J&T banka d.d.

Annual report for the year 2019

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Contents

Introduction

The annual report comprises a summary of operation and key financial indicators, a description of operation and the audited financial statements for the year ended 31 December 2019 together with the Independent Auditor's Report.

Legal status

The Annual Report includes annual financial statements prepared in accordance with accounting legislation applicable to banks in the 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 Companies Act which requires the Management Board of an entity to report to shareholders at their annual General Assembly.

Abbreviations

In the Annual Report, J&T banka d.d. is referred to as 'the Bank' or 'J&T', the Croatian National Bank as 'CNB', the Republic of Croatia as 'the Government' and the Croatian Bank for Reconstruction and Development as 'CBRD'. Other abbreviations may be used in report are:

F/Ss - financial statements

SFP - statement of financial position

SPL - statement of profit and loss

OCI - other comprehensive income

CC – currency clause

GDP – gross domestic product

IAS – International accounting standards

IFRS - International Financial Reporting Standards

In this report, the abbreviations "HRK thousand", "HRK million" or "EUR thousand" and "EUR million" represent thousands and millions of Croatian kunas and euros.

Exchange rates

The following CNB middle exchange rates were used for translation of foreign currencies into Croatian kuna:

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

Macroeconomic environment and banking sector in the Republic of Croatia in 2019

Changes in global environment

Developments in the global economy were relatively unfavorable at the end of 2018, and the slowdown in global economic growth continued into 2019, accompanied by a weakening of world trade, especially capital goods, and automobiles and auto parts. Many factors have been adversely affected by world trade, including increased uncertainties in the face of growing trade protectionism and the exit of the United Kingdom from the EU, partly resulting in the weakening of investment spending and the crisis in some emerging markets.

The slowdown in economic growth has been synchronized and widespread in both developed countries and emerging markets. At the same time, the economic activity of the largest Croatian foreign trade partners also weakened significantly. The slowdown in economic growth and the fall in crude oil prices have acted to further reduce global inflationary pressures. Due to the expansionary monetary policies of central banks around the world, financing conditions have been relatively favorable, except in some volatile emerging markets.

Although the US stood out at markedly higher rates of economic growth than other developed countries in 2018, growth slowed significantly in 2019: from 2.9% in 2018, to 2.0% in the third quarter of 2019 years. Continued strong growth in personal consumption was the main contributor to growth, thanks to continued exceptionally favorable developments in the labor market and government spending, while investment activity slowed markedly. At the same time, inflation remained below the 2% target for the first nine months.

After a pronounced slowdown throughout 2018, growth in the euro area stabilized in 2019 and stood at 1.2% in the third quarter compared to the same period of the previous year, the same as in the previous three quarters. Economic activity in the euro area since the beginning of the year has been characterized by divergent developments between export-oriented members with a high importance to the manufacturing industry.

In 2019, there has been a marked slowdown in growth in the developing and emerging markets in relation to past years. Economic growth in China continued to weaken, fueled by accumulated macroeconomic imbalances and trade conflicts with the US. Thus, in the third quarter of 2019, China's economy grew at 6.0% year-on-year, its weakest performance in the past several decades. The slowdown in growth in emerging markets has also been significantly contributed by the slowdown in economic activity in India, driven by structural weaknesses, especially in the financial sector, and the decline in crisis-hit markets such as Turkey, Iran and Argentina.

During the first nine months of 2019, the economic activity of the largest Croatian foreign trade partners has weakened markedly, especially with partners from the euro area (Germany, Italy, Slovenia, Austria). On the other hand, although SEE countries remain the most dynamic economies among key Croatian foreign trade partners, their economies also recorded slightly slower growth than in the same period last year.

Changes in Croatia

Economic activity

Economic growth and credit rating, a successful tourist season, but also the crisis of the shipyards and the lack of workers, marked the economy in 2019. Standard & Poor's upgraded Croatia's rating after more than six years in the investment category. In April, Moody's reaffirmed the speculative rating of Croatia, but also improved its outlook from stable to positive. In June, Fitch raised Croatia's rating for long-term foreign currency borrowing into the investment category, with a positive outlook.

Statistics show that in 2019 compared to 2017 and 2018, the number of businesses increased, indicating a positive trend in entrepreneurship, which has been present in Croatia for several years. In addition to the positive trend of entrepreneurship that is often mentioned in the public, it is important to give a complete picture of the number of blocked entities. The number of businesses that have been blocked at least once during 2019 is about the same level as in 2018, and is still significantly lower than in 2017.

Positive trends in the economy need to be viewed through two prisms. Favorable global macroeconomic trends are affecting the economic growth in the Republic of Croatia and thus reducing the problems in the business operations of individual business entities. Another important impact is the regulatory changes that caused more deletions and bankruptcies during 2016 and 2017, so part of the improvement in observed non-financial ratios over previous periods can be attributed to changes in regulations in earlier years.

Croatia is in the fifth year in a row with an economy growth of about 3 percent. The current account surplus again recorded, external debt declining, as well as the share of public debt in GDP. Exports are rising, as are investments and personal consumption.

Graph 1: Quarterly and annual rate of GDP growth from original and seasonally adjusted series

Source: DZS

Quarterly gross domestic product (GDP) in the fourth quarter of 2019 is 2.5% higher in real terms than in the same period of 2018. (original data). Seasonally adjusted GDP is 2.7% higher in real terms than in the same period of 2018.

Labor market

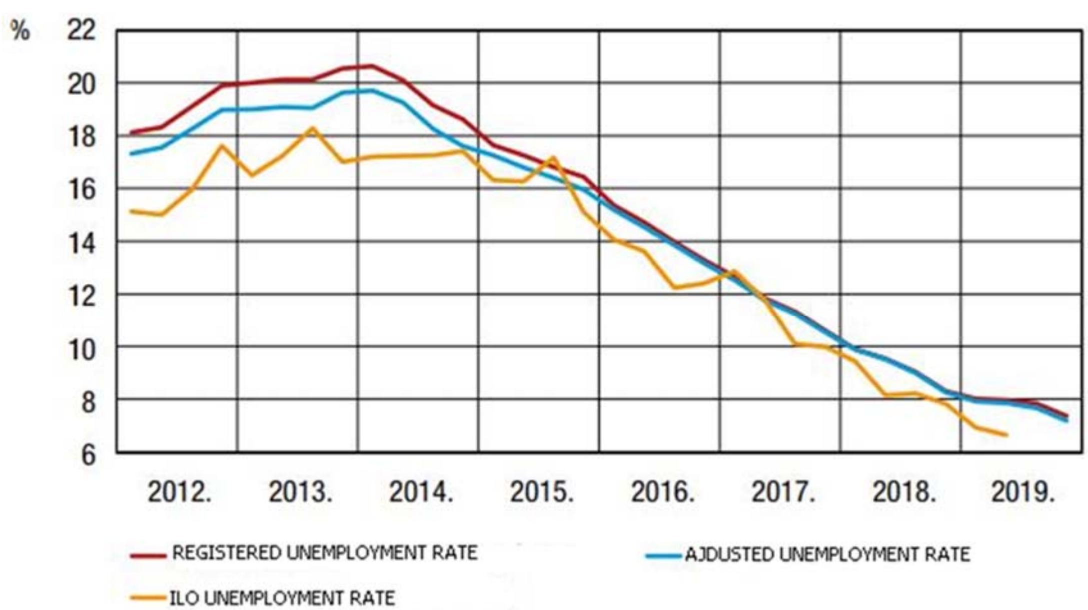
The labor market in Croatia has ceased to grow in 2018, looking only at internal transactions and developments. In 2019, the intensity of population emigration decreased, while since the beginning of the year the rate of immigration has increased slightly. All of this is due to the slowdown in European economic growth, notably German growth, which is creating anxiety about the coming crisis, which has some effect on causing it.

Unemployment continued to decline during the third quarter, after the number of unemployed remained unchanged in the second quarter of 2019. The decrease in unemployment was primarily due to new employment and only then to the removal from the register. The fall in unemployment accelerated in the fourth quarter, primarily due to stronger employment from CES records.

Data from the Labor Force Survey in 2019 indicate a decline in employment and participation rates compared to the beginning of the year, mainly due to a decrease in the surveyed and unemployed, which could still reflect only the usual fluctuations in the labor market.

Wages and unit labor cost - wage growth slightly accelerated in the third quarter. The average nominal gross wage was 1.1% higher than in the previous three months of 2019, with wages rising slightly faster in the private than in the public sector. Data from national accounts indicate a strong increase in unit labor costs, which is due to a stronger increase in employee benefits than productivity growth.

Graph 2: Unemployment rate



Source: DZS,HZZ; calculation CNB

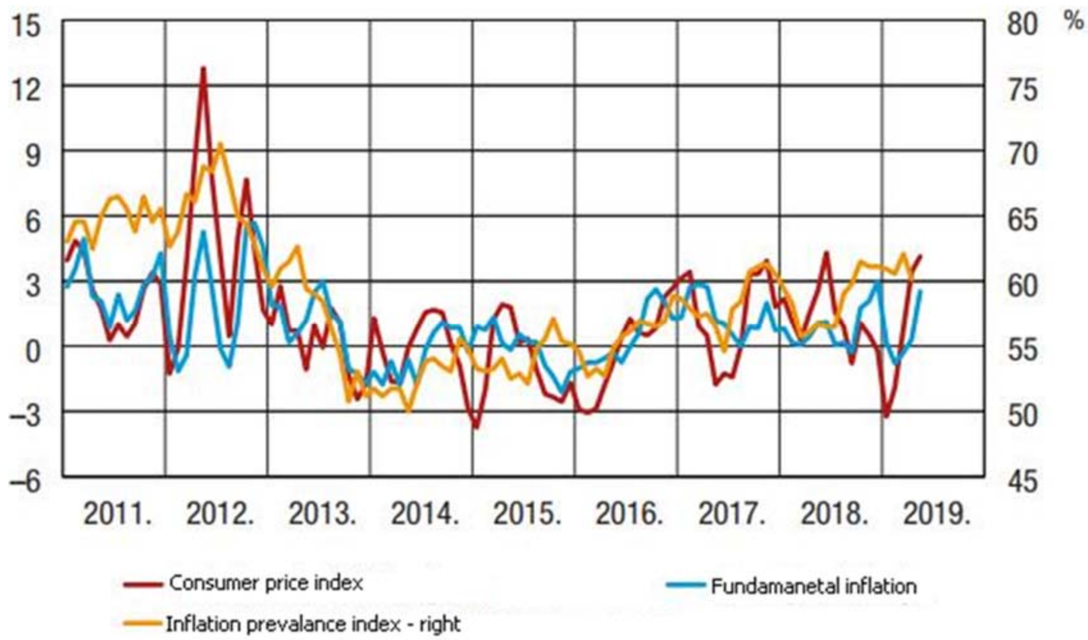
Inflation

Prices of goods and services for personal consumption as measured by the Consumer Price Index in December 2019 accelerated the annual growth rate to 1.4% (from 0.7% in November). Compared to November 2018, consumer prices were down 0.1%.

Viewed at the 2019 level compared to the previous year, the average price increase of 0.8% was supported by growth in the categories of alcoholic beverages and tobacco, housing and restaurants and hotels. The slowdown in consumer price growth in 2019 compared to the previous year was driven by lower energy price increases (by 2.6 percentage points) and the fall in industrial prices excluding energy and food and the prices of unprocessed food products, which in 2018. years grew. This level of inflation was almost half that of the previous year (1.5%) and also the lowest since 2016.

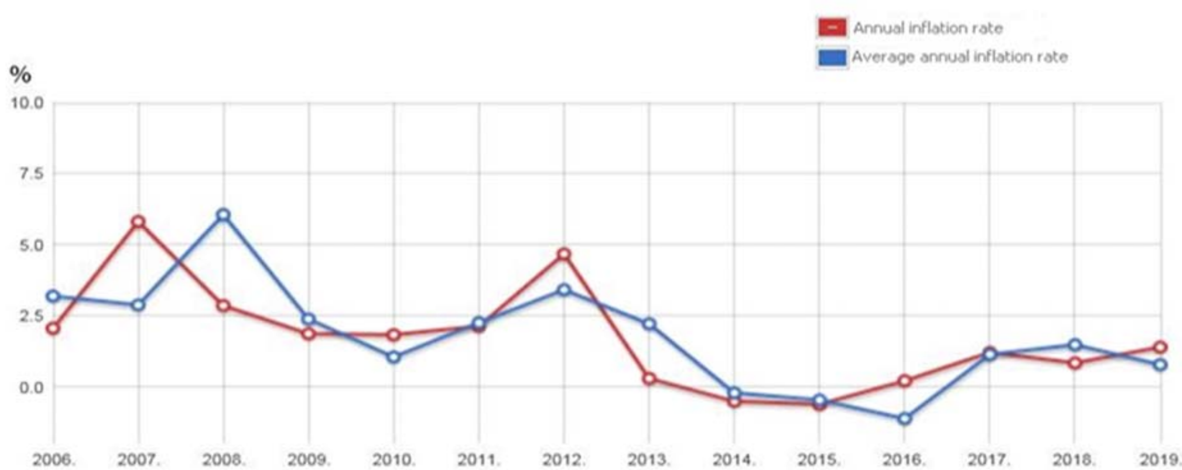
On an annual basis, compared to 2018, the average annual inflation rate was 0.8%.

Graph 3: Fluctuation indicators of inflation



Source: DZS; calculation CNB

Graph 4: Graph of annual and average annual inflation rates



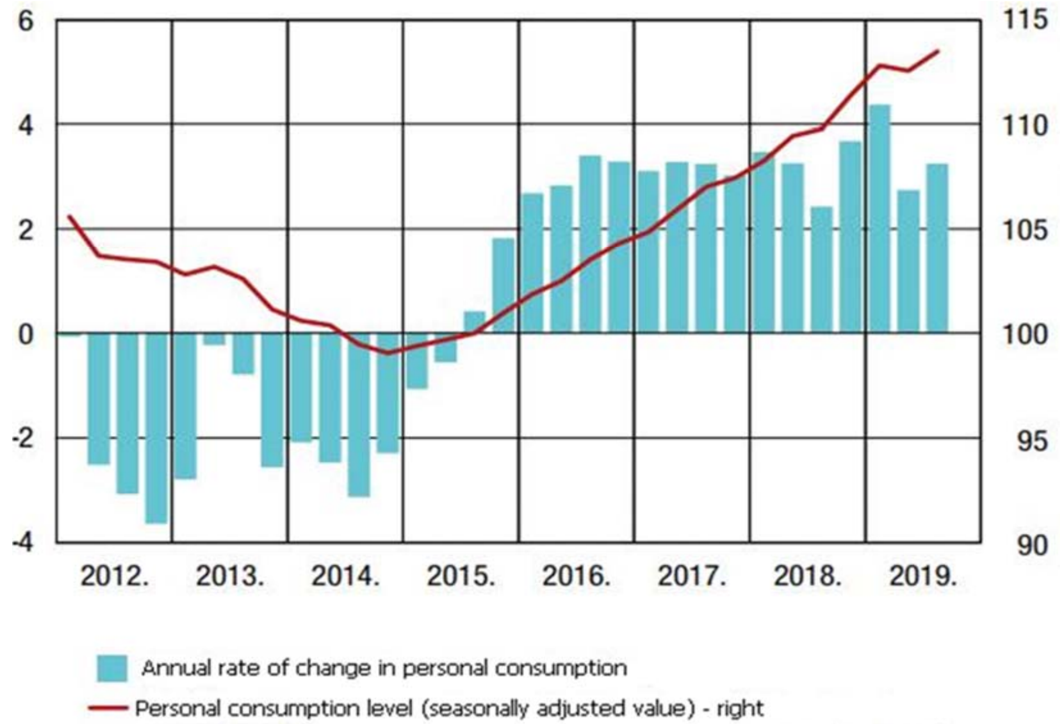
Source: DZS

Personal consumption

Personal consumption continued to grow throughout 2019, with a similar dynamic as throughout 2018. The increase in household consumption was supported by a rise in real disposable income due to favorable developments in the labor market, and net wages increased. Continued growth in consumer confidence also had a positive effect on the growth of personal consumption.

In addition, there has been an increase in retail lending. Strong personal consumption and investment continue to support the Croatian economy, and individual consumption has had the largest impact on GDP growth.

Graph 5: Personal consumption - real value



Source: DZS; CNB Bulletin

Terms of financing and banking sector

The second half of 2019 brought an acceleration of retail lending and a slight recovery in corporate lending. Household loan growth, measured by comparison of bank balances, exceeded 6% a year. Bad credit portfolio sales are still disturbing the clear picture in bank balances when it comes to corporate loans. Therefore, data on a transaction basis should be observed. They point to a slight recovery in lending activity that has started to happen in the corporate segment as well.

By dynamizing lending, banks seek to take advantage of all business opportunities in the face of falling interest rates. This continues to create pressure to reduce the gap between interest rates on loans and deposits. Growth in credit volume is a logical answer in such a situation. It also explains the rise in net interest income in 2019 to HRK 10.68 billion, which represents a 6.7% growth compared to 2018 figures.

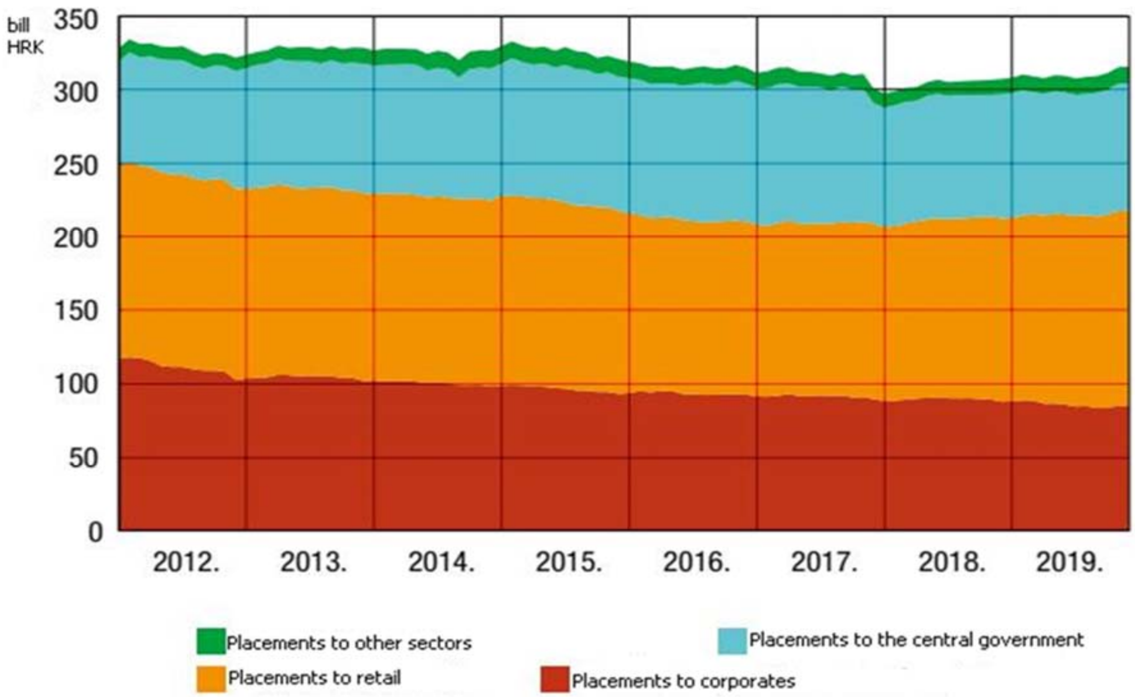
The most significant contribution to the result of the banks was the lower interest expenses compared to 2018 (-19.6%), which is a consequence of the long-observed trend of falling interest rates. However, this time, after a long time, the contribution came from slightly increased interest income (2.5% compared to 2018). This means that increased lending volumes offset the effect of lower rates.

The banks' result last year also increased due to net fee and commission income, which reached HRK 3.6 billion. However, the biggest contribution to the growth in results comes from dividend income, which increased by HRK 722 million compared to 2018.

Solid credit growth and competitive dynamics led to the first significant increase in bank costs after several years. Employee expenditures grew at a rate of 4.6% and depreciation costs increased by almost 50%. A likely reason is the increasing investment in intangible assets, most notably application support. As a result, the ratio of total operating expenses to net operating income from operations has again seen an increase after a number of years, increasing from 43.9% at the end of 2018 to 46.4% at the end of 2019.

Provisions and value adjustments have not changed significantly compared to 2018, although a significant jump in other provisions is observed in the structure. This means that banks have started to form provisions for possible negative judgments on loans in Swiss francs. However, this process has only just begun and the judicial outcomes are completely unpredictable. In light of such risks and uncertainties, net profit, which amounted to HRK 5.81 billion (or 16.9% more than in 2018), is proving to be a category much less important than bank capital. The good news is that the total regulatory capital ratio of Croatian banks increased from 22.9% at the end of 2018 to 23.2% at the end of 2019.

Graph 6: Structure of credit institution placement



Source: CNB Bulletin

Monetary policy

During the second half of 2019, the CNB continued to pursue an expansionary monetary policy and keep the kuna against the euro relatively stable. Due to appreciation pressures on the exchange rate, the central bank intervened in February and August, buying a total of 1.1 billion from commercial banks EUR. From the beginning of 2019 to the beginning of December, the CNB also purchased EUR 224.9 million from the Ministry of Finance. Thus, with all foreign exchange transactions, the central bank generated 9.7 billion HRK of primary money.

With respect to kuna operations, the CNB continued to maintain regular weekly operations at a fixed interest rate of 0.3%. However, in the context of extremely high kuna liquidity, banks' interest in the funds offered through this monetary policy instrument has been completely absent since December 2017. During the second half of 2019, no additional funds were created by structural operations and their balance slightly decreased to 1.9 billion. at the end of November, which was the result of partial prepayment by banks. The excess of the kuna liquidity of the monetary system continued to rise during the second half of 2019.

If viewed in the first eleven months of 2019, the average kuna liquidity surplus reached almost 30% higher than the average surplus in 2018, which was primarily the result of the creation of primary money by buying foreign currency from commercial banks. Due to the extremely high liquidity, domestic overnight interbank market turnover was very scarce and only started in April and May from the beginning of 2019. The kuna / euro exchange rate at the end of November 2019 was 7.44 EUR / HRK, which is 0.3% more than at the end of the same month in 2018, while the average exchange rate in the first eleven months of 2019 was 7.41 EUR / HRK and was almost equal to the exchange rate achieved in the same period last year.

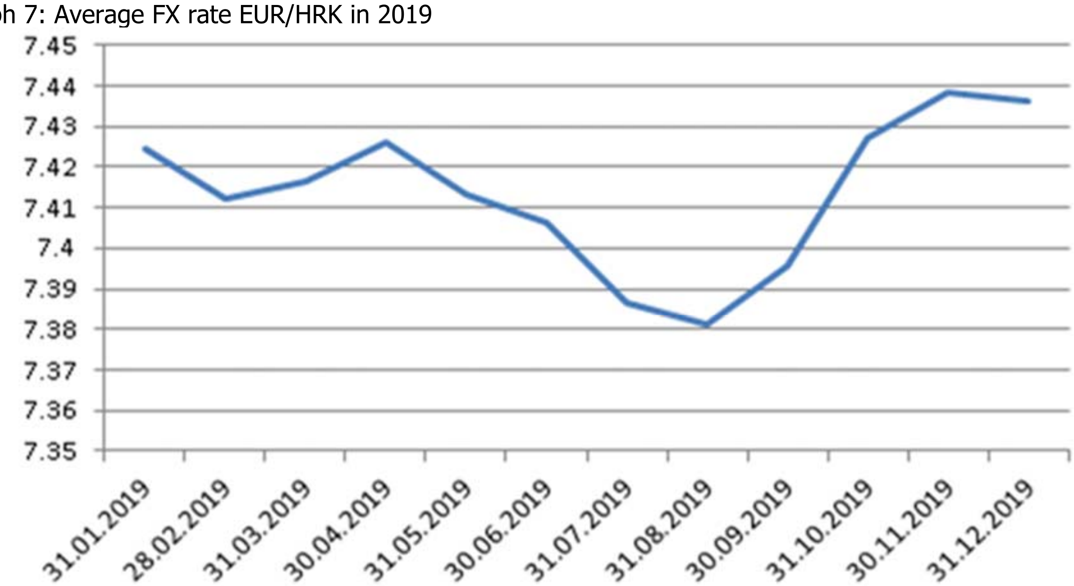
The exchange rate of the kuna against the US dollar and the Swiss franc was higher at the end of November 2019 than at the end of the same month in 2018, reflecting the weakening of the euro against these currencies in the global financial markets. Monetary policy will retain an expansive character while continuing to maintain a stable kuna / euro exchange rate. In the context of low inflation, favorable balance of payments and moderate placements growth, the central bank will thus continue to support the high liquidity of the monetary system, contributing to further improvement of financing conditions.

The Croatian National Bank outlined the measures it is taking to mitigate the economic impact of the coronavirus pandemic. The CNB has taken all necessary steps to preserve the continuity of operations of the key functions of the central bank - payment operations, treasury operations (cash supply), implementation of monetary policy and management of international reserves and foreign exchange liquidity. In addition, the CNB requested credit institutions to pay particular attention to ensuring the smooth functioning of the ATM and EFTPOS networks, or the safe functioning of the banks' IT systems, in their business continuity and crisis management plans. The Croatian National Bank has also implemented monetary policy measures aimed at maintaining favourable financing conditions for entrepreneurs and citizens. In addition, the CNB will contribute to the liquidity of the Croatian economy, ie to preserving jobs and facilitating recovery through certain supervisory measures.

Monetary policy measures (safeguarding favourable financing conditions):

- exchange rate stabilization and foreign exchange liquidity, measures taken are foreign exchange interventions. From 9 March to 17 March, four foreign exchange interventions were carried out in which a total of 1.625 billion euros were sold to banks. EUR, the exchange rate stabilized at a level of approximately EUR 7.57 / HRK, the level of international reserves (total EUR 19.1 billion; net reserves EUR 16.9 billion, 16 March 2020) is sufficient for further stabilization.
- providing kuna liquidity to continue financing the economy, the measures taken are structural and regular operations. On 16 March 2020 regular and structural operations were held; short-term liquidity of HRK 750 million and 3.8 billion created of long-term liquidity (5 years, interest rate 0.25%), daily liquidity surplus on 16 March 2020 amounted to HRK 32.8 billion kuna.
- supporting the stability of the government bond market, the measures being taken are the redemption of government bonds. On 13 March 2020 first direct auction of the Republic of Croatia bonds was held - HRK 211.2 million purchased; in accordance with the Decision of CNB Council, counterparties eligible for participation in sale and purchase of securities are extened to pension funds, OIF management companies and insurance companies; continuation of the auctions was announced from 18 to 23 March 2020, with an expected redemption of an additional 1.6 billion kuna.

Graph 7: Average FX rate EUR/HRK in 2019



Source: CNB

Management report

J&T banka d.d. is registered as joint-stock company at the Commercial Court in Varaždin under registration number (MBS): 50000185, with its registered office in Varaždin, Aleja kralja Zvonimira 1, for the performance of the following activities:

- accepting deposits or other repayable funds from people and approving credits from those funds, for own account;
- accepting deposits and other repayable funds;
- approval of loans and credits, including consumer credits and loans, and mortgage credits and loans, if it is allowed by a special law, and financing commercial activities, including export financing based on discount repurchase and without reimbursement of long-term unmatured claims ensured by financial instruments (forfeiting);
- purchase of receivables with or without recourse (factoring);
- finance lease;
- issuing guarantees and other warrants;
- trading for own account or for the client's account:
    - money market instruments,
    - transferable securities,
    - foreign currencies, including exchange transactions,
    - financial futures and options,
    - currency and interest rate instruments,
- payment services in line with special laws;
- services related to crediting, e.g. collection of data, conducting analyses and providing information on creditworthiness of legal and natural persons who conduct business activities on their own;
- issuing other payment instruments and managing them, in line with a special law, unless provision of these services is not considered provision of payment services in line with special laws;
- renting safe boxes;
- mediation in money market transactions;
- investments and other services and activities in accordance with separate laws regulating capital markets, as follows:
    - trading for own account.

As at 31 December 2019, the Bank operates through 2 branches (Varaždin, Zagreb).

The Bank performs most of its business activities in the territory of the Republic of Croatia while only a small part of its business is carried out with non-residents.

Total revenue for the Bank in 2019 amounted to HRK 52,534 thousand.

The Bank employs 71 full- time workers.

Profit in 2019 amounted to HRK 2,017 thousand and the Bank did not have any obligation to pay taxes on profits.

In 2019, the Bank did not receive public subsidies.

MISSION

Our individual approach to each client and our top quality and professional services, based on the competencies of our employees, creates added value for our clients. This contributes to the growth of our organization and the improvement of the quality of life of our community. We appreciate the personal contribution of all of our employees whose creativity and knowledge are our greatest values.

VISION

Our vision is to continuously exceed expectations and be the first to innovate and create new values. We want to be a leader in creating world-class financial solutions for our customers and be the best in providing growth and development opportunities to all our employees.

Financial performance

Bank operations in 2019 were marked by continuing business strategies and putting the focus on larger corporate clients. Total share capital amounts to 307,085,400.00 HRK and the ownership share of J&T Bank a.s. Prague remained the same at 82.55%.

In 2019 Bank generated HRK 32.1 million of interest income, while interest expenses amounted to HRK 13.2 million. Net interest income amounted to HRK 18.9 million, which is decrease compared to 2018 by HRK 9.5 million. Part of the reason for this reduction lies in the fact that there has been slight reduction on interest rates on both loans and deposits in 2019, and there was also a decrease in the volume of the Bank's credit portfolio for the collection and repayment from customers outside the Bank's strategy. Portfolio of loans and advances to customers on 31 December 2019 and 31 December 2018 amounted to HRK 383.1 million and HRK 504.1 million, respectively.

