Privredna banka Zagreb d.d.

Annual report

31 December 2019

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Introduction

The Management Board of Privredna banka Zagreb d.d. has the pleasure of presenting its Annual report to the shareholders of the Bank. This comprises a summary of financial information, Management Board reports for the Bank and the Group, the audited financial statements and the accompanying audit report, supplementary forms required by local regulation and unaudited supplementary statements in EUR and other information. Audited financial statements are presented for the Group and the Bank.

Croatian and English version

This document comprises the Annual Report which also includes separate and consolidated financial statements of Privredna banka Zagreb d.d. for the year ended 31 December 2019 in the English language. This report is also published in the Croatian language for presentation to shareholders at the Annual General Meeting.

Legal status

The separate and consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by European Union (hereinafter: EU) and audited in accordance with International Standards on Auditing.

The Annual Report is prepared in accordance with the provisions of the Companies Act and the Accounting Law, which require the Management Board to report to shareholders of the company at the Annual General Meeting.

Abbreviations

In this Annual Report, Privredna banka Zagreb d.d. is referred to as “the Bank” or “PBZ” or as “Privredna banka Zagreb”, and Privredna banka Zagreb d.d., together with its subsidiaries and associates undertakings are referred to collectively as “the Group” or “the Privredna banka Zagreb Group”.

The central bank, the Croatian National Bank, is referred to as “the CNB”. The European Bank for Reconstruction and Development is referred to as “EBRD”.

In this report, the abbreviations “HRK thousand”, “HRK million”, “USD thousand”, “USD million”, “CHF thousand”, “CHF million”, “EUR thousand”, “EUR million” and "BAM thousand" or "BAM million" represent thousands and millions of Croatian kunas, US dollars, Swiss francs, Euros and Bosnian convertible marks respectively.

Exchange rates

The following mid exchange rates set by the CNB ruling on 31 December 2019 have been used to translate balances in foreign currency on that date:

CHF 1	=	6.839 HRK
USD 1	=	6.650 HRK
EUR 1	=	7.443 HRK
BAM 1	=	3.805 HRK

Introduction (continued)

Who we are and what we do

We are a leading Croatian financial services group engaged in retail and corporate banking, credit card operations, investment banking, private banking, leasing, investment management services and real estate activities. We operate in the entire area of Croatia, Slovenia and in Bosnia and Herzegovina and employ over four thousand people.

Our mission is to permanently and effectively utilize all of the resources at our disposal to continuously improve all aspects of our business activities, including human resources, technology and business processes.

Our vision is to be a model company and centre of excellence in creating new value, as well as provision of high-quality service in all of our activities for the benefit of our clients, the community, our stakeholders and our employees.

2,036 thousand TOTAL CUSTOMERS 1,896 thousand CURRENT ACCOUNTS	HRK 91.8 billion TOTAL CUSTOMERS' FUNDS* HRK 18.5 billion ASSETS UNDER CUSTODY	490,333 INTERNET BANKING USERS 278 TOTAL BRANCHES
1,140 ATM MACHINES 195 DAY AND NIGHT VAULTS	HRK 80.4 billion TOTAL GROSS LOANS HRK 16.7 billion TOTAL HOUSING LOANS	2,850 thousand TOTAL CARDS ISSUED 42,869 EFT POS

**Comprises customers deposits, assets under management and assets under custody*

Introduction (continued)

Five year summary and financial highlights

(in HRK million)

Group	2019	2018	2017	2016**	2015**
Income statement and statement of financial position					
Total gross revenue	5,720	5,727	5,797	6,294	6,047
Net interest income	2,813	2,813	2,979	2,950	2,895
Net operating income	4,920	4,859	4,919	5,224	4,625
Net profit for the year	1,738	1,720	1,295	1,739	461
Total assets	117,917	112,086	104,054	99,708	95,791
Loans and advances to customers	70,565	66,897	65,169	65,177	62,305
Due to customers	89,876	85,938	78,827	74,284	71,745
Shareholders' equity attributable to equity holders of the Bank	16,319	16,036	15,725	15,626	14,292
Other data (as per management accounts)					
Return on average equity	9.80%	10.21%	8.10%**	10.83%	2.90%
Return on average assets	1.33%	1.47%	1.20%**	1.68%	0.44%
Assets per employee	22.6	21.2	20.4**	20.1	20.4
Cost income ratio	42.20%	44.20%	42.70%**	38.66%	43.79%

***Presented information does not include Veneto banka dd (subsidiary acquired and merged in 2018)*

(in HRK million)

Bank	2019	2018	2017	2016	2015
Income statement and statement of financial position					
Total gross revenue	4,501	3,885	4,315	4,532	4,087
Net interest income	2,189	2,207	2,374	2,335	2,193
Net operating income	3,998	3,321	3,815	3,839	3,161
Net profit for the year	1,880	1,380	1,443	1,605	193
Total assets	87,440	82,961	75,497	72,050	69,214
Loans and advances to customers	47,188	45,611	44,562	45,667	44,186
Due to customers	65,890	63,042	57,173	54,108	52,815
Shareholders' equity attributable to equity holders of the Bank	14,661	14,151	13,755	12,769	11,424
Other data (as per management accounts)					
Return on average equity	13.40%	10.10%	11.10%	13.44%	1.67%
Return on average assets	2.11%	1.65%	1.80%	2.13%	0.26%
Assets per employee	24.5	22.8	21.8	21.3	21.7
Cost income ratio	32.90%	41.50%	35.30%	38.36%	43.73%

Report from the President of the Supervisory Board

On behalf of the Supervisory Board of Privredna banka Zagreb dd., I am honored to present you the business results of the Bank and the Group for the year 2019.

Gross domestic product in 2019 recorded a growth of around 3% finally exceeding the pre-crisis level of 2008. The growth was primarily based on personal consumption and investment activity, while net foreign demand generated a negative contribution. Rise in household disposable income, supported by wage increase, employment growth and low inflation, stimulated personal consumption, additionally driven also by the awoken households' credit appetite amid favourable financing conditions. Simultaneously, better withdrawal of the EU funds achieved a positive impact on investment activity, especially of the public sector through project such as the Pelješac Bridge, the railway and other infrastructures. Despite the visible slowdown of economic growth in the Eurozone amid the industrial recession in Germany, the export of goods recorded a solid growth in 2019, where the biggest contribution to growth came from the export of pharmaceutical products and other transport equipment. At the same time, tourism continued to rise and the financial performance, greatly surpassed the physical indicators of arrivals and overnight stays that grew at a slower pace than it used to be the case in recent years.

Along with the continuation of positive economic trends, the past year was also characterised by the continuation of accommodative monetary policy of both Croatian National Bank and European Central Bank which, prompted by an evident slowdown of economic dynamics, in September additionally relaxed the monetary policy by reducing the deposit interest rate and reactivating asset purchase programme. During the year we also observed a number of important developments such as exiting from the excessive macroeconomic imbalances procedure, upgrading of the investment rating by two rating agencies and sending the letter of intent to join the European Exchange Rate Mechanism (ERM2), as well as the related launching of a comprehensive assessment of five Croatian banks by the European Central Bank. At the same time, the economy faced the challenge of labour shortage, that along with the still unsatisfying pace of structural reforms implementation represents a limiting factor of potential growth. The financial sector, that has proven to be the most stable segment of economy, successfully overcomes the challenges of low interest rates environment.

In this challenging environment, the PBZ Group managed to stabilize its business and to control risks arising from its transactions far better than our peers. We coped more than adequate, thus fully protected our capital base, deposits and liquidity. This good result was achieved by application of our long-term strategy built around conservatism in identification and measurement of all risks arising from our daily operations and full dedication to client-oriented approach in all stages of our activities. On top of all this, the PBZ Group maintains a comfortable structural liquidity position, given its stable customer deposit base, appropriate sources of long-term funding and its shareholders' equity. Mix of all those elements enabled us to be truly proud of the strength and resiliency that have been proven in such circumstances. We succeeded in both retaining the value of our Group and giving contribution to the society in which we operate.

During 2019 we placed special attention to shaping ourselves into becoming prominent partner to the local economy. We are constantly focused on enhancement of our services and development of new and innovative products. Hence, we increased our placements in all business segments where we operate. I am specially satisfied that in spite of the previously mentioned challenging market conditions we managed to increase the placements in SME and Corporate segments as well.

Thus total gross revenue for the PBZ Group amounted to HRK 5.7 billion. Consolidated net operating income equaled HRK 4.9 billion, whereas net profit recorded HRK 1.738 billion. Our cost/income ratio, an efficiency key measure, equals 42.2 percent, while the return on average equity reached 9.8 percent. These are all very satisfactory figures consistently representing strong performance throughout the years.

In 2019 the PBZ Group further reinforced its position as one of Croatia’s foremost banks in terms of productivity, returns and value creation for its shareholders. We are the second largest group in the country with a strong customer base. Both revenues and profitability in the PBZ Group are well balanced in all market segment thus successfully mitigating any burdens that concentration risk might impose.

Apart from this, I am proud to report that the PBZ Group is very committed to the role of being socially responsible company and an important member of business community in the country. Consequently, we have launched highly developed and unique program Kartica sa srcem (Card with a heart) used for continuous donations and also we support numerous humanitarian, educational, cultural and sports activities, especially for children and young persons.

Report from the President of the Supervisory Board (continued)

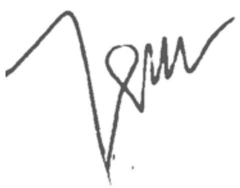
Looking ahead, the present economic climate suggests that the respective environment in 2020 will nevertheless remain challenging. Therefore, a continued focus by management on overseeing asset quality, maintaining optimal product mix as well as an active monitoring of operating costs will be crucial. We have the ability to overcome the near-term challenges. Furthermore, we are well positioned to earn benefits from the present and future trends in growing integration of the Croatian market into the global financial markets. Given our business model, these trends present a significant growth opportunity for us.

On behalf of the Supervisory Board, I would like to express my gratitude and appreciation to all the employees of the Group for their commitment and valued contribution. I would also like to thank the Management Board for its strong leadership and outstanding performance.

Report on the performed supervision in the year 2019

In 2019 the Supervisory Board of the Bank performed duties in conformity with the law, the Bank’s Articles of Association, and Rules of Procedure of the Supervisory Board of the Bank. In the course of 2019 the Supervisory Board held 20 meetings with either physical presence of members, videoconference or by letter. Meetings were held by letter in cases of utmost urgency or in the case when calling a meeting with physical presence of members was not possible for objective reasons. Four regular meetings that considered financial reports were held within the deadlines prescribed by law and the Articles of Association. In order to prepare the decisions that fall within its competence and supervise the implementation of the previously adopted decisions, the Supervisory Board of the Bank was provided with the assistance of Audit Committee, which regularly reported on their work at the meetings of the Supervisory Board. In 2019, the Audit Committee held 6 meetings where it discussed the processes within its competence. In accordance with its legal responsibility, the Supervisory Board of the Bank has examined the Annual Financial Statements and Consolidated Annual Financial Statements of the Bank for 2019, Report on the Operation of the Bank and its Subsidiaries and Draft Decision on the Allocation of the Bank’s Profit Earned in 2019, that were all submitted by the Management Board of the Bank. The Supervisory Board made no remarks on the submitted reports. In that respect, the Supervisory Board established that the Annual Financial Statements and Consolidated Annual Financial Statements were prepared in accordance with the balances recorded in the business books and that they impartially disclosed the assets and financial status of the Bank and the PBZ Group, which was also confirmed by the external auditor BDO d.o.o., Zagreb, the company that had audited the financial statements for 2019. Since the Supervisory Board has given its consent regarding the Annual Financial Statements and Consolidated Annual Financial Statements of the Bank for 2019, the respective financial statements are considered to have been confirmed by the Management Board and by the Supervisory Board of Privredna banka Zagreb pursuant to the provisions of Art. 300.d of the Companies Act. The Supervisory Board of the Bank accepted the report of the Management Board on the operation of Privredna banka Zagreb and its subsidiaries and it agreed that HRK 1,446,101,045.52 of the Bank's net profit totaling HRK 1,879,591,356.54, earned in the year that ended on 31 December 2019, should be distributed by pay-out of dividends (or HRK 76.07 per share) whereas the remaining amount should be allocated to retained earnings.

Yours faithfully



Ignacio Jaquotot

President of the Supervisory Board

18 February 2020

Management Board report of the Status of the Bank

Distinguished shareholders,

I am honoured to present you the Annual Report and Financial Statements of Privredna banka Zagreb dd and PBZ Group for the year ended on 31 December 2019.

Over the course of year, the Croatian economy finally surpassed precrisis 2008 level supported by strong domestic demand, primarily boosted by personal consumption and EU financed investments, as well as, in spite of worsening economic performance in major trading partners, solid exports performance. In order to act preventively in the environment of rising risks and uncertainties, major central banks reached for policy relaxation prolonging the era of low and negative interest rates in the medium term.

This fact allows us to nurture cautious optimism in the forthcoming period and to tailor our business strategy accordingly. As we have consistently been proving our operations to be resilient and sound, we remained strong and agile and readily welcomed continuation of these positive tendencies. Therefore, Privredna banka Zagreb dd and its subsidiaries, supported by our strategic partner Intesa Sanpaolo, managed to outperform our peers in majority of the most relevant business aspects. We continued executing our predetermined business strategy built around customer relations and well-diversified source of income, thus keeping a steady course and reflecting the ability to strengthen our earnings power. All our business segments managed to cope extremely well with the surrounding conditions. Supplementary to this, we have been investing significant effort into shaping ourselves into well-capacited, experienced and agile entity able to conduct exceptional management of non-performing loans. Our proactive credit risk management and execution of well-defined collection strategies are showing continuous downward trends in non-performing loans stock and share. Main driver for the decrease of non-performing loans stock is focus on enhanced prevention activities.

Outlook

Global growth experienced a strong slowdown in 2019 and is estimated at 3 per cent which is the lowest level in the last decade, as a consequence of several factors such as elevated uncertainty surrounding trade amid rising trade barriers and geopolitics, as well as structural factors, such as low productivity growth and aging demographics in advanced economies. In response, central banks in both the United States of America and in the Euro area diverted from already commenced tightening or stabilization in monetary policy, thus prolonging the era of low (negative) interest rates and accommodative monetary policy.

Although the economic developments in the major Croatian foreign trade partners during 2019 worsened as Germany is on the brink of recession, the growth dynamics remained close to 3 per cent supported by strong personal consumption and investments, while exports performance remained stable. Thus 2019, in general, can be acknowledged as a year of positive developments, as the country alongside stable economic growth, regained its investment grade and submitted a request for the establishment of a close cooperation between the Croatian National Bank and the European Central Bank as well as Letter of intent to enter European Exchange Rate Mechanism, which is expected to occur in mid-2020.

Although some risk factors faded in late 2019, some new appeared, as for example geopolitical tensions in the Middle East, keeping the external environment under pressure given that the global economy will remain weak in 2020. Thus, we see also domestic economy slowing down on the account of less favourable foreign demand while domestic demand remains a backbone of growth. Personal consumption will be spurred by rising wages, increase in employment and tax cuts, as well as favourable financing conditions, although in the environment of more stricter lending standards. Investment activity is expected to remain vivid but mostly concentrated in public infrastructure projects, tourism and real estate sector. At the same time unfavourable demographics reflecting persistent emigration and aging population.

Management Board report of the Status of the Bank (continued)

Consolidated financial results

The consolidated net profits for 2019 amounted to HRK 1.738 million, proving our continuation in achieving remarkable results representing a continuation in achieving exceptional results as in the last year. This encouraging result came from carefully planned and precisely executed business strategy that encompasses execution of conservative and systematic approach towards all risks arising from the business transactions, especially credit risk as well as already proven dedication to client orientation and diversification of income sources.

Backed by the present positive macroeconomic signals and in spite of direct and indirect omni-present adverse economic shocks, like predicaments with Agrokor Group and Uljanik Group, that eventually do reflect to the banking industry, it seems that we managed to control risks arising from our operations in a far better way than our peers. This achievement is stemming from our commitment to manage non-performing part of our portfolio in flexible, prudent and swift manner allowing us to sell noticeable parts of non-performing portfolio, increase collection and improve restructuring process. Through the year, PBZ Group constantly monitored and adjusted its risk profile in light of environmental changes and our expectations for the future period, achieving notable results in reduction of key risk indicators such as non-performing loans share and risk weighted assets. This resulted in a decrease of non-performing loans ratio from 6.8 to 5.6 percent, compared to the previous year. Additionally, we managed to substantially control cost of risk while simultaneously increasing the coverage of non-performing portfolio, thus making us well-fitted to meet all future challenges.

Also, Group invested in further strengthening of risk management capacities and compliance with everchanging risk management regulations while participating in activities related to initiated procedure for establishment of a close cooperation between the European Central Bank and the Croatian National Bank in the exercise of supervisory tasks over credit institutions.

The Group's capital management policies and practices, among other tools, are based on an internal capital adequacy assessment process (ICAAP). In this process, the Group regularly identifies its risks and determines the amount of free available capital in stress scenarios. I am pleased to report that the PBZ Group is one of the leading, well-capitalized banking groups in the country, with more than sufficient capital shield compared to internal capital requirement in a stress scenario. Our Capital Adequacy Ratio sits comfortably above 20 percent, which is significantly higher than required by the regulation. Moreover, in order to facilitate high Capital Adequacy Ratio in the future periods, and to expand it even further, during 2019 we launched and successfully executed an initiative aiming to further manage the levels of our Risk Weighted Assets. By doing so we were able to tangibly reduce the levels both on the consolidated and the Bank’s level enabling us to be exceptionally prepared for all possible risks that might arise.

Additionally, the Group's earnings per share amounted HRK 86.9. Based on the methodology used for management reporting, the Group's return on average equity in 2019 soared to 9.8% percent, while return on average assets stood at 1.3 percent. Assets per employee equalled HRK 22.6 million, whereas the cost to income ratio, according to the consolidated financial statements, was maintained at 42.2 percent.

As a reflection of these events, the positive effect of our in-built-long-lasting client orientation, aided by the existence of the positive economic signals, had stable influence on net interest income and net fee and commission income. Equally important, despite still risky macroeconomic surroundings we have found ourselves in, our previously taken strategic decisions enabled us to additionally strengthen our capital base and secure stable liquidity sources thus reducing our costs of funding and allowing us to adopt customer driven practices that resulted in an improvement of our products and services.

Aligned with the above and in more details, our net interest income remained unchanged compared to 2018, being more strongly affected by a decrease in interest income than what it was compensated by a decrease in interest expense. These effects were caused by high liquidity on the market and by still shy and defensive nature of the economic community towards consumption and investments. Net fee and commission income slightly decreased by 1.6 percent, proving our successful transformation into becoming a more service-oriented enterprise. Compelling decrease in costs of provisions by 13.8 percent compared to the previous year are direct evidence of the quality of our non-performing loans management and strategy.

Management Board report of the Status of the Bank (continued)

Consolidated financial results (continued)

The balance sheet of the PBZ Group increased notably by 5.2 percent, amounting to HRK 117.9 billion. The most significant portion of our assets are loans and advances to customers which we managed to keep stable although faced with the negative shocks in the economical environment, notable sales of non-performing loans portfolio and still prevailing lack of demand for loans caused by the erratic economic situation that affected our clients, both corporate and retail. We continue practicing a well-diversified loan portfolio policy, having remotely higher volume of placements to retail customers on one side than placements to public and corporate clients on the other. Given our firm commitment to apply a prudent approach in risk identification and measurement, non-performing loans fell below 6 percent threshold, additionally indicating the quality of our non-performing loans management. From the liabilities perspective, customer deposits mainly fund our balance sheet, where the retail segment plays the most significant role. In 2019, once again we experienced an upsurge in customer deposits by 4.6 percent reaching the level of HRK 89.9 billion, caused by both high liquidity observable on the market and our reputation of being one of the most stable and client oriented financial group on the market. Capital adequacy ratio remained stable and it is by far exceeding the prescribed threshold.

Unconsolidated financial results of the Bank

The Bank's net result in 2019 was HRK 1.880 million, representing a compelling increase compared to the preceding year, but principally induced from the PBZ Group internal relation transaction aimed at the optimization of the capital management on the Group level. Notwithstanding the above, this favourable result is stemming from careful planning and enduring execution of our business strategy. Defying the fact that there were significant risks present in the economy (although in its upward phase), net interest income almost remained unchanged thus being decreased by immaterial 0,8 percent. In spite of the prevailing presence of the excessive liquidity pushing downwards reference market rates, it is noticeable that interest income remained preserved at the same level as in 2018, thus maintaining the level above HRK 2.3 billion. On the other hand, clients continued placing their unfaltering trust in the Bank as a reliable partner and allocating funds to both a-vista and term deposits. Although, in most cases, the Bank offers lower interest rates compared to the competition, our market share continues to grow at a steady pace, reaching, according to the latest data, as much as 20.3 percent, additionally corroborating the high quality of the business relationships between clients and the Bank. Therefore, we were able to compensate for the negative trend experienced in relation to interest income. However, as we are widely recognized as steady and low-risk partner to all our clients, this further affirmed us to continue practicing our dedication to fulfilment of overall client requirements. This strategy was accompanied by efficient and omnipresent cost management enterprise carried within all organizational units enabling us to successfully control the expense side of our business. Hence, we were able to maintain our cost to income ratio a 32.9 percent.

The overall Bank's balance sheet eminently increased by 5.4 percent, reaching a level of HRK 87.4 billion. Although the market shows sluggishness in demand for loans, loans and advances to customers increased by notable 3.5 percent, amounting to HRK 47.2 billion. Current accounts and deposits from customers increased by convincing 4.5 percent, reaching the level of HRK 65.9 billion. Considering the total structure of the balance sheet, the relative portion of customer deposits amounts to 75.4 percent. The total loan to deposit ratio of the Bank equals 71.6 percent emphasizing the stability and conservative nature of our ventures.

Business segments

In 2019 the Bank additionally consolidated its role as a leader in new technologies, continuously developing new and innovative products and services. Moreover, considerable effort was put into its transformation in order to become an entity entirely equipped for digital services. The content and availability of digital services on mobile and online platforms were thoroughly redesigned and significantly upgraded. This endeavor was carefully aligned with the adoption of new distribution model in branch offices promoting the execution of cash and simpler transactions in digital channels, simultaneously introducing changes in the branch office network in order to carry out more complex tasks quicker and more easily and to improve personal relationships with clients. This significantly simplifies the everyday banking experience for the clients and enables a wider range of products and services.

In the Bank more than 96 per cent of transactions are carried out electronically. The new digital banking platform is a multichannel online and mobile banking concept with numerous innovative functionalities and possibility to personalize the application in accordance with the clients' needs and wishes. Moreover, we are the first commercial bank in Croatia to provide its clients with Apple Pay services last year and Google Pay services back in 2018. By doing so we shall ease the clients' daily banking experience and offer them a wider range of the products thus fully satisfying all their requirements.

Despite still sluggish recovery of demand for loans on the market, I'm proud to report that we managed to increase our portfolio in Retail business segment both on the loans and deposits side where, among other initiatives, we ventured ourselves into becoming an important provider in the affluent sub-segment of the market as well.

Management Board report of the Status of the Bank (continued)

Business segments (continued)

Facing uneasy market conditions, SME business segment managed to preserve size of its portfolio, both loans and deposits. Corporate business segment was facing harsh market conditions arising from the fact that large clients are offered more financing possibilities than ever, outside banking industry and/or local markets. However, our dedication to successfully serve this portion of the market encouraged us to seek new opportunities. We are especially recognized in Croatian market for our excellence in providing technologically advanced and reliable transaction banking, as the leading equity and debt issue agent and book-runner, as market leader in arranging syndicated loans in Croatia and as top ranked custodian.

Extraordinary business events

In the beginning of 2018 American Express Company made a decision to leave the licencing business model on the EU market. The decision was made due to changes introduced by the European regulatory framework for payment operations which significantly impacts the sustainability of the licencing business model of issuing and accepting American Express cards. This had a profound influence on American Express Company to cancel such models of cooperation in EU countries and not to grant licence rights for issuing and accepting cards to third persons. In accordance with this decision, American Express cards, whose issuer is PBZ Card, could have been used until 31 December 2019.

In view of the many years of successful business and the leading position of PBZ Card on the Croatian card market as well as the strategic direction of PBZ Group in providing premium card services and benefits, during 2018 we launched a new credit card business model and chose a new strategic partner to whose brand American Express cards will be migrated – Visa, one of the strongest card brands worldwide.

Thus 2019 was marked by issuing of the new Premium Visa Cards and by the strategic project of migration of the entire American Express portfolio to the new Premium Visa portfolio. Premium Visa cards are the result of the strength and synergy of PBZ Group, as the leading financial group and leader on the Croatian card market, and our partner Visa, the leader in the introduction of innovative technology solutions and one of the strongest global brands. These cards combine the card benefits and services developed within PBZ Group, as well as the advantages and benefits of Visa such as the highest grade of acceptance in the country and the world, the highest security standards and modern payment solutions.

After exceptionally successful migration of our card portfolio as the largest acquirer in Croatia we continue our cooperation with the American Express Company by accepting and developing sales network for American Express cards on the Croatian market and we are also the first banking group to accept UnionPay cards at our sales establishments.

Further strengthened by our partnership with Visa, we remain intensely focused on our card business and strategically committed to providing first-rate card service and developing new benefits for our cardholders and partners.

During 2019 a specific project was launched with the objective to establish a separate entity from the existing business unit of the Bank which will develop a new IT delivery strategy, based on shared services approach under a common framework. As a part of a new business strategy, the ISP Group will integrate the existing IT know-how and already established business best practices present in the Bank, as well as in other Group members and, through the new governance model, coordinate IT business solutions at ISP Group level. The afore mentioned company shall not be a part of the PBZ Group.

Corporate social responsibility

Our commitment to driving social change and constant dedication towards supporting our community in which we do business are essential identifiers of the entire PBZ Group. We always strive to participate in positive changes in society, helping those who need help the most. Among our corporate social responsibility projects, I would like to highlight the unique one – the Visa Card With Heart, which supports our Doing Good Every Day initiative. For over a decade through we have continuously supported national, long-term projects for the well-being of children and young people, while also responding with support for our society's current needs. I am also particularly proud of our activities involving employee volunteering, where there is greater participation with each new programme. Last year, in addition to receiving prestigious The Banker's Bank of the Year Award for the best bank in Croatia, our Bank was also honoured with the Family-Friendly Employer Award by the Ministry of Demography, Family, Youth and Social Policy.

Management Board report of the Status of the Bank (continued)

Briefly on the Bank's subsidiaries

In 2019, the PBZ Group members coped well with the overall economic conditions that resulted in positive financial outcomes. Therefore, PBZ Card achieved a net profit of HRK 167.1 million, PBZ Leasing HRK 28.2 million, PBZ Stambena štedionica HRK 8.3 million, PBZ Nekretnine HRK 19.2 million, whereas PBZ Croatia osiguranje, our jointly owned pension fund management company, earned a profit of HRK 23 million.

Intesa Sanpaolo Banka dd Bosna i Hercegovina, our subsidiary established in Bosnia and Herzegovina, earned HRK 128.5 million attributable to PBZ Group. Intesa Sanpaolo Bank, our subsidiary in Slovenia, earned HRK 89.8 million attributable to PBZ Group. Our foreign subsidiaries' strategic objectives are jointly planned on PBZ Group level - progressing with multi-year plan of investments for the infrastructural and technological modernization, organizational changes in terms of increase of the competitiveness and faster reaction to market changes and continuous assessment of risk profile. Implementation of these objectives are already bearing fruits in current business result but also represent a solid foundation for the future events.

Additionally, in order to achieve further operational harmonization on the level of all three Banks in the Group leading to a unique operational model, increase of effectiveness and efficiency of business operations and savings in general, a new multi-year initiative was launched in 2018 that is already bearing the fruits.

With an aim of further optimization of the current PBZ Group structure, due to simplification in the governance process and IT infrastructure, in the beginning of 2020 we merged PBZ Nekretnine into PBZ Card. This business combination shall have no impact on the overall scope of the services and the its quality provided by the PBZ Group.

Conclusion

The PBZ Group is well-fitted not only to face up to challenges, but also to seize opportunities. We have a strong capital base, liquidity and funding positions, preparing us for potential market uncertainties and for tighter regulation. We are continuously transiting to a better balanced, more diversified and lower-risk business model.

I would like to take this opportunity to express gratefulness to all my colleagues and all employees of the PBZ Group for their dedication and true professionalism that enabled us safely to sail through these restless times.

Furthermore, I would like to thank all our acclaimed clients and business partners for putting their trust in our hands. Also, I would like to express my most sincere gratitude to all the members of the Supervisory Board for their encouragement in conducting our business affairs.

Dinko Lucić,
President of the Management Board

18 February 2020

Management Board report of the Status of the Group

Financial Highlights of the Group

Throughout 2019, the PBZ Group continued its growth on all markets where present and in various fields of activity. In particular, this relates to financial involvement and leadership in new technologies, continuously developing the overall strategy, innovation and availability of its products to citizens, SMEs and large and institutional clients.

The consolidated net profits for 2019 amounted to HRK 1,738 million, representing an increase of 1 percent compared to 2018. This exceptional result came from carefully planned and perennially executed business strategy that encompasses execution of conservative and systematic approach towards all risks arising from the business transactions, dedication to client orientation and diversification of income sources.

The slowdown in the growth of the European economy, the weakening of the euro against the US dollar and increased challenges at the level of interest rate movements are also affecting the banking sector, forcing it to make adjustments in risk management. In such an environment, the challenge is to manage the business risks more successful than our competitors. This achievement is stemming from our commitment to manage non-performing part of our portfolio in flexible, prudent and swift manner allowing us to sell noticeable parts of non-performing portfolio, increase collection and improve restructuring process. This resulted in a further decrease of non-performing loans ratio from 6.8 to 5.6 percent, compared to the previous year. Additionally, we managed to substantially control cost of risk under sufficient coverage of the non-performing portfolio, thus making us well-fitted to meet all future challenges.

The Group's capital management policies and practices, among other tools, are based on an internal capital adequacy assessment process (ICAAP). In this process, the Group regularly identifies its risks and determines the amount of free available capital in stress scenarios. I am pleased to report that the PBZ Group is one of the leading, well-capitalized banking groups in the country, with more than sufficient capital shield compared to internal capital requirement in a stress scenario. Our Capital Adequacy Ratio sits comfortably above 20 percent, which is significantly higher than required by the regulation.

Additionally, the Group's earnings per share amounted HRK 86.9. Based on the methodology used for management reporting, the Group's return on average equity in 2019 was 9.8 percent, while return on average assets was 1.33 percent. Assets per employee equalled 22.6 million with an increase of 6.6 percent compared to previous year, whereas the cost to income ratio, according to the consolidated financial statements was 42.2 percent.

As a reflection of these events, the positive effect of our in-built-long-lasting client orientation, aided by the existence of the positive economic signals, had stable influence on net interest income and net fee and commission income. Equally important, despite still risky macroeconomic surroundings we have found ourselves in, our previously taken strategic decisions enabled us to additionally strengthen our capital base and secure stable liquidity sources and allowing us to adopt customer driven practices that resulted in an improvement of our products and services.

In line with the foregoing, the decrease in net interest income, which remained at the level of the previous year in the amount of HRK 2.813 million, was stopped despite the decrease in interest income, offset by a decrease in interest expense. This is due to the high liquidity in the market, but also to the low interest rates. On the other hand, net fee and commission income increased by 1.8 percent, showing continuation of transformation in becoming a more service-oriented enterprise. Compelling decrease in costs of provisions by 18.7 percent compared to the previous year are direct evidence of the quality of our non-performing loans management and strategy.

The balance sheet of the PBZ Group increased notably by 5.2 percent, amounting to HRK 117.9 billion. The most significant portion of our assets are loans and advances to customers which experienced an increase in the outstanding amount by 5.5 percent. Retail recorded a rise in placement before impairment by 7.4 percent and corporate clients before impairment increased 3.9 percent, despite the prevailing conditions of uncertainty over consumption and investment. We continue practicing a well-diversified loan portfolio policy, whereby we record slightly more placements to retail customers and corporate compared to placements to public bodies. Given our firm commitment to apply a prudent approach in risk identification and measurement, non-performing loans account for 7.3 percent of total placements, additionally indicating the good quality of our non-performing loans management.

Management Board report of the Status of the Group (continued)

Financial Highlights of the Group (continued)

As we are well aware that the excellence in customer orientation can only be accomplished if one stands by its customers during troubled times, we have embedded such approach in all our business processes. Therefore, we continue developing comprehensive initiatives aimed at helping our customers during crises. From the liabilities perspective, customer deposits mainly fund our balance sheet, where the retail segment plays the most significant role. In 2019, we experienced an upsurge in customer deposits by 4.6 percent caused by both high liquidity observable on the market and our reputation of being one of the most stable and client oriented financial group on the market. Capital adequacy ratio remained stable and it is by far exceeding the prescribed threshold.

Below we provide an overview of business results of the Bank’s subsidiaries and associate. Presented business results are on a stand-alone basis, before intercompany and consolidation adjustments.

PBZ Card

The financial results of PBZ Card reflect the continuation of stabile and growing business results in 2019, which confirms the Company's leading position in the domestic credit card market.

The total net operating income of the Company in 2019 amounts to HRK 602.2 million, which is on the level of results achieved in 2018. Net fee and commission-based income amounts to HRK 566.1 million that is 1.1 percent higher compared to the previous year.

In the structure of net operating income, interest income amounts to HRK 20 million, which is 7.8 percent lower compared to the previous year. This trend was expected due to the measures taken as a part of receivables collection during 2018 and 2019. Furthermore, the decline in penalty interest-based income was additionally influenced by the continued decrease of the proscribed highest statutory default interest rate over past periods.

The Company's profit before taxation amounts to HRK 204.1 million and profit after taxation HRK 167.1 million, which is 22.1 percent higher compared to the previous year. The financial results for 2019 were mostly influenced by the American Express's decision to leave the licence business model and the Company's decision to transition to the new Visa Premium brand.

The total operating costs for the year 2019 amount to HRK 345.6 million, while the total assets as of December 31, 2019 amount to HRK 2,720 million.

The above-mentioned results make PBZ Card the second most profitable segment of PBZ Group, thus fulfilling all the Company's objectives. PBZ Card will therefore continue its revenue-driven business by further promotion of credit card-based spending, both physical and virtual, focusing on innovative, contemporary digital technologies and investing in value-added services for card holders and merchants.

Intesa Sanpaolo banka Bosna i Hercegovina

The 2019's net profit of HRK 129 million shows a 5.5 percent decrease compared to the previous year.

Net Interest Margin is higher by 0.9 percent compared to last year as result of significant increase of loans to customers by 10 percent and decrease of customer deposits rate by 10 bps. Total operating income increased by 3.8 percent year on year due to increase of net commission income by 10.8 percent compared to the previous year.

Total operating costs recorded a yearly increase by 0.6 percent.

Significantly (373.5 percent) higher net impairment costs mainly due to implementation of new definition of default with impact of HRK 9 million on impairment on loans and provisions for Glumina bank case with impact of HRK 4.5 million on risk and charges. NPL ratio decreased compared to previous year by 37 bps, reaching a level of 3.5 percent, which is significantly lower than the banking sector average. NPL Coverage ratio (61 percent) reduced by 1,415 bps due to sales of NPL in amount of HRK 53 million with high coverage ratio.

Total assets increased by 14 percent at HRK 9 billion with net loans in the amount of HRK 6 billion (increased by HRK 622 million or 12 percent) and customer deposits in the amount of HRK 6 billion (increased by HRK 809 million or 16 percent). The loan portfolio grew due to lending to private customers increased by 6.1 percent and lending to legal entities increased by 13.6 percent. Positive performance was confirmed also by improvement in collection of deposits, where private customer's deposits increased by 9.7 percent and legal entities deposits increased by 23.2 percent. The Bank enjoys comfortable liquidity position, even assuming worsening macro-economic scenario, with available resources to sustain further expansion of credit portfolio.

Management Board report of the Status of the Group (continued)

Financial Highlights of the Group (continued)

Intesa Sanpaolo banka Bosna i Hercegovina (continued)

The Bank’s capital adequacy ratio further improved to 16.56 percent not taking into consideration Net Profit of 2019 in the amount of HRK 129 million.

Strategic objectives of the Bank for 2020 are planned in coordination with Privredna banka Zagreb - progressing with multi-year plan of investments for the infrastructural and technological modernization of the Bank, organizational changes in terms of increase of the competitiveness of Bank’s commercial offers to clients, improving support in decision-taking for faster reaction to market changes and continuous assessment of risk profile of Bank’s assets.

Intesa Sanpaolo Bank Slovenia

In 2019, Intesa Sanpaolo Bank’s net profit reached HRK 89.8 million, showing a positive trend in business operations growth, as well as in cost optimization activities.

Lending activity in Slovenian economy has continued to show a positive dynamic with abundant liquidity and very low interest rates. The banks had to face fierce price-competition for the granting of loans and for the attraction of new customers which had a significant effect on profitability. In the banking system a further consolidation of the banks took place, together with a privatisation of the biggest (state owned) bank.

Intesa Sanpaolo Bank managed to accomplish a successful transformation from a regional bank into a national innovator, including the move to new Business Headquarters in Ljubljana. During the 2019 the Bank substantially invested into renovating its branch network according the ISP Group Distribution Model receiving a great positive feedback from the clients. The Bank effectively performed an alignment of lending processes and criteria on personal loans, having an immediate impact on new production volumes. All those activities resulted in a strengthen of the Bank's stronger presence and image in the Slovene banking industry, with good achievements in terms of business results.

The lending interest rates persisted at historical low levels, nevertheless the Bank managed to increase the net interest income totalling HRK 303.1 million, by 5.9 percent increase on yearly level. A positive trend was noticed also at net fees and commission income, which increased by 5.8 percent in 2019 compared to previous year, reaching HRK 197.2 million.

Total operating costs recorded a yearly increase of 3.5 percent mainly following the increased investing activities and higher personnel expenses. Net impairment costs on loans portfolio resulted in a release of HRK 12.3 million. It is the result of effective mastering of non-performing loans and advanced risk monitoring processes. The non-performing to total loans ratio decreased from 5.5 percent in 2018 to 3.1 percent in 2019.

Total net assets increased by 3.9 percent to HRK 20,014 million with net customer loans in the amount of HRK 14,399 million and customer deposits in the amount of HRK 16,567 million. The Bank’s position in terms of available liquidity remains safe and ready to sustain planned further expansion of lending activity.

Intesa Sanpaolo Bank in Slovenia, a member of the international banking group Intesa Sanpaolo, is performing a re-launching initiative and business expansion, which stem from the positive performance and achievements attained by the Bank in Slovenia over the last 16 years, since the Bank became part of the Intesa Sanpaolo Group. Another important impulse to Bank’s growth-propelling initiative happened in 2017 with the transfer of 51 percent of the Bank's shares from Intesa Sanpaolo to Privredna banka Zagreb, a subsidiary bank of the ISP Group in Croatia. The new ownership structure is part of the Group’s regional strategy aiming to increase synergies between its subsidiaries in the planned re-launch and business expansion in the Slovenian market.

PBZ Leasing

PBZ Leasing had a successful business year, earning net profit of HRK 28.2 million. In 2019, the Company signed new lease contracts in the total value of HRK 486 million, thus retaining positions in the Croatian leasing industry in terms of the number of realized placements.

At the end of 2019, the Company's total portfolio included net fixed assets under operating leases in the amount of HRK 323 million (2018: HRK 363 million) and net receivables under finance leases in the amount of HRK 841 million (2018: HRK 778 million).

In 2020 the business activities of PBZ Leasing will be focused on maintaining a stable balance sheet, retaining the Company's market share and achieving product diversification through introduction of new distribution channels.

Management Board report of the Status of the Group (continued)

Financial Highlights of the Group (continued)

PBZ Stambena Štedionica

Štedionica has been still operating successfully and in 2019 it achieved its goals and realised significantly better results than competitors in the most important business aspects. This result is due to the planned and implemented business strategy of conservative and systematic approach to all risks arising from business activities, especially to the credit risk. Privredna banka Zagreb d.d., our parent company and the main sales channel in selling housing savings and housing loans, made in 2019 a significant contribution to the results of Štedionica and further growth of its market share.

We finished the business year with profit before tax amounting to HRK 10.2 million, while the net profit amounted to HRK 8.3 million. Interest income in the amount of HRK 59.4 million is lower by 3 per cent in comparison to 2018, while the interest expenses amounted to HRK 35.6 million which is by 6.4 per cent below those in 2018. Lower interest income and expenses realised in 2019 in comparison to 2018 are a result of lower lending and deposit interest rates. Net income from fees and commissions amounted to HRK 4.8 million.

Total assets of Štedionica as at 31 December 2019 amounted to HRK 2,016 million, which is by 67 million more than at the end of the previous year. Value increase was caused by growth of deposits. In 2019 the customers' deposits increased by 4.9 per cent so that now they amount to HRK 1,756 million. Štedionica granted new housing loans amounting to HRK 229 million and increased the housing loan portfolio to HRK 819 million.

In the following year we also expect a stable and high-quality business operations of Štedionica. Štedionica, as member of the PBZ Group, will continue to implement its defined business strategy based on the customer relationships, to follow the requests of customers constantly and to adapt its offer of housing savings and housing loans to their needs. Štedionica will also continue to implement a conservative risk management policy and to monitor the expenses permanently as well as to use all available resources of the PBZ Group and to realise positive business results.

PBZ Nekretnine

The Company had a successful business year and achieved a net profit in the amount of HRK 19.2 million. The total assets at 31 December 2019 was HRK 115.3 million..The business of PBZ Nekretnina in 2019 was also directly influenced by economic situation in Croatia, especially from the real estate market. PBZ Nekretnine continued their activities on the real estate market and carried out 8,000 property market value appraisals.

According to the decision of the Bank's Management Board, PBZ Nekretnine was merged with PBZ Card. By the decision of the Commercial Court in Zagreb, the merger was entered into the Court Register on 1. January .2020. PBZ Nekretnine will continue to work within the PBZ Card organized as Real Estate Division.

Throughout the year 2020, the Real Estate Division will continue to carry out its activities within the PBZ Card with the aim of becoming a centre of excellence for real estate businesses not only within the PBZ Group but throughout the country. Furthermore, the SW development of PeRE web application for appraisal reports will continue, as well as real estate management, financial supervision of Banks investment project and support for the implementation of projects financed by the Bank. Real estate Division shall continuously improve its real estate brokerage channels as well as using new potential Card digital channels.

PBZ Croatia Osiguranje

PBZ Croatia Osiguranje continues to achieve positive financial results. In 2019 the Company reached net profit of HRK 23 million. At the same time, the cost income ratio stands at 61 percent. Total assets as of 31 December 2019 were HRK 141 million. Net profit was influenced by the statutory change of management fee from 0.363 percent in 2018 to 0.338 percent in 2019. PBZ Croatia Osiguranje is a well-recognised and highly respectable pension fund management company in Croatia. Development strategy for 2020 will be oriented at maintaining its status within the general public in the country as well as successfully managing the funds' assets.

Risks to which the Group is or might be exposed are explained in details within Corporate Governance section.

Dinko Lucić
President of the Management Board

18 February 2020

Macroeconomic developments in Croatia in 2019

External environment

Global economic growth hit a historic low since the global financial crisis of 2008/2009 and in 2019, according to the forecast of the International Monetary Fund (World Economic Outlook, October 2019), it is projected at 3.0 percent, significantly below 3.6 percent in 2018 and 3.8 percent in 2017. The growth in advanced economies in 2019 is projected to decelerate to only 1.7 percent (compared with 2.3 percent in 2018), where particularly notable is the deceleration of growth in the Eurozone (from 1.9 percent in 2018 to 1.2 percent in 2019), and in the USA (from 2.9 percent in 2018 to 2.4 percent in 2019). At the same time, the growth in developing economies and emerging markets, decelerated from 4.5 percent to 3.9 percent in 2019.

In 2019, financial markets were under the impact of a twist in the monetary policy of the United States, but also of a deepening of the accommodative monetary policy in the Eurozone. In particular, after the US FED raised its reference interest rate four times to 2.25-2.50 percent in 2018, during 2019 the interest rate level was lowered three times to 1.50-1.75 percent. At the same time, faced with a growth slowdown and stubbornly low inflation, the ECB in September 2019 additionally relaxed its monetary policy by reducing its deposit interest rate to -0.50 percent (from -0.40 percent), and starting from November it reactivated asset purchase programme in the monthly amount of 20 billion euro.

In 2019, the currency markets saw a continued weakening of the euro against the US dollar, therefore the exchange rate slid from 1.15 dollar at the end of 2018 to 1.12 dollar to the euro at the end of 2019. The strengthening of the dollar was supported by a faster growth of the US economy and a higher level of interest rates compared to the Eurozone.

Economic movements of major Croatian foreign trade partners in 2019 were marked by a high level of uncertainty, i.e. by a sharp slowdown of economic activities, especially in Germany (from 1.6 percent in 2018 to the estimated 0.5 percent in 2019), but also in Italy (from 0.7 percent to 0.2 percent) and Slovenia (from 4.1 percent to 2.6 percent).

Personal consumption and investments support growth

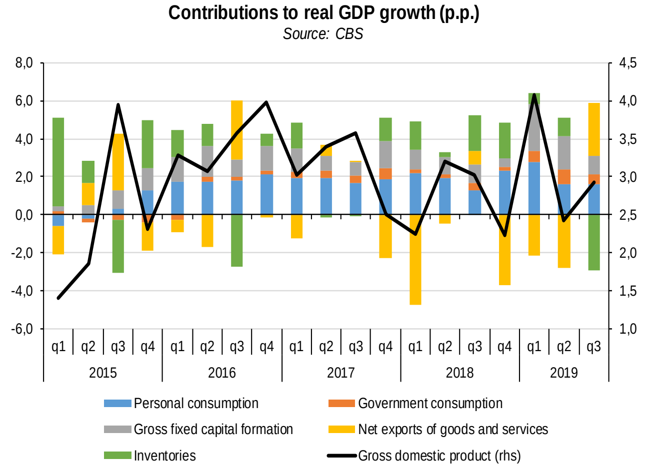
Gross domestic product in 2019 recorded a growth of around 3 percent finally exceeding the pre-crisis level of 2008. Data of the Croatian Bureau of Statistics for the first three quarters of 2019 indicate that the growth was primarily based on personal consumption and investment activity, while net foreign demand generated a negative contribution. Rise in household disposable income, supported by wage increase, employment growth and low inflation, stimulated personal consumption, additionally driven also by the awoken households' credit appetite amid favourable financing conditions. Simultaneously, better withdrawal of the EU funds achieved a positive impact on investment activity, especially of the public sector through project such as the Pelješac Bridge, the railway and other infrastructures. Despite the visible slowdown of economic growth in the Eurozone amid the industrial recession in Germany, the export of goods recorded a solid growth of around 6.4 percent over the first ten months of 2019, where the biggest contribution to growth came from the export of pharmaceutical products and other transport equipment. At the same time, tourism continued to rise and the financial performance (third quarter +9.1 percent, total of the first three quarters +8.9 percent yoy) greatly surpassed the physical indicators of arrivals and overnight stays that grew at a slower pace than it used to be the case in recent years.

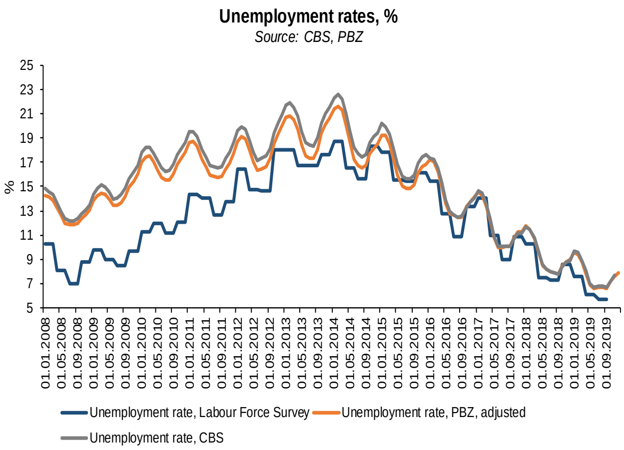
Along with the continuation of positive economic trends, the past year was also characterised by the continuation of accommodative monetary policy of both Croatian National Bank and European Central Bank which, prompted by an evident slowdown of economic dynamics, in September additionally relaxed the monetary policy by reducing the deposit interest rate and reactivating asset purchase programme. During the year we also observed a number of important developments such as exiting from the excessive macroeconomic imbalances procedure, upgrading of the investment rating by two rating agencies and sending the letter of intent to join the European Exchange Rate Mechanism (ERM2), as well as the related launching of a comprehensive assessment of five Croatian banks by the European Central Bank. At the same time, the economy faced the challenge of labour shortage, that along with the still unsatisfying pace of structural reforms implementation represents a limiting factor of potential growth. The financial sector, that has proven to be the most stable segment of economy, successfully overcomes the challenges of low interest rates environment, although there is a high level of uncertainty arising from the upcoming judgments in relation to the previously converted CHF indexed loans.

Macroeconomic developments in Croatia in 2019 (continued)

2019 in review

According to our estimate, the 2019 GDP rose by 2.8% yoy, where the largest contribution to the growth came from personal consumption and investments.





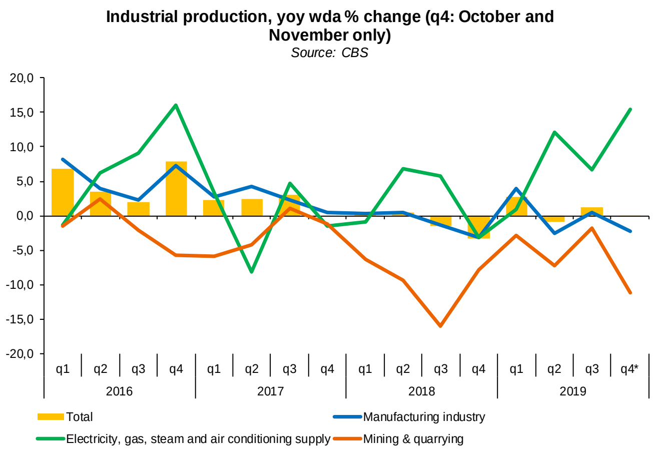
Personal consumption increased by 3.4 percent over the first nine months of 2019 versus the same period of 2018, due to an average 3.2 percent growth of average net earnings expressed in nominal amounts (+2.5 percent in real terms, in the period between January and October), which is a result of the rise of minimum wage and wage increase in the government and public sector, and to a lesser extent an effect of changes in tax. Compared to the same ten months of 2018, in 2019 growth of net earnings slowed down, but in 2020, under the effect of a further rise in the minimum wage, higher coefficients for education sector, and wage increase for the government and public sector officials by a total of 6.12 percent, we expect the annual wage growth dynamics to accelerate. According to data on the number of insured persons of the Croatian Pension Insurance Institute, in 2019 the number of employed persons advanced by 2.3 percent compared to the previous year and reached an average of 1.558 million, which is mostly a consequence of a relatively strong economic boom. Last year's increase of the number of newly employed was primarily supported by employment growth in Construction (+7.5 percent), which is attributable to larger investments in building construction/civil engineering, better absorption of the EU funds, as well as to relatively strong demand for residential real estates (what is suggested by the 8.9 percent annual growth of house price indices in the first six months) and in Accommodation and food service activities (+3.7 percent, in view of a further growth of the tourism sector). Simultaneously, in Manufacturing which is the largest industry and participates in the overall structure with almost 16 percent, the number of employed persons declined by 0.5 percent compared to 2018, partly due to problems that emerged during the year in individual industries such as for example shipbuilding and petroleum refining industry. Positive developments also continued in the area of unemployment, where a yoy decline in the number of unemployed persons was registered for the sixth consecutive years (this time by an average of 16.2 percent), due to which the adjusted unemployment rate in 2019 dropped to 7.6 percent (from 9.2 percent in 2018). It is indicative that the annual decline rate of unemployed persons in 2019 slowed down after having accelerated for five consecutive years, which is attributed to the reduction in number of remaining persons available to work in the unemployment register, as is evidenced by the announced abolition of restrictions on issuing work permits to foreign citizens starting from 2020, in order to address the problem of labour shortage recorded in many areas of activity. In that respect, in 2020 the annual employment growth is expected to decelerate, mainly in terms of labour shortage, while the number of unemployed persons should amount to around 100 thousand.

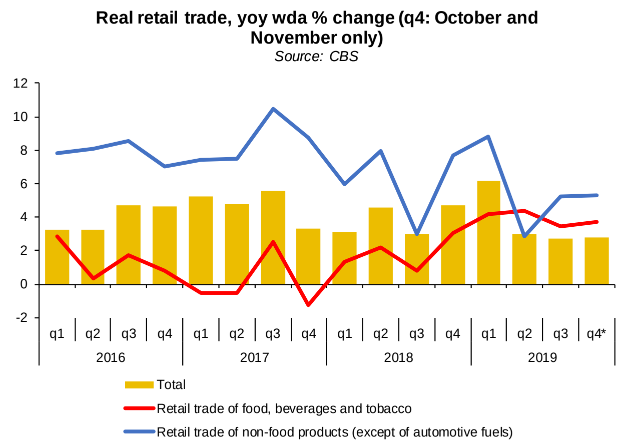
Over the first eleven months of 2019 the real turnover in retail increased by 3.6 percent yoy (4.1 percent in nominal terms), due to positive movements on the labour market, wage increase, employment growth, consumer credit and optimism (that hits record highs). The additional positive contribution to the growth of retail trade volumes was also generated by the developments in tourism, where over the same eleven months of 2018 was recorded an annual increase in arrivals by 4.8 percent and overnight stays by 1.7 percent. At the same time, the real turnover growth in retail was more expressed in the retail trade of mostly non-food products (5.4 percent) compared to the retail of food, beverages and tobacco (+3.9 percent).

Macroeconomic developments in Croatia in 2019 (continued)

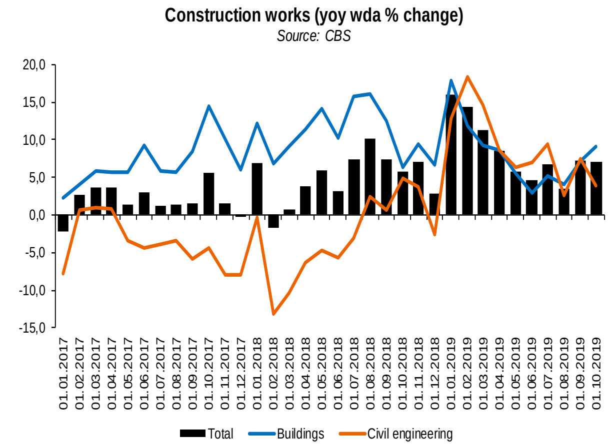
2019 in review (continued)

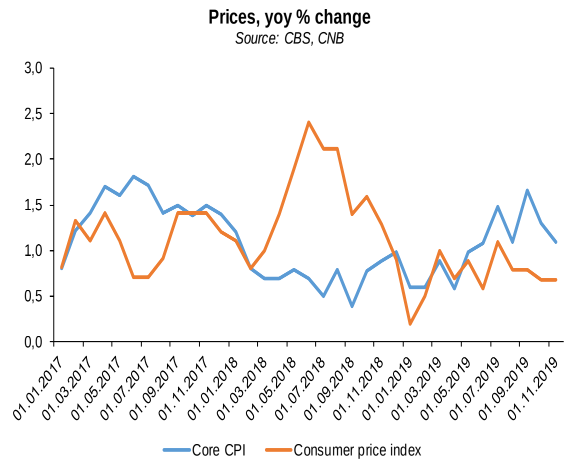
In the first three quarters of 2019, total exports recorded a real-term increase of 4.1 percent yoy, where exports of goods rose by 4.6 percent and exports of services by 3.6 percent. Compared with the previous year, the registered increase in the exports of goods in 2019 is attributed to a robust export of pharmaceutical products and pharmaceutical preparations, motor vehicles, trailers and semi-trailers, and ships. Simultaneously, the imports of goods and services rose by 5.3 percent as a result of the recovery of domestic demand, but also of a high dependence of exports on imports. The contribution of net foreign demand to the overall growth during the monitored period of 2019 was consequently negative, amounting to -0.5 p.p. The industrial production in the first eleven months of 2019 recorded a mild recovery (+0.8 percent), exclusively owing to a production increase in Electricity, gas, steam and air conditioning supply (7.7 percent), while the negative impact arose from a reduced production in Manufacturing (by -0.1 percent, where the biggest negative contribution came from Manufacture of coke and refined petroleum products by -26.9 percent and Manufacture of fabricated metal products, except machinery and equipment by -6.8 percent) and in Mining and quarrying (-5.4 percent).





