HRVATSKA POŠTANSKA BANKA P.L.C.

Annual Report for 2019

Zagreb, March 2020

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Introduction

The Annual report includes a summary of financial information, description of operations and audited financial reports together with the independent auditor's opinion for the year ended December 31, 2019, in English language. Original and official Annual report is published in Croatian.

Legal status

The Annual report includes the annual financial reports prepared in accordance with statutory accounting requirements for banks in Republic of Croatia and audited in accordance with International Standards on Auditing.

The Annual report has been prepared in accordance with the Accounting Act and the Companies Act that require reporting to shareholders at the annual shareholders' meeting of the Management Board. According to the Accounting Law the statutory financial reports are report of financial position, PNL report with a report of comprehensive income, report of changes in equity, cash flow report and notes to the financial reports, and the Companies Act, in accordance Article 250.a and 250.b, prescribes the obligation to submit an annual report on the state of the Bank, and other members of HPB Group.

Abbreviations

In the Annual report Hrvatska Poštanska Banka p.l.c. is referred to as «the Bank» or «HPB», Hrvatska Poštanska Banka Group is referred to as «the HPB Group» or just «the Group», the Croatian National Bank is referred to as «the CNB» or «HNB» and the Croatian Bank for Reconstruction and Development is referred to as «the CBRD» or «HBOR»

Exchange rates

For the purpose of translation of foreign currencies into Croatian Kuna, the following exchange rates of the CNB were used:

December 31, 2019	EUR 1 = HRK 7.442580	USD 1 = HRK 6.649911
December 31, 2018	EUR 1 = HRK 7.417575	USD 1 = HRK 6.469192

MISSION

We create conditions for a better life in Croatia.

VISION

A Croatian-owned bank with relevant market influence that cares best for clients, shareholders and the community.

Summary of Operation and Key Financial Indicators

HRK million

Group	2019	2018	2017	2016	2015
Basic Indicators					
Profit/ (Loss) for the Year	147	156	8	183	125
Operating Profit	344	308	373	383	322
Total Assets	23,773	23,082	20,048	19,686	18,014
Loans to Customers	13,334	11,529	11,141	11,554	10,298
Received Deposits	20,063	20,143	17,208	16,534	14,851
Share Capital and Reserves	2,377	2,016	1,911	1,893	1,779
Other Indicators					
Return on Equity	12.09%	12.84%	0.65%	15.68%	7.01%
Return on Assets	0.62%	0.68%	0.04%	0.97%	0.69%
Operating Expenses[1] to Operating Income Ratio	61.36%	61.98%	55.19%	53.74%	59.50%

Bank	2019	2018	2017	2016	2015
Basic Indicators					
Profit/ (Loss) for the Year	144	152	8	181	123
Operating Profit	323	303	372	379	321
Total Assets	23,773	21,233	19,777	19,286	17,691
Loans to Customers	13,339	11,062	10,979	11,398	10,185
Received Deposits	20,071	18,371	16,952	16,282	14,649
Share Capital and Reserves	2,370	2,003	1,905	1,887	1,779
Other Indicators					
Return on Equity	11.84%	12.50%	0.69%	14.92%	10.14%
Return on Assets	0.60%	0.72%	0.04%	0.94%	0.70%
Operating Expenses[1] to Operating Income Ratio	61.27%	60.14%	54.37%	53.72%	58.88%
Regulatory Capital	2,209	1,777	1,654	1,520	1,534
The Capital Adequacy	20.17%	17.86%	18.10%	15.66%	15.85%

[1]*General and Administrative Expenses, Depreciation and Amortization and Other Cost*

Statement by the president of the Management Board

Statement from the President of the Management Board of the Hrvatska poštanska banka p.l.c.

Esteemed shareholders, clients, dear employees of the HPB Group

even though I recently, as September 2019, become President of the Management Board of the Hrvatska poštanska banka p.l.c, I am honored to present to you the results of the Bank and the Group in a very challenging year 2019, which was marked by major projects, business consolidation and a change in corporate culture based on inclusivity of all employees, open communication, motivation and a sense of belonging to the Bank. I am extremely proud of the HPB team that has successfully completed two affiliate acquisition and migration processes this year, as well as valuable colleagues who have contributed to HPB's strong participation in the APN Subsidized Home Loan Program, allowing the young families the opportunity to more favorable way solve their housing problem. An equally important process that we initiated immediately upon taking office is to improve our risk management system, which will be a priority for us in 2020. In this way, we continue to live our mission of creating the conditions for a better life in Croatia, with the aim of achieving a long-term sustainable return for our shareholders.

Comment on financial results of Hrvatska poštanska banka p.l.c.

As a result of increasing placements and number of clients, accelerating the credit process, and improving the credit rating of the Republic of Croatia, which was reflected in the prices of securities held by the Bank in the portfolio, a record level of operating income in the corporate history of HRK 834 million was recorded in 2019, with a year-on-year increase of 9.7 percent. This eliminated the inevitable 11.8 percent jump in operating expenses, which was due to an increase in the volume of operations for the merged subsidiaries and consequently a larger number of employees, as well as for new investments in business units. As a combination of these developments, operating profit amounts to HRK 322.9 million, an increase of 6.6 percent.

However, improvements in operating results could not, however, be offset by substantially increased allowances for placements and provisions for liabilities, which have almost doubled. The increase in provisions is mainly due to certain deterioration in the situation on the main markets of the Republic of Croatia, which was reflected in the calculation of possible losses on placements to the Bank's clients in accordance with International Financial Reporting Standard 9. Significant liability provisions relate to allocated litigation funds against the Bank, in accordance with CNB Laws and International Accounting Standard 37, and judgments of exposure against the likelihood of losing a dispute.

Despite these losses, gross profit amounted to HRK 95.068 million, which is 48.7 percent less than in the previous year. However, by recognizing deferred tax assets of HRK 79.8 million based on unused accumulated tax losses from the merged Jadranska Banka, the net profit in 2019 amounts to HRK 143.7 million, confirming HPB's position as a profitable company in the portfolio of majority-owned companies RH.

Comment on financial position of Hrvatska poštanska banka p.l.c.

At the end of 2019, the Bank's assets amounted to HRK 23.8 billion, with a year-on-year increase of HRK 2.5 billion, or 11.9%, the highest since 2007, placing HPB sixth in the ranking of banks in the Republic of Croatia. This increase was partially achieved through the merger of Jadranska Banka and HPB-stambena štedionica, which was successfully realized in 2019, and partly through continued organic growth, but at more moderate rates than in the past.

Thus, loans to customers increased by HRK 2.3 billion, increasing their share of the balance sheet from a very low 52% at the end of 2018, to the current 56%. In addition, some of the excessively accumulated liquidity was invested in securities during the year, which increased by HRK 1.2 billion. In this way, the structure of assets has been significantly altered to optimize returns and capitalization, with the Bank still having more than sufficient liquidity reserves, as reflected in the LCR (liquidity coverage ratio) and NSFR (Net Stable Funding Ratio) ratios, which amount to 175 % and 141% respectively.

I would like to thank the trust in our depositors and other creditors, which includes the clients of our former subsidiaries that have been merged. With quality service and a focus on customer needs, we have achieved that our deposit base has continued to expand even in an environment of persistently low interest rates, with a year-on-year increase of 9.3 percent.

The Bank's equity amounted to HRK 2.4 billion, and in 2019 it was strengthened by HRK 179 per share, mainly due to the increase in prices and related gains on securities in the portfolio valued through other comprehensive income, and due to profit of the current period, but also due to the positive effects of the merger on equity of Jadranska banka and HPB-Stambena štedionica, which is described in more detail in the Statement of Changes in Equity and Reserves and Note 13 Investments in Subsidiaries in the Financial Statements.

A stronger capital base and optimization measures of risk exposure initiated during the fourth quarter of 2019 resulted in a capital adequacy ratio of 20.15 percent, the highest annual capitalization recorded since 2004. In this way, the merger effect of Jadranska banka and HPB-Stambena štedionica, the impact of applying a larger weight on EUR exposures to the Republic of Croatia, as well as organic growth was successfully absorbed

Comment on business operations of HPB Group and subsidiaries of HPB p.l.c.

After the merger operations were completed in 2019, the HPB Group, with the exception of the parent company, Hrvatska poštanska banka, is comprised of HPB Invest d.o.o. (investment fund management company) and HPB-nekretnine d.o.o. (a company specializing in real estate).

Due to this simple structure, the Group's financial results are almost entirely determined by the results of the parent company. Accordingly, the Group generated a net profit of HRK 142,1 million, including the effects of operations of Jadranska banka until 31.03.2019 (loss of HRK 3,317 thousand) and HPB-Stambena štedionica (profit of HRK 4,765 thousand) until 30.11.2019, while HPB Invest generated net profit in the amount of HRK 1,004 thousand and HPB-nekretnine net profit in the amount of HRK 691 thousand.

HPB's business operations in 2020

The coming year will not be easy at all due to the vulnerability of the EU economy to exogenous shocks. However, the Management Board which I am honored to be at the head is fully dedicated to transforming the HPB into a modern and resistant financial institution. Immediately upon taking office, we began a detailed analysis of processes and operations on the one hand, as well as the market position and potential of the Bank on the other. We are ready to take the necessary steps to successfully meet the challenges of the digital age and environment that is characterized by unfavorable demographic trends and falling interest margins. In doing so, we will lead by example, based on a combination of agility, knowledge, experience and constructive dialogue, because we cannot achieve our goals without motivated employees to whom we want to give the feeling of satisfaction that they belong to HPB.

In addition to caring for our employees and organizational culture, I would like to emphasize that we will make maximum efforts to optimally structure the offer for our clients and those who will become one, and to position HPB among the leaders in the segments where we can be the best - in retail and small business, while not neglecting to do business with large companies and the public sector to the extent permitted by the Bank's capital position.

On behalf of my team, I would like to thank all my colleagues at HPB for their dedicated work, clients for their loyalty to the Bank, and members of the Supervisory Board for their trust and support in creating a strong HPB.

Marko Badurina

CEO of HPB p.l.c.

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Management Board of Hrvatska Poštanska Banka p.l.c.

Management Board	**Marko Badurina** *President of the Management Board*	**Anto Mihaljević** *Member of the Management Board*	**Ivan Soldo** *Member of the Management Board*
Area of responsibility	Large Companies and Public Sector Financial Markets Internal Audit Compliance and Support of the Management Board HR Legal affairs Corporate Communications Strategic development	Retail Direct Channels Banking SME Organization and Project Management Marketing Quality Service Management Cooperation with HP Business Support IT Corporate Security Procurement and General Affairs	Risk Management Collection Management Financial Management ALM
Experience	2019 – HPB d.d. President of the Management Board 2017 – Sberbank d.d. Advisor to the Business Strategy Board for Financial Markets, Investment Banking, Financial Institutions 2013 – Sberbank d.d. Deputy Director of the Financial Markets Division 2012 – Volksbank d.d. Deputy Director of the Financial Markets Division 2007 – Volksbank – Liquidity and Trading Management	2019 – HPB d.d. Member of the Management Board 2019 – Kentbank d.d. Director for Retail 2017 – Allianz Zagreb d.d. Director of Sales Support 2015 – Zagrebačka banka d.d. Sales Management Director for Individual Banking Clients 2010 – Zagrebačka banka d.d. The Director of the Region Zagreb 2005 – Zagrebačka banka d.d. The Director of the Region Sjeverozapadna Hrvatska 2003 – Zagrebačka banka d.d. Leasing Sales Manager 2001 – Zagrebačka banka d.d. Head of Sales Controlling 1999 – Fer count d.o.o. Trainee Auditor	2019 – HPB d.d. Member of the Management Board 2018 – Raiffeisen Bank International AG, Executive Director, Risk Management of Financial Institutions and States 2015 – Raiffeisen Bank International AG, Director, Risk Management of Financial Institutions and States 2013 – Raiffeisen Bank International AG, Risk Manager, Senior Risk Manager 2011 – Raiffeisen Bank International AG Analitičar, Senior Analyst banks and Financial Institutions 2010 – Ipreo Ltd Analitičar Global Markets 2005 – FIMA Fas d.o.o. Assistant Director 2005 – KPMG Croatia d.o.o. Junior Associate

Note: organizational jurisdiction as of December 31, 2019

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ents

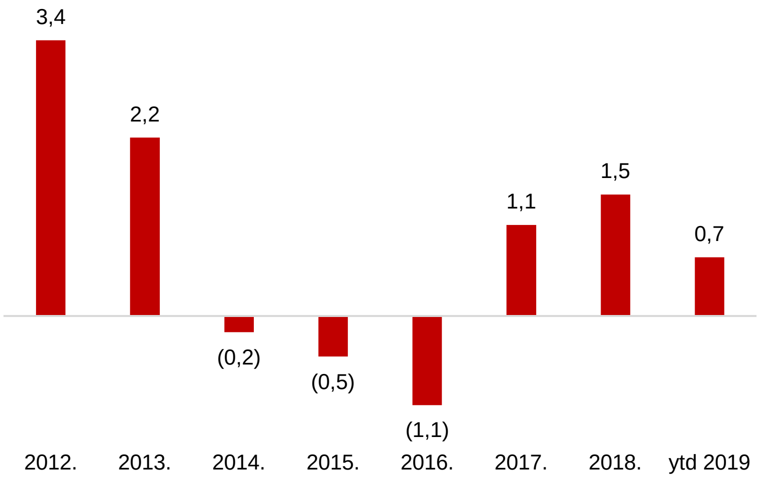
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018[1]	2019 ytd[2]
+1.8%	**(7.4%)**	**(1.5%)**	**(0.3%)**	**(2.2%)**	**(0.5%)**	**(0.1%)**	**+2.4%**	**+3.5%**	**+3.1%**	**+2.7%**	**+3.1%**
+7.4%	**(4.6%)**	**(0.6%)**	**+1.3%**	**(0.8%)**	**+0.2%**	**-**	**+2.5%**	**+3.4%**	**+4.3%**	**+4.5%**	**+4.5%**
5.7 pp	**2.8 pp**	**0.9 pp**	**1.6 pp**	**1.4 pp**	**0.8 pp**	**0.1 pp**	**0.1 pp**	**(0.1 pp)**	**1.2 pp**	**1.8 pp**	**1.5 pp**
1.9 pp	(5.5 pp)	(0.9 pp)	0.7 pp	(1.5 pp)	(1.0 pp)	(1.5 pp)	0.2 pp	1.9 pp	1.8 pp	1.9 pp	2.0 pp
(0.1 pp)	0.4 pp	(0.1 pp)	0.1 pp	(0.3 pp)	(0.0 pp)	0.4 pp	(0.2 pp)	0.1 pp	0.4 pp	0.3 pp	0.6 pp
2.2 pp	(3.6 pp)	(3.6 pp)	(0.5 pp)	(0.6 pp)	0.3 pp	(0.5 pp)	0.7 pp	1.3 pp	1.0 pp	0.8 pp	1.7 pp
(2.6 pp)	4.3 pp	3.9 pp	(0.4 pp)	0.6 pp	(0.4 pp)	1.6 pp	0.4 pp	0.3 pp	(0.7 pp)	(1.9 pp)	(0.5 pp)
0.4 pp	(2.9 pp)	(0.8 pp)	(0.1 pp)	(0.4 pp)	0.5 pp	(0.0 pp)	1.3 pp	0.0 pp	0.5 pp	1.6 pp	(0.6 pp)
+3.0%	(8.8%)	(1.5%)	+1.1%	(2.4%)	(1.5%)	(2.4%)	+0.4%	+3.1%	+3.1%	+3.2%	+3.4%
(0.8%)	+2.4%	(0.5%)	+0.5%	(1.4%)	(0.1%)	+1.8%	(0.9%)	+0.5%	+2.2%	+1.3%	+3.3%
+9.2%	(14.4%)	(15.2%)	(2.7%)	(3.3%)	+1.4%	(2.8%)	+3.8%	+6.5%	+5.1%	+4.1%	+8.1%
(2.1%)	(13.8%)	+7.8%	+2.3%	(1.5%)	+2.5%	+7.4%	+10.3%	+7.0%	+6.8%	+3.7%	+4.1%
+3.8%	(20.3%)	(3.0%)	+3.2%	(2.9%)	+3.3%	+3.2%	+9.4%	+6.5%	+8.4%	+7.5%	+5.3%

zvod, form 12.1.1.4.), analysis by HPB

red its fifth consecutive year of growth, with GDP rising in the first nine months of 2019 with a 3.1 percent growth rate. Personal major contributor to growth, based on improvements in consumer confidence even above the levels recorded last in the pre- apital formation with growth of 8.1% made the largest contribution to GDP in the last ten years, while a portion of stocks was used in 2019 (GDP deductible item), which is primarily related to inventories of constructed objects. The contribution of ., which is also the highest in the last decade. As opposed to that, with the growth of domestic consumption, the volume of and the contribution of net GDP exports has been negative for the third consecutive year.

Prices

Consumer price index (y-o-y changes)[3]



Source: CNB, www.hnb.hr (standardni prezentacijski format, form h-rs_10), analysis by HPB

The y-o-y rate of change in prices of selected components of the index of consumer prices

	2016	2017	2018	2019 ytd
Food and non-alcoholic beverages	(0.5%)	+2.9%	+1.0%	(0.4%)
Spirits and tobacco	+0.4%	+2.4%	+2.8%	+4.8%
Housing, water, electricity, gas and similar	(2.5%)	(2.7%)	+2.7%	+3.4%
Health	+1.8%	+1.1%	+1.4%	(0.9%)
Transport	(4.1%)	+3.3%	+3.5%	(0.3%)
Communication	(2.4%)	(1.6%)	(0.2%)	(0.3%)
Restaurants and hotels	+1.3%	+5.1%	+3.0%	+3.0%

Source: DZS, www.dzs.hr (MSI CIJENE, form 13.1.1.), analysis by HPB

After achieving a positive rate of inflation in 2018, the end of the period of deflationary pressures was confirmed, which characterized the period from 2015 to 2017, so far in 2019, the trend of rising prices continued.

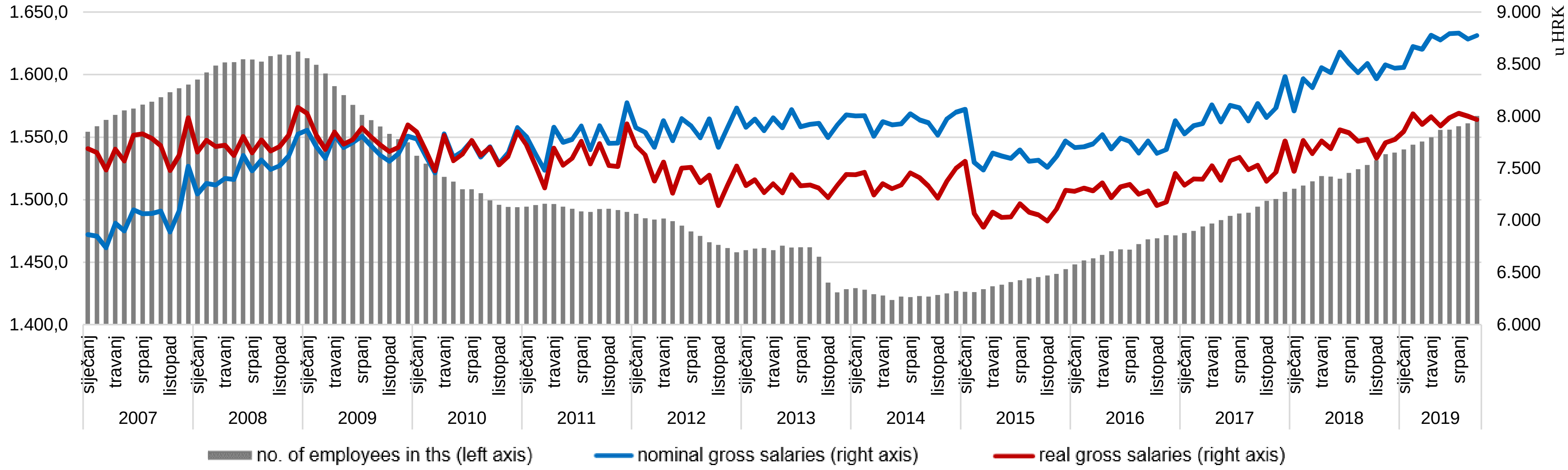
Prices of housing, water, electricity and similar are increasing for the second consecutive year (+ 3.4%), together with perennial price increases for restaurants and hotels (+3,0%), making these services less affordable for the local population. In addition, prices of spirits and tobacco accelerated growth (+ 4.8%).

In 2019, on the other hand, there was a slight fall in the prices of food and non-alcoholic beverages (-0.4%), health care (-0.9%) and transport (-0.3%). Likewise, prices for communications services continue to fall due to extremely strong competition in that market.

[3] The data for 2019 refers to the period January - September 2019

Employment and salaries

Comparative movement of number and gross income of employees



Source: CNB, www.hnb.hr (Bilten, sezonski prilagođene i dodatne vremenske serije), analysis by HPB

Employment in Croatia after the crisis of 2008 decreased until the beginning of 2014. During this period, the number of employees decreased from a maximum of 1.64 million (July 2008) to 1.39 million (February 2014). However, in the beginning of the economic recovery, the number of employees also increases, growing steadily and linearly but still lower than it was at its peak (1.60 million in July 2019).

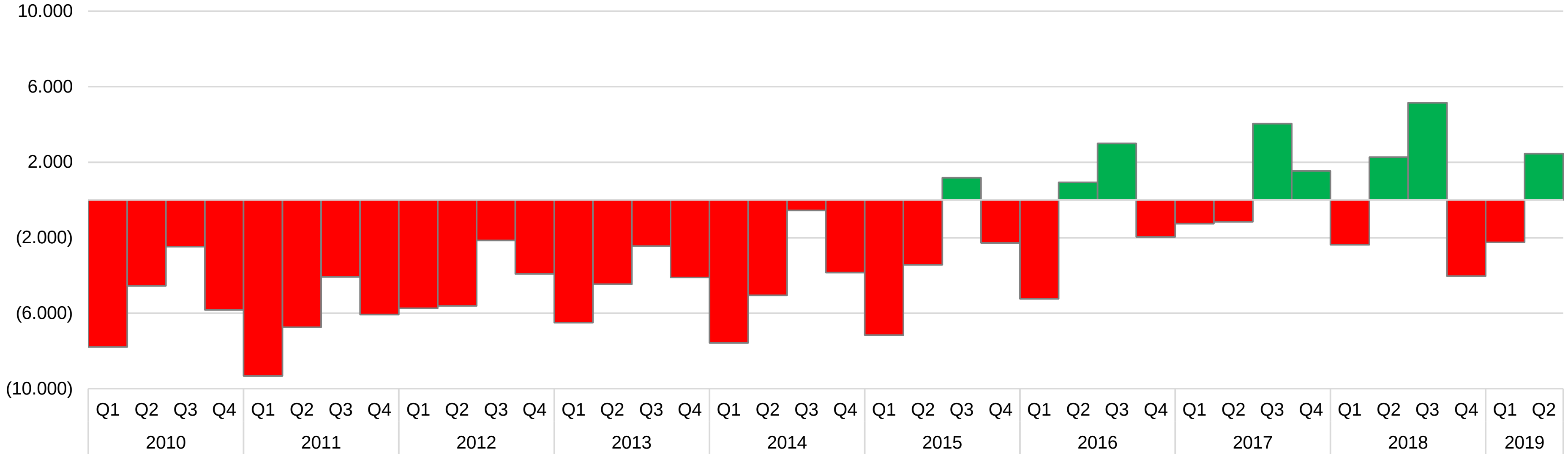
However, what distinguishes Croatia's economy significantly from the pre-crisis period is the lower number of unemployed people due to their exit from the labor force and emigration of unemployed and underemployed people to EU countries and other developed countries with a need for manpower. Accordingly, the average unemployment rate in the period January - September 2019 was 7.8 percent, which is significantly less than the 13.3 percent it was in 2008, as the last pre-crisis year.

Emigration combined with persistent economic recovery caused a tightening in the labor market, resulting in a rise in nominal gross wages from 2016 to the present, after years of stagnation. Thus, the average nominal gross earning for the period January - September 2019 was HRK 8.7 thousand, which is 17.2% more than in the same period of 2008. However, real gross wages did not follow this trend and, due to price increases, the purchasing power of citizens is marginally higher than it was before the crisis (+ 3.3% measured by the average real wage).

Public finance

In the first half of 2019, consolidated general government revenues amounted to 91.0 billion, which is 7.5% more than in the same period last year. The main reason for better income is the continued growth of economic activity and consumer optimism induced spending, which led to the growth of revenues from direct taxes (eg income tax, etc.) by 9.8%, indirect taxes (mainly VAT) by 6.6%, and social contributions by 3.1%. Both the first and second quarters of 2019 are seasonal record in terms of revenue, while in Q2 an absolute record is set which is seasonally atypical (third and fourth quarters are usually the best quarters by revenue).

Difference between total revenues and total expenses of the consolidated general government (in millions of HRK)



Source: CNB, www.hnb.hr (nefinancijski računi opće države, obrazac h-i_1), analysis by HPB

Consolidated general government expenditures amounted to HRK 90.8 billion in the first half of 2019, which is 7.2% more than in the same period of 2018, when expenditures were slightly lower than the year before. The reasons for the increase in total expenditures are the growth of social benefits (+ 4.9%) and compensation of employees (+ 5.4%), which are the two most relevant categories of current expenditures, while capital spending has increased by a total of 33.4%. In line with the general trend of falling interest rates, the burden of interest on budget expenditures has been steadily decreasing (-5.5% in the first half of 2019) and is now the lowest since 2010.

Combining these trends, which are characterized by revenues growing faster than budget expenditures, the consolidated general government surplus of HRK 200 million was achieved in the first two quarters of 2019, which is a continuation of good fiscal trends from 2017

and 2018, but also represents an unexpected good seasonal positive effect not typical for the first half of the year.

Looking at the long term, the consolidated general government balance has been fully balanced over the last four years.

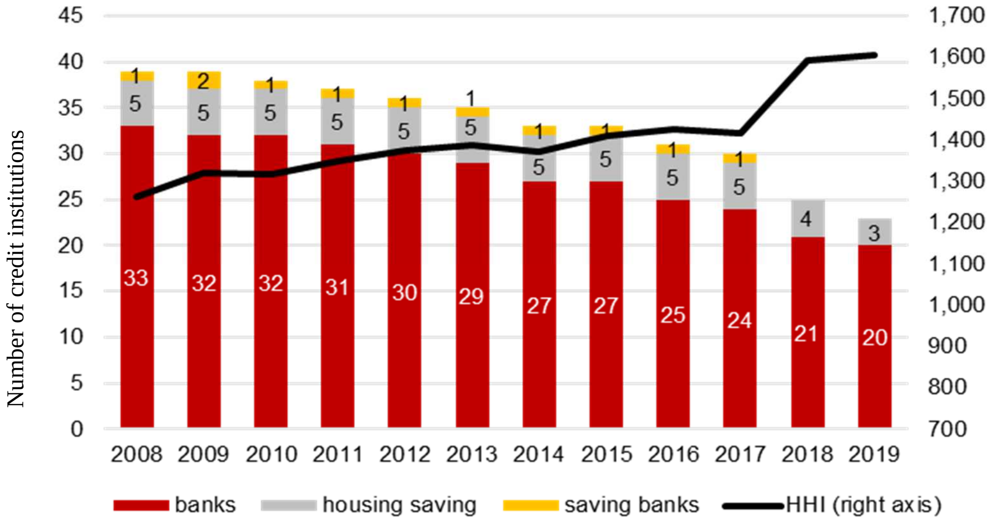
Business environment

Balance sheet of Croatian Credit intitutions

Due to market consolidation and discontinuation of smaller banks, the number of credit institutions on the Croatian market is continuously decreasing, and as of December 31, 2019, 20 commercial banks and 3 housing savings banks operated in the market.

The most important transactions over the past few years relate to the merger of Jadranska banka d.d. Šibenik to HPB, OTP Splitska banka d.d. to OTP Banka Hrvatska d.d., placing the institution in fourth place in terms of assets in the domestic market, merger of Prva stambena štedionica d.d. to Zagrebačka banka d.d. and the merger of Veneto Bank d.d. to Privredna banka Zagreb d.d. In this way, the concentration of the sector, as measured by the market share of the largest 5 banks, increased from the already high 74% in 2017 to over 80% at the end of 2019. The Herfindahl-Hirschman Index of Concentration of Assets of Credit Institutions after several years of continuous slight growth, and due to realized business combinations in 2018 and 2019, exceeded the level of 1,600 points, which indicates a moderately concentrated market.

Number od credit institutions and Herfindahl-Hirchman indeks (HHI) of Concentration of Assets of Credit Institutions



Source: HNB, www.hnb.hr (audited indicators of credit institutions from 2008. to 2018, unaudited indicators of credit institutions as of Dec 31, 2019), analysis by HPB

A characteristic of the markets in the CEE region is that foreign-owned banks have a dominant share, with Croatia being no exception. Thus, foreign owned banks and savings banks represent 91% of total assets of the credit institutions sector, dominated by Italian, Austrian and Hungarian banks from the European Union.

HPB is one of the two remaining state-owned banks and as of December 31, 2019. ranked sixth among credit institutions in the Republic of Croatia by assets, following the successful merger of Jadranska banka d.d. Šibenik, with a market share of 5.53 percent. Remaining State Bank - CROATIA BANK d.d. accounts for 0.46% of system assets.

The total assets of the sector increased from 1999 to 2012. Due to persistent negative market pressures and a significant increase in non-performing loans, the sector's total assets decreased in 2012 for the first time since 1999, and the fall continued in the following years until 2017 when there is a slight increase of 0.7%, which interrupts the downward trend in assets. After confirming a positive trend with a 3.7% increase in 2018 and realizing the largest asset growth in the last 10 years, the sector's assets also increased in 2019 (+ 4.1%). Growth in the balance sheet is a result of inflows from abroad (remittances, European cohesion funds, tourism), which caused deposits increased by 6.3 percent (in 2018), after which their rate slowed to + 3.8% in 2019.

On the other hand, after several years of successive falls (due to deleveraging countries and sales of overdue receivables to non-banking specialist firms, and weak risk appetite after six years of recession), in 2018 stopped the decline in loans which increased by 2.9, which is slightly slowing in 2019 to +2.3 percent. The Banks continue to dominate in retail financing, where growth rates have accelerated to + 6.9% in 2019, after + 5.7% in 2018 and + 1.1% in 2017. On the other hand, loans to non-financial corporations decreased by 0.8% in 2019, slowing their decline from previous years (2018: -1.0%; 2017: -1.9%).

Credit institutions – overview of balance sheet financial indicators 2017 – 2019

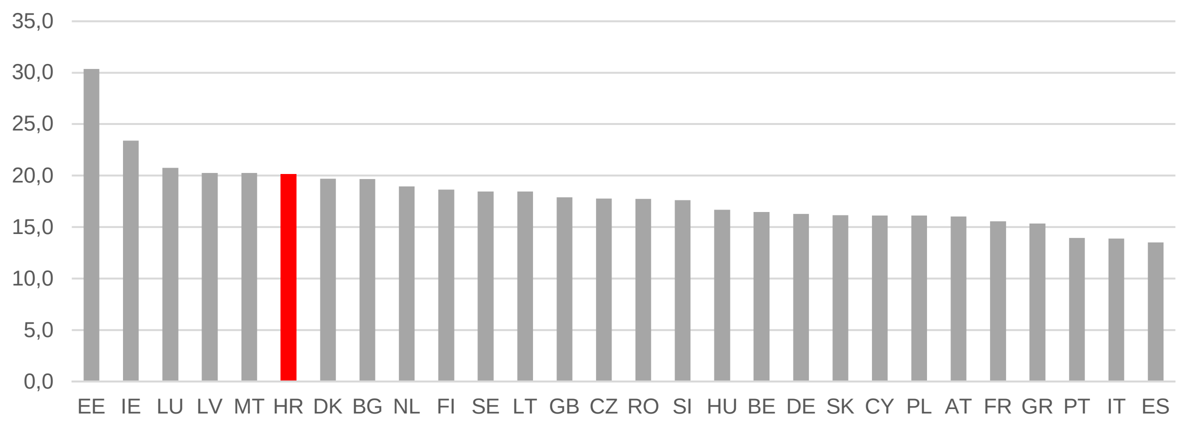
In HRK mil	31 Dec 2017	31 Dec 2018	31 Dec 2019	Δ 3y%	Market share	Capital adequacy
Zagrebačka banka	102,188	113,243	117,634	+11.9%	27.29%	26.3%
Privredna banka Zagreb	75,881	83,023	87,498	+20.8%	20.30%	26.1%
Erste & Steiermärkische Bank	57,206	61,435	63,942	+13.9%	14.83%	21.5%
OTP Banka Hrvatska	19,647	42,149	44,009	+178.7%	10.21%	21.1%
Splitska banka	26,892	-	-	-	-	-
Raiffeisenbank Austria	31,386	32,625	34,076	+8.4%	7.91%	20.8%
Hrvatska Poštanska Banka	**19,798**	**21,255**	**23,840**	**23.15%**	**5.53%**	**20.3%**
Addiko Bank	21,199	18,381	17,969	(14.8%)	4.17%	24.8%
Sberbank	8,897	9,639	11,048	+19.2%	2.56%	19.8%
Agram banka	3,383	3,447	3,721	+4.8%	0.86%	16.8%
Istarska kreditna banka Umag	Out of top 10	3,533	3,662	+8.9%	0.85%	17.1%
First 10	**366,477**	**388,730**	**407,398**	**+12.8%**	**94.52%**	**23.5%**
Other credit institutions	32,776	25,391	23,639	(33.1%)	5.48%	18.4%
Total	**399,253**	**414,121**	**431,037**	**+4.1%**		**23.2%**

Source: HNB, www.hnb.hr (audited indicators of credit institutions from 2008 to 2018, unaudited indicators of credit institutions as of Dec 31, 2019); analysis by HPB

**Note: Change in property is shown from January, 1 2017 – December, 31 2019*

Although the capital adequacy ratio in 2018 slightly decreased due to the transition to IFRS 9, the Croatian banking sector remains one of the best capitalized in Europe with the adequacy of core capital of 23% (20.2% Consolidated - shown in the EU28 Comparison Chart), which remained stable in 2019 despite an increase in RWA due to credit volume growth.

Comparison of tier-1 ratio of consolidated banking systems - EU28 (2018)



Source: ECB Statistical Data Warehouse, https://sdw.ecb.europa.eu/ (Consolidated Banking Data/Capital/Tier-1 ratio), analysis by HPB

Profitability of Croatian credit institutions

In spite of stagnant balance sheet movements, banks have been achieving positive and high return rate sup to 2015, and have went through the financial crisis relatively unscathed, owing to the regulator and monetary policy which demanded that high level of capitalization should be maintained during the period leading to the crisis.

Subsequent to the loss recorded in 2015, induced by FX pegged loans' conversion, and by corresponding write-offs, banks had returned to profitability in 2016, with 2017 having been marked by adverse effects of deterioration of Agrokor's creditworthiness. Nevertheless, total 2017 pre-tax profit amounts to HRK 4.0 billion, which is still respectworthy with regard to impairment losses recorded during the year. The year 2018 was marked by the implementation of new regulations (eg. IFRS 9, MIFID-2, GDPR, etc.), as well as the continued decrease in interest margins (due to faster growing demand for money) and other bank tariffs, which did not slow down profit growth. Good trends continued in 2019, when HRK 6.6 billion of gross profit was generated by the sector, following positive trends in interest income and fees as well as dividend inflows.

According to above circumstances, total (net) operating income of the credit institutions sector increased by 10.7 percent, with net interest income increasing by 6.7 percent and net income from fees and commissions by 9.4 percent. Dividend income has more than doubled in 2019 to HRK 1.2 billion. On the other hand, with the already poor coverage of bad placements, a smaller increase in new NPLs, as well as the absence of one-off effects such as those recorded in 2017 (Agrokor), proisioning costs were halved in 2018, while in 2019 they rose by a slight 2.7% primarily as a result of higher provisions for liabilities and expenses, while credit losses decreased from HRK 1.6 billion in 2018 to HRK 775 million in 2019.

Credit Institutions - Review of Trends in Selected Profitability Indicators 2016 - 2019 and Comparison 2018 – 2019

	Income before tax			ROAE		
In HRK mil	**2017**	**2018**	**2019**	**2017**	**2018**	**2019**
Zagrebačka Banka	1,006	2,111	1,829	*7.0%*	*14.7%*	*12.7%*
Privredna Banka Zagreb	1,673	1,475	2,146	*13.3%*	*11.3%*	*16.5%*
Erste & Steiermärkische Bank	812	1,025	919	*10.7%*	*12.7%*	*10.7%*
OTP Banka Hrvatska	65	214	714	*3.8%*	*4.1%*	*12.8%*
Splitska Banka	(98)	-	-	-	-	-
Raiffeisenbank Austria	475	239	436	*10.8%*	*5.7%*	*10.5%*
Hrvatska Poštanska Banka	**12**	**185**	**91**	***0.8%***	***10.8%***	***4.4%***
- share in total income	*0.30%*	*3.30%*	*1.37%*	-	-	-
Addiko Bank	153	188	160	*4.4%*	*5.8%*	*5.3%*
Sberbank	(158)	83	109	*(14.3%)*	*7.5%*	*8.9%*
Agram banka	26	33	46	*7.8%*	*9.5%*	*12.1%*
Istarska kreditna banka Umag	out top 10	29	37	out top 10	*9.3%*	*11.7%*
First 10	**3,966**	**5,582**	**6,486**	***8.0%***	***10.8%***	***12.5%***
Other credit institutions	(7)	29	137	*n/p*	*1.1%*	*5.6%*
Total	**3,959**	**5,611**	**6,622**	***7.4%***	***10.3%***	***12.2%***

Source: HNB, www.hnb.hr (audited indicators of credit institutions from 2008 to 2018, unaudited indicators of credit institutions as of Dec 31, 2019); analysis by HPB

** NOTE: Pre-tax return on average regulatory capital is shown. Indicators for OTP Bank Croatia for 2018 presented pro-forma with the result of OTP Splitska banka for comparability.*

Management Board Statement of Condition of HPB p.l.c.

History and Development of Hrvatska Poštanska Banka p.l.c.

Hrvatska poštanska banka was established at the beginning of the ‘90s as a result of the work of the group of enthusiasts and experts of the Croatian Post and Telecommunications (“HPT”) who, understanding good business practices of the postal banks in Europe, brought the idea of a postal bank to life after Croatia declared independence.

The Bank was established in October in 1991 with its registered office in Zagreb, and its first business address was in Tkalčićeva street 7. The shares of the Bank were subscribed and taken over by 50 founders/shareholders, business partners of “HPT” which was the largest shareholder and which ensured the premises and the first personnel for the operation of the Bank. As a universal banking organisation, the Bank was registered for “all cash, deposit, credit and guarantee operations with legal persons and all banking operations with natural persons, including also the provision of payment services” at the end of October in 1991 in the court register.

Due to retail and corporate needs for banking services, especially in local areas with no banks, the Bank had relied on around 1,100 HPT offices at the time where banking services were introduces including receiving retail deposits, corporate deposits – HPT-business partners.

From May in 1992 the Bank started to provide international foreign exchange payment services and to collect the first foreign exchange deposits. During that year, the advantages of the newly established financial institution were also recognized, in addition to the founders and “HPT”’s business partners, by smaller private businesses which started to place their deposits into the Bank.

Under the Regulation on Recovery of Debts and Funds Placed With Poštanska štedionica Beograd – Croatian subsidiary, Zagreb (dated 25th March 1992, Official Gazette 15/ 92), the Bank was named as legal successor of the mentioned subsidiary which led to a substantial contribution to its potentials and activities (exchanging passbooks and current accounts, taking savers and depositors, recovering claims).

The first years of the Bank’s operation were marked in the light of the war by decline in total economic and investment activities in Croatia, decline in living standard, high inflation rate (even hyperinflation), monetary indiscipline and higher fiscal expenditures. This situation was ended when the Stabilization Programme was passed in May in 1995, ending inflation and stabilizing DEM rate of exchange. During that time the Bank was doing mostly retail business by receiving HRD (dinar) and HRK funds from individuals, paying salaries and pensions, placing surpluses on money markets and making short-term loans to legal entities supporting their working capital, mostly to “HPT”, its business partners and founders of the Bank. Even under such complex working conditions, the Bank managed to record a constant balance sheet growth and profit, and was always taking care of preserving the value of the founders’ equity and clients’ and investors’ deposits.

In 1995, the building in Jurišićeva 4 was bought and the Bank’s registered office was moved to the new business address. In the same year, the Bank’s acts were aligned with the Companies Act.

The first branch was opened in Split in April in 2003. In July in 2005 the Bank established HPB-nekretnine, a real estate limited liability company and HPB Invest, a limited liability company for investment funds management, forming thus the Hrvatska poštanska banka Group. The development of the Group continued in 2006 with the establishment of HPB Stambena Štedionica, a joint stock company for housing savings, which was successfully merged with the parent company on December 2, 2019. as a result of business rationalization and optimization. In addition to the listed subsidiaries in which the Bank is a parent company and also a one hundred percent owner of all three companies, from July 2018 until April 1, 2019, the Bank become 100% owner of Jadranska banka, Šibenik. In addition to these subsidiaries, the Bank held between 2015 and 2017 the controlling ownership stake (58.2%) in H1 TELECOM, a public limited company.

Through public share offering in September 2015, the Bank’s equity was increased by HRK 550 million by mixed private and public equity investments. The Bank’s shareholding structure includes pension funds, investment funds and other private investors which paid up HRK 305.9 million and acquired the 25.5% ownership stake. The Republic of Croatia paid up HRK 244.1 million and its and the related persons’ ownership stake fell from 99% to 74.5%. In that way the Bank became the credit institution with the most diversified shareholding structure among large banks in Croatia.

HPB's network today is comprised of 12 regional corporate centers (two in Zagreb, Split, Šibenik, Dubrovnik, Pula, Varaždin, Osijek, Rijeka, Čakovec, Zadar and Bjelovar), 9 regional retail centers (Zagreb, Split, Šibenik, Dubrovnik, Pula, Varaždin, Osijek, Rijeka and Zadar), 52 branches and 6 outlets spread over the entire territory of the Republic of Croatia.

Market position and competition profile of Hrvatska poštanska banka, the largest domestically owned bank, enable it to ensure all financial services to individuals, comprehensive financial services to the government and support to the Croatian economy, especially in the small and medium sized enterprises segment.

In cooperation with the Croatian Post plc (”HP”) banking products and services are accessible even in the most remote places in country. The strategic determinants of the HPB's development are focused on increasing market share, development of organization and business processes in line with the best global practices.

Overview of key events in HPB corporate history d.d

- 10/1991 - Establishment of HPB P.L.C. as a subsidiary of Croatian Postal And Telecommunication-HPT
- 12/1995 - Purchase and relocation to a new headquarters in a building in Jurisiceva 4
- 04/2003 - The first HPB branch opened in Split
- Mid 2005 - Company rebranding and adoption of new logo and motto („Moja Banka“)
- 12/2010 - The Republic of Croatia becomes the majority owner of HPB through recapitalization
- 9/2015 - HPB recapitalization through combined private and public investment (HRK 550 million)
- 9/2018 - HPB skips Addiko Bank and ranks 6th in the domestic Croatian banking market
- 4/2019 - Successful merger of Jadranska banka as one of the fastest business combination processes in Croatia

The project of the merger of HPB Stambena Štedionica

In order to build a sustainable business model and improve the business not only of the parent company but also actively manage the ownership interests in subsidiaries, which is also part of the strategic positioning and structuring of the Bank's balance sheet, the Bank has decided to merge HPB-Stambena štedionica (hereinafter: Štedionica). Activities on the merger started as of June 03, 2019. After completing all necessary preparations for the business integration of Štedionica into the Bank's frameworks, as well as the preparation and successful implementation of the migration from the Štedionica IT systems to the Bank's IT systems, Štedionica was formally merged to the Bank on 2 December 2019. By formal legal merger, the Bank assumed all the rights and obligations of the Štedionica in respect of 28 thousand existing housing savings contracts as well as all housing loan agreements.

Project of acquisition and merger of the Jadranska Bank PLC, Šibenik

The Bank, in cooperation with financial and legal advisors conducted due diligence of the company Jadranska banka dd Šibenik under recovery, and developed a business plan and an assessment of JABA's value. Based on the above, the Bank submitted to the DAB an Offer for the purchase and transfer of JABA shares, which was accepted by the DAB on 04 May 2018, as well as a Memorandum of Understanding dated 04 May 2018 complementing the said Offer. Following the necessary regulatory approvals, as well as the approval of the transaction by the General Assembly, on 04 July 2018, an Agreement was signed on the transfer of JABA's shares with DAB, thereby acquiring 100% of JABA's shares by the Bank. The transfer of shares was conducted as of July 14, 2018

Immediately after the acquisition of JABA, a recapitalization of JABA in the amount of HRK 110,000,000.00 was carried out in order to ensure smooth and harmonized operations, and it was started as soon as objectively possible - with effect from 01 April 2019 - the process of merging JABA with the Bank was successfully carried out, which in addition to legal and formal actions included information migration of data, taking care of employees, and renovation and rebranding of business premises.

In the area of the former JABA, a regional center was opened to serve over 33 thousand new clients of the Bank, and synergistic effects were achieved, which is also reflected in the positive effect of the merger of JABA on the Bank's capital.

Business Activity of Hrvatska Poštanska Banka

The Bank offers all banking and financial services with the main focus on retail and corporates, among which:

- all types of deposit and credit products and services for corporates and retail in domestic and foreign currency,
- transaction services (HRK and FX payments),
- issuing guarantees, avals and similar products,
- factoring, financial lease services,
- securities services,
- services related to lending, such as collecting data, making analyzes and providing information on the creditworthiness of legal and natural persons carrying out their business independently;
- performing business related to the sale of insurance policies in accordance with the regulations governing insurance,
- issuing electronic money,
- issuing and managing other payment instruments if the provision of these services is not considered to be payment service provision in accordance with a separate law,
- other banking products and services (safes, Western Union services).

Regulatory Framework

Conditions for the Bank's founding and business as a credit institution in the Republic of Croatia are regulated by the Credit Institutions Act (Official Gazette 159/ 2013, 19/ 2015, 102/ 2015, 15/2018, 70/2019) and the Companies Act (Official Gazette 152/ 2011, 111/ 2012, 68/ 2013 and 110/ 2015, 40/2019).

Offering of investment services and investment activities in the Republic of Croatia are regulated by the Capital Market Act (Official Gazette 65/2018), the by-laws of Croatian Financial Services Supervisory Agency and EU regulation markets throughout the European Union and payment services offered by the Bank are regulated by the Payments Act (Official Gazette 66/2018), together with certain by-laws. The Bank's core business is also regulated by the Croatian National Bank's by-laws as the top regulator which regulates the Bank's core business and operations related to the core business.

Croatian National Bank is the top regulator which supervises credit institutions, while Croatian Financial Services Supervisory Agency supervises investment services and activities, together with supplementary services. State Agency for Deposit Insurance and Bank Resolution controls credit institutions in order for them to meet all the conditions of the Deposit Insurance Act (Official Gazette, 82/2015). In cooperation with the Croatian National Bank it sets procedures and instruments for credit institution resolution as regulated by the Credit and Investment Companies Resolution Act (Official Gazette 19/2015, 16/2019). **The Personal Data Protection Agency supervises** all rights and obligations in the area of personal data protection which defines the obligations and responsibilities of the Bank in personal data processing related to the application of regulations covered by the legal framework for the protection of personal data in the Republic of Croatia with the appropriate application of information security measures.

The Bank uses the EU regulation which includes regulations adopted by the Parliament and the Council. The most important is Regulation (EU) 575/ 2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) 648/ 2012 (Official Journal of the European Union L 176/ 2013). There are also delegated and implementing regulations of the European Commission which concern conducting business of credit institutions in Croatia, as well as other relevant acts which regulate corporate business activities in the Republic of Croatia, and corporates and credit institutions with headquarters in Croatia in part in which they conduct business with foreign entities (e.g. acts of other countries, international contracts related to anti-money laundry, international payments etc.).

The Bank as a lender of the Law on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 108/2017, 39/2019) undertakes in its operations the measures, actions and practices prescribed by this Act for the prevention and detection of money laundering and terrorist financing and the implementation of preventive measures to prevent the use of the financial system money laundering and terrorist financing.

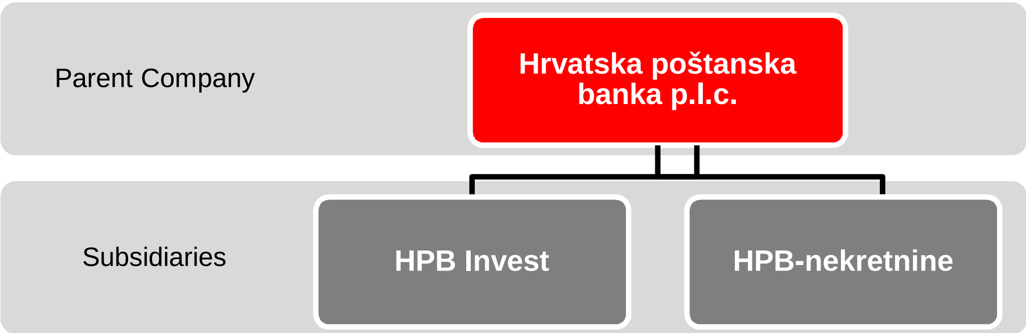
Considering the Republic of Croatia directly or through other government owned companies control majority of the Bank's shares, the Bank's business is also regulated by the special regulation for companies with majority government stake.

Overview of HPB Group and the Bank's Position in the Group

HPB p.l.c. is part of a group of linked entities according to the Credit Institutions Act, and is 100% owner of the following companies which make HPB Group:

	Industry	**State**	**Ownership in %**
HPB Invest	Investment fund management	Croatia	100.00
HPB-nekretnine	Real estate and construction	Croatia	100.00

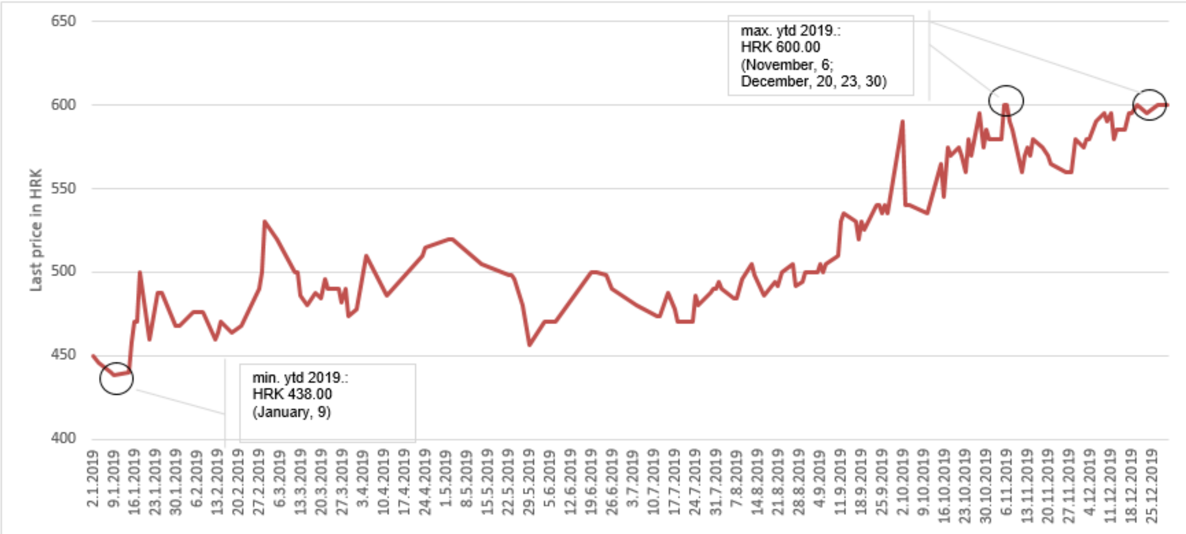
The Croatian Postal Bank, a joint stock company, is not a member of the Group within the meaning of the Companies Act.



HPB-R-A Share

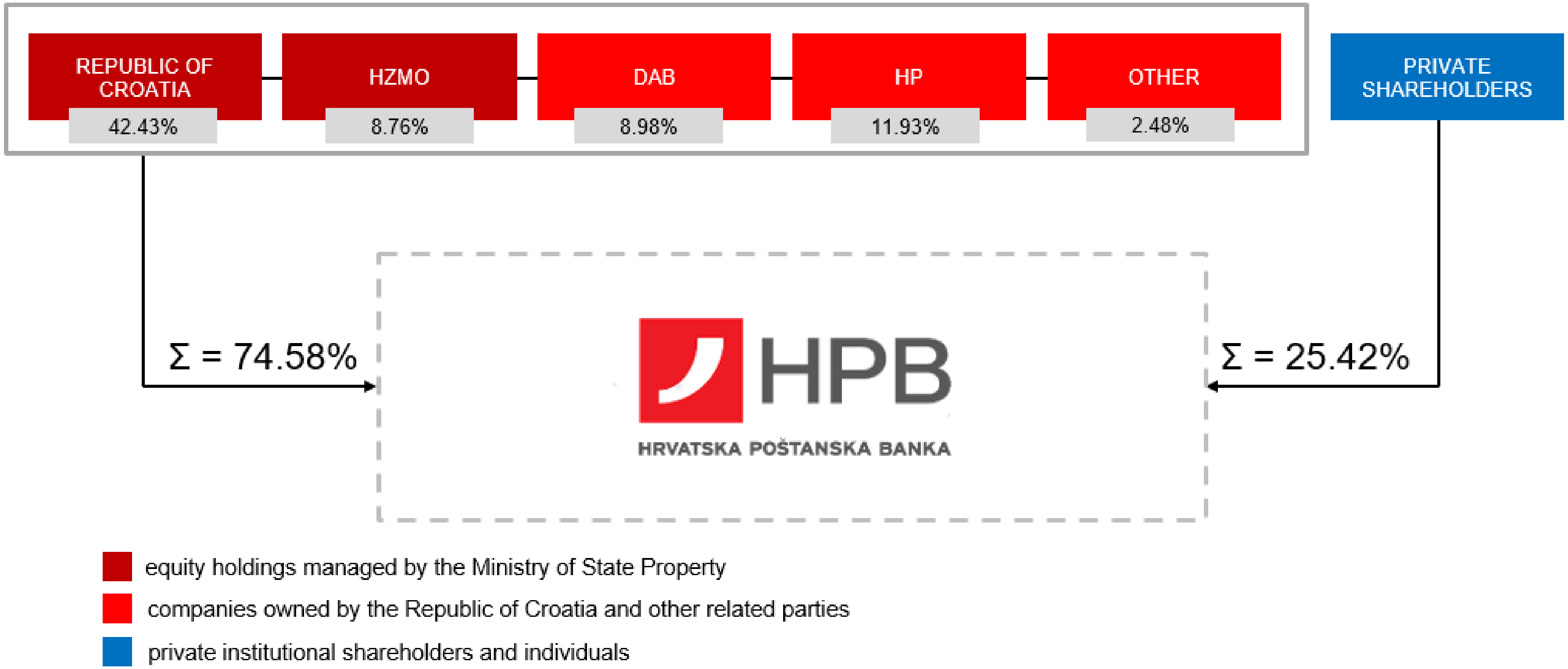
HPB Stock is listed on ZSE's Official market. Last share price at the end of 2019 amounted to HRK 600.00 (30.12.2019. trading day), representing an increase of 33.33 percent in comparison with the last price achieved in 2018 (=HRK 450.00 as per December 28, 2018 trading day).

Trading of HPB-R-A stock during the reporting period was as follows (below presented last price in trading day):



Ownership Structure of Hrvatska Poštanska Banka p.l.c.