Securities portfolio at 31 December 2019 amounted to HRK 329.4 million and was HRK 84.7 million higher than the end of the previous year.

Net fee and commission income in 2019 amounted to HRK 8.5 million (in 2018. HRK 8.3 million).

Administrative costs and depreciation amounted to HRK 19.7 million, HRK 0.8 million lower compared with the previous year as a result of the active management of the Banks expenses.

The Bank records release of impairment losses of loans to customers in the net amount of HRK 1.3 million, while additional impairment last year amounted to HRK 8.2 million.-Profit for the current year after the value adjustment amounts to HRK 2,017 million (the same period last year was HRK 0.8 million).

The most significant share of the funding structure of the Bank comprise term deposits which amounted to HRK 682.2 million at 31 December 2019 and comprise 64.6% of total sources of funding, while the share capital and reserves of the Bank as at 31 December 2019 amounts to HRK 130.6 million and comprise 12.4% of total sources of funding.

As at 31 December 2019 the Bank's total assets amounted to HRK 1,055.6 million (HRK 1,080.5 million at 31 December 2018).

Events after the reporting date

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic, and the government of Croatia restrictions and measures for infection reduction. Management is closely monitoring the situation and will respond, as appropriate, with measures to mitigate the adverse effects of any events or different circumstances. For further details, please refer to note 39.

Retail sector

In 2019. Retail banking was performed through 2 branches on domestic market (Varaždin and Zagreb) and on German market, where the Bank has been permitted by regulator BaFin (Die Bundesanstalt für Finanzdienstleistungsaufsicht) to provide services of collecting deposits from customers abroad in cooperation with Deposit Solutions (before: Savedo Gmbh).

The primary focus of basic and additional activities with the population is the management of the placement portfolio for population, reducing the cost of portfolio bookings and improving customer placement and monitoring activities. Accordingly, in 2019, overdue credit placement claims decreased by 68%, and the cost of bookings per small portfolio decreased from 2.01% to 0.89%.

New credit placements are not approved, and all debts per revolving MC cards are of 01.12.2019. declared overdue, which is the Bank's decision to abolish the issuance of new cards and the right to use existing MC cards.

In line with the strategy of abandoning consumer lending, the population's credit portfolio is in 2019. decreased by HRK 22.4 million, or 33%.

Variable interest rates on existing retail loans has followed decrease of NRS (National Reference Rate - 6M NRS1) in 2019., all in-line with the Bank's Principles for Determining Variable Interest Rates on Retail Loans. In 2019 value of 6M NRS1 has decreased by 0.21 pp for HRK loans and 0.27 pp for EUR loans.

The focus of deposit portfolio management is to maintain high-quality sources of bank liquidity, optimise deposit structure and interest costs. As a result of the continued reduction of interest rates on the ploughed savings of citizens with the aim of aligning market trends throughout 2019. the average interest rate on citizens' deposits has been reduced by 0.47 pp for deposits in kuna, 0.29 pp for deposits in Euros, while the volume of deposits decreased by HRK 42.6 million or 6.5%.

Average interest rate, on term deposits which Bank collects in cooperation with partner Deposit Solutions, was increased for 0,07 pp, and the volume of deposits, was decreased by HRK 16.8 million in 2019. or 45.91%.

In card business segment, Bank has successfully migrated cards to contactless environment, meaning that existing debit cards were switched from contact functionality to cards with contactless feature. Due to cost-effectiveness and unprofitability, Bank has deactivated e-commerce service i.e. stopped providing the service of e-payments with cards for all clients, rather than expensive harmonizing with Payment Service Directive 2 (PSD 2), its Regulatory Technical Standards (RTS) and Mastercard mandate requiring biometrics as strong customer authentication (SCA).

Corporate sector

Through the year 2019 was achieved an increase in new placements covered by the Bank's strategy. But, due to unexpected early repayments and the disposal of NPL clients, as well as because of regulatory restrictions, the Corporate loan portfolio was decreased. Although such a significant decrease in the portfolio failed to compensate with new placements, the structure of the corporate loan portfolio is more quality compared to the previous year.

Missing Interest income in Corporate banking department in relation to unrealized portfolio growth, was compensated with Agency, Monitoring and other fees in syndicated loans, due to the regulatory impossibility to finance full amount of the loan.

In order to increase placements and achieve the planned portfolio volume, more loans in significant amounts are intensively processed and prepared. As it is a complex loan, the process of processing, structuring, approval and realization takes several months. At the end of 2019, several such loans of a significant amount were approved, which placements is expected in January 2020.

Due to regulatory restrictions, in financing loans of significant amounts is required participation other financial institutions, mostly members of the J&T Group. Partial contribution to revenue growth is expected through participation in syndicated loans. Consequently, in 2020 is expected growth in interest income, but also growth of income from services provided by syndicated and participated loans.

The growth strategy of the portfolio in the Corporate Banking Department continues in the planned volume, and the first significant results are expected in the first half of 2020.

Treasury activities

Trends in Croatian money markets continued in 2019. The country GDP after growth in 2018, continued to grow in 2019. Monetary policy of Croatian central bank with incentive of negative inflation rates, stayed expansive. Central bank continued to increase HRK liquidity announcing the regular repo auction showing that it will support credit activity in domestic currency. Adding to that was aggressively loose ECB monetary policy so it is clear that money markets interest rates where under strong deflationary influences both in Eurozone and Croatia.

Liquidity in Croatian and Eurozone banking system stayed elevated in 2019, with slight decrease of interest rates. For example 6 month EURIBOR rate decreased from -0.237% at the beginning of the year to negative -0.324% at the year end. Slow decreasing trend in banking financing costs also continued in HRK and other currencies as well so the Croatian banking association 12-month national benchmark banking sector average financing rate (NRS) for Kuna and Euro fell in third quarter to 0.27% and 0.35% for EUR respectively.

Spread between Croatian and benchmark German bonds decreased a bit, widespread reduction in European yields led to further decline in Croatian sovereign bond yield so the yield on longest domestic bond indexed to EUR, with volatility during the year, ended the year at around 0.41%. Yield on domestic bonds in HRK decreased a bit, only and yield on longest domestic bond in HRK increased and ended the year around 1.27%.

After trend of the decreasing exchange rate of the euro against the HRK in 2019 the increase trend from 2018 continued. In 2019 the average annual rate was about 7.413 similar to 2018 when it was about 7.414. Having macro environment in mind all through the year the Bank held high portion of liquid assets in its balance sheet at the same time with decrease of liabilities constantly reducing its financing cost.

In 2019 the Bank had HRK 7.0 million of securities trading income, and in 2018 this income was HRK 3.8 million. FX gains amounted to HRK 0.9 million in 2019, a HRK 1.0 million less than in 2018, due to lower volume on FX Market.

Employees and organizational structure

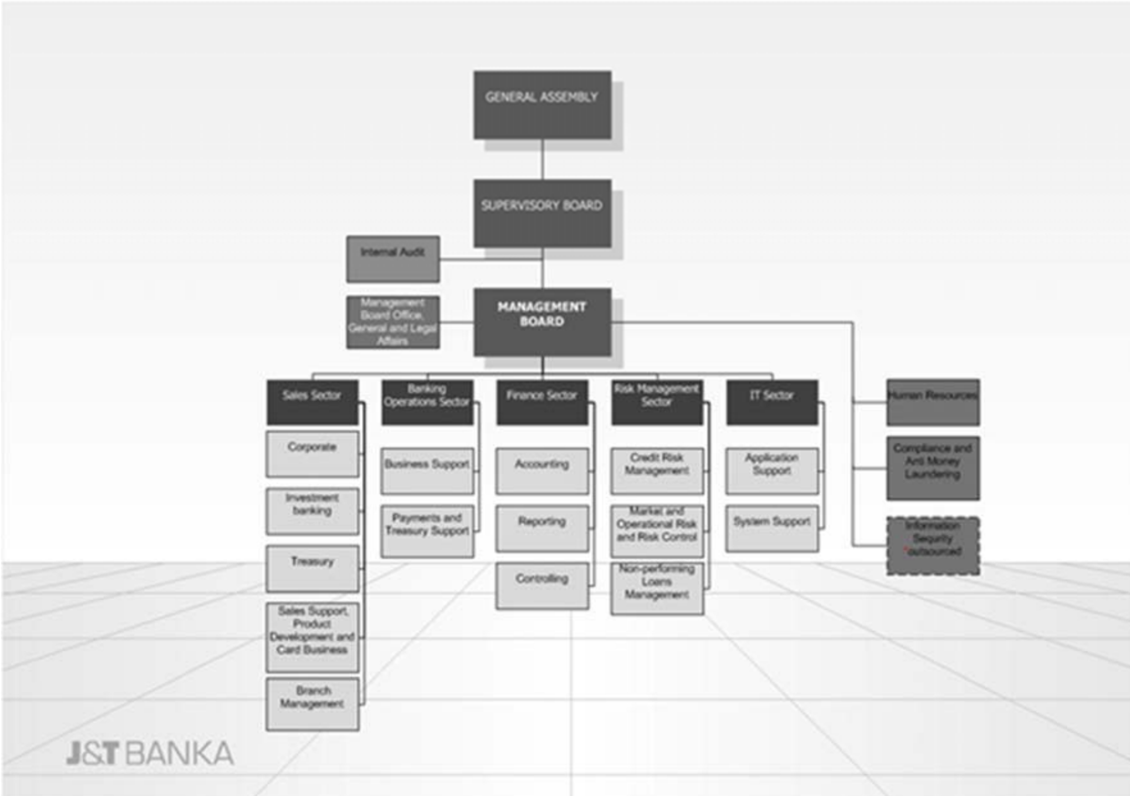
During 2019, Bank's business took place in Bank's headquarter in Varaždin, branches in Zagreb and Varaždin and office in Zagreb.

In 2019, the Bank had minor reorganisation, in Sales Sector, where the Investment Banking Department was established. Its main priority is analysis of the investment opportunities on the market and due diligence processes.

On December 31 2019 Bank had 71 employees.

During 2019, main focus of the Bank was on the development of motivation and performance evaluation system. The Bank continually invests in the additional education of the employees.

Organizational scheme



IT development

OLBIS (Online Bank Information System) is an integral bank information system, which now consolidates all application modules of 'core' system, as well as full regulatory reporting.

During 2019 most activities regarding application development were focused on adaptation of OLBIS system, as well as the implementation of the modified user interface for third party access (PSD2 project), and fulfilling legislative and regulatory demands and reports.

During 2019 several significant modules were implemented or processed:

- MasterCard – 3D Secure service
- PSD2 – modified user interface for TPPs
- Payments – new XSD scheme
- SoF – for consumers
- Consumer reporting of closed loans
- HNB fraud reporting
- Adjusting consolidation reports (the new gross principle)
- CNB reporting - changes by LCR, NPL i COFI reports according to regulatory requirements

Regarding infrastructural segment, the most significant change was the upgrade of central firewall system and upgrade of part of obsolete server operating systems, as well as system support to BC plan and BC test.

In the second half of the year, system support for the PSD2 project (test and production environments) was implemented, and a vulnerability detection system (Qualys) was installed.

The rest of activities ware focused on analysis and preparation of establishment of tertiary data centre. Also, DR test was carried. Parallel to before mentioned activities, continuous upgrading of system support in information security segment was carried out, and at the end of the year all outdated and defective IT equipment has been written off.

Internal controls system and internal audit

The internal controls system is a set of processes and procedures set up to adequately control risks, monitor efficiency and performance of the Bank's operations, the reliability of its financial and other information, and compliance with regulations, internal acts, standards and codes in order to ensure the stability of the Bank's operations.

In accordance with the Credit Institutions Act and the Decision on governance arrangements, the Bank established an internal controls system comprising the following:

1. appropriate organisational structure;
2. organisational culture;
3. adequate control activities and segregation of duties;
4. appropriate internal controls integrated into business processes and activities of the credit institution;
5. appropriate administrative and accounting procedures;
6. activities within the scope of the control functions of the credit institution.

The Bank prescribed and established adequate control activities and segregation of duties, adequate internal controls and appropriate administrative and accounting procedures carried out in course of the Bank's regular operations.

In accordance with provisions of laws and by-laws, the Bank established three control functions independent of the business processes and activities in which risk occurs, i.e. which the functions monitor and supervise. These are:

1. the risk control function;
2. the compliance monitoring function;
3. the internal audit function.

The risk control function ensures the Bank's compliance with risk management strategies and policies by performing risk analysis, monitoring risk, reporting risk-related information to the Management Board and other persons, and participating in the preparation, application and monitoring of the functionality of risk management methods and models. It also carries out the evaluation of the Bank's internal capital adequacy and controls the preparation of the Bank's recovery plan.

The compliance monitoring function ensures the compliance of the Bank's operations with relevant regulations, standards and codes and internal acts. The compliance monitoring function is responsible for: determining and assess compliance risks to which the Company is or might be exposed; advising the Management Board and other responsible persons on the application of relevant legislation, standards and rules; assessing the effects that changes to relevant regulation will have on the Bank's operations; verifying the compliance of new products and procedure with relevant legislations and regulations as well as with related amendments-in cooperation with the risk control function; reporting on compliance risk to the Management Board, the Supervisory Board and the relevant Supervisory Bodies and other relevant persons; serving as advisor in the preparation of compliance-related training programs.

The internal audit function, as part of the internal controls system, assesses the following: appropriateness of governance arrangements; adequacy of existing policies and of their compliance with regulations and other regulatory requirements and with the Risk appetite and Risk management strategy of the Bank; correctness and effectiveness of implementation of the procedures referred to in Article 24, paragraph (1) of this Decision and the compliance of these procedures with the applicable laws and regulations and with decisions of the Bank's Management board and the Supervisory board; adequacy, quality and effectiveness of the controls performed and the reporting done by the business units and the Risk control and Compliance functions; accuracy and reliability of the accounting records system and financial statements; outsourced activities; strategies and procedures in place to assess the adequacy of internal capital and internal liquidity; reliability of the internal and external reporting systems and timeliness and accuracy of the reports prescribed in the Credit Institutions Act, regulations adopted under that Act and other regulations; methods of asset protection; data collection systems and the validity of information that is publicly disclosed in accordance with Title XIV of the Credit Institutions Act, Regulation (EU) No 575/2013, and other regulations; other assessments as prescribed by the Credit Institutions Act, regulations adopted under that Act, Regulation (EU) No 575/2013, the relevant technical standards and other regulations.

Each control function prepares reports in line with their tasks and established operational work plans, in accordance with provisions of the Credit Institutions Act and regulations and decisions issued based thereon.

Financial reporting control system

The Bank has ensured the internal control systems of the accounting system and financial reporting, risk management system and the reliability of the information system covering all the major Bank's activities. In addition, the Bank hired an external auditor and has applied previous, current and subsequent financial supervision of the financial reporting and decision-making process.

The accounting system, based on the International Accounting Standards and the International Financial Reporting Standards prescribed by the Accounting Policies of the Bank, is regulated by the Accounting Rules that define rights, obligations and responsibilities of all the participants, including the obligation of ongoing monitoring, while the functioning of the other systems is governed by special standard regulations.

The Bank's internal control system includes efficient direct monitoring through integrated procedures and processes set for monitoring the efficiency of the Bank's operations, reliability of financial reports and compliance with the laws and by-laws. The Bank's internal control system is established through parallel operating of three mutually independent functions: (a) risk control function, (b) compliance monitoring function, and (c) internal audit function.

Research and development

The Bank capitalizes intangible assets. Intangible assets include internally developed software of total capitalised value of HRK 19.3 million. The Bank uses software in its business, and it is transferred to use according to the stage of completion.

Expenditure related to the development of software is capitalised when it meets the criteria outlined in IAS 38 Intangible Assets.

Information relating to treasury shares repurchase

The Bank has 590,338 treasury shares as at 31 December 2019.

Subsidiaries information

The Bank has no subsidiaries.

Development plan

Since the entry of J&T Bank into the Bank's ownership structure, the business strategy is based on the implementation of the successful and long-standing banking experience of J&T Bank in the Czech Republic, Slovakia and in Russia, at J&T Bank. This strategy adapts to the needs of the Croatian market to meet all legal requirements.

The group boasts extensive experience across a wide range of services, ranging from retail banking, through private to corporate banking.

The Bank will continue to phase out retail banking in terms of retail lending, but will continue to be present in the retail deposit collection segment as one of the major sources of financing.

In the area of retail clients, J&T Bank's strategy is based on the **care of clients with significant financial assets**, which will also be reflected on the Bank's business, and for this purpose the offered optimal and individual combination of financial products and services will also be developed based on J&T Group business practice and experience. The plan is to have a small number of exclusive outlets where the Bank's employees will have a direct relationship with clients in the targeted parts of the country.

Considering the long-term negative operations of the Bank, the main pillars of its market repositioning and internal restructuring, and ultimately the achievement of a positive result, are the following:

- focusing on the corporate market segment, primarily investment banking and real estate financing, and other activities with which the J&T Group has experience
- individualized approach to the client and creation of banking products according to the client's needs
- finding solutions for the client - so-called "customery intimacy" approach - spending a lot of time with clients to understand their needs and create financial solutions
- healthy portfolio growth (additional tools and criteria introduced when approving placements to ensure its quality and adequate diversification with portfolio growth)
- Improvement of the credit risk management process within the Bank, ie establishment of stronger business risk control mechanisms related to asset growth
- control of operational costs, after successful restructuring through the reduction of them, and in view of the change of strategy and the decrease in the number of personnel
- constant training and education of personnel
- Continue to address the rest of the bad portfolio (NPL) inherited from history (and consequently the cost of risk).

All of these measures, as well as the detailed measures outlined in last year's Work Program, have led to business disruptions and a positive result for the Bank in 2018 and 2019. Ultimately, with the new business strategy, that is, the creation of a new portfolio, the Bank creates the foundations and preconditions to become profitable in the long run.

Furthermore, in order to achieve a successful business strategy, it is essential to build the reputation and confidence of the monetary institution, thus continuously presenting, through active marketing, the stability of the Bank, its products and overall image, and the strength of the entire Group behind the Bank.

The construction of the Bank's new image in the public has been supported by media communication in recent years, and this process has profiled the Bank, from the Bank where the majority of placements were towards clients based in the vicinity of the Bank's headquarters, to a Bank that will continue to operate more actively throughout the Republic of Croatia. As this business will expand territorially, so will the focus of these activities spread from region to region.

The mission is to build a strong and stable bank in the Croatian market geared towards prosperous clients who are able to secure their own funds, as well as the contribution of external bodies, when financing the implementation of certain projects.

Primarily, the Bank's clients should be reputationally unquestioned, that is, well-known and proven entrepreneurs with experience in the funded business.

The Bank's target clients should be clients who invest a significant portion of their equity or assets in projects where the Bank is required to provide partial financing. Target clients will also be considered those who are able to include third parties such as HBOR, EU grant funds, etc. in the risk-taking structure of the project, etc. By using the above multi-party / entity risk dispersion mechanisms, the Bank achieves credit reduction risks that it assumes through the approval of a specific placement, which also achieves a better quality of the Bank's portfolio.

A smaller percentage of the Bank's total credit exposure currently relates to the financing of foreign clients, who are also clients of the J&T Group, but approval of such placements was preceded by a primary and secondary collection risk analysis, as with all other placements that came to the Bank through other channels. sales, taking into account, of course, the specifics of such clients in the form of their business activities, compared to clients financed by the Bank on a larger scale (which makes the risk products granted to these clients deviate from the usual terms of placement in the form of collateral, repayment method, etc.). These types of placements do not represent a segment of a significant loan commitment of J&T Bank d.d., nor do they plan to make a significant portion of the portfolio in the future.

In formulating a credit risk strategy, the Bank will also be guided by the goal of adequate portfolio diversification, which will be addressed by introducing internal limits for certain types of products, activities and all other common risk factors, all with the aim of managing and controlling concentration risk. The revision of these limits is planned at an annual minimum.

Collecting deposits and core capital forms the basis of the ability to fulfil the above mission, while maintaining capital requirements, that is, the capital adequacy ratio at the minimum prescribed level.

Depending on the price movements in the capital market, the Bank will adjust its pricing policy, that is, combine the structure of sources from its depositors (households and companies), as well as other choices, or financing growth through credit lines by the owner.

The owners also expressed with their letter of support the possibility of further capital strengthening of the Bank in case of further needs (and primarily due to the growth of the Bank's portfolio).

Risk management

The most significant types of financial risk to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk include foreign exchange risk, interest rate risk and risk of changes in market prices of equity and debt securities.

An integrated risk management system is being developed and constantly upgraded on the Bank level by introducing policies and procedures for risk assessment, measurement, control and management, and for determining the risk exposure limits compliant with the legal framework and the Bank’s risk profile.

Credit risk

The Bank is exposed to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of a client or third party or when issuing guarantees. The risk of default which occurs in financial instrument transactions with certain parties is constantly monitored. To manage credit risk, the Bank deals with clients of good credit standing and obtains security instruments in order to, as a rule, secure the repayment of placement by two independent instruments (cash flow and collateral).

Credit risk is managed in line with the Bank’s policies. Credit exposure toward a portfolio or specific groups is regularly reviewed in accordance with established limits. The competent bodies of the Bank responsible for approving limits are regularly informed of limit utilization. The Credit Committee approves all material increases in credit exposure and issues all decisions related to credit risk.

Liquidity risk

Liquidity risk arises in the funding of the Bank’s activities and in the management of its positions.

The Bank has access to different sources of funding. Funds are collected through a variety of instruments, including different type of deposit, borrowings, dependent liabilities, including deposits, borrowings and equity. The Bank is systematically working on defining the procedures and business processes that efficiently monitor liquidity risk by detecting and monitoring changes in funding in order to achieve business objectives set in accordance with the overall business strategy of the Bank.

The Bank adapts its business activities related to liquidity risk in accordance with legal provisions and internal policies for maintaining liquidity reserves, matching assets and liabilities and limit control, and with targeted liquidity ratios and contingency plans. The Treasury manages liquidity reserves on a daily basis and ensure that all of the client's needs are successfully met.

Market risk

Market risk management entails position and foreign exchange risk management. In order to manage position risk defined as the risk of loss arising from the change in the price of a financial instrument, a limit system has been established according to the type of financial instrument and issuer. Limit utilization is monitored on a daily basis.

Foreign exchange risk, defined as loss arising from the change in exchange rates of a relevant foreign currency due to the currency gap in the balance sheet, is managed by the Bank on a daily basis in accordance with legal provisions related to the open foreign exchange position.

Interest rate risk represents the sensitivity of the Bank's financial position to movements in interest rates. The Bank's operations are influenced by interest rate risk to the extent that interest-bearing assets and liabilities mature, or their interest rates change at different points in time or in different amounts.

Operational risk

Operational risk exists in every segment of the Bank's operations, requiring knowledge and continuous monitoring of all business procesess. The organizational model of the operational risk management process is conceived at the level of centralized and decentralized functions of operational risk management. It is carried out in accordance with legal provisions, Basel guidelines and internal acts (policies, procedures and methodologies for operational risk management).

In the context of managing operational risk of the information system, IS security management entails a series of periodic activities whose aim is to reduce operational risk of the Bank's information system, or more precisely, to implement control mechanisms, improve business processes and harmonize with legislation in order to reduce damages that vulnerabilities can cause in the Bank's information system.

In order to manage operational risk, the Bank has provided appropriate risk management for risk management, information system risk, risk model, risk to project management, risk management related to outsourcing, risk management compliance, business changes, including business risks, new products, activities, processes and systems, significant inherent risks in existing products, activities, processes and systems, and business continuity management. The Bank has provided an appropriate system for preventing money laundering and financing of terrorism.

Policies for managing financial risk are described in detail in Notes to the Annual Report for the year 2019.

For and on behalf of J&T banka d.d. Varaždin:

Hrvoje Draksler, President of the Management Board

J&T BANKA d.d.

3

Petar Rajković, Member of the Management Board

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

The Management Board is responsible for preparation of financial statements for each financial year which fairly present, in all material respect, of the financial position of J&T banka d.d. ("the Bank") and of its operation and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for a taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

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

The Management Board is responsible for submission to the Supervisory Board of its annual financial statemenets, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

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

The financial statements set out on pages 29 to 111 as well as supplementary schedules for the Croatian National Bank, set out on pages 112 to 119 and reconciliation, set out on pages 120 to 128 were authorised by the Management Board on 30 April 2020 for issue to the Supervisory Board and are signed bellow to signify this.

The Management Board is also responsible for the preparation and content of the Management Report as required by the Croatian Accounting Law, and for other information comprises of the Introduction, the Macroeconomic Environment and Banking Sector in the Republic of Croatia in 2019 set out on pages 3 to 10 and the Management Report presented on pages 11 to 20 were approved by the Management Board on 30 April 2020, and are signed bellow.

For and on behalf of J&T banka d.d.:

Hrvoje Draksler, President of the Management Board

J&T BANKA d.d.

3

Petar Rajković, Member of the Management Board

Independent Auditors' report to the shareholders of J&T banka d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of J&T banka d.d. ("the Bank"), which comprise the statement of financial position of the Bank as at 31 December 2019, and the statements of comprehensive income, cash flows and changes in equity of the Bank for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for credit institutions in Croatia.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

This version of the Auditors' Report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all maters of interpretation of information, views or opinions, the original language version of the audit report takes precedence over this translation.

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Impairment of loans and advances to customers

As at 31 December 2019, gross loans and advances to customers: HRK 425,056 thousand, related impairment allowance: HRK 41,958 thousand and impairment release recognised in the income statement: HRK 1,312 thousand (31 December 2018, gross loans and advances to customers: HRK 542,278 thousand, impairment allowance: HRK 56,597 thousand and impairment loss recognised in the income statement: HRK 8,166 thousand).

Refer to page 45 (Significant accounting policies), page 82 (Significant accounting estimates and judgements), page 53 (credit risk section) and page 89 (note 10 Loans and advances to customers).

Key audit matter	How our audit addressed the matter
Impairment allowances represent the Management Board's best estimate of the expected credit losses ("ECLs") within the loans and advances to customers at the reporting date. We focused on this area as the determination of the amount of such impairment losses requires a significant amount of judgment from the Management Board. The impairment allowances for the majority of the performing exposures (Stage 1 and Stage 2) (together "collective impairment allowance") are determined by modelling techniques relying on key parameters such as the probability of default (PD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant deterioration in credit quality and forward-looking information. Expected credit losses for non-performing exposures are generally determined on an individual basis by means of a discounted cash flow analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the probable sale proceeds from the related collateral and minimum period for collateral disposal. Considered is the Bank's own historical experience and specific guidance of the Croatian National Bank (CNB) regarding minimum haircuts to be applied on the estimated value of collateral. For the above reasons, impairment of loans and advances to customers was considered by us to be a significant risk in our audit, which required our increased attention. Accordingly, we considered the area to be a key audit matter.	Our audit procedures in this area included, among others: • Inspecting the Bank's ECL impairment provisioning methodology and assessing its compliance with the relevant requirements of the financial reporting standards and of the CNB rules. • Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of significant increase in credit risk and events of default, appropriateness of the classification of exposures into performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the impairment allowances. • For loss allowances calculated on a collective basis: – Assessing whether the definition of significant increase in credit risk and an event of default are appropriate and whether the CNB's staging criteria were consistently applied; – Obtaining the relevant forward-looking information and macroeconomic projections used in the Bank's ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available information; – Challenging the collective LGD and PD parameters used by the Bank, by, among other things, performing back-testing of historical defaults and by reference to historical realized losses on those defaults; – Assessing whether the minimum impairment allowance requirements as prescribed by the CNB have been met. • For impairment allowances calculated individually, for a risk-based sample of loans and advances: – assessing the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2019, by reference to the loan files and through inquiries of the risk management personnel;

Independent Auditors’ report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Impairment of loans and advances to customers (continued)

Key audit matter	How our audit addressed the matter
	– for individually calculated LGD, challenging key assumptions applied in the Management Board’s estimates of expected future cash flows, by comparing the value of collateral used by the Bank with that assessed by us, with the assistance from our own valuation specialist, and by comparing EBITDA used by the Bank with clients’ historical EBITDA; – for those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board’s estimates of future cash flows used in the impairment calculation such as discount rates, collateral values and realization period by reference to loan files and market rates or by performing respective independent recalculations, assisted by our own valuation specialist, where relevant. • For the whole portfolio of non-performing unsecured exposures, testing whether the Bank applied internally prescribed loss rates based on days in arrears and whether those are in line with the CNB requirements; • Assessing the Bank’s ECL-related disclosures against the requirements of the relevant financial reporting standards.

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Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key audit matter (continued)

Going concern considerations related to COVID-19

Refer to page 37 (Basis of preparation) and page 79 which specifically addressed the uncertainties related to the COVID 19 outbreak.