Gross fixed capital investments over the first three quarters of 2019 registered an average growth of 8.1 percent yoy, remaining mainly under the influence of the public sector investments financed by the EU funds. The volume of construction works over the first ten months of 2019 advanced by a total of 8.3 percent compared with the same period of 2018, almost equally supported by a rise in the activities on buildings (+8.0 percent) and on civil engineering works (+8.8 percent). After five consecutive years of decline, activities related to infrastructural projects recorded a yoy surge, largely under the influence of investments at the general government level, whereas the activities on buildings decelerated compared to the previous year, partly because of a more moderate growth in tourism.



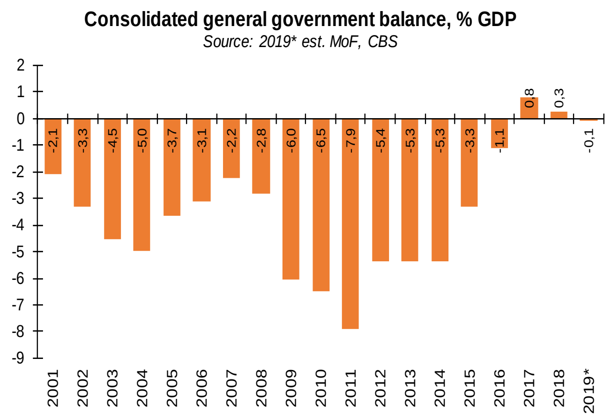


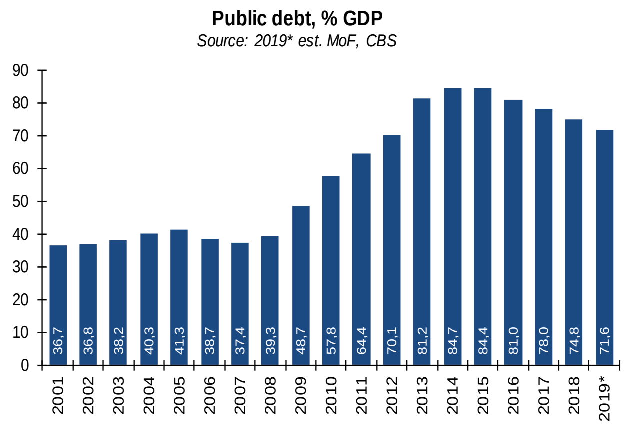
Macroeconomic developments in Croatia in 2019 (continued)

2019 in review (continued)

Over the first eleven months of 2019, the consumer price index recorded an increase of 0.7 percent yoy, i.e. a more modest movement compared with the same period of 2018 (when the increase in prices amounted to 1.6 percent), which is mainly a consequence of a lower VAT rate for particular food items (prices of fruits, meat, oils and fats record a drop of respectively 8.7 percent, 1.5 percent and 0.6 percent), equally as it is a result of a lower market price of crude oil (lower costs of fuels and lubricants for personal transport equipment by 0.9 percent, with a share of 6.4 percent in the total index). From a structural prospective, the largest contribution to the total increase of consumer prices in 2019 came from higher prices in the field of Housing, water, electricity, gas and other fuels, (by +0.5 p.p. or +3.2 percent, of which solid fuels +9.4 percent, electricity +1.1 percent and gas +4,1 percent, due to higher price of gas supply), while a significant contribution (+0.2 p.p.) arrived also from Non-alcoholic beverages and tobacco, primarily owing to higher excise duties on tobacco (whose prices increased by an average of 6.0 percent yoy). In 2020 we expect the average annual inflation rate to amount around 1.0 percent, amid fading effects of reduced VAT rates for particular food items, announced increase of excise duties on beverages with a higher sugar content, as well as expected surge in unit labour costs (pressure on wage increase should continue due to a strong labour demand).

Positive economic movements and the control of the expenditure side of the budget led in 2019 to a further decrease in the share of public debt in GDP to the estimated 72 percent (from 74.8 percent in 2018), whereas, according to the revised budget, the consolidated general government deficit target was set to 0.1 percent of GDP.



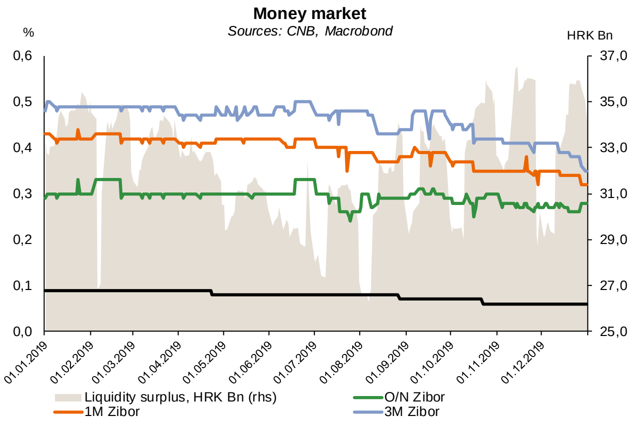


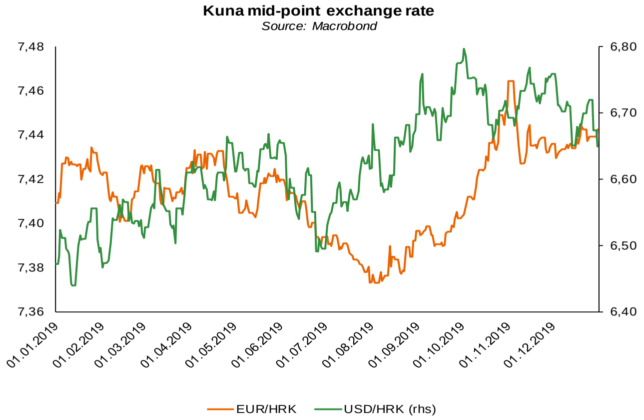
The money market recorded another year of ample liquidity, low interest rates, no interest at regular reverse repo operations of the Croatian National Bank and low trading volume at the interbank market. The liquidity rose compared to the previous year due a stable deposit growth, especially of kuna on transaction accounts, as well as to the CNB's foreign exchange auctions (two at the end of 2018 that created 8.0 billion kuna and three in 2019 that created 8.1 billion kuna of reserve money) in conditions of a modest growth of bank placements, due to which the average excess liquidity rose to 32 billion kuna, almost 30 percent up compared to the previous year. The interest rates at the money market registered a slight drop therefore the overnight Zibor fell by an average 2 b.p. yoy to 0.29 percent, while 1M and 3M dropped by 5, i.e. 4 b.p. to 0.39 and 0.46 percent. Interest rates on T-bills followed this decreasing trend (by 17 b.p. on three-month kuna T-bills to 0.03 percent, 1 b.p. on six-month kuna T-bills to 0.05 percent and 3 b.p. on one-year kuna T-bills to 0.06 percent), while that the interest rate on one-year kuna T-bills with a currency clause slipped by 5 b.p. to negative -0.05 percent. In the environment of low interest rates on the domestic money market, i.e. negative interest rates in the Eurozone, return of the government rating to the investment grade and improved indebtedness indicators, the government bond yields and the German government bond spread were reduced to the new and existing issues. In June the 10-year euro bond was issued in the amount of 1.5 billion euro with a historically low yield of 1.23 percent, while in November at the domestic market the 15-year kuna bond with a currency clause was issued in the amount of 7.5 billion kuna with a yield of 1.20 percent. The average yield on the 10-year kuna bond in 2019 slid by 90 b.p. to 1.3 percent, while the spread narrowed by 20 b.p. to 150 b.p.

Macroeconomic developments in Croatia in 2019 (continued)

2019 in review (continued)

In 2019 the kuna to euro exchange rate appeared extremely stable as the CNB, by purchasing foreign currencies from banks (1.1 billion euro) and MF (200 million euro in the first eleven months), annulled the pressures deriving from the surplus generated on the balance of payments current account, inflows of EU funds, improved rating and positive net foreign position of banks. The strengthening of the kuna was also stimulated by taking the first steps in process of accessing the euro area in terms of sending a request to establish close cooperation between the ECB and the CNB in performing the supervision of credit institutions within the Single Supervisory Mechanism, sending a letter of intent to join the ERM 2 and adopting the Action Plan. In 2019 the average kuna to euro exchange rate amounted to 7.41 kuna to the euro, same as the previous year, whereas amid the strengthening of the US dollar to the euro, the kuna depreciated to the dollar by an average of 5.5 percent and the exchange rate advanced to 6.62 kuna to the dollar (2018: 6.28).





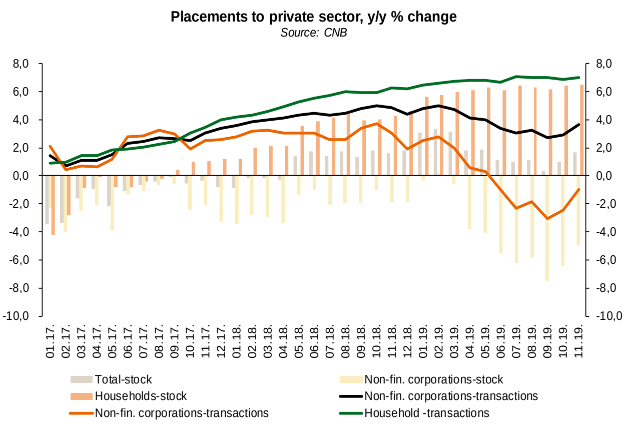
The recovery of assets of other monetary financial institutions was initiated in 2018 and continued over the first eleven months of 2019 under moderate yoy rates owing to an increase in deposits and claims on the central government and households, while claims on non-financial corporations kept a negative tendency. Despite the growth of placements to medium-sized, small and microenterprises and an increased corporate demand driven by positive outlook of the tourism and construction sector, as well as favourable financing conditions, the negative effect of developments in the large enterprises portfolio prevailed. The said negative effect was brought by the government guarantee calls to the shipbuilding industry at the end of last year and the consequent transfer of claims from the companies to the central government, operational implementation of the settlement of the Agrokor Group in the middle of 2019, that resulted with the transfer of claims from domestic to foreign companies within the Group and the sales of non-performing claims. Simultaneously, the household demand registered a strong surge fuelled by a solid growth of employment, earnings, consumer confidence and low interest rates. Cash loans, especially unsecured long-term loans, due to a robust growth were exposed to a scrutiny of the central bank because of the increased risk during an economic downturn, which prompted the regulator to enact macroprudential measures (alignment of criteria in determining creditworthiness for housing and non-housing loans, obligation of monitoring citizens indebtedness indicators, inclusion of risks arising from cash loans in the internal capital adequacy assessment processes). Hence, the growth pace of cash loans from April started to slow down to the level of 10 percent, while the growth of housing loans accelerated and in October and November surpassed 5 percent owing partly also to subsidies. Regardless of the growth, household indebtedness is still relatively favourable compared to the EU average, and the risk is also mitigated by the increase in the share of kuna loans (over 50 percent) and loans approved with a fixed interest rate (approximately 40 percent). In November total loans recorded a 3.9 percent yoy increase, of which loans to the central government and the social security funds grew by 6.9 percent, and to the private sector by 3.2 percent (non-financial corporations -1.7 percent, households 6.5 percent). The growth of placements is still higher according to the transaction data than according to the stock due to a considerable effect of sales, and according to transactions the cumulative increase in November reached 3.6 percent yoy for the private sector (non-financial corporations -1,0 percent, households 7,0 percent). The upward trend of deposits continued at a steady pace owing to the economic growth, especially to the favourable labour market trends and the increased corporate income from the exports of goods, tourism, price increase and real estate turnover.

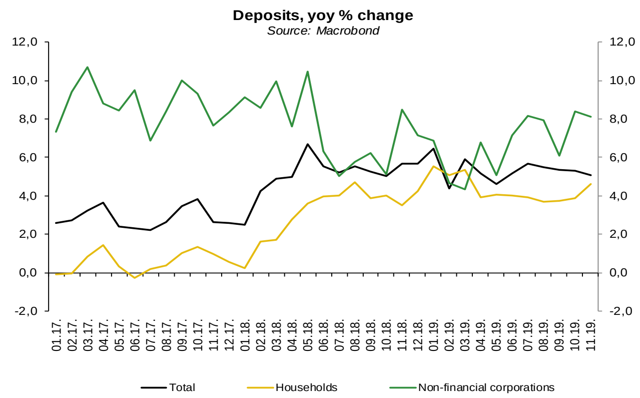
Macroeconomic developments in Croatia in 2019 (continued)

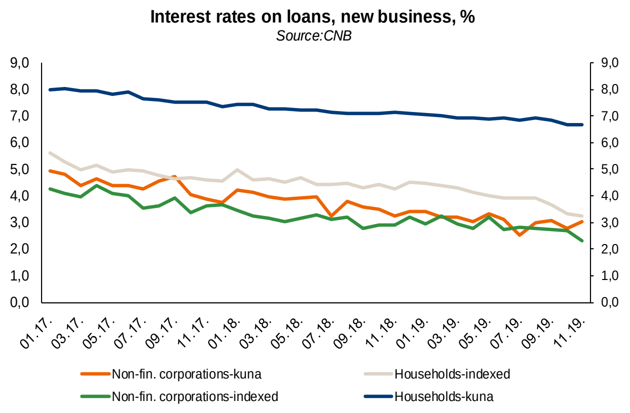
2019 in review (continued)

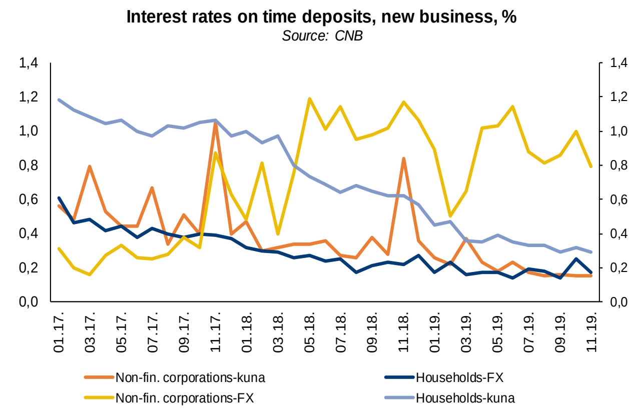
A contribution to the growth of deposits also came from the alignment of monetary funds with the regulations based on which in March most of the monetary funds were reclassified from the sector of monetary financial institutions to the sector of non-monetary investment funds. By the end of November, total deposits were higher by 5.1 percent yoy (non-financial corporations 8.1 percent, households 4.6 percent), and as in previous years, low interest on savings kept deterring citizens and companies from placing funds in time deposits, therefore the strongest growth was achieved by funds laid out in transaction accounts.

In 2019 the bank interest rates kept the downward trend owing to a record high liquidity and increased competition, and a stimulus to reduce the active interest rates also came from the amendments to the legislative framework in terms of tax regulations defining a more favourable interest rate and decreasing it from the previous 3 to 2 percent. Compared to the average of 2018, in the first eleven months of 2019, the interest rate on loans to the private sector decreased by an average of 50 b.p. on kuna loans, i.e. by 30 b.p. on loans with a currency clause to 5.8, i.e. 3.4 percent. The average interest rate on housing loans was cut by 70 b.p. to 3.0 percent on kuna loans and by 40 b.p. to 3.1 percent on loans with a currency clause. At the same time, the average interest rate on time deposits of the private sector declined by 30 b.p. on kuna savings deposits and by 10 b.p. on FX savings deposits (to 0.3, i.e. 0.4 percent).









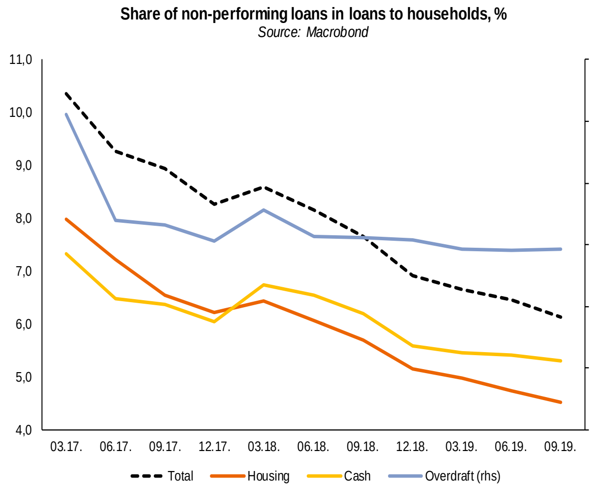
Macroeconomic developments in Croatia in 2019 (continued)

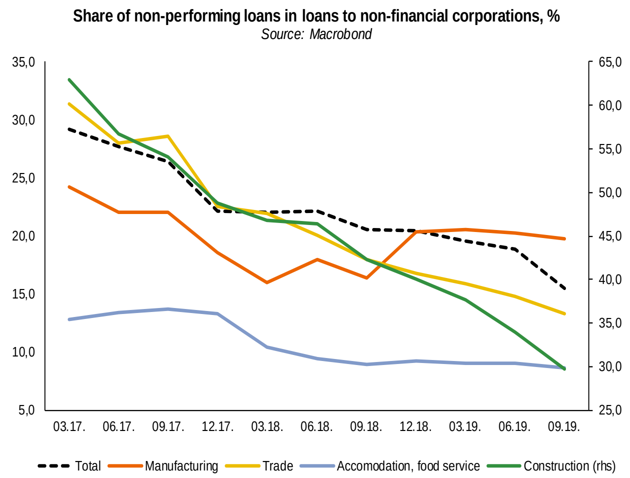
2019 in review (continued)

Favourable trends in loan quality continued over the first three quarters of 2019, supported by the accelerated economic growth, positive movements on the labour market, strengthening of credit activity and considerable amounts of sold claims on non-financial corporations (gross 3.0 billion kuna). According to the reviewed data, disclosed in accordance with the EBA methodology where loans are comprised of loans and advances, placed deposits and interests, the share of non-performing loans in total bank loans at the end of September 2019 amounted to 6.0 percent, down by 1.5 p.p. compared to the end of 2018, which is mostly a result of a noticeable improvement in the corporate portfolio where the share dropped by 4.9 p.p. to 15.5 percent.

The breakdown of loans by activities illustrates that the most significant contribution was brought by the 10.5 percent decrease in construction (to 29,7 percent), owing to the sales of placements as well to the increased lending, while other three most significant activities register a somewhat slower decline pace (manufacturing -0.6 p.p. to 19.7 percent, trade -3.5 p.p. to 13.3 percent and accommodation and food service activities -0.6 p.p. to 8.6 percent). At the same time, the share of non-performing loans in loans to households fell by 0.8 p.p. to 6.1 percent, where housing loans recorded a drop of 0.6 p.p. to 4.5 percent, and cash loans and overdrafts of 0.3 p.p. to respectively 5.3 and 5.9 percent. The capitalization of banks was slightly reduced in 2019, and one of the reasons for is the increase of risk weight on exposures to the central government denominated in a foreign currency (from 20 to 25 percent), therefore the total capital ratio of banks was 22.8 percent at the end of September, down by 0.4 p.p. compared to the end of 2018.

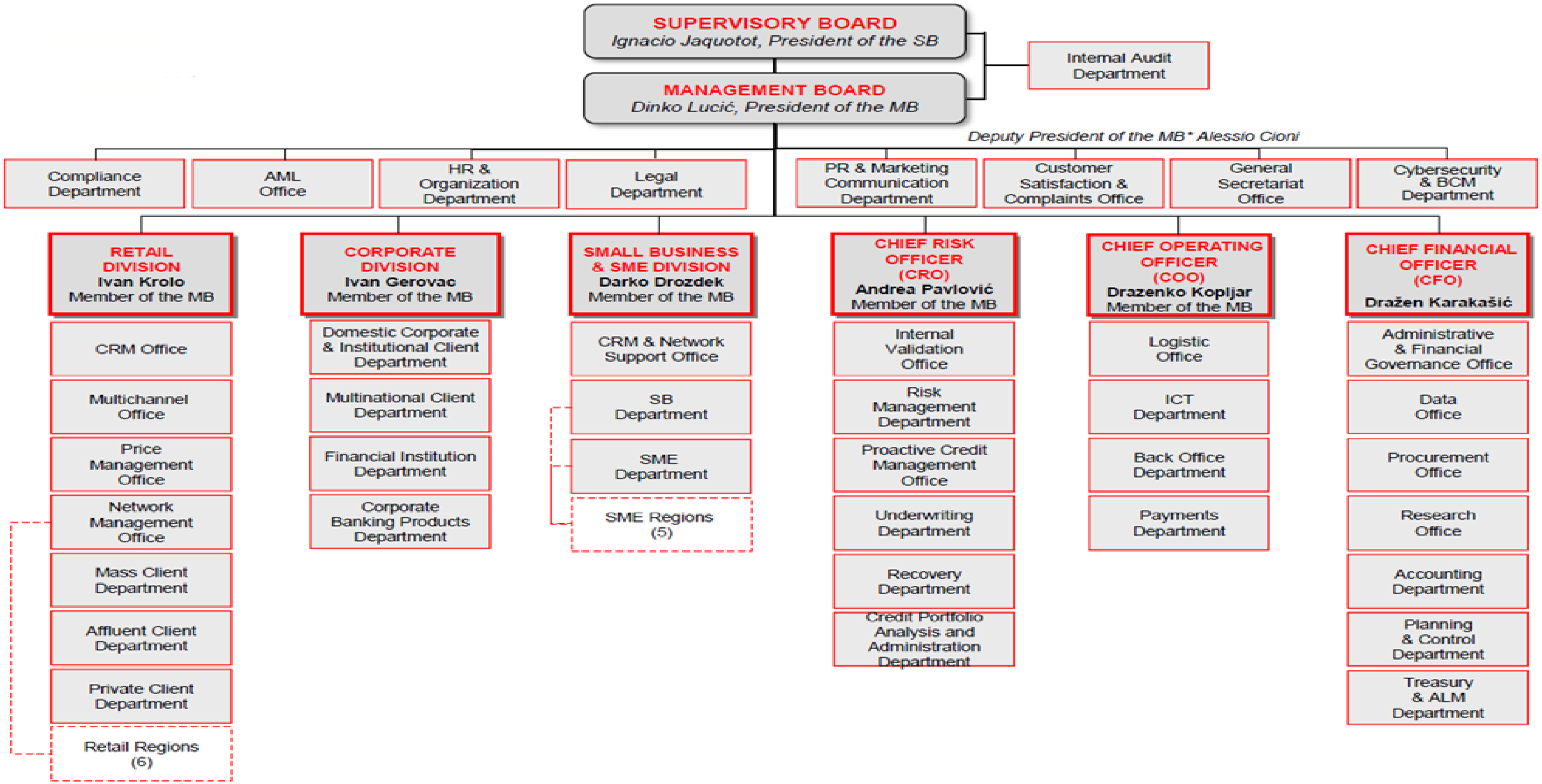
The system was additionally consolidated by a merger of a bank and a savings bank, providing a reduction in the number of market participants to 23, while the net profit of credit institutions increased by 2.7 percent yoy over the first nine months.





Business description of the Bank

Organisational chart



Business description of the Bank (continued)

Privredna banka Zagreb d.d. was founded in 1966 and has consistently been a leading financial institution in the Croatian market, with an established business base and a highly recognized national brand name.

During all periods of its history, PBZ supported the largest investment programs in tourism, agriculture, industrialisation, shipbuilding, electrification and road construction. PBZ has become a synonym for economic vitality, continuity and the Croatian identity.

Privredna banka Zagreb d.d. today is a modern and dynamic financial institution, which has actively sought and won the role of market leader on the financial markets in Croatia. It is a fully licensed bank with nationwide branch network. With its nationwide network of branches and outlets, as well as a broad group of banking and non-banking subsidiaries, PBZ is one of the universal banks that cover the whole territory of Croatia.

Organisational Structure and Business Activities

According to data from the end of 2019, PBZ is the second bank in terms of total assets in Croatia and the fifth bank in terms of subscribed share capital. PBZ is also one of the largest Fixed Income and Foreign Exchange dealers in Croatia as well as a leading player on the domestic syndicated loan market. With an outstanding reputation for innovative financial solutions, the Bank has been consistently recognised as the leading Arranger of equity, debt and commercial papers issues in the Republic of Croatia. The Bank is strongly focused on customer satisfaction and a high-quality customer experience. Aware of its role and influence on society, PBZ's corporate values integrated in daily operations include not only business success, but also care for people, the sustainable development of its business and the overall improvement of quality of life in the community where it operates. It has consistently been a leading financial institution on the Croatian market with an established business base and recognised national brand name.

Upon successful privatisation in December 1999, PBZ became a member of Gruppo Intesa Sanpaolo – the largest Italian banking group and one of the most significant financial institutions in Europe. With this partnership, PBZ has retained its business strategy aimed at modern forms of banking and new products, confirming its image of a dynamic and modern European bank, which meets the demands of the market and its clients. The benefits of strategic partnership are clearly visible in the continuously improving financial results of the Bank, as well as of the PBZ Group.

Along with the adoption of the business and corporate governance standards set by its parent bank, Privredna banka Zagreb d.d. has maintained the strategic development orientation of a modern, client oriented, technically innovative universal financial institution. PBZ is focused on the continued advancement of its economic performance well into the future, as well as strengthening its position as a product leader in offering the most progressive banking products, through the optimal mix of traditional and modern distribution channels. This ensures that PBZ will continue to be able to set standards of the highest quality for product innovations and services offered to both its domestic and international clients.

This commitment to quality and advanced banking practices is clearly seen by the fact that Privredna banka Zagreb d.d. received the Best Bank in Croatia award from Euromoney in 2001, 2002, 2004, 2005, 2007, 2008, 2009, 2013, 2014, 2015, 2016 and 2018. During 2006 PBZ received The Best Debt House in Croatia award by Euromoney. In 2012 PBZ won award for the Best Private Banking Survey in Croatia. PBZ also received The Banker's Award for the Croatian Bank of the Year in 2005, 2011, 2017 and 2019. Additionally, PBZ's quality was confirmed by Global Finance's magazine in years from 2003 to 2018 when it has won numerous prestigious awards for best bank in Croatia in the categories The Best Emerging Market Banks and The World's Best Banks in Central and Eastern Europe as well as Best digital bank 2018. in Croatia. Bank also received acknowledgement from Central European, Finance Central Europe, Adria Zeitung, Reader's Digest and others.

In years from 2003 to 2006 PBZ received the domestic prestige awards – the Golden Share Award for the Best Banking Share in the country, and the Golden Kuna Award in 2004, 2005, 2010, 2017 and 2018 for the previous year. The Ministry of Demography, Family, Youth and Social Policy awarded "Family Friendly Employer 2019" to Privredna banka Zagreb in the category of large enterprises.

Privredna banka Zagreb d.d. currently employs some 3,633 employees and provides a full range of specialized services in the areas of retail, corporate and investment banking services. The business activities of the Bank are organized into three principal client-oriented business groups.

Business description of the Bank (continued)

Retail Division

In the retail banking segment, PBZ has a comparative advantage over its competitors due to the fact that it has the most extensive branch network in Croatia, consisting of 181 organizational units in 6 regions and 19 sales centers, which cover the entire territory of Croatia.

With the aim of improving the customer experience and business efficiency within the framework of achieving the business plan goals for the period 2018 - 2021, the parent bank initiated a transformation process according to a new service model based on the best experiences of the Group. More and more frequent and intense changes in the market bring new challenges on a daily basis, which the Bank must recognize, monitor and actively adapt to in order to continue to provide high quality customer service in accordance with their needs and growing expectations. The old service model was mainly based on a reactive approach and was dependent on cash transactions and the customer's arrival to the branch, the new service model follows the trends of changing customer habits by introducing activities dedicated to developing customer relationships. Through the new service model, activities of lower value are being migrated from branch offices to direct channels and in branch offices replaced with activities that are more complex with greater proactiveness and dedication to the client.

Our customer orientation is confirmed by “Inovacija”, a rewarding scheme for clients who use several product groups (up to 8) and who are given discounts on fees charged or awarded incentive interest rates.

In addition to restructuring and repositioning the traditional distribution channels of the business network, PBZ continues to develop and improve its direct banking distribution channels. It has extended the network of ATMs that accept Maestro, Mastercard, Visa and Visa Electron as well as Visa Premium, Diners Club International, and China Union Pay cards (a total of 773 ATMs). PBZ is expanding the ATM network and generating new revenue in cooperation with partners; Croatian and foreign companies with an independent ATM network. Together with the partners, the PBZ ATM network has 1.450 ATMs. The number of EFT POS’s (point of sale) was 33.795.

As a leader in modern technologies, PBZ has expanded its distribution channels and products using the most advanced technology in implementing its *on-lin*e services. The latest digital trends are part of the clients’ daily routines, and PBZ wants the clients to have such an experience when doing business with the Bank. Therefore, it has developed PBZ digital banking service, which is the concept of a new PBZ Internet and mobile banking with new functionalities with the option to personalize the app according to the needs and wishes of the clients. The new interface provides unique user experience and functionalities, regardless of which device or app the clients are using (computer, tablet or mobile phone). In the new service, the clients have a graphic representation of their assets with the option to manage them according to their own preferences.

With the improvement of existing functionalities, numerous new options and functionalities are available, such as #withKEY (a mobile token integrated into the mobile banking app that provides easier access to internet application), #withCASH (cardless cash withdrawal), #withPAY (a payment concept between the service users using a mobile phone number), #withSAVE (a small daily savings concept), #withSIGN (qualified electronic signature that allows a user to sign contracts for banking and financial services without having to go to the PBZ branch office), Google Pay and Apple Wallet, app login using fingerprints or face identification, quick overview of the balance without logging into the app, the option to receive automated notifications to the mobile device on account and product changes according to the user’s selection, contractual documentation and receipts of completed transactions all in one place in the application, the option to transfer funds between user accounts without authorization, transfers of small amounts to the trusted beneficiaries without authorization, defining their favorite recipients, Scan and Pay functionality– the option to pay payment slips which have a 2D bar code, etc.

These achievements have firmly established PBZ as the Croatian market leader in electronic banking, as well as the technological leader on Croatia’s financial market. PBZ was one of the leading bank in Croatia to implement secure e-commerce based on 3D Secure technology (Verified by Visa and Mastercard SecureCode) and CAP/DPA technology for user authentification. PBZ has also introduced innovative service – an Internet channel for distribution of investment banking services, now brokerage services on the domestic stock exchange and as well as custody accounts. In the area of retail product development, PBZ is constantly monitoring market demands and improving its wide range of products and services accordingly.

Based on identified needs, PBZ recognized its role in the environmental protection and social responsibility, and therefore amended and extended its product offer with loans such as Energo loans, tuition fee loans and student cost of living loans, loans for retired persons, socially stimulated housing loans, state subsidy housing loans, etc. In addition to responding to market requirements, PBZ is monitoring regulatory and legislative requirements and timely adjusting its products and services to them.

Business description of the Bank (continued)

Retail Division (continued)

Overall in the period from 2000, PBZ established itself as the market leader in retail loans with over 20 percent share in the loan market on the Group level. In the area of savings, the PBZ Group has significantly increased its deposits, keeping over 20 percent of all retail deposits in Croatia.

PBZ’s retail operations comprise the following departments: Multichannel Office, CRM Office, Network Management Office, Price Management Office, Mass Client Department, Affluent Client Department and Private Client Department.

Multichannel Office

Direct distribution channels function (Multichannel Office) is responsible for the development and maintenance of *on-line* banking channels (Internet and mobile distribution channels), ATMs and other self-service terminals, as well as contact center (subfunction Custstomer Contacts – Retail). Development activities include participation in research and development of innovative multichannel solutions with aim of improving customer experience and achieving the strategic goals of the Bank, supporting the integration of CRM solutions in direct distribution channels, development of own and partner network of ATMs, cooperation on marketing and promotional projects, customer training and education as well as improving sales of *on-line* services in PBZ branch network.

CRM Office

Customer Relationship Management Office (CRM Office) operations are analysis and development of client relationships models as well as supervision and implementation of measurements of the key indicators related to distribution network, production and services effectiveness with focus on retail customers for the Bank and other PBZ Group members. Key tasks include CRM activities, conducting various analyses (of clients, products, services and distribution network) and direct marketing, the development of support for better customer relationship management and key success indicators calculation in managing relations between the client and the Bank.

Network Management Office

The Network Management Office is responsible for organization, development, coordination, support and monitoring of the Retail Business Network, the fundamental distribution channel with Bank's retail clients, contact channels with retail clients and subcontractor sales network. The most important responsibilities of the Office include managing retail regions and contact channels for retail clients, managing subcontractor sales, capital investments and investments into business network, HR management of business network, participating in specifying and dividing budget amounts and remodeling the setting of targets, measuring effects and awards in the business network and conducting development and education of HR, defining and continuously advancing modality, process, procedures and rules, and prescribing instructions for advancing modalities, processes, procedures and rules for prescribing instructions regarding regular planning, as well as planning and introducing new technologies in business, and development and supporting.

Price Management Office

The activities of Price Management Office encompass qualitative and quantitative analysis, as well as analysis of financial impacts related to pricing, measurement of key indicators for price realization and monitoring of market dynamics. Responsibilities of the Office include participation in price definition in cooperation with business segments, assessment of effectiveness of pricing activities and recommendation of corrective actions in case of need, as well as definition of business requirements and supervision over implementation and delivery of pricing tools.

Mass Client Department

“Mass” Clients’ task is to define and implement business strategies and policies, products and services as well as value propositions and pricing for the “Mass” segment. It designs and updates the “customer journey” for the relevant segment and products and services. It develops, manages and updates products and services related to Current Accounts, Transaction, Mortgages, Personal Loans and Non-life insurances for Retail clients of all segments. In co-operation with ISP Card it manages and updates products and services related to Cards. In co-operation with the Network Management it supports and provides commercial coordination to the segment-related sales force in the Branch Network.

Affluent Client Department

The "Affluent" Client Department is responsible for defining and implementing business and commercial strategies, products and services as well as value propositions and pricing for Affluent segment. Its task is also designing and updating the “customer journey” for the Affluent segment, supporting and providing commercial coordination to the Affluent-related sales force in the Branch Network and providing sales coordination for Affluent segment, supporting the Branch Network and the sales channels in adopting the defined strategies in order to reach the sales target of the Affluent segment.

Business description of the Bank (continued)

Retail Division (continued)

Affluent Client Department (continued)

Very important responsibilities are also developing, managing and updating products and services related to term deposits for Retail clients of all segments, managing and updating products and services related to investments and life bancassurance in cooperation with Eurizon Capital, Banca IMI ISP Insurance Division and local Partners, as well as managing and updating investment advisory services.

Private Client Department

The "Private" Client Department is responsible for defining and implementing business and commercials strategies products and services as well as value propositions and pricing for Private segment. Its task is also designing and updating the “customer journey”, managing commercial coordination of the Private segment, and also managing and updating investment advisory services.

Corporate Division

Privredna banka Zagreb d.d. is one of the leading Croatian banks in the field of corporate banking. Taking into account a wide range of products and services offered to its corporate clients both locally and internationally, it is difficult to find a major company in Croatia today that does not bank with Privredna banka Zagreb d.d. Supported by powerful electronic distribution channels, our network of well-organized branches is the key driving force in serving our clients efficiently. We strive to create additional value by providing integrated financial solutions designed to satisfy the individual requirements of our clients.

Privredna banka Zagreb d.d. has developed a modern platform for supporting classic cash as well as other transactions of corporate clients within the Bank's network. A wide network of correspondent banks, and its SEPA reachability, make it possible for the Bank to offer its clients fast and affordable services in the area of international payments.

Also, Privredna banka Zagreb d.d. has significantly improved the process of handling domestic payments. The Bank directly participates in the Croatian RTGS system (HSVP) and in the national clearing system (NKS) and thus has the ability to process any payment through the most appropriate channel. The Internet banking service for corporate clients – PBZ COM@NET, after being upgraded, is available for both domestic and international payments. In terms of investment banking, Privredna banka Zagreb d.d. is a dominant participant in the Croatian market. It has originated many contemporary products and has initiated and largely contributed to the development of the financial market in the country. Because of its active role it in the primary and secondary capital market, PBZ has been recognized as a market leader. We are determined to keep the position of the best financial institution in the region. Such recognition has been given by our clients because of our ability to deliver the best service in everything we do.

The **Corporate Division** consists of the following organizational units: Domestic Corporate and Institutional Client Department, Multinational Client Department, Financial Institutions Department and Corporate Banking Products Department.

Domestic Corporate and Institutional Client Department

The Domestic Corporate and Institutional Client Department is responsible for business relationships with the largest domestic corporate clients, central government, public institutions, public utility companies and related companies and institutions. The Department is also responsible for handling and monitoring the entire business relationship with major private enterprises, whose relationship with the Bank is exceptionally complex and structured, which implies the multiple interweaving of the products and services they use

Business description of the Bank (continued)

Corporate Division (continued)

Domestic Corporate and Institutional Client Department (continued)

Business activities of this Department include presentation and sales of Bank products to existing and potential clients, preparing and organizing specific presentations for the sale of products and services of the Bank, advising clients on all forms of financing and creation of the best possible solution for the respective entity, submitting offers to clients, providing incentives for product development and coordination between all organizational units of the Bank and the concerned client. In cooperation with other organizational units, the Department offers all types of banking products and services such as opening of business accounts, contracting Internet banking, various models of deposit transactions, granting all types and forms of short-term and long-term financing, including loans from external sources, club loans and syndicated loans, purchase of receivables, project financing, factoring, letters of guarantees, letters of credit, cash handling services (organization, collection and transportation of cash, cash pooling), as well as services in card operations, leasing, investments in funds, multi-purpose facilities, providing financial support to export-oriented businesses and other innovative solutions adjusted to the requirements of each single client. In coordination with other units of the Bank, we participate in cross-selling of all the PBZ Group products.

The Domestic Corporate and Institutional Client Department also provides agency services to clients, by performing transactions on behalf and for the account of the particular principal, as well as by carrying out activities in its own name and for the account of the principal – all in accordance with the mandate of an agent, as agreed in a specific case. In every segment of its business activities, operations and services, the Department seeks to promote the highest banking standards, first and foremost by fostering a highly professional as well as flexible approach both to its present and potential clients.

Multinational Client Department

The Multinational Client Department is responsible for establishing and managing business relationships with companies in foreign ownership, foreign legal entities – non-residents and other companies in private ownership, and it provides clients with a full range of banking services by offering both standardized and customized products in cooperation with other organizational units of the Bank as well as other members of the PBZ Group, and also in coordination with the Intesa Sanpaolo Group.

Clients receive an individual approach, which takes into account their specific needs, and are provided with various banking and advisory services as well as support to all aspects of their business activities. Clients have at their disposal the following banking products and services: opening of transaction accounts, centralized account management, contracting of internet banking services for businesses and INBIZ internet banking for Multinational clients, Cash Pooling, Global Cash Management, cash handling services (organization, collection and transportation of cash), approval of loan facilities, purchase of receivables, B/E discounting, issuing of guarantees and letters of credit, advisory services related to all aspects of financing, card operations, leasing, retail products designed for employees of our corporate clients, and many other products and services.

The leading clients of the Department are companies engaged in tourism, IT, energy industry, wholesale and retail trade, construction, food industry and pharmaceutical industry. Given the well-developed business network of Privredna banka Zagreb d.d., we have successfully organized the entire process of managing cash transactions for some of our clients who are among the largest chain stores and also for companies in the tourist industry. To companies that engage in construction of residential and commercial premises intended for sale we can offer a complete project implementation service – starting from the control of project documentation and building supervision to the financing of construction and the sale of real estate to final buyers.

Apart from managing relationships with clients, this unit also assists foreign investors in the process of starting up a subsidiary or branch in Croatia, provides advisory services and general information on business terms and conditions in Croatia and on regulations currently in force, contacts clients and helps them liaise with institutions that are crucial for the performance of their regular business activities.

The Department is further responsible for establishing and developing cooperation with foreign entities (foreign companies and private individuals that engage in business activities, foreign diplomatic and consular missions as well as representative offices of foreign legal entities, foreign associations, foundations and other non-profit organizations and international missions). Such cooperation includes the opening and managing of accounts, depositing funds, providing clients with all information necessary for conducting business in Croatia, which requires continuous monitoring of all regulations that refer to the local currency (as well as close cooperation with the Croatian National Bank and the Ministry of Finance, particularly in the area of prevention of money laundering and terrorism financing).

Business description of the Bank (continued)

Corporate Division (continued)

Financial Institutions Department

The Financial Institutions Department has overall responsibility for establishing, promoting and managing the comprehensive business relationship between the Bank and more than 1000 domestic and foreign banks and other financial institutions (including investment and pension funds, payment services providers, etc.) in both emerging and mature markets. The Department is also responsible for cross-selling of all Bank and PBZ Group products, as well as for providing professional advice and offering individual, single source solutions, tailored to suit our clients' specific requirements.

We believe that trust, continuity in relationships and personal commitment create a solid foundation for consistent and successful business opportunities and, therefore, in each Relationship Manager in the Financial Institutions Department, our clients will find a reliable partner for the entire product range of the PBZ Group. The Department offers tailor-made financing solutions to all the Bank's clients including trade finance, loans and specialized arrangements with financial institutions (both domestic and international), buyer's credits and forfaiting for the promotion of Croatian export, etc. PBZ has profiled itself as the leading commercial bank in Croatia in providing export financing through Buyer's Credits. In order to support payments and the documentary business of the Bank's clients, the Bank has concluded a number of special arrangements and contracts, that together with the use of innovative possibilities in cooperation with renowned foreign financial institutions, contribute to easier operations of its clients abroad.

It should be emphasized that PBZ is the first Croatian bank that has fully implemented Global Cash Management and one of the first offering SEPA payments to its clients. By continuously investing in new channels and methods of effecting international payments, we are able to provide our clients with most efficient, time saving and cost beneficial execution of their payments around the world. In close cooperation with its foreign bank partners, PBZ has achieved a Straight Through Processing (STP) rate of 99.9 percent, thus continuously, year after year, receiving STP excellence awards given by eminent foreign banks (Deutsche Bank AG, Citibank NA, JP Morgan Chase NA and The Bank of New York Mellon). Through our well-developed correspondent network, Bank's clients have direct access to all world markets, which is crucial for their export and import activities. Thanks to the commitment of an experienced team of trade finance specialists, the Bank is able to provide strong professional support and facilitate financing of export-oriented customers, as well as imports of equipment, construction works, and other specific projects. In response to the needs of the market, the Bank has started to effect inland documentary payments, being the first bank in Croatia that offers such service to its clients.

In order to provide all Bank's clients with as much extensive and better offer as possible, the EU Desk team operates within Financial Institutions Department and provides clients with information and advisory services regarding EU programmes and EU Tenders. The Bank participates in a number of EU financial instruments, which transform EU funds into financial products such as loans, guarantees, and other risk-bearing mechanisms. The Bank participates in the financial instruments 'ESIF Growth and Expansion Loans', 'ESIF Loans for Rural Development' - long-term investment loans for SME projects in the processing industry, tourism, creative industry and knowledge-based services, and in agriculture. Also, the Bank participates in several guarantee schemes. 'ESIF Capped Portfolio Guarantee', COSME Capped Portfolio Guarantee are financial instruments structured to support micro and medium sized enterprises. INNOVFIN is financial instrument that supports projects of innovative SMEs and Small Mid-caps (with less than 499 employees). ERASMUS provide financial support for students from Croatia, studying for their Master degree in one of the 33 Erasmus+ programme countries, and the Privredna banka Zagreb d.d. is the only bank in Croatia that provide such support to Croatian students.

Further, acting in close cooperation with the supranationals, such as European Investment Bank, European Bank for Reconstruction and Development, Green for Growth Fund, Croatian Bank for Reconstruction and Development (HBOR), the Bank provides funds for on-lending to its clients, i.e. for financing of projects aimed at improvement of environmental, health and safety standards, improvement of product quality and energy efficiency in line with EU requirements, and similar projects.

The abovementioned proves our dedication to the highest professional standards in dealings with supranational institutions and European Union.

The Department is also responsible for the long-term funding of the entire PBZ Group, i.e. the Bank and its subsidiaries.

Business description of the Bank (continued)

Corporate Division (continued)

Corporate Banking Products Department

Privredna banka Zagreb has always been focused on the clients and the client needs, and for that purpose, at the beginning of 2016, we carried out a reorganisation with the aim of making it possible for large and medium-size companies to be offered products and services from one central spot, where we can provide a comprehensive review of business operations and the needs of a particular client in today's dynamic and demanding business environment.

The Corporate Banking Products Department comprises the following functions: activities of the former Investment Banking Division – i.e. activities of the Capital Market Office, Custody Office and the Depositary Office, Brokerage Office, M&A Advisory Office, Structured Finance Office (which includes Syndicated Finance and Project Finance), Investment Analysis Office, as well as the Factoring Office, Transaction Banking Office and PBZ Leasing.

Factoring

PBZ factoring, as one of the corporate banking products, refers to the purchase of short-term receivables of good quality, that have arisen as a result of the delivery of goods and the provision of services that took place between suppliers and buyers, on the basis of documents that prove the existence of receivables. By selling the receivables, the user of the factoring service can reduce the time needed for collection of its short-term receivables, originally subject to deferred payment, and in this way the client can significantly improve its liquidity, without having to take a loan.

PBZ Factoring Office engages in purchases of receivables created in the course of domestic and international trade of goods and services, and is able to offer the following factoring services: domestic factoring, bills of exchange discounting, export factoring and import factoring.

Transaction banking

PBZ has recently paid a lot of attention to developing a range of transaction banking products intended for corporate clients, thus satisfying the demands of all client segments - from the smallest business entities to big multinational companies, which now have at their disposal a large variety of products, from those simplest ones, related to opening and maintaining transaction accounts, to more complex products, which enable large clients centralised management and the optimum use of funds.

The transaction banking products and services, as well as all other groups of products, are available to PBZ clients via a number of different electronic channels that range from a sophisticated system of Internet banking to the solutions for direct communication with the client systems. At the same time, PBZ devotes utmost attention to the development of the security systems in order to ensure maximum and full protection of business operations of its clients. Through cooperation with other banks of the Intesa Sanpaolo Group, PBZ has become a major player in the international market precisely because of the sophisticated and highly automated services it is able to offer to the most demanding groups of clients.

Investment analysis

Investment analysis serves as an indispensable source of information for the performance of investment banking operations and is equally valuable to other internal users, because - through preparation of industry research reports and corporate profiles/analyses - the relevant information is supplied regarding the trends in a specific industry or about the performance of a specific company. The tasks of investment analysis are carried out by the Investment Analysis Office within the Department, which is unique in terms of the scope of analytical activities and the type of analyses it can conduct/offer, and it should be mentioned that other banks, our competitors, have not developed investment analysis as a product i.e. a (highly sophisticated) service in this way, as is the case at PBZ. Apart from establishing and maintaining contact with relevant agencies and experts from specific industries and companies, the task of the Investment Analysis Office is also to set up and develop relevant databases.

Capital markets

PBZ has earned a reputation in the capital market as a leader in providing innovative financing solutions, which our capital market team has successfully designed and delivered to the state, to local government units, and also to a large number of corporate clients.

We are number one in terms of the number of public offerings of shares (IPOs, SPOs) that have been successfully arranged for our clients from different industries for the purpose of capital increase. PBZ is also a major player in the domestic debt market; as such, we have participated in the majority of domestic sovereign, corporate and municipal bond issues and commercial paper issues, thus handling the major portion of the total amount of debt issued in the domestic capital market. Together with Banca IMI, investment banking arm of ISP Group, we have participated on international markets in Eurobond issues for Republic of Croatia and Croatian corporates.

Business description of the Bank (continued)

Corporate Division (continued)

Corporate Banking Products Department (continued)

Brokerage services

In addition to carrying out purchases and sales of securities on domestic and foreign stock exchanges, the Bank's brokerage services consist of providing detailed information on trading activities, as well as supply and demand, readily available through electronic trading systems, and prompt reporting of securities transactions. Due to the quality of its brokerage service, the Bank has been recognised in the domestic market as one of the leaders in this area, especially in electronic trading. The key driver of our brokerage business is the internet platform, PBZ Investor, completely developed in-house, primarily for retail and institutional investors.

M&A Advisory Office

Our M&A Advisory Office provides advisory services related to mergers and acquisitions, corporate and financial restructuring and divestments, employee stock ownership programs, MBOs, LBOs and other transaction-based projects. We can provide support and assistance to companies that wish to enhance their shareholder value. We have a strong network base and strong presence in various industries, an in-depth understanding of the dynamics of the markets in which our clients operate, and are quite familiar with intricacies of deal structuring and negotiations.

We have represented clients in a number of different industries, including tourism, food processing, confectionery industry, transport and logistics, IT, retail trade, pharmaceutical industry, construction, oil and gas industry, and others.

Structured Finance

As the ultimate leader in the domestic financial market in providing agency services, PBZ's Structured Finance Office provides syndicated and club financing facilities and project finance solutions to corporate investors, commercial banks, local government units and public entities.

Our team's dedication, breadth of experience, broad market knowledge and extensive business network of partners, both local and international, enable even the most complex transactions to be efficiently structured to suit clients' specific financing requirements. Privredna banka Zagreb has arranged syndicated loans for large transactions, both project finance and corporate deals, for clients from various industries, including infrastructure, healthcare, oil and gas, tourism, renewable energy, commercial real estate development (shopping centres), telecommunications, food processing, shipping and others. In addition to having a significant role in primary syndication, the Bank actively participates also in the secondary market (domestic as well as international).

Custody services and depositary services

The Bank takes great pride in providing top quality custody services to private and institutional clients from all over the world, and has established itself as a highly reliable partner that delivers efficient local custody services, due to its in-depth knowledge of local legislation and market practices. At the same time, by establishing and continuously developing its own custodian network, the Bank is able to offer its domestic institutional and private clients easy access to local and foreign markets.

Also, by being entrusted with the role of a depositary for top Croatian investment funds, we take all necessary steps to ensure that investors' assets are protected, managed and valued in accordance with applicable regulatory requirements and recognized accounting standards. Our know-how and experience, combined with the ability to access local and regional markets, provide our clients with the assurance that they will receive top-notch support required for the successful accomplishment of their business goals.

Business description of the Bank (continued)

Small Business & SME Division

In 2006, as one of the leading corporate banks, Privredna banka Zagreb d.d. founded Small Business and SME Division (SME Group) with strong emphasis on small and medium businesses. SME Group is organized through three business departments in the Bank's headquarters (SB Department, SME Department, CRM for Small Business and SME and Network Support) and business network.

To develop strong business relationships with the clients, SME Group has a large business network for work in five regions, 16 SME Business Centres and 50 Sinergo desks with approximately 260 employees.

The Group is focused on the development of new products and the improvement of the existing ones, implementation of innovative business applications, process optimization and organization in order to secure more efficient services for more than 70.000 clients – companies, crafts, self-employed persons and non-profit organizations.

Clients can use the largest network of Branch Offices, ATMs (Cash-In/Cash-Out), day-night vaults and POS terminals.

PBZ is the leader in technology, and that has been reaffirmed with the launch of Online Loans, the first product of its kind on our market in the SB segment. It is a type of a loan which is approved and contracted extremely fast through an online procedure. This is the first type of loan with a digital signature protecting the document content in terms of prominent security and court validity. We believe that digital signatures will replace physical signatures and that this is a truly safe and near banking operations future.

This is one of the reasons for the continuous work on Internet and mobile banking improvement and safety, and therefore since 2019 we have in our offer the new Digital banking for business entities, and in the near future it will make it possible for clients to contract all basic services and products of the Bank. It represents an e-gate for the banking world which is within the reach of clients at any time and from anywhere. PBZ is the first bank which made it possible for online registered legal entities and craftsmen to open an account online, within the project of the Ministry of Economy**,** Entrepreneurship and Crafts entitled START.

The biggest indicator of PBZ's quality service is the increasing number of users, as well as the more frequent use of direct distribution channels. The use of VISA Electron debit cards linked to transaction accounts, VIS Premium business cards and the largest EFT POS terminals network are available with the support of PBZ CARD as a PBZ Group member.

In cooperation with local and EU partners (HBOR, HAMAG, EIB, EBRD and EIF), we provide small and medium businesses an easier access to financing based on developed business models and long-term development loans for financing production, export and other development projects.

SB Department & SME Department

SB Department & SME Department are primarily responsible for the organization, portfolio management and sales monitoring, sales coordination and support, service model improvement, processes and products.

SME Department has the aim to set up, maintain, manage and develop relationships with SME clients in order to strengthen the Bank's presence in that segment in line with the strategy and to achieve the segment's sales targets and a high level of customer satisfaction.

SB Department has the aim to identify customer needs, ensure coordination of sales for this segment and provide support to the corporate network and sales channels in order to achieve customer satisfaction.

CRM for Small Business and SME and Network Support

CRM for Small Business and SME and Network Support is divided in three sub-departments: CRM, Network Support, Product Development.

Sub-department CRM is responsible for SME clients' data management. It is also responsible for the business definition of distribution channels, revenue tracking, cost and profitability of clients and business centres, planning and calculating key business performance indicators and employee reward system. CRM's role is managing sales campaigns by using Customer Relationship Management and DWH tools through available communication channels of the Bank

Business description of the Bank (continued)

Small Business & SME Division (continued)

CRM for Small Business and SME and Network Support (continued)

Sub-department Network Support is responsible for providing support to the SB/SME network in the fulfilment of sales, performing administrative activities and resolving their operational requirements, administration and logistical support in cooperation with HR & Organization Department. Through the call centre it is also responsible for providing support to customers in the resolution of queries and complaints of customers, customer support for using electronic channels, and performing pro-active sales activities through outgoing calls.

Sub-department Product Development is responsible for the development and maintenance of business applications and processes and for participating in the development of new products and services in cooperation with other business departments and IT.

SME – Regional centres

Sales Department is organized into 5 regional centres: Zagreb, Central Croatia, Dalmatia, Istria-Rijeka-Lika and Slavonia, where 16 Business Centres and 50 Sinergo Desks are operating.

The activities of employees in regions, business centres and SME desks are primarily focused on working with customers by informing the same about all products and services of the Bank (deposits, loans, guarantees, letters of credit, factoring and the like) and on the sale of products and services to clients.

Logistics areas

Business areas focusing on client requirements can only fully exploit their potential if they are provided with a reliable and efficient infrastructure.

The Accounting Department, Planning & Control Department, Treasury & ALM Department, Administrative & Financial Governance Office, Procurement Office, Research Office and Data Office led by the Chief Financial Officer (CFO), provide skillful and in-depth support with regard to all financial monitoring and reporting matters, financial planning and budgeting as well as administrative assistance to the business areas.