On December 31, 2019 the Bank's ownership structure was as follows:



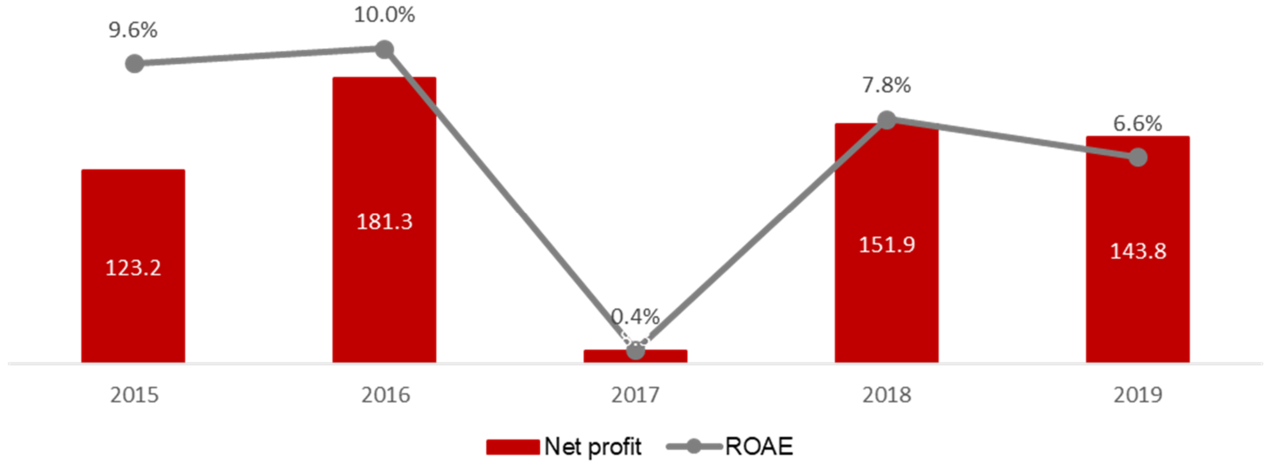
Source: SKDD

On December 31, 2019 The Republic of Croatia through the Ministry of Government Assets and other government institutions controlled 74.6% of the equity and voting rights of the Bank.

Business and financial overview

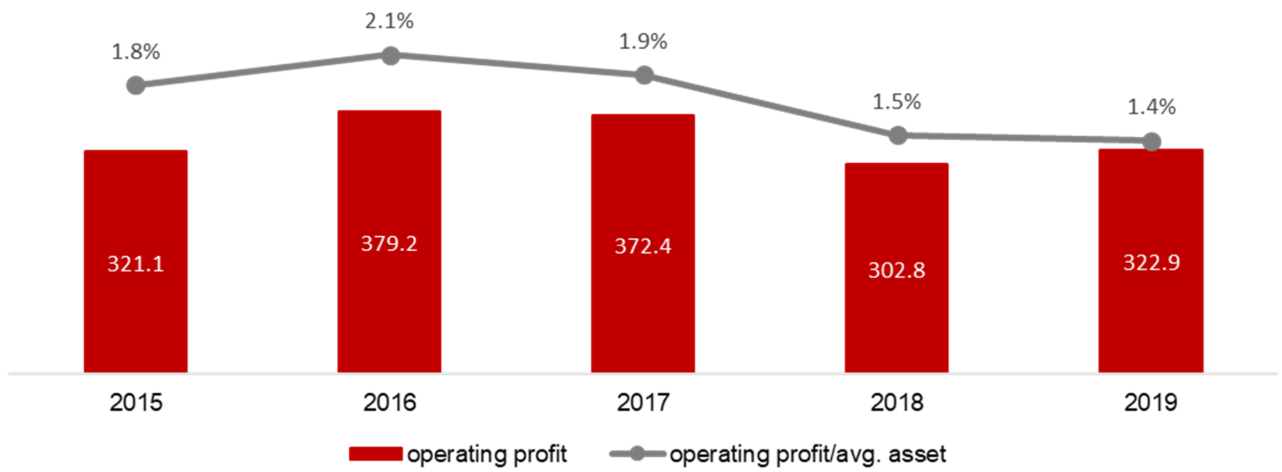
In 2019 the Bank made a net profit in the amount of HRK 143.8 M.

Net Profit/ (Loss)



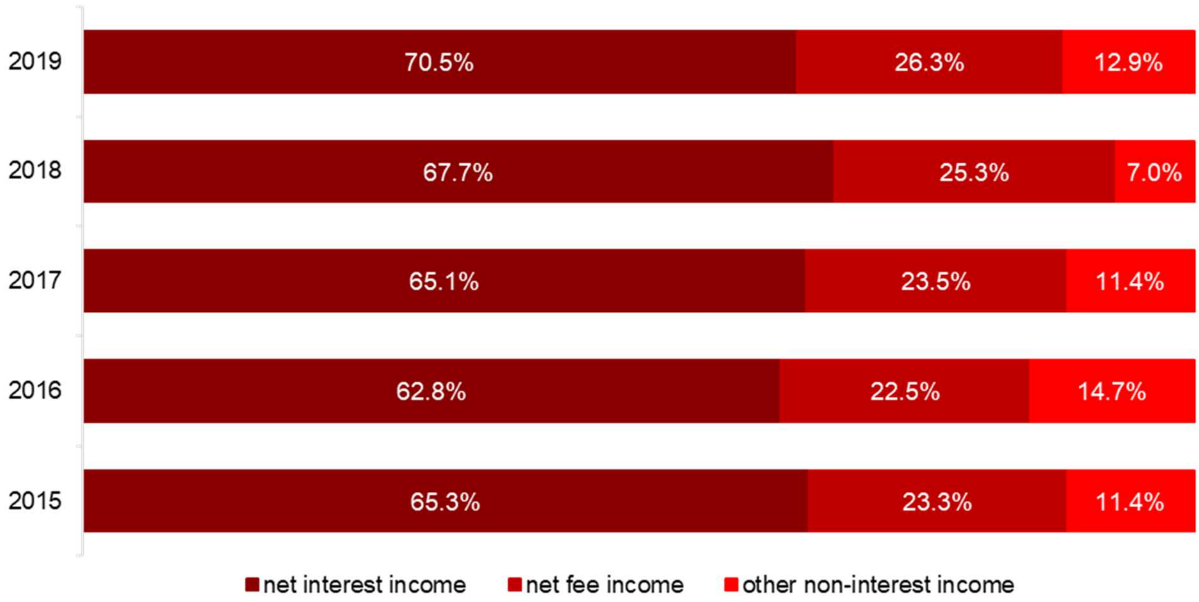
The Bank also made an operating profit before provisions in the amount of HRK 322.9 M. Provisions for Loan Losses and Other Impairments of Financial and Non-Financial Assets were HRK 163.1 M, while Provisions for Liabilities and Costs were HRK 64.8 M.

Operating Profit Before Provisions



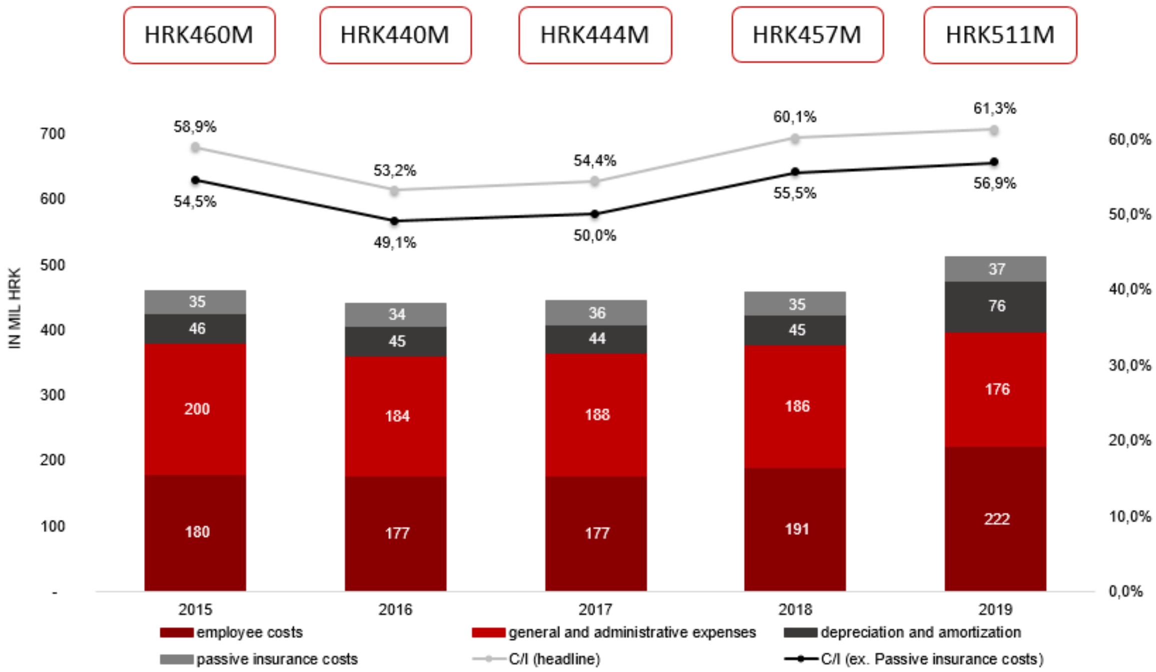
Net Interest Income in the amount of HRK 536.0 M generated 70.5% of the total operating income.

Net Income Structure for a Period January 1 – December 31, 2019

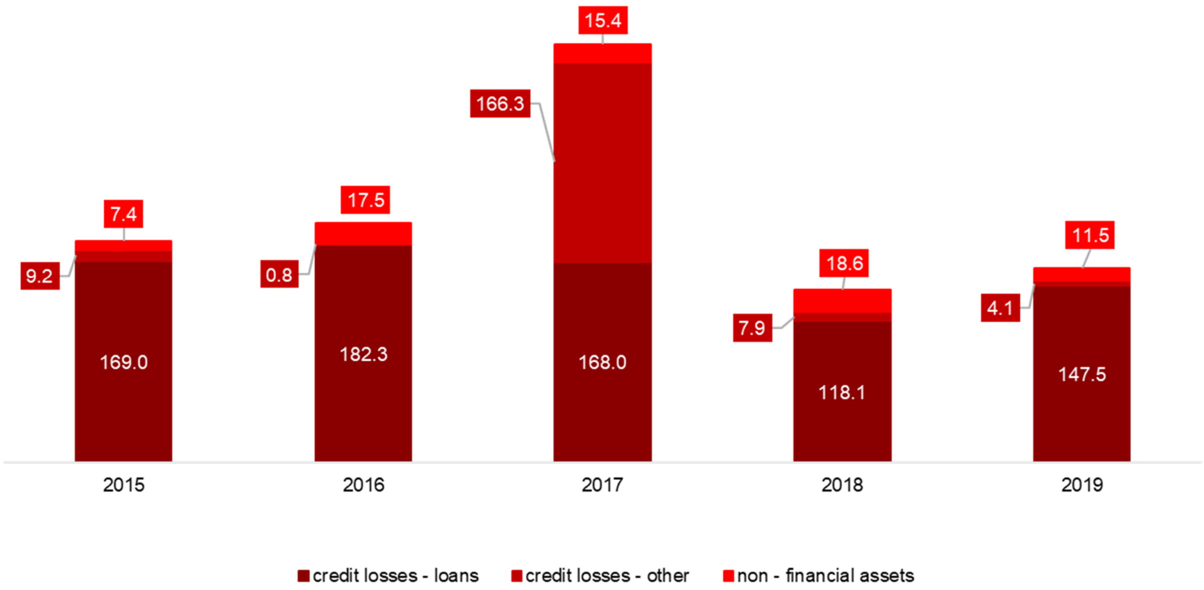


Continuous cost optimization partially offset the increase in administrative costs in 2019 caused by the merger of Jadranska banka and Štedionica, which resulted in a 10.55% increase in costs, which is mostly related to employee costs. Passive insurance costs increased by 5.44 percent, in line with the increase in deposits. The Bank continues its efforts to manage its costs efficiently.

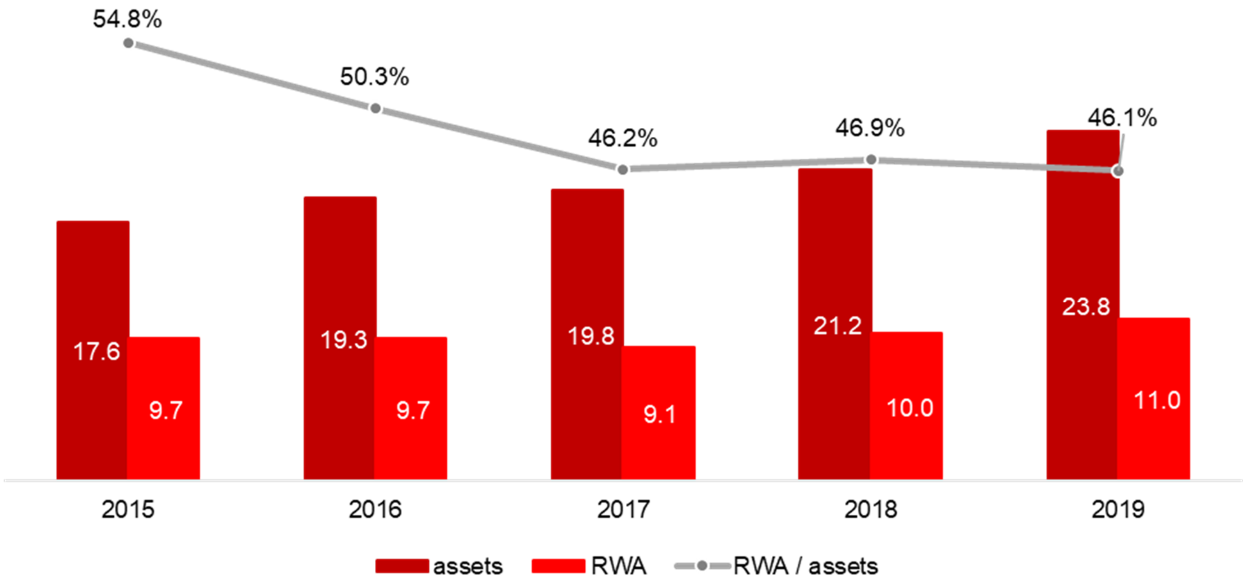
Cost management 2015 – 2019



Cost of provisioning for losses

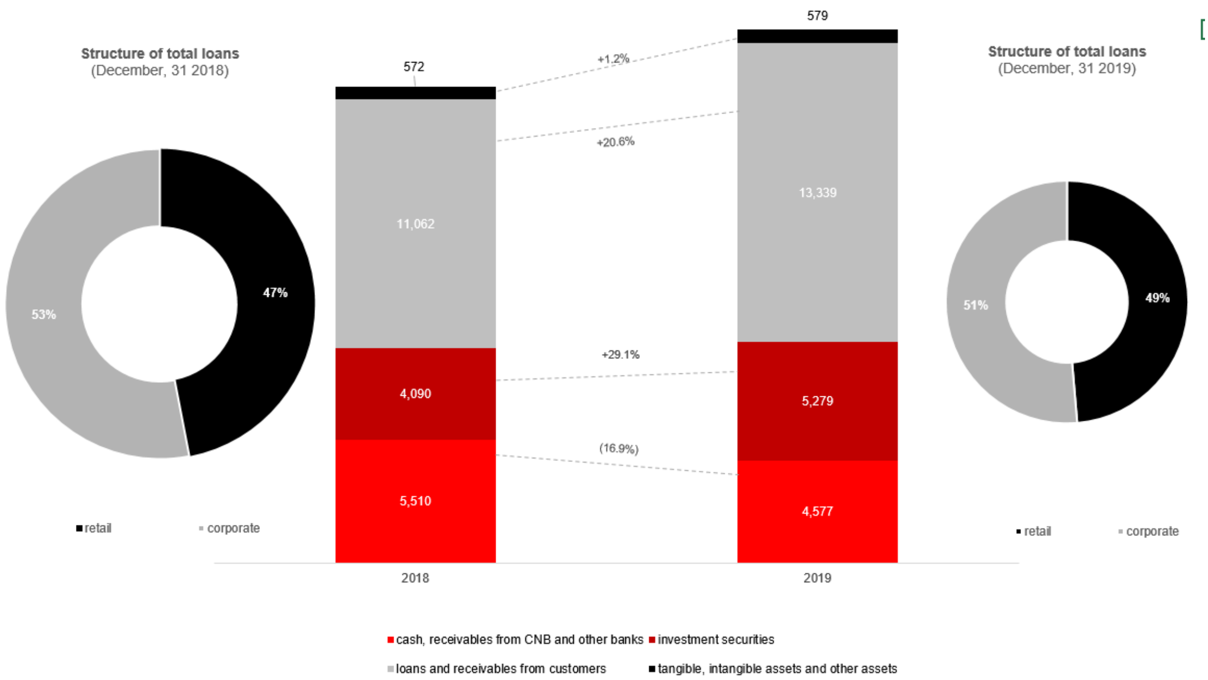


Assets i RWA



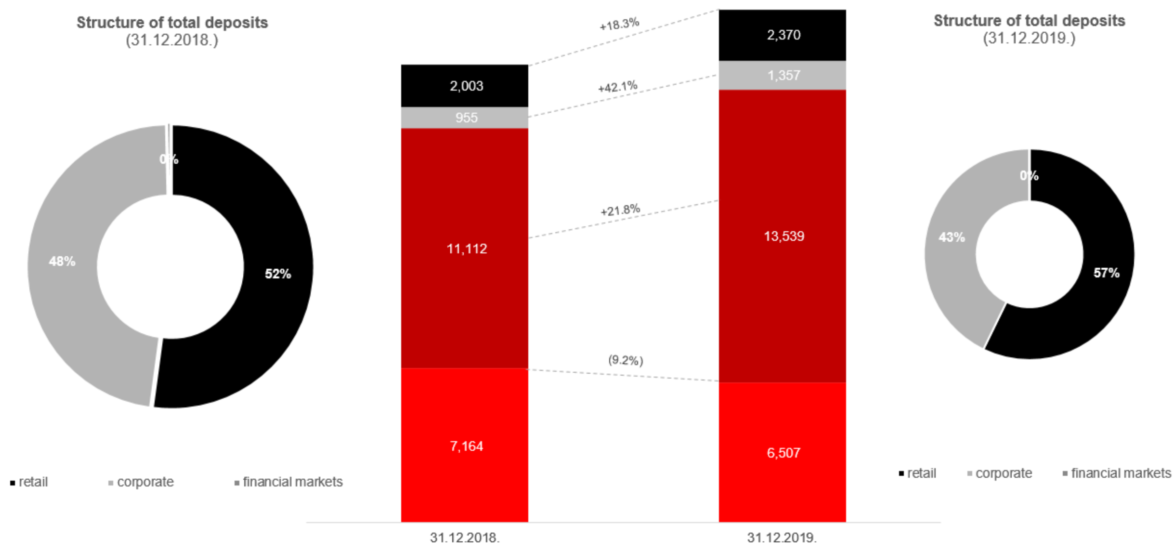
At the end of 2019, the Bank's assets amounted to HRK 23,773 M, which represents an increase of HRK 2,540 M (+ 11.9 percent) compared to 2018. With 52.1%, loans and receivables from customers form the most significant part of the assets structure.

Assets structure



Total deposits grew by 9.7%. The population and economy are growing, with a noticeable spillover of time deposits (-9.2%) on a vista accounts (+ 21.8%), which has a favorable impact on the average cost of resources.

Liabilities structure



Description of business segments

Retail segment operations

573 thousand	26 thousand
total clients	**new clients**

Retail business is done through the Bank's own network of 9 regional centers, 52 outlets and 6 detached tellers, as well as HP's distribution channel with more than 1,000 post offices scattered across the Republic of Croatia.

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In the total structure of deposits, retail deposits are 57.2 percent. Last year, they increased by 20% and amounted to HRK 11.5 billion as of December 31, 2019. Demand deposits amounted to HRK 6.3 billion, having increased by 40% in the year, and term deposits amounted to HRK 5.1 billion and increased by 2%.

The total gross loan portfolio at the end of 2019 amounted to 7.2 billion. In the structure of total gross loans to customers, retail loans are 48.7 percent. Growth was also recorded in the portfolio of housing and other loans. A total of HRK 2 billion of new loan volume was placed in 2019, with a very successful participation in the subsidized housing loan program and strengthening the volume of pre-approved loans to bank clients.

The growth of the deposit and loan portfolio is the result of high-quality service, customer loyalty, top advertising and the recognition of the bank as a safe financial factor in Croatian banking.

2019 achievements:

Sales / Development

HPB continued to grow its credit market share in 2019 due to a significant increase in placements throughout the year.

Participation in APN's subsidized loan program, where HPB, as a socially responsible institution, continued to support the program, helped the growth. With this program we made easier for clients to buy real estate for living, and also supported government demographic measures to retain younger people in the Croatia. Considering the importance of this program, this year the Bank went much earlier in preparation for APN's program and communication with clients, which was finally reflected by the approval of loans to 627 clients in the amount of 393,2 mill. HRK, which is 15% of all clients participated in this year's APN program.

In addition to APN's subsidized loan program, the Bank also offers to companies a similar product line where they settle a part of interest instead of employees, as a measure of retaining key personnel and increasing satisfaction. In this way, synergy with the economy is achieved, as companies are presented with two offers, one for her and the other for her employees.

The Bank recognizes the importance of other similar initiatives at the national level and participates in lending programs that it develops in cooperation with state institutions, such as lending to renters in cooperation with the Ministry of Tourism and HBOR or loans to clients to raise the categorization of accommodation capacities of renters, individuals.

The fact that it is recognized in the market as the Bank for Housing Loans in HRK provides a good opportunity to acquire and build a base of younger working clients, thus diversifying the client structure and obtaining clients with higher income. HPB, with a strong and stable retirement client base, is making strong steps toward younger people for whom it creates special offers and enhances its products and services to keep up with competition, or even be step ahead and keep up with digital banking trends.

In 2019, a new innovative HPB product was developed; Birthday loan. It is the first product of its kind on the Croatian market and the main features are the fixed interest rate in Kuna and the benefit we have prepared for clients – the Bank settles the whole annuity in the month when the client is born, if it is duly settled and fulfills the other conditions of the Bank.

In addition to the development of new innovative products, significant efforts were also made to accelerate the credit process, which further enhanced the "quick" loan for which the approval decision is made within a day. In this way, the bank emphasizes the pursuit of service excellence and customer satisfaction.

In addition to improving the portfolio of existing products and channels and ensuring organic growth, the Bank's focus in 2019 was inorganic growth. HPB successfully merged Jadranska banka in 2019, increasing its market share and showing seriousness and willingness to quickly 'merge' smaller banks. Also, at the end of the year, the HPB Stambena štedionica was merged which was a logical sequence of business optimization.

By merging Jadranska banka d.d. new customer base increased by 25,500. Assets increased by HRK 174 million and liabilities by HRK 1,320 million. This merger significantly strengthened the Bank 's position both in the Šibenik - Knin County and in the Dalmatian region in general. At the time of the merger, a new Regional Center for retail was established in Šibenik, which, in addition to the two existing HPB outlets, during merger received three new outlets and one detached teller. 42% of residents of the Šibenik-Knin County who are now clients of the Bank use their services through five outlets and one detached teller.

With the merger of HPB Stambena štedionica, apart from business optimization, the Bank received 2,400 clients and increased its portfolio by HRK 182 million and assets by HRK 311 million.

In order to make the Bank's products and services more accessible, the Bank has also started to work with credit intermediaries and plans to further enhance this cooperation in the future.

Card operations

553	793 thousand
ATM	valid cards
17	2,404
different card products	EFT-POS

At the end of 2019, the Bank had 792,771 valid cards in its portfolio, which represents an increase of 7.03% compared to 2018. 98.6% of the total number of valid cards refer to cards issued to retail, and 1.4% to corporate entities.

A total of 27 million transactions were completed, from that 24 million were Bank cards. The increase in the number of Bank card transactions is 16.31% in comparison to 2018. The increase in the number of transactions with cards of other banks in the Bank's network is 11.53% compared to 2018. The volume of transactions in 2019 grew 12.76% over 2018.

In the merging process with the Jadranska banka p.l.c., we issued 37,500 cards, of which 528 cards were issued to business entities. During the entire transition period, the cards were the only ones that were functional and customers were able without obstruction to carry out transactions through the Bank's ATM network and EFTPOS as well as at the network of all other banks and card companies in the country and abroad. This ensured continuous operations for all clients of Jadranska banka p.l.c.

In the same period, our ATM network grew by 6% compared to 2018, while the number of EFTPOS devices in the merchant network increased by 26% compared to 2018.

In order to provide the best possible customer service, the Bank has started cooperation with AKD in the segment of production, personalization and distribution of cards as well as PIN envelopes. This ensures remarkable shorter card issuing and distribution process, especially for urgent personalization and delivery that can be made available to the customer in less than one hour.

In addition, following the regulatory requirements for payment security on the Internet, the Bank has started the process of PSD2, 3DS 2.0 regulation, SCA "Strong Customer Authentication" for all customers who want and can pay online using biometrics. This raises the level of online payment security to a higher level, providing our customers with a more secure level of service and an improved user experience.

Moreover, the Bank has begun the process of issuing credit cards that now have signature authentication, replacing it with Chip & Pin authentication, for purposes of compliance with SCA regulations

Digital banking

At the end of 2019, the number of users of Internet banking for retail is 70 thousand, an increase of almost 2% compared to 2018.

The number of business entities that have contracted Internet banking services is more than 7 thousand, which is an increase of 17% compared to last year. Moreover, the number of business entities with contracted mobile banking is also growing, an increase of 56% is observed compared to 2018.

At the end of 2019, the number of mobile banking users is 89,000, an increase of 15% compared to 2018. The number of transactions was 51%, a volume 76% higher than in 2019.

The most significant projects were:

- Uvertira - in record time and with exceptional results the merger of the Jadranska banka p.l.c. with the Hrvatska poštanska banka p.l.c. was completed, where there was significant involvement of the Digital banking department.
- PSD2 - the establishment of API production interface by September 14, 2019; on 14 September 2019 we obtained the approval from CNB for the Request for Exemption from the Emergency Mechanism; via API interfaces allow the use of new services, initiating payment and information services for your account at

the API interface for FO and PO clients. Customization of authorization devices for the use of digital banking services is also included.

- Sepa Instant Payment intensive work on the SEPA Instant Payment project is ongoing, where finalization of the project is planned in 2021.
  SEPA instant payment is a credit transfer or payment, initiated by the payer - consumer or business entity. What distinguishes instant credit transfer from regular credit transfer is the availability of the service 24/7/365 and the execution of transactions and the availability of funds to the recipient within just a few seconds (10 seconds).

Contact center

In 2019, a total of 256,000 calls were recorded to the Contact Center and 1.1 million to the HPB telephone answering machine.

In April 2019, a Contact Center in Šibenik was established with 13 employees of the former JABA.

In order to improve the security of client data, in October 2019 the possibility of checking the balance of accounts and cards of business entities was abolished, and in November 2019 the possibility of checking the balance of retail accounts on the automatic machine 072 472 472 was also abolished.

Overview of Retail Products and Services:

	Product group	Products and services
Retail products and services	Accounts	Current Account Primary Account Switching your payment account Giro-Account FX Account Kids' Account Escrow Account SuperSmart HPB Account
	Savings	Demand Deposit Motiv Plus Savings Term HRK Savings Term FX Savings Term Savings with Multiple Deposits Kids' Savings (HPB Kockica) Annuity Savings
	Loans	**Housing Loans** HRK Housing Loans with Fixed and Variable Rate EUR Linked Housing Loans with Fixed and Variable Rate HRK Housing Loans EUR Linked Housing Loans HRK Housing Loans without Mortgage EUR Linked Housing Loans without Mortgage HRK Housing Loans under the Housing Subsidy Act EUR Linked Housing Loans under the Housing Subsidy Act HRK Supporting Housing Loans (Program A) EUR Linked Supporting Housing Loans (Program A) HRK Supporting Housing Loans based on Subsidization Housing Loans Ac EUR Linked Supporting Housing Loans based on Subsidization Housing Loans Act **Purpose Loans** HRK Loan for preparing for the tourist season EUR Linked Loan for preparing for the tourist season HRK Loan for financing private renters through HBOR with interest rate subsidy by the Ministry of Tourism EUR Linked Loan for financing private renters through HBOR with interest rate subsidy by the Ministry of Tourism Student Scholarship Loans Loans for Paying Overdrafts **Multipurpose Loans** HRK Multipurpose Cash Loans EUR Linked Multipurpose Cash Loans HRK Multipurpose Loans with Fixed and Variable Rate EUR Linked Multipurpose Loans with Fixed and Variable Rate HRK Multipurpose Loans for Pensioners Lombard Loans Secured by Term Deposits HRK Non-Purpose Cash Loan with Mortgage EUR Linked Non-Purpose Cash Loan with Mortgage HRK Non-Purpose Cash Loan with Fixed Interest Rate

Overview of Retail Products and Services (continued):

	Product group	Products and services
Retail products and services	Cards	Debit MasterCard Contactless Card Pošta & HPB MasterCard Maestro Current Account Card Maestro Giro-Account Card VISA Electron Current Account Card VISA Prepaid Card VISA Prepaid Card for Young People VISA Installment Card Credit MasterCard (revolving) Credit MasterCard (charge) Gold Credit MasterCard
	E-banking	Internet Banking mBanking Text/ E-mail Service e-Građani eRačun e-cash
	Other	HPB Kombinacija (Aktiv/Senior/Diplomac) Dynamic FX Conversion at ATMs HPB Services in HP and FINA Safes Standing Orders Direct Debit SEPA Direct Debit Western Union

Corporate segment operations

Large corporates and public sector

1,277 **total clients**	5.3 mlrd **loan volume**
647 **local government units**	6.9 mlrd **deposit volume**

Large Corporate and Public sector division provides banking services to more than 1,270 clients, striving to continually improve services and introduce innovations in order to better meet customer needs. The year 2019 is characterized by further growth of clients, especially in the segment of operations with local self-government units, which is influenced by the merger of Jadranska banka.

Gross loan portfolio for Large Corporates and Public Sector amounted to HRK 5.3 B. Portfolio structure is dominated by loans to companies and state funds, whereby HPB tends to support industries that generate value for overall economy.

Total Large Corporates and Public Sector deposits (without bank deposits) as per Dec 31, 2019 amount to HRK 6.9 B, wherein demand deposits amounted to HRK 5.8B and are primarily related to clients from Central state segment. Deposit growth that has been recorded resulted in significant client acquisition in local government and large corporations' segments.

During 2019, the trend of decreasing interest rates on the market continued. This was compensated with steps taken in loan portfolio volume management and interest expense management. Existing short term funding represents a limiting factor with regard to long term loan operations, especially considering large individual transactions.

High liquidity of the overall financial system, strong interbank competition, a slight but insufficient increase in demand for investment loans, and central government deleveraging, presented a major challenges for the Bank. The decline in the volume of loans and guarantees in the first half of 2019 is a result of significant collections, most of which are related to the repayment of exposures under collected government guarantees. Large and public corporate sector compensated such developments through acquisitions of prudential clients and new placements to high-quality private and public companies. In addition, the Sector focused on raising the level of service quality by forming sales teams, introducing new products and entering new niches that require specialist knowledge.

It is continued with development of new products and strengthening the Bank's specialization, especially in the co-financing segment of ESIF projects through the established EU desk, to provide expertise and excellence in monitoring clients of both the public and private sectors in financing and implementing ESIF projects. Project financing has also been set up to monitor large projects in infrastructure, energy, tourism, etc. to keep up with the growth in demand for investment loans.

HPB continues with successful business cooperation with HBOR and HAMAG-BICRO throughout all the programmes, as well as cooperation with EBRD and EIB.

Division will continue to cooperate intensively and provide loan support to large corporates, state units and local government units. The focus will be on the dispersion of the loan portfolio for the benefit of large private corporations and local government units, as well as on the growth of non-interest income, with continuous improvement in quality and expansion of the range of services.

New products and redesign of Internet banking for corporate clients and improvements in payment solutions and solutions are being prepared.

Small and medium enterprises

11,126	2.5 mlrd*
total clients	**loan volume**
12	1.3 mlrd
regional centers	**deposit volume**

**included craftsmen*

In order to successfully adapt to the specific needs of clients, HPB is continuously engaged in creating complete financial solutions for small and medium-sized enterprises. The SME sector provides banking services to more than 11,000 clients of businesses, with emphasis on business innovation and continuous improvement of financing and refinancing capabilities.

In 2019, the Bank was faced with the great challenge of reducing market interest rates, which was offset by the acquisition of new volumes and the quality management of its existing loan portfolio (19.4% annual growth) and the optimization of deposit interest rates.

As of December 31, 2019, gross placements of small and medium-sized business entities amounted to HRK 2.5 billion, while value adjustments amounted to HRK 550.4 million. Total deposits of business entities of the SME sector amounted to HRK 1.29 billion, with demand deposits amounting to HRK 1.05 million and term deposits to HRK 234.6 million.

In order to ensure adequate regional coverage on the market, in addition to the 12 Regional Centers for Small and Medium Enterprises located in all major Croatian cities, three new Entrepreneurial Centers for the SME were established in 2019. The Entrepreneurial Center Velika Gorica and Sesvete was established within the Zagreb-East Regional Center, and the HOTO Business Center, Strmec Samoborski, was established within the Zagreb-West Regional Center.

New in 2019

- **Successful merger of Jadranska banka and opening of RCG-a Šibenik**
- **Program Horizont**
- **New cooperations – HAMAG, HBOR, Ministry of Veterans**

Jadranska banka was successfully merged with the HPB in April 2019. A team consisting of HPB and Jadranska banka employees completed one of the fastest-running banking integrations in Croatia in eight months. In addition to the merger, the Šibenik Regional Center was opened, one of the largest HPB regional centers operating business in the Šibenik-Knin County.

The strategic goal of the Bank is to improve and establish a new business and operating model for small and medium-sized enterprises, in accordance with which the SME Sector has launched the Horizon Program. In addition to setting up 3 new Entrepreneurial Centers, the key steps are the creation of a new Account Manager position and activities to accelerate the credit process through Credit scoring and Advance Credits.

The new SME model plans to achieve the key goal of increasing SME customer satisfaction by providing an excellent customer experience in the sales network and through distribution channels to maintain long-term customer loyalty.

Creating an environment for simpler and cheaper business, stimulating investment and innovation, and digitalization are trends that the Bank has already embraced to keep in track with global trends and create a modern sales infrastructure.

In order to encourage and develop a better quality entrepreneurial initiative, continuous efforts are being made to improve access for SME financing in all stages of their development and to establish financing and business models that respond to contemporary business needs of entrepreneurs.

HPB actively cooperates with HAMAG BICRO, and based on this cooperation we offer guarantee programs to encourage small and medium-sized enterprises. We also participate in the implementation of a financial instrument co-financed by the European Regional Development Fund under the Operational Program "Competitiveness and Cohesion" (ESIF individual guarantees and ESIF restricted portfolio guarantees).

Apart from HAMAG, HPB also cooperates with the Croatian Bank for Reconstruction and Development (HBOR) and local and regional government ministries and units through various specific lending programs to provide our clients with the most favorable financing conditions.

In order to encourage SME development, HPB uses the synergy of all business areas within the Bank, as well as external strategic partners and other institutions - accessibility of our services is achieved through Regional Centers and through cooperation with partners, Hrvatska pošta and Fina, to be available to clients all over Croatia.

Overview of products and services in the corporate segment:

	Product Group	Products and services in 2019
Products and services in corporate segment	Payment operations	Transaction account
		Entrepreneur Packages
		Cash pooling
		Escrow account
		Cash payments
		Non-cash payments
		Reporting on the status and changes on account
		Solvency data (BON2)
		EUR Payment orders (SEPA)
		EUR Credit transfers (SEPA)
		International payment orders
		EFTPOS
		E-commerce
	SME landing	**Short-term financing**
		Corporate Account Overdraft
		Loans for Working Capital
		Revolving loans
		Loan for refinancing liabilities
		Interfinancing loan
		Margin loans
		Loan with fixed-term deposits
		Loans for preparation of tourist season
		Loans for Financing Stocks of Sugar, Wheat and Other Commodities
		Agricultural (Agro) Loan
		Loan for the preparation of exports and for the export of goods based on foreign exchange inflows
		Discount of bills of exchange of creditworthy companies
		Discount of securities, bonds, commercial papers and bills of exchange with government institutions
		Loan based on cession on credit rating companies in the country
		Loan based on cession from state institutions
		Purchase of credit rating companies' claims (factoring)
		Purchase of receivables from state institutions (factoring)
		Long-term financing
		Loans for permanent working capital
		Loan for investments in fixed assets - investment
		Loan for refinancing liabilities
		Loan with fixed-term deposits
		Loans for preparation of tourist season
		Agricultural (Agro) Loan
		Loan to exporters for the purchase of fixed assets
		Loan for improving energy efficiency and for renewable energy
		Loan for all kinds of works on common parts of the building
		Loan for the purchase of ECO MOBILE equipment
		Frames for financial monitoring
		Framework for the use of short-term and long-term products (loans, guarantees, letters of credit)
		The framework for the purchase of receivables
		Special loan programmes – in cooperation with HBOR (note: until April 30, 2019, the Bank had 23 programs concluded with HBOR, and as of May 1, 2019, 6 lending programs were contracted are listed below)
		Loan program: Entrepreneurship of young people, women and beginners
		Loan program: Private sector investment
		Loan program: EU projects
		Loan program: Export preparation
		Loan program: Working capital
		Loan program: Financial restructuring
		Framework Loan - Working capital loans
		Framework Loan - Investment Lending
		Export Guarantee Bank Insurance Program

	Product Group	Products and services in 2019
Products and services in corporate segment	SME landing	**Special loan programmes – in cooperation with HAMAG-BICRO**
		ESIF program (individual guarantees co-financed by EU Structural and Investment Funds)
		ESIF (Limited Portfolio Guarantee) Program
		HAMAG individual guarantees for rural development
		'PLUS' guarantee program
		Special loan programs - loans in cooperation with MINPO, the City of Zagreb and the counties
		Program "Credit to Success 2014, Measure 1 - Credit to Competitiveness" with the Ministry of Entrepreneurship and Crafts and Counties
		Program "Credit to Success 2014, Measure 2 - Credit to Successful Business" with the Ministry of Entrepreneurship and Crafts and Counties
		Special Credit Programs - in collaboration with the EIB
		Credit to small and medium-sized enterprises (SMEs) and medium-capitalized (Mid-Cap) enterprises
		Special Loan Programs - In cooperation with the EBRD
		Loan for micro, small and medium-sized enterprises
		Loan to women entrepreneurs
		Loan for financing the energy efficiency of apartment buildings
		Loan for financing the energy efficiency of businesses
		Special loan programmes – other
		Loans in cooperation with Craftsmen Society of Zagreb
		Loans for member of Croatian Lawyers' Association
		Loans in cooperation with the Ministry of Croatian Veterans for micro, small and medium-sized enterprises of Croatian veterans and children of Croatian veterans
	Large corporates lending	**Short-term financing**
		Corporate Account Overdraft
		Loans for Working Capital
		Revolving loans
		Loan for refinancing liabilities
		Interfinancing loan
		Margin loans
		Loan with fixed-term deposits
		Loans for preparation of tourist season
		Loans for Financing Stocks of Sugar, Wheat and Other Commodities
		Agricultural (Agro) Loan
		Loan for the preparation of exports and for the export of goods based on foreign exchange inflows
		Discount of bills of exchange of creditworthy companies
		Discount of securities, bonds, commercial papers and bills of exchange with government institutions
		Loan based on cession on credit rating companies in the country
		Loan based on cession from state institutions
		Purchase of credit rating companies' claims (factoring)
		Purchase of receivables from state institutions (factoring)
		Long-term financing
		Loans for permanent working capital
		Loan for investments in fixed assets - investment
		Loan for refinancing liabilities
		Loan with fixed-term deposits
		Loans for preparation of tourist season
		Agricultural (Agro) Loan
		Loan to exporters for the purchase of fixed assets
		Loan for improving energy efficiency and for renewable energy
		Loan for all kinds of works on common parts of the building
		Loan for the purchase of ECO MOBILE equipment
		Project financing
		Frames for financial monitoring
		Framework for the use of short-term and long-term products (loans, guarantees, letters of credit)
		The framework for the purchase of receivables

	Product Group	Products and services in 2019
Products and services in corporate segment	Large corporates lending	**Special loan programmes – in cooperation with HBOR (note: until April 30, 2019, the Bank had 23 programs concluded with HBOR, and as of May 1, 2019, 6 lending programs were contracted are listed below)**
		Loan program: Entrepreneurship of young people, women and beginners
		Loan program: Private sector investment
		Loan program: EU projects
		Loan program: Export preparation
		Loan program: Working capital
		Loan program: Financial restructuring
		Framework Loan - Working capital loans
		Framework Loan - Investment Lending
		Export Guarantee Bank Insurance Program no. OG-2/2018
		Special Credit Programs - in collaboration with the EIB
		Loan to Mid-Cap Enterprises and Public Sector Entities
		Loan to public sector entities
		Loan to private sector entities
		Special Loan Programs - In cooperation with the EBRD
		Loan to women entrepreneurs
		Loan for financing the energy efficiency of apartment buildings
		Loan for financing the energy efficiency of businesses
	Guarantees and letters of credit	Performance guarantees
		Payment guarantees
		Counterguarantees and Superguarantees
		Loro Letters of Credit
		Nostro Letters of Credit
		Documentary Collections
	Cards	VISA Business electron
		VISA Bonus plus
		VISA Prepaid business card
		VISA Business
	E-banking	mHPB
		mToken
		Internet Banking
		Text Service
	Deposits	HRK and FX term deposits
		HRK and FX demand deposits
	Letters of Intent	Non-binding letter of intent
		Binding letter of intent
	Other	Croatia osiguranje bundle *Croatia poduzetnik*
		HPB Invest products
		HPB-nekretnine services

Financial markets operations

High liquidity in the European and Croatian markets also marked 2019. At the end of the year, the ECB relaunched its bond repurchase program, this time in a slightly smaller volume, to drive inflation to its target of 2%. Thus, yields on debt securities and money market interest rates were close to historically low levels for most of the year, and a similar situation can be expected in 2020. Also, in the US, the Federal Reserve System has cut the benchmark interest rate by a total of 75 basis points three times, dissatisfied with current macroeconomic data, all with a view to boosting the economy. In the domestic market, liquidity surplus in the system recorded new highest levels, and the main challenge remained the management of liquidity reserves in terms of creating an adequate portfolio of liquid instruments with an appropriate level of return.

Given the historically low yields on Treasury bills auctions as well as money market fund yields, investments are manly focused in debt instruments with fixed income, whose amount reaches new record levels in the Bank's portfolio.

Although the Bank continues to be one of the most significant players in the domestic money market, in conditions of extremely high liquidity of the system, which is also reflected in the fall in ZIBOR rates, significant activities of the Bank mainly relate to placements of excess liquidity during limited periods of time when demand for HRK was increased.
Due to such high liquidity, the Bank did not participate in regular repo auctions held by the CNB during 2019 and successfully maintained the prescribed liquidity and other ratios. At the end of the year, the liquidity coverage ratio stands at a high 175%.

In 2019, the Bank achieved an improved result with volume increase in FX transactions, even though trading is still marked by tightening of the spreads.

Bank has increased its activities on the treasury products and sales fronts via stronger cooperation with corporate clients, who are offered to transact in FX swap and forward transactions.

In the cash management business, Bank remains one of the key participants on the market. Apart from the wide network of branches and FX exchange tellers, through cooperation with FINA gotovinski servisi, Bank can offer competitive service for trading and supply of cash.

Investment banking

Investment banking operations was marked by preparation for compliance and application of requirements stipulated in „Markets in Financial Instruments Directive“ 2014/65/EU, „Markets in Financial Instruments Regulation“ No 600/2014 (MiFIR), together with corresponding implementation and regulatory technical standards (all together MiFID II) and the new Capital Market Act, effective January 2019, which transposed MiFID II regulation into the Croatian legal system.
In addition, in the part of the brokerage business in 2019, it was marked by the transition to the new Xetra trading platform within the Vienna Stock Exchange and adaptation on the new trading system and the new developments that have resulted from its implementation.

In the capital market, 2019 ended with a significantly higher cumulative total turnover, and especially the increase in turnover was evident in stock turnover. The acquisition of our largest confectionery company was a major contributor to this increase, which was preceded by an attempt by another "player" to acquire as much stake as possible by buying shares on the Zagreb Stock Exchange. All of this led to a great increase in the share price, and therefore the turnover of that share with a total market contribution of almost half a billion Kuna. That liquidity spilled over into other stocks and led to Crobex growth and positive sentiment that lasts until the end of 2019. In line with such developments, the turnover of HPB brokers increased significantly in September compared to the previous months, which demonstrates to the importance of positive market sentiment for turnover and revenues in this part of the business.

During 2019, the Bank participated as a co-arranger in the issues of bonds of the Ministry of Finance of the Republic of Croatia on the domestic market. In the area of custody and depository services of pension and investment funds, the Bank continuously improves and aligns its operations with a number of regulatory requirements and changes. Growth in assets under management has been recorded in both segments (i.e. custody and depository) as well.

Financial Market Products and Services:

Products		Description
Financial Markets Products and Services	Domestic Trading	Trading in domestic financial instruments Clients decide which stocks they will buy or sell and at which prices, as well as what will the structure of their look like Brokers are obliged to acquaint a client with potential risks, current stock price, specifics of each market, movements of certain stocks and to recommend a portfolio diversification
	Regional Trading	Trading in financial instruments in Montenegro, Serbia, Macedonia and Bosnia and Herzegovina Clients decide which stocks they will buy or sell and at which prices, as well as what will the structure of their look like Brokers are obliged to acquaint a client with potential risks, current stock price, specifics of each market, movements of certain stocks and to recommend a portfolio diversification
	Global Trading	Trading in leading global financial instruments Clients decide which stocks they will buy or sell and at which prices, as well as what will the structure of their look like Brokers are obliged to acquaint a client with potential risks, current stock price, specifics of each market, movements of certain stocks and to recommend a portfolio diversification
	Portfolio Management	Specialized service for clients which entrust its funds to the Bank Aimed at clients which in line with its own goals and limits want to invest in securities and other financial instruments with maturity over 1 year to earn extra returns Clients receive reports on changes of securities and balance funds in their portfolio each month or more often if necessary
	Investment Services	Investment advising and advising on equity structure, business strategy and similar, and advising on mergers and acquisitions, together with other investment banking services
	Securities Issuance	Issuance of the following financial instruments: a) debt – short-term (commercial bills) and long-term (bonds) b) equity - stocks The Bank offers services which cover the whole issuance process, i.e. include all activities related to organizing, preparing, subscription and payments of securities, together with other related activities in order to achieve successful issues

<table>
<tr><th colspan="2">Products</th><th>Description</th></tr>
<tr><td rowspan="6">Financial Markets Products and Services</td><td>Securities Custody</td><td>Primarily safeguarding assets, transactions settlement and corporate actions

Custody users are active capital market participants including investment and pension funds and other institutional investors, as well as natural and legal persons which make financial investments

Custody services: safeguarding assets, transaction settlement by client's order, asset valuation, corporate actions reporting, collecting revenue from financial instruments and reporting, representation at annual shareholders' meetings, reports on regulatory changes</td></tr>
<tr><td>Depositor of UCITS/ AIF Investment or Pension Fund</td><td>Depositor is a credit institution headquartered in Croatia or a subsidiary from other EU member authorized by the CNB (or the regulator in domestic market) for safeguarding and administrating financial instruments on behalf of clients including custody and related services, which conducts:

- fund's supervision

- monitors funds' cash flow

- safeguards funds' assets

Depositor takes care of funds' assets accounts and divides a fund's assets from other assets of other funds, depositors and other clients, and management company, ensures assets are invested in accordance with the regulation, reports to the regulator on fund's valuation, performs transactions for management company, reports on corporate actions, offers voting services at shareholders' meetings, takes funds' payments and insures all revenue is used in accordance with the regulation</td></tr>
<tr><td>Moj broker - Web Trader</td><td>Moj broker – Web Trader enables securities trading and monitoring portfolio balance via Internet with no dependence on brokerage working hours

Options:
- to place orders on ZSE
- change or cancel orders
- check portfolio balance,
- check brokerage account balance and turnover
- check stock prices on ZSE with 50 best bids and offers in real time
- data secured exchange</td></tr>
<tr><td>Short-term HRK loans for Buying Financial Instruments (Margin Loans)</td><td>Loans for individuals and corporate with purpose of buying financial instruments included in the list of eligible financial instruments for margin loans in accordance with daily investment limits for each financial instrument

Maturity up to 12 months

Loans of up to 100% of collateral, minimum HRK50K and up to HRK2M</td></tr>
<tr><td>Spot FX Buy/ Sell</td><td>Users are: domestic and foreign individuals, corporates and financial institutions
Purposes include:
- FX buying or selling for international payments or FX deposits
- FX selling
- FX conversion</td></tr>
<tr><td>Forward FX Buy/ Sell</td><td>Users are domestic and foreign corporates and financial institutions
Purposes include:
- buying or selling FX at fixed rate on certain date which is two working days from the date of the agreement
- FX buying for international payments or FX deposits
- FX selling for international payments
- FX conversion</td></tr>
</table>

<table>
<tr><th colspan="2">Products</th><th>Description</th></tr>
<tr><td rowspan="6">Financial Markets Products and Services</td><td>FX Swap</td><td>Users are domestic and foreign corporates and financial institution
Purpose:
- Includes simultaneous FX buy and sell at fixed rates (spot and forward buy and sell transaction)
- 2 currencies are swapped until maturity when they swapped again</td></tr>
<tr><td>Cash Trading</td><td>The Bank's cash management where stocks of FX and HRK cash are maintained at optimal levels</td></tr>
<tr><td>Given Deposits</td><td>Users are banks
Purpose is short-term financing
Maturities up to 12 months or more if necessary
Available from payments to maturity</td></tr>
<tr><td>Received Deposits</td><td>Users are domestic and foreign banks and financial institutions
Purpose is to make returns on available HRK or FX
Maturities are fixed mostly up to 12 months
Not available during deposits term
Early termination possible if contracted previously with financial institutions</td></tr>
<tr><td>Repo/ Reverse Repo</td><td>Users are domestic corporates and financial institutions
Purpose:
- One side transfers a security to the other in exchange of cash flow. At the same time a reverse transaction on a fixed date is contracted.
- Contract includes 2 transactions – 1 buy and 1 sell of the security at fixed price.
- It is lending securities from one and lending cash flow from the other side.
- All risks and benefits of holding security remain with the original owner.
- Reverse repo includes 2 reverse transaction compared with original repo.
Maturities: Repo agreed as deposits up to 1 year or more if necessary</td></tr>
<tr><td>Securities Trading (Bonds, Treasuries, CNB Bills, Commercial Bills, Stocks)</td><td>Users are domestic corporates and financial institutions
Purpose is investing free cash in fixed-income securities issued by the government, local governments or corporates
Maturities include:
- short-term securities up to 1 year
- and long-term securities (more than 1 year)</td></tr>
</table>

Internal control system and control functions

Risk management

HPB manages risks through a risk management system consisting of a set of procedures and methods established to identify, measure, monitor, manage and manage the risks to which HPB is or may be exposed. The purpose of setting up a risk control system is to manage the risks and minimize their unintended consequences, thereby ensuring the stability of HPB's business (including the fulfillment of all commitments). It is important to note that despite the established risk management system, HPB (and no other credit institution) is able to completely eliminate any of the risks to which it is exposed. The risk management system is regularly updated, including its qualitative and quantitative components, and has been established in accordance with the following principles in risk assumption and management:

- Defining acceptable levels of risk exposure based on internal individual risk exposure limits and regulatory requirements,
- Continued improvement of procedure for determining, measuring, evaluating and monitoring risks to which the Bank is exposed,
- Continued development of measuring and monitoring risk procedures and methods in line with development of control risk function and development of certain IT support.

By the nature of its business, HPB assumes various risks when it comes to contracting business with customers. When taking over (and managing risk), HPB has the following goals:

- Ensuring stable and secure growth through an effective risk management system,
- Improvement of risk profile,
- Ensure the implementation of a comprehensive management system based on the application of harmonized procedures and procedures at the Bank level.

Considering the size and complexity of its activities HPB defined substantial risks which are monitored through the risk management system

- Credit Risk,
- Market Risk,
- Liquidity Risk,
- Interest Risk in the Bank's book
- Operational Risk

Credit Risk

Credit risk is the risk of loss due to a borrower's default on a credit institution. This risk is assumed by HPB as part of its regular business activities and is also the most significant risk for HPB (and for all credit institutions).

Accordingly, the greatest attention was given to credit risk management through the prescribed policies, procedures and other internal acts of the Bank.

The objective of credit risk management is to ensure a quality credit portfolio, earnings and growth in placements while maximizing the rate of return with an acceptable level of risk-earnings ratio and their relationship to the price of the source of funds.

Credit risk management is organized through:

- The Management Board,
- Authorized committees (Credit Committee) and persons,
- Operating and organizational separation between front and back office activities,
- Risk control function.

The tendency to assume credit risk is determined by the established limits on credit risk exposure.

For the purposes of credit risk control and management, different risk parameters are monitored (e.g. debtors' creditworthiness, regularity in settlement of HPB liabilities, quality of collateral, regulatory and internal capital adequacy, portfolio quality) and different estimates are made (ego credit risk assessment placements prior to approval, estimation of recoverability of placements).

Credit risk is also related to concentration risk and currency induced credit risk which HPB manages in the same way as it manages credit risk.

Market Risk

- Market risks include position risk, FX and commodity risk.
- Position risk assumes loss due to price change of financial instruments or financial derivatives
- FX risk assumes loss due to change in exchange rate or price of gold
- Commodity risk assumes loss due to price change of commodities.

Market risk management is organized through:

- The Management Board,
- Operating and organizational separation of front and back office trading activities,
- Assets and Liabilities Office,
- Risk control function.

The tendency to assume market risks is determined by the established market risk exposure limits. In order to manage market risks, appropriate limits have been established at the portfolio, sub-portfolio and instrument levels with respect to (depending on the nature of the financial instrument) certain market risk exposure measures. Also, stop-loss limits for individual equity securities classified as trading assets have been established.

In measuring and valuing market risk exposure the Bank uses a methodology based on value at risk (VaR) method, duration and PV01 (internal model).

Liquidity risk

Liquidity risk assumes loss due to inability to fulfill liabilities at maturity date. Liquidity risk is related to the following two risks and the Bank considers them as one for the purpose of risk management:

- Funding Liquidity Risk assumes credit institution's inability to fulfill current and future cash needs or collateral needs without effecting its daily business or financial results
- Market Liquidity Risk assumes credit institution's inability to offset positions or eliminate them at

Liquidity risk management is organized through:

- The Management Board,
- Assets and Liabilities Office,
- The Assets and Liabilities Committee (Liquidity Subcommittee),
- Risk control function,
- Financial Markets Department.

Methodology of measuring, i.e. estimating exposure to liquidity risk is based on the calculation of liquidity coverage ratio (LCR), calculation of structural liquidity monitoring and reporting of net stable funding ratio (NSFR) and reporting of additional liquidity monitoring metrics (ALMM).

The tendency to assume liquidity risk is determined by the established limits on liquidity risk exposure. In order to mitigate liquidity risk, appropriate limits have been established with respect to the liquidity ratio and limits for structural liquidity ratios. There are also limits in accordance with the Decision on Mandatory Reserves and Decision on Minimally Required FX Receivables by the CNB.

Interest rate risk in the banking book

Interest rate risk in the banking book is the risk of loss arising from possible changes in interest rates that affect the items in the book of non-trading positions.

Managing interest risk in the Bank's book is organized through

- The Management Board,
- The Assets and Liabilities Committee,
- Risk control function.
- Assets and Liabilities Management.

The tendency to assume interest rate risk in a bank ledger is determined by the established limits on interest rate risk exposure in the bank ledger.

Methodology of measurement of exposure to interest rate risk in the Bank's book is based on internal system of measurement of changes in economic value calculated as the 99th percentile of attributable one-day changes in interest rates over the course of 5 year period scaled to a year lasting 240 days (taking into consideration the lower bound of simulation of parallel interest rate changes equaling 2 percentage points), for each currency which represents 5 percent or more of Bank's balance sheet. Meanwhile, for other currencies Bank uses simplified calculation of assessed changes in economic value of the Bank's book, as prescribed by CNB's Decision on managing interest rate risk in the bank's book. Exposure to interest rate risk from the profit perspective is also calculated.

For mitigating interest risk in the Bank's book there are certain limits related to change in the economic value of the Bank's book and regulatory capital related to change (decrease) of net interest income.

Operational risk

Operational risk is risk of loss stemming from inadequate or unsuccessful internal processes, people or systems or external events, including legal risks.
Operational risk management is organized through:

- The Management Board,
- Structure of operational risk management (Operational risk manager, Support persons for operational risk management, Connection persons),
- Operational Risk Management Committee,
- Assets and Liabilities Committee,
- Corporate Security Office,
- Compliance Office,
- Risk control function.

Methodology of measuring, i.e. estimating operational risk exposure is based on collecting and analyzing data on events due to operational risk, self-assessment of risk and controls, estimated IT risk, results of analysis of business effects taking into count implemented going concern plan and estimation of externalized risks. Also, the Bank estimates effect of introducing new products to its risk profile.

The Bank primarily uses measures for mitigating operational risk through internal control system and risk transfer measures (hedge) in cases where applicable. Also, there is going concern management system.

Other risks

Other risks, although present in HPB's business, are less significant than previously described and the methodology and method of managing them are less complex than for the significant risks (described above).