Key audit matter	How our audit addressed the matter
The Bank's financial statements are prepared on a going concern basis. In 2019, the Bank reported a net profit in the amount of HRK 2,017 thousand (2018: net profit of HRK 830 thousand), and as at 31 December 2019 had accumulated losses of HRK 201,900 thousand (31 December 2018: accumulated losses of HRK 203,917 thousand). Due to the losses reported since 2014 through 2018, the Bank has received several capital injections from the majority shareholder in order to maintain its capital adequacy ratio at least at the minimum level required by the CNB. As disclosed in Note 4.1.5, the Bank's capital Tier 1 adequacy ratio as at 31 December 2019 amounted to 19.1%. Although the ratio is above the CNB's minimum prescribed level, potential future losses without adequate capital support may erode the capital base. In addition, the World Health Organization declared on 11 March 2020 the coronavirus (COVID-19) outbreak a pandemic. The measures taken by the government of Croatia to counter the effects of the outbreak include border closures, quarantine, severe limitations imposed on cross-border and domestic transportation, ban on social, cultural, leisure or sport events, among other things. As a consequence, the Bank expects that the circumstances may result in higher level of defaults and decrease in interest income, with effects on the Bank's liquidity and capital adequacy. In the wake of the above facts and circumstances, the Management Board performed a reassessment of whether the Bank would have sufficient resources and adequate capital to continue as a going concern for a period of at least 12 months from the reporting date. The Bank's going concern assessment was based on analysis of profit and loss forecasts, as well as liquidity projections. The preparation thereof incorporated a number of complex assumptions and required the Management Board to apply significant judgment. As part of the assessment, the Bank also considered a number of actions aimed at alleviating the potential disruption to its business and liquidity position, such as CNB and Croatian Government measures. The Management Board concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. Note 2 f) to the financial statements further explains how the judgment was formed by the Management Board. The COVID-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of the financial statements its effects are subject to significant levels of uncertainty. The Bank's use of the going concern basis of accounting is a key audit matter due to the associated extent of uncertainty, and consequently, high level of judgment required in evaluating the Management Board's plans for future actions and their financial impact.	Our audit procedures in this area included, among others: • Inspecting the Management Board's assessment of the going concern basis of accounting, including their evaluation of the business/operating and liquidity risks arising from the COVID-19 outbreak, and plans for further actions in response to the risks identified. As part of the procedure we also made corroborating inquiries of the Bank's CEO and CRO; • Analysing the Bank's capital adequacy position (in particular, the minimum capital requirement), inquiring of the Management Board regarding their alternative plans for future actions in relation to the going concern assessment; • Comparing the Bank's profit and loss and cash flows forecasts for the current and previous years to the current year's outcomes to assess the quality of the Management Board's forecasting process; • Evaluating the Bank's analysis of COVID-19-related sources of risk for the Bank's business and financial resources, including potential negative effect of the spread of COVID-19 on Bank's credit portfolio, as compared with our own understanding of the risks. We considered Management Board's plans to take action to mitigate the risks; • Considering the above procedures, challenging the Bank's financial performance and cash flow forecasts provided to us in support of the management's use of the going concern basis of accounting, by assessing the planned measures to be implemented by the Bank; specifically challenging the key assumptions and judgements with most significant impact on these forecasts, including, among others: — forecast of interest and similar income; — expected loan impairment losses; — capital adequacy position. • Performing an analysis of the going concern conclusion's sensitivity to changes in the aforementioned key assumptions adopted in the going concern assessment, and considering whether there were any indicators of management bias in the assessment; • Evaluating the appropriateness of Bank's disclosures in respect of the going concern assessment, subsequent events and any related uncertainties in the financial statements.

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Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises of the Introduction, the Macroeconomic environment and banking sector in the Republic of Croatia in 2019, and the Management Report included in the Annual Report of the Bank, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

With respect to the Management Report, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Article 21 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Introduction, the Macroeconomic environment and banking sector in the Republic of Croatia in 2019, and the Management Report. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements which are presented fairly, in all material respects in accordance with statutory accounting requirements for credit institutions in Croatia, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

KPMG

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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

Pursuant to the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions dated 9 May 2018 (Official Gazette 42/18), the Management Board of the Bank has prepared the schedules ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2019, and of the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the financial statements. The Schedules are set out on pages 112 to 119, and the Reconciliation on pages 120 to 128. The Management Board of the Bank is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements set out on pages 29 to 111 on which we have expressed an opinion as set out above.

We were appointed by those charged with governance on 19 June 2019 to audit the financial statements of J&T banka d.d. for the year ended 31 December 2019. Our total uninterrupted period of engagement is 4 years, covering the periods from 1 January 2016 to 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 30 April 2020;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

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30 April 2020

Katarina Kecko
Director, Croatian Certified Auditor

This version of the Auditors' Report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all maters of interpretation of information, views or opinions, the original language version of the audit report takes precedence over this translation.

Statement of financial position as at 31 December 2019

[HRK'000]	Notes	31 December 2018	31 December 2019
ASSETS			
Amounts with the Croatian National Bank	6	159,650	149,319
Cash and accounts with banks	7	124,460	143,878
Placements with other banks	8	466	467
Financial assets - securities	9	244,690	329,400
Loans and advances to customers	10	504,102	383,098
Property and equipment	11	14,832	15,623
Intangible assets	12	11,905	10,418
Other assets	13	20,416	23,425
TOTAL ASSETS		**1,080,521**	**1,055,628**
LIABILITIES			
Deposits from customers	14	887,277	830,700
Deposits and borrowings from banks	15	10,624	10,511
Subordinated debt	16	46,673	46,765
Provisions for liabilities and charges	17	1,560	2,838
Other liabilities	18	5,052	33,833
Deferred tax liability	29 c)	321	357
TOTAL LIABILITIES		**951,507**	**925,004**
EQUITY			
Share capital	19.1	307,085	307,085
Share premium	19.2	21,435	21,435
Treasury shares	19.4	(2,202)	(2,202)
Other reserves	19.3	3,792	3,792
Fair value reserve	19.5	2,821	2,414
Accumulated loss	19.6	(203,917)	(201,900)
TOTAL EQUITY		**129,014**	**130,624**
TOTAL LIABILITIES AND EQUITY		**1,080,521**	**1,055,628**

The significant accounting policies and other notes on pages 34 to 111 form an integral part of these financial statements.

Income statement for 2019

[HRK'000]	Notes	2018	2019
Interest and similar income	20	45,286	32,142
Interest and similar charges	21	(16,915)	(13,226)
Net interest income		**28,371**	**18,916**
Fee and commission income	22	9,268	9,350
Fee and commission expense	23	(940)	(831)
Net fee and commission income		**8,328**	**8,519**
Net gains and losses from financial assets at fair value through profit or loss and financial assets at fair value through OCI	24	3,841	7,034
Net foreign exchange gains and FX trading income	25	1,873	1,977
Other income	26	5,512	2,031
Trading and other income		**11,226**	**11,042**
Personnel expenses	27a	(17,953)	(15,963)
Depreciation and amortisation	11, 12	(4,724)	(7,409)
Other administrative expenses	27b	(14,805)	(12,266)
Expected credit losses and provisions	28	(9,613)	(822)
PROFIT BEFORE TAX		**830**	**2,017**
Income tax expense	29	-	-
PROFIT FOR THE YEAR		**830**	**2,017**
EARNINGS PER SHARE (in HRK)	**30**	**0.03**	**0.07**

The significant accounting policies and other notes on pages 34 to 111 form an integral part of these financial statements.

Statement of comprehensive income for 2019

[HRK'000]	2018	2019
Profit for the year	**830**	**2,017**
Items that will be reclassified subsequently to profit or loss:		
Financial assets at fair value through OCI - net change in fair value	1,313	7,483
Financial assets at fair value through OCI – reclassified to profit or loss	(3,528)	(7,283)
Financial assets at fair value through OCI - net changes in ECL allowance	(337)	(571)
Financial assets at fair value through OCI - deferred tax	399	(36)
Other comprehensive loss net of tax	**(2,153)**	**(407)**
TOTAL COMPREHENSIVE (LOSS) / INCOME	**(1,323)**	**1,610**

The significant accounting policies and other notes on pages 34 to 111 form an integral part of these financial statements.

Statement of changes in equity

[HRK'000]	Notes	Share capital	Share Premium	Treasury shares	Other reserves	Fair value reserve	Accumulated loss	Total
Balance at 1 January 2018		**307,085**	**21,435**	**(287)**	**3,792**	**4,974**	**(204,924)**	**132,075**
Total comprehensive income								
Profit for the year		-	-	-	-	-	830	830
Financial assets at fair value through OCI:								
Net change in fair value		-	-	-	-	*1,313*	-	*1,313*
Reclassified to profit or loss		-	-	-	-	*(3,528)*	-	*(3,528)*
Net changes in ECL allowance		-	-	-	-	*(337)*	-	*(337)*
Deferred tax on movements in fair value reserve		-	-	-	-	*399*	-	*399*
Total comprehensive income / loss		-	-	-	-	**(2,153)**	**830**	**(1,323)**
Transfer of realised gain on financial assets at FV through OCI to accumulated loss		-	-	-	-	-	177	177
Transactions with owners, recorded directly in equity:								
Purchase of treasury shares	19.1	-	-	(1,915)	-	-	-	(1,915)
Balance at 31 December 2018		**307,085**	**21,435**	**(2,202)**	**3,792**	**2,821**	**(203,917)**	**129,014**
Balance at 1 January 2019		**307,085**	**21,435**	**(2,202)**	**3,792**	**2,821**	**(203,917)**	**129,014**
Total comprehensive income								
Profit for the year		-	-	-	-	-	2,017	2,017
Financial assets at fair value through OCI:								
Net change in fair value		-	-	-	-	*7,483*	-	*7,483*
Reclassified to profit or loss		-	-	-	-	*(7,283)*	-	*(7,283)*
Net changes in ECL allowance		-	-	-	-	*(571)*	-	*(571)*
Deferred tax on movements in fair value reserve		-	-	-	-	*(36)*	-	*(36)*
Total comprehensive income / loss		-	-	-	-	**(407)**	**2,017**	**1,610**
Balance at 31 December 2019		**307,085**	**21,435**	**(2,202)**	**3,792**	**2,414**	**(201,900)**	**130,624**

The significant accounting policies and other notes on pages 34 to 111 form an integral part of these financial statements.

Statement of cash flows for 2019

[HRK'000]	Notes	2018	2019
Cash flow from operating activities			
Profit for the year		830	2,017
Adjustments:			
Depreciation, amortization of property and equipment and intangible assets	11, 12	4,724	7,409
Write-offs of property and equipment	11	-	44
Impairment losses and provisions	28	9,613	822
Net interest income		(28,371)	(18,916)
Net gains on financial assets at fair value through profit or loss and financial assets at fair value through OCI	24	(3,841)	(7,034)
		(17,045)	**(15,658)**
Changes in operating assets and liabilities			
Net decrease in loans and advances to customers		115,981	118,555
Net decrease/(increase) in placements with other banks		10	(1)
Decrease in obligatory reserves		15,113	1,913
Net decrease/(increase) in other assets		3,188	(3,009)
Net (decrease) in deposits from customers		(49,780)	(54,506)
Net (decrease)/increase in other liabilities and provisions		(395)	31,019
Movements in operating assets and liabilities		**84,117**	**93,971**
Interest received		60,647	36,322
Interest paid		(20,074)	(15,095)
Net cash inflow from operating activities		**107,645**	**99,540**
Receipts from/(purchase of) investment funds		15,353	(24,601)
Purchase of debt securities		(304,679)	(290,974)
Proceeds from debt securities		310,336	230,147
Acquisition of property and equipment and intangible assets		(551)	(553)
Net cash inflow/outflow from investing activities		**20,459**	**(85,981)**
Receipts from borrowings		149,298	125,708
Repayment of borrowings		(283,116)	(125,818)
Repayment of IFRS 16 leases		-	(3,001)
Increase in subordinated debt		-	90
Acquisition of own shares		(1,915)	-
Net cash outflow from financing activities		**(135,733)**	**(3,021)**
Net (decrease)/increase in cash and cash equivalents		(7,629)	10,538
Cash and cash equivalents at the beginning of the year		229,782	220,487
Effect of exchange rates fluctuations on cash and cash equivalents		(1,666)	569
Cash and cash equivalents at the end of the year	**32**	**220,487**	**231,594**

The significant accounting policies and other notes on pages 34 to 111 form an integral part of these financial statements.

Notes to the financial statements

1. General information

J&T banka d.d. ("the Bank") Member of the J&T Finance Group, dated back to 1994, when the Brodsko-posavska banka d.d. was incorporated in Slavonski brod, to build upon the tradition of the former Varaždinska banka, it changed its name on December 27, 2004 to Vaba d.d. banka Varaždin and relocated to Varaždin.

The Czech bank J&T a.s. recapitalised the bank with HRK 75 million in June 2014 and increased the Bank's capital to HRK 128.6 million. During 2015, J&T has further invested in the Bank's capital and the share capital was increased to HRK 231.1 million. During 2016, another increase of the share capital of the Bank was conducted in the amount of HRK 76 million by the majority shareholder of the Bank - J&T Bank a.s. so the new share capital amounts to HRK 307.1 million, and J&T Banka a.s. holds a total of 25,350,000 shares tags BPBA-R-B or equity of 82.55%.

From 1 January 2017 the Bank started operating under the name J&T banka d.d.

These financial statements were approved by the Board on 30 April 2020 for submission to the Supervisory Board.

2. Basis of presentation

(a) Statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in Croatia. The Bank's operations in Croatia are subject to the Credit Institutions Act, in accordance with which the Bank's financial reporting is regulated by the Croatian National Bank (the CNB) which is the central regulatory institution of the banking system in Croatia. These financial statements have been prepared in accordance with these regulations.

The principal accounting policies applied in the preparation of these financial statements are summarized below. Except as disclosed in *Note 2 (e)*, the Bank has consistently applied the accounting policies presented below for all periods reported in these financial statements. Where specific accounting policies are aligned with accounting principles set out in International Financial Reporting Standards, reference may be made to certain Standards in describing the accounting policies of the Bank; unless otherwise stated, these references are to Standards as adopted in the European Union as at 31 December 2019.

Provisions for credit losses were calculated in accordance with the CNB Decision on the classification of exposures into risk categories and the method of determining credit losses (the Decision on classification), which entered into force on 1 January 2018, and partially adopted the requirements of IFRS 9 Financial Instruments.

The accounting regulations based on which these financial statements have been prepared differ from IFRS both in terms of presentation as well as in terms of recognition and measurement. We draw attention to the following measurement differences between the accounting regulations of the CNB and the recognition and measurement requirements of IFRS:

- According to CNB regulations valid until 31 December 2019, the CNB required banks to recognise impairment losses, in the income statement, for exposures classified in the risk subgroups A-1 and A-2 and on off-balance sheet exposures at least at a minimal prescribed rate of 0,8% (excluding financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income). Impairment allowance on loans and advances to customers classified as risk subgroups A-1 and A-2, carried at amortized cost of HRK 7,477 thousand, are recorded in the statement of financial position of the Bank (HRK 293 thousand on off-balance sheet exposures of the Bank) in accordance with the requirements of the CNB. The amounts released in the Bank's profit and loss amounted to HRK 1,343 thousand for balance sheet exposures and HRK 291 thousands for off balance sheet exposures.
- Suspended interest represents the accrued uncollected interest on assets which are classified as impaired. Upon reclassification the Bank provides the full amount of the accrued uncollected interest in the income statement, and ceases to recognise any further interest in the statement of financial position and recognises suspended interest off-balance-sheet until collected in cash from the borrower.

Notes to the financial statements

2. Basis of presentation (continued)

(a) Statement of compliance (continued)

This policy is not in accordance with IFRS 15 Revenue and IFRS 9 Financial Instruments: Recognition and measurement which requires interest income on impaired financial assets to be recognised using the effective interest rate method.

- Although the Bank calculates the impairment of individually significant exposures as the present value of expected cash flows discounted at the original effective interest rate instrument in accordance with International Financial Reporting Standards, the CNB requires that the depreciation of the calculated discount be presented in the income statement as a change in impairment losses of loans and advances rather than interest income, as prescribed by the International Financial Reporting Standards.
- Additionally, the CNB prescribes minimum levels of impairment losses against certain non-performing exposures, regardless of the net present value of expected future cash flows, which may be different from the impairment loss required to be recognised in accordance with the IFRS requirements.
- Furthermore, the CNB also prescribes the minimum haircut factors and the minimum period of realization of collaterals for exposures that are identified as non-performing and where the collection is expected from adequate collaterals, which may lead to different calculation of impairment.
- In accordance with local regulations, the Bank recognises provisions for court cases incorporating the likelihood of the loss into measurement of the provision (i.e. if the likelihood of the loss is estimated to be 10%, the provision will be calculated as 10% of the potential loss), which is contrary to IFRS, which prescribes recognition of the full amount of potential loss, once it is probable that the court case will be lost.

(b) Basis of measurement

The financial statements are prepared on a fair value basis for financial assets at fair value through profit and loss and, financial assets at fair value through other comprehensive income and part of loans and advances portfolio. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortized or historical cost.

(c) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. The effects of 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.

Judgements made by the management in application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of a possible material adjustment in future periods are discussed in Note 5.

(d) Functional and presentation currency

The Bank's financial statements are presented using the currency of the primary economic environment in which the Bank operates (the functional currency), Croatian kuna (HRK). Amounts are rounded to the nearest thousand.

The exchange rates of currencies, in which the majority of the Bank's assets and liabilities are denominated, are used for the translation of the Bank's assets and liabilities and as at 31 December 2019 they were as follows: EUR 1 = HRK 7.443 (2018: EUR 1 = HRK 7.418) and USD 1 = HRK 6.650 (2018: USD 1 = HRK 6.469).

Notes to the financial statements (continued)

2. Basis of presentation (continued)

(e) Application of new and revised International Financial Reporting Standards

Except for the changes below, the Bank has consistently applied the accounting policies as set out in the Notes below to all periods presented in these financial statements.

Effective standards, amendments to standards and implementations – adopted in 2019

The Bank has adopted the following new standards and amendments to standards and interpretations that became effective (and were endorsed by the European Union) for annual periods beginning on or after 1 January 2019:

IFRS 16 *Leases*

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

i) Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3(i).

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for leases under IFRS 16.

ii) As a lessee

As a lessee, the Bank leases an office premises. The Bank previously classified this lease as an operating lease under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises an right-of-use asset and lease liability for the lease of the office premises.

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

On transition, for this lease, a lease liability was measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019. The right-of-use asset is measured at an amount equal to the lease liability.

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

– did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months from the date of initial application;

– did not recognise right-of-use assets and liabilities for leases of low-value assets;

On transition to IFRS 16, the Bank recognised right-of-use assets in the amount of HRK 6,204 thousand and additional lease liabilities in the same amount.

Notes to the financial statements (continued)

2. Basis of presentation (continued)

(e) Application of new and revised International Financial Reporting Standards (continued)

iii) As a lessor these are effects of IFRS 16 implementation at 1 January 2019:

	In 000 HRK
Lease commitments as at 31 December 2018	6,647
Discounted at the Bank's incremental borrowing rate at the day initial application	6,322
Increased by: finance lease liabilities recognised as at 31 December 2018	-
Decreased by: liabilities from lease contracts exempt in accordance with IFRS 16	(118)
Lease liability as at 1 January 2019	6,204
Of which:	
Short-term liability	2,798
Long-term liability	3,406

(f) Going concern

The financial statements have been prepared on a going concern basis.

In 2019, the Bank earned a net profit of HRK 2 million (2018: net profit of HRK 0.8 million) and at 31 December 2019 had accumulated losses of HRK 201.9 million (31 December 2018: 203.9 million). Due to significant losses in the past, the Bank had several recapitalisations by the majority owner since 2014 in order to maintain capital adequacy prescribed by the CNB.

As disclosed in Note 4.1.5, the TIER 1 capital adequacy ratio at 31 December 2019 amounts to 19.10% and is above the minimum rate prescribed by the CNB and the Bank’s total capital adequacy ratio amounts to 24.43%

As disclosed in Note 39, the going concern assumption will be influenced by systemic threats associated with the recent COVID-19 (coronavirus) outbreak. Following the coronavirus outbreak, the Bank is continuing to monitor the situation carefully and taking precautions in line with the recommendations of the World Health Organization and local authorities. Critical activities and processes are constantly monitored, assessing the potential evolutions and impacts on business activities. Note 39 provides further details of the facts and circumstances considered by the Management Board in concluding on the going concern assumption.

Notes to the financial statements (continued)

3. Significant accounting policies

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

(a) Interest income and expense

Interest income and expense are recognized in profit or loss as it arises for all interest-bearing financial instruments, including those measured at amortized cost and FVOCI debt securities, taking into account the effective rate of return of the asset / liability or the applicable variable rate. Interest income and expense includes amortization of the discount or premium, as well as other differences between the initial carrying amount of the interest-bearing financial instrument and the amount by maturity, which is calculated using the effective interest rate.

An effective interest rate is the rate at which the expected future cash outflows or receipts are discounted over the expected lifetime of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Interest income is recognized depending on the degree of credit risk of a financial instrument and for financial assets classified in Stage 1 and Stage 2 (performing) - when calculating interest income, the EIR is applied to the gross carrying amount of financial assets, and for financial assets allocated to Stage 3 the interest is suspended. Suspended interest represents an already charged interest on an asset for which an individual impairment has been recognized (non-performing). At the time of reclassification into uncollectable receivables, the Bank writes off the full amount of accrued uncovered interest at the expense of the income statement and suspends further calculation in the balance sheet and keeps the suspended interest off-balance until the debtor makes a cash payment.

For purchased or created financial assets decreased for credit losses - POCIs, the EIR adjusted for credit risk at the amortized cost of the POCI assets is applied in the calculation of interest income.

In calculating the effective interest rate, the Bank does not take into account future credit losses. The calculation includes all fees and percentage points paid or received between the contracting parties which are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

(b) Fee and commission 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 the Bank. Fee and commission income and expense are recognised in the income statement when the related service is performed.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part for itself or has retained a part at the same effective interest rate as other participants. Portfolio and other management service fees are recognised based on the applicable service contracts.

(c) Dividend income

Dividend income from equity securities is recognised in the income statement when the rights to receive the dividend are established.

(d) Net realised gains and losses from financial assets at fair value through profit or loss and financial assets at fair value through OCI

The category includes realised and unrealised gains and losses on debt and equity securities held for trading and other financial instruments at fair value through profit or loss.

Net gains and losses on derecognition of financial assets at fair value through other comprehensive income refer to gains and losses from sale of debt securities classified as FVOCI.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(e) Net foreign exchange gains

Net gains from foreign exchange include unrealised and realised gains and losses arising from spot dealings in foreign currencies.

(f) Foreign currencies

Foreign currency transactions are translated into the respective functional currency using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate prevailing at that date.

Foreign currency differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into HRK at the foreign exchange rate prevailing at the date on which their fair value was determined.

Non-monetary assets and items that are carried at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction and are not re-translated.

Changes in the fair value of securities denominated in foreign currency classified as fair value through OCI are separated between exchange rate differences arising from changes in the amortized cost of securities and other changes in the carrying amount of the security. Translation differences on securities classified as FVOCI are recognised in profit or loss, while other changes in carrying amount are recognised in other comprehensive income.

Foreign exchange differences are recognized in the income statement as part of exchange gains or losses on the sale of monetary assets and liabilities. Foreign exchange differences on non-monetary financial assets, are included within other comprehensive income.

(g) Financial instruments

i) <u>Classification</u>

After initial recognition, financial assets are classified as assets at amortized cost, assets at fair value through other comprehensive income (FVOCI) and assets at fair value through profit and loss (FVTPL).

Financial assets are measured at amortized cost if they meet both of the following conditions and if they are not valued at fair value through profit and loss (FVTPL):

- The purpose of a business model is to hold assets in order to collect contractual cash flows;
- The contractual terms of a financial asset presume cash flows that are solely principal and interest payments (SPPI), at specific dates.

A debt instrument is measured at fair value through other comprehensive income (FVOCI) if it meets both of the following conditions and if it is not valued at fair value through profit and loss account (FVTPL):

- The purpose of the business model is the holding of assets for the purpose of collecting contractual cash flows and the sale of financial assets; and
- contractual terms of financial assets presume cash flows that are solely principal and interest repayment (SPPI), at specific dates.

In the initial recognition of an investment in equity instruments that are not held for trading, the Bank may irrevocably decide to display subsequent changes in fair value through other comprehensive income. This choice is made on the basis of a particular investment.

All other financial assets are classified as measured at fair value through profit or loss (FVTPL).

In addition, at initial recognition, the Bank may irrevocably evaluate financial assets at fair value through profit or loss (FVTPL), although it meets the measurement requirements at amortized cost or at fair value through other comprehensive income (FVOCI), if this eliminates or substantially reduces the accounting mismatch that would arise if contrary.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

i) Classification (continued)

Business Model Assessment

The Bank determines the goal of the asset's business model because it best represents the way in which assets are managed and the Bank's management is reported. Information considered includes:

- management policies and portfolio objectives and implementation of these policies in practice;
- assessing the performance of the portfolio and reporting to the management of the Bank;
- risks affecting the performance of the business model (and financial assets within that business model) and the risk management strategy; and
- frequency, volume and time of sales in previous periods, reasons for the sale and expectations of future sales activities.

Financial assets held for trading and whose performance is assessed on the basis of fair value are measured at fair value through profit and loss account, as it is not held for the purpose of collecting the contracted cash flows nor for collecting contractual cash flows and for sale.

Estimate whether contractual cash flows are solely principal and interest payments

In order to assess whether contractual cash flows are solely payments of principal and interest, the principal is defined as the fair value of financial assets at initial recognition. Interest is defined as compensation for the time value of money and credit risk associated with the outstanding principal amount over a specified period of time and for other basic risks and costs of lending (eg liquidity risk and administrative costs) and as a profit margin.

When assessing whether the contractual cash flows are solely principal and interest payments (SPPI), the Bank considers the contractual terms of the instrument. This includes assessing whether a financial asset contains a contractual term that could change the time or amount of contractual cash flows so that it would not meet the SPPI requirement. When assessing, the Bank considers:

- potential events that would change the amount and time of cash flows;
- terms of prepayment and extension; and
- features that alter the consideration of the time value of money (eg periodic interest rate reset).

Reclassification

Financial assets are not reclassified after initial recognition, except in the period after the change in the financial model for the financial asset management.

Loans and advances to customers

The "Loans and advances to customers" caption in the statement of financial position includes:

- loans and advances measured at amortised cost; initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- loans and advances mandatorily measured at fair value through profit and loss account (FVTPL) or designated as at fair value through profit and loss account (FVTPL); these are measured at fair value with changes recognised immediately in profit or loss.

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

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

i) Classification (continued)

Financial assets - investment securities

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

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

For debt securities measured at fair value through other comprehensive income (FVOCI), gains and losses are recognised in other comprehensive income (OCI), except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income;
- calculation of Expected credit loss (ECL) and reversals; and
- foreign exchange gains and losses.

When debt security measured at fair value through other comprehensive income is derecognised, the cumulative gain or loss previously recognised in other comprehensive income (OCI) is reclassified from equity to profit or loss.

The Bank decides to present in other comprehensive income (OCI) changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

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

ii) Recognition and derecognition

Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders. Regular way purchases and sales of financial assets are recognised on the settlement date. The settlement date is the date that an asset is delivered to or by the Bank and while the underlying asset or liability is not recognised until the settlement date, changes in the fair value of the underlying financial assets and liabilities at fair value through profit or loss and FVOCI financial assets are recognised starting from the trade date.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

ii) Recognition and derecognition (continued)

Derecognition of financial assets due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, apart from quantitative factors, the bank considers the following: change in currency of the loan, introduction of an equity feature, change in counterparty, whether the modification is such that the instrument no longer meets the SPPI criterion.

Modifications of financial assets which do not result in substantially different cash flows

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

Derecognition of financial assets other than for substantial modification

A financial asset (or, a portion thereof or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass-through" arrangements that result in derecogntion if the Bank: (i) has no obligation to make payments unless it collects equivalent amounts from the assets, (ii) is prohibited from selling or pledging the assets and (iii) has an obligation to remit any cash it collects from the assets without material delay.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

ii) Recognition and derecognition (continued)

Derecognition of financial assets other than for substantial modification (continued)

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.
Collaterals (e.g. bonds) furnished by the Bank under standard repurchase agreements and borrowing transactions are not dereocognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price and the criteria for derecognition are therefore not met.

Derecogntion of financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. If the terms of a financial liability are significantly modified, the Bank will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.
Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

iii) Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Financial assets at fair value through profit or loss are initially recognised at fair values, and transaction costs are directly recognised in profit or loss.

After initial recognition, the Bank measures financial instruments at fair value through profit or loss at their fair value, without any deduction for selling costs. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment.

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) Gains and losses

Gains or losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in the income statement. Gains or losses arising from a change in the fair value of FVOCI monetary assets are recognised directly in the other comprehensive income. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on monetary assets at FVOCI are recognised in profit or loss. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in other comprehensive income.

Upon sale or other derecognition of FVOCI financial assets, any cumulative gains or losses on the instrument are transferred to the income statement. Gains or losses arising from financial assets and financial liabilities carried at amortised cost are recognised as interest in profit or loss over the period of amortisation. Gains or losses may also be recognised in the income statement when a financial instrument is derecognised or when its value is impaired. Dividend income is recognised in the income statement.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

v) Determination of fair value of financial instruments

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

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If a market for a financial instruments is not active, for unlisted securities, or, if for any reason, fair value cannot be reasonably measured by market price, then the Bank establishes fair value using a valuation techniques (except for certain unquoted equity securities) that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction The Bank recognises the transfer between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is entirely supported by observable market data. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counterparty where appropriate.

Amortised cost of financial assets or liabilities is the amount at which that financial asset or liability is initially recognized, less any principal repayments, increased or decreased by cumulative depreciation by applying the effective interest method to an eventual difference between the initial recognition and the amount at maturity, less any impairment allowance.

For financial reporting purposes, fair value measurements are categorised 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.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets

The Bank recognises loss allowances for "expected credit losses" (hereinafter: ECL) on the following financial instruments that are not measured at fair value through profit or loss (FVTPL):

- debt instruments;
- issued guarantees; and
- loans and advances to customers.

