OTP BANKA HRVATSKA d.d.

ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2018 TOGETHER WITH INDEPENDENT
AUDITOR'S REPORT

This version of the auditor`s report is 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 matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

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Report of the Management Board on the Position of the Bank

Dear customers and business partners,

A positive momentum in the domestic economy continued during 2018. The economic activity has been steadily growing since the second half of 2014, and other crucial macro-economic indicators have been rising as well. Levelling out of fiscal imbalances reflected in the first overall surplus of the general government budget in 2017, and a decrease of the share of public debt in GDP. At the same time, the external imbalance decreased and a surplus appeared in the current account of the balance of payment, along with a decrease in the gross foreign debt. In addition, there was an evident plunge in the unemployment rate. As anticipated, the mentioned upturns in the economy led to an upgrade in the credit rating of Croatia during 2018, although it remained at the non-investment grade level. Nevertheless, there are good chances for further upturns ahead.

Notwithstanding the foregoing, the structural problems of the domestic economy were not solved, as was quite evident in the modest potential GDP growth, despite very supportive international environment. Also, developments in 2018 indicated to the need for further restructuring of the domestic economy, especially in the shipbuilding sector, food and beverage production, retail trade, and chemical production.

At the same time, the comparable economies - European Union members within the region - recorded a much faster growth of their economic activity, leaving Croatia almost at the bottom of the list of EU members ranked by economic development (measured as GDP per capita, adjusted by purchase power parity).

Compared to the year 2017, when GDP grew by 2.9%, it is expected that the data for 2018 will show that the economic activity growth slowed down slightly. During the first three quarters of 2018 GDP increased by 2.8% in real terms compared to the same period of the previous year. The single greatest contributor to the growth in the observed period was again the growth of household consumption stemming from a higher disposable income of the households and positive trends in the tourism sector. Recovery of capital investments continued, showing the average annual growth rate of 3.5% over the first three quarters of 2018. Simultaneously, an adverse impact of the international commodity exchange deficit deepened.

Having grown by 1.1% in average in 2017, the consumer price increase in 2018 was expectedly steeper as it grew by 1.5%. At that, the factors that contributed the most to such growth were the surge of the fuel rates by 7.1%, the higher housing rates by 2.7%, and the rise in the rates of communal infrastructure services and energy products. The food prices, constituting about ¼ of the consumer basket costs, grew by 1%, which was below average.

The unemployment rate at the domestic labour market has been falling since the beginning of 2014. Such positive trends continued during 2018 when the average unemployment rate equalled 9.9% (compared to 12.4% in 2017). Also, during September 2018 the registered unemployment rate reached its all times low of 8.4%. This decrease of the unemployment rate was corroborated by a decrease of the Labour Force Survey employment rate, which averaged 8.4% in the first three quarters of the year, whilst in the previous year the average unemployment rate was 11.4%.

Unfortunately, the above-mentioned downturn was for the most part a result of negative demographic trends such as aging of the population, and unfavourable migration processes. Thus, the lack of labour force in the domestic market during 2018 became even more prominent, which stimulated a relatively strong rise of net salaries although there was no personal income tax reliefs that were felt in 2017. Therefore, the average net salary was higher by 4.3% in nominal terms, but only 2.8% in real terms.

A downward trend of external imbalances that began during the recession years continued throughout the phase of economic recovery. Therefore, in the observed period there was a surplus on the current account of the balance of payment. At the same time, the external debt continued falling and in the last quarter of 2018 it reached the lowest point in the last ten years. The banking sector's contribution to such fall was quite large, as the banks strengthened the domestic deposit base and thus lowered the demand for financing of activities from foreign sources.

The domestic currency appreciation pressure has been felt for several years, and 2018 was no exception. Thus, the average EUR/HRK exchange rate equalled 7.41, compared to 7.46 in the year before. The auspicious international environment, along with the balance of payment current account surplus, and the decrease in fiscal imbalances played their roles in appreciation of the local currency. In such circumstances, the Central Bank intervened in the local foreign exchange market five times, and bought the total of EUR 1.8 billion. These interventions contributed to the international reserves, increasing the HRK liquidity surplus in the domestic financial system. Considering all of the above, it was hardly a surprise that the interest rate at the money market remained low, and that the depreciation pressure on the yield of treasury notes continued through the year.

Operations and activities of OTP banka in 2018

In line with the business plans and following the acquisition of 100% of shares of Splitska banka d.d. on 2 May 2017, OTP banka continued with the intensive preparations for the technological, legal and organisational integration that was finally formalised on 1 December 2018. This transaction was the largest of its kind in the financial sector of Republic of Croatia thus far, and it created the fourth largest credit institution in terms of assets and results in the Croatian banking system. The total balance sheet of OTP banka grew by 114%, that is, from HRK 19.6 billion to HRK 42 billion, which accounts for 11% of the banking market.
Consequently, the market share in the retail segment increased significantly, as in terms of loans the bank holds almost 13% of the market share, and in terms of deposits around 11% of the market share. As for lending to corporate customers, the bank's share is now at the level of 10%, and it holds around 9% of the overall corporate deposits. Whilst maintaining its focus on the integration throughout the year, the bank still succeeded in retaining its market position and its competitive edge.

The total profit after tax in 2018 was HRK 166.4 million, bearing in mind that the operations of the integrated bank related to only to the period after the migration (i.e. only one month), whilst the pre-integration results of Splitska banka d.d. are included in the retained profit. The business operations in 2018 were additionally burdened with the costs connected to the preparation of the integration. In addition, in the observed year the bank wrote-off the goodwill totalling HRK 43 million, and originating from its previous acquisitions. If the 2018 operations were considered at the level of the integrated bank and based on the entire year, excluding the extraordinary effects of the integration and one-off transactions, the bank's profit after tax would total HRK 598 million. As it happened, the burden of provisioning for credit risks was not weighing down on the operations in 2018 as much as it had weighed them down in the previous year. Keeping a close eye on the integration-related activities, the bank still managed to achieve the total operating result way above the plan, with satisfactory success ratios in terms of profitability and efficacy, even with the effects of one-off transactions excluded.
All the regulatory requirements were observed regularly, the liquidity was at the satisfactory level, and the capital adequacy ratio equalled 20%, i.e. it was 4 percentage points above the floor rate.

Corporate social responsibility

Last year, OTP banka published its third sustainability report containing the data for 2016 and 2017. The report was made according to the guidelines of the Global Reporting Initiative, and it addressed issues material in terms of sustainability of the bank's operations. The report included information about a wide range of topics, from work conditions, to bank's concern about its ecological footprint, availability of its services, and its engagement in the communities it operates in.

OTP banka was one of the main sponsors of the Boranka project, so far the largest volunteer tree-planting project in the burned down areas in Dalmatia, which was initiated by the Croatian Scout Association. Around 70 of our employees, together with the Board members, took part in the tree-planting campaign on the slopes of the Mosor Mountain. The Boranka project was envisaged as an interactive campaign, intended to raise the awareness of the citizens, especially children, about the importance of forests, environmental protection, consequences of global warming, and about fire prevention and safety. The scouts and the volunteers joined forces and planted more than 25 000 trees, seeds and acorns on the areas burned down in forest fires.
As a part of the programme "Green light to knowledge", and in cooperation with representatives of local governments, we have been granting scholarships to students of lower financial standing for nine consecutive

Plans for 2019

Having finalised the exceptionally complex integration project, the bank is still undergoing a stabilisation process that we expect to last until the end of the first quarter. Already at the beginning of the second quarter we will be able to fully devote ourselves to the development of products and services, and especially the digitalisation of the branch network processes, and development of other digital channels. Our strategic objectives in retail banking this year will be improving our service quality, upgrading our products and services, and digital transformation.

We will be working on the transformation project aimed at better sales efficiency, by relieving the resources required for sales, expanding of the sales channels, simplifying the products and processes, and optimising the back-office units and corporate banking segments.

The strategic priorities of the corporate banking will be improvement and further development of the offer in terms of transaction banking, continued diversification of the portfolio per regions and per sectors, paying special attention to the export-oriented medium large companies, and taking advantage of our dominant market position in the propulsive tourist regions along the Adriatic coast. Also, emphasis will be put on stronger synergy between the Financial Markets and the corporate and retail directorates dealing with sales, all with the purpose of providing a comprehensive response to ever more demanding market requirements.
It goes without saying that increasing the satisfaction of our customers remains our permanent goal.

In the upcoming strategic period, OTP banka will strive to maintain the continuity and remain the first choice for the customers in the domicile regions, simultaneously strengthening its image nationwide by expanding its presence in the continental, non-domicile regions.

Finally, on my own behalf and on behalf of the Board and the complete OTP Group, I would like to take this opportunity to extend thanks to our customers and business partners for the trust shown. Special thanks is due to our employees for their efforts, understanding and commitment in facing all the business challenges we experienced over the past year.

Yours faithfully,
Balázs Békeffy
President of the Board

Responsibilities of the Management and Supervisory Boards for the preparation and approval of the separate financial statements

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

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making 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 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 42/18).
The Management Board is responsible for preparation and the content of Bank Management Report and other information, in accordance with the Accounting Act (Official Gazette 78/15, 134/15, 120/16 and 116/18).
The Management Board is responsible for the submission to the Supervisory Board of its financial statements for acceptance. If the Supervisory Board approves the annual financial statements they are deemed confirmed by the Management Board and Supervisory Board.

The financial statements set out on pages 13 to 107 prepared in accordance with statutory accounting requirements for banks in Croatia, as well as the supplementary information presented on pages 108 to 118 prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks (Official Gazette 42/18), were authorised by the Management Board on 27 February 2019 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of OTP banka Hrvatska d.d.:

Balazs Pal Bekeffy
President of the Board

Zorislav Vidović
Member of the Board

Slaven Celić
Member of the Board

Zvonimir Akrap
Member of the Board

Bruno Biuk
Member of the Board

Nera Šunjić
Member of the Board

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP banka Hrvatska dd

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of OTP banka Hrvatska dd (the Bank), which comprise the separate statement of financial position as at 31 December 2018, the separate statement of profit or loss, the separate statement of other comprehensive income, the separate statements of changes in shareholder`s equity and the separate statement of cash flows for the year then ended, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Bank's financial positions as at 31 December 2018, and its financial performances and its cash flows for the year then ended in accordance with statutory accounting requirements for banks in Croatia.

Basis for Opinion

We conducted our audit in accordance with the Audit Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those 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.

Impairment allowances for expected credit losses on loans and receivables from customers and related effects of IFRS 9 transition

Effective from 1 January 2018, the statutory accounting requirements for banks in the Republic of Croatia was amended in order to introduce IFRS 9 – Financial Instruments ('IFRS 9') which replaces IAS 39 - Financial Instruments: Recognition and Measurement.

In order to align the statutory accounting requirements for banks to those of IFRS 9, Croatian National Bank ('CNB') issued "Decision on classification of exposures to risk classes and method to determine credit losses" (Official Gazette 114/2017), which provided additional guidance to impairment area of IFRS 9 within statutory reporting framework.

Related effects from IFRS 9 transition (first time adoption) on loans and receivables from customers as at 1 January 2018 are disclosed in Note 4 Changes in accounting policies, item d).

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

For the accounting framework refer to Note 2, and for the accounting policies refer to Specific accounting policies Note 2.12. For the additional information regarding identified key audit matter, refer to Note 11, Note 17 and Note 35 to the financial statements.

Key audit matter	How the matter was addressed in our audit
Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination impairment allowances for expected credit losses on loans and receivables from customers represent key considerations for Bank's Management. Additionally, from 1 January 2018, the Bank, as a result of IFRS 9 implementation, introduced new model for impairment measurement which is based on the expected credit loss model rather than the incurred loss, as previously applied under IAS 39 - Financial Instruments: Recognition and Measurement. In determining both the timing and the amount of impairment allowances for expected credit losses on loans and receivables from customers, the Management exercises significant judgement in relation to the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Expected future cash flows from operations • Valuation of collateral and assessment of realization period	In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed following audit procedures with respect to area of loans and receivables from customers: • Reviewing the Bank's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 within statutory reporting framework • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Assessing quality of historical data used in determination of risk parameters and evaluating the appropriateness of IT elements and data processing • Disaggregating loans and receivables from customers account balance based on stage allocation and relevant segments for the purposes of sample selection - for Stage 3, individually assessed loans and receivables, the criteria for selection included, but was not limited to, client's credit risk assessment, industry risk, days past due, etc.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Since determination of appropriate impairment allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and significant judgement from the Management, process of measuring expected credit losses may be exposed to management bias. This fact, in addition to the adoption of IFRS 9 within statutory reporting framework for banks in Republic of Croatia, led to the determination of impairment allowances for expected credit losses on loans and receivables from customers as key audit matter in our audit of the Bank's financial statements for the year ended 31 December 2018.	• Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans and receivables allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default vi. methods applied to incorporate forward-looking information • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans and receivables allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information ii. Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance iii. Reviewing and critically assessing estimated value of collateral and estimated realisation period iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans and receivables with the ones provided by the Bank.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report.

Our opinion on the financial statements does not cover the other information.

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 Board Report, which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Board Report includes required disclosures as set out in the Article 21 of the Accounting Act.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1) Information included in the other information is, in all material respects, consistent with the attached financial statements.
2) Management Board Report has been prepared, in all material respects, in accordance with the Article 21 of the Accounting Act.

Based on the knowledge and understanding of the Bank and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with statutory accounting requirements for Banks in Croatia and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going 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.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

From the matters communicated with 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

We were appointed as the statutory auditor of the Bank by the shareholders on General Shareholders' Meeting held on 11 April 2018 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 3 years and covers period 1 January 2016 to 31 December 2018.

We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Bank on 25 March 2019 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Bank and its controlled undertakings, and which have not been disclosed in the Annual Report.

Pursuant to the Decision of the Croatian National Bank on the structure and Content of Annual Financial Statements of Banks (Official Gazette No. 42/18; hereinafter: "the Decision"), Management has prepared the supplementary schedules, as presented in the Appendix to these financial statements, which comprise Bank statements of financial position as at 31 December 2018, Bank statements of profit or loss, Bank statements of other comprehensive income, statements of changes in Bank's equity and Bank statements of cash flows for the year then ended, as well as the reconciliation to the accompanying financial statements. These forms and the reconciliation to the accompanying financial statements are the responsibility of the Management and do not represent components of the accompanying financial statements prepared in accordance with statutory accounting requirements for banks in Croatia, which are set out on pages 13 to 107, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the accompanying financial statements.

Branislav Vrtačnik
President of the Board

Vanja Vlak
Certified auditor

Deloitte d.o.o.

25 March 2019

Radnička cesta 80,

10 000 Zagreb,

Croatia

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Statement of profit or loss

For the year ended 31 December 2018

(All amounts are expressed in millions of HRK)

	Notes	2018	2017
Interest and similar income	5	646	634
Interest and similar expense	5	(48)	(78)
Net interest income		**598**	**556**
Fee and commission income	6	197	171
Fee and commission expense	6	(58)	(47)
Net fee and commission income		**139**	**124**
Net gains from trading in and valuation of financial instruments at fair value through profit or loss	7a	79	78
Net gains on financial instruments at fair value through other comprehensive income	7b	2	
Other operating income	8	22	16
Net trading and other income		**103**	**94**
Income before value adjustment and operating expenses		**840**	**774**
Other operating expenses	9	(348)	(263)
Personnel expenses	10	(232)	(294)
Net losses from impairment and provision charges	11	(46)	(152)
Profit before tax		**214**	**65**
Income tax	12	(48)	(13)
Profit for the year		**166**	**52**

The significant accounting policies and notes form an integral part of these financial statements.