Concentration risk is the risk arising from each individual, direct or indirect, exposure to a single person, group of related persons or central counterparty or group of exposures connected by common risk factors, such as the same economic sector or geographic area, equivalent business or products, i.e. using techniques to for lowering credit risk, including risks related to indirect credit exposure to same collateral provider which can lead to losses that could jeopardize credit institution's going concern or make material change to its risk profile.

Collateral Value Risk assumes inconvenient market movements of assets used as collateral which will be a collateral trigger and cashed in for receivables collection.

Government Risk assumes government bodies or the central bank will not be able to meet its obligations toward other countries or foreign lenders and that other debtor of the country will not be able to meet their obligation to foreign lenders.

Strategic Risk assumes loss due to wrong business decisions, inflexibility to economic changes etc.

Management Risk assumes loss due to credit institution having limited capacity in forming sophisticated management system, mechanism and controls.

Credit Value Adjustment Risk assumes portfolio value adjustment at mid-market value (this risk is related to all OTC derivatives for all business activities except credit derivatives recognized for reduction of credit risk weighted exposure). Credit value adjustment reflects current market value of counterparty credit risk for the institution but does not reflect current market value credit risk for the counterparty.
The Bank regularly reports on credit value adjustment risk, which is not significant considering the scope of the Bank's operations.

Compliance risk Compliance assumes potential measures and penalties and the risk of significant financial loss or reputation loss which the credit institution may suffer due to non-compliance with regulations, standards and codes and internal laws.

Business risk assumes negative, unexpected change in the volume of business and / or profit margins that can lead to significant losses and thus decrease the credit institution's market value. First of all, business risk can be caused by a significant deterioration of the market environment and changes in competition or consumer behavior.

Legal risk assumes legal procedures against the Bank due to unfulfilled contractual obligations, legal proceedings against a credit institution and business decision which are not applicable or have a negative effect on the Bank's business and financial position.

Regulatory Risk assumes regulation change which can affect the Bank's business and profitability.

Internal Controls System and Internal Audit

The management and all employees are responsible for the implementation and application of the elements of internal control systems. The elements of internal control systems are described in the internal regulations and implementing documents of business areas with particular emphasis on preventive control activities and early detection of weaknesses and disadvantages.

Internal Audit provides an independent assessment of the adequacy and effectiveness of internal controls of each audited area.

Internal controls are rational guarantee that business goals will be delivered in appropriate way, within set time limits and by satisfying all regulatory standards.

Internal controls are part of the managing process of management and all the Bank's employees.
Basic principles of internal controls system are:

- Clear lines of responsibility
- Separating responsibilities and duties
- Specific control procedures
- Internal audit function

Internal audit

Internal audit is organized as an independent organizational part, and is based on professional principles of internal auditing, alongside associated regulations. Management and responsibilities of internal audit were set by dual responsibility. Administratively it responds to the Management Board, while functionally it responds to the Supervisory Board, and Board of Auditors.

The Internal Audit Office is organized by area and specialized teams and skills are encouraged for each area. Therefore, there are teams for Information System, Financial Markets, Risk Management, Retail and General Audit. Internal Audit Charter insures organizational independence of internal audit. Access to data, information on persons and spaces is direct and unlimited.

External valuation of internal audit is conducted in accordance with the internal audit standards and the last of Internal audit procedures are performed in accordance with general internal audit standards and regulatory requirements, in four phases which include planning, research, reporting, and results monitoring.

Planning is based on documented risk assessment and Yearly Operational Program is adopted by the Management Board with prior consent of the Audit Committee and the Supervisory Board. Internal Audit covers all business areas of the Bank and is structurally divided into audit of retail, risk management audit, general audit, audit of information system and audit of the financial markets.

Report on audit results is submitted to accountable person within the subject of internal audit, and member of the Bank's Management Board in-charge, and Audit Committee. Each individual report is subject to discussion during MB session, thus ensuring that MB is aware of the audit's result, recommendations, as well as deadlines to implement recommendations and measures.

The Audit Committee receives individual internal audit reports at the meetings of the Audit Committee through the Head Office as part of the regular submission of documentation. Internal audit prepares the report on work on semi-annual and quarterly basis and submits it to the Management Board, Audit Committee and the Supervisory Board.

The report contains information on the achievement of annual work plan, a summary of the most important facts established during the audits carried out, the recommendations and the status of execution and removal of the recommendations and measures identified during the audit.

Compliance monitoring function

The compliance monitoring function is organized within the Compliance and Management Support Office.

The Director of the Compliance and Management Support Office is the person responsible for the control function of monitoring compliance, and in addition to the duties and responsibilities prescribed by the Bank's internal acts, in particular:

- is responsible for coordinating compliance risk management;
- is required to identify and assess compliance risk once a year;
- is responsible for the annual work plan, operational plans and methodology, and the budget of the Office for Compliance and Support to the Board;
- is obliged to submit at least semi-annual reports on the work to the Management Board, the Risk Committee and the Supervisory Board of the Bank;
- is obliged to make an annual assessment of the Bank's compliance with the regulations governing the provision of investment services and the performance of investment activities;
- is obliged to submit at least annually a report on the activities related to the provision of investment services and the performance of investment activities to the Management Board, the Risk Committee and the Supervisory Board.

The Director and employees of the Office, who perform compliance monitoring activities and who belong to the Compliance and Management Support Office (hereinafter referred to as: the Compliance Monitoring Function), act independently of the business areas, processes and activities in which compliance risks arise and do not perform the activities where they could come into conflict of interest. Furthermore, they are authorized to request and obtain access to all information, data and documentation necessary for the performance of tasks within their jurisdiction, and other organizational units of the Bank are required to cooperate in providing the requested information.

The operations, scope, method of work and the reporting system are governed by the following internal acts:

1. Business Compliance Policy;

2. Rulebook on business coordination;

3. Business Compliance Methodology.

The compliance monitoring functions include at least:

1) identifying and assessing the compliance risk to which the Bank is or may be exposed,

2) advising management and other responsible persons on how to apply the relevant laws, standards and rules, including information on current issues in these areas,

3) an assessment of the effects on the credit institution's business of changes to the relevant regulations,

4) verification of compliance of new products or new procedures with relevant laws and regulations, as well as with changes in regulations, in cooperation with the risk control function;

5) supervising and checking the treatment of privileged information in terms of capital market regulations and keeping prescribed records and registers,

6) reporting to the Management Board, the Supervisory Board and the Risk Committee and other control functions on compliance risk,

7) Collaboration and exchange of information with the compliance control function and compliance risk management,

8) consulting activities in the preparation of educational programs related to business compliance,

9) the tasks of supervision and verification of compliance of operations with the relevant regulations and reporting on the performed supervision,

10) the tasks of monitoring and controlling the compliance of the Bank's operations with the professional and ethical standards set out in the Code of Ethics and reporting to the Management Board on the controls carried out;

11) monitoring and control tasks related to performance of investment services and activities, which includes at least the control of recording telephone conversations and electronic communications, managing the customer complaints system, managing investment products, qualifications and personnel conditions of employees providing investment services and activities.

The compliance function continually cooperates with the managers and employees of the Bank's organizational units, especially in the part related to advising on the application of the relevant regulations to individual obligations and responsibilities in the business domains. It also participates in regulatory compliance and implementation activities to identify and manage compliance risk at an early stage. In doing so, it is necessary to ensure that the co-operation of the Compliance Monitoring Function with other organizational units does not in any way call into question its objectivity and independence.

At the beginning of the business year, and no later than January 31, each year, the Director of the Office shall submit to the Management Board, the Risk Committee and the Supervisory Board the annual work plan of the Office, which is approved by the Bank's Management Board with the prior approval of the Risk Committee and the Supervisory Board.

Furthermore, the Director of the Office, once a year, as part of the annual report, performs the identification and assessment of compliance risks in accordance with the categories of business compliance priorities established by the Business Compliance Policy and provides an assessment of the Bank's compliance with the relevant regulations.

The Annual Report shall be submitted to the Croatian National Bank by 31 March of the current year for the previous year. The compliance monitoring function also cooperates with the other two control functions - the Internal Audit Office and the Risk Management Sector - especially in the part related to monitoring the implementation of the recommendations of the supervisory regulatory bodies. The cooperation is aimed at the objective of jointly establishing an effective system of internal controls in all areas of business, while avoiding overlapping and conflict of competencies.

Supervision over Compliance and Management Support Office is performed by the Internal Audit Office as part of the Bank's ongoing and complete oversight.

Development plan of Hrvatska poštanska banka p.l.c.

The banking sector in the world and in Croatia is still strong, but it is increasingly influenced and weakened by new challengers, and increasingly stringent regulation generates increased costs. Banks are responding by increasing efficiency, reducing costs, increasing customer care and regulation, and making significant investments in digital, collaborating with new technology companies.

The challenges and dangers that threaten the Bank in a competitive environment are underinvestment in new technologies and the future, higher cost of funding, inefficiency, lack of continuity, inability to adequately reward the best, lack of knowledge sharing (usually in groupings) and limited capital.

The strategy presented in this document is based on achieving the desired long-term status (the "vision"), with the achievement of HPB's business purpose (the "mission"). To meet the challenges of the future, the Bank, respecting its specific position as the largest domestic commercial bank, has defined its vision and mission as follows:

MISSION

We create conditions for a better life in Croatia.

VISION

A Croatian-owned bank with relevant market influence that cares best for clients, shareholders and the community.

The following areas have been identified as the foundations of development - the pillars of development:

PILLARS OF DEVELOPMENT

Croatian Post Office Channel	Optimization of the operating model	Digitalization

The Croatian Post channel is the Bank's most important distinguishing element. Contractual, IT and ownership connection are the basis of the largest branch network in Croatia, which is used to contract and sell part of HPB's financial products. Introducing new products into the HP network will contribute to the results of both strategic partners and benefit customers.

The optimization of the operating model is reflected in the Bank's focus on the need to reduce costs in the context of falling margins, which will be reflected in the advancement of C / I indicators and its convergence to the sector average.

Digitization is the focus of the Bank on monitoring trends in banking and non-banking competition on the one hand, and in a timely manner identifying of increasingly sophisticated needs of customers on the other. Digitization for credit institutions is no longer an advantage but a prerequisite for survival, and will be implemented from two aspects: (i) the client aspect, related to the functionality of products and services, and (ii) the internal aspect, related to automation and process efficiency .

In achieving its business and financial objectives, the Bank's management will initiate the necessary project and operational activities to ensure value creation for shareholders, customers and the economy as a whole, guided by the following guidelines to be promoted in the Bank's business culture:

Efficiency	The Bank and its management strive for simplification of the process and rational use of resources, to create greater value at lower costs.
Profitability	Achieving an adequate and sustainable return on equity in the terms of falling margins and demographic decline is one of the most important priorities in managing the Bank.
Capitalization	Responsible management of capital, maintaining an adequate level of capitalization, with the tendency to minimize capital consumption per unit of placement.
Simplicity	New methods of work, simplicity of organization and business processes will be reflected in the significant improvement of productivity indicators in the medium term.
Risk Management	Basing the business on diversifying the loan portfolio. Preference for smaller exposures, standardized products and quality collateral, in accordance with credit approval rules and decision-making matrices.
Compatibility	Compliance with rules, regulations, and business best practices is a prerequisite that binds all employees of the HPB Group.

Corporate and public sector banking operations

The strategic focus of Corporate and SME ("Sector") is on the intensive expansion of business cooperation with existing clients and the acquisition of new ones, based on best banking practice. Thereby, special attention will be paid to the balance between the commercial opportunities offered by the market and the needs of the Bank to follow its conservative approach when it comes to risk management. The sector has set three strategic pillars on which to base further development of the business:

The strategic guideline of HPB p.l.c. is to become one of the three leading banks in the co-financing and pre-financing of ESIF projects. Accordingly, the aim of the Sector in the coming period to ensure growth through acquisitions and credit-guarantee tracking of local government and related companies, and a number of medium-sized legal entities predominantly owned by the Republic of Croatia in the implementation of projects co-financed from the funds ESIF.

The second pillar of business development is based on increasing the base of active corporate clients in the private domestic and foreign ownership through the provision of credit lines for investment and working capital, documentary operations at home and abroad and a wide array of cash transaction.

The third pillar of development is based on the development of sophisticated financial monitoring services of "greenfield" investments in the segment of the energy industry, water and utility industry, residential construction and tourism sectors, with the principle that we support the highest quality projects that are appropriately capitalized and for which the adequacy of future cash flows from the operation of the project can be estimated with a high degree of certainty.

The goal of this approach is the application of special sales channels and management of a business relationship that will respond to the needs and expectations of clients in the best possible way. This will highlight the Bank's ability to create optimal combinations of commercial functionality in conjunction with a risk profile for each individual segmented customer group.

In addition, the approach to customers according to their belonging to the industries will not be ignored, which will lead to further specialization aimed at improving the quality of the overall business relationship with clients. In doing so, maximum of branch exposures to credit risk will be taken into account, all in accordance with the macroeconomic indicators of the respective branches of activity.

Target acquisition client group consists of all the solvency clients who have opened an account and stable business relationship with other banks - large systems, state and local governments. The Bank's approach to customer segmentation will give the opportunity to offer the highest quality solutions to new clients while maintaining the needed level of security in the risk management part.

Using various acquisition tools - customer base, prior to selection, sales campaigns, etc. - will allow access to new customers and expanding relationships with existing. The Bank's plan in this regard is to fully harmonize the quality of the credit process, the level of authorization in the approval hierarchy of individual products and customer segments and the offer of product solutions with a high level of flexibility. Automation and digitalization are trends already adopted by the Bank to keep pace with global trends and create a modern sales infrastructure. Development processes are ongoing and a number of automated services based on mobile technologies are expected to be introduced in the coming period. In this way, the Bank ensures faster and simpler business for entrepreneurs with quality long-term business relationship management.

Sector will continue to focus on expanding business cooperation and granting loans to those customers and industries that largely contribute to increasing the GDP of the Croatian economy - the manufacturing sector, exporting, manufacturing and energy production. At the same time, as an imperative of quality of risk management, it imposes an individual approach to each client in assessing its overall financial quality, the potential of the industries in which it operates and the potential of specific business transactions that enter.

In order to achieve the best possible position in the market, to provide the best customer service and to optimize the revenues, the Sector will strengthen cooperation with the Hrvatska pošta p.l.c. as a strategic partner, especially in the area of increasing the number of clients from the field unit of local government and related companies. The significant potential of Hrvatska pošta p.l.c. distribution channels provide the Bank with a great opportunity to increase the volume of sales of its products and services, primarily in the area of cash transactions and card products, which will have the effect of increasing non-interest income.

The Bank will continue to develop its business relationship with FINA as one of the most dominant partners in terms of total payment transactions and revenue generated by this line of business. In preparations are activities related to improving the cash management business, increasing the number of safe deposits and manipulation with cash deposits in cooperation with major clients who are in need of deposit of the same at their locations. Attention will be paid to further improving the front business of the Bank by FINA and through joint projects which should enable clients more easily to manage their deposits after the payment made to the locations of FINA.

In the deposit segment, the emphasis will be on expanding the cash transaction of business with large companies and corporations, as well as continuing the good cooperation with state and public companies, local governments and companies owned by them. At the same time will be focused on the optimal ratio of the interest cost and the Bank's need for liquidity, which will be invested in the market. In this context, high interest rates on deposits are continuously reduced without adverse effects on the overall deposit environment of the Sector and the Bank. The Bank has been recognized as a partner in the corporate banking business by clients who show their confidence through the continuous inflow of new term and a-vista deposits.

The ambition of the Sector and the Bank in the area of operations with the economy is to be a reliable partner to customers that their expertise will have a positive impact on their business while making continuous growth of its profitability and high level of protection and security of their portfolio. This will be the main goal in the business in the coming period, ensuring the establishment of the Hrvatska poštanska banka p.l.c. as one of the leading credit institutions in the market.

Small and Medium Enterprises operations

Our strategic guidelines are the improvement and optimization of our business network, products and services, the development of digital channels, as well as our strategic partnership with Hrvatska pošta p.l.c.

As the largest bank in Croatian ownership, HPB is increasingly supporting entrepreneurs who can contribute to faster economic development and employment growth. We see an opportunity for progress in financing innovative and export-oriented companies, which are recognized for being a significant source of innovation in the economy due to their flexibility and dynamism. Our priority is the development of targeted products and services designed for manufacturing, tourism, agriculture, trade and the IT sector as key drivers of growth for the Croatian economy.

According to the development strategy of HPB and market situation, we are expecting growth in demand for investment loans in the coming years. With the growth of investments and regional expansion, HPB will continue to contribute to the balanced development of all Croatian regions, turning them into regions of strong entrepreneurship. The trend for the coming period is a strong diversification of the portfolio in terms of increasing the share of SME and micro clients.

Hrvatska poštanska banka p.l.c. is working on optimization of business processes and introducing digital technology solutions. The technological solutions are integrated into the Bank's products and generate added value for the clients, which enables the Bank to operate faster and easier.

By constantly launching new products, quick and easy service, HPB is developing in the direction of digital bank. New digital services introduced in 2018 and 2019 are available online at www.hpb.hr.

In order to achieve the best possible position in the market, to provide the best customer service and to optimize revenues, the SME Department will use the opportunity to further develop cooperation with the Hrvatska pošta p.l.c. primarily as a strategic partner in the area of cash transactions and contracting part of the product using the distribution channel of Hrvatska pošta p.l.c.

The Bank will continue to develop its business relationship with Fina as one of the most dominant partners in terms of the cash transactions business generated by this business cooperation. Particular attention will be paid to further promotion of front business through Fina and through joint projects that should make it easier for clients to manage their funds after making payments at Fina's locations. Cooperation in the field of cash management was entrusted to partner FINA gotovinski servisi Ltd. Except that cash transport for the Bank, Fina performs services for receiving, processing, storage, and issuing of cash to the Bank. Also, in the name and for the account of the Bank for the Bank's clients in the next period it is planned to intensifying cooperation.

In the deposit segment, the emphasis will be on expanding the transaction of business with SME and micro enterprises. The Bank has been recognized as a business partner in the retail and SME segment. Clients show their confidence through a continuous inflow of new deposits.

The ambition of the SME Sector is to achieve business and operational excellence in order to provide faster, more efficient and competitive customer service and contribute to HPB's development into a leading SME bank.

Retail operations

The goal in the coming period is to increase the number of active clients. We continue with acquisition deals and cooperation with selected employers and strategic partners. The Bank will continue to develop and upgrade existing services in order to achieve the planned dynamics.

We are aware that only by continuously improving the level of service we can achieve the planned acquisitions and growth, so we constantly working on educations for employees.

Besides offering simple and fast products in the coming period, we are focused on simplifying and accelerating the process of work in the branches. Working on a new application is necessary for several reasons. Primarily, because the process becomes faster for the client with which we achieve his satisfaction. Due to the simple lucrative forms of application, with always available on-screen instructions, the number of employee errors is reduced, therefore the Bank protects itself from risks but also makes the process of education of the new employees much faster. Due to current market trends everything previously mentioned is not a negligible advantage

Through the project of accelerating the credit process in the past period, the Bank worked to the maximum extent on the automation of operations necessary for the loan approval. In collaboration with the Risk Management Department planned is to develop a credit scoring system for even faster loan approval. The approval of cards and overdrafts is also planned to be included in application approval.

Financial markets operations

The most important part of financial market activities is ensuring liquidity and managing portfolios to support the Bank business and its clients. In the context of high liquidity in the domestic market, the challenge is to maintain an adequate level of liquid debt securities with appropriate yields and the associated generation of interest income on the portfolio.

In the domestic market, we expect a high level of liquidity through 2020, with low interest rates and more intense trading in the period of seasonal demand for Kuna.

We expect further growth in GDP and an increase in exports and stable inflows from tourism and inflows of EU funds that should maintain the total volume of foreign exchange trading with corporate clients at last year's levels.

The announced extension of the ECB's redemption program should continue to maintain high liquidity in the euro area, and we expect the euro area rates to remain negative for most of the year, which puts pressure on investments in liquid debt securities, and with the aim of reducing the costs for foreign currency funds held with foreign banks and in an account with the CNB.

We expect a slight increase in yields on debt securities at the end of the year. We do not expect any significant increase in yields return due to macroeconomic indicators and investment rating of the Republic of Croatia and high liquidity in the domestic market.

Regarding the slightly increased number of authorized exchange offices and the extensive ATM network, we expect stable revenues from ATMs and exchanging services, especially during the summer months.

In the capital market, we expect that the optimism in the last quarter of last year, combined with the expected economic indicators of companies will have an impact on an increase in trading volume on the Zagreb Stock Exchange. In the investment banking segment, activities will be focused on expanding the client network and increasing revenue from fees from investment services and custody.

Social responsibility

Hrvatska poštanska banka, the largest domestically owned bank, operates in socially responsible manner and contributes to sustainable development, and it also encourages others to promote the general welfare of the Croatian society.
HPB is more actively participating in numerous activities and projects involving care for the employees and investment in their development, transparency of business operation and increased availability, environmental protection and support to the community where it operates through donations and projects, playing an important role in social progress**.** The values we are committed to in that respect are prerequisites to building our long-term business success, stronger economy and better society as a whole.

Investment in Employees' Development

The expertise and education of employees, and the support to lifelong learning which creates additional value for the company and its employees are among the priorities of HPB.

In 2019, HPB organized employee education through expert consultancies, workshops, seminars, congresses and specialized courses, and language and IT courses in different education companies. The in-house training carried out by internal trainers allows that new, but also existing employees may acquire required new skills and expertise. Such in-house training includes also the programme through e-Classroom system.

The educations adjusted in terms of programs and contents to new employees – trainee employees were continued; at the end of such programme all trainee employees take exam on the basis of which their further employment status is defined and they are directed to business areas where they could achieve the best results.

In 2018 and in the first half of 2019, HPB 2.0 transformation program was implemented and the organizational capacity of introducing changes was increased, talent development management improved and the competences of key employees strengthened in terms of initiating changes. For more than 70 employees, recognized as potential holders of changes in the Bank, eight different education programs and workshops were organized. Career development, project management skills, leadership, developmental plan and work with mentors were some of the most significant benefits for the employees while the Bank became through the implementation of this programme more prepared for fast changes, quality projects and exchange of expertise.

Transparent Internal Communication

The Bank's employees have been regularly informed of all new developments concerning the Bank's operations via internal web portal and newsletter "Moja HPBanka". The newsletter is published electronically four times a year, and it follows and includes the most important movements within HPB Group, interviews, information about new employees, actions and new products of the Bank, articles on humanitarian activities of the employees, but also interesting and more casual themes.
The internal web portal Intranet provides for the regular publication of all the Bank's acts, as well as the news relevant for the employees' quality work. The Intranet is a place where employees can get all important information and instructions related to the Bank's business, internal projects, professional training, and benefits. Each organization unit has a shared space (team page) for sharing contents and other materials required for everyday work. The aim of the internal channels is to improve vertical and horizontal communication, enable employees across the country to get acquainted with their colleagues, and promote values supported by the Bank. The Intranet and the newsletter are constantly improved and developed in order to offer important and useful contents and new functionalities to the employees.

Support to Young Artists

In 2018 Hrvatska poštanska banka initiated the first sales exhibition of students' works of art "Cash and Carry" and in 2019 it carried on, in cooperation with the Croatian Association of Artists and the Academy of Fine Arts Zagreb, the tradition and again successfully brought together the art and finance. This year 90 students of the Academies of Fine Arts from Zagreb, Osijek, Rijeka and Split exhibited their works and sold in less than a week as much as 500 works worth HRK 325 thousand.

The aim of the project "Cash and Carry" is to give an opportunity to the young artists from different parts of the country to present and sell their works to a broader public, and to prepare themselves for the market. On the other side, the visitors of the exhibition are given an opportunity to buy at acceptable prices the quality works of art.

Financial Literacy

Hrvatska poštanska banka regards financial and digital literacy as highly important and continues to invest in different programmes intended for customers, students and pupils, entrepreneurs, pensioners. This includes conferences and educations, student practical training and lectures for young people, as well as the cooperation with schools, kindergartens, universities and student associations.

Environmental Responsibility

Hrvatska poštanska banka is promoting in its business operations, behaviors and actions healthy environment and sustainable development. The Bank regards environmental and social sustainability as the key to attaining the results which are in accordance with its goals and deems that the projects that encourage environmental and social sustainability are top priorities.

Launching the initiative of the Green Office in 2012, Hrvatska poštanska banka has committed itself to the pursuit of smart and rational use of energy and efficient waste disposal, encouraging environmentally responsible behavior of employees, business partners and community. One of the activities of the Green Office is to provide employee education seeking to reduce negative impact on the environment and to increase efficient utilization of resources in everyday business operation in offices. Education is a tool for rising awareness and motivation for energy and other material-use behavior change in offices. By implementing such measures, the costs and negative impact on environment have been reduced, and the quality of employee performance has been enhanced. Hrvatska poštanska banka is acquiring the most technologically advanced equipment in terms of environmental efficiency.

One of HPB's strategic goals is digital banking as it allows the Bank to expand the scope of financial services provided through new channels. HPB's virtual branch, eBranch, offers the most comprehensive scope of banking services on the Croatian market, it is free of charge and available to all online and mobile banking users. eBranch relies on remote communication with customers, digital documentation and qualified digital signature of documents. This type of banking increases availability of products and services to customers in terms of time, and has also a positive impact on environment. The Bank is also continuously improving its websites in order to offer its customers new and modern functionalities through digital communication.

Support to Community

Hrvatska poštanska banka is socially responsible institution, aware of its impact on environment and recognizing the fact that the business operations of each entity imply also constant care of and respect for society. One of the ways in which the Bank implements its social responsibility is providing the support to the community through donations and different projects of support.

We are supporting the projects at the local and national levels, promoting the creation of new values in order to promote knowledge, sports, excellence and protection of cultural heritage of our country. Special care is taken of humanitarian organisations and activities.

HPB is taking special care of the youngest population and has entered with the Croatia UNICEF Office into the cooperation arrangement which allows the customers to easily participate in the UNICEF Programme "Childhood Guardians". Through regular monthly donations the customers provide for better conditions of children being in difficult social circumstances and to whom all of us can help. In 2019, HPB marked for the first time the World Children's Day, proving its awareness of the importance of children's rights.

Report on Application of the Corporate Governance Codex

Application of the Corporate Governance Codex

In accordance with article 272 of Commercial Companies Law the Management Board and the Supervisory Board state that the Bank implements the Corporate Governance Codex which was established by Croatian Financial Services Supervisory Agency and Zagreb Stock Exchange („ZSE“).
Corporate governance is not only a responsibility of the company to its shareholders but also to be accountable to other stakeholders and society as a whole. The Code encourages all listed companies on the Zagreb Stock Exchange to recognize it as an opportunity to improve long-term results and to show investors and other participants that they are committed to high standards of corporate governance as a company.
Also, the Bank implemented the Corporate Governance Codex for Commercial Companies in which the Republic of Croatia has shares or stakes which was established by the Croatian Government (Official Gazette 132/ 2017) in the end of 2017.
With recommendations of the mentioned codices and in accordance with the credit institutions regulation, the Bank is actively improving its corporate management in line with the Bank’s structure and organization, strategy and business goals, distribution of privileges and duties with a special emphasis on effective procedures for determining, measuring, monitoring and reporting of risks associated with the Bank’s business, as well as setting up corresponding internal control mechanisms.
Description of basic characteristics associated with internal supervision and risk management is set out in the Bank’s business description in the Note 2.

Significant Shareholders and Limited Share Rights

The Republic of Croatia is the most significant shareholder of the Bank with 42.43% stake. Together with Croatian Pension Insurance Institute, Croatian Post, State Agency for Deposit Insurance and Bank Resolution, and NEK Fund the Government controls more than 74% of equity and voting rights.
In line with the Bank’s Statute, voting rights are not limited, nor are there limits for realizing voting rights.

Rules for the Appointment or Removal of the Management Board, Statute Changes and Special Authorizations of the Management Board

In accordance with the Bank’s Statute the Management Board should have at least 2 and no more than 5 members with the Supervisory Board deciding on the number. Members and the president of the Management Board are appointed by the Supervisory Board to a maximum of 5 years, and can be reappointed without time limit. Member of the Management Board must fulfill all the necessary conditions as set by the regulation on the Bank’s business, as well as get the nomination approval by the CNB. The Supervisory Board may, by its decision, recall the President and members of the Management Board when there is an important reason for this, and the President and members of the Management Board are entitled to make written resignations.

The Bank’s Statute can only be changed by the decision of the General Meeting. Decision is approved if voted by 3/4 of the equity holders. A proposed Decision on amendments to the Statue is submitted by the Management Board to the Supervisory Board, which is authorized to accept the proposal and submit it to the General Assembly for consideration.

Supervisory Board Members and Activities

The Supervisory Board can have a maximum of 7 members appointed and removed by the General Meeting. Member of the Management Board must fulfill all the necessary conditions as set by the regulation on the Bank’s business, as well as get the nomination approval by the CNB
Supervisory Board’s authorizations are regulated by Commercial Companies Act, Credit Institutions Act and the Bank’s Statute. The Supervisory Board has set up an Audit Committee, Committee for receipts, Nomination Committee and the Risk Committee as supporting bodies.

In the period from January 01 to December 12, 2019, the Supervisory Board had the following 4 members:

- mr.oec. Marijana Miličević, president
- dr.sc. Željko Lovrinčević, vice president
- mr.sc. Marijana Vuraić-Kudeljan, member

The members of the Supervisory Board of the Bank were appointed at the General Assembly held on May 29, 2017 for a term of 4 years and their mandate began on August 12, 2017 upon obtaining the CNB's prior approval in accordance with the terms of the Credit Institutions Act.

The members of the Supervisory Board are not the shareholders of the Bank.

Management Board and their Activities

Privileges, duties and responsibilities of the Bank's Management Board are described in the Commercial Companies Act, Credit Institutions Act, the Bank's Statute and the Board's Work Regulations. The Board establishes permanent and temporary boards and commissions. The Bank's permanent boards are Credit Board, Assets and Liabilities Management Board and Operational Risk Management Board.

In period from January 1 to September 10, 2019, the Management Board had the following 3 members:

- Tomislav Vuić, President of the management Board
- Mladen Mrvelj, Member of the Management Board
- Domagoj Karadjole, Member of the Management Board

Due to the expiry of their mandate, by the Decision of the Bank's Supervisory Board from 08 August 2019, it was determined that the Management Board in the new mandate period consists of three members, who were appointed with a prior approval of the Croatian National Bank for a period of 2 (two) years, so in period from September 11 to December 31, 2019, the Management Board acted as follows

- Marko Badurina, President of the management Board
- Ivan Soldo, Member of the Management Board
- Anto Mihaljević, Member of the Management Board.

The members of the Management Board are not the shareholders of the Bank.

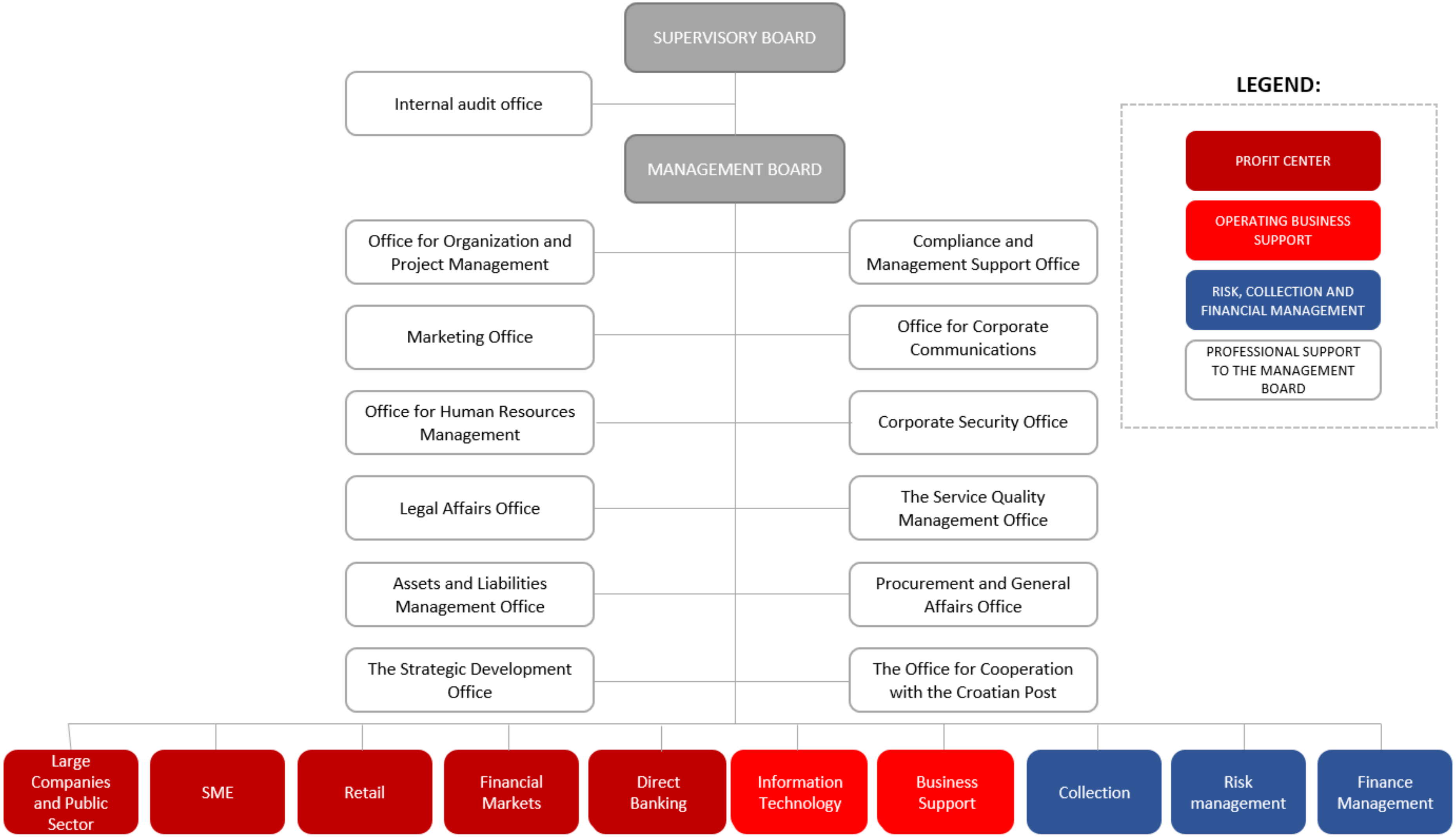
Overview of diversity policy

In accordance with the Code of Ethics, the Bank appreciates and respects the natural and cultural differences between people. All employees are equal regardless of gender, age, nationality, ethnic origin, religion, language, social and economic status.
All employees have the same opportunity for success in the Bank and their position depends solely on the performance and performance of each individual.
There is no discrimination by sex, age or any other basis in procedure of selecting members of the Management Board, Supervisory Board or other bodies. The Bank has relatively high percentage of female managers, as well as people of different age groups, educational orientation, knowledge and skills and specific work experience. The Bank will keep this policy of gender, age and professional diversity.
The collective experience of members of the Bank's key management consists of a balanced combination of the necessary knowledge and skills to fulfill the responsibilities of all functions and achieve the Bank's objectives.

Management by Sex	Number 2017	Number 2018	Number 2019	Share 2017	Share 2018	Share 2019
Male	24	30	19	55.81%	50.84%	47.50%
Female	19	29	21	44.19%	49.15%	52.50%

Organizational scheme of Hrvatska poštanska banka p.l.c.

The Bank's business is organized in 23 organizational units – 10 offices and 13 divisions. The Bank's organizational scheme is as follows



The Bank's organizational unites are divided into 4 basic business areas including:

1. Professional support to the Management Board,
2. Profit centers,
3. Operating business support,
4. Risk, collection and financial management.

Business area functionally and technologically connects certain Bank's organization units to ensure efficient management and business organization.

PROFESSIONAL SUPPORT TO THE MANAGEMENT BOARD includes a group of activities which offer professional support to the Management Board in achieving business goals, organization and the Bank's management.

This business area includes:

- Internal Audit Office,
- Compliance and Management Support Office,
- Office for Corporate Communications,
- Office for Organization and Project Management,
- Office for Human Resources Management,
- Marketing Office
- Corporate Security Office
- Service Quality Management Office
- Legal Affairs Office,
- Office for Purchase and General Affairs, and
- ALM Office
- Strategic Development Office
- Office for cooperation with Hrvatska Pošta

The Internal Audit Office is the Bank's organization unit which evaluates internal control and risk management system, compliance function and performs IT audit.

Compliance and Management Support Office is the Bank's organization unit which supports the Bank's authority, follows regulation, ensures compliance of the Bank's business with regulation and manages the anti-money laundering and terrorism financing system.

Office for Corporate Communications is the Bank's organization unit responsible for corporate communications.

Office for Organization and Project Management is the Bank's organization unit which analyses and improves organization and business processes and manages projects**.**

Office for Human Resources Management is the Bank's organization unit involved in recruiting, development and rewarding employees. It also regulates legal working affairs with employees and government authorities.

Marketing Office is the Bank's organization unit which prepares and conducts marketing and promotional activities.

Corporate Security Office is the Bank's organization unit which ensures safety of IT, workers and assets.

The Service Quality Management Office is an organizational unit of the Bank that manages the quality of the Bank's service to its customers by continuously measuring and researching customer satisfaction and proposing improvements to improve the quality of service.

Legal Affairs Office is the Bank's organization unit involved in legal support to all organization units.

Procurement and General Affairs Office is the Bank's organization unit involved in asset purchase and management, together with other general affairs.

ALM Office is the Bank's organization unit responsible for managing assets and liabilities, FX positions, market risk and liquidity risk positions**.**

The Strategic Development Office is the organizational unit of the Bank in charge of the business development of the Bank and the HPB Group, the strategic planning process and the tasks of controlling the implementation of the strategic plan of the Bank and the HPB Group.

The Office for Cooperation with the Croatian Post is the organizational unit of the Bank in charge of centralized management, development and improvement of the sales channel of the Bank's products and services through Hrvatska pošta and for reporting on overall business cooperation with Hrvatska pošta.

PROFIT CENTER includes a group of activities which sell the Bank's products and services.

This business area includes:

- Retail Division,
- Large Companies and Public Sector Division,
- SME Division
- Financial Markets Division, and
- Direct Banking Division.

Retail Division is the Bank's organization unit which offers market based banking and financial services to households and coordinates work of retail regional centers, outlets and HP-Hrvatska Pošta as a distribution channel.

SME Division is the Bank's organization unit which offers market based banking and financial services to small and medium companies and crafts which conduct independent and permanent economic activity.

Large Companies and Public Sector Division is the Bank's organization unit which offers market based banking and financial services to large corporate clients and public sector.

Financial Markets Division is the Bank's organization unit which trades in financial instruments on behalf of the Bank, manages liquidity and FX position and offers investment services and activities, together with supplementary services to clients.

Direct Banking Division is the Bank's organization unit which ensures undisturbed functioning and development of direct distribution channels and card business (ATM, POS, WEB, CC, mBanking and eBanking, card business).

OPERATING BUSINESS SUPPORT includes a group of activities which offer support to sales and the Bank's whole business.

This business area includes:

- Business Support Division, and
- IT Division.

Business Support Division is the Bank's organization unit offering operating support to profit centers and making domestic and FX payments, cash management and supply activities of the Bank's business network and Hrvatska Pošta with cash.

IT Division is the Bank's organization unit offering IT support to all organization units.

Risk, collection and financial management includes a group of activities for risk, collection and financial management.

This business area includes:

- Risk Management Division,
- Collection Management Division, and
- Finance Division

Risk Management Division is the Bank's organization unit which measures, evaluates and controls all the risks the Bank is or could be exposed with an aim of reducing potential exposure to all kinds of risks and ensuring safety and business efficiency.

Collection Management Division is the Bank's organization unit which performs receivables restructuring and activities of early and forced collection.

Finance Division is the Bank's organization unit which manages the Bank's accounting system, performs regulatory reports, financial controls and develops management reporting system.

Human resource Management in HPB p.l.c.

In 2019 Bank continued with development of positive practice in human resources management in terms with its strategy and corporate values.
Development of innovative digital channels is supported by acquiring new employees with specific skills and experience and also by competence development of existing employees who can successfully follow digitalization trends in banking and influence on Bank's digital culture development.

Development programs are focused on raising the level of knowledge and skills of employees, especially in profit centers in order to improve service quality, consumer protection and appropriate risk management.
By investing in mentorship and internal coaching there was a significant raise in quality and intensity of internal education.
In 2019, HRIS application modules have been successfully implemented. They support the process of recording training and monitoring the education budget, which, among other things, enables the monitoring of the exact number of training hours for an individual employee or organizational unit. The implementation of a new e-learning tool is also in the final stages, which will further improve the internal education and monitoring of the employee education process.

By implementing Talentlyft applications we enabled the digitization of the candidate application in the selection process, thereby speeding up and digitizing the selection process.

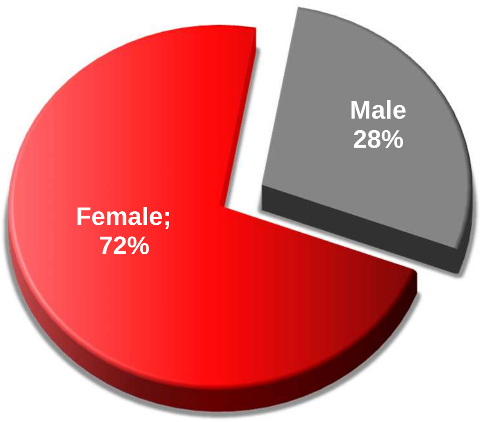
Leadership development programs and management skills are in focus for all management levels as well as the process of identifying and evolving Bank's key position successors.
The Bank has initiated activities in order to renew the Employer Partner certificate and continues to further improve the management of human resources.
During 2019, a quarterly recognition program was implemented for employees who "live" the Bank's corporate values in their day-to-day operations, which supported the building of a culture of excellence through the public highlighting of our best employees.

Number of Employees in the Bank 2015. – 2019.

Number of employees	Dec 31 2015	Dec 31 2016	Dec 31 2017	Dec 31 2018	Dec 31 2019
Based on the Working Hours	**823**	**833**	**842**	**1,036**	**1,063**
At the end of the Period	**1,067**	**1,067**	**1,122**	**1,118**	**1,252**

All jobs in HPB are located in the Republic of Croatia.

Structure of HPB's Employees by Sex on December 2019.:

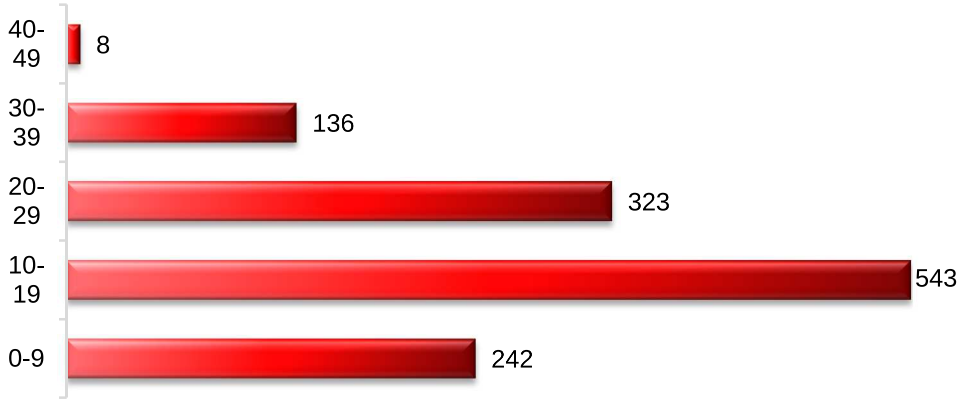


Education and Skills of Employees 2015 – 2019

Employees with undergraduate and graduate qualifications dominate the qualifications structure.

Qualification	Dec 31 2015	Dec 31 2016	Dec 31 2017	Dec 31 2018	Dec 31 2019
Postgraduate/ Doctorate	15	16	14	12	19
Graduate	445	446	475	473	539
Undergraduate	169	169	187	193	203
High School	436	435	444	439	490
Elementary or Secondary School	2	1	1	1	1
Total	**1,067**	**1,067**	**1,122**	**1,118**	**1,252**

Number of Employees Based on Years of Service as of December 2019.:



Operation of Subsidiaries

HPB Invest Ltd

HPB Invest Ltd (hereafter „the Company“) is an investment fund management company registered. As of December 31, 2019 the Company had 6 open-end investment funds with public offer under management (HPB Kratkoročni obveznički kunski fond, HPB Kratkoročni obveznički eurski fond, HPB Obveznički fond, HPB Bond plus fond, HPB Global fond i HPB Dionički fond).

On December 31st, 2019 total assets under management were HRK1,023 M (2018: 982 M). Average assets in 2019 were HRK961 M, while in 2018 they were HRK947M. The largest increase in assets was recorded in HPB Obveznički fond.

Structure of the assets under management is as follows:

Fund	Assets under management HRK'000	2019 Return in %
HPB Dionički fond	26,766	12.59%
HPB Global fond	84,935	11.52%
HPB Kratkoročni obveznički kunski fond	341,896	0.20%
HPB Obveznički fond	511,192	4.43%
HPB Kratkoročni obveznički eurski fond	14,952	0.34%
HPB Bond Plus fond	43,060	5.50%

The Company's net profit in 2019 was HRK 1,003,674. The total balance sheet as at 31 December 2019 was HRK 9.3 million. HPB Invest's Market Share as of 12/31/2019. is 4.53%. At the end of 2019, the Company employed 13 employees, an increase of one employee over the previous year. In 2019, the Company generated higher returns in all fund categories compared to 2018.

Development plan

The Company’s main activities will remain in the field of professional asset management and high quality of services in order to ensure sustainable return on clients’ assets.

Continuing improvement of the Company’s development policy will be directed towards continuing professional, human resource, organizational and technological improvements. Together with continuing improvement of the Company’s development policy and ever-growing legal and regulatory requirements, the Company will continue to attract clients with long-term attractive pallet of funds and investment products which can satisfy all of their needs differentiated by goals, investment horizon and the tendency to assume risk.

Risk exposure

The Company measures and monitors following types of risks: credit risk, market risk, liquidity risk and operational risk. These risks represent the overall profile of the Company's risk.

The Company has taken a conservative stand on managing its assets by investing exclusively in bank deposits, debt securities, money market instruments and cash funds. For this reason, the Company's risk profile is low risk, i.e. 1.

At the reporting date, the Company was not exposed to significant market risk and liquidity risk. The majority of the Company's exposure to credit risk at the reporting date is derived from the fair value of the instrument whose positive value on that reporting date is presented in the statement of financial position.

The Company is exposed to operational risk through its regular business operations. The Company manages operational risk by reporting quarterly to the Company's Management Board on events that can qualify as an operational risk for the Company.

Risks that may affect the Company's regular operations are the risk of impaired asset management due to client withdrawal and the risk of impairment of asset under management as a result of the asset's decline.

The Company gives special importance to the internal control system in order to monitor business efficiency, compliance with legal regulation, monitoring and disclosure of risks to which the Company is exposed.

HPB-nekretnine Ltd

HPB Nekretnine Ltd (hereafter "the Company") is a company specialized in real estate business which started its business activities in August 2005 and is fully owned by the Bank. Shareholders' equity amounts to HRK 0.49 M.
Primary business activities of HPB Nekretnine are real estate value estimation, advisory services, project development and real estate transactions.
As of December 31, 2019 balance sheet of HPB Nekretnine amounted to HRK 10.0 M, with net profit of HRK 691 K. At the end of 2019 the Company had 16 employees.

Development plan

In the upcoming period focus will be on further improvements in quality of services rendered for Bank's clients and the Bank. The Company's business and development policy will be built on expected rise in market demand for specific services which the Company offers, as well as for testing market potential for new consulting and engineering services, which the Company is equipped to offer. The Company should therefore contribute to Group becoming more recognizable, and a synergy effect will be accomplished.

Risk exposure

Most significant types of risk that the Company is exposed to are: market and liquidity risk. Market risk takes into account that demand volume for specific services offered by the Company is difficult to foresee, especially appraisal of property. Linked directly to this is the liquidity risk due to high share of these services in the Company's overall offer. The Company manages its risks according to prescribed policies and procedures of HPB described in Note 2.
The Company owns 2 real estates, in Osijek and Vinkovci. Vinkovci real estate poses business risk since the ownership gives 322/ 900 share in dilapidated commercial building with total area of around 10,000 sqm. In the future period a complete reconstruction may be needed and it assumes substantial investment amount relative to the Company's business volume. Also, the termination of the lease agreement for the real estate in Osijek was announced verbally, and it will be necessary to find a new tenant or buyer of this property.

Responsibilities of the Management Board for the Preparation and Approval of the Annual Financial Reports

Management Board is accountable for preparation of consolidated and separate financial reports of Hrvatska Poštanska Banka p.l.c. (hereafter referred to as: “the Bank” or “Bank”) for each financial year. These reports give a true and fair view of financial position of the Bank and of the results of its operations and cash flows, in accordance with applicable accounting standards. The Management Board is also responsible for maintaining proper accounting records needed for preparation of such financial reports at any given time. Also, the Board is responsible for the whole annual report of the Group, together with forms of financial reports constructed in accordance with the CNB Decision on Forms and Contents of Bank Financial Reports (Official Gazette 30/17, 44/17 and 42/18) which are available in the attachment. The Management Board has a general responsibility for taking available measures aiming to safeguard the Bank’s and Group’s assets, and to prevent and detect fraud and other irregularities.

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

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

The Management Board is responsible for preparation and contents of the annual report in accordance with the Accounting Act (Official Gazette 78/15,134/15, 120/16 and 116/18).

Consolidated and separate financial reports presented on pages 77 to 212, as well as Forms drafted in line with CNB Decision on Forms and Contents of Bank Financial Reports dated April 26, 2018 (Official Gazette 42/18), outlined on pages 213 to 226, were approved by the Management Board on March 30, 2020 and have been submitted for acceptance to the Supervisory Board. As a sign of confirmation, financial reports are signed by persons authorized for representation, as follows:

Signed on behalf of Hrvatska poštanska banka, p.l.c.

Marko Badurina

President of the Management Board

Ivan Soldo

Member of the Management Board

Anto Mihaljević

Member of the Management Board

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Independent auditor's report
To the Shareholders of Hrvatska poštanska banka d.d.

Report on the audit of the separate and consolidated financial statements

Opinion
We have audited the separate and consolidated financial statements of Hrvatska poštanska banka d.d. ("the Bank") and it's subsidiaries (together- the Group), which comprise the separate and consolidated statement of financial position as at 31 December 2019, the separate and consolidated income statement and the separate and consolidated statement of other comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated 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 separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with statutory accounting regulation applicable for banks in Croatia.

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

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.
We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

Key audit matter	How we addressed Key audit matter
Impairment allowance of loans and advances from clients (the separate and consolidated FS) Credit impairment is a highly subjective area due to the level of judgement applied by management in determining impairment allowances in respect of loans and advances from customers. Impairment allowances on loans and advances from customers represent management's best estimate of the expected credit losses within the loan portfolios at the reporting date. The identification of impairment and the determination of the recoverable amount is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, and expected net selling prices of collaterals. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions. Our work covered impairment of both Retail receivables and Receivables from corporate counterparties. The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from estimates of future cash flows and realizable value of collateral, which are unsecured or are subject to potential collateral shortfalls. Judgement is applied to determine appropriate parameters and assumptions used to calculate impairment. Furthermore, allocation of loan exposures in a proper stage in accordance with the International Financial Reporting Standard 9: Financial instruments ("IFRS 9") depends on Bank's and Group's judgment and assumptions on proper selection of triggers for identification of significant increase in credit risk of customers. Due to the significance of loans and advances from clients (representing 56% of Total assets of the Bank and 56% of Total assets at the Group level) and the related estimation uncertainty, this is considered a key audit matter.	Our work covered impairment of both Bank's and Group's Receivables from corporate counterparties and Receivables from Retail clients. We assessed the design and tested the operating effectiveness of the controls over individual and collective impairment calculations of the Bank's and the Group's portfolio including the quality of underlying data and systems. We assessed the methodology developed to calculate loan loss provision under IFRS 9, concentrating on such aspects as factors for determining a "significant increase in credit risk", allocating loans to stages and estimation of key provisioning parameters with the assistance of the specialist. We tested matrices used in the calculation of probabilities of default and loss given default with focus on mathematical accuracy. We also tested on a sample basis allocation of loans in a correct staging as defined in the methodology developed by the Bank and the Group. We examined a sample of exposures and performed procedures to evaluate the adequacy and application of significant parameters for significant increase in credit risk, the possibility for the Bank and the Group to use alternative triggers based on availability of historical information, timely identification of exposures with a significant deterioration in credit quality and the classification of instruments in stages according to IFRS 9 (recalculate the creditworthiness of clients, review input parameters such as probability of default, days past due, watch list, restructurings). Our additional audit procedures for the assessment of collective impairments included analytical procedures of collective impairments per stage 1 and stage 2 per each segment of the Bank and the Group. Our audit procedures for individually significant exposures focused on the measurement of impairment of individually significant credit exposures, including the assessment of whether historic experience is appropriate when assessing the amount of incurred losses in the portfolios. In addition, we also focused on individually significant exposures that are not individually impaired, however, either continued to be, have become, or were at risk of being individually impaired. For a sample of individually impaired credit exposures within the individually significant clients' portfolio we tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. This included taking into consideration the impact of forbearance as well as the latest developments at the borrower. We also assessed whether the separate and consolidated financial statement disclosures appropriately reflect the

	Bank's and the Group's exposure to credit risk and are compliant with the statutory accounting regulation as applicable for banks in Croatia. Refer to Note 2.1 Credit risk for further details.
Merger of Jadranska banka d.d. and HPB Stambena Štedionica d.d. (separate and consolidated FS) During the year, the Bank merged its two wholly owned subsidiary companies Jadranska banka d.d. ("JABA", merged on 1 April 2019) and HPB Stambena Štedionica d.d. ("HPB SŠ", merged on 2 December 2019). Following the merger process, the subsidiaries ceased to operate as independent legal entities and continued their operations through the Bank, the legal successor of all rights and obligations of both subsidiaries. The merger of the subsidiaries was significant to our audit due to the complexity of the transaction and complexity in determining appropriate accounting treatment of the transaction. Both mergers involved the operational and accounting data transfer from the subsidiaries' systems to the Bank's IT systems. In accordance with the International Financial Reporting Standard 3: Business combinations the Bank measured the identifiable assets acquired and liabilities assumed at their fair value. The Bank's management assessed the fair value of the JABA's assets and liabilities acquired as roll forward of purchase price allocation performed during 2018 with the assistance of an independent third party. The merger of HPB SŠ was considered to be a common control transaction and the merger was performed based on book values at the date of merger. The recognition of the business combination and the determination of the fair value of the assets acquired and liabilities assumed were made using approaches and assumptions that involved a significant degree of judgement. Furthermore, considering merged assets at the date of merger represented around 2% of the Bank's assets and it was a single significant transaction, we performed additional testing of the transaction. Accordingly, this is considered a key audit matter.	As part of our audit procedures in respect of both mergers, we read the merger agreements to obtain an understanding of the transaction and the key terms and assessed whether the appropriate accounting treatment was applied to the transactions. As a part of our audit procedures for JABA, we obtained trial balance as at 31 March 2019 to determine the reasonableness of the significant carrying amounts of assets and liabilities considering the amounts from audited financial statements for the year ended 31 December 2018. To assess the reasonableness, we performed test of details and analytical procedures to determine total assets, total liabilities and profit for the first three months of the 2019. We compared the trial balance of JABA as of 31 March 2019 with the merged amounts as at 1 April 2019 in accounting records of the Bank. Further, we reviewed the movement since origination at the date of acquisition in fair value adjustments recognized as a result of the purchase price allocation since these bookings were performed manually, on top of JABA's accounting balances. We evaluated the approaches used to determine the fair values of the assets and liabilities merged, the underlying assumptions and the mathematical accuracy of the calculations made. As a part of our audit procedures for HPB SŠ, we performed tests of details and analytical procedures as of 2 December 2019 for statement of financial position and for period between 1 July 2019 to 2 December 2019 for income statement and statement of other comprehensive income against audited financial statements as at June 30, 2019. We assessed the reasonableness of the carrying amounts reported at the date of the merger and tested whether the merger was carried out at carrying amounts. We included tax professionals in the tax return review, including the review of the level of tax losses carried forward acquired by the merger of both subsidiaries. In testing the transfer of data of JABA and HPB SŠ into the systems of the Bank following the merger, we tested, on a sample basis, the key controls over completeness and accuracy of the data transferred. In testing these controls, we involved our IT experts to assess the overall data migration project and to evaluate the Bank's data migration testing documentation and results.

