME STATEMENT for the period 01.01.2018. to 31.12.2018.

Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
1.Interest income	**069**	83.607.140	87.888.370
2.Interest expenses	**070**	22.854.355	19.727.142
3.Expenses on share capital repayable on demand	**071**		0
4.Dividend income	**072**		0
5.Fee and commission income	**073**	13.369.260	14.775.250
6.Fee and commission expenses)	**074**	3.682.278	3.939.901
7.Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**075**	6.452.829	7.999.699
8.Gains or (-) losses on financial assets and liabilities held for trading, net	**076**	5.180.889	5.878.480
9.Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**077**		0
10. Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	**078**		0
11. Gains or (-) losses from hedge accounting, net	**079**		0
12. Exchange differences [gain or (-) loss], net	**080**	-608.693	-654.083
13. Gains or (-) losses on derecognition of non-financial assets, net	**081**		0
14. Other operating income	**082**	1.397.391	519.819
15. (Other operating expenses)	**083**	4.416.909	5.005.381
16. TOTAL OPERATING INCOME, NET (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 to 082 - 083)	**084**	**78.445.274**	**87.735.111**
17. Administrative expenses	**085**	52.667.209	57.725.262
18. Depreciation	**086**	5.693.563	4.061.981
19. Modification gains or (-) losses, net	**087**		0
20. Provisions or (-) reversal of provisions	**088**	593.064	821.229
21. Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	**089**	14.253.271	17.592.093
22. Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates	**090**		0
23. Impairment or (-) reversal of impairment on non-financial assets	**091**		0
24. Negative goodwill recognised in profit or loss	**092**		0
25. Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates accounted for using the equity method	**093**		0
26. Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	**094**		0
27. PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**095**	**5.238.169**	**7.534.546**
28. Tax expense or (-) income related to profit or loss from continuing operations	**096**		
29. PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (AOP 095 - 096)	**097**	**5.238.169**	**7.534.546**

Appendix 1 – Supplementary schedules for CNB (continued)

BALANCE SHEET AS AT 31.12.2018.
Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
Assets			
1.Cash, cash balances at central banks and other demand deposits	**001**	**92.376.014**	**322.909.875**
1.1 Cash on hand	**002**	42.440.028	40.979.652
1.2 Cash balances at central banks	**003**	25.225.239	224.271.821
1.3 Other demand deposits	**004**	24.710.747	57.658.402
2.Financial assets held for trading	**005**	**0**	**0**
2.1 Derivatives	**006**		
2.2 Equity instruments	**007**		
2.3 Debt securities	**008**		
2.4 Loans and advances	**009**		
3.Non-trading financial assets mandatorily at fair value through profit or loss	**010**	**0**	**0**
3.1 Equity instruments	**011**		
3.2 Debt securities	**012**		
3.3 Loans and advances	**013**		
4.Financial assets designated at fair value through profit or loss	**014**	**0**	**0**
4.2 Debt securities	**015**		
4.3 Loans and advances	**016**		
5.Financial assets at fair value through other comprehensive income	**017**	**577.144.300**	**412.686.638**
5.1 Equity instruments	**018**	77.999.061	0
5.1 Debt securities	**019**	499.145.239	412.686.638
5.2 Loans and advances	**020**		0
6.Financial assets at amortised cost	**021**	**1.358.843.340**	**1.639.004.235**
6.1 Debt securities	**022**	21.431.549	66.352.743
6.2 Loans and advances	**023**	1.337.411.791	1.572.651.492
7.Derivatives – Hedge accounting	**024**		
8.Fair value changes of the hedged items in portfolio hedge of interest rate risk	**025**		
9.Investments in subsidiaries, joint ventures and associates	**026**		
10. Tangible assets	**027**	**40.957.691**	**39.006.252**
11. Intangible assets	**028**	**5.511.579**	**4.519.720**
12. Tax assets	**029**	**337.187**	**347.996**
13. Other assets	**030**	**3.771.267**	**4.466.648**
14. Non-current assets and disposal groups classified as held for sale	**031**		
15. TOTAL ASSETS	**032**	**2.078.941.378**	**2.422.941.364**
Liabilities			
16. Financial liabilities held for trading	**033**	**0**	**0**
16.1 Derivatives	**034**		
16.2 Short positions	**035**		
16.3 Deposits	**036**		
16.4 Debt securities issued	**037**		
16.5 Other financial liabilities	**038**		
17. Financial liabilities designated at fair value through profit or loss	**039**	**1.832.872.572**	**2.171.308.673**
17.1 Deposits	**040**	1.832.852.803	2.171.288.904
17.2 Debt securities issued	**041**		0
17.3 Other financial liabilities	**042**	19.769	19.769
18. Financial liabilities measured at amortised cost	**043**	**0**	**0**
18.1 Deposits	**044**		
18.2 Debt securities issued	**045**		