Statement of other comprehensive income

For the year ended 31 December 2018

(All amounts are expressed in millions of HRK)

	Notes	2018	2017
Profit for the year		**166**	**52**
Other comprehensive income:			
Items not reclassified subsequently to profit or loss:			
Net fair value changes of FVTOCI equity instruments	31	11	-
Net fair value changes of FVTOCI equity instruments – effect of Splitska banka d.d. merger	31	18	
		29	-
Items transferred or transferable subsequently to profit or loss:			
Net fair value changes of FVTOCI debt securities	31	(17)	-
Net fair value changes of FVTOCI debt securities – effect of Splitska banka d.d. merger	31	44	-
Transferred to profit for the year – debt securities	7	2	-
Net changes in allowance for expected credit losses of FVTOCI financial assets - effect of Splitska banka d.d. merger		7	-
Net fair value changes of AFS securities	31	-	17
		36	17
Deferred tax	12	(10)	(3)
Total other comprehensive income		**55**	**14**
Total comprehensive income		**221**	**66**
Earnings per share		8.33	3.55

The significant accounting policies and notes form an integral part of these financial statements.

Statement of financial position

At 31 December 2018

(All amounts are expressed in millions of HRK)

	Notes	31.12.2018	31.12.2017
ASSETS			
Cash and balances with Croatian National Bank	14	8,368	3,169
Loans and receivables from banks	15	1,026	117
Financial assets at fair value through profit or loss	16	316	14
Loans and receivables from customers	17	25,539	10,739
Equity instruments at fair value through other comprehensive income	18a	78	36
Debt securities at fair value through other comprehensive income	18b	5,265	1,804
Financial asset measured at amortised cost	19	287	39
Investments in subsidiaries	20	323	3,232
Property and equipment	21	434	266
Investment property	22	29	-
Intangible assets	23	232	32
Goodwill	24	-	43
Deferred tax assets	12	-	35
Other Assets	25	135	73
TOTAL ASSETS		**42,032**	**19,599**

The significant accounting policies and notes form an integral part of these financial statements.

Statement of financial position (continued)

At 31 December 2018

(All amounts are expressed in millions of HRK)

	Notes	31.12.2018	31.12.2017
LIABILITIES			
Amounts due to other banks	26	653	27
Amounts due to customers	27	33,060	13,183
Other borrowed funds	28	1,328	950
Financial liabilities at fair value through profit or loss	16	13	2
Provisions for liabilities and charges	29	539	254
Deferred tax liabilities	12	34	-
Income tax payable	12	36	25
Other liabilities	30	434	121
Total liabilities		**36,097**	**14,562**
SHAREHOLDERS' EQUITY AND RESERVES			
Share capital		3,994	3,994
Share premium		171	171
Statutory and legal reserves		87	82
Fair Value Reserves		108	54
Other reserves		109	109
Retained earnings		1,466	627
Total shareholders' equity and reserves	31	**5,935**	**5,037**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY AND RESERVES		**42,032**	**19,599**

The significant accounting policies and notes form an integral part of these financial statements.

Statement of changes in shareholders' equity

For the year ended 31 December 2018

(All amounts are expressed in millions of HRK)

	Share capital	Share premium	Legal and statutory reserves	Fair value reserves	Other reserves	Retained earnings	Total
Balance at 1 January 2017	**822**	**171**	**82**	**40**	**109**	**575**	**1,799**
Changes in equity in 2017							
Profit for the year	-	-	-	-	-	52	52
Other comprehensive income	-	-	-	14	-	-	14
Total comprehensive income	-	-	-	14	-	52	66
Issue of the new shares	3,172	-	-	-	-	-	3,172
Balance at 31 December 2017	**3,994**	**171**	**82**	**54**	**109**	**627**	**5,037**
First time adoption of IFRS 9 adjustments, net of tax (Notes 4 and 31)	-	-	-	**(1)**	-	**(53)**	**(54)**
Restated opening balance at 1 January 2018	**3,994**	**171**	**82**	**53**	**109**	**574**	**4,983**
Changes in equity in 2018							
Effect of Splitska banka d.d. merger	-	-	-	-	-	803	803
Tax effect of Splitska banka d.d. merger	-	-	-	-	-	(72)	(72)
Other comprehensive income – debt securities	-	-	-	(3)	-	-	(3)
Other comprehensive income from merger of Splitska banka d.d.:	-	-	-			-	
Debt securities				36	-		36
Equity instruments				15	-		15
Expected credit losses of FVTOCI financial assets	-	-	-	7	-	-	7
Profit for the year	-	-	-	-	-	166	166
Total comprehensive income	-	-	-	55	-	166	221
Transfer of profit to reserves	-	-	5	-	-	(5)	-
Balance at 31 December 2018	**3,994**	**171**	**87**	**108**	**109**	**1,466**	**5,935**

The significant accounting policies and notes form an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2018

(All amounts are expressed in millions of HRK)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		214	65
Adjustments to reconcile profit before taxes to net cash from operating activities			
Impairment losses		28	123
Provisions for legal actions and off-balance sheet items		18	29
Other releases of provisions		(5)	-
Depreciation and amortisation		49	39
Gains/losses on disposal of property and equipment		6	(5)
Interest income		(652)	(636)
Interest expense		48	78
Goodwill write off		43	-
Operating income before changes in operating assets and liabilities		**(251)**	**(307)**
(Increase)/decrease in operating assets:			
Obligatory reserves with the CNB		(40)	(36)
Loans and receivables from banks		(18)	-
Loans and receivables from customers		(293)	(449)
Financial assets and liabilities at fair value through profit or loss		(132)	(4)
Assets available for sale		-	188
Debt securities at fair value through other comprehensive income		164	-
Other assets		(37)	13
Increase/(decrease) in operating liabilities:			
Amounts due to other banks		466	7
Amounts due to customers		1,021	583
Other liabilities		95	111
Provisions		(5)	(2)
Net cash flow from operating activities before interest and income taxes paid		970	104
Income taxes paid		(37)	(22)
Interest received		678	648
Interest paid		(67)	(96)
Net cash from operating activities		**1,544**	**634**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of tangible and intangible assets		(88)	(52)
Proceeds from disposal of tangible and intangible assets		-	8
Increase of investments in related parties		-	(3,172)
(Increase)/decrease of held-to-maturity investments		-	(3)
(Increase)/decrease of investments at amortised cost		2	-
Net cash from investing activities		**(86)**	**(3,219)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease of other borrowed funds		(339)	(93)
Receipts from issue of share capital		-	3,172
Net cash from financing activities		**(339)**	**3,079**
Net increase in cash and cash equivalents		**1,119**	**494**
Cash and cash equivalents at the beginning of the year		**2,359**	**1,865**
Cash and cash equivalents acquired with merger of Splitska banka d.d.		**3,418**	**-**
Cash and cash equivalents at the end of the year	**33**	**6,896**	**2,359**

The significant accounting policies and notes form an integral part of these financial statements.

(All amounts are expressed in millions of HRK)

1. GENERAL INFORMATION

The registered seat of the Bank is in Split, Domovinskog rata 61. The Bank is incorporated in the Republic of Croatia as a joint stock company and provides retail and corporate banking services. The Bank is registered at the Commercial Court in Split, with the registered share capital in the amount of HRK 3,993,754,800 as at 31 December 2018 (31 December 2017: HRK 3,993,754,800).

1. Acceptance of all types of deposits
2. Approval of loans and loans
3. Repurchase of receivables
4. Financial lease
5. Issuing guarantees
6. Trading for own account or client's account
7. Payment services
8. Services related to lending activities
9. Issuing and managing other payment instruments
10. Rental of safes
11. Mediation on the money market
12. Issue of electronic money
13. Conducting business related to the sale of insurance policies
14. Consulting legal entities on the structure of capital, business strategy, and provision of services related to business combinations and acquisition of shares and business interests
15. Investment related services and activities
16. Investment consulting
17. Services connected with realization of the offer or sale of financial instruments.

Governance and Management

Shareholders' Assembly

Viktor Siništaj, President

Supervisory Board as at 31 December 2018:

Antal Lászlo Pongracz	President
Anna Mitkova Florova	Vice president
Branko Mikša	Member
László Kecskés	Member
Balázs Létay	Member
Péter János Bese	Member from 30 May 2018
Péter Csányi	Member from 30 May 2018

Management Board as at 31 December 2018:

Balazs Pal Bekeffy	President
Zorislav Vidović	Member
Slaven Celić	Member from 1 December 2018
Zvonimir Akrap	Member from 1 December 2018
Bruno Biuk	Member from 1 December 2018
Nera Šunjić	Member from 1 December 2018
Helena Banjad	Member from 11 September 2018

(All amounts are expressed in millions of HRK)

1. GENERAL INFORMATION (CONTINUED)

Ownership structure

The ownership structure and shareholders of the Bank are specified below:

	31 December 2018		31 December 2017	
	Share capital	Ownership interest in %	Share capital	Ownership interest in %
OTP bank Nyrt Hungary	3,994	100.00	3,994	100.00
Total	**3,994**	**100.00**	**3,994**	**100.00**

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are summarised below.

2.1 Statement of compliance

These financial statements represent financial statements of the Bank. The Bank has not prepared consolidated financial statements, which would include the Bank and its subsidiaries (note 17) using the exemption available within International Financial Reporting Standard 10 "Consolidated Financial Statements", as both the Bank and its subsidiaries are included in the consolidated financial statements of the ultimate parent, OTP Bank Nyrt, Hungary, prepared in accordance with IFRS as adopted by EU.

These financial statements are prepared in accordance with the legal accounting requirements for banks in Croatia. The banking operations in Croatia are subject to the Credit Institutions Act (OG 159/13, 19/15 102/15 and 15/18) pursuant to which the Bank's financial reporting is regulated by the Croatian National Bank ("the CNB") which is the central banking system oversight institution in Croatia. These financial statements have been prepared in accordance with the above-mentioned banking regulations.

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

Since 1 January 2018 (introduction of IFRS 9) by the Decision on Classification of Exposure to Risk Groups and the Method of Determining Credit Losses (OG 114/17), the Croatian National Bank prescribed that the total impairment at exposures classified in Stage 1 and Level 2 cannot be less than 0.8% of the gross carrying amount of these exposures. For the purpose of calculating impairment, the Bank uses an internal model in accordance with IFRS 9 using PD (probability of default status), LGD (loss due to default) and EAD (risk exposure), and after applying the internal model, it adjusts the total amount of provisions for exposures classified in Step 1 and Step 2 to a minimum of 0.8%. Exposure to impairment for exposures classified in Stage 1 and Level 2 as at 31 December. In 2018 it amounts to 364 million kuna (2017: 125 million kuna), of which HRK 27 million (2017: HRK x million) refers to an additional amount of harmonization between the internal model and the legally prescribed minimum amount of 0.8%.

By 31 December 2017, the CNB required the banks to recognise in their statement of profit or loss and other comprehensive income the impairment losses on assets not specifically identified as impaired (including certain sovereign risk assets) at prescribed rates (excluding financial assets at fair value through profit and loss and financial assets available for sale).The provisions of the Bank on a collective basis amount to HRK 125 million and have been recognised in the statement of financial position in accordance with the CNB requirements, and the provisioning charge amounts to HRK 12 million. For the mentioned items, CNB required the credit institutions to provide an estimation of latent losses on a collective basis, using its prepared and tested internal methodology based on the experience of the credit institution, where the level of impairment should not be less than 0.8% of the total items that it is applied to. A credit institution without an internal methodology is obliged to make impairments, i.e. provisions, based on qualifying items on the collective basis at least in the amount of 1% of the total relevant exposure.

2. ACCOUNTING POLICIES (CONTINUED)

2.1 Statement of compliance (continued)

The unidentified impairment losses, estimated on the basis described above, did not exceed the amount that would have been determined under the CNB accounting regulations.
The next difference between IFRS and the CNB's accounting regulations refers to determination of impairment losses by discounting expected cash flows with the original effective interest rate of the instrument for the impaired assets. Unlike IFRS, local regulations require that the amortization of such a discount is recognized as annulment of losses arising from the impairment of assets and not as an interest income. Additionally, CNB prescribes the minimum of provision for impairment losses for certain exposures by which impairment losses were determined and which could be different from the losses arising from impaired values calculated in accordance with IFRS.
The next difference between IFRS and accounting regulations of CNB refers to provision for legal cases. Accordingly to 'Decisions on the obligation to provision for legal proceedings against a credit institution' Bank is obligated to secure funds for legal cases for which has been determined the existence of a loss risk or a cash outflow of less than 10% of the total amount is estimated if the total amount of the court case exceeds 0.1% of the credit institution's assets according to the audited financial statements of the previous year. The provision is made in the amount of estimated cash outflow, and at least 1% of the total amount of the court dispute, whereas according to IFRS in such a situation the provision is not necessary to be recognized.

2.2 Basis of preparation

The financial statements are prepared on the amortised or historical cost basis, except for financial instruments which are carried at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both the current and future periods. Judgments made by management in the application of appropriate standards that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 2.2.2.

The accounting policies outlined below, including changes resulting from the entry into force of new standards and amendments to the existing and interpretations that came into force (and adopted by the European Union), were applied to the periods in which they were in force.

2.2.1 Effective standards, amendments to the existing standards and implementations – adopted in 2018

Bank adopted following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation (continued)

2.2.1 Effective standards, amendments to the existing standards and implementations – adopted in 2018 (continued)

IFRS 9 – Financial instruments

IFRS 9 superseded IAS 39 for annual periods beginning on or after 1 January 2018. As permitted by IFRS 9, the Bank did not retrospectively adjusted comparative information for 2017 for financial instruments within scope of IFRS 9. Consequently, comparative information was prepared in accordance with IAS 39 requirements and CNB accounting framework. Effect of IFRS 9 and CNB's Decision on the classification of exposures into risk categories and the method of determining credit losses (OG 114/2017) implementation is recognised in the retained earnings on 1 January 2018, as described in detail within note Changes in accounting policies (Note 4).
Additionally, as of 1 January 2018, regulatory accounting framework for banks in Republic of Croatia was amended with aim of harmonization between regulatory accounting requirements for banks and IFRS 9 requirements. Several regulatory decisions have been adopted, with emphasis on Impairment requirements included within CNB's Decision on the classification of exposures into risk categories and the method of determining credit losses (OG 114/2017).

Consequently, impact on financial statements and Bank's equity is presented in these financial statements resulted from IFRS 9 requirements and new regulatory accounting requirements for banks introduced by new CNB regulation.

Summary of new requirements:

a) Classification and measurements
New IFRS 9 approach related to classification and measurement of financial assets is based on contractual cash flow characteristics and, for financial assets whose contractual cash flows represent solely payments of principal and interest on unpaid principal, on business model associated with management of financial assets. Depending on business model and SPPI test result, financial asset is classified as either „held to collect" contractual cash flows (measured at amortised cost and within scope of expected credit loss calculation), as "held to collect or sale" (measured at fair value through other comprehensive income and within scope of expected credit loss calculation) or as „held for trading" (measured at fair value through profit or loss).
IFRS 9 in great extent retains IAS 39 requirements for classification and measurement of financial liabilities.
b) Impairment
IFRS 9 amended IAS 39 „incurred loss" model with „expected credit loss" model. Entity calculates expected credit losses and changes in expected credit losses on every reporting period to reflect changes in credit risk since initial recognition. There is no longer requirement for credit event to occur to recognize credit loss.
c) Hedge accounting
IFRS 9 introduced significant changes in hedge accounting model and requires comprehensive information with regards to disclosure of risk management activities. Entities have the option to apply IAS 39 hedge accounting requirements. Implementation of hedge accounting requirements did not have significant impact on financial statements.
Application of Classification and measurement, Impairment and other requirements is explained in these financial statements.
Effect of IFRS 9 reclassification and measurement is disclosed within note Changes in accounting policies (Note 4).