Listed below are the basic roles the business functions (mission):

- mission of the **Accounting Department** is preparation the Bank's Financial Statements in accordance with the required standards, management, monitoring and taking into consideration all applicable tax laws and providing consultancy to the all Bank's Structures on these matters, management of all accounting activities as well as preparation and submission of Regulatory reporting to the National Bank and to the other Regulatory Authorities;

- mission of the **Planning & Control Department** is to assist the Top Management in assessing the overall and segment specific performance as well as the strategic and market position of the Bank and the Group. The Planning and Control Department provides the business divisions/departments with financial and business information (by segment, product, channel, geographical area and organizational structure) and to supports them in analyzing and monitoring the relevant trends. The Department manages the all budget process (preparation of the strategic plan, budget and forecast for Bank and the Group), ensures the cost controlling of the Bank and the Group and identifies the strategies for capital allocation for optimizing the capital usage and maximizing the value of the Bank;

- the **Treasury & ALM Department** manages the liquidity of the Bank/PBZ Group in all currencies, the interest rate risk and the FX risks of the Bank/PBZ Group and the Bank/Group's securities portfolios. Furthermore, the Treasury and ALM Department carries out all the necessary (cash and derivative) transactions in the monetary and financial markets and with the Central Bank, in order to manage the above mentioned activities within the limits assigned. The Treasury and ALM Department ensures the fulfilment of all relevant regulatory constraints and provides transaction execution services in the relevant financial markets for customers and sales functions;

- the **Administrative & Financial Governance Office** assists the Bank's Reporting Officer / CFO in the set-up, implementation and application of the Administrative and Financial Governance Model in line with the Group standards and regulations, reviews and assesses adequacy and effectiveness of the administrative and accounting procedures, as well as of the internal controls system on financial information through identification and evaluation of those processes that affect financial reporting and the relevant risks and controls. Furthermore, it reports to the Parent Company about the execution and the outcomes of the testing program, identified weaknesses and implementation of the related remedial actions;

Business description of the Bank (continued)

Logistics areas (continued)

- main duty and responsibility of the **Procurement Office** is management of the procurement process of all necessary goods and services for the Bank and its subsidiaries according to the Group Procurement Rules ensuring the regularity of the entire procurement process. The Procurement Office provides support to all the organizational units of the Bank and PBZ Group members in all the phases of the procurement process;

- the **Research Office** creates and maintains a database of all the relevant macroeconomic and financial indicators and of all the major microeconomic variables for the countries in which PBZ Group operates, produces regular reports regarding major macroeconomic and financial market developments (current and expected), provides ad-hoc analyses and research in the microeconomic areas of industry, trade and banking, and provides the inputs and forecasts regarding the covered countries, necessary for the annual budget and long term planning of the local Bank, in coherence with the Group guidelines;

- main duties and responsibilities of the **Data Office** are to set up and maintain a proper Data Governance framework and the development of the data governance culture within the Bank. The Data Office oversees the content and the coherence of the data feeding for the Parent Company, ensures the effectiveness of the data quality controls and oversees the process of managerial reporting in the area of the corporate data management.

- ICT Department, Back Office Department, Payments Department and Logistic Office represents a key business functions as part of the organization that serves the entire Bank by providing IT and communications assistance, supporting distribution channels and feeding the system with financial information.

- mission of the **ICT Department** is to identify the ICT needs of the Bank and to define strategies, solutions and initiatives regarding architectures, technologies, standards and rules. ICT Department designs, implements and manages the applications, the central and distributed technological infrastructures coherently with the defined budget and objectives. Furthermore, the ICT Department assures the implementation and management of the ICT security measures and oversees the related incidents management;

- the **Back Office Department** performs back office activities related to all banking products and services, continuously monitors their service level and performs book-keeping records for the Bank and PBZ Nekretnine. The Department is proposing and participating in development of the relevant ICT solutions;

- mission of the **Payments Department** is to perform all the back office activities related to the outgoing and incoming payments, national, cross border and international in HRK and other currencies, performs the cash administration and handling activities and monitors processes related to SWIFT, RTGS and ACH, SCT, SDD, CSM. The Payments Department supports development of new products and services and implementation of regulatory requirements related to payments and proposes the evolution of the relevant ICT solutions;

- mission of the **Logistic Office** is to define the strategies and to manage the real estate portfolio of both Head Office and network structures and assures the effective and efficient maintenance of all Bank’s physical assets then to perform activities related to the general services and also to ensure environmental protection in respect of local and the Group requirements and to oversee organization’s environmental performance, developing, implementing and monitoring environmental strategies that promote sustainable development.

Chief Risk Officer (CRO) area is a crucial part of our commitment to providing consistent, high-quality returns for our shareholders. It is our belief that delivery of superior shareholder returns greatly depends on achieving the appropriate balance between risk and return. Role of the Risk Management and Control Division is to protect the Bank from the risk of severe loss as a result of unlikely events arising from any of the material risks that Bank face and to limit the scope of materially adverse implications to shareholder returns. Within this area are the following structures: Risk Management Department, Internal Validation Office, Proactive Credit Management Office, Underwriting Department, Recovery Department and Credit Portfolio Analysis and Administration Department.

- **Risk Management Department** is responsible for developing and prescribing elements of overall risk management system for the Bank and PBZ Group i.e. for defining the framework for risk management which includes rules, procedures and resources for identifying risks, quantifying / assessment of risk, mastering of risk management and risk monitoring, including determining the risk appetite and risk profile and reporting on risks to which the PBZ Group is exposed to or could be exposed to through its activities;

Business description of the Bank (continued)

Logistics areas (continued)

- mission of the **Internal Validation Office** is to validate, for the Bank and PBZ subsidiaries, the internal models already operative or under development with regard to all risk profiles covered by Pillars I and II of the Basel Accord and to manage the internal validation process at the Group-level in line with the Parent company guidelines and in cooperation with the Regulatory Authority, then to verify performance and correct functioning of internal systems, including back testing analyses and benchmarking and periodically issue recommendations to operational functions in relation to performance, functioning and use of the internal systems;

- **Proactive Credit Management Office** contributes to the implementation of an early warning system based on borrower's monitoring so to early/timely identify signals of customer's financial/commercial difficulties, design and activate the necessary measures/action plan for identified clients. Furthermore, this function analyses trends of specific credit indicators aiming at identifying retail products/client sub-portfolios showing increase of risk and in collaboration with the relevant functions defines proper corrective actions

- mission of the **Underwriting Department** is management and assessment of credit risk through the process of loan approval and process of placements monitoring and participation in process of assignment and management of internal credit rating of the clients, process of management of credit protection instruments and in the process of early detection of increased credit risk;

- the **Recovery Department** is responsible for entire collection at the level of the Bank and for coordination of the collection at the level of the PBZ Group;

- mission of the **Credit Portfolio Analysis and Administration Department** is control of loan/credit documentation before loan utilization in order to reduce the operational risk, utilization of loan, care about integrity and completeness of loan/credit files in accordance with internal rules, policies and regulatory provisions, operatively management of the loan/credit files and collaterals, ensuring a comprehensive view of the credit portfolios and coordinating all activities related to the 1st level credit controls.

The Internal Audit Department, General Secretariat Office, Human Resources and Organization Department, Legal Department, Compliance Department, AMLOffice, PR & Marketing Communication Department, Customer Satisfaction & Complaints Office and Cybersecurity & BCM Department are integral elements of the overall logistics and support of the business groups and the management.

- main duties and responsibilities of the **Internal Audit Department** are to ensure a constant and independent monitoring on the regular way of conducting the Bank's activities and on the Bank's processes in order to prevent or highlight anomalous or risky behaviours or situations, evaluating the functioning of the Internal Control System and its suitability to guarantee the efficiency and effectiveness of company's processes, the safeguard of assets and the prevention from losses, the reliability and integrity of accounting information, the compliance of the performed transactions with the policies established by the governance bodies as well as with the internal and external regulations. The Internal Audit Department provides advisory to the Bank's functions and units, also by means of participating to projects in order to create added value and to improve the effectiveness of control processes, risk management and governance activities, supports the company's governance and ensures the Top Management, the Internal Bodies as well as the Regulators (i.e. Central Banks) with a prompt and systematic information flow on the Internal Control System status and on the findings of the activities carried out. The Internal Audit Department ensures the monitoring on the Internal Control System of Subsidiaries through audits or by governance activities to be executed towards relevant internal auditing functions;

- the **General Secretariat Office** provides comprehensive support to facilitate the execution of Bank's Bodies meetings, as well as Internal Committees, and to manage the relationship with the Parent Group, the supervisory authorities and other regulators with reference to Bank corporate governance and legal status matters. Furthermore, the Office provides legal support to the relevant structures of the Bank in the field of corporate governance and legal status matters at the level of the Bank, which includes interpretation and application of the Companies Act, the Credit Institutions Act, and other regulations in the sphere of status law/corporate governance

Business description of the Bank (continued)

Logistics areas (continued)

- mission of the **HR & Organization Department** is to govern the planning, development and management of human resources by guaranteeing the recruitment, remuneration, staff mobility and training of the human resources as well as the assignment of responsibilities, and by paying attention to the enhancement of expertise, skills development, merit recognition and internal satisfaction levels. It manages internal communication initiatives (except of Intranet) aiming at facilitating development of the corporate values and culture and to plan, design and manage instruments that enable the integration of social and environmental responsibility and sustainability within Bank's activities. Furthermore, it supports the development of the Bank by leveraging all organizational assets (such as models, sizing tools, processes and rules), as well as by providing support to the Bank in project management and by coordination of the demand management of IT services

- mission of the **Legal Department** is to provide legal assistance to all organizational units of the Bank aiming at assuring a proper interpretation and application of laws and regulations and to provide the representation and defense of the Bank’s interest in legal disputes and other legal proceedings

- the **Compliance Department** guarantees effective and efficient governance of the compliance risks and associated controls according to the provisions of local Authorities and the Parent Company Guidelines and along with that to ensure constantly monitoring that the Bank and its employees are compliant with the requirements of General Data Protection Regulation (GDPR), also providing advice to the Group's corporate functions for data protection impact assessments, where requested by the data controller / data processor;

- mission of the **Anti Money Laundering (AML) Office** is to ensure and provide the management of anti-money laundering, terrorism financing and embargoes in the Bank according to indications of Parent Company Guidelines and Local Authorities;

- mission of the **PR & Marketing Communication Department** is to manage and coordinate the communication activities addressed to external audience with the purpose of providing them with economic, financial, institutional and regulatory information and developing and enhancing a positive corporate image and reputation of the Bank itself and PBZ Group in the whole as well as to plan and to implement promotion of the products and services of the Bank and PBZ Group members for all segments;

- the **Customer Satisfaction & Complaints Office** is responsible for promoting the improvement of the customer experience, increasing of the customer satisfaction and loyalty and setting up a consumer-centric culture within the Bank. The Office is responsible for monitoring and analyzing of the customer satisfaction and loyalty, the level of quality of provided services and to identity, to undertake and to monitor activities and plans for improvement of the customer’s satisfaction. The Office is responsible to handle customers written complaints, disavowals and appeals to ADR from customers (through recording, handling, reporting and conducting of analysis with the purpose of introduction for necessary improvements);

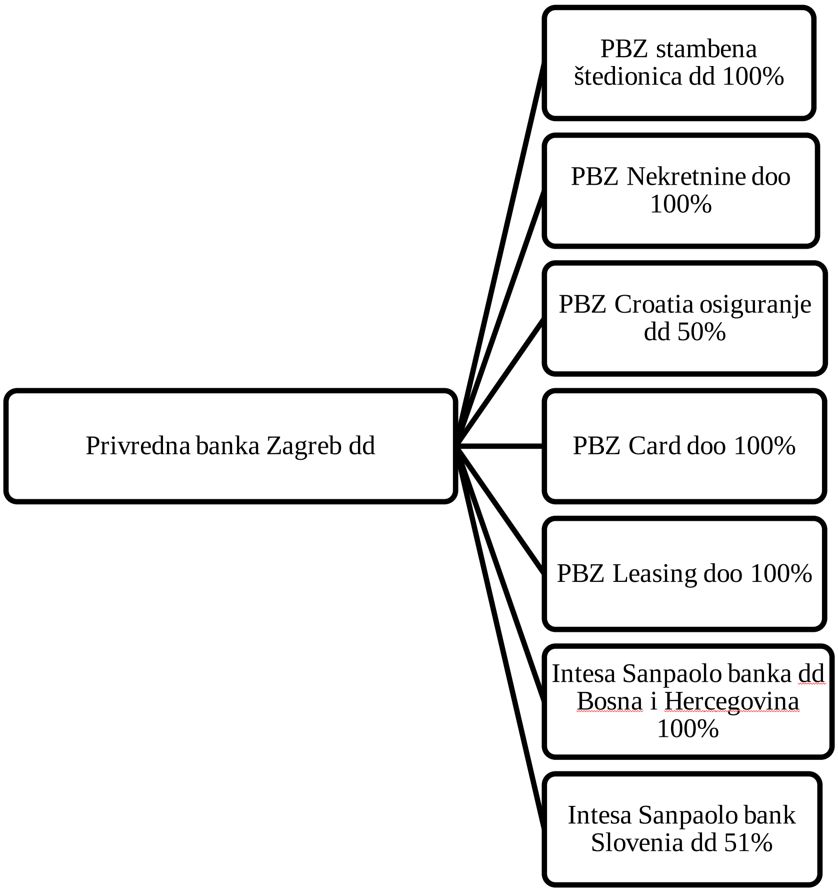
- mission of the **Cybersecurity & BCM Department** is to define strategies and policies related to cybersecurity and information security matter, physical security (including occupational health and safety duties), business continuity and fraud prevention, to oversee their correct implementation, to manage risks linked to specified areas. This unit manages the Business Continuity Plan of the Bank, monitors activities in order to detect and handle any fraudulent actions, defines health and safety at work measures and assure their correct implementation. Role of Department is to spread culture of cybersecurity and information security, physical security (including occupational health and safety duties), fraud prevention and business continuity within the Bank by identifying the needs of awareness, communication and education of employees and by developing contents and the educational trainings. Department’s duty is to coordinate at PBZ Group Level all activities related to cybersecurity, information security, Business Continuity Management, physical security and health protection executed by PBZ subsidiaries.

Business description of the Group

Joining the Intesa Sanpaolo Bosna and Herzegovina in 2015 and Banka Intesa Sanpaolo d.d. Slovenia in July 2017 the Privredna banka Zagreb Group is a multinational based financial services group which provides a full range of retail and corporate banking services to customers in Croatia, Bosna and Herzegovina and Slovenia. At the end of 2019 the Group employs some 5,209 employees and serves over 2.0 million both private and corporate clients in the three countries. PBZ Group is a well-organised institution whose market share in the overall banking system stands at 20.3 percent in Croatia (data from October 2019), 9.6 percent in Bosna and Herzegovina and 6.5 percent in Slovenia.

On 31 December 2019 the Group consisted of Privredna banka Zagreb d.d. and 6 subsidiaries and one associate (31 December 2018: 6 subsidiaries and one associate).

The composition of the Group and a brief description of each subsidiary are set out below.



PBZ Card

PBZ Card is the leading company in the charge and credit cards business of the citizens and legal entities which also includes business with merchants for the purpose of card acceptors. The assortment of the Company includes a great variety of card products including Premium Visa of PBZ Card, Visa and Mastercard of Privredna Banka Zagreb, from charge, debit, debit delayed to credit, prepaid and other cards intended for private holders and legal entities. The success of PBZ Card is based on its broad knowledge and rich experience build over the fifty years period in credit card business and its strong position build by Privredna Banka Zagreb as the leading bank in introducing new technologies in card business.

The year 2019 was marked by the migration of American Express portfolio to Visa Premium, issuing of new Visa Premium cards that started in July 2019 and replacement of all existing cards which was successfully completed by the end of the year. Namely, following the decision of American Express to leave the licence business model on the EU market, the American Express cards issued by PBZ Card could have been used only till December 31st 2019. Bearing in mind the long-standing successful card business and strategic orientation of PBZ Group towards cutting-edge card services and client benefits, a major migration project of the entire PBZ Card portfolio to the new card brand was initiated. The goal of this project was to assure to all PBZ Card's users and business partners continued usage of all existing benefits and adding additional benefits offered by the new card brand. This largescale project that included a new card business model

Business description of the Group (continued)

PBZ Card (continued)

development, its implementation, the selection of a new strategic partner to whose brand the existing cards would be migrated, new portfolio development and, finally, migration to the new brand was in the business focus for 2019.

As its strategic partner, PBZ Card has chosen Visa, one of the world's strongest credit card brands. Thanks to the strong market position of Visa, a global company for technological payments and world leader in digital payments, the clients, alongside with the current benefits developed for them by PBZ Card, will have even broader credit card acceptance, higher security standards (contactless payments, PIN, RD secure system), using new innovative technologies and solutions.

Alongside new card products, new benefits for clients and sales establishments have also been designed, including communication and sale strategy, technical system architecture, security solutions, organization and communication with numerous suppliers. A fully new card portfolio with 12 Premium Visa cards has been created taking into consideration every single client, his or her needs and lifestyle. A great attention has been dedicated to the visual image of cards that are dominated by constellation and lion motives that symbolize tradition, strength, courage, leadership and confidence. At the beginning of July 2019, PBZ Card started issuing Premium Visa cards accompanied by public launch of these unique cards on our market, putting into services the new digital channels as well as a strong media campaign. In August 2019 started the conversion from American Express cards to the new Visa Premium cards, and by the end of 2019 the entire portfolio was converted to the Visa Premium brand. Additionally, strengthened by the partnership with Visa, PBZ Card remains strategically focused on providing cutting-edge services and development of new benefits for its clients and business partners.

As the main credit card acquirer in Croatia, PBZ Card has continued its cooperation with American Express in the part of card acceptance at its sales establishments, and has become, at the end of the last year, the first Croatian company on the market to introduce the acceptance of UnionPay cards at its sales establishments, a brand with the world largest client network with over 7 billion issued cards.

PBZ Card continues to hold the leading position on the domestic market in 2019. At the end of the previous year, taking into consideration the number of cards, PBZ Group held 27.6 percent of the total Croatian active cards and with a 28.2 percent the leading position on the credit card market. The total transaction volume in 2019 of Visa Premium, Visa, Mastercard and American Express achieved on all channels accounted for 35.1 percent of total transaction volume on Croatian card market achieved in the first three quarters of 2019. In the same year, PBZ Card also maintained the leading position in number of EFT POS devices with 31.1 percent of the market share.

In the year 2019 a number of activities have been carried out to strengthen the reputation of PBZ Card as a socially responsible company. The extensive work related to the promotion of humanitarian project "Do Good Every Day" launched by PBZ and PBZ Card and aimed at helping children and young people continued. By the end of 2019 a total of HRK 18.7 million was collected. PBZ Card has made 40 donations, including 29 donations to pediatric wards and children's hospitals and 11 donations to social care institutions for better healthcare and social welfare of children and young people in Croatia.

PBZ Stambena Štedionica

PBZ Stambena Štedionica is a member of the PBZ Group and in the 100 percent ownership of Privredna banka Zagreb. PBZ Stambena Štedionica was founded in 2003 and is doing its business according to the Law on housing savings and government incentives to housing savings. Housing savings include organized collection of cash deposits from natural entities aimed at meeting the housing needs of depositors by means of loan approval for house building purposes in the area of the Republic of Croatia with financial support of the Government. Depositors, besides the interest received on their deposits from Štedionica, are also entitled to government incentives, which are related to the amount of deposits made in their housing savings accounts up to a limited amount. The government incentives are determined by the special decision taken by the Government each year.

PBZ Stambena Štedionica offers its clients four types of savings: Prima, Basic, Golden and Golden Children’s Savings. Prima savings are aimed at clients whose goal is to make use of a housing loan as soon as possible. The Basic savings are aimed at clients who want to dispose of a larger amount of deposits for investments through a longer loan repayment period. The Golden Savings are aimed at clients whose first interest is in saving money. In order to promote the savings products with young clients PBZ Stambena Štedionica offers the Golden Children's Savings intended for children under 13 years. Depending on their needs during the saving period, depositors can change the savings type, as well as gain the right to take out a housing loan by means of interfinancing programme even before the savings period has expired.

Business description of the Group (continued)

PBZ Stambena Štedionica (continued)

Housing savings contracts can be made in all branches of Privredna banka Zagreb, where clients can obtain all the necessary information on housing savings and their existing housing savings accounts, make deposits into their savings accounts as well as the payment of their housing loan instalments.

Currently PBZ Stambena Štedionica has over 105,000 active housing savings accounts and deposits amounting to HRK 1.75 billion.

PBZ Leasing

PBZ Leasing is wholly owned by Privredna banka Zagreb d.d. Company was founded in 1991 under the name of "PBZ Stan". In the beginning it dealt with property appraisals and restructuring of the public housing fund. From 1995 until 2004, the company commenced granting car purchase loans by placing funds of Privredna banka Zagreb d.d.

From 2004, leasing has become core business activity of the company. Through finance and operating leases, the Company engaged in financing of real estates, personal and commercial vehicles, vessels, machinery and equipment. In the last year the Company made new leasing placement in amount of HRK 486 million.

By the end of 2019, PBZ Leasing made over 8.8 thousand (2018.: 7.5 thousand) active lease arrangements with customers, which in financial terms reached HRK 1,164 million (2018; 1,083 million).

PBZ Nekretnine

PBZ Nekretnine is a wholly owned subsidiary of Privredna banka Zagreb d.d. which engages in property transaction services, real estate valuation, financial and technical supervision over the construction of real estate. Privredna banka Zagreb d.d. established PBZ Nekretnine with the goal of providing its clients with a complete range of services relating to property and investment in business projects. PBZ Nekretnine offers apartments, houses, business premises, construction sites and other properties for sale.

The activities of PBZ Nekretnine involve property transactions services (mediation in the sale, lease, property renting), appraisal of property value, construction, planning, construction supervision, construction evaluation, preparation of feasibility studies for investments, as well as legal supervision of works.

PBZ Nekretnine has a professional team capable of answering all its clients' complex requests. The company provides all kinds of services related to the activities mentioned, no matter how specific and complicated the clients' demands are. PBZ Nekretnine employs highly trained employees, (civil engineers, architects, economists, lawyer), seven of which are court experts in the field of construction.

The company has been operating successfully within the Group since it was founded at the beginning of 1999. For the needs of its clients, PBZ Nekretnine has developed a network of associates and at the moment collaborates with over 50 external associates.

Intesa Sanpaolo banka Bosna i Herzegovina

Intesa Sanpaolo Banka dd Bosna i Herzegovina was established in Sarajevo in 2000 as UPI bank dd Sarajevo. In 2006 the main shareholder became Intesa Sanpaolo Holding S.A Luxembourg, with 94.92 percent of ownership. In July 2007, UPI banka finished the merger process with LT Gospodarska banka dd Sarajevo. In 2008 the Bank change its name in Intesa Sanpaolo Banka dd Bosna i Hercegovina.

Part of Intesa Sanpaolo Group from Italy, the Bank's majority shareholding was purchased in July 2015 by former sister company Privredna Banka Zagreb d.d., within the framework of an equity investments portfolio reorganization undertaken by the parent group, that during 2017 became 100 percent owner of the Bank.

As of September 2019, Intesa Sanpaolo Banka dd BiH is the 5th bank in Bosnia and Herzegovina by Total Assets, present in the country with 43 agencies in the Federation of BiH and 5 agencies in Republika Srpska. Its business operations are mainly concentrated (96 percent of Total Assets) in Federation of BiH, where the Bank ranks 3rd in total assets and total loans, with respective market shares of 9.6 percent in Total Assets, 10.9 percent in loans and 9.2 percent in Deposits.

ISP Banka BiH performs general banking business with Retail and Corporate clients offering all ranges of products and commercial services commonly traded in the industry at BiH level.

The Bank's maintains its commercial presence on the territory of BiH through its agencies and ATM network and further strengthens its cooperation with merchants and clients with the expansion of POS network. Support to private individuals and legal entities is shown by the development of product portfolio but most of all through available credit to the economy represented by more than HRK 6.7 billion gross disbursement of loans during 2019.

Business description of the Group (continued)

Intesa Sanpaolo Bank Slovenia

Intesa Sanpaolo Bank, formerly known as Banka Koper, was founded in 1955 and is the 6th largest commercial bank in Slovenia in terms of total assets, 6th largest bank in terms of loans and 5th largest in terms of deposits. The bank operates through a network of 49 branch offices located in the major Slovenian cities throughout the country.

Throughout the entire period of its existence, Intesa Sanpaolo Bank has grown and contributed to the growth of the economy through its successful operations. The Bank is one of the first banks in Slovenia to have shifted its business to digital platforms and at the same time the bank has maintained the highest credit rating of all commercial banks in Slovenia during the financial crisis period.

By renaming to Intesa Sanpaolo Bank and by transferring majority ownership to Privredna Banka Zagreb in 2017, the Bank laid the foundations for a further growth and development. The Bank's business strategy aims to revamp the Group's operations in Slovenia by targeting new business areas in retail, wealth management and corporate finance. With the new strategy and Business Plan for the period 2018–2021, the Bank pursues the goal of establishing itself as a modern, efficient and innovative bank in the all-Slovenian territory.

PBZ Croatia Osiguranje

PBZ Croatia Osiguranje a joint stock company for compulsory pension fund management. The company was incorporated on 26 July 2001 in accordance with changes in Croatian pension legislation and it is a mutual project of both Privredna banka Zagreb d.d. and Croatia osiguranje d.d. with ownership in the company of 50 percent belonging to each shareholder.

The principal activities of PBZ Croatia Osiguranje include establishing and management of the compulsory pension funds category A, B and C. Following the initial stages of gathering members, PBZ Croatia Osiguranje - fund category B became one of the three largest compulsory funds in the country. The company's pension funds continued to operate successfully during 2019.

At this point, pension funds under management have nearly 383 thousand members and net assets in personal accounts exceeding HRK 19.1 billion, which represents a sound base for the long-term stable and profitable operation of the company.

The statement on the implementation of corporate governance code

As a member of Intesa Sanpaolo group, Privredna banka Zagreb adheres to the objectives and guidelines of the Corporate Governance Code and the principles contained therein in accordance with regulations and directives of Republic of Croatia, Croatian National Bank and best practices. The aim of such corporate governance is to ensure effective and transparent distribution of the roles and responsibilities of its corporate Bodies, proper balance of strategic supervision, management and control functions with emphasis on risk management, protection of assets of the Bank and its reputation.

Corporate governance structure

In accordance with the Companies Act, the Credit Institutions Act, and the Bank's Articles of Association, the bodies of the Bank are the General Meeting, the Supervisory Board, and the Management Board. The mentioned acts regulate also their duties and responsibilities.

General Meeting of the Bank

The General Meeting decides on issues stipulated by law and by the Articles of Association and, among other, it adopts the Articles of Association, decides on the allocation of profits, decides on an increase and a reduction of the share capital, appoints and relieves of duty members of the Supervisory Board, grants the approval of action to members of the Management Board and of the Supervisory Board of the Bank, appoints the external auditor of the Bank, and performs also other tasks in compliance with the law and the Bank's Articles of Association.

In past year a regular Annual General Meeting was held on 2 April 2019, while two Extraordinary General Meetings were held on 24 July 2019 and 20 November 2019.

Supervisory Board

The Supervisory Board of the Bank supervises the conduct of business affairs in the Bank. With this end in view, it goes through and examines the Bank's business books and documentation. The Supervisory Board submits to the General Meeting of the Bank a written report on the supervision exercised with respect to the conduct of business affairs in the Bank. The Supervisory Board consists of seven members. As a rule, regular Supervisory Board meetings are called quarterly. The Supervisory Board may decide on important and urgent matters in meetings held by letter. Twenty Supervisory Board meetings were held in 2019. The members of the Supervisory Board of the Bank are elected for a three-year term of office.

Members of the Supervisory Board are the following:

Ignacio Jaquotot, President of the Supervisory Board, independent – term of office from 23 April 2019

Draginja Đurić, Deputy President of the Supervisory Board – term of office from 1 April 2017

Adriano Arietti, Member of the Supervisory Board, independent – term of office from 22 February 2017

Branko Jeren, Member of the Supervisory Board, independent – term of office from 22 April 2019

Giulio Moreno, Member of the Supervisory Board – term of office from 29 November 2017

Paolo Sarcinelli, Member of the Supervisory Board – term of office from 31 March 2019

Christophe Velle, Member of the Supervisory Board – term of office from 18 October 2019

Termination of office in 2019:

Giovanni Boccolini, President of the Supervisory Board – resigned effective 2 April 2019.

Audit Committee

Pursuant to the Articles of Association of Privredna banka Zagreb d.d., the Supervisory Board established the Audit Committee at its 15^{th} meeting held at 10 December 2002. The work of the Audit Committee is governed by the Audit Committee Charter.

The Audit Committee has been appointed in accordance with the law and the parent bank's rules. In 2019 until 31 October, it worked as a body composed of five members. Namely, the composition of the Audit Committee was aligned in June 2018 with the provisions of the new Audit Act so that the Committee is now composed of three independent members of the Supervisory Board of the Bank, appointed by the Supervisory Board, and two members appointed by the General Meeting of the Bank. As of 1 November 2019, Audit Committee is composed of three members of the Bank`s Supervisory Board appointed by the Supervisory Board. Most of the members of the Audit Committee are independent from the Bank.

The statement on the implementation of corporate governance code (continued)

Supervisory Board (continued)

Audit Committee (continued)

During 2019 six meetings of the Audit Committee were held, discussing the issues within the competence of the Supervisory Board. The Audit Committee helped the Supervisory Board in carrying out its duties related to the supervision of the financial reporting process, the audit process (including the recommendation of the General Meeting for the election of the external auditor), as well as compliance with laws, regulations, rules and the code of ethics.

The Supervisory Board, with the help of the Audit Committee, monitored the adequacy of the internal control system, which is achieved through three independent control functions (internal audit, risk control, compliance), and in order to establish such a system of internal controls that will enable early detection and monitoring of all risks to which the Bank is exposed in its operations.

Composition of the Audit Committee at 31 December 2019:

- **Giulio Moreno,** President of the Audit Committee (until 1 April 2019 Member of the Audit Committee)
- **Adriano Arietti,** Member of the Audit Committee (independent Member of the Supervisory Board)
- **Branko Jeren,** Member of the Audit Committee (independent Member of the Supervisory Board)

Members in 2019 until resigned:

- **Giovanni Boccolini,** President of the Audit Committee (independent) – until 1 April 2019
- **Mauro Zanni,** Member of the Audit Committee – until 30 October 2019
- **Gianluca Tiani,** Member of the Audit Committee – until 30 October 2019

Permanent invitees attending Audit Committee meetings at 31 December 2019:

- **Marco Valle -** from 12 December 2019
- **Massimo Coassolo –** from 28 May 2019
- **Mauro Zanni** – from 31 October 2019

Until 27 May 2019, the following meetings of the Audit Committee were attended by:

- **Antonio Furesi**

Technical committees of the Supervisory Board

In 2014, in accordance with the provisions of the new Credit Institutions Act, as a significant credit institution the Bank established three technical committees of the Supervisory Board: Remuneration Committee, Nomination Committee, and Risk Committee, which are responsible for the Bank and its subsidiaries in the Republic of Croatia. Each committee has three members who are appointed from among the members of the Supervisory Board, and which mandate lasts for the duration of their term on the Supervisory Board, of whom one is the committee president. All members of the Supervisory Board appointed to these committees have appropriate knowledge, skills, and expertise that Croatian regulations require for membership in committees, especially for membership in the Risk Committee. In 2019 all the three committees held meetings at which they discussed issues within their competence in accordance with the Credit Institutions Act, the Charter of the Committees of the Supervisory Board of the Bank, and relevant decisions of the Croatian National Bank.

Remuneration Committee

Ignacio Jaquotot, President – term of office until 23 April 2022

Adriano Arietti, Member **–** term of office until 22 February 2020

Branko Jeren, Member **–** term of office until 22 April 2022

Nomination Committee

Ignacio Jaquotot, President – term of office until 23 April 2022

Draginja Đurić, Member – term of office until 1 April 2020

Branko Jeren, Member – term of office until 22 April 2022

The statement on the implementation of corporate governance code (continued)

Supervisory Board (continued)

Technical committees of the Supervisory Board (continued)

Risk Committee

Paolo Sarcinelli, President – term of office until 31 March 2022

Adriano Arietti, Member – term of office from 22 February 2020

Christophe Velle, Member – term of office from 18 October 2022

Management Board of the Bank

The Management Board conducts business operations of the Bank. The Board consists of seven members who are appointed for a three-year term of office and entrusted with a specific area of responsibility. The Management Board regularly meets fortnightly to reach management decisions. Management Board meetings are regularly attended by Dražen Karakšić, CFO.

Enlarged meetings of the Management Board of the Bank are held monthly and they include the participation of heads of subsidiaries in the Republic of Croatia (PBZ Card d.o.o., PBZ Nekretnine d.o.o., PBZ stambena štedionica d.d., PBZ Lesing d.o.o.) and subsidiary banks (Intesa Sanpaolo Banka d.d., BiH, Banka Intesa Sanpaolo d.d., Koper). These meetings are also regularly attended by representatives of the responsible organisational units of the parent bank's ISBD. These meetings consider financial reports and important issues concerning business operations of the mentioned subsidiaries.

Members of the Management Board of the Bank in 2019 were the following:

Dinko Lucić, President of the Management Board, manages the activities of the Management Board and coordinates all business functions within the Bank and the PBZ Group, and he is also responsible for: Control and Staff functions: Internal Audit, Compliance and Anti-Money Laundering, HR and Organization, Legal Affairs, PR and Marketing Communication, General Secretariat, Customer Satisfaction, term of office from 11 February 2018.

Alessio Cioni, Deputy President of the Management Board, is responsible for Control and Staff functions: Security and Business Continuity Management, Project Management in terms of strategic projects; area under the authority of the Chief Financial Officer: Accounting, Planning and Control, Treasury and ALM, Administrative and Financial Governance, Procurement, Research, Data Management; coordination of the Risk Management and Control Division save for the Risk Management Department and coordination of the COO Area save for the Financial Operations Office under the authority of the Chief Financial Officer, and coordination of subsidiary banks in accordance with the Subsidiary Bank Coordination Committee, term of office from 13 September 2017.

Darko Drozdek, Member of the Management Board responsible for the Small Business and SME Division, renewed term of office from 24 October 2019.

Ivan Gerovac, Member of the Management Board responsible for the Corporate Division, term of office from 11 February 2018.

Draženko Kopljar, Member of the Management Board responsible for the operations area (*Chief Operating Officer*): Payments, Back Office, ICT, Real Estate and Logistical Support, term of office from 11 February 2018.

Ivan Krolo, Member of the Management Board responsible for the Retail Division, term of office from 11 February 2018.

Andrea Pavlović, Member of the Management Board responsible for the Risk Management and Control Division, a renewed term of office from 15 May 2019.

Committees of the Management Board of the Bank:

In performing its duties, the Management Board establishes committees and other bodies to assist it in its work and transfers some of its powers to such committees. In the period 2017 - 2019 a new corporate model was established for the Bank and the subsidiary banks. New committees were established, some committees were disbanded, and the Rules of Procedure of the Management Committees of the Bank were adopted to govern their composition and competences. The committees are mainly composed of members of the Management Board, but they are attended by the responsible management (as committee members or permanent invitees) and some also by representatives of the parent bank.

The statement on the implementation of corporate governance code (continued)

Committees of the Management Board of the Bank (continued)

Management Committees:

Credit Risk Governance Committee – decision-making and advisory committee whose mission is to ensure a qualified and coordinated management of credit risk within the exercise of credit prerogatives of the Bank in compliance with the applicable laws, ISP Group regulations and Parent Company strategic decisions: the Committee's main responsibility is to define and update credit risk strategic guidelines and credit management policies based on the constant credit portfolio monitoring.

Credit Committee – decision-making committee of the Bank regarding performing counterparties, whose main responsibility consists in adopting credit decisions in line with the issued strategic guidelines and credit policies, while acting within the credit prerogatives of the Bank and in compliance with the applicable laws of the Republic of Croatia, internal acts of the Bank, and ISP regulations/guidelines.

Junior Credit Committee – responsible for adopting decisions on performing clients (legal entities) in accordance with the authority it was delegated by the Management Board of the Bank.

Problem Assets Committee – decision-making committee of the Bank regarding risky and non-performing counterparties, whose main responsibility consists in taking the necessary measures in order to prevent and mitigate credit losses connected with risky and deteriorated assets.

Assets and Liabilities Management Committee (ALCO) – decision-making and consultative committee, focused on financial risks governance, on the active value management issues, on the strategic and operative management of assets and liabilities and on financial products governance in compliance with Parent Company guidelines, Bank's internal regulations, laws, rules and regulations set by the competent Authorities; the Committee, acting within the limits of the delegations and competences established by the Management Board, is dedicated to the following areas: (a) Financial Risk Governance and Assessment, (b) Operative Management, (c) Financial Products Governance.

Financial Products Technical Committee – decision-making and consultative committee that, within the overall Bank's governance framework for financial product offered to retail clients, supports the Assets & Liabilities Management Committee and is entrusted with the definition, the analysis and the evaluation of the characteristics of the Financial Products' offer and monitors their performance over time, in compliance with ISP Group guidelines, Bank's internal regulations, applicable laws, rules and regulations set by the competent authorities.

Operational Risk Committee – decision-making and advisory committee whose mission is to ensure a qualified and competent management of operational risk issues (ICT/cyber risk and security management inclusive), in compliance with the applicable laws, Group regulations and internal procedures.

Change Management Committee – responsible for the strategic management of changes within the Bank's overall operations through the definition and monitoring of the Bank's project portfolio, prioritizing the respective projects and investments in line with the Bank's strategy, monitoring of the related activities and spending as well as solving any escalated issues.

Internal Controls Coordination Committee – advisory committee, acting within the limits of the delegations and competences established by the Management Board of the Bank, with the aim to strengthen the coordination and the cooperation among control functions in PBZ Group, facilitating the integration of risk management processes.

Banking Subsidiaries Coordination Committee – decision making and consultative committee whose aim is to set the operative strategy for a coordinated development of the Banking Subsidiaries of PBZ d.d. (Bank or PBZ), ensuring namely the efficient implementation of the ISP and PBZ Group initiatives, sharing best practices, application of the robust governance and optimization of the resource allocation.

The statement on the implementation of corporate governance code (continued)

Key elements of the systems of Internal controls and risk management relating to financial reporting for the Bank and the Group

The Bank's and the Group's overall control systems include:

• appropriate organizational structure at all levels with segregation of duties and defined authority limits and reporting mechanisms to higher levels of management

• internal controls integrated into the business processes and activities

• accounting and administrative policies and procedures within the scope of the control functions relating to key risks

• dual corporate governance model consisting of a Supervisory Board and a Management Board which has confirmed its concrete operation and consistency with respect to the overall structure, demonstrating its capacity to meet the efficiency and effectiveness needs of governance of a structured and complex Group

• Management Committees with responsibility for core policy areas

• reconciliation of data, consolidated into the Group’s financial statements, giving a true and fair view of the financial position of the Bank and Group. A review of the consolidated data is undertaken by Management Board to ensure that the financial statements have been prepared in accordance with required legislation and approved accounting policies

• a Code of Conduct establishing the basic standards of conduct of the members of the Management Board and supervisory bodies, as well as employees and external collaborators who are, within their roles, obliged to perform their duties in the interest of the Bank, the PBZ Group, and their shareholders in a diligent, proper, just and professional manner

• the Code of Ethics between the Bank and all its stakeholders describing the values in which the Bank believes and to which it is committed, outlining the principles of conduct which derive from the context of the relationship with each stakeholder and, consequently, raising the standards that each person within the Credit institution must maintain in order to merit the trust of all the stakeholders.

The basis of the Bank's and the Group's internal control system is internal policy that defines the basic principles, structure and activity holder functions of internal controls, which contributes to proper corporate governance and business transparency promotion ensuring safe and stable operations in accordance with the regulatory requirements. The main features are as follows:

• a comprehensive set of accounting policies and procedures relating to the preparation of the annual financial statements in line with, International Accounting Standards, International Financial Reporting Standards as adopted by the European Union, and the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 9 May 2018 (Official Gazette 42/18)

• Bank's Internal Audit that oversees the overall operations of the Bank to assess the adequacy of the established system of internal controls

• independent specialized bearers of control functions responsible for the identification, assessment and risk management, including Risk control and Compliance function

• Office for Administrative and Financial Governance ensuring the reliability of accounting and financial reporting, controlling and protecting system of internal controls for the preparation of financial information

• a compliance framework incorporating testing of specific controls over key financial processes to confirm that the Bank's key controls are appropriate to mitigate the financial reporting risks

• Internal Controls Coordination Committee established to strengthen the coordination and the cooperation among the various Bank's control functions, facilitating the integration of risk management process

• the Annual Report is subject to detailed review and approval through a structured governance process involving senior and executive finance personnel.

The statement on the implementation of corporate governance code (continued)

Risks to which the credit institution is or might be exposed

Bank directs particular attention to identification of risks to which is or might be exposed to. Identification is conducted through risk mapping – technique that is used to determine the existence of risks and assess risk significance for each of the defined units of observation. Units of observation can be:

– in a comprehensive risk identification: all legal entities in the PBZ Group, meaning that the existence and significance of all types of risks is determined for each member of the PBZ Group, or

– in a partial risk identification: individual members of the PBZ Group, introduction of new products, outsourced activities, and the like.

Identification is comprehensively conducted in cooperation with senior management of the PBZ Group and relevant control functions as one of the key phases of ICAAP process. The comprehensive risk identification and mapping is performed on annual basis, the procedure is also used partially in case of outsourcing, introduction of new products or implementation of significant business changes.

The risk mapping is based also on Risk catalogue containing risk definition used by the PBZ Group, which are aligned to risk definitions defined within CNB Decision on risk management and mapped to corresponding ISP risk.

Risk map of PBZ Group:

High significance	**Medium significance**	**Low significance**
▪ Credit risk ▪ Liquidity risk ▪ Operational risk ▪ Interest rate risk	▪ Strategic risk ▪ Reputational risk ▪ Outsourcing risk	▪ Market risk ▪ Equity risk in banking book ▪ Real estate risk ▪ Risk of excessive financial leverage

Credit risk - The Bank as a credit institution is primarily oriented to the providing traditional banking services (loans, deposits) which account for a major portion of total assets of the Bank therefore the credit risk represents the most significant risk for the Bank. Capital requirement for credit risk represents a major part of total regulatory capital requirement. Bank puts continuous focus on credit risk management and particular attention is directed to maintenance of sound credit portfolio and appropriate credit risk measurement and monitoring.

Therefore, as a key and most significant risk in Bank's portfolio, **credit risk is defined as a risk of high significance.**

Liquidity risk – During 2019, Bank continued period of high liquidity and ensured alignment to all internal and external requirements. Nevertheless, the liquidity management process in the Bank is continuously being improved – both in terms of liquidity governance principles and enhancement of technical support/ tools for liquidity measurement. Liquidity risk will continue to be treated as highly important, with ongoing focus on ensuring continuously sufficient level of liquidity and constant alignment with regulatory requirements and other valid regulations. Moreover, adequate focus is also directed to structural liquidity, ensuring sufficient equilibrium between long term assets and related required available sources of funding. Taking in consideration all above mentioned, liquidity risk is deemed as **highly significant.**

The statement on the implementation of corporate governance code (continued)

Risks to which the credit institution is or might be exposed (continued)

Operational risk – the Bank is continuously exposed to operational risk. During 2019 special emphasis was placed on ICT risk in form of additional capital requirements and introduction of corrective measures for relating deficiencies. Even though the comprehensive and rigorous operational risk management system is in place, due to its (fat tail) nature this risk is considered as **highly significant**.

Interest rate risk – Interest sensitive items account for a major portion of total assets and total liabilities making majority of PBZ Group balance sheet subjected to Interest rate risk. Although Bank implemented clear and strict rules for interest rate risk measurement and management, due to changes in customers' risk taking preferences and therewith related changes in interest rate risk exposure, management of interest rate risk was under specific focus. Bank timely recognized above explained changes and relevant functions continuously monitored the changes in risk profile and those changes were timely and adequately included in decision making process, it is important to continue carefully managing interest rate risk and maintain its mark **as highly significant risk**.

Strategic risk – With a broader perspective of strategic risk impact on strategic objectives achievement, Bank anticipated requirement for establishment of strategic risk management framework and risk monitoring. Strategic risk management include both internal and external forces that may threaten the achievement of Banks strategic objectives. Therefore, the Bank analyses:

- the overall macroeconomic environment through political, economic, social, technological, legislative and banking sector risks and estimates their potential damage on the PBZ;
- monitors actual financial and business results, as well as the execution of the budgeted figures;
- market conditions, key competitors and the whole banking system performance.

The analysis of strategic risk is an integral part of Banks strategy definition process and general risk management framework. Therefore, strategic risk significance is **deemed as medium.**

Reputational risk – adequate reputational risk management is an important part of a general risk management framework. Bank recognised importance of reputational risk management and established reputational risk management system with clear definition of actions and responsibilities. Apart from definition of key functions of reputational risk management, additional effort is directed into definition of preventive actions for reputational risk control as defined by internal regulations, such as:

- Confidentiality of information (banking secret, business secret, classification of confidential data etc.);
- Clear lines of public communication;
- Codes regarding ethical behaviour of its employees;
- Anti-money laundering and prevention of terrorist financing;
- Exclusion of some activities from financing by the PBZ Group;
- Special scrutiny for financing political parties and politically exposed persons.

All reputational risk related internal regulation is clearly communicated and distributed among all Bank employees. Finally, through hereby explained reputational risk management principles, particular effort is directed to achievement of embedding preventive reputational risk actions into the core functions at all hierarchy levels. Therefore, **reputational risk significance is deemed as medium**.

The statement on the implementation of corporate governance code (continued)

Risks to which the credit institution is or might be exposed (continued)

Outsourcing risk – The Bank has implemented well defined and prudent rules and procedures in case of initiation of outsourcing activities assuming comprehensive risk analysis and identification, definition of outsourcing activity significance and regular control and monitoring of quality of outsourced service. Bank is carefully monitoring all regulatory novelties and requirements and adjusting its outsourcing rules in line with valid regulatory framework. Nevertheless, due to existence of significant outsourced activities on PBZ Group level, this risk is deemed as of **medium significance**.

Market risk - Trading book positions are insignificant. Most significant market risk exposure is risk arising from debt securities trading positions and currency risk arising from Banks open position management. Nevertheless, Bank has well defined framework for market risk management including definition of roles, responsibilities, measurement methodologies, monitoring and reporting principles and limit structure for market risk exposures. Therefore, **market risk significance is deemed as low**.

Equity risk in Banking Book - Bank has negligible amount of equity investments. Therefore, banking book equity risk significance is deemed as **low**.

Real Estate risk - Bank does not hold real-estates for speculative purposes, almost all property owned by PBZ is used as own long-term business premises. Therefore, real estate risk significance is deemed as **low**.

Risk of excessive financial leverage – leverage ratio is defined as one of Bank's strategic limits that should be maintained above prescribed minimum. Limit compliance is monitored on quarterly basis. Taking in consideration that bank is well capitalized and that maintaining of adequate ratio of capital and overall assets[1] is of strategic importance of the Bank, significance of this risk is considered **as low**.

[1] For calculation of leverage ratio adjusted assets is used in line with defined ISP Group methodology and standards.

The statement on the implementation of corporate governance code (continued)

Statement on the implementation of the Code of Corporate Governance of Privredna banka Zagreb d.d.

According to the provisions of Article 272.p of the Companies Act and Article 22 of the Accounting Act, the Management Board of Privredna banka Zagreb d.d. declares that the Bank voluntarily applies the Corporate Governance Code that was prepared jointly by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange, on the websites of which it has been published.

The *Annual Questionnaire for the Business Year 2019* (also available on the Bank's website) makes an integral part of this Statement and discloses the status and the practice of corporate governance at the Bank in the light of the recommendations comprised in the Corporate Governance Code, providing explanations for specific departures. Specifically, corporate governance at the Bank does not imply only full satisfaction of regulatory requirements, but also deep-rooted corporate culture and personal integrity of the management and employees.

Rules for appointing and relieving of duty members of the Management Board are comprised in the Bank's Articles of Association. The Management Board of the Bank conducts business affairs of the Bank and manages its assets. While doing so, it is required and authorized to take all actions and make all decisions which it considers necessary for successful conduct of business affairs of the Bank and its operation.

The number of Management Board members is determined by the Supervisory Board. According to its decision, the Management Board is composed of seven members, a number estimated, keeping in mind the functions and the competence of the Management Board, as a good and rational solution ensuring that the Bank's operations are managed in the best interest of shareholders, customers, employees of the Bank, and all stakeholders. The composition of seven members corresponds to the established organizational structure of the Bank and ensures good functioning of all organizational units, synergy, communication, and responsibility from a vertical and a horizontal perspective.

At the proposal of the Nomination Committee, the Supervisory Board nominates candidates for president and members of the Management Board of the Bank, who have to meet the criteria laid down in the act governing banking business and other relevant regulations. Subject to the prior approval of the central bank, the Supervisory Board appoints the president and members of the Management Board to serve a term of office of three years, with the possibility of re-appointment. The number of terms of office of Management Board members is not limited. The Supervisory Board may revoke its decision on the appointment of a member of the Management Board of the Bank or of its president when, in accordance with the law currently in effect, there is an important reason for doing so.

The work and the authority of the general meeting and shareholders' rights are disclosed in the attached Annual Questionnaire and this Annual Report in the section concerning corporate governance.

In order to achieve diversity when selecting Management Board members and to ensure an efficient and prudent management of the Bank as a whole, the Bank adopted and applies the Policy on the Targeted Structure of the Management Board and the Conditions for Holders of Key Functions of Privredna bank Zagreb d.d. and the Decision on the distribution of authority among the president and members of the Management Board of the Bank.

In terms of the Management Board of the Bank, the Policy on the Targeted Structure of the Management Board of the Bank and the Conditions for Holders of Key Functions of the Privredna Bank Zagreb d.d. lays down: (a) the target structure of the Management Board of the Bank with respect to the nature, scope and complexity of the Bank's operations, its risk profile and business strategy, (b) the qualitative and quantitative composition of the Management Board, (c) the provisions on the collective suitability of the Management Board, (d) detailed conditions of suitability for the President and members of the Management Board, having regard to the need to cover specific competencies, the need for appropriate professional knowledge, skills and abilities, appropriate experience, good repute, honesty and conscientiousness, etc. in accordance with relevant positive regulations, (e) succession plans and (f) promoting the diversity of the Management Board, including ensuring targeted representation of the underrepresented gender in accordance with the minimum target quota set by the Nominating Committee (as of 31 December 2019 1/7 of Management Board members represent the underrepresented gender – women).

Specific criteria were laid down to ensure the diversity of knowledge, experience, skills, and competences of Management Board members so that they could perform their duties efficiently and professionally. Hence, the president and each member of the Management Board must have specific knowledge, skills, and expertise in the areas within their specific competence. Accordingly, Management Board members are selected in accordance with the prescribed criteria for the performance of duties of the president and member of the Management Board, thus ensuring a good and efficient management of the Bank.

The statement on the implementation of corporate governance code (continued)

Statement on the implementation of the Code of Corporate Governance of Privredna banka Zagreb d.d. (continued)

The Decision on the distribution of authority among the president and members of the Management Board of the Bank defines the main business areas of the Bank and the PBZ Group and the authority of each Management Board member.

According to the suitability assessment conducted in line with the adopted Policy (involving the responsible expert service of the Bank, the Nomination Committee, and the Supervisory Board), the members of the Management Board of the Bank whose terms of office started in 2019 meet all the prescribed criteria from the perspective of the knowledge, expertise, experience, skills, and competences so that the Management Board as a whole has access the necessary competencies and expertise.

In 2019, the Bank also adopted a Policy on the Appropriateness Assessment procedure, which defines the procedure for assessing the suitability of the President of the Management Board, member of the Supervisory Board and holders of key functions of the Bank (jurisdiction, professional service conducting the procedure, required documentation and delivery deadlines, frequency adequacy assessments, extraordinary suitability assessments, etc.)

Candidates for members of the Supervisory Board are nominated by the Nomination Committee. The General Meeting adopts a decision on the election of Supervisory Board members. The decision of the General Meeting of the Bank sets out that the Supervisory Board of the Bank is composed of seven members, a number estimated, keeping in mind the functions and the competence of the Supervisory Board, as a good solution ensuring high-quality supervision of the management of the Bank's operations which is aimed at protecting the interests of the Bank as a whole. Supervisory Board members elect the president of the Supervisory Board and its deputy.

In order to achieve diversity when selecting Supervisory Board members and to ensure an efficient and prudent management of the supervisory function at the Bank, the General Assembly of the Bank adopted the Policy on the Targeted Structure of the Supervisory Board of the Privredna Bank Zagreb d.d.

The Policy on the Targeted Structure the Supervisory Board of the Bank lays down: (a) the target structure of the Supervisory Board of the Bank with respect to the nature, scope and complexity of the Bank's operations, its risk profile, and business strategy, (b) qualitative and quantitative composition (c) suitability conditions for Supervisory Board members according to which each member must have good reputation, honesty and conscientiousness, appropriate experience, independence of opinion, adequate knowledge, skills, and expertise ensuring that the composition of the Supervisory Board is such that it ensures that all the relevant competences/fields of operation are represented therein, so that they might perform their function efficiently and professionally, (d) promoting the diversity of the Supervisory Board, including ensuring the targeted representation of the underrepresented gender in accordance with the minimum target quota set by the Nomination Committee (as of 31 December 2019 1/7 of Supervisory Board members represent the underrepresented gender – women) and etc.

Supervisory Board members are selected in accordance with the prescribed criteria for membership of the Supervisory Board, thus ensuring an optimal functioning of the Supervisory Board and performance of its duties.

According to the suitability assessment conducted in line with the adopted Policy (involving the responsible expert service of the Bank, the Nomination Committee, and the General Meeting of the Bank), the members of the Supervisory Board of the Bank meet all the prescribed criteria from the perspective of the diversity of knowledge, experience, skills, and competences individually and collectively with other Supervisory Board members.

Data on the composition and activities of the Management Board and the Supervisory Board of the Bank and their committees are disclosed in the attached Annual Questionnaire and this Annual Report in the section concerning corporate governance.

The Management Board of the Bank is not authorized to issue new shares of the Bank or to acquire treasury shares.

The rules for amending the Bank's Articles of Association are included in the very Articles of Association. A decision to amend the Articles of Association is adopted by the General Meeting of the Bank in line with the law and the Articles of Association, by a vote representing at least three quarters of the share capital represented at the General Meeting when the decision is made. Amendments to the Articles of Association are proposed by the Supervisory Board, the Management Board, and the Bank's shareholders. The Supervisory Board is authorized to amend the Articles of Association solely in the case of editorial amendments or establishment of the final text of the Articles of Association.

In order to protect the interests of all investors, shareholders, customers, employees and others interested parties, high corporate governance standards have been established at the Bank.

The statement on the implementation of corporate governance code (continued)

Code of Corporate Governance – Annual questionnaire

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

COMPANY HARMONIZATION TO THE PRINCIPLES OF CORPORATE GOVERNANCE CODE

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

Yes.

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

No.

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

Yes. The Bank has adopted internal acts of the Code of Ethics and the Code of Conduct that broadly define the modalities of desirable as well as illicit treatment. There are also other internal acts governing the matter in more detail, which are in line with the positive regulations, rules and standards of the ISP Group.

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

Yes.

SHAREHOLDERS AND GENERAL MEETING

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

No.

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

Yes.

7. Does the company treat all shareholders equally? (If not, explain)

Yes.

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

Yes.

The statement on the implementation of corporate governance code (continued)

Code of Corporate Governance – Annual questionnaire (continued)

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

No. The Bank is prepared to provide proxies for the shareholders if such an initiative occurs. Participation of Shareholders at the General Assembly Bank facilitates in other ways – and thus their attendance at Assemblies do not have to pre-announce. Power of attorney that gives shareholders do not need to be notarized.

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

Yes.

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

Yes.

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

Yes.

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

Yes.

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

No.

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

No. There were no such initiatives by the shareholders and it is not envisaged by the Articles of Associaton.

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

No.

The statement on the implementation of corporate governance code (continued)

Code of Corporate Governance – Annual questionnaire (continued)

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

Yes.

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

No. There were no law suits contesting Decisions by the General Meeting.

MANAGEMENT AND SUPERVISORY BOARD

NAMES OF MANAGEMENT BOARD MEMBERS AS OF 31 DECEMBER 2019

Dinko Lucić, President;

Alessio Cioni, Deputy President;

Ivan Gerovac, Member;

Darko Drozdek, Member;

Ivan Krolo, Member;

Andrea Pavlović, Member;

Draženko Kopljar, Member.

NAMES OF SUPERVISORY BOARD AND THEIR FUNCTIONS

Ignacio Jaquotot, President;

Draginja Đurić, Deputy President;

Paolo Sarcinelli, Member;

Christophe Velle, Member;

Branko Jeren, Member;

Adriano Arietti, Member:

Giulio Moreno, Member.