	We analyzed the relevance of data fields selected by the Bank for data migration, whether the resolution in case of differences following the reconciliation was appropriate and assessed the quantitative and qualitative results of the Bank's reconciliation process, both from operational and financial perspectives. We assessed the adequacy of the related disclosures in the separate and consolidated financial statements regarding this merger in Note 13 Investments in subsidiaries.

Other information included in the Bank's and the Group's Annual Report for year 2019

Management is responsible for the other information. Other information consists of the information included in the Bank's and Group Annual Report which includes the Management report and Corporate Governance Statement, other than the separate and consolidated financial statements and our auditor's report thereon. Our opinion on the separate and consolidated financial statements does not cover the Other information including the Management report and Corporate Governance Statement.

In connection with our audit of the separate and consolidated 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 financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.
With respect to the Management Report and Corporate Governance Statement, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act, and whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act.

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

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

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

3. Corporate Governance Statement, included in the Bank's and the Group's annual report, includes the information referred to in Article 22., paragraph 1., items 2, 5, 6 and 7 of the Accounting Act; and

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Group's and the Bank's annual report for the year 2019 are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

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

Responsibilities of management and Audit Committee for the separate and consolidated financial statements
Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with IFRS as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the separate and consolidated financial statements, 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 and the Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated 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 Group's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and 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 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 and the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated 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.

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

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

Ernst & Young d.o.o.
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Banka / Bank:
Erste & Steiermärkische Bank d.d.
Jadranski trg 3A, 51000 Rijeka
Hrvatska / Croatia
IBAN: HR3324020061100280716
SWIFT: ESBCHR22

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Bank on May,29 2017 .Our appointment has been renewed annually by General Assembly resolution, with the most recent reappointment on June 28, 2019, representing a total period of uninterrupted engagement appointment of 3 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on March 25, 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

Report on Regulatory requirements

In accordance with the Bylaw on the structure and content of the annual financial statements of credit institutions (National Gazette no 42/18) (hereinafter "the Bylaw“) the Bank's management has prepared forms which are presented on pages 213 to 227, and which contain a balance sheet as at 31 December 2019, profit and loss account, statement on other comprehensive income, statement of changes in equity and cash flow statement for the year then ended together with reconciliation with the separate and consolidated financial statements of the Bank and the Group ("financial information"). This financial information is the responsibility of the Bank's management and is, pursuant to statutory accounting regulation as applicable to banks in Croatia, not a required part of the separate and consolidated financial statements, but is required by the Bylaw.

Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited separate and consolidated financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited separate and consolidated financial statements of the Bank and the Group which were prepared in accordance with statutory accounting regulation as applicable for banks in Croatia as presented on pages 77 to 212 and are based on underlying accounting records of the Bank and the Group.

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

Zvonimir Madunić
Certified Auditor and Board Member
Ernst & Young d.o.o.
Radnička Cesta 50
10000 Zagreb, Republic of Croatia
March 30, 2020.

u '000 kn	Notes	31.12.2019.	31.12.2018.
ASSETS			
Cash and Amounts Due from Banks	5	2,771,242	4,177,071
Mandatory Reserve with Croatian National Bank	6	1,558,207	1,526,838
Loans and Receivables from Banks	7	247,640	404,855
Financial Assets at Fair Value through Profit and Loss	8	634,070	841,146
Financial Assets at Fair Value through Other Comprehensive Income	9	4,640,205	4,060,147
Financial Assets at Amortized Cost	10	4,300	75,250
Loans and Receivables from Customers	11	13,334,456	11,529,074
Assets Held for Sale	12	20,000	20,000
Property and Equipment	14	259,600	146,182
Investment Property	15	72,759	55,278
Intangible Assets	16	110,130	115,633
Deferred Tax Assets, Net		3,839	-
Tax Prepayment		2,558	994
Other Assets	18	114,454	129,746
TOTAL ASSETS		**23,773,460**	**23,082,212**
LIABILITIES			
Financial Liabilities at Fair Value through Profit and Loss	19	863	445
Deposits from Banks	20	11,216	64,292
Customer Deposits	21	20,051,324	20,079,048
Borrowings	22	981,175	633,281
Provisions for Liabilities and Expenses	23	182,595	107,681
Deferred Tax Liabilities, Net		-	2,134
Corporate Tax Liability		-	35
Other Liabilities	24	169,567	179,533
TOTAL LIABILITIES		**21,396,741**	**21,066,450**
EQUITY			
Share Capital	25	1,214,775	1,214,775
Capital Gain	25	-	-
Treasury shares	25	(477)	(477)
Reserves for treasury shares	25	4,477	4,477
Statutory Reserve	25	23,718	16,126
Other Reserves	25	511,366	443,030
Fair Value Reserve	25	314,658	100,548
Revaluation Reserve	25	659	719
Retained Earnings	25	307,542	236,564
TOTAL EQUITY		**2,376,719**	**2,015,762**
TOTAL LIABILITIES AND EQUITY		**23,773,460**	**23,082,212**

The significant accounting policies and other notes on pages 87-212 form an integral part of these financial statements.

Consolidated Profit and Loss Account
for the year ended 31 December 2019

	Notes	2019. HRK '000	2018. HRK '000
Interests and Similar Income	26	619,280	643,257
Interests and Similar Expense	27	(73,824)	(104,527)
Net Interest Income		**545,456**	**538,730**
Fees and Commissions Income	28	539,380	534,310
Fees and Commissions Expense	29	(329,853)	(322,395)
Net Fees and Commissions Income		**209,527**	**211,916**
Gains Less Losses Arising from Financial Instruments at Fair Value through Profit and Loss	30	48,413	(7,298)
Gains Less Losses Arising from Financial Instruments Available for Sale	31	5,158	4,637
Gains Less Losses Arising from Dealing in Foreign Currencies		50,872	48,955
Other Operating Income	32	29,840	12,299
Trading and Other Income		**134,283**	**58,593**
Operating Income		**889,266**	**809,239**
General and Administrative Expenses	33	(467,625)	(454,927)
Depreciation and Amortization	14,15,16	(78,050)	(46,620)
Impairment Losses on Loans and Receivables from Customers and Other Assets		(162,918)	(122,647)
Provisions for Liabilities and Expenses	23	(81.995)	2,854
Total Expenses and Provisions		**(790,588)**	**(621,340)**
PROFIT BEFORE TAX		**98,678**	**187,899**
Income Tax (Expense)/ Income	35	48,238	(31,952)
PROFIT FOR THE YEAR		**146,916**	**155,947**

The significant accounting policies and other notes on pages 87-212 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2019

HRK '000	01.01. – 31.12. 2019.	01.01. – 31.12. 2018.
Profit for the Year	**146,916**	**155,947**
Other Comprehensive Income		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation Reserve	(73)	(73)
Income Tax Relating to Items That Will Not Be Reclassified Subsequently	13	13
	(60)	**(60)**
Items that may be reclassified subsequently to profit or loss:		
Unrealized Gains from Assets Valued through Other Comprehensive Income	265,899	8,784
Sale of Financial Assets Valued through Other Comprehensive Income	(3,118)	(5,056)
Income Tax Relating to Items That May Be Reclassified Subsequently	(48,671)	(4,810)
	214,110	**(1,082)**
Other Comprehensive Gains for the Year	**214,050**	**(1,142)**
Total Comprehensive Income for the Year, Net of Income Tax	**360,967**	**154,805**

HRK '000	01.01. – 31.12. 2019.	01.01. – 31.12. 2018.
Profit/ (Loss) for the Year	**146,916**	**155,947**
The Bank's Owners	146,916	155,947

Earnings per share	**72.59 kn**	**77.06 kn**
From active and discontinued parts of Business:		
Basic (in HRK per share)	72.59 kn	77.06 kn
Diluted (in HRK per share)	72.59 kn	77.06 kn

The significant accounting policies and other notes on pages 87-212 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity and Reserves
for the year ended 31 December 2019

Group	Share Capital HRK'000	Own Shares HRK'000	Reserve for Own Shares HRK'000	Other Reserves HRK'000	Fair Value Reserve HRK'000	Revaluation Reserve HRK'000	Retained Earnings HRK'000	Total HRK'000
Effect of IFRS 9					**7,373**		**(57,233)**	**(49,860)**
Balance at 1 January 2018 (as previously reported)	**1,214,775**	**(477)**	**4,477**	**458,739**	**101,630**	**779**	**81,034**	**1,860,957**
Revaluation Reserve	-	-	-	-	-	(73)	-	**(73)**
Change in the Fair Value of Financial Assets at Fair Value through Other Comprehensive income	-	-	-	-	8,784	-	-	**8,784**
Sale of Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	-	(5,056)	-	-	**(5,056)**
Deferred Tax	-	-	-	-	(4,810)	13	-	**(4,797)**
Other Changes	-	-	-	-	-	-	-	**-**
Net loss for the period 01.01. - 31.12.2018.	-	-	-	-	-	-	155,947	**155,947**
Total Comprehensive Income for 2018	**-**	**-**	**-**	**-**	**(1,082)**	**(60)**	**155,947**	**154,805**
Distribution of 2017 Profit	-	-	-	-	-	-	-	-
- Transfer to Statutory and Other Reserves	-	-	-	417	-	-	(417)	-
Balance at 31 December 2018	**1,214,775**	**(477)**	**4,477**	**459,156**	**100,548**	**719**	**236,564**	**2,015,763**
Balance at 1 January 2019	**1,214,775**	**(477)**	**4,477**	**459,156**	**100,548**	**719**	**236,555**	**2,015,763**
Revaluation Reserve	-	-	-	-	-	(73)	-	**(73)**
Changes in Fair Value of Financial Assets at fair Value through Other Comprehensive Income	-	-	-	-	265,899	-	-	**265,899**
Sale of Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	-	(3,118)	-	-	**(3,118)**
Deferred Tax	-	-	-	-	(48,671)	13	-	**(48,658)**
Other Changes	-	-	-	-	-	-	-	**-**
Net loss for the period 01.01. - 31.12.2019.	-	-	-	-	-	-	146,916	**146,916**
Total Comprehensive Income for 2019					**214,110**	**(60)**	**146,916**	**360,967**
Distribution of 2018 Profit	-	-	-	-	-	-	-	-
- Transfer to Statutory Reserves and other reserves	-	-	-	75,929	-	-	(75,929)	**-**
Balance as at 31 December 2019	**1,214,775**	**(477)**	**4,477**	**535,085**	**314,658**	**659**	**307,543**	**2,376,720**

The significant accounting policies and other notes on pages 87-212 form an integral part of these financial statements.

HRK '000	Notes	2019	2018
Cash Flows from Operating Activities			
Profit/ (Loss) Before Taxation		98,678	187,899
Adjusted by:			
- Depreciation and Amortization	14,15,16	75,880	46,620
- Foreign Exchange (Gains)/Losses	32	3,398	3,649
- Net Impairment Losses on Credits and Receivables from Customers and Other assets		173,420	122,647
- Provisions for Liabilities and Expenses	23	64,758	(2,854)
- Bargain purchase on JABA acquisition		-	(3,332)
- Net Unrealized Gains on Financial Assets at Fair Value through Profit and Loss	30	(93,488)	10,568
- net interest income		(535,969)	-
- dividend income		(3,646)	-
Changes in Operating Assets and Liabilities			
Loans and Receivables from Banks		1,405,829	1,660
Mandatory CNB Reserves		(31,369)	(123,160)
Financial Assets at Fair Value through Profit and Loss		305,895	57,073
Financial Assets at amortized cost		71,925	-
Financial Assets at fair value through other comprehensive income		(233,279)	-
Loans and Receivables from Customers		(1,453,275)	(205,592)
Other assets		(21,997)	(5,840)
Deposits from Banks		(53,094)	(335,498)
Customer Deposits		214,858	1,771,951
Other Liabilities		49	(45,178)
Interest charged		509,500	-
Interest paid		(48,068)	-
Net Cash (Outflow)/ Inflow from Operating Activities Before Tax		**450,005**	**1,480,614**
Income Tax Paid		(4,165)	(736)
Net Cash (Outflow)/ Inflow from Operating Activities		**(445,840)**	**1,479,878**
Cash Flows from Investing Activities			
Investment in Subsidiaries		-	(11,265)
Purchases of Property, Equipment and Intangible Assets		(57,643)	(37,892)
Disposal of Financial Assets Valued through Other Comprehensive Income		75,013	430,416
Acquisition of Financial Assets Valued through Comprehensive Income		(1,852,669)	(1,199,928)
First consolidation of cash and cash equivalents JABA		-	(8,048)
Maturity of Financial Assets Valued at Amortized Cost		-	(492,094)
Dividends Received		3,646	982
Net Cash Inflow/(Outflow) from Investing Activities		**(1,831,653)**	**(333,641)**
Cash Flows from Financing Activities			
Increase in Borrowings		670,006	156,383
Repayments of Borrowings		(440,709)	(314,865)
Lease repayments under IFRS 16		(20,493)	-
Net Cash Outflow from Financing Activities		**229,297**	**(158,482)**
Effect of Foreign Exchange Differences on Cash and Cash Equivalents		-	4,546
Net (Decrease)/ Increase in Cash and Cash Equivalents		**(1,156,516)**	**992,301**
Cash and Cash Equivalents at the Beginning of the Year	38	**4,193,835**	**3,632,222**
Cash and Cash Equivalents at the End of the Year	38	**3,037,319**	**4,624,523**

The significant accounting policies and other notes on pages 87-212 form an integral part of these financial statements.

HRK'000	Notes	31.12.2019	31.12.2018
ASSETS			
Cash and Amounts Due from Banks	5	2,771,207	3,738,476
Mandatory Reserve with the Croatian National Bank	6	1,558,207	1,419,940
Loans to and Receivables from Banks	7	247,640	351,323
Financial Assets at Fair Value through Profit and Loss	8	634,070	671,464
Financial Assets at Fair Value through Other Comprehensive Income	9	4,640,205	3,342,819
Financial Assets at Amortized Cost	10	4,300	75,250
Loans and Receivables from Customers	11	13,339,021	11,062,253
Assets Held for Sale	12	20,000	20,000
Investments in Subsidiaries	13	5,490	166,755
Property and Equipment	14	259,531	131,473
Investment Properties	15	64,899	46,906
Intangible Assets	16	109,096	112,881
Deferred Tax Assets, Net	17	3,839	23
Tax Prepayment		2,514	538
Other Assets	18	113,139	93,092
TOTAL ASSETS		**23,773,157**	**21,233,193**
LIABILITIES			
Financial Liabilities at Fair Value through Profit and Loss	19	863	445
Deposits from Banks	20	11,216	64,292
Customer Deposits	21	20,059,494	18,306,381
Borrowings	22	981,175	633,281
Provisions for Liabilities and Expenses	23	182,595	77,435
Other Liabilities	24	167,602	148,826
TOTAL LIABILITIES		**21,402,946**	**19,230,660**
EQUITY			
Share Capital	25	1,214,775	1,214,775
Treasury Shares	25	(477)	(477)
Reserves for Treasury Shares	25	4,477	4,477
Statutory Reserve	25	23,718	15,992
Other Reserve	25	511,366	443,030
Fair Value Reserve	25	318,746	96,935
Revaluation Reserve	25	659	719
Retained Earnings	25	296,947	227,082
TOTAL EQUITY		**2,370,212**	**2,002,533**
TOTAL LIABILITIES AND EQUITY		**23,773,157**	**21,233,193**

The significant accounting policies and other notes on pages 87-212 form an integral part of these financial statements.

	Notes	2019 HRK '000	2018 HRK '000
Interests and Similar Income	26	600,840	606,625
Interests and Similar Expense	27	(64,871)	(92,239)
Net Interest Income		**535,969**	**514,386**
Fees and Commissions Income	28	527,494	513,501
Fees and Commissions Expense	29	(327,852)	(321,386)
Net Fees and Commissions Income		**199,642**	**192,115**
Gains Less Losses Arising from Securities at Fair Value through Profit and Loss	30	38,096	(2,537)
Gains Less Losses Arising from Securities at fair Value though Other Comprehensive Income / Available for Sale	31a	5,158	4,637
Gains Less Losses Arising from Dealing in Foreign Currencies	31b	50,234	46,406
Other Operating Income	32	4,748	4,818
Trading and Other Income		**98,235**	**53,324**
Operating Income		**833,846**	**759,825**
General and Administrative Expenses	33	(435,031)	(411,719)
Depreciation and Amortization	14,15,16	(75,880)	(45,271)
Impairment Losses on Loans and Receivables from Customers and Other Assets	34	(163,110)	(128,775)
Provisions for Liabilities and Expenses	23	(64.758)	11,251
Total Expenses and Provisions		**(738,778)**	**(574,514)**
PROFIT BEFORE TAX		**95,068**	**185,311**
Deferred Income Tax (Expense)/ Income	35	48,704	(33,452)
PROFIT FOR THE YEAR		**143,773**	**151,859**

The significant accounting policies and other notes on pages 87-212 form an integral part of these financial statements.

	2019	2018
	000 kn	**000 kn**
Profit for the Year	**143,773**	**151,859**
Other Comprehensive Income		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation Reserve	(73)	(73)
Income Tax Relating to Items That Will Not Be Reclassified Subsequently	13	13
	(60)	**(60)**
Items that may be reclassified subsequently to profit or loss:		
Unrealized gains from Assets at FV though Other Comprehensive income / Available for Sale	234,071	874
Sale from Financial Assets at FV through Other Comprehensive Income / Available for Sale	(3,118)	(5,056)
Income Tax Relating to Items That May Be Reclassified Subsequently	(48,671)	(513)
	182,282	**(4,695)**
Other Comprehensive Gains for the Year	**182,223**	**(4,755)**
Total Comprehensive Income/ (Loss) for the Year, Net of Income Tax	**325,995**	**147,104**

	2019	2018
	000 kn	**000 kn**
Profit for the Year	**143,773**	**151,859**
Owners of the Bank	143,773	151,859

The significant accounting policies and other notes on pages 87-212 form an integral part of these financial statements.

Separate Statement of Changes in Equity and Reserves
for the year ended 31 December 2019

	Share Capital HRK '000	Own Shares HRK '000	Reserve for Own Shares HRK '000	Other Reserves HRK '000	Fair Value Reserve HRK '000	Revaluation Reserve HRK '000	Retained Earnings HRK '000	Total HRK '000
Effect of IFRS 9					**7,373**		**(57,233)**	**(49,860)**
Balance at 1 January 2018	**1,214,775**	**(477)**	**4,477**	**458,605**	**101,630**	**779**	**75,641**	**1,855,430**
Revaluation Reserve	-	-	-	-	-	(73)	-	**(73)**
Change in the Fair Value of Financial Assets Available for Sale	-	-	-	-	874	-	-	**874**
Disposal of Financial Assets Available for Sale	-	-	-	-	(5,056)	-	-	**(5,056)**
Deferred Tax	-	-	-	-	(513)	13	-	**(500)**
Other Changes	-	-	-	-	-	-	-	**-**
Net Profit for 2018	-	-	-	-	-	-	151,859	**151,859**
Total Comprehensive Income for the Year 2018	**-**	**-**	**-**	**-**	**(4,695)**	**(60)**	**151,859**	**147,104**
Distribution of 2017 Profit	-	-	-	-	-	-	-	**-**
- Transfer to Statutory Reserves	-	-	-	417	-	-	(417)	**-**
Balance at 31 December 2018	**1,214,775**	**(477)**	**4,477**	**459,022**	**96,935**	**719**	**227,082**	**2,002,533**
Balance at 1 January 2019	**1,214,775**	**(477)**	**4,477**	**459,022**	**96,935**	**719**	**227,082**	**2,002,533**
Revaluation Reserve	-	-	-	-		(73)	-	**(73)**
Change in the Fair Value of Financial Assets through Other Comprehensive Income	-	-	-	-	234,071	-	-	**234,071**
Disposal of Financial Assets through Other Comprehensive Income	-	-	-	-	(3,118)	-	-	**(3,118)**
Deferred Tax	-	-	-	-	(48,671)	13	-	**(48,658)**
Net effect of JABA merger	-	-	-	-	39,528	-	(2,496)	**37,032**
Net effect of HPBSŠ merger	-	-	-	134	-	-	4,518	**4,652**
Other Changes	-	-	-	-	-	-	-	**-**
Net Profit for 2019	-	-	-	-	-	-	143,773	**143,773**
Total Comprehensive Income for the Year 2019	**-**	**-**	**-**	**134**	**221,810**	**(60)**	**145,795**	**367,679**
Distribution of 2018 Profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfer to Statutory Reserves and Other reserves	**-**	**-**	**-**	75.929	**-**	**-**	(75,929)	**-**
Balance at 31 December 2019	**1,214,775**	**(477)**	**4,477**	**535,084**	**318,746**	**659**	**296,947**	**2,370,212**

The significant accounting policies and other notes on pages 87-212 form an integral part of these financial reports.

	Notes	2019 '000 kn	2018 '000 kn
Cash Flows from Operating Activities			
Profit Before Taxation		95,068	185,311
Adjusted by:			
- Depreciation and Amortization	14,15,16	75,880	45,271
Foreign Exchange Gains	32	3,398	3,745
- Impairment Losses on Credits and Other Assets		173,420	128,775
- Provisions for Liabilities and Expenses	23	64,758	(11,251)
- Net Unrealized (Gains)/ Loss on Financial Assets at FVPL	30	(93,488)	5,872
- net interest income		(535,969)	-
- dividend income		(3,646)	-
Changes in Operating Assets and Liabilities			
Credits to and Receivables from Banks		1,385,724	1,660
Mandatory CNB Reserve		(138,267)	(119,671)
Financial Assets at FVPL		247,708	86,407
Financial investments at amortized cost		95,017	-
Financial assets at fair value through other comprehensive income		(173,125)	-
Credits to and Receivable from Customers		(1,196,321)	(267,143)
Other Assets		(50,820)	1,641
Deposits from Banks		(53,094)	(335,498)
Customer Deposits		(472,553)	1,753,927
Other Liabilities		(2,104)	(29,003)
Interest charged		509,500	-
Interest paid		(48,068)	-
Net Cash (Outflow)/ Inflow from Operating Activities Before Tax		**(116,982)**	**1,450,043**
Income Tax Paid		(3,686)	(78)
Net Cash (Outflow)/ Inflow from Operating Activities		**(120,667)**	**1,449,965**
Cash Flows from Investing Activities			
Investment in Subsidiaries			
Purchases of Property, Equipment and Intangible Assets		-	(121,265)
Disposal of Financial Assets Available for Sale		(48,409)	(27,189)
Acquisition of Financial Assets Available for Sale		553,964	430,416
Maturity of Financial Assets Held to Maturity		(1,692,449)	(1,191,010)
Dividends Received		-	(7,990)
Net Cash Outflow from Investing Activities		3,646	982
Cash Flows from Financing Activities		**(1,183,248)**	**(916,056)**
Dividend expenses		-	-
Increase in loans taken		649,513	156,383
Repayment of loans taken		(420,216)	(195,985)
Lease repayments under IFRS 16		(20,493)	-
Net Cash Inflow from Financing Activities		**(208,804)**	**(39,602)**
Effect of FX Differences on Cash and Cash Equivalents		-	5,866
Net increase in cash and cash equivalents		**(1,095,111)**	**500,173**
Cash and cash equivalents at the beginning of the year	38	**4,132,395**	**3,632,222**
Cash and cash equivalents at year end	38	**3,037,284**	**4,132,395**

The significant accounting policies and other notes on pages 87-212 form an integral part of these financial reports.

1. SIGNIFICANT ACCOUNTING POLICIES

Hrvatska Poštanska Bank P.L.C. Zagreb is a joint stock company incorporated and domiciled in the Republic of Croatia, Jurišićeva 4, Zagreb. The Bank is the parent of the Hrvatska Poštanska Bank Group (“the Group).

The Bank has control over following subsidiaries that make the HPB Group:

	Industry	State	Ownership as of 31 December 2019 %
HPB Invest d.o.o.	Investment Funds Management	Croatia	100,00
HPB Nekretnine d.o.o.	Real Estate Agency and Construction	Croatia	100,00

On April 1, 2019, the merger of Jadranska banka d.d. and on December 2, 2019, the merger of HPB Stambena Štedionice d.d.
More information on the merger of Jadranska banka d.d. and HPB Stambena Štedionica d.d. is shown in Note 13.

An overview of investments in HPB subsidiaries is presented in note 13, while the consolidation basis is described in note 1, item d).

These financial statements comprise separate and consolidated financial statements of the Bank as defined in IFRS 10 "Consolidated Financial Statements" and International Accounting Standard 27 "Separate Financial Statements". These financial statements were approved by the Management Board on March 30, 2020 for submission to the Supervisory Board.

The main accounting policies applied in the preparation of these financial statements are summarized below. Where accounting policies coincide with the accounting principles of International Financial Reporting Standards, in the description of the Group's accounting policies, individual Standards may be referred to, and unless otherwise stated, these are the Standards that were in effect at 31 December 2019.

The accompanying financial statements are prepared in accordance with statutory requirements and only as general information and are not intended for any particular purpose or transaction. Therefore, users are advised not to rely exclusively on them in making any decisions, and to conduct further examinations prior to making a decision.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Statement of Compliance

These financial reports are prepared in accordance with the legal requirements applicable to accounting for banks .in the Republic of Croatia. Financial reporting for Group and Bank is regulated by Croatian National Bank ("the CNB") which is the central supervisory institution of Croatian banking system. These financial reports have been prepared in accordance with the above-mentioned banking regulations.

The accounting regulations of the CNB rely on International Financial Reporting Standards ("IFRSs") adopted by European Union. The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards are as follows:

- Suspended interest represents already accrued unpaid interest on asset for which individual impairment has been recognized. For the part of the exposure for which the passage of time of default is longer than two years the Bank and the Group carry out the full impairment of accrued unpaid interest through profit and loss, suspend the following accrual in the statement of financial position and present the interest in the off-balance up until the customer makes the payment in cash. The stated is not in accordance with the IFRS 9 „Financial instruments" which requires the interest income from impaired financial assets to be accrued using the method of the effective interest rate.

- In line with CNB Decision on classification of exposures into risk stages and the manner in which credit losses are determined which was put into force at 1 January 2018 („Decison on exposure classification"), CNB prescribes minimum provision for impairment loss for certain exposures for which impairment has been specifically recognized, that may be different from an impairment loss calculated in accordance with International Financial Reporting Standards (IFRS).

- In line with the Decision on exposure classification the CNB prescribes the minimum impairment factors/hair-cuts and collection deadlines for each collateral type for purposes of estimating future cash flows on the basis of collection through collateral. The stated future cash flows can be different from the future cash flows calculated in accordance with the International Financial Reporting Standards (IFRS).

- In line with the Decision on exposure classification the CNB prescribes minimum total exposure impairment of risk sub-stages A-1 and A-2, which can be different from the impairment loss calculated in accordance with the International Financial Reporting Standards (IFRS).

- In line with the CNB's Decision on Provisions for Court Cases against the Credit Institution of March 31, 2010 there are minimum requirements for the provisions for court cases the credit institution is obliged to fulfill. In line with the Decision a credit institution must diversify court cases into risk categories depending on the loss probability and form provisions accordingly. However in certain cases required reserves may differentiate from the ones calculated in accordance with the International Financial Reporting Standards (IFRS).

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of preparation

These financial reports represent the general-purpose financial reports of the Bank and Group. Financial reports are prepared for the reporting period from 1 January 2019 to 31 December 2019 in compliance with existing accounting regulations applicable in Croatia.

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

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank and Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account as they value the asset or liability at the measurement date. Fair value for measurement and/ or disclosure purposes in these consolidated and separate financial reports is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16 since January 1, 2019 (until that date under scope of IAS 17), and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

IFRS 16 replaces IAS 17 Leases and Related Interpretations. The standard eliminates the existing dual accounting model for lessees and instead requires businesses to report most leases on the balance sheet by a single model, eliminating the difference between operating and financial leases.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

In preparing the financial reports, management is required to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period. Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under current circumstances, the results of which form the basis of making the judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of applicable standards that have significant effects on financial reports and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of Preparation (continued)

New Standards, Interpretation and Changes of Published Standards

(I) New and changed International Financial Reporting Standards are referred to the reporting period:

The accounting policies applied during the preparation of these financial statements are consistent with those applied when preparing the Group's and the Bank's annual consolidated and separate financial statements as at 31 December 2018, except for the adoption of new standards applicable from 1 January 2019. The Group and the Bank have not previously adopted any other standards, amendments or interpretations that have been published but are not yet in force.

Although these changes are applicable for the first time in 2019, they do not have a significant impact on the consolidated and separate financial statements of the Group and the Bank. The nature and impact of these changes are published below:

- ***IFRS 16: Leases***

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

- ***IFRS 9: Prepayment features with negative compensation (Amendment)***

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. These amendments do not affect the financial statements of the Bank and the Group.

- ***IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)***

The Amendments relate to whether the measurement, in particular impairment requirements, of long- term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. As the Group and the Bank do not have such long-term interests in the associate and joint venture, the amendments will have no impact on the financial statements

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

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. Since the Group and the Bank have no uncertainty about how to handle income taxes, the amendments will have no impact on the financial statements

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of Preparation (continued)

New Standards, Interpretation and Changes of Published Standards (continued)

(I) New and changed International Financial Reporting Standards are referred to the reporting period:

- ***IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)***

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. Since the Group and the Bank do not use the actuarial assumptions for the foregoing, the amendments will have no impact on the financial statements

- ***The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle***, which is a collection of amendments to IFRSs.
    - ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements***: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business
    - ***IAS 12 Income Taxes*****:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
    - ***IAS 23 Borrowing Costs*****:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of Preparation (continued)

New Standards, Interpretation and Changes of Published Standards

(II) Standards issued but not yet in force and not adopted earlier

- ***IFRS 17: Insurance Contracts***

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. This standard does not apply to the Group and the Bank.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

- ***Conceptual Framework in IFRS standards***

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of Preparation (continued)

New Standards, Interpretation and Changes of Published Standards

(II) Standards issued but not yet in force and not adopted earlier

- ***IFRS 3: Business Combinations (Amendments)***

  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. The Group and the Bank will apply these amendments when they enter into force.

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

  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. The Group and the Bank will apply these amendments when they enter into force.

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of Preparation (continued)

New Standards, Interpretation and Changes of Published Standards

(II) Standards issued but not yet in force and not adopted earlier

- ***IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)***

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. The Group and the Bank will apply these amendments when they enter into force.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) *Functional and Presentation Currency*

The Bank's and Group financial reports are presented in Croatian Kuna (HRK), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

d) *Changes in the presentation or classification of items within the financial statements*

In 2019, the Bank made reclassifications to certain financial statements items related to historical periods.

Reclassified loans that are carried at fair value through profit or loss from the item Loans and receivables from customers to the item Financial assets at fair value through profit or loss in the period from 01.01.2018. - 31.12.2018. years.

The effects of the correction are shown below.

Effect on the statement of financial position as at December 31, 2018:
(in HRK thousands)

	Balance on 31/12/2018 - before reclassification	Effects of reclassification	Balance on 31/12/2018 - After reclassification
			Bank
Assets			
Loans and Receivables from Customers	11,082,824	(20,573)	11,062,251
Assets at fair value through profit or loss	650,891	20,573	671,464
			Group
Assets			
Loans and Receivables from Customers	11,553,783	(24,711)	11,529,072
Assets at fair value through profit or loss	816,435	24,711	841,146

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

e) The basis for consolidation

The financial statements are presented for the Bank and the Group. The Group's financial statements consist of the consolidated financial statements of the parent company and its subsidiaries over which it has control: HPB Nekretnine doo, Real Estate Company, HPB Invest doo, Investment Fund Management Company. All subsidiaries are 100% owned by their parent company, which are also based in Croatia.

Until March 31, the Group was comprised of Jadranska banka d.d., a credit institution, and until November 30, HPB-Stambena štedionica d.d., a specialized financial institution, which deals with collecting deposits from domestic individuals and granting subsidized housing loans to Croatian citizens in the Republic of Croatia, when they have been merged to the Bank.

As part of consolidation, assets, liabilities, equity, revenues and expenses between Group members are eliminated entirely.

Subsidiaries

Subsidiaries are all the companies managed by the Bank. Subsidiaries are consolidated, i.e. they cease to be consolidated from the moment the Bank acquires or loses control over them. Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income from the date on which the Bank acquired control until the date of termination of control. Income and expenses of JABA are included in the consolidated profit and loss account from the acquisition date. In separate financial reports of the Bank, investments into subsidiaries are stated at acquisition cost less impairment, if any. Accounting policies of subsidiaries are adjusted as needed to ensure accordance with the Group's policies.

Business combinations

Investment cost method is used for posting acquisitions of companies by the Group. Acquisition cost of subsidiaries is measured at fair value of given assets, equities issued and arisen or liabilities assumed at the date of exchange. Acquired recognizable assets and liabilities and assumed contingent liabilities in business combinations are initially measured at fair value at acquisition date, no matter the amount of minority interest. Excess of acquisition costs over Group share of fair value of acquired recognizable net assets, including intangible assets, result in goodwill.

If acquisition cost is lower than fair value of net assets of the acquired subsidiary, the difference is recognized directly in the profit and loss account.

Acquisition date is defined as a date at which the acquirer gains control over the acquired.

Legal mergers

In the case of legal mergers of Group companies, the pooling method applies, the balances of the merging entity are transferred at net book values from the consolidated financial statements to the successor entity, and no adjustments to prior periods are required.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

f) Interest Income and Expense

Interest income and expense are recognized in the Profit and loss ("P&L") report as they accrue for all interest bearing financial instruments, including those measured at amortized cost, at fair value through other comprehensive income, using the effective interest rate method. Such income and expense is presented as interest and similar income or interest expense and similar charges in the P&L report. Interest income and expense also includes fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortization, and other differences between the initial carrying amount of an interest-bearing financial instrument and its value at maturity, recognized on a basis of effective interest rate. Interest income and expense on all trading assets and liabilities are presented as interest income or expense.

For financial assets measured at amortized cost, calculation the effective interest rate is based on gross book value, with the exemption of the following:

(a) purchased or originated credit impaired financial assets. For such financial assets the entity applies to the amortized cost of financial assets on initial recognition the effective credit impaired interest rate;

(b) financial assets that is neither purchased nor originated credit impaired financial assets, but afterwards became credit impaired financial assets. For such financial assets the subject in the following reporting periods to the amortized cost of financial assets applies the effective interest rate

Modification of contracted cash flows

If contracted cash flows from financial assets were to be renegotiated or modified in some other manner, whereby such new deal or modification do not lead to derecognition of the financial assets, the Bank and the Group recalculate gross book value of the financial assets and in the profit and loss recognize the gain or loss. Gross book value of financial assets is recalculated as present value of renegotiated or modified contracted cash flows discounted by initial effective interest rate of the financial assets (for purchased or originated credit impaired financial assets discounted by effective credit impaired interest rate) or if necessary by credit impaired effective interest rate. Book value of modified financial assets is impaired by arisen costs or fees, which are depreciated during the remaining period of the modified financial assets. When the modification of conditions or modification of contracted future cash flows leads to derecognition of existing financial assets and at the same time there are impairment indicators of new financial assets, it represents the purchased or originated credit impaired financial assets (so called POCI). Once classified into the POCI category, the assets remain in it for its remaining lifetime.

g) Fees and Commissions Income and Expense

Fee and commission income and expense arise on financial services provided by the Bank and received by the Bank, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by and to the Bank and the Group. Fee and commission income and expense are recognized in the P&L report when the related service is performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognized over the term of the commitment. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank and 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

1. **SIGNIFICANT ACCOUNTING POLICIES (contuinued)**

g) Fees and Commissions Income and Expense (continued)

and service fees are recognized based on the applicable service contracts. Asset management fees related to investment fund management are recognized on an accrual 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.

h) Dividend Income

Dividend income on equity investments is recognized in the P&L report when the right to receive dividends is established.

i) Gains Less Losses from Financial Instruments at Fair Value in P&L and Financial Instruments Measured at Fair Value through Other Comprehensive Income

Gains less losses from financial instruments at fair value through profit or loss include unrealized and realized gains and losses arising from derivative financial instruments, trading debt securities and other financial instruments designated at fair value through profit or loss.

Gains less losses from financial instruments at fair value through other comprehensive income include realized gains and losses from financial instruments measured at fair value through other comprehensive income.

Financial assets measured at fair value through other comprehensive income are tested at the end of every reporting period in order to determine the existence of indicators of potential impairment. Financial assets are impaired if there is objective evidence that estimated future cash flows were impacted by one or more events after initial recognition of the financial instrument.

Objective impairment evidence may include:

- Significant financial difficulties for issuer or other contract party, or
- Contract breach, for example late payments or non-payment of principal and interest, or
- Likely bankruptcy start or financial restructuring of the debtor, or
- Disappearance of active market for concerned financial assets due to financial difficulties.

The Group in the reporting period had no equity impairment. Any subsequent increase in fair value after impairment is recognized in other comprehensive income. In relation with debt securities classified at reporting date at fair value though other comprehensive income (previously available for sale), impairment can subsequently be reversed in the profit and loss account if there is evidence there exists objective evidence of increase of fair value in relation with the event that arises after recognition of impairment.

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1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

j) Gains Less Losses Arising from Dealing in Foreign Currencies

Gains less losses from dealing in foreign currencies include unrealized and realized gains and losses arising from spot dealings in foreign currencies.

k) Foreign Currencies

Transactions in foreign currencies are translated into HRK at the rate of exchange applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate applicable at that date. Foreign exchange differences arising on translation are recognized in the P&L report. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates applicable at the dates when the fair values were determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not recalculated.

The fair value of financial assets through other comprehensive income denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

The official middle exchange rate as of December 31, 2019 was: 7.442580 = 1 EUR; 6.649911 = $ 1; 6.838721 = 1 CHF.

The official middle exchange rate as of December 31, 2018 was: 7.395322 = 1 EUR; 6,449784 = $ 1; 6.568365 = 1 CHF.

l) Financial Instruments

i) Classification

The Bank classifies all financial assets in terms of asset management business model, which is measured as follows:

- Amortized cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit and loss account (FVPL).

Financial liabilities, except for loan and financial guarantee based liabilities, are measured at amortized cost.

The classification depends on the intent of the financial instruments'' acquisition. The Board determines the classification of the financial instruments at initial recognition.

Business model assessment

The Bank and the Group determine business models in a manner that best reflects management of financial assets group in order to achieve the business purpose.

Business models of the Bank and the Group are not determined at individual level of each instrument, but at aggregate level of the group of the financial instruments.

Business model assessment is based on reasonably expected scenarios. If cash flows after initial recognition are realized in a manner different than the initially expected, the Bank and the Group do not change the classification of the remaining financial assets held in that business model, but in the future include new information into the assessment of newly approved or purchased financial assets.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

I) Financial Instruments (continued)

i) Classification

Business model assessment (continued)

In accordance to IFRS 9, the Bank and the Group classify its financial assets in accordance with the following business models:

- Business model with the purpose of holding the assets in order to collect contractual cash flows

Financial assets held within this business model are managed with the intent to generate cash flows by collecting contractual payments during the instrument's lifetime. The Bank and the Group manage the assets within the portfolio in order to collect certain cash flows (instead of managing the entire portfolio yield that is realized by holding and also by selling the assets).

- Business model with the purpose of collecting cash flows and also by selling the financial assets

Within this business model the Bank and the Group hold financial assets, which purpose is to collect contracted cash flows and also to sell the financial assets. Within this business model the key management personnel makes the decision that the goal of the business model is realized by collecting cash flows and also by selling the financial assets. One of the goals of the business model is managing daily needs related to liquidity in order to keep a certain interest yield profile or that the duration of the financial assets corresponds to duration of liabilities financed by those assets.

- Other business models

Financial assets are measured at fair value through profit and loss account if they are not held within the business model with the intent of holding financial assets to collect contracted cash flows or within the business model with the intent of collecting contracted cash flows and also by selling financial assets. The business model which consequently has measurement at fair value through profit and loss account is the one within the Bank and the Group manage the financial assets with the intent of generating cash flows by selling the assets. The Bank and the Group make decision based on fair value of the assets and manage it in order to realize the fair value.

Financial Markets Sector acquires different types of financial assets, whereby the intent for their acquisition is not unambiguous. Within the context of the IFRS 9 application the model of acquisition of financial assets and its placement within business models will be allocated between Financial Markets Sector and Assets and Liabilities Management Office. Financial Markets Sector when deciding the acquisition of financial assets can place the stated into one of three business models as defined by IFRS 9. Financial Markets Sector more closely describes with the Internal act conditions and manner of acquiring financial assets and its placement into each category in accordance with the chosen business model. Assets and Liabilities Management committee makes decisions, on recommendation of Assets and Liabilities Management Office, on financial assets acquisitions within the business model holding to collect and sale. Investments related to this business model will arise from the Bank's investments into financial assets with the intent of liquidity management – general strategy.

Transactions related to the stated business model are carried out by Financial Markets Sector by directive from Assets and Liabilities Management Office. The Bank places financial instruments within this business model mainly with the purpose of keeping regulatory obligations and prescribed ratios or liquidity reserves in accordance with internal and external limits.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

i) Classification (continued)

Solely Payments of Principal and Interest test (so called SPPI test)

As the next step of the classification process the Bank and the Group asses contracted conditions of financial assets in order to conclude whether the stated assets have contracted cash flows which are solely payments of principal and interest on unpaid amount of the principal. For purposes of applying this test, the 'principal'' is fair value of financial assets at initial recognition, however that amount of the principal can be changed during the financial assets' lifetime (i.e. in case of paying off the principal). The interest covers the fee for time value of cash, for credit risk related to unpaid amount of the principal during certain period and other basic risks and loan costa and also for profit margin. In order to assess the SPPI test result, the Bank and the Group apply assessment and take into consideration important factors such as the currency of financial assets.
However, if contracted cash flows of financial assets are not solely payments of principal and interest on unpaid amount of the principal, such financial assets are subsequently measured at fair value through profit and loss account.

Financial assets and financial liabilities
This category contains two subcategories: financial instruments held for trading (including derivative financial instruments) and financial instruments the Board had initially recognized at fair value through profit and loss account, or those that have to be recognized at fair value through profit and loss account in accordance with IFRS 9. The Bank recognizes financial assets and liabilities at fair value through profit and loss account when:

- Assets and liabilities are managed, measured or are internally presented at fair value,
- Accounting mismatch is eliminated or significantly reduced by recognition, which would otherwise arise, or
- Assets and liabilities contain certain derivative which significantly changes cash flows which would otherwise arise from the contract.

Financial assets at fair value through profit and loss account include equity securities, debt securities, shares in investment funds and derivative financial instruments held for trading. Financial assets held for trading relate to assets purchased or issued mainly for transactions which realize profit in a short-term. Changes in fair value of these assets are recognized through net income from trading.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

k) Financial Instruments (continued)

i) Classification (continued)

Financial assets at amortized cost

The Bank and the Group measure financial assets at amortized cost if both following conditions are met:

- Financial assets are held within business model with the intent of holding financial assets in order to collect contracted cash flows
- Based on contracted terms of financial assets for certain dates, cash flows arise which are solely payments of principal and interest on unpaid amount of the principal.

Financial assets at amortized cost of the Bank and the Group arise when the Bank and the Group approve cash instruments to customers with no intention of trading with those receivables and include loans and receivables from banks, loans and receivables from customers, as well as mandatory reserve at Croatian National Bank and debt securities.

Financial assets at fair value through other comprehensive income

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

- Financial assets are held within business model with the intention of collecting contracted cash flows and also by selling the financial assets
- Based on contract terms of financial assets on certain dates arise cash flows which are solely payments of principal and interest on unpaid amount of the principal.

Gains and losses from financial assets measured at fair value through other comprehensive income are recognized through other comprehensive income, except for gains or losses from impairment and gains and losses from exchange rate differences, up to derecognition of financial assets or its reclassification. If financial assets were derecognized, the cumulative gains or losses previously recognized through other comprehensive income are reclassified from equity into profit and loss account as reclassification adjustment. If financial assets were to be reclassified from the category of measurement at fair value through other comprehensive income into the category of measurement at amortized cost, the Bank and the Group calculate the cumulative profit or loss previously recognized through other comprehensive income, they are eliminated from equity and aligned with the fair value of financial assets at reclassification date as if they were always measured at amortized cost. Such reconciliation affects the other comprehensive income, but does not affect the profit and loss account and therefore it is not a reclassification adjustment. Effective interest rate and measurement of expected credit losses are not adjusted due to reclassification.

If financial assets measured at fair value through other comprehensive income were to be reclassified into the category measured at fair value through profit and loss account, the financial assets would still be measured at fair value. Cumulative profit or losses previously recognized in other comprehensive income would be reclassified from equity into the profit and loss account as reclassification adjustment at reclassification date.

Interests calculated by the effective interest rate are recognized in the profit and loss account.

Assets measured at fair value through other comprehensive income cover debt securities.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

Other financial liabilities

Other financial liabilities cover all financial liabilities not measured at fair value through profit and loss account.

ii) Recognition and Derecognition

Purchases and sales of financial assets and financial liabilities at fair value through profit or loss, and financial assets held to maturity and available for sale, are recognized on the settlement date. Loans and receivables and financial liabilities at amortized cost are recognized when advanced to borrowers or received from lenders.

The Bank and Group derecognizes financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over financial instrument.

This occurs when the Bank and Group transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realized, surrendered or have expired. At full derecognition of financial assets, the difference between book value (determined at derecognition date) and received consideration is recognized in the profit and loss account.

The Bank and Group derecognizes financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Bank will cease recognizing that liability and will instantaneously recognize a new financial liability, with new terms and conditions.

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

iii) Initial and Subsequent Measurement

Financial assets and liabilities are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank and Group measures financial instruments at fair value through profit or loss and financial assets measured at amortized cost and financial assets at fair value through other comprehensive income. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are initially recognized at acquisition cost, and are subsequently measured applying internal models of fair value estimation.

Loans and receivables and held to maturity investments and financial liabilities not designated at fair value through profit or loss are measured at amortised cost.

iv) Determination of Fair Value of Financial Instruments

The fair value of quoted financial assets in an active market is based on their closing price. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Bank and Group uses an internal evaluation model for fair value estimation. Such models include the use of prices achieved in recent transactions, by reference to similar financial instruments, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

l) Financial Instruments (continued)

iv) Determination of Fair Value of Financial Instruments (continued)

flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate.

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

v) Reclassifications

According to IFRSs, the Bank and Group have the possibility to reclassify certain financial instruments out of the category at fair value through profit or loss into fair value through other comprehensive income or portfolio measured at amortized cost. On 12/31/2019 a reclassification was made.

m) Specific Financial Instruments

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with CNB, placements with other banks with original maturities of three months or less, and items in course of collection.

Derivative Financial Instruments

The Bank and Group uses derivative financial instruments to hedge economically its exposure to currency risk and interest rate risk arising from operating, financing and investing activities. In accordance with its investment policies, the Bank and Group does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied and consequently, all derivative agreements are classified as financial instruments at fair value through profit or loss.

Derivative financial instruments include foreign currency agreements, forward agreements, futures and other financial derivatives and are initially recognized at fair value which is the value of consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on the discounted cash flow. All derivative instruments are presented as assets if their fair value is positive and as liabilities if their fair value is negative.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed as an embedded derivative. Except as required to the contrary by the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealized gains and losses recognized in the P&L report, unless there is no reliable measure of their fair value.

Changes in the fair value of derivatives are included in gains less losses arising from trading with securities.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

m) Specific Financial Instruments (continued)

Treasury Bills and Debt Securities

Treasury bills and debt securities that the Bank and Group holds for the purpose of short-term profit taking are classified as at fair value through profit or loss or as financial assets at fair value through other comprehensive income, and are carried at fair value. Treasury bills and debt securities that the Bank has the intent and ability to hold to maturity are classified as held to maturity assets.

Equity Securities and Investments in Open-End Investment Funds

Equity securities and investments in open-ended investment funds are classified as at fair value through profit or loss or as assets at fair value through other comprehensive income.

Placements with Banks

Placements with banks are classified as loans and receivables and measured at amortized cost less impairment losses.

Loans and Receivables from Customers

Loans and receivables from customers are presented net of impairment losses. Purchased loans that the Bank and Group has the intent and ability to hold to maturity are classified as held to maturity assets.

In accordance with CNB requirements, the amortization of any discounts included within impairment losses is presented in impairment losses.

Investments in Subsidiaries

In the Bank's separate financial reports, investments in subsidiaries are recorded at cost, except for H1 Telekom plc. which is, as assets held for sale, recorded at the lower of carrying amount and fair value.

Borrowings

Interest-bearing borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between proceeds (net of transaction costs) and redemption value being recognized in the P&L report over the period of the borrowings as interest. The amount is subsequently reduced by not deferred portion of the fee paid at the point of loan approval.

Repurchase Agreements and Linked Transactions

The Bank and Group enters into purchases (sales) of investments under agreements to resell (repurchase) essentially identical investments, or in a series of linked sales and buy-back transactions at a certain future date at a fixed price. The amounts paid are recognized in loans and advances to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the report of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortized cost or at fair value, as appropriate. The proceeds from the sale of the investments are presented as liabilities to either banks or customers.

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

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

n) Corporate Tax

Corporate tax expense represents the sum of the tax currently payable and deferred tax.

Current tax payable is based on taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the P&L report and report of other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in financial reports and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

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

The measurement of deferred tax liabilities and assets reflects the amount that the Bank and Group expects, at the end of the financial reports date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified in the report of financial position as non-current assets and/ or non-current liabilities. Deferred tax assets are recognized only to the extent that it is probable that the related tax benefit will be realized. At each reporting date, the Bank and Group reviews the unrecognized potential tax assets and the carrying amount of the recognized tax assets.

1. **SIGNIFICANT ACCOUNTING POLICIES (contuinued)**

o) Property and Equipment

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

Recognition and Measurement

An item of property whose fair value can be measured reliably is subsequently carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The fair value of land and buildings is determined by the independent professional valuator.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation is recognized in the P&L report on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

Equipment is measured at cost, less accumulated depreciation and accumulated impairment losses.

The estimated useful lives are as follows:

	2019	2018
Buildings	40 years	40 years
Computers	3 years	3 years
Furniture and Equipment	2-4 years	3-4 years
Motor Vehicles	5 years	5 years
Other Assets	10 years	10 years

**As part of a comprehensive process recording, the bank has reviewed the life of a cell phone. Consequently, it has been established that there is a significant change in the expected cost benefit framework of the said property and that it should be modified to reflect the changes in the framework. It was determined that the lifetime of the cellphone was 3 years. The new lifetime is fixed at 2 years. Had it not been for the stated depreciation rate, the depreciation expense in 2018 would have been lower by HRK 75,396.75.*

Depreciation methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount, and are included in the Profit and Loss Statement.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

p) Investment Property

Investment property include the Bank's investments in real estate with the intention of selling the same and / or earning from the lease. Real estate investments are initially recognized at cost, including transaction costs. All investments in real estate are valued at fair value less costs to sell. The fair value of such assets is estimated annually on the basis of an independent valuer's estimate, and any impairment loss is recognized in the income statement. Profits on the income statement other than prepayments are recognized at the end of recognition.

r) Intangible Assets

Intangible assets are carried at cost less accumulated amortization and impairment. Development costs are capitalized if all the requirements specified in IAS 38 "Intangible Assets" are met.

The Bank and Group intends to capitalize internal employee project costs in the future under a condition of meeting requirements by the IAS 38. During 2016 it started the preparation activities for the mentioned purpose. Durability of the mentioned intangible assets will correspond to the estimated useful life and its future economic benefits.

Amortization is provided on a straight-line basis over the estimated useful life of an intangible asset. Maintenance costs are recognized as an expense when they are incurred. Depreciation methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount, and are included in the Profit and Loss Statement.

Amortization method and estimated useful life are reassessed on the date of preparing financial reports. Gains and losses from disposal are determined by comparing realized sale price and book value of assets and is included in the profit or loss report.

Amortization of intangible assets is provided on a straight-line basis over the estimated useful life of an asset as follows:

	2019	**2018**
Leasehold Improvements	range*	range*
Software	3-10 years	3-10 years
Licenses	3-10 years	3-10 years

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

r) Impairment of Non-Financial Assets

The recoverable amount of property and equipment, investment property 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 levels 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.

Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

s) Non-Current Assets Held for Sale

Tangible assets gained in exchange for uncollected receivables Bank and Group records as assets held for sale in accordance with International Financial Reporting Standard 5 (IFRS 5). Only exceptionally, if the assets can be used for the Bank's and Group's business operations decision on using the assets and accounting treatment will be in accordance with the International Account Standard 16. Properties which do not fulfill the IFRS 5 recognition criteria will be reclassified as Property Investment in accordance with the International Account Standard 40.

The Bank and Group initially recognizes (classifies) non-current assets as assets held for sale if its value be through sale, rather than used for the purpose of conducting business activities through depreciation. Such assets are classified at the lower of carrying amount or fair market value less costs to sell.

Subsequent measurement of assets held for sale is carried at the lower of carrying value and the current fair market value less costs to sell.

In case of events that may extend the period to perform the sale of the property does not preclude the classification of assets as held for sale if the circumstances beyond the control of the Bank and Group occur and if there is evidence that the Bank and Group will continue in line with the plans to continue selling the same.

The Bank and Group does not perform depreciation of assets held for sale. Impairment losses arising on the subsequent measurement of assets is recorded in the P&L report of the Bank and Group. Subsequent gains from increase in the fair value of previously impaired assets will be recognized in the P&L report at the time of sale.

If it is determined that the non-current assets classified as held for sale do not meet the criteria for initial recognition of the Bank and Group does not recognize those assets as assets held for sale.

Bank and Group does not recognize assets held for sale in the event that such property is sold. Gain or loss on sale of assets held for sale are recognized in the P&L report.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

t) Provisions for Liabilities and Expenses

The Bank and Group recognizes a provision when it has a present obligation as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the obligation. Provisions are also made for off-balance sheet credit risk exposures on a portfolio basis.

Provision for liabilities and charges represents the best estimate of the expenditures needed to settle the present obligation at the reporting date. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Provisions are released only for such expenditure in respect of which provision are recognized at initial recognition. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

u) Operating Lease

Leases where the Bank and Group as lessor retains substantially all the risks and rewards incidental to ownership are included in tangible and intangible assets at cost net of accumulated depreciation. Rental income under operating leases is recognized in the P&L report on a straight-line basis over the term of the lease.

The Bank and Group leases office space under operating leases. Payments under operating leases are recognized in the P&L report over the term of the underlying lease. Lease incentives received are recognized in the P&L report as an integral part of the total lease expense. The Bank does not have operating lease contracts with the termination period longer than one year.

As of 1 January 2019, IFRS 16, which provides for the recognition, measurement, presentation and disclosure of leases to entities reporting under IFRSs, has become effective. The standard defines a unified model for the accounting of leases with the lessee, prescribes the obligation of the lessee to report assets and liabilities on all leases, except for leases over a 12-month period or shorter or a low-value lease item.

Under IFRS 16, a lease agreement transfers the right to use a specific property to a lessee if the following two conditions are met; the lessee will receive real economic benefits from the use of the property during the period of use (the lessee has the exclusive right to use the property) and the lessee has the right to make decisions regarding the use of the property during the lease period.

The Bank and the Group recognized the right-of-use asset and lease liability at the lease date. The right-of-use asset that is, the property from the lease agreement, is initially measured at cost, and the lease liability is measured at the present value of future lease payments (discounted value) not paid by that date.

Leased assets are subsequently measured using the cost model, on which depreciation is calculated and impairment losses are recorded. Subsequent measurement of the lease obligation includes an increase in book value to reflect interest on the lease obligation and a decrease in value that reflects the lease payments made.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

v) Employee Benefits

Defined Pension Contributions

The Bank and Group pays contributions to pension-insurance funds on a mandatory, contractual basis. The Bank and Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Provisions for Severance Payments and Jubilee Awards

In calculating provisions for severance payments and jubilee awards, the Bank and Group discounts expected future cash flows in respect of the liabilities, using discount rates that, in opinion of the Bank's management, best represent the time value of money.

Equity Payment Scheme Plan

The Bank and Group have set an equity payment scheme policy but do not have an equity payment scheme plan as conditions for payments in 2019 or later have not been met yet.

w) Share Capital and Reserves

Share Capital and Reserves

Share capital is denominated in Croatian Kunas and stated at nominal value. The amount of fees paid on repurchase of share capital, including directly attributable costs, is recognized as a deduction from equity and classified as treasury shares.

Dividends

Dividends are recognized as a liability in the period in which they are declared.

Retained Earnings/ Accumulated Losses

All income for the year, retained after appropriations, is transferred to reserves, in accordance with the decision of the General Assembly.

Loss for the period is charged on the accumulated retained earnings. Any remaining loss is allocated in accordance with the regulations applicable to trading companies in the Republic of Croatia.