Appendix 1 – Supplementary schedules for CNB (continued)

BALANCE SHEET AS AT 31.12.2018.
Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
Assets			
18.3 Other financial liabilities	046		
19. Derivatives – Hedge accounting	047		
20. Fair value changes of the hedged items in portfolio hedge of interest rate risk	048		
21. Provisions	049	1.495.885	1.789.209
22. Tax liabilities	050	1.034.630	530.223
23. Share capital repayable on demand	051		
24. Other liabilities	052	13.171.812	16.440.528
25. Liabilities included in disposal groups classified as held for sale	053		
26. TOTAL LIABILITIES	054	1.848.574.899	2.190.068.633
Capital			
27. Capital	055	278.011.800	278.011.800
28. Share premium	056		0
29. Equity instruments issued other than capital	057		0
30. Other equity	058		0
31. Accumulated other comprehensive income	059	2.741.012	-3.663.848
32. Retained earnings	060	-57.761.864	-51.147.128
33. Revaluation reserves	061		0
34. Other reserves	062	2.137.362	2.137.362
35. (-) Treasury shares	063		0
36. Profit or loss attributable to owners of the parent	064	5.238.169	7.534.545
37. (-) Interim dividends	065		0
38. Minority interests [Non-controlling interests]	066		0
39. TOTAL EQUITY	067	230.366.479	232.872.731
40. TOTAL EQUITY AND TOTAL LIABILITIES	068	2.078.941.378	2.422.941.364

Appendix 1 – Supplementary schedules for CNB (continued)

CASH FLOW STATEMENT - Indirect method in the period from 01.01.2018. to 31.12.2018.
Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
OPERATING ACTIVITIES AND ADJUSTMENTS			
1. Profit / (loss) before tax	**001**	5.238.169	7.534.545
2. Impairment	**002**	14.431.932	17.592.093
3. Depreciation	**003**	5.692.784	4.061.982
4. Net unrealised profit/(loss) from financial assets and liabilities at fair value through income statement	**004**	0	
5. (Gains) / losses from sale of tangible assets	**005**	0	
6. Other non-monetary items	**006**	0	
Change from assets and liabilities from operating activities			
7. Deposits with CNB	**007**	2.193.539	-16.197.237
8. Deposits at financial institiution and loans to fininancial institutions	**008**	0	
9. Loans to other clients	**009**	-148.657.723	-236.634.557
10. Financial assets at fair value through other comprehensive income	**010**	155.249.574	159.429.369
11. Financial assets held for trading	**011**	0	0
12. Non-trading financial assets mandatorily at fair value through profit or loss	**012**	0	0
13. Financial assets designated at fair value through profit or loss	**013**	0	0
14. Financial assets at amortised cost	**014**	0	0
15. Other assets from operating activities	**015**	480.145	574.100
Net increase/(decrease) in operating liabilities			
16. Deposits with banking institutions	**016**	0	0
17. Current accounts	**017**	41.580.354	147.269.339
18. Saving accounts	**018**	-169.350	334.701
19. Time deposits	**019**	-77.732.421	87.683.522
20. Derivative financial liabilities and other financial liabilities held for sale	**020**	0	0
21. Other liabilities	**021**	-64.560	2.764.309
22. Unpaid interest from operating activities	**022**	0	0
23. Dividends received	**023**	0	0
24. Paid interest from operating activities	**024**	0	0
25. Paid income tax	**025**	0	0
A) Net cash inflow / (outflow) from operating activities (AOP 001 do 025)	**026**	**-1.757.557**	**174.412.166**
INVESTMENT ACTIVITIES			
1. Cash receipts from (payments to acquire) tangible and intangible assets	**027**	-2.002.457	-2.105.650
2. Cash receipts from the disposal of (payments for the investment in) subsidiaries, associates and joint ventures	**028**	0	0
3. Cash receipts from sales of (cash payments to acquire) securities and other financial instruments from investment acitivities	**029**	53.220.812	-44.921.194
4. Dividends received	**030**	0	0
5. Other receipts from(payments for) investments	**031**	-356.701	0
B) Net cash inflow / (outflow) from investment activities (AOP 027 do 031)	**032**	**50.861.654**	**-47.026.844**
FINANCIAL ACTIVITIES			
1. Net increase / (decrease) in received loans	**033**	-24.377.671	103.148.539
2. Net increase / (decrease) of issued debt securities	**034**	0	0
3. Net increase / (decrease) of subordinated and hybrid instruments	**035**	0	0
4. Proceeds from issue of share capital	**036**	0	0
5. (Dividends paid)	**037**	0	0
6. Other proceeds(payments) from financing activities	**038**	0	0
C) Net cash inflow / (outflow) from financial activities (AOP 033 do 038)	**039**	**-24.377.671**	**103.148.539**
D) Net increase / (decrease) of cash and cash equivalents (AOP 026+032+039)	**040**	**24.726.426**	**230.533.861**
Cash and cash equivalents at the beginning of the year	**041**	67.649.588	92.376.014
Effect of currency exchange rate conversion on cash and cash equivalents	**042**		
Cash and cash equivalents at the end of the year (AOP 040+041+042)	**043**	**92.376.014**	**322.909.875**