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

Yes. The schedule of the Supervisory Board meetings is determined in advance. Reports that are regularly and timely put at the disposal of Supervisory Board members are defined by the individual decisions of the Supervisory Board and by law.

20. Did the Supervisory or Management Board pass its internal code of conduct? (If not, explain)

Yes.

The statement on the implementation of corporate governance code (continued)

Code of Corporate Governance – Annual questionnaire (continued)

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

Yes.

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

Yes.

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

Yes.

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

Yes.

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

Yes. Total remunerations paid to the members of the Management Board, key management employees and Bank's related persons are disclosed in the Financial Statement which is prepared in accordance with the International Financial Reporting Standards as adopted by EU. The Annual report is available on the Bank's website.

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

Yes. Data on all remunerations to the Supervisory Board members are published in the decisions of the General Meeting.

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

Yes. During 2019, there was no change (increase/decrease) the number of shares held by Management Board members. The Supervisory Board members haven't Bank's shares.

The statement on the implementation of corporate governance code (continued)

Code of Corporate Governance – Annual questionnaire (continued)

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

Yes. The Bank has not performed specific commercial transactions with the Supervisory or Management Board members. The Bank has commercial (deposits-loans) transactions with the members of Intesa Sanpaolo Group which has a representative on the Supervisory Board. All transactions are market-based in terms and conditions. In the Annual Report, the Bank discloses a separate note on related party transactions which is prepared in accordance with the International Financial Reporting Standards as adopted by EU. The Annual Report is available on the Bank's website.

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

Yes, but only within the ordinary scope of business (e.g. employment contracts, deposit contracts, etc.).

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

Yes, to the extent where such prior approval was needed in accordance with applicable regulations and/or internal acts of the Bank.

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

Yes, to the extent required.

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

Yes.

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

Yes.

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

Yes.

The statement on the implementation of corporate governance code (continued)

Code of Corporate Governance – Annual questionnaire (continued)

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

Yes.

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

Yes.

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

Yes.

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

Yes.

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

No, since internal audit function is established.

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

Yes.

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

No. Limitations on providing services other than audit are regulated by law.

The statement on the implementation of corporate governance code (continued)

Code of Corporate Governance – Annual questionnaire (continued)

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

Yes. Limitations on providing services other than audit are regulated by law.

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

Yes.

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

Yes

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

Yes.

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

Yes. For the most part into the report of the Supervisory Board for the past year which was submitted to the General Assembly.

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

No. There is no such legal obligation. A remuneration policy statement was published separately from the Annual report.

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

Yes. Total remunerations paid to the members of the Management Board and key management are disclosed within Annual report in aggregated amounts. Remunerations to members of the Supervisory Board are disclosed with in General Assembly decisions.

The statement on the implementation of corporate governance code (continued)

Code of Corporate Governance – Annual questionnaire (continued)

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

Yes, in accordance with valid accounting standards.

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

Yes.

AUDIT AND MECHANISMS OF INTERNAL AUDIT

51. Does the company have an external auditor?

Yes.

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

No.

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

No.

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

No. The amount of charges paid to the independent external auditor is considered as business secrecy.

55. Does the company have internal auditors?

Yes.

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

Yes.

The statement on the implementation of corporate governance code (continued)

Code of Corporate Governance – Annual questionnaire (continued)

TRANSPARANCY AND THE PUBLIC OF ORGANIZATION OF BUSINESS

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

Yes.

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

Yes.

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

Yes. The Bank fulfils all its obligations as an issuer of financial instruments listed on the regulated market, but also as a credit institution providing investment and ancillary services on the market, on the basis of which it may come into contact with privileged information relating to other issuers. The Bank has defined an internal system that identifies and informs those involved in relevant business processes.

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

Yes, in accordance with positive regulations, internal policies and standards ISP and PBZ Group.

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

No.

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

No. The Bank has a stable shareholders structure and as a result, there was no need for additional meetings with the shareholders (investors) except the General Meeting.

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

Yes.

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the separate and consolidated financial statements, other information and supplementary information

The Management Board of the Bank is required to prepare separate financial statements of Privredna banka Zagreb d.d. ("the Bank") and consolidated financial statements of Privredna banka Zagreb Group ("the Group") for each financial year which give a true and fair view of the financial position of the Bank and the Group and of the results of their operations and cash flows, in accordance with International Financial Reporting Standards as adopted by European Union, and is responsible for maintaining proper accounting records to enable the preparation of such separate and consolidated 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 the Group 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 judgements 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 and the Group will continue in business.

The Management Board is also responsible for the preparation and content of the Management Board report for the Bank and the Group and Corporate Governance Statement as required by the Croatian Accounting Act, and the rest of other information (together "other information").

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 Credit Institutions, from May 2018 (Official Gazette 42/2018).

The Management Board is responsible for the submission to the Supervisory Board of its Annual report which includes the separate and consolidated financial statements, other information and supplementary information for acceptance. If the Supervisory Board approves the Annual report it is deemed confirmed by the Management Board and Supervisory Board.

The separate and consolidated financial statements on pages 69 to 238 as well as supplementary forms for the Croatian National Bank and reconciliation of the statutory financial statements with the supplementary forms for the Croatian National Bank, set out on pages 239 to 282 and Management Board Report for the Bank and the Group on pages 8 to 16, Report from the President of the Supervisory Board on pages 6 to 7, The statement on the Implementation of Corporate Governance Code on pages 42 to 60 and other information on pages 3 to 5 and 17 to 41 are approved by the Management Board on 18 February 2020 as confirmed by the signatures below.

For and on behalf of Privredna banka Zagreb d.d.

Dinko Lucić
President of the Management Board

Alessio Cioni
Deputy President of the Management Board

Darko Drozdek, *Member of the Management Board*

Ivan Gerovac, *Member of the Management Board*

Draženko Kopljar, *Member of the Management Board*

Ivan Krolo, *Member of the Management Board*

Andrea Pavlović, *Member of the Management Board*

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Privredna banka Zagreb d.d., Zagreb

The report on the audit of the annual financial statement

Opinion

We have audited the separate annual financial statements of Privredna banka Zagreb d.d. (“the Bank”) and the consolidated annual financial statements of the Bank and its subsidiaries (“the Group”), which comprise the separate and consolidated statements of financial position of the Bank and the Group, respectively, as at 31 December 2019, and their respective separate and consolidated statements of profit or loss and other comprehensive income, the separate and consolidated statements of cash flows and the separate and consolidated statements of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key audit matters

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

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

Registrirano kod Trgovačkog suda u Zagrebu pod brojem 080044149
OIB 76394522236

Key audit matters (continued)

<table>
<tr><th colspan="2">Impairment of loans and advances to customers</th></tr>
<tr><td colspan="2">As at 31 December 2019, in the consolidated financial statements gross loans and advances to customers amount to HRK 74,236 million, related impairment allowance amounts to HRK 3,562 million and impairment loss recognised in the income statement amounts to HRK 318 million (31 December 2018: gross loans and advances: HRK 71,100 million, impairment allowance: HRK 4,080 million, impairment loss recognised in the income statement: HRK 391 million).

As at 31 December 2019, in the separate financial statements gross loans and advances to customers amount to HRK 49,956 million, impairment allowance amounts to HRK 2,700 million and impairment loss recognised in the income statement amounts to HRK 256 million (31 December 2018: gross loans and advances: HRK 48,617 million, impairment allowance: HRK 2,919 million, impairment loss recognised in the income statement: HRK 258 million).</td></tr>
<tr><th>Key audit matter</th><th>How we addressed the key audit matter</th></tr>
<tr><td>Impairment allowances represent management's best estimate of risk of default and the expected credit losses within the loans and advances at the reporting date. We focused on this area due to the significance of the amounts involved for the separate and consolidated financial annual statements and also because of the nature of the judgements and assumptions that management are required to make.

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

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

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

For defaulted loans that are considered to be individually significant or non-performing corporate exposures exceeding HRK 3.8 million individually, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral.</td><td>Audit Procedures

Our audit procedures in this area included, among others:
• reviewing the methodology of the Bank and the Group for the calculation of the expected credit loss and assessing its compliance with the requirements of International Financial Reporting Standards 9: Financial Instruments (“IFRS 9”),
• obtaining an understanding of the provisioning process, IT applications used therein, as well as key data sources and assumptions for data used in the expected credit loss model,
• assessing and testing of IT control environment for data security and access,
• evaluating the design, implementation and operational effectiveness of controls in credit risk management and lending processes, and tested key controls related to the approval, recording and monitoring of loans and advances,
• testing the design, implementation and operational effectiveness of selected key controls in the areas of customer rating, as well as the controls relating to the identification of loss events and default, appropriateness of classification of exposures between performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the impairment allowances,
• testing, on a sample basis, whether the definition of default and the staging criteria were consistently applied in accordance with relevant policies,</td></tr>
</table>

Key audit matter	How we addressed the key audit matter
Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis. Impairment allowances for performing exposures and non-performing retail exposures as well as non-performing corporate exposures below HRK 3.8 million individually (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions. The Bank is continuously re-calibrating the model parameters which also requires our increased attention in the audit. **Related disclosures accompanying the annual financial statements** For additional information see notes 4. l) (Significant accounting policie) i 6. b) (Accounting estimates and judgements in applying accounting policies) and notes 26. (Loans and advances to customers) and 48. a) (credit risk section of the note 48 Financial risk management policies).	• evaluating the overall modelling approach of calculation of expected credit losses (ECLs), including the calculation of main risk parameters and macroeconomic factors (probability of default (PD), loss given default (LGD) and exposure at default (EAD), • testing the adequacy of individual loan loss allowances, on a sample basis, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, • conducting an evidentiary test of the selected sample to assess the correctness of the loan classification, • in certain cases, we used our own judgment to determine the parameters for calculating impairment losses on loans and compared our calculations with the impairment of the value calculated by the Bank, • evaluating the accuracy and completeness of the financial statement disclosures.

Other Matter

The annual separate and consolidated financial statements of the Bank and the Group for the year ended 31 December 2018 were audited by KPMG Croatia d.o.o. za reviziju, Zagreb who expressed in Independent Auditor's report an unmodified opinion on those annual financial statements on 19 February 2019.

Other information in the Annual Report

Management is responsible for the other information. The other information comprises of an Introduction, Report from the President of the Supervisory Board, Management Board Report of the Bank, Management Board Report for the Group, Macroeconomic Developments in Croatia in 2019, Business Description of the Bank, Business Description of the Group and The Statement on the Implementation of Corporate Governance Code included in the Annual Report of the Bank and the Group, but does not include the separate and consolidated annual financial statements and our Independent auditor's report on them.

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

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

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

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

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

- the information given in Management Board Report of the Bank and of the Group and the relevant sections of the The Statement on the Implementation of Corporate Governance Code as part of the Annual report of the Bank for the year 2019 are in accordance with the financial information stated in the separate and consolidated annual financial statements of the Bank and of the Group set out on pages 69 to 238 on which we expressed our opinion as stated in the Opinion section above;
- the information given in Management Board Report of the Bank and of the Group and the relevant sections of the The Statement on the Implementation of Corporate Governance Code is prepared in accordance with the requirements of Articles 21, 22 and 24 of the Accounting Act, respectively;
- the Implementation of Corporate Governance Code includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in an Introduction, Report from the President of the Supervisory Board, Management Board Report of the Bank and of the Group, Macroeconomic Developments in Croatia in 2019, Business Description of the Bank and of the Group and The Statement on the Implementation of Corporate Governance Code. We have nothing to report in this respect.

Responsibilities of Management and those charged with Governance for the Annual Financial Statements

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

In preparing the separate and consolidated annual financial statements, the Management is responsible for assessing the Bank's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's Responsibility for the Audit of the Annual Financial Statements

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

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

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

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

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- make conclusion 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 and the Group'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 separate and consolidated annual financial statements or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditor's Responsibility for the Audit of the Annual Financial Statements (continued)

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

We also give a statement to those charged with governance that we have acted in accordance with relevant ethical requirements regarding independence and that we will communicate with them on all relationships and other issues that can reasonably be considered to affect our independence as well as, where applicable, about related protections.

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

Report on other legal and regulatory requirements

On 24 July 2019, the General Assembly of the Bank appointed us to conduct an audit of the Bank's separate and consolidated annual financial statements for 2019.

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

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

- for the separate annual financial statements: HRK 280 million
- for the consolidated annual financial statements: HRK 340 million

which represents approximately 2% of the of the Bank's or Group's net assets for 2019.

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

Our audit opinion is consistent with the additional report for the Bank's auditing board, prepared in accordance with the provisions of Article 11 of Regulation (EU) No. 537/2014.

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

Report on other legal and regulatory requirements (continued)

Pursuant to the Decision on the structure and contents of annual financial statements published by Croatian National Bank on 9 May 2018 (OG 42/18), the Bank's Management prepared forms presented on pages 239 to 279 (hereinafter „the Forms"). The financial information in the Forms is derived from the financial statements of the Bank and the Group set out on pages 69 to 238 on which we expressed our opinion as stated in the section Opinion above.

Pursuant to requirements of the Credit Institutions Act (OG 159/13, 19/15, 102/15 and 15/18, 70/19), the Bank disclosed required information on page 282, which comprise all information as stipulated by the article 164, paragraph 1. Disclosed information are derived from the Bank's and Group's financial statements presented on pages 69 to 238 on which we expressed our opinion as stated in the section Opinion above.

The partner engaged in the audit of the Bank's and Group's annual financial statements for the year 2019 resulting in this Independent auditor's report is Ivan Čajko, certified auditor.

Zagreb, 19 February 2020

BDO Croatia d.o.o.
Trg J. F. Kennedy 6b
10000 Zagreb

BDO CROATIA
BDO Croatia d.o.o.
za pružanje revizorskih, konzalting
i računovodstvenih usluga
Zagreb, J. F. Kennedy 6/b

Hrvoje Stipić, President of the Management board

Ivan Čajko, certified auditor

Income statement

For the year ended 31 December

(in HRK million)

		GROUP		BANK	
	Notes	2019	2018	2019	2018
Interest income calculated using the effective interest method	7b	3,040	3,140	2,344	2,455
Other interest income	7b	95	92	33	23
Interest expense	7c	(322)	(419)	(188)	(271)
Net interest income		**2,813**	**2,813**	**2,189**	**2,207**
Fee and commission income	8a	2,020	1,967	992	971
Fee and commission expense	8b	(477)	(449)	(315)	(293)
Net fee and commission income		**1,543**	**1,518**	**677**	**678**
Dividend income	9	2	3	692	51
Net trading income and net gains on translation of monetary assets and liabilities	10	388	340	358	255
Fair value adjustment in hedge accounting	11	(1)	-	-	-
Other operating income	12	175	185	82	130
Total operating income		**4,920**	**4,859**	**3,998**	**3,321**
Net impairment losses on loans and advances to customers	15a	(318)	(391)	(256)	(258)
Other impairment losses and provisions	15b	(77)	(67)	(89)	(53)
Personnel expenses	13	(1,077)	(1,130)	(697)	(738)
Depreciation, amortisation and impairment of goodwill	16	(232)	(211)	(173)	(129)
Other operating expenses	14	(1,120)	(1,180)	(637)	(666)
Share of profits from associates	27	12	14	-	-
Profit before income tax		**2,108**	**1,894**	**2,146**	**1,477**
Income tax expense	17	(370)	(174)	(266)	(97)
Profit for the year		**1,738**	**1,720**	**1,880**	**1,380**
Attributable to:					
Equity holders of the Bank		1,652	1,681	1,880	1,380
Non-controlling interests		86	39	-	-
		1,738	**1,720**	**1,880**	**1,380**
					in HRK
Basic and diluted earnings per share	54	**86.9**	**88.4**	**98.9**	**72.6**

The accompanying accounting policies and notes on pages 79 to 238 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December

(in HRK million)

	GROUP 2019	GROUP 2018	BANK 2019	BANK 2018
Profit for the year	**1,738**	**1,720**	**1,880**	**1,380**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Net change in fair value on equity instrument	*29*	*20*	*17*	*15*
Remeasurement of defined benefit liability	-	*10*	-	-
Related tax	(5)	(4)	(3)	(3)
	24	**26**	**14**	**12**
Items that are or may be reclassified to profit or loss				
Net change in fair value on debt instruments	*30*	*(71)*	*13*	*(8)*
Foreign exchange differences on translation of foreign operations	*7*	*(42)*	-	-
Net amount transferred to profit or loss	*(30)*	*(28)*	*(18)*	*(20)*
Related tax	-	15	1	5
	7	**(126)**	**(4)**	**(23)**
Other comprehensive income for the year, net of tax	**31**	**(100)**	**10**	**(11)**
Total comprehensive income for the year, net of tax	**1,769**	**1,620**	**1,890**	**1,369**
Attributable to:				
Equity holders of the Bank	1,665	1,607	1,890	1,369
Non-controlling interests	104	13	-	-
	1,769	**1,620**	**1,890**	**1,369**

The accompanying accounting policies and notes on pages 79 to 238 are an integral part of these financial statements.

Statement of financial position

As of 31 December

(in HRK million)

		GROUP		BANK	
Assets	***Notes***	2019	2018	2019	2018
Cash and current accounts with banks	19	20,642	18,441	16,873	14,179
Balances with the Croatian National Bank	20	4,901	4,698	4,901	4,698
Financial assets held for trading	22	1,416	828	1,416	828
Derivative financial assets	23a,b	18	10	6	1
Fair value changes of the hedged items in portfolio hedge of interest rate risk	23c	51	9	-	-
Loans and advances to banks	25a,c	6,184	8,153	4,819	7,058
Loans and advances to customers	26a	70,565	66,897	47,188	45,611
Investment securities	21	11,417	10,557	8,692	7,374
Investments in subsidiaries and associates	27	67	69	1,962	1,962
Intangible assets	28	367	277	264	205
Property and equipment	29	1,631	1,337	975	636
Investment property	30	63	7	2	1
Non-current assets held for sale	31	139	312	60	102
Deferred tax assets	17c	141	149	89	95
Other assets	32	301	214	193	88
Current tax assets		14	128	-	123
Total assets		**117,917**	**112,086**	**87,440**	**82,961**

The accompanying accounting policies and notes on pages 79 to 238 are an integral part of these financial statements.

Statement of financial position (continued)

As of 31 December

(in HRK million)

		GROUP		BANK	
Liabilities	***Notes***	2019	2018	2019	2018
Current accounts and deposits from banks	33	1,797	1,856	1,677	1,480
Current accounts and deposits from customers	34	89,876	85,938	65,890	63,042
Derivative financial liabilities	24a,b	146	34	2	4
Fair value changes of the hedged items in portfolio hedge of interest rate risk	24c	3	4	-	-
Interest-bearing borrowings and other financial liabilities	35	5,443	4,176	3,535	3,047
Other liabilities	36	2,208	1,978	988	599
Accrued expenses and deferred income	37	313	372	147	159
Provisions	38	539	570	445	447
Deferred tax liabilities	17d	80	77	33	32
Current tax liability		90	11	62	-
Total liabilities		**100,495**	**95,016**	**72,779**	**68,810**
Equity					
Share capital	40a	1,907	1,907	1,907	1,907
Share premium	40b	1,570	1,570	1,570	1,570
Treasury shares	40c	(76)	(76)	(76)	(76)
Other reserves	40e	1,397	1,399	367	372
Fair value reserve	40f	92	82	69	59
Retained earnings	40g	12,643	12,368	10,824	10,319
Merger reserve	40h	(1,214)	(1,214)	-	-
Total equity attributable to equity holders of the Bank		**16,319**	**16,036**	**14,661**	**14,151**
Non-controlling interests		1,103	1,034	-	-
Total equity		**17,422**	**17,070**	**14,661**	**14,151**
Total liabilities and equity		**117,917**	**112,086**	**87,440**	**82,961**

The accompanying accounting policies and notes on pages 79 to 238 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December

(in HRK million)

		GROUP		BANK	
	Notes	2019	2018	2019	2018
Cash flows from operating activities					
Profit before income tax		2,108	1,894	2,146	1,477
Impairment losses on loans and advances to customers	15a	318	391	256	258
Other impairment losses and provisions	15b	77	67	89	53
Gain on disposal of property and equipment, intangible assets and investment property	12	(34)	(15)	(1)	(3)
Depreciation, amortisation and impairment of goodwill	16	232	211	173	129
Net (gains)/losses from securities at fair value through profit or loss	10	(78)	(53)	(74)	10
Share of profits from associates	27	(12)	(14)	-	-
Net interest income		(2,813)	(2,813)	(2,189)	(2,207)
Net gain on derecognition of financial assets not measured at fair value	12	(38)	(70)	(38)	(70)
Dividend income	9	(2)	(3)	(692)	(51)
		(242)	**(405)**	**(330)**	**(404)**
Decrease/(increase) in operating assets					
Balances with the Croatian National Bank		(203)	(452)	(203)	(494)
Loans and advances to banks		3,161	(2,855)	2,351	(2,589)
Loans and advances to customers		(3,983)	(3,090)	(1,823)	(1,886)
Financial assets at fair value through profit or loss and FVOCI financial assets and fair value changes of the hedged items in portfolio hedge of interest rate risk		(1,311)	(1,272)	(1,802)	(1,691)
Other assets		(18)	796	(74)	455
(Increase)/decrease in operating assets		***(2,354)***	***(6,873)***	***(1,551)***	***(6,205)***

The accompanying accounting policies and notes on pages 79 to 238 are an integral part of these financial statements.

Statement of cash flows (continued)

For the year ended 31 December

(in HRK million)

		GROUP		BANK	
	Notes	2019	2018	2019	2018
Increase/(decrease) in operating liabilities					
Current accounts and deposits from banks		(59)	444	196	373
Current accounts and deposits from customers		4,011	7,414	2,919	5,813
Other liabilities		173	(424)	288	(72)
Increase in operating liabilities		***4,125***	***7,434***	***3,403***	***6,114***
Interest received		3,149	3,217	2,387	2,446
Interest paid		(384)	(574)	(247)	(407)
Dividends received		14	3	692	51
Net cash inflow from operating activities before income taxes paid		**4,308**	**2,802**	**4,354**	**1,595**
Income tax paid		(169)	(300)	(75)	(232)
Net cash from operating activities		**4,139**	**2,502**	**4,279**	**1,363**
Cash flows from investing activities					
Purchase of property and equipment, intangible assets and investment property	28,29,30	(360)	(214)	(248)	(169)
Disposal of property and equipment, intangible assets and investment property	28,29,30	64	30	17	1
Disposal of non-current assets held for sale		-	128	-	-
Cash paid for the acquisition of Veneto bank d.d.	27	-	(152)	-	(152)
Net cash used in investing activities		**(296)**	**(208)**	**(231)**	**(320)**

The accompanying accounting policies and notes on pages 79 to 238 are an integral part of these financial statements.

Statement of cash flows (continued)

For the year ended 31 December

(in HRK million)

		GROUP		BANK	
	Notes	2019	2018	2019	2018
Cash flows from financing activities					
Dividends paid		(1,417)	(304)	(1,380)	(289)
Increase in interest-bearing borrowings and subordinated liabilities		1,063	287	217	607
Cash paid for IFRS 16 leases		(93)	-	(77)	-
Net cash used in financing activities		**(447)**	**(17)**	**(1,240)**	**318**
Cash and cash equivalents acquired on merger of Veneto banka	27	-	-	-	270
Net increase in cash and cash equivalents		**3,396**	**2,277**	**2,808**	**1,631**
Cash and cash equivalents as at 1 January		**22,839**	**20,565**	**18,600**	**16,972**
Effect of exchange rate fluctuations on cash held		(1)	(3)	(1)	(3)
Cash and cash equivalents as at 31 December	41	**26,234**	**22,839**	**21,407**	**18,600**

The accompanying accounting policies and notes on pages 79 to 238 are an integral part of these financial statements.

Statement of changes in equity

(in HRK million)

Group	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	Merger reserve	Non-controlling interest	**Total**
Balance as at 31 December 2018	**1,907**	**1,570**	**(76)**	**1,399**	**82**	**12,368**	**(1,214)**	**1,034**	**17,070**
Other comprehensive income									**-**
Net change in fair value on equity instrument	-	-	-	-	23	-	-	6	**29**
Related tax	-	-	-	-	(4)	-	-	(1)	**(5)**
Net change in fair value on debt instrument	-	-	-	-	19	-	-	11	**30**
Net amount transferred to the income statement	-	-	-	-	(28)	-	-	(2)	**(30)**
Foreign exchange differences on translation of foreign operations	-	-	-	3	-	-	-	4	**7**
Total other comprehensive income	**-**	**-**	**-**	**3**	**10**	**-**	**-**	**18**	**31**
Profit for the year	-	-	-	-	-	1,652	-	86	**1,738**
Total comprehensive income for the year	**-**	**-**	**-**	**3**	**10**	**1,652**	**-**	**104**	**1,769**
Dividends paid	-	-	-	-	-	(1,380)	-	(37)	**(1,417)**
Other movements	-	-	-	(5)	-	3	-	2	**-**
Transactions with owners, recorded directly in equity	**-**	**-**	**-**	**(5)**	**-**	**(1,377)**	**-**	**(35)**	**(1,417)**
Balance as at 31 December 2019	**1,907**	**1,570**	**(76)**	**1,397**	**92**	**12,643**	**(1,214)**	**1,103**	**17,422**

The accompanying accounting policies and notes on pages 79 to 238 are an integral part of these financial statements.

Statement of changes in equity (continued)

(in HRK million)

Group	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	Merger reserve	Non-controlling interest	**Total**
Balance as at 31 December 2017, as previously reported	**1,907**	**1,570**	**(76)**	**1,369**	**99**	**11,910**	**(1,231)**	**1.051**	**16,599**
Restatement for acquisition of Veneto bank in common control transaction	**-**	**-**	**-**	**-**	**-**	**(51)**	**228**	**-**	**177**
Balance as at 31 December 2017, as restated	**1,907**	**1,570**	**(76)**	**1,369**	**99**	**11,859**	**(1,003)**	**1,051**	**16,776**
Impact of adopting IFRS 9 at 1 January 2018	**-**	**-**	**-**	**-**	**34**	**(889)**	**-**	**(15)**	**(870)**
Restated balance at 1 January 2018	**1,907**	**1,570**	**(76)**	**1,369**	**133**	**10,970**	**(1,003)**	**1,036**	**15,906**
Other comprehensive income									
Net change in fair value on equity instrument	-	-	-	-	18	-	-	2	**20**
Related tax	-	-	-	-	(3)	-	-	(1)	**(4)**
Net change in fair value on debt instrument	-	-	-	-	(53)	-	-	(18)	**(71)**
Net amount transferred to the income statement	-	-	-	-	(24)	-	-	(4)	**(28)**
Related tax	-	-	-	-	11	-	-	4	**15**
Actuarial gain/loss	-	-	-	5	-	-	-	5	**10**
Foreign exchange differences on translation of foreign operations	-	-	-	(28)	-	-	-	(14)	**(42)**
Total other comprehensive income	**-**	**-**	**-**	**(23)**	**(51)**	**-**	**-**	**(26)**	**(100)**
Profit for the year	-	-	-	-	-	1,681	-	39	**1,720**
Total comprehensive income for the year	**-**	**-**	**-**	**(23)**	**(51)**	**1,681**	**-**	**13**	**1,620**
Dividends paid	-	-	-	-	-	(289)	-	-	**(289)**
Dividend paid by Banka Intesa Sanpaolo d.d. Slovenia	-	-	-	-	-	-	-	(15)	**(15)**
Acquisition of Veneto banka (Note 27)	-	-	-	76	-	-	(228)	-	**(152)**
Other movements	-	-	-	(23)	-	6	17	-	-
Transactions with owners, recorded directly in equity	**-**	**-**	**-**	**53**	**-**	**(283)**	**(211)**	**(15)**	**(456)**
Balance as at 31 December 2018	**1,907**	**1,570**	**(76)**	**1,399**	**82**	**12,368**	**(1,214)**	**1,034**	**17,070**

The accompanying accounting policies and notes on pages 79 to 238 are an integral part of these financial statements.

Statement of changes in equity (continued)

(in HRK million)

Bank	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	**Total**
Balance as at 31 December 2018	**1,907**	**1,570**	**(76)**	**372**	**59**	**10,319**	**14,151**
Other comprehensive income							
Net change in fair value on equity instrument	-	-	-	-	17	-	**17**
Related tax	-	-	-	-	(3)	-	**(3)**
Net change in fair value on debt instrument	-	-	-	-	13	-	**13**
Net amount transferred to the income statement	-	-	-	-	(18)	-	**(18)**
Related tax	-	-	-	-	1	-	**1**
Total other comprehensive income	**-**	**-**	**-**	**-**	**10**	**-**	**10**
Profit for the year	-	-	-	-	-	1,880	**1,880**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**10**	**1,880**	**1,890**
Dividends paid	-	-	-	-	-	(1,380)	**(1,380)**
Other movements	-	-	-	(5)	-	5	**-**
Transactions with owners, recorded directly in equity	-	-	-	(5)	-	(1,375)	**(1,380)**
Balance as at 31 December 2019	**1,907**	**1,570**	**(76)**	**367**	**69**	**10,824**	**14,661**
Balance as at 31 December 2017	**1,907**	**1,570**	**(76)**	**296**	**49**	**10,009**	**13,755**
Impact of adopting IFRS 9 at 1 January 2018	**-**	**-**	**-**	**-**	**21**	**(684)**	**(663)**
Restated balance at 1 January 2018	**1,907**	**1,570**	**(76)**	**296**	**70**	**9,325**	**13,092**
Other comprehensive income							
Net change in fair value on equity instrument	-	-	-	-	15	-	**15**
Related tax	-	-	-	-	(3)	-	**(3)**
Net change in fair value on debt instrument	-	-	-	-	(8)	-	**(8)**
Net amount transferred to the income statement	-	-		-	(20)	-	**(20)**
Related tax	-	-	-	-	5	-	**5**
Total other comprehensive income	**-**	**-**	**-**	**-**	**(11)**	**-**	**(11)**
Profit for the year	-	-	-	-	-	1,380	**1,380**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(11)**	**1,380**	**1,369**
Dividends paid	-	-	-	-	-	(289)	**(289)**
Merger of Veneto banka (Note 27)	-	-	-	76	-	(97)	**(21)**
Transactions with owners, recorded directly in equity	**-**	**-**	**-**	**76**	**-**	**(386)**	**(310)**
Balance as at 31 December 2018	**1,907**	**1,570**	**(76)**	**372**	**59**	**10,319**	**14,151**

The accompanying accounting policies and notes on pages 79 to 238 are an integral part of these financial statements.

Notes to the financial statements

1 Reporting entity

Privredna banka Zagreb d.d. ("the Bank") is a joint stock company incorporated and domiciled in the Republic of Croatia. The registered office is at Radnička cesta 50, Zagreb. The Bank is the parent of the Privredna banka Zagreb Group ("the Group"), which has operations in the Republic of Croatia, Bosnia and Herzegovina and Republic of Slovenia. The Group provides a full range of retail and corporate banking services, as well as treasury, investment banking, asset management and leasing services.

These financial statements comprise both the separate and the consolidated financial statements of the Bank as defined in International Accounting Standard 27 *Separate Financial Statements* and International Financial Reporting Standard 10 *Consolidated Financial Statements.*

A summary of the Group's principal accounting policies are set out below.

2 Basis of preparation

a) Basis of accounting

These separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union ("EU IFRS"). This is the first set of the Group's and Bank's annual financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 3.

These separate and consolidated financial statements were authorised for issue by the Management Board on 18 February 2020 for approval by the Supervisory Board.

b) Basis of measurement

The separate and consolidated financial statements are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and investment property. Owner-occupied property is measured according to revaluation method. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost.

c) Functional and presentation currency

The separate and consolidated financial statements are presented in Croatian kuna ("HRK") which is presentation currency of the Bank and the Group, Amounts are rounded to the nearest million, unless otherwise stated.

The exchange rates used for translation at 31 December 2019 amounted to EUR 1 = HRK 7.443, CHF 1= HRK 6.839, USD 1 = HRK 6.65 and BAM 1 = HRK 3.805 (31 December 2018: EUR 1 = HRK 7.417, CHF 1= HRK 6.588, USD 1 = HRK 6.469 and BAM 1 = HRK 3.793).

During 2019 and 2018 BAM (official currency of Bosnia and Herzegovina) was pegged with Euro at 1 EUR = 1.9558 BAM.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period and other comprehensive income. 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.

Information about judgments made by management in the application of accounting policies that have a significant effect on the financial statements and information about estimates with a significant risk of resulting in a material adjustment in the next financial year are included in Note 6.

Notes to the financial statements (continued)

2 Basis of preparation (continued)

e) Acquisition of Veneto bank d.d.

The structure of the Group was changed following a Group reorganisation in 2018.

As of 12 July 2018 the Bank purchased a 100% stake in Veneto bank d.d. (5,970,820 ordinary shares with 100% voting rights) from Intesa Sanpaolo S.p.A. Turin which is the ultimate owner of both banks and which acquired Veneto banka d.d. in 2017.

The transaction represented a business combination involving entities under common control. As such, it was exempt from the accounting treatment prescribed in IFRS 3 Business Combinations. Entities involved in common control transactions should select an appropriate accounting policy, to be applied consistently, using the hierarchy described in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. In the Bank's consolidated financial statement, the transaction is accounted for using book values of Veneto banka d.d., as allowed under IFRS 3 and the Bank restated its comparatives and adjusted its current reporting period before the date of the transaction as if the combination had occurred during 2017, when the ultimate owner initially acquired Vento banka. For details, please refer to Note 27 Investment in subsidiaries and associates.

f) Merger of Veneto bank d.d.

Effective from October 2018 Veneto banka (100% owned by the Bank) was legally merged into the Bank and ceased to exist as a separate legal and operational entity. The Bank's separate financial statements, income statement for 2018 does not include results of Veneto banka prior to the merger nor has the comparative information been restated to include Veneto banka. In addition, in the Bank's separate financial statements the assets and liabilities acquired as a result of merger are recognised at the carrying amounts recognised immediately before the merger in the financial statements of Veneto banka. The assets, liabilities and equity assumed on merger are summarised in Note 27.

Notes to the financial statements (continued)

3 Changes in accounting policies

The Group initially applied IFRS 16 Leases from 1 January 2019.

A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

Leases

The Group applied IFRS 16 using the modified retrospective approach with no effect of initial application in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4 (s).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

ii) As a lessee

As a lessee, the Group leases some branch and office premises and IT equipment. The Group previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

However, for leases of branches and office premises the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

Notes to the financial statements (continued)

3 Changes in accounting policies (continued)

Leases (continued)

ii) As a lessee (continued)

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

iii) As a lessor

The Group leases out certain property and equipment. The Group had classified these leases as finance and operating leases.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

The Group has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

iv) Impact on financial statements

Impact on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets in the amount of HRK 286 million (the Bank HRK 337 million) and additional lease liabilities in the same amount.
When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019.

	GROUP	**BANK**
Lease payment for operating lease according to IAS 17	401	490
IFRS 16 relief options:	(42)	(30)
- short term	*(1)*	*(1)*
- leases of low value assets	*(41)*	*(29)*
Other changes (ie. non-deductible VAT)	(61)	(82)
Gross Lease Liabilities for operating leases as at 1 January 2019 (without discounting)	298	378
Discounting	(14)	(40)
Lease liabilities for operating lease (net, discounted)	**284**	**338**

Notes to the financial statements (continued)

4 Significant accounting policies

a) Basis of consolidation

i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In reassessing its control conclusion, the Group has taken into consideration the structured entities and entities with receivables in default for which it reassessed whether the key decisions are made by the Group and whether the Group is exposed to variability of returns from those entities. Business combinations under common control are accounted for based on carrying values, with any effects directly recognised in equity.

Acquisitions on or after 1 January 2010

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the total is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

Acquisitions prior to 1 January 2010

For acquisitions prior to 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in the income statement. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisitions.

ii) Non-controlling interests

Non-controlling interests in the net assets (excluding goodwill) of the consolidated subsidiaries are identified separately from the Group's equity therein. For each business combination, the Group elects to measure any non-controlling interests in the acquiree either at fair value or at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

a) Basis of consolidation (continued)

iii) Subsidiaries

Financial statements are prepared for the Bank and the Group, Financial statements of the Group include consolidated financial statements of the Bank and its entities under control (subsidiaries). In the Bank's separate financial statements, investments in subsidiaries are accounted for at cost less impairment.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. The Group controls an entity if it is exposed to, or has rights to, variable returns from the involvement with the entity and has the ability to alter those returns throughout its power over the entity. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated in preparing the consolidated financial statements. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

iv) Associates

Associates are entities over which the Group has significant influence but no control. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. The Group’s investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition. In the Bank’s separate financial statements investments in associates are accounted at cost less impairment.

The Group’s share of its associates’ post-acquisition gains or losses is recognised in the income statement and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

Dividends received from associates are treated as a decrease of investment in the associate in the Group’s consolidated statement of financial position and as dividend income in the Bank’s unconsolidated income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

v) Acquisition of entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that ultimately controls the Group are accounted for using book value accounting at the date of acquisition. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the financial statements of the acquired entities. The components of equity of the acquired entities are added to the same components within Group equity except for issued capital. In the consolidated financial statements the excess of consideration paid over the carrying value of share capital at the time of combination is treated as a merger reserve in equity.

Consolidated financial statements reflect the results of combining entities for all periods presented for which the entities were under the transferor’s common control, irrespective of when the combination takes place.

vi) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group’s accounting policy for financial instruments (refer to accounting policy in Note 4 l) Financial instruments) depending on the level of influence retained.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

a) Basis of consolidation (continued)

vii) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

viii) Fund management

The Group manages and administers assets held in mutual funds on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity (during the reporting period). Information about the Group's fund management activities is set out in Note 42.

b) Foreign currency

i) Foreign currency translation

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the mid-market exchange rate of the Croatian National Bank. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date on which the fair value was determined.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in the income statement, except for differences arising on the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI, which are recognised in other comprehensive income.

Changes in the fair value of debt securities denominated in foreign currency classified as financial instruments measured at FVOCI are analysed 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 on financial instruments measured at FVOCI are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary securities denominated in foreign currency classified as financial instruments measured at FVOCI are recognised directly in other comprehensive income along with other changes, net of deferred tax. The Group does not have qualifying cash flow hedges and qualifying net investment hedges as defined in International Accounting Standard 39 *Financial Instruments: Measurement and Recognition* ("IAS 39") and International Financial Reporting Standard 9 *Financial Instruments ("IFRS 9").*

ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

c) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability,

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit- impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The ‘amortised cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The ‘gross carrying amount of a financial asset’ is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit- impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see l (xi).

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

c) Interest income and expense (continued)

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost and interest expense on lease liabilities.

d) Fee and commission income and expense

Loan commitment fees for loans and advances that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities that are not likely to be drawn down are recognised over the term of the commitment. Fee and commission income and expense mainly comprise fees and commissions related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and asset management, and are recognised in the income statement upon performance of the relevant service, unless they have been included in the effective interest calculation.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part for itself, or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment fund management are recognised on an accruals basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

e) Net trading income and net gains and losses on translation of monetary assets and liabilities

Net trading income and net gains and losses on translation of monetary assets and liabilities include spreads earned from foreign exchange spot trading, trading income from forward and swap contracts, realised and unrealised gains on securities at fair value through profit or loss and net gains and losses from the translation of monetary assets and liabilities denominated in foreign currency and non-trading assets mandatorily measured at FVTPL.

f) Other operating income

Other operating income includes net gains on disposal of securities classified as financial instruments measured at FVOCI, net gains on disposal of property and equipment, rental income from investment property and assets under operating lease and other income.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised on a straight-line basis over the lease term.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

g) Employee benefits

Employee entitlements to annual leave are recognised when they accrue. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

i) Personnel social contributions

According to local legislation, the Group is obliged to pay contributions to the Pension Fund and the State Health Care Fund. This obligation relates to full-time employees and provides for paying contributions in the amount of certain percentages determined on the basis of gross salary which are in the Republic of Croatia as follows:

	2019	**2018**
Contributions to the Pension Fund	20.00%	20.00%
Contributions to the State Health Care Fund	16.50%	15.00%
Contributions to the Unemployment Fund	-	1.70%
Injuries at work	-	0.50%

The Group is also obliged to withhold contributions from the gross salary on behalf of the employee for the same funds. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefits in the income statement as they accrue.

ii) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

iii) 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 is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

iv) Share-based payment transactions

The Group has a share-based payment agreement which entitle the key employees to receive the cash payment, based on the price of the equity instrument (cash-settled transactions). The liability is initially measured by reference to the fair value of equity instruments at the grant date and re-measured until settlement. The fair value is determined as the market value of shares. The cost of cash-settled transactions is recognised over the period in which the performance and/or service conditions are fulfilled.

v) Retirement benefit obligation

Valuations of these obligations are carried out by independent qualified actuaries, by using the book reserve method.

The Group's obligation for the current service cost of providing pension benefits and the increment in the present value of the defined benefit obligation due to the approaching beginning of the defined benefit liability (interest cost) was assessed. The increase in the benefit scheme liabilities in excess of the above two assessments is recognised as the actuarial gain or loss. The defined benefit scheme liabilities are measured on an actuarial basis using the projected unit credit method, which measures actuarial liabilities in accordance with the expected wage/salary increase from the valuation date until the foreseen retirement of the employed person.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

h) Direct acquisition costs related to housing savings

Direct acquisition expenses related to housing savings contracts are deferred, to the extent that they are estimated to be recoverable, and amortised to the income statement on a straight-line basis over the life of the related contracts.

i) Dividend income

Dividend income on equity securities is credited to the income statement when the right to receive the dividend is established except for dividend income from associates which is on consolidation credited to the carrying values of investments in associates in the Group‘s statement of financial position.

j) Income tax

The income tax expense 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, in which case it is recognised in other comprehensive income.

i) Current income tax

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainties related to income taxes, if any.

ii) Deferred income tax

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 taxation. The measurement of deferred tax assets and liabilities 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, based on tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets and liabilities are not discounted and are classified as non-current and/or long-term assets 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 Group reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

k) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with original maturity of less than 90 days, including cash and current accounts with banks and loans and advances to banks up to 90 days.

l) Financial instruments

i) Recognition

The Group initially recognises loans and advances and other financial liabilities on the date at which they are originated, i.e. advanced to borrowers or received from lenders.

Regular way transactions with financial instruments are recognised at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset or liability is not recognised until the settlement date, changes in fair value of the underlying asset or liability are recognised starting from the trade date. All other financial assets and liabilities (derivatives) are recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice.
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

ii) Classification (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers a:

- contingent events that would change the amount and timing of cash flows;
- prepayment and extension terms; and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Loans and advances

'Loans and advances' captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

- loans and advances mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

Investment securities

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

ii) Classification (continued)

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets, that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and consideration received (including any new asset obtained less any new liability assumed) is recognised in the income statement. In addition, any cumulative gain or loss that had been recognised in other comprehensive income is also recognised in the income statement.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in ii). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. If transfer does not result in derecognition because the Group retained all or substantially all risks and rewards of ownership, the assets are not derecognised and liabilities secured with collateral are recognised in the amount of consideration received.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire, If the terms of a financial liability are significantly modified, the Group will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

Realised gains and losses from the disposal of financial instruments are calculated using the weighted average cost method.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

iv) Modifications of financial assets and liabilities

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see (xi)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method (see (c)).

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

v) Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

vi) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

Income and expenses are presented on a net basis only when permitted by the accounting regulations, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

vii) Initial and subsequent measurement

When a financial asset or financial liability is recognised initially, the Group measures it at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs which are directly attributable to the acquisition or issue of the financial asset or financial liability. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are immediately charged to the income statement.

After initial recognition, the Group measures financial instruments at fair value through profit or loss and financial instruments measured at FVOCI at their fair value, without any deduction for selling costs.

Loans and receivables and other financial liabilities are measured at amortised cost (less any ECL for the assets) using the effective interest method.

viii) Gains and losses

Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss as well as all related realised gains and losses arising upon a sale or other derecognition of such assets and liabilities are recognised in the income statement.

Gains and losses from a change in the fair value of financial instruments measured at FVOCI are recognised directly in a fair value reserve in other comprehensive income, net of deferred tax, and are disclosed in the statement of changes in equity. Loss allowances, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on financial instruments measured at FVOCI monetary assets are recognised in the income statement. Loss allowances on non-monetary financial instruments measured at FVOCI assets are also recognised in the income statement, Foreign exchange differences on non-monetary financial instruments measured at FVOCI are recognised in other comprehensive income, net of deferred tax. Dividend income is recognised in the income statement.

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in the income statement, when a financial instrument is derecognised or when its value is impaired.

ix) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

x) Fair value measurement principles

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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for the 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 Group uses valuation techniques (except for certain unquoted equity securities). Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

The fair values of quoted investments are based on current closing bid prices.

The fair value of non-exchange-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

xi) Impairment of financial assets

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments and financial assets at FVTPL.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

xi) Impairment of financial assets (continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Starting from the 1 November 2019, the new definition of default has been introduced in accordance with EBA's (European Banking Authority) Guidelines on application of the definition of default (EBA/GL/2016/07) and the Regulatory Technical Standards on the materiality threshold (EBA/RTS/2016/06) that specify how default definition should be applied. Under the new guidelines two new materiality thresholds have been introduced, a relative threshold equal to 1% of the obligor cash exposure and an absolute threshold on obligor level equal to HRK 3,750 for non retail exposures and HRK 750 for retail exposures. The new days past due, used as objective criteria for stage 2 classification (over 30 days past due) and the past due classification (over 90 days past due), are counted incrementally when both the relative and the absolute thresholds are breached. In addition, once an obligor has defaulted, it will remain on default status for at least 90 days after no signs of default are present. Furthermore, a new trigger of default has been introduced for Forborne distressed restructuring for which net present value has decreased with more than 1% compared to previous agreement.

Due to implementation of the new definition of default as of 1 November 2019 non performing loans have increased by HRK 265 million in Bank and HRK 294 in Group, impairment losses on loans and advances to customers at amortised cost have increased by HRK 47 million in Bank and HRK 59 in Group.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

xi) Impairment of financial assets (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision,
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component.
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

m) Derivative financial assets

All derivatives are measured at fair value in the statement of financial position. If a derivative is not held for trading, and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

Derivatives may be embedded in another contractual arrangement (a host contract), The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

n) Hedge accounting

The Group uses derivative financial instruments to manage its exposures to interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which they are entered to and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges could refer to:

- Fair value hedge – a hedge of exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment;

- Cash flow hedge – a hedge of the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction;

- Hedge of a net investment in a foreign currency.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

n) Hedge accounting (continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are tested regularly throughout their life to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

The Group uses fair value hedge to cover exposure to changes in the fair value attributable to the different risk categories of assets and liabilities in the statement of financial position, or a portion of these or to cover portfolios of financial assets and liabilities.

o) Sale and repurchase agreements

The Group enters into purchases and sales of securities under agreements to resell or repurchase substantially identical securities at a certain date in the future at a fixed price. Investments purchased subject to such commitments to resell them at future dates are not recognised in the statement of financial position. The amounts paid are recognised as loans and advances to either banks or customers. The receivables are presented as collateralised by the underlying security. Securities sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of the securities are reported as collateralised liabilities to either banks or customers.

The difference between the sale and repurchase consideration is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.

p) Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted at cost less impairment in the separate financial statements of the Bank. Investments in subsidiaries are fully consolidated in the consolidated financial statements whilst investments in associates are accounted for under the equity method.

q) Interest-bearing borrowings and subordinated debt

Interest-bearing borrowings and subordinated debt are initially recognised at their fair value, less attributable transaction costs. Subsequent to initial recognition, these are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

r) Current accounts and deposits from banks and customers

Current accounts and deposits are initially measured at fair value plus transaction costs, and subsequently stated at their amortised cost using the effective interest method.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

s) Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

Group as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date.

With regard to the discount rate, based on the requirements of IFRS 16, the Group uses the implicit interest rate for each lease contract, when it is available. The implicit interest rate cannot always be readily determined without using estimates and assumptions. In these cases, the Group has developed a methodology for setting the incremental interest rate as an alternative to the implicit interest rate and has decided to adopt the Funds Transfer Pricing (FTP) method. This is based on an unsecured and amortising rate curve, which envisages lease payments for the lease contract that are typically constant over the lease term, rather than a single payment upon maturity. The FTP method takes into account the creditworthiness of the lessee, the term of the lease, the nature and quality of the collateral provided and the economic environment in which the transaction takes place and is therefore in line with the requirements of the standard.
Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.0020

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'interest bearing borrowings in the statement of financial position.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

s) Leases (continued)

Short term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Group as lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease (see l) (iii) and (xi)). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Policy applicable before 1 January 2019

Finance - Group as lessor

Leases where the Group, as lessor, transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. When assets are leased under finance lease arrangements, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Initial direct costs, such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance lease receivables are included in the statement of financial position within loans and advances to customers.

Operating - Group as lessor

The Group, as lessor, classifies all leases other than finance leases as operating leases. Assets in operating leases are included in the statement of financial position within property and equipment at cost net of accumulated depreciation. Such assets are depreciated over their expected useful lives which are based on the lease term up to the residual value. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Operating lease receivables are included in loans and advances to customers.

Operating - Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating lease arrangements. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease term and included in other operating expenses.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

t) Property and equipment

Property and equipment are stated at historical cost or deemed cost less accumulated depreciation and impairment losses, except for owner-occupied property which have been measured according to the revaluation method. The latter method requires that property, whose fair value can be measured reliably, to be recognized at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value of land and buildings is measured on the basis of market benchmarks, in an appraisal that is normally prepared by professionally qualified appraisers. The frequency of revaluations depends upon the changes in fair value of items of property being revalued.

Historical cost includes its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Property and equipment are tangible items that are held for use in the provision of services, for rental or other administrative purposes.

Subsequent cost is included in the asset's carrying amount or is recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the period in which they have incurred.

Assets not yet brought into use are not depreciated until the relevant assets are completed and put into operational use and reclassified to the appropriate category of property and equipment.

Depreciation is provided on all assets except land and assets not yet brought into use on a straight-line basis at prescribed rates designed to write-off the cost over the estimated useful life of the asset. The estimated useful lives are as follows:

	2019	**2018**
Buildings	10 to 40 years	20 to 40 years
Office furniture	5 years	5 years
Computers	4 to 6 years	4 years
Motor vehicles	5 years	5 years
Equipment and other assets	2 to 10 years	2 to 10 years

The assets residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

When an item of property is revalued, the carrying value of that asset is adjusted to the revalued amount so that the accumulated depreciation is eliminated against the gross carrying amount of the asset.

After initial recognition of property:

- if an asset's carrying amount is increased as a result of revaluation, the increase is recognized in Other comprehensive income and accumulated in equity under the revaluation reserve caption
- if the carrying amount is decreased as a result of revaluation, the decrease is recognized in Profit or loss
- if an asset's carrying amount is increased as a result of revaluation, the increase is recognized in Profit or loss to the extent that it reverses a revaluation decrease of the same property previously recognized in Profit or loss
- if the carrying amount is decreased as a result of revaluation, the decrease is recognized in Other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

t) Property and equipment (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

When the use of property changes from owner-occupied to rented, the property is reclassified to investment property.

When assets are sold or retired, their cost and accumulated depreciation are eliminated and any gain or loss resulting from their disposal is included in the income statement.

u) Intangible assets

Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably.

Subsequently, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight line basis over their estimated useful lives. The estimated useful lives are as follows:

	2019	**2018**
Licence fees	6 years	4 years
Computer software	6 years	4 years

The useful lives, residual values and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Goodwill

According to IFRS 3 "Business Combinations", any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired on the date of the acquisition is presented as goodwill and recognised as an asset. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or the group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro-rata to the other assets of the unit on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Upon the legal merger of the Bank's former subsidiary, Međimurska banka, goodwill formerly arising on consolidation was transformed into purchased goodwill recognised in the Bank's separate statement of financial position. Goodwill on acquisition of subsidiaries and purchased goodwill is included in intangible assets. Goodwill on acquisition of associates is included within investments in associates.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

v) Investment property

Investment property is property held by the Group to earn rentals or for capital appreciation or for both, but not for sale in the ordinary course of business or for administrative purposes.

Investment property is measured at its fair value.

Investment property is derecognised when either it has been disposed of or permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the income statement in the year of retirement or disposal.

w) Non-current assets and disposal groups classified as held for sale

The Group classifies a non-current asset as held for sale (or disposal groups comprising assets and liabilities) assets that are expected to be recovered primarily through sale rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and the sale should be expected to be completed within one year from the date of classification.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, the assets (or disposal group of assets and liabilities) are measured at the lower of their carrying amount and fair value less cost to sell.

A non-current asset classified as held for sale is no longer depreciated. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in income statement. Gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group first is allocated to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies.

At reclassification back, on change of intent or if the conditions required by IFRS 5 cease to be applicable, the Group does not restate comparative information in the balance sheet. Upon reclassification the valuation is adjusted in accordance with relevant standards, as if the reclassification had not occurred.

x) Foreclosed assets

Sometimes the Group recovers assets that were originally received as collateral for loan, after exercising contractual rights or undertaking specific legal action. When the assets are recognised on the balance sheet for the first time, it is recognised at its fair value. Any difference between its fair value and the carrying amount of the loan that triggered recovery of the asset is considered an impairment loss on loan. After initial recognition, the repossessed assets are measured according to the relevant accounting standard, depending on the scope for holding the property. Generally, Group measures repossessed assets according to IAS 2 Inventory, except in rare circumstances when the asset is put in use.

y) Impairment of non-financial assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested for impairment whenever there are indications that these may be impaired or at least annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are assessed at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of property and equipment and intangible 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 level for which there are separately identifiable cash flows (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.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

y) Impairment of non-financial assets (continued)

Other previously impaired non-financial assets, other than goodwill, 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. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

z) Provisions

Provisions are recognised when the Group 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.

Provisions for liabilities and charges are maintained at the level that the Group's management considers sufficient for absorption of losses. 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.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

Provisions are released only for expenditure for which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

aa) Issued share capital

Issued share capital represents the nominal value of paid-in ordinary shares and is denominated in HRK.

Dividends are recognised as a liability in the period in which they are declared.

bb) Treasury shares

When any Group company purchases the Bank’s equity share capital (treasury shares), the consideration paid is deducted from equity attributable to the Bank’s equity holders and classified as treasury shares until the shares are cancelled, reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of transaction costs, is included in equity attributable to the Bank’s equity holders.

cc) Retained earnings

Any profit for the year retained after appropriations is classified within retained earnings.

dd) Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Group enters into credit-related commitments which are recorded in off-balance-sheet accounts and primarily comprise guarantees, letters of credit, undrawn loan commitments and credit-card limits. Such financial commitments are recorded in the Group’s statement of financial position if and when they become payable.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

dd) Off-balance-sheet commitments and contingent liabilities (continued)

Financial guarantee liabilities are initially recognised at their fair value, being the premium received, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Financial guarantees are included within Other liabilities.

ee) Managed funds for and on behalf of third parties

The Group manages funds for and on behalf of corporate and retail customers, banks and other institutions. These amounts do not represent the Group's assets and are excluded from the statement of financial position. For the services rendered the Group charges a fee. For details please refer to Note 42.

ff) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components, whose operating results are reviewed regularly by the Management Board of the Bank (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Bank is organised into 3 primary operating segments: Retail, Corporate and Finance banking accompanied with a central supporting structure. Furthermore, the management of the Bank monitors performance of its subsidiaries on an individual basis. However, for the purpose of presentation of the operating segments for the Group, credit institutions are presented in operating segments. With the exception of PBZ Card, all other subsidiaries have been grouped into one segment. The primary segmental information is based on the internal reporting structure of business segments. Segmental results are measured by applying internal prices (Note 47).

gg) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS are calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS are determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Notes to the financial statements (continued)

5 Restatement of comparative information

Presentational changes and reclassification of comparative information

Certain positions in the comparative financial statements for the year 2018 were reclassified in order to present financial information in line with presentation in the financial statements for the year 2019 and did not affect the profit for the period.