No impairment loss is recognised on equity investments and financial assets at fair value through profit or loss (FVTPL).

The Bank measures impairment losses at an amount equal to lifetime expected credit losses (ECL), except for the following, for which they are measured as 12-month expected credit loss (ECL):

- debt securities for which it was determined to have a low credit risk at the reporting date; and
- other financial instruments for which credit risk has not significantly increased since their initial recognition.

12-month expected credit losses (ECL) are the portion of expected credit loss (ECL) that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month expected credit loss (ECL) is recognised are referred to as "Stage 1 financial instruments", or A-1 risk category by CNB.

Life-time expected credit losses (ECL) are the expected credit losses (ECL) that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime expected credit loss (ECL) is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments", or A-2 risk category by CNB.

Total impairment of exposures classified in risk categories A-1 and A-2 during the period until 31 December 2019 may not be less than 0.8% of the gross book value except for financial assets measured at fair value through other comprehensive income.

Expected Credit Loss Measurement (ECL)

For the purpose of assessing the expected credit losses, the Bank prescribes processes and control mechanisms for the development and application of estimation methods of expected credit losses with a goal to ensure their integrity and timely inclusion of relevant data.

Probability of default (PD) provides an estimate of the probability that the borrower will not be able to fulfil his obligations. For PD calculations loans and advances are divided into corporate and retail. Corporate loans are divided into homogeneous groups by type of product, while retail is a separate homogeneous group. For each homogeneous groups, the default rate is calculated based on available historical data. In order to incorporate future information adequately into macroeconomic scenarios, the Bank uses adjustments of the calculated PD to macroeconomic expectations. The macroeconomic scenario is determined on the basis of customised publicly available information.

To determine the PD (probability of default) for exposures to countries or exposures rated by an external credit rating institution, the Bank uses the data available on the Moody's Investor Service website (Annual One-Year Alphanumeric Rating Migration Rates). For unsecured exposures for which an external credit rating agency is available, the Bank uses the basic approach prescribed by the BIS (Bank for international settlement): LGD of 45% (Basel Committee on Banking Supervision Discussion Paper Regulatory treatment of accounting provisions, October 2016).

For securities under the model Financial assets through other comprehensive income, primarily related to corporate bonds, the Bank uses the Parent Company's internal rating (J&T bank a.s.) to calculate the ECL ("Expected credit loss").

For exposures to credit institutions and the CNB that are classified to risk subgroups A-1 and A-2, the Bank uses a single rate of 0.8% of the gross book value of exposure.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets (continued)

Restructuring of financial assets

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

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

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Definition of default

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets').

The borrower is considered as defaulted and therefore Stage 3 in cases when the borrower is more than 90 days past due on any material credit obligation to the Bank or when the borrower is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security.

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

- significant financial difficulties of the debtor;
- breach of contract such as failure to complete or due to maturity;
- restructuring of a loan or an advance by the Company under conditions that the Company would not consider in the normal circumstances;
- it is probable that the borrower will enter bankruptcy or another type of financial reorganisation.

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

Presentation of impairment allowance for expected credit loss (ECL) in the statement of financial position

Loss allowances for expected credit loss (ECL) are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the asset;
- credit lines and issued guarantees: in general, as provisions;
- when the financial instrument includes a drawn and an undrawn component, and the Bank can not identify the expected credit loss (ECL) separately: The Bank shows a loss for both as a deduction from the gross carrying amount of the used component;
- Debt instruments measured at fair value through other comprehensive income (FVOCI): no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets (continued)

Write-off

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

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

vii) Offsetting of financial instruments

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

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

(h) Specific financial instruments

Cash and cash equivalents

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

Derivative financial instruments

In accordance with its investment policy, the Bank does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied.

Derivative financial instruments are initially recognised at fair value which is the value of the 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 derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is considered to represent an embedded derivative. Unless it is inconsistent with the requirements of the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the primary 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 unrealised gains and losses recognised in the income statement, unless there is no reliable measure of their fair value.

Treasury bills and debt securities

Treasury bills and debt securities that the Bank holds for short-term gain purposes are carried at fair value. The Bank uses treasury bills for liquidity purposes.

Equity securities and investments in investment and other funds

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

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(h) Specific financial instruments (continued)

Placements with banks

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

Current accounts and deposits from banks

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

Deposits from customers

Deposits are classified as other liabilities and initially measured at fair value plus transaction costs, and subsequently stated at the amortised costs using the effective interest method.

Loans and advances to customers

Loans and advances to customers are presented net of impairment losses to reflect the estimated recoverable amounts or at fair value for loans and advances that are measured at fair value.

Borrowings

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

Sale and repurchase agreements

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

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

Financial guarantee

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

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, being the premium received, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee becomes probable), depending on which amount is higher. Financial guarantees are included within other liabilities.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(i) Leases

Policy applicable after 1 January 2019

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

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following: fixed payments, including in-substance fixed payments.

The lease liability is measured at amortised cost using the effective interest method.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

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

Policy applicable before 1 January 2019

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases, in such cases the Bank recognises such leases as non-current assets and depreciates them over its useful life or lease period, whichever is shorter. There were no such contracts at the reporting date.

All other leases are operating leases. Operating lease expenses are recognised in the income statement on a straight-line basis over the term of the lease.

(j) Income tax

Income tax is based on taxable income for the year and comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(j) Income tax (continued)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which the carrying value of assets and liabilities is expected to be recovered or settled based on tax rates enacted at the reporting date.

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

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the balance sheet. Deferred tax assets are recognised only to the extent that it is probable that they could be utilised as a tax benefit. At each balance sheet date, the Bank reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

(k) Property and equipment

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

Recognition and measurement

Property and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes the cost that is directly attributable to the acquisition of assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.
Land and assets under construction are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

	2019	2018
Buildings	33 years	33 years
IT equipment	5 years	5 years
Furniture and equipment	7-15 years	7-15 years
Motor vehicles	4 years	4 years
Other assets	10 years	10 years

Residual values are not taken into account. Depreciation methods and estimated useful lives are reassessed at each reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the income statement.

(l) Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairment. Expenditure on development activities is recognised as intangible assets if all of the requirements of IAS 38 "*Intangible Assets*" are met. Amortisation is provided on the straight-line basis over the estimated useful lives of intangible assets. Costs associated with maintaining intangible assets are recognised as an expense as incurred.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(l) Intangible assets (continued)

Intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

	2019	2018
Leasehold improvements	5 years	5 years
Software	5 years	5 years
Applicative software developed by the Bank	10 years	10 years
Licences	5 years	5 years

(m) Impairment of non-financial assets

The recoverable amount of property and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). 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.

All non-financial assets previously impaired, 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 amortisation/depreciation, if no impairment had been recognised.

(n) Provisions for liabilities and charges

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made, or as required by law in the case of provisions for unidentified impairment of off-balance-sheet credit risk exposures, as previously referred to in Note 3 (g) 'Financial Instruments'.

Provisions for liabilities and charges are maintained at a level which the Bank's Management Board believes is adequate to absorb probable future losses. The Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of various categories of transactions and other relevant factors. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If an outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

(o) Employee benefits

Pension obligations

The Bank pays contributions to state-owned institutions and obligatory pension funds managed by privately owned management companies, in accordance with legal requirements or by individual choice. The Bank has no further payment obligations once the contributions have been paid. Pension contributions are recognised as staff costs in the income statement as they accrue.

Other employee benefits

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory termination benefits, are recorded as the net present value of the liability for defined benefits at the reporting date. The projected discounted present value unit method is used for the calculation of the present value of the liability, using discount rates that, in the opinion of the Bank's Management Board, best represent the time value of money.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(o) Employee benefits (continued)

Termination benefits

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

(p) Equity

Issued share capital represents the nominal value of paid-up ordinary shares classified as equity and is denominated in HRK. The premium on the issued shares presents the surplus of the fair value above the nominal value of the issued shares.

Accumulated losses

Accumulated losses include losses from previous periods and loss for the year.

Loss per share

The Bank presents basic loss per share (EPS) data for its ordinary shares. Basic EPS 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.

Treasury shares

Acquisition of treasury shares is carried out in the cases provided by the Companies Act, primarily in order to eliminate possible damage. Purchased treasury shares are stated at cost of purchase. The difference realized through the sale of treasury shares at the cost above the cost of acquisition is shown in favour of the capital gains account, and the difference realized below the cost of acquisition represents a capital loss.

(q) Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded in off-balance-sheet records and primarily comprise guarantees, letters of credit and undrawn revolving loan commitments. Such financial commitments are recorded in the Bank’s balance sheet if and when they become payable.

(r) Foreclosed assets

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

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the cost of the related loans and advances and the current fair value of such assets. The Bank’s intention is mainly to sell such assets, which, however, in certain limited cases may end up being used by the Bank.

Gains or losses on disposal are recognised in the income statement.

Notes to the financial statements (continued)

4. RISK MANAGEMENT

4.1 Internal assessment of risk of the Bank's operations

This section provides details regarding the Bank's exposure to risk and describes the methods used by the management to identify, measure and manage risks in order to safeguard capital. The most significant types of financial risks to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk.

For the most significant risks, the Bank adopted strategies and policies which include objectives and basic principles of risk assumption and management, define its risk profile and risk appetite and the compliance of the Bank's risk profile and the level of capital.

The Bank has established a risk management system appropriate to the nature, scope and complexity of the business, and the risk profile of the Bank, which includes an adequate strategy, policy and other internal regulations for risk management, organisational structure with defined authorities and responsibilities for risk management, risk management process and system of internal controls. The Bank regularly monitors and checks the risk management system and identifies and assesses the risks to which it is or expects to be exposed in its operations.

4.1.1 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. Credit risk can be defined as a risk of financial loss of the Bank by a counterparty failing to discharge its obligation.

The Bank manages its credit risk exposure in accordance with the legislative requirements and regulations of the Croatian National Bank, as well as in accordance with its internal procedures. The Bank has established a system for monitoring its entire loan portfolio. The Credit Committee, the Supervisory Board and the Audit Committee are regularly informed of the quality of the portfolio. The analysis of the loan portfolio includes, at a minimum, an analysis of risk categories, overdue days and total exposure. Report on Credit Risk and Concentration Risk is prepared by the Risk Management Sector. Based on the analysis results, decisions are made on the Bank's strategy toward the counterparty, group of related parties, certain industry or economic sector, geographical region, risk product type, certain type of collateral, etc.

Risk Appetite Statement in the area of credit risk and Credit Risk Management Policy and Strategy is the main document, i.e. a framework for managing credit risk, which is complemented with procedures, instructions and other documents that define the following in more detail:

- credit risk appetite,
- clear lines of authority and responsibility,
- way of assumption, overcoming and management of credit risk,
- defining the credit process and establishing a system of control and reporting of credit risk exposure,
- methodology for determining credit worthiness, measurement and assessment of credit risk for the duration of the repayment / validity of risky products,
- procedures for controlling and monitoring credit risk, including the establishment of exposure limits,
- maximum exposure limits regarding risk products with common risk factors,
- procedures and measures for approval of deviations from the application of existing policies, in case such deviations should occur and
- stress testing as a preparation of the Bank for possible crisis situations.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit risk assessment

The process of credit risk assessment of placements comprises the following:

- debtors' creditworthiness,
- timely settlement of due instalments and
- collateral quality.

Creditworthiness is assessed for each loan application, and thereafter, as a minimum once a year subsequent to the delivery of the annual financial statements by the clients to which the Bank is exposed.

Monitoring of placements and contingent liabilities includes continuous assessment as to whether elements exist which would indicate a deterioration of the customer's financial position or an increase in risk due to the decrease of collateral value.

The Bank's effort, whenever possible, is to reconcile the customers' ability to pay in accordance with prevailing market conditions by way of overall restructuring of the debtors' operations or financial position. This should ultimately lead to a better settlement of liabilities to the Bank and improve the liquidity of customers in order to ensure business stability and sustainability over the long term.

Classification of placements into risk categories

The risk classification process and classification criteria into risk categories and impairment for expected credit losses is defined by the CNB's Decision on the Classification of Exposure to Risk Groups and the Method of Determining Credit Losses and IFRS 9.

The Bank classifies its loan exposures into two groups: small loan portfolio (group of related exposures below HRK 200 thousand) and individually significant exposures (group of related exposures exceeding HRK 200 thousand). Impairment of small loan portfolio exclusively depends on the ageing of overdue amounts, while impairment of individually significant exposures are individually assessed for impairment, as it was earlier described in Note 3 g) vi).

On initial recognition, financial assets subject to the expected credit loss model are classified in risk category A-1, except in the case of purchased or created financial assets less credit losses when the indicator POCI is added to the risk category.

The Bank reassesses the risk of each exposure subject to the expected credit loss model at least every 3 months, and possibly more frequently if necessary. The Bank assesses the credit quality of exposures throughout the contractual relationship and classifies those exposures into appropriate risk groups based on the following general classification criteria:

1) the debtor's creditworthiness

2) regularity in the settlement of the debtor's obligations to the credit institution and other creditors represents the debtor's ability to fully settle its obligations to the Bank on the basis of principal, interest, fees and other grounds within the agreed terms and that it does not satisfy the conditions laid down in Article 178 of Regulation (EU) no. 575/2013 defining default status

3) the quality of the security for individual exposures, which is determined on the basis of market liquidity, documentation and the ability to exercise supervision by the bank, the possibility of forced collection and value in relation to the exposure based on placements / off-balance sheet liabilities

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Classification of placements into risk categories (continued)

Increased credit risk arises in the event of any of these conditions occurring and indicates the reclassification of exposures from A1 to A2:

- the borrower is late in payment of its overdue exposures by more than 30 days at the reporting date, but is still within deadlines not exceeding 90 days,
- in the last 3 months, the borrower has been late in paying its overdue exposures more than 30 days but has not exceeded 90 days; and
- on the reporting date, the debtor is in order to settle obligations or settle liabilities within deadlines not exceeding 30 days, but in the last 3 months a delay of more than 30 days was recorded, but did not exceed 90 days.

In addition to the day of delays mentioned in the previous paragraph, the Bank prescribes additional indicators for large portfolio that are monitored and indicate increased credit risk. These are indicators of a qualitative and quantitative nature closely related to the client's business. The occurrence of any of the indicators indicates a reclassification of exposures.

The Bank considers that default status has occurred in the following conditions and refers to the reclassification of exposures to the minimum B1 risk category.

- the debtor has failed to fulfil its overdue obligation for more than 90 days under any significant credit obligation to the credit institution, its parent company or any of its subsidiaries
- the Bank considers it probable that the debtor will not fully meet its obligations to the Bank, its parent company or any of its subsidiaries without considering the possibility of collateral collection. In this regard, the Bank prescribes indicators for large portfolio that, in addition to the day of delay, indicate default status. These are indicators of a qualitative and quantitative nature closely related to the client's business.

After calculating the required impairment, the Bank allocates exposures to risk categories depending on the level of the calculated loss (in accordance with the CNB Regulations).

1. **Risk category A**

   A1 - newly approved exposures at the beginning of the contractual relationship and exposures where no significant increase in credit risk was identified since initial recognition (calculation of expected credit losses over a twelve-month period)

   A2 - exposures where a significant increase in credit risk was recognized since initial recognition (calculation of expected credit losses over the lifetime of the financial asset)

2. **Risk category B** – partly recoverable exposure which are classified into three subcategories, depending on the percentage of the impairment losses recognized in relation to the nominal carrying amount:

   B1 – when the level of impairment and provisions does not exceed 30% of the exposure amount;

   B2 – when the level of impairment and provisions amounts to more than 30% (minimum 30.01%) and not more than 70% of the exposure amount;

   B3 – when the level of impairment and provisions is more than 70% (minimum 70.01%) and less than 100% of the exposure amount.

3. **Risk category C** - non-recoverable placements with impairment at the amount of 100% exposure.

Exposures classified in risk category represent performing exposures while exposures in risk category B and C represent non performing exposures.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Assets exposed to credit risk

The Bank's primary exposure to credit risk arises from loans and advances to customers, debt securities, amounts with the CNB, accounts with banks and receivables. In addition, the Bank is exposed to credit risk arising from off-balance-sheet items, through commitments arising from unused facilities and guarantees issued. Exposures to banks and other assets that are not presented at fair value are also considered a credit risk where the credit risk is not the primary risk of impairment. The table below presents the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is presented net of impairment for expected credit losses before the effect of mitigation through collateral agreements.

[HRK'000]	Notes	31 December 2018	31 December 2019
Amounts with the Croatian National Bank	6	159,650	149,319
Placements with other banks	8	466	467
Giro accounts with banks	7	112,097	135,689
Financial assets at fair value through OCI	9	234,406	294,515
Loans and advances to customers	10	504,102	383,098
Other assets	13	1,521	1,440
Total assets exposed to credit risk		**1,012,242**	**964,528**
Guarantees		8,920	6,804
Credit lines		23,164	23,269
Total off-balance sheet exposure to credit risk	33	**32,084**	**30,073**
Total credit risk exposure		**1,044,326**	**994,601**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Collateral and other credit enhancements held

In terms of credit risk mitigation, the Bank's policy is to require suitable collateral to be provided by customers prior to the disbursement of approved loans. As a rule, the Bank approves a facility if there are two independent and viable repayment sources – cash flows generated by the borrower's activity and security instruments/collateral.

In general, a quality security instrument is an instrument with characteristics that provide a reasonable estimate of the Bank's ability to recover its receivables secured by that instrument (in case of its activation), through market or court mechanisms, within a reasonable period of time. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its regular review of the adequacy of the allowance for impairment losses.

Based on the applicable acts, the Bank's standard collateral instruments are, in addition to promissory notes and bills of exchange: bank guarantees, real estate and movable asset pledges/fiduciary rights, fiduciary/pledge rights on shares and shares in open-ended investment funds, fiduciary/pledge rights on equity interests in a company, assignment of receivables from companies and government, guarantees of guarantee agencies and cash deposits.

A significant part of the corporate portfolio is secured by mortgages over different types of property. The liquidity of the real-estate market has an effect on the recoverability of assets and its timing in cases where, due to borrowers' financial difficulties, the Bank relies on collateral for collection.

The valuation of property and movable assets is performed by certified assessors included in the list of the Bank's certified assessors. The collateral value is revised based on common business practices and market movements.

Restructuring of loan exposures

Restructuring of an exposure resulting with a decrease of initially contracted debtor's liabilities, is considered to be an evidence of loss. The Bank has set up a system for identifying and subsequent monitoring of restructured exposures. Restructured exposures which were classified in risk category A before restructuring, are at least classified to risk category B1. Restructured exposures which were classified in one of the sub-categories of the risk category B before restructuring are classified in that same risk category or lower after restructuring. Reclassifying a restructured exposure into a different risk category is performed immediately during the restructuring:

Restructured exposures may be classified into risk category A after a period of at least 12 months if, after the credit assessment, it is evident that the exposure meets the following conditions:

a) financial position of the client is based on reliable cash flows
b) regular repayment has been established in a period of minimum 12 months and during that period significant payments have been made (regular repayment means no debt due over 30 days)
c) there are no overdue outstanding claims in in accordance with the repayment plan that is applied in accordance with the restructuring plan.

The minimum period of 12 months specified in the previous paragraph begins with the last of the following events:

a) moment of introducing measures for the restructuring of exposure
b) the end of the period of interest included in the exposure restraint arrangement

In case of a classification of the restructured exposure to risk category A, and when required terms are fulfilled, a new 24-month period is activated during which the borrower may not be overdue for more than 30 days with a materially significant amount (> 1,750.00 HRK). Otherwise such exposure is again classified into the risk group B1 or worse.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis

The following table presents information on credit quality of financial assets measured at amortized cost, debt instruments at fair value through other comprehensive income and other assets. Unless otherwise indicated, for financial assets shown in the table, values are represented as gross book value. For credit lines and guarantees, the amounts in the table are obligatory or guaranteed amounts.

[HRK'000]	2019				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Amounts with the CNB					
Very low risk	150,523	-	-	-	**150,523**
ECL allowance	(1,204)	-	-	-	**(1,204)**
Carrying value	**149,319**	**-**	**-**	**-**	**149,319**
Accounts with banks					
Very low risk	136,783	-	-	-	**136,783**
ECL allowance	(1,094)	-	-	-	**(1,094)**
Carrying value	**135,689**	**-**	**-**	**-**	**135,689**
Placements with other banks					
Very low risk	471	-	-	-	**471**
ECL allowance	(4)	-	-	-	**(4)**
Carrying value	**467**	**-**	**-**	**-**	**467**
Loans and advances to customers at amortised cost					
Very low risk	219,762	-	-	-	**219,762**
Low risk	42,043	-	-	-	**42,043**
Medium risk	607	35,935	-	-	**36,542**
High risk	-	16,449	23,564	-	**40,013**
Default	-	-	82,341	4,355	**86,696**
ECL allowance	(5,118)	(2,359)	(31,562)	(2,919)	**(41,958)**
Carrying value	**257,294**	**50,025**	**74,343**	**1,436**	**383,098**
Other assets at amortised cost					
Very low risk	1,440	-	-	-	1,440
Past due impaired	-	-	2,763	-	2,763
ECL allowance	-	-	(2,763)	-	(2,763)
Carrying value	**1,440**	**-**	**-**	**-**	**1,440**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

[HRK'000]	2019			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
Very low risk	274,976	-	-	**274,976**
Low risk	19,547	-	-	**19,547**
Medium risk	-	-	-	**-**
ECL allowance – accrued interest	(8)	-	-	**(8)**
Carrying value	**294,515**	**-**	**-**	**294,515**
Corresponding ECL allowance, recognised in equity fair value reserve	(790)	-	-	(790)
Credit lines				
Very low risk	23,016	-	-	**23,016**
Low risk	251	-	-	**251**
Medium risk	1	1	-	**2**
ECL allowance	(274)	-	-	**(274)**
Carrying value	**22,994**	**1**	**-**	**22,995**
Guarantees				
Very low risk	1,625	-	-	**1,625**
Low risk	750	-	-	**750**
High risk	-	-	4,428	**4,428**
Default	-	-	-	**-**
ECL allowance	(19)	-	(88)	**(107)**
Carrying value	**2,356**	**-**	**4,340**	**6,696**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

[HRK'000]	2018				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Amounts with the CNB					
Low risk	160,937	-	-	-	**160,937**
ECL allowance	(1,287)	-	-	-	**(1,287)**
Carrying value	**159,650**	**-**	**-**	**-**	**159,650**
Accounts with banks					
Low risk	113,001	-	-	-	**113,001**
ECL allowance	(904)	-	-	-	**(904)**
Carrying value	**112,097**	**-**	**-**	**-**	**112,097**
Placements with other banks					
Low risk	470	-	-	-	**470**
ECL allowance	(4)	-	-	-	**(4)**
Carrying value	**466**	**-**	**-**	**-**	**466**
Loans and advances to customers at amortised cost					
Low risk	353,363	28,942	-	-	**382,305**
Watch list	-	7,857	-	-	**7,857**
Past due impaired	-	-	145,212	6,904	**152,116**
ECL allowance	(7,349)	(1,331)	(45,110)	(2,807)	**(56,597)**
Carrying value	**346,014**	**35,468**	**100,102**	**4,097**	**485,681**
Other assets at amortised cost					
Low risk	1,521	-	-	-	**1,521**
Past due impaired	-	-	2,824	-	**2,824**
ECL allowance	-	-	(2,824)	-	**(2,824)**
Carrying value	**1,521**	**-**	**-**	**-**	**1,521**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

[HRK'000]	2018			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
Low risk	234,425	-	-	**234,425**
ECL allowance – accrued interest	(19)	-	-	**(19)**
Carrying value	**234,406**	**-**	**-**	**234,406**
Corresponding ECL allowance, recognised in equity fair value reserve	(1,361)	-	-	(1,361)
Credit lines				
Low risk	23,162	1	1	**23,164**
ECL allowance	(515)	-	(1)	**(516)**
Carrying value	**22,647**	**1**	**-**	**22,648**
Guarantees				
Low risk	8,620	-	300	**8,920**
ECL allowance	(69)	-	(6)	**(75)**
Carrying value	**8,551**	**-**	**294**	**8,845**

The credit risk of financial assets and credit lines and guarantees is presented through the internal credit risk classification.

Internally, the Bank classifies exposures to the following risk categories:

Very low risk - the client is timely in servicing its liabilities in last 12 months and the client hasn't been on watch list for the last 12 months

Low risk – the client is timely in servicing its liabilities at the reporting date, but in the last 12 month the client has been classified in A2 or the client has been on Monitoring list

Medium risk – the client has days of delays over 30 days but it is still performing client at the reporting date or the client is timely in servicing its liabilities at the reporting date but in the last 12 months in some point of time the client had days of delays over 90 or it was restructured

High risk – NPL exposures which has not exceeded 60 days of delays in the last 12 months

Default – NPL exposures

Foreign corporate bonds which are also in portfolio of mother company categorized according to their categorization and is not related to above mentioned classification.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

The following table sets out information about the overdue status of loans and advances to customers at amortised cost in Stages 1, 2 and 3:

	2019				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost – gross carrying amount					
Current	251,435	42,473	49,249	-	**343,157**
Overdue < 30 days	10,977	8,399	1,107	-	**20,483**
Overdue > 30 days	-	1,512	55,549	4,355	**61,416**
	262,412	**52,384**	**105,905**	**4,355**	**425,056**

	2018				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost – gross carrying amount					
Current	350,432	24,418	22,874	-	**397,724**
Overdue < 30 days	2,931	10,157	4,561	-	**17,649**
Overdue > 30 days	-	2,224	117,777	6,904	**126,905**
	353,363	**36,799**	**145,212**	**6,904**	**542,278**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Input data, assumptions and techniques used to estimate impairment

When determining whether the risk of default on a financial instrument has increased significantly from the initial recognition, the Bank takes into account both quantitative and qualitative information and expert credit assessments. The criteria for determining a significant increase in credit risk are set for the purpose of a proper allocation of exposure from Stage 1 to Stage 2. Throughout the contractual relationship, the Bank assesses credit exposure quality and classifies those exposures into appropriate risk groups on the basis of the general classification criteria:

- creditworthiness of the debtor,
- the timeliness in settling liabilities towards the credit institution and other creditors represents the debtor's ability to fully settle its liabilities towards the Bank including principal, interest, commissions and other liabilities within the agreed terms and does not meet the conditions from Article 178 of the Regulation (EU) No. 575/2013 defining the non-performing status,
- the quality of the collateral instruments determined on the basis of marketability, documentation and the possibility of exercising control by the bank, the possibility of enforcement and value in relation to exposure / off-balance sheet liabilities.

Credit risk is considered to have increased considerably from the initial recognition if any of the following occurs:

- at the reporting date the debtor is past due for more than 30 days, but is still within a period not exceeding 90 days and
- at the reporting date the borrower is timely in settling its liabilities. Days past due have not exceeded 30 days but exposure has been past due for more than 30 days in the last 3 months, not exceeding 90 days.

Except for days past due, the Bank uses qualitative indicators to determine the increased credit risk pursuant to the internal credit risk monitoring system for the purpose of transitioning between "stages".

Macroeconomic adjustment

Measurement of financial assets reflects the best estimate of the effects of future conditions, and in particular the economic conditions affecting forward-looking probabilities of the non-performance of liabilities and losses due to the non-fulfillment of obligations. In order for future information to be adequately included in macroeconomic scenarios, the Bank prescribed the manner and the conditions of adjustments of the calculated PD to macroeconomic expectations. The macroeconomic scenario is determined on the basis of adjusted publicly available information.

The Bank monitors Macroeconomic Developments primarily through the CNB's publication and the publication of Macroeconomic Forecasts and Trends. Major macroeconomic indicators seeking GDP, consumer price index and employment. For the purpose of adjusting the calculated PD to macroeconomic expectations, it is necessary to consider GDP trends as the most significant macroeconomic variables.

Modification of financial assets

In some situations, change in conditions or modifications in the contracted cash flow may result in termination of the recognition of an existing financial asset.

When a modification of a financial asset results in cessation of recognition of an existing financial asset and subsequent recognition of a modified financial assets, the modified financial asset is viewed as a "new" financial asset.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Modification of financial assets (continued)

Modification or change in contractual cash flows of financial assets occurs when re-contracting or as another change in contractual cash flows between the first recognition and maturity of the financial asset. Changes to the contractually agreed terms must be legally binding and enforceable.

When re-contracting or any other changes in contractual cash flows occur, during the period between initial recognition and maturity of the financial asset, the Risk Management Division / Credit Risk Management Department is obligated to determine whether there are any modifications and whether the modifications are so significant that the existing financial asset is derecognised and a new financial asset is recognised.

Expected Credit Loss Measurement (ECL)

Key figures for measuring expected credit loss are the following variables: probability of default (PD); loss given default (LGD)

Expected Credit Losses (ECL) in Stage 1 are calculated by multiplying the 12-month PD with LGD and the value of the exposure to credit risk at the reporting date. The ECL for the entire lifetime is calculated by multiplying the PD for its entire lifetime with LGD and the carrying amount of exposure to credit risk at the reporting date. Lifetime ECL is calculated by multiplying the lifetime PD with LGD and the gross book value of exposure at the reporting date.
The following definitions apply to PD and LGD:
- PD (likelihood of a non-fulfillment of obligations): the probability of a transition from performing status to non-performing status over an one-year period,
- LGD (loss due to the non-fulfillment of obligations): percentage of loss in case of non-performing of obligations.