Earnings per Share

The Bank presents earnings or loss per share data for its ordinary shares. Earnings/ loss per share is 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.

x) Contingencies and Commitments

In the ordinary course of business, the Bank and Group enters into credit related commitments which are recorded in off-balance sheet accounts and primarily include guarantees, letters of credit and undrawn loan commitments. Such financial commitments are recorded in the Bank's and Group's report of financial position if and when they become payable.

1. SIGNIFICANT ACCOUNTING POLICIES (contuinued)

y) *Funds Managed for and on Behalf of Third Parties*

The Bank and Group manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Bank's and Group's assets and are excluded from the report of financial position. For the services rendered, the Bank and Group charges a fee which is recognized in the P&L report on an accrued basis.

The Bank's subsidiary also manages six open-end funds with public offering (short-term bond: HPB Cash Fund, HPB Eurocash Fund, bond: HPB Bond Fund, mixed: HPB Global Fund, HPB Bond Fund Plus and equity fund: HPB Equity Fund).

Investment funds assets that is managed by the Bank is not part of consolidated reports of the Group

The investment of the parent company in the investment funds of the parent company are stated at fair value through profit and loss.

z) *Segment Reporting*

A segment is a distinguishable component of the Bank and Group that is engaged either in providing products or services (business segment) which achieves economic benefits or costs, including the transactions with other parts of the Bank and Group. The Group did not use internal transfer prices in determining the success of the segments.

The Group identified four major segments: banking with legal entities - divided into two sub-sectors (business with large companies and the public sector, small and medium-sized businesses), banking with physical persons, financial markets (including treasury and investment banking with custody) and direct banking. The description of business segments and their financial review is presented in Note 4 to these financial statements.

Group's operations, its total assets as well as the majority of its clients are based in Croatia.

2. RISK MANAGEMENT

This note details the Bank's and Group risk exposures as well as the methods applied by the management to identify, measure and manage those risks for the purpose of preserving capital. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk, interest rate risk in the Bank’s non-trading book, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

An integrated system of risk management is established at the Bank and Group level by introducing a set of policies, procedures and manuals, determining the limits of risk levels acceptable to the Bank and monitoring their implementation. The limits are set with respect to the amount of regulatory capital and are applied to all types of risk. Additionally, the Bank sets limits for annual potential losses measured by Value-at-Risk techniques for its market risk exposure. Internal methodologies and models for managing other types of risks are also being developed.

The responsibility for determining the framework of the Bank’s and Group risk management lies with the Bank’s Management Board which has delegated the risk management tasks to the Assets and Liabilities Management Committee, Credit Committee and Operational Risk Management Committee.

2.1 Credit Risk

The Bank is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties.

The risk that counterparties to financial instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank evaluates debtors' creditworthiness, and in order to minimize credit risk, obtains appropriate collateral.

At reporting date, the Bank’s credit risk exposure to financial instruments classified as at fair value through profit or loss is presented by the positive fair value of these instruments, as recorded in the report of financial position. Notional amounts disclosed in the notes to the financial reports do not represent the amounts to be exchanged by the parties in derivative transactions and do not measure the Bank’s exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The Bank is exposed to credit risk primarily through loans and receivables from customers. The amount of credit exposure in this regard, as well as held to maturity debt securities recognized at amortised cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to the credit risk through off-balance sheet items, i.e. through commitments arising from unused facilities and guarantees issued, as disclosed in Note 39.

Credit risk management comprises assessment of placements’ credit risk, subsequent monitoring, supervision, and evaluation of recoverability of placements and off-balance sheet commitments, as well as formation of required impairments and provisions for identified losses on placements and off-balance sheet commitments, and reporting to the Management Board of the Bank.

Tables presented in this note present book value of financial assets without accrued interest for the year 2018

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

Assessment of the individual credit risk exposure comprises the following:

- debtors' creditworthiness,
- debtors' timeliness in meeting their obligations,
- collateral quality.

Monitoring of credit risk includes continuous assessment whether elements exist which would indicate a deterioration of the client's financial position, the client's exposure to currency risk or an increase in risk due to the decrease of collateral value.

2.1.2. Classification of Exposures in Risk Stages

The Bank classifies placements into risk stages depending on the expected loss in the amount of the principal of the placement, and in accordance with the Decision on Classification of Exposures into Risk Stages and the manner of determining credit losses.

All placements that the Bank estimate are not in the default status are classified into risk stage A. Moreover, in accordance with IFRS 9, the Bank places into sub-stage A-1 the placements for which it is determined that after initial recognition the credit risk of each customer's exposure had not significantly increased, and into sub-stage A-2 the placements for which it is determined that after initial recognition the credit risk of customer's exposure had significantly increased. The Bank for these exposures carries out corresponding impairments and make provisions of exposure in the amount equal to expected credit losses in a 12-month period for sub-stage A-1, that is expected credit losses during lifetime for sub-stage A-2. Placements that the Bank estimates are partly recoverable are classified into risk stage B, depending on the loss percentage: into sub-stage B1 (loss is estimated at below 30% of nominal carrying value of the placement), into sub-stage B2 (loss is estimated at between 30% and 70% of nominal carrying value of the placement), and into sub-stage B3 (loss is estimated at above 70%, but below 100% of nominal carrying value of the placement). Placements estimated to be fully irrecoverable are classified into risk stage C.

2.1.3. Placement Impairment Policy

The impairment estimation of the Bank is based on the International Financial Reporting Standard 9 (IFRS 9), whereby the Bank analyzes quantitative and qualitative information.

Credit risk analysis is comprehensive and it is based on multiple indicators, i.e. is a certain indicator important and could its importance compare with other indicators depending on the type of product, financial assets' features, customer etc. However, some indicators are impossible to determine on individual instrument level and in such case the Bank estimates the indicators for certain parts of financial instruments portfolio.

Furthermore, credit quality analysis predicts for every reporting date the comparison of credit quality of financial instrument at the moment of recognition and at the moment of initial recognition or acquisition, all with the intention of determining if the criteria for classification into "Stage 2" were met.
The Bank differentiates the criteria in order to mark significant increase of credit risk in accordance with different exposure portfolios:

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3 Placement Impairment Policy (continued)

a) Exposure portfolio towards retail
   - Existence of due debt over 30 days
   - Customer blockade longer than 10 days
   - Other exposure (total < 20% of total customer exposure) in default status

b) Exposure portfolio towards legal persons
   - Existence of due debt over 30 days
   - Customer blockade longer than 15 days
   - Decrease in financial position

c) Exposure portfolio towards central states and banking financial institutions
   - Change (decrease) in customer's credit rating

In addition, while estimating expected losses an important element is also including future factors through macroeconomic scenarios.

Key dana for measuring expected credit losses are the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD).

Expected credit losses for exposures (ECL) in "Stage 1" are calculated as product of 12-month PD, LGD and EAD-a.

Expected credit losses for exposures (ECL) in "Stage 2", that is lifetime expected credit losses are calculated as product of lifetime PD, LGD and EAD discounted at reporting date.

Considering the criteria used at estimating recoverable amount of a placement, the Bank separates the placements to small loans portfolio placements and non-small loans portfolio placements.

Small loans portfolio placements are total placements and off-balance liabilities to one customer or group of related persons for which the total balance is in the gross amount (without impairment or provision) at estimation date lower than HRK 1,000,000.00.

The Bank in general estimates the recoverability of placements to physical persons in accordance with criteria for estimating recoverability of small loans portfolio placements and recoverability of placements to legal persons in accordance with criteria for estimating recoverability of non-small loans placements.

The PD risk parameter is modeled by the Bank based on migration matrices for exposures toward legal and physical persons. The value of lifetime PD represents the cumulative value of the PD risk parameter marginal values depending on the exposure tenor. The approach based on external investment rating is simultaneously used for exposures towards financial institutions and central states.

The LGD risk parameter is modeled based on transactions made after default status date by vintage analysis for exposures toward legal and physical persons. Vintage intervals are defined on an annual basis. Modeling of the LGD risk parameter for exposures toward central states and financial institutions is based on historic payment rates published by credit rating agencies.

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3. Placement Impairment Policy (continued)

Modeling of the EAD risk parameter, that is exposure at default depends on the profile of repayment. Calculation of exposure at default is generated monthly and summed annually where necessary.

When estimating expected credit losses for off-balance liabilities, conversion factor 1 is used.

Individual Assessment

The recoverable amount of placements that are not classified within the small loan portfolio of the Bank is estimated on an individual basis according to the following criteria:

- debtors' creditworthiness,
- debtors' timeliness in meeting their obligations, and
- collateral quality.

In this respect, credit rating of the debtor and/ or other parties in the loan business (guarantors, co-debtors etc.) is taken into account, as well as days-past-due in debt settlement and type and appraised value of the available collateral. By taking this into consideration, as well as other available information, including info on significant increase in credit risk, the Bank estimates loan recoverability by evaluating future cash flows arising from the placement, which are discounted and compared with placement's book value. Required impairments are determined in this way. Bank complies with regulations from *Decision on the Classification of Placements and Off-Balance Sheet Liabilities of Credit Institutions* with respect to procedures for restructured placements, placements whose repayment is based on collateral, placements that are not secured by adequate collateral, as well as other regulations regarding eligibility of collateral and appropriate discount factors used for impairment calculations.

Portfolio Based Assessment

The Bank estimates the recoverable amount of exposures that are classified on a portfolio basis by having regard principally to the debtors' timeliness in meeting their obligations. In arriving at the recoverable amount, the present value of future cash flows from the placements is estimated by reducing the principal by reference to the loan type and the number of days in default.

The following tables present the classification of exposures into risk categories and the allocation of the corresponding impairment losses as a percentage of gross principal.

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3 Placements Impairment Policy (continued)

Group

%	**Loans and Receivables from Customers**	Impairment Allowance	**Loans and Receivables from Banks**	Impairment Allowance	**Financial Assets valued at Amortised cost**	Impairment Allowance	**Balances with the CNB**	Impairment Allowance	**Fees Receivables**	Impairment Allowance
2019										
Stage 1	81.91	8.53	99.80	59.01	57.89	34.63	100.00	-	49.99	-
Stage 2	4.82	4.36	-	-	9.38	15.64	-	-	5.05	-
Stage 3	13.26	87.12	0.20	40.99	32.72	49.74	-	-	44.96	100.00

%	**Loans and Receivables from Customers**	Impairment Allowance	**Loans and Receivables from Banks**	Impairment Allowance	**Financial Assets valued at Amortised cost**	Impairment Allowance	**Balances with the CNB**	Impairment Allowance	**Fees Receivables**	Impairment Allowance
2018										
Stage 1	78.87	0.92	96.96	1.37	6.92	-	100.00	-	55.62	-
Stage 2	5.13	7.45	-	-	-	-	-	-	1.61	-
Stage 3	16.01	66,28	3.04	100.00	93.08	77.48	-	-	42.77	93.70

Bank

%	**Loans and Receivables from Customers**	Impairment Allowance	**Loans and Receivables from Banks**	Impairment Allowance	**Financial Assets valued at Amortised cost**	Impairment Allowance	**Balances with the CNB**	Impairment Allowance	**Fees Receivables**	Impairment Allowance
2019										
Stage 1	81.92	8.53	99.80	59.01	57.89	34.63	100.00	-	47.90	-
Stage 2	4.82	4.36	-	-	9.38	15.64	-	-	5.26	-
Stage 3	13.26	87.12	0.20	40.99	32.72	49.74	-	-	46.83	100.00

%	**Loans and Receivables from**	Impairment Allowance	**Loans and Receivables from Banks**	Impairment Allowance	**Financial Assets valued at Amortised**	Impairment Allowance	**Balances with the CNB**	Impairment Allowance	**Fees Receivables**	Impairment Allowance
2018										
Stage 1	79.04	0.90	96.47	0.62	6.92	-	100.00	-	52.95	-
Stage 2	5.28	7.48	-	-	-	-	-	-	1.71	-
Stage 3	15.67	67.40	3.53	100.00	93.08	77.48	-	-	45.34	93.70

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

Maximum Exposure to Credit Risk before Consideration of Collateral

The table below shows the maximum exposure of the Group and Bank to credit risk as at December 31, 2019 and December 31, 2018, not considering the collateral, if any. The exposures presented below are net of impairment losses and provisions.

Maximum Exposure		**Group**		**Bank**	
		2019	**2018**	**2019**	**2018**
	Note	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Giro Account with the CNB and Other Banks	5	2,771,242	4,177,071	2,771,207	3,738,476
Mandatory Reserve with the CNB	6	1,558,207	1,526,838	1,558,207	1,419,940
Credits to and Receivables from Banks	7	247,640	404,855	247,640	351,323
Investments measured at amortised cost	10	4,300	75,250	4,300	75,250
Credits and Receivables from Customers	11	13,334,456	11,529,074	13,339,021	11,062,252
Fees Receivable	18	13,230	13,358	12,295	12,093
Off-Balance Sheet Exposure	39	**2,133,541**	**2,077,171**	**2,133,893**	**1,930,745**
Undisbursed Lending Commitments		1,741,140	1,478,313	1,741,492	1,345,151
Guarantees		388,803	581,381	388,803	568,117
Other Contingent Liabilities		3,598	17,477	3,598	17,477
Total Credit Exposure		**20,062,616**	**19,803,616**	**20,066,563**	**18,590,079**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets Exposed to Credit Risk

Group

2019	Loans and Receivables from Customers HRK'000	Loans to and Receivables from Banks HRK'000	Financial Assets Valued at Amortised cost HRK'000	Balances with the Croatian National Bank HRK'000	Fees Receivable HRK'000
Stage 1	12,180,888	248,360	2,665	2,572,770	11,669
Stage 2	717,261	-	432	-	1,179
Stage 3	1,972,093	500	1,506	-	10,494
Total Gross	**14,870,243**	**248,860**	**4,603**	**2,572,770**	**23,342**
Expected losses	(1,337,953)	(500)	(151)	-	(10,112)
Portfolio based expected losses	(197,833)	(720)	(152)	-	-
Total expected losses	**(1,535,786)**	**(1,220)**	**(303)**	**-**	**(10,112)**
Total	**13,334,457**	**247,640**	**4,300**	**2,572,770**	**13,230**

Purchased or issued credit impaired financial assets (POCI) for the Group and the Bank in 2019 amount to HRK 95.653 thousand.

2018	Loans and Receivables from HRK'000	Loans to and Receivables HRK'000	Financial Assets Valued at Amortised cost HRK'000	Balances with the Croatian National Bank HRK'000	Fees Receivable HRK'000
Stage 1	10.321.678	410.307	18.672	4.297.286	12.398
Stage 2	670.969	-	-	-	360
Stage 3	2.094.641	500	251.244	-	9.534
Total Gross	**13.087.288**	**410.807**	**269.916**	**4.297.286**	**22.292**
Expected losses	(1.388.351)	(5.952)	(194.665)	-	(8.934)
Portfolio based expected	(145.154)	-	-	-	-
	(1.533.504)	**(5.952)**	**(194.665)**	**-**	**(8.934)**
Total	**11.553.783**	**404.855**	**75.251**	**4.297.286**	**13.358**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets Exposed to Credit Risk (continued)

Bank

2019	Loans and Receivables from Customers HRK'000	Loans to and Receivables from Banks HRK'000	Financial Assets Valued at Amortised cost HRK'000	Balances with the Croatian National Bank HRK'000	Fees Receivable HRK'000
Stage 1	12,185,453	248,360	2,665	2,572,770	10,734
Stage 2	717,261	-	432	-	1,179
Stage 3	1,972,093	500	1,506	-	10,494
Total Gross	**14,874,808**	**248,860**	**4,603**	**2,572,770**	**22,407**
Expected losses	(1,337,953)	(500)	(151)	-	(10,112)
Portfolio based expected losses	(197,833)	(720)	(152)	-	-
Total expected losses	**(1,535,786)**	**(1,220)**	**(303)**	**-**	**(10,112)**
Total	**13,339,022**	**247,640**	**4,300**	**2,572,770**	**12,295**

Purchased or issued credit impaired financial assets (POCI) for the Group and the Bank in 2019 amounts to HRK 95.653 thousand.

2018	Loans and Receivables from Customers HRK'000	Loans to and Receivables from Banks HRK'000	Financial Assets Valued at Amortised cost HRK'000	Balances with the Croatian National Bank HRK'000	Fees Receivable HRK'000
Stage 1	9,917,468	353,430	18,672	3,889,081	11,133
Stage 2	663,063	-	-	-	360
Stage 3	1,966,520	500	251,244	-	9,534
Total Gross	**12,547,051**	**353,930**	**269,916**	**3,889,081**	**21,027**
Expected losses	(1,325,486)	(2,607)	(194,665)	-	(8,934)
Portfolio based expected	(138,740)	-	-	-	-
Total Identified Losses	**(1,464,226)**	**(2,607)**	**(194,665)**	**-**	**(8,934)**
Total	**11,082,826**	**351,323**	**75,251**	**3,889,081**	**12,093**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets Exposed to Credit Risk (continued)

In accordance with applicable acts, the Bank utilizes the following common types of collateral: bank guarantees; HAMAG-BICRO (Croatian Agency for SMEs, Innovation and Investments) and other corporate guarantees; bills of exchange accepted by a bank; pledged property and equipment; insurance policies; pledged shares, bonds, commercial papers, and units in open-ended investment funds; assignment of receivables (cessions) from corporate clients and the Government; pledged concessions; pledged industrial and intellectual property; and other common financial execution instruments, such as bills of exchange and promissory notes.

Collateral value is reviewed along the lines of internal policies and procedures, and in accordance with good business practice, current market trends as well as the Resolution on Classifying Placements and Off-Balance Sheet Liabilities of Credit Institutions. Collateral value in the table below relates to recorded collateral value based on valuation made by certified appraisers without adjustments for discount factors but excluding burdens listed before the Bank and limiting to the amount of exposure which it collateralizes.

		Group		Bank	
Asset Type	**Collateral Type**	**2019**	**2018**	**2019**	**2018**
		HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Credits to and Receivables from Customers					
	Deposits	145,748	110,999	145,748	110,999
	Debt Securities	44,369	44,356	44,369	44,356
	Guarantees and Warranties of the Republic of Croatia	1,125,445	998,867	1,125,445	998,867
	Real Estate –Non-Business Purposes	3,043,748	2,291,710	3,043,748	2,115,500
	Real Estate – Business Purposes	1,796,456	1,274,676	1,796,456	1,274,676
	Movable Property (equipment, supplies, vehicles, ships etc.)	170,761	165,947	170,761	165,947
	Equity Investments (Single-Stocks and Funds)	179,865	224,933	179,865	224,933
	Land	214,789	202,641	214,789	202,641
Total		**6,721,182**	**5,314,129**	**6,721,182**	**5,137,919**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets Exposed to Credit Risk (continued)

Below is presented an overview of due and not yet due receivables aging structure based on days-past-due, with regard to the principal of the loans:

Group in HRK '000	Total	Undue Exposure to Credit Risk	Days Past Due 1-30	Days Past Due 31-60	Days Past Due 61-90	Days Past Due 91-180	Days Past Due 180+
31 December 2019							
Government	2,214,862	2,207,222	7,394	-	-	-	245
Other Corporate Clients	5,322,046	4,425,880	12,895	2,558	12,707	14,683	853,324
Retail	7,204,883	6,767,018	8,822	6,368	22,885	6,578	393,213
Total	**14,741,791**	**13,400,120**	**29,111**	**8,926**	**35,591**	**21,261**	**1,246,782**
31 December 2018							
Government	2,095,870	2,095,814	48	-	-	-	8
Other Corporate Clients	4,858,105	3,576,156	41,915	4,988	15,541	9,335	1,210,169
Retail	6,059,186	5,689,500	11,473	2,960	3,243	9,095	342,916
Total	**13,013,161**	**11,361,471**	**53,437**	**7,947**	**18,784**	**18,430**	**1,553,092**

Bank in HRK '000	Total	Undue Exposure to Credit Risk	Days Past Due 1-30	Days Past Due 31-60	Days Past Due 61-90	Days Past Due 91-180	Days Past Due 180+
31 December 2019							
Government	2,214,862	2,207,222	7,394	-	-	-	245
Other Corporate Clients	5,326,611	4,430,445	12,895	2,558	12,707	14,683	853,324
Retail	7,204,883	6,767,018	8,822	6,368	22,885	6,578	393,213
Total	**14,746,356**	**13,404,685**	**29,111**	**8,926**	**35,591**	**21,261**	**1,246,782**
31 December 2018							
Government	2,095,537	2,095,481	48	-	-	-	8
Other Corporate Clients	4,525,216	3,476,861	40,112	2,405	15,468	8,595	981,775
Retail	5,856,094	5,501,611	9,990	2,851	3,129	7,566	330,947
Total	**12,476,847**	**11,073,953**	**50,150**	**5,256**	**18,597**	**16,161**	**1,312,730**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets Exposed to Credit Risk (continued)

The gross amount of fully recoverable placements, where a payment delay of more than 90 days has not been established and no impairment allowance is made on an individual basis at the date of preparation of the financial statements and the coverage of the relevant collateral at its fair value, expressed as a percentage of net loans is as follows:

(a) Stage 1 – expected credit losses in 12 months (risk category A1)

Group 2019 HRK '000	Government Units	Financial Institutions (Excl. Banks)	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets valued at Amortised cost**	**Balances with the Croatian National Bank**	**Fees Receivable**
Gross Placements	2,820,717	-	2,630,217	2,864,683	33,374	110,015	3,721,882	**12,180,888**	248,360	2,665	2,572,770	11,669
Expected Portfolio Based Losses	(30,310)	-	(28,312)	(30,782)	(359)	(1,182)	(39,994)	**(130,939)**	(720)	(105)	-	-
Net Placements	**2,790,407**	**-**	**2,601,905**	**2,833,901**	**33,015**	**108,833**	**3,681,888**	12,049,949	247,640	2,560	2,572,770	11,669
Collateral Value	608,386	-	1,575,037	2,648,520	33,374	26	467,113	**5,332,456**	-	-	-	-
Collateral Coverage (%)	**21.80**	**-**	**60.53**	**93.46**	**101.09**	**0.02**	**12.69**	**44.25**	**-**	**-**	**-**	**-**

Group 2018 HRK '000	Government Units	Financial Institutions (Excl. Banks)	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets valued at Amortised cost**	**Balances with the Croatian National Bank**	**Fees Receivable**
Gross Placements	2,687,621	6	2,113,629	2,281,042	20,673	112,444	3,065,372	**10,280,787**	398,312	18,672	4,297,286	12,398
Expected Portfolio Based Losses	(24,089)	-	(21,787)	(19,754)	(185)	(1,007)	(28,278)	**(95,100)**	(5,452)	-	-	-
Net Placements	**2,663,532**	**6**	**2,091,842**	**2,261,288**	**20,488**	**111,437**	**3,037,094**	**10,185,687**	**392,860**	**18,672**	**4,297,286**	**12,398**
Collateral Value	534,092	-	1,323,791	1,990,979	18,423	-	307,167	**4,174,452**	-	-	-	-
Collateral Coverage (%)	20.05	-	63.28	88.05	89.92	-	10.11	**40.98**	-	-	-	-

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4 Assets Exposed to Credit Risk (continued)

a) Stage 1 – expected credit losses in 12 months (risk category A1)

Bank 2019 HRK '000	Government Units	Financial Institutions (Excl. Banks)	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets valued at Amortised cost**	**Balances with the Croatian National Bank**	**Fees Receivable**
Gross Placements	2,820,717	-	2,634,782	2,864,683	33,374	110,015	3,721,882	**12,185,453**	248,360	2,665	2,572,770	10,734
Expected Portfolio Based	(30,310)	-	(28,312)	(30,782)	(359)	(1,182)	(39,994)	**(130,939)**	(720)	(105)	-	-
Net Placements	**2,790,407**	**-**	**2,606,470**	**2,833,901**	**33,015**	**108,833**	**3,681,888**	**12,054,514**	**247,640**	**2,560**	**2,572,770**	**10,734**
Collateral Value	608,386	-	1,575,037	2,648,520	33,374	26	467,113	**5,332,456**	-	-	-	-
Collateral Coverage (%)	21.80	-	60.43	93.46	101.09	-	12.69	**44.24**	-	-	-	-

Bank 2018 HRK '000	Government Units	Financial Institutions (Excl. Banks)	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets valued at Amortised cost**	**Balances with the Croatian National Bank**	**Fees Receivable**
Gross Placements	2.687.024	6	2.056.939	2.047.828	20.673	111.665	2.993.333	**9.917.469**	341.435	18.672	3.889.081	11.133
Expected Portfolio	(24.089)	-	(18.440)	(18.359)	(185)	(1.001)	(27.101)	**(89.175)**	(2.107)	-	-	-
Net Placement	**2.662.935**	**6**	**2.038.499**	**2.029.469**	**20.488**	**110.664**	**2.966.232**	**9.828.294**	**339.328**	**18.672**	**3.889.081**	**11.133**
Collateral Value	534.092	-	1.315.333	1.772.440	18.423	-	300.652	**3.940.940**	-	-	-	-
Collateral Coverage (%)	20.06	-	64.52	87.34	89.92	-	10.14	**40.10**	-	-	-	-

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets Exposed to Credit Risk (continued)

(b) Stage 2 – lifetime expected credit losses (risk category A2)

The gross balance and the coverage of those assets with collateral at fair value, presented as a percentage of net placements is as follows:

Group 2019 HRK'000	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	**Total**	**Financial assets at amortised cost**	**Fee receivables**
Gross Amount	333,366	97,744	1,389	2,683	282,079	**717,261**	432	1,179
Total Portfolio Based Losses	(31,091)	(9,116)	(130)	(250)	(26,308)	**(66,894)**	(47)	-
Net Amount	**302,275**	**88,628**	**1,259**	**2,433**	**255,771**	**650,367**	**385**	**1,179**
Collateral Value	312,456	92,810	1,079	-	75,907	**482,252**	-	-
Collateral Coverage (%)	**103.37**	**104.72**	**85.67**	**-**	**29.68**	**74.15**	-	-

Group 2018 HRK'000	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	**Total**	**Fee receivables**
Gross Amount	198,244	58,490	2,953	4,673	406,609	**670,969**	360
Total Portfolio Based Losses	(14,996)	(4,100)	(221)	(349)	(30,330)	**(49,997)**	-
Net Amount	**183,248**	**54,390**	**2,732**	**4,324**	**376,279**	**620,973**	**360**
Collateral Value	186,793	89,609	2,465	4	103,144	**382,015**	186,793
Collateral Coverage (%)	101.93	164.75	90.22	0.09	27.41	**61.52**	-

Bank 2019 HRK '000	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	**Total**	**Financial assets at amortised cost**	**Fee receivables**
Gross Amount	333,366	97,744	1,389	2,683	282,079	**717,261**	432	1,179
Total Portfolio Based Losses	(31,091)	(9,116)	(130)	(250)	(26,308)	**(66,894)**	(47)	-
Net Amount	**302,275**	**88,628**	**1,259**	**2,433**	**255,771**	**650,367**	**385**	**1,179**
Collateral Value	312,456	92,810	1,079	-	75,907	**482,252**	-	-
Collateral Coverage (%)	103.37	104.72	85.67	-	29.68	**74.15**	-	-

Bank 2018 HRK'000	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	**Total**	**Fee receivables**
Gross Amount	196,280	54,606	2,953	4,673	404,551	**663,063**	360
Total Portfolio Based Losses	(14,672)	(4,082)	(221)	(349)	(30,241)	**(49,566)**	-
Net Amount	**181,608**	**50,524**	**2,732**	**4,324**	**374,310**	**613,497**	**360**
Collateral Value	178,674	43,558	2,465	4	98,094	**322,795**	-
Collateral Coverage (%)	98.38	86.21	90.22	-	26.21	**52.62**	-

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets Exposed to Credit Risk (continued)

(b) Stage 3 – default status (risk categories B and C)

Tables below show the amount of loans with impairments, both individual and portfolio based, as well as coverage of these placements by corresponding collateral at fair value in percentage and in relation to net placements as following:

Group 2019 HRK '000	**Loans to Customers**								
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total	**Loans to and Receivables from Banks**	**Financial Assets valued at Amortised cost**	**Fees Receivable**
Gross Amount	1,191,932	57,484	81,467	14,823	626,387	**1,972,093**	500	1,506	10,494
Total Expected Losses	(795,170)	(14,869)	(72,408)	(12,833)	(442,673)	**(1,337,953)**	(500)	(151)	(10,112)
Net Amount	**396,762**	**42,615**	**9,059**	**1,990**	**183,714**	**634,140**	**-**	**1,355**	**382**
Collateral Value	663,196	52,362	35,601	-	135,235	**886,394**	-	-	-
Collateral Coverage (%)	167.15	122.87	392.99	-	73.61	139.78	-	-	-

Group 2018 HRK '000	**Loans to Customers**								
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total	**Loans to and Receivables from Banks**	**Financial Assets valued at Amortised cost**	**Fees Receivable**
Gross Amount	1,412,278	55,333	98,194	13,345	515,491	**2,094,641**	12,495	251,244	9,534
Total Expected Losses	(923,951)	(15,485)	(72,472)	(11,267)	(365,176)	(1,388,351)	(500)	**(194,665)**	(8,934)
Net Amount	**488,327**	**39,848**	**25,722**	**2,078**	**150,315**	**706,290**	**11,995**	**56,579**	**600**
Collateral Value	633,144	45,194	43,474	-	130,639	**852,451**	-	-	-
Collateral Coverage (%)	129.66	113.42	169.01	-	86.91	120.69	-	-	-

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets Exposed to Credit Risk (continued)

(c) Stage 3 – default status (risk categories B and C)

Bank 2019 HRK '000	**Loans to Customers**								
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total	**Loans to and Receivables from Banks**	**Financial Assets valued at Amortised cost**	**Fees Receivable**
Gross Amount	1,191,932	57,484	81,467	14,823	626,387	**1,972,093**	500	1,506	10,494
Total Expected Losses	(795,170)	(14,869)	(72,408)	(12,833)	(442,673)	**(1,337,953)**	(500)	(151)	(10,112)
Net Amount	**396,762**	**42,615**	**9,059**	**1,990**	**183,714**	**634,140**	**-**	**1,355**	**382**
Collateral Value	663,196	52,362	35,601	-	135,235	**886,394**	-	-	-
Collateral Coverage (%)	167.15	122.87	392.99	-	73.61	139.78	**-**	**-**	**-**

Bank 2018 HRK '000	**Loans to Customers**								
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total	**Loans to and Receivables from Banks**	**Financial Assets valued at Amortised cost**	**Fees Receivable**
Gross Amount	1,317,859	49,212	98,194	13,345	487,910	**1,966,520**	12,495	251,244	9,534
Total Expected Losses	(886,895)	(14,014)	(72,472)	(11,267)	(340,838)	**(1,325,486)**	(500)	**(194,665)**	(8,934)
Net Amount	430,964	35,198	25,722	2,078	147,072	**641,034**	**11,995**	**56,579**	**600**
Collateral Value	**618,008**	**41,845**	**43,474**	**-**	**126,004**	**829,331**	-	-	-
Collateral Coverage (%)	143.40	118.88	169.01	-	85.68	129.37	-	-	-

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.4. Assets Exposed to Credit Risk (continued)

(d) Prolonged and rescheduled loans to customers

Prolongation of a loan is approved to customers because of common and current financing needs of their business activities. Loans are most often rescheduled when borrowers' business operations are disrupted, with considerable changes made to the previously agreed lending terms and conditions.

Bank

	2019 HRK '000	2018 HRK '000
Gross Loans to Customers		
Corporate	619,551	536,856
Retail	113,931	95,176
Total	**733,482**	**632,032**

2.1.5. Credit Risk Concentration by Industry

An analysis of the concentration of credit risk by industry is presented in the table below:

		Group
	2019 **HRK '000**	**2018** **HRK '000**
Public administration, Defense and Compulsory Social Security	2,152,138	2,090,576
Manufacturing	1,130,326	955,483
Construction	1,104,932	1,006,687
Transportation and Storage	591,545	496,760
Wholesale and Retail Trade; Motor Vehicles and Motorcycles Repair	772,066	610,819
Professional, Scientific and Technical Activities	181,206	80,127
Accommodation and Food Service Activities	451,771	365,539
Agriculture, Forestry and Fishing	218,525	203,407
Information and Communications	190,984	199,562
Electricity and Gas Supply and Air-Conditioning	296,928	145,569
Arts, Entertainment and Recreation	67,778	95,405
Administrative and Auxiliary Services	69,398	76,487
Other	338,390	413,379
Total Gross Corporate Loans	**7,565,988**	**6,739,801**
Gross Retail Loans	**7,175,803**	**6,220,415**
Collateralized	**6,701,102**	**5,269,288**
Accrued Interests	43,340	69,173
Provision for Impairment Losses	(1,450,675)	(1,500,315)
Total	**13,334,456**	**11,529,074**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.5. Credit Risk Concentration by Industry (continued)

		Bank
	2019	2018
	HRK '000	HRK '000
Public administration, Defense and Compulsory Social Security	2,152,138	2,090,576
Manufacturing	1,130,326	955,483
Construction	1,104,932	1,006,687
Transportation and Storage	591,545	496,760
Wholesale and Retail Trade; Motor Vehicles and Motorcycles Repair	772,066	610,819
Professional, Scientific and Technical Activities	181,206	80,127
Accommodation and Food Service Activities	451,771	365,539
Agriculture, Forestry and Fishing	218,525	203,407
Information and Communications	190,984	199,562
Electricity and Gas Supply and Air-Conditioning	296,928	145,569
Arts, Entertainment and Recreation	67,778	95,405
Administrative and Auxiliary Services	69,398	76,487
Other	342,955	267,205
Total Gross Corporate Loans	**7,570,553**	**6,593,627**
Gross Retail Loans	**7,175,803**	**5,838,063**
Collateralized	**6,701,102**	**5,093,078**
Accrued Interests	43,340	65,247
Provision for Impairment Losses	(1,450,675)	(1,434,685)
Total	**13,339,021**	**11,062,252**

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of its positions. The main categories of liquidity risk to which the Bank is exposed are as follows:

- liquidity funding risk (structural liquidity risk): risk that the Bank will not be able to meet efficiently its expected and unexpected present and future cash and collateral requirements without impacting its day-to-day operations or its own financial result,
- market liquidity risk, risk that the Bank will not be able to offset its positions or liquidate positions at market price due to a market disturbance or the market being insufficiently deep.

The Bank manages liquidity risk in accordance with the legal and regulatory requirements. In addition to those requirements, liquidity risk management is governed by the following internal regulations:

- Risk Management Policy,
- Liquidity Risk Management Manual.

The system for managing liquidity risk, in line with defined polices, includes:

- estimation and measurement of liquidity risk exposure;
- setting liquidity risk exposure limits,
- reporting and monitoring the limits used,
- the mechanism for the distribution of liquidity costs and benefits,
- control function.

Liquidity risk management is realized through:

- operational management of daily liquidity,
- operational management of short-term liquidity,
- structural liquidity management.

Operational management of daily and short-term liquidity is performed through:

- maintenance, planning and projecting coverage coefficient (LCR) within prescribed limit

Structural liquidity management is performed through:

- maintaining positions in accordance with liquidity risk exposure limits,
- maintaining of Net Stable Funding Ratio (NSFR) in accordance with defined limits;
- diversification of sources of funding.

RISK MANAGEMENT (continued)

2.2. Liquidity Risk (continued)

Risk Management Division is reporting monthly about liquidity risk and liquidity risk exposure limits during sessions of Assets and Liabilities Management Committee.

The Bank submits to the Croatian National Bank a monthly regulatory report on liquidity coverage. The prescribed quantitative requirements include: the amount of liquid assets (C72), the amount of potential outflows (C73), the amount of potential inflows (C74) and the calculation of liquidity coverage (C76).

The Bank kept all the positions for which regulatory limits were imposed during 2019 within the limits of prescribed regulatory limits. The Bank maintains a compulsory reserve and minimally required foreign currency receivables within the limits prescribed by the Mandatory Reserve Decision and the Decree on minimum required foreign currency receivables.

Financial Markets Division reports monthly to Assets and Liability Management Committee about planned outflows and inflows.

Responsibility for liquidity risk management rests with the Bank's Management Board. The Bank’s Asset and Liability Committee is authorized by the Management Board to manage liquidity risk. The Committee makes decisions and conclusions regarding liquidity management in its sessions. Each sector to which these decisions and conclusions made by the committee relate, is obliged to enact them.

As a part of liquidity risk management system, authority, responsibilities and procedures in conditions of liquidity crisis are determined separately.

The Bank prescribes and implements stress tests of its liquidity. Risk Management Division conducts tests of immunity to stress by taking into account all the factors specific to the Bank (internal factors) and market factors (external factors).

Stress tests are conducted on minimal liquidity coefficient for HRK. The Net Sable Funding Ratio, which is an indicator of the Bank's structural liquidity, as of 31.12.2019 is 141.

Long-term liquidity management is achieved by maintaining positions in accordance with the limits of exposure to liquidity risk, diversification of sources of funding, and monitoring and reporting on stable sources of financing.

2.2.1 Maturity Analysis

A maturity analysis of assets and liabilities, as well as equity, of the Bank and Group, based on their remaining contractual maturity, except for financial assets at fair value through profit and loss that are analyzed as current based on their classification and the Bank’s and Group’s trading intention, as at December 31, 2019 and December 31, 2018, is presented in the tables below.

Although significant negligent maturity mismatches have been reported in the first analyzed periods, the Bank does not expect the outflow of deposits in contractual terms in accordance with its own historical experience and knowledge of the customers.

Non-maturity assets that relate to investments in subsidiaries, real estate and equipment, investment property and intangible assets are presented in the maturity category over 3 years. While financial assets related to investments in stocks and mutual funds, also without maturity, are presented in the maturity category up to 30 days.

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk (continued)

2.2.1. Maturity Analysis (continued)

Group 2019 in HRK '000	0-30 Days	31-90 Days	91-360 Days	1 to 3 Years	Over 3 Years	Total
ASSETS						
Cash and Amounts Due from Banks	2,771,242	-	-	-	-	**2,771,242**
Mandatory Reserve with the Croatian National Bank	1,558,207	-	-	-	-	**1,558,207**
Loans to and Receivables from Banks	246,870	34	-	50	686	**247,640**
Financial Assets at Fair Value through P&L	626,789	7,281	-	-	-	**634,070**
Financial Assets at FV through OCI	-	44,971	561,126	1,584,085	2,450,023	**4,640,205**
Financial Assets at Amortised Cost	2,361	-	1,939	-	-	**4,300**
Loans to and Receivables from Customers	1,172,087	405,413	1,720,248	3,107,728	6,928,980	**13,334,456**
Assets Held for Sale	20,000	-	-	-	-	**20,000**
Properties and Equipment	-	-	-	-	259,600	**259,600**
Investment Properties	-	-	-	-	72,759	**72,759**
Intangible Assets	-	-	-	-	110,130	**110,130**
Deferred Tax Assets, Net	-	-	-	-	3,839	**3,839**
Tax Prepayment	-	-	2,558	-	-	**2,558**
Other Assets	106,975	2,231	5,223	25	-	**114,454**
TOTAL ASSETS	**6,504,531**	**459,930**	**2,291,094**	**4,691,888**	**9,826,017**	**23,773,460**
LIABILITIES						
Financial Liabilities at FV through P&L	-	863	-	-	-	**863**
Deposits from Banks	11,211	5	-	-	-	**11,216**
Customer Deposits	14,204,916	1,346,117	2,979,481	1,163,494	357,316	**20,051,324**
Borrowings	71,869	6,235	78,976	196,644	627,451	**981,175**
Deferred tax liabilities, net	32,723	12,270	108,101	25,766	3,735	**182,595**
Provisions for Liabilities and Expenses	-	-	-	-	-	-
Tax Liabilities	-	-	-	-	-	-
Other Liabilities	20,510	27,114	32,221	51,426	38,296	**169,567**
Total Equity	-	-	-	-	2,376,719	**2,376,719**
TOTAL LIABILITIES AND	**14,341,229**	**1,392,604**	**3,198,779**	**1,437,330**	**3,403,517**	**23,773,460**
MATURITY GAP	**(7,836,698)**	**(932,674)**	**(907,685)**	**3,254,558**	**6,422,500**	**-**
CUMMULATIVE MATURITY GAP	**(7,836,698)**	**(8,769,372)**	**(9,677,057)**	**(6,422,500)**	**-**	**-**
	426,507	***570,895***	***1,036,076***	***88,674***	***269,494***	***2,391,647***
Derivatives	-	*257,754*	-	-	-	***257,754***
Off-Balance Contingent Liabilities	*426,507*	*313,141*	*1,036,076*	*88,674*	*269,494*	***2,133,893***

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk (continued)

2.2.1. Maturity Analysis (continued)

Group **2018 in HRK '000**	**0-30** **Days**	**31-90** **Days**	**91-360** **Days**	**1 to 3** **Years**	**Over 3** **Years**	**Total**
ASSETS						
Cash and Amounts Due from Banks	4,177,071	-	-	-	-	**4,177,071**
Mandatory Reserve with the Croatian National Bank	1,526,838	-	-	-	-	**1,526,838**
Loans to and Receivables from Banks	356,142	48,596	-	117	-	**404,855**
Financial Assets at Fair Value through P&L	672,209	5,984	9,379	85,962	67,612	**841,146**
Financial Assets at FV through OCI	61,595	797,226	297,925	808,037	2,095,364	**4,060,147**
Financial Assets at Amortised Cost	60,397	73	14,780	-	-	**75,250**
Loans to and Receivables from Customers	1,313,939	341,730	1,457,338	2,801,539	5,614,528	**11,529,074**
Assets Held for Sale	20,000	-	-	-	-	**20,000**
Properties and Equipment	-	-	-	-	146,182	**146,182**
Investment Properties	-	-	-	-	55,278	**55,278**
Intangible Assets	-	-	-	-	115,633	**115,633**
Deferred Tax Assets, Net	-	-	-	-	-	-
Tax Prepayment	-	-	994	-	-	**994**
Other Assets	112,693	47	7,275	4,702	5,029	**129,746**
TOTAL ASSETS	**8,300,884**	**1,193,656**	**1,787,691**	**3,700,357**	**8,099,626**	**23,082,214**
LIABILITIES						
Financial Liabilities at Fair Value through P&L	-	445	-	-	-	**445**
Deposits from Banks	38,620	13	25,659	-	-	**64,292**
Customer Deposits	12,541,503	1,528,270	4,503,243	1,260,944	245,088	**20,079,048**
Borrowings	61,876	17,158	68,455	166,356	319,436	**633,281**
Deferred Tax Assets, Net	-	-	2,134	-	-	**2,134**
Provisions for Liabilities and Expenses	47,926	14,811	34,700	7,045	3,199	**107,681**
Tax Liabilities	-	-	35	-	-	**35**
Other Liabilities	137,871	17,317	14,891	3,326	6,130	**179,533**
Total Equity	-	-	-	-	2,015,763	**2,015,763**
TOTAL LIABILITIES AND EQUITY	**12,827,796**	**1,578,014**	**4,649,117**	**1,437,671**	**2,589,616**	**23,082,214**
MATURITY GAP	**(4,526,912)**	**(384,358)**	**(2,861,426)**	**2,262,686**	**5,510,010**	**-**
CUMMULATIVE MATURITY GAP	**(4,526,912)**	**(4,911,270)**	**(7,772,696)**	**(5,510,010)**	**-**	**-**
OFF-BALANCE SHEET	***606,326***	***402,618***	***905,879***	***118,806***	***143,576***	***2,177,206***
Derivatives	-	*99,683*	-	-	-	***99,683***
Off-Balance Contingent Liabilities	*606,326*	*302,936*	*905,879*	*118,806*	*143,576*	***2,077,523***

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk (continued)

2.2.1. Maturity Analysis (continued)

Bank 2019 in HRK '000	0-30 Days	31-90 Days	91-360 Days	1 to 3 Years	Over 3 Years	Total
ASSETS						
Cash and Amounts Due from Banks	2,771,207	-	-	-	-	**2,771,207**
Mandatory Reserve with the Croatian National Bank	1,558,207	-	-	-	-	**1,558,207**
Loans to and Receivables from Banks	246,870	34	-	50	686	**247,640**
Financial Assets at Fair Value through P&L	626,789	7,281	-	-	-	**634,070**
Financial Assets at FV through OCI	-	44,971	561,126	1,584,085	2,450,023	**4,640,205**
Financial Assets at Amortised Cost	2,361	-	1,939	-	-	**4,300**
Loans to and Receivables from Customers	1,172,136	405,511	1,720,696	3,109,657	6,931,021	**13,339,021**
Assets Held for Sale	20,000	-	-	-	-	**20,000**
Investments in Subsidiaries	-	-	-	-	5,490	**5,490**
Properties and Equipment	-	-	-	-	259,531	**259,531**
Investment Properties	-	-	-	-	64,899	**64,899**
Intangible Assets	-	-	-	-	109,096	**109,096**
Deferred Tax Assets, Net	-	-	-	-	3,839	**3,839**
Tax Prepayment	-	-	2,514	-	-	**2,514**
Other Assets	105,980	2,070	5,088	-	-	**113,138**
TOTAL ASSETS	**6,503,550**	**459,867**	**2,291,363**	**4,693,792**	**9,824,585**	**23,773,157**
LIABILITIES						
Financial Liabilities at Fair Value through P&L	-	863	-	-	-	**863**
Deposits from Banks	11,211	5	-	-	-	**11,216**
Customer Deposits	14,213,085	1,346,118	2,979,481	1,163,494	357,316	**20,059,494**
Borrowings	71,869	6,235	78,976	196,644	627,451	**981,175**
Provisions for Liabilities and Expenses	32,723	12,270	108,101	25,766	3,735	**182,595**
Other Liabilities	19,317	27,066	32,008	51,044	38,167	**167,602**
Total Equity	-	-	-	-	2,370,212	**2,370,212**
TOTAL LIABILITIES AND EQUITY	**14,348,205**	**1,392,557**	**3,198,566**	**1,436,948**	**3,396,881**	**23,773,157**
MATURITY GAP	**(7,844,655)**	**(932,690)**	**(907,203)**	**3,256,844**	**6,427,704**	**-**
CUMMULATIVE MATURITY GAP	**(7,844,655)**	**(8,777,345)**	**(9,684,548)**	**(6,427,704)**	**-**	**-**
OFF-BALANCE SHEET	***426,507***	***570,895***	***1,036,076***	***88,674***	***269,494***	***2,391,647***
Derivatives	-	*257,754*	-	-	-	***257,754***
Off-Balance Sheet Contingent Liabilities	*426,507*	*313,141*	*1,036,076*	*88,674*	*269,494*	***2,133,893***

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk (continued)

2.2.1. Maturity Analysis (continued)

Bank **2018 in HRK '000**	**0-30 Days**	**31-90 Days**	**91-360 Days**	**1 to 3 Years**	**Over 3 Years**	**Total**
ASSETS						
Cash and Amounts Due from Banks	3,738,476	-	-	-	-	**3,738,476**
Mandatory Reserve with the Croatian National Bank	1,419,940	-	-	-	-	**1,419,940**
Loans to and Receivables from Banks	331,111	20,095	-	117	-	**351,323**
Financial Assets at Fair Value through P&L	667,168	4,296	-	-	-	**671,464**
Financial Assets at FV through OCI	50,025	767,557	297,925	808,037	1,419,275	**3,342,819**
Financial Assets at Amortised Cost	60,399	73	14,780	-	-	**75,250**
Loans to and Receivables from Customers	1,246,617	328,810	1,404,361	2,693,212	5,389,255	**11,062,255**
Assets Held for Sale	20,000	-	-	-	-	**20,000**
Investments in Subsidiaries	-	-	-	-	166,755	**166,755**
Properties and Equipment	-	-	-	-	131,473	**131,473**
Investment Properties	-	-	-	-	46,906	**46,906**
Intangible Assets	-	-	-	-	112,881	**112,881**
Deferred Tax Assets, Net	-	-	-	-	23	**23**
Tax Prepayment	-	-	538	-	-	**538**
Other Assets	87,179	-	5,909	-	-	**93,088**
TOTAL ASSETS	**7,620,915**	**1,120,831**	**1,723,513**	**3,501,366**	**7,266,568**	**21,233,193**
LIABILITIES						
Financial Liabilities at Fair Value through P&L	-	445	-	-	-	**445**
Deposits from Banks	38,620	13	25,659	-	-	**64,292**
Customer Deposits	11,717,837	1,389,885	4,094,023	979,275	125,361	**18,306,381**
Borrowings	61,876	17,158	68,455	166,356	319,436	**633,281**
Provisions for Liabilities and Expenses	21,146	12,458	34,523	6,792	2,516	**77,435**
Other Liabilities	112,766	15,613	13,166	2,976	4,305	**148,826**
Total Equity	-	-	-	-	2,002,533	**2,002,533**
TOTAL LIABILITIES AND EQUITY	**11,952,245**	**1,435,572**	**4,235,826**	**1,155,399**	**2,454,151**	**21,233,193**
MATURITY GAP	**(4,331,330)**	**(314,741)**	**(2,512,313)**	**2,345,967**	**4,812,417**	**-**
CUMMULATIVE MATURITY GAP	**(4,331,330)**	**(4,646,071)**	**(7,158,384)**	**(4,812,417)**	**-**	**-**
OFF-BALANCE SHEET	***477,359***	***398,857***	***895,262***	***115,810***	***143,140***	***2,030,429***
Derivatives	*-*	*99,683*	*-*	*-*	*-*	***99,683***
Off-Balance Sheet Contingent Liabilities	*477,359*	*299,174*	*895,262*	*115,810*	*143,140*	***1,930,746***

2. RISK MANAGEMENT (continued)

2.3. Market Risk

The exposure to market risk occurs in balance sheet and off-balance sheet positions recognized at market (fair) value:

- financial assets at fair value through profit and loss account,
- financial assets at fair value through other comprehensive income,
- positions denominated in foreign currency (including placements and liabilities linked to foreign currencies).

All trading instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous (i.e. impaired). Trading financial instruments are recognized at fair value, and all changes in market conditions directly affect trading income. The Bank manages their use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed through acquisitions or disposals of financial instruments in accordance with the risk limits set in Market Risk Management Guidelines.

Market risk management of the Bank is conducted in accordance with regulatory requirements, as is defined by internal policies and procedures regarding market risks which are regularly revised by the Risk Management Division.

The Risk Management Division daily calculates market risk exposure figures, usage of exposure to market risk limits and capital requirements for exposure to market risks.

In the measurement of the market risk exposure, the Bank relies on regulations set out by the Croatian National Bank and monitors:

- Capital requirement calculated by the standard method calculated in accordance with the Directive (EU) no. 575/2013 of European Parliament and Council,
- Value at Risk (VaR) which represents the maximum potential loss that the Bank could incur as a result of changes in market risk factors (interest rates, exchange rate and share prices) for a period of retaining the same position for 10 days at statistical accuracy of 99%. VaR is calculated at the end of the day and does not include daily exposure arising from a change in position. To calculate VaR, a database containing 250 historical figures is used,

In addition the Bank uses the following internally prescribed measures in measuring exposure to debt instrument position risks:

- Duration (measure of the sensitivity of debt security prices to changes in interest rates),
- PV01 which represents the decline of portfolio value in a scenario where interest rates increase by 0.01%.

The Risk Management Division reports daily to the Financial Markets Division on the usage of market risk exposure limits, daily to the Financial Management Division regarding the capital requirements for currency risk and position risks, and monthly to the Assets and Liabilities Management Committee on market risk exposure.

2. RISK MANAGEMENT (continued)

2.3. Market risk (continued)

a) Financial assets at fair value through profit and loss account

The table below shows the movements in those measures at December 31, 2019 and December 31, 2018.

2019	Position HRK'000	VaR
FX Risk	46,327	(231)
Debt Securities Position Risk	515,940	(6,209)
Equity Securities Position Risk	24,212	(1,393)
Investment Fund Position Risk	71,867	(923)
Correlation Effect	-	3,718
Market Risk		**(12,474)**
2018	**Position HRK'000**	**VaR**
FX Risk	31,953	(374)
Debt Securities Position Risk	516,054	(3,157)
Equity Securities Position Risk	27,167	(1,436)
Investment Fund Position Risk	105,515	(899)
Correlation Effect	-	1,858
Market Risk		**(4,008)**

b) Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income consist of debt and equity securities.

The table below shows market value and risk value movements for the portfolio of debt and equity securities at fair value through other comprehensive income.

Debt securities	Market Value HRK'000	VaR HRK'000
2019.	4,582,928	(42,344)
2018.	3,325,079	(19,519)

Equity securities	Market Value HRK'000	VaR HRK'000
2019	57,269	(10,286)
2018	17,699	(1,458)

2. RISK MANAGEMENT (continued)

2.4. Interest Rate Risk in the Bank's Non-Trading Book

Interest rate risk in the Bank’s non-trading book is a risk which can have a negative effect on economic value of the Bank’s book and earnings (net interest income), because of variation of market interest rates. Exposure to interest rate risk in the Bank’s non-trading book arises as a consequence of:

- mismatch between assets and liabilities distributed according to the possibility of interest rate change criterion (repricing gaps),
- various natures of interest rates (reference rates) applied by the Bank in arranging its lending and borrowing activities.

Accordingly, all interest-rate sensitive items in the Bank’s non-trading book are exposed to interest rate risk.

The Bank and Group manages interest rate risk in its non-trading book in accordance with the legal and regulatory requirements. In line with the Croatian National Bank’s Decision on the Management of Interest rate risk in the Bank’s and Group’s non-trading book, it is required to submit quarterly reports to the Croatian National Bank about the interest rate risk in the bank’s non-trading book.

Apart from those regulations, managing interest rate risk in the Bank’s non-trading book is regulated by:

- Risk Management Policy, and
- Manual on Managing Interest Rate Risk in the Bank's non-trading book.

The Manual defines the management process, evaluation methods and measures of exposure to interest rate risk in the Bank's non-trading book, as well as exposure limits, manner and frequency of reporting about the Bank's exposure to that risk.

The Bank and Group assesses interest rate risk in the bank’s non-trading book by observing this risk from two perspectives:

- Perspective of economic value: a potential market value decrease of the Bank's non-trading book because of interest rate movements in the market,
- Profit perspective: a potential decrease of net interest income because of movements in market interest rates.

Perspective of Economic Value of Capital

When estimating exposure to interest rate risk in the Bank's non-trading book from the perspective of economic value of capital, the Bank uses 2 methods of calculations:

- Simplified calculation based on standard interest rate shock in the amount of 200 pp as prescribed by the Decision of the regulator
- Internal model based on interest rate shock calculated as 1st and 99th percentile of one-day changes Interest rates over a period of 5 years scaled to a year of 240 days

Furthermore, the Bank's interest-sensitive bank book position is allocated to 15 time zones by distinguishing between fixed-rate positions, floating interest rates and interest rates that can be changed by management's decision (administrative interest rate) and estimates the change in the market value of the bank's book due to simulated interest rate changes. The Bank calculates the ratio of changes in the economic value of the bank's book and regulatory capital and maintains it not to exceed 15% (the regulatory ratio is 20%). The change in the economic value of the Bank’s book as at 31 December 2019 for the Bank was HRK 18,643 thousand or 0.84% of regulatory capital.

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Profit Perspective

The prospect of earnings includes a potential decrease in net interest income in case of changes in interest rates on the market. When calculating interest rate risk from a profit perspective, the Bank applies a simulation of interest rate changes observed over a 12-month period and a potential decrease in net interest income is maintained within the limit of 12% of net interest income for the observed period (from the beginning of the year) projected to annual level. The potential change in net interest income at the end of 2019 for the Bank amounts to HRK 24,398 thousand.

Likewise, the Bank conducts a minimum yearly test of stress resistance based on more significant intensity of changes in interest rates.

The Risk Management Sector reports to the Bank for the Management of Interest Rate Risk in the Bank's Book of Assets and Liabilities Management.

2.5. Foreign Exchange Risk

The Bank is exposed to FX 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 legislation and internally set limits, for each currency and for the total balance sheet denominated in or linked to foreign currency.

The Bank directs their business activities trying to minimize the gap between assets and liabilities denominated in or linked to foreign currency.

The Bank manages their currency risk by setting principles and limits for foreign currency exposures and monitoring exposures against these limits. The Bank directs their business activities towards trying to minimize the gap between assets and liabilities denominated in or linked to a foreign currency, and maintaining daily business activities within the internal and regulatory limits.