Income statement

For the year ended 31 December 2018

(in HRK million)

Group

	Reported 2018	Reclassification	Restated
Interest income calculated using the effective interest method	3,151	(11)	**3,140**
Other interest income	81	11	**92**
Interest expense	(419)	-	**(419)**
Net interest income	**2,813**	**-**	**2,813**
Fee and commission income	1,960	7	**1,967**
Fee and commission expense	(388)	(61)	**(449)**
Net fee and commission income	**1,572**	**(54)**	**1,518**
Dividend income	3	-	**3**
Net trading income and net gains on translation of monetary assets and liabilities	350	(10)	**340**
Other operating income	142	43	**185**
Total operating income	**4,880**	**(21)**	**4,859**
Net impairment losses on loans and advances to customers	(371)	(20)	**(391)**
Other impairment losses and provisions	(66)	(1)	**(67)**
Personnel expenses	(1,154)	24	**(1,130)**
Depreciation, amortisation and impairment of goodwill	(203)	(8)	**(211)**
Other operating expenses	(1,206)	26	**(1,180)**
Share of profits from associates	14	-	**14**
Profit before income tax	**1,894**	**-**	**1,894**
Income tax expense	(174)	-	**(174)**
Profit for the year	**1,720**	**-**	**1,720**
Attributable to:			
Equity holders of the Bank	1,681	-	1,681
Non-controlling interests	39	-	39
	1,720	**-**	**1,720**

Notes to the financial statements (continued)

5 Restatement of comparative information (continued)

Presentational changes and reclassification of comparative information (continued)

Income statement

For the year ended 31 December 2018

(in HRK million)

Bank

	Reported 2018	Reclassification	Restated
Interest income calculated using the effective interest method	2,455	-	**2,455**
Other interest income	23	-	**23**
Interest expense	(271)	-	**(271)**
Net interest income	**2,207**	**-**	**2,207**
Fee and commission income	880	91	**971**
Fee and commission expense	(148)	(145)	**(293)**
Net fee and commission income	**732**	**(54)**	**678**
Dividend income	51	-	**51**
Net trading income and net gains on translation of monetary assets and liabilities	265	(10)	**255**
Other operating income	87	43	**130**
Total operating income	**3,342**	**(21)**	**3,321**
Net impairment losses on loans and advances to customers	(221)	(37)	**(258)**
Other impairment losses and provisions	(53)	-	**(53)**
Personnel expenses	(761)	23	**(738)**
Depreciation, amortisation and impairment of goodwill	(122)	(7)	**(129)**
Other operating expenses	(708)	42	**(666)**
Share of profits from associates	-	-	**-**
Profit before income tax	**1,477**	**-**	**1,477**
Income tax expense	(97)	-	**(97)**
Profit for the year	**1,380**	**-**	**1,380**
Attributable to:			
Equity holders of the Bank	1,380	-	**1,380**
Non-controlling interests	-	-	**-**
	1,380	**-**	**1,380**

Notes to the financial statements (continued)

5 Restatement of comparative information (continued)

Presentational changes and reclassification of comparative information (continued)

Interchange fee in the amount of HRK 91 million was reclassified from position Fee and commission expense in position Fee and commission income that had no effect on net commission income. Furthermore, this reclassification had no effect on the Group level since it represents an intragroup transaction.

The Bank reclassified legal expenses for debt collection from position Net impairment loss on loans and advances to customers to Other operating expense in the amount of HRK 20 million and amount of HRK 17 million relating to Gain from disposal of loans to position Other operating income.

Notes to the financial statements (continued)

5 Restatement of comparative information (continued)

Presentational changes and reclassification of comparative information (continued)

Statement of financial position

As of 31 December 2018

(in HRK million)

Group

Assets	Reported 2018	Reclassification	Restated
Cash and current accounts with banks	18,442	(1)	**18,441**
Balances with the Croatian National Bank	4,698	-	**4,698**
Financial assets held for trading	828	-	**828**
Derivative financial assets	10	-	**10**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	9	-	**9**
Loans and advances to banks	7,784	369	**8,153**
Loans and advances to customers	66,688	209	**66,897**
Investment securities	10,557	-	**10,557**
Investments in subsidiaries and associates	69	-	**69**
Intangible assets	240	37	**277**
Property and equipment	1,337	-	**1,337**
Investment property	7	-	**7**
Non-current assets held for sale	334	(22)	**312**
Deferred tax assets	142	7	**149**
Other assets	740	(526)	**214**
Current tax assets	128	-	**128**
Total assets	**112,013**	**73**	**112,086**

Notes to the financial statements (continued)

5 Restatement of comparative information (continued)

Presentational changes and reclassification of comparative information (continued)

Statement of financial position (continued)

As of 31 December 2018

(in HRK million)

Group

Liabilities	Reported 2018	Reclassification	Restated
Current accounts and deposits from banks	1,843	13	**1,856**
Current accounts and deposits from customers	85,938	-	**85,938**
Derivative financial liabilities	34	-	**34**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4	-	**4**
Interest-bearing borrowings and other financial liabilities	4,160	16	**4,176**
Other liabilities	1,994	(16)	**1,978**
Accrued expenses and deferred income	372	-	**372**
Provisions	516	54	**570**
Deferred tax liabilities	71	6	**77**
Current tax liability	11	-	**11**
Total liabilities	**94,943**	**73**	**95,016**
Equity			
Share capital	1,907	-	**1,907**
Share premium	1,570	-	**1,570**
Treasury shares	(76)	-	**(76)**
Other reserves	1,399	-	**1,399**
Fair value reserve	82	-	**82**
Retained earnings	12,368	-	**12,368**
Merger reserve	(1,214)	-	**(1,214)**
Total equity attributable to equity holders of the Bank	**16,036**	**-**	**16,036**
Non-controlling interests	1,034	-	**1,034**
Total equity	**17,070**	**-**	**17,070**
Total liabilities and equity	**112,013**	**73**	**112,086**

Notes to the financial statements (continued)

5 Restatement of comparative information (continued)

Presentational changes and reclassification of comparative information (continued)

Statement of financial position

As of 31 December 2018

(in HRK million)

Bank

Assets	Reported 2018	Reclassification	Restated
Cash and current accounts with banks	14,180	(1)	**14,179**
Balances with the Croatian National Bank	4,698	-	**4,698**
Financial assets held for trading	828	-	**828**
Derivative financial assets	1	-	**1**
Loans and advances to banks	6,869	189	**7,058**
Loans and advances to customers	45,457	154	**45,611**
Investment securities	7,374	-	**7,374**
Investments in subsidiaries and associates	1,962	-	**1,962**
Intangible assets	186	19	**205**
Property and equipment	636	-	**636**
Investment property	1	-	**1**
Non-current assets held for sale	124	(22)	**102**
Deferred tax assets	95	-	**95**
Other assets	360	(272)	**88**
Current tax assets	123	-	**123**
Total assets	**82,894**	**67**	**82,961**

Notes to the financial statements (continued)

5 Restatement of comparative information (continued)

Presentational changes and reclassification of comparative information (continued)

Statement of financial position (continued)

As of 31 December 2018

(in HRK million)

Bank

Liabilities	Reported 2018	Reclassification	Restated
Current accounts and deposits from banks	1,480	-	**1,480**
Current accounts and deposits from customers	63,042	-	**63,042**
Derivative financial liabilities	4	-	**4**
Interest-bearing borrowings and other financial liabilities	3,032	15	**3,047**
Other liabilities	601	(2)	**599**
Accrued expenses and deferred income	159	-	**159**
Provisions	393	54	**447**
Deferred tax liabilities	32	-	**32**
Total liabilities	**68,743**	**67**	**68,810**
Equity			
Share capital	1,907	-	**1,907**
Share premium	1,570	-	**1,570**
Treasury shares	(76)	-	**(76)**
Other reserves	372	-	**372**
Fair value reserve	59	-	**59**
Retained earnings	10,319	-	**10,319**
Total equity attributable to equity holders of the Bank	**14,151**	**-**	**14,151**
Total liabilities and equity	**82,894**	**67**	**82,961**

In the financial statements for the year 2018 the Bank and the Group reclassified accrued fees, receivables from debtors, receivables from card business, prepaid expenses and advanced payments from position Other assets to Loans and advances to banks and customers.

This presentational reclassification has resulted with a decrease of Other assets in the amount of HRK 578 million for the Group and HRK 272 million for the Bank and with an increase of the following positions: Loans and advances to customers in amount of HRK 209 million for the Group and HRK 154 million for the bank, and Loans and advances to banks in the amount of HRK 36 million for the Group and HRK 189 for the Bank.

Amount of HRK 22 million was reclassified from position Non current assets held for sale to position Loans and advances to customers

The Bank and the Group has reclassified leasehold improvements that resulted with the decrease of position Other assets and increase of position Intangible assets in the amount of HRK 37 million for the Group and 19 million for the Bank.

The reclassification of accrued liabilities and other financial liabilities resulted with the increase of position Interest bearing borrowings and and decrease of position Other liabilities in the amount of HRK 16 million for the Group and 15 million for the Bank while HRK

The Bank and the Group reclassified received subsidies from position Loans and advances to customers to position Other liabilities in the amount of HRK 73 million for the Group and HRK 67 million for the Bank.

Notes to the financial statements (continued)

6 Accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in the existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty.

The estimation of allowance for credit losses represents management's best estimate of risk of default and ECLs on the financial assets, including any off-balance sheet exposures, at the reporting date and, as part of this, the estimation of the fair value of real estate collateral represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

These disclosures supplement the commentary on fair values of financial assets and liabilities (Note 46) and financial risk management (Note 48).

a) Classification of financial assets

Business Model Assessment

The Bank determines its business models based on the objective under which its portfolios of financial assets are managed. Refer to Note 4 L(ii) for details on the Bank's business models. In determining its business models, the Bank considers the following:

- Management's intent and strategic objectives and the operation of the stated policies in practice;
- The primary risks that affect the performance of the business model and how these risks are managed;
- How the performance of the portfolio is evaluated and reported to management; and
- The frequency and significance of financial asset sales in prior periods, the reasons for such sales and the expected future sales activities.

Solely Payments of Principal and Interest Test

In assessing whether contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that they would not be consistent with a basic lending arrangement. In making the assessment, the Group considers the primary terms as follows and assess if the contractual cash flows of the instruments continue to meet the SPPI test:

- Performance-linked features;
- Terms that limit the Bank's claim to cash flows from specified assets (non-recourse terms);
- Prepayment and extension terms;
- Leverage features; and
- Features that modify elements of the time value of money.

b) Impairment of financial assets

Significant Increase in Credit Risk

Criteria for assessing significant increase in credit risk for retail exposures are defined at the appropriate portfolio level and vary based on the exposure's credit risk at origination. The criteria include changes in internal credit risk rating, forbearance measures and delinquency backstop when contractual payments are materially more than 30 days past due Additional criteria that are used for identification of significant increase in credit risk are based on internal assessment (internal watch list) and applied forbearance measures Credit risk has increased significantly since initial recognition when one of the criteria is met.

Significant Increase in Credit Risk for corporate exposures is determined based on internal credit risk rating which is assessed at individual borrower basis using sector-specific credit risk models that are based on historical data. Current and forward-looking information that is specific to the borrower, industry, and sector is considered based on expert credit judgment. Criteria for assessing significant increase in credit risk are defined at the appropriate segmentation level and vary based on the internal credit risk rating of the exposure at origination. Criteria include relative changes in internal credit risk rating and delinquency backstop when contractual payments are more than 30 days past due. Credit risk has increased significantly since initial recognition when one of the criteria is met.

Notes to the financial statements (continued)

6 Accounting estimates and judgments in applying accounting policies (continued)

b) Impairment of financial assets (continued)

Measurement of Expected Credit Loss

Expected credit losses are calculated as the product of PD, loss given default (LGD), and exposure at default (EAD) over the remaining expected life of the financial asset and discounted to the reporting date at the effective interest rate for exposures with significant increase in credit risk (i.e. stage 2 contracts). On the other hand, for exposures classified as stage 1, expected credit loss is calculated over 1 year horizon, i.e. 1 year expected credit loss is estimated. PD estimates represent the point-in-time PD, updated on a yearly basis based on the group's historical experience, current conditions, and relevant forward-looking expectations. LGD estimates are determined based on historical recovery payments. EAD incorporates forward-looking expectations about repayments of drawn balances and expectations about future draws where applicable.

The Group first assesses whether evidence of impairment exists individually for assets that are individually significant, corporate exposures with total balance exceeding HRK 3.8 million, (2018: corporate exposure with total balance exceeding HRK 3.8 million) and collectively for assets that are not individually significant (retail exposures and corporate exposures below threshold of HRK 3.8 million).

Impairment allowance on assets individually assessed as credit-impaired is based on the management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and net realizable value of any underlying collateral. Each impaired asset is assessed separately, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Forward-Looking Information

In calculating the ECL, the Group employs internally developed models that utilize parameters for PD, LGD, and EAD. Forward-looking macroeconomic factors determined at the regional level are incorporated in the risk parameters as relevant. Additional risk factors that are segment specific are also incorporated, where relevant.

The measurement of the financial assets also reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs.

In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Group has decided to adopt the "Most likely scenario+Add-on" approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario ("Most Likely") and then corrected with an Add-On to include any differences compared to downside and upside scenarios.

Expected Credit Losses

ECLs are recognized on initial recognition of the financial assets. Allowance for credit losses represents management's best estimate of risk of default and ECLs on the financial assets, including any off-balance sheet exposures, at the reporting date.

Management's judgment is used to determine the point within the range that is the best estimate for the qualitative component contributing to ECLs, based on an assessment of business and economic conditions, historical loss experience, loan portfolio composition, and other relevant indicators and forward-looking information. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the current economic conditions. Loss rates are regularly benchmarked against actual loss experience. Changes in these assumptions would have a direct impact on the provision for credit losses and may result in a change in the allowance for credit losses.

c) Classification of lease contracts

The Group acts as a lessor in operating and finance leases. Where the Group, as a lessor, transfers substantially all the risks and rewards incidental to ownership to the lessee, the leases are classified as finance leases. All other leases are classified as operating and related assets are included in property and equipment under operating leases at cost net of accumulated depreciation. In determining whether leases should be classified as operating or finance, the Group considers the requirements of International Financial Reporting Standard 16 *Leases.*

Notes to the financial statements (continued)

6 Accounting estimates and judgments in applying accounting policies (continued)

d) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Information about assumptions and estimation uncertainties regarding impairment of goodwill are explained in Note 28.

e) Fair value of financial instruments

If a market for a financial instrument is not active, or, if for any reason, fair value cannot be reasonably measured by market price, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent to the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data. The chosen valuation techniques are periodically reviewed by an independent expert who has not participated in their formation. All models are certified before use.

f) Taxation

The Group provides for tax liabilities in accordance with the tax laws of the Republic of Croatia and other jurisdictions (Slovenia and Bosnia and Hercegovina). Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers' records. Deferred tax assets are recognised only when it is probable that sufficient taxable profit will be available in future periods against which deductible temporary differences may be utilized.

g) Regulatory requirements

The Croatian National Bank and the Croatian Financial Services Supervisory Agency are entitled to carry out regulatory inspections of the Group's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

h) Litigation and claims

The Group makes an individual assessment of all court cases. The assessment is made by the Legal Department of the Bank or its relevant subsidiaries and in certain cases external lawyers are engaged. As stated in Note 38a the Group and the Bank provided HRK 201 million (2018: HRK 85 million) and HRK 179 million (2018: HRK 54 million) respectively for principal and interest in respect of liabilities for court cases, which the management estimates as sufficient. The above amounts represent the Group's best estimate of loss in respect of legal cases, although the actual outcome of court cases initiated against the Group can be significantly different. It is not practicable for management to estimate the financial impact of changes to the assumptions based on which management assesses the need for provisions.

i) Fair value of property and equipment and investment property

The Group uses the revaluation model for property and equipment and fair value model. The criterion of revaluation model requires that the asset have to be amortized on the basis of new revalued value. Investment property at fair value will no longer be amortized.

j) Foreclosed assets

The Group occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the gross carrying value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal are recognised in the income statement.

Notes to the financial statements (continued)

6 Accounting estimates and judgments in applying accounting policies (continued)

k) Determination of control over investees

Management applies its judgement to determine whether the Group controls investees. In assessing whether the Group controls the investees, the Group performs the power analysis and takes into consideration purpose and design of the investee, the evidence of practical ability to direct the relevant activities of the investees etc.

As a result, the Group concluded that it does not control and therefore should not consolidate its special purpose vehicles and entities with receivables in default, as the Group does not have power over the relevant activities of those entities.

Notes to the financial statements (continued)

7 Net interest income

a) Interest income – analysis by source

(in HRK million)

	GROUP 2019	GROUP 2018	BANK 2019	BANK 2018
Retail	2,015	2,010	1,592	1,602
Corporate	766	840	504	572
Public sector and other institutions	297	329	241	267
Banks	57	53	40	37
	3,135	**3,232**	**2,377**	**2,478**

b) Interest income– analysis by financial assets category

(in HRK million)

	GROUP 2019	GROUP 2018	BANK 2019	BANK 2018
Loans and advances to customers	2,905	3,001	2,251	2,362
Investment securities at amortized cost	23	27	23	27
Loans and advances to banks	45	37	40	37
Investment securities at FVOCI	67	75	30	29
Total interest income calculated using the effective interest rate	**3,040**	**3,140**	**2,344**	**2,455**

	GROUP 2019	GROUP 2018	BANK 2019	BANK 2018
Finance lease	53	51	-	-
Financial assets initially designated at fair value through profit or loss	1	7	-	-
Financial assets held for trading	33	23	33	23
Derivatives - hedge accounting	8	11	-	-
Total other interest income	**95**	**92**	**33**	**23**

Interest income includes collected interest income from credit impaired loans of the Group of HRK 126 million (2018 impaired: HRK 123 million) and of the Bank of HRK 74 million (2018 impaired: HRK 80 million).

Notes to the financial statements (continued)

7 Net interest income (continued)

c) Interest expense – analysis by recipient

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Retail	158	249	93	172
Banks	125	131	70	76
Corporate	21	21	18	12
Public sector and other institutions	18	18	7	11
	322	**419**	**188**	**271**

d) Interest expense – analysis by product

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Current accounts and deposits from retail customers	158	229	93	172
Interest-bearing borrowings and other financial liabilities	69	76	28	34
Current accounts and deposits from corporate customers and public sector	38	38	25	23
Current accounts and deposits from banks	15	41	33	42
Interest expense on lease liability	4	-	9	-
Derivative assets held for hedge accounting	38	35	-	-
	322	**419**	**188**	**271**

Notes to the financial statements (continued)

8 Net fee and commission income

a) Fee and commission income

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Credit cards	982	938	247	220
Payment transactions	534	513	429	411
Customer services	217	191	103	94
Investment banking fees	74	122	31	79
Guarantees	53	58	36	40
Investment management, brokerage and consultancy	53	48	48	44
Other	107	97	98	83
	2,020	**1,967**	**992**	**971**

b) Fee and commission expense

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Credit cards	367	340	262	242
Payment transactions	64	54	36	28
Bank charges	14	15	8	9
Other	32	40	9	14
	477	**449**	**315**	**293**

9 Dividend income

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Dividends from subsidiaries	-	-	677	36
Dividends from associates	-	-	14	14
Dividends from other equity securities	2	3	1	1
	2	**3**	**692**	**51**

Notes to the financial statements (continued)

10 Net trading income and net gains on translation of monetary assets and liabilities

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Foreign exchange spot trading	285	261	269	244
Net gains/(losses) from translation of monetary assets and liabilities denominated in foreign currency	2	12	(7)	7
Net trading income from forward foreign exchange contracts and swaps	23	14	22	14
Net gains/(losses) on financial assets held for trading	18	(4)	18	(4)
Net gains/(losses) from securities initially designated at fair value through profit or loss	60	57	56	(6)
	388	**340**	**358**	**255**

11 Fair value adjustments in hedge accounting

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Net effect on derivatives used as hedging instruments	(111)	(35)	-	-
Net effect on hedged items	110	35	-	-
	(1)	-	-	-

12 Other operating income

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Rental income from investment property and assets under operating lease	55	47	4	2
Net gain on derecognition of financial assets not measured through profit or loss	38	70	38	70
Gain on disposal of property and equipment, intangible assets and investment property	34	15	1	3
Net change in fair value of property and equipment	14	-	-	-
Other income	34	53	39	55
	175	**185**	**82**	**130**

Notes to the financial statements (continued)

13 Personnel expenses

(in HRK million)

	GROUP 2019	GROUP 2018	BANK 2019	BANK 2018
Net salaries	566	575	362	373
Contributions for pension insurance	149	156	101	106
Taxes and surtaxes	108	111	72	74
Contributions for health insurance	113	110	83	79
Other personnel expenses	141	178	79	106
	1,077	**1,130**	**697**	**738**

During the year the average number of employees within the Group based on full-time employment equivalence was 4,902 (2018: 4,874) of which the Bank accounted for 3,395 (2018: 3,377) employees.

14 Other operating expenses

(in HRK million)

	GROUP 2019	GROUP 2018	BANK 2019	BANK 2018
Materials and services	473	445	374	342
Deposit insurance premium	178	160	148	129
Rental expenses	11	98	4	90
Indirect and other taxes	34	19	30	15
Other expenses	424	458	81	90
	1,120	**1,180**	**637**	**666**

15 Impairment losses

a) Net impairment losses on loans and advances to customers

(in HRK million)

	GROUP 2019	GROUP 2018	BANK 2019	BANK 2018
Impairment losses on loans and advances to customers at amortised cost	318	391	256	258
	318	**391**	**256**	**258**

Notes to the financial statements (continued)

15 Impairment losses (continued)

b) Other impairment losses and provisions

(in HRK million)

		GROUP		BANK	
	Notes	2019	2018	2019	2018
Provisions/(release of provisions) for loans and advances to banks	25	1	2	-	2
Release of provisions for CNB		-	(10)	-	(10)
Movement in impairment loss on financial assets FVOCI	48	(1)	(26)	(1)	(13)
Movement in impairment loss on investment securities at amortized cost	48	-	(8)	-	(7)
Movement in impairment losses on other assets	32	(2)	14	4	7
(Release of provisions)/Provisions for off-balance-sheet items	38	(103)	23	(87)	14
Provisions/(Release of provisions) for court cases	38	136	(5)	134	4
Provisions for other items	38	45	75	39	56
Provision for retirement benefit obligations	38	1	2	-	-
		77	**67**	**89**	**53**

16 Depreciation, amortisation and impairment of goodwill

(in HRK million)

		GROUP		BANK	
	Notes	2019	2018	2019	2018
Depreciation and impairment of property and equipment	29	151	103	109	55
Amortisation of intangible assets	28	81	93	64	74
Impairment of goodwill	28	-	15	-	-
		232	**211**	**173**	**129**

Depreciation of property and equipment for 2018 includes HRK 26 million of depreciation of assets under operating lease while for 2019 is nil.

Notes to the financial statements (continued)

17 Income tax expense

a) Income tax expense recognised in the income statement

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Current income tax charge	362	199	260	113
Net deferred tax charge	8	(25)	6	(16)
Income tax expense recognised in the income statement	**370**	**174**	**266**	**97**

b) Reconciliation of income tax expense

The reconciliation between the accounting profit and income tax expense is set out below:

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Accounting profit before tax	**2,108**	**1,894**	**2,146**	**1,477**
Tax calculated at rate of 18%	379	341	386	266
Effect of different tax rates in Bosnia and Herzegovina	(12)	(23)	-	-
Effect of different tax rates in Slovenia	2	2	-	-
Tax effects of:				
Non-deductible expenses	18	39	10	9
Tax exempt income	(9)	(15)	(124)	(9)
Recognition of FTA effect as tax deductible expense	-	(119)	-	(119)
Recognition of tax assets from tax loss in earlier years, acquired on merger of Veneto Banka	-	(49)	-	(49)
Expenses/income included directly in income tax expense	(8)	(2)	(6)	(1)
Total income tax expense	**370**	**174**	**266**	**97**
Effective income tax rate	**17.6%**	**9.2%**	**12.4%**	**6.6%**

Notes to the financial statements (continued)

17 Income tax expense (continued)

c) Deferred tax assets

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Timing differences				
On unrealised losses on financial assets at fair value through profit or loss	22	31	28	37
On impairment of loans	30	31	-	-
On deferred fees	14	19	14	18
On impairment of real estate	12	10	9	7
On unrealised losses on financial assets at FVOCI	-	2	-	-
On other items	63	56	38	33
Deferred tax assets	**141**	**149**	**89**	**95**

d) Deferred tax liabilities

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Timing differences				
On unrealised gains on tangible assets	51	51	19	19
On unrealised gains on financial assets at FVOCI	29	26	14	13
Deferred tax liabilities	**80**	**77**	**33**	**32**

Notes to the financial statements (continued)

17 Income tax expense (continued)

e) Movement in deferred tax assets

(in HRK million)

Group	Total	Deferred fees	Impairment of real estate	Unrealised losses on financial assets at fair value through profit or loss	Impairment on financial assets at FVOCI	Other items	Impairment of loans
Balance as at 1 January 2019	**149**	**19**	**10**	**31**	**2**	**56**	**31**
Increase credited to income statement	***46***	*7*	*2*	*2*	*(3)*	*38*	*-*
Utilisation charged to income statement	***(54)***	*(12)*	*-*	*(11)*	*1*	*(31)*	*(1)*
Net amount charged to income statement	**(8)**	(5)	2	(9)	(2)	7	(1)
Balance as at 31 December 2019	**141**	**14**	**12**	**22**	**-**	**63**	**30**
Balance as at 1 January 2018	**132**	**24**	**9**	**38**	**2**	**27**	**32**
Increase credited to income statement	***73***	*8*	*2*	*2*	*-*	*61*	*-*
Utilisation charged to income statement	***(48)***	*(13)*	*(1)*	*(3)*	*-*	*(30)*	*(1)*
Net amount charged to income statement	**25**	(5)	1	(1)	-	31	(1)
Transfer to deferred tax liabilities	**(8)**	-	-	(6)	-	(2)	-
Balance as at 31 December 2018	**149**	**19**	**10**	**31**	**2**	**56**	**31**

Notes to the financial statements (continued)

17 Income tax expense (continued)

e) Movement in deferred tax assets (continued)

(in HRK million)

Bank	Total	Deferred fees	Impairment of real estate	Unrealised losses on financial assets at fair value through profit or loss	Other items
Balance as at 1 January 2019	**95**	**18**	**7**	**37**	**33**
Increase credited to income statement	***45***	*7*	*2*	*2*	*34*
Utilisation charged to income statement	***(51)***	*(11)*	*-*	*(11)*	*(29)*
Net amount charged to income statement	**(6)**	(4)	2	(9)	5
Balance as at 31 December 2019	**89**	**14**	**9**	**28**	**38**
Balance as at 1 January 2018	**79**	**22**	**6**	**38**	**13**
Increase credited to income statement	***52***	*9*	*2*	*2*	*39*
Utilisation charged to income statement	***(36)***	*(13)*	*(1)*	*(3)*	*(19)*
Net amount charged to income statement	**16**	(4)	1	(1)	20
Balance as at 31 December 2018	**95**	**18**	**7**	**37**	**33**

Notes to the financial statements (continued)

17 Income tax expense (continued)

f) Movement in deferred tax liabilities

(in HRK million)

Group	Total	Unrealised gains on financial assets at FVOCI	Unrealised gains on tangible assets
Balance as at 1 January 2019	**77**	**26**	**51**
Increase credited to comprehensive income	**3**	3	-
Balance as at 31 December 2019	**80**	**29**	**51**
Balance as at 1 January 2018	**86**	**35**	**51**
FTA effect	**4**	4	-
Increase credited to comprehensive income	**(5)**	(5)	-
Transfer from DTA	**(8)**	(8)	-
Balance as at 31 December 2018	**77**	**26**	**51**

Bank	Total	Unrealised gains on financial assets at FVOCI	Unrealised gains on tangible assets
Balance as at 1 January 2019	**32**	**13**	**19**
Increase credited to comprehensive income	**1**	1	-
Balance as at 31 December 2019	**33**	**14**	**19**
Balance as at 1 January 2018	**30**	**11**	**19**
FTA effect	**4**	4	-
Increase credited to comprehensive income	**(2)**	(2)	-
Balance as at 31 December 2018	**32**	**13**	**19**

Notes to the financial statements (continued)

18 Financial assets and financial liabilities

Classification of financial assets and financial liabilities

(in HRK million)

Group	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
As at 31 December 2019						
Cash and current accounts with banks	-	-	-	-	20,642	**20,642**
Balances with the Croatian National Bank	-	-	-	-	4,901	**4,901**
Financial assets held for trading	1,416	-	-	-	-	**1,416**
Derivative financial assets	18	-	-	-	-	**18**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	51	-	-	-	-	**51**
Loans and advances to banks	-	-	-	-	6,184	**6,184**
Loans and advances to customers	6	-	-	-	70,559	**70,565**
Investment securities	39	-	10,645	196	537	**11,417**
Total financial assets	**1,530**	**-**	**10,645**	**196**	**102,823**	**115,194**
Current accounts and deposits from banks	-	-	-	-	1,797	**1,797**
Current accounts and deposits from customers	-	-	-	-	89,876	**89,876**
Derivative financial liabilities	146	-	-	-	-	**146**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	3	-	-	-	-	**3**
Interest-bearing borrowings and other financial liabilities	-	-	-	-	5,443	**5,443**
Total financial liabilities	**149**	**-**	**-**	**-**	**97,116**	**97,265**

Notes to the financial statements (continued)

18 Financial assets and financial liabilities (continued)

Classification of financial assets and financial liabilities (continued)

(in HRK million)

Bank	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
As at 31 December 2019						
Cash and current accounts with banks	-	-	-	-	16,873	**16,873**
Balances with the Croatian National Bank	-	-	-	-	4,901	**4,901**
Financial assets held for trading	1,416	-	-	-	-	**1,416**
Derivative financial assets	6	-	-	-	-	**6**
Loans and advances to banks	-	-	-	-	4,819	**4,819**
Loans and advances to customers	-	-	-	-	47,188	**47,188**
Investment securities	34	-	8,073	80	505	**8,692**
Total financial assets	**1,456**	**-**	**8,073**	**80**	**74,286**	**83,895**
Current accounts and deposits from banks	-	-	-	-	1,677	**1,677**
Current accounts and deposits from customers	-	-	-	-	65,890	**65,890**
Derivative financial liabilities	2	-	-	-	-	**2**
Interest-bearing borrowings and other financial liabilities	-	-	-	-	3,535	**3,535**
Total financial liabilities	**2**	**-**	**-**	**-**	**71,102**	**71,104**

Notes to the financial statements (continued)

18 Financial assets and financial liabilities (continued)

Classification of financial assets and financial liabilities (continued)

(in HRK million)

Group	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
As at 31 December 2018						
Cash and current accounts with banks	-	-	-	-	18,441	**18,441**
Balances with the Croatian National Bank	-	-	-	-	4,698	**4,698**
Financial assets held for trading	828	-	-	-	-	**828**
Derivative financial assets	10	-	-	-	-	**10**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	9	-	-	-	-	**9**
Loans and advances to banks	-	-	-	-	8,153	**8,153**
Loans and advances to customers	6	-	-	-	66,891	**66,897**
Investment securities	54	-	9,795	168	540	**10,557**
Total financial assets	**907**	**-**	**9,795**	**168**	**98,723**	**109,593**
Current accounts and deposits from banks	-	-	-	-	1,856	**1,856**
Current accounts and deposits from customers	-	-	-	-	85,938	**85,938**
Derivative financial liabilities	34	-	-	-	-	**34**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4	-	-	-	-	**4**
Interest-bearing borrowings and other financial liabilities	-	-	-	-	4,176	**4,176**
Total financial liabilities	**38**	**-**	**-**	**-**	**91,970**	**92,008**

Notes to the financial statements (continued)

18 Financial assets and financial liabilities (continued)

Classification of financial assets and financial liabilities (continued)

(in HRK million)

Bank	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
As at 31 December 2018						
Cash and current accounts with banks	-	-	-	-	14,179	**14,179**
Balances with the Croatian National Bank	-	-	-	-	4,698	**4,698**
Financial assets held for trading	828	-	-	-	-	**828**
Derivative financial assets	1	-	-	-	-	**1**
Loans and advances to banks	-	-	-	-	7,058	**7,058**
Loans and advances to customers	-	-	-	-	45,611	**45,611**
Investment securities	36	-	6,745	62	531	**7,374**
Total financial assets	**865**	**-**	**6,745**	**62**	**72,077**	**79,749**
Current accounts and deposits from banks	-	-	-	-	1,480	**1,480**
Current accounts and deposits from customers	-	-	-	-	63,042	**63,042**
Derivative financial liabilities	4	-	-	-	-	**4**
Interest-bearing borrowings and other financial liabilities	-	-	-	-	3,047	**3,047**
Total financial liabilities	**4**	**-**	**-**	**-**	**67,569**	**67,573**

Notes to the financial statements (continued)

19 Cash and current accounts with banks

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Current accounts with the CNB	14,663	9,678	14,663	9,678
Current accounts with foreign banks	2,343	5,524	296	2,726
Cash in hand	3,604	3,218	1,909	1,770
Current accounts with domestic banks	31	20	4	4
Other cash items	1	1	1	1
	20,642	**18,441**	**16,873**	**14,179**

20 Balances with the Croatian National Bank

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Obligatory reserve	4,901	4,698	4,901	4,698
	4,901	**4,698**	**4,901**	**4,698**

The CNB determines the requirement for banks to calculate an obligatory reserve, which is required to be deposited with the CNB and held in the form of other liquid receivables. The obligatory reserve requirement as at 31 December 2019 amounted to 12% (2018: 12%) of kuna and foreign currency deposits and borrowings.

As at 31 December 2019, the required rate for the part of the obligatory reserve calculated based on kuna liabilities to be deposited with the CNB amounted to 70% (2018: 70%), while the remaining 30% (2018: 30%) had to be held in the form of other liquid receivables. This includes the part of foreign currency obligatory reserve required to be held in HRK.

No part of the obligatory reserve based on foreign currency liabilities must be deposited with the CNB (2018: 0%), but it must be held in the form of other liquid receivables, 75% of the part of the obligatory reserve calculated based on foreign currency liabilities is required to be held in kuna and is added to the kuna part of the obligatory reserve. The Bank must maintain at least 2% of the part of the foreign currency obligatory reserve for maintenance, of point XI, paragraph 1 of the Decision on reserve requirements (136/2015), an average daily balance of funds on their own foreign currency euro settlement accounts with the CNB.

The obligatory reserve did not earn any interest in 2019 (2018: nil).

Notes to the financial statements (continued)

21 Investment securities

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Investment securities mandatorily measured at FVTPL	39	54	34	36
Investment securities measured at amortised cost	537	540	505	531
Investment securities measured at FVOCI – debt instruments	10,645	9,795	8,073	6,745
Investment securities designated as at FVOCI – equity investments	196	168	80	62
	11,417	**10,557**	**8,692**	**7,374**

a) Investment securities mandatorily measured at FVTPL

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Equity securities	39	54	34	36
	39	**54**	**34**	**36**

b) Investment securities measured at amortised cost

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Foreign government bonds	23	-	-	-
Corporate bonds	514	540	505	531
	537	**540**	**505**	**531**

Notes to the financial statements (continued)

21 Investment securities (continued)

c) Investment securities measured at FVOCI – debt instruments

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Republic of Croatia bonds	1,258	1,712	1,045	895
Treasury bills	7,028	5,854	7,028	5,850
Foreign government treasury bills	370	409	-	-
Bank bonds	325	236	-	-
Foreign government bonds	1,664	1,584	-	-
	10,645	**9,795**	**8,073**	**6,745**

d) Investment securities measured at FVOCI – equity investments

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Listed securities	2	2	1	1
Unlisted securities	194	166	79	61
	196	**168**	**80**	**62**

In order to comply with the requirement of the National Bank Resolution Fund, Slovenian government bonds in the amount of the HRK 85 million are pleged.

Notes to the financial statements (continued)

22 Financial assets held for trading

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Republic of Croatia bonds	1,402	817	1,402	817
Accrued interest	14	11	14	11
	1,416	**828**	**1,416**	**828**
Listed securities	*1,416*	*828*	*1,416*	*828*
	1,416	**828**	**1,416**	**828**

23 Derivative financial assets

a) Derivative financial assets classified as held for trading

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Fair value:				
Forward foreign exchange contracts and swaps	9	2	6	1
Interest rate contracts	-	-	-	-
	9	**2**	**6**	**1**
Notional amount:				
Forward foreign exchange contracts and swaps	2,490	769	2,427	768
Interest rate contracts	28	29	-	-
	2,518	**798**	**2,427**	**768**

The Group uses foreign currency forward and swap contracts to manage its exposure to foreign currency risk. Interest rate cap derivative contracts are used for the purpose of interest rate risk management.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of instruments and, therefore, do not indicate the Group's exposure to credit or price risks.

Notes to the financial statements (continued)

23 Derivative financial assets (continued)

b) Derivative financial assets held for hedge accounting

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Fair value:				
Interest rate swaps - micro hedge	6	3	-	-
Interest rate swaps - macro hedge	3	5	-	-
	9	**8**	**-**	**-**
Notional amount:				
Interest rate swaps - micro hedge	333	120	-	-
Interest rate swaps - macro hedge	77	291	-	-
	410	**411**	**-**	**-**

Derivative contracts held for hedge accounting are entered into for the purpose of interest-rate risk management. In financial environment of low interest rates the Group promoted its commercial activities by lunching long term loans fix interest rates. To overcome the interest rate risk interest rate swaps were made. The Group uses fair value hedge accounting techniques, where interest rate swaps hedges long-term financial assets (bonds and loans) with fixed interest rate.

c) Fair value changes of the hedged items in portfolio hedge of interest rate risk

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Fair value changes of the hedged items in portfolio hedge of interest rate risk	51	9	-	-
	51	**9**	**-**	**-**

Notes to the financial statements (continued)

24 Derivative financial liabilities

a) Derivative financial liabilities classified as held for trading

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Fair value:				
Forward foreign exchange contracts and swaps	5	4	2	4
	5	**4**	**2**	**4**
Notional amount:				
Forward foreign exchange contracts and swaps	2,484	767	2,421	767
	2,484	**767**	**2,421**	**767**

b) Derivative financial liabilities held for hedge accounting

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Fair value:				
Interest rate swaps - micro hedge	90	21	-	-
Interest rate swaps - macro hedge	51	9	-	-
	141	**30**	**-**	**-**
Notional amount:				
Interest rate swaps - micro hedge	2,270	2,022	-	-
Interest rate swaps - macro hedge	1,084	761	-	-
	3,354	**2,783**	**-**	**-**

c) Fair value changes of the hedged items in portfolio hedge of interest rate risk

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Fair value changes of the hedged items in portfolio hedge of interest rate risk	3	4	-	-
	3	**4**	**-**	**-**

Notes to the financial statements (continued)

25 Loans and advances to banks

a) Analysis by type of product

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Term deposits and placements	5,000	6,586	4,614	6,494
Loans	305	768	214	573
Obligatory reserve with CBBH	729	656	-	-
Obligatory reserve with BoS	160	152	-	-
	6,194	**8,162**	**4,828**	**7,067**
Impairment loss allowance	(10)	(9)	(9)	(9)
	6,184	**8,153**	**4,819**	**7,058**

Term deposits mainly relate to short-term deposits with local and foreign banks bearing an average annual interest rate in the range of (-1.0%) and 2.6% (2018: in the range of (-1.0%) and 3%).

The obligatory reserve with the Bosnia and Herzegovina central bank ("CBBH") represents amounts required to be deposited with CBBH. The obligatory reserve is calculated on the basis of deposits and borrowings taken, regardless of the currency (excluding borrowings taken from foreign entities and funds from governments of Bosnia and Herzegovina entities for development projects).

The obligatory reserve with the Bank of Slovenia ("BoS") represents amounts required to be deposited with Slovenia's central bank. Mandatory reserve is maintained, relative to the volume and structure of customer deposits. The current requirement regarding the calculation of the amount to be held as mandatory reserve is 1% of time deposits and issued debt securities with maturities up to two years.

b) Movement in impairment allowance

(in HRK million)

		GROUP		BANK	
	Note	2019	2018	2019	2018
Balance at 1 January		**9**	**23**	**9**	**23**
FTA effect		-	(16)	-	(16)
Net remeasurement of loss allowance	15b	1	2	-	2
Balance at 31 December		**10**	**9**	**9**	**9**

Notes to the financial statements (continued)

25 Loans and advances to banks (continued)

c) Geographical analysis

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Switzerland	1,057	568	1,057	568
Germany	954	1,323	954	1,323
Belgium	776	836	776	836
Bosnia and Herzegovina	733	657	78	224
France	664	1,002	664	1,002
Great Britain	617	388	617	388
Republic of Croatia	343	1,337	228	1,249
Austria	341	902	341	742
Italy	341	134	7	9
Slovenia	261	287	2	-
Other countries	82	4	79	32
Norway	25	26	25	26
Netherlands	-	698	-	668
	6,194	**8,162**	**4,828**	**7,067**
Impairment loss allowance	(10)	(9)	(9)	(9)
	6,184	**8,153**	**4,819**	**7,058**

As at 31 December 2019 loans and advances to banks included reverse repurchase agreements in the amount of HRK 95 million for the Group and for the Bank (2018: HRK 381 million for the Group and for the Bank). Such agreements are secured with government bonds and treasury bills. For details on sale and repurchase agreements please refer to Note 48(a).

Notes to the financial statements (continued)

26 Loans and advances to customers

a) Analysis by type of customer

(in HRK million)

Loans and advances to customers at amortized cost	GROUP		BANK	
	2019	2018	2019	2018
Retail customers	40,608	37,805	28,415	26,476
Corporate customers	24,252	23,351	13,753	14,147
Public sector and other institutions	9,376	9,944	7,788	7,994
	74,236	**71,100**	**49,956**	**48,617**
Impairment allowance	(3,562)	(4,080)	(2,700)	(2,919)
Loans and advances to customers net of impairment allowance	**70,674**	**67,020**	**47,256**	**45,698**
Deferred fees recognised as an adjustment to the effective yield	(115)	(129)	(68)	(87)
	70,559	**66,891**	**47,188**	**45,611**

(in HRK million)

Loans and advances to customers at fair value through profit and loss	GROUP		BANK	
	2019	2018	2019	2018
Corporate customers	6	6	-	-
	6	**6**	**-**	**-**

Notes to the financial statements (continued)

26 Loans and advances to customers (continued)

b) Analysis by sector

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Individuals	40,608	37,805	28,415	26,476
Construction	5,620	5,287	5,089	4,659
Wholesale and retail trade; repair of motor vehicles and motorcycles	5,027	4,548	2,257	2,385
Manufacturing	4,853	5,071	2,576	2,878
Public administration and defence; compulsory social security	3,914	4,545	2,927	3,537
Transporting and storage	2,969	2,957	791	710
Accommodation and food service activities	2,473	2,656	2,164	2,265
Electricity, gas, steam and air conditioning supply	1,968	1,477	1,092	880
Real estate activities	1,048	1,085	906	934
Professional, scientific and technical activities	1,037	710	612	461
Agriculture, forestry and fishing	903	1,120	782	996
Administrative and support service activities	762	817	154	146
Information and communication	715	675	218	209
Financial and insurance activities	617	638	806	846
Arts, entertainment and recreation	357	377	286	302
Human health and social work activities	330	366	224	245
Education	321	343	266	296
Mining and quarrying	241	150	88	88
Water supply; sewerage; waste management and remediation activities	232	234	167	172
Other services activities	219	206	108	93
Activities of extraterritorial organisations and bodies	28	39	28	39
	74,242	**71,106**	**49,956**	**48,617**

Loans and advances to customers also include finance lease receivables. For a more detailed analysis of finance lease receivables please refer to Note 43 *Leases*.

Notes to the financial statements (continued)

26 Loans and advances to customers (continued)

c) Collateral repossessed

During the year, the Group foreclosed on assets previously charged to them as collateral, and thereby recognised foreclosed assets with a carrying value of HRK 17 million and nil for the Bank (2018: HRK 1 million Group and HRK nil for the Bank). The repossessed collateral, which the Group is in the process of selling, is disclosed as foreclosed assets within Other assets (Note 32). In general, the Group does not occupy repossessed properties for business use.

d) Sale of receivables

In 2019, the Group sold HRK 830 million gross receivable (HRK 293 million net receivable) to a third party for HRK 370 million what resulted with a release of impairment allowance of HRK 77 million and the Bank sold HRK 504 million gross receivables (HRK 181 million net receivable) for HRK 319 million what resulted with a release of specific impairment allowance of HRK 38 million.

In 2018, the Group sold HRK 723 million gross receivable (HRK 302 million net receivable) to a third party for HRK 406 million what resulted with a release of impairment allowance of HRK 104 million and the Bank sold HRK 369 million gross receivables (HRK 155 million net receivable) for HRK 200 million what resulted with a release of specific impairment allowance of HRK 85 million.

27 Investments in subsidiaries and associates

(in HRK million)

	GROUP		**BANK**	
	2019	2018	2019	2018
Consolidated subsidiaries	-	-	1,934	1,934
Associates accounted for under the equity method by the Group and at cost by the Bank	67	69	28	28
	67	**69**	**1,962**	**1,962**
Movements				
Balance at 1 January	**69**	**69**	**1,962**	**1,962**
Share of profits from associates	12	14	-	-
Receipt of dividend	(14)	(14)	-	-
Balance at 31 December	**67**	**69**	**1,962**	**1,962**

Notes to the financial statements (continued)

27 Investments in subsidiaries and associates (continued)

The principal investments in subsidiaries and associates as at 31 December are as follows:

	COUNTRY	NATURE OF BUSINESS	2019 holding %	2018 holding %
CONSOLIDATED SUBSIDIARIES				
PBZ Card d.o.o.	Croatia	card services	100	100
PBZ Leasing d.o.o.	Croatia	leasing	100	100
PBZ Nekretnine d.o.o.*	Croatia	real estate agency	100	100
PBZ Stambena Štedionica d.d.	Croatia	housing savings bank	100	100
Veneto banka	Croatia	credit institution	-	-
Intesa Sanpaolo Banka d.d.	Bosnia and Herzegovina	credit institution	99	99
Banka Intesa Sanpaolo d.d.	Slovenia	credit institution	51	51
ASSOCIATES				
PBZ Croatia osiguranje d.d.	Croatia	pension manage-ment	50	50

**As of 1 January 2020 PBZ Nekretnine was merged with PBZ Card.*

The Group considers that its 50% investment in PBZ Croatia osiguranje dd represent investment in associates (31 December 2018: 50% investment in PBZ Croatia osiguranje) as the Group does not have control over the company. Consequently, PBZ Croatia osiguranje dd is accounted for using the equity method in the consolidated financial statements

The following table illustrates summarised financial information of the PBZ Croatia osiguranje d.d.:

(in HRK million)

PBZ Croatia osiguranje	2019	2018
Associates' statement of financial position		
Current assets	139	143
Non-current assets	2	1
Current liabilities	(5)	(3)
Non-current liabilities	(3)	(3)
Net assets of associates'	**133**	**138**
Attributable to PBZ Group	**67**	**69**
Associates' income statements		
Revenue	70	68
Expenses	(47)	(41)
Profit	**23**	**27**
Attributable to PBZ Group	**12**	**14**

Notes to the financial statements (continued)

27 Investments in subsidiaries and associates (continued)

Involvement in unconsolidated structured entities

The Group is involved in financing several special purpose entities that carry out various activities, such as real estate construction, tourism, etc. The Group concluded that it does not control, and therefore should not consolidate, the special purpose entities and its involvement is in all cases limited to providing finance with aim of collecting interest. Taken as a whole, the Group does not have power over the relevant activities of those entities.

Acquisition of Veneto bank d.d. – common control transaction

As of 12 July 2018, the Bank purchased a 100% stake in Veneto bank d.d. (5,970,820 ordinary shares with 100% voting rights) from Intesa Sanpaolo S.p.A. Turin. Intesa Sanpaolo S.p.A. Turin acquired Veneto banka in 2017.

The consideration paid was determined based on the carrying value of the net assets of the purchased bank as of 31 December 2017 as stated in the financial statements of Intesa Sanpaolo S.p.A. and amounted to HRK 152 million.

Since the ultimate owner of both banks is Intesa Sanpaolo S.p.A. Turin the transaction was accounted for in accordance with accounting policy as disclosed in Note 2e.

Notes to the financial statements (continued)

27 Investments in subsidiaries and associates (continued)

Acquisition of Veneto bank d.d. – common control transaction (continued)

The carrying values of assets and liabilities of Veneto banka were as follows:

	(in HRK million)
	1 July 2018
Cash and current accounts with banks	281
Balances with the Croatian National Bank	27
Loans and advances to banks	26
Loans and advances to customers	183
Financial assets at FVOCI	15
Intangible assets	-
Property and equipment	1
Non-current assets held for sale	19
Other assets	6
Tax prepayments	-
Total assets	**558**
Current accounts and deposits from banks	-
Current accounts and deposits from customers	316
Interest-bearing borrowings and other financial liabilities	22
Other liabilities	32
Accrued expenses and deferred income	1
Provisions for liabilities and charges	48
Total liabilities	**419**
Net assets and liabilities	**139**

Notes to the financial statements (continued)

27 Investments in subsidiaries and associates (continued)

Merger of Veneto bank d.d. – common control transaction

As of 13 October 2018, Veneto banka was legally merged into the Bank, whereby Veneto bank ceased to exist as a separate legal and operational financial institution. In the separate financial statements of the Bank the assets and liabilities acquired by the Bank as a result of the merger are recognized at the carrying amounts recognized immediately prior to the merger in the financial statements of Veneto banka. Loss acquired on merger of Veneto banka d.d. was recognised in equity of Privredna banka Zagreb d.d. in the amount of HRK 21 million. The Bank's separate financial statements 2018 income statement does not include results of Veneto banka before merger, and separate comparative financial information of the Bank was not restated. There is no effect of the merger on the consolidated financial statements.

The carrying values of assets and liabilities of Veneto bank as at 12 October 2018, the date that preceded the merger were as follows (effect on Bank's standalone assets and liabilities):

(in HRK million)

	12 October 2018
Cash and current accounts with banks	270
Balances with the Croatian National Bank	19
Loans and advances to banks	-
Loans and advances to customers	143
Financial assets at FVOCI	19
Intangible assets	-
Property and equipment	-
Non-current assets held for sale	5
Other assets	15
Tax prepayments	-
Total assets	**471**
Current accounts and deposits from banks	-
Current accounts and deposits from customers	264
Interest-bearing borrowings and other financial liabilities	18
Other liabilities	14
Accrued expenses and deferred income	-
Provisions for liabilities and charges	44
Total liabilities	**340**
Net identifiable assets of Veneto bank	**131**
Less: carrying value of the investment in the subsidiary	**152**
Differences recorded directly in Bank's equity	(21)
Merger of subsidiary – decrease in reserve of the Bank	
Other reserves	76
Retained earnings	(97)
	(21)

Notes to the financial statements (continued)

28 Intangible assets

(in HRK million)

Group	Goodwill	Software	Other intangible assets	Leasehold improvements	Assets acquired but not brought into use	Total
Acquisition cost						
Balance at 1 January 2018	**29**	**843**	**49**	**304**	**48**	**1,273**
Additions	-	-	-	-	125	**125**
Merger of Veneto bank	-	-	-	1	-	**1**
Transfer into use	-	115	-	8	(123)	-
Disposals and eliminations	-	(5)	(3)	(10)	(4)	**(22)**
Balance at 31 December 2018	**29**	**953**	**46**	**303**	**46**	**1,377**
Additions	-	-	-	-	171	**171**
Transfer into use	-	97	3	9	(109)	-
Disposals and eliminations	-	(4)	-	(8)	-	**(12)**
Balance at 31 December 2019	**29**	**1,046**	**49**	**304**	**108**	**1,536**

Notes to the financial statements (continued)

28 Intangible assets (continued)

(in HRK million)

Group	Goodwill	Software	Other intangible assets	Leasehold improvements	Assets acquired but not brought into use	Total
Accumulated amortisation						
Balance at 1 January 2018	**-**	**706**	**36**	**262**	**-**	**1,004**
Charge for the year	-	80	4	9	-	**93**
Merger of Veneto bank	-	-	-	1	-	**1**
Disposals and eliminations	-	(5)	(2)	(6)	-	**(13)**
Impairment of goodwill	15	-	-	-	-	**15**
Balance at 31 December 2018	**15**	**781**	**38**	**266**	**-**	**1,100**
Charge for the year	-	67	4	10	-	**81**
Disposals and eliminations	-	(4)	-	(8)	-	**(12)**
Balance at 31 December 2019	**15**	**844**	**42**	**268**	**-**	**1,169**
Carrying value						
Balance at 31 December 2018	**14**	**172**	**8**	**37**	**46**	**277**
Balance at 31 December 2019	**14**	**202**	**7**	**36**	**108**	**367**

Goodwill represents goodwill arising from the acquisition of Međimurska banka in the amount of HRK 14 million (2018: HRK 14 million), recognised as a purchased goodwill following the merger of Međimurska banka into Privredna banka Zagreb d.d. as at 1 December 2012.

Notes to the financial statements (continued)

28 Intangible assets (continued)

(in HRK million)

Bank	Goodwill	Software	Other intangible assets	Leasehold improvements	Assets acquired but not brought into use	Total
Acquisition cost						
Balance at 1 January 2018	**14**	**621**	**3**	**251**	**35**	**924**
Additions	-	-	-	-	99	**99**
Merger of Veneto bank	-	-	-	1	-	**1**
Disposals	-	-	-	(7)	-	**(7)**
Transfer into use	-	104	-	8	(112)	-
Balance at 31 December 2018	**14**	**725**	**3**	**253**	**22**	**1,017**
Additions	-	-	-	-	124	**124**
Disposals	-	-	(1)	(2)	-	**(3)**
Transfer into use	-	83	-	6	(89)	-
Balance at 31 December 2019	**14**	**808**	**2**	**257**	**57**	**1,138**
Accumulated amortisation						
Balance at 1 January 2018	**-**	**509**	**2**	**232**	**-**	**743**
Charge for the year	-	67	-	7	-	**74**
Merger of Veneto bank	-	-	-	1	-	**1**
Disposals	-	-	-	(6)	-	**(6)**
Balance at 31 December 2018	**-**	**576**	**2**	**234**	**-**	**812**
Charge for the year	-	57	-	7	-	**64**
Disposals	-	-	-	(2)	-	**(2)**
Balance at 31 December 2019	**-**	**633**	**2**	**239**	**-**	**874**
Carrying value						
Balance at 31 December 2018	**14**	**149**	**1**	**19**	**22**	**205**
Balance at 31 December 2019	**14**	**175**	**-**	**18**	**57**	**264**

Following the legal merger of Međimurska banka into the Bank as at 1 December 2012, the goodwill formerly arising on consolidation of Međimurska banka was transformed into purchased goodwill and recognised in the Bank's separate statement of financial position.