The table below shows the movement of expected credit losses for Loans and advances to customers valued at amortized cost:

[HRK'000]	2019				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost					
As at 1 January 2019	**7,349**	**1,331**	**45,110**	**2,807**	**56,597**
Transfer to expected credit losses in 12 months	283	(226)	(57)	-	-
Transfer to expected credit losses during lifetime	(121)	731	(610)	-	-
Transfer to non-performing status	(510)	(17)	527	-	-
Net remeasurement of loss allowance	(1,883)	540	4,205	160	**3,022**
Collected impaired interest	-	-	(4,286)	(48)	**(4,334)**
Write-offs and other movements	-	-	(13,327)	-	**(13,327)**
As at 31 December 2019	**5,118**	**2,359**	**31,562**	**2,919**	**41,958**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Expected Credit Loss Measurement (ECL) (continued)

[HRK'000]	2018				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost					
As at 1 January 2018	**6,461**	**3,804**	**169,970**	**19,193**	**199,428**
Transfer to expected credit losses in 12 months	849	(791)	(58)	-	**-**
Transfer to expected credit losses during lifetime	(258)	285	(27)	-	**-**
Transfer to non-performing status	(29)	(43)	72	-	**-**
Net remeasurement of loss allowance	326	(1,924)	10,218	971	**9,591**
Collected impaired interest	-	-	(1,475)	-	**(1,475)**
Write-offs and other movements	-	-	(133,590)	(17,357)	**(150,947)**
As at 31 December 2018	**7,349**	**1,331**	**45,110**	**2,807**	**56,597**

The table below shows the movement of expected credit losses of financial assets at fair value through other comprehensive income recognized in equity:

[HRK'000]	2019			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
As at 1 January 2019	**1,361**	**-**	**-**	**1,361**
Net remeasurement of loss allowance	164	-	-	164
Derecognised financial assets	-	-	-	-
Write off	(735)	-	-	(735)
As at 31 December 2019	**790**	**-**	**-**	**790**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Expected Credit Loss Measurement (ECL) (continued)

[HRK'000]	2018			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
As at 1 January 2018	**1,698**	**-**	**-**	**1,698**
Net remeasurement of loss allowance	82	-	-	82
Derecognised financial assets	(419)	-	-	(419)
As at 31 December 2018	**1,361**	**-**	**-**	**1,361**

Financial assets at fair value through other comprehensive income by external risk classification

The table below provides information on the credit quality of a financial asset at fair value through other comprehensive income, using the external ratings - Fitch Ratings.

[HRK'000]	2018	2019
Government bonds and treasury bills	**155,016**	**259,831**
AAA	6,426	6,612
AA-	-	19,818
A+	-	25,234
BBB+ and lower	148,590	208,167
Corporate bonds	**79,390**	**34,684**
Without rating	79,390	34,684
Total	**234,406**	**294,515**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk

Market risk is defined as the risk that the fair value or future cashflows of a financial instrument will fluctuate as a result of changes in market prices. It includes: interest rate risk, foreign exchange risk and positional risk.

The Risk Management Sector calculates: market risk exposure, market risk limits and capital requirements for exposure to market risks.

The Risk Management Sector reports daily to the Treasury Department on the usage of market risk exposure limits and reports to the Asset and Liability Management Committee monthly.

4.1.2.1 Foreign exchange risk

Foreign exchange operations of the Bank are subject to risks due to changes in inter-currency relationships, as well as changes in foreign currency rates in relation to the domestic currency. The Bank monitors changes in the foreign currency sub-ledger on a daily basis by monitoring the relationship between the financial assets and liabilities in foreign currency, in accordance with CNB regulations on the open foreign exchange position.

The Bank uses the open foreign exchange position (gap analysis) to measure and report exposure to currency risk in accordance with the methodology prescribed by the Croatian National Bank. The operational management of the foreign currency position within the prescribed limits is the responsibility of the Treasury Department, which has the ability to propose measures to eliminate the currency gap through a reduction or increase in placements and deposits with a currency clause, selling or buying currency or through arbitration - selling one currency for another.

The Risk Management Sector controls the compliance with limits on a daily basis, and monthly reports to the Asset and Liability Management Committee on foreign exchange risk exposure.

The exposure in currencies other than EUR and HRK is below 5% of assets per single currency. Banks assets in other currencies include cash and deposits with other banks. In addition, the Bank has exposure to the USD through US treasury bills in the financial assets at fair value through other comprehensive income portfolio. Regarding other currencies, most of them refer to deposits in US dollar and swiss francs.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.1 Foreign exchange risk (continued)

Foreign exchange risk analysis

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

[HRK'000]	31.12.2019 HRK	EURO linked	Euro	Other foreign currencies	Total
ASSETS					
Amounts with the Croatian National Bank	149,319	-	-	-	149,319
Cash and accounts with banks	4,418	-	128,806	10,654	143,878
Placements with other banks	-	-	467	-	467
Financial assets at fair value through OCI	147,359	35,959	139,470	6,612	329,400
Loans and advances to customers	93,823	108,214	181,061	-	383,098
Property and equipment	15,623	-	-	-	15,623
Intangible assets	10,418	-	-	-	10,418
Other assets	22,178		1,247	-	23,425
TOTAL ASSETS	**443,138**	**144,173**	**451,051**	**17,266**	**1,055,628**
LIABILITIES					
Deposits from customers	275,579	-	537,982	17,139	830,700
Deposits and borrowings from banks	1,157	7,566	1,788	-	10,511
Subordinated debt	20,000	-	26,765	-	46,765
Provisions for liabilities and charges	2,660	19	159	-	2,838
Other liabilities	6,063	919	26,851	-	33,833
Deferred tax liability	357	-	-	-	357
TOTAL LIABILITIES	**305,816**	**8,504**	**593,545**	**17,139**	**925,004**
CURRENCY GAP	**137,322**	**135,669**	**(142,494)**	**127**	**130,624**

[000 HRK]	31.12.2018 HRK	EURO linked	Euro	Other foreign currencies	Total
ASSETS					
Amounts with the Croatian National Bank	159,650	-	-	-	159,650
Cash and accounts with banks	7,173	-	103,290	13,997	124,460
Placements with other banks	-	-	466	-	466
Financial assets available for sale	98,680	8,112	131,472	6,426	244,690
Loans and advances to customers	134,753	156,977	212,372	-	504,102
Property and equipment	14,832	-	-	-	14,832
Intangible assets	11,905	-	-	-	11,905
Other assets	20,387	-	29	-	20,416
TOTAL ASSETS	**447,380**	**165,089**	**447,629**	**20,423**	**1,080,521**
LIABILITIES					
Deposits from customers	288,820	1,512	576,442	20,503	887,277
Deposits and borrowings from banks	1,715	8,900	9	-	10,624
Subordinated debt	20,000	-	26,673	-	46,673
Provisions for liabilities and charges	1,183	12	365	-	1,560
Other liabilities	4,077	967	8	-	5,052
Deferred tax liability	321	-	-	-	321
TOTAL LIABILITIES	**316,116**	**11,391**	**603,497**	**20,503**	**951,507**
CURRENCY GAP	**131,264**	**153,698**	**(155,868)**	**(80)**	**129,014**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.1 Foreign exchange risk (continued)

Sensitivity of profit and loss to exchange rate fluctuations

The tables below show the open position in EUR, the currency in which the Bank had the most significant exposures on 31 December 2019 and 31 December 2018. Open positions in foreign currency represent net exposure in foreign currency for balance sheet positions. The analysis shows the impact of reasonably possible foreign currency exchange rates on the profit and loss account, while all other variables remain the same. The negative amounts shown in the table reflect the possible net decrease in profit, while the positive amounts reflect the possible net increase in profit.

The Bank's analysis of the 10% lower exchange rate of the HRK against the EUR was made on 31st of December 2019. The table below shows the currency position at the end of 2019 and the net effect on the income statement.

2019.		HRK'000
	EUR	Other currencies
Open currency position	(4,382)	177
% change	10%	10%
Net P/L effect	(438)	18

2018.		HRK'000
	EUR	Other currencies
Open currency position	(212)	(206)
% change	10%	10%
Net P/L effect	(21)	(21)

4.1.2.2 Price risk

Price risk is the risk of loss arising from changes in the price of a financial instrument. Primary exposure to positional risk comes from shares in investment funds and debt securities at fair value through other comprehensive income. Shares in investment funds mainly relate to cash funds where no significant fluctuations in value. The Bank manages the risks arising from the change in their fair value by continuously following changes in share price and investment returns and reports to the ALCO. At least once a year Market and Operational Risk department and Risk Control department conducts stress testing on fixed income securities portfolio. Stress testing includes at least the sensitivity analysis and relates to the impact of significant changes in interest rates on portfolio value and profit / loss.

4.1.2.3 Interest rate risk

The Bank's operations are subject to the risk of loss which arises from potential interest rate fluctuations which affect positions in the Bank's records.

In line with prudential interest rate risk management, the Bank defines responsibilities in accordance with generally accepted standards and defined limits for maintaining an acceptable level of economic capital and achieving satisfactory financial results.

For placements with corporate clients, the majority of placements and deposits are initially contracted at variable interest rate in accordance with the Bank's policies, except when, for competitive reasons, fixed interest rates are contracted.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.3 Interest rate risk (continued)

The model for measuring and monitoring interest rate risk exposure measurements includes two basic measures:

1) A measure of the economic value of equity (EVE), that is, the change in the net present value of interest rate sensitive instruments over their remaining term as a result of changes in interest rates. The change in EVE is the change in the net present value of all cash flows arising from assets, liabilities and off-balance sheet items in the Bank's ledger resulting from the change in interest rates, assuming that all positions in the Bank's book expire. The Bank determines the change in economic value using six interest rate shock scenarios.

2) A measure of profit or a measure of change in expected future profitability over a period of time as a result of changes in interest rates. The change in net interest income using the standard parallel shift is calculated by approximating changes in net interest income such that each net position is multiplied by a corresponding change in the interest rate.

<u>Measure of the economic value of capital</u>

The Bank uses six interest rate shock scenarios to measure the economic value of equity (EVE):

1. parallel shock up
2. parallel shock down
3. steepener shock, short-term rates down and long-term rates up
4. flattener shock, short-term rates up and long-term rates down
5. shock of rising short-term interest rates
6. shock of falling short-term interest rates

<u>Profit measure</u>

A change in net interest income is a short-term measurement of the effect of a change in interest rates on net interest income and net interest margin over a 12-month period. The analysis assumes a parallel shift of the yield curves. The Bank use the amount of interest rate shocks prescribed in Annex III. - Standardized interest rate shock scenarios from the Guidelines (EBA/GL/2018/02). The Bank defines the limits on the results of the standard simulation of net interest income in relation to the planned net interest income for the current year and the planned net interest margin.

The results of the Internal interest rate risk exposure in the banking book are presented to the ALCO Committee quarterly. In the event that internal limits are exceeded, the Market and Operational Risks and Risk Control Departments reports to ALCO on the internal limits being exceeded and proposes measures to reduce the Bank's exposure to interest rate risk.

Interest rate risk stress test

The Market and Operational Risk Department performs stress test at least once a year. Given that changes in interest rate can have adverse effects on earnings and their economic value, the Bank performs stress tests taking into account the earnings perspective, i.e. the effect of stress events on the net interest income, and the economic value perspective, i.e. the effect of stress events on the Bank's economic value. The results of stress tests are presented at the meeting of the Banks' Asset and Liability Management Committee.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

Interest rate gap analysis

The following tables present the Bank's financial assets and financial liabilities analysed according to repricing periods determined as the earlier of the remaining contractual maturity and the contractual repricing.

[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Non-interest bearing	Total	31 December 2019 Fixed interest rate
FINANCIAL ASSETS								
Amounts with the Croatian National Bank	-	-	-	-	-	149,319	**149,319**	-
Placements with other banks	467	-	-	-	-	-	**467**	467
Cash and accounts with banks	143,878	-	-	-	-	-	**143,878**	-
Securities	-	-	14,960	87,567	182,283	44,590	**329,400**	284,817
Loans and advances to customers	76,277	32,639	207,348	54,234	10,249	2,351	**383,098**	70,866
Other assets	-	-	-	-	-	23,425	**23,425**	-
TOTAL FINANCIAL ASSETS	**220,622**	**32,639**	**222,308**	**141,801**	**192,532**	**219,685**	**1,029,587**	**356,150**
FINANCIAL LIABILITIES								
Deposits from customers	227,483	81,337	431,419	49,735	35,005	5,721	**830,700**	528,509
Deposits and borrowings from banks	1,596	306	1,182	2,888	4,526	13	**10,511**	10,498
Subordinated debt	-	-	22,328	4,351	20,000	86	**46,765**	24,351
Provisions for liabilities and expenses	-	-	-	-	-	2,838	**2,838**	-
Other liabilities	-	-	-	-	-	33,833	**33,833**	-
Deffered tax liability	-	-	-	-	-	357	**357**	-
TOTAL FINANCIAL LIABILITIES	**229,079**	**81,643**	**454,929**	**56,974**	**59,531**	**42,848**	**925,004**	**563,358**
INTEREST GAP	**(8,457)**	**(49,004)**	**(232,621)**	**84,827**	**133,001**	**176,837**	**104,583**	**(207,208)**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

Interest rate gap analysis (continued)

[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Non-interest bearing	Total	31 December 2018 Fixed interest rate
FINANCIAL ASSETS								
Amounts with the Croatian National Bank	-	-	-	-	-	159,650	**159,650**	-
Placements with other banks	466	-	-	-	-	-	**466**	470
Cash and accounts with banks	124,460	-	-	-	-	-	**124,460**	-
Securities	-	18,544	119,247	65,275	29,670	11,954	**244,690**	232,736
Loans and advances to customers	123,983	68,661	239,493	23,619	54,435	(6,089)*	**504,102**	112,865
Other assets	-	-	-	-	-	20,416	**20,416**	-
TOTAL FINANCIAL ASSETS	**248,909**	**87,205**	**358,740**	**88,894**	**84,105**	**185,931**	**1,053,784**	**346,071**
FINANCIAL LIABILITIES								
Deposits from customers	182,236	77,115	497,908	67,637	54,522	7,859	**887,277**	603,200
Deposits and borrowings from banks	88	305	2,092	3,029	5,094	16	**10,624**	10,608
Subordinated debt	-	-	22,253	4,336	20,000	84	**46,673**	46,589
Other liabilities	-	-	-	-	-	5,052	**5,052**	-
Deffered tax liability	-	-	-	-	-	321	**321**	-
TOTAL FINANCIAL LIABILITIES	**182,324**	**77,420**	**522,253**	**75,002**	**79,616**	**13,332**	**949,947**	**660,397**
INTEREST GAP	**66,585**	**9,785**	**(163,513)**	**13,892**	**4,489**	**172,599**	**103,837**	**(314,326)**

*includes impairment of performing loans, past due principal of performing loans, accrued interest and impairment of interest

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk

Liquidity risk arises through 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:

- inability to settle liabilities as a result of the maturity gap between cash inflow and outflow - structural liquidity risk, and
- risk of being unable to sell or acquire liquid instruments on the market in an appropriate time frame and at a reasonable price - financial instruments liquidity risk.

Liquidity risk management is conducted in compliance with regulatory requirements and is defined by the following internal acts:

- Liquidity Risk Management Policy and Strategy,
- Procedure for stress testing
- Procedure for the Bank's Liquidity Management,
- Plan for Liquidity crisis.

Internal acts are proposed by the Risk Management Sector and approved by the Bank's Management Board. In accordance with changes, the Risk Management Sector proposes revisions of internal acts.

The key purpose of the liquidity policy is to ensure that the Bank operates in a way to achieve an optimal balance between the Bank's safety and shareholders return on investment. The framework for appropriate liquidity risk management comprises the following: liquidity management strategy approved by the Management Board within budget and strategic plans; efficient supervision by the Asset and Liability Management Committee and the Management Board; clearly defined responsibilities and operations in line with agreed limits; management of assets and liabilities by matching their maturities; an established evaluation system of all current and future inflows and outflows; liabilities structure management, specifically in monitoring the concentration of large deposits; sustained development of liquidity stress tests; assessment of access to financial markets and available funds under usual and stressed conditions; and a crisis plan.

As part of its business activities the Bank monitors liquidity risk and complies with relevant regulations, the following measures are part of liquidity risk management:

- monitoring that minimum 17% of foreign currency liabilities is held as short-term foreign currency assets,
- monitoring liquidity reserve requirements in HRK,
- monitoring liquidity reserve requirements in foreign currency,
- LCR.

The purpose of managing liquidity funds is the compliance with the regulatory minimum by maintaining the minimum cost of liquidity funds.

The Bank uses the following models for liquidity risk measurement:

- financial and structural indicators,
- deposit concentration,
- cash flow notice and projection system, and
- liquidity stress tests.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

The Bank raises funds using a broad range of instruments including deposits, borrowings, subordinated debt and share capital. The Bank continuously assesses its liquidity risk by identifying and monitoring changes in the level of funding required to achieve business goals and strategic targets. Diverse funds enable flexibility, decrease dependence on a single source of funding and enable straightforward management of financing costs.

Liquidity stress test

Liquidity stress tests are performed based on the analysis of different scenarios, i.e. the assessment of effects of simultaneous changes in several different factors of risk on the financial position of the Bank in clearly defined stress circumstances. In order to prepare for a possible impact on liquidity, the Bank performs liquidity stress tests adapted to business size and characteristics, strategic goals and plans, the internal Bank's organization and its environment, to ensure sufficient liquidity funding. The aim of the liquidity stress test is to recognise a situation and to prepare the Bank's relevant functions for a prompt reaction in the case of a liquidity crisis. The development of the liquidity stress test represents the Bank's internal policy and good practice for liquidity management. The stress test relates to the change in value of certain parameters that have an impact on the financial and liquidity position of the Bank and determining the effects of said impact of these parameters on the entire business.

The stress scenario is arbitrarily selected and approved by the Risk Management Sector. Two scenarios are selected, at a minimum, one including the Bank's specific factors and the other including market factors. Different combinations of the factors are possible as well.

The selection of scenarios is usually affected by:
- current market movements;
- other movements historically significant for the Bank's liquidity;
- future predictions based on available information significant for the Bank's liquidity.

Upon selection of the stress scenario, the Treasury Department analyses the scenario or performs the sensitivity analysis, depending on whether one or more factors on the financial position of the Bank are analysed. The Risk Management Sector and the Treasury Sector report the results of the stress tests to the Asset and Liability Management Committee.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

Maturity analysis

The tables below present the assets and liabilities of the Bank based on the remaining contractual maturity as of 31st December 2019 and 31st December 2018. Despite the maturity mismatch of assets and liabilities, the expected cash flows on a particular financial asset and liability differ significantly from the contractual cash flows. Obligatory reserve is presented in the category up to one month and not according to the maturity of the related liabilities. The Bank expects that demand deposits will not significantly oscillate and will not be withdrawn immediately. Assets and liabilities presented below are based on the Bank's carrying values.

[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	31. December 2019 Total
FINANCIAL ASSETS						
Amounts with the Croatian National Bank	149,319	-	-	-	-	**149,319**
Placements with other banks	467	-	-	-	-	**467**
Cash and accounts with banks	143,878	-	-	-	-	**143,878**
Financial assets at fair value through OCI	35,786	1,263	22,501	87,567	182,283	**329,400**
Loans and advances to customers	39,809	4,627	26,867	97,940	213,855	**383,098**
Other assets	1,776	36	1,924	-	19,689	**23,425**
TOTAL FINANCIAL ASSETS	**371,035**	**5,926**	**51,292**	**185,507**	**415,827**	**1,029,587**
FINANCIAL LIABILITIES						
Deposits from customers	226,407	82,064	346,716	139,682	35,831	**830,700**
Deposits and borrowings from banks	1,596	316	1,185	2,888	4,526	**10,511**
Subordinated debt	-	-	-	4,437	42,328	**46,765**
Other liabilities	3,074	559	29,118	346	736	**33,833**
Provisions for liabilities and expenses	-	1,840	381	506	111	**2,838**
Deffered tax liability	-	357	-	-	-	**357**
TOTAL FINANCIAL LIABILITIES	**231,077**	**85,136**	**377,400**	**147,859**	**83,532**	**925,004**
MATURITY GAP	**139,958**	**(79,210)**	**(326,108)**	**37,648**	**332,295**	**104,583**
OFF- BALANCE SHEET						
Guarantees	326	-	5,178	1,300	-	6,804
Overdrafts	13,196	-	-	3,090	6,983	23,269
TOTAL OFF-BALANCE SHEET	**13,522**	**-**	**5,178**	**4,390**	**6,983**	**30,073**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	31. December 2018 Total
FINANCIAL ASSETS						
Amounts with the Croatian National Bank	159,650	-	-	-	-	**159,650**
Placements with other banks	466	-	-	-	-	**466**
Cash and accounts with banks	124,460	-	-	-	-	**124,460**
Financial assets at fair value through OCI	10,843	20,387	25,776	98,843	88,841	**244,690**
Loans and advances to customers	42,423	35,813	94,711	86,598	244,557	**504,102**
Other assets	660	364	305	-	19,087	**20,416**
TOTAL FINANCIAL ASSETS	**338,502**	**56,564**	**120,792**	**185,441**	**352,485**	**1,053,784**
FINANCIAL LIABILITIES						
Deposits from customers	182,323	78,604	411,477	158,340	56,533	**887,277**
Deposits and borrowings from banks	921	9	-	338	9,356	**10,624**
Subordinated debt	-	-	-	4,420	42,253	**46,673**
Other liabilities	4,435	537	80	-	-	**5,052**
Deffered tax liability	-	321	-	-	-	**321**
TOTAL FINANCIAL LIABILITIES	**187,679**	**79,471**	**411,557**	**163,098**	**108,142**	**949,947**
MATURITY GAP	**150,823**	**(22,907)**	**(290,765)**	**22,343**	**244,343**	**103,837**
OFF- BALANCE SHEET						
Guarantees	776	8	7,959	177	-	8,920
Overdrafts	8,537	-	19	14,484	123	23,164
TOTAL OFF-BALANCE SHEET	**9,313**	**8**	**7,978**	**14,661**	**123**	**32,084**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

Analysis of undiscounted cash flows of financial liabilities by remaining contracted amounts.

31. December 2019	Less than 1 month	1 – 3 months	3 – 12 months	1 – 3 years	Over 3 years	Undiscounted	Carrying value
Deposits to costumers	226,407	82,064	346,716	139,682	35,831	832,919	830,700
Deposits and borrowings from banks	1,596	316	1,185	2,888	4,526	11,069	10,511
Subordinated debt	-	-	-	4,437	42,328	63,590	46,765
Provisions for liabilities and charges	-	920	1,301	506	111	2,838	2,838
Other liabilities	3,074	559	29,118	346	736	33,833	33,833
Differed tax liabilities	-	357	-	-	-	357	357
Total undiscounted financial liabilities	**231,077**	**84,216**	**378,320**	**147,859**	**83,532**	**944,606**	**925,004**
Off Balance-sheet	**13,522**	**-**	**5,178**	**4,390**	**6,983**	**30,073**	**30,073**

31. December 2018	Less than 1 month	1 – 3 months	3 – 12 months	1 – 3 years	Over 3 years	Undiscounted	Carrying value
Deposits to costumers	182,331	78,641	412,937	162,073	60,015	895,997	887,277
Deposits and borrowings from banks	921	9	-	344	10,128	11,402	10,624
Subordinated debt	-	-	-	4,862	58,750	63,612	46,673
Provisions for liabilities and charges	159	365	639	397	-	1,560	1,560
Other liabilities	4,435	537	80	-	-	5,052	5,052
Differed tax liabilities	-	321	-	-	-	321	321
Total undiscounted financial liabilities	**187,846**	**79,873**	**413,656**	**167,676**	**128,893**	**977,944**	**951,507**
Off Balance-sheet	**9,314**	**8**	**7,978**	**14,661**	**123**	**32,084**	**32,084**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.4 Operational risk

Operational risk is defined as the risk of loss due to inadequate or incorrect processes, human or internal system errors or events caused by external factors (natural disasters, fire, flood, attack, changes of legislation, embezzlement).

Operational risk management is conducted in compliance with regulatory requirements and is defined by the following internal acts:

- Policy on operational risk management
- Procedure on operational risk management
- Methodology for operational risk management
- Directive on reporting of operational losses and operational risks

When measuring operational risk exposure, based on the consequences of a risk event, the Bank distinguishes the following:
Loss from operational risk, which represents operational losses affecting the balance sheet and assuming the known amount of losses in the Bank's records.
Significant operational risk, which is present in business processes and has not resulted in operational losses, but there is a possibility of future operational losses resulting from it.

Operational risk assessment is performed through Self Risk Assessment for every business process of the Bank. Self Risk Assessment is performed on a yearly basis for every business process of the Bank using event-based questionnaires prepared in accordance with Basel guidelines. Based on collected data, each reported event which could result in operational risk is quantified and classified into a risk category. For events for which risks are high and very high, the business processes owners, in coordination with the Risk Management Sector, propose actions for reducing exposure to operational risk by using methods for reduction of effects, i.e. damages and the probability of occurrence or by transferring the risk to a counterparty. The Risk Management Sector reports the results of the Self Risk Assessment to the Management Board once a year.

The Risk Management Sector reports to the Management Board quarterly on recorded operational losses, i.e. events which resulted in losses recorded in the Bank's records due to exposure to operational risk. The report on operational losses contains, at a minimum, data on amounts of losses, recovered amounts, unrecovered amounts, operational losses per type of event and cause, and share of different organisational units of the Bank in operational losses.

4.1.5 Capital adequacy

The basic parameters of the capital management policy are given by the Credit Institutions Act and the Regulation (EU) no. 575/2013.

The basic objectives of capital management mean ensuring the following:

- the going concern assumption and
- meeting the regulatory and capital adequacy requirements

The total capital ratio as at 31 December 2019 was set at a minimum of 8%, while based on CNB's Decision for the Bank this amount was increased by an additional 2.5%, while keeping a protective layer for the preservation of ordinary capital in the amount of 2.5% and a protective layer for structural system risk of 1.5%.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.5 Capital adequacy (continued)

Total capital is determined as a category of capital that is managed by the Bank and must be at least at a level that ensures the adequacy of capital sufficient to cover the capital requirements and to ensure minimum prescribed capital adequacy ratio. Total capital is calculated in accordance with the prescribed subordinate acts of CNB and Regulation (EU) no. 575/2013.

For the purpose of calculating capital adequacy, in 2018 the Bank has decided to adopt a "static approach" that allows the Bank to gradually incorporate the effects of the first-time adoption of the Decision on classification, which partially incorporates the effects of IFRS 9, on the calculation of regulatory capital by 5% in 2018, 15% in 2019, 30% in 2020, 50% in 2021 and 75% in 2022.

(HRK 000) CAPITAL ADEQUACY	31.December 2018	31. December 2019
TIER 1 CAPITAL	**121,130**	**125,979**
TIER 1 CAPITAL – COMMON EQUITY	**121,130**	**125,979**
Capital instruments eligible as CET1 Capital	304,883	326,318
Accumulated loss	(204,094)	(201,900)
Accumulated other comprehensive losses	(22)	1,981
Other reserves	25,227	3,792
(-) Goodwill	-	-
(-) Other intangible assets	(11,905)	(10,418)
Other transitional adjustments to CET 1 Capital	7,041	6,206
TIER 1 CAPITAL - ADDITIONAL	**-**	**-**
TIER 2 CAPITAL	41,828	35,150
TOTAL REGULATORY CAPITAL	**162,958**	**161,129**
Risk weighted assets		
Credit risk weighted assets	609,824	562,689
Exposure for operational risk	98,112	92,549
Exposure for FX risk	-	4,409
TOTAL RISK WEIGHTED ASSETS	**707,936**	**659,647**
COMMON EQUITY TIER 1 CAPITAL RATIO	**17.11%**	**19.10%**
TIER 1 CAPITAL RATIO	**17.11%**	**19.10%**
TOTAL CAPITAL RATIO	**23.02%**	**24.43%**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.6 Concentration risk

Concentration risk is every individual, direct or indirect exposure toward one counterparty or group of related parties or group of exposures connected by common risk factors such as industry, geographical area, operations or goods, i.e. application of techniques for credit risk reduction, which can cause such losses which could jeopardize the Bank's going concern.
The Bank analyses and reports on concentration risk present both on the asset side of the balance sheet, i.e. loan portfolio, as well as on the equity and liabilities side of the balance sheet, i.e. source of funds.

The Bank analyses concentration risk on the basis of each individual, direct or indirect exposure toward one counterparty or group of related parties and has regulated the identification of related parties by internal acts, determining the following:

1) control, i.e. relationship between the parent company and its subsidiary or similar relationship between any legal or natural person and the company, and
2) economical and financial ties.

This relationship is established mainly on the basis of information/data received from the client, but also by checking other available sources. Groups of related parties are formed and reported by the Credit Risk Management Department within the Risk Management Sector. Groups of related parties are entered into the Registry of Related Parties as the comprehensive database for related parties.

The Bank actively manages the diversification of the loan portfolio and limits the concentration limits, thus adjusting the structure and quality of the loan portfolio or reducing the credit risk.

For the purpose of defining the Bank's exposure to risk, limits for certain types of exposure are determined, depending on the geographical location of the debtor, the activity, the type of placements and the method of repayment of the placements.

In order to maintain a diversified and stable base of financing and to avoid becoming overly dependent on only certain sources, concentration is monitored for the following:

- deposits from companies and other financial institutions: 10 biggest deponents with term deposits in relation to total deposits from legal persons and financial institutions; 10 biggest deponents in relation to total deposits
- retail deposits: 10 biggest deponents from the retail sector in relation to total retail deposits and 100 biggest deponents from the retail sector in relation to total deposits.