Appendix 1 – Supplementary schedules for CNB (continued)

STATEMENT OF CHANGES IN EQUITY in the period from 1.1.2018. to 31.12.2018.
Amounts in HRK

Position name	AOP code	Atributable to shareholders of the Bank											Minority interest		Total equity and reserves
		Share capital	Share premium	Equity instruments issued except capital	Other equity holdings	Accumulated other comprehensive income	Retained earnings/loss	Revaluation reserves	Other reserves	Treasury shares	Profit / loss attributable to owners of the parent company	Dividends during the business year	Accumulated other comprehensive income	Other items	
1	2	4	5	6	7	8	9	10	11	12	13	14	15	16	17 (4 to16)
1. Balance at 1 January 2018	01	278.011.800				2.741.011	-57.761.864		2.137.362	0	5.238.169		0	0	230.366.478
2. Effect of error correction	02														0
3. Changes in accounting policies	03						1.376.566								1.376.566
4. Restated balance at 1 January 2018 (001+002)	04	278.011.800	0	0	0	2.741.011	-56.385.298	0	2.137.362	0	5.238.169	0		0	231.743.044
5. Issuance of ordinary shares	05														0
6. Issuance of Preferred Shares	06														0
7. Issuance of other equity instruments	07														0
8. Execution or expiration of other issued equity instruments	08														0
9. Converting Debt to Owners instruments	09														0
10. Reduction of capital	10														0
11. Dividends	11														0
12. Purchase of treasury shares	12														0
13. Sale or cancellation of treasury shares	13														0
14. Reclassification of Financial Instruments from equity instruments in liabilities	14														0
15. Reclassification of Financial Instruments from liabilities to equity instruments	15														0
16. Transfers between components of equity instruments	16														0
17. Increase or decrease in ownership instruments as a result of business combination	17														0
18. Share-based payments	18														0
19. Other increase or decrease in ownership instruments	19														0
20. Total comprehensive income for the current year	20					-5.200.494					7.534.546				2.334.052
Balance at 31 December 2018 (003+010+011+012+013+016)	22	278.011.800	0	0	0	-2.459.483	-56.385.298	0	2.137.362	0	12.772.715	0	0	0	234.077.096