The Bank is exposed to the risk of fluctuations in the euro exchange rate in non-significant ratios. As at 31 December 2019, the amount of the Bank's assets denominated in euro or in euro-denominated currency amounted to HRK 7,288,931 thousand (2018: HRK 6,910,807 thousand) while this amount with the Bank amounts to HRK 7,288,931 thousand (2018: HRK 5,766,307 thousand). Liabilities of the Group denominated in euro or in euro-denominated currencies amounted to HRK 7,487,868 thousand (2018: HRK 7,502,185 thousand) and the amount of the Bank's liabilities denominated in euro or currency pegged to the euro was HRK 7,487,868 thousand (2018: HRK 6,386,735 thousand) . Hence the HRK / EUR exchange rate decrease by 1% (HRK appreciation) would influence the Group's result in income in the amount of HRK 1,989 thousand (2018: 5,914 thousand), while this amount to the Bank would amount to 1.989 thousand in revenue (2018: HRK 6,204 thousand of income).

The amounts of total assets and liabilities of the Bank and the Group as at 31 December 2019 and 31 December 2018 in HRK and foreign currencies (amounts denominated in HRK with a foreign currency clause refer mainly to the euro) are presented in the tables below.

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Group 2019 In HRK '000	HRK	HRK Linked to Foreign Currencies	EUR	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	1,425,166	-	1,095,682	250,394	**2,771,242**
Mandatory Reserve with the Croatian National Bank	1,558,207	-	-	-	**1,558,207**
Loans to and Receivables from Banks	16	-	2,645	244,979	**247,640**
Financial Assets at Fair Value through P&L	440,396	189,547	3,275	852	**634,070**
Financial Assets at Fair Value through OCI	2,777,864	1,465,841	343,091	53,409	**4,640,205**
Financial Assets at Amortised Cost	4,300	-	-	-	**4,300**
Loans and Receivables from Customers	9,096,151	3,853,167	330,472	54,666	**13,334,456**
Assets Held for Sale	20,000	-	-	-	**20,000**
Property and Equipment	259,600	-	-	-	**259,600**
Investments in Subsidiaries	72,759	-	-	-	**72,759**
Intangible Assets	110,130	-	-	-	**110,130**
Deferred Tax Assets, Net	3,839	-	-	-	**3,839**
Tax Prepayment	2,558	-	-	-	**2,558**
Other Assets	109,240	-	5,211	3	**114,454**
TOTAL ASSETS	**15,880,226**	**5,508,555**	**1,780,376**	**604,303**	**23,773,460**
LIABILITIES					
Financial Liabilities at Fair Value through P&L	49	-	-	814	**863**
Deposits from Banks	3,402	-	1,579	6,235	**11,216**
Customer Deposits	12,506,374	241,373	6,748,151	555,426	**20,051,324**
Borrowings	496,118	368,797	116,260	-	**981,175**
Deferred Tax Liabilities, net	-	-	-	-	-
Provisions for Liabilities and Expenses	182,595	-	-	-	**182,595**
Other Liabilities	-	-	-	-	-
Income Tax Liability	157,737	1	11,642	187	**169,567**
Total Equity	2,376,719	-	-	-	**2,376,719**
TOTAL LIABILITIES AND EQUITY	**15,722,994**	**610,171**	**6,877,632**	**562,662**	**23,773,460**
NET FOREIGN EXCHANGE POSITION	**157,232**	**4,898,384**	**(5,097,256)**	**41,641**	**-**

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Group

2018 **In HRK '000**	**HRK**	**HRK Linked to Foreign Currencies**	**EUR**	**Other Foreign Currencies**	**Total**
ASSETS					
Cash and Amounts Due from Banks	3,013,711	-	893,759	269,601	**4,177,071**
Mandatory Reserve with the Croatian National Bank	1,526,838	-	-	-	**1,526,838**
Loans to and Receivables from Banks	108,013	-	190,208	106,634	**404,855**
Financial Assets at Fair Value through P&L	490,630	197,603	148,297	478	**837,008**
Financial Assets at Fair Value through OCI	2,334,379	199,355	1,480,745	45,668	**4,060,147**
Financial Assets at Amortised Cost	60,397	14,853	-	-	**75,250**
Loans and Receivables from Customers	7,702,447	3,357,354	407,880	65,531	**11,533,212**
Assets Held for Sale	20,000	-	-	-	**20,000**
Investments in Subsidiaries	146,182	-	-	-	**146,182**
Property and Equipment	55,278	-	-	-	**55,278**
Intangible Assets	115,633	-	-	-	**115,633**
Deferred Tax Assets, Net	-	-	-	-	**-**
Tax Prepayment	994	-	-	-	**994**
Other Assets	103,051	4,673	15,991	6,031	**129,746**
TOTAL ASSETS	**15,677,553**	**3,773,838**	**3,136,880**	**493,943**	**23,082,212**
LIABILITIES					
Financial Liabilities at Fair Value through P&L	-	-	-	445	**445**
Deposits from Banks	21,830	-	34,089	8,373	**64,292**
Customer Deposits	12,525,943	248,886	6,832,143	472,076	**20,079,048**
Borrowings	254,759	341,363	37,159	-	**633,281**
Deferred Tax Liabilities, net	2,134	-	-	-	**2,134**
Provisions for Liabilities and Expenses	107,681	-	-	-	**107,681**
Other Liabilities	35	-	-	-	**35**
Income Tax Liability	170,455	1,070	7,475	533	**179,533**
Total Equity	2,015,763	-	-	-	**2,015,763**
TOTAL LIABILITIES AND EQUITY	**15,098,600**	**591,319**	**6,910,866**	**481,427**	**23,082,212**
NET FOREIGN EXCHANGE POSITION	**578,953**	**3,182,519**	**(3,773,986)**	**12,516**	**-**

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Bank

2019 In HRK '000	HRK	HRK Linked to Foreign Currencies	EUR	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	1,425,131	-	1,095,682	250,394	**2,771,207**
Mandatory Reserve with the Croatian National Bank	1,558,207	-	-	-	**1,558,207**
Loans to and Receivables from Banks	16	-	2,645	244,979	**247,640**
Financial Assets at Fair Value through P&L	440,396	189,547	3,275	852	**634,070**
Financial Assets at Fair Value through OCI	2,777,864	1,465,841	343,091	53,409	**4,640,205**
Financial Assets at Amortised Cost	4,300	-	-	-	**4,300**
Loans and Receivables from Customers	9,100,716	3,853,167	330,472	54,666	**13,339,021**
Assets Held for Sale	20,000	-	-	-	**20,000**
Investments in Subsidiaries	5,490	-	-	-	**5,490**
Property and Equipment	259,531	-	-	-	**259,531**
Intangible Assets	64,899	-	-	-	**64,899**
Deferred Tax Assets, Net	109,096	-	-	-	**109,096**
Tax Prepayment	3,839	-	-	-	**3,839**
Other Assets	2,514	-	-	-	**2,514**
TOTAL ASSETS	107,924	-	5,211	3	**113,139**
	15,879,923	**5,508,555**	**1,780,376**	**604,303**	**23,773,157**
LIABILITIES					
Financial Liabilities at Fair Value through P&L	49	-	-	814	**863**
Deposits from Banks	3,402	-	1,579	6,235	**11,216**
Customer Deposits	12,514,478	241,373	6,748,216	555,427	**20,059,494**
Borrowings	496,118	368,797	116,260	-	**981,175**
Provisions for Liabilities and Expenses	182,595	-	-	-	**182,595**
Other Liabilities	155,772	1	11,642	187	**167,602**
Total Equity	2,370,212	**-**	-	-	2,370,212
TOTAL LIABILITIES AND EQUITY	**15,722,626**	**610,171**	**6,877,697**	**562,663**	**23,773,157**
NET FOREIGN EXCHANGE POSITION	**157,297**	**4,898,384**	**(5,097,321)**	**41,640**	**-**

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Bank

2018 In HRK '000	HRK	HRK Linked to Foreign Currencies	EUR	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	2,823,232	-	676,999	238,245	**3,738,476**
Mandatory Reserve with the Croatian National Bank	1,419,940	-	-	-	**1,419,940**
Loans to and Receivables from Banks	108,013	-	186,078	57,232	**351,323**
Financial Assets at Fair Value through P&L	465,151	57,538	148,297	478	**671,464**
Financial Assets at Fair Value through OCI	2,103,418	199,355	1,028,747	11,299	**3,342,819**
Financial Assets at Amortised Cost	60,397	14,853	-	-	**75,250**
Loans and Receivables from Customers	7,558,273	3,030,569	407,880	65,531	**11,062,253**
Assets Held for Sale	20,000	-	-	-	**20,000**
Investments in Subsidiaries	166,755	-	-	-	**166,755**
Property and Equipment	131,473	-	-	-	**131,473**
Intangible Assets	46,906	-	-	-	**46,906**
Deferred Tax Assets, Net	112,881	-	-	-	**112,881**
Tax Prepayment	23	-	-	-	**23**
Other Assets	538	-	-	-	**538**
TOTAL ASSETS	71,069	-	15,991	6,031	**93,091**
	15,088,070	**3,302,315**	**2,463,992**	**378,816**	**21,233,193**
LIABILITIES					
Financial Liabilities at Fair Value in P&L	-	-	-	445	**445**
Deposits from Banks	21,830	-	34,089	8,373	**64,292**
Customer Deposits	11,989,845	18,694	5,947,955	349,887	**18,306,381**
Borrowings	254,759	341,363	37,159	-	**633,281**
Provisions for Liabilities and Expenses	77,435	-	-	-	**77,435**
Other Liabilities	140,818	-	7,475	533	**148,826**
Total Equity	2,002,533	-	-	-	**2,002,533**
TOTAL LIABILITIES AND EQUITY	**14,487,220**	**360,057**	**6,026,678**	**359,238**	**21,233,193**
NET FOREIGN EXCHANGE POSITION	**600,850**	**2,942,258**	**(3,562,686)**	**19,578**	**-**

2. RISK MANAGEMENT (continued)

2.6. Operational Risk Management

Operational risk is inherent to all activities, processes, products and systems of the Bank. The Bank ensures appropriate operational risk management by applying procedures and a system of authorizations and responsibilities specified in detail in its internal by-laws, the Risk Management Policy and the Internal Operational Risk Management Manual as root documents. The operational risk management system has been established through appropriate bodies of the Bank and an efficient internal control system.

The Bank defines operational risk as a risk of an event which, as a consequence, exposes the Bank to financial losses, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk. Significant operational risk is a risk of an event resulting in significant loss because of operational risk.

In order to efficiently manage the overall exposure to operational risk, the Bank applies the following:

- Collecting and analyzing internal data about operational risk events,
- Self-assessment of risks and controls,
- Assessment of information technology risk, and
- Business Impact Analysis of unavailability of key business processes.

The Bank assesses the outsourcing risk as an additional exposure to all significant risks arising from the fact that the Bank does not itself perform the outsourced activities, but rather that those activities are performed by external vendors; hence, the impact of outsourcing on the Bank's risk profile is assessed.

The Bank assesses the impact of introducing a new product on the Bank's risk profile, which includes exposure to all significant risks.

For the purpose of efficient operational risk management, the Bank has set up the Operational Risk Management Committee. Based on the reports on the Bank's exposure to operational risk, the Operational Risk Management Committee draws conclusions and makes decisions about appropriate measures necessary to undertake in order to overmaster the exposure to operational risk.

The Bank applies the Standardized Approach in calculating the capital requirement for operational risk.

2.7. Capital Management

Capital requirement calculations are based on exposures to customers classified into the prescribed exposure categories, which are then weighted according to risk depending on the exposure category of the customer (exposure to sovereign debt, to institutions, public bodies, individuals, etc.), remaining maturity, type of collateral (i.e. residential or commercial property), diversification of loans, identified number of days past due and the amount of provisions made.

The Bank manages capital in line with internal capital adequacy assessment (ICAAP). It establishes significant risks to which it is exposed or estimates that it may be exposed, calculate or estimate the required capital requirements for exposure to particular risks and establish the total required (internal) capital for the current and subsequent period in accordance with the business plan. In accordance with capital requirements so expressed, capital planning is carried out whereby items of available capital are considered exclusively to items recognized for the purpose of calculating the regulatory capital.

2. RISK MANAGEMENT (continued)

2.7. Capital Management (continued)

In planning capital needs it is necessary to take into account capital adequacy, i.e. regulatory capital requirements for exposures to credit, market and operational risk.

Regulatory minimum rate of capital adequacy stipulated by law on 31.12.2019. year is 8 percent. The regulatory obligation to maintain the rate of the protection layer of capital is prescribed for the rate of 2.5% of the protection layer for the protection of capital and the protective layer for the structural systemic risk to 1.5%. In addition, to the Bank was assigned a supervisory protective layer of capital in the total amount of 3.62 percent. Therefore, the total regulatory requirements as at 31 December 2019 amounts to 15.62%. Below is an overview of regulatory capital movements for the Bank:

Bank	**2019** **HRK '000**	**2018** **HRK '000**
REGULATORY CAPITAL (unaudited)		
Tier-1 Capital	2,209,224	1,777,233
Common Equity Tier-1 Capital	*2,209,224*	*1,777,233*
Tier-2 Capital	-	-
Total regulatory capital	**2,209,224**	**1,777,233**
Credit Risk Exposure Using Standardized Approach	9,159,696	8,117,102
Exposure to FX and Position Risk	404,600	440,884
Exposure to Operational risk	1,389,243	1,394,551
Exposure to Credit Value Adjustment Risk	804	349
Total Risk Exposure	**10,954,343**	**9,952,886**
Total Capital Adequacy Ratio	**20.17%**	**17.86%**

3. SIGNIFICANT ACCOUNTING ESTIMATIONS

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 existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Group's portfolio exposed to credit risk represents the major source of estimation uncertainty. This and other key sources of estimations 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.

Impairment Losses on Loans and Receivables

The Group continuously monitors creditworthiness of its customers. In accordance with the requirements of the CNB, the need to reduce the value of the balance sheet and the provision for off-balance sheet exposure to credit risk is estimated quarterly for large exposures or monthly for a portfolio of exposures below HRK 700 thousand. Impairment losses are mainly recognized in relation to the net book value of loans to legal entities and households (presented in Note 11), and as provisions for liabilities and expenses arising from off-balance sheet exposures to customers, most often in the form of approved guarantees, letters of credit and approved unused loans (presented in notes 23 and 39). Impairment losses are also considered for credit exposure to banks and for other assets not carried at fair value and where the primary impairment risk is not a credit risk. Impairment policy of placements is explained in the note 2.1.3.

Following tables represent the summary of impairment losses of loans to and receivables from customers, as well as provisions for off-balance sheet exposures:

Group	**Note**	**2019** **HRK '000**	**2018** **HRK '000**
Impairment Losses of Loans to and Receivables from Customers	11	1,535,786	1,500,315
Provisions for Off-Balance Sheet Exposures	23	40,571	31,942
Total		**1,576,356**	**1,532,258**

Bank	**Note**	**2019** **HRK '000**	**2018** **HRK '000**
Impairment Losses on Loans to and Receivables from Customers	11	1,535,786	1,434,685
Provisions for Off-Balance Sheet Exposures	23	40,571	29,897
Total		**1,576,356**	**1,464,582**

3. SIGNIFICANT ACCOUNTING ESTIMATIONS (CONTINUED)

Financial Assets at Amortised Cost

The Group estimates creditworthiness of its customers and, in accordance with it, estimates impairment losses per balance sheet exposures and provisions for liabilities related to off-balance potential liabilities, whether exposures with no default status or exposure with default status, whereby relevant CNB regulations are taken into account which prescribe credit losses and is based on the International Financial Reporting Standard 9.

Impairment policy is presented in detail in the note 2.1.3. Placement impairment policy. At the end of the year, gross value of impaired assets placed into risk categories B and C, as well as recognized impairment of these exposures, were as follows:

Group	**2019**	**2018**
Gross Exposures (in HRK'000)	**1,984,593**	**2,486,805**
Impairment Loss (in HRK'000)	1,348,715	1,652,813
Impairment Rate	**67.96%**	**66.46%**

Bank	**2019**	**2018**
Gross Exposures (in HRK'000)	**1,984,593**	**2,358,683**
Impairment Loss (in HRK'000)	1,348,715	1,589,948
Impairment Rate	**67.96%**	**67.41%**

Each additional decrease of one percentage point in the impairment rate on the gross portfolio at December 31, 2019 would lead to recognition of additional impairment loss amounting to HRK 19,846 thousand for the Bank and Group (2018: Group HRK 23,679 thousand; Bank: HRK 22,398 thousand).

Market Value of Pledged Property and Foreclosed Assets

As disclosed above (note 2.1.4 (c)), loans and receivables from customers include exposures with a book value of HRK 1,884,115 thousand (2018: HRK 2,094,641 thousand) classified by the Group, or HRK 1,884,115 thousand (2018: HRK 1,966,520 thousand) classified by the Bank as impaired due to the disadvantage of payment, which is secured by a pledge over real property, plant and equipment. In assessing the recoverability of pledges based on real estate in a pledge, the market value of the property in the collateral is reduced and reduced to the present value using the impairment factor and the collection deadlines in accordance with CNB regulation.

Market and book value of investment property

Furthermore, as disclosed in Note 15, real estate investments as at 31 December 2019 include real estate, plant and equipment with a gross book value of HRK 236,693 thousand representing assets acquired in exchange for uncollected receivables. All investments in real estate are valued at fair value less costs to sell. The fair value of such assets is estimated annually on the basis of an independent valuer's estimate, and any impairment loss is recognized in the income statement. Profits on the income statement other than prepayments are recognized at the end of recognition. In the period under review, the Group recognized the impairment loss on the current property in the amount of HRK 9,073 thousand (2018: HRK 18,591 thousand).

3. SIGNIFICANT ACCOUNTING ESTIMATIONS (CONTINUED)

Market and book value of investment property (continued)

The net book value of the assets under Investments in Property of the Group as at 31 December 2019 amounts to HRK 68,415 thousand (2018: HRK 55,278 thousand) and HRK 60,555 thousand (2018: 46,906 thousand) to the Bank.

The Bank and Group actively sell property taken over for uncollected receivables (classified as investment property) and in 2019 they sold objects and land in total amount of HRK 54 thousand (2018: HRK 16,268 thousand). The Bank and Group during reporting period reported loss for stated property in the amount of HRK 9,073 thousand (2018: HRK 18,591 thousand).

In addition to sales of property the Bank during the reporting period realized sales revenue from repossessed tangible assets in the amount of HRK 1,019 thousand (2018: HRK 2,058 thousand), while the Group realized HRK 1,719 thousand (2018: HRK 2,058 thousand).

Information on property taken over in exchange for uncollected receivables of the Bank and the Group, which are classified within Investment Property, and on hierarchy of fair value measures as at 31 December 2019 and 31 December 2018 is disclosed in the note 15 Investment Property.

Fair value of investment property of the Bank is determined on the basis of valuation in the second half of 2019, with the use of discount marketability factor. Property valuations in 2019 were carried out by M7 Real Estate Croatia d.o.o. Valuators of the company M7 Real Estate Croatia d.o.o. acted as independent court experts during evaluation, which possess necessary expert qualifications and newer experience in evaluating fair value of property and they have neither interest in stated assets nor interests related to the amount of valued property on relevant locations. Fair value is evaluated in accordance with the Property Valuation Law (NN 78/2015) and correspondent Property Valuation Methods Regulation (NN 105/2015), under the prescribed by law and appropriate methods, whereby except for the stated acts, a series of factors are taken into account for determining its market value and marketability. Valuation method was not changed through the year.

Fair Value of Derivatives

Fair value of OTC derivatives that are quoted on active market is determined using their closing market price. For derivatives that are not traded on active markets, Bank determines contractual value applying internally developed models for fair value assessment.

Fair Value of Treasury Bills

The Group determines the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia using an internal model which takes into account their remaining maturity and latest available auction prices of equivalent instruments. As at December 31, 2019, the Group and the Banke had no treasury bills classified as financial assets at fair value through profit or loss (2018: HRK 148,297 thousand). The carrying amount of treasury bills classified as financial assets at FV through OCI for the Group and the Bank as at 31 December 2019 amounted to HRK 129,998 thousand (Bank 2018: HRK 791,477 thousand; Group 2018: HRK 821,146 thousand).

Provisions for Court Cases Initiated Against the Bank and the Group

In calculating provisions for court expenses the Bank and Group discounts expected future cash flows with respect to the liabilities using the CNB's discount rate.

Taxation

The Bank and Group recognizes tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of tax authorities that are entitled to carry out subsequent inspections of taxpayers' records.

4. SEGMENT REPORTING

The Group's business segments represent the primary reportable segments. The primary format is based on the Group's management and internal reporting structure. As the Group does not allocate overhead expenses and equity to segments, segment profitability is not reported.

Business Segments

The Group comprises following primary reportable segments:

- *Corporate Banking* — Includes loans, deposits and other transactions and balances with corporate customers,

  Corporate banking is divided into two sub-segments:

  - Large companies and public sector
  - Small and medium enterprises

- *Retail Banking* — Includes loans, deposits, direct (card) business, other transactions with retail customers and uninterrupted functioning and development of all direct distribution channels of products and services of the Bank

- *Financial Markets* — Group financing operations and the aggregate liquidity and foreign exchange risk activities in respect of borrowings, transactions with debt securities, use of derivatives and investments in liquid assets. It also includes asset management, securities custody and brokerage services.

The Group does not apply internal transfer prices in determining the financial results of segments. Internal transfer prices are a tool which the Group uses in reporting management

Classification of individual sectors for the purposes of notes on the results and position of segments differs from other parts of the financial reports. This primarily refers to the owner of small enterprises, who are part of Corporate Banking in the report of segmentation, while in the financial reports part of positions related to the Retail Banking.

During 2019, card and direct banking operations were separated from the Retail Banking Sector into the Direct Banking Sector.

4. SEGMENT REPORTING (continued)

Group **2019**

'000 kn

	Corporate	Retail	Financial Market	Direct banking	Unallocated	Total
Net Interest Income	153,905	288,633	102,928	-	(10)	**545,456**
Net Fees and Commissions Income	66,470	94,405	3,966	27,387	17,298	**209,527**
Trading and Investment Income	-	-	94,130	-	10,313	**104,443**
Other Income	3,893	603	240	-	25,105	**29,840**
Operating Income	**224,267**	**383,642**	**201,264**	**27,387**	**52,706**	**889,266**
General and Administrative Expenses	(33,220)	(177,763)	(6,756)	(123,349)	(126,536)	**(467,625)**
Depreciation and Amortization	-	-	-	-	(78,050)	**(78,050)**
Impairment Losses on Loans and Other Assets	(132,581)	(18,919)	(74)	-	(11,344)	**(162,918)**
Provisions for Liabilities and Expenses	-	-	-	-	(81,995)	**(81,995)**
Operating Expenses	**(165,801)**	**(196,682)**	**(6,830)**	**(123,349)**	**(297,925)**	**(790,588)**
Profit Before Taxation	58,466	186,960	194,433	(95,962)	(245,219)	**98,678**
Income Tax	-	-	-	-	48,238	**48,238**
Profit for the Year	**58,466**	**186,960**	**194,433**	**(95,962)**	**(196,980)**	**146,917**
Segment Assets	6,895,684	7,605,050	8,864,337	292	4,832	**23,370,195**
Unallocated Assets	-	-	-	-	403,265	**403,265**
Total Assets	**6,895,684**	**7,605,050**	**8,864,337**	**292**	**408,097**	**23,773,460**
Segment Liabilities	9,086,229	11,419,428	412,014	25,235	3,687	**20,946,593**
Unallocated Equity and Liabilities	-	-	-	-	2,826,866	**2,826,866**
Total Equity and Liabilities	**9,086,229**	**11,419,428**	**412,014**	**25,235**	**2,830,553**	**23,773,460**

4. SEGMENT REPORTING (continued)

Group	Corporate	Retail	Financial Markets	Unallocated	2018 HRK '000 Total
Net Interest Income	200,918	240,609	94,214	2,990	**538,731**
Net Fees and Commissions Income	60,310	121,249	4,435	25,922	**211,916**
Trading and Investment Income	-	-	51,050	(4,755)	**46,295**
Other Income	6,682	964	(2,827)	7,480	**12,299**
Operating Income	**267,910**	**362,822**	**146,871**	**31,636**	**809,239**
General and Administrative Expenses	(30,558)	(210,034)	(7,269)	(207,066)	**(454,927)**
Depreciation and Amortization	-	-	-	(46,620)	**(46,620)**
Impairment Losses on Loans and Other Assets	(57,738)	(52,604)	158	(12,464)	**(122,648)**
Provisions for Liabilities and Expenses	-	-	-	2,854	**2,854**
Operating Expenses	**(88,296)**	**(262,638)**	**(7,111)**	**(263,296)**	**(621,340)**
Profit Before Taxation					**187,899**
Income Tax	-	-	-	(31,952)	**(31,952)**
Profit for the Year	**-**	**-**	**-**	**(31,952)**	**155,947**
Segment Assets	5,992,545	6,235,149	10,727,143	(199,495)	**22,755,342**
Unallocated Assets	-	-	-	326,870	**326,870**
Total Assets	**5,992,545**	**6,235,149**	**10,727,143**	**127,375**	**23,082,212**
Segment Liabilities	9,154,341	11,235,407	454,470	67,644	**20,911,862**
Unallocated Equity and Liabilities	-	-	-	2,170,350	**2,170,350**
Total Equity and Liabilities	**9,154,341**	**11,235,407**	**454,470**	**2,237,994**	**23,082,212**

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5. SEGMENT REPORTING (continued)

Bank **2019**

'000 kn

	Corporate	Retail	Financial Market	direct banking	Unallocated	Total
Net Interest Income	152,704	288,313	94,957	-	(5)	**535,969**
Net Fees and Commissions Income	66,319	91,553	3,966	27,387	10,417	**199,642**
Trading and Investment Income	-	-	93,488	-	-	**93,488**
Other Income	3,893	603	240	-	13	**4,748**
Operating Income	**222,915**	**380,469**	**192,651**	**27,387**	**10,425**	**833,847**
General and Administrative Expenses	(33,220)	(177,763)	(6,756)	(123,349)	(93,942)	**(435,031)**
Depreciation and Amortization	-	-	-	-	(75,880)	**(75,880)**
Impairment Losses on Loans and Other Assets	(132,581)	(18,919)	(74)	-	(11,536)	**(163,110)**
Provisions for Liabilities and Expenses					(64,758)	**(64,758)**
Operating Expenses	**(165,801)**	**(196,682)**	**(6,830)**	**(123,349)**	**(246,115)**	**(738,778)**
Profit Before Taxation	57,114	183,787	185,820	(95,962)	(235,690)	**95,069**
Income Tax					48,704	**48,704**
Profit for the Year	**57,114**	**183,787**	**185,820**	**(95,962)**	**(186,986)**	**143,773**
Segment Assets	6,907,122	7,605,050	8,857,429	292	-	**23,369,893**
Unallocated Assets	-	-	-	-	403,264	**403,264**
Total Assets	**6,907,122**	**7,605,050**	**8,857,429**	**292**	**403,264**	**23,773,157**
Segment Liabilities	9,086,229	11,419,428	420,184	25,235	-	**20,951,076**
Unallocated Equity and Liabilities	-	-	-	-	2,822,081	**2,822,081**
Total Equity and Liabilities	**9,086,229**	**11,419,428**	**420,184**	**25,235**	**2,822,081**	**23,773,157**

4 SEGMENT REPORTING (continued)

Bank					2018 HRK '000
	Corporate	Retail	Financial Markets	Unallocated	Total
Net Interest Income	198,614	239,069	76,703	-	**514,386**
Net Fees and Commissions Income	60,310	112,994	4,435	14,376	**192,115**
Trading and Investment Income	-	-	48,505	-	**48,505**
Other Income	6,682	964	(2,827)	-	**4,819**
Operating Income	**265,606**	**353,027**	**126,816**	**14,376**	**759,825**
General and Administrative Expenses	(30,558)	(210,034)	(7,269)	(163,857)	**(411,718)**
Depreciation and Amortization		-	-	(45,271)	**(45,271)**
Impairment Losses on Loans and Other Assets	(57,738)	(52,604)	158	(18,591)	**(128,775)**
Provisions for Liabilities and Expenses		-	-	11,251	**11,251**
Operating Expenses	**(88,296)**	**(262,638)**	**(7,111)**	**(216,469)**	**(574,514)**
Profit Before Taxation	**-**	**-**	-	-	**185,311**
Income Tax	-	-	-	(33,452)	**(33,452)**
Profit for the Year	**-**	**-**	**-**	**(33,452)**	**151,859**
Segment Assets	5,844,431	5,854,263	9,214,304	-	**20,912,998**
Unallocated Assets	-	-	-	320,195	**320,195**
Total Assets	**5,844,431**	**5,854,263**	**9,214,304**	**320,195**	**21,233,193**
Segment Liabilities	9,020,976	9,549,635	477,313	-	**19,047,924**
Unallocated Equity and Liabilities	-	-	-	2,185,269	**2,185,269**
Total Equity and Liabilities	**9,020,976**	**9,549,635**	**477,313**	**2,185,269**	**21,233,193**

5. CASH AND RECEIVABLES FROM BANKS

Group	2019 HRK '000			2018 HRK '000		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Cash in Hand						
Held by the Group	292,010	551,255	**843,265**	232,372	123,034	355,406
Held by Other Parties	118,558	-	**118,558**	152,957	81	153,038
Cheques in the Course of Collection	-	4	**4**	-	11	11
	410,568	**551,259**	**961,827**	**385,329**	**123,126**	**508,455**
Amounts Due from Banks						
Current Accounts with Domestic Banks	35	659	**694**	34	65,093	65,127
Current Accounts with Foreign Banks	-	794,157	**794,157**	-	833,041	833,041
Giro Account with the CNB	999,201	15,362	**1,014,563**	2,080,002	690,446	2,770,448
	999,236	**810,179**	**1,809,415**	**2,080,036**	**1,588,580**	**3,668,616**
Total	**1,409,804**	**1,361,438**	**2,771,242**	**2,465,365**	**1,711,706**	**4,177,071**

Bank	2019 HRK '000			2018 HRK '000		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Cash in Hand						
Held by the Bank	292,010	551,255	**843,265**	217,325	121,505	338,830
Held by Other Parties	118,558	-	**118,558**	136,766	-	136,766
Cheques in the Course of Collection	-	4	**4**	-	11	11
	410,568	**551,259**	**961,827**	**354,091**	**121,516**	**475,607**
Amounts Due from Banks						
Current Accounts with Domestic Banks	-	659	**659**	-	3,889	3,889
Current Accounts with Foreign Banks	-	794,157	**794,157**	-	789,839	789,839
Giro Account with the CNB	999,201	15,362	**1,014,563**	1,898,870	570,271	2,469,141
	999,201	**810,179**	**1,809,380**	**1,898,870**	**1,363,999**	**3,262,869**
Total	**1,409,769**	**1,361,438**	**2,771,207**	**2,252,961**	**1,485,515**	**3,738,476**

6. MANDATORY RESERVE WITH CROATIAN NATIONAL BANK

Group	2019 '000 kn			2018 '000 kn		
	HRK	Foreign currency	Total	HRK	Foreign currency	Total
Mandatory Reserve	1,558,207	-	**1,558,207**	1,526,838	-	**1,526,838**
TOTAL	**1,558,207**	-	**1,558,207**	**1,526,838**	-	**1,526,838**

Bank	2019 '000 kn			2018 '000 kn		
	HRK	Foreign currency	Total	HRK	Foreign currency	Total
Mandatory Reserve	1,558,207	-	**1,558,207**	1,419,940	-	**1,419,940**
TOTAL	**1,558,207**	-	**1,558,207**	**1,419,940**	-	**1,419,940**

Mandatory reserve with the Croatian National Bank represents amounts held at the CNB due to a prescribed obligation by the Croatian National Bank.

The reserve requirement rate amounts to 12.0 percent of Kuna and foreign currency deposits, loans and debt securities issued (31 December 2018: 12.0%).

The rate of allocating the required minimum Kuna reserve requirement with the Croatian National Bank as at 31 December 2019 was 70% (2018: 70%), while the remaining 30% (2018: 30%) was maintained in the form of other liquid receivables .

By the decision of the CNB Council (effective from January 13, 2016), the obligation to allocate the foreign currency part of the reserve has been abolished.

The CNB does not pay any fees on the reserve requirements set aside.

7. LOANS TO AND RECEIVABLES FROM BANKS

	Group		Bank	
	2019 HRK '000	2018 HRK '000	2019 HRK '000	2018 HRK '000
Short-Term Placements with Domestic Banks	-	209,643	-	205,439
Short-Term Placements with Foreign Banks	234,756	187,956	234,756	135,284
Total Short-Term Placements and Loans Banks	**234,756**	**397,599**	**234,756**	**340,723**
Guarantee Deposits with Foreign Banks	12,833	12,495	12,833	12,495
Total Short-Term Placements and Loans Banks	**12,833**	**12,495**	**12,833**	**12,495**
Short-Term Placements with Domestic Non-Banking Financial Institutions	500	500	500	500
Long-Term Placements with Domestic Non-Banking Financial Institutions	736	117	736	117
Long-Term Placements with Domestic Non-Banking Financial Institutions	**1,236**	**617**	**1,236**	**617**
Provisions for Impairment Losses (Non-Banking Financial Institutions)	**(1,220)**	(5,952)	**(1,220)**	**(2,607)**
Accrued Interests Not Yet Due	34	96	34	95
Total Interests Receivable	**34**	**96**	**34**	**95**
Total	**247,640**	**404,855**	**247,640**	**351,323**

Guarantee deposits mainly relate to deposits for card operations.

Movements in Impairment Allowance

	Group		Bank	
	2019 HRK '000	2018 HRK '000	2019 HRK '000	2018 HRK '000
Balance at January 1	**5,952**	**500**	**2,607**	**500**
IFRS 9 Effect	-	2,865	-	2,865
JABA migration effect	(3,345)	-	-	-
(Decrease)/ Increase in Impairment Losses on Loans to and Receivables from Banks	(1,387)	2,587	(1,387)	(758)
Balance at December 31	**1,220**	**5,952**	**1,220**	**2,607**

All placements and loans to other banks of the Group and Bank are in tier 1 and during the year there were no transfers between tiers, except for receivables from banks in the amount of HRK 500 thousand, which is in tier 3 and in previous periods a 100% impairment was carried out.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2019 HRK '000	2018 HRK '000	2019 HRK '000	2018 HRK '000
Trading Instruments				
Listed Debt Securities				
Treasury Bills of the Ministry of Finance	-	148,297	-	148,297
Bonds of the Ministry of Finance	511,840	526,742	511,840	363,940
Listed Debt Securities	**511,840**	**675,039**	**511,840**	**512,237**
Listed Shares of Investment Funds	**71,867**	**105,515**	**71,867**	**105,515**
Listed Equity Securities	**24,212**	**27,246**	**24,212**	**27,167**
	607,919	**807,800**	**607,919**	**644,919**
Futures Fair Value	852	480	852	480
Loans and receivables from customers				
- corporate	6,676	10,701	6,676	6,563
- retail	13,085	14,781	13,085	14,781
	19,760	**25,482**	**19,760**	**21,344**
Accrued Interests Due	(891)	(854)	(891)	(855)
Accrued Interests Not Yet Due	6,429	8,237	6,429	5,575
Total	**634,070**	**841,146**	**634,070**	**671,464**

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2019 HRK '000	2018 HRK '000	2019 HRK '000	2018 HRK '000
Listed Debt Securities				
Bonds of the Ministry of Finance	4,318,350	2,847,000	4,318,350	2,172,313
Corporate Bonds	89,617	150,104	89,617	150,104
Foreign Government Bonds	-	185,120	-	185,120
	4,407,967	**3,182,224**	**4,407,967**	**2,507,537**
Debt Securities Not Listed				
Treasury Bills of the Croatian Ministry of Finance	129,998	821,146	129,998	791,477
Equity securities Not Listed				
- Corporate	21,284	10,696	21,284	9,434
	21,284	**10,696**	**21,284**	**9,434**
Listed Equity Securities				
- Corporate	54,427	14,118	54,427	13,977
- Non-Banking Financial Institutions	3,352	2,141	3,352	2,141
Provisions for Impairment Losses on Equity Securities	(21,793)	(7,853)	(21,793)	(7,853)
	35,986	**8,406**	**35,986**	**8,265**
Accrued Interests Not Yet Due	44,971	37,675	44,971	26,106
Total	**4,640,205**	**4,060,147**	**4,640,205**	**3,342,819**

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

Movement in Impairment Allowance for Financial Assets at Fair Value through Other Comprehensive Income

Group			**2019 HRK '000**			**2018 HRK '000**
	Individually Expected Losses	**Portfolio Based Expected Losses**	**Total**	**Individually Identified Losses**	**Portfolio Based Losses**	**Total**
At January 1	**7,853**	**-**	**7,853**	**7,853**	**-**	**7,853**
Increase/ (Decrease) of Impairment Losses	-	-	-	-	-	-
Other	13,940	-	13,940	-	-	-
At December 31	**21,793**	**-**	**21,793**	**7,853**	**-**	**7,853**

Movement in Impairment Allowance for Financial Assets at Fair Value through Other Comprehensive Income

Bank			**2019 HRK '000**			**2018 HRK '000**
	Individually Expected Losses	**Portfolio Based Expected Losses**	**Total**	**Individually Identified Losses**	**Portfolio Based Losses**	**Total**
At January 1	**7,853**	**-**	**7,853**	**7,853**	**-**	**7,853**
Increase/ (Decrease) of Impairment Losses						
Other	-	-	-	-	-	-
	13,940	-	**13,940**	-	-	-
At December 31	**21,793**	**-**	**21,793**	**7,853**	**-**	**7,853**

All financial assets of the Group and the Bank that are measured at fair value through other comprehensive income are in Tier 1 and there has been no transfer between stages in the year.

10. FINANCIAL ASSETS AT AMORTISED COST

	Group		Bank	
	2019 HRK '000	2018 HRK '000	2019 HRK '000	2018 HRK '000
Bonds of the Ministry of Finance	-	14,780	-	14,780
Corporative Bonds	1,500	2,100	1,500	2,100
Bills of Exchange	3,103	252,963	3,103	252,963
	4,603	**269,843**	**4,603**	**269,843**
Accrued Interest Not Yet due	(1)	72	(1)	72
Provisions for Impairment Losses	(302)	(194,665)	(302)	(194,665)
Total	**4,300**	**75,250**	**4,300**	**75,250**

Movement in Impairment Allowance for Financial Assets at Amortised Cost

Group and Bank			**2019** **HRK '000**			**2018** **HRK '000**
	Expected losses	**Portfolio Based Expected Losses**	**Total**	**Identified losses**	**Portfolio Based Identified Losses**	**Total**
Balance at January 1	**194,665**	**-**	**194,665**	**191,532**	**-**	**191,532**
IFRS 9 effect	-	-	**-**	25	-	**25**
Increase/ (Decrease) of Impairment Losses	-	-	-	5,132	-	**5,132**
JABA migration effect	28,829	-	28,829	-	-	**-**
Write-Offs and Other	(223,193)	-	(223,193)	(2,024)	-	**(2,024)**
Balance at December 31	**302**	**-**	**302**	**194,665**	**-**	**194,665**

Group and Bank

HRK'000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	**18,672**	**-**	**286,029**	**304,702**
Arisen or purchased new assets – derecognised or paid off assets (including derecognition)	(16,008)	432	(80,780)	(96,356)
Transfers between stages	-	-	-	-
Modification based changes (do not result with derecognition)	-	-	-	-
Write-offs	-	-	(255,982)	(255,982)
Transferred from JABA April 1, 2019	-	-	52,239	52,239
Balance at 31 December 2019	**2,665**	**432**	**1,506**	**4,603**
Expected Credit Losses at 1 January 2019	**(143)**	**-**	**(229,307)**	**(229,450)**
Arisen or purchased new assets – derecognised or paid off assets (including derecognition)	38	(47)	29,209	29,200
Transfers between stages	-	-	-	-
Modification based changes (do not result with derecognition)	-	-	-	-
Write-offs	-	-	229,097	229,097
Transferred from JABA April 1, 2019	-	-	(29,150)	(29,150)
Expected Credit Losses at 31 December 2019	**(105)**	**(47)**	**(151)**	**(303)**

Group and Bank

HRK'000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2018	**14,989**	**-**	**248,961**	**263,950**
Arisen or purchased new assets – derecognised or paid off assets (including derecognition)	3,684	-	37,068	40,751
Transfers between stages	-	-	-	-
Modification based changes (do not result with derecognition)	-	-	-	-
Write-offs	-	-	-	-
Balance at 31 December 2018	**18,672**	**-**	**286,029**	**304,702**
Expected Credit Losses at 1 January 2018	**(25)**	**-**	**(191,356)**	**(191,381)**
Arisen or purchased new assets – derecognised or paid off assets (including derecognition)	(117)	-	(37,952)	(38,069)
Transfers between stages	-	-	-	-
Modification based changes (do not result with derecognition)	-	-	-	-
Write-offs	-	-	-	-
Expected Credit Losses at 31 December 2018	**(143)**	**-**	**(229,307)**	**(229,450)**

HPB
HRVATSKA POŠTANSKA BANKA

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS

	Group		Bank	
	2019 HRK '000	2018 HRK '000	2019 HRK '000	2018 HRK '000
Short-Term Loans				
Corporate	1,533,789	1,528,850	1,534,384	1,460,626
Retail	966,005	893,634	966,005	842,477
Total Short-Term Loans	**2,499,794**	**2,422,484**	**2,500,389**	**2,303,103**
Long-Term Loans				
Corporate	6,032,199	5,210,952	6,036,169	5,133,000
Retail	6,209,798	5,326,781	6,209,798	4,995,586
Total Long-Term Loans	**12,241,997**	**10,537,733**	**12,245,967**	**10,128,587**
Total Gross Loans	**14,741,791**	**12,960,217**	**14,746,356**	**12,431,691**
Accrued Interests Due	6,971	32,939	6,971	29,576
Accrued Interests Not Yet Due	36,369	36,232	36,369	35,671
Provisions for Impairment Losses	**(1,252,528)**	**(1,355,161)**	**(1,252,528)**	**(1,295,944)**
Portfolio Based Impairment Allowance for Identified Losses	**(198,147)**	**(145,154)**	**(198,147)**	**(138,740)**
Total	**13,334,456**	**11,529,072**	**13,339,021**	**11,062,253**
Total Impairment Allowance and Provisions as a Percentage of Gross Loans to Customers	9.84%	11.58%	9.84%	11.54%

11. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Movements in Impairment Allowance

Movements in the impairment allowance on loans to and receivables from customers were as follows:

Group	2019			2018		
	HRK '000			HRK '000		
	Individually Expected Losses	**Portfolio Based Expected Losses**	**Total**	**Individually Identified Losses**	**Portfolio Based Losses**	**Total**
Balance at January 1	**1,355,161**	**145,154**	**1,500,315**	**1,263,301**	**118,980**	**1,382,281**
IFRS) Effect	-	-	**-**	-	25,301	**25,301**
Increase/ (Decrease) of Impairment Losses	74,068	54,468	**128,536**	146,755	874	**147,629**
Net Foreign Exchange Loss/ (Gain)	(1,309)	(680)	**(1,989)**	(2,699)	-	**(2,699)**
Merger effect JABA	(30,354)	(746)	**(31,100)**	-	-	**-**
Merger effect HPBSŠ	2,184	(49)	**2,135**	-	-	**-**
Write-Offs	(147,222)	-	**(147,222)**	(52,196)	-	**(52,196)**
Other	-	-	**-**	-	-	**-**
Balance at December 31	**1,252,528**	**198,147**	**1,450,675**	**1,355,161**	**145,154**	**1,500,315**

11. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Expected credit losses analysis for the Group in 2018 was as follows:

Group HRK'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2018	**9,509,379**	**1,209,574**	**2,380,176**	**13,099,129**
Arisen or purchased new assets – derecognised or paid off assets (including derecognition)	476,192	-	(6,068)	**470,124**
Transfer into Stage 1	137,648	(102,643)	(35,005)	**-**
Transfer into Stage 2	(194,507)	210,911	(16,404)	**-**
Transfer into Stage 3	(56,690)	(106,266)	162,955	**-**
Modification based changes (do not result with derecognition)	(7,611)	(281)	4,694	**(3,197)**
Collected	416,410	(534,090)	(304,892)	**(422,571)**
Write-offs	-	-	(52,196)	**(52,196)**
Balance at 31 December 2018	**10,280,821**	**677,206**	**2,133,261**	**13,091,288**
Expected credit losses at 1 January 2018	**(79,057)**	**(75,697)**	**(1,428,088)**	**(1,582,842)**
Arisen or purchased new assets – derecognised or paid off assets (including derecognition)	(23,910)	(476)	(18,151)	**(42,537)**
Transfer into Stage 1	962	(821)	(142)	**-**
Transfer into Stage 2	(17,418)	18,119	(702)	**-**
Transfer into Stage 3	(10,546)	(28,376)	38,922	**-**
Collected	34,873	36,978	(60,886)	**10,965**
Write-offs	-	-	52,196	**52,196**
Balance at 31 December 2018	**(95,095)**	**(50,272)**	**(1,416,850)**	**(1,562,217)**

Of which purchased or issued credit impaired financial assets (POCI) for the Group were as follows:

HRK'000	**POCI**
Balance at 1 January 2019, net	**217,237**
Arisen or purchased new assets – derecognised or paid off assets (including derecognition)	(46,959)
Collected	-
Write-offs	-
Balance at 31 December, net	**170,278**

11. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Movements in Impairment Allowance (continued)

Bank			**2019 HRK '000**			**2018 HRK '000**
	Individually Expected Losses	**Portfolio Based Expected Losses**	**Total**	**Individually Identified Losses**	**Portfolio Based Expected Losses**	**Total**
Balance at January 1	**1,295,944**	**138,740**	**1,434,684**	**1,263,046**	**117,385**	**1,380,431**
IFRS) Effect	-	-	-	-	26,402	**26,402**
Increase/ (Decrease) of Impairment Losses	72,196	54,468	**126,664**	87,794	(5,047)	**82,747**
Net Foreign Exchange Loss/ (Gain)	(1,309)	(680)	**(1,989)**	(2,699)	-	**(2,699)**
Merger effect JABA	31,623	4,493	**36,116**	-	-	**-**
Merger effect HPBSŠ	1,296	1,126	**2,422**	-	-	**-**
Write-Offs	(147,222)	-	**(147,222)**	(52,196)	-	**(52,196)**
Other	-	-	**-**	-	-	**-**
Balance at December 31	**1,252,528**	**198,147**	**1,450,675**	**1,295,944**	**138,740**	**1,434,684**

11. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Expected credit losses analysis for the Bank in 2018 was as follows:

Bank HRK'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2018	**9,040,780**	**1,200,526**	**2,174,121**	**12,415,427**
Arisen or purchased new assets – derecognised or paid off assets (including derecognition)	408,258	-	(6,250)	**402,007**
Transfer into Stage 1	134,271	(99,485)	(34,786)	**-**
Transfer into Stage 2	(187,790)	203,700	(15,910)	**-**
Transfer into Stage 3	(53,800)	(105,055)	158,854	**-**
Modification based changes (do not result with derecognition)	(7,611)	8	4,747	**(2,855)**
Collected	540,755	(530,421)	(215,684)	**(205,350)**
Write-offs	-	-	(52,196)	**(52,196)**
Balance at 31 December 2018	**9,874,862**	**669,274**	**2,012,896**	**12,557,032**
Expected credit losses at 1 January 2018	**(70,128)**	**(74,819)**	**(1,324,730)**	**(1,469,677)**
Arisen or purchased new assets – derecognised or paid off assets (including derecognition)	(4,632)	-	(7,581)	**(12,213)**
Transfer into Stage 1	1,519	(1,403)	(117)	**-**
Transfer into Stage 2	(17,179)	17,839	(661)	**-**
Transfer into Stage 3	(10,198)	(28,137)	38,335	**-**
Collected	11,713	36,978	(113,780)	**(65,089)**
Write-offs	-	-	52,196	**52,196**
Balance at 31 December 2018	**(88,904)**	**(49,541)**	**(1,356,337)**	**(1,494,782)**

Of which purchased or issued credit impaired financial assets (POCI) for the Group were as follows:

HRK'000	**POCI**
Balance at 1 January 2018, net	**115,222**
Arisen or purchased new assets – derecognised or paid off assets (including derecognition)	(4,162)
Collected	-
Write-offs	-
Balance at 31 December, net	**111,060**

11. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Expected credit losses analysis for the Group and Bank in 2019 is as follows:

Bank

HRK'000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	**9,874,865**	**669,274**	**2,012,896**	**12,557,035**
Arisen or purchased new assets – derecognised or paid off assets (including derecognition)	2,445,038	85,034	(181,819)	**2,348,254**
Transfer into Stage 1	240,520	(223,742)	(16,779)	**-**
Transfer into Stage 2	(381,887)	396,728	(14,841)	**-**
Transfer into Stage 3	(65,486)	(140,692)	206,178	**-**
Modification based changes (do not result with derecognition)	(10,674)	22	(5,105)	**(15,756)**
Collected	(317,731)	(74,638)	59,317	**(333,053)**
Write-offs	-	-	(151,445)	**(151,445)**
Merger effect JABA 1st April 2019	219,912	1,667	62,792	**284,371**
Merger effect HPBSŠ 1st December 2019	180,895	3,607	899	**185,401**
Balance at 31 December 2019	**12,185,453**	**717,261**	**1,972,093**	**14,874,808**
Expected credit losses at 1 January 2019	**(88,904)**	**(49,541)**	**(1,356,337)**	**(1,494,782)**
Arisen or purchased new assets – derecognised or paid off assets (including derecognition)	(23,887)	(44,312)	37,341	**(30,859)**
Transfer into Stage 1	(3,482)	3,109	374	**-**
Transfer into Stage 2	46,036	(46,918)	882	**-**
Transfer into Stage 3	11,478	13,813	(25,291)	**-**
Collected	(64,815)	57,990	(114,037)	**(120,862)**
Write-offs	-	-	151,445	**151,445**
Merger effect JABA 1st April 2019	(5,543)	(743)	(31,986)	**(38,272)**
Merger effect HPBSŠ 1st December 2019	(1,820)	(293)	(343)	**(2,456)**
Balance at 31 December 2019	**(130,939)**	**(66,894)**	**(1,337,953)**	**(1,535,786)**

Of which purchased or issued credit impaired financial assets (POCI) for the Group were as follows:

HRK'000	POCI
Balance at 1 January 2019, net	**111,060**
Arisen or purchased new assets – derecognised or paid off assets (including derecognition)	(1,838)
Collected	(22,233)
Write-offs	(27,102)
Merger effect JABA 1st April 2019	35,766
Balance at 31 December, net	**95,653**

The difference in the position of loans and receivables from customers between the Group and the Bank in 2019 relates to an internally approved loan to a member of the HPB Group - HBP Real Estate in the amount of HRK 4,565 thousand which is in Stage 1 and there were no transfers between stages.

12. ASSETS HELD FOR SALE

a) Structure of Financial Assets Held for Sale

	Industry	Domicile	Ownership at December 31 2019 %
Drvna Industrija Spačva d.d.	Other Carpentry and Components Production	Croatia	18,95%

The Group plans to compensate its investment in the aforementioned companies by sale and not by realizing its share rights. These investments are currently up for sale and the Bank has made all the necessary measures in order to sell them in an acceptable time period usual for these types of transactions.

In the reporting period, there was no impairment of assets held for sale (2018: HRK 0).

b) Investment into assets held for sale by asset type was as follows:

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Equity Stakes – net	20,000	20,000	20,000	20,000
Total as of December 31	**20,000**	20,000	**20,000**	20,000

c) In 2019, there were no changes in the movement of assets held for sale.

13. INVESTMENTS IN SUBSIDIARIES

a) The Bank's subsidiaries are as follows:

	Industry	Domicile	Ownership at December 31 2019 %
HPB Invest Ltd	Investment Fund Management	Croatia	100
HPB Nekretnine d.o.o.	Real Estate Agency and Construction	Croatia	100

b) Investments in Subsidiaries that are fully consolidated in financial reports of the Group, are as follows:

	2019 HRK '000	2018 HRK '000
HPB Invest Ltd	5,000	5,000
HPB Nekretnine d.o.o.	490	490
HPB Stambena Štedionica d.d.	-	40,000
JABA – Jadranska banka d.d.	-	121,265
Total	**5,490**	**166,755**

The following table presents summary financial information on subsidiaries

	2019* HRK '000	2018 HRK '000
Short Term Assets	10,316	856,030
Long Term Assets	8,988	1,204,428
Short Term Liabilities	(2,853)	(1,478,555)
Long Term Liabilities	(4,481)	(406,921)
Net Assets, Book Value of Subsidiaries	**11,970**	**174,983**
Share of Revenue and Profit of Subsidiaries	100%	100%
Revenue	71,812	74,978
Net profit	3,144	(8,967)

** Assets, liabilities and net assets include HPB Invest and HPB Nekretnine, while income and net income include Jadranska banka d.d. and HPB-Stambena štedionica until the time of merger.*

c) Movements of Investments in Subsidiaries

At 14 July 2018 the Bank acquired 100% shares in Jadranska banka d.d., as previously disclosed in note 1 (2017: there were no changes in investment in subsidiaries book value). Total acquisition costs amount to HRK 122,750 thousand, which are comprised of basic acquisition price paid in cash in the amount of HRK 12,750 thousand and recapitalization in the amount of HRK 110,000 thousand. During 2019 the remaining amount of HRK 1,485 thousand of acquisition price was paid in. Acquisition of Jadranska banka significantly contributes to increase in presence in the region of central Dalmatia and whose acquisition will be completed during first half of 2019. In this way, the HPB is spreading its customer base, not only organically, but also by growing through acquisitions.

13. INVESTMENTS IN SUBSIDIARIES (Continued)

d) Acquired assets and liabilities at acquisition date

As at July 14, 2018, the Bank acquired a 100% interest in Jadranska banka d.d. Total acquisition costs amount to HRK 122,750 thousand, consisting of a basic acquisition fee paid in cash in the amount of HRK 12,750 thousand and a recapitalization in the amount of HRK 110,000 thousand. During 2019, the remaining HRK 1,485 thousand was paid.

	1st April 2019
Cash and Accounts at CNB	244,110
Receivables from Other Financial Institutions	-
Financial Assets at Amortized Cost	568,486
Financial assets at fair value through profit or loss	83
Financial Assets at Fair Value through Other Comprehensive Income	809,325
Other Assets	8,310
Property and Equipment	18,813
Intangible Assets	8,231
Total Assets	**1,657,359**
Liabilities to Customers	1,439,555
Other Borrowings	-
Provisions	49,174
Other Liabilities	8,482
Total Liabilities	**1,497,211**
	160,148

Jadranska banka d.d. is included in the result of the group until the date of the merger and the loss for the period (01.01.-31.03.2019.) is HRK 3.3 million.