The Risk Management Sector reports the concentration risk to Management Board, Credit Committee and the Asset and Liability Management Committee on a monthly/quarterly basis.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.6 Concentration risk (continued)

Concentration risk is also monitored on a sector basis, as shown in the following table where the numbers are presented on a gross basis:

GROSS EXPOSURE (HRK)	2019	%	2018	%
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	1,483	0.35%	7,446	1.34%
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	44,483	10.47%	72,250	12.99%
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	751	0.18%	789	0.14%
FINANCIAL AND INSURANCE ACTIVITIES	42,119	9.91%	73,374	13.19%
CONSTRUCTION	12,420	2.92%	28,281	5.08%
INFORMATION AND COMMUNICATION	21,389	5.03%	23,069	4.15%
PUBLIC ADMINISTRATION	5	0.00%	-	0.00%
EDUCATION	-	0.00%	-	0.00%
ELECTRICITY SUPPLY, GAS AND CLIMATIZATION	-	0.00%	-	0.00%
WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	-	0.00%	-	0.00%
OTHER SERVICE ACTIVITIES	6,490	1.53%	6,979	1.25%
AGRICULTURE, FORESTRY AND FISHING	6,119	1.44%	6,992	1.26%
REAL ESTATE ACTIVITIES	86,796	20.41%	49,675	8.93%
MANUFACTURING	30,923	7.28%	37,564	6.75%
TRANSPORTATION AND STORAGE	-	0.00%	83	0.01%
MINING AND QUARRYING	46	0.01%	196	0.04%
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	67,130	15.79%	66,925	12.03%
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	53,606	12.61%	108,633	19.53%
ARTS, ENTERTAINMENT AND RECREATION	-	0.00%	-	0.00%
RETAIL	51,296	12.07%	74,027	13.31%
TOTAL	**425,056**	**100.00%**	**556,283**	**100.00%**

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Classification of financial assets

Business Model Assessment

The Bank determines its business models based on the objective under which its portfolios of financial assets are managed. In determining its business models, the Bank considers the following:

- Management's intent and strategic objectives and the operation of the stated policies in practice;
- The primary risks that affect the performance of the business model and how these risks are managed;
- How the performance of the portfolio is evaluated and reported to management; and
- The frequency and significance of financial asset sales in prior periods, the reasons for such sales and the expected future sales activities.

Solely Payments of Principal and Interest Test (SPPI test)

In assessing whether contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that they would not be consistent with a basic lending arrangement. In making the assessment, the Bank considers the primary terms as follows and assess if the contractual cash flows of the instruments continue to meet the SPPI test:

- Performance-linked features;
- Terms that limit the Bank's claim to cash flows from specified assets (non-recourse terms);
- Prepayment and extension terms;
- Leverage features; and
- Features that modify elements of the time value of money.

Impairment of financial assets

Significant Increase in Credit Risk

The basic criteria for assessing significant increases in credit risk are days past due. The Bank considers that the credit risk has increased considerably after the initial recognition if any of the following occurs:

- at the reporting date the borrower is more than 30 days past due, but is still within a period not exceeding 90 days;
- In the last 3 months the borrower was past due for more than 30 days but did not exceed 90 days past due;
- at the reporting date the borrower is timely in settling its liabilities. Days past due do not exceed 30 days but exposure has been past due for more than 30 days in the last 3 months, not exceeding 90 days.

In addition to days past due, the Bank uses qualitative indicators to determine a significant increase in credit risk such as a breach in contractual financial covenants, additional borrowing or third party liability, loss of license, concession and similar permits, which may negatively affect client business etc.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of financial assets (continued)

Definition of default

The Bank considers that default statuts have occurred in the following conditions and refers to the reclassification of exposures to the minimum B1 risk category.

- the debtor has failed to fulfill its overdue obligation for more than 90 days under any significant credit obligation to the credit institution, its parent company or any of its subsidiaries

- the Bank considers it probable that the debtor will not fully meet its obligations to the Bank, its parent company or any of its subsidiaries without considering the possibility of collateral collection. In this regard, the Bank prescribes indicators for large portfolio that, in addition to the day of delay, indicate default status. These are indicators of a qualitative and quantitative nature closely related to the client's business.

Measurement of Expected Credit Loss

For exposures classified as Stage 1 and Stage 2, expected credit loss is calculated as the product of 12-month PD multiplied with LGD and EAD. Lifetime ECL is calculated as a product of the lifetime PD and LGD and the amount of exposure to credit risk at the reporting date. Lifetime ECL is calculated by multiplying the Lifetime PD with LGD and EAD. Exposure at default (EAD) is the gross book value of exposure at the reporting date

Assets that are classified in business model ATR (amortized cost), and refers to the corporate loan portfolio is divided into 4 homogeneous groups (pools) by product type, while the retail portfolio constitutes of one separate homogeneous group (pool). Probability of default (PD) provides probability that the borrower will not be able to meet its obligations. For the purpose of estimating 12M ECLs and LT ECLs for the ATR portfolio, models based on historical data are used, with conservative margin and adjustments for future macroeconomic developments.

The Bank calculates the probability of default over a specified period of time: one year PD12 - 12 months or lifetime PD - for the duration of the Life Time PD for each homogeneous group, based on the calculated historical default rate (DR) at the loan level. The calculation of the historical DR is calculated as the ratio of the sum of the placement parties that had the status of default and the sum of the total number of parties in the same period.

Due to the small amount of data and the oscillations between the maximum and minimum historically realized values in calculating PD, the calculated DR is increased by the margin of conservatism. The conservative margin is calculated as the standard deviation on the calculated DRs for each period included in the calculation of the DR average. The calculated standard deviation represents the percentage change on the calculated DR. The Bank does not currently have sufficient qualitative DR historical data for more than 5 years and the calculation of LFPD after 5 years is the result of extrapolation based on the calculated PD (from 12M to 5Y).

Macroeconomic adjustment for the purposes of calculating PD is carried out through a model of macroeconomic adjustment of PD that includes the following macroeconomic indicators; GDP, Consumer Price Index and Employment. For the purpose of adjusting the calculated PD to macroeconomic expectations, only GDP trends are considered as the most significant macroeconomic variable. The impact of macroeconomic expectations on PD is estimated by linear regression using the GDP and default rate (DR) data of each group of loans, or the proportion of risk group C loans in the portfolio, taking into account the relevance of each regression result through the value of the coefficient of determination (R2) and p-value of the test (if the regression results of GDP and individual default rate groups cannot be considered relevant, the general rate obtained by regression of GDP and the share of risk group C loans in the portfolio is taken). PD is estimated in the baseline and negative scenarios, with the baseline scenario being given a weight of 70% and a negative 30%. Due to conservative estimation, a positive scenario is not taken into account. Also, the positive impact of macroeconomic adjustment on PD is not taken into account but only the negative one, which affects PD more than 2%.

The Bank uses the data available on the Moody's Investor Service - Annual Default Study (Average One-Year Alphanumeric Rating Migration Rates) website to determine the PD (probability of default) for sovereign exposures or exposures that have an external credit rating.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of financial assets (continued)

Measurement of Expected Credit Loss (continued)

LGD (Loss Given Default) represents a loss due to default status. Accurate LGD estimates of "default" bank claims are important for determining the required loan loss reserves, further for calculating appropriate capital, and determining the fair price of loans.

For exposures classified in corporate homogeneous pools with an exposure which exceeds HRK 1 million, the Bank calculates an individual LGD using Scenario 1, Scenario 2 and Scenario 3. For exposures less than 1 million, the Bank applies a unique percentage of LGD amounting to 45% in accordance with the Basel Committee on Banking Supervision Discussion paper Regulatory treatment of accounting provisions. The Bank uses 3 scenarios when calculating individual LGDs, with methodology depending on the type of exposure; i) exposures granted on the basis of the Debtor / Debtors / Guarantors' cash flow, excluding contractual covenants specifying the minimum level of EBITDA or the maximum level of indebtedness for the duration of the contractual relationship; and ii) exposures representing project and real estate financing. Each scenario has a specific weighting assigned to it to determine the final LGD. The weighting assigned to each scenario is the result of the proportion of truly closed default exposures in each of the three scenarios (taking into account closed default exposures). For exposures related to syndicated loans with a mother company, the Bank uses the calculation of LGD from mother company.

The Bank uses a simple LGD calculation for the retail portfolio based on the existing coverage ratio for B and C risk category.

Off-balance sheet items are classified into the appropriate risk categories on the basis of which the credit institution is exposed to credit risk due to the inability to repay outflows that may occur or that arise from the payment of assumed off-balance sheet liabilities. In assessing provisions for off-balance sheet items, the Bank applies the conversion factor 1 prescribed by the Decision on the classification of exposures to risk categories and the method of determining credit losses. For off-balance sheet exposures based on issued guarantees and letters of credit that are classified into risk sub-categories A-1 and A-2, the Bank uses a single rate of 0.8% of the exposure amount. For off-balance sheet exposures arising from overdrafts and unused loans, the Bank applies the calculated PD and LGD as well as the balance sheet portion of exposures.

Impairment allowance on assets individually assessed as credit-impaired is based on the management’s best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor’s financial situation and net realizable value of any underlying collateral. Each impaired asset is assessed separately, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic, and the government of Croatia restrictions and measures for infection reduction. The Bank estimated that the spread of the COVID 19 disease in 2020 might have a particularly negative impact on its operating (primarily interest) income and on the amount of impairment losses on its loan portfolio. The Bank constantly monitors situation as explained in note 39.

The Bank's management believes that the recognised expected credit losses and provisions are sufficient.

Valuation of foreclosed assets

The Bank occasionally acquires land and properties in settlement of certain loans and advances. Real estate is stated at the lower of the carrying value of the related loans and advances at the date of settlement and the net realisable value of such assets. When assessing the valuation of foreclosed assets, the Bank engages chartered surveyors, and subsequently reviews them and compares them with the carrying amount. Gains or losses on disposal are recognised in the income statement.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of a taxpayer's records.

The Bank did not recognise deferred tax asset on tax losses carried forward due to history of recurring past losses.

Provisions for court cases

Management Board believes that court settlement provisions are sufficient at the reporting date. The Bank conducts an individual assessment of all legal disputes against the Bank. The initial assessment is carried out by the Department of Legal Affairs of the Bank, and the final decision on the risk group and the amount of the provision is made by the Management Board

At 31 December 2019 a total of 7 court proceedings against the Bank were conducted, of which 6 are litigation and one is a misdemeanour procedure.

In the 3 civil cases there is a first-instance verdict issued in favour of the Bank, whereas in one case and the second-instance court confirmed the first-instance verdict passed to the Bank's benefit and is undergoing a revision procedure.

In one court case the first instance verdict against the Bank was brought and therefore the case was relocated to risk category B. All other disputes are allocated in risk category A.

As explained in Note 17, the Bank provided HRK 506 thousand (2018: HRK 267 thousand), for principal and interest for liabilities from court cases, which management estimates to be sufficient. These amounts represent the best estimate of the Bank for losses in court disputes, although the actual loss on the Bank's court litigation may be significantly different. It is not practical for the management to assess the financial impact of changes in assumptions on the basis of which management estimates the need for reservations.

Regulatory requirements

The CNB is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

Determination of control

In accordance with requirements of IFRS 10 Consolidated Financial Statements, the Bank regularly reassess whether they have control over significant activities of debtors in financial difficulties which are unable to regularly service its liabilities to the Bank. The Bank concluded in 2019 that there are no debtors which should be consolidated, which is consistent with the conclusion reached in 2018.

Internally developed software-determination of capitalisation criteria and estimated useful life

Intangible assets include internally developed software of total capitalized value of HRK 19.3 million. The Bank uses software in its business, and it is transferred to use according to the completion of individual modules.

Software development costs are capitalized when the criteria in IAS 38 are met *Intangible assets*. Such assets are then amortized linearly over a useful life of 10 years. Management Board re-evaluates the remaining useful life of the software at each reporting date.

There is judgement involved in determining an appropriate framework to consider which expenditure requires capitalisation and which should be expensed. Note 12 of the financial statements provides details of the amounts capitalised.

Notes to the financial statements (continued)

6. AMOUNTS WITH THE CROATIAN NATIONAL BANK

[HRK'000]	31 December 2018	31 December 2019
Giro accounts with CNB	**94,362**	**85,929**
in HRK	95,123	86,622
in foreign currency	-	-
ECL allowance	(761)	(693)
Obligatory reserve with CNB	**65,288**	**63,390**
in HRK	65,814	63,901
in foreign currency	-	-
ECL allowance	(526)	(511)
TOTAL	**159,650**	**149,319**

Movements in loss allowance (Stage 1) of amounts with the CNB are presented below:

[HRK'000]	2018	2019
As at 1 January	**1,346**	**1,287**
Net reversal of impairment losses	(59)	(83)
As at 31 December	**1,287**	**1,204**

Banks are obliged to calculate obligatory reserve in HRK and foreign exchange at the rate of 12% of kuna and foreign exchange funds (31 December 2018: 12%) as of December 31, 2019.

The kuna part of the compulsory reserve thus calculated is increased by 75% (December 31, 2018: 75%) computed reserve requirements on foreign currencies. 70% of the kuna part of the reserve requirement is allocated to a special account with the CNB, while the rest can be maintained in appropriate liquid assets.

The portion of accrued foreign currency reserves is reduced by 75% (31 December 2018: 75%), which is accounted for by the calculated portion in kunas while the remaining 25% is held in foreign currencies. The percentage of the part of the reserve requirement in foreign currencies calculated on the basis of the funds of non-residents and funds received from legal entities in a special relationship with the bank in foreign currencies is 100% (31 December 2018: 100%) and is maintained in appropriate liquid assets.

The Croatian National Bank does not pay any interest on the obligatory reserve funds (2018: nil).

Notes to the financial statements (continued)

7. CASH AND ACCOUNTS WITH OTHER BANKS

[HRK'000]	31 December 2018	31 December 2019
Cash in hand	**12,363**	**8,189**
in HRK	7,174	4,418
in foreign currency	5,189	3,771
Giro accounts with other banks	**112,097**	**135,689**
with foreign banks	35,461	49,408
ECL allowance	(284)	(395)
with domestic banks	77,540	87,375
ECL allowance	(620)	(699)
TOTAL	**124,460**	**143,878**

Movements in loss allowance (Stage 1) of Giro accounts with other banks are presented below:

[HRK'000]	2018	2019
As at 1 January	**1,059**	**904**
Net (reversal of impairment loss) / impairment loss	(155)	190
As at 31 December	**904**	**1.094**

8. PLACEMENTS WITH OTHER BANKS

[HRK'000]	31 December 2018	31 December 2019
Short-term	**466**	**467**
with domestic banks	470	471
ECL allowance	(4)	(4)
TOTAL	**466**	**467**

There was no movement in ECL allowance relating Placement with other banks in 2018 and 2019.

Notes to the financial statements (continued)

9. FINANCIAL ASSETS - SECURITIES

[HRK'000] SECURITIES AT FAIR VALUE THROUGH OCI		31 December 2018	31 December 2019
Financial assets at fair value through OCI		**231,172**	**291,428**
Bonds of the Croatian Ministry of Finance		128,484	206,514
Treasury bills of the Croatian Ministry of Finance		18,550	-
Foreign government bonds		-	44,766
Foreign government treasury bills		6,426	6,612
Foreign corporate bonds		77,712	33,536
Of which:			
-	listed	206,196	284,816
-	not listed	24,976	6,612
Accrued interest		**3,234**	**3,087**
not past due		3,253	3,095
ECL allowance		(19)	(8)
TOTAL		**234,406**	**294,515**

[HRK'000] SECURITIES AT FAIR VALUE THROUGH PL	31 December 2018	31 December 2019
Securities measured at FV through profit or loss – cash funds (quoted)	**10,284**	**34,885**
TOTAL	**10,284**	**34,885**

Notes to the financial statements (continued)

10. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers at amortised cost

[HRK'000]	31 December 2018	31 December 2019
Gross loans	**537,862**	**423,598**
retail	74,588	50,755
corporate	463,274	372,843
Interest receivables	**7,408**	**3,386**
ECL allowance	**(56,597)**	**(41,958)**
Gross loans	(52,756)	(40,566)
Interest receivables	(3,841)	(1,392)
Deferred income from fees	**(2,992)**	**(1,928)**
TOTAL	**485,681**	**383,098**

Loans and advances to customers at fair value through profit and loss

[HRK'000]	31 December 2018	31 December 2019
Corporate	18,421	-
TOTAL	**18,421**	**-**
TOTAL LOANS AND ADVANCES TO CUSTOMERS	**504,102**	**383,098**

Notes to the financial statements (continued)

11. PROPERTY AND EQUIPMENT

2019 [HRK'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
At 1 January 2019	**20,677**	**8,260**	**9,619**	**1,355**	**102**	**40,013**
Effect of IFRS 16 adoption	5,664	-	-	540	-	6,204
Adjusted 1 January 2019	**26,341**	**8,260**	**9,619**	**1,895**	**102**	**46,217**
Additions	15	29	68	-	-	112
Write-offs and disposals	-	(551)	(1,015)	(484)	-	(2,050)
Transfer to use	-	-	37	-	(37)	-
At 31 December 2019	**26,356**	**7,738**	**8,709**	**1,411**	**65**	**44,279**
Accumulated depreciation						
At 1 January 2019	**7,981**	**7,250**	**8,934**	**1,016**	**-**	**25,181**
Depreciation expense	4,688	413	156	224	-	5,481
Write-offs and disposals	-	(551)	(1,010)	(445)	-	(2,006)
At 31 December 2019	**12,669**	**7,112**	**8,080**	**795**	**-**	**28,656**
Net carrying value	**13,687**	**626**	**629**	**616**	**65**	**15,623**

2018 [HRK'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
At 1 January 2018	**20,662**	**8,222**	**9,839**	**1,396**	**62**	**40,181**
Additions	15	38	97	-	40	190
Write-offs and disposals	-	-	(517)	(41)	-	(558)
Transfer to use	-	-	-	-	-	-
Inventory deficit	-	-	(19)	-	-	(19)
Transfer from Leasehold improvements	-	-	219	-	-	219
At 31 December 2018	**20,677**	**8,260**	**9,619**	**1,355**	**102**	**40,013**
Accumulated depreciation						
At 1 January 2018	**5,955**	**6,825**	**9,088**	**926**	**-**	**22,794**
Depreciation expense	2,026	425	163	131	-	2,745
Write-offs and disposals	-	-	(517)	(41)	-	(558)
Inventory deficit	-	-	(19)	-	-	(19)
Transfer from Leasehold improvements	-	-	219	-	-	219
At 31 December 2018	**7,981**	**7,250**	**8,934**	**1,016**	**-**	**25,181**
Net carrying value	**12,696**	**1,010**	**685**	**339**	**102**	**14,832**

Notes to the financial statements (continued)

12. INTANGIBLE ASSETS

2019 [HRK'000]	Internally generated software	Leasehold improvements	Licenses	Assets under construction	Total
Cost					
At 1 January 2019	**18,521**	**5,109**	**6,118**	**637**	**30,385**
Additions	187	-	-	254	441
Transfer into use	548	-	-	(548)	-
Write-offs	-	-	(522)	-	(522)
At 31 December 2019	**19,256**	**5,109**	**5,596**	**343**	**30,304**
Accumulated amortisation					
At 1 January 2019	**7,558**	**5,109**	**5,813**	**-**	**18,480**
Depreciation expense	1,791	-	137	-	1,928
Write-offs	-	-	(522)	-	(522)
At 31 December 2019	**9,349**	**5,109**	**5,428**	**-**	**19,886**
Net carrying value	**9,907**	**-**	**168**	**343**	**10,418**

2018 [HRK'000]	Internally generated software	Leasehold improvements	Licenses	Assets under construction	Total
Cost					
At 1 January 2018	**17,766**	**5,954**	**6,118**	**1,031**	**30,869**
Additions	6	-	-	355	361
Transfer to equipment	-	(219)	-	-	(219)
Transfer into use	749	-	-	(749)	-
Write-offs	-	(626)	-	-	(626)
At 31 December 2018	**18,521**	**5,109**	**6,118**	**637**	**30,385**
Accumulated amortisation					
At 1 January 2018	**5,836**	**5,896**	**5,614**	**-**	**17,346**
Depreciation expense	1,722	58	199	-	1,979
Write-offs	-	(626)	-	-	(626)
Transfer to equipment	-	(219)	-	-	(219)
At 31 December 2018	**7,558**	**5,109**	**5,813**	**-**	**18,480**
Net carrying value	**10,963**	**-**	**305**	**637**	**11,905**

Notes to the financial statements (continued)

13. OTHER ASSETS

[HRK'000] OTHER ASSETS	31 December 2018	31 December 2019
Other assets	**23,240**	**26,249**
Fees receivable	368	1,409
Prepaid expenses	279	153
Other receivables	3,977	5,498
Collateral repossessed	18,616	19,189
Impairment allowance	**(2,824)**	**(2,824)**
TOTAL	**20,416**	**23,425**

a) *Impairment of foreclosed assets*

Foreclosed assets refer to land and real estate acquired through pledge for non-performing loans to customers. They are measured at a lower of net carrying amount of loans and advances balance or realisable value.

b) *Movements in impairment allowance for other assets*

[HRK'000]	2018	2019
At 1 January	**2,824**	**2,824**
Increase/decrease	-	-
Write-offs	-	-
At 31 December	**2,824**	**2,824**

Notes to the financial statements (continued)

14. DEPOSITS FROM CUSTOMERS

[HRK'000]	31 December 2018	31 December 2019
Demand deposits	**113,402**	**143,138**
retail	35,710	36,169
in HRK	*23,705*	*22,436*
in foreign currency	*12,005*	*13,733*
corporate	77,692	106,969
in HRK	*48,898*	*64,804*
in foreign currency	*28,794*	*42,165*
Term deposits	**766,467**	**682,225**
retail	652,574	609,993
in HRK	*137,330*	*130,687*
in foreign currency	*515,244*	*479,306*
corporate	113,893	72,232
in HRK	*79,088*	*55,793*
in foreign currency	*34,805*	*16,439*
Accrued interest	**7,408**	**5,337**
TOTAL	**887,277**	**830,700**

Term deposits contain repurchase agreements in the amount of HRK 2,700 thousand (2018: HRK 3,500 thousand) as presented in note 38.

15. DEPOSITS AND BORROWINGS FROM BANKS

[HRK'000]	31 December 2018	31 December 2019
Short-term	**914**	**1,508**
in HRK	914	571
in foreign currency	-	937
Long-term	**9,694**	**8,990**
in HRK	794	583
in foreign currency	8,900	8,407
Of which		
Borrowings	*9,694*	*8,148*
Deposits	*914*	*2,350*
Accrued interest	**16**	**13**
TOTAL	**10,624**	**10,511**

Notes to the financial statements (continued)

16. SUBORDINATED DEBT

[HRK'000]	31 December 2018	31 December 2019
Subordinated debt	**46,589**	**46,679**
in HRK	20,000	20,000
in foreign currency	26,589	26,679
Accrued interest	**84**	**86**
TOTAL	**46,673**	**46,765**

In July 2014 subordinated debt contract was signed, based on which J&T Banka, Prague, has made payment in the amount of EUR 3 million, or equivalent of HRK 22.9 million, at an interest rate of Euribor 12M + 7% per annum for a period of 10 year. During 2016, a new subordinated debt contract was signed, based on which J&T Bank Prague provided additional new funds of HRK 20 million at an interest rate of 8.8% for a period of seven years.

The subordinated debt was also collected from retail customers in the total amount of EUR 584 thousand equivalent in HRK 4.4 million with a fixed interest rate of 5% and a term of 5 years.

Subordinated debt is included in the additional capital of the Bank and is amortized for the purposes of calculating capital adequacy.

Subordinated debt is subordinated to all other liabilities of the Bank.

17. PROVISIONS FOR LIABILITIES AND CHARGES

[HRK'000]	31 December 2018	31 December 2019
Provisions for legal disputes	267	506
Provisions for termination benefits and similar liabilities to employees	596	1,840
Provisions for contingent liabilities from credit risk	591	381
Provisions for contingent liabilities from other sources to individuals	106	111
TOTAL	**1,560**	**2,838**

The movement in provisions for liabilities and charges is presented below:

[HRK'000]	2018	2019
As at 1 January, including the first-time adoption effect of IFRS 9	**869**	**1,560**
Increase/decrease in the income statement		
- Increase in provisions for legal disputes (Note 28)	242	244
- Provisions for termination benefits and similar liabilities to employees (note 28)	592	1,840
- Increase in provisions for contingent liabilities (Note 28)	360	(210)
- Increase in provisions from other sources to individuals (Note 27b)	6	5
Provisions used during the year (towards employees)	(409)	(596)
Provisions used during the year (for legal disputes)	(100)	(5)
At 31 December	**1,560**	**2,838**

Notes to the financial statements (continued)

18. OTHER LIABILITIES

[HRK'000]	31 December 2018	31 December 2019
Trade payables	665	451
Liabilities for salaries, deductions from salaries, taxes and benefits	1,408	1,326
Other liabilities	2,979	28,650
Liabilities for assets in use	-	3,406
TOTAL	**5,052**	**33,833**

Other liabilities include HRK 26,793 thousands on escrow account as insurance of fulfill obligations (2018: nil) and deposit insurance premium of HRK 500 thousands (31 December 2018: HRK 500 thousands).

19. EQUITY

19.1 Share capital

[HRK'000]	31 December 2018	31 December 2019
Share capital	307,085	307,085
TOTAL	**307,085**	**307,085**

31 December 2019	Number of shares	Ownership share (%)
J&T BANKA A.S.	25,350,000	82.55
ALTERNATIVE UPRAVLJANJE D.O.O.	3,571,429	11.63
Other shareholders	1,787,111	5.82
TOTAL	**30,708,540**	**100.00**

31 December 2018	Number of shares	Ownership share (%)
J&T BANKA A.S.	25,350,000	82.55
ALTERNATIVE UPRAVLJANJE D.O.O.	3,571,429	11.63
Other shareholders	1,787,111	5.82
TOTAL	**30,708,540**	**100.00**

On 10 May 2017 the Bank filed a request to delist its shares off the regulated market of Zagreb Stock Exchange and the last trading day was 3 November 2017.

Notes to the financial statements (continued)

19. EQUITY (continued)

19.1 Share capital (continued)

Ordinary shares carry voting rights at shareholders' meetings, subject to a minimum shareholding of one share. The Bank does not have preference shares.

19.2 Premium on issued shares

The premium on the issued shares was formed in previous periods as a result of the recapitalization of the Bank above the nominal value of the subscribed capital.

19.3 Other reserves

[HRK'000]	31 December 2018	31 December2019
Reserves for treasury shares	2,557	2,557
Legal reserves	1,235	1,235
	3,792	**3,792**

Other reserves comprise of legal reserves and treasury shares reserves.

Legal reserve

The bank is obliged to form a legal reserve by allocating 5% of net profit for the year, until reserves reach 5% of the share capital. The legal reserve may be used to cover losses of previous years if the losses are not covered by current profit for the year or if no other reserves are available.

Treasury share reserve

The reserve for treasury shares is the result of the divestments based on the previous ownership of its own shares, and subsequently sold with the net gain and re-purchase during 2018 and 2017.

19.4 Treasury shares

When the Bank purchases the share capital of the Bank (treasury shares), the paid amount represents a deductible item from the capital and reserves belonging to the Bank's shareholders until such shares are rescinded, issued or sold.

On December 31, 2019, the Bank had a total of 590,338 treasury shares worth HRK 2,202 thousand. During 2019 there were no changes in Treasury shares.

During the bankruptcy proceedings for the debtor Validus d.d. the Commercial Court in Varaždin granted the Bank 513,477 shares registered as debtor's bankruptcy property. Ownership rights of the property were transferred after its validation in 2018.

During 2017, the Bank purchased 76,861 treasury shares. The total value of 76,861 treasury shares at December 31, 2017 is HRK 287 thousand.

19.5 Fair value reserve

The Fair value reserve includes unrealized gains and losses from changes in fair value of debt securities at fair value through other comprehensive income.

19.6 Accumulated loss

The transferred loss includes accrued losses from previous years.