Notes to the financial statements (continued)

29 Property and equipment

(in HRK million)

Group	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	Total
Acquisition cost						
Balance at 1 January 2018	**1,205**	**567**	**126**	**528**	**33**	**2,459**
Additions	-	-	-	1	88	**89**
Disposals	-	(16)	(39)	(39)	-	**(94)**
Transfer into use	7	16	21	40	(84)	-
Reclassified to non-current assets held for sale	(49)	-	-	-	-	**(49)**
Balance at 31 December 2018	**1,163**	**567**	**108**	**530**	**37**	**2,405**
Balance at 1 January 2019	**1,163**	**567**	**108**	**530**	**37**	**2,405**
Recognition of right-of-use asset on initial application of IFRS 16	212	3	11	58	-	**284**
Adjusted balance at 1 January 2019	**1,375**	**570**	**119**	**588**	**37**	**2,689**
Additions	-	-	-	-	189	**189**
Disposals	(39)	(20)	(24)	(107)	-	**(190)**
Transfer into use	60	37	13	83	(193)	-
Balance at 31 December 2019	**1,396**	**587**	**108**	**564**	**33**	**2,688**
Accumulated depreciation						
Balance at 1 January 2018	**31**	**526**	**53**	**471**	**-**	**1,081**
Charge for the year	35	18	16	34	-	**103**
Reversal of impairment	(7)	-	-	-	-	**(7)**
Disposals	-	(17)	(24)	(36)	-	**(77)**
Transfer to held for sale	(32)	-	-	-	-	**(32)**
Balance at 31 December 2018	**27**	**527**	**45**	**469**	**-**	**1,068**
Charge for the year	76	17	17	41	**-**	**151**
Disposals	(24)	(18)	(19)	(101)	-	**(162)**
Balance at 31 December 2019	**79**	**526**	**43**	**409**	**-**	**1,057**
Carrying value						
Balance at 31 December 2018	**1,136**	**40**	**63**	**61**	**37**	**1,337**
Balance at 31 December 2019	**1,317**	**61**	**65**	**155**	**33**	**1,631**

Notes to the financial statements (continued)

29 Property and equipment (continued)

(in HRK million)

Bank	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	Total
Acquisition cost						
Balance at 1 January 2018	**528**	**424**	**2**	**355**	**30**	**1,339**
Additions	-	-	-	-	70	**70**
Transfer into use	15	14	-	36	(65)	**-**
Disposals	-	(12)	(1)	(7)	-	**(20)**
Balance at 31 December 2018	**543**	**426**	**1**	**384**	**35**	**1,389**
Balance at 1 January 2019	**543**	**426**	**1**	**384**	**35**	**1,389**
Recognition of right-of-use asset on initial application of IFRS 16	270	3	7	58	-	**338**
Adjusted balance at 1 January 2019	**813**	**429**	**8**	**442**	**35**	**1,727**
Additions	-	-	-	-	124	**124**
Transfer into use	28	24	1	75	(128)	**-**
Disposals	(8)	(14)	(1)	(91)	-	**(114)**
Balance at 31 December 2019	**833**	**439**	**8**	**426**	**31**	**1,737**
Accumulated depreciation						
Balance at 1 January 2018	**-**	**396**	**2**	**320**	**-**	**718**
Charge for the year	17	13	-	25	-	**55**
Disposals	-	(12)	(1)	(7)	-	**(20)**
Balance at 31 December 2018	**17**	**397**	**1**	**338**	**-**	**753**
Charge for the year	61	12	2	34	-	**109**
Disposals	-	(14)	(1)	(85)	-	**(100)**
Balance at 31 December 2019	**78**	**395**	**2**	**287**	**-**	**762**
Carrying value						
Balance at 31 December 2018	**526**	**29**	**-**	**46**	**35**	**636**
Balance at 31 December 2019	**755**	**44**	**6**	**139**	**31**	**975**

Notes to the financial statements (continued)

30 Investment property

(in HRK million)

	GROUP	BANK
Acquisition cost		
Balance at 1 January 2018	**7**	**1**
Additions	-	-
Disposals	-	-
Balance at 31 December 2018	**7**	**1**
Additions	-	-
Disposals	-	-
Fair value adjustment	14	-
Reclassified from non-current assets held for sale	42	1
Balance at 31 December 2019	**63**	**2**
Carrying value		
Balance at 31 December 2018	**7**	**1**
Balance at 31 December 2019	**63**	**2**

The property rental income earned by the Group and the Bank from its investment property, all of which was leased out under operating leases, amounted to HRK 3 million (2018: HRK 3 million) and nil for the Bank (2018: nil) was presented within other operating income (Note 12).

Notes to the financial statements (continued)

31 Non-current assets held for sale

At 31 December 2019, the non-current assets held for sale was stated at fair value less cost to sell and comprised the following assets:

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Property and equipment	24	52	16	37
Investment property	54	136	36	39
Foreclosed assets	61	124	8	26
	139	**312**	**60**	**102**

Impairment loss in the amount of HRK 14 million for the Group and HRK 8 million for the Bank was recognized in 2018.

Notes to the financial statements (continued)

32 Other assets

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Foreclosed assets	148	109	58	34
Prepaid expenses	71	40	43	27
Receivables in course of collection	91	14	75	3
Advance payments	1	19	-	1
Receivables from debtors	4	6	-	-
Other assets	9	51	30	32
	324	**239**	**206**	**97**
Impairment	(23)	(25)	(13)	(9)
	301	**214**	**193**	**88**

Movement in impairment

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Balance at 1 January	**25**	**11**	**9**	**2**
Net (release)/charge for the year	(2)	14	4	7
Balance at 31 December	**23**	**25**	**13**	**9**

Movement in impairment on other assets is presented as part of Provisions for other items and other assets (Note 15b).

Notes to the financial statements (continued)

33 Current accounts and deposits from banks

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Term deposits	1,133	737	970	355
Demand deposits	664	1,119	707	1,125
	1,797	**1,856**	**1,677**	**1,480**

34 Current accounts and deposits from customers

a) Analysis by term

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Demand deposits	61,954	53,817	44,808	37,418
Term deposits	27,922	32,121	21,082	25,624
	89,876	**85,938**	**65,890**	**63,042**

b) Analysis by source

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Retail deposits	61,554	58,552	45,032	43,205
Corporate deposits	21,114	19,218	15,433	13,121
Public sector and other institutions	7,208	8,168	5,425	6,716
	89,876	**85,938**	**65,890**	**63,042**

Notes to the financial statements (continued)

35 Interest-bearing borrowings and other financial liabilities

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Foreign borrowings	2,439	1,623	611	605
Domestic borrowings	2,705	2,542	2,591	2,433
Accrued fee	(4)	(4)	(6)	(6)
Lease liabilities	284	-	320	-
Other financial liabilities	19	15	19	15
	5,443	**4,176**	**3,535**	**3,047**

a) Foreign borrowings

Foreign borrowings of the Group include short-term and long-term loans received from foreign banks and non-financial institutions denominated mostly in EUR, USD and CHF and with floating interest rates.

b) Domestic borrowings

Domestic borrowings of the Group mainly consist of loans received from the Croatian Bank for Reconstruction and Development ("HBOR") in the amount of HRK 1.6 billion (2018: HRK 1.4 billion) and Croatian National Bank in the amount of HRK 1 billion (2018: HRK 1 billion)

In accordance with the overall agreement, borrowings from HBOR are used to fund loans to customers for eligible construction and development projects at preferential interest rates.

36 Other liabilities

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Credit card payables and other payables	1,045	1,177	49	52
Items in the course of settlement and other liabilities	980	637	807	424
Salaries and other personnel costs	183	164	132	123
	2,208	**1,978**	**988**	**599**

Notes to the financial statements (continued)

37 Accrued expenses and deferred income

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Accrued expenses	236	293	133	139
Deferred income	77	79	14	20
	313	**372**	**147**	**159**

38 Provisions

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Provisions for liabilities and charges	517	548	445	447
Retirement benefit obligations	22	22	-	-
	539	**570**	**445**	**447**

a) Provisions for liabilities and charges

(in HRK million)

Group	Total	Provisions for off-balance-sheet items	Provisions for court cases	Provisions for other items
Balance as at 1 January 2019	**548**	**337**	**85**	**126**
Net (release)/charge in the income statement	**78**	(103)	136	45
Provisions used during the year	**(109)**	-	(20)	(89)
Balance as at 31 December 2019	**517**	**234**	**201**	**82**
Balance as at 1 January 2018	**431**	**251**	**103**	**77**
FTA effect	**65**	65	-	-
Net (release)/charge in the income statement	**93**	23	(5)	75
Provisions used during the year	**(41)**	(2)	(13)	(26)
Balance as at 31 December 2018	**548**	**337**	**85**	**126**

Notes to the financial statements (continued)

38 Provisions (continued)

a) Provisions for liabilities and charges (continued)

(in HRK million)

Bank	Total	Provisions for off-balance-sheet items	Provisions for court cases	Provisions for other items
Balance as at 1 January 2019	**447**	**296**	**54**	**97**
Net charge/(release) in the income statement	**86**	(87)	134	39
Provisions used during the year	**(88)**	-	(9)	(79)
Balance as at 31 December 2019	**445**	**209**	**179**	**57**
Balance as at 1 January 2018	**302**	**215**	**32**	**55**
FTA effect	**51**	51	-	-
Merger of Veneto Bank	**37**	16	21	-
Net charge/(release) in the income statement	**74**	14	4	56
Provisions used during the year	**(17)**	-	(3)	(14)
Balance as at 31 December 2018	**447**	**296**	**54**	**97**

Provisions for off-balance-sheet items, court cases and other items are recognised in other impairment losses and provisions in the income statement (Note 15b).

Provision for off-balance-sheet items relates to specific and collective impairment provisions on credit-related contingencies as disclosed in Note 39.

As at 31 December 2019 there were several litigation cases taken against the Group. In the opinion of management, there is a probability that the Group may lose certain cases, in respect of which management has recognised provisions for court cases as at 31 December 2019 in the amount of HRK 201 million (31 December 2018: HRK 85 million) for the Group and HRK 179 million (31 December 2018: HRK 54 million), for the Bank, respectively.

The Bank and seven other large Croatian banks were jointly sued by the plaintiff CONSUMER - Croatian Union of the Consumer Protection Associations, which claimed that the defendants engaged in an unfair practice by allegedly using unfair contractual provisions on variable interest rate changed unilaterally by the banks and by linking payments in local currency to Swiss franc, without (allegedly) appropriately informing the consumers of all the risks prior to entering into a loan agreement. In September 2019 the Supreme Court of the Republic of Croatia rendered a ruling in the collective action proceedings, rejecting the appeals on points of law filed by the sued banks against the High Commercial Court ruling from 2018 and confirming the position of courts of lower instance that banks had breached collective interests and rights of consumers by incorporating unfair and null and void provisions on CHF currency clause.

The opinion of the Bank's legal counsel is that the claim does not have meritorious grounds and the Bank filed an appeal against the decision reached by the Supreme Court of the Republic of Croatia and is awaiting for a hearing at the Constitutional Court.

In connection with the mentioned proceedings for the protection of collective interests of consumers, numerous individual proceedings have been brought by clients against the Bank despite the fact that most of them voluntarily accepted the offer to convert their CHF loans into EUR denominated loans retroactively in line with the Act on the Amendments to the Consumer Credit Act (Official Gazette 102/2015).

Notes to the financial statements (continued)

38 Provisions (continued)

a) Provisions for liabilities and charges (continued)

In 2019 the number of such individual lawsuits filed against the Bank increased to low single digit thousands. It cannot be excluded the possibility that additional lawsuits might be filed against the Bank in the future in connection with CHF loans.

The management of the Bank is reasonably confident that the amount of provisions recognized as at 31 December 2019 is adequate – according to available information - to meet the obligations arising from the claims filed so far. The evolution of the overall matter is anyhow carefully monitored in order to take appropriate initiatives, if necessary, in consistence with any future developments.

Notes to the financial statements (continued)

38 Provisions (continued)

b) Retirement benefit obligation

(in HRK million)

Group	Retirement benefit obligations
Balance as at 1 January 2019	**22**
Net charge in the income statement	1
Provisions used during the year	(1)
Balance as at 31 December 2019	**22**
Balance as at 1 January 2018	**32**
Net charge in the income statement	2
Provisions used during the year	(2)
Actuarial losses	(10)
Balance as at 31 December 2018	**22**

The defined benefit scheme liabilities are measured on an actuarial basis using the projected unit credit method, which measures actuarial liabilities in accordance with the expected wage/salary increase from the valuation date until the foreseen retirement of the employed person. The wage/salary increase comprises promotion and inflation-related rise. Under IAS 19, the calculated current scheme liabilities are discounted using the rates equivalent to the market yields at the balance-sheet date on high quality corporate bonds that are denominated in the currency in which the benefits will be paid by the employer. For the calculation of actuarial gains and losses, the following assumptions have been used:

- The discount rate of 0.9% (2018: 1.88%), and
- Future salary increases of 2.5% p.a. from 2019 onwards (2018: 2.5%).

Notes to the financial statements (continued)

39 Contingent liabilities and commitments

Credit-related contingencies and commitments

Credit-related contingencies and commitments arise from various banking products, the primary purpose of which is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans and advances. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw funds on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly lower risk. Management has assessed that a provision of HRK 234 million for the Group and HRK 209 million for the Bank (2018: HRK 337 million and HRK 296 million respectively) is sufficient to cover risks due to the default of the respective counterparties (refer to Note 48a).

The aggregate amounts of outstanding guarantees, letters of credit and other commitments at the end of the year were as follows:

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Undrawn lending commitments	15,847	15,077	12,646	11,103
Performance guarantees	2,550	2,699	1,757	2,149
Kuna payment guarantees	409	633	408	633
Foreign currency payment guarantees	1,866	1,658	1,198	761
Foreign currency letters of credit	65	89	60	65
Other contingent liabilities	-	1	1	1
	20,737	**20,157**	**16,070**	**14,712**

Notes to the financial statements (continued)

39 Contingent liabilities and commitments (continued)

Credit-related contingencies and commitments (continued)

Long-term commitments as lessees

On 31 December 2018 the Group and the Bank had long-term commitments as lessees in respect of rent for business premises, motor vehicles, hardware and other equipment lease agreements. The future minimum commitments for each type of lease are presented in the tables bellow:

(in HRK million)

Group	Within 1 year	1 to 5 years	Over 5 years	Total
Real estate	51	150	60	**261**
Hardware	31	51	7	**89**
Motor vehicles	3	8	-	**11**
Other	15	26	-	**41**
	100	**235**	**67**	**402**

(in HRK million)

Bank	Within 1 year	1 to 5 years	Over 5 years	Total
Real estate	58	194	124	**376**
Hardware	15	49	7	**71**
Motor vehicles	3	7	-	**10**
Other	10	21	-	**31**
	86	**271**	**131**	**488**

Notes to the financial statements (continued)

40 Share capital

a) Issued share capital

Issued share capital as at 31 December 2019 amounted to HRK 1,907 million (31 December 2018: HRK 1,907 million). The total number of authorised registered shares at 31 December 2019 was 19,074,769 (2018: 19,074,769) with a nominal value of HRK 100 per share (2018: HRK 100 per share). The parent company of the Bank is Intesa Sanpaolo Holding International and the ultimate controlling party is Intesa Sanpaolo S.p.A.

The ownership structure as at 31 December 2019 and 31 December 2018 was as follows:

	REGISTERED SHARES			
	31 December 2019		31 December 2018	
	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership
Intesa Sanpaolo Holding International	18,591,522	97.5%	18,591,522	97.5%
Non-controlling shareholders	418,614	2.2%	418,614	2.2%
Treasury shares	64,633	0.3%	64,633	0.3%
	19,074,769	**100.0%**	**19,074,769**	**100.0%**

Each share has an equal proportion in the share capital of the Bank and its participating value in the share capital as well. The proportion of each share in the share capital of the Bank is determined on the basis of the number of the issued shares.

The Bank's shares are listed on the Zagreb Stock Exchange. As at 31 December 2019 the share price of the Bank's ordinary shares quoted on the Zagreb Stock Exchange was HRK 825 (31 December 2018: HRK 725).

On 31 December 2019, member of the Management Board Mr Ivan Gerovac held 120 shares (31 December 2018: 120), member of the Management Board Mr Draženko Kopljar held 108 shares (31 December 2018: 108) and member of the Management Board Mr Ivan Krolo held 100 shares.

b) Share premium

The Bank recognises share premium in an amount of HRK 1,570 million (31 December 2018: HRK 1,570 million) representing the excess of the paid-in amount over the nominal value of the issued shares.

c) Treasury shares

There were no movements of treasury shares were during 2019 and 2018.

d) Own shares held as collateral

The Bank holds 2,405 (31 December 2018: 2,508) of its own shares as collateral for loans to third parties.

e) Other reserves

Other reserves comprise legal, capital gains and treasury shares reserves.

Legal reserve

As required by the Companies Act, companies in Croatia are required to appropriate 5% of their annual net profit into legal reserves until they, together with capital reserves, reach 5% of issued share capital.

Capital gains

Capital gain is a result of transactions with treasury shares of the Bank in previous periods.

Notes to the financial statements (continued)

40 Share capital (continued)

e) Other reserves (continued)

Treasury share reserve

During 2019 and 2018 the Bank did not purchase any treasury shares on the open market for its own purposes.

Translation reserves

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign subsidiaries. As at 31 December 2019 translation reserve amounted to HRK 47 million (2018: HRK 55 million) for the Group.

Other revaluation reserves

Other revaluation reserves include valuation reserve of tangible assets due to the change in the accounting criteria in the year 2017 for the disclosure and measurement of functional and investment property. The valuation reserve of tangible assets in 2019 amounts to HRK 198 million for the Group (2018: HRK 208 million) and HRK 92 million for the Bank (2018: HRK 96 million).

Other reserves

The amount of other reserves for the Group includes Statutory reserves of Intesa Sanpaolo bank dd Slovenia which the Intesa Sanpaolo Bank dd Slovenia according to its Statute, creates until they achieve an amount which is fifteen times that of the Bank's registered capital stock. In each financial year, a part of the net profit that remained after any losses carried forward, legal reserves and reserves for own shares have been covered is allocated to statutory reserve.

f) Fair value reserve

Fair value reserve includes unrealised gains and losses on changes in the fair value of financial assets measured at fair value through other comprehensive income, net of income tax.

g) Retained earnings

Retained profits are generally available to shareholders, subject to their approval.

The amount of dividends distributed to equity holders during 2019 in respect of 2018 is HRK 72,58 (2018 in respect of 2017: HRK 15,19) per share.

h) Merger reserve

Merger reserve is a reserve arising from common control transaction and includes any difference between the consideration paid and the share capital of the acquirees.

i) Non-controlling interest

NCI are measured initially at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition. NCI in the amount of HRK 1,103 million (2018: HRK 1,034 million) relate to Banka Intesa Sanpaolo Slovenia and Intesa Sanpaolo Banka Bosnia and Herzegovina.

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Notes to the financial statements (continued)

41 Cash and cash equivalents

The table below presents an analysis of cash and cash equivalents for the purposes of the cash flows statement:

(in HRK million)

		GROUP		BANK	
	Note	2019	2018	2019	2018
Cash and current accounts with banks	19	20,642	18,441	16,873	14,179
Loans and advances to banks with maturity of up to 90 days		5,592	4,398	4,534	4,421
		26,234	**22,839**	**21,407**	**18,600**

42 Managed funds for and on behalf of third parties

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Assets under custody - investment funds	12,586	9,046	5,724	3,499
Assets under custody	5,413	5,984	5,413	5,984
Assets under portfolio management	486	1,095	212	815
	18,485	**16,125**	**11,349**	**10,298**

The Group and the Bank provide custody services to banks and customers, including investment and pension funds. These assets are accounted for separately from those of the Group and kept off-balance sheet. The Group is compensated for its services by fees chargeable to the clients.

Funds under management in the obligatory pension fund managed by the Bank's associate PBZ Croatia osiguranje dd amount to HRK 19,127 million as at 31 December 2019 (31 December 2018: HRK 16,334 million). These funds are held by a custody bank which is not a member of the Group.

Notes to the financial statements (continued)

43 Leases

a) Leases as lessor

PBZ Leasing doo and Banka Intesa Sanpaolo d.d., both members of the PBZ Group, are engaged in providing finance and operating lease arrangements to its clients of various items of vehicles, vessels, real estate and equipment in its capacity of a lessor. Net investment in finance leases as at 31 December 2019 amounted to HRK 1,300 million (31 December 2018: HRK 1,112 million) which is included within loans and advances to customers (Note 26) in the Group financial statements.

The carrying value of leased property and equipment under operating lease as at 31 December 2019 amounted to HRK 352 million (31 December 2018: HRK 363 million) and are classified within property and equipment (Note 29).

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are set out below:

Finance leases under IFRS 16

(in HRK million)

	2019
Less than one year	528
Between one and two years	299
Between two and three years	215
Between three and four years	140
Between four and five years	76
More than five years	127
Gross investment in finance lease	**1,385**
Unearned finance income	(85)
Net investment in finance leasee	**1,300**

(in HRK million)

	Minimum payments	Present value of payments
	2018	2018
Less than one year	465	424
Between one and five years	735	666
More than five years	161	137
Gross investment in finance lease	**1,361**	**1,227**
Unearned finance income	(134)	-
	1,227	**1,227**
Less: Impairment allowance	(115)	(115)
Net investment in finance lease	**1,112**	**1,112**

Notes to the financial statements (continued)

43 Leases (continued)

a) Leases as lessor (continued)

Operating leases under IFRS 16

	(in HRK million)
	2019
Less than one year	39
Between one and two years	35
Between two and three years	29
Between three and four years	20
Between four and five years	16
More than five years	58
Total	**197**

Future minimum lease payments at undiscounted amounts under non-cancellable operating leases where the Group is the lessor are as follows:

	(in HRK million)
	2018
Less than one year	34
Between one and five years	84
More than five years	36
	154

The above is for illustrative purposes considering there are no non-cancellable leases.

Notes to the financial statements (continued)

43 Leases (continued)

b) Leases as lessee

The Group and the Bank leases a number of office premises. The leases typically run for a period of 3 to five years with the option to renew the lease after that time.

The Group and the Bank also lease IT equipment. These leases are short-term and/or leases of low value items. The Group and the Bank have elected not to recognize Right of use assets and Lease liabilities for these leases.

Information about leases for which the Group and the Bank are leasee is presented bellow:

Right-of-use

(in HRK million)

Group	Land and buildings	Furniture and other equip-ment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	Total
Balance at 1 January 2019	**212**	**3**	**11**	**58**	**-**	**284**
Depreciation charge of the year	(59)	(2)	(3)	(13)	-	**(77)**
Additions	36	-	5	30	-	**71**
Disposals	(7)	-	-	(5)	-	**(12)**
Balance at 31 December 2019	**182**	**1**	**13**	**70**	**-**	**266**

(in HRK million)

Bank	Land and buildings	Furniture and other equip-ment	Motor vehicles	Computer equipment	Assets ac-quired but not brought into use	Total
Balance at 1 January 2019	**270**	**3**	**7**	**58**	**-**	**338**
Depreciation charge of the year	(44)	(1)	(2)	(13)	-	**(60)**
Additions	16	-	1	30	-	**47**
Disposals	(7)	-	-	(5)	-	**(12)**
Balance at 31 December 2019	**235**	**2**	**6**	**70**	**-**	**313**

Notes to the financial statements (continued)

43 Leases (continued)

b) Leases as lessee

Maturity analysis - Contractual undiscounted cash flows

(in HRK million)

Group	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	Total
Less than one year	44	-	7	15	-	**66**
Between one and five years	123	1	12	47	-	**183**
More than five years	33	-	-	11	-	**44**
Balance at 31 December 2019	**200**	**1**	**19**	**73**	**-**	**293**

(in HRK million)

Bank	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	Total
Less than one year	47	1	5	15	-	**68**
Between one and five years	142	1	10	47	-	**200**
More than five years	77	-	-	11	-	**88**
Balance at 31 December 2019	**266**	**2**	**15**	**73**	**-**	**356**

Notes to the financial statements (continued)

43 Leases (continued)

b) Leases as lessee

Amounts recognised in profit or loss

- under IFRS 16

(in HRK million)

Group	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	Total
Interest on lease liabilities	2	-	-	2	-	**4**
Expenses relating to short-term leases	7	2	-	-	-	**9**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	8	10	-	-	-	**18**
For the period 1 January till 31 December 2019	**17**	**12**	**-**	**2**	**-**	**31**

(in HRK million)

Bank	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	Total
Interest on lease liabilities	7	-	-	2	-	**9**
Expenses relating to short-term leases	5	2	-	-	-	**7**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	8	-	-	-	-	**8**
For the period 1 January till 31 December 2019	**20**	**2**	**-**	**2**	**-**	**24**

Notes to the financial statements (continued)

43 Leases (continued)

b) Leases as lessee

- under IAS 17

(in HRK million)

Group	Land and buildings	Furniture and other equip-ment	Motor vehicles	Com-puter equip-ment	Assets acquired but not brought into use	Total
Lease expense	51	7	-	-	-	**58**
Contingent rent expense	-	-	-	-	-	-
Balance at 31 December 2018	**51**	**7**	**-**	**-**	**-**	**58**

(in HRK million)

Bank	Land and buildings	Furniture and other equip-ment	Motor vehicles	Com-puter equip-ment	Assets acquired but not brought into use	Total
Lease expense	72	-	-	-	-	**72**
Contingent rent expense	-	-	-	-	-	-
Balance at 31 December 2018	**72**	**-**	**-**	**-**	**-**	**72**

Notes to the financial statements (continued)

44 Related party transactions

The parent company of Privredna banka Zagreb d.d. and its subsidiaries is Intesa Sanpaolo Holding International which holds 97.5% of the Bank's share capital as at 31 December 2019 (97.5% as at 31 December 2018). The ultimate controlling party is Intesa Sanpaolo S.p.A. a bank incorporated in Italy. The remaining shareholders are shareholders of publicly held shares (2.2%).

The Bank considers that it has an immediate related party relationship with: its ultimate parent and its affiliates; other key shareholders and their affiliates; its subsidiaries and associates and the pension fund managed by its associate, PBZ Croatia osiguranje d.d.; Supervisory Board members, Management Board members and other executive management (together "key management personnel"), in accordance with the International Accounting standard 24 "Related party Disclosures" ("IAS 24"). The Bank grants loans to or places deposits with related parties in the ordinary course of business.

Notes to the financial statements (continued)

44 Related party transactions (continued)

The volumes of related party transactions during the year and outstanding balances at the year-end were as follows:

(in HRK million)

Group	Key management personnel	Ultimate controlling party - Intesa Sanpaolo S.p.A	Associates	Other shareholders and their affiliates and affiliates of ultimate controlling party
Deposits and loans given				
Balance at 1 January 2019	**10**	**503**	**-**	**63**
Changes during the year	1	83	-	144
Balance at 31 December 2019	**11**	**586**	**-**	**207**
Interest income for the year ended 31 December 2019	**-**	**-**	**-**	**-**
Interest income for the year ended 31 December 2018	-	2	-	-
Deposits and loans received				
Balance at 1 January 2019	**37**	**334**	**91**	**735**
Changes during the year	8	981	(30)	(529)
Balance at 31 December 2019	**45**	**1,315**	**61**	**206**
Interest expense for the year ended 31 December 2019	**-**	**-**	**-**	**-**
Interest expense for the year ended 31 December 2018	-	5	-	4
Contingent liabilities and commitments at 31 December 2019	**-**	**97**	**-**	**-**
Contingent liabilities and commitments at 31 December 2018	1	178	-	2
Fees and other income for the year ended 31 December 2019	**-**	**2**	**14**	**7**
Fees and other income for the year ended 31 December 2018	-	14	15	54
Fees and other expense for the year ended 31 December 2019	**-**	**(19)**	**-**	**(1)**
Fees and other expense for the year ended 31 December 2018	-	(7)	-	(15)

Notes to the financial statements (continued)

44 Related party transactions (continued)

(in HRK million)

Bank	Key management personnel	Bank's subsidiaries	Ultimate controlling party - Intesa Sanpaolo S.p.A	Associates	Other shareholders and their affiliates and affiliates of ultimate controlling party
Deposits and loans given					
Balance at 1 January 2019	**8**	**794**	**13**	**-**	**27**
Changes during the year	1	(174)	(10)	-	14
Balance at 31 December 2019	**9**	**620**	**3**	**-**	**41**
Interest income for the year ended 31 December 2019	**-**	**13**	**-**	**-**	**-**
Interest income for the year ended 31 December 2018	-	11	-	-	-
Deposits and loans received					
Balance at 1 January 2019	**28**	**447**	**13**	**91**	**541**
Changes during the year	2	763	-	(30)	(537)
Balance at 31 December 2019	**30**	**1,210**	**13**	**61**	**4**
Interest expense for the year ended 31 December 2019	**-**	**(10)**	**-**	**-**	**-**
Interest expense for the year ended 31 December 2018	-	(4)	-	-	-
Contingent liabilities and commitments at 31 December 2019	**-**	**191**	**97**	**-**	**-**
Contingent liabilities and commitments at 31 December 2018	1	62	111	-	-
Lease expense for the year ended 31 December 2019	**-**	**(2)**	**-**	**-**	**-**
Lease expense for the year ended 31 December 2018	-	(25)	-	-	-
Fees and other income for the year ended 31 December 2019	**-**	**876**	**1**	**14**	**7**
Fees and other income for the year ended 31 December 2018	-	145	13	15	53
Fees and other expense for the year ended 31 December 2019	**-**	**(16)**	**(18)**	**-**	**(1)**
Fees and other expense for the year ended 31 December 2018	-	(31)	(5)	-	(15)

No provisions were recognised in respect of deposits and loans given to related parties as at 31 December 2019 (31 December 2018: nil).

Notes to the financial statements (continued)

44 Related party transactions (continued)

Annual key management remuneration:

	BANK 2019	BANK 2018
	(in HRK million)	
Short-term benefits	**61**	**34**
- salaries paid for the current year	61	34
Long-term benefits	**16**	**9**
- paid during the current year in respect of earlier years	16	9
	77	**43**

Key management personnel include Management Board and senior executive directors as well as executive directors responsible for areas of strategic relevance. The total number of key management personnel of the Group as at 31 December 2019 was 55 (31 December 2018: 31).

Bonuses in 2019 were mostly paid in cash, while for 6 Risk takers bonuses also included share allocations on a deferred basis.

Share-based payments

In July 2012, the Board of Directors of Intesa Sanpaolo S.p.A. launched a long-term scheme, in favour of 3 executives holding key positions in the Group, aimed at achieving business plan objectives and increasing the value of the Intesa Sanpaolo Group.

This scheme entitles the key executives to a cash payment, based on the price of Intesa Sanpaolo S.p.A. shares, if certain performance conditions are fulfilled. The fair value of services received from key executives is measured by reference to the fair value of the instrument granted which is based on the quoted market prices of Intesa Sanpaolo S.p.A. shares.

	Number of instruments held (in units)		The carrying amount of liabilities for cash-settled arrangements (in HRK million)	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Awards granted	226,647	272,702	4	5

Notes to the financial statements (continued)

45 Capital

The Bank maintains an actively managed capital base to cover risks in the business. The adequacy of the Bank's capital is monitored using among other measures, the rules and ratios established by the Regulation of the European parliament on prudential requirements for credit institutions (hereafter: CRR) and Croatian National Bank in supervising the Bank.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue capital securities.

For the purposes of capital adequacy computation the Bank choose to adopt the 'static approach' which allows the bank to gradually include IFRS 9 impact in the common capital calculation as follows 5% in 2018, 15% in 2019, 30% in 2020, 50% in 2021 and 75% in 2022.

Regulatory capital and capital ratios according to EBA requirements and CNB national discretions, calculated for the Bank only (as of the date of issuance of these financial statements information on regulatory capital and risk-weighted assets and other risk elements is unaudited), are as follows:

Regulatory capital (unaudited)

(in HRK million)

	BANK	
	2019	2018
Issued share capital	1,907	1,907
Share premium	1,570	1,570
Treasury shares (net of share premium on treasury shares)	(18)	(18)
Retained earnings (excluding profit for the period)	8,944	8,939
Profit for the period, decreased by proposed dividend	-	-
Accumulated other comprehensive income	161	156
Other reserves	140	140
Deductions in accordance with EBA regulations	236	396
Common Equity Tier 1 capital (unaudited)	**12,940**	**13,090**
Additional Tier 1	-	-
Tier 1 capital	**12,940**	**13,090**
Tier 2 capital	-	-
Total regulatory capital (unaudited)	**12,940**	**13,090**
Risk weighted assets and other risk elements (unaudited)	**49,634**	**53,209**
Common Equity Tier 1 capital ratio (unaudited)	26.07%	24.60%
Tier 1 (unaudited)	26.07%	24.60%
Total capital ratio (unaudited)	26.07%	24.60%

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Investment securities measured at fair value through other comprehensive income are generally measured at fair value with the exception of some equity investments which are carried at cost less impairment given that their fair value cannot be reliably measured.

a) Financial instruments measured at fair value and fair value hierarchy

The determination of fair value of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and for this reason, when calculating the fair value of a financial asset or liability all material risks that affect them must be identified and taken into consideration.

When measuring fair values, the Bank takes into account the IFRS fair value hierarchy that reflects the significance of the inputs used in making the measurement. Each instrument is individually evaluated. The levels are determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The financial instruments carried at fair value have been categorised under the three levels of the IFRS fair value hierarchy as follows:

Level 1: Instruments valued using quoted (unadjusted) prices in active markets for identical assets or liabilities; these are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets.

- These instruments include: liquid debt and equity securities traded on liquid markets, and quoted units in investment funds.

Level 2: Instruments valued using valuation techniques using observable market data. These are instruments where the fair value can be determined by reference to similar instruments trading in active markets, or where a technique is used to derive the valuation but where all inputs to that technique are observable.

- These instruments include: less-liquid debt, equity securities and derivatives valued by a model which uses Level 1 inputs.

Level 3: Instruments valued using valuation techniques using market data which is not directly observable: these are instruments where the fair value cannot be determined directly by reference to market-observable information, and some other pricing technique must be employed. Instruments classified in this category have an element which is unobservable and which has a significant impact on the fair value.

- These instruments include: illiquid debt securities and illiquid equity securities.

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

The following table presents an analysis of financial instruments carried at fair value by the level of hierarchy:

(in HRK million)

Group	2019				2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivative assets	-	18	-	**18**	-	10	-	**10**
Trading assets								
Government bonds	1,416	-	-	**1,416**	828	-	-	**828**
Total	**1,416**	**-**	**-**	**1,416**	**828**	**-**	**-**	**828**
Investment securities								
Government bonds and treasury bills	2,922	7,398	-	**10,320**	3,296	6,263	-	**9,559**
Bank's bonds	-	325	-	**325**	-	236	-	**236**
Equities	95	112	28	**235**	99	89	34	**222**
Total	**3,017**	**7,835**	**28**	**10,880**	**3,395**	**6,588**	**34**	**10,017**
Financial assets	**4,433**	**7,853**	**28**	**12,314**	**4,223**	**6,598**	**34**	**10,855**
Derivative financial liabilities	-	144	-	**144**	-	34	-	**34**
Financial liabilities	**-**	**144**	**-**	**144**	**-**	**34**	**-**	**34**

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

(in HRK million)

Bank	2019				2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivative assets	-	6	-	**6**	-	1	-	**1**
Trading assets								
Government bonds	1,416	-	-	**1,416**	828	-	-	**828**
Equities	-	-	-	**-**	-	-	-	**-**
Total	**1,416**	**-**	**-**	**1,416**	**828**	**-**	**-**	**828**
Investment securities								
Government bonds and treasury bills	1,045	7,028	-	**8,073**	895	5,850	-	**6,745**
Equities	17	76	21	**114**	18	59	21	**98**
Total	**1,062**	**7,104**	**21**	**8,187**	**913**	**5,909**	**21**	**6,843**
Financial assets	**2,478**	**7,110**	**21**	**9,609**	**1,741**	**5,910**	**21**	**7,672**
Derivative financial liabilities	-	2	-	**2**	-	4	-	**4**
Financial liabilities	**-**	**2**	**-**	**2**	**-**	**4**	**-**	**4**

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

During 2019, no transfers from Level 1 to Level 2 or from Level 2 to Level 1 occurred, as there were no changes to the methodology used in determining levels of the fair value hierarchy, while the market activity of financial instruments in the Group's portfolios remained unchanged.

The existence of published prices quotations in an active market is the best evidence of fair value and these quoted prices (Effective Market Quotes) shall therefore be used as the primary method for measuring financial assets and liabilities in the trading portfolio. If the market for a financial instrument is not active, the Group determines the fair value by using a valuation technique. Valuation techniques include:

- using market values which are indirectly connected to the instrument being measured, deriving from products with similar risk characteristics (Comparable Approach);

- valuations conducted using (even only in part) inputs not deriving from parameters observable on the market, for which estimates and assumptions formulated by the assessor are used (Mark-to-Model).

Given the uncertainties of the domestic market, primarily characterised by low liquidity where market conditions do not show active trading but rather inactive, the Group primarily uses valuation techniques based on the following principles:

- Used yield curves are created from interest rate quotations observed on the market;

- An appropriate yield curve (the one that is associated with the same currency in which the security, whose price is modelled, is denominated) is used in discounting of all the security's cash flows in order to determine its present value;

- In determining the fair value of bonds issued by corporate issuers and municipality bonds, the Group additionally uses the spreads associated with the internal credit rating of the issuer, which is then added to the yield curve for valuation thus capturing credit risk and various other counterparty related risks. Estimates for unobservable input was 3.9%. Significant increases in those inputs would result in lower fair values, while significant reduction would result in higher fair values. Considering the relatively small size of the financial instruments classified as Level 3, changing one or more of the assumptions would have insignificant effects on the overall financial statements.

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

The following table presents a reconciliation from the beginning balances to the ending balances from fair value measurements in Level 3 of the fair value hierarchy.

(in HRK million)

	GROUP		BANK	
	Investment securities	Equities	Investment securities	Equities
Balance at 1 January 2019	**-**	**34**	**-**	**21**
Total gains or losses:	-	3	-	-
in profit or loss	-	*3*	-	-
in OCI	-	-	-	-
Purchases	-	-	-	-
Sale	-	(9)	-	-
Settlements	-	-	-	-
Transfer out of Level 3	-	-	-	-
Balance at 31 December 2019	**-**	**28**	**-**	**21**

(in HRK million)

	GROUP		BANK	
	Investment securities	Equities	Investment securities	Equities
Balance at 1 January 2018	**-**	**100**	**-**	**64**
Total gains or losses:	-	-	-	-
in profit or loss	-	-	-	-
in OCI	-	-	-	-
Purchases	-	-	-	-
Sale	-	-	-	-
Settlements	-	-	-	-
Transfer in to Level 3	-	(66)	-	(43)
Balance at 31 December 2018	**-**	**34**	**-**	**21**

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

b) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value for the Group and the Bank and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

(in HRK million)

Group	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2019					
Assets					
Cash and current accounts with banks	-	-	20,642	**20,642**	**20,642**
Balances with CNB	-	-	4,901	**4,901**	**4,901**
Loans and advances to banks	-	-	6,184	**6,184**	**6,184**
Loans and advances to customers	-	-	71,536	**71,536**	**70,559**
Investment securities measured at amortised cost	-	-	536	**536**	**537**
Liabilities					
Current accounts and deposits from banks	-	1,797	-	**1,797**	**1,797**
Current accounts and deposits from customers	-	89,989	-	**89,989**	**89,876**
Interest-bearing borrowings and other financial liabilities	-	5,524	-	**5,524**	**5,443**
31 December 2018					
Assets					
Cash and current accounts with banks	-	-	18,441	**18,441**	**18,441**
Balances with CNB	-	-	4,698	**4,698**	**4,698**
Loans and advances to banks	-	-	8,153	**8,153**	**8,153**
Loans and advances to customers	-	-	65,778	**65,778**	**66,891**
Investment securities measured at amortised cost	-	-	543	**543**	**540**
Liabilities					
Current accounts and deposits from banks	-	1,856	-	**1,856**	**1,856**
Current accounts and deposits from customers	-	84,967	-	**84,967**	**85,938**
Interest-bearing borrowings and other financial liabilities	-	4,144	-	**4,144**	**4,176**

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

b) Financial instruments not measured at fair value (continued)

(in HRK million)

Bank	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2019					
Assets					
Cash and current accounts with banks	-	-	16,873	**16,873**	**16,873**
Balances with CNB	-	-	4,901	**4,901**	**4,901**
Loans and advances to banks	-	-	4,819	**4,819**	**4,819**
Loans and advances to customers	-	-	48,093	**48,093**	**47,188**
Investment securities measured at amortised cost	-	-	504	**504**	**505**
Liabilities					
Current accounts and deposits from banks	-	1,677	-	**1,677**	**1,677**
Current accounts and deposits from customers	-	65,982	-	**65,982**	**65,890**
Interest-bearing borrowings and other financial liabilities	-	3,609	-	**3,609**	**3,535**
31 December 2018					
Assets					
Cash and current accounts with banks	-	-	14,179	**14,179**	**14,179**
Balances with CNB	-	-	4,698	**4,698**	**4,698**
Loans and advances to banks	-	-	7,059	**7,059**	**7,058**
Loans and advances to customers	-	-	44,528	**44,528**	**45,611**
Investment securities measured at amortised cost	-	-	534	**534**	**531**
Liabilities					
Current accounts and deposits from banks	-	1,480	-	**1,480**	**1,480**
Current accounts and deposits from customers	-	62,097	-	**62,097**	**63,042**
Interest-bearing borrowings and other financial liabilities	-	3,024	-	**3,024**	**3,047**

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

b) Financial instruments not measured at fair value (continued)

The following methods and assumptions have been made in estimating the fair value of financial instruments:

- There are no significant differences between carrying value and fair value of cash and current accounts with banks and balances with the Croatian National Bank given the short maturity of such assets.
- Loans and advances to banks and customers are presented net of impairment allowance. The estimated fair value of loans and advances represents the discounted amount of the estimated future cash flows expected to be received. Expected future cash flows are discounted at current market rates. Valuation of performing and non-performing loans includes estimation and is therefore classified as Level 3 in fair value hierarchy. Expected future impairment losses are not taken into account. The fair value of debt securities classified as loans and receivables, representing Croatian Government bonds, is measured using valuation techniques based on the yield curves created from interest rate quotations observed on the market and are consequently classified as Level 2 in the fair value hierarchy, while fair value of other debt securities classified as loans and receivables is measured using spreads associated with internal credit ratings of the issuers and these securities are classified as Level 3 in the fair value hierarchy.
- The estimated fair value of fixed-interest term deposits is based on the expected cash flows discounted using current market rates. For demand deposits and deposits with no defined maturity, the fair value is determined to be the amount payable on demand. The value of customer relationships has not been taken into account. Deposits and loans received are classified as Level 2 in the fair value hierarchy since the parameters used in valuation are market observable.
- The majority of interest-bearing borrowings carry floating interest rates which are linked to market and repriced regularly. As such, the management believes that their carrying values approximate their fair values.

Notes to the financial statements (continued)

47 Financial information by segment

The following tables present information on the Group’s result of each reportable business segment.

The segment reporting format is based on business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic segment unit that offers different products and serve different markets. Intersegment income and expenses are based on current market prices.

For management purposes, the Bank is organised into 3 operating segments based on products and services accompanied with a central supporting structure. This segmentation follows the organisational structure as reflected in internal management reporting systems, which are the basis for assessing the financial performance of the business segments and for allocating resources to the business segments.

Retail banking: Individual customers' savings and deposits, current accounts and overdrafts, all types of consumer loans, credit cards facilities and other facilities to individual customers

Corporate banking: Loans and other credit facilities as well as deposit and current accounts for corporate and institutional customers including medium-term funding, public sector, government agencies and municipalities as well as small and medium sized enterprises

Finance banking: Treasury operations as well as investment banking services including corporate finance, merger and acquisition services and trading

Central structure: All other residual activities, including fund management activities

Furthermore, the management of the Bank monitors performance of its subsidiaries on an individual basis. However, for the purpose of presentation of the operating segments, Intesa Sanpaolo Banka dd and Banka Intesa Sanpaolo Slovenia are included in the operating segments, other subsidiaries have been grouped into one segment with the exception of PBZ Card that is presented separately. In that context, the following tables present overall financial information for the Bank and the Group by segment.

Items of the income statement in the presented tables on segment information for the Bank and the Group are generally in the format and of classification criteria suited for management reporting purposes. Therefore, the disclosed segments have been reconciled to the financial statements prepared in accordance with IFRS. This reconciliation also includes consolidation adjustments in the Group segment report. Segment assets and segment liabilities for management reporting purpose are stated gross of provisions and other allowances unlike the disclosure criteria in the financial statements where assets and liabilities are presented net of provisions, deferred fees and other tax and non-tax allowances. In that context, reconciliation to the financial statements has reflected such offsetting.

Notes to the financial statements (continued)

47 Financial information by segment (continued)

Information about business segments

(in HRK million)

Group	Corporate banking	Retail banking	Finance banking	Central Structure	PBZ Card	Other sub-sidiaries	Managerial financial statements	Reconcilia-tion to fi-nancial statements	Financial statements
As of and for the year ended 31 December 2019									
Net interest income	806	1,695	151	101	17	43	**2,813**	-	**2,813**
Net commission income/(expense)	416	600	3	2	566	17	**1,604**	(61)	**1,543**
Net profit/(loss) from trading and dividend and other operating income	86	107	105	32	(176)	65	**219**	345	**564**
Operating income	**1,308**	**2,402**	**259**	**135**	**407**	**125**	**4,636**	**284**	**4,920**
Operating expenses	(413)	(1,066)	(52)	(261)	(138)	(56)	**(1,986)**	(431)	**(2,417)**
Operating profit	**895**	**1,336**	**207**	**(126)**	**269**	**69**	**2,650**	**(147)**	**2,503**
Impairments and provisions	(95)	(61)	(5)	(145)	(65)	15	**(356)**	(39)	**(395)**
Profit before tax	**800**	**1,275**	**202**	**(271)**	**204**	**84**	**2,294**	**(186)**	**2,108**
Total segment assets	**34,446**	**36,614**	**38,788**	**9,267**	**2,314**	**2,322**	**123,751**	**(5,834)**	**117,917**
Total segment liabilities	**33,536**	**61,601**	**3,414**	**4,240**	**1,646**	**1,910**	**106,347**	**(5,852)**	**100,495**
Capital expenditure	4	25	-	85	2	14	**130**	-	**130**

Notes to the financial statements (continued)

47 Financial information by segment (continued)

Information about business segments (continued)

(in HRK million)

Group	Corporate banking	Retail banking	Finance banking	Central Structure	PBZ Card	Other sub-sidiaries	Managerial financial statements	Reconcilia-tion to fi-nancial statements	Financial statements
As of and for the year ended 31 December 2018									
Net interest income	843	1,587	(106)	422	22	45	**2,813**	-	**2,813**
Net commission income/(expense)	434	560	-	2	560	16	**1,572**	(54)	**1,518**
Net profit/(loss) from trading and dividend and other operating income	55	97	118	36	(179)	72	**199**	329	**528**
Operating income	**1,332**	**2,244**	**12**	**460**	**403**	**133**	**4,584**	**275**	**4,859**
Operating expenses	(417)	(1,097)	(56)	(256)	(163)	(84)	**(2,073)**	(434)	**(2,507)**
Operating profit	**915**	**1,147**	**(44)**	**204**	**240**	**49**	**2,511**	**(159)**	**2,352**
Impairments and provisions	(379)	(76)	9	62	(64)	(3)	**(451)**	(7)	**(458)**
Profit before tax	**536**	**1,071**	**(35)**	**266**	**176**	**46**	**2,060**	**(166)**	**1,894**
Total segment assets	**30,379**	**34,404**	**38,409**	**10,111**	**2,418**	**2,774**	**118,495**	**(6,409)**	**112,086**
Total segment liabilities	**25,236**	**59,336**	**3,847**	**7,515**	**1,314**	**2,367**	**99,615**	**(4,599)**	**95,016**
Capital expenditure	15	25	3	139	-	19	**201**	-	**201**

Notes to the financial statements (continued)

47 Financial information by segment (continued)

Information about business segments (continued)

(in HRK million)

Bank	Corporate banking	Retail banking	Finance banking	Central Structure	Managerial financial statements	Reconciliation to financial statements	Financial statements
As of and for the year ended 31 December 2019							
Net interest income	574	1,339	175	101	**2,189**	-	**2,189**
Net commission income	333	409	(1)	-	**741**	(64)	**677**
Net profit/(loss) from trading and dividend and other operating income	133	774	98	(7)	**998**	134	**1,132**
Operating income	**1,040**	**2,522**	**272**	**94**	**3,928**	**70**	**3,998**
Operating expenses	(386)	(851)	(43)	(36)	**(1,316)**	(191)	**(1,507)**
Operating profit	**654**	**1,671**	**229**	**58**	**2,612**	**(121)**	**2,491**
Impairments and provisions	(141)	(8)	(3)	(161)	**(313)**	(32)	**(345)**
Profit before tax	**513**	**1,663**	**226**	**(103)**	**2,299**	**(153)**	**2,146**
Total segment assets	**23,076**	**27,600**	**34,162**	**7,273**	**92,111**	**4,673**	**87,440**
Total segment liabilities	**27,803**	**44,960**	**1,761**	**2,925**	**77,449**	**(4,669)**	**72,779**
Capital expenditure	4	25	-	85	**114**	-	**114**

Notes to the financial statements (continued)

47 Financial information by segment (continued)

Information about business segments (continued)

(in HRK million)

Bank	Corporate banking	Retail banking	Finance banking	Central Structure	Managerial financial statements	Reconciliation to financial statements	Financial statements
As of and for the year ended 31 December 2018							
Net interest income	613	1.259	(87)	422	**2,207**	-	**2,207**
Net commission income	361	377	(6)	-	**732**	(54)	**678**
Net profit/(loss) from trading and dividend and other operating income	95	142	55	7	**299**	137	**436**
Operating income	**1,069**	**1,778**	**(38)**	**429**	**3,238**	**83**	**3,321**
Operating expenses	(403)	(883)	(46)	(26)	**(1,358)**	(175)	**(1,533)**
Operating profit	**666**	**895**	**(84)**	**403**	**1,880**	**(92)**	**1,788**
Impairments and provisions	(350)	(4)	-	84	**(270)**	(41)	**(311)**
Profit before tax	**316**	**891**	**(84)**	**487**	**1,610**	**(133)**	**1,477**
Total segment assets	**23,722**	**25,917**	**33,348**	**4,714**	**87,701**	**(4,740)**	**82,961**
Total segment liabilities	**25,317**	**42,688**	**1,659**	**3,887**	**73,551**	**(4,741)**	**68,810**
Capital expenditure	15	25	3	139	**182**	-	**182**

Notes to the financial statements (continued)

47 Financial information by segment (continued)

Geographical segment information

(in HRK million)

	GROUP	
	2019	2018
Operating income	**4,920**	**4,859**
Croatia	4,004	3,953
Slovenia	557	560
Bosnia and Herzegovina	359	346
Non-current assets*	**2,200**	**1,933**
Croatia	1,713	1,515
Slovenia	366	346
Bosnia and Herzegovina	121	72
Capital expenditure	**130**	**201**
Croatia	116	188
Slovenia	8	7
Bosnia and Herzegovina	6	6

* Includes property and equipment, intangible assets, investment property and non current assets held for sale.

Geographical segmentation is based on the domicile of Group subsidiaries.

Notes to the financial statements (continued)

48 Financial risk management policies

This section provides details of the Group's exposure to risks and describes the methods used by the management to identify, measure and manage risks. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and equity price risk.
An integrated system of risk management has been established at the Group level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Group and monitoring their implementation. With particular reference to risk taking preferences, the Group defines its risk appetite through Risk Appetite Framework (RAF), i.e. set of strategic key limits ensuring stability of the Group in the upcoming period and beyond.

Accepted management principles of risk management have been implemented in all subsidiaries.

a) Credit risk

The Group is subject to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group deals with counterparties of good credit standing, and when appropriate, obtains collateral.

The Group's primary credit risk exposure arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the statement of financial position. In addition, the Group is exposed to off-balance-sheet credit risk through commitments to extend credit and guarantees issued – as disclosed in Note 39.

Lending commitments, including those based on guarantees issued by the Group that are contingent upon customers maintaining specific standards (including the solvency position of customers not worsening), represent liabilities that can be revoked. Irrevocable liabilities are based on undrawn but approved loans and approved overdrafts because these liabilities are the result of terms determined by loan contracts.

Guarantees and approved letters of credit that commit the Group to make payments on behalf of customers in the event of a specific act carry the same credit risk as loans. Standby letters of credit, which represent written guarantees of the Group in a client’s name such that a third party can withdraw funds up to the preapproved limit, are covered by collateral, being the goods for which they were issued. The credit risk for this type of product is significantly lower than for direct loans.

Exposure to credit risk has been managed in accordance with the Group's policies and with the regulatory requirements of the Croatian National Bank. Credit exposures to portfolios and individual group exposures are reviewed on a regular basis against the limits set. Breaches are reported to the appropriate bodies and personnel within the Bank authorised to approve them. Any substantial increases in credit exposure are authorised by the Credit Committee. The Credit Risk Governance Committee monitors changes in the credit-worthiness of credit exposures and reviews them for any proposed expected credit losses. Credit risk assessment is continuously monitored and reported, thus enabling an early identification of increase in credit risk or default in the credit portfolio. The Group continually applies prudent methods and models used in the process of credit risk assessment.

The Group is also continuously developing internal models compliant with an internal ratings-based approach (“IRB”), as prescribed by the Capital Requirement Regulation (EU Regulation no, 575/2013) and supplementing legislation, in order to quantify:

- default risk expressed in terms of internal rating which is periodically assigned to corporate and retail customers and quantified as probability of default (PD models);
- loss given default as an estimate of potential losses in the event of default, given the characteristics of the transaction and present collateral (LGD models).

Internal models are deeply embedded into credit processes and underwriting policies where they determine characteristics of the transaction such as lending limit, required collateral and price as well as an appropriate decision level within an internal scheme of delegation of powers. Furthermore, internal models are also used for calculation of an adequate level of internal capital (ICAAP) and within the stress testing framework.

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Maximum exposure to credit risk

The table below presents the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is presented net of impairment allowance before the effect of mitigation through collateral agreements.

(in HRK million)

		GROUP		BANK	
	Notes	2019	2018	2019	2018
Cash and current accounts with banks (excluding cash in hand)	19	17,038	15,223	14,964	12,409
Balances with the Croatian National bank	20	4,901	4,698	4,901	4,698
Financial assets held for trading (excluding equities and investments in funds)	22	1,416	828	1,416	828
Derivative financial assets	23	18	10	6	1
Fair value changes of the hedged items in portfolio hedge of interest rate risk	23	51	9	-	-
Loans and advances to banks	25	6,184	8,153	4,819	7,058
Loans and advances to customers	26	70,565	66,897	47,188	45,611
Investment securities (w/o equities)	21	11,182	10,335	8,578	7,276
Other assets (excluding foreclosed assets and prepaid expenses)	32	82	65	92	27
Total		**111,437**	**106,218**	**81,964**	**77,908**
Contingent liabilities and commitments	39	20,737	20,157	16,070	14,712
Total credit risk exposure		**132,174**	**126,375**	**98,034**	**92,620**

Where financial instruments are recorded at fair value, the amounts presented above represent the credit risk exposure at the reporting date but not the maximum risk exposure that could arise in the future as a result of changes in fair values.

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Collateral held and other credit enhancements

In terms of credit risk mitigation, the Group's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The Group approves a facility if there are two independent and viable repayment sources – cash flows generated by the borrower's activity and security instruments/collateral. The main types of collateral obtained are as follows:

- cash deposit for which the agreement stipulates that the Bank shall have the right to use the cash deposit for debt recovery and that the depositor may not use this deposit until the final settlement of all obligations under the approved facility;
- guarantee of the Government of the Republic of Croatia;
- pledge of securities issued by the Republic of Croatia or the Croatian National Bank;
- irrevocable guarantee or super guarantee issued by a domestic or foreign bank with adequate credit rating with the conditions of "payable on first demand" or "without objections" or similar;
- credit insurance policy issued by the Croatian Bank for Reconstruction and Development;
- credit insurance policy issued by an appropriate insurance company in accordance with the internal regulations of the Bank;
- pledge of units in investment funds managed by PBZ Invest;
- mortgage/lien/fiduciary transfer of ownership of property, movable property or securities of other issuers.

In general, a quality security instrument is an instrument with characteristics that provide a reasonable estimate of the Group's ability to recover its receivables secured by that instrument (in case of its activation), through market or court mechanisms, within a reasonable period of time. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its regular review of the adequacy of the allowance for provision for expected credit losses..

The majority of housing loans are secured by mortgages over residential property. A significant part of the corporate portfolio is secured by mortgages over different types of commercial property.