REVISED IFRS 7

IFRS 7 „Financial instruments: Disclosures" was revised to reflect changes between IFRS 9 and IAS 39. The Bank has adopted IFRS 7 complementary with IFRS 9 in annual period started on 1 January 2018. Changes include required transitional disclosures and detailed disclosures of qualitative and quantitative information for expected credit loss calculation (assumptions and input parameters), as disclosed in notes.

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation (continued)

2.2.1 Effective standards, amendments to the existing standards and implementations – adopted in 2018 (continued)

Amendments to IFRS 15 "Revenue from Contracts with Customers" – the standard is effective for annual periods beginning on or after 1 January 2018, endorsed by the EU in September 2016. IFRS 15 establishes a five-step model that applies to revenue earned from a contract with a customer, with limited exceptions. As the primary focus of the standard is not on financial instruments, application of this standard does not have a significant impact on the Bank's financial statements.

A number of new standards, amendments to the existing standards and interpretations of the International Accounting Standards Board and the International Financial Reporting Interpretations Committee have been adopted and became effective on or after 1 January 2018:
- IFRS 2 (amendments): Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016),
- Improvements to IFRSs (cycle 2014-2016 (issued on 8 December 2016) – amendments:
    - IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of Short-term exemptions for first-time adopters);
    - IAS 28 Investments in Associates and Joint Ventures – clarification of measuring investment at fair value through profit or loss for every individual investment;
    - IFRS 12 Disclosure of Interests in Other Entities – stipulates the disclosure requirements for interests in other entities and interests held for sales or distribution
- IAS 40 (amendments): Transfers of Investment Property (issued on 8 December 2016),
- Interpretation of IFRIC 22: Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016),
- Interpretation of IFRIC 23: Uncertainty over Income Tax Treatments" (issued on 7 June 2017),
- IFRS 4 (amendments): Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016, endorsed by the EU in November 2017),
- IFRS 9 (amendments): Prepayment Features with Negative Compensation (issued on 12 October 2017).

2.2.2 Standards, amendments to the existing standards and interpretations issued but not yet effective

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective. Where applicable, the Bank intends to implement these standards when becoming effective. If it is expected that the application or interpretation will affect the financial statements or the result of the Bank, the impact is described as follows.

IFRS 16 "Leases" - the standard is effective for annual periods beginning on or after 1 January 2019, endorsed by the EU in October 2017. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor').

It replaces the current standard IAS 17 – Leases, interpretation 4 of the International Financial Reporting Interpretations Committee – Determining whether the agreement contains a lease, interpretation 15 of the Standing Interpretations Committee – Operating leases – Incentives and interpretation 27 of the Standing Interpretations Committee – Substance of transactions involving the legal form of a lease.
The purpose of the new standard is to facilitate the comparability of financial statements, presenting financial and operating leases in the statement of financial position and provide relevant information to users of financial statements concerning contract-related risks.
The new standard cancels the difference between operating and financial leases in lessee's records and requires the recognition of right-of-use assets and lease liabilities for all lessee's lease contracts.

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation (continued)

2.2.2 Standards, amendments to the existing standards and interpretations issued but not yet effective (continued)

The main element which differentiates the definitions of a lease contained in IAS 17 and IFRS 16 is the requirement to control used, determined assets, as directly or indirectly prescribed by the contract.

The costs related to the use of the subjects of the lease, most of which have been earlier recognised as external services costs, will at this point be classified as depreciation costs and interest costs. The right of usufruct is depreciated using the straight-line basis, while the lease liabilities are settled by applying the effective interest rate.
In the statement of cash flows, the cash flows generated by the principal based on the lease are classified as cash flows from financing activities, while short-term lease payments, payments of leases of low value assets, and variable lease payments which are not included in measurement of lease liabilities are classified as cash flows from operating activities. Paying interests for lease liabilities are classified in line with IAS 7.
The lessee applies IAS 36 – Impairment of Assets in order to determine whether the right-to-use assets have been impaired and recognise impairment if necessary.
For lessors, the recognition and measurement requirements under IFRS 16 resemble those of IAS 17. Leases are also classified as financial and operating leases in line with IFRS 16. In comparison to IAS 17, IFRS 16 requires more information from the lessor. However, the main traits of the accounting procedures have remained unchanged.

Transitional solutions
The lessor will use a modified retrospective approach.
The application of a modified retrospective approach requires the lessor to present the cumulative effect of IFRS 16 as capital adjustments at the beginning of the current accounting period in which it was applied for the first time.
The following practical resources are available to the subject:
- the application of a single discount rate to a portfolio of leases with similar traits;
- adjustment of right-to-use assets on the date of the initial application to the amount of provisions for harmful leases in the statement of financial position;
- the application of a simplified method for contracts maturing within 12 months from the date of initial application;
- exclusion of initial direct costs from right-to-use assets measurement on the day of initial application;
- application of new knowledge, for example, when determining the lease periods, if the contract provides for the possibility to extend or terminate the lease.

Effect of IFRS 16 to financial statements

At the moment of preparation of these financial statements, the Bank performed most of tasks related to the implementation of the new IFRS 15. The IFRS 16 implementation project (the Project), started in the 4th quarter of 2017 had 3 stages:

- Stage 1 – Contract analysis, data collection

During the analysis of all contracts concluded, a classification was performed for both the purchase of services and leases. The analysis comprised all relevant contracts, regardless of their current classification. Furthermore, all the relevant information was collected for the calculation of the right-to-use assets and lease liabilities.
In the statement of financial position, the Subject reported the following forms of right-to-use assets:
- Office building
- Branch office
- Official car
- ATM slot
- IT equipment
- Parking lot
- Warehouse

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation (continued)

2.2.2 Standards, amendments to the existing standards and interpretations issued but not yet effective (continued)

Average lease period (useful life of the right-to-use assets) from 01/01/2019:
Office building ~5 years
Branch office ~5 years
Official car ~2 years
ATM slot ~2 years
IT equipment ~2 years
Parking lot ~1 year
Warehouse ~7 years

- Stage 2 – Contract assessment, Calculations

In line with the application of IFRS 16, an analysis was performed including:
- Effect on the statement of financial position on the date of initial application (01/01/2019)
- Effect of lease contract for leases recognised and measured in line with IFRS 16 on the statement of financial position and statement of profit or loss (including future effects)

The application of tools for calculating the lease determined the value of the right-to-use asset, lease liabilities and deferred tax.

- Stage 3 – Implementation of IFRS 16 based on the elaborated concept, development of accounting policy and disclosures

Adjustment description
a) Recognition of lease liabilities
After the adoption of IFRS 16, the Subject will recognise the liabilities based on the leases which refer to leases which have been previously classified as "operating leases" in line with the IAS 17 "Leases". The relevant liabilities will be measured at current value of lease receivables on the date of the beginning of the application of IFRS 16. Lease payments are discounted by applying the interest rate of the lease or, if it is impossible to determine that rate immediately, by applying the incremental borrowing rate. The interest rate applied by the subject: weighted average incremental borrowing rate of the lessee: ~ 2,18%.
At the date of initial recognition, lease payments included in the measurement of the lease liability include the following types of payment for the right to use the underlying asset during the lease period:
- fixed lease payments net of all lease incentives,
- variable lease payments which depend on market indexes,
- amounts expected to be paid by the lessee based on the guarantee for the remaining value,
- call option, if it is probable that this option will materialise, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The Subject uses the assets which refer to short-term leases (shorter than 12 months), as in the case of leases with low-value underlying assets (less than USD 5,000) and for whose contracts it will not recognise the financial liabilities nor the relevant right-to-use assets. These types of payments will be recognised as costs under the straight-line method in the lease period.
b) Recognition of right-to-use assets
Right-to-use assets are initially measured at cost.
The cost of right-to-use assets comprises the following:
- initial assessment of the lease liability,
- all leases paid on the commencement date or earlier, net of any lease incentives,
- initial costs borne directly by the lessee as a consequence of concluding the lease contract,
- cost assessments the lessee shall bear for the dismantling and removal of the relevant asset or for its adaptation/renewal

(All amounts are expressed in millions of HRK)

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of preparation (continued)

2.2.2 Standards, amendments to the existing standards and interpretations issued but not yet effective (continued)

c) Assessment application
The implementation of IFRS 16 requires the preparation of certain assessments and calculations, which affect the measurement of financial lease liabilities and the right-to-use assets. This includes, inter alia:
- determining which contracts are subject to IFRS 16,
- determining the duration of these contracts (including contracts without specified duration or contracts which may be prolonged),
- determining interest rates to be applied for discounting future cash flows,
- determining the depreciation rate.

Effect on the statement of financial position
The effect of applying IFRS 16 on the recognition of additional financial liabilities and right-to-use assets has been estimated based on the contract in force with the Subject on 31 December 2018.
In its statement of financial position as at 1 January 2019, the Subject presents the following right-to-use assets:

Estimated financial effect

In HRK millions	1 January 2019
Right-to-use assets	190
Lease liability	190
Cumulative effect recognised as capital adjustment on the date of initial application	0

The weighted average interest rate of the lease / incremental borrowing rate applied on 1 January 2019, in order to recognise the lease liabilities: ~2.18%.

At the date of authorisation of these financial statements, a number of new standards, amendments to the existing standards and interpretations have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee:
- IFRS 14 "Regulatory Deferral Accounts" (issued on 30 January 2014),
- IAS 28 (amendments): "Investments in Associates and Joint Ventures" (issued on 12 October 2017),
- "Improvements to IFRSs (cycle 2015-2017)" (issued on 12 December 2017) – amendments to IFRSs which refer to IAS 12 "Income taxes", IAS 23 "Borrowing cost" and IAS 28 "Investments in Associates and Joint Ventures",
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017),
- IFRS 19 (amendments): "'Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018),
- "Amendments to References to the Conceptual Framework in IFRS Standards" (issued 29 March 2018),
- IFRS 3 "Business combinations" (amendments) (issued on 22 October 2018),
- IAS 1 and IAS 8 (amendments): "Definition of Material" (issued on 31 October 2018).

These new standards, amendments to the existing standards and new interpretation will have no material impact on the financial statements of the Bank.

2.3 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In reviewing the conclusion about having control, the Bank considered structured entities and entities the receivables from which are classified as irrecoverable or partly recoverable as well as its exposure to the variable returns arising from its involvement with an entity.

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations (continued)

Jointly controlled business combinations are recognised at the carrying amounts, and any differences are recognised directly in equity.

Acquisitions since 1 January 2010

The Bank measures goodwill as the sum of the following:

- the fair value of the consideration transferred; plus
- the amount of any recognised non-controlling interest in the acquiree; plus
- for business combinations achieved in stages, the fair value of the currently held equity interest in the acquiree; less
- the net amounts of the identifiable assets acquired and the liabilities assumed (generally the fair value).

If the balance is negative, any gain arisen from a bargain purchase is recognised immediately in profit or loss. The consideration transferred does not include any settlement of a pre-existing business relationship. Such settlements are recognised generally in the statement of comprehensive income.

Acquisition-related costs, other than those associated with the issue of debt or equity securities, the Bank incurs in connection with a business combination are recognised as expenses when incurred. A contingent consideration, if any, is recognised at the acquisition-date fair value. A contingent consideration classified as an equity instrument is not remeasured, and its settlement is recognised within capital reserves. Otherwise, subsequent changes in the fair value of a contingent consideration are recognised in the statement of comprehensive income.

As at 2 May 2017, the Bank acquired 100% of the share in Splitska banka d.d., which was merged with the Bank on 1 December 2018. The effect of the merger is presented in Note 20.

2.4 Functional and presentation currency

Items included in the financial statements are presented in the currency of the primary economic environment in which the Bank operates (its functional currency). The financial statements are presented in the Croatian kuna, which is both the functional and reporting currency of the Bank. The amounts are rounded to the nearest thousand (unless otherwise stated).

The principal rates of exchange set by the Croatian National Bank and used in the conversion of the Bank's assets and liabilities at the date of the statement of financial position were as follows:

31 December 2018 1 EUR = 7.417575 HRK 1 CHF = 6.588129 HRK 1 USD = 6.469192 HRK

31 December 2017 1 EUR = 7.513648 HRK 1 CHF = 6.431816 HRK 1 USD = 6.269733 HRK

2.5 Foreign currency translation

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation of monetary assets and liabilities denominated in foreign currencies at the year-end rates are recognised in profit and loss.

Foreign-currency denominated non-monetary assets and items that are measured in terms of historical cost are translated at the exchange rates in effect on the transaction dates and are not retranslated at the reporting date. Changes in fair value of debt securities denominated in a foreign currency, which are, in line with IFRS 9, measured at fair value through other comprehensive income (in 2017, classified as securities available for sale) are recognised through other comprehensive income. Foreign exchange differences and expected credit losses for these securities are recognised through profit or loss, Changes in fair value and foreign exchange differences of equity securities denominated in a foreign currency are recognised through other comprehensive income – option of fair value through other comprehensive income. The Bank has a portion of assets and liabilities originally denominated in Croatian kunas, which are linked to a foreign currency with a one-way currency clause.

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (continued)

The clause provides the Bank the option to remeasure relevant assets by the higher of the foreign exchange rate valid as of the date of maturity and foreign exchange rate valid as of the date of origination of the financial instrument. In case of a liability linked to this clause, the counterparty has this option. Due to the specifics of the market in the Republic of Croatia the fair value of this option cannot be calculated, as forward rates for the Croatian kuna for periods over 6 months are not available. The Bank therefore estimates the values its assets and liabilities governed by such clauses at the higher of the middle spot rate of the Croatian National Bank valid at the reporting date and the contractually agreed foreign exchange rate for the option (valid at the date of the contract).

2.6 Leases (classification until 31 December 2018 in accordance with IAS 17)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Bank at the lower of their fair value at the date of acquisition and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Bank's general policy on borrowing costs. are recognised as expenses in the periods in which they are incurred.

Operating lease payments are charged to profit or loss on a straight-line basis over the lease term, except where another systematic basis would be more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a deduction from the rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Since 1 January, the Bank applies accounting policies in line with IFRS 16 (Note 2.2.2).

2.7 Interest income and expense

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Interest income includes coupons earned on fixed income investments and securities as well as accrued discount and premium on treasury bills and other discounted instruments.

One-off loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loan and as such adjust the interest income. Interest income on financial assets classified as

Stage 3 financial asset is recognized in the statement of profit or loss when collected.

Penalty interests for financial assets and financial liabilities are recognised in other operating income or other operating costs.

2. ACCOUNTING POLICIES (CONTINUED)

2.8 Fee and commission income and expense

Fees and commissions the Bank calculates and charges the clients for providing financial services consist mainly of fees on domestic and foreign payments, loan guarantee services, account management services, credit card operations services, asset management services, and other similar financial services provided by the Bank in line with its registration. Fees and commissions are generally recognized as income when due.

Fees and commissions are recognized in the statement of profit or loss when a particular service is performed.