Notes to the financial statements (continued)

20. INTEREST AND SIMILAR INCOME

[HRK'000]	2018	2019
Analysis by product	**45,286**	**32,142**
Loans and advances to customers	39,261	27,986
Deposits	1	6
Debt securities	6,020	4,150
Other	4	-
Analysis by source	**45,286**	**32,142**
Retail	7,789	4,588
Corporate	34,838	25,445
State and public sector	2,642	1,983
Financial institutions	10	7
Other	7	119

21. INTEREST AND SIMILAR CHARGES

[HRK'000]	2018	2019
Analysis by product	**16,915**	**13,226**
Deposits from customers	11,538	9,178
Deposits and borrowings from banks	1,841	310
Subordinated debt	3,536	3,535
Interest expense on lease liabilities	-	203
Analysis by source	**16,915**	**13,226**
Retail	9,773	7,881
Corporate	908	888
State and public sector	14	23
Financial institutions	6,204	4,420
Other	16	14

22. FEE AND COMMISSION INCOME

[HRK'000]	2018	2019
Payment transactions	2,371	2,047
Letters of credit and guarantee fees	222	186
Early repayment fees	596	902
Brokerage fees	5,142	3,856
Other	937	2,359
TOTAL	**9,268**	**9,350**

Notes to the financial statements (continued)

23. FEE AND COMMISSION EXPENSE

[HRK'000]	2018	2019
Payment transactions	622	462
Credit cards	178	139
Other	140	230
TOTAL	940	831

24. NET GAINS AND LOSSES FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

[HRK'000]	2018	2019
Realised net gain from securities at fair value through OCI	**3,528**	**7,283**
Bonds	3,528	7,283
Realised net gain from financial assets at fair value through profit and loss	**-**	**79**
Cash funds	-	79
Unrealised net gain/(loss) from financial assets at fair value through profit and loss	**313**	**(328)**
TOTAL	3,841	7,034

25. NET FOREIGN EXCHANGE GAINS AND FX TRADING INCOME

[HRK'000]	2018	2019
Net (loss)/gain from translation of monetary assets and liabilities	(1,139)	225
Net gains from trading with foreign currencies	3,012	1,752
TOTAL	1,873	1,977

Notes to the financial statements (continued)

26. OTHER INCOME

[000 HRK]	2018	2019
Rental of premises	1,449	1,467
Use of official cars	45	37
Collection of previously written off receivables	63	6
Net income from disposal of tangible and intangible assets	522	(5)
Release of accrued expenses from previous years	183	354
Other	3,250	172
TOTAL	**5,512**	**2,031**

27. OTHER ADMINISTRATIVE EXPENSES

a) Personnel expenses

[HRK'000]	2018	2019
Personnel expenses	**17,953**	**15,963**
- *Net salaries*	*8,972*	*8,485*
- *Contributions on and from salaries*	*5,154*	*4,728*
- *Taxes and surtaxes*	*2,560*	*2,193*
- *Other personnel expenses*	*1,267*	*557*
TOTAL	**17,953**	**15,963**

As at 31 December 2019, the Bank had 71 employees (31 December 2018: 71 employees).

b) Other administrative expenses

[HRK'000]	2018	2019
Services	9,175	6,710
Costs of deposit insurance	2,164	2,090
Material and other costs	1,029	944
Representation, advertising and sponsorship	437	194
Other administrative expenses	466	320
Car and other transportation expenses	195	123
Business trip	371	366
Other expenses	152	12
Taxes, contributions, fees	816	1,507
TOTAL	**14,805**	**12,266**

Services include intellectual services, including the audit cost. The audit fee in 2019 amounted to HRK 434 thousand, plus VAT (2018: HRK 433 thousand + VAT).

In accordance with the Deposit Insurance Act and the Methodology for calculating the degree of risk of a particular credit institution in Croatia, the deposit insurance premium is calculated as a multiplication of the premium base, the premium rate and the degree of risk.

Other expense include increase in provisions for contingent liabilities from other sources towards individuals in the amount of HRK 5 thousand (2018: HRK 6 thousand), as presented in note 17.

Notes to the financial statements (continued)

28. EXPECTED CREDIT LOSSES AND PROVISIONS

[HRK'000]	2018	2019
Specifically identified losses	**7,921**	**(1,262)**
Impairment of loans and advances to customers (Note 4.1.1)	8,166	(1,312)
Impairment of Accounts with the CNB and giro accounts with other banks	(214)	107
Impairment of securities at fair value through OCI	(341)	153
Impairment of off-balance-sheet exposure to credit risk (Note 17)	360	(210)
Other provisions	**1,692**	**2,084**
Provisions for court cases (Note 17)	242	244
Provisions for termination benefits (Note 17)	592	1,840
Impairment of foreclosed assets (Note 13a)	858	-
TOTAL	**9,613**	**822**

29. INCOME TAX

a) Income tax expense recognised in the income statement

[HRK'000]	2018	2019
Current tax expense	-	-
Deferred tax expense	-	-
TOTAL INCOME TAX	**-**	**-**

b) Reconciliation of accounting profit and current income tax liability

[HRK'000]	2018	2019
Accounting profit before tax	830	2,017
Income tax at a rate of 18%	149	363
Tax deductible expenses - tax at a rate of 18%	6,253	6,602
Non-taxable income - tax rate 18%	(5,261)	(5,568)
Tax profit for the year at a rate of 18%	1,141	1,397
Tax profit that is not considered deferred tax asset for transfer in future period	-	-
Recognition of previously unrecognised tax losses	(1,141)	(1,397)
Effective tax rate	-	-
	-	**-**

Notes to the financial statements (continued)

29. INCOME TAX (CONTINUED)

The availability of tax losses in future periods, subject to change by the Ministry of Finance, are as follows:

[HRK'000]	31 December 2019
No later than 1 year	35,917
No later than 2 year	58,384
No later than 3 year	20,722
No later than 4 year	-
No later than 5 year	-
Total tax losses carried forward not recognised as deferred tax assets	**115,023**

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

c) Deferred tax liability on financial assets – amounts recognised in OCI

The Bank has recognized in its books a deferred tax liability for unrealized gains on securities measured in OCI in the amount of HRK 357 thousand in 2019 (2018: HRK 321 thousand).

[HRK '000] Items that are or may be reclassified to subsequently to profit or loss	2018	2019
Balance as at 1 January	**720**	**321**
Recognised deferred tax liability in other comprehensive income	(399)	36
Balance as at 31 December	**321**	**357**

Notes to the financial statements (continued)

30. BASIC AND DILUTED EARNINGS PER SHARE

For the purpose of calculating earnings per share, profit calculated as the profit for the period attributable to shareholders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares in circulation during the year after deducting the number of ordinary treasury shares.

Since there is no effect of options, convertible bonds or similar effects, the weighted average number of ordinary shares used to calculate diluted earnings per share was the same as the one used to calculate basic earnings per share. The bank has no preference shares.

	2018	2019
Profit for the year [HRK'000]	830	2,017
Weighted average number of shares	30,708,540	30,708,540
BASIC AND DILUTED EARNINGS PER SHARE (in HRK)	**0.03**	**0.07**

	2018	2019
Number of shares as at January 1	30,708,540	30,708,540
Weighted average number of shares as at December 31	**30,708,540**	**30,708,540**

Notes to the financial statements (continued)

31. CONCENTRATION OF ASSETS AND LIABILITIES

The table below represents the concentration of the Bank's assets and liabilities towards Republic of Croatia, including state-owned institutions and central bank (before ECL allowance):

[HRK'000]	Notes	31 December 2018	31 December 2019
Giro account with CNB	6	95,123	86,622
Obligatory reserve with CNB	6	65,814	63,901
Bonds and treasury bills issued by the Ministry of Finance		148,594	208,173
Borrowings from Croatian Bank for Reconstruction and Development		(9,694)	(8,990)
TOTAL		**299,837**	**349,706**

32. CASH AND CASH EQUIVALENTS

[HRK'000]	Notes	31 December 2018	31 December 2019
Cash and giro accounts with banks	7	125,364	144,972
Giro account with CNB	6	95,123	86,622
TOTAL		**220,487**	**231,594**

33. CONTINGENCIES

[HRK'000]	31 December 2018	31 December 2019
Guarantees	**8,920**	**6,804**
in HRK	8,920	6,804
Revolving facility	**23,164**	**23,269**
in HRK	8,695	14,344
in foreign currency	14,469	8,925
TOTAL	**32,084**	**30,073**

As at 31 December 2019, the Bank recognized provisions on off-balance sheet risks arising from the issuance of guarantees, letters of credit and unused loan credits in the amount of HRK 381 thousand (2018: HRK 591 thousand) as presented in note 17.

Notes to the financial statements (continued)

34. RELATED PARTY TRANSACTIONS

The majority owner of the Bank is J&T Banka a.s. based in the Czech Republic and the ultimate parent is J&T Finance Group SE. The majority owner as at 31 December 2019 owned 82.55% of the Bank's shares (31 December 2018: 82.55%). With the recapitalization in 2015 and 2016 and the subordinated debt, the Bank had other banking transactions with its majority owner during the year which resulted with revenue and expenses for the year, as well as assets and liabilities at year-end.

The second largest shareholder as at 31 December 2019 is Alternative d.o.o. owning 11.63% of the shares, The remaining 5.82% of the shares were traded publicly until 3rd November 2017 and delisting from Zagreb Stock Exchange. The Bank considers its related parties are their key shareholders, their direct or indirect subsidiaries, members of the Supervisory Board and the Management Board and other management (together "key management"), close family members of key management, jointly controlled companies or companies under significant influence of the Key management members and members of their immediate families, in accordance with the definition given in the International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

As at 31 December 2019, the Bank has liabilities to key shareholders in respect of assets on current accounts and liabilities for received deposits.

Transactions related to key management in 2019 were related to the payment of regular salaries, received deposits and given loans. The Bank regulates the Proceeds through the Policy and Ordinance on measuring and rewarding the Bank's performance, organizational units and employees.

Key management includes members of the Management Board and directors responsible for areas of strategic importance. The number of key management members at 31 December 2019 is 16 (31 December 2018: 14).

Related party transactions for the year ended 31 December 2019 and 31 December 2018 were as follows:

	2018.					2019.				
	Assets	Liability	Revenue	Expenses	Impairment	Assets	Liability	Revenue	Expenses	Impairment
J&T Finance Group SE and affiliates										
Other income	-	-	5,251	-	(78)	-	-	4,959	-	(39)
Other receivables	-	-	-	-	-	-	-	-	-	-
Received deposits										
Giro accounts	-	827	-	-	(70)	-	1,359	-	-	-
Received loans	8,757	-	-	1,591	-	11,599	-	-	110	(93)
Subordinated debt	-	42,252	-	3,324	-	-	42,328	-	3,319	-
Other liabilities	-	-	-	-	-	-	-	-	-	-
TOTAL	**8,757**	**43,079**	**5,251**	**4,915**	**(148)**	**11,599**	**43,687**	**4,959**	**3,429**	**(132)**
Key management personnel										
Loans and advances to customers	2,546	28	130	-	(19)	834	-	31	-	(7)
Received deposits	-	3,108	-	-	-	-	2,616	-	-	-
Compensation to key management personnel	-	641	-	8,299	-	-	1,262	-	8,862	-
UKUPNO	**2,546**	**3,777**	**130**	**8,299**	**(19)**	**834**	**3,878**	**31**	**8,862**	**(7)**

Notes to the financial statements (continued)

35. AVERAGE EFFECTIVE INTEREST RATES

Average interest rates calculated based on the weighted average for each category of interest-earning assets and interest-bearing liabilities, are presented below:

	2018	2019
Assets		
Amounts with the Croatian National Bank	-	-
Placements with banks	0.22%	0.16%
Investment securities	2.48%	1.59%
Held-to-maturity financial assets	-	-
Loans and advances to customers	6.29%	6.03%
Liabilities		
Deposits from customers	1.22%	0.98%
Deposits and borrowings from banks	1.42%	1.86%
Subordinated debt	7.59%	7.59%

36. OPERATING LEASE COMMITMENTS

Future minimum lease payments at undiscounted amounts under non-cancellable operating leases where the Bank is the lessee are the following:

[HRK ‘000]	31 December 2018
Up to 1 year	3,001
From 1 to 5 years	3,487
Over 5 years	-
TOTAL	6,488

Following table presents future minimum lease payments for which the Bank did not recognise right-of-use assets and liabilities for leases in accordance with IFRS 16:

[000 HRK]	31 December 2019
Up to 1 year	196
From 1 to 2 years	172
From 2 to 3 years	172
From 3 to 4 years	172
From 4 to 5 years	172
Over 5 years	-
UKUPNO	884

Notes to the financial statements (continued)

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged, or a liability settled on normal market conditions, Financial assets through other comprehensive income are carried at fair value.

Determination of fair value and fair value hierarchy

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

- Level 1: These instruments include: liquid debt and equity securities traded on liquid markets and quoted investment in investment funds.
- Level 2: These instruments include: less-liquid debt and equity securities and derivatives valued by a model that uses input level 1 data.
- Level 3: Instruments where fair value can not be determined directly by referring to available market information and for which different valuation techniques were used to calculate the value. Instruments classified in this category relate to a factor that is not available on the market, which has a significant impact on the fair value of the instrument itself.

There were no transfers between levels in 2018 and 2019.

The tables below present the fair value of financial instruments that are not carried at fair value for the Bank, allocated by the hierarchy of fair value levels with respect to the input data used in the valuation process.

2019 Financial assets	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total HRK '000
Financial assets at fair value through other comprehensive income				
Bonds of the Ministry of Finance	208,167	-	-	208,167
Treasury bills of the Ministry of Finance	-	-	-	-
Foreign government bonds	45,052	-	-	45,052
Foreign corporate bonds	-	34,684	-	34,684
Foreign treasury bills	6,612	-	-	6,612
Financial assets at fair value through profit and loss account				
Cash funds	34,885	-	-	34,885
Loans and advances to customers	-	-	-	-
Total financial assets at fair value	**294,716**	**34,684**	**-**	**329,400**

2018 Financial assets	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total HRK '000
Financial assets at fair value through other comprehensive income				
Bonds of the Ministry of Finance	130,042	-	-	130,042
Treasury bills of the Ministry of Finance	-	18,548	-	18,548
Foreign corporate bonds	-	79,390	-	79,390
Foreign treasury bills	6,426	-	-	6,426
Financial assets at fair value through profit and loss account				
Cash funds	10,284	-	-	10,284
Loans and advances to customers	-	-	18,421	18,421
Total financial assets at fair value	**146,752**	**97,938**	**18,421**	**263,111**

Notes to the financial statements (continued)

37. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial instruments measured at fair value (continued)

The table below shows the reconciliation of initial and final financial instruments at level 3 of the fair value hierarchy.

	Securities	Loans and advances
As at 1 January 2018	**941**	**59,836**
Valuation up to the day of sale, through other comprehensive income	*(341)*	-
Receipt from sales	*(600)*	*(41,415)*
Loss from sales	-	-
As at 31 December 2018	**-**	**18,421**

	Securities	Loans and advances
As at 1 January 2019	**-**	**18,421**
Valuation up to the day of sale, through other comprehensive income	-	-
Receipt from sales	-	*(18,421)*
Loss from sales	-	-
As at 31 December 2019	**-**	**-**

When discounting cash flows of assets or liabilities, the Bank uses weighted average monthly interest rates on loans and advances, ie deposits.

In assessing fair value, the Bank uses the following methods:

Cash and accounts with banks, amounts with the Croatian National Bank

The carrying values of accounts with banks and amounts with the central bank approximate to their fair values, given the short maturity of these assets.

Placements with other banks

The estimated fair value of placements with banks represents the discounted amount of future cash flow receipts. Due to their short-term character, their fair value approximates to their carrying value.

Loans and advances to customers carried at amortised cost

Fair value is based on a discounted cash flows using currently applicable interest rates on loans for similar terms or similar credit characteristics. Most of the Bank's loan portfolio is approved at a variable interest rate. Using the discounting method of cash flows and interest (assuming that the loan is repayable according to the agreed terms and taking into account the existing specific provisions), there is a difference between the fair value of the loan portfolio and the carrying amount, resulting from higher interest rates of the Bank than those on the market. The fair value of loans to non-repayable customers is estimated on the basis of a discounted cash flow analysis or the estimated value of the underlying security instrument. Estimated fair value of loans and advances to customers represents the discounted amount of expected future cash receipts. Expected future cash inflows are discounted using the market interest rate.

Notes to the financial statements (continued)

37. FAIR VALUE OF FINANCIAL ASSETS (continued)

Deposits from banks and customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable as at the balance sheet date. The fair values of term deposits at variable interest rates approximate their carrying values as at the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using rates currently applied to deposits of similar remaining maturities. According to the discounted cash flows, it is concluded that the fair value does not differ significantly from carrying value. Most of the customers' deposits with fixed interest rates become due within one year and consequently their fair value does not significantly differ from their carrying value.

Borrowings

Due to its short-term nature, the carrying value approximates the fair value.

Subordinated debt

Considering that there are no similar investments on the market, the management believes that the carrying value of subordinated debt approximates its fair value.

Financial instruments not valued at fair value:

	31 December 2018		31 December 2019	
	Carrying value	Fair value (Level 3)	Carrying value	Fair value (Level 3)
FINANCIAL ASSETS				
Accounts with the CNB and credit institutions	284,109	284,109	293,197	293,197
Placements with other banks	466	466	467	467
Loans and advances to customers	504,102	542,462	383,098	433,446
Total financial assets	**788,677**	**827,037**	**676,762**	**727,110**
Deposits from customers	887,278	887,278	830,700	830,700
Deposits and borrowings from banks	10,624	10,624	10,511	10,511
Subordinated debt	46,673	46,673	46,765	46,765
Total financial liabilities	**944,575**	**944,575**	**887,976**	**887,976**

Notes to the financial statements (continued)

38. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The disclosures set out in the table on the next page include financial assets and financial liabilities that are offset in the Bank's statement of financial position.

Sale and repurchase agreement, and reverse sale and repurchase transaction

Sale and repurchase agreements (repo contracts) are transactions in which the Bank sells a security and simultaneously contracts its re-purchase at a fixed price on a specified date in the future. The Bank continues to recognize securities sold on the basis of a sale and repurchase agreement in the statement of financial position as it assumes all the risks and rewards associated with the ownership. Received assets are recognized as financial assets and the financial liability is recognized for the obligation to pay the purchase price classified as an interest-bearing loan.
Reverse sale and repurchase agreements are transactions in which the Bank buys a security and simultaneously arranges for sale at a fixed price on a specific date in the future. The Bank holds a security instrument in the form of marketable securities based on the loans granted.
Sale and repurchase agreements and reverse sale and repurchase agreements give the Bank the ability to net these positions on a net basis in the event of non-payment by either party.

The table below shows the amount of security instruments received for the given loans with a sale and repurchase agreement and reverse the sale and re-purchase agreement and the security instruments issued for the received loans under the re-sale and re-sale contract. Days of insurance instruments include treasury bills and central government bonds.

[HRK'000]	2018	2019
Payables under sale and repurchase agreements		
Interest-bearing borrowings	3,500	2,700
Carrying amount of collateral provided in respect of the above relating to:		
FVOCI financial assets / securities	4,293	3,134

Notes to the financial statements (continued)

39. EVENTS AFTER THE REPORTING DATE

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic, and the government of Croatia restrictions and measures for infection reduction. Responding to the potentially serious threat the COVID – 19 presents to public health, the government authorities have taken measures to contain the outbreak, including introducing restrictions on the cross-borders movement of people, entry restrictions on foreign visitors and the 'lock-down' of certain industries, pending further developments. In particular airlines and railways suspended international transport of people, schools, universities, restaurants, cinemas, theatres and museums and sport facilities, retailers excluding food retailers, grocery stores and pharmacies were closed. Some businesses in Croatia have also instructed employees to remain at home and have curtailed or temporarily suspended business operations.

The Bank estimated that the spread of the COVID 19 disease in 2020 might have a particularly negative impact on its operating (primarily interest) income and on the amount of impairment losses on its loan portfolio. The magnitude of this effect will depend on the duration of the unfavorable economic conditions and the extent and effects of mitigation measures. In management's view, the expected negative effects on tourist activities in the upcoming summer season will reduce income from fees and commissions as well as the income from foreign currency trading and exchange rate differences. In the long term, depressed credit demand and a decrease in the overall level of turnover could lead to a decrease in interest income, which should be partly offset by the expected growth of income from restructuring loans and liquidity loans. The Bank's operating performance in the first two months of 2020 is generally in line with the plan with some reduction in profit after tax when compared to the same period last year. Also, collection of exposures where collection is via collateral repossession is expected to be postponed due to delays in court procedures.

Based on the publicly available information at the date of approval of these financial statements, the Bank's Management has considered the potential development of the epidemic and its expected impact on the Bank and the economic environment in which it operates, including measures already taken by the Government of the Republic of Croatia and the Croatian National Bank. In order to protect business continuity and liquidity, the Management Board has implemented a number of measures, with particular emphasis on:

- corporate clients adversely affected by the outbreak, who may need or request refinancing of their exposures, are actively approached;
- retail clients affected by the outbreak are offered solutions with a goal to relief their payment obligations;
- work in rotating shifts and work from home for a significant group of administrative and background jobs is established;
- adherence to very strict precautionary standards, including social distancing when dealing with clients;
- increased monitoring of the liquidity level and the liquidity buffer on a daily basis;
- regular monitoring and evaluation of potential effects on the income statement, on the RWA and on the bank's capital.

Since this crisis qualifies as sudden shock on both supply and demand side, the industries that would be hit the most are, in management's view, hospitality, transport, RE commercial (shopping malls, tenancy), different service businesses, retail and whole sale durables (excluding health care). Although the Bank is exposed to some of those industries (hospitality and real-estate) through its loan portfolio, the exposures are highly collateralized, and the Bank does not have significant exposures to working capital lines and the clients are mostly part of larger groups or have solid equity background. While the Bank does not expect the crisis to terminate by the end of Q1 2021, it does expect its clients will be able to recover promptly and start repaying their liabilities after their adequate moratoriums come to an end. Due to all stated above, the Management Board strongly believes that the vast majority of corporate portfolio will continue to perform after the crisis ends, and that they will remain as going concern. For those for which the Bank recognizes there would be additional value adjustments required (as there will certainly be clients which will not be able to survive the crisis), they will be performed in a timely manner, and the Bank has sufficient level of capital adequacy to absorb these additional crisis caused by value adjustments.

Notes to the financial statements (continued)

39. EVENTS AFTER THE REPORTING DATE (continued)

The Management Board does not expect significant impact of the crisis on the Bank’s results with regards to retail portfolio, since it only accounts for around 12% of total loan portfolio (as at 31 December 2019), and the Bank has not been approving retail loans for more than 3 years as a strategic decision to exit that market segment. In addition, taking into consideration experience from the last financial crisis, retail portfolio deterioration has been gradually qualified (high diversification) which enables the Bank to mitigate negative effects very soon. Despite the above mentioned in accordance with the CNB Circular Letter and the EBA Guidelines on treatment of public and private moratoria in light of COVID-19 measures, the Bank has already issued the Conditions and implementation of consumer credit relief measures following the COVID 19 epidemic.

For corporate clients, the Bank prepared Request for a moratorium and has developed its internal scoring model, which is designed to reflect the level of client's exposure to COVID 19 pandemic. The Bank will apply its relief models for groups of clients which are considered to be part of industries mostly affected by the pandemic. The Management Board expects that the relief measures would be required for not more than 35% of the corporate loan portfolio or 40% of the total portfolio.

The structure of deposits is dominated by retail term deposits, which account for approximately 83% of all deposits as at 31 December 2019. Mostly, retail term deposits are concentrated in the northwestern part of Croatia, in Varaždin, Zagreb and Međimurje counties and the Bank does not expect significant outflows of deposits. Not only that these regions are not as dependent on tourism and other COVID affected industries, but also during the crisis as the one which is currently ongoing, the clients prefer to invest their funds in deposits, as other investment forms, such as real-estate, investment funds, shares etc., prove to be unstable and highly volatile. Corporate deposits are also stable, up slightly from end 2019. The Bank does not record significant outflows of deposits, and in case of approval of the new loans the Bank will thoroughly plan its liquidity. The level of liquidity is assessed by the Management Board as high. It is monitored on a daily basis and no significant negative impact on liquidity is expected.

As disclosed in Note 4.1.5, the Bank’s capital Tier 1 adequacy ratio as at 31 December 2019 amounted to 19.1%. Based on the information currently available, current performance indicators of the Bank, and considering the actions initiated by the Management Board, the Bank does not anticipate a direct, immediate and significant adverse impact of the COVID 19 pandemic outbreak on the Bank, its operations, capital adequacy, financial position and operating results. In management’s view, the above factors support the assertion that the Company will have sufficient resources to continue for a period of at least 12 months from the reporting date. Management concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern.

However, the Management Board cannot exclude the possibility that a prolonged negative period of reduced economic activity, escalating and strengthening measures or the consequent negative effects of such measures on the economic environment, could have adverse effects on the Bank and its capital adequacy, financial position and operating results in the mid-term and long term. Management is closely monitoring the situation and will respond, as appropriate, with measures to mitigate the adverse effects of any events or different circumstances.

Additional information on the impact of the COVID 19 pandemic on the Bank's operations is contained in the Management Report, and Basis of preparation – Going concern.

Additional reports for Croatian National Bank

Supplementary financial statements prepared in accordance with the framework for reporting set out in the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions (Official Gazette 42/18) are presented below:

Additional reports for Croatian National Bank (continued)

Balance sheet as at 31 December 2019

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

Company: J&T banka d.d.

Item	AOP label	Notice	Previous year (net)	Current year (net)
1	2	3	4	5
Assets				
1. Cash and cash equivalents from central banks and other demand deposits (AOP 002 to 004)	001		218,821,018	229,807,384
1.1. Cash	002		12,362,803	8,189,327
1.2. Deposits with the CNB	003		161,224,497	125,902,500
1.3. Other deposits	004		45,233,718	95,715,557
2. Financial assets held for trading (AOP 006 to 009)	005		0	0
2.1. Derivatives	006			
2.2. Equity instruments	007			
2.3. Securities	008			
2.4. Loans and advances	009			
3. Non-trading financial assets that are measured at fair value through profit or loss (AOP 011 to 013)	010		28,704,267	34,885,256
3.1. Equity instruments	011		10,283,774	34,885,256
3.2. Debt securities	012			
3.3. Loans and advances	013		18,420,493	
4. Financial assets at fair value through profit or loss (AOP 015 + 016)	014		0	0
4.2. Debt securities	015			
4.3. Loans and advances	016			
5. Financial assets at fair value through other comprehensive income (AOP 018 to 020)	017		234,406,137	294,515,170
5.1. Equity instruments	018			
5.1. Securities	019		234,406,137	294,515,170
5.2. Loans and advances	020			
6. Financial assets at amortized cost (AOP 022 + 023)	021		551,828,098	448,422,113
5.1. Securities	022			
6.2. Loans and advances	023		551,828,098	448,422,113
7. Derivatives - hedge accounting	024			
8. Changes in the fair value of hedged items to hedge the portfolio of interest rate risk	025			
9. Investments in subsidiaries, joint ventures and associates	026			
10. Tangible assets	027		15,785,449	16,466,331
11. Intangible assets	028		11,905,830	10,418,179
12. Tax assets	029		296,448	297,316
13. Other assets	030		1,111,245	2,497,787
14. Non-current assets and disposal groups classified as held for sale	031		17,662,977	18,345,865
15. TOTAL ASSETS (AOP 001 + 005 + 010 + 014 + 017 + 021 + 024 do 031)	032		1,080,521,469	1,055,655,401
Liability				
16. Financial liabilities held for trading (AOP 034 to 038)	033		0	0
16.1. Derivatives	034			
16.2. Short positions	035			

Additional reports for Croatian National Bank (continued)

Balance sheet as at 31 December 2019 (continued)

16.3. Deposits	036			
16.4. Debt securities	037			
16.5. Other financial liabilities	038			
17. Financial liabilities at fair value through profit or loss (AOP 040 to 042)	039		0	0
17.1. Deposits	040			
17.2. Debt securities	041			
17.3. Other financial liabilities	042			
18. Financial liabilities measured at amortized cost (AOP 044 to 046)	043		944,574,097	891,382,777
18.1. Deposits	044		944,574,097	887,976,443
18.2. Debt securities	045			
18.3. Other financial liabilities	046			3,406,334
19. Derivatives - hedge accounting	047			
20. Changes in the fair value of hedged items to protect the portfolio against interest rate risk	048			
21. Provision	049		1,560,177	2,838,431
22. Tax liabilities	050		320,518	356,850
23. Share Capital that is returned on demand	051			
24. Other liabilities	052		5,052,259	30,452,867
25. Liabilities included in the disposal groups classified as held for sale	053			
26. TOTAL LIABILITIES (AOP 033 + 039 + 043 + 047 do 053)	054		951,507,051	925,030,925
Equity				
27. Share Equity	055		307,085,400	307,085,400
28. Share premium	056			21,433,275
29. Equity instruments issued except capital	057			
30. Other equity instruments	058			
31. Accumulated other comprehensive income	059		24,432,190	2,413,807
32. Retained earnings	060		-204,923,409	-203,916,940
33. Revaluation reserves	061			
34. Other reserves	062		3,792,675	3,793,560
35. Treasury shares	063		-2,201,961	-2,201,961
36. Profit or loss belonging to the owners of the company	064		829,523	2,017,335
37. Dividends during the business year	065			
38. Minority Shares (Non-controlling Shares)	066			
39. TOTAL EQUITY (AOP 055 do 066)	067		129,014,418	130,624,476
40. TOTAL LIABILITIES AND EQUITY (AOP 054+067)	068		1,080,521,469	1,055,655,401

Additional reports for Croatian National Bank (continued)

Income statement for the period ended 31 December 2019

Profit and Loss Account
for the period from 1 January 2019 to 31 December 2019

Company: J&T banka d.d.