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

a) Comparison of profit and loss account

Statutory financial statements		Supplementary schedules for CNB				
Position name	Amount in HRK '000	Position name	AOP code	Amount in HRK '000	Difference	Explanation of difference
Interest and similar income	87.861	1. Interest income	**069**	87.888	- 27	HRK -28 thousand of Interest income from placements to non-banking financial institutions is presented within Fees nad commision income for CNB reporting (Note 1), 1 thousand is rounding differnce
Interest expense and similar charges	- 20.225	2. Interest expense	**070**	- 19.727	- 498	HRK -151 thousand of Expenses based on commissions/fees for banking services of residents is presented within Fees nad commision expense for CNB reporting (Note 2) and HRK -347 thousand of Interest expenses banks is presented within Other operating expenses for CNB reporting (Note 3)
		3.Expenses on share capital repayable on demand	**071**			
		4.Dividend income	**072**			
Fee and commission income	14.803	5.Fee and commission income	**073**	14.775	28	Refer to Note 1 above
Fee and commission expense	- 3.789	6.Fee and commission expenses)	**074**	- 3.940	151	Refer to Note 2 above
Net realised gains from financial assets available for sale	7.997	7.Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**075**	8.000	- 3	HRK -654 thousand of foreign exchange differences in relation to dealing with foreign currencies reclassified to Exchange differences [gain or (-) loss], net for CNB reporting (Note 4), HRK -3 thousand of Realized gain/loss from assets at fair value through other comprehensive income is presented within Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss for CNB reporting (Note 5)
Net gains from translation of monetary assets and liabilities, fixing of CHF rate and foreign exchange spot trading	5.288	8.Gains or (-) losses on financial assets and liabilities held for trading, net	**076**	5.878	- 590	and HRK 63 thousand of Net balances on exchange rate fluctuations deriving from the adjustment of foreign currency balance sheet positions to the middle exchange rate of the CNB is presented within Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss for CNB reporting (Note 6), 1 thousand is rounding difference
		9.Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**077**			
		10. Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	**078**	-	-	
		11. Gains or (-) losses from hedge accounting, net	**079**	-	-	
		12. Exchange differences [gain or (-) loss], net	**080**	- 654	654	Refer to Note 4 above
		13. Gains or (-) losses on derecognition of non-financial assets, net	**081**	-	-	
Other income	93	14. Other operating income	**082**	520	- 427	Cost of sale of tangible asset (HRK 346 thousand) netted with income from sale in statutory financial statements (Note 7), income from reversal of unused vacation day provision (HRK 61 thousand) included in staff costs in statutory financial statements. (Note 8). and HRK 20 thousand of Income from reversal of provisions for litigation initiated against the bank is presented within Impairment losses and provisions in Financial statements (Note 9)

Appendix 2

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

b) Comparison of profit and loss account continued

Statutory financial statements		Supplementary schedules for CNB				
Position name	Amount in HRK '000	Position name	AOP code	Amount in HRK '000	Difference	Explanation of difference
		15. (Other operating expenses)	083	- 5.005	5.005	Refer to Note 3, Note 7, Note11, and HRK 4,178 of other expenses is presented in Administrative expenses for CNB reporting (Note 12)
Staff costs	- 38.653				- 38.653	HRK 38,580 thousand of expenses for salaties, taxes and contribution and other expenses related to employees are presented w tihin Administrative expenses for CNB reporting (Note 10), HRK -61 thousand refer to Note 8 above, HRK 134 thousand of accruals for unused vacation is presented in Ohter operating expenses for CNB reporting (Note11)
Other administrative expenses	- 23.323	17. Administrative expenses	085	- 57.725	34.402	Reffer to Note 10 and Note12 above
Depreciation and amortisation	- 4.062	18. Depreciation	086	- 4.062	-	
		19. Modification gains or (-) losses, net	087	-	-	
		20. Provisions or (-) reversal of provisions	088	- 821	821	HRk 821 of provisions and reversal of provisions for court cases are presented in Impairment losses and provisions in Financial statements (Note13)
Impairment losses and provisions	- 18.455	21. Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	089	- 17.592	- 863	Refer to Note 9 and Note 13 above
		22. Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates	090		-	
		23. Impairment or (-) reversal of impairment on non-financial assets	091		-	
		24. Negative goodwill recognised in profit or loss	092		-	
		25. Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	093		-	
		26. Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	094	-	-	
PROFIT (LOSS) BEFORE TAX	**7.535**	**22. PROFIT/(LOSS) BEFORE TAX**		**7.535**		
Income tax expense	-	**23. INCOME TAX**				
LOSS FOR THE YEAR	**7.535**	**24. PROFIT/(LOSS) FOR THE PERIOD**	**095**	**7.535**	-	