As at December 2, 2019, the merger of HPB Stambena Stedionica d.d. was carried out at book value. The net assets merged to the Bank are as follows:

	30th November 2019
Money and receivables from banks	69,242
Placements and loans to other banks	-
Placements to the population	182,945
Available-for-sale financial assets	-
Financial assets at fair value through profit or loss	111,412
Property and Equipment	75
Intangible Assets	236
Net deferred tax assets	154
Profit tax prepaid	479
Other assets	627
Total assets	**365,169**
Liabilities to Customers	318,121
Provision for liabilities and charges	4
Other Liabilities	3,479
Total Liabilities	**321,604**
Net assets and liabilities	**43,564**

14. PROPERTY AND EQUIPMENT

Group				IFRS 16		
2019	**Land and Buildings HRK'000**	**Computers, Equipment and Motor Vehicles HRK'000**	**Assets Under Construction HRK'000**	**Building and land**	**Computers, equipment and motor vehicles**	**Total HRK'000**
Purchase Cost or Estimated Value						
Balance at January 1 2019	**196,852**	**262,027**	**3,169**	**97,146**	**21,193**	**580,387**
Increases JABA migration	21,876	14,313	4,914	-	-	**41,102**
Increases HPBSŠ migration	-	529	-	-	-	**529**
Increase / Revaluation	-	27	(4,914)	27	-	**(4,860)**
Increases / Revaluation of JABA	5,912	-	(4,717)	0	-	**1,195**
Additions	-	(136)	30,510	3,197	4,573	**38,144**
Write-offs and other reductions	(16)	(44,551)	-	(2)	(16)	**(44,585)**
Transferred into Use	10,670	21,710	(32,380)	-	-	**-**
Balance at December 31 2019	**235,293**	**253,919**	**(3,418)**	**100,368**	**25,750**	**611,912**
Accumulated Depreciation						
Balance at January 1, 2019	**(84,380)**	**(231,485)**	-	**-**	**-**	**(315,865)**
Depreciation Cost	(3,415)	(15,161)	-	(17,657)	(4,457)	**(40,690)**
Increasing JABA migration	(16,260)	(13,398)	-	-	-	**(29,659)**
Increasing HPBSS migration	-	(455)	-	-	-	**(455)**
Write-Offs	(6)	34,363	-	-	-	**34,357**
Balance at December 31 2019	**(104,061)**	**(226,136)**	**-**	**(17,657)**	**(4,457)**	**(352,312)**
Net Book Value						
Balance at January 1 2019	112,472	30,542	3,169	97,146	21,193	**264,522**
Balance at December 31 2019	**131,232**	**27,782**	**(3,418)**	**82,711**	**21,293**	**259,600**

14. PROPERTY AND EQUIPMENT (continued)

Group 2018	Land and Buildings HRK'000	Computers, Equipment and Motor Vehicles HRK'000	Assets Under Construction HRK'000	Total HRK'000
Purchase Cost or Estimated Value				
Balance at January 1 2018	**168,741**	**273,446**	**2,801**	**444,988**
First Assets Consolidation of Jadranska banka d.d. Šibenik	31,836	25,413	10	**57,260**
Reversal of Impairment Loss	-	-	306	**306**
Revaluation of Land and Buildings	34	-	-	**34**
Additions	5,912	216	11,868	**17,996**
Amounts Written-Off	(11,327)	(47,089)	-	**(58,416)**
Transferred into Use	1,656	10,041	(11,816)	**(119)**
Balance at December 31 2018	**196,852**	**262,027**	**3,169**	**462,048**
Accumulated Depreciation				
Balance at January 1 2018				
First Assets Consolidation of Jadranska banka d.d. Šibenik	**(66,496)**	**(242,660)**	**-**	**(309,157)**
Depreciation Cost	(20,556)	(22,084)	-	**(42,640)**
Revaluation	(3,743)	(14,574)	-	**(18,317)**
Write-Offs	6,415	47,833	-	**54,248**
Balance at December 31 2018	**(84,380)**	**(231,485)**	**-**	**(315,866)**
Net Book Value				
Balance at January 1 2018	**102,245**	**30,785**	**2,801**	**135,831**
Balance at December 31 2018	**112,472**	**30,542**	**3,169**	**146,182**

Assets under construction as of 31 December 2019 refer to investments in equipment and construction objects at purchase cost of HRK 1,123 thousand (2018: HRK 3,169 thousand). The carrying amount of the land owned by the Group as at 31 December 2019 amounts to HRK 45,941 thousand (2018: HRK 45,941 thousand).

Bank

2019.	Land and Buildings HRK'000	Computers, Equipment and Motor Vehicles HRK'000	Assets Under Construction HRK'000	IFRS 16 Building and land	IFRS 16 Computers, equipment and motor vehicles	Total HRK'000
Purchase Cost or Estimated Value						
Balance at January 1 2019	**169,263**	**239,354**	**2,936**	**97,146**	21,193	**529,892**
Reversal of impairment loss	-	-	-	-	-	-
Revaluation of buildings and land	-	-	-	-	-	-
Increasing JABA migration	21,876	14,313	4,914	-	-	**41,102**
Increasing HPBSS migration	-	529	-	-	-	**529**
Increase / Revaluation	-	-	(4,914)	-	-	**(4,914)**
Increases /Revaluation of JABA	5,912	-		-	-	**5,912**
Additions	-	-	30,510	3,333	4,573	**38,416**
Write-offs and other reductions	-	(40,625)		-	-	**(40,625)**
Transferred into Use	10,670	21,710	(32,380)	-	-	**-**
Balance at December 31 2019	**207,720**	**235,282**	**1,065**	**100,479**	**25,766**	**570,312**
Accumulated Depreciation						
Balance at January 1, 2019.	**(68,505)**	**(211,575)**	**-**	-	-	**(280,080)**
Depreciation Cost	(3,501)	(15,587)	-	(17,657)	(4,457)	**(41,202)**
Revaluation of buildings and land	-	-	-	-	-	**-**
Increasing JABA migration	(16,260)	(13,398)	-	-	-	**(29,659)**
Increasing HPBSS migration	-	(455)	-	-	-	**(455)**
Write-Offs	-	40,615	-	-	-	**40,615**
Balance at December 31 2019	**(88,267)**	**(200,400)**	**-**	**(17,657)**	**(4,457)**	**(310,781)**
Net Book Value						
Balance at January 1 2019	**100,758**	**27,780**	**2,936**	**97,146**	**21,193**	**249,812**
Balance at December 31 2019	**119,453**	**34,882**	**1,065**	**82,822**	**21,309**	**259,531**

14. PROPERTY AND EQUIPMENT (continued)

Bank 2018	Land and Buildings HRK'000	Computers, Equipment and Motor Vehicles HRK'000	Assets Under Construction HRK'000	Total HRK'000
Purchase Cost or Estimated Value				
Balance at January 1 2018	**168,688**	**272,879**	**2,701**	**444,268**
Reversal of Impairment Loss	-	-	-	**-**
Additions	-	-	11,868	**11,868**
Amounts Written-Off	-	(43,565)	-	**(43,565)**
Transferred into Use	1,656	10,041	(11,697)	**-**
Balance at December 31 2018	**170,344**	**239,355**	**2,872**	**412,571**
Accumulated Depreciation				
Balance at January 1 2018	**(66,455)**	**(242,237)**	**-**	**(308,692)**
Depreciation Cost	(3,068)	(12,882)	-	**(15,950)**
Write-Offs	-	43,544	-	**43,544**
Balance at December 31 2018	**(69,523)**	**(211,575)**	**-**	**(281,098)**
Net Book Value				
Balance at January 1 2018	**102,233**	**30,642**	**2,701**	**135,576**
Balance at December 31 2018	**100,821**	**27,780**	**2,872**	**131,473**

Assets under construction as at 31 December 2019 refer to investments in equipment and construction objects at a purchase price of HRK 1,065 thousand (2018: HRK 2,872 thousand). The carrying amount of the land owned by the Bank as at 31 December 2019 amounts to HRK 45,941 thousand (2018: HRK 45,941 thousand).
There are no mortgages or other pledged rights on the properties owned by the Bank for the benefit of other parties.

Right of Use Asset (RoU) assets as at 31 December 2019 amounted to HRK 104,130 thousand (at the initial recognition date of the lease contract it amounted to HRK 118,339 thousand). Useful property is recognized in the functional currency of the entity and amortized on a straight-line basis over the life of the lease.

15. INVESTMENT PROPERTY

Group	Note	2019	2018
		HRK'000	HRK'000
Purchase Cost			
Balance as at January 1		170,299	196,005
Additions		22,667	10,129
Cancellation of finance leasing	18	-	400
Disposals		55,017	(36,235)
Balance as at December 31		**247,983**	**170,299**
Accumulated Depreciation			
Balance as at January 1		(2,918)	(2,694)
Amortization for the Year (subsidiary)		(512)	(224)
Balance as at December 31		**(3,430)**	**(2,918)**
Impairment Loss			
Balance at January 1		(112,103)	(113,479)
Impairment		(11,536)	(18,591)
Disposals		(48,155)	19,967
Balance at December 31	18	**(171,794)**	**(112,103)**
Net Book Value			
Balance as at January 1		**55,278**	**79,832**
Balance as at December 31		**72,759**	**55,278**

Bank	2018	2017
	HRK'000	HRK'000
Purchase Cost		
Balance as at January 1	159,009	184,227
Additions (including JABA)*	22,667	10,617
Cancellation of finance leasing	-	400
Disposals	55,017	(36,235)
Balance as at December 31	**236,693**	**159,009**
Impairment Loss		
Balance as at January 1	(112,103)	**(113,479)**
Impairment	(11,536)	(18,591)
Disposal	(48,155)	19,967
Balance as at December 31	**(171,794)**	**(112,103)**
Net Book Value		
Balance as at January 1	**46,906**	**70,748**
Balance at December 31	**64,899**	**46,906**

** Increases include assets acquired for outstanding receivables from the merger of Jadranska banka d.d., as described in Note 18. Other assets. The total net book value of the acquired assets is HRK 4,703 thousand.*

15. INVESTMENT PROPERTY (continued)

Assets taken over in exchange for uncollected receivables classified as investment property as at 31 December 2019 have the gross book value in the amount of HRK 236,693 thousand. Impairment based on valuation assessment with application of discount marketability factor related to investment property amounts to HRK 176,139 thousand (2018: 112,102 thousand), while net book value of these assets amounts to HRK 60,555 thousand (2018: 46,906 thousand).

Fair value hierarchy of investment properties as at December 31, 2019 and December 31, 2018 was as follows:

December 31.2019: Group	Level 1	Level 2	Level 3	Fair Value as at December 31 2019
- Land	-	-	40,320	40,320
- Buildings	-	-	30,701	30,701
- Equipment	-	-	1,737	1,737
TOTAL	-	-	**72,759**	**72,759**

December 31, 2018: Group	Level 1	Level 2	Level 3	Fair Value as at December 31 2018
- Land	-	-	21,648	21,648
- Buildings	-	-	31,028	31,028
- Equipment	-	-	2,602	2,602
TOTAL	-	-	**55,278**	**55,278**

December 31, 2019: Bank	Level 1	Level 2	Level 3	Fair Value as at December 31 2019
- Land	-	-	39,655	39,655
- Buildings	-	-	23,506	23,506
- Equipment	-	-	1,737	1,737
TOTAL	-	-	**64,899**	**64,899**

December 31, 2018: Bank	Level 1	Level 2	Level 3	Fair Value as at December 31 2018
- Land	-	-	20,304	20,304
- Buildings	-	-	24,000	24,000
- Equipment	-	-	2,602	2,602
TOTAL	-	-	**46,906**	**46,906**

Disclosure of the investment valuation in real estate is presented in Note 3. Property is assessed in accordance with the Real Estate Estimates Act (OG 78/2015) and the related Property Ordinance (NN 105/2015), according to law prescribed and appropriate methods consideration is given to a number of factors in determining its current market value. The valuation method has not changed during the year. During the year there were no items that would be reclassified from level 3 indicator to level 1 indicator or vice versa by hierarchy of fair value measures.

16. INTANGIBLE ASSETS

Group 2019	Software HRK'000	Leasehold Improvements HRK'000	Licenses HRK'000	Assets Under Construction HRK'000	Total HRK'000
Cost					
Balance as at January 1 2019	265,288	92,466	70,767	28,975	**457,496**
Increase	9,094	-	-	31,711	**40,805**
Increases / Jaba Migration	18,426	4,359	-	7,534	**30,319**
Increases / HPBSS Migration	384	112	-	236	**732**
Transferred into Use	15,189	10,255	12,705	(50,230)	**(12,080)**
Amounts Written-Off	399	(11,125)	-	69	**(10,657)**
Balance as at December 31 2019	**308,780**	**96,067**	**83,472**	**18,297**	**506,616**
Accumulated Amortization					
Balance as at January 1 2019	(217,782)	(61,325)	(62,757)	-	**(341,864)**
Depreciation cost	(31,412)	(5,842)	(5,359)	-	**(42,613)**
Increase JABA	(18,273)	(4,121)	-	-	**(22,394)**
Increase HPBSS	(384)	(112)	-	-	**(496)**
Amounts Written-Off	(279)	11,161	-	-	**10,882**
Balance as at December 31 2019	**(268,130)**	**(60,240)**	**(68,116)**	**-**	**(396,486)**
Net Book Value					
Balance as at January 1 2019	47,506	31,141	8,010	28,975	**115,632**
Balance as at December 31 2019	**40,650**	**35,827**	**15,356**	**18,297**	**110,130**

16. INTANGIBLE ASSETS (continued)

Group **2018**	**Software** **HRK'000**	**Leasehold Improvements** **HRK'000**	**Licenses** **HRK'000**	**Assets Under Construction** **HRK'000**	**Total** **HRK'000**
Cost					
Balance at January 1 2018	252,739	83,476	71,100	15,220	422,535
First Consolidation of Jadranska banka d.d. Šibenik	18,819	5,969	-	145	24,933
Additions	370	384	484	31,534	32,773
Transferred into Use	4,486	13,070	382	(17,924)	14
Amounts Written-Off	(11,126)	(10,433)	(1,199)	-	(22,758)
Balance at December 31 2018	**265,288**	**92,466**	**70,767**	**28,975**	**457,496**
Accumulated Amortization					
Balance at January 1 2018	(189,414)	(62,233)	(60,027)	-	(311,674)
First Assets Consolidation of Jadranska banka d.d. Šibenik	(14,615)	(4,540)	-	-	(19,155)
Amortization for the Year	(24,964)	(3,869)	(3,929)	-	(32,762)
Amounts Written-Off	11,211	9,317	1,199	-	21,728
Balance at December 31 2018	**(217,782)**	**(61,325)**	**(62,757)**	**-**	**(341,863)**
Net Book Value					
Balance at January 1 2018	63,325	21,243	11,073	15,220	110,861
Balance at December 31 2018	**47.506**	**31,141**	**8,011**	**28,975**	**115,633**

Assets under construction as at 31 December 2019 mainly refer to investments into the application software and investments in other assets at purchased cost in the amount of HRK 18,297 thousand (2018: HRK 28,975 thousand), which are under construction due to future use by the Group.

16.INTANGIBLE ASSETS (continued)

Bank 2019	Software HRK'000	Leasehold Improvements HRK'000	Licenses HRK'000	Assets Under Construction HRK'000	Total HRK'000
Cost					
Balance at January 1 2019	244,975	87,118	70,283	28,653	431.028
Increase	-	-	-	34,907	34.907
Increases / Jaba Migration	18,426	4,359	-	7,534	30.319
Increases / HPBSS Migration	384	112	-	236	732
Brought into Use	15,189	10,255	12,705	(50,244)	(12.094)
Amounts Written-Off	(222)	(11,161)	-	-	(11.382)
Balance at December 31 2019	**278,752**	**90,683**	**82,988**	**21,087**	**473.510**
Accumulated Amortization					
Balance at January 1 2019	(198,634)	(57,072)	(62,442)	-	(318.147)
Depreciation cost	(23,193)	(6,208)	(5,359)	-	(34.759)
Increase JABA	(18,273)	(4,121)	-	-	(22.394)
Increase HPBSS	(384)	(112)	-	-	(496)
Amounts Written-Off	222	11,161	-	-	11.382
Balance at December 31 2019	**(240,262)**	**(56,352)**	**(67,801)**	**-**	**(364.414)**
Net Book Value					
Balance at January 1 2019	**46,342**	**30,046**	**7,841**	**28,652**	**112.881**
Balance at December 31 2019	**38.491**	**34,331**	**15,188**	**21,087**	**109,096**

Bank 2018	Software HRK'000	Leasehold Improvements HRK'000	Licenses HRK'000	Assets Under Construction HRK'000	Total HRK'000
Purchase Cost					
Balance at January 1 2018	251,701	83,365	71,100	14,980	421.146
Additions	-	-	-	31,610	31.610
Transferred into Use	4,486	13,070	382	(17,938)	-
Amounts Written-Off	(11,212)	(9,317)	(1,199)	-	(21.728)
Balance at December 31 2018	**244,975**	**87,118**	**70,283**	**28,652**	**431.028**
Accumulated Amortization					
Balance at January 1 2018	(188,334)	(62,119)	(60,029)	-	(310.482)
Charge for the Year	(21,511)	(4,270)	(3,612)	-	(29.393)
Amounts Written-Off	11,212	9,317	1,199	-	21.728
Balance at December 31 2018	**(198,633)**	**(57,072)**	**(62,442)**	**-**	**(318.147)**
Net Book Value					
Balance at January 1 2018	**63,367**	**21,246**	**11,071**	**14,980**	**110.664**
Balance at December 31 2018	**46.342**	**30,046**	**7,841**	**28,652**	**112,881**

Assets under construction as at 31 December 2019 mainly relate to investment in application software and investments in other assets at purchase cost of HRK 21,087 thousand (2018: 28,652 thousand), which are being prepared for future use by the Bank.

17. NET DEFERRED TAX ASSETS

a) Recognized Deferred Tax Assets and Liabilities (Group)

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2019 are presented below:

Group 2019	2019 '000 kn	Recognized as in the P&L Statement HRK'000	Merger JABA	Merger HPBSŠ	Recognized as Other Comprehensive Income HRK'000	2018 '000 kn
Deferred Tax Assets						
Loans and Advances to Customers	4,950	(562)	(23)	208	-	5,625
Restructuring Costs	-	-	(2,971)	-	-	2,971
Other Provisions	1,907	-	1,907	(298)	-	3
Financial Assets	13,556	(1,975)	-	-	-	15,531
Deferred tax assets - IFRS 16	329	329	-	-	-	-
Fair Value Reserve	53,798	52,532	-	-	-	1,266
Deferred Tax Liabilities						
Tangible Assets	-	-	1,064	-	-	(1,064)
Intangible Assets	-	-	30	-	-	(30)
Borrowings	(587)	35	-	-	-	(622)
Deferred tax liability - HPBSS merger	-	55	-	3	-	-
Revaluation Reserve	(145)	-		-	13	(158)
Fair Value Reserve	(69,968)	-	4,297	-	(48,670)	(25,595)
Prepaid expenses	-	-	-	-	-	(61)
Deferred Tax Assets, Net	**3,839**	**50,413**	**4,304**	**(87)**	**(48,657)**	**(2,134)**

Changes in temporary differences and portions of the Group's deferred tax assets and deferred tax liabilities in 2018 are presented as follows

Group 2018	2018 '000 kn	Recognized as Income/ (Expense) in the P&L Report HRK'000	Recognized as Other Comprehensive Income HRK'000	2017 '000 kn
Deferred Tax Assets				
Loans and Advances to Customers	5,625	(1,765)	-	7,390
Restructuring Costs	2,971	2,971	-	-
Other Provisions	3	-	-	3
Financial Assets	15,531	1,362	-	14,169
Fair Value Reserve	1,266	(33,334)	-	34,600
Deferred Tax Liabilities				
Tangible Assets	(1,064)	(1,064)	-	-
Intangible Assets	(30)	(30)	-	-
Borrowings	(622)	139	-	(761)
Revaluation Reserve	(158)	-	13	(171)
Fair Value Reserve	(25,595)	-	(4,810)	(20,785)
Prepaid expenses	(61)	19	-	(80)
Deferred Tax Assets, Net	**(2,134)**	**(31,702)**	**(4,797)**	**34,365**

17. NET DEFERRED TAX ASSETS (CONTINUED)

b) Recognized Deferred Tax Assets and Liabilities (Bank)

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2019 are presented below:

Bank 2019	2019 '000 kn	Recognized in the P&L Report HRK'000	Merger JABA	Merger HPBSŠ	Recognized as Other Comprehensive Income HRK'000	2018 '000 kn
Deferred Tax Assets						
Loans and Advances to Customers	4,950	(562)	-	208	-	5,304
Other Provisions	1,907	-	1,907	-	-	-
Financial Assets	13,556	(1,975)	-	-	-	15,531
Deferred tax assets - IFRS 16	329	329	-	-	-	-
Recognized tax loss	53,798	52,532	-	-	-	1,266
Deferred Tax Liabilities						
Borrowings	(587)	35	-	-	-	(622)
Deferred tax liability - HPBSS merger	-	55	-	(55)	-	-
Revaluation Reserve	(145)	-	-	-	13	(158)
Fair Value Reserve	(69,968)	-	-	-	(48,670)	(21,298)
Deferred Tax Assets, Net	**3,839**	**50,413**	**1,907**	**153**	**(48,657)**	**23**

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2018 are presented below:

2018	2018 '000 kn	Recognized as Income/ (Expense) in the P&L Report HRK'000	Recognized as Other Comprehensive Income HRK'000	2017 '000 kn
Deferred Tax Assets				
Loans and Advances to Customers	5,304	(1,618)	-	6,922
Other Provisions	-	-	-	-
Financial Assets	15,531	1,362	-	14,169
Recognized Tax Effect	1,266	(33,334)	-	34,600
Deferred Tax Liabilities				
Borrowings	(622)	139	-	(761)
Revaluation Reserve	(158)	-	13	(171)
Fair Value Reserve	(21,298)	-	(513)	(20,785)
Deferred Tax Assets, Net	**23**	**(33,451)**	**(500)**	**33,974**

18. OTHER ASSETS

HRK '000	Group 31.12.2019	Group 31.12.2018	Bank 31.12.2019	Bank 31.12.2018
Fees Receivable	23,341	22,292	22,406	21,027
Foreclosed Tangible Assets	-	98,397	-	-
Items in Course of Collection*	31,286	53,101	31,286	53,099
Prepaid expenses	12,483	11,810	12,339	11,398
Other Receivables	70,314	59,857	70,079	22,267
Total Other Assets, Gross	**137,424**	**245,456**	**136,110**	**107,791**
Impairment Loss	(22,971)	(115,711)	(22,971)	(14,699)
Total	**114,453**	**129,746**	**113,139**	**93,092**
Discontinued Operations	-	-	**-**	**-**
Total	**114,453**	**129,746**	**113,139**	**93,092**

** The instruments used in the billing process relate mainly to the assets in the sale-purchase agreement effective in the amount of HRK 20,842 thousand (2017: HRK 17,884 thousand), as well as other accounts receivable (population, card transactions, payment transactions, effective sales etc.).*

*** The Bank has corrected the presentation of assets taken over for uncollected receivables for 2018 that relate to the Group's assets, that is, the assets of Jadranska banka dd. In 2018, those assets were presented on a net basis, and were adjusted on a gross basis. The net book value of HRK 4,703 thousand remains unchanged.*

Movements in Impairment Allowance
Movements in the impairment allowance on other assets were as follows:

	Group 2019 HRK '000	Group 2018 HRK '000	Bank 2019 HRK '000	Bank 2018 HRK '000
Balance at January 1	115,710	13,390	14,699	13,390
Increase in Impairment Losses	4,996	(2,153)	4,988	(2,153)
First Consolidation of Jadranska banka d.d. Šibenik	-	101,012	-	-
Reclassification of Assets acquired from JABA to Note 15. Investment Property	(93,694)	-	-	-
Effect of JABA merger	-	-	7,269	
Effect of HPBSS merger	-	-	56	-
Foreign Exchange Currencies	220	(131)	220	(131)
Used Impairments and Other	(4,262)	3,593	(4,262)	3,593
Balance at December 31	**22,971**	**115,710**	**22,971**	**14,699**

During the merger of JABA, the Bank reclassified assets acquired for uncollected receivables in 2019 as Real Estate Investments in accordance with IFRS accounting policies and requirements. The net book value of assets reclassified to Note 15 is HRK 4,703 thousand (impairment allowance for the item is HRK 93,694 thousand).

19. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Negative Fair Value of Cross Currency Swaps	814	445	814	445
Negative fair value “swap”	49	-	49	-
Balance at December 31	**863**	**445**	**863**	**445**

20. DEPOSITS FROM BANKS

Group

	2019 HRK '000			2018. HRK '000		
	HRK	**Foreign Currency**	**Total**	**HRK**	**Foreign Currency**	**Total**
Demand Deposits	3,396	7,815	**11,211**	4,318	34,302	**38,620**
Term Deposits	-	-	**-**	17,500	8,159	**25,659**
Interest Payable Not Yet Due	5	-	**5**	12	1	**13**
Total	**3,401**	**7,815**	**11,216**	**21,830**	**42,462**	**64,292**

Bank

	2019 HRK '000			2018 HRK '000		
	HRK	**Foreign Currency**	**Total**	**HRK**	**Foreign Currency**	**Total**
Demand Deposits	3,396	7,815	**11,211**	4,318	34,302	**38,620**
Term Deposits	-	-	**-**	17,500	8,159	**25,659**
Interest Payable Not Yet Due	5	-	**5**	12	1	**13**
Total	**3,401**	**7,815**	**11,216**	**21,830**	**42,462**	**64,292**

21. DEPOSITS FROM CUSTOMERS

Group	HRK	Foreign Currency	2019 HRK '000 Total	HRK	Foreign Currency	2018 HRK '000 Total
Demand Deposits						
Retail	4,135,922	2,200,298	**6,336,221**	3,419,188	1,755,437	**5,174,625**
Corporate	4,118,385	547,616	**4,666,001**	3,973,104	641,083	**4,614,187**
Restricted Deposits						
Retail	6,673	5,284	**11,957**	8,784	5,246	**14,030**
Corporate	1,527,646	989,083	**2,516,729**	1,633,255	409,781	**2,043,036**
	9,788,626	**3,742,281**	**13,530,907**	**9,034,331**	**2,811,547**	**11,845,878**
Term Deposits						
Retail	2,092,790	3,033,031	**5,125,821**	2,340,781	3,717,244	**6,058,025**
Corporate	858,298	522,561	**1,380,859**	1,405,358	737,331	**2,142,689**
	2,951,087	**3,555,593**	**6,506,680**	**3,746,139**	**4,454,575**	**8,200,714**
Interests Payable - Due	-	-	**-**	54	20	**74**
Interests Payable - Not Yet Due	8,035	5,702	**13,737**	19,411	12,971	**32,382**
Total	**12,747,748**	**7,303,576**	**20,051,324**	**12,799,935**	**7,279,114**	**20,079,048**

Bank	HRK	Foreign Currency	2019 HRK '000 Total	HRK	Foreign Currency	2018 HRK '000 Total
Demand Deposits						
Retail	4,135,922	2,200,298	**6,336,221**	3,164,893	1,354,589	**4,519,482**
Corporate	4,126,489	547,682	**4,674,171**	3,879,819	658,559	**4,538,378**
Restricted Deposits						
Retail	6,673	5,284	**11,957**	8,783	5,245	**14,028**
Corporate	1,527,646	989,083	**2,516,729**	1,633,255	407,160	**2,040,415**
	9,796,730	**3,742,347**	**13,539,077**	**8,686,750**	**2,425,552**	**11,112,302**
Term Deposits						
Retail	2,092,790	3,033,031	**5,125,821**	1,903,242	3,124,627	**5,027,869**
Corporate	858,298	522,561	**1,380,859**	1,400,868	734,826	**2,135,694**
	2,951,087	**3,555,593**	**6,506,680**	**3,304,110**	**3,859,453**	**7,163,563**
Interests Payable - Due	-	-	-	-	-	-
Interests Payable - Not Yet Due	8,035	5,702	**13,737**	17,679	12,836	**30,515**
Total	**12,755,852**	**7,303,642**	**20,059,494**	**12,008,539**	**6,297,842**	**18,306,381**

Restricted deposits mainly relate to client deposits which are predetermined for special purposes, such as those based on court orders.

22. BORROWINGS

Group	HRK 2019 HRK '000	Foreign Currency 2019 HRK '000	Total 2019 HRK '000	HRK 2018 HRK '000	Foreign Currency 2018 HRK '000	Total 2018 HRK '000
Short-term loans from domestic banks	-	-	-	3,207	-	**3,207**
Long-term loans from banks	-	116,198	**116,198**	-	37,088	**37,088**
Long-term loans	758,458	-	**758,458**	592,583	-	**592,583**
Leasing	13,505	92,454	**105,959**	-	-	**-**
Accrued Interests Due	2	-	**2**	77	-	**77**
Accrued Interests not Yet Due	496	62	**558**	255	71	**326**
Total	**772,461**	**208,714**	**981,175**	**596,122**	**37,159**	**633,281**

Bank	HRK 2019 HRK '000	Foreign Currency 2019 HRK '000	Total 2019 HRK '000	HRK 2018 HRK '000	Foreign Currency 2018 HRK '000	Total 2018 HRK '000
Short-term loans from domestic banks	-	-	-	3,207	-	**3,207**
Long-term loans from banks	-	116,198	**116,198**	-	37,088	**37,088**
Long-term loans	758,458	-	**758,458**	592,583	-	**592,583**
Leasing	13,505	92,454	**105,959**	-	-	**-**
Accrued Interests Due	2	-	**2**	77	-	**77**
Accrued Interests not Yet Due	496	62	**558**	255	71	**326**
Total	**772,461**	**208,714**	**981,175**	**596,122**	**37,159**	**633,281**

The Bank applied modified retrospective approaches in accordance with IFRS 16 and accounting policies, as the lessee used exceptional recognition for the lease of "low value" assets (EFTPOS devices) and short-term leases, i.e. leases with a 12-month or shorter period.

During the most recent period in 2019, the Bank recognized as an expense on a pro rata basis HRK 1,178 thousand for the most powerful low value assets, or HRK 724 thousand for short-term leases.

VAT is exempt from accrued property and the lease obligation.

The weighted average incremental borrowing rate at the date of initial application of IFRS 16 is 5.02%.

Changes in Lease Liabilities

	Bank 2019 '000 kn	Bank 2018 '000 kn
Balance as of January 1st	118,339	-
New contracts	7,910	-
Lease payments	20,493	-
Exchange rate fluctuations	203	-
Balance at December 31	**105,959**	**-**

Future minimal Lease Payments

	Bank 2019 '000 kn	Bank 2018 '000 kn
up to one year	22,008	-
from one to five years	57,833	-
over five years	26,118	-
Total	**105,959**	**-**

23. PROVISIONS FOR LIABILITIES AND EXPENSES

	Group		Bank	
	2019 HRK '000	2018 HRK '000	2019 HRK '000	2018 HRK '000
Litigation Provisions	116,488	61,370	116,488	41,316
Provision for Contingent Liabilities	2,293	3,307	2,293	3,255
Provisions for Other Liabilities	25,537	13,522	25,537	6,222
Provisions for Off-Balance Sheet Exposures	38,278	28,636	38,278	26,642
Other provisions	-	846	-	-
Total	**182,595**	**107,681**	**182,595**	**77,435**

Movements in Provisions for Liabilities and Expenses

The movements in provisions for liabilities and expenses were as follows:

	Group		Bank	
	2019 HRK '000	2018 HRK '000	2019 HRK '000	2018 HRK '000
Balance at January 1	107,681	73,427	77,435	72,955
Provisions Transfer from JABA Consolidation	-	16,531	-	-
Increase/ (Decrease) in Provisions in the P&L Report	76,320	2,241	64,758	(11,251)
Effect JABA merger	-	-	39,727	-
Effect HPBSS merger	-	-	1,900	-
Amounts Utilized / Reversed During the Reporting Period	-	(4,800)	-	(4,551)
Other	(1,405)	20,282	(1,225)	20,282
Balance at December 31	**182,595**	**107,681**	**182,595**	**77,435**

24. OTHER LIABILITIES

	Group		Bank	
	2019 '000 kn	2018 '000 kn	2019 '000 kn	2018 '000 kn
Trade Accounts Payable	9,871	13,348	9,369	11,467
Salaries Amounts to Be Withheld from Salaries, Taxes and Contributions	19,133	16,137	18,640	13,678
Provisions for Retirement Benefits, Termination Benefits and Similar Liabilities	8,752	15,167	8,752	7,472
Fees Payable	6,930	7,548	6,517	7,444
Items in Course of settlement	56,609	66,520	56,609	56,312
Prepaid Deferred Income	5,475	6,534	5,475	5,093
Other Liabilities	58,081	54,279	57,523	47,360
Provision for employee reward	4,716		4,716	-
Total active business parts	**169,567**	**179,533**	**167,602**	**148,826**
Withheld business parts		**-**	**-**	**-**
Total	**169,567**	**179,533**	**167,602**	**148,826**

25. EQUITY

a) Share Capital

As at 31 December 2019, the authorized, registered and fully paid-up share capital of the parent company of the Group amounted to HRK 1,214,755 thousand (2018: 1,214,755 thousand) and included 2,024,625 (2018: 2,024,625) of the approved ordinary the nominal value of 600.00 kn.

At 31 December 2019, the Bank had 795 treasury shares (2018: 795) in the total amount of HRK 477 thousand (2018: HRK 477 thousand). Reserve for own shares as of 31 December 2018 amounted to HRK 4,477 thousand (2018: HRK 4,477 thousand).

The ownership structure is as follows:

		2019		2018
	Paid-In Capital HRK'000	**Ownership (%)**	**Paid-In Capital HRK'000**	**Ownership (%)**
Republic of Croatia	515,421	42.43%	515,421	42.43%
Hrvatska Pošta d.d.	144,966	11.93%	144,966	11.93%
State Agency for Deposit Insurance and Bank Resolution	109,091	8.98%	109,091	8.98%
Croatian State Pension Insurance Fund	106,387	8.76%	106,387	8.76%
Fund NEK	28,727	2.36%	28,727	2.36%
Others	310,183	25.54%	310,183	25.54%
Total	**1,214,775**	**100.00%**	**1,214,775**	**100.00%**

25. EQUITY (Continued)

b) *Capital Gain*

Capital gain is the excess amount paid with respect to nominal value of shares at the issue of new shares. In 2019 there were no capital gains from emitting new shares (2019: 0).

c) Fair Value Reserve

The fair value reserve includes unrealized gains and losses on changes in the fair value of financial assets at fair value through other comprehensive income, net of tax.

The movements of fair value reserve during 2019 and 2018 were as follows:

Group	**2019**	**2018**
	HRK ’000	HRK ’000
IFRS 9 Effect	-	7,373
Balance at January 1	**100,548**	**101,630**
Net Unrealized Gain from Financial Assets at FV through OCI	265,899	8,784
The Cumulative Gain/ (Loss) on the Sale of Financial Assets at FV through OCI Transferred to the P&L Report	-	-
Deferred Taxes in Respect of Profits on Revaluation of Financial Assets at FV through OCI	(3,118)	(5,056)
Corporate Tax Rate Change Effect on Deferred Tax of Profits from Impairments of Financial Assets at FV through OCI	(48,671)	(4,810)
Other changes	-	-
Balance at December 31	**314,658**	**100,548**

Bank	**2019**	**2018**
	HRK ’000	HRK ’000
IFRS 9 Effect	-	7,373
Balance at January 1	**96,935**	**101,630**
The Cumulative Gain/ (Loss) on the Sale of Financial Assets at FV through OCI Transferred to the P&L Report	234,071	874
Deferred Taxes in Respect of Profits on Revaluation of Financial Assets at FV through OCI	(3,118)	(5,056)
Corporate Tax Rate Change Effect on Deferred Tax of Profits from Impairments of Financial Assets at FV through OCI	(48,671)	(513)
Other changes	39,528	-
Balance at December 31	**318,746**	**96,935**

25. EQUITY (continued)

d) Revaluation Reserve

Revaluation reserve in the amount of HRK 659 thousand (2018: HRK 719 thousand), net of tax, results from revaluation of land and buildings of the Bank. In 2019, the reduction in the revaluation reserve amounted to HRK 60 thousand (2018: a decrease of HRK 60 thousand). The movements of revaluation reserve in 2019 and 2018 were as follows:

Group i Bank	**2019**	**2018**
	HRK '000	HRK '000
Balance at January 1	**719**	**779**
Decrease in the Revaluation Reserve on Depreciation of Assets	(73)	(73)
Deferred Tax Related to Revaluation Reserve	13	13
Balance at December 31	**659**	**719**

e) Proposed Dividends

Dividend liabilities are not recognized until they are approved at the Shareholders' General Meeting. In 2019 there were no dividend payments (2018: there were no dividend payments).

f) Legal and other reserves

The Bank is obliged to form a legal reserve by allocating 5% of net profit for the year, until the reserves reach 5% of the share capital.

Statutory reserves amount to HRK 23,718 thousand for the Group and Bank (2018: HRK 15,991 thousand Bank; HRK 16,125 thousand Group), before 2019 result allocation, which was disclosed in the retained earnings position.

Other reserves for the Bank and Group as at 31 December 2019 amount to HRK 511,366 thousand (2018: HRK 443,030 thousand).

g) Retained Earnings

In June 2019, the General Assembly of the Bank passed a Decision to divide the portion of profit in 2018 amounting to HRK 75,929 thousand, after allocating the legal reserve, and other reserves to retained earnings within capital and reserves (2018: HRK 7,917 thousand).

Decrease in retained earnings stems from the first adoption of the IFRS 9, which refers to impairment disclosed in exchange for capital reserves in the amount of HRK 57,233 thousand.

h) Financial Leverage Ratio

In line with article 429 of Regulation EU 575/ 2013 from January 01, 2014, calculus of financial leverage ratio between common tier-1 equity and total exposure is mandatory for each credit institution.

Financial leverage ratio for the Bank is as follows:

	2019	**2018**
Financial Leverage Ratio (%)	8.96	7.88

26. INTEREST AND SIMILAR INCOME

a) Analysis by Product:

	Group		Bank	
	2019	2018	2019	2018
	HRK '000	HRK '000	HRK '000	HRK '000
Loans and Advances to Customers				
- Corporate	182,334	235,698	181,133	229,484
- Individuals	333,740	307,020	324,553	294,221
	516,074	**542,718**	**505,686**	**523,705**
Loans and Advances to Customers	1,454	2,208	1,419	2,045
Debt Securities	101,625	93,452	93,608	75,996
Bills of Exchange	127	4,879	127	4,879
Total	**619,280**	**643,257**	**600,840**	**606,625**

b) Analysis by Source:

	Group		Bank	
	2019	2018	2019	2018
	HRK '000	HRK '000	HRK '000	HRK '000
Corporate	120,108	153,865	118,987	147,855
Retail	333,740	307,020	324,553	294,221
Government and Public Sector	160,774	178,481	152,683	160,842
Banks and Other Financial Institutions	3,227	2,658	3,192	2,495
Other Organizations	1,432	1,233	1,425	1,212
Total	**619,280**	**643,257**	**600,840**	**606,625**

27. INTEREST AND SIMILAR EXPENSE

a) Analysis by Product

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Borrowings	**12,846**	13,736	**12,846**	12,843
Customer Deposits	677			
- Corporate	21,028	26,423	21,024	26,425
- Retail	39,290	61,730	30,424	50,471
	60,319	**88,153**	**51,448**	**76,896**
Deposits from Banks	95	2,394	18	2,258
Other	564	244	559	242
Total	**73,824**	**104,527**	**64,871**	**92,239**

b) Analysis by Recipient

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Corporate	13,722	15,346	13,722	15,370
Retail	39,290	61,730	30,424	50,471
Government and Public Sector	4,531	6,601	4,527	6,591
Banks and other Financial Institutions	14,936	19,242	14,857	18,212
Others	1,344	1,608	1,341	1,595
Total	**73,824**	**104,527**	**64,871**	**92,239**

Within the Legal entity item, HRK 5,247 thousand relates to interest expense in accordance with IFRS16.

28. FEES AND COMMISSIONS INCOME

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Cash Payment Operations	259,775	261,911	259,775	261,911
Non-Cash Payment Operations	55,633	52,597	54,969	51,452
Retail and Credit Card Operations	174,862	168,707	171,793	160,114
Letters of Credit Guarantees and Foreign-Exchange Payment Operations	20,057	21,338	19,906	21,020
Other Fees and Commissions Income	29,052	29,757	21,051	19,004
Total	**539,380**	**534,310**	**527,494**	**513,501**

29. FEES AND COMMISSIONS EXPENSE

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**
Cash Payment Operations	226,058	230,353	225,984	230,104
Non-Cash Payment Operations	14,333	13,653	13,912	12,825
Card Operations	75,218	66,902	75,001	66,564
Other Fees and Commission Expense	14,244	11,487	12,955	11,893
Total	**329,853**	**322,395**	**327,852**	**321,386**

30. GAINS LESS LOSSES ARISING FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2019	2018	2019	2018
	HRK '000	HRK '000	HRK '000	HRK '000
Net Unrealized Losses/ (Gains) on Financial Assets at Fair Value Through Profit or Loss				
Realized Gains/ (Losses)				
- Debt securities	53	1,429	217	1,493
- Equity Securities	8,027	-	8,027	-
- Investment Funds	24	-	24	-
- Forward Contracts, OTC	58	1,842	58	1,842
	8,162	**3,271**	**8,326**	**3,335**
Unrealized Gains/ (Losses)				
- Debt securities	31,318	(3,271)	20,841	1,426
- Equity Securities	6,661	(973)	6,661	(973)
- Investment Funds	2,317	(6,360)	2,313	(6,360)
- Futures	-	-	-	-
- Forward Contracts, OTC	(45)	35	(45)	35
	40,251	**(10,569)**	**29,770**	**(5,872)**
Total	**48,413**	**(7,298)**	**38,096**	**(2,537)**

31. a) GAINS LESS LOSSES FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2019	2018	2019	2018
	HRK '000	HRK '000	HRK '000	HRK '000
Realized Gains on Disposal of Debt Securities at FV through OCI	5,158	4,637	5,158	4,637
Total	**5,158**	**4,637**	**5,158**	**4,637**

31. b) GAINS LESS LOSSES FROM TRADING IN FOREIGN CURRENCIES

	Group		Bank	
	2019	2018	2019	2018
	HRK '000	HRK '000	HRK '000	HRK '000
Profit from trading in foreign currencies	47,019	46,641	46,725	44,092
Other trading in foreign currencies	3,852	2,314	3,509	2,314
Total	**50,872**	**48,955**	**50,234**	**46,406**

32. OTHER OPERATING INCOME

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	HRK	**HRK '000**	**HRK '000**	**HRK '000**
Dividend Income	3,646	982	3,646	982
Net Foreign Exchange Gain from Translation of Monetary Assets and Liabilities	(3,325)	(3,649)	(3,398)	(3,745)
Income on Dormant Customer Accounts	79	111	16	25
Bargain purchase income of Jadranska banka d.d.	-	3,332	-	-
Other income	29,441	11,523	4,484	7,556
Total	**29,840**	**12,299**	**4,748**	**4,818**

33. GENERAL AND ADMINISTRATIVE EXPENSES

	Group		Bank	
	2019 HRK '000	**2018 HRK '000**	**2019 HRK '000**	**2018 HRK '000**
Materials and Services	124,931	132,452	116,195	122,310
Administration and Marketing	17,554	20,480	15,784	19,574
Postage and Telecommunications	24,116	22,567	22,661	20,686
Staff Costs	237,276	219,168	221,897	190,584
Savings Deposit Insurance Costs	39,348	38,137	36,790	34,916
Other General and Administrative Expenses	24,400	22,123	21,703	23,649
Total	**467,625**	**454,927**	**435,031**	**411,719**

a) Staff Costs

	Group		Bank	
	2019 HRK '000	**2018 HRK '000**	**2019 HRK '000**	**2018 HRK '000**
Net Salaries and Other Employee Costs	123,680	114,461	114,990	103,172
Taxes and Contributions (including contributions payable by employers)	97,000	85,185	91,270	76,632
Provision for severance pay, jub. awards, vol. employee vacations	(413)	-	(413)	-
Other Fees to Employees	16,476	12,141	15,931	10,661
Provisions for Bonuses to Employees	-	6,785	-	-
Fees to Supervisory Board Members	533	596	119	119
Total	**237,277**	**219,168**	**221,897**	**190,584**

As at December 31, 2019, the Bank had 1,252 employees (2018: 1,118) and the Group had 1,281 employees (2018: 1,343).

34. IMPAIRMENT LOSSES ON LOANS TO AND RECEIVABLES FROM CUSTOMERS AND OTHER ASSETS

	Notes	Group 2019 HRK '000	Group 2018 HRK '000	Bank 2019 HRK '000	Bank 2018 HRK '000
Individually Identified / Expected Impairment					
Loans to and Receivables from Customers	11	(95,053)	(97,185)	(95,712)	(101,879)
Financial Assets at FV through OCI	9	(3,437)	(2,587)	(3,401)	(3,451)
Financial Assets at Amortized Cost	10	(31)	(5,213)	(31)	(5,213)
Other Assets	18	(5,268)	(4,663)	(4,988)	(2,153)
Investment property		(4,730)	(18,591)	(4,730)	(18,591)
Gains from Recovery of Placements Written-Off in Previous Years		219	265	219	265
Total Charge		**(108,300)**	**(127,974)**	**(108,642)**	**(131,022)**
Portfolio Based Identified / Expected Impairment Losses					
Loans to and Receivables from Customers	11	(54,618)	5,329	(54,468)	2,247
Financial Assets at Amortized Cost	10	-	(2)	-	-
Total Charge		**(54,618)**	**5,327**	**(54,468)**	**2,247**
Total Portfolio Based and Individually expected / Identified Losses					
Loans to and Receivables from Customers	11	(149,671)	(91,857)	(150,180)	(99,632)
Financial Assets at FV through OCI	9	(3,437)	(2,587)	(3,401)	(3,451)
Financial Assets at Amortized Cost	10	(31)	(5,215)	(31)	(5,213)
Other Assets	18	(5,268)	(4,663)	(4,988)	(2,153)
Investment Property		(4,730)	(18,591)	(4,730)	(18,591)
Gains from Recovery of Placements Written-Off in Previous Years		219	265	219	265
Total Charge		**(162,918)**	**(122,647)**	**(163,110)**	**(128,775)**

35. CORPORATE TAX

Total recognized corporate tax expense, calculated at the corporate tax rate of 18%, comprises corporate tax expense recognized in the P&L report and movements in deferred tax recognized in equity, as follows:

Income Tax Expense Recognized in the P&L Statement

	Group		Bank	
	2019 HRK '000	**2018 HRK '000**	**2019 HRK '000**	**2018 HRK '000**
Current Tax	(466)	(507)	-	-
Recognized Deferred Tax assets	50,413	(31,445)	50,413	(33,452)
Other tax (cost)	(1,709)	-	(1,709)	-
Total Current Tax Recognized in the P&L Report	**48,238**	**(31,952)**	**48,704**	**(33,452)**

The movement of deferred tax assets and liabilities with recognition effects in other comprehensive income and the income statement is set out in Note 17. Net deferred tax assets / liabilities.

Reconciliation of Income Tax Expense

The reconciliation between income tax expense and profit before tax is shown as follows:

	Group		Bank	
	2019 HRK '000	**2018 HRK '000**	**2019 HRK '000**	**2018 HRK '000**
Profit/ (Loss) Before Taxation	*98,678*	*184,035*	*95,068*	*185,311*
Income Tax at the Rate of 18%	(18,359)	(33,105)	(17,112)	(33,335)
Tax Non-Deductible Expenses	(14,674)	(1,158)	(16,504)	(256)
Non-Taxable Income	4,642	153	5,691	139
Recognized Deferred Tax Assets	76,629	2,158	76,629	-
	48,238	**(31,952)**	**48,704**	**(33,452)**
Effective Income Tax Rate	*(48.9%)*	*17.4%*	*(51.2%)*	*18.1%*

Recognized Deferred Tax in Respect of Tax Losses Disposable in Prospective Periods

The Bank, as the Mother company of the Group, as at 31 December 2019 incurred HRK 298,880 thousand of accumulated unused tax losses that it can utilize until 31 December 2024. Pre-tax profit after tax increase and decrease amounted to HRK 145,643 thousand. The Bank recognized deferred tax assets on the basis of the remaining unused transfer tax loss at the rate of 18 percent, in accordance with International Accounting Standard 12 “Income Taxes”, Article 34 (OG 136/09): “Deferred tax assets should be recognized for transferable unused tax losses and unused tax benefits to the extent that it is probable that future taxable profit, for which unused tax losses and unused tax benefits may be used, will be available. "

36. EARNINGS/ (LOSS) PER SHARE

For the purpose of calculating earnings per (loss) per share, earnings / (loss) are accounted for as the profit / loss for the current period intended for the shareholders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares in circulation during the year after the decrease of the number of regular treasury shares. The weighted average number of ordinary shares used in calculating the basic earnings per loss was 2,023,830 (2018: 2,023,830). Given that there is no effect on options, convertible bonds or similar effects, the weighted average number of ordinary shares used to calculate the diluted / diluted earnings per share would be the same as the number used to calculate the basic earnings per (loss) per share, or 2,023,830 (2018: 2,023,830), as shown below:

a) Basic Earnings Per Share

Profit and weighted average number of ordinary shares outstanding:

	2019 HRK '000	2018 HRK '000
Current Year Profit/ (Loss) Distributable to the Bank's Owners	143,773	151,859
Profit Used to Calculate Basic Earnings Per Share	**143,773**	**151,859**
Weighted Average Ordinary Shares Outstanding Used to Calculate Basic Earnings Per Share	**2,023,830**	**2,023,830**
Basic Earnings Per Share from Active Operations	**71,04**	**75,04**

b) Diluted Earnings Per Share

Profit used to calculate diluted Earnings Per Share

	2019 HRK '000	2018 HRK '000
Profit Used to Calculate Earnings Per Share	143,773	151,859
Adjustments	-	-
Profit/ (Loss) Used to Calculate Diluted Earnings Per Share	**143,773**	**151,859**

Adjustments of weighted average ordinary shares outstanding used to calculate diluted earnings per share compared to weighted average ordinary shares outstanding used to calculate earnings per share.

	2019	2018
Weighted Average Ordinary Shares Outstanding Used to Calculate Earnings Per Share	2,023,830	2,023,830
Shares Issued Without Cost:		
- Options for Employees	-	-
- Partially Payed Ordinary Shares	-	-
- Convertible Bonds	-	-
- Other	-	-
Weighted Average Ordinary Shares Outstanding Used to Calculate Diluted Earnings Per Share	**2,023,830**	**2,023,830**
Diluted Earnings Per Share	**71.04**	**75.04**

37. CONCENTRATION OF ASSETS AND LIABILITIES

The assets and liabilities of the Bank are significantly concentrated on amounts directly due from and to the Republic of Croatia. The amounts at year end, including accrued interest, are as follows:

		Group		Bank	
	Note	2019 HRK '000	2018 HRK '000	2019 HRK '000	2018 HRK '000
Giro Account with the CNB	5	1,014,563	2,770,448	1,014,563	2,469,141
Mandatory Reserve with the Croatian National Bank	6	1,558,207	1,526,838	1,558,207	1,419,940
Bonds of the Republic of Croatia		4,877,781	3,419,221	4,877,781	2,579,071
Treasury Bills of the Croatian Ministry of Finance		129,998	969,443	129,998	939,774
Loans and Advances to the Republic of Croatia		2,026,916	2,044,501	2,026,916	2,043,501
Deposits from the Republic of Croatia		(2,887,228)	(2,470,402)	(2,887,228)	(2,443,366)
Total		**6,720,236**	**8,260,049**	**6,720,236**	**7,008,061**

The Bank's exposure towards local government and state institutions not directly funded by the State Budget (excluding state owned companies) is presented below:

	Group		Bank	
	2019 HRK '000	2018 HRK '000	2019 HRK '000	2018 HRK '000
Loans	745,405	603,917	745,405	602,917
Deposits	(515,712)	(545,755)	(515,712)	(545,057)
Total	**229,693**	**58,162**	**229,693**	**57,860**

38. CASH AND CASH EQUIVALENTS

u '000 kn		Group		Bank	
	Note	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Cash and Amounts Due from Banks	5	2,771,242	4,177,071	2,771,207	3,738,476
Deposits with Banks with Original Maturities of Up to 90 Days		234,791	394,351	234,791	340,820
Items in Course of Collection	18	31,286	53,101	31,286	53,099
Total		**3,037,319**	**4,624,523**	**3,037,284**	**4,132,395**

39. CONTINGENT LIABILITIES

	Group		Bank	
	2019 HRK '000	2018 HRK '000	2019 HRK '000	2018 HRK '000
Guarantees Denominated in HRK	323,803	324,908	323,803	311,644
Guarantees Denominated in Foreign Currency	65,000	256,473	65,000	256,473
Letters of Credit	3,598	17,477	3,598	17,477
Undrawn Lending Commitments	1,741,140	1,478,313	1,741,492	1,345,151
Total	**2,133,541**	**2,077,171**	**2,133,893**	**1,930,745**

As at December 31, 2019, the Group and the Bank recognized the provision based on off-balance sheet risks arising from the issuance of guarantees, letters of credit and unused loans, the Group in the amount of HRK 38,278 thousand (2018: HRK 28,636 thousand). amounting to HRK 38,278 thousand (2017: HRK 26,642 thousand) included in Provisions for liabilities and charges (Note 23).

40. DERIVATIVE INSTRUMENTS AND DEALINGS IN FOREIGN CURRENCIES

The Bank had the following derivative contracts, accounted for as trading instruments, open at year-end.

Group	Contracted Amount, Remaining Life					Fair Value	
	Up to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total	Assets	Liabilities
2019	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Forward Foreign Exchange Contracts - OTC	109,647	-	-	-	109,647	852	814
Cross Currency Swap Contracts - OTC	148,107	-	-	-	148,107	-	49
	257,754	**-**	-	-	**257,754**	**852**	**863**

Bank	Contracted Amount, Remaining Life					Fair Value	
	Up to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total	Assets	Liabilities
2019	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Forward Foreign Exchange Contracts - OTC	109,647	-	-	-	109,647	852	814
Cross Currency Swap Contracts - OTC	148,107	-	-	-	148,107	-	49
	257,754	**-**	-	-	**257,754**	**852**	**863**

41. RELATED PARTY TRANSACTIONS

The Bank is the parent of the Hrvatska Poštanska Bank Group.

Key shareholders of the Bank are the Republic of Croatia as the largest shareholder with an ownership stake of 42.43 percent, and Hrvatska Pošta d.d. (“HP”) with a stake of 11.93 percent.

Other significant state-owned shareholders include: State agency for deposits insurance and bank resolution (“DAB”), the Croatian Pension Insurance Institute (“HZMO”) and Fund for financing the decommissioning of the Krško Nuclear Power Plant and the disposal of NEK radioactive waste and spent nuclear fuel (“NEK fund”). These shareholders together own 74.46% of the Bank's shares. The remaining 25.54% (2018: 25.54%) are publicly traded.

a) Key Transactions with Related Parties

Hrvatska Pošta d.d. ("HP") performs domestic payment transactions for and on behalf of the Bank. Exposure to Hrvatska Pošta d.d. mainly comprises fees receivable based on domestic payment transactions performed for and on behalf of the Bank, as well as placements in debt securities issued by Hrvatska Pošta d.d. Liabilities towards Hrvatska Pošta d.d. mainly relate to demand and term deposits. Income and expenses mostly relate to commissions for services provided.

Exposure to the state is shown in Note 37, *Concentration of assets and liabilities*.

The exposure to members of HPB Group mainly consists of investment into share capital. The Bank performs payment transactions on behalf of its subsidiaries and, accordingly, recognizes income. Expenses payable to HPB Nekretnine relate to the services performed by the subsidiary in respect of estimation of collateral.

Key management did not have regular shares at the end of the reporting period (2018: -).

41. RELATED PARTY TRANSACTIONS (continued)

b) Amounts arising from transactions with related parties

Assets and liabilities and off-balance sheet exposure and income and expense as at and for the years ended December 31, 2019 and December 31, 2018 of the Bank, arising from transactions with related parties were as follows:

Group

2019	Exposure* HRK'000	Liabilities HRK'000	Income HRK'000	Expenses HRK'000
Key Shareholders				
Republic of Croatia	-	-	-	-
Hrvatska Pošta d.d.	213,888	263,467	268,044	254,802
Subsidiaries				
HPB Invest Ltd	-	-	-	-
HPB Nekretnine d.o.o.	-	-	-	-
HPB Stambena Štedionica d.d.	-	-	-	-
Jadranska banka d.d.	-	-	-	-
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	942	1,921	16	22,956
Long-Term Benefits (loans and deposits)	8,438	137	443	285
Companies Under Significant Influence	**20,000**	**276**	**563**	**-**
Total	**243,269**	**265,801**	**269,066**	**278,043**

2018	Exposure* HRK'000	Liabilities HRK'000	Income HRK'000	Expenses HRK'000
Key Shareholders				
Republic of Croatia	-	-	-	-
Hrvatska Pošta d.d.	158,468	280,296	270,204	264,066
Subsidiaries				
HPB Invest Ltd	-	-	-	-
HPB Nekretnine d.o.o.	-	-	-	-
HPB Stambena Štedionica d.d.	-	-	-	-
Assets Held for sale	-	-	-	-
H1 TELEKOM				
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	422	2,634	18	19,917
Long-Term Benefits (loans and deposits)	16,142	7	380	174
Companies Under Significant Influence	**28,916**	**1,223**	**954**	**2**
Total	**203,948**	**284,160**	**271,556**	**284,159**

** Exposure includes advances in cash and in kind, contingent liabilities and receivables, interest and other receivables and includes HRK 18,315 thousand (2018: HRK 53,018 thousand) off-balance sheet exposures. Expenses do not include value adjustments, unrealized gains / losses on securities or loss provisions.*

41. RELATED PARTY TRANSACTIONS (continued)

b) Amounts arising from transactions with related parties (continued)

Bank

2019	Exposure* HRK'000	Liabilities HRK'000	Income HRK'000	Expenses HRK'000
Key Shareholders				
Republic of Croatia	-	-	-	-
Hrvatska Pošta d.d.	213,888	263,467	268,044	254,802
Subsidiaries				
HPB Invest Ltd	5,075	6,973	3,508	-
HPB Nekretnine d.o.o.	4,800	6636	1,216	2,122
HPB Stambena Štedionica d.d.	-	-	618	-
Jadranska banka d.d.	-	-	89	-
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	953	1,878	13	18,874
Long-Term Benefits (loans and deposits)	7,640	400	397	244
Companies Under Significant Influence	**20,000**	**276**	**563**	**-**
Total	**252,356**	**279,629**	**274,447**	**276,042**

2018	Exposure* HRK'000	Liabilities HRK'000	Income HRK'000	Expenses HRK'000
Key Shareholders				
Republic of Croatia	-	-	-	-
Hrvatska Pošta d.d.	158,468	280,296	270,204	264,066
Subsidiaries				
HPB Invest Ltd	5,355	5,881	3,026	4
HPB Nekretnine d.o.o.	6,066	712	1,372	1,757
HPB Stambena Štedionica d.d.	40,077	16,587	747	25
Jadranska banka d.d.	121,299	25,101	72	-
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	248	2,507	14	17,044
Long-Term Benefits (loans and deposits)	14,021	7	315	141
Companies Under Significant Influence	**28,916**	**1,223**	**954**	**2**
Total	**374,450**	**332,314**	**276,704**	**283,039**

** Exposure includes cash and cash advances, contingent liabilities, commitments and interest and other receivables, and includes HRK 18,636 thousand (2018: HRK 53,370 thousand) of off-balance sheet exposures. Expenses do not include value adjustments, unrealized gains / losses on securities or loss provisions. Revenues and expenses of JABA are included into the consolidated P&L account from acquisition date.*

41. RELATED PARTY TRANSACTIONS (continued)

c) State owned companies

Major shareholders of the Bank, which together own 74.46% of its shares, are state agencies or state-owned companies, all mainly funded from the State Budget. Accordingly, transactions and balances with other state-owned companies, including credit risk exposures guaranteed by the state, also represent related party relationships. The Bank has a significant exposure to these parties, which is disclosed in Note 37.