2.9 Employee benefits

Short-term benefits

Obligations for contributions to defined contribution pension plans and other short-term benefits are recognised as an expense in the statement of comprehensive income for the period in which they are incurred.

Bonuses

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

Long-term service benefits

The Bank provides employees with jubilee and one-off retirement awards. The obligation and costs of these benefits are determined using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the benefit obligation.

2.10 Taxation

Income tax expense is based on taxable income for the year and represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the profit reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2. ACCOUNTING POLICIES (CONTINUED)

2.10 Taxation (continued)

Deferred tax

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred taxes are recognised as an expense or income in profit or loss, except when they relate to items presented directly in equity, in which case the tax is also recognised in equity, or where they arise from the initial accounting for a business combination, in which case the tax effect is taken into account in accounting for the business combination.

2.11 Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents comprise cash, balances with the Croatian National Bank (CNB), accounts with other banks and term deposits with other banks with contractual maturities of up to three months.

Cash and cash equivalents exclude the obligatory reserves with the CNB, as these funds are not available for the Bank's day-to-day operations.

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments

Classification since 1 January 2018

The Bank applies IFRS 9 and, depending on business model for management of financial assets and contractual cash flow characteristics, classifies financial assets into following measurement categories: financial assets at amortised cost; financial assets at fair value through other comprehensive income (FVTOCI); financial assets designated at fair value through other comprehensive income (FVTOCI option); financial assets at fair value through profit or loss (FVTPL).

Financial assets at amortised cost
Financial asset is measured at amortised cost if both of following conditions are met:
(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through other comprehensive income
Financial asset is measured at fair value through other comprehensive income if both of following conditions are met:
(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets designated at fair value through other comprehensive income (option)
For investments in equity instruments that are not held for trading, the Bank may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value.
If Bank chooses this option (fair value measurement), it is valid until maturity date of instrument.
Gain/loss on disposal of equity instruments designated at fair value through other comprehensive income is never recycled to profit and loss account; unrealised gains/losses are recognized within other comprehensive income. Only dividends are recognized within profit and loss account.

Financial assets at fair value through profit or loss
Financial asset is measured at fair value through profit or loss, if not classified held to collect or held to collect and sell, unless irrevocable choice has been elected and in cases of SPPI test fail.
Derivatives, units in investment funds and securities held for trading are an examples of instruments that shall be classified in this category since payments do not represent solely payments of principal and interest on unpaid principal.

The Bank reclassifies debt instruments when and only when business model for managing financial assets is changed.

Business model assessment

Business model is based on activities conducted by the Bank to achieve objectives in accordance with Bank's strategy and how Bank manages its' financial assets with aim of generating profits.
Types of business models considering cash flow generation are described in following paragraphs:

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

Classification since 1 January 2018 (continued)

1. Business model held to collect

Objective of this model is to hold assets in order to collect contractual cash flows. Sale is not integral part of this business model within assets are measured at amortised cost, but sales could be consistent with this business model provided: a) sale is frequent, but insignificant (not more than 5% assets within homogeneous group occurred in observed period), b) sale is infrequent, but significant, c) sale is close to maturity or d) sale due to increase in credit risk (e.g. interest rate increase, sale of NPL portfolio). Sale in stress liquidity situations could also be classified within this model.
During 2018, the Bank sold only NPL portfolio.

2. Business model held to collect and sell

Objective is achieved by collecting contractual cash flows and by sale of financial assets. It is not required to observe frequency, value and reason of sale, but typically this business model involves greater frequency and value of sales.

3. Other models (other strategies)

Objective is to achieve short term profit on disposal of financial assets and this business model includes assets held for trading. All other business models are allocated in measurement category fair value through profit or loss.
Business model is determined by Bank's key management personnel. Key management personnel includes Bank's Management Board. Every Management Board member has an authority to determine business model for financial assets portfolio within his competence.

SPPI test (Solely Payment of Principal and Interest)

SPPI test is conducted to assess contractual cash flow characteristics of particular financial instruments, i.e. to assess if contractual cash flows represent solely payments of principal and interest on unpaid principal in accordance with basic lending arrangement (without specific modifications related to prepayment fee, index linked payments, mismatch between interest rate and reference interest rate etc.).
For the purpose of this test, principal is defined as fair value of financial assets at initial recognition. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.
As part of SPPI test, benchmark test is conducted by comparing undiscounted contractual cash flows and undiscounted cash flows that would arise if the time value of money element was not modified (reference or benchmark cash flows).
Relevant comparable benchmark instrument is instrument with identical contractual terms and the identical credit risk, either existing or hypothetical instrument (it is not required for instrument to exist on the market).
Benchmark test is conducted at initial recognition and it is not required to repeat this test.
If based on conducted assessments, result is significant difference between contractual cash flows and reference/benchmark cash flows, financial asset fails SPPI test and shall be allocated to measurement category fair value through profit or loss (migrated from Splitska banka d.d. – HRK 53 million from line Loans and Receivables from customers was reclassified to Fair value through profit or loss line due to fail of SPPI test).
The Bank has defined SPPI test (questionnaire) to be conducted for every new individual financial product or product portfolio, the so-called homogeneous group. This test was applied on the date of initial application of IFRS 9 (transition from IAS 39 to IFRS 9).
For Corporate products, every new contract is subject of assessment if contract is specific hence classification process is required to be done individually (by filling SPPI test). Alternatively, contract could be considered as part of homogeneous group and individual SPPI test is needed. Typically, classification of Retail and SME products is determined on product level, while for Treasury products classification is determined on individual/financial instrument level.

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

The Bank has defined following homogeneous groups for which SPPI test was conducted:

1. Corporate clients products:
   - Short term loans with fixed interest rate and bullet repayments
   - Short term loans with fixed interest rate and amortizing repayment
   - Short term loans with variable interest rate and bullet repayment
   - Short term loans with variable interest rate and amortizing repayment
   - Long term loans with fixed interest rate and bullet repayments
   - Long term loans with fixed interest rate and amortizing repayment
   - Long term loans with variable interest rate and bullet repayment
   - Long term loans with variable interest rate and amortizing repayment
2. Retail clients products:
   - Housing loans with fixed interest rate in EUR and HRK
   - Housing loans with variable interest rate (6M EURIBOR, 6M CHF LIBOR, 6M NRS1 EUR and 6M NRS1 HRK) in EUR, CHF and HRK
   - Cash loans with fixed interest rate in EUR and HRK
   - Cash loans with variable interest rate (6M EURIBOR, 6M CHF LIBOR, 6M ZIBOR) in EUR, CHF and HRK
   - Tourist loans with fixed interest rate in EUR
   - Student loans with variable interest rate (6M EURIBOR) in EUR
   - Retiree loans with fixed interest loans in HRK
   - Mortgage loans with variable interest rate (6M NRS1 EUR) in EUR
   - Car loans with fixed interest rate in EUR and HRK
   - Car loans with variable interest rate in EUR and HRK
   - Lombard loans with fixed interest rate in EUR
   - VISA consumer loans with fixed interest rate in EUR
   - Overdrafts with fixed interest rate in HRK

Classification until 31 December 2017

The Bank classifies its financial instruments into the following categories: at fair value through profit or loss, loans and receivables, financial assets available for sale, held-to-maturity investments or other financial liabilities. The classification depends on the purpose for which the financial instruments are acquired. The management determines the classification of financial instruments upon initial recognition and, where appropriate, reviews this designation at every reporting date. Items are designated as at fair value through profit or loss only upon initial recognition. Items designated as at fair value through profit or loss are not reclassified.

Financial assets and financial liabilities at fair value through profit or loss

This category has two sub-categories: financial instruments held for trading (including derivatives), and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified into this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, for the purpose of short-term profit-taking, or if it is designated as such by management.

The Bank classifies a financial asset as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

Classification until 31 December 2017 (continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial instruments at fair value through profit or loss include investments in investment funds as well as derivatives.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except for:

- those the Bank intends to sell immediately or in a short-term, which are classified as financial assets held for trading, and those initially designated by the management as at FVTPL;
- those initially designated as available for sale; or
- those under which the Bank will probably not be able to recover its entire initial investment for reasons other than impaired creditworthiness, which are classified as available for sale.

Loans and receivables arise when the Bank provides money to a debtor with no intention of trading with the receivable and include amounts due from other banks, loans to and receivables from customers, and the obligatory reserve with the Croatian National Bank. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Investments Held-to-maturity

Held-to-maturity (HTM) investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. These include certain debt securities. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment, with revenue recognised on an effective yield basis.

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

Classification until 31 December 2017 (continued)

Financial assets available for sale

Financial assets available for sale (AFS) are non-derivative financial assets that are either designated as AFS or are not classified elsewhere. Financial assets available for sale are intended to be held for an indefinite period of time, but may be sold in response to liquidity needs or changes in interest rates, foreign exchange rates, or equity prices. Available-for-sale financial assets include debt and equity securities and units in open ended investment funds. Fair value is determined in the manner described in Note 18. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Bank's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that currency and translated at the spot rate in effect at the reporting date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset, and other foreign exchange gains and losses are recognised in other comprehensive income Unlisted (!) equity securities and whose fair value cannot be determined reliably are carried at cost. All other available-for-sale investments are subsequently measured at fair value.

Recognition and derecognition since 1 January 2018

Since settlement date, all gains or losses resulting from changes in fair value of financial asset measured at fair value at profit or loss are recognized in profit or loss account, while for financial assets measured at fair value through other comprehensive income changes in fair value are recognized in equity and reserves.

Financial assets and liabilities measured at amortised cost are recognized when financial assets are transferred to debtors or received from creditors.

Recognition and derecognition until 31 December 2017

Purchases and sales of financial instruments at fair value through profit or loss, held to maturity and available for sale are recognised on the settlement date, which is the date when the financial instrument is transferred from the Bank. Loans and receivables and other financial liabilities are recognised when advanced to borrowers or received from lenders.

The Bank derecognises financial instruments (in full or in part) when the rights to receive cash from a financial instrument have expired or when it loses control over the contractual rights to the instrument. This occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are exercised, surrendered or have expired.

The Bank derecognises a financial liability only when it no longer exists, i.e. when it is discharged, cancelled or expired. If the terms of a financial liability change, the Bank will derecognise the liability and instantaneously recognise a new financial liability, with new terms and conditions.

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

Recognition and derecognition until 31 December 2017 (continued)

Realised gains and losses from the disposal of financial instruments are determined using the weighted average cost method. except for financial assets available for sale whose recognision is based on first in first out method, which Bank implemented in mid 2016.

Initial and subsequent measurement since 1 January 2018

Financial assets and liabilities are initially recognized at its fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.
Fair value at initial recognition is typically settlement price of transaction.

After initial recognition, Bank measures financial assets at amortised cost or at fair value (through other comprehensive income or through profit or loss) depending on business model for managing financial assets and contractual cash flows terms.

Initial and subsequent measurement until 31 December 2017

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

Equity instruments classified as available for sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less impairment. Debt securities that do not have a quoted market price in an active market are recognised at amortised or indexed cost.

Loans and receivables, held-to-maturity investments and other financial assets are measured at amortised cost using the effective interest method.

Gains and losses since 1 January 2018

Gains and losses from financial assets and financial liabilities measured at fair value through profit or loss are recognized in profit and loss account.

Gains or losses from financial assets measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised or reclassified through the amortisation process or in order to recognise impairment gains or losses.

For debt instruments measured at fair value through other comprehensive income, gain or loss arising from change in fair value is recognized in other comprehensive income. Foreign exchange gain or loss is recognized through profit or loss in profit and loss account. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Interest calculated using the effective interest method is recognised in profit or loss.

Gains or losses arising from change in fair value and foreign exchange gain or loss for equity instruments designated at fair value through other comprehensive income are recognised in other comprehensive income. Gain/loss resulting from disposal of equity instruments classified as fair value through other comprehensive income option is never disclosed within profit and loss account; accumulated gains/losses are recognized in other comprehensive income. Only dividends are recognized as gain in relevant reporting period.

2. ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

Gains and losses until 31 December 2017

Gains and losses arising from a change in the fair value of financial assets and financial liabilities at fair value through profit or loss are recognised in the statement of profit or loss.

Gains or losses arising from the change in fair value of available-for-sale monetary assets are recognized directly in the fair value reserves in equity and reserves (in other comprehensive income) and are disclosed in the Statement of Changes in Shareholders' Equity and Reserves and in the statement of other comprehensive Income.

Impairment losses, gains and losses on foreign exchange differences, interest income, amortisation of premium or discount using the effective interest rate method of monetary assets available-for-sale are recognized in the statement of profit or loss. Exchange rate differences on equity instruments are part of the fair value of these instruments and are recognized in equity and reserves (in other comprehensive income).

Dividend income is recognized in the statement of profit or loss. Upon sale or other derecognition of available-for-sale assets, any cumulative gains or losses are transferred to the statement of profit or loss.

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

Fair value measurement principles

The fair values of quoted securities are based on current closing bid prices. If the market for a financial asset is not active (and for unlisted securities), or if, for any other reason, the fair value cannot be reliably measured by market price, the Bank determines the fair value using valuation techniques. These include the use of prices achieved in recent arm's length transactions between knowledgeable and willing parties, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate. The fair value of non-exchange-traded derivatives is estimated at the amount that the Bank would receive or pay to terminate the contract at the statement of financial position date taking into account current market conditions and the current creditworthiness of the counterparties.

Equity securities that are not quoted are measured at cost at acquisition and tested for impairment.

Valuation techniques and assumptions for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined by reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

2. ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of financial assets

Impairment of financial assets measured at amortised cost since 1 January 2018

Definition and calculation method of expected credit losses for each stage

Expected credit loss calculation methodology depends on type of portfolio and risk stage of portfolio subject to assessment. Portfolio classified into lower risk stages (Stage 1 and Stage 2) is assessed collectively.

Bank recognizes relevant impairment every month for exposure in amount equal to:
1) 12 month expected credit loss for Stage 1 risk subcategory;
2) lifetime expected credit loss for Stage 2 risk subcategory

Portfolio classified into higher risk stages (Stage 3) is assessed collectively with lifetime expected credit loss recognized in cases of retail portfolio and individually in cases of corporate portfolio. Exceptionally, in case of corporate portfolio, for clients with group exposure below HRK 3,000,000, collective assessment is applied in expected credit loss calculation.

For individual method, expected credit losses are calculated as difference between gross carrying amount of individual exposure and present value of expected future cash flows discounted at effective interest rate. At least two scenarios are projected for expected cash flow assessment. Weights are applied to each scenario based on probability of occurrence. To determine impairment of transaction, present value is calculated as weighted average and applied. In calculation of individual impairment, these information is taken into account: expected operating cash flow, expected collateral cash flow, effective interest rate and estimated collateral realisation period.

For collective assessment, Bank uses internal model in accordance with IFRS 9 applying PD (probability of default), LGD (loss given default) and EAD (exposure at default; for off-balance exposures CCF of 100% is applied) as impairment parameters. Bank also applies 5 macroeconomic scenarios that reflect forecasts. Macroeconomic scenarios and its probabilities are based on regional macroeconomic forecasts. Expected loss (EL) is calculated separately for each scenario and final expected loss (EL) assessment is weighted average of expected loss in cases of multiple scenarios. Model calculation is performed monthly- Basic assumption in the model is credit segmentation based on client type (sovereign, banks, corporate, retail).

2. ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of financial assets (continued)

After initial recognition and on every reporting date, financial assets are allocated into one of three stages:
1) Stage 1 - performing,
2) Stage 2 - performing, but for which significant increase in credit risk was observed since initial recognition,
3) Stage 3 - default and other non performing exposures

Performing assets (Stage 1) includes all financial assets for which events and criteria valid for Stage 2 and Stage 3 do not exist on reporting date.
Financial asset shows significant increase in credit risk (Stage 2) if any of following indicators exist on reporting date and non-performing criteria had not been met (Stage 3):
- the payment delay exceeds 30 days,
- it is classified as performing forborne,
- based on individual decision, its currency suffered a significant "shock" since the disbursement of the loan and no hedge position exists in respect thereof,
- the transaction/client rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree,
- in the case household mortgage loans, the loan-to-value ratio (LTV) exceeds a predefined rate (at present 125%),
- default on another loan of the retail client, if no cross-default exists,
- the monitoring classification of a non-retail exposure above the threshold is Watchlist 2 (during the monitoring process, it is classified as an exposure showing significant increase in credit risk based on EWS – Early Warning System - or subjective judgement).

Above mentioned stipulations do not apply sovereign exposures or to exposures for which Bank could prove that more than 30 days past due is not relevant indicator.
Financial asset is considered defaulted (Stage 3) if any of following criteria have been met:
- objective criteria: more than 90 days past due on significant obligation,
- probability analysis resulting in conclusion that debtor would not be able to settle its credit obligations fully („unlikely to pay“ criteria)
- restructuring exposure criteria

Purchased or originated credit impaired asset (POCI) assessment

Purchased or originated credit impaired asset is credit impaired at initial recognition.
At every reporting date, Bank recognizes cumulative change in lifetime expected credit losses as impairment gain or loss in profit and loss account. If credit loss for POCI asset decreases after initial recognition, Bank recognizes impairment gain. If credit loss for POCI asset increases after initial recognition, Bank recognizes impairment loss.
During 2018, except for existing POCI assets migrated from Splitska banka d.d., Bank did not identify additional POCI assets.

2. ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of financial assets (continued)

Impairment of financial assets measured at amortised cost until 31 December 2017

At each reporting date, the Bank performs a review to identify any objective evidence that a financial asset, or a group of financial assets, may be impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- significant financial difficulty of the issuer or counterparty;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower a concession in the form of restructuring a loan or an advance that the Bank would not otherwise consider;
- a significant restructuring because of financial difficulties or expected bankruptcy;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

If there is objective evidence of impairment of loans and advances or a held-to-maturity investment carried at amortised cost, the amount of the impairment loss is determined as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted using the original interest rate of the financial assets.

The carrying amounts of assets are impaired through an allowance account, and the impairment losses are recognised in the statement of profit or loss. If a loan and receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively. Individually significant assets not identified as impaired are included in the basis for collective impairment assessment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit or loss. When a loan is uncollectible, it is written off against the related impairment allowance account after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as a reversal of impairment losses in the statement of profit or loss.

Where possible, the Bank seeks to renegotiate loans instead of resorting to the activation of the underlying collateral. Derecognition is considered in case of renegotiated terms and conditions for a financial asset or replacing an existing financial asset with a new one as a result of the financial difficulties of the borrower. If the cash flows under renegotiated loans are significantly different, the contractual rights to the cash flows are considered to have expired. Following the renegotiation, impairment is measured using the original effective interest rate determined before the renegotiation, and the renegotiated loan is no longer considered past due. Renegotiated loans are monitored on an on-going basis to ensure that all the terms and conditions are met and future inflows are realised. Provisions continue to be recognised for renegotiated loans, either on an individual or a collective basis, using the original effective interest rate.

2. ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of financial assets (continued)

Impairment of financial asset measured at fair value through other comprehensive income since 1 January 2018

At each reporting date, the Bank reassesses all financial instruments to determine if objective evidence of impairment exists. Expected credit loss definition per each stage, significant increase in credit risk identification and expected credit loss calculation methodology is identical to rules implemented for portfolio of financial assets measured at amortised cost.

Impairment of financial asset at fair value until 31 December 2017

At each reporting date the Bank performs a review to identify any objective evidence that a financial asset, or a group of financial assets, may be impaired. For equity investments classified as available for sale, any significant or prolonged decrease in their fair value below the cost is taken into account in determining whether an asset has been impaired. If there is evidence that an available-for-sale financial asset is impaired, the cumulative loss, defined as the difference between the cost and current fair value, less impairment loss on that financial asset previously recognised in profit or loss, is transferred from equity and recognised in the statement of profit or loss. Impairment losses recognised in the statement of profit or loss on equity securities are not reversed through the statement of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss, the impairment loss is reversed in the statement of profit or loss.

Financial assets carried at cost include equity securities classified as available for sale for which there is no reliable fair value. At each statement of financial position date, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired.

An impairment loss is determined as the difference between the carrying amount of the financial asset and the present value of expected future cash receipts discounted using the current market interest rate for similar financial assets. Impairment losses on those instruments are recognised in the statement of profit or loss and are not subsequently reversed through the statement of profit or loss.

2.14 Derivative financial instruments

The Bank uses derivative financial instruments to hedge economically its exposure to foreign exchange and interest rate risks arising from its operational, financing and investing activities.

In accordance with its treasury policy, the Bank does not hold or issue derivative financial instruments for speculative trading purposes. Derivatives are classified within financial instruments that are carried at fair value through profit or loss as financial instruments held for trading or as derivatives that are preferred for hedging purposes.

Derivative financial instruments, including foreign exchange contracts, currency forward agreements and cross-currency swaps, are recognised initially in the statement of financial position and subsequently re-measured at their fair value. The fair values are obtained from quoted market prices or discounted cash flow models as appropriate. All derivatives are recognized as assets if their fair value is positive, i.e. as liabilities if their fair value is negative. Changes in fair value of derivatives that are held for trading are recognized through profit or loss. Changes in the fair value of derivatives that are held as a hedging instrument are recognized through profit or loss together with the change in fair value of the instrument being hedged.

(All amounts are expressed in millions of HRK)

2. ACCOUNTING POLICIES (CONTINUED)

2.15 Sale and repurchase agreements

A financial asset sold under an agreement to repurchase it at a fixed price or at the sale price plus a lender's return or if it is loaned under an agreement to return it to the transferor, it is not derecognised, as the Bank retains substantially all the risks and rewards of ownership.

Securities sold under sale and repurchase agreements ('repos') are included in the statement of financial position as assets as originally classified or the Group reclassifies the asset on its statement of financial position as a repurchase receivable if the transferee obtains the right to sell or pledge the asset. The corresponding liability towards the counterparty is included in amounts due to banks or amounts due to customers as appropriate.

Securities purchased under agreements to purchase and resell ('reverse repos') are recorded as assets due from banks or as loans and receivables as appropriate.

The difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective interest method.

2.16 Tangible and intangible assets

Tangible and intangible assets are stated at cost less accumulated depreciation/amortisation and impairment loss, if any. Land and assets under development are not depreciated.

Depreciation and amortisation are provided for all assets, except for land and assets under construction, under the straight line method at rates estimated to write down the cost of each asset to its residual value over the estimated useful life, which is as follows:

	2018	**2017**
Buildings	33-40 years	40 years
Computers	4-5 years	4-5 years
Furniture and equipment	2.5-10 years	2.5-10 years
Motor vehicles	4-5 years	4-5 years
Intangible assets	1-15 years	1-15 years

Buildings whose life expectancy is estimated to be shorter than 40 years refers to the part of the business premises acquired by the merger of Splitska banka d.d.: a total of 30 business premises for which on 31 December 2018 the acquisition value amounted to HRK 104 million and the allowance of 52 million.

The residual value of the asset, the depreciation method and estimated useful lives are reviewed at each reporting date and adjusted if necessary. Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to the recoverable amount.

Gains and losses on the sale of property and equipment are determined as the difference between the amount charged and the carrying amount and are included in the statement of profit or loss. In the carrying amount of property and equipment the Bank includes the cost of replacing the part of an item when such cost arises if it is probable that the Bank will have future economic benefits contained in that item and if the purchase value of such item can be reliably estimated. All other repair and maintenance costs are recognized as incurred.

2.17 Impairment of tangible and intangible assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested for impairment at least annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are assessed at each reporting date. Impairment losses are recognised whenever the carrying amount of an asset exceeds the asset's recoverable amount. Impairment losses are recognised in the statement of comprehensive income. An impairment loss is recognized in all cases where the carrying amount of an asset is greater than its recoverable amount.

2. ACCOUNTING POLICIES (CONTINUED)

2.17 Impairment of tangible and intangible assets (continued)

The recoverable amount of property and equipment and of intangible assets is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. Impairment losses on goodwill are not reversed.

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

2.18 Investment in subsidiaries

Investments in subsidiaries are included in the financial statements of the Bank at cost less any impairment losses.

2.19 Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less transaction costs. They are measured subsequently at amortised cost, with any difference between the proceeds (net of transaction costs) and the redemption value being recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

2.20 Current accounts and deposits from banks and customers

Current and deposit account balances are measured initially at fair value plus transaction costs and subsequently at amortised cost using the effective interest method.

The definition of the calculation of expected credit losses for each step, the identification of significant credit risk, and the manner of determining the impairment are consistent with the rules for the portfolio of financial assets that are carried at amortized cost

2. ACCOUNTING POLICIES (CONTINUED)

2.21 Assets acquired in lieu of uncollected receivables

Occasionally, the Bank forecloses properties and other assets to recover the outstanding loans and advances to customers. Such properties and other assets are recognised at the lower of the net realisable value and current fair value. The Bank seeks to sell the foreclosed assets and only exceptionally makes them available for its own use.

After initial recognition, the assets taken are measured in accordance with the relevant accounting standards, depending on the intention to hold the asset. The Bank measures the assets under IAS 2 except in rare cases when the asset is put into use.

Gains and losses on the sale of such assets are recognised in the statement of profit or loss and in the statement of comprehensive income.

2.22 Off-balance sheet commitments

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

The definition of the calculation of expected credit losses for each step, the identification of significant credit risk, and the manner of determining the impairment are consistent with the rules for the portfolio of financial assets that are carried at amortized cost

2.23 Other financial liabilities

Other financial liabilities include all financial liabilities that are not held for trading or are not predetermined to be stated at fair value through profit or loss. Other financial liabilities include liabilities to other banks, liabilities to customers and other borrowed funds.

2.24 Provisions

The Bank recognises a provision when it has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. The Management Board determines the adequacy of the provision based by analysing individual items, past loss experience, considering the current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors at the reporting date. Provisions are discounted to present value where the effect is material.
Restructuring provision are recognized if the Bank has made formal restructuring plan and if initiation of the plan or publishing their main features among those affected with the plan has initiated reasonable expectation that restructuring will be performed. While determining restructuring provision amount, only direct costs of restructuring are included, a that are costs that are necessarily connected with restructuring process, but are not connected to current business operations.

2.25 Asset managed on behalf of third parties

Assets and income arising thereon, together with related undertakings to return such assets to customers, are excluded from these financial statements when the Bank acts in a fiduciary capacity such as a nominee, trustee or agent. Fees for such services are recognised as income when earned.

2. ACCOUNTING POLICIES (CONTINUED)

2.26 Share capital

Share capital represents the nominal value of paid-in ordinary shares classified as equity and is denominated in Croatian kunas.

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

2.27 Retained earnings

Any profit for the year retained after appropriations is transferred to reserves.

2.28 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are charged to the profit or loss for the period in which they are incurred.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes certain judgments and estimates about uncertain events, including estimates and judgments concerning the future. Such accounting estimates and judgments are regularly reviewed and are based on past experience and other factors, such as the reasonably expected course of future events under given circumstances, but which nevertheless represent sources of uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio represents the most significant source of estimation uncertainty.
The risk as well as other key sources of estimation uncertainty with a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Impairment losses on financial assets within scope of IFRS 9 impairment

Bank continuously monitors credit worthiness of its customers. In accordance with regulation, impairment of on-balance and off-balance exposures to credit risk is assessed at least quarterly. Impairment losses are recognized mostly against book value of loans and receivables from banks and other customers (disclosed in notes 15 and 17). Impairment losses for assets measured at fair value through other comprehensive income are disclosed in note 18b, for financial assets measured at amortised cost are disclosed in note 19 and loss allowance for risks and costs resulting from potential liabilities, loan commitments, mostly in form of granted unused credit lines, guarantees, letters of credit and unused credit card limits (disclosed in note 32). Impairment losses are also analysed for the purpose of credit exposure assessment of other assets measured at amortised cost (note 25).

The estimate of provision for credit loss represents the best estimate of the risk of default and expected credit losses (ECL) on financial assets, including all off-balance sheet exposures, on the reporting date, and as a part of this, the fair value estimation of collateral in real estate is the main source of estimation uncertainty. This and other key sources of estimation uncertainty have a significant risk of causing possible significant adjustments to the carrying amounts of assets and liabilities in the next financial year.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Impairment losses on financial assets within scope of IFRS 9 impairment (continued)

Expected credit loss is present value of difference between contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive. For lifetime expected credit losses, an entity shall estimate the risk of a default occurring on the financial instrument during its expected life. 12-month expected credit losses are a portion of the lifetime expected credit losses and represent the lifetime cash shortfalls that will result if a default occurs in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring.

Bank uses internal model in accordance with IFRS 9 applying PD (probability of default), LGD (loss given default) and EAD (exposure at default) as impairment parameters. Risk parameters also depend on macroeconomic scenarios. Expected loss (EL) is calculated separately for each scenario and final expected loss (EL) assessment is weighted average of expected loss in cases of multiple scenarios. Model calculation is performed monthly- Basic assumption in the model is credit segmentation based on client type (sovereign, banks, corporate, retail).

When determining impairment that exists on reporting date, but that is not separately identified, Bank uses internal model in accordance with IFRS 9. Loss allowance determined by internal model is increased by the Bank up to minimum amount of 0.8% prescribed by CNB. Loss allowance on all types of financial assets as at 31 December 2018 calculated in up to amount prescribed by CNB is equal to HRK 365 million (2017: HRK 125 million) of which HRK 352 million relates to loss allowance on loans and receivables from banks and other customers and loss allowance on potential liabilities and loan commitments. Adjustment between internal mode and amount prescribed by CNB as at 31 December 2018 amounts to HRK 27 million.

Taxation

The Bank determines its tax liabilities in accordance with the tax legislation of the Republic of Croatia. Tax returns are subject to the approval of the Tax Administration, which may perform subsequent tax audits of taxpayers' records.

(All amounts are expressed in millions of HRK)

3. ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Impairment losses on financial assets within scope of IFRS 9 impairment (continued)

Regulatory requirements

The CNB is responsible for performing prudential oversight over the Bank's operations and may require from the Bank to revise the carrying amounts of its assets and liabilities in accordance with applicable regulations.

Litigation and claims

There are several legal actions and claims initiated against the Bank arisen from the ordinary course of business, the outcome of which is uncertain. At 31 December 2018 the Management Board has, based on the legal advice, recognised provisions for risk arising from legal cases in the amount of HRK 212 million (2017: HRK 113 million).

4. CHANGES IN ACCOUNTING POLICIES

As of this annual period, Bank has initially applied IFRS 9 adopted by European Union on 22 November 2016 and effective for annual periods beginning on 1 January 2018. Bank has not adopted IFRS 9 early.