Item	AOP label	Notice	Previous year	Current year
1	2	3	4	5
1. Interest income	069		45,445,019	32,157,588
2. Interest expense	070		16,990,603	13,251,518
3. Return on equity that is returned on demand	071			
4. Dividend income	072			
5. Fee and commission income	073		9,499,981	9,509,481
6. Fee and commission expense	074		940,852	831,562
7. Gains or losses on termination of recognition of financial assets and financial liabilities that are not measured at fair value through profit or loss, net	075		3,528,251	7,283,038
8. Gains or losses on financial assets and financial liabilities held for trading, net	076		3,011,800	1,751,973
9. Gains or losses on financial assets not traded measured at fair value through profit or loss, net	077		312,559	-248,779
10. Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net	078			
11. Gains or losses from hedge accounting, net	079			
12. Foreign exchange differences (gains or losses), net	080		-1,192,069	-830,250
13. Gains or losses on discontinuing nonfinancial assets, net	081		78,676	1,386
14. Other operating income	082		4,990,342	2,036,071
15. Other operating expenses	083		3,143,672	3,608,808
16. TOTAL OPERATING INCOME, NET (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 do 082 - 083)	084		44,599,432	33,968,620
17. Administrative expenses	085		29,488,232	24,510,487
18. Depreciation	086		4,863,853	7,517,816
19. Gains or losses due to changes, net	087			
20. Provisions or cancellation of provisions	088		-438,360	850,494
21. Impairment or reversal of financial assets that are not measured at fair value through profit or loss	089		9,441,709	-934,430
22. Impairment or reversal of investments in subsidiaries, joint ventures and associates	090			
23. Creation or release of impairment non-financial assets	091		857,646	0
24. Negative goodwill recognized in profit or loss	092			
25. Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for by share method	093			
26. Profit or Loss from Non-Current Assets and Allocation Assets classified as held for sale that are not qualifying as non-going business	094		443,171	-6,918
27. PROFIT OR LOSS BEFORE OPERATING TAXES TO BE OBTAINED (AOP 084 - 085 - 086 + 087 - 088 do 091+ 092 do 094)	095		829,523	2,017,335
28. Tax expense or income related to operating profit or loss that will continue	096			
29. PROFIT OR LOSS AFTER OPERATING TAXES TO BE OBTAINED (AOP 095 - 096)	097		829,523	2,017,335
30. Profit or loss after tax from operations that will continue (AOP 099 - 100)	098		0	0
30.1. Profit or loss before tax from operations that will continue	099			
30.2. Tax expense or income related to business that will not continue	100			
31. PROFIT OR LOSS FOR THE YEAR (AOP 097 + 098; 102 + 103)	101		829,523	2,017,335
32. It belongs to minority interest (non-controlling interests)	102			
33. It belongs to the owners of the parent company	103			

Additional reports for Croatian National Bank (continued)

Statement of Comprehensive Income for the Year Ended 31 December 2019

REPORT ON OTHER COMPREHENSIVE INCOME				
1. NET PROFIT/(LOSS) FOR THE PERIOD (AOP 101)	**104**		829,523	2,017,335
2. OTHER COMPREHENSIVE PROFIT (AOP 106 + 118)	**105**		-277,287	-407,278
2.1. Items which will not be subsequently reclassified in profit or loss (AOP 107 do 113 + 116 + 117)	**106**		176,945	0
2.1.1. Tangible assets	**107**			
2.1.2. Intangible assets	**108**			
2.1.3. Actuarial gains or losses on pension plans under the sponsorship of the employer	**109**			
2.1.4. Non-current assets and disposal groups intended for sale	**110**			
2.1.5. Share of other recognized income and expense of entities that are accounted for by the equity method	**111**			
2.1.6. Changes in fair value of equity instruments measured at fair value through other comprehensive income	**112**			
2.1.7. Gains or losses on hedge accounting of equity instruments at fair value through other comprehensive income, net	**113**		176,945	
2.1.8. Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)	**114**			
2.1.9. Changes in fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)	**115**			
2.1.10. Changes in the fair value of financial liabilities measured at fair value through profit or loss attributable to changes in credit risk	**116**			
2.1.11. Income tax relating to items that will not be reclassified	**117**			
2.2. Items which may be subsequently reclassified in profit or loss k (AOP 119 do 126)	**118**		-454,232	-407,278
2.2.1 Protection if net investments in foreign affairs (effective share)	**119**			
2.2.2. Conversion of foreign currencies	**120**			
2.2.3. Protect Cash Flow (Effective Share)	**121**			
2.2.4. Risk Protection Instruments (Elements Not Specified)	**122**			
2.2.5. Debt instruments at fair value through other comprehensive income	**123**		-853,351	-370,945
2.2.6. Non-current assets and disposal groups held for sale	**124**			
2.2.7. Share of other recognized income and expenses from investments in subsidiaries, joint ventures and associates	**125**			
2.2.8. Income tax relating to items that can be reclassified to profit or loss	**126**		399,119	-36,333
3. Total comprehensive income of current year (AOP 104 + 105 i AOP 128 + 129)	**127**		552,236	1,610,057
4. Minority interest	**128**			
5. Owners of parent company	**129**			

Additional reports for Croatian National Bank (continued)

Statement of cash flows for year ended 31 December 2019

STATEMENT OF CASH FLOW - Indirect method
for the period from 1 January 2019 to 31 December 2019

Company: J&T banka d.d.

Item	AOP label	Notice	Previous year	Current year
1	2	3	4	5
Business activities and adjustments				
1. Profit/(loss) before tax	001		829,523	2,017,335
2. Impairment losses and provisions	002		8,110,104	-2,167,909
3. Depreciation	003		5,721,499	7,517,816
4. Net unrealised gains less losses from financial assets valued at fair value through profit or loss	004			
5. Gains / losses from sale of tangible assets	005			
6. Other gains / losses	006		370,474	830,250
Changes in assets and liabilities from operating activities				
7. Deposits with the CNB	007		14,372,989	1,914,019
8. Deposits with financial institutions and loans to financial institutions	008		549,985	1,788,962
9. Loans and advances to other customers	009		81,685,919	122,859,096
10. Securities and other financial instruments at fair value through other comprehensive income	010		28,981,546	-59,767,585
11. Securities and other financial instruments held for trading	011			
12. Securities and other financial instruments that are not actively traded and valued at fair value through the RDG	012		-10,283,774	-24,600,888
13. Securities and other financial instruments that are carried at fair value through profit or loss	013			
14. Securities and other financial instruments carried at amortized cost	014			
15. Other assets from operating activities	015		2,456,200	988,726
Net increase / decrease of operating liabilities				
16. Deposits from financial institutions	016			-2,265,841
17. Transaction accounts of other customers	017		-4,017,684	5,592,510
18. Savings deposits of other customers	018		-20,444,928	-85,118,947
19. Term deposits of other customers	019		-2,834,979	24,878,114
20. Derivative financial liabilities and other trading liabilities	020			
21. Other liabilities	021		-6,111,525	26,816,052
22. Unpaid interest from business activities	022		45,256,119	
23. Dividends received from business activities	023			
24. Interest paid from business activities	024		-15,990,603	
25. Paid Profit Tax	025			
A) Net cash flow from operating activities (AOP 001 do 025)	026		128,650,865	21,281,710
Investing activites				
1. Receipts from sale / payment for purchase / tangible and intangible assets	027		-675,784	-9,097,944
2. Receipts from sales / payments for purchases / investments in subsidiaries, joint ventures and associates	028			
3. Receipts from the purchase / securities payment / other financial instruments from investing activities	029			
4. Dividends received from investing activities	030			
5. Other receipts / payments / from investing activities	031			
B) Net cash flows from investing activities (AOP 027 do 031)	032		-675,784	-9,097,944
Financial activities				
1. Net increase / decrease / received loans from financial activities	033		-127,762,056	

2. Net increase / decrease / issued debt securities	**034**			
3. Net increase / decrease of supplementary Equity instruments	**035**		-15,168	
4. Increase in Share Equity	**036**			-2,025,015
5. Paid dividends	**037**			
6. Other receipts / payments from financial activities	**038**		-9,426,943	2,025,015
C) Net cash flows from financing activities (AOP 033 do 038)	**039**		-137,204,167	0
D) Net increase / decrease in cash and cash equivalents (AOP 026+032+039)	**040**		-9,229,086	12,183,766
Cash and cash equivalents at the beginning of the year	**041**		229,781,012	218,821,018
Effect of Currency Exchange Rate Conversion on Money and Cash Equivalents	**042**		-1,730,908	589,843
Cash and cash equivalents as per reporting date (AOP 040+041+042)	**043**		218,821,018	231,594,627

Additional reports for Croatian National Bank (continued)

Statement of changes in equity for year ended 31 December 2019

CHANGES IN EQUITY
for the period from 1 January 2019 to 31 December 2019

Company: J&T banka d.d.

Position name	AOP code	Note nb	Attributable to equity holders of the Bank											Minority share		Total
			Share Capital	Share premium	Issued equity instruments other than equity	Other equity holdings	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	Treasury shares	Profit / loss attributable to owners of the parent company	Dividends for the financial year	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. Initial Balance (before restatement)	01		307.085.400				24.432.190	-204.923.408		3.792.675	-2.201.961	829.523				129.014.419
2. The effect of corrections of errors	02															0
3. The effect of changes in accounting	03															0
4. Initial state (current period)	04		307.085.400	0	0	0	24.432.190	-204.923.408	0	3.792.675	-2.201.961	829.523	0	0	0	129.014.419
5. Issuance of ordinary shares	05			21.433.275												21.433.275
6. Issuance of Preferred Shares	06															0
7. Issuance of other equity instruments	07															0
8. Execution or expiration of other issued equity instruments	08															0
9. Converting Debt to Ownership Instruments	09															0
10. Equity Reduction	10															0
11. Dividends	11															0
12. Purchase of treasury shares	12									885						885
13. Sale or cancellation of treasury shares	13															0
14. Reclassification of financial instruments from equity instruments to liabilities	14															0
15. Reclassification of financial instruments from equity instruments	15															0
16. Transfers between components of proprietary instruments	16						-176.945	1.006.468				-829.523				0
17. Increase or decrease in equity instruments as a result of business combinations	17															0
18. Share-based Payments	18															0
19. Other enhancement or reduction of equity instruments	19						-21.434.160									-21.434.160
20. Total comprehensive income for the current	20						-407.278					2.017.335				1.610.057
21. Final (current period) (AOP 04 do 20)	21		307.085.400	21.433.275	0	0	2.413.807	-203.916.940	0	3.793.560	-2.201.961	2.017.335	0	0	0	130.624.476

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the suplementary schedules for CNB

Reconciliation of balance sheet as at 31 December 2019

in '000 HRK

	TOTAL ASSETS - Statutory financial statements	Amounts with the Croatian	Cash and accounts with banks	Placements with other banks	Financial assets securities	Loans and advances to customers	Property and equipment	Intangible assets	Other assets	ACCOUNT 296096	Rounding	TOTAL ASSETS	Ordinal number
ASSETS Specific financial statements 31.12.2019.													
1.	Cash, cash receivables from central banks and other demand deposits												
1.1.	Cash		8,189									**8,189**	**1**
1.2.	Cash receivables from central banks	85,929	39,974									**125,903**	**2**
1.3.	Other deposits		95,715								1	**95,716**	**3**
2	Financial assets held for trading												
2.1.	Derivatives												
2.2.	Equity instruments												
2.3.	Securities												
2.4.	Loans and advances												
3.	Non-trading financial assets that are measured at fair value through profit or loss												
3.1.	Equity instruments				34,885							**34,885**	**4**
3.2.	Securities												
3.3.	Loans and advances												
4.	Financial assets at fair value through profit or loss												
4.2.	Securities												
4.3.	Loans and advances												
5.	Financial assets at fair value through other comprehensive income												
5.1.	Equity instruments												
5.1.	Securities				294,515							**294,515**	**5**
5.2.	Loans and advances												
6.	Financial assets at amortized cost												
6.1.	Securities												
6.2.	Loans and advances	63,390		467		383,098			1,441	26		**448,422**	**6**
7.	Derivatives - hedge accounting												
8.	Changes in the fair value of hedged items to hedge the portfolio of interest rate risk												
9.	Investments in subsidiaries, joint ventures and associates												
10.	Tangible assets						15,623		843			**16,466**	**7**
11.	Intangible assets							10,418				**10,418**	**8**
12.	Tax assets								297			**297**	**9**
13.	Other assets								2,498			**2,498**	**10**
14.	Non-current assets and disposal groups classified as held for sale								18,346			**18,346**	**11**
	TOTAL ASSETS	**149,319**	**143,878**	**467**	**329,400**	**383,098**	**15,623**	**10,418**	**23,425**	**26**	**1**	**1,055,655**	

Additional reports for Croatian National Bank (continued)

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

Reconciliation of balance sheet as at 31 December 2019

in '000 HRK

TOTAL LIABILITIES - Statutory financial statements		Deposits from customers	Deposits and borrowings from banks	Subodinated debt	Provision for liabilities and charges	Other liabilities	Deferred tax liability	ACCOUNT 296096	TOTAL LIABILITIES	Ordinal number
LIABILITIES Specific financial statements 31.12.2019.										
1.	Financial liabilities held for trading									
1.1.	Derivatives									
1.2.	Short positions									
1.3.	Deposits									
1.4.	Debt securities									
1.5.	Other financial liabilities									
2.	Financial liabilities at fair value through profit or loss									
2.1.	Deposits									
2.2.	Debt securities									
2.3.	Other financial liabilities									
3.	Financial liabilities measured at amortized cost									
3.1.	Deposits	830,700	10,511	46,765					**887,976**	**1**
3.2.	Debt securities									
3.3.	Other financial liabilities					3,406			**3,406**	**2**
4.	Derivatives - hedge accounting									
5.	Changes in the fair value of hedged items to protect the portfolio against interest rate									
6.	Provision				2,838				**2,838**	**3**
7.	Tax liabilities						357		**357**	**4**
8.	Share Capital that is returned on demand									
9.	Other liabilities					30,427		**26**	**30,453**	**5**
10.	Liabilities included in the disposal groups classified as held for sale									
TOTAL LIABILITIES		**830,700**	**10,511**	**46,765**	**2,838**	**33,833**	**357**	**26**	**925,030**	

Additional reports for Croatian National Bank (continued)

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

Reconciliation of balance sheet as at 31 December 2019

in '000 HRK

TOTAL CAPITAL AND RESERVES - Statutory financial statements		Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Accumulated losses	Rounding	TOTAL CAPITAL AND RESERVES	Ordinal number
CAPITAL AND RESERVES Specific financial statements 31.12.2019.										
1.	Share capital	307,085							**307,085**	1
2.	Share premium		21,435					-1	**21,434**	2
3.	Other equity holdings									
4.	Other equity instruments									
5.	Accumulated other comprehensive income					2,414			**2,414**	3
6.	Retained earnings						-203,917		**-203,917**	4
7.	Revaluation reserves									
8.	Other reserves				3,792			1	**3,793**	5
9.	Treasury shares			-2,202					**-2,202**	6
10.	Profit / loss attributable to owners of the parent company						2,017		**2,017**	7
11.	Dividends for the financial year									
12.	Minority Shares (Non-controlling Shares)									
TOTAL EQUITY		**307,085**	**21,435**	**-2,202**	**3,792**	**2,414**	**-201,900**	**-**	**130,624**	

Additional reports for Croatian National Bank (continued)

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

Explanations for adjustments to the balance sheet of the Specific Financial Statements and the Core Financial Statements

ASSETS

1. The amount of cash (HRK 8,189 thousand) from the cash item in the Cashier's Special Financial Statements has been reclassified to item cash and accounts with Banks of the Basic Financial Statements.

2. The amount of deposits with the CNB (HRK 125,903 thousand) from the item cash receivables from central banks of the Special Financial Statements was reclassified to the item cash and deposits with the CNB Basic Financial Statements in the amount of HRK 85,929 thousand and item money and accounts with Banks reports in the amount of HRK 39,974 thousand.

3. The amount of other demand deposits (HRK 95,715 thousand) from item other demand deposits of the Special Financial Statements was reclassified to cash and bank accounts with the Basic Financial Statements in the amount of HRK 95,715 thousand.

4. The amount of non-tradable financial assets that are necessarily measured at FV through profit or loss (HRK 34,885 thousand) from the item financial instruments of the Special Financial Statements has been reclassified to financial assets - securities of the Basic Financial Statements.

5. The amount of financial assets at fair value through other comprehensive income (HRK 294,515 thousand) from the item debt securities of the Special Financial Statements has been reclassified to the item financial assets - securities in the Basic Financial Statements (HRK 294,515 thousand).

6. The amount of financial assets at amortized cost (HRK 448,422 thousand) from the item loans and advances of the Special Financial Statements was reclassified to cash and deposits with the CNB (HRK 63,390 thousand), to placements with other banks (HRK 467 thousand), loans and advances to customers (HRK 383,098 thousand) and other assets (HRK 1,441 thousand) of the Basic Financial Statements.

7. The amount of tangible assets (HRK 16,466 thousand) from the item tangible assets of the Special Financial Statements was reclassified to property and equipment of the Basic Financial Statements in the amount of HRK 15,623 thousand, and to other assets in the amount of HRK 843 thousand.

8. The amount of intangible assets (HRK 10,418 thousand) from the item intangible assets of the Special Financial Statements is reclassified to the item intangible assets of the Basic Financial Statements.

9. Items 09,10,11 - tax assets, other assets and fixed assets classified as held for sale in the amount of HRK 22,141 thousand Special Financial Statements are reclassified to other assets in the Basic Financial Statements.

The assets of the Special Financial Statements amount to HRK 1,055,629 and the Basic Financial Statements amount to HRK 1,055,655. The difference of HRK 26 thousand relates to the account 296096 in the liability instrument - P9993 Deferred income.

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Explanations for adjustments to the balance sheet of the Specific Financial Statements and the Core Financial Statements

LIABILITIES

1. The amount of the financial liability at fair value through profit or loss in amount of HRK 887,976 thousand from the item deposits of the Special Financial Statements was reclassified to received loans (HRK 10,511 thousand), to customer deposits (HRK 830,700) and to the hybrid instrument item (46,764 thousand) of the Basic Financial Statements.

2. The amount of HRK 3,406 thousand under other financial liabilities of the Special Financial Statements has been reclassified to other liabilities of the Basic Financial Statements.

3. The amount of HRK 2,838 thousand under the provision of the Special Financial Statements has been reclassified to the provision for liabilities and expenses of the Basic Financial Statements.

4. The amount of HRK 357 thousand relating to deferred tax liability has been reclassified from the item of tax liability of the Special Financial Statements to the item deferred tax liability of the Basic Financial Statements.

5. The amount of other liabilities (HRK 30,427 thousand) was reclassified from the item other liabilities of the Special Financial Statements to the item other liabilities of the Basic Financial Statements.

EQUITY

1. The share capital (HRK 307,085 thousand) from the item share capital of the Special Financial Statements is reclassified to the item share capital of the Basic Financial Statements.

2. Share premium (HRK 21,434 thousand) of the Special Financial Statements is reclassified to premium on the issued shares of the Basic Financial Statements.

3. The item of accumulated other comprehensive income (HRK 2,414 thousand) of the Special Financial Statements has been reclassified to the fair value reserve item of the Basic Financial Statements.

4. The amount of retained earnings-loss (HRK -203,917 thousand) from the item retained earnings of the Special Financial Statements is reclassified to the item accumulated losses of the Basic Financial Statements.

5. The amount of reserves (HRK 3,792 thousand) from the item other reserves of the Special Financial Statements has been reclassified to other reserves in the Basic Financial Statements.

6. Treasury stock item (HRK -2,202 thousand) of the Special Financial Statements has been reclassified to Treasury stock item of the Basic Financial Statements.

7. The amount of profit or loss (HRK 2,017 thousand) from the profit or loss item belonging to the owners of the parent company is reclassified to the item accumulated losses-gains of the Basic Financial Statements.

The liabilities of the Special Financial Statements amount to HRK 1,055,629 and the Basic Financial Statements amount to HRK 1,055,655. The difference of HRK 26 thousand relates to the account 296096 in the liability instrument - P9993 Deferred income.

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Reconciliation of the Income statement as at 31 December 2019

in '000 HRK

	PROFIT AND LOSS ACCOUNT- Statutory financial statements I-XII 2019.	Interest and similar income	Interest and similar charges	Fee and commission income	Fee and commission expense	Net gains and losses from financial assets at fair value through profit or loss and financial assets at fair value through OCI	Net foreign exchange gains and FX trading income	Other income	Personnel expenses	Depreciation and amortisation	Other administrative expenses	Expected credit losses and provisions	PROFIT (LOSS)	TOTAL	Ordinal number
1.	Interest income	32,157												**32,157**	**1**
2.	Interest expense		-13,252											**-13,252**	**2**
3.	Return on equity that is returned on demand														
4.	Dividend income														
5.	Fee and commission income			9,509										**9,509**	**3**
6.	Fee and commission expense				-831									**-831**	**4**
7.	Gains or losses on termination of recognition of financial assets and financial liabilities that are not measured at fair value through profit or loss, net					7,283								**7,283**	**5**
8.	Gains or losses on financial assets and financial liabilities held for trading, net						1,752							**1,752**	**6**
9.	Gains or losses on financial assets not traded measured at fair value through profit or loss, net					-249								**-249**	**7**
10.	Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net														
11.	Gains or losses from hedge accounting, net														
12.	Foreign exchange differences (gains or losses), net	-15	26				225					-1066		**-830**	**8**
13.	Gains or losses on discontinuing nonfinancial assets, net							1						**1**	**9**
14.	Other operating income							2,036						**2,036**	**10**
15.	Other operating expenses										-3,609			**-3,609**	**11**
16.	**TOTAL OPERATING INCOME, NET**														
17.	Administrative expenses								-15,963		-8,547			**-24,510**	**12**
18.	Depreciation									-7,409	-110			**-7,519**	**13**
19.	Gains or losses due to changes, net														
20.	Provisions or cancellation of provisions											-850		**-850**	**14**
21.	Impairment or reversal of financial assets that are not measured at fair value through profit or loss			-159								1094		**935**	**15**
22.	Impairment or reversal of investments in subsidiaries, joint ventures and associates														
23.	Creation or release of impairment non-financial assets													**0**	
24.	Negative goodwill recognized in profit or loss														
25.	Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for by share method														
26.	Profit or Loss from Non-Current Assets and Allocation Assets classified as held for sale that are not qualifying as non-going business							-6						**-6**	**16**
27.	**PROFIT OR LOSS BEFORE TAX FROM OPERATIONS TO BE CONTINUED**														
28.	Tax expense or income related to operating profit or loss that will continue														
29.	**PROFIT OR LOSS AFTER TAX FROM OPERATIONS TO BE CONTINUED**														
30.	**Profit or loss after taxation from operations that will not continue**														
30.1.	Profit or loss before tax from operations that will continue														
30.2.	Tax expense or income related to business that will not continue														
31.	**PROFIT OR LOSS FOR THE YEAR**	32,142	-13,226	9,350	-831	7,034	1,977	2,031	-15,963	-7,409	-12,266	-822	2,017	**2,017**	
32.	It belongs to minority interest (non-controlling shares)												2,017		
33.	It belongs to the owners of the parent company														

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Explanations for adjustments of the Income statement for CNB reporting and the Statutory Financial Statements (continued)

1. The amount of interest income in the amount of HRK 32,157 thousand from the item interest income, and the item foreign exchange difference (profit or loss) net in the amount of HRK -15 thousand is reclassified to interest income (HRK 32,142 thousand) of the Basic Financial Statements.
2. Interest expense in the amount of HRK -13,252 thousand from the item interest expense and the item foreign exchange difference (profit or loss) net (HRK 26 thousand) has been reclassified to interest expense (HRK -13,226 thousand) of the Basic Financial Statements.
3. The amount of fee income (HRK 9,509 thousand) from the item fee and commission income, and item impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (HRK -159 thousand) is reclassified in item fee income (HRK 9,350 thousand) of the Basic Financial Statements.
4. Fee and commission expense (HRK -831 thousand) in the Special Financial Statements has been reclassified to fee and commission expense in the Basic Financial Statements.
5. Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net in amount of HRK 7,283 thousand of the Special Financial Statements, are reclassified to realized gains less securities losses from the Basic Financial Statements.
6. Gains or losses on financial assets and financial liabilities held for trading, net in amount of HRK 1,752 thousand in the Special Financial Statements, are reclassified to gains less foreign exchange losses on the Basic Financial Statements.
7. Gains or losses on non-traded financial assets measured at fair value through profit or loss, net of the Special Financial Statements (HRK -249 thousand), are reclassified to realized gains less losses on securities of the Basic Financial Statements.
8. Foreign exchange differences (profit or loss), net in amount of HRK -830 thousand are reclassified to interest income (HRK -15 thousand), interest expense (HRK 26 thousand), net of profit or loss for foreign exchange losses (HRK 225 thousand), and in the item impairment charges and provisions (HRK -1,066 thousand) of the Basic Financial Statements.
9. Gains or losses on derecognition of non-financial assets, net in amount of HRK 1 thousand in the Special Financial Statements, are reclassified to other income in the Basic Financial Statements.
10. Other operating income in the amount of HRK 2,036 thousand of the Special Financial Statements was reclassified to other income from the Basic Financial Statements.
11. Other operating expenses in the amount of HRK -3,609 thousand have been reclassified to other operating expenses of the basic financial statements.

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Explanations for adjustments of the Income statement for CNB reporting and the Statutory Financial Statements

12. Administrative expenses in the amount of HRK -24,510 thousand Special Financial Statements were reclassified to personnel expenses in the amount of HRK -15,963 thousand and other operating expenses in the amount of HRK -8,547 thousand of the Basic Financial Statements.

13. Depreciation in the amount of HRK -7,519 thousand Special Financial Statements are reclassified to the item depreciation and impairment of goodwill in the amount of HRK -7,409 thousand and other operating expenses (HRK -110 thousand) of the Basic Financial Statements.

14. The provision or cancellation of provisions in the amount of HRK -850 thousand Special Financial Statements is reclassified to the item impairment and provisioning expenses of the Basic Financial Statements.

15. Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss in the amount of HRK 935 thousand Special Financial Statements is reclassified to impairment expenses and provisions in the amount of HRK 1,094 thousand and to revenues from fees and commissions in the amount of HRK -159 thousand of the Basic Financial Statements.

16. Gains or losses on non-current assets and disposal groups classified as held for sale that are not classified as non-continuing operations in the amount of HRK -6 thousand Special Financial Statements are reclassified to other income in the Basic Financial Statements.

Reconciliation of comprehensive income statement as at 31 December 2019

in '000 HRK

REPORT ON OTHER COMPREHENSIVE INCOME		Profit (loss) for the year	Unrealized gains / (losses) on securities assets, net of realization	Financial assets at fair value thorugh OCI - deferred tax	Total comprehensive profits	Ordinal number
1.	**Profit or loss**	2,017			**2,017**	
2.	**Other comprehensive income**					
2.1.	**Items that will not be reclassified to profit or loss**					
2.1.1.	Tangible assets					
2.1.2.	Intangible assets					
2.1.3.	Actuarial gains or losses on pension plans under the sponsorship of the employer					
2.1.4.	Non-current assets and disposal groups intended for sale					
2.1.5.	Share of other recognized income and expense of entities that are accounted for by the equity method					
2.1.6.	Changes in fair value of equity instruments measured at fair value through other comprehensive income					
2.1.7.	Gains or losses on hedge accounting of equity instruments measured at fair value through other comprehensive income, net					
2.1.8.	Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)					
2.1.9.	Changes in fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)					
2.1.10.	Changes in the fair value of financial liabilities measured at fair value through profit or loss attributable to changes in credit risk					
2.1.11.	Income tax relating to items that will not be reclassified					
2.2.	**Items that can be reclassified to profit or loss**					
2.2.1.	Hedges of a Net Investment in a Foreign Operation (effective share)					
2.2.2.	Conversion of foreign currencies					
2.2.3.	Protect Cash Flow (Effective Share)					
2.2.4.	Hedging instruments (elements which are not specified)					
2.2.5.	Debt instruments at fair value through other comprehensive income		-371		**-371**	**1**
2.2.6.	Non-current assets and disposal groups intended for sale					
2.2.7.	Share of other recognized income and expenses from investments in subsidiaries, joint ventures and associates					
2.2.8.	Income taxes relating to items that may be reclassified profit and loss			-36	**-36**	**2**
3.	**Total comprehensive income**	2,017	-371	-36	**1,610**	
4.	It belongs to minority interest (non-controlling interest)					
5.	It belongs to the owners of the parent company			1,610		

1. Amount of (HRK -371 thousand) from the item debt instruments at fair value through other comprehensive income of the Special Financial Statements is reclassified to the item unrealized gains on securities assets, net of the realization of the Basic Financial Statements.

2. Amount (HRK -36 thousand) from the item Profit tax relating to items that can be reclassified to profit or loss of the Special Financial Statements, is reclassified to the item deferred tax on financial assets of the securities of the Basic Financial Statements.

Reconciliation of the Statement of cash flows in statutory financial statements with the supplementary schedules for CNB

The differences in the cash flow statement published in the annual report and that defined by the CNB’s prescribed structure and content are caused by the different methodology of these two reports. Cash flow elaboration on items of operational, investment and financial activities is also different due to different starting points in cash flow presentation.

Announcements pursuant to Article 164 of the Credit Institutions Act

1) J&T banka d.d. is registered for the following activities:

- Accepting deposits or other repayable funds from people and approving credits from those funds, for own account,
- accepting deposits and other repayable funds,
- approval of loans and credits, including consumer credits and loans, and mortgage credits and loans, if it is allowed by a special law, and financing commercial activities, including export financing based on discount repurchase and without reimbursement of long-term unmatured claims ensured by financial instruments (forfeiting);
- purchase of receivables with or without recourse (factoring),
- financial lease,
- issuing guarantees and other warrants,
- trading for own account or for the client's account:
    - money market instruments,
    - transferable securities,
    - foreign currencies, including exchange transactions,
    - financial futures and options,
    - currency and interest rate instruments,
- payment services in line with special laws;
- services related to crediting, e.g. collection of data, conducting analyses and providing information on creditworthiness of legal and natural persons who conduct business activities on their own;
- issuing other payment instruments and managing them, in line with a special law, unless provision of these services is not considered provision of payment services in line with special laws;
- renting safe boxes;
- mediation in money market transactions;
- investments and other services and activities in accordance with separate laws regulating capital markets, as follows:
    - trading for own account;
- carrying out activities related to sale of insurance policies in line with regulations on insurance.

As at 31 December 2019, the Bank operates through 2 branches (Varaždin, Zagreb).

The Bank mainly carries out its business activities in the territory of the Republic of Croatia while only a small part of its business is carried out with non-residents.

2) The total revenue of the Bank for 2019 amounted to HRK 52,534 thousand.
3) The Bank employs 71 full-time employees.
4) Net profit in 2019 amounted to HRK 2,017 thousand and the Bank did not have any obligation to pay tax on profit.
5) The bank have not received public subsidies during 2019.