The Republic of Croatia has in the past issued guarantees for the repayment of loans and advances to qualifying customers in certain key industries which were provided for by the state budget. In addition, the Republic of Croatia has issued guarantees for a certain number of the Bank's loans and off-balance-sheet credit risks.

The support and guarantee of the Republic of Croatia was taken into consideration when determining the level of impairment loss required against loans and off-balance-sheet credit risk exposure to certain entities.

Total Group balance-sheet and off-balance-sheet credit risks guaranteed by the Republic of Croatia or repayable from the state budget amounted to HRK 4,877 million (2018: HRK 4,836 million). Exposure to Croatian municipalities is included in the above analysis. The following table sets out the appraised value of collateral for loans and receivables to customers.

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Collateral held and other credit enhancements (continued)

Analysis by type of collateral for loans and advances to customers at amortized cost

(in HRK million)

Group	2019		2018	
	Net loans	Appraised value of collateral	Net loans	Appraised value of collateral
Residential Real Estate	15,140	31,793	12,975	28,729
Commercial Real Estate	10,613	26,327	10,215	26,804
Other Real Estate	467	1,507	550	1,528
Real Estate	**26,220**	**59,627**	**23,740**	**57,061**
First Rate Guarantees	6,260	6,432	5,788	6,111
Central Government	*5,848*	*6,002*	*5,637*	*5,954*
Local Government	*107*	*121*	*116*	*121*
Banks	*305*	*309*	*35*	*36*
Other Guarantees	1,539	1,754	478	574
Guarantees	**7,799**	**8,186**	**6,266**	**6,685**
Loan Insurance	1,560	1,971	1,183	1,297
Life Insurance	1,496	1,713	1,835	2,047
Deposits	393	535	307	471
Shares	167	555	465	744
Bonds	250	279	242	266
Funds	1	2	2	2
Other	1,448	3,198	1,669	2,755
Other Collaterals	**5,315**	**8,253**	**5,703**	**7,582**
Total	**39,334**	**76,066**	**35,709**	**71,328**
Unsecured loans	31,340	-	31,311	-
Total	**70,674**	**76,066**	**67,020**	**71,328**

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

(in HRK million)

Bank	2019		2018	
	Net loans	Appraised value of collateral	Net loans	Appraised value of collateral
Residential Real Estate	10,289	21,298	9,064	20,557
Commercial Real Estate	6,175	15,819	6,613	16,710
Other Real Estate	365	1,260	0	508
Real Estate	**16,829**	**38,377**	**15,677**	**37,775**
First Rate Guarantees	4,422	4,591	4,086	4,121
Central Government	*4,308*	*4,462*	*3,935*	*3,964*
Local Government	*100*	*113*	*116*	*121*
Banks	*14*	*16*	*35*	*36*
Other Guarantees	213	400	478	552
Guarantees	**4,635**	**4,991**	**4,564**	**4,673**
Loan Insurance	310	585	35	36
Life Insurance	475	512	922	944
Deposits	203	313	224	306
Shares	116	325	195	361
Bonds	250	279	242	266
Funds	1	2	2	2
Other	794	1,678	782	1,992
Other Collaterals	**2,149**	**3,694**	**2,402**	**3,907**
Total	**23,613**	**47,062**	**22,643**	**46,355**
Unsecured loans	23,643	-	23,055	-
Total	**47,256**	**47,062**	**45,698**	**46,355**

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Refinanced loans

Loan refinancing is done for clients where the focus of the business relationship has shifted from regulary payment to mitigating losses on lending exposure at a stage when legal action for mitigating losses is not yet needed. The goal is timely identification of clients where refinancing would enable them to continue in business and to mitigate or prevent further losses for the Group.

Refinancing activities are based on cooperation with other organisational parts of the Group, which identify clients/exposures that are the subject of refinancing and include: supporting of sales staff in defining the appropriate refinancing strategy, analysing refinancing applications, suggesting measures and making recommendations for refinancing, monitoring progress, monitoring the portfolio, assessing the level of impairment and the Group's proposing measures that would improve collateral coverage in order to strengthen its position in the collection of receivables.

All restructurings and rescheduling have been marked with forbearance flag in line with relevant regulation. Compared to the end of 2018, forborne portfolio exposure of the Group has declined in volume by 39.3% in 2019, amounting to HRK 2,029 million (2018: HRK 3,340 million). Provisions coverage of forborne portfolio as of 31 December 2019 was 37.8% (2018: 30.1%). Forborne performing portfolio exposure has declined in volume by 52.1% and amount to HRK 695 million, (2018: HRK 1,449 million), while forborne NPL portfolio exposure has declined in volume by 29.4% (amounting to HRK 1,334 million, 2018: HRK 1,891 million) primarily driven by the sale of receivables, slowed refinancing activity and regular repayment dynamics of existing forborne exposures.

The Group is also continuously improving collection and workout processes (problem loan management framework) by introducing new application support boosting process efficiency and developing new collection strategies in the form of tailor-made products and offers to retail customers, refinancing standards and support for corporate clients, and finally sale of assets where further collection is deemed immaterial and therefore not appropriate/efficient to be executed within the Group.

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments (2018). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively

Credit risk of financial assets and loan commitments and financial guarantee contracts is presented using internal classifications for the credit risk.

The Group internally classifies the loan exposures into the following risk categories:

- Standard monitoring: the client is timely servicing its liabilities and there and the exposure is not classified as credit-impaired;

- Special monitoring: clients are analysed in detail within Proactive Credit Management (PCEM) office where individual client's strategies have been defined, implemented and their execution is closely monitored. In addition to corporate clients, Bank adopted monitoring of retail clients on portfolio level within PCEM office.

- Doubtful: exposures to borrowers being effectively insolvent (although not yet legally) or in comparable status, regardless of any loss forecasts made by the Group;

- Unlikely to pay: exposures to borrowers which are experiencing financial or economic difficulties that are expected to be overcome in a reasonable period of time;

- Past due impaired: exposures other than those classified as unlikely to pay or doubtful that are past due for more than 90 days on a continuous basis above the established threshold.

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in HRK million)

Group

2019	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit – impaired	Total
Loans and advances to banks at amortised cost					
Standard monitoring	5,819	372	-	-	**6,191**
Doubtful	-	-	3	-	**3**
Loss allowance	(2)	(5)	(3)	-	**(10)**
Carrying amount	**5,817**	**367**	**-**	**-**	**6,184**
Loans and advances to customers at amortised cost					
Standard monitoring	64,233	4,575	-	30	**68,838**
Special monitoring	34	1,209	-	-	**1,243**
Past due impaired	-	-	227	1	**228**
Unlikely to pay	-	-	1,717	13	**1,730**
Doubtful	-	-	2,195	2	**2,197**
Loss allowance	(563)	(470)	(2,525)	(4)	**(3,562)**
Carrying amount	**63,704**	**5,314**	**1,614**	**42**	**70,674**
2018					
Loans and advances to banks at amortised cost					
Standard monitoring	8,159	-	-	-	**8,159**
Doubtful	-	-	3	-	**3**
Loss allowance	(6)	-	(3)	-	**(9)**
Carrying amount	**8,153**	**-**	**-**	**-**	**8,153**
Loans and advances to customers at amortised cost					
Standard monitoring	58,897	5,560	-	30	**64,487**
Special monitoring	38	1,740	-	-	**1,778**
Past due impaired	-	-	121	-	**121**
Unlikely to pay	-	-	2,531	81	**2,612**
Doubtful	-	-	2,049	53	**2,102**
Loss allowance	(650)	(569)	(2,820)	(41)	**(4,080)**
Carrying amount	**58,285**	**6,731**	**1,881**	**123**	**67,020**

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in HRK million)

Bank

2019	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Pur-chased credit – impaired	Total
Loans and advances to banks at amortised cost					
Standard monitoring	4,453	372	-	-	**4,825**
Doubtful	-	-	3	-	**3**
Loss allowance	(1)	(5)	(3)	-	**(9)**
Carrying amount	**4,452**	**367**	**-**	**-**	**4,819**
Loans and advances to customers at amortised cost					
Standard monitoring	42,224	3,562	-	30	**45,816**
Special monitoring	34	938	-	-	**972**
Past due impaired	-	-	150	1	**151**
Unlikely to pay	-	-	1,267	13	**1,280**
Doubtful	-	-	1,735	2	**1,737**
Loss allowance	(364)	(359)	(1,973)	(4)	**(2,700)**
Carrying amount	**41,894**	**4,141**	**1,179**	**42**	**47,256**
2018					
Loans and advances to banks at amortised cost					
Standard monitoring	7,064	-	-	-	**7,064**
Doubtful	-	-	3	-	**3**
Loss allowance	(6)	-	(3)	-	**(9)**
Carrying amount	**7,058**	**-**	**-**	**-**	**7,058**
Loans and advances to customers at amortised cost					
Standard monitoring	39,651	4,367	-	30	**44,048**
Special monitoring	38	925	-	-	**963**
Past due impaired	-	-	42	-	**42**
Unlikely to pay	-	-	2,066	23	**2,089**
Doubtful	-	-	1,422	53	**1,475**
Loss allowance	(460)	(441)	(1,977)	(41)	**(2,919)**
Carrying amount	**39,229**	**4,851**	**1,553**	**65**	**45,698**

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in HRK million)

Group	2019			
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Total
Debt investment securities at amortised cost				
Standard monitoring	545	-	-	**545**
Loss allowance	(8)	-	-	**(8)**
Carrying amount	**537**	**-**	**-**	**537**
Debt investment securities at FVOCI				
Standard monitoring	10,656	-	-	**10,656**
Loss allowance	(11)	-	-	**(11)**
Carrying amount	**10,645**	**-**	**-**	**10,645**
Loan commitments				
Standard monitoring	14,813	521	-	**15,334**
Special monitoring	9	75	-	**84**
Past due impaired	-	-	5	**5**
Unlikely to pay	-	-	36	**36**
Doubtful	-	-	9	**9**
Loss allowance	(54)	(7)	(18)	**(79)**
Carrying amount	**14,768**	**589**	**32**	**15,389**
Financial guarantee contracts				
Standard monitoring	4,790	94	-	**4,884**
Special monitoring	1	145	-	**146**
Unlikely to pay	-	-	107	**107**
Doubtful	-	-	132	**132**
Loss allowance	(14)	(9)	(132)	**(155)**
Carrying amount	**4,777**	**230**	**107**	**5,114**

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in HRK million)

Group	2018			
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Total
Debt investment securities at amortised cost				
Standard monitoring	548	-	-	**548**
Loss allowance	(8)	-	-	**(8)**
Carrying amount	**540**	**-**	**-**	**540**
Debt investment securities at FVOCI				
Standard monitoring	9,805	-	-	**9,805**
Loss allowance	(10)	-	-	**(10)**
Carrying amount	**9,795**	**-**	**-**	**9,795**
Loan commitments				
Standard monitoring	14,255	782	-	**15,037**
Past due impaired	-	-	2	**2**
Unlikely to pay	-	-	20	**20**
Doubtful	-	-	18	**18**
Loss allowance	(55)	(27)	(20)	**(102)**
Carrying amount	**14,200**	**755**	**20**	**14,975**
Financial guarantee contracts				
Standard monitoring	3,912	248	-	**4,160**
Past due impaired	-	-	2	**2**
Unlikely to pay	-	-	716	**716**
Doubtful	-	-	202	**202**
Loss allowance	(8)	(6)	(221)	**(235)**
Carrying amount	**3,904**	**242**	**699**	**4,845**

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in HRK million)

Bank	2019			
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Total
Debt investment securities at amortised cost				
Standard monitoring	512	-	-	**512**
Loss allowance	(7)	-	-	**(7)**
Carrying amount	**505**	**-**	**-**	**505**
Debt investment securities at FVOCI				
Standard monitoring	8,084			**8,084**
Loss allowance	(11)	-	-	**(11)**
Carrying amount	**8,073**	**-**	**-**	**8,073**
Loan commitments				
Standard monitoring	12,148	392	-	**12,540**
Special monitoring	9	59	-	**68**
Past due impaired	-	-	2	**2**
Unlikely to pay	-	-	28	**28**
Doubtful	-	-	8	**8**
Loss allowance	(32)	(5)	(13)	**(50)**
Carrying amount	**12,125**	**446**	**25**	**12,596**
Financial guarantee contracts				
Standard monitoring	2,963	94	-	**3,057**
Special monitoring	1	135	-	**136**
Unlikely to pay	-	-	104	**104**
Doubtful	-	-	127	**127**
Loss allowance	(6)	(6)	(127)	**(139)**
Carrying amount	**2,958**	**223**	**104**	**3,285**

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in HRK million)

Bank	2018			
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Total
Debt investment securities at amortised cost				
Standard monitoring	538	-	-	**538**
Loss allowance	(7)	-	-	**(7)**
Carrying amount	**531**	**-**	**-**	**531**
Debt investment securities at FVOCI				
Standard monitoring	6,754	-	-	**6,754**
Loss allowance	(9)	-	-	**(9)**
Carrying amount	**6,745**	**-**	**-**	**6,745**
Loan commitments				
Standard monitoring	10,403	669	-	**11,072**
Past due impaired	-	-	2	**2**
Unlikely to pay	-	-	19	**19**
Doubtful	-	-	10	**10**
Loss allowance	(43)	(24)	(14)	**(81)**
Carrying amount	**10,360**	**645**	**17**	**11,022**
Financial guarantee contracts				
Standard monitoring	2,579	133	-	**2,712**
Past due impaired	-	-	2	**2**
Unlikely to pay	-	-	716	**716**
Doubtful	-	-	179	**179**
Loss allowance	(3)	(4)	(208)	**(215)**
Carrying amount	**2,576**	**129**	**689**	**3,394**

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

The following table sets out the credit analysis for non-trading financial assets measured at FVTPL.

(in HRK million)

	GROUP	
	2019	2018
Loans and advances to customers		
Unlikely to pay	6	6
Total carrying amount	**6**	**6**

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information. Criteria for determining significant increase in credit risk are defined for the purpose of proper allocation of performing exposures in "Stage 1" or "Stage 2".

Regarding the monitoring of credit quality, and in line with the standard and guidelines of the supervisory body on the way of applying accounting standards for larger institutions, efforts have been made in conducting the timely credit quality analysis of each individual credit relationship (both in the form of card exposure and in the form of credit exposure) for the purpose of identifying any "significant deterioration" from the date of initial recognition and the consequent need for classification in Stage 2, as well as the conditions for returning to Stage 1 from Stage 2. In other words, the elected choice, for each case separately and for each reporting date, implies a comparison of the credit quality of the financial instrument at the time of valuation and at the time of issuance or purchase with the purpose of determining whether the criteria for classification to Stage 2 have been met.

Credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's modelling, one of the following criteria is met:

- Default probability change in relation to the initial recognition of the financial instrument. It is therefore an assessment implemented by adopting the "relative" criterion;
- Clients that are under special monitoring treatment (PCEM)
- Eventual presence of due amount which remains overdue over 30 days (based on materiality threshold),
- Existence of "forbearance" measures;
- Finally, certain indicators of the internal credit risk tracking system are considered for the purpose of transition between "Stages" where appropriate.

Recognition of significant increase in credit risk since origination is also assessed based on the number of rating downgrades since origination. The number of downgrades required for Stage 2 classification is determined based on the Internal credit rating at origination and distance from the low credit quality rating grade.

Forward looking information

The measurement of the financial assets also reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. In order to take into account, the forward looking data and the macroeconomic scenarios that the Group could encounter, it was decided to adopt, as further detailed in the text below, the so-called „Most likely scenario + add on" approach.

The inclusion of "forward looking" factors, particularly macroeconomic scenarios, is absolutely important element for estimating expected losses. From a methodological point of view, several possible alternative approaches were analysed to take these elements into account. In relation to different options considered, the Group has decided to adopt the approach representing the so-called "Most likely scenario + Add-on" which, for the purpose of calculating expected credit loss (ECL) and "stage assignment", implies taking into account the loss by credits set for the baseline scenario, with the attributed add-on aimed at reflecting the effects resulting from the possibility of the realisation of alternative of macroeconomic scenarios,

According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario ("Most Likely") and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes. The macroeconomic scenario is determined by the Group based on adjusted publicly available information.

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Modification of financial asset

In some cases, during the lifetime of these financial assets, and of loans in particular, the original contractual conditions may be subsequently modified by the parties to the contract. When the contractual clauses are subject to change during the lifetime of an instrument, it is necessary to verify whether the original asset should continue to be recognised in the balance sheet or whether, instead, the original instrument needs to be derecognised and a new financial instrument needs to be recognised. In general, changes to a financial asset lead to its derecognition and the recognition of a new asset when they are “substantial”. The assessment of the “substantial nature” of the change must be made using both qualitative and quantitative information.

The qualitative and quantitative analyses aimed at defining the “substantial nature” of contractual changes made to a financial asset must therefore consider:

- the purposes for which the changes were made: e.g. renegotiations for commercial reasons and forbearance measures due to financial difficulties of the counterparty:
  - the former, aimed at “retaining” the customer, involve a borrower that is not in financial difficulty.
  - the latter, carried out for “reasons of credit risk” (forbearance measures), relate to the bank’s attempt to maximise the recovery of the cash flows of the original loan.
- the presence of specific triggers that affect the contractual characteristics and/or cash flows of the financial instrument.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables: probability of default (PD), loss given default (LGD) and exposure at default (EAD), while for stage 2 exposures remaining maturity and discounting rate should be given as well.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL (stage 2 exposures) is defined as the expected present value measure of losses that arise if a borrower defaults on their obligation throughout the life of financial instrument. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD properly discounted to the reporting date.

The following definitions apply for PD, LGD and EAD:

- PD (Probability of Default): likelihood of migrating from performing to non-performing status over the period of one year. The PD factor is typically quantified through the rating. In the Group, the PD values are derived from internal rating models where available
- LGD (Loss Given Default): percentage loss in the event of default, LGD rates are derived from internally developed, collection models;
- EAD (Exposure At Default) or credit equivalent: amount of the exposure at the time of default.

The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

The following tables present reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

(in HRK million)

Group	2019					2018				
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit - impaired	Total	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit - impaired	Total
Loans and advances to customers at amortised cost										
Balance at 1 January	**650**	**569**	**2,820**	**41**	**4,080**	**566**	**705**	**3,194**	**52**	**4,517**
Transfer to 12-month ECL	174	(157)	(17)	-	-	265	(223)	(42)	-	-
Transfer to lifetime ECL not credit-impaired	(41)	132	(91)	-	-	(60)	172	(112)	-	-
Transfer to lifetime ECL credit – impaired	(15)	(114)	129	-	-	(14)	(29)	43	-	-
Net remeasurement of loss allowance	(202)	42	515	(37)	**318**	(119)	(62)	583	(11)	**391**
Financial assets that have been derecognised	-	-	(280)	-	**(280)**	6	(4)	(296)	-	**(294)**
Write-offs	-	-	(540)	-	**(540)**	-	-	(541)	-	**(541)**
Changes in models/risk parameters	-	-	-	-	-	2	-	-	-	**2**
Foreign exchange and other movements	(3)	(2)	(11)	-	**(16)**	4	10	(9)	-	**5**
Balance at 31 December	**563**	**470**	**2,525**	**4**	**3,562**	**650**	**569**	**2,820**	**41**	**4,080**

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

(in HRK million)

Bank	2019					2018				
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit - impaired	Total	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit - impaired	Total
Loans and advances to customers at amortised cost										
Balance at 1 January	**460**	**441**	**1,977**	**41**	**2,919**	**397**	**575**	**2,219**	**52**	**3,243**
Transfer to 12-month ECL	141	(127)	(14)	-	-	159	(141)	(18)	-	-
Transfer to lifetime ECL not credit-impaired	(33)	123	(90)	-	-	(45)	148	(103)	-	-
Transfer to lifetime ECL credit – impaired	(12)	(95)	107	-	-	(12)	(2)	14	-	-
Net remeasurement of loss allowance	(190)	19	463	(36)	**256**	(46)	(145)	460	(11)	**258**
Financial assets that have been derecognised	-	-	(203)	-	**(203)**	-	-	(251)	-	**(251)**
Write-offs	-	-	(259)	-	**(259)**	-	-	(378)	-	**(378)**
Changes in models/risk parameters	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other movements	(2)	(2)	(8)	(1)	**(13)**	7	6	34	-	**47**
Balance at 31 December	**364**	**359**	**1,973**	**4**	**2,700**	**460**	**441**	**1,977**	**41**	**2,919**

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

(in HRK million)

Group

2019	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Debt investment securities at FVOCI)				
Balance at 1 January	**10**	**-**	**-**	**10**
Net remeasurement of loss allowance	(1)	-	-	**(1)**
New financial assets originated or purchased	11	-	-	**11**
Financial assets that have been derecognised	(9)	-	-	**(9)**
Foreign exchange and other movements	-	-	-	**-**
Balance at 31 December	**11**	**-**	**-**	**11**

2018	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Debt investment securities at FVOCI)				
Balance at 1 January	**32**	**-**	**-**	**32**
Net remeasurement of loss allowance	(19)	-	-	**(19)**
New financial assets originated or purchased	6	-	-	**6**
Financial assets that have been derecognised	(13)	-	-	**(13)**
Foreign exchange and other movements	4	-	-	**4**
Balance at 31 December	**10**	**-**	**-**	**10**

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

(in HRK million)

Bank

2019	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Debt investment securities at FVOCI)				
Balance at 1 January	**9**	**-**	**-**	**9**
Net remeasurement of loss allowance	(1)	-	-	**(1)**
New financial assets originated or purchased	11	-	-	**11**
Financial assets that have been derecognised	(8)	-	-	**(8)**
Balance at 31 December	**11**	**-**	**-**	**11**

2018				
Debt investment securities at FVOCI)				
Balance at 1 January	**22**	**-**	**-**	**22**
Net remeasurement of loss allowance	(6)	-	-	**(6)**
New financial assets originated or purchased	6	-	-	**6**
Financial assets that have been derecognised	(13)	-	-	**(13)**
Balance at 31 December	**9**	**-**	**-**	**9**

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Financial assets at fair value through profit or loss per external risk classification

The table below provides information of the credit quality of financial assets at fair value through profit or loss (excluding equity securities and units in investment funds); using external ratings of Fitch Ratings or Standard & Poor's if Fitch Ratings was not available:

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Government bonds and treasury bills				
BB-	1,153	-	1,153	-
BB+	-	650	-	650
Ba2	-	4	-	4
no rating	263	174	263	174
Total	**1,416**	**828**	**1,416**	**828**

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Offsetting financial assets and financial liabilities

The disclosures set out in the table on the next page include financial assets and financial liabilities that are offset in the Group's statement of financial position; or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the tables unless they are offset in the statement of financial position.

The Group receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements and
- securities lending and borrowing.

The disclosures set out in the table on the next page include financial assets and financial liabilities that are subject to offsetting, irrespective of whether they are offset in the statement of financial position. These include derivative clearing agreements, sale and repurchase agreements and reverse sale and repurchase agreements.

Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts, foreign exchange swaps and embedded derivatives in contracts with a single-sided currency clause. All derivatives are classified as held for trading and carried as assets when their fair value is positive and as liabilities when negative.

At 31 December 2019 derivative financial instruments with positive fair value amounted to HRK 18 million (31 December 2018: HRK 10 million) for the Group and HRK 6 million (31 December 2018: HRK 1 million) for the Bank, while derivative financial instruments with negative fair value amounted to HRK 146 million (31 December 2018: HRK 34 million) for the Group and HRK 2 million (31 December 2018: HRK 4 million) for the Bank.

Sale and repurchase agreement, and reverse sale and repurchase transaction

Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it at a fixed price on a future date. The Group continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and a financial liability is recognised for the obligation to repay at the repurchase price, classified as interest-bearing borrowings.

Reverse sale and repurchase agreements are transactions in which the Group purchases a security and simultaneously agrees to sell it at a fixed price on a future date. The Group holds collateral in the form of marketable securities in respect of loans given.

Sale and repurchase agreements as well as reverse sale and repurchase agreements give the Group possibility for offsetting on a net basis, in case of default of any counterparty.

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

a) Credit risk (continued)

Offsetting financial assets and financial liabilities (continued)

Sale and repurchase agreement, and reverse sale and repurchase transaction (continued)

The table below shows the amount of collateral accepted in respect of reverse sale and repurchase agreements and given in respect of sale and repurchase agreements. Collateral accepted and given includes government issued T-bills and Bonds.

(in HRK million)

	GROUP		**BANK**	
	2019	2018	2019	2018
Receivables from reverse sale and repurchase agreements related to:	**350**	**625**	**350**	**625**
- loans and advances to banks	*95*	*380*	*95*	*380*
- loans and advances to customers	*255*	*245*	*255*	*245*
Fair value of collateral accepted in respect of the above	202	701	202	701
Payables under sale and repurchase agreements	-	-	-	-
- interest-bearing borrowings	-	-	-	-
Carrying amount of collateral provided in respect of the above relating to:	-	-	-	-
- financial assets at fair value through profit and loss	-	-	-	-
- debt securities classified as loans and receivables	-	-	-	-

b) Liquidity risk

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

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, interest-bearing borrowings and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funding. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy. In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management.

The Group adjusts its business activities to manage liquidity risk according to regulatory and internal policies for the maintenance of liquidity reserves, matching of liabilities and assets, control of limits, preferred liquidity ratios and contingency planning procedures. Needs for short-term liquidity are planned every month for a period of one month and are controlled and maintained daily. The Treasury department manages liquidity reserves daily, ensuring also the fulfilment of all customer needs.

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

b) Liquidity risk (continued)

Apart from external requirements that include regulatory limits prescribed by the CNB (obligatory reserve with the CNB, minimum required amount of foreign currency claims, minimum liquidity coefficient and others), the Bank has defined a set of internal limits for measuring and monitoring liquidity risk exposure. Thus, the process of liquidity monitoring and control is defined through the following activities and indicators:

- monitoring of liquidity reserve levels;
- short-term mismatches (Liquidity coverage ratio and Short term Gap);
- stressed short-term mismatches;
- monitoring and control of the Bank's structural liquidity ratios (Net stable funding ratio) and analysis of the Bank's funding structure;
- money market debt exposure towards the overall deposit base and other funding concentration ratios;
- cash flow projections;
- liquidity contingency plan indicators.

For the purpose of the Group's liquidity risk exposure reporting, the following three types of signals are defined:

- *Hard limit* - breach of a prescribed limit demands action in accordance with the Bank's liquidity risk management guidelines;
- T*hreshold of attention* - breach of a threshold acts as an early warning signal, demanding additional attention and action if decided by responsible persons;
- *Information on various measures and indicators* - serving as information to the relevant decision-making bodies.

In accordance with the CNB Decision on minimum foreign currency claims, the Bank is obliged to maintain a minimum of 17% of foreign currency liabilities in short-term assets. The actual figures were as follows:

2019	%	2018	%
"17% ratio" (at year end)	31.51	"17% ratio" (at year end)	25.26
Average	30.26	Average	33.38
Maximum	35.87	Maximum	42.05
Minimum	21.77	Minimum	24.35

A maturity analysis of financial liabilities according to the remaining contractual maturity as well as an analysis of financial assets and financial liabilities according to their expected maturities are presented in Note 52 to these financial statements.

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and debt securities for which there is an active and liquid market so that they can be readily sold to meet liquidity requirements. In addition, the Group maintains agreed lines of credit with banks and holds unencumbered assets eligible for use as collateral.

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

c) Market risk

All trading instruments are subject to market risk, which is the risk that changes in market prices, such as interest rates, equity securities prices, foreign exchange rates and credit spreads (not relating to changes in the obligator's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The Group manages and controls market risk exposures within acceptable parameters to ensure the Group's solvency while optimising the return on risk.

Market risk limits are defined based on the Group strategy and requirements, in accordance with senior management risk policy indicators.

Market risk measurement techniques

Exposure to market risk is formally managed by risk limits which are approved by senior management and revised at least annually. The Group applies the following market risk management techniques: VaR ("Value at Risk"), issuer limits, positional (nominal) exposure, PV01 (the present value of the impact of a 1 bps movement in interest rate) and stop loss limits. The exposure figures and limit utilisations are delivered daily to the senior management and lower management levels within the Treasury&ALM Department, which enables informed decision-making at all management and operational levels.

The Group follows market risk measurement and management principles set in cooperation with the Intesa Sanpaolo Group. VaR methodology is used as a basis for top management reporting on the Group's market risk exposure. The Group uses historical simulation (as the Group standard VaR methodology) and RiskWatch (as a Group wide VaR calculation engine), and other supporting activities (pricing, back-testing, stress testing) to ensure compliance with Intesa Sanpaolo Group standards.

The major elements of the market risk management framework include:

- VaR Methodology and Backtesting;
- Sensitivity;
- Fair Value Measurement;
- Level measurements (nominal amount, open position, market value etc.);
- Profit and loss indicators (P&L) ;
- Stress testing and scenario analysis;
- Monitoring and measurement of counterparty and delivery risk exposure.

VaR

The principal tool used to measure and control market risk exposure within the Group's trading portfolio is value-at-risk (VaR). VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) given an adverse movement with a specified probability (confidence level). The model used by the Group is based upon a 99% confidence level, assumes a 1 day holding period and takes into account 250 historical scenarios. The use of a 99% confidence level means that losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

The Group uses VaR to measure the following market risks:

- general interest rate risk in trading book;
- equity risk in trading book;
- foreign exchange risk on the statement of financial position level (both trading and banking book).

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

c) Market risk (continued)

(in HRK thousand)

Group	Equity VaR	Interest rate VaR	Foreign exchange VaR	Effects of correlation	Total
2019 – 2 January	-	2,486	434	(378)	**2,542**
2019 – 31 December	-	2,007	856	(850)	**2,013**
2019 – Average daily	-	1,930	363	(289)	**2,004**
2019– Lowest	-	983	32	(115)	**900**
2019 – Highest	-	2,791	1,327	(939)	**3,179**

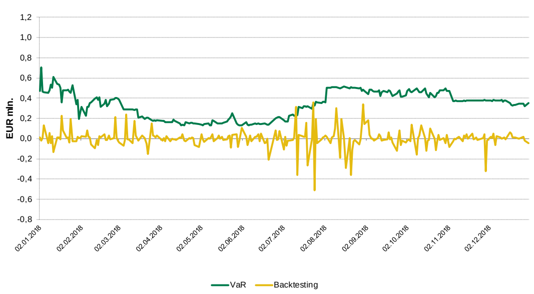
Note: historical simulation used for VaR calculations

(in HRK thousand)

Group	Equity VaR	Interest rate VaR	Foreign exchange VaR	Effects of correla-tion	Total
2018 – 2 January	288	1,776	3,337	(1,860)	**3,541**
2018 – 31 December	-	2,487	235	(125)	**2,597**
2018 – Average daily	99	1,843	1,234	(695)	**2,481**
2018 – Lowest	-	922	1	26	**949**
2018 – Highest	308	2,771	5,523	(3,358)	**5,244**

Note: historical simulation used for VaR calculations

Chart below presents Bank’s Total VaR movements in 2019 and 2018 and corresponding backtest values:



In accordance with confidence level of VaR model, in period of one year at least 2 backtest breaches are expected, while in 2019 five backtest breaches were observed, all due to change in interest rate.

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

c) Market risk (continued)

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations:

- a one day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for illiquid assets or in situations in which there is severe market illiquidity;
- a 99% confidence level does not reflect losses that may occur beyond this level;
- the use of historical data as a basis for determining the possible range of future outcomes may not cover all possible scenarios, especially those of an exceptional nature;
- the VaR measure is dependent upon the Group's position and the volatility of market prices.

To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. As part of the validation process, the potential weaknesses of the models are analysed using statistical techniques, such as back-testing.

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies. Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored daily in accordance with regulations and internally set limits, for each currency and for the total assets and liabilities denominated in or linked to foreign currency.

The currency risk exposure is monitored at the overall statement-of-financial-position level by calculating the foreign exchange open position as prescribed by the regulatory provisions and daily through internal limits based on market risk models (foreign exchange VaR). The management of foreign exchange currency risk is supported by monitoring the sensitivity of the Group's financial assets and liabilities to fluctuation in foreign currencies exchange rates.

The tables below indicate the currencies to which the Group and the Bank had significant exposure at 31 December 2019 and 31 December 2018 and for other currencies summarized, FX open position represents net exposure in foreign currency, for both balance and off-balance sheet items, after adjustments for the effects of derivatives. The analysis calculates the effect of a reasonably possible movement of the currencies against the kuna, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in the income statement, while a positive amount reflects a net potential increase.

(in HRK million)

Group

	Scenario 2019			Scenario 2018		
Currency	FX Open position 31 December 2019*	10% Move Up	10% Move Down	FX Open position 31 December 2018*	10% Move Up	10% Move Down
EUR	**(523)**	(52)	52	**234**	23	(23)
CHF	**(2)**	(0.2)	0.2	**2**	0.2	(0.2)
USD	**(81)**	(8.1)	8.1	**18**	1.8	(1.8)
Other	**948**	95	(95)	**2,133**	213	(213)

* Positive amounts represent long FX position while negative amounts represent short FX Position.

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

c) Market risk (continued)

Currency risk (continued)

(in HRK million)

Bank

Currency	FX Open position 31 December 2019*	Scenario 2019 10% Move Up	Scenario 2019 10% Move Down	FX Open position 31 December 2018*	Scenario 2018 10% Move Up	Scenario 2018 10% Move Down
EUR	**152**	15	(15)	**260**	26	(26)
CHF	**(2)**	(0.2)	0.2	**2**	0.2	(0.2)
USD	**(81)**	(8.1)	8.1	**18**	2	(2)
Other	**6**	0.6	(1)	**5**	1	(1)

* Positive amounts represent long FX position while negative amounts represent short FX Position.

Currency risk is further analysed in Note 51.

Interest rate risk

Interest rate risk represents the risk of decrease in assets values caused by adverse interest rate changes. Interest rate changes affect the net present value of future cash flows and consequently net interest income.

The sources of interest rate risk are:

- repricing risk **-** resulting from unfavourable changes in the fair value of assets and liabilities in the remaining period until the next interest rate change;
- yield curve risk **-** the risk of changes in shape and slope of yield curve and
- basis risk **-** the risk of different base rates of corresponding asset and liabilities (e.g. EURIBOR vs LIBOR).

Asset-liability risk management activities are conducted to manage the Group's sensitivity to interest rate changes. Exposure to interest rate risk is monitored and measured using repricing gap analysis, net interest income and the economic value of capital. Risk management activities are aimed at optimising net interest income and the economic value of capital, in accordance with the Group's business strategies and given market interest rate levels.

Notes to the financial statements (continued)

48 Financial risk management policies (continued)

c) Market risk (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonable possible change in interest rates of the Group and the Bank income statements, with all other variables held constant. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2019. Items with floating interest rate are distributed according to next repricing date, while items with fixed interest rate according to their original maturity.

(in HRK million)

		Change at 31 December 2019			Change at 31 December 2018		
	Increase in basis points	interest income	interest expenses	net interest income	interest income	interest expenses	net interest income
Group	+25	145,5	(69,4)	76,1	138,1	(59,5)	84,7
	+50	291,0	(138,9)	152,2	276,1	(119,0)	169,5
Bank	+25	105,4	(50,2)	55,2	105,9	(44,9)	61,0
	+50	210,9	(100,3)	110,6	211,8	(89,7)	122,1

A decrease in basis points would have an opposite effect on the Bank and Group's net interest income in the same amount.

Interest rate risk management is further analysed in Note 49.

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment. The primary exposure to equity prices arises from equity securities held for trading and available for sale, which is not significant.

Derivative financial instruments

The Group enters into derivative financial instruments primarily to satisfy the needs and requirements of customers. Derivative financial instruments used by the Group include foreign exchange swaps and forwards. Derivatives are contracts which are individually negotiated over the counter.

d) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk. In order to measure and manage operational risk exposure at the Group level efficiently, the Group applies an internal model for operational risk exposure management in line with the prescribed Basel II framework.

The internal model for calculation of the regulatory capital requirement for operational risk is based on the Advanced Measurement Approach (AMA) and contains the following components: Loss Distribution Approach – LDA based on measure of historical losses or ex-post measured exposure (backward looking) and integrated self-diagnosis process (scenario analysis and business environment evaluation) based on subjective estimation of possible future operational losses (forward looking measure).

The AMA model has been used only for the calculation of the capital requirement for the Bank and it applies the AMA approach since 31 March 2011. For all other Group members, the Standardised Approach (TSA) has been used which calculates capital requirement as a risk weighted indicator for all regulatory business lines.

Notes to the financial statements (continued)

49 Interest rate risk

Interest risk is calculated through change in the net present value of the portfolio in case of a shift in the reference curves.

The tables below show the sensitivity based on the change of the interest rate for one basis point through the interest rate periods which are defined by the remaining contracted maturity or the contracted interest rate period, whichever is shorter, and does not include held for trading portfolio. In the tables below, increases in the net present value of all future cash flows are shown as positive values, while decreases are shown as a negative value, shown over the different currencies and interest rate periods.

The basis for the sensitivity analysis of the individual position are the contracted interest rate periods. For positions which do not have interest rate periods contracted (a vista position) the Group uses assumptions which reflect the real interest sensitivity of the position.

(in HRK thousands)

Group

Assets	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 10 years	Over 10 years	**Total**
As at 31 December 2019						
HRK	(51)	(369)	(326)	(1,330)	(451)	**(2,527)**
EUR	(166)	301	378	(1,772)	(854)	**(2,113)**
USD	(8)	29	50	8	2	**81**
CHF	(9)	5	5	(6)	(9)	**(14)**
Other	2	4	1	2	-	**9**
Total	**(232)**	**(30)**	**108**	**(3,098)**	**(1,312)**	**(4,564)**
As at 31 December 2018						
HRK	(167)	(314)	(637)	(906)	(325)	**(2,349)**
EUR	(199)	293	271	(1,471)	(692)	**(1,798)**
USD	(12)	33	39	4	19	**83**
CHF	(3)	(1)	2	(8)	(7)	**(17)**
Other	-	(1)	(20)	(190)	15	**(196)**
Total	**(381)**	**10**	**(345)**	**(2,571)**	**(990)**	**(4,277)**

Notes to the financial statements (continued)

49 Interest rate risk (continued)

(in HRK thousands)

Bank **Assets**	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 10 years	Over 10 years	**Total**
As at 31 December 2019						
HRK	(48)	(157)	(607)	(1,763)	(144)	**(2,719)**
EUR	(167)	284	467	(1,719)	(480)	**(1,615)**
USD	(6)	29	46	2	2	**73**
CHF	(9)	6	5	(6)	(9)	**(13)**
Other	1	4	1	-	-	**6**
Total	**(229)**	**166**	**(88)**	**(3,486)**	**(631)**	**(4,268)**
As at 31 December 2018						
HRK	(90)	(177)	(822)	(1,286)	(117)	**(2,492)**
EUR	(206)	329	150	(1,386)	(452)	**(1,565)**
USD	(9)	31	36	-	19	**77**
CHF	(2)	-	2	(7)	(7)	**(14)**
Other	-	2	-	-	-	**2**
Total	**(307)**	**185**	**(634)**	**(2,679)**	**(557)**	**(3,992)**

Notes to the financial statements (continued)

50 Weighted average interest rates

The average effective interest rates for interest-earning financial assets and interest-bearing financial liabilities during the year are calculated on average balances at the end of each month for the Group and average monthly balances for the Bank.

The weighted average interest rates at the year-end are as follows:

	GROUP		BANK	
	2019	2018	2019	2018
	%	%	%	%
Current accounts with banks	(0.10)	(0.06)	(0.01)	(0.03)
Balances with the Croatian National Bank	0.00	0.00	0.00	0.00
Financial assets at fair value through profit or loss	0.78	0.88	0.57	3.14
Loans and advances to banks	0.14	(0.08)	0.08	(0.11)
Loans and advances to customers	3.97	4.28	4.50	4.87
Current accounts and deposits from customers	0.22	0.35	0.17	0.32
Current accounts and deposits from banks and interest-bearing borrowings	0.70	0.82	0.79	0.88

51 Currency risk

The Group manages its exposure to currency risk through a variety of measures including the use of revaluation clauses, which have the same effect as denominating HRK assets in other currencies and foreign currency deals bought and sold forward.

The Group’s open FX position is mitigated through the use of derivative financial instruments which are not shown in the tables below.

Notes to the financial statements (continued)

51 Currency risk (continued)

(in HRK million)

Group **As at 31 December 2019**	EUR and EUR linked	CHF and CHF linked	USD and USD linked	BAM and BAM linked	Other cur-ren-cies	HRK	Total
Assets							
Cash and current accounts with banks	6,019	141	149	1,517	278	12,538	**20,642**
Balances with the Croatian National Bank	-	-	-	-	-	4,901	**4,901**
Financial assets held for trading	269	-	159	-	-	988	**1,416**
Derivative financial assets	11	-	-	-	-	7	**18**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	51	-	-	-	-	-	**51**
Loans and advances to banks	2,383	660	1,747	729	412	253	**6,184**
Loans and advances to customers	41,482	60	150	2,461	-	26,412	**70,565**
Investment securities	5,261	-	465	24	-	5,667	**11,417**
Investments in subsidiaries and associates	-	-	-	-	-	67	**67**
Intangible assets	57	-	-	22	-	288	**367**
Property and equipment	227	-	-	96	-	1,308	**1,631**
Investment property	14	-	-	-	-	49	**63**
Non-current assets held for sale	67	-	-	3	-	69	**139**
Deferred tax assets	3	-	-	2	-	136	**141**
Other assets	114	-	-	31	-	156	**301**
Current tax assets	-	-	-	13	-	1	**14**
Total assets	**55,958**	**861**	**2,670**	**4,898**	**690**	**52,840**	**117,917**
Liabilities							
Current accounts and deposits from banks	1,321	17	-	5	36	418	**1,797**
Current accounts and deposits from customers	50,180	823	3,049	3,516	556	31,752	**89,876**
Derivative financial liabilities	140	-	2	-	2	2	**146**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	3	-	-	-	-	-	**3**
Interest-bearing borrowings and other financial liabilities	2,718	-	36	53	-	2,636	**5,443**
Other liabilities	246	2	11	101	1	1,847	**2,208**
Accrued expenses and deferred income	44	-	-	-	-	269	**313**
Provisions	103	-	13	-	40	383	**539**
Deferred tax liabilities	24	-	1	-	8	47	**80**
Current tax liability	24	-	-	-	-	66	**90**
Total liabilities	**54,803**	**842**	**3,112**	**3,675**	**643**	**37,420**	**100,495**
Net position	**1,155**	**19**	**(442)**	**1,223**	**47**	**15,420**	**17,422**

Notes to the financial statements (continued)

51 Currency risk (continued)

(in HRK million)

Group **As at 31 December 2018**	EUR and EUR linked	CHF and CHF linked	USD and USD linked	BAM and BAM linked	Other currencies	HRK	Total
Assets							
Cash and current accounts with banks	6,196	106	246	1,280	178	10,435	**18,441**
Balances with the Croatian National Bank	-	-	-	-	-	4,698	**4,698**
Financial assets held for trading	118	-	202	-	-	508	**828**
Derivative financial assets	6	-	2	1	-	1	**10**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	9	-	-	-	-	-	**9**
Loans and advances to banks	4,630	591	1,556	656	427	293	**8,153**
Loans and advances to customers	39,522	77	671	2,137	-	24,490	**66,897**
Investment securities	4,532	-	379	2	-	5,644	**10,557**
Investments in subsidiaries and associates	-	-	-	-	-	69	**69**
Intangible assets	44	-	-	25	-	208	**277**
Property and equipment	193	-	-	44	-	1,100	**1,337**
Investment property	-	-	-	-	-	7	**7**
Non-current assets held for sale	130	-	-	3	-	179	**312**
Deferred tax assets	7	-	-	1	-	141	**149**
Other assets	64	-	-	29	-	121	**214**
Current tax assets	-	-	-	5	-	123	**128**
Total assets	**55,451**	**774**	**3,056**	**4,183**	**605**	**48,017**	**112,086**
Liabilities							
Current accounts and deposits from banks	954	16	5	32	37	812	**1,856**
Current accounts and deposits from customers	49,884	752	3,259	2,731	540	28,772	**85,938**
Derivative financial liabilities	33	-	1	-	-	-	**34**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4	-	-	-	-	-	**4**
Interest-bearing borrowings and other financial liabilities	2,275	-	64	-	-	1,837	**4,176**
Other liabilities	224	2	16	116	3	1,617	**1,978**
Accrued expenses and deferred income	67	-	-	-	-	305	**372**
Provisions	202	-	13	18	30	307	**570**
Deferred tax liabilities	21	-	-	8	-	48	**77**
Current tax liability	6	-	-	-	-	5	**11**
Total liabilities	**53,670**	**770**	**3,358**	**2,905**	**610**	**33,703**	**95,016**
Net position	**1,781**	**4**	**(302)**	**1,278**	**(5)**	**14,314**	**17,070**

Notes to the financial statements (continued)

51 Currency risk (continued)

(in HRK million)

Bank

As at 31 December 2019	EUR and EUR linked	CHF and CHF linked	USD and USD linked	BAM and BAM linked	Other currencies	HRK	Total
Assets							
Cash and current accounts with banks	3,906	109	66	9	228	12,555	**16,873**
Balances with the Croatian National Bank	-	-	-	-	-	4,901	**4,901**
Financial assets held for trading	269	-	159	-		988	**1,416**
Derivative financial assets	-	-	-	-	-	6	**6**
Loans and advances to banks	2,033	574	1,700	-	368	144	**4,819**
Loans and advances to customers	23,037	38	119	-	-	23,994	**47,188**
Investment securities	3,036	-	76	-	-	5,580	**8,692**
Investments in subsidiaries and associates	-	-	-	-	-	1,962	**1,962**
Intangible assets	-	-	-	-	-	264	**264**
Property and equipment	-	-	-	-	-	975	**975**
Investment property	-	-	-	-	-	2	**2**
Non-current assets held for sale	-	-	-	-	-	60	**60**
Deferred tax assets	-	-	-	-	-	89	**89**
Other assets	83	-	-	-	-	110	**193**
Total assets	**32,364**	**721**	**2,120**	**9**	**596**	**51,630**	**87,440**
Liabilities							
Current accounts and deposits from banks	999	34	-	-	34	610	**1,677**
Current accounts and deposits from customers	30,809	680	2,484	3	469	31,445	**65,890**
Derivative financial liabilities	-	-	-	-	-	2	**2**
Interest-bearing borrowings and other financial liabilities	1,632	-	-	-	-	1,903	**3,535**
Other liabilities	74	2	9	-	-	903	**988**
Accrued expenses and deferred income	-	-	-	-	-	147	**147**
Provisions	34	-	13	-	22	376	**445**
Deferred tax liabilities	-	-	-	-	-	33	**33**
Current tax liability	-	-	-	-	-	62	**62**
Total liabilities	**33,548**	**716**	**2,506**	**3**	**525**	**35,481**	**72,779**
Net position	**(1,184)**	**5**	**(386)**	**6**	**71**	**16,149**	**14,661**

Notes to the financial statements (continued)

51 Currency risk (continued)

(in HRK million)

Bank

As at 31 December 2018	EUR and EUR linked	CHF and CHF linked	USD and USD linked	BAM and BAM linked	Other currencies	HRK	Total
Assets							
Cash and current accounts with banks	3,353	86	186	5	119	10,430	**14,179**
Balances with the Croatian National Bank	-	-	-	-	-	4,698	**4,698**
Financial assets held for trading	118	-	202	-	-	508	**828**
Derivative financial assets	-	-	-	-	-	1	**1**
Loans and advances to banks	4,550	513	1,421	-	381	193	**7,058**
Loans and advances to customers	22,822	52	577	-	-	22,160	**45,611**
Investment securities	1,757	-	59	-	-	5,558	**7,374**
Investments in subsidiaries and associates	-	-	-	-	-	1,962	**1,962**
Intangible assets	-	-	-	-	-	205	**205**
Property and equipment	-	-	-	-	-	636	**636**
Investment property	-	-	-	-	-	1	**1**
Non-current assets held for sale	-	-	-	-	-	102	**102**
Deferred tax assets	-	-	-	-	-	95	**95**
Other assets	-	-	-	-	-	88	**88**
Current tax assets	-	-	-	-	-	123	**123**
Total assets	**32,600**	**651**	**2,445**	**5**	**500**	**46,760**	**82,961**
Liabilities							
Current accounts and deposits from banks	492	23	5	-	36	924	**1,480**
Current accounts and deposits from customers	30,709	619	2,709	3	438	28,564	**63,042**
Derivative financial liabilities	-	-	-	-	-	4	**4**
Interest-bearing borrowings and other financial liabilities	1,320	-	-	-	-	1,727	**3,047**
Other liabilities	55	2	9	-	2	531	**599**
Accrued expenses and deferred income	1	-	-	-	-	158	**159**
Provisions	108	-	13	-	30	296	**447**
Deferred tax liabilities	-	-	-	-	-	32	**32**
Total liabilities	**32,685**	**644**	**2,736**	**3**	**506**	**32,236**	**68,810**
Net position	**(85)**	**7**	**(291)**	**2**	**(6)**	**14,524**	**14,151**

Notes to the financial statements (continued)

52 Liquidity risk

Analysis of financial liabilities by remaining undiscounted contractual maturities

The tables below set out the remaining undiscounted contractual maturity of the Group's and Bank's financial liabilities as at 31 December 2019 and 31 December 2018.

(in HRK million)

Group **As at 31 December 2019**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	682	280	821	20	-	**1,803**	**1,797**
Current accounts and deposits from customers	35,948	4,435	11,609	28,297	10,236	**90,525**	**89,876**
Derivative financial liabilities	11	4	20	90	20	**145**	**146**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	1	-	**1**	**3**
Interest-bearing borrowings and other financial liabilities	126	18	463	3,500	1,205	**5,312**	**5,159**
Lease liability	7	13	55	112	100	**287**	**284**
Other liabilities*	2,833	76	229	71	30	**3,239**	**3,230**
Total undiscounted financial liabilities	**39,607**	**4,826**	**13,197**	**32,091**	**11,591**	**101,312**	**100,495**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	3,619	968	5,586	2,187	3,487	**15,847**	**15,847**
Other contingent liabilities	430	969	1,723	1,364	404	**4,890**	**4,890**
Total undiscounted off-balance sheet contingent liabilities and commitments	**4,049**	**1,937**	**7,309**	**3,551**	**3,891**	**20,737**	**20,737**

* Other liabilities include subordinated liabilities, other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability.

Notes to the financial statements (continued)

52 Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

(in HRK million)

Group **As at 31 December 2018**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	1,266	451	96	45	-	**1,858**	**1,856**
Current accounts and deposits from customers	42,514	4,919	13,994	24,524	333	**86,284**	**85,938**
Derivative financial liabilities	4	2	-	-	29	**35**	**34**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4	-	-	-	-	**4**	**4**
Interest-bearing borrowings and other financial liabilities	268	165	537	2,310	1,005	**4,285**	**4,176**
Other liabilities*	2,465	158	212	147	25	**3,007**	**3,008**
Total undiscounted financial liabilities	**46,521**	**5,695**	**14,839**	**27,026**	**1,392**	**95,473**	**95,016**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	2,417	1,042	7,417	1,577	2,624	**15,077**	**15,077**
Other contingent liabilities	558	577	2,487	1,236	222	**5,080**	**5,080**
Total undiscounted off-balance sheet contingent liabilities and commitments	**2,975**	**1,619**	**9,904**	**2,813**	**2,846**	**20,157**	**20,157**

* Other liabilities include subordinated liabilities, other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability.

Notes to the financial statements (continued)

52 Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

(in HRK million)

Bank **As at 31 December 2019**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	754	42	288	612	-	**1,696**	**1,677**
Current accounts and deposits from customers	18,261	3,670	9,277	25,073	10,513	**66,794**	**65,890**
Derivative financial liabilities	1	-	1	-	-	**2**	**2**
Interest-bearing borrowings and other financial liabilities	44	34	296	2,058	875	**3,307**	**3,215**
Lease liability	5	10	43	184	85	**327**	**320**
Other liabilities*	1,404	15	176	54	25	**1,674**	**1,675**
Total undiscounted financial liabilities	**20,469**	**3,771**	**10,081**	**27,981**	**11,498**	**73,800**	**72,779**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	2,423	704	4,490	1,542	3,487	**12,646**	**12,646**
Other contingent liabilities	463	715	908	1,009	329	**3,424**	**3,424**
Total undiscounted off-balance sheet contingent liabilities and commitments	**2,886**	**1,419**	**5,398**	**2,551**	**3,816**	**16,070**	**16,070**

* Other liabilities include other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability.

Notes to the financial statements (continued)

52 Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

(in HRK million)

Bank **As at 31 December 2018**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	1,174	1	164	146	-	**1,485**	**1,480**
Current accounts and deposits from customers	25,395	4,113	11,695	21,785	271	**63,259**	**63,042**
Derivative financial liabilities	4	-	-	-	-	**4**	**4**
Interest-bearing borrowings and other financial liabilities	39	41	288	2,015	758	**3,141**	**3,047**
Other liabilities*	931	69	168	44	25	**1,237**	**1,237**
Total undiscounted financial liabilities	**27,543**	**4,224**	**12,315**	**23,990**	**1,054**	**69,126**	**68,810**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	984	717	5,579	1,199	2,624	**11,103**	**11,103**
Other contingent liabilities	395	394	1,830	852	138	**3,609**	**3,609**
Total undiscounted off-balance sheet contingent liabilities and commitments	**1,379**	**1,111**	**7,409**	**2,051**	**2,762**	**14,712**	**14,712**

* Other liabilities include other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability.

Notes to the financial statements (continued)

52 Liquidity risk (continued)

Maturity analysis of assets and liabilities

The tables below present analyses of assets and liabilities of the Group and Bank according to their expected maturities at 31 December 2019 and 31 December 2018. The Group's expected cash flows on some financial assets and liabilities vary significantly from the contractual cash flows. For example, demand deposits from customers are expected to maintain a stable balance and are not all expected to be drawn immediately.

The Group and the Bank made certain assumptions in producing the maturity analyses set out below. The assumptions applied for loans and advances to customers were mostly based on contractual maturities, whilst overdraft, revolving and other facilities without precise amortisation plans were assumed to be recoverable within 12 months. Moreover, expected maturities for current accounts and deposits from customers and to some extent non-performing loans were based on statistical behaviour model as of past experience. All other items of the Group and the Bank were mostly based on contractual maturities.