As allowed by IFRS 9 transitional provisions, Bank did not reclassify comparative period. All adjustments of carrying amount of financial assets and liabilities at date of initial application are recognized as adjustment of retained earnings opening balance and current period other reserves.

Accordingly, IFRS 7 amendments are applied in notes only for the current period. Comparative periods disclosures represent disclosures of previous years.

IFRS 9 application had impact on recognition, classification and measurement of financial assets and liabilities and impairment of financial assets accounting policies. IFRS 9 also significantly amends other standards regulating financial instruments with emphasis on IFRS 7 Financial instruments: disclosures.

Following paragraphs within this note include disclosures on IFRS 9 initial application effect in the Bank.
Further details of specific IFRS 9 accounting policies applied in current period (IAS 39 accounting policies were applied in comparative period) are disclosed in note 2.

a) Classification and measurement of financial instruments

Measurement categories and carrying amounts of financial assets and liabilities in accordance with IAS 39 and IFRS 9 on 1 January 2018:

	IAS 39 measurement	Carrying amount	IFRS 9 measurement	Business model	Carrying amount
Financial asset					
Cash and balances with CNB	Amortised cost (loans and receivables)	3,169	Amortised cost	Held to collect	3,169
Loans and receivables from banks	Amortised cost (loans and receivables)	117	Amortised cost	Held to collect	117
Financial assets at fair value through profit or loss	FVTPL (held for trading)	14	FVTPL (mandatory)	Other models	14

(All amounts are expressed in millions of HRK)

4. CHANGES IN ACCOUNTING POLICIES (continued)

a) Classification and measurement of financial instruments (continued)

Loans and receivables from customers	Amortised cost (loans and receivables)	10,739	Amortised cost	Held to collect	10,672
Financial asset at fair value through other comprehensive income	FVTOCI (Assets available for sale)	1,840	FVTOCI (debt instruments)	Held to collect and sell	1,738
			FVTOCI option (equity instruments)	Held to collect and sell	36
			FVTPL (units in investment funds)	Held to collect and sell	66
Investments at amortised cost	Amortised cost (held to maturity)	39	Amortised cost	Held to collect	39
Other assets	Amortised cost	74	Amortised cost	Held to collect	74
Financial liabilities					
Liabilities to banks	Amortised cost	27	Amortised cost		27
Liabilities to customers	Amortised cost	13,183	Amortised cost		13,183
Other borrowings	Amortised cost	950	Amortised cost		950
Financial liabilities at fair value through profit or loss	FVTPL (held for trading)	2	FVTPL (mandatory)		2
Other liabilities	Amortised cost	121	Amortised cost		121

b) Reconciliation of the carrying amount of items in the Statement of financial position in accordance with IAS 39 and IFRS 9

Reconciliation of carrying amount of items in Statement of financial position in accordance with IAS 39 and IFRS 9 on 1 January 2018:

	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Amortized cost				
Cash and balances with CNB				
Opening balance per IAS 39 and closing balance per IFRS 9	3,169	-	-	3,169
Loans and receivables from banks				
Opening balance per IAS 39 and closing balance per IFRS 9	117	-	-	117

(All amounts are expressed in millions of HRK)

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

b) Reconciliation of carrying amount of items in Statement of financial position in accordance with IAS 39 and IFRS 9 (continued)

	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Financial assets at fair value through profit or loss				
Opening balance per IAS 39	-	-	-	-
Decrease: transfer to FVTPL	-	-	-	-
Closing balance per IFRS 9	-	-	-	-
Loans and receivables from customers				
Opening balance per IAS 39	10,739	-	-	-
Increase: from assets available for sale	-	-	-	-
Decrease: expected credit losses	-	-	(67)	-
Closing balance per IFRS 9	-	-	-	10,672
Other assets	74	-	-	74
Opening balance per IAS 39	-	-	-	-
Decrease: expected credit losses	-	-	-	-
Closing balance per IFRS 9	-	-	-	-
Total financial assets at amortised cost	**14,099**	**-**	**(67)**	**14,032**
At fair value through profit or loss - financial assets				
Derivative financial instruments				
Opening balance per IAS 39 and closing balance per IFRS 9	14	-	-	14
Assets held for trading				
Increase: from assets available for sale	-	66	-	-
Closing balance per IFRS 9	-	-	-	66
Total financial assets at fair value through profit or loss	**14**	**66**	**-**	**80**
At fair value through other comprehensive income – financial assets				
Financial assets at fair value through other comprehensive income				
Opening balance per IAS 39	1,840	-	-	-
Decrease: transfer to FVTPL assets	-	(66)	-	-
Closing balance per IFRS 9	-	-	-	1,774
Financial assets at amortised cost				
Opening balance per IAS 39	39	-	-	39
Decrease: transfer to assets at amortised cost	-	-	-	-
Decrease: fair value adjustment for assets at amortised cost	-	-	-	-
Closing balance per IFRS 9	-	-	-	-
Total financial assets at fair value through other comprehensive income	**1,879**	**(66)**	**-**	**1,813**

(All amounts are expressed in millions of HRK)

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

b) Reconciliation of carrying amount of items in Statement of financial position in accordance with IAS 39 and IFRS 9 (continued)

	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Amortised cost – financial liabilities				
Liabilities to other banks				
Opening balance per IAS 39 and closing balance per IFRS 9	27	-	-	27
Liabilities to customers				
Opening balance per IAS 39 and closing balance per IFRS 9	13,183	-	-	13,183
Other borrowings				
Opening balance per IAS 39 and closing balance per IFRS 9	950	-	-	950
Other liabilities				
Opening balance per IAS 39 and closing balance per IFRS 9	121	-	-	121
Total financial liabilities at amortised cost	**14,281**	**-**	**-**	**14,281**
At fair value through profit or loss – financial liabilities				
Financial liabilities at fair value through profit or loss				
Opening balance per IAS 39 and closing balance per IFRS 9	2	-	-	2

Exposures classified as Cash and balances with CNB are not included in basic collective impairment calculation as Stage 1 and Stage exposure hence there were no measurement changes as at 1 January 2018. Also, at 1 January 2018 there were no changes in measurement of financial instruments classified as Loans and receivables from banks since basic collective impairment calculation for Stage 1 and Stage 2 exposures includes only exposures with maturity above 3 months, of which Bank's did not have any in portfolio.

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

c) Impairment reconciliation between IAS 39 and IFRS 9

Following table includes aggregated adjustments of impairment for financial assets and potential liabilities in accordance with IAS 39 and IAS 37 (incurred loss model) with IFRS 9 expected loss model at 1 January 2018:

	Note	IAS 39 / IAS 37 Loss allowance In millions HRK	Reclassification In millions HRK	Remeasurement In millions HRK	IFRS 9 Loss allowance In millions HRK
Loans and receivables from banks	15	2	-	-	2
Loans and receivables from customers	17	1,282	-	67	1,349
Investments at amortized cost	19	125	-	-	125
Other asset	25	12	-	-	12
Financial asset at fair value through other comprehensive income	18	-		4	4
Provisions for contingent liabilities and loan commitments	32	20	-	-	20
Total		**1,441**	**-**	**71**	**1,512**

d) The following table summarizes the impact of the IFRS 9 implementation on other reserves and retained earnings:

	IFRS 9 implementation effect on 1 January 2018 In millions HRK
Other reserves	
Closing balance as at 31 December 2017	163
Reclassification from available for sale to fair value through profit or loss	(6)
Expected credit loss in accordance with IFRS 9 for debt instruments measured at fair value through other comprehensive income	4
Tax	1
Opening balance 1 January 2018	**162**
Retained earnings	
Closing balance 31 December 2017	627
Reclassification from available for sale to fair value through profit or loss	6
IFRS 9 effect before tax	(71)
Tax	12
Opening balance as at 1 January 2018	**574**

(All amounts are expressed in millions of HRK)

5. NET INTEREST INCOME

	2018	2017 corrected
Interest and similar income		
Retail loans	462	440
Corporate loans	141	145
Debt securities	39	45
Cash reserves and amounts due from other banks	4	4
	646	**634**
Interest and similar expense		
Current accounts and deposits from individuals	24	50
Other borrowed funds and amounts owed to banks	17	20
Current accounts and corporate deposits	7	8
	48	**78**

Included in various items within interest income for the year ended 31 December 2018, a total of HRK 37 million (2017: HRK 39 million) refers to the interest income charged on the asset to which was previously impaired. Penalty interest calculated on loans and receivables from customers is shown in other operating income (Note 8) and accordingly Note 5 and Note 8 are corrected for 2017.

6. NET FEE AND COMMISSION INCOME

a) NET FEE AND COMMISSION INCOME – analysis by source

	2018	2017
Fee and commission income		
Retail customers	116	103
Corporate customers	57	44
Banks	24	24
	197	**171**
Fee and commission expense		
Banks	41	32
Corporate customers	17	15
	58	**47**

(All amounts are expressed in millions of HRK)

6. NET FEE AND COMMISSION INCOME (CONTINUED)

b) Net fee and commission income – analysis by fee type

	2018	2017
Fee and commission income		
Domestic payment transaction related fees and commissions	52	45
Package fees charged to individuals	41	32
Card-related fees and commissions	35	32
Foreign payment transaction related fees and commissions	13	11
Account maintenance fees	12	13
Loan-related fees and commissions	9	6
Guarantee-related fees and commissions	5	3
Asset management, brokerage and consultancy service fees	2	2
Other fees and commissions received	28	27
	197	**171**
Fee and commission expense		
Card-related fees and commissions	29	23
Foreign payment transaction related fees and commissions	12	10
Domestic payment transaction related fees and commissions	8	7
Other fees and commissions paid	9	7
	58	**47**

7. NET GAINS FROM TRADING IN AND VALUATION OF FINANCIAL INSTRUMENTS

7a Net gains from trading in and valuation of financial asset at fair value through profit or loss

	2018	2017
Net foreign exchange trading gains	64	63
Net gains/(loss) on derivatives	52	(68)
Net (loss) on financial asset at fair value through profit or loss	(3)	-
Net (loss) / gains on translation of monetary asset and liabilities in foreign currency and currency clause	(34)	83
	79	**78**

7b Net gains from trading in and valuation of financial asset at fair value through other comprehensive income

	2018	2017
Realised gains on securities at fair value through other comprehensive income	2	-
	2	**-**

(All amounts are expressed in millions of HRK)

8. OTHER OPERATING INCOME

	2018	2017 corrected
Rental income	8	3
Default interest on loans and receivables from customers	6	2
Gains on disposal of property and equipment	2	5
Amounts recovered through court actions	2	2
Visa and MasterCard awards	2	2
Subsequent recovery of receivables written off in prior years	1	-
Other income	1	2
	22	**16**

Revenues from rents are mostly related to revenues from properties rental, out of which HRK 0,6 million (2017: HRK 0,6 million) is related to revenues from properties which are fully leased, while the rest is related to properties which are used by the Bank, and whose insignificant part is leased, as well as revenues from rent which are paid by telecoms for lease of premises at the top of buildings for their antennas and other communication devices.

9. OTHER OPERATING EXPENSES

	2018	2017
Professional services and cost of material	155	135
Savings deposit insurance premiums	30	30
Marketing costs	25	22
Depreciation and amortisation	49	40
Administrative expenses	24	19
Other taxes and contributions	8	6
Written-off receivables	7	3
Written of goodwill	43	-
Other costs	7	8
	348	**263**

In 2018, the external auditor provided services related: auditing of financial statements, review of the reporting package to parent company, review of the merger process of Splitska banka d.d., audit of implementation of IFRS 9, other agreed procedures to verify compliance with financial, accounting or regulatory issues, a mandatory engagement and assessment of the compliance of general information control systems. In accordance with EU Regulation 537/2014, services provided during the year present permitted non-audit services. The audit cost, in addition to audit of the financial statements, includes the audit of other areas and for 2018 amounts to HRK 2.7 million (2017: HRK 1.5 million).

(All amounts are expressed in millions of HRK)

10. PERSONNEL EXPENSES

	2018	**2017**
Gross salaries	171	137
- net salaries	*121*	*98*
- taxes, surtaxes and contributions	*50*	*39*
Contributions on salaries	28	23
Accrued expenses for bonuses and other employee expenses	37	39
Net provision for severance and retention payments (note 29)	(4)	95
	232	**294**

At year-end, the Bank had 2,559 (2017: 1,162) employees, out of which 1,416 employees were transferred from Splitska banka d.d..

11. NET LOSSES FROM IMPAIRMENT AND PROVISION CHARGES

	Note	**2018**	**2017**
Impairment of loans and receivables from banks	15	1	-
Impairment of loans and receivables from customers	17	20	17
Impairment of financial asset at amortizes cost	19	8	108
Impairment of other asset	25	(1)	(2)
Litigation provisions	29	4	23
Impairment of contingent liabilities and commitments	32	14	6
		46	**152**

(All amounts are expressed in millions of HRK)

12. TAXATION

(a) Income tax expense recognised in profit or loss

	2018	2017
Current income tax	49	22
Net deferred tax (credit)/charge	(1)	(9)
	48	**13**

(b) Reconciliation of the accounting profit and income tax expense at 18%

	2018	2017
Profit before tax	**214**	**65**
Tax at the statutory rate of 18%	39	12
Non-taxable income, net of expenses not recognised for tax purposes	9	21
Net tax assets arisen from temporary differences (deferred tax asset)	-	(20)
Utilisation of tax losses from previous years	-	(10)
Amortization of deferred tax assets due to utilisation of tax losses from previous years	-	10
Income tax	**48**	**13**
Effective tax rate	**22.2%**	**20.1%**

(All amounts are expressed in millions of HRK)

12. TAXATION (CONTINUED)

(c) Movement in deferred tax assets and liabilities

	Deferred loan origination fees	**Unrealised gains/(losses) on securities at FVTOCI**	**Others**	**Tax losses carried forward**	**Total**
Balance at 1 January 2017	**5**	**(12)**	**42**	**-**	**35**
Adjustment on first time adoption of IFRS 9 at 1 January 2018	-	1	12	-	13
Acquired from Splitska banka d.d.	6	(17)	(74)	-	(85)
Through profit or loss	-	-	1	-	1
Through other comprehensive income	-	1	-	-	1
Other movement			1		1
Balance at 31 December 2018	**11**	**(27)**	**(18)**	**-**	**(34)**

	Deferred loan origination fees	**Unrealised gains/(losses) on securities available for sale**	**Others**	**Tax losses carried forward**	**Total**
Balance at 1 January 2017	**6**	**(9)**	**21**	**11**	**29**
Through profit or loss	(1)	-	21	(11)	9
Through other comprehensive income	-	(3)	-	-	(3)
Balance at 31 December 2017	**5**	**(12)**	**42**	**-**	**35**

The balance captured under the line item "Others" consists of HRK 74 million of deferred tax liabilities acquired by the merger of Splitska banka d.d. and deferred tax assets of HRK 12 million on the basis of adjustments to the initial application of IFRS 9; HRK 25 million based on provisions for severance payments and retention of employees, HRK 16 million on the basis of provisions for legal cases, HRK 1 million on the basis of the cost of value adjustments of real estate and HRK 2 million of other.

(All amounts are expressed in millions of HRK)

13. EARNINGS PER SHARE

For the purposes of determining earnings per share, for total earnings the Bank's profit for the current year attributable to the ordinary shareholders of the Bank is used. A reconciliation of the profit for the year attributable to ordinary shareholders is provided below.