42. REPURCHASE AND RESALE AGREEMENTS

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognized and the proceeds are accounted for as interest-bearing borrowings. At the end of the year assets sold under repurchase agreements were as follows:

Related Party Transactions, in accordance with IFRS 9: Financial Instruments, are recognized as repurchase agreements.

The Group also purchases financial instruments provided that they are re-sold at a contracted future date ("resale agreement"). The seller agrees to buy the same or similar instruments on the agreed future date. Re-sale is contracted as a client financing instrument and is recorded as loans and advances to customers and the purchased financial instrument is not recognized.

	Book Value of Receivables HRK’000	Fair Value of Collaterals HRK’000	Repurchase Date	Repurchase Price HRK’000
Loans to Customers – Reverse Repo Agreements				
2019	42.554	44.369	January 2020	42.559
2018	42.456	44.356	January 2019	42.460

43. FUNDS MANAGED FOR AND ON BEHALF OF CORPORATE AND RETAIL CUSTOMERS

The Group manages funds on behalf of and for the account of legal entities, households and investment funds (including investment funds of the Group), which holds and manages assets or invests funds in various financial instruments at the client's request. For services provided, the Bank receives a fee income. This asset is not the Group's assets and is not recognized in the statement of financial position. The Group is not exposed to credit risks from such placements or guarantees for investments.

As at December 31, 2019, the total assets of the Bank, including HPB Group funds, amounted to HRK 6,07 billion (2018: HRK 5.78 billion).

Furthermore, as at 31 December 2019, total assets of investment and pension funds for which the Bank performs depositors' business amounted to HRK 5,97 billion (2018: HRK 5,27 billion).

The Bank also manages other credit exposure, as follows:

	2019 HRK '000	**2018 HRK '000**
Assets		
Corporate	55,366	55,794
Retail	495,655	512,374
Giro Accounts	579,655	519,285
Total Assets	**1,130,676**	**1,087,453**
Liabilities	65,204	
Croatian Employment Office	8,889	70,830
Counties	1,043,149	11,866
Government of the Republic of Croatia	8,464	998,019
CBRD	-	3,881
Other Liabilities	4,970	2,857
Total Liabilities	**1,130,676**	**1,087,453**

44. AVERAGE INTEREST RATES

Average interest rates calculated as the weighted average of each category of interest-earning asset and interest-bearing liability, are presented below:

Group	**Average Interest Rates 2019**	**Average Interest Rates 2018**
Assets		
Cash and Amounts Due from Banks	(0.16%)	(0.22%)
Loans to and Receivables from Banks	1.34%	1.74%
Financial Assets at FV Through P&L	2.05%	2.72%
Financial Assets at FV through OCI	2.10%	2.18%
Financial Assets at Amortized Cost	2.53%	7.95%
Loans and Receivables from Customers	4.16%	4.73%
Liabilities		
Deposits from Banks	(0.05%)	0.97%
Customer Deposits	(0.27%)	0.39%
Borrowings	(1.59%)	1.97%

Bank	**Average Interest Rates 2019**	**Average Interest Rates 2018**
Assets		
Cash and Amounts Due from Banks	(0.16%)	(0.22%)
Credits to and Receivables from Banks	2.05%	2.02%
Financial Assets at FV Through P&L	2.10%	2.18%
Financial Assets at FV through OCI	4.16%	4.75%
Financial Assets at Amortized Cost	1.34%	1.74%
Loans and Receivables from Customers	2.10%	2.18%
Liabilities		
Deposits from Banks	(0.05%)	0.97%
Customer Deposits	(0.27%)	0.44%
Borrowings	(1.59%)	1.97%

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's-length transaction.

Financial instruments at fair value through profit or loss or financial assets at fair value through other comprehensive income are measured at fair value. Financial assets valued at amortized cost are measured at amortized cost less impairments. Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are disclosed at their fair value that arises from price quotes of these instruments on active markets. Financial liabilities at fair value through profit or loss are disclosed at fair values calculated on the basis of available conditions of these instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/ or disclosure purposes in these consolidated financial reports is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Set out below is an overview of key methods and assumptions used in estimating the fair values of financial instruments.

Loans

The fair value of loans and advances is calculated based on discounted expected future cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. Expected future cash flows are estimated considering credit risk and any indication of impairment including portfolio-based provisions for performing (i.e. A-risk rated) loans calculated at rates prescribed by the CNB. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. The Bank has a limited portfolio of loans with fixed rates, where there is a difference between the fair value and the carrying amount.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Investments carried at cost

For equity investments for which a quoted market price is not available, fair value is, where possible, estimated using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date. Where discounted cash flow techniques provide insufficiently reliable valuations due to a number of uncertainties related to estimations of future cash flows, investments are carried at cost less impairment.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Borrowings

Most of the Bank's long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the reporting date to the Bank for new debt of similar type and remaining maturity.

The following table represents the Bank's estimate of the fair value hierarchy of financial instruments as of December 31, 2019 and December 31, 2018.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Group 2019	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
Financial Assets					
Cash and Receivables from Banks	**2,771,242**	**Level 1**	**Cash and Cash Equivalents**	**2,771,242**	**-**
Mandatory Reserve with the Croatian National Bank	**1,558,207**	**Level 1**	**Cash Equivalent**	**1,558,207**	**-**
Loans to and Receivables from Banks	**247,640**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value**	**247,640**	**-**
Financial Assets at Fair Value through P&L	**634,070**			**634,070**	**-**
- Ministry of Finance Treasury Bills	-	Level 2	Ministry of Finance Treasury Bills	-	-
- Ministry of Finance Bonds	511,840	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	511,840	-
- Open-End Investment Fund Investments	71,867	Level 1	*Value of an Individual Share on Given Date*	71,867	-
- Equity Securities	24,212	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	24,212	-
- Fair Value of Forwards	852	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	852	-
Loans and Receivables from customers	19,760	Level 3	Present Value of Discounted Future Cash Flows	19,760	**-**
- Interest Receivables, not due	5,538	Not Applicable	Not Applicable	5,538	-
Financial Assets at Fair Value through OCI	**4,640,205**			**4,640,205**	**-**
- Ministry of Finance Treasury Bills	129,998	Level 2	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	129,998	-
- Ministry of Finance Bonds	4,318,350	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	4,318,350	-
- Foreign Country Securities	-	Level 1	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Corporate Bonds of State-Run Companies	89,617	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	89,617	-
- Corporate Bonds of Other Companies		Level 3	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows		-
- Equity Securities – Not Listed	21,284	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA. P/ E. P/ S. P/ B.	21,284	-
- Equity Securities – Listed	35,986	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	35,986	-
- Interest Receivables, not due	44,971	Not Applicable	Not Applicable	44,971	-
Financial Assets at Amortized Cost	**4,300**	**Level 3**	**Present Value of Future Discounted cash Flows**	**4,300**	**-**
Loans and Receivables from Customers	**13,045,974**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**13,334,456**	**(288,482)**
Total Financial Assets	**22,901,637**			**23,190,119**	**(288,482)**
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through P&L	**863**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**863**	**-**
Deposits from Banks	**11,216**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**11,216**	**-**
Customer Deposits	**20,063,185**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**20,051,324**	**(11,861)**
Borrowings	**1,004,720**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**981,175**	**(23,545)**
Total Financial Liabilities	**21,079,984**			**21,044,579**	**(35,406)**
TOTAL					**(323,888)**

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Group 2018	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
Financial Assets					
Cash and Receivables from Banks	**4,177,071**	**Level 1**	**Cash and Cash Equivalents**	**4,177,071**	**-**
Mandatory Reserve with the Croatian National Bank	**1,526,838**	**Level 1**	**Cash Equivalent**	**1,526,838**	**-**
Loans to and Receivables from Banks	**404,770**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the FV is the Present Value of Discounted CF**	**404,855**	**(85)**
Financial Assets at FV through P&L	**841,146**			**841,146**	**-**
- Ministry of Finance Treasury Bills	148,297	Level 2	Ministry of Finance Treasury Bills	148,297	-
- Ministry of Finance Bonds	526,742	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	526,742	-
- Open-End Investment Fund Investments	105,515	Level 1	*Value of an Individual Share on Given Date*	105,515	-
- Equity Securities	27,246	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	27,246	-
- Fair Value of Forwards	480	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	480	-
-loans and receivables from customers	25,482	Level 3		25,482	
- Interest Receivables not due	7,384	Not Applicable	Not Applicable	7,384	-
Financial Assets Available for	**4,060,147**			**4,060,147**	**-**
- Ministry of Finance Treasury Bills	821,146	Level 3	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	821,146	-
- Ministry of Finance Bonds	2,847,000	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	2,847,000	-
- Foreign Country Securities	185,120	Level 1	*Mark-to-Model* Using Internal Model for Determining the PV of Future CF	185,120	-
- Corporate Bonds of State-Run Companies	150,104	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active	150,104	-
- Corporate Bonds of Other Companies		Level 3	*Mark-to-Model* Using Internal Model for Determining the PV of Future CF		-
- Equity Securities – Not Listed	10,696	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B.	10,696	-
- Equity Securities – Listed	8,406	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	8,406	-
- Interest Receivables not due	37,675	Not Applicable	Not Applicable	37,675	-
Financial Assets Held to Maturity	**75,250**	**Level 3**	**Present Value of Future Discounted cash Flows**	**75,250**	**-**
Loans and Receivables from Customers	**11,363,231**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**11,529,074**	**(165,844)**
Total Financial Assets	**22,448,452**			**22,614,381**	**(165,929)**
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through P&L	**445**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**445**	**-**
Deposits from Banks	**64,170**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**64,292**	**122**
Customer Deposits	**20,063,924**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**20,079,048**	**15,124**
Borrowings	**622,142**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**633,281**	**11,139**
Total Financial Liabilities	**20,750,681**			**20,777,066**	**26,385**
TOTAL					**(139,544)**

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank 2019	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
Financial Assets					
Cash and Receivables from Banks	**2,771,207**	**Level 1**	**Cash and Cash Equivalents**	**2,771,207**	**-**
Mandatory Reserve with the Croatian National Bank	**1,558,207**	**Level 1**	**Cash Equivalent**	**1,558,207**	**-**
Loans to and Receivables from Banks	**247,640**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the PV of Discounted CFs**	**247,640**	**-**
Financial Assets at Fair Value in	**634,070**			**634,070**	**-**
- Ministry of Finance Treasury Bills	-	Level 3	Ministry of Finance Treasury Bills	-	-
- Ministry of Finance Bonds	511,840	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	511,840	-
- Open-End Investment Fund Investments	71,867	Level 1	*Value of an Individual Share on Given Date*	71,867	-
- Equity Securities	24,212	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	24,212	-
- Fair Value of Forwards	852	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	852	-
Loans and Receivables from customers	19,760	Level 3	Present Value of Discounted Future Cash Flows	19,760	-
- Interest Receivables not due	5,538	Not Applicable	Not Applicable	5,538	-
Financial Assets at Fair Value through OCI	**4,640,205**			**4,640,205**	**-**
- Ministry of Finance Treasury Bills	129,998	Level 3	*Mark-to-Model* Using Internal Model for Determining the PV of Future CFs	129,998	-
- Ministry of Finance Bonds	4,318,350	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	4,318,350	-
- Foreign Country Securities	-	Level 1	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Corporate Bonds of State-Run Companies	89,617	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	89,617	-
- Corporate Bonds of Other Companies	-	Level 3	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	-	
- Equity Securities – Not Listed	21,284	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B.	21,284	-
- Equity Securities - Listed	35,986	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	35,986	-
- Interest Receivables not due	44,971	Not Applicable	Not Applicable	44,971	-
Financial Assets at Amortized Cost	**4,300**	**Level 3**	**Present Value of Future Discounted cash Flows**	**4,300**	**-**
Loans and Receivables from Customers	**13,050,539**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**13,339,021**	**(288,482)**
Total Financial Assets	**22,906,167**			**23,194,649**	**(288,482)**
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through P&L	**863**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**863**	**-**
Deposits from Banks	**11,216**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**11,216**	**-**
Customer Deposits	**20,071,355**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**20,059,494**	**(11,861)**
Borrowings	**1,004,720**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**981,175**	**(23,545)**
Total Financial Liabilities	**21,088,154**			**21,052,749**	**(35,406)**
TOTAL					**(323,888)**

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank 2018	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
Financial Assets					
Cash and Receivables from Banks	**3,738,476**	**Level 1**	**Cash and Cash Equivalents**	**3,738,476**	**-**
Mandatory Reserve with the Croatian National Bank	**1,419,940**	**Level 1**	**Cash Equivalent**	**1,419,940**	**-**
Loans to and Receivables from Banks	**351,238**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the FV is the Present Value of Discounted CF**	**351,323**	**(85)**
Financial Assets at FV through P&L	**671,464**			**671,464**	**-**
- Ministry of Finance Treasury Bills	148,297	Level 3	Ministry of Finance Treasury Bills	148,297	-
- Ministry of Finance Bonds	363,940	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	363,940	
- Open-End Investment Fund Investments	105,515	Level 1	*Value of an Individual Share on Given Date*	105,515	-
- Equity Securities	27,167	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	27,167	-
- Fair Value of Forwards	480	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	480	-
-loans and receivables from customers	21,344	Level 3		21,344	
- Interest Receivables not due	4,721	Not Applicable	Not Applicable	4,721	-
Financial Assets Available for Sale	**3,342,819**			**3,342,819**	**-**
- Ministry of Finance Treasury Bills	791,477	Level 3	*Mark-to-Model* Using Internal Model for Determining the Present Value of Future Cash Flows	791,477	-
- Ministry of Finance Bonds	2,172,313	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	2,172,313	-
- Foreign Country Securities	185,120	Level 1	*Mark-to-Model* Using Internal Model for Determining the PV of Future CF	185,120	-
- Corporate Bonds of State-Run Companies	150,104	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	150,104	-
- Corporate Bonds of Other Companies		Level 3	*Mark-to-Model* Using Internal Model for Determining the PV of Future CF		-
- Equity Securities – Not Listed	9,434	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B.	9,434	-
- Equity Securities – Listed	8,265	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	8,265	-
- Interest Receivables not due	26,106	Not Applicable	Not Applicable	26,106	-
Financial Assets Held to Maturity	**75,250**	**Level 3**	**Present Value of Future Discounted cash Flows**	**75,250**	**-**
Loans and Receivables from Customers	**10,895,944**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**11,062,253**	**(166,309)**
Total Financial Assets	**20,495,131**			**20,661,525**	**(166,394)**
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through P&L	**445**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**445**	**-**
Deposits from Banks	**64,170**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**64,292**	**122**
Customer Deposits	**18,289,201**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**18,306,381**	**17,180**
Borrowings	**622,142**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**633,281**	**11,139**
Total Financial Liabilities	**18,975,958**			**19,004,399**	**28,441**
TOTAL					**(137,953)**

HPB
HRVATSKA POŠTANSKA BANKA

46 ENCUMBERED ASSETS OF THE CREDIT INSTITUTION

The Bank under the term encumbered assets means the pledged assets, given as collateral, subject to some form of pledge or serves to improve the credit position from which it cannot be withdrawn freely. Also, the assets for which the withdrawal must be previously approved are considered to be encumbered assets.

As of December 31, 2019, reports are presented only for the Bank given that Jadranska banka d.d. and HPB-Stambena štedionica d.d. during 2019 annexed to the parent bank, while forming the Group of Credit Institutions the same previous year.
In the structure of assets, the Bank has recorded encumbered assets in the amount of HRK 2,752,502 thousand (2018: 2,415,768) thousand. Encumbered assets of the Bank represent 11.55 percent of Bank's assets. Encumbered assets of the Bank include a total of HRK and foreign currency reserve requirements, which include the amounts held in the accounts with the CNB, as well as funds on reserve maintenance accounts in the total amount of HRK 2,445,894 thousand (2018: 2,399,144 thousand).

The remaining amount of encumbered assets relates to a pledged loan of HRK 293,128 thousand as collateral for a foreign currency loan from the European Investment Bank and guarantee deposits of HRK 12,833 thousand.

Table form of encumbered assets of the Group and Bank are presented as at 31 December 2019:

	31 December 2019		31 December 2018	
Group KI HRK '000	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Equity Instruments	-	-	-	-
Securities	-	-	-	-
Mandatory Reserve and Balances on Nostro Accounts on Which Mandatory Reserve is Maintained	2,445,894	2,445,894	2,399,143	2,399,143
Loans to Customers and Other Assets	305,961	305,961	16,625	16,625
Total	**2,752,502**	**2,752,502**	**2,415,769**	**2,415,769**

	31 December 2019		31 December 2018	
Bank HRK '000	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Equity Instruments	-	-	-	-
Securities	-	-	-	-
Mandatory Reserve and Balances on Nostro Accounts on Which Mandatory Reserve is Maintained	2,445,894	2,445,894	2,215,401	2,215,401
Loans to Customers and Other Assets	305,961	305,961	12,495	12,495
Total	**2,752,502**	**2,752,502**	**2,227,896**	**2,227,896**

47 EVENTS AFTER THE REPORTING DATE

Given the new circumstances and the current situation in the Republic of Croatia associated with COVID-19, it is undeniable that the impact of the coronavirus will have on people and economies will also affect the Republic of Croatia and that the virus will have some short-term effect and the Bank's operations in 2020. At this time, the Bank is unable to assess the potential financial effects that COVID-19 will have on its financial statements. This could be reflected in lower income or higher credit losses of the Bank than projected previously. However, the Management Board believes that the Bank is significantly stronger and better capitalized than in the past and has more than adequate liquidity reserves.

Also, prior to the approval of these financial statements, the City of Zagreb was affected by an earthquake that caused some damage to the Bank's tangible assets. At this time, the Bank is unable to estimate the financial effects in 2020 resulting from the earthquake damage, but the effect is not expected to be material.

In addition, there were no significant events after the balance sheet date until the publication of these financial statements.

Balance Sheet as at 31 December 2019

Position	AOP	Note	Previous Period (net)	Current Period (net)
1	2	3	4	5
Assets				
1. Cash and Balances with the CNB and Other a vista deposits (AOP 002 to 004)	**001**		3,738,694,683	2,772,746,813
1.1. Cash in Register	**002**		475,613,032	961,912,026
1.2. Cash Balances with CNB	**003**		2,469,141,407	1,014,563,142
1.3. Other a Vista Deposits	**004**		793,940,244	796,271,645
2. Financial Assets Held for Trading (AOP 006 to 009)	**005**		649,215,941	612,871,552
2.1. Derivatives	**006**		479,860	852,203
2.2. Equities	**007**		132,682,086	96,079,539
2.3. Debt securities	**008**		516,053,995	515,939,810
2.4. Loans and Advances	**009**		0	0
3. Financial Assets not for Trading at Fair Value through Profit and Loss Account (AOP 011 to 013)	**010**		1,676,288	21,199,086
3.1. Equities	**011**		0	0
3.2. Debt Securities	**012**		0	0
3.3. Loans and Advances	**013**		1,676,288	21,199,086
4. Financial Assets at Fair Value through Profit and Loss Account (AOP 015 + 016)	**014**		0	0
4.2. Debt Securities	**015**		0	0
4.3. Loans and Advances	**016**		0	0
5. Financial Assets at Fair Value through Other Comprehensive Income (AOP 018 to 020)	**017**		3,342,777,926	4,640,197,866
5.1. Equities	**018**		17,699,255	57,269,384
5.1. Debt Securities	**019**		3,325,078,671	4,582,928,482
5.2. loans and Advances	**020**		0	0
6. Financial Assets at Amortized Cost (AOP 022+023)	**021**		12,950,774,595	15,217,710,292
6.1. Debt Securities	**022**		75,259,611	4,305,695
6.2. Loans and Advances	**023**		12,875,514,984	15,213,404,597
7. Derivatives – hedge accounting	**024**		0	0
8. Changes in Fair Value of Hedge Items in Interest Rate Risk Portfolio Hedging	**025**		0	0
9. Investments in Subsidiaries, Joint Ventures and Associates	**026**		166,755,000	5,490,000
10. Tangible Assets	**027**		137,734,108	324,429,807
11. Intangible Assets	**028**		112,881,244	109,095,746
12. Tax Assets	**029**		22,742,269	77,154,110
13. Other Assets	**030**		64,648,565	43,734,032
14. Non-current Assets and Disposal Groups Classified as Held for Sale	**031**		66,906,127	20,000,000
15. TOTAL ASSETS (AOP 001 + 005 + 010 + 014 + 017 + 021 + 024 do 031)	**032**		**21,254,806,746**	**23,844,629,304**

Balance Sheet as at 31 December 2019 (continued)

Position	AOP	Note	Previous Period (net)	Current Period (net)
1	2	3	4	5
Liabilities				
16. Financial Liabilities Held for Trading (AOP 034 to 038)	**033**		445,274	863,025
16.1. Derivatives	**034**		445,274	863,025
16.2. Short Positions	**035**		0	0
16.3. Deposits	**036**		0	0
16.4. Issued Debt Securities	**037**		0	0
16.5. Other Financial Liabilities	**038**		0	0
17. Financial Liabilities at Fair Value through Profit and Loss Account (AOP 040 to 042)	**039**		0	0
17.1. Deposits	**040**		0	0
17.2. Issued Debt Securities	**041**		0	0
17.3. Other Financial Liabilities	**042**		0	0
18. Financial Liabilities at Amortized Cost (AOP 044 to 046)	**043**		19,005,058,008	21,056,875,186
18.1. Deposits	**044**		18,997,667,591	20,944,398,925
18.2. Issued Debt Securities	**045**		0	0
18.3. Other Financial Liabilities	**046**		7,390,417	112,476,261
19. Derivatives – Hedge Accounting	**047**		0	0
20. Changes in Fair Value of Hedge Items in Interest Rate Risk Portfolio Hedging	**048**		0	0
21. Provisions	**049**		84,909,385	196,063,323
22. Tax Liabilities	**050**		23,088,365	72,429,129
23. Share Capital Returned at Request	**051**		0	0
24. Other Liabilities	**052**		138,804,902	148,186,715
25. Liabilities Included into Disposal Groups for Classified as Held for Sale	**053**		0	0
26. TOTAL LIABILITIES (AOP 033 + 039 + 043 + 047 do 053)	**054**		**19,252,305,934**	**21,474,417,378**
Equity				
27. Share Capital	**055**		1,214,775,000	1,214,775,000
28. Premium on Equity	**056**		0	0
29. Issued Equity Instruments Except for Capital	**057**		0	0
30. Other Equity Instruments	**058**		0	0
31. Accumulated Other Comprehensive Income	**059**		97,622,566	319,405,173
32. Retained Earnings	**060**		132,457,010	153,174,469
33. Revaluation Reserves	**061**		0	0
34. Other Reserves	**062**		406,265,672	539,561,769
35. Treasury Equities	**063**		-477,000	-477,000
36. Profit or Loss belonging to Mother Company Owners	**064**		151,857,564	143,772,514
37. Dividends During Business Year	**065**		0	0
38. Minority Interests (Non-controlling Interests)	**066**		0	0
39. TOTAL ASSETS (AOP 055 do 066)	**067**		**2,002,500,812**	**2,370,211,925**
40. TOTAL LIABILITIES AND EQUITY (AOP 054+067)	**068**		**19,798,152,715**	**23,844,629,304**

Profit and Loss Account for period from 1 January to 31 December 2019

Position	AOP	Note	Previous Period (net)	Current Period (net)
1	2	3	4	5
1. Interest Income	**069**		612,186,823	603,977,673
2. Interest Expense	**070**		97,802,469	68,008,691
3. Share Capital Returned at Request Expenses	**071**		0	0
4. Dividend Income	**072**		982,314	3,645,670
5. Fee and Commissions Income	**073**		513,500,629	527,494,435
6. Fee and Commissions Expense	**074**		321,386,033	327,852,440
7. Gains or Losses from derecognition of Financial Assets and Liabilities not measured at Fair Value through Profit and Loss Account, net	**075**		4,637,141	5,158,277
8. Gains or Losses from Financial Assets and Liabilities Held for Trading, net	**076**		43,868,945	87,516,168
9. Gains or Losses from Financial Assets Not for trading Measured at Fair Value through Profit and Loss Account, net	**077**		0	813,430
10. Gains or Losses from Financial Assets and Liabilities at Fair Value through Profit and Loss Account, net	**078**		0	0
11. Gains or Losses from Hedge Accounting, net	**079**		0	0
12. Exchange Rate Differences (Gain or Loss), net	**080**		-3,745,368	-3,398,215
13. Gains or Losses from Derecognition of Non-financial Assets, net	**081**		0	0
14. Other Operating Income	**082**		7,903,686	4,500,059
15. Other Operating Expenses	**083**		43,909,670	43,512,701
16. TOTAL OPERATING INCOME, NET **(**AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 to 082 - 083)	**084**		**716,235,998**	**790,333,665**
17. Administrative Expenses	**085**		368,284,449	391,518,366
18. Depreciation	**086**		45,270,615	75,879,820
19. Gains or Losses from Changes, net	**087**		-2,855,440	-15,756,307
20. Provisions or Termination of Provisions	**088**		-11,403,829	64,757,476
21. Impairment or Termination of Impairment of Financial Assets Not Measured at Fair Value through Profit and Loss Account	**089**		107,328,532	135,818,040
22. Impairment or Termination of Impairment of Investments into Subsidiaries, Joint Ventures and Associates	**090**		0	0
23. Impairment or Termination of Impairment of Non-financial Assets	**091**		18,591,491	15,879,260
24. Negative Goodwill recognized through Profit or Loss	**092**		0	0
25. Profit or Loss Share from Investments into Subsidiaries, Joint Ventures and Associates accrued by Share Method	**093**		0	0
26. Gains or Losses from Non-current Assets and Disposal Groups Classified as Held for Sale Not Qualified as Continuation of Business	**094**		0	0
27. PROFIT OR LOSS BEFORE TAX FROM CONTINUING BUSINESS **(**AOP 084 - 085 - 086 + 087 - 088 do 091+ 092 to 094)	**095**		**185,309,300**	**95,068,139**
28. Tax Expenses or Income related to Profit or Loss from Continuing Business	**096**		33,451,736	-48,704,376
29. PROFIT OR LOSS AFTER TAX FROM CONTINUING BUSINESS (AOP 095 - 096)	**097**		**151,857,564**	**143,772,515**
30. Profit or Loss After Tax from Non-continuing Business (AOP 099 - 100)	**098**		0	0
30.1. Profit or Loss After Tax from Non-continuing Business	**099**		0	0
30.2. Tax Expenses or Income related to Non-continuing Business	**100**		0	0
31. PROFIT OR LOSS FOR THE YEAR (AOP 097 + 098; 102 + 103)	**101**		**151,857,564**	**143,772,515**
32. Attributable to Minority Interests (Non-Controlling Interests)	**102**		0	0
33. Attributable to Owners of the Mother Company	**103**		0	0

Comprehensive Income Statement for the Period from 1 January to 31 December 2019

Position	AOP	Note	Previous Period (net)	Current Period (net)
1	2	3	4	5
COMPREHENSIVE INCOME STATEMENT				
1. Profit or loss for the Year (AOP 101)	**104**		**151,857,564**	**143,772,515**
2. Other Comprehensive Income (AOP 106 + 118)	**105**		**97,622,566**	**319,405,173**
2.1. Items – not to be reclassified to P&L (AOP 107 do 113 + 116 + 117)	**106**		720,788	661,142
2.1.1. Tangible Assets	**107**		879,010	806,271
2.1.2. Intangible Assets	**108**		0	0
2.1.3. Actuarial gains or losses from employer's pension benefits programmed	**109**		0	0
2.1.4. Non-current Assets and Disposal Groups Held for Sale	**110**		0	0
2.1.5. Other recognized income and expenses from entities recognized at share method	**111**		0	0
2.1.6. Changes in Fair Value of Equities at Fair Value through Other Comprehensive Income	**112**		0	0
2.1.7. Gains or Losses from Hedge Accounting of Equities at Fair Value through OCI, net	**113**		0	0
2.1.8. Changes of fair Value of Equities at Fair Value through OCI (Hedge Item)	**114**		0	0
2.1.9. Changes in Fair Value of Equities at Fair Value through OCI (Hedge Instrument)	**115**		0	0
2.1.10. Changes in Fair Value of Financial Liabilities at Fair Value through P&L Due to Changes in Credit Risk	**116**		0	0
2.1.11. Income tax on items not to be reclassified to P&L	**117**		-158,222	-145,129
2.2. Items that might be reclassified to P&L (AOP 119 to 126)	**118**		96,901,778	318,744,031
2.2.1 Hedge on Net Investments to Foreign Operations (effective share)	**119**		0	0
2.2.2. FX Exchange	**120**		0	0
2.2.3. Cash flow Hedge (effective share)	**121**		0	0
2.2.4. Hedge Risk Instruments (Undetermined Elements)	**122**		0	0
2.2.5. Debt Instruments at Fair Values through OCI	**123**		118,199,093	388,712,233
2.2.6. Non-current Assets and Disposal Groups Held for Sale	**124**		0	0
2.2.7. Share of other income and expenses from investments in subsidiaries, joint ventures and associates	**125**		0	0
2.2.8. Income tax on items that might be reclassified to P&L	**126**		-21,297,315	-69,968,202
3. Total other comprehensive income for the year (AOP 104 + 105 and AOP 128 + 129)	**127**		**249,480,130**	**463,177,688**
4. Attributable to Minority Interests (Non-Controlling Interests)	**128**		0	0
5. Attributable to Owners of the Mother Company	**129**		0	0

Changes in Equity During 2019

Position	AOP	Note	Distributable to parent equity holders											Minority interest		Total
			Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reservers	Treasury shares	Profit or loss attributable to owners of the parent	Interim dividends	Accumulated other comprehensive income	Other items	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17 (4 do 16)
1. Opening balance (before restatement)	**01**		1.214.775.000	0	0	0	97.622.566	75.223.884	0	463.498.673	-477.000	151.857.564	0	0	0	2.002.500.687
2. The effect of errors correction	**02**		0	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Effects of changes in accounting policies	**03**		0	0	0	0	0	0	0	0	0	0	0	0	0	0
4. Opening balance (current period) (AOP 01 do 03)	**04**		1.214.775.000	0	0	0	97.622.566	75.223.884	0	463.498.673	-477.000	151.857.564	0	0	0	2.002.500.687
5. Issuance of ordinary shares	**05**		0	0				0	0	0					0	0
6. Issuance of preferred shares	**06**		0	0	0			0	0	0					0	0
7. Issuance of other equity instruments	**07**				0			0	0	0					0	0
8. Execution or expiration of other issued proprietary instruments	**08**				0			0	0	0					0	0
9. Converting debit into equity instruments	**09**		0	0	0	0		0	0	0					0	0
10. Reduction of capital	**10**		0	0				0	0	0	0	0			0	0
11. Dividends	**11**		0	0	0	0		0	0	0	0		0		0	0
12. Purchase of treasury shares	**12**							0	0	0	0			0	0	0
13. Sale or cancellation of treasury shares	**13**							0	0	0	0			0	0	0
14. Reclassification of financial instruments from equity instruments in liabilities	**14**		0	0	0	0									0	0
15. Reclassification of financial instruments from liability in equity instruments	**15**		0	0	0	0									0	0
16. Transfers among components of instruments	**16**				0	0	0	0	0	0		0	0	0	0	0
17. Increase or decrease equity instruments as a consequence of business combination	**17**		0	0	0	0	0	0	0	0	0				0	0
18. Stock based payments	**18**		0	0		0					0				0	0
19. Other increase or decrease in equity instruments	**19**				0	0	221.782.607	77.950.585	0	76.063.096	0	-151.857.564	0	0	0	223.938.724
20. Total comprehensive income for the current year	**20**						0	0	0	0		143.772.515		0	0	143.772.515
21. Closing balance (current period) (AOP 04 do 20)	**21**		1.214.775.000	0	0	0	319.405.173	153.174.469	0	539.561.769	-477.000	143.772.515	0	0	0	2.370.211.926

Cash Flow for the Year 2019

	2019 HRK'000	2018 HRK '000
Operating Activities and Impairment		
1. Profit/ (Loss) Before Tax	95,068	185,309
2. Impairment Losses and Provisions	227,868	117,524
3. Depreciation and Amortization	75,880	45,271
4. Net Unrealized (Losses)/ Gains on Financial Assets and Liabilities at Fair Value	(29,769)	5,872
5. Gains/ (Losses) on Sale of Tangible Assets	(1,059)	(2,061)
6. Other Non-monetary Items	3,398	3,745
Net Decrease/ (Increase) in Operating Assets		
7. CNB Deposits	(138,267)	(119,671)
8. Treasury Bills of the Ministry of Finance and the CNB bills	55,529	(15,631)
9. Loans and Advances to Other Customers	(2,522,582)	(249,104)
10. Securities and Other Financial Instruments at Fair Value through OCI	(1,027,334)	(765,887)
11. Securities and Other Financial Instruments Held for Trading	66,113	88,084
12. Securities and Other Financial Instruments Not Actively Trading and Measured at Fair Value through P&L	-	-
13. Securities and Other Financial Instruments Mandatory at Fair Value through P&L	(19,523)	(1,676)
14. Securities and Other Financial Instruments Measured at Amortized Cost	-	-
15. Other Operating Assets	19,377	50,937
Net Increase/ Decrease in Operating Liabilities		
16. Deposits from Financial Institutions	113,290	(49,873)
17. Transaction Accounts of Other Customers	929,778	1,385,455
18. Saving Deposits of Other Customers	1,333,782	919,869
19. Term Deposits of Other Customers	(659,126)	(822,605)
20. Derivative Financial Liabilities and Other Liabilities Not for Trading	418	445
21. Other Liabilities	131,098	(51,224)
22. Collected Interest from Operating Activities	1,538	(25,961)
23. Received Dividend from Operating Activities	3,646	982
24. Paid Interest from Operating Activities	(16,630)	(10,289)
25. Income Tax Paid	(1,977)	(78)
A) Net Cash Flows from Operating Activities	**(1,359,484)**	**689,433**
Investing Activities		
1. Proceeds from Sale/ (Payments for Purchases) of Tangible and Intangible Assets	(48,409)	(26,977)
2. Proceeds from Sale of/ Payments for Investments in Subsidiaries, Associates and Joint Ventures	-	(121,265)
3. Proceeds from/ (Payments to Acquire) Securities and Other Financial Instruments from Investing Activities	70,954	5,247
4. Dividends Received from Investing Activities	-	-
5. Other inflows / outflows from Investing Activities	-	-
B) Net Cash Flows from Investing Activities	**22,545**	**(142,995)**
Financing Activities		
1. Net Increase/ (Decrease) in Borrowings from Financing Activities	244,986	(42,587)
2. Net Increase/ (Decrease) in Issued Debt Securities	-	-
3. Net increase / (Decrease) of Additional Capital Instruments	-	-
4. Increase in Share Capital	-	-
5. Dividend Paid	-	-
6. Other inflows / outflows from Financing Activities	-	-
C) Net Cash Flows from Financing Activities	**244,986**	**(42,587)**
D) Net Increase in Cash and Cash Equivalents	**(1,091,953)**	**503,851**
Cash and Cash Equivalents at the Beginning of the Year	**4,132,395**	**3,632,222**
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents	**(3,158)**	**(3,678)**
Cash and Cash Equivalents at the End of the Year	**3,037,284**	**4,132,395**

Balance Sheet Reconciliation as at 31 December 2019

ASSETS

Statutory reporting

Regulatory reporting

in '000 HRK	Regulatory reporting	Cash and amounts due from banks	Mandatory reserve with Croatian National Bank	Loans and receivables from banks	Financial Assets at Fair Value through Profit and Loss	Financial Assets at Fair Value through Other Comprehensive Income	Financial Assets at Amortized Cost	Loans and Receivables from Customers	Assets Held for Sale	Investments in Subsidiaries	Property and Equipment	Investment Properties	Intangible Assets	Deferred Tax As	Tax Prepayment	Other Assets	Reconciliation between statutory and regulatory reporting
Cash in Register	961.912	(961.827)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	85
Deposits with the Croatian National Bank	1.014.563	(1.014.563)		-	-	-	-	-	-	-	-	-	-	-	-	-	(0)
Other a Vista Deposits	796.272	(794.817)	-		-	-	-	-	-	-	-	-	-	-	-		1.455
Financial assets held for trading	612.871	-	-	-	(612.871)	-	-	-	-	-	-	-	-	-	-	-	(0)
Financial assets non for trading mandatory measured at fair value through profit and loss	21.199	-	-	-	(21.199)	-	-	-	-	-	-	-	-	-	-	-	0
Financial assets af fair value through other comprehensive income	4.640.198	-	-	-	-	(4.640.205)	-	-	-	-	-	-	-	-	-	-	(7)
Financial assets measured at amortised cost - debt securities	4.306	-	-	-	-	-	(4.300)	-	-	-	-	-	-	-	-	-	6
Financial assets measured at amortised cost - loans	15.213.405	-	(1.558.207)	(247.640)	-	-	-	(13.361.428)	-	-	-	-	-	-	-	-	46.130
Investments in subsidiaries, joint ventures and associates	5.490	-	-	-	-	-	-	-	-	(5.490)	-	-	-	-	-	-	-
Tangibles assets (less depreciation)	324.430	-	-	-	-	-	-	-	-	-	(259.531)	(64.899)	-	-	-	-	(1)
Intangible asstes	109.096	-	-	-	-	-	-	-	-	-	-	-	(109.096)	-	-	-	-
Tax assets	77.154	-	-	-	-	-	-	-	-	-	-	-	-	(3.839)	(2.514)	-	70.801
Other asstes	43.736	-	-	-	-	-	-	22.406	-	-	-	-	-	-	-	(113.139)	(46.997)
Non-current assets and disposal groups classified as held for sale	20.000	-	-	-	-	-	-	-	(20.000)	-	-	-	-	-	-	-	-
Total assets	**23.844.630**	(2.771.207)	(1.558.207)	(247.640)	(634.070)	(4.640.205)	(4.300)	(13.339.021)	(20.000)	(5.490)	(259.531)	(64.899)	(109.096)	(3.839)	(2.514)	(113.139)	**71.472**

1. Cash in register in the amount of HRK 961,912 thousand, Other a vista deposits in the amount of HRK 796,272 thousand, Financial assets at FV through OCI in the amount of HRK 4,640,198 thousand, Financial assets at amortized cost/Debt securities in the amount of HRK 4,306 thousand, Financial assets at amortized cost\Loans and advances in the amount of HRK 15,213,405 thousand, Tax assets in the amount of HRK 77,154 thousand, Other assets in the amount of HRK 43,736 thousand, Financial liabilities at amortized cost in the amount of HRK 21,056,875 thousand, Provisions in the amount of 196,063 thousand, Tax liabilities in the amount of 72,429 thousand and Other liabilities in the amount of HRK 148,187 thousand, within Regulatory reports, are presented within items Cash and accounts with banks in the amount of HRK 2,771,207 thousand, Financial assets at fair value through OCI in the amount of HRK 4,640,205 thousand, Financial investments at amortized cost in the amount of HRK 4,300

thousand, Mandatory CNB reserve in the amount of HRK 1,558,207 thousand, Placements and deposits to other banks in the amount of HRK 247,640 thousand, Loans and advances to customers in the amount of 13,361,428 thousand, Assets held for sale in the amount of HRK 20,000 thousand, Property, plant and equipment in the amount of HRK 259,531 thousand, Investment property in the amount of HRK 64,899 thousand, Other assets in the amount of HRK 113,139 thousand, Bank deposits in the amount of HRK 11,216 thousand, Deposits from customers in the amount of HRK 20,059,494 thousand, Borrowings in the amount of 981,175 thousand, Provisions for liabilities and costs in the amount of HRK 182,595 thousand and Other liabilities in the amount of HRK 167,602 thousand in the statutory financial reports.

2. The amount of HRK 5,490 thousand presented within the item Investments into subsidiaries, joint ventures and associates in the regulatory financial reports is disclosed within the item Investments into subsidiaries in the statutory financial reports.

3. The amount of HRK 72,429 thousand of deferred tax liabilities is disclosed within the regulatory financial reports in the item Tax liabilities within liabilities, while in the principal financial reports it is netted within the item Net deferred tax assets.

Differences in other items are purely semantic in nature and there is no irreconciliation between balance sheets for 2019 in the regulatory financial reports and principal financial reports.

Statutory reporting

Regulatory reporting

	Regulatory reporting	Financial liabilities at fair value through profit and loss	Deposits from banks	Customer deposits	Borrowings	Provisions for liabilites and expenses	Current tax liability	Other liabilities	Reconciliation between statutory and regulatory reporting
Financial liabilities held for trading	863	(863)	-	-	-	-	-	-	(0)
Financial liabilities at amortised cost	21.056.875	-	(11.216)	(20.059.494)	(981.175)	-	-	-	4.989
Provisions	196.063	-	-	-	-	(182.595)	-	-	13.468
Tax liabilities	72.429	-	-	-	-	-	-		72.429
Other liabilities	148.187	-	-	-	-	-	-	(167.602)	(19.415)
Total liabilites	**21.474.417**	**(863)**	**(11.216)**	**(20.059.494)**	**(981.175)**	**(182.595)**	**-**	**(167.602)**	**71.472**

EQUITY

		Statutory reporting										
		Regulatory reporting	Share capital	Capital gain	Treasury shares	Reserves for treasury shares	Statutory reserves	Other reserves	Fair value reserve	Revaluation reserve	Retained earnings/ (recovered loss)	Reconciliation between statutory and regulatory reporting
Regulatory reporting – Distributable to parent equity holders	Share capital	1.214.775	(1.214.775)									-
	Premium on equity											-
	Issued Equity Instruments Except for Capital											-
	Other Equity Instruments											-
	Accumulated Other Comprehensive Income	319.405							(318.746)	(659)		0
	Retained Earnings	153.174									(153.175)	(0)
	Revaluation Reserves	-										-
	Other Reserves	539.562				(4.477)	(23.718)	(511.366)				0
	Treasury Equities	(477)			477							-
	Profit or Loss belonging to Mother Company Owners	143.773									(143.773)	(0)
	Dividends During Business Year											-
Minority interest	Accumulated Other Comprehensive Income											-
	Other											-
	Total Equity	**2.370.212**	**(1.214.775)**	**-**	**477**	**(4.477)**	**(23.718)**	**(511.366)**	**(318.746)**	**(659)**	**(296.947)**	**0**

Changes in equity and reserves statement for 2019 reconciliation

Except for differences in terminology between prescribed and principal financial reports, the reconciliation refers to:

- Other reserves in regulatory financial report are within treasury shares reserves, statutory reserves and other reserves in the statutory financial reports
- Accumulated other comprehensive income in the regulatory financial reports is within items fair value reserve and revaluation reserve in the statutory financial reports
- Profit / loss attributable to mother company owners in regulatory financial reports is within the item retained earnings / (uncovered loss) in the statutory financial reports

PROFIT AND LOSS ACCOUNT FOR 2019 RECONCILLIATION

Statutory reporting

Regulatory reporting

in '000 HRK	Total regulatory reporting	Interests and Similar Income	Interests and Similar Expense	Fees and Commissions Income	Fees and Commissions Expense	Gains Less Losses Arising from Financial Instruments at Fair Value through Profit and Loss	Gains Less Losses Arising from Financial Instruments Available for Sale	Gains Less Losses Arising from Dealing in Foreign Currencies	Other Operating Income	General and Administrative Expenses	Depreciation and Amortization	Impairment Losses on Loans and Receivables from Customers and Other Assets	Provisions for Liabilities and Expenses	PROFIT BEFORE TAX	Deferred Income Tax (Expense)/ Income	PROFIT FOR THE YEAR	Total statutory reporting	Reconciliation between statutory and regulatory reporting
Interest income	603.978	600.840															600.840	(3.138)
Interest expense	(68.009)		(64.871)														(64.871)	3.138
Dividend income	3.646								3.646								3.646	(0)
Fee and commision income	527.494			527.494													527.494	0
Fee and commision expenses	(327.852)				(327.852)												(327.852)	(0)
Gains or Losses from derecognition of Financial Assets and Liabilities not measured at Fair Value through Profit and Loss Account, net	5.158						5.158										5.158	-
Gains or Losses from Financial Assets and Liabilities Held for Trading, net	88.330					38.096		50.234									88.330	(0)
Exchange Rate Differences (Gain or Loss), net	(3.398)								(3.398)								(3.398)	(0)
Other Operating Income	4.500								4.500								4.500	0
Other Operating Expenses	(43.513)									(37.487)							(37.487)	6.026
Administrative Expenses	(391.518)									(397.543)							(397.543)	(6.025)
Depreciation	(75.880)										(75.880)						(75.880)	0
Gains or Losses from Changes, net	(15.756)											(3.401)					(3.401)	12.355
Provisions or Termination of Provisions	(64.758)												(64.758)				(64.758)	0
Impairment or Termination of Impairment of Financial Assets Not Measured at Fair Value through Profit and Loss Account	(135.818)											(154.980)					(154.980)	(19.162)
Impairment or Termination of Impairment of Non-financial Assets	(11.536)											(4.730)					(4.730)	6.806
Negative Goodwill recognized through Profit or Loss																	-	-
PROFIT OR LOSS BEFORE TAX FROM CONTINUING BUSINESS (AOP 084 - 085 - 086 + 087 - 088 do 091+ 092 to 094	95.068													95.068			95.068	0
Tax Expenses or Income related to Profit or Loss from Continuing Business	48.704														48.704		48.704	0
PROFIT OR LOSS AFTER TAX FROM CONTINUING BUSINESS (AOP 095 - 096)	143.773															143.773	143.773	(0)
Profit or Loss After Tax from Non-continuing Business (AOP 099 100)																	-	-
- Profit or Loss After Tax from Non-continuing Business																	-	-
- Tax Expenses or Income related to Non-continuing Business																	-	-
PROFIT OR LOSS FOR THE YEAR (AOP 097 + 098; 102 + 103)	**143.773**															**143.773**	**143.773**	**(0)**

Reconciliation of the statement of changes in profit and loss for 2019

4. The amount of HRK 3,138 thousand disclosed within Interest expense in regulatory financial reports is disclosed within Interest and similar income in statutory financial reports.
5. The amount of HRK 4,500 thousand within Other operating income, the amount of HRK 43,513 thousand within Other operating expenses in the amount of HRK 391,518 thousand within Administrative expenses and amount of HRK 64,758 thousand within Provisions or termination of provisions in regulatory financial reports are disclosed within Other operating income in the amount of HRK 4,748 thousand, General and administrative expenses in the amount of HRK 435,031 thousand, as well as within Provisions for liabilities and costs in the amount of HRK 64,758 thousand within statutory financial reports.

Differences in other items are purely semantic in nature and there is no mismatch between profit and loss accounts for 2019 in the regulatory financial reports and statutory financial reports.

Cash Flows Statement for 2019 Reconciliation

OPERATING ACTIVITIES

	Regulatory Financial Reports	Principal Financial Reports	Difference
Operating Activities and Impairment			
1. Profit/ (Loss) Before Tax	95,068	95,068	-
2. Impairment Losses and Provisions	227,868		227,868
- Impairment losses from loans to customers and other assets		173,420	(173,420)
- losses from provisions for liabilities and expenses		64,758	(64,758)
3. Depreciation	75,880	75,880	-
4. Net Unrealized (Losses)/ Gains on Financial Assets and Liabilities at Fair Value	(29,769)	(93,488)	63,719
5. Gains/ (Losses) on Sale of Tangible Assets	(1,059)		(1,059)
6. Other Non-monetary Items	3,398	(536,216)	539,614
Net Decrease/ (Increase) in Operating Assets			
7. CNB Deposits	(138,267)		(138,267)
Net (increase)/decrease in mandatory CNB reserve		(138,267)	138,267
8. Deposits with financial institutions and loans to financial institutions	55,529		55,529
Increase in placements and loans to other banks		1,385,724	(1,385,724)
9. Loans and Advances to Other Customers	(2,522,582)		(2,522,582)
Net (increase)/decrease in loans and receivables from customers		(1,196,321)	1,196,321
10. Securities and Other Financial Instruments at Fair Value through OCI	(1,027,334)		(1,027,334)
Net (increase)/decrease in loans and receivables through OCI		(173,125)	173,125
11. Securities and Other Financial Instruments Held for Trading	66,113		66,113
Net (increase)/decrease in financial assets at fair value through P&L		247,708	(247,708)
12. Securities and Other Financial Instruments Not Actively Trading and Measured at Fair Value through P&L	-		-
13. Securities and Other Financial Instruments Mandatory at Fair Value through P&L	(19,523)		(19,523)
14. Securities and Other Financial Instruments Measured at Amortized Cost	-		-
Net (increase)/decrease in financial assets measured at amortized Cost		95,017	(95,017)
15. Other Operating Assets	19,377		19,377
Net (increase)/decrease in other assets		(50,820)	50,820
Interest charged		509,500	(509,500)
Interest paid		(48,068)	48,068
Increase/ decrease in operating liabilities			
16. Deposits from Financial Institutions	113,290		113,290
17. Transaction Accounts of Other Customers	929,778		929,778
18. Saving Deposits of Other Customers	1,333,782		1,333,782
19. Term Deposits of Other Customers	(659,126)		(659,126)
Net (increase)/decrease in deposits from banks		(53,094)	53,094
Net increase/(decrease) in deposits from customers		(472,553)	472,553
20. Derivative Financial Liabilities and other trading liabilities	418		418
21. Other Liabilities	131,098		131,098
Net increase/(decrease) in other liabilities		(2,104)	2,104
22. Collected Interest from Operating Activities	1,538		1,538
23. Received Dividend from Operating Activities	3,646		3,646
24. Paid Interest from Operating Activities	(16,630)		(16,630)
25. Income Tax Paid	(1,977)	(3,686)	1,709
A) Net Cash Flows from Operating Activities	**(1,359,484)**	**(120,667)**	**(1,238,817)**

Cash Flows Statement for 2019 Reconciliation (continued)

INVESTING ACTIVITIES

	Regulatory Financial Reports	Principal Financial Reports	Difference
Investing Activities			
1. Proceeds from Sale/ (Payments for Purchases) of Tangible and Intangible Assets	(48,409)	(48,409)	-
2. Proceeds from Sale of/ Payments for Investments in Subsidiaries, Associates and Joint Ventures	-	-	-
Sales in financial assets at fair value through other comprehensive income		553,964	(553,964)
Acquisition of financial assets at fair value through other comprehensive income		(1,692,449)	1,692,449
3. Proceeds from/ (Payments to Acquire) Securities and Other Financial Instruments from Investing Activities	70,954		70,954
Net sales/(acquisition) of financial investments at amortized cost		-	-
4. Dividends Received from Investing Activities	-		-
Dividend inflows		3,646	(3,646)
5. Other inflows / outflows from Investing Activities	-		-
B) Net Cash Flows from Investing Activities	**22,545**	**(1,183,248)**	**1,205,793**

FINANCING ACTIVITIES

	Regulatory Financial Reports	Principal Financial Reports	Difference
Financing Activities			
1. Net Increase/ (Decrease) in Borrowings from Financing Activities	244,986		244,986
Increase in borrowings		649,513	(649,513)
Borrowings repayment		(420,216)	420,216
2. Net Increase/ (Decrease) in Issued Debt Securities		(20,493)	20,493
3. Net increase / (Decrease) of Additional Capital Instruments	-		-
4. Increase in Share Capital	-		-
Increase in share capital	-		-
5. Dividend Paid		-	-
Dividend outflows	-		-
6. Other inflows / outflows from Financing Activities		-	-
C) Net Cash Flows from Financing Activities	**244,986**	**208,804**	**36,182**

TOTAL

	Regulatory Financial Reports	Statutory Financial Reports	Difference
Cash and Cash Equivalents at the Beginning of the Year	**4,132,395**	**4,132,395**	**-**
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents	**(3,158)**	**-**	**(3,158)**
Cash and Cash Equivalents at the End of the Year	**3,037,284**	**3,037,284**	**-**

Cash Flows Statement for 2019 Reconciliation (continued)

1. The amount of HRK 227,868 thousand within Impairment and Provisions in regulatory financial reports is disclosed within Losses from impairment of loans and receivables from customers and other assets in the amount of HRK 173,420 thousand and within Provisions for liabilities and costs in the amount of HRK 64,758 thousand in statutory financial reports.
2. The amount of HRK 3,398 thousand within Other non-monetary items in regulatory financial reports is disclosed within (gains)/losses from FX differences in statutory financial reports
3. The amount of HRK 138,267 thousand within Accounts with CNB in regulatory financial reports is disclosed within Net (increase)/decrease in mandatory CNB reserve in statutory financial reports.
4. The amount of HRK 3,646 thousand within Dividends received from operating activities in regulatory financial reports is disclosed within Dividend inflows (Cash flows from investing activities) in statutory financial reports.
5. Gains/losses from sale of tangible assets in the amount of HRK 1,059 thousand, Deposits at financial institutions and loans to credit institutions in the amount of HRK 55,529 thousand, Loans and advances to other clients in the amount of HRK 2,522,582 thousand, Securities and other financial instruments at fair value through other comprehensive income in the amount of HRK 1,027,334 thousand, Securities and other financial instruments in the amount of HRK 66,113 thousand, Securities and other financial instruments mandatory at fair value through profit and loss account in the amount of HRK 19,523 thousand, Other assets from operating activities in the amount of HRK 19,377 thousand, Deposits from financial institutions in the amount of HRK 113,290 thousand, Transaction accounts of other customers in the amount of HRK 929,778 thousand, Saving deposits from other customers in the amount of HRK 1,333,782 thousand, Term deposits in the amount of HRK 659,126 thousand, Derivative financial liabilities and other liabilities for trading in the amount of HRK 418 thousand, Other liabilities in the amount of HRK 131,098 thousand, Collected interest from operating activities in the amount of HRK 1,538 thousand, Paid interest from operating activities in the amount of HRK 16,630 thousand, Inflows from securities and other financial instruments from investing activities collection in the amount of HRK 70,954 thousand and Net decrease in loans received from financing activities in the amount of HRK 244,986 thousand within regulatory reports are disclosed within Increase in placements and loans to other banks in the amount of HRK 1,385,724 thousand, Net increase in loans and advances to customers in the amount of HRK 1,196,321 thousand, Net decrease in financial assets at fair value through profit and loss account in the amount of HRK 247,708 thousand, Net decrease in other assets in the amount of HRK 173,125 thousand, Net decrease in financial assets carried at amortized cost in the amount of HRK 95,017 thousand, Net decrease in other assets in the amount of HRK 410,612 thousand, Net decrease in deposits from banks in the amount of HRK 53,094 thousand, Net decrease in customer deposits in the amount of HRK 472,553 thousand, Net decrease in other liabilities in the amount of HRK 2,104 thousand, and on sale of financial assets available for sale in the amount of HRK 553,964 thousand and acquisition of financial assets available for sale in the amount of HRK 1,692,449 thousand, net acquisition of financial investments at amortized cost in the amount of HRK 70,954 thousand, as and to Increase in borrowings in the amount of HRK 649,513, Repayment of borrowings in the amount of HRK 420,216 thousand and Repayment of leases in accordance with IFRS 16 in the amount of HRK 20,493 thousand in the Financial Statements.

Differences in other items are purely semantic in nature and there is no mismatch between cash flows statements for 2019 in the regulatory financial reports and Statutory financial reports.

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