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

Statutory financial statements		Supplementary schedules for CNB				
Name of line	Amount in HRK '000	Name of position	AOP code	Amount in HRK '000	Difference	Explanation of difference
ASSETS		ASSETS				
Cash and current accounts with banks	323.738	1.Cash, cash balances at central banks and other demand deposits	001	322.910	-828	
		1.1 Cash on hand	002	40.980	0	HRK -828 thousand of Reservations that are determined on an aggregate basis is presented in Financial statements in Financial investments at amortised cost (Note 1)
		1.2 Cash balances at central banks	003	224.272	0	
		1.3 Other demand deposits	004	57.658	0	
Obligatory reserve with Croatian National Bank and compulsory CNB bills	133.971				133.971	HRK 133,971 thousand of Obligatory reserve with Croatian National Bank and compulsory CNB bills is presented in Financial assets at amortised costs for CNB reporting (Note 2)
Placements with other banks	2.745				2.745	HRK 2,745 thousand of Placements with other banks is presented in Financial assets at amortised costs for CNB reporting (Note 3)
		2.Financial assets held for trading	005	0	0	
		2.1 Derivatives	006	-	0	
		2.2 Equity instruments	007	-	0	
		2.3 Debt securities	008	-	0	
		2.4 Loans and advances	009	-	0	
		3.Non-trading financial assets mandatorily at fair value through profit or loss	010	0	0	
		3.1 Equity instruments	011	-	0	
		3.2 Debt securities	012	-	0	
		3.3 Loans and advances	013	-	0	
		4.Financial assets designated at fair value through profit or loss	014	0	0	
		4.2 Debt securities	015	-	0	
		4.3 Loans and advances	016	-	0	
Financial assets at fair value through other comprehensive income	413.891	5.Financial assets at fair value through other comprehensive income	017	412.687	1.204	HRK 1,204 thousand of Value adjustment financial instrumets at fair value through other comprehensive income is presented in Financial statements as Fair value reserve (Note 4)
		5.1 Equity instruments	018	-	0	
		5.1 Debt securities	019	412.687	0	
		5.2 Loans and advances	020	-	0	
		6.Financial assets at amortised cost	021	1.639.004	0	
Financial investments at amortised cost	83.668	6.1 Debt securities	022	66.353	17.315	HRK 17,315 of Factoring is presented in Loans and advances in CNB reporting (Note 5)
Loans to and receivables from customers	1.417.154	6.2 Loans and advances	023	1.572.651	-155.497	HRK -133,971 thousand refer to Note 2 above, HRK -2,745 thousand refer to Note 3 above, HRK -17,315 refer to Note 5 above, HRK 828 thousand refer to Note 1, HRK 1,055 thousand of Recivables of Noninterest income is presented in Other assets in Financial statements (Note 6), HRK -485 of Accrued fees for loans is presented in Other Assets in CNB repoorting and HRK -68 thousand in Other liabilities (Note 7),
		7.Derivatives – Hedge accounting	024	0	0	
		8.Fair value changes of the hedged items in portfolio hedge of interest rate risk	025	0	0	
		9.Investments in subsidiaries, joint ventures and associates	026	0	0	
Foreclosed assets	1.146				1.146	HRk 1,146 of Foreclosed assets is Presented in Other assets in CNB reporting (Note 8)
Property, plant and equipment	39.006	10. Tangible assets	027	39.006	0	
Intangible assets	4.520	11. Intangible assets	028	4.520	0	
Income tax prepayment	274	12. Tax assets	029	348	-74	HRK74 thousand payemt for other taxes to Tax Goverment is presented in Other assets in Financial statements (Note 9)
Other assets	3.965	13. Other assets	030	4.467	-502	HRK -1,055 thousand refer to Note 6, HRK 1,146 refer to Note 8, HRK -74 thousand refer to Note 9 above, HRK 485 refer to Note 7
		14. Non-current assets and disposal groups classified as held for sale	031	0	0	
TOTAL ASSETS	2.424.078	15. TOTAL ASSETS	032	2.422.941	1.137	