Notes to the financial statements (continued)

52 Liquidity risk (continued)

Maturity analysis of assets and liabilities (continued)

(in HRK million)

Group

As at 31 December 2019	Less than 12 months	Over 12 months	Total
Assets			
Cash and current accounts with banks	20,642	-	**20,642**
Balances with the Croatian National Bank	4,901	-	**4,901**
Financial assets held for trading	137	1,279	**1,416**
Derivative financial assets	11	7	**18**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	-	51	**51**
Loans and advances to banks	6,100	84	**6,184**
Loans and advances to customers	20,154	50,411	**70,565**
Investment securities	7,943	3,474	**11,417**
Investments in subsidiaries and associates	-	67	**67**
Intangible assets	-	367	**367**
Property and equipment	-	1,631	**1,631**
Investment property	5	58	**63**
Non-current assets held for sale	76	63	**139**
Deferred tax assets	118	23	**141**
Other assets	165	136	**301**
Current tax assets	1	13	**14**
Total assets	**60,253**	**57,664**	**117,917**
Liabilities			
Current accounts and deposits from banks	1,778	19	**1,797**
Current accounts and deposits from customers	51,988	37,888	**89,876**
Derivative financial liabilities	35	111	**146**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	3	**3**
Interest-bearing borrowings and other financial liabilities	942	4,501	**5,443**
Other liabilities	2,201	7	**2,208**
Accrued expenses and deferred income	303	10	**313**
Provisions	440	99	**539**
Deferred tax liabilities	75	5	**80**
Current tax liability	90	-	**90**
Total liabilities	**57,852**	**42,643**	**100,495**
Net expected maturity gap	**2,401**	**15,021**	**17,422**

Notes to the financial statements (continued)

52 Liquidity risk (continued)

Maturity analysis of assets and liabilities (continued)

(in HRK million)

Group

As at 31 December 2018	Less than 12 months	Over 12 months	Total
Assets			
Cash and current accounts with banks	18,441	-	**18,441**
Balances with the Croatian National Bank	-	4,698	**4,698**
Financial assets held for trading	49	779	**828**
Derivative financial assets	2	8	**10**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	-	9	**9**
Loans and advances to banks	8,001	152	**8,153**
Loans and advances to customers	19,927	46,970	**66,897**
Investment securities	7,023	3,534	**10,557**
Investments in subsidiaries and associates	-	69	**69**
Intangible assets	-	277	**277**
Property and equipment	-	1,337	**1,337**
Investment property	-	7	**7**
Non-current assets held for sale	312	-	**312**
Deferred tax assets	124	25	**149**
Other assets	147	67	**214**
Current tax assets	128	-	**128**
Total assets	**54,154**	**57,932**	**112,086**
Liabilities			
Current accounts and deposits from banks	1,811	45	**1,856**
Current accounts and deposits from customers	61,210	24,728	**85,938**
Derivative financial liabilities	5	29	**34**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4	-	**4**
Interest-bearing borrowings and other financial liabilities	968	3,208	**4,176**
Other liabilities	1,967	11	**1,978**
Accrued expenses and deferred income	359	13	**372**
Provisions	444	126	**570**
Deferred tax liabilities	71	6	**77**
Current tax liability	11	-	**11**
Total liabilities	**66,850**	**28,166**	**95,016**
Net expected maturity gap	**(12,696)**	**29,766**	**17,070**

Notes to the financial statements (continued)

52 Liquidity risk (continued)

Maturity analysis of assets and liabilities (continued)

(in HRK million)

Bank

As at 31 December 2019	Less than 12 months	Over 12 months	Total
Assets			
Cash and current accounts with banks	16,873	-	**16,873**
Balances with the Croatian National Bank	4,901	-	**4,901**
Financial assets held for trading	137	1,279	**1,416**
Derivative financial assets	6	-	**6**
Loans and advances to banks	4,819	-	**4,819**
Loans and advances to customers	12,868	34,320	**47,188**
Investment securities	7,286	1,406	**8,692**
Investments in subsidiaries and associates	-	1,962	**1,962**
Intangible assets	-	264	**264**
Property and equipment	-	975	**975**
Investment property	-	2	**2**
Non-current assets held for sale	-	60	**60**
Deferred tax assets	89	-	**89**
Other assets	133	60	**193**
Total assets	**47,112**	**40,328**	**87,440**
Liabilities			
Current accounts and deposits from banks	1,081	596	**1,677**
Current accounts and deposits from customers	31,206	34,684	**65,890**
Derivative financial liabilities	2	-	**2**
Interest-bearing borrowings and other financial liabilities	690	2,845	**3,535**
Other liabilities	981	7	**988**
Accrued expenses and deferred income	137	10	**147**
Provisions	383	62	**445**
Deferred tax liabilities	33	-	**33**
Current tax liability	62	-	**62**
Total liabilities	**34,575**	**38,204**	**72,779**
Net expected maturity gap	**12,537**	**2,124**	**14,661**

Notes to the financial statements (continued)

52 Liquidity risk (continued)

Maturity analysis of assets and liabilities (continued)

(in HRK million)

Bank

As at 31 December 2018	Less than 12 months	Over 12 months	Total
Assets			
Cash and current accounts with banks	14,179	-	**14,179**
Balances with the Croatian National Bank	-	4,698	**4,698**
Financial assets held for trading	49	779	**828**
Derivative financial assets	1	-	**1**
Loans and advances to banks	7,058	-	**7,058**
Loans and advances to customers	12,934	32,677	**45,611**
Investment securities	6,017	1,357	**7,374**
Investments in subsidiaries and associates	-	1,962	**1,962**
Intangible assets	-	205	**205**
Property and equipment	-	636	**636**
Investment property	-	1	**1**
Non-current assets held for sale	102	-	**102**
Deferred tax assets	95	-	**95**
Other assets	39	49	**88**
Current tax assets	123	-	**123**
Total assets	**40,597**	**42,364**	**82,961**
Liabilities			
Current accounts and deposits from banks	1,338	142	**1,480**
Current accounts and deposits from customers	41,257	21,785	**63,042**
Derivative financial liabilities	4	-	**4**
Interest-bearing borrowings and other financial liabilities	366	2,681	**3,047**
Other liabilities	599	-	**599**
Accrued expenses and deferred income	147	12	**159**
Provisions	401	46	**447**
Deferred tax liabilities	32	-	**32**
Total liabilities	**44,144**	**24,666**	**68,810**
Net expected maturity gap	**(3,547)**	**17,698**	**14,151**

Notes to the financial statements (continued)

53 Concentration of assets and liabilities

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The Bank's and the Group's assets and liabilities can be analysed by the following geographical regions and industry sector:

(in HRK million)

	GROUP			BANK		
As at 31 December 2019	Assets	Liabilities	Off balance sheet liabilities	Assets	Liabilities	Off balance sheet liabilities
Geographic region						
Republic of Croatia	84,393	71,431	14,663	80,302	69,426	14,730
Other European Union members	22,958	21,272	4,509	4,626	1,723	1,121
Other countries	10,566	7,792	1,565	2,512	1,630	219
	117,917	**100,495**	**20,737**	**87,440**	**72,779**	**16,070**
Industry sector						
Citizens	39,113	61,177	8,258	27,413	44,578	6,759
Finance	19,971	10,721	703	16,476	7,584	882
Government	20,670	3,116	307	16,444	2,002	289
Commerce	4,818	4,282	2,563	2,127	3,295	1,592
Tourism	2,347	1,483	457	2,067	1,236	440
Agriculture	856	592	150	737	548	140
Other sectors	30,142	19,124	8,299	22,176	13,536	5,968
	117,917	**100,495**	**20,737**	**87,440**	**72,779**	**16,070**
As at 31 December 2018						
Geographic region						
Republic of Croatia	75,085	67,763	13,200	72,182	65,017	13,326
Other European Union members	27,135	20,364	5,453	8,561	2,156	1,179
Other countries	9,866	6,889	1,504	2,218	1,637	207
	112,086	**95,016**	**20,157**	**82,961**	**68,810**	**14,712**
Industry sector						
Citizens	36,006	58,574	7,907	25,084	43,226	6,092
Finance	21,342	12,440	981	17,793	7,668	818
Government	19,450	2,892	349	14,621	2,092	298
Commerce	3,917	3,451	2,748	1,957	2,447	1,381
Tourism	2,558	1,281	367	2,165	1,066	352
Agriculture	1,029	325	119	914	275	106
Other sectors	27,784	16,053	7,686	20,427	12,036	5,665
	112,086	**95,016**	**20,157**	**82,961**	**68,810**	**14,712**

Notes to the financial statements (continued)

54 Earnings per share

For the purpose of calculating earnings per share, earnings represent the net profit after tax. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. The weighted average number of ordinary shares used for basic earnings per share was 19,010,136 (2018: 19,010,136). There is no potential dilution effect from any instruments and hence the basic earnings per share are the same as diluted earnings per share.

	GROUP		BANK	
	2019	2018	2019	2018
Profit attributable to equity holders of the Bank (in HRK million)	1,652	1,681	1,880	1,380
Weighted average number of ordinary shares	19,010,136	19,010,136	19,010,136	19,010,136
Basic and diluted earnings per share (in HRK per share)	**86.9**	**88.4**	**98.9**	**72.6**

Appendix 1 - Supplementary forms required by local regulation

Supplementary financial statements of the Group and the Bank prepared in accordance with the framework for reporting set out in the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions, dated 9 May 2018 (Official Gazette 42/18):

Form "Balance sheet"

(in HRK million)

	GROUP		BANK	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Assets				
Cash and deposits with the Croatian National Bank	19,118	16,008	16,873	14,178
Cash in hand	*3,605*	*3,219*	*1,910*	*1,770*
Deposits with the Croatian National Bank	*14,663*	*9,678*	*14,663*	*9,678*
Other deposits	*850*	*3,111*	*300*	*2,730*
Financial assets held for trading	1,425	830	1,422	829
Derivatives	9	2	6	1
Equity instruments	-	-	-	-
Debt securities	*1,416*	*828*	*1,416*	*828*
Loans and advances	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	45	60	34	36
Equity instruments	*39*	*53*	*34*	*36*
Debt securities	-	-	-	-
Loans and advances	*6*	*7*	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-
Debt securities	-	-	-	-
Loans and advances	-	-	-	-
Financial assets at fair value through other comprehensive income	10,841	9,963	8,153	6,807
Equity instruments	*196*	*168*	*80*	*62*
Debt securities	*10,645*	*9,795*	*8,073*	*6,745*
Loans and advances	-	-	-	-
Financial assets at amortised cost	83,756	82,761	57,470	57,960
Debt securities	*537*	*673*	*505*	*663*
Loans and advances	*83,219*	*82,088*	*56,965*	*57,297*
Derivatives – Hedge accounting	9	8	-	-

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Balance sheet"(continued)

(in HRK million)

	GROUP		BANK	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Assets				
Fair value changes of the hedged items in portfolio hedge of interest rate risk	51	9	-	-
Investments in subsidiaries, joint ventures and associates	67	69	1,962	1,962
Tangible assets	1,694	1,366	977	637
Intangible assets	367	259	264	204
Tax assets	155	270	89	218
Other assets	307	227	193	90
Non-current assets and disposal groups classified as held for sale	139	312	60	102
Total assets	**117,974**	**112,142**	**87,497**	**83,023**

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Balance sheet"(continued)

(in HRK million)

	GROUP		BANK	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Liabilities				
Financial liabilities held for trading	5	4	2	4
Derivatives	*5*	*4*	*2*	*4*
Short positions	-	-	-	-
Deposits	-	-	-	-
Debt securities issued	-	-	-	-
Other financial liabilities	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-
Deposits	-	-	-	-
Debt securities issued	-	-	-	-
Other financial liabilities	-	-	-	-
Financial liabilities measured at amortised cost	97,249	92,129	71,102	67,567
Deposits	*96,238*	*91,937*	*70,762*	*67,552*
Debt securities issued	-	-	-	-
Other financial liabilities	*1,011*	*192*	*340*	*15*
Derivatives – Hedge accounting	141	30	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	3	4	-	-
Provisions	596	629	501	506
Tax liabilities	170	82	95	32
Share capital repayable on demand	-	-	-	-
Other liabilities	2,388	2,194	1,135	763
Liabilities included in disposal groups classified as held for sale	-	-	-	-
Total liabilities	**100,552**	**95,072**	**72,835**	**68,872**

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Balance sheet" (continued)

(in HRK million)

	GROUP		BANK	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Equity				
Share capital	1,907	1,907	1,907	1,907
Share premium	1,570	1,570	1,570	1,570
Equity instruments issued other than capital	-	-	-	-
Other equity	-	-	-	-
Accumulated other comprehensive income	92	82	69	59
Retained earnings	10,991	10,687	8,944	8,939
Revaluation reserves	201	210	91	96
Other reserves	(18)	(25)	276	276
(-) Treasury shares	(76)	(76)	(76)	(76)
Profit or loss attributable to owners of the parent	1,652	1,681	1,880	1,380
(-) Interim dividends	-	-	-	-
Minority interests [Non-controlling interests]	1,103	1,034	-	-
Total equity	**17,422**	**17,070**	**14,661**	**14,151**
Total liabilities and equity	**117,974**	**112,142**	**87,496**	**83,023**
Total equity	**17,422**	**17,070**	**14,661**	**14,151**
Equity holders of the Bank	16,319	16,036	14,661	14,151
Non-controlling interests	1,103	1,034	-	-

The balance sheet form is prepared in accordance with the CNB Decision on the Structure and Content of Annual Financial Statements for Banks.

Appendix 1 - Supplementary forms required by local regulation (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB.

Balance sheet reconciliation as at 31 December 2019

Assets

Per IFRS **(in HRK million)**

Group

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Cash and deposits with the Croatian National Bank	19,118	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**19,118**
Cash in hand	*3,605*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	***3,605***
Deposits with the Croatian National Bank	*14,663*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	***14,663***
Other deposits	*850*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	***850***
Financial assets held for trading	-	-	1,416	9	-	-	-	-	-	-	-	-	-	-	-	-	**1,425**
Derivatives	-	-	-	*9*	-	-	-	-	-	-	-	-	-	-	-	-	***9***
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt securities	-	-	*1,416*	-	-	-	-	-	-	-	-	-	-	-	-	-	***1,416***
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	6	39	-	-	-	-	-	-	-	-	**45**
Equity instruments	-	-	-	-	-	-	-	39	-	-	-	-	-	-	-	-	**39**
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2019 (continued)

Assets (continued)

Per IFRS **(in HRK million)**

Group

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Loans and advances	-	-	-	-	-	-	*6*	-	-	-	-	-	-	-	-	-	***6***
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	10,841	-	-	-	-	-	-	-	-	**10,841**
Equity instruments	-	-	-	-	-	-	-	*196*	-	-	-	-	-	-	-	-	***196***
Debt securities	-	-	-	-	-	-	-	*10,645*	-	-	-	-	-	-	-	-	***10,645***
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2019 (continued)

Assets (continued)

Per IFRS **(in HRK million)**

Group

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Financial assets at amortised cost	1,524	4,901	-	-	-	6,184	70,610	537	-	-	-	-	-	-	-	-	**83,756**
Debt securities	-	-	-	-	-	-	-	*537*	-	-	-	-	-	-	-	-	***537***
Loans and advances	*1,524*	*4,901*	-	-	-	*6,184*	*70,610*	-	-	-	-	-	-	-	-	-	***83,219***
Derivatives – Hedge accounting	-	-	-	9	-	-	-	-	-	-	-	-	-	-	-	-	**9**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	51	-	-	-	-	-	-	-	-	-	-	-	**51**
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	67	-	-	-	-	-	-	-	**67**

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2019 (continued)

Assets (continued)

Per IFRS **(in HRK million)**

Group

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Tangible assets	-	-	-	-	-	-	-	-	-	-	1,631	63	-	-	-	-	**1,694**
Intangible assets	-	-	-	-	-	-	-	-	-	367	-	-	-	-	-	-	**367**
Tax assets	-	-	-	-	-	-	-	-	-	-	-	-	-	141	-	14	**155**
Other assets	-	-	-	-	-	-	6	-	-	-	-	-	-	-	301	-	**307**
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	139	-	-	-	**139**
Transfer to provisions	-	-	-	-	-	-	(57)	-	-	-	-	-	-	-	-	-	**(57)**
Total assets	**20,642**	**4,901**	**1,416**	**18**	**51**	**6,184**	**70,565**	**11,417**	**67**	**367**	**1,631**	**63**	**139**	**141**	**301**	**14**	**117,917**

Appendix 1 – Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2019 (continued)

Liabilities

Per IFRS **(in HRK million)**

Group

CNB schedules	Current accounts and deposits from banks	Current accounts and deposits from customers	Derivative financial liabilities	Fair value changes of the hedged items in portfolio hedge	Interest-bearing borrowings	Subordinated liabilities	Other liabilities	Accrued expenses and deferred income	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	**Total liabilities**
Financial liabilities held for trading	-	-	5	-	-	-	-	-	-	-	-	**5**
Derivatives	-	-	*5*	-	-	-	-	-	-	-	-	***5***
Short positions	-	-	-	-	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	1,797	89,876	-	-	5,443	-	133	-	-	-	-	**97,249**
Deposits	*1,797*	*88,998*	-	-	*5,443*	-	-	-	-	-	-	***96,238***
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	*878*	-	-	-	-	*133*	-	-	-	-	***1,011***
Derivatives – Hedge accounting	-	-	141	-	-	-	-	-	-	-	-	**141**

Appendix 1 – Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2019 (continued)

Liabilities (continued)

Per IFRS **(in HRK million)**

Group

CNB schedules	Current accounts and deposits from banks	Current accounts and deposits from customers	Derivative financial liabilities	Fair value changes of the hedged items in portfolio hedge	Interest-bearing borrowings	Subordinated liabilities	Other liabilities	Accrued expenses and deferred income	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	**Total liabilities**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	3	-	-	-	-	-	-	-	**3**
Provisions	-	-	-	-	-	-	-	-	596	-	-	**596**
Tax liabilities	-	-	-	-	-	-	-	-	-	80	90	**170**
Share capital repayable on demand	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	2,075	313	-	-	-	**2,388**
Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from loans and advances to customers	-	-	-	-	-	-	-	-	(57)	-	-	-
Total liabilities	**1,797**	**89,876**	**146**	**3**	**5,443**	**-**	**2,208**	**313**	**539**	**80**	**90**	**100,495**

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2019 (continued)

Equity

Per IFRS **(in HRK million)**

Group

CNB schedules	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	Merger reserve	Non-controlling interests	**Total equity**
Share capital	1,907	-	-	-	-	-	-	-	**1,907**
Share premium	-	1,570	-	-	-	-	-	-	**1,570**
Equity instruments issued other than capital	-	-	-	-	-	-	-	-	**-**
Other equity	-	-	-	-	-	-	-	-	**-**
Accumulated other comprehensive income	-	-	-	-	92	-	-	-	**92**
Retained earnings	-	-	-	-	-	10,991	-	-	**10,991**
Revaluation reserves	-	-	-	201	-	-	-	-	**201**
Other reserves	-	-	-	1,195	-	-	(1,213)	-	**(18)**
(-) Treasury shares	-	-	(76)	-	-	-	-	-	**(76)**
Profit or loss attributable to owners of the parent	-	-	-	-	-	1,652	-	-	**1,652**
(-) Interim dividends	-	-	-	-	-	-	-	-	**-**
Minority interests [Non-controlling interests]	-	-	-	-	-	-	-	1,103	**1,103**
Total equity	**1,907**	**1,570**	**(76)**	**1,396**	**92**	**12,643**	**(1,213)**	**1,103**	**17,422**

Appendix 1 - Supplementary forms required by local regulation (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB.

Balance sheet reconciliation as at 31 December 2019

Assets

Bank — **Per IFRS** — **(in HRK million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Cash and deposits with the Croatian National Bank	16,873	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**16,873**
Cash in hand	*1,910*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	***1,910***
Deposits with the Croatian National Bank	*14,663*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	***14,663***
Other deposits	*300*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	***300***
Financial assets held for trading	-	-	1,416	6	-	-	-	-	-	-	-	-	-	-	-	-	**1,422**
Derivatives	-	-	-	*6*	-	-	-	-	-	-	-	-	-	-	-	-	***6***
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*-*
Debt securities	-	-	*1,416*	-	-	-	-	-	-	-	-	-	-	-	-	-	***1,416***
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*-*
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	34	-	-	-	-	-	-	-	-	**34**

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2019 (continued)

Assets (continued)

Per IFRS **(in HRK million)**

Bank

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Equity instruments	-	-	-	-	-	-	-	*34*	-	-	-	-	-	-	-	-	***34***
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	8,153	-	-	-	-	-	-	-	-	**8,153**
Equity instruments	-	-	-	-	-	-	-	*80*	-	-	-	-	-	-	-	-	***80***
Debt securities	-	-	-	-	-	-	-	*8,073*	-	-	-	-	-	-	-	-	***8,073***
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2019 (continued)

Assets (continued)

Per IFRS **(in HRK million)**

Bank

CNB schedules	Cash and current ac-counts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Deriv-ative finan-cial as-sets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Invest-ment se-curi-ties	Invest-ments in associates	Intangi-ble as-sets	Property and equip-ment	Invest-ment prop-erty	Non-current assets held for sale	De-ferred tax as-sets	Other assets	Tax pre-pay-ments	**Total assets**
Financial assets at amortised cost	-	4,901	-	-	-	4,819	47,245	505	-	-	-	-	-	-	-	-	**57,470**
Debt securities	-	-	-	-	-	-	-	*505*	-	-	-	-	-	-	-	-	***505***
Loans and ad-vances	-	*4,901*	-	-	-	*4,819*	*47,245*	-	-	-	-	-	-	-	-	-	***56,965***
Derivatives – Hedge account-ing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	1,962	-	-	-	-	-	-	-	**1,962**
Tangible assets	-	-	-	-	-	-	-	-	-	-	975	2	-	-	-	-	**977**

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2019 (continued)

Assets (continued)

Per IFRS **(in HRK million)**

Bank

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Intangible assets	-	-	-	-	-	-	-	-	-	264	-	-	-	-	-	-	**264**
Tax assets	-	-	-	-	-	-	-	-	-	-	-	-	-	89	-	-	**89**
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	193	-	**193**
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	60	-	-	-	**60**
Transfer to provisions	-	-	-	-	-	-	(57)	-	-	-	-	-	-	-	-	-	**(57)**
Total assets	**16,873**	**4,901**	**1,416**	**6**	**-**	**4,819**	**47,188**	**8,692**	**1,962**	**264**	**975**	**2**	**60**	**89**	**193**	**-**	**87,440**

Appendix 1 – Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2019 (continued)

Liabilities

Per IFRS **(in HRK million)**

Bank

CNB schedules	Current accounts and deposits from banks	Current accounts and deposits from customers	Derivative financial liabilities	Fair value changes of the hedged items in portfolio hedge	Interest-bearing borrowings	Subordinated liabilities	Other liabilities	Accrued expenses and deferred income	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	**Total liabilities**
Financial liabilities held for trading	-	-	2	-	-	-	-	-	-	-	-	**2**
Derivatives	-	-	*2*	-	-	-	-	-	-	-	-	***2***
Short positions	-	-	-	-	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities measured at amortised cost	1,677	65,890	-	-	3,535	-	-	-	-	-	-	**71,102**
Deposits	*1,677*	*65,890*	-	-	*3,195*	-	-	-	-	-	-	***70,762***
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	*340*	-	-	-	-	-	-	***340***
Derivatives – Hedge accounting	-	-	-	-	-	-	-	-	-	-	-	-

Appendix 1 – Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2019 (continued)

Liabilities (continued)

Per IFRS **(in HRK million)**

Bank

CNB schedules	Current accounts and deposits from banks	Current accounts and deposits from customers	Derivative financial liabilities	Fair value changes of the hedged items in portfolio hedge	Interest-bearing borrowings	Subordinated liabilities	Other liabilities	Accrued expenses and deferred income	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	**Total liabilities**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	-	-	-	-	-	**-**
Provisions	-	-	-	-	-	-	-	-	501	-	-	**501**
Tax liabilities	-	-	-	-	-	-	-	-	-	33	62	**95**
Share capital repayable on demand	-	-	-	-	-	-	-	-	-	-	-	**-**
Other liabilities	-	-	-	-	-	-	988	147	-	-	-	**1,135**
Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfer from loans and advances to customers	-	-	-	-	-	-	-	-	(56)	-	-	**(56)**
Total liabilities	**1,677**	**65,890**	**2**	**-**	**3,535**	**-**	**988**	**147**	**445**	**33**	**62**	**72,779**

Appendix 1 - Supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2019 (continued)

Equity

Per IFRS **(in HRK million)**

Bank

CNB schedules	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	Merger reserve	Non-controlling interests	Total equity
Share capital	1,907	-	-	-	-	-	-	-	**1,907**
Share premium	-	1,570	-	-	-	-	-	-	**1,570**
Equity instruments issued other than capital	-	-	-	-	-	-	-	-	-
Other equity	-	-	-	-	-	-	-	-	-
Accumulated other comprehensive income	-	-	-	-	69	-	-	-	**69**
Retained earnings	-	-	-	-	-	8,944	-	-	**8,944**
Revaluation reserves	-	-	-	91	-	-	-	-	**91**
Other reserves	-	-	-	276	-	-	-	-	**276**
(-) Treasury shares	-	-	(76)	-	-	-	-	-	**(76)**
Profit or loss attributable to owners of the parent	-	-	-	-	-	1,880	-	-	**1,880**
(-) Interim dividends	-	-	-	-	-	-	-	-	-
Minority interests [Non-controlling interests]	-	-	-	-	-	-	-	-	-
Total equity	**1,907**	**1,570**	**(76)**	**367**	**69**	**10,824**	**-**	**-**	**14,661**

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Income statement"

(in HRK million)

	GROUP 2019	GROUP 2018	BANK 2019	BANK 2018
Interest income	3,101	3,198	2,344	2,444
(Interest expense)	(322)	(419)	(188)	(271)
(Expenses on share capital repayable on demand)	-	-	-	-
Dividend income	2	3	692	51
Fee and commission income	2,020	1,967	992	971
(Fee and commission expenses)	(477)	(449)	(315)	(293)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	102	154	50	133
Gains or (-) losses on financial assets and liabilities held for trading, net	317	264	309	254
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	60	56	55	(6)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-	-
Gains or (-) losses from hedge accounting, net	(1)	-	-	-
Exchange differences [gain or (-) loss], net	11	14	(6)	3
Gains or (-) losses on derecognition of non-financial assets, net	-	-	-	-
Other operating income	186	175	73	88
(Other operating expenses)	(516)	(487)	(223)	(230)
Total operating income, net	**4,483**	**4,476**	**3,783**	**3,144**
(Administrative expenses)	(1,802)	(1,917)	(1,171)	(1,239)
(Depreciation)	(229)	(197)	(173)	(132)
Modification gains or (-) losses, net	(6)	(12)	(6)	(12)
(Provisions or (-) reversal of provisions)	(31)	(55)	(42)	(28)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(345)	(402)	(235)	(253)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-	-	-
(Impairment or (-) reversal of impairment on non-financial assets)	5	(20)	(8)	(5)
Negative goodwill recognised in profit or loss	-	-	-	-

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Income statement" (continued)

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	11	14	-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	22	5	(2)	-
Profit or (-) loss before tax from continuing operations	**2,108**	**1,892**	**2,146**	**1,475**
(Tax expense or (-) income related to profit or loss from continuing operations)	(370)	(172)	(266)	(95)
Profit or (-) loss before after from continuing operations	**1,738**	**1,720**	**1,880**	**1,380**
Profit or (-) loss after tax from discontinued operations	-	-	-	-
Profit or (-) loss before tax from discontinued operations	-	-	-	-
(Tax expense or (-) income related to discontinued operations)	-	-	-	-
Profit or (-) loss for the year	**1,738**	**1,720**	**1,880**	**1,380**
Attributable to minority interest [non-controlling interests]	86	39	-	-
Attributable to owners of the parent	1,652	1,681	1,880	1,380

The income statement form is prepared in accordance with the CNB Decision on the Structure and Content of Annual Financial Statements for Banks.

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Income statement" (continued)

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Net profit for the year	**1,738**	**1,295**	**1,880**	**1,443**
Other comprehensive income	-	-	-	-
Items that will not be reclassified to profit or loss	**24**	**(4)**	**14**	**(3)**
Tangible assets	-	-	-	-
Intangible assets	-	-	-	-
Actuarial gains (losses) on defined benefit pensions plans	-	-	-	-
Non-current assets and disposal groups classified as held for sale	-	-	-	-
Share of other recognized revenues and costs from entities accounted by equity method	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	29	-	17	-
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-	-	-
Income tax relating to items that will not be reclassified	(5)	(4)	(3)	(3)
Items that are or may be reclassified to profit or loss	**7**	**(6)**	**(4)**	**41**
Hedge of net investments in foreign operations [effective portion]	-	-	-	-
Foreign currency translation	7	(42)	-	-
Cash flow hedges [effective portion]	-	-	-	-
Hedging instruments [not designated elements]	-	-	-	-
Debt instruments at fair value through other comprehensive income	-	21	(5)	36
Non-current assets and disposal groups held for sale	-	-	-	-

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Income statement" (continued)

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Share of other recognised income and expense of Investments in subsidiaries, joint ventures and associates	-	-	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	-	15	1	5
Total comprehensive income for the year	**1,769**	**1,285**	**1,890**	**1,481**
Attributable to:				
Equity holders of the Bank	1,665	1,607	1,890	1,369
Non-controlling interests	104	13	-	-
	1,769	**1,620**	**1,890**	**1,369**

Appendix 1 - Supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2019

Group

Per IFRS **(in HRK million)**

CNB schedules	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Fair value adjustment in hedge accounting	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Share of profits from associates	Income tax expense	Total
Interest income	3,101	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**3,101**
(Interest expense)	-	(322)	-	-	-	-	-	-	-	-	-	-	-	-	-	**(322)**
(Expenses on share capital repayable on demand)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend income	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-	**2**
Fee and commission income	-	-	2,020	-	-	-	-	-	-	-	-	-	-	-	-	**2,020**
(Fee and commission expenses)	-	-	-	(477)	-	-	-	-	-	-	-	-	-	-	-	**(477)**
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	-	-	-	-	-	-	41	-	-	-	-	61	-	-	**102**
Gains or (-) losses on financial assets and liabilities held for trading, net	-	-	-	-	-	317	-	-	-	-	-	-	-	-	-	**317**
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	-	-	-	-	-	60	-	-	-	-	-	-	-	-	-	**60**

Appendix 1 - Supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2019 (continued)

Group

Per IFRS **(in HRK million)**

CNB schedules	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Fair value adjustment in hedge accounting	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Share of profits from associates	Income tax expense	**Total**
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains or (-) losses from hedge accounting, net	-	-	-	-	-	-	(1)	-	-	-	-	-	-	-	-	**(1)**
Exchange differences [gain or (-) loss], net	-	-	-	-	-	11	-	-	-	-	-	-	-	-	-	**11**
Gains or (-) losses on derecognition of non-financial assets, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operating income	-	-	-	-	-	-	-	112	-	-	-	-	73	-	-	**185**
(Other operating expenses)	-	-	-	-	-	-	-	-	-	-	-	-	(516)	-	-	**(516)**
Total operating income,net	**3,101**	**(322)**	**2,020**	**(477)**	**2**	**388**	**(1)**	**153**	**-**	**-**	**-**	**-**	**(382)**	**-**	**-**	**4,482**
(Administrative expenses)	-	-	-	-	-	-	-	-	58	(45)	(1,077)	-	(738)	-	-	**(1,802)**
(Depreciation)	-	-	-	-	-	-	-	-	-	3	-	(232)	-	-	-	**(229)**
Modification gains or (-) losses, net	-	-	-	-	-	-	-	-	(6)	-	-	-	-	-	-	**(6)**
(Provisions or (-) reversal of provisions	-	-	-	-	-	-	-	-	-	(31)	-	-	-	-	-	**(31)**

Appendix 1 - Supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2019 (continued)

Group

Per IFRS **(in HRK million)**

CNB schedules	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Fair value adjustment in hedge accounting	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Share of profits from associates	Income tax expense	**Total**
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	34	-	-	-	-	-	-	-	(370)	(9)	-	-	-	-	-	**(345)**
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
(Impairment or (-) reversal of impairment on non-financial assets)	-	-	-	-	-	-	-	-	-	5	-	-	-	-	-	**5**
Negative goodwill recognised in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	12	-	**12**
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	-	-	-	-	22	-	-	-	-	-	-	-	**22**

Appendix 1 - Supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2019 (continued)

Group

	Per IFRS														(in HRK million)	
CNB schedules	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Fair value adjustment in hedge accounting	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Share of profits from associates	Income tax expense	**Total**
Profit or (-) loss before tax from continuing operations	**3,135**	**(322)**	**2,020**	**(477)**	**2**	**388**	**(1)**	**175**	**(318)**	**(77)**	**(1,077)**	**(232)**	**(1,120)**	**12**	**-**	**2,108**
(Tax expense or (-) income related to profit or loss from continuing operations)	-	-	-	-	-	-	-	-	-	-	-	-		-	(370)	**(370)**
Profit or (-) loss after tax from continuing operations	**3,135**	**(322)**	**2.020**	**(477)**	**2**	**388**	**(1)**	**175**	**(318)**	**(77)**	**(1,077)**	**(232)**	**(1,120)**	**12**	**(370)**	**1,738**
Profit or (-) loss after tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit or (-) loss before tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Tax expense or (-) income related to discontinued operations)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit or (-) loss for the year	**3,135**	**(322)**	**2,020**	**(477)**	**2**	**388**	**(1)**	**175**	**(318)**	**(77)**	**(1,077)**	**(232)**	**(1,120)**	**12**	**(370)**	**1,738**

Appendix 1 - Supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2019

Bank

Per IFRS **(in HRK million)**

CNB schedules	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Share of profits from associates	Income tax expense	**Total**
Interest income	2,344	-	-	-	-	-	-	-	-	-	-	-	-	-	**2,344**
(Interest expense)	-	(188)	-	-	-	-	-	-	-	-	-	-	-	-	**(188)**
(Expenses on share capital repayable on demand)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend income	-	-	-	-	692	-	-	-	-	-	-	-	-	-	**692**
Fee and commission income	-	-	992	-	-	-	-	-	-	-	-	-	-	-	**992**
(Fee and commission expenses)	-	-	-	(315)	-	-	-	-	-	-	-		-	-	**(315)**
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	-	-	-	-	-	37	-	-	-	-	13	-	-	**50**
Gains or (-) losses on financial assets and liabilities held for trading, net	-	-	-	-	-	309	-	-	-	-	-	-	-	-	**309**
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	-	-	-	-	-	55	-	-	-	-	-	-	-	-	**55**

Appendix 1 - Supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2019 (continued)

Bank

Per IFRS **(in HRK million)**

CNB schedules	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Share of profits from associates	Income tax expense	**Total**
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains or (-) losses from hedge accounting, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange differences [gain or (-) loss], net	-	-	-	-	-	(6)	-		-	-	-	-	-	-	**(6)**
Gains or (-) losses on derecognition of non-financial assets, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operating income	-	-	-	-	-	-	-	-	-	-	-	73	-	-	**73**
(Other operating expenses)	-	-	-	-		-	47	-	-	-	-	(270)	-	-	**(223)**
Total operating income,net	**2,344**	**(188)**	**992**	**(315)**	**692**	**358**	**84**	**-**	**-**	**-**	**-**	**(184)**	**-**	**-**	**3,783**
(Administrative expenses)	-	-	-	-	-	-	-	-	(21)	(697)	-	(453)	-	-	**(1,171)**
(Depreciation)	-	-	-	-	-	-	-	-	-	-	(173)	-	-	-	**(173)**
Modification gains or (-) losses, net	-	-	-	-	-	-	-	-	(6)	-	-	-	-	-	**(6)**
(Provisions or (-) reversal of provisions	-	-	-	-	-	-	-	-	(42)	-	-	-	-	-	**(42)**

Appendix 1 - Supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2019 (continued)

Bank

Per IFRS **(in HRK million)**

CNB schedules	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Share of profits from associates	Income tax expense	**Total**
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	33	-	-	-	-	-	-	(256)	(12)	-	-	-	-	-	**(235)**
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Impairment or (-) reversal of impairment on non-financial assets)	-	-	-	-	-	-	-	-	(8)	-	-	-	-	-	**(8)**
Negative goodwill recognised in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	-	-	-	(2)	-	-	-	-	-	-	-	**(2)**

Appendix 1 - Supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2019 (continued)

Bank

Per IFRS **(in HRK million)**

CNB schedules	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Share of profits from associates	Income tax expense	Total
Profit or (-) loss before tax from continuing operations	**2,377**	**(188)**	**992**	**(315)**	**692**	**358**	**82**	**(256)**	**(89)**	**(697)**	**(173)**	**(637)**	**-**	**-**	**2,146**
(Tax expense or (-) income related to profit or loss from continuing operations)	-	-	-	-	-	-	-	-	-	-	-	-	-	(266)	**(266)**
Profit or (-) loss after tax from continuing operations	**2,377**	**(188)**	**992**	**(315)**	**692**	**358**	**82**	**(256)**	**(89)**	**(697)**	**(173)**	**(637)**	**-**	**(266)**	**1,880**
Profit or (-) loss after tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit or (-) loss before tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Tax expense or (-) income related to discontinued operations)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit or (-) loss for the year	**2,377**	**(188)**	**992**	**(315)**	**692**	**358**	**82**	**(256)**	**(89)**	**(697)**	**(173)**	**(637)**	**-**	**(266)**	**1,880**

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Cash flow statement"

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Cash flow from operating activities				
Profit/(loss) before tax	2,108	1,894	2,146	1,477
Adjustments:				
Impairment losses	371	466	285	272
Depreciation and amortization	229	197	174	132
Unrealised (gains)/losses on securities at fair value through profit or loss	3	6	2	6
(Gains)/losses from sale of tangible assets	(34)	(9)	(1)	(2)
Other (gains)/losses	6	-	6	-
Changes in assets and liabilities due to operating activities				
Deposits with the Croatian National Bank	530	(1,725)	(202)	(514)
Deposits with banking institutions and loans to financial institutions	1,868	(5,174)	2,126	(5,216)
Loans to other clients	(3,528)	(3,805)	(1,590)	(2,199)
Securities and other financial instruments at FVOCI	(878)	(2,364)	(1,364)	(2,650)
Securities and other financial instruments held for trading	(595)	(276)	(592)	(276)
Securities and other financial instruments at fair value through profit or loss which are not actively traded	-	-	-	-
Securities and other financial instruments mandatorily at FVTPL	43	1,621	29	1,618
Securities and other financial instruments at amortised cost	92	283	158	269
Other operating assets	(3,089)	278	(3,281)	238
Financial institutions deposits	(45)	652	198	417
Other clients demand deposits	4,743	6,504	4,100	4,329
Other clients savings deposits	3,396	3,464	3,291	3,428
Other clients term deposits	(4,199)	(1,610)	(4,540)	(1,765)
Derivative financial liabilities and other liabilities held for trading	110	(4)	(2)	(4)
Other liabilities	175	(368)	220	(111)
Interest received	3,149	3,284	2,387	2,446
Dividends received	-	-	-	-
Interest paid	(384)	(480)	(247)	(401)
(Income tax paid)	(169)	(300)	(75)	(232)
Net inflow/(outflow) of cash from operating activities	**3,902**	**2,534**	**3,228**	**1,262**

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Cash flow statement" (continued)

(in HRK million)

	GROUP		BANK	
	2019	2018	2019	2018
Investing activities				
Cash receipts from/(payments to acquire) tangible and intangible assets	(373)	(181)	(236)	(166)
Cash receipts from the disposal of/(payments for the investment in) subsidiaries, associates and joint ventures	-	(152)	-	(152)
Cash receipts from sales of/(cash payments to acquire) securities and other financial instruments held until maturity	-	-	-	-
Dividends received	2	3	692	51
Other receipts from/(payments for) investments	-	-	-	269
Net cash flow from investing activities	**(371)**	**(330)**	**456**	**2**
Financing activities	**3,531**	**2,204**	**3,684**	**1,264**
Net increase/(decrease) in received loans	1,282	377	504	656
Net increase/(decrease) in issued debt securities	-	-	-	-
Net increase/(decrease) in subordinated and hybrid instruments	-	-	-	-
Proceeds from issue of share capital	-	-	-	-
(Dividends paid)	(1,417)	(304)	(1,380)	(289)
Other proceeds/(payments) from financing activities	-	-	-	-
Net cash flow from financing activities	**(135)**	**73**	**(876)**	**367**
Net increase/(decrease) in cash and cash equivalents	**3,396**	**2,277**	**2,808**	**1,631**
Cash and cash equivalents at the beginning of the year	**22,839**	**20,565**	**18,600**	**16,972**
Effect of foreign exchange differences on cash and cash equivalents	(1)	(3)	(1)	(3)
Cash and cash equivalents at the end of the year	**26,234**	**22,839**	**21,407**	**18,600**

Appendix 1 - Supplementary forms required by local regulation (continued)

Cash flow statement reconciliation for the year ended 31 December 2019

(in HRK million)

	GROUP			BANK		
	CNB schedules	per IFRS	Differences	CNB schedules	per IFRS	Differences
Cash flow from operating activities						
Profit before income tax	2,108	2,108	-	2,146	2,146	-
Impairment losses on loans and advances to customers	-	318	318	-	256	256
Other impairment losses and provisions	-	77	77	-	89	89
Impairment losses	371	-	(371)	285	-	(285)
Gain on disposal of property and equipment and intangible assets	(34)	(34)	-	(1)	(1)	-
Depreciation and amortisation	229	232	3	174	173	(1)
Net losses from securities at fair value through profit or loss	3	(78)	(81)	2	(74)	(76)
Share of profits from associates	-	(12)	(12)	-	-	-
Net interest income	-	(2,813)	(2,813)	-	(2,189)	(2,189)
Net gain on disposal of associate	-	-	-	-	-	-
Net gain/loss on disposal of securities not measured at FVTPL	-	(38)	(38)	-	(38)	(38)
Dividend income	-	(2)	(2)	-	(692)	(692)
Other gains/(losses)	6	-	-	6	-	-
Cash flow from operating activities before changes in operating assets	**2,683**	**(242)**	**(2,925)**	**2,612**	**(330)**	**(2,942)**
(Increase)/decrease in operating assets						
Balances with the Croatian National Bank	530	(203)	(733)	(202)	(203)	(1)
Loans and advances to banks	1,868	3,161	1,293	2,126	2,351	225
Loans and advances to customers	(3,528)	(3,983)	(455)	(1,590)	(1,823)	(233)
Financial assets at FVTPL and FVOCI	-	(1,311)	(1,311)	-	(1,802)	(1,802)
Securities and other financial instruments at FVOCI	(878)	-	878	(1,364)	-	1,364
Securities and other financial instruments held for trading	(595)	-	595	(592)	-	592
Securities and other financial instruments mandatorily at FVTPL	43	-	(43)	29	-	(29)
Securities and other financial instruments at amortised cost	92	-	(92)	158	-	(158)

Appendix 1 - Supplementary forms required by local regulation (continued)

Cash flow statement reconciliation for the year ended 31 December 2019 (continued)

(in HRK million)

	GROUP			BANK		
	CNB schedules	per IFRS	Differences	CNB schedules	per IFRS	Differences
Other assets	(3,089)	(18)	3,071	(3,281)	(74)	3,207
Net (increase)/decrease in operating assets	**(5,557)**	**(2,354)**	**3,203**	**(4,716)**	**(1,551)**	**3,165**
Increase/(decrease) in operating liabilities						
Current accounts and deposits from banks	(45)	(59)	(14)	198	196	(2)
Current accounts and deposits from customers	-	4,011	4,011	-	2,919	2,919
Other clients demand deposits	4,743	-	(4,743)	4,100	-	(4,100)
Other clients savings deposits	3,396	-	(3,396)	3,291	-	(3,291)
Other clients term deposits	(4,199)	-	4,199	(4,540)	-	4,540
Derivative financial liabilities and other liabilities held for trading	110	-	(110)	(2)	-	2
Other liabilities	175	173	(2)	220	288	68
Net increase/(decrease) in operating liabilities	**4,180**	**4,125**	**(55)**	**3,267**	**3,403**	**136**
Interest received	3,149	3,149	-	2,387	2,387	-
Interest paid	(384)	(384)	-	(247)	(247)	-
Dividends received	-	14	14	-	692	692
Net cash flow from operating activities	**4,071**	**4,308**	**237**	**3,303**	**4,354**	**1,051**
(Income tax paid)	(169)	(169)	-	(75)	(75)	-
Net inflow/(outflow) of cash from operating activities	**3,902**	**4,139**	**237**	**3,228**	**4,279**	**1,051**
Investing activities						
Purchase of property and equipment and intangible assets	(373)	(360)	13	(236)	(248)	(12)
Disposal of property and equipment and intangible assets	-	64	64	-	17	17
Cash paid from sale of non-current assets held for sale	-	-	-	-	-	-
Cash paid for the acquisition of Veneto bank	-	-	-	-	-	-
Cash Acquired on Merger of Veneto banka	-	-	-	-	-	-
Dividends received	2	-	(2)	692	-	(692)
Other receipts from/(payments for) investments	-	-	-	-	-	-

Appendix 1 - Supplementary forms required by local regulation (continued)

Cash flow statement reconciliation for the year ended 31 December 2019 (continued)

(in HRK million)

	GROUP			BANK		
	CNB schedules	per IFRS	Differences	CNB schedules	per IFRS	Differences
Net cash flow from investing activities	**(371)**	**(296)**	**75**	**456**	**(231)**	**(687)**
Financing activities						
Dividends paid	(1,417)	(1,417)	-	(1,380)	(1,380)	-
Increase in interest-bearing borrowings	1,282	1,063	(219)	504	217	(287)
Cash paid for IFRS 16 leases	-	(93)	-	-	(77)	-
Net cash flow from financing activities	**(135)**	**(447)**	**(312)**	**(876)**	**(1,240)**	**(364)**
Cash Acquired on Merger of Veneto banka	-	-	-	-	-	-
Net increase/(decrease) in cash and cash equivalents	**3,396**	**3,396**	**-**	**2,808**	**2,808**	**-**
Cash and cash equivalents as at 1 January	**22,839**	**22,839**	**-**	**18,600**	**18,600**	**-**
Effect of exchange rate fluctuations on cash held	(1)	(1)	-	(1)	(1)	-
Cash and cash equivalents at the end of the year	**26,234**	**26,234**	**-**	**21,407**	**21,407**	**-**

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Statement of changes in equity"

Group

Per IFRS **(in HRK million)**

CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss atributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	**Total**
Balance at 1 January 2019	**1,907**	**1,570**	**-**	**-**	**82**	**10,687**	**210**	**(25)**	**(76)**	**1,681**	**-**	**(11)**	**1,045**	**17,070**
Dividends	-	-	-	-	-	-	-	-	-	(1,380)	-	-	(37)	**(1,417)**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	303	(4)	2	-	(301)	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	1	(3)	1	-	-	-	-	2	**1**
Total comprehensive income for the year	-	-	-	-	10	-	(2)	4	-	1,652	-	18	86	**1,768**
Balance at 31 December 2019	**1,907**	**1,570**	**-**	**-**	**92**	**10,991**	**201**	**(18)**	**(76)**	**1,652**	**-**	**7**	**1,096**	**17,422**

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Group

Per IFRS **(in HRK million)**

CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss atributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	**Total**
Balance at 1 January 2018	**1,907**	**1,570**	**-**	**-**	**99**	**10,579**	**206**	**160**	**(76)**	**1,280**	**-**	**15**	**1,036**	**16,776**
(Effects of changes in accounting policies	-	-	-	-	34	(889)	-	-	-	-	-	-	(15)	**(870)**
Opening balance [current period]	**1,907**	**1,570**	**-**	**-**	**133**	**9,690**	**206**	**160**	**(76)**	**1,280**	**-**	**15**	**1,021**	**15,906**
Dividends	-	-	-	-	-	-	-	-	-	(289)	-	-	(15)	**(304)**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	(152)	-	-	-	-	-	**(152)**
Transfers among components of equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	997	4	(10)	-	(991)	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(51)	-	-	(23)	-	1,681	-	(26)	39	**1,620**
Balance at 31 December 2018	**1,907**	**1,570**	**-**	**-**	**82**	**10,687**	**210**	**(25)**	**(76)**	**1,681**	**-**	**(11)**	**1,045**	**17,070**

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Statement of changes in equity"

Bank

Per IFRS **(in HRK million)**

CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss atributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	Total
Balance at 1 January 2019	**1,907**	**1,570**	**-**	**-**	**59**	**8,939**	**96**	**276**	**(76)**	**1,380**	**-**	**-**	**-**	**14,151**
Dividends	-	-	-	-	-	-	-	-	-	(1,380)	-	-	-	**(1,380)**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	5	(5)	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	10	-	-	-	-	1,880	-	-	-	**1,890**
Balance at 31 December 2019	**1,907**	**1,570**	**-**	**-**	**69**	**8,944**	**91**	**276**	**(76)**	**1,880**	**-**	**-**	**-**	**14,661**

Appendix 1 - Supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Bank

Per IFRS **(in HRK million)**

CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss atributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	Total
Balance at 1 January 2018	**1,907**	**1,570**	**-**	**-**	**49**	**8,566**	**96**	**200**	**(76)**	**1,443**	**-**	**-**	**-**	**13,755**
Effects of changes in accounting policies	-	-	-	-	21	(684)	-	-	-	-	-	-	-	**(663)**
Opening balance [current period]	**1,907**	**1,570**	**-**	**-**	**70**	**7,882**	**96**	**200**	**(76)**	**1,443**	**-**	**-**	**-**	**13,092**
Dividends	-	-	-	-	-	-	-	-	-	(289)	-	-	-	**(289)**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	-	-	(97)	-	76	-	-	-	-	-	**(21)**
Other increase or (-) decrease in equity	-	-	-	-	-	1,154	-	-	-	(1,154)	-	-	-	**-**
Total comprehensive income for the year	-	-	-	-	(11)	-	-	-	-	1,380				**1,369**
Balance at 31 December 2018	**1,907**	**1,570**	**-**	**-**	**59**	**8,939**	**96**	**276**	**(76)**	**1,380**	**-**	**-**	**-**	**14,151**

Appendix 1 - Supplementary forms required by local regulation (continued)

Main differences between statutory financial report and supplementary forms required by local regulation

The main differences between the Statements of financial position captions disclosed in the statutory financial statements, and those prescribed by the CNB Decision relate to the following categories:

- Loans and advances are separated to customers and banks in statutory financial statements, while in CNB schedule there is only aggregated category Loans and advances

- Obligatory reserve is disclosed within Balances with CNB in statutory financial statements and within Loans and advances in CNB schedule

The main differences between the Income statement captions disclosed in the statutory financial statements, and those prescribed by the CNB Decision relate to the following categories:

- Effects arising from unwinding of discount related to loss allowance ("time value") are disclosed as interest income in statutory financial statements, while in CNB schedule are presented within Impairment of financial assets not measured at fair value.

- Positions Gains or losses on derecognition of financial assets and liabilities not measured at FVTPL, gains or losses on financial assets and liabilities held for trading and gains or losses on non-trading financial assets mandatorily measured at fair value from CNB schedule are disclosed aggregately in statutory financial statements on position Net trading income and translation of monetary assets and liabilities.

- Administrative expenses in CNB schedule contain Personnel expenses and Other operating expenses from statutory financial statements.

Appendix 2 - Supplementary financial statements in EUR (unaudited)

Income statement

As at 31 December

(in EUR million)

	GROUP		BANK	
	2019	2018	2019	2018
Interest income calculated using the effective interest method	410	425	316	332
Other interest income	12	11	4	3
Interest expense	(43)	(57)	(25)	(37)
Net interest income	**379**	**379**	**295**	**298**
Fee and commission income	272	277	134	131
Fee and commission expense	(64)	(72)	(42)	(40)
Net fee and commission income	**208**	**205**	**92**	**91**
Dividend income	-	-	93	7
Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	52	46	48	34
Fair value adjustment in hedge accounting	-	-	-	-
Other operating income	24	25	12	18
Total operating income	**663**	**655**	**540**	**448**
Net impairment loss on loans and advances to customers	(43)	(53)	(35)	(35)
Other impairment losses and provisions	(10)	(9)	(12)	(7)
Personnel expenses	(145)	(152)	(94)	(100)
Depreciation and amortization	(31)	(29)	(23)	(17)
Other operating expenses	(152)	(159)	(86)	(90)
Share of profits from associates	2	2	-	-
Profit before income tax	**284**	**255**	**290**	**199**
Income tax expense	(50)	(23)	(36)	(13)
Profit for the year	**234**	**232**	**254**	**186**
Attributable to:				
Equity holders of the Bank	222	227	254	186
Non-controlling interests	12	5	-	-
	234	**232**	**254**	**186**

The income statement items were translated from the measurement currency (HRK) to the Euro at the average exchange rate in 2019 (1 EUR = 7.413605 HRK) and in 2018 (1 EUR = 7.414111 HRK).

Appendix 2 - Supplementary financial statements in EUR (unaudited) (continued)

Statement of financial position

As at 31 December

(in EUR million)

	GROUP		BANK	
Assets	2019	2018	2019	2018
Cash and current accounts with banks	2,774	2,486	2,267	1,912
Balances with the Croatian National Bank	659	633	659	633
Financial assets held for trading	190	112	190	112
Derivative financial assets	2	1	1	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	7	1	-	-
Loans and advances to banks	831	1,099	647	951
Loans and advances to customers	9,482	9,020	6,341	6,148
Investment securities	1,534	1,424	1,168	993
Investments in subsidiaries and associates	9	9	264	265
Intangible assets	49	37	35	28
Property and equipment	219	180	131	86
Investment property	8	1	-	-
Non-current assets held for sale	19	42	8	14
Deferred tax assets	19	20	12	13
Other assets	40	29	26	12
Current tax assets	2	17	-	17
Total assets	**15,844**	**15,111**	**11,749**	**11,184**

The items of the statement of financial position were translated from the measurement currency (HRK) to the Euro at the closing exchange rates as at 31 December 2019 (1 EUR = 7.442580 HRK) and as at 31 December 2018 (1 EUR = 7.417575 HRK).

Appendix 2 - Supplementary financial statements in EUR (unaudited) (continued)

Statement of financial position (continued)

As at 31 December

(in EUR million)

	GROUP		BANK	
Liabilities	2019	2018	2019	2018
Current accounts and deposits from banks	241	250	225	200
Current accounts and deposits from customers	12,077	11,588	8,853	8,497
Derivative financial liabilities	20	5	-	1
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	1	-	-
Interest-bearing borrowings and other financial liabilities	731	564	476	411
Other liabilities	297	267	133	81
Accrued expenses and deferred income	42	50	20	21
Provisions for liabilities and charges	72	77	60	60
Deferred tax liabilities	11	10	4	4
Current tax liability	12	1	8	-
Total liabilities	**13,503**	**12,813**	**9,779**	**9,275**
Equity				
Share capital	250	250	250	250
Share premium	206	206	206	206
Treasury shares	(10)	(10)	(10)	(10)
Other reserves	200	199	61	64
Fair value reserve	12	11	9	8
Retained earnings	1,699	1,667	1,454	1,391
Merger reserve	(164)	(164)	-	-
Total equity attributable to equity holders of the Bank	**2,193**	**2,159**	**1,970**	**1,909**
Non-controlling interests	148	139	-	-
Total equity	**2,341**	**2,298**	**1,970**	**1,909**
Total liabilities and equity	**15,844**	**15,111**	**11,749**	**11,184**

The items of the statement of financial position were translated from the measurement currency (HRK) to the Euro at the closing exchange rates as at 31 December 2019 (1 EUR = 7.442580 HRK) and as at 31 December 2018 (1 EUR = 7.417575 HRK).

Appendix 3 – Other legal and regulatory requirements

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

The Bank and the Group are providing the following banking services and core and ancillary financial services:

- acceptance of deposits or other repayable funds from the public and the approval of loans out of such funds, for its own account;
- acceptance of deposits or other repayable funds;
- lending, including consumer credit, mortgage credit and, where permitted by a special law, financing of commercial transactions, including export financing based on the purchase at a discount without recourse of noncurrent, non-matured receivables collateralised with a financial instrument (forfeiting);
- repurchase of receivables with or without recourse (factoring);
- financial and operating leasing;
- issuance of guarantees or other commitments;
- trading for own account or for the account of clients in: money market instruments; transferable securities; foreign exchange, including currency exchange transactions; financial futures and options; exchange and interest-rate instruments;
- payment services, in accordance with special laws;
- credit reference services, such as collection, analysis and provision of information on the creditworthiness of legal and natural persons that conduct their business independently;
- issuing and administering other means of payment, if the provision of such services is not considered the provision of money transmission services in the country and abroad;
- safe custody services;
- money broking;
- activities related to the sale of insurance policies in accordance with the law governing insurance;
- advice on capital structure, industrial strategy and related matters, and advice and services relating to mergers and the purchase of shareholdings;
- investment and ancillary services and activities prescribed by a special act governing the capital market that are not included in the previously listed core financial services;
- issuance of electronic money;
- property transaction services, real estate valuation, financial and technical supervision over the construction of real estate;
- compulsory pension fund management.

The Group operates on markets in Croatia, Slovenia and Bosnia and Herzegovina.

	Croatia	Bosnia and Herzegovina	Slovenia
Total revenue	4,686	360	551
Profit before tax	2,415	151	209
Income tax	315	16	39
The number of workers on the basis of equivalent full working time in 2019	3,714	504	684