	31.12.2018	31.12.2017
Loss attributable to ordinary shareholders	166	52
Weighted average number of shares	19,968,774	14,682,982
Earnings per share (in HRK)	**8.33**	**3.55**

14. CASH AND BALANCES WITH CROATIAN NATIONAL BANK

	31.12.2018	31.12.2017
Cash in hand	821	277
Current account balance	3,739	851
FX settlement account with the CNB	20	458
Current accounts with foreign banks	1,274	526
Current accounts with domestic banks	33	130
Assets included in cash and cash equivalents *(Note 33)*	5,887	2,242
Obligatory reserve at the Croatian National Bank	2,481	927
	8,368	**3,169**

The foreign-currency settlement account with the CNB is an account for the national and cross-border real-time settlement of euro-denominated payment transactions through TARGET2 system. The national component TARGET2-HR went into production on 1 February 2016, in accordance with the National SEPA Migration Plan. Upon the start of the component, TARGET2-HR has become the 25th component of the payment system TARGET2. The participants of the TARGET2-HR components are the Croatian National Bank and signed-up credit institutions.

The CNB requires from banks to maintain obligatory reserve funds, both in the form of amounts required to be deposited with the CNB and in the form of other liquid receivables. The obligatory reserve with the CNB represents the amount required to be deposited with the CNB.

At 31 December 2018 the obligatory reserve allocation rate was 12 % (2017: 12%) of kuna- and foreign-currency denominated deposits, borrowings and issued debt securities.

At 31 December 2018 the percentage of the mandatory kuna reserve funds is 70% (2016: 70%), whereas the remaining 30 % (2017: 30%) are to be held in the form of other liquid receivables, including the cash in the vault, but excluding cash in the vault and in hand. The percentage includes 75% (2017: 75%) of the foreign-currency denominated portion of the obligatory reserve required to be held in kuna.

The CNB Decision of 15 December 2015 imposed the requirement to maintain 100 percent of the foreign-currency portion of the obligatory reserve funds, applicable from 13 January 2016. The Decision also imposed the obligation for banks to maintain, on the basis determined in May 2016 and thereafter, 2 percent of the foreign-currency portion as an average daily balance of the funds on their own euro-denominated settlement accounts at the Croatian National Bank, i.e. on their own PM accounts within the TARGET2-HR system.

(All amounts are expressed in millions of HRK)

15. LOANS AND RECEIVABLES FROM BANKS

	31.12.2018	31.12.2017
Short-term placements with other banks	1,029	119
Provisions for impairment	(3)	(2)
	1,026	**117**

Loans and receivables from other banks are measured at amortised cost.

Movement in gross carrying amount:

	Stage 1	Stage 3	Stage 3	POCI	Total
Balance as at 31 December 2017	117	-	2	-	119
Adjustments on initial application of IFRS 9	-	-	-	-	-
Balance as at 1 January 2018	**117**	**-**	**2**	**-**	**119**
Net new approvals / termination of recognition	638	-	-	-	638
Acquired by merger of Splitska banka d.d.	272	-	-	-	272
Balance as at 31 December 2018	**1,027**	**-**	**2**	**-**	**1,029**

Movement in impairment allowance:

	Stage 1	Stage 3	Stage 3	POCI	Total
Balance as at 31 December 2017	-		2		2
Adjustments on initial application of IFRS 9	-	-	-	-	-
Balance as at 1 January 2018	**-**	**-**	**2**	**-**	**2**
Increase	1	-	-	-	1
Balance as at 31 December 2018	**1**	**-**	**2**	**-**	**3**

In loans and receivables from banks acquired by the merger of Splitska banka d.d. there were no receivables that were identified as POCI.

(All amounts are expressed in millions of HRK)

16. FINANCIAL ASSET AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2018	31.12.2017
Units in open-end investment funds managed by affiliated persons	103	11
Bonds issued by the Republic of Croatia - listed on the market	160	-
Derivative Financial assets	11	3
Placements	42	-
	316	**14**

(a) Derivative financial asset and liabilities

	2018			2017		
	Asset	**Liabilities**	**Contracted amount**	**Asset**	**Liabilities**	**Contracted amount**
Derivatives held for trading						
FX Swap and Forwards	4	10	1,963	3	2	837
Interest rate swap	7	-	253	-	-	-
Derivatives – fair value hedge						
Interest rate swap	-	3	60	-	-	-
Derivatives used to hedge cash flow						
Interest rate swap	-	-	26	-	-	-
	11	**13**	**2,302**	**3**	**2**	**837**

Derivative financial instruments held for trading allow the Bank and its clients to transfer, modify or reduce the currency and / or interest rate risk. In addition to standard currency derivatives (primarily forwarders) used to manage currency risk, the Bank also contracts interest rate swaps to minimize the risk of interest rate fluctuations. All derivatives have been agreed on the OTC market.

Shares in open-end investment funds are valued on the basis of net asset value of funds. The Bank has investments in OIF managed by the investment company OTP invest d.o.o.

(All amounts are expressed in millions of HRK)

17. LOANS AND RECEIVABLES FROM CUSTOMERS

Analysis by type of product

	31.12.2018	31.12.2017
Kuna-denominated		
Retail customers	15,588	7,832
Corporate customers	9,683	3,455
Foreign-currency denominated		
Retail customers	78	-
Corporate customers	2,735	734
Total gross loans and receivables	**28,084**	**12,021**
Provision for impairment	(2,545)	(1,282)
	25,539	**10,739**

Included in the loans and receivables from customers are loans incorporating a currency protection clause, such as the euro (EUR), Swiss franc (CHF) and US dollar (USD), which amount to HRK 12,556 million (2017: HRK 6,073 million). Repayments of principal and interest are determined in the foreign currency and paid in the kuna-equivalent amount translated at the foreign exchange rate applicable on the date of payment. Deferred loan origination fees included in the net loan balance amount to HRK 51 million (2017: HRK 29 million).

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2017	10,284	-	1,737	-	12,021
Adjustments on initial application of IFRS 9	(1,118)	1,036	82	-	-
Balance at 1 January 2018	**9,166**	**1,036**	**1,819**	**-**	**12,021**
Net new approvals / (termination) of recognition	490	20	(201)	(19)	290
Transfer to Stage 1	514	(472)	(42)	-	-
Transfer to Stage 2	(494)	555	(61)	-	-
Transfer to Stage 3	(137)	(53)	190	-	-
Acquired by merger of Splitska banka d.d.	13,972	523	249	1,508	16,252
Written off	-	-	(256)	(223)	(479)
Balance at 31 December 2018	**23,511**	**1,609**	**1,698**	**1,266**	**28,084**

(All amounts are expressed in millions of HRK)

17. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

Movement in impairment allowance:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2017	107	-	1,175	-	1,282
Adjustments on initial application of IFRS 9	(46)	50	63		67
Balance at 1 January 2018	**61**	**50**	**1,238**	**-**	**1,349**
Net new approvals / (termination) of recognition	(44)	25	28	11	20
Transfer to Stage 1	33	(20)	(13)	-	-
Transfer to Stage 2	(4)	26	(22)	-	-
Transfer to Stage 3	(1)	(6)	7	-	-
Acquired by merger of Splitska banka d.d.	143	33	133	1,349	1,658
Exchange differences	(1)	-	(2)	-	(3)
Amounts written-off			(256)	(223)	(479)
Balance at 31 December 2018	**187**	**108**	**1,113**	**1,137**	**2,545**

The Bank continuously monitors and analyses the operations and activities of Agrokor extraordinary administration, which was opened on 10 April 2017. Considering that the Agrokor Settlement became final on 18 October 2018, the Bank's recognized claims should be settled partly by repayment of debt (less significant) with changed terms (for collateralised part of exposure up to the estimated collateral value) and through new instruments, depository notes and convertible bonds (for part of the exposure that was not collateralized and / or exceeds the estimated collateral value), which basically represents equity holdings in the new Agrokor group. The amount of receivables that exceeds the nominal amount of settlement as per the Settlement has been transferred to the off-balance sheet in December 2018. On 1 March 2019, the Zagreb Commercial Court accepted the proposal of the Extraordinary Commissioner and the Interim Creditor Council of 28 February 2019 and ordered that the date of the beginning of the implementation of the Settlement, the beginning of the implementation of the restructuring and implementation measures defined by the Settlement is to be 1 April 2019 with the date of publication on 1 March 2019.

Movement in impairment allowance in 2017 is as follows:

	2017
Balance at 1 January	1,518
Amounts collected	(75)
New provisions made	92
Impairment losses recognised in the profit or loss (note 11)	17
Exchange differences	(1)
Amounts written-off	(252)
Balance at 31 December	**1,282**

(All amounts are expressed in millions of HRK)

17. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

Concentration of loans and receivables from customers by industry:

Gross carrying amount before impairment allowance:

	31.12.2018	**31.12.2017**
Public administration and defence	2,520	625
Trade	2,042	611
Food and beverage production	1,919	213
Construction	1,775	565
Hotel and restaurant trade	718	498
Other manufacturing industries	519	248
Publishing	455	12
Financial intermediation	450	74
Transport and communications	419	103
Energy, gas and water supply	348	45
Real estate property	308	379
Agriculture, forestry and fisheries	302	307
Education, health and social security	264	118
Non-metal mineral and chemical products	130	183
Mining	79	1
Metal-working industry	42	39
Other services and social activities	128	167
Total corporate loans	**12,418**	**4,188**
Retail customers	**15,666**	**7,833**
	28,084	**12,021**
Provision for impairment	(2,545)	(1,282)
	25,539	**10,739**

(All amounts are expressed in millions of HRK)

17. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

In the period from 2005 to 2008, the Bank granted loans to individuals, which were denominated or tied to the Swiss franc (CHF).

On 22 September 2015 the Act amending the Consumer Credit Act was adopted (hereinafter: "the Amended Act") which has introduced a permanent measure for regulating the conversion of CHF loans to euro-denominated loans. The Amended Act came into force on 30 September 2015.

On 30 September 2015, OTP Bank had 1,852 CHF loans for which clients accepted the conversion. By 31 December 2018, 1,825 loans (1,825 loans up to December 31, 2017) were converted.

With the merger of Splitska banka d.d., the obligation to convert 54 loans was transferred from Splitska banka d.d., as well as the related provision in the amount of HRK 5 million (Note 29).

The total provisions for conversion of CHF loans for clients who accepted the conversion and have not yet realized amounts to HRK 10 million (2017: HRK 3 million) as shown in Note 29.

18. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31.12.2018	31.12.2017
Equity securities	78	36
Debt securities	5,265	1,738
Units in open-end investment funds	-	66
	5,343	**1,840**

By applying IFRS 9 from 1 January 2018, a portion of the securities is reclassified into the portfolio of financial assets at fair value through profit or loss (open-end investment funds).

(a) Equity securities

	31.12.2018	31.12.2017
Listed	74	34
Unlisted	4	2
	78	**36**

Equity securities not listed on the market for which fair value cannot be reliably estimated are recorded at the cost of investment and amount to HRK 4 million (2017: HRK 2 million). There is no active market for the mentioned securities. Other equity securities quoted on the market and for which fair value can be estimated are measured at fair value through other comprehensive income - the fair value option through other comprehensive income.

With the merger of Splitska banka d.d., investments in equity securities increased by HRK 36 million.

In 2018 there were no sale of equity securities or transfers of these instruments within equity. The dividend paid in the amount of HRK 0.2 million was recorded in the position of other operating income.

(All amounts are expressed in millions of HRK)

18. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) Debt securities

	31.12.2018	31.12.2017
Bonds of the Croatian Ministry of Finance	2,747	690
Foreign government bonds	620	748
Listed	**3,367**	**1,438**
Treasury bills of the Croatian Ministry of Finance	1,898	300
Unlisted	**1,898**	**300**
	5,265	**1,738**

Debt securities that the Bank intends to keep for the purpose of collecting or selling and which have met the SPPI requirements are classified as financial assets through other comprehensive income.

Movement of gross carrying amount of debt securities:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2017	1,738	-	-	-	1,738
Adjustments on initial application of IFRS 9	-	-	-	-	-
Balance at 1 January 2018	**1,738**	-	-	-	**1,738**
Net new approvals / (termination of recognition)	(114)	-	-	-	(114)
Acquired by merging Splitska banka d.d.	3,641	-	-	-	3,641
Balance at 31 December 2018	**5,265**				**5,265**

Movement of impairment allowance included in equity in other reserves (note 31):

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2017	-	-	-	-	-
Adjustments on initial application of IFRS 9	4	-	-	-	4
Balance at 1 January 2018	**4**	-	-	-	**4**
Balance at 31 December 2017	7	-	-	-	7
Balance at 31 December 2018	**11**	-	-	-	**11**

(All amounts are expressed in millions of HRK)

18. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(c) Units in open-end investment funds

The Bank has at initial application of IFRS 9 reclassified investments in open-end investment funds amounting to HRK 66 million in financial assets at fair value through profit or loss. In 2017, these shares were classified in accordance with IAS 39 in assets available for sale.

19. FINANCIAL ASSET MEASURED AT AMORTISED COST

	31.12.2018	31.12.2017
Bonds of the Republic of Croatia	16	17
Corporate Bonds	234	-
Corporate bills of exchange	120	147
	370	164
Impairment allowance	(83)	(125)
	287	**39**

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2017	-	-	164	-	164
Adjustments on initial application of IFRS 9	-	-	-	-	-
Balance at 1 January 2018		**-**	**164**	**-**	**164**
Net new approvals / (termination of recognition)	-	-	(1)	-	(1)
Acquired by merger of Splitska banka d.d.	248	-	-	69	317
Write off	-	-	(59)	(51)	(110)
Balance at 31 December 2018	**248**	**-**	**104**	**18**	**370**

Movement in impairment allowance:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2017	-	-	125	-	125
Adjustments on initial application of IFRS 9	-	-	-	-	-
Balance at 1 January 2018	**-**	**-**	**125**	**-**	**125**
Net new approvals / (termination of recognition)	(1)	-	9	-	8
Acquired by merging Splitska banka d.d.	1	-	-	59	60
Write off	-	-	(59)	(51)	(110)
Balance at 31 December 2018	**-**	**-**	**75**	**8**	**83**

(All amounts are expressed in millions of HRK)

19. FINANCIAL ASSET MEASURED AT AMORTISED COST (CONTINUED)

Movement in impairment allowance in 2017 is as follows:

	2017
Balance at 1 January 2017	17
New impairment	108
Balance at 31 December 2017	**125**

Increase in impairment in 2017 refers to impairment of corporate bills of exchange. The receivables for bonds of the Ministry of Finance arose as a receivable for the never issued bonds that should have been a compensation for flats purchased by citizens of Croatia, and are fully value adjusted.