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

Statutory financial statements		Supplementary schedules for CNB				
Name of line	Amount in HRK '000	Name of position	AOP code	Amount in HRK '000	Difference	Explanation of difference
LIABILITIES		LIABILITIES				
		16. Financial liabilities held for trading	033	0	0	
		16.1 Derivatives	034	0	0	
		16.2 Short positions	035	0	0	
		16.3 Deposits	036	0	0	
		16.4 Debt securities issued	037	0	0	
		16.5 Other financial liabilities	038	0	0	
Current accounts and deposits from banks and financial in:	89.127	17. Financial liabilities designated at fair value through profit or loss	039	2.171.309		
Current accounts and deposits from customers	1.825.833	17.1 Deposits	040	2.171.289	-37.305	Difference of HRK 37,180 thousand of Subordinated liabilities is presented separately in Financial statements (Note 10) HRK 125 thousand of Payables for income distribution and Fees for deposits is presented tatements under Other Liabilities (Note 11)
Interest-bearing borrow ings	219.044	17.2 Debt securities issued	041	0		
		17.3 Other financial liabilities	042	20		
Subordinated liabilities	37.180				37.180	Refer to Note 10 above
		18. Financial liabilities measured at amortised cost	043	0	0	
		18.1 Deposits	044	0	0	
		18.2 Debt securities issued	045	0	0	
		18.3 Other financial liabilities	046	0	0	
		19. Derivatives – Hedge accounting	047	0	0	
		20. Fair value changes of the hedged items in portfolio hedge of interest rate risk	048	0	0	
Provisions for liabilities and charges	1.524	21. Provisions	049	1.789	-265	HRK 265 of Accruals for unused vacation is presented in Financial statements as Other liabilites (Note 12)
		22. Tax liabilities	050	530	-530	HRK 530 of Tax liabilities is presented in Financial statements as Other liabilities (Note 13)
		23. Share capital repayable on demand	051	0	0	
Other liabilities	17.293	24. Other liabilities	052	16.441	852	HRK 125 refer to Note 11 above, HRK 265 refer to Note 12 above, HRK 530 refer to Note 13 above, HRK -68 refer to Note 7 above
		25. Liabilities included in disposal groups classified as held for sale	053	0	0	
Total liabilities	2.190.001	26. TOTAL LIABILITIES	054	2.190.069	-68	
EQUITY		EQUITY			0	
Issued share capital	278.012	27. Capital	055	278.012	0	
		28. Share premium	056	0	0	
		29. Equity instruments issued other than capital	057	0	0	
		30. Other equity	058	0	0	
Fair value reserve	- 2.459	31. Accumulated other comprehensive income	059	-3.664	1.205	Refer to Note 4 above, 1 thousand is rounding difference
Accumulated loss	- 43.613	32. Retained earnings	060	-51.147	7.534	Profit for the year is a separate line of equity for CNB reporting, 1 thousand is rounding difference
		33. Revaluation reserves	061	0	0	
Legal and other reserves	2.137	34. Other reserves	062	2.137	0	
		35. (-) Treasury shares	063	0	0	
		36. Profit or loss attributable to owners of the parent	064	7.535	-7.535	Profit for the year is a separate line of equity for CNB reporting.
		37. (-) Interim dividends	065	0	0	
		38. Minority interests [Non-controlling interests]	066	0	0	
Total equity	234.077	39. TOTAL EQUITY	067	232.873	1.204	
TOTAL LIABILITIES AND EQUITY	2.424.078	40. TOTAL EQUITY AND TOTAL LIABILITIES	068	2.422.941	1.137	

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

c) Comparison of cash flow statement

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

d) Comparison of statement of changes in equity

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