20. INVESTMENT IN SUBSIDIARIES

31.12.2018	**Headquarter**	**Ownership percentage**	**Industry**	**Bank's share of net assets**	**Investment (expense after impairment)**
OTP Nekretnine d.o.o.	Zadar	100,00%	Organization of projects for buildings	58	52
OTP Invest d.o.o.	Zagreb	74,33%	Fund management	4	8
OTP Aventin d.o.o.	Zadar	100,00%	Renting and management of own real estate or real estate in lease	(55)	-
OTP Savjetovanje d.o.o.	Zagreb	100,00%	Business and management consultancy	1	1
SB Zgrada d.o.o.	Split	100,00%	Real estate business	211	208
OTP Osiguranje d.d.	Zagreb	100,00%	Life insurance	63	54
Total investment in subsidiaries:				**282**	**323**

(All amounts are expressed in millions of HRK)

20. INVESTMENT IN SUBSIDIARIES (CONTINUED)

31.12.2017	Headquarter	Ownership percentage	Industry	Bank's share of net assets	Investment (expense after impairment)
OTP Nekretnine d.o.o.	Zadar	100,00%	Organization of buildings projects	56	52
OTP Invest d.o.o.	Zagreb	74,33%	Fund management activities	3	8
OTP Aventin d.o.o.	Zadar	100,00%	Renting and management of own real estate or real estate in lease	(54)	-
Splitska banka d.d.	Split	100,00%	Bank	3,510	3,172
Total investment in subsidiaries:				**3,515**	**3,232**

In December 2018, the Bank initiated the procedure for recapitalization of the company OTP Savjetovanje d.o.o. (in 2017 known as SB Nekretnine d.o.o.) in the amount of HRK 3 million. The assets for this purpose are stated as at 31 December 2018 in other assets (Note 25) and other liabilities (Note 30). The registration at the Commercial Court was conducted in February 2019.

OTP Nekretnine d.o.o. has 100% ownership in Cresco d.o.o.

By acquiring Splitska banka d.d. the Bank also gained control over the companies OTP Savjetovanje d.o.o., SB Zgrada d.o.o. and OTP Osiguranje d.d. in which Splitska banka d.d. had 100% ownership.
On May 2, 2017, the bank acquired 100% of Splitska banka d.d. The merger transaction of Splitska banka d.d. was filed on 1 December 2018. The Bank has made a change in statute regarding the merger of Splitska banka d.d. by entering changes into the court register of the Commercial Court in Split, thus making the statute change legitimate.

(All amounts are expressed in millions of HRK)

20. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Acquired assets and liabilities of Splitska banka d.d. at the date of acquisition as at 2 May 2017:

Assets	
Cash and cash equivalents	2,550
Loans and receivables from banks and placements with the CNB	2,745
Financial assets	4,274
Investments in subsidiaries	244
Loans and receivables with customers	15,406
Other assets	243
Total assets	**25,462**
Liabilities to customers	20,799
Other liabilities	1,392
Total liabilities	**22,191**

Acquired assets and liabilities of Splitska banka d.d. at the date of merger as at 1 December 2018 (shown in accordance with the Bank's methodology):

Note	**Note**	**Carrying amount**	**Fair value adjustment**	**Total acquired by merger**
ASSET				
Cash and balances with Croatian National Bank	14	4,661	-	4,661
Loans and receivables from banks	15	272	-	272
Financial assets at fair value through profit or loss	16	168	-	168
Loans and receivables from customers	17	14,594	-	14,594
Financial assets at fair value through other comprehensive income	18	3,677	-	3,677
Financial asset measured at amortised cost	19	257	-	257
Investment in subsidiaries	20	256	8	264
Property and equipment	21	82	71	153
Investment property	22	22	7	29
Intangible assets	23	20	162	182
Deferred tax asset	12	26	-	26
Receivables for income tax		1	-	1
Other Assets	25	44	-	44
TOTAL ASSET		**24,080**	**248**	**24,328**

(All amounts are expressed in millions of HRK)

20. INVESTMENT IN SUBSIDIARIES (CONTINUED)

	Notes	Carrying amount	Fair value adjustment	Total acquired by merger
LIABILITIES				
Amounts due to other banks	26	160	-	160
Amounts due to customers	27	18,872	-	18,872
Other borrowed funds	28	722	-	722
Financial liabilities at fair value through profit or loss	16	8	-	8
Provisions for liabilities and charges	29	276	-	276
Other liabilities	30	186	-	186
Deferred tax liabilities		-	39	39
Liabilities based on fair valued loans		-	32	32
Total liabilities		**20,224**	**71**	**20,295**
SHAREHOLDERS' EQUITY AND RESERVES				
Total equity and reserves withouth profit for the year		3,531	-	3,531
Profit for the year		325	-	325
Adjustment on equity		-	177	177
Total share capital and reserves	31	**3,856**	**177**	**4,033**
TOTAL LIABILITIES, SHARE CAPITAL AND RESERVES		**24,080**	**248**	**24,328**

Liabilities based on fair value of loans are the result of acquiring Splitska banka d.d. and calculating badwill.

Equity adjustment for acquisition cost of Splitska banka d.d.:

Total share capital and reserves of Splitska banka d.d. acquired by merger	4,033
Adjustment for the acquisition cost of Splitska banka d.d.	(3,172)
The effect of merger on the Bank's equity and reserves	**861**

The effect of the merger on the Bank's capital and reserves is the result of badwill at the date of acquisition and profit of Splitska banka d.d. in the period from the acquisition date to the date of merger.
That effect is presented within fair value reserves in amount of HRK 58 million and retained earnings in amount of HRK 803 million (Note 31). Amount that is presented within retained earnings consist of badwill calculated as difference between net fair value of Splitska banka at acquisition date and acquisition cost in amount of HRK 398 million. The remaining part is profit of Splitska banka from the acquisition date till migration date and effect of changes on positions presented at fair value at the acquisition date in amount of HRK 405 million.

(All amounts are expressed in millions of HRK)

21. PROPERTY AND EQUIPMENT

	Land and buildings	Computers	Furniture and equipment	Motor vehicles and other	Asset under develop ment	Total
Cost						
Balance at 1 January 2017	**327**	**7**	**167**	**4**	**27**	**597**
Transfer from assets under development	5	7	9	1	(22)	-
Additions	-	-	-	-	44	44
Disposals and retirements	(5)	(6)	(12)	-	-	(23)
Balance at 31 December 2017	**327**	**73**	**164**	**5**	**49**	**618**
Balance at 1 January 2018	**327**	**73**	**164**	**5**	**49**	**618**
Acquired by merger of Splitska banka d.d.	141	48	23	1	15	228
Transfer from assets under development	25	23	17	1	(66)	-
Additions	-	-	-	-	51	51
Disposals and retirements	-	(1)	(6)	-	(4)	(11)
Balance at 31 December 2018	**493**	**143**	**198**	**7**	**45**	**886**
Accumulated depreciation and impairment						
Balance at 1 January 2017	**156**	**63**	**125**	**2**	**-**	**346**
Charge for the year	8	5	13	-	-	26
Disposals and retirements	(3)	(6)	(11)	-	-	(20)
Balance at 31 December 2017	**161**	**62**	**127**	**2**	**-**	**352**
Balance at 1 January 2018	**161**	**62**	**127**	**2**	**-**	**352**
Acquired by merger of Splitska banka d.d.	52	17	6	-	-	75
Charge for the year	9	9	13	1	-	32
Disposals and retirements	-	(1)	(6)	-	-	(7)
Balance at 31 December 2018	**222**	**87**	**140**	**3**	**-**	**452**
Net carrying amount						
Balance at 1 January 2018	**166**	**11**	**37**	**3**	**49**	**266**
Balance at 31 December 2018	**271**	**56**	**58**	**4**	**45**	**434**

(All amounts are expressed in millions of HRK)

22. INVESTMENT PROPERTY

Investment property includes land worth HRK 29 million, acquired with the merger of Splitska banka d.d..

23. INTANGIBLE ASSET

	Leasehold improvements	Software	Contracts with clients	Asset acquired but not brought into use	Total
Cost					
Balance at 1 January 2017	**60**	**97**	**-**	**5**	**162**
Transfer from assets under development	2	6	-	(8)	-
Additions	-	-	-	10	10
Disposals and retirements	(4)	-	-	-	(4)
Balance at 31 December 2017	**58**	**103**	**-**	**7**	**168**
Balance at 1 January 2018	**58**	**103**	**-**	**7**	**168**
Acquired by merger of Splitska banka d.d.	39	291	283	3	616
Transfer from assets under development	4	7	-	(11)	-
Additions	-	-	-	37	37
Disposals and retirements	(4)	-	-	(2)	(6)
Balance at 31 December 2018	**97**	**401**	**283**	**34**	**815**
Accumulated depreciation and impairment					
Balance at 1 January 2017	**47**	**77**	**-**	**-**	**124**
Charge for the year	6	9	-	-	15
Disposals and retirements	(3)	-	-	-	(3)
Balance at 31 December 2017	**50**	**86**	**-**	**-**	**136**
Balance at 1 January 2018	**50**	**86**	**-**	**-**	**136**
Acquired by merger of Splitska banka d.d.	32	281	121	-	434
Charge for the year	2	10	5	-	17
Disposals and retirements	(4)	-	-	-	(4)
Balance at 31 December 2018	**80**	**377**	**126**	**-**	**583**
Net carrying amount					
Balance at 1 January 2018	**8**	**17**	**-**	**7**	**32**
Balance at 31 December 2018	**17**	**24**	**157**	**34**	**232**

(All amounts are expressed in millions of HRK)

24. GOODWILL

Goodwill reported on the Bank's statement of financial position for financial year 2017 represents goodwill originally arisen on the acquisition of Istarska banka d.d., Pula and Sisačka banka d.d. Sisak (which is included in the Bank's accounts following the merger with these banks on 30 June 2002), and Dubrovačka banka d.d., Dubrovnik (which is included in the Bank's accounts following the merger of this bank on 30 September 2004). At 31 December 2010 the carrying amount of goodwill was equal to zero (2017: HRK 43 million).

For the purposes of impairment testing, goodwill was allocated to three cash-generating units of the Bank (Business Centres) that are separately identifiable in the context of adding new value.

The Bank determines the need to recognise impairment based on the following four approaches: by considering the net present value of future assets; the present value of future net interest income; the present value of future operating income; and the analysis of actual operating results from the acquisition date to the date of the financial statements.

The timely departure from the moment of acquisition and initial recognition of goodwill leads to the fact that the flow of benefits is no longer the result of the units that initiated the formation of goodwill, but of the action of the integrated bank (after merger of Splitska banka d.d.), its strategy and business estimated that Goodwill no longer has value and has been 100% written off. Expenses of write-offs amounting to HRK 43 million are shown in other operating expenses (Note 9).

25. OTHER ASSETS

	31.12.2018	31.12.2017
Accrued fees and commissions	46	18
Accounts receivable	39	18
Receivables in respect of credit card operations	49	20
Other asset that is subject to impairment in accordance with IFRS 9	134	56
Provision for impairment	(31)	(12)
Net other asset after impairment	**103**	**44**
Asset taken in lieu for uncollected receivables	12	15
Prepaid expenses	9	7
Other	11	7
Other asset that is not subject to impairment in accordance with IFRS 9	**32**	**29**
	135	**73**

(All amounts are expressed in millions of HRK)

25. OTHER ASSET (CONTINUED)

Movement in gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2017	43	-	13	-	56
Adjustments on initial application of IFRS 9	-	-	-	-	-
Balance at 1 January 2018	**43**	**-**	**13**	**-**	**56**
Net new approvals / (termination of recognition)	30	(1)	(2)	-	27
Acquired by merger of Splitska banka d.d.	32	1	3	15	51
Balance at 31 December 2018	**105**	**-**	**14**	**15**	**134**

Movement in impairment allowance:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 31 December 2017	-	-	12	-	12
Adjustments on initial application of IFRS 9	-	-	-	-	-
Balance at 1 January 2018	**-**	**-**	**12**	**-**	**12**
Net new approvals / (termination of recognition)	-	-	(1)	-	(1)
Acquired by merger of Splitska banka d.d.	2	-	3	15	20
Balance at 31 December 2018	**2**	**-**	**14**	**15**	**31**

Movement in the impairment allowance in 2017 were as follows:

	2017.
Balance at 1 January	14
Write backs provision	(2)
Balance at 31 December	**12**

Most of these provisions relates to claims on fees that are fully impaired after the 90 days past due.

(All amounts are expressed in millions of HRK)

26. AMOUNTS DUE TO OTHER BANKS

	31.12.2018	31.12.2017
Demand deposits		
- kuna-denominated	102	12
Foreign-currency denominated	21	15
Term deposits	530	-
	653	**27**

27. AMOUNTS DUE TO CUSTOMERS

	31.12.2018	31.12.2017
Retail customers		
Demand deposits		
- kuna-denominated	5,127	2,079
- foreign-currency denominated	8,523	3,002
Term deposits		
- kuna-denominated	1,820	1,254
- foreign-currency denominated	7,358	4,496
	22,828	**10,831**
Corporate customers		
Demand deposits		
- kuna-denominated	6,302	1,331
- foreign-currency denominated	2,478	612
Term deposits		
- kuna-denominated	806	176
- foreign-currency denominated	128	228
Deposits of the acquired subsidiaries	518	5
	10,232	**2,352**
	33,060	**13,183**

(All amounts are expressed in millions of HRK)

28. OTHER BORROWED FUNDS

	31.12.2018	31.12.2017
Domestic lenders:		
HBOR (Croatian Bank for Reconstruction and Development)	1,324	947
Ministry of Finance	3	3
Others	1	-
	1,328	**950**

(a) Liabilities to the Croatian Bank for Reconstruction and Development (HBOR)

Funds borrowed from HBOR are designated for approving loans to end-beneficiaries – corporate and retail customers – under the programmes supported by HBOR.

(b) Amounts due to the Croatian Ministry of Finance

This is a liability to the Croatian Ministry of Finance transferred from Dubrovačka banka and relates to interest on the so-called "frozen" foreign currency savings.

(c) Other borrowed funds

This obligation relates to the commitment to the Fund for financing employment growth in economically inadequately developed and highly migrant areas of the SFRY (former Yugoslavia) to finance employment growth in economically underdeveloped areas.

The funds were intended for the establishment of private entities for the returnee from temporary work from the Federal Republic of Germany. These funds were transferred to banks, which were granted to individuals with the irrevocable guarantee of the Fund.

29. PROVISIONS FOR LIABILITIES AND CHARGES

	31.12.2018	31.12.2017
Litigation provision	212	131
Provision for severance and retention payments	208	100
Provisions for overpayments and conversion of CHF loans	10	3
	430	**234**
Provisions for off-balance sheet items (Note 32)	109	20
	539	**254**

(All amounts are expressed in millions of HRK)

29. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Reclassification of comparative data and changes in presentation of provisions for commitments and costs for 2017:

	31.12.2017	31.12.2017 corrected	Difference	Note
Provisions for termination benefits, jubilee awards and annual vacation days – reclassified from other liabilities (note 30)	9	100	91	30
Provisions for off-balance sheet items	20	20	-	
Litigation provision	131	131	-	
Provisions for overpayments and conversion of CHF loans	3	3	-	
	163	**254**	**91**	

Litigation provision

	2018	2017
Balance at 1 January	131	108
Acquired by merger of Splitska banka d.d.	77	-
Net charge to statement of profit or loss	4	23
Balance at 31 December	**212**	**131**

Litigation provision relates to legal actions against the Bank, i.e. where the Bank is the defendant. The Bank has recognised provisions for those legal actions it expects after they are resolved to result in an outflow of the Bank's resources embodying economic benefits.

Out of the total litigation provisions, HRK 9 million relates to claims on household loans (HRK 8 million for loans indexed to CHF, and HRK 1 million for loans indexed to EUR and HRK loans).

Provision for severance and retention payments

	2018	2017
Balance at 1 January	100	9
Increase for reclassification to note 30	-	98
Decrease for reclassification to note 30	-	(7)
Acquired by merger of Splitska banka d.d.	117	-
Payments	(5)	-
Net charge to statement of profit or loss (Note 10)	(4)	-
Balance at 31 December	**208**	**100**

(All amounts are expressed in millions of HRK)

29. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Expenses for provisions for severance and retention payments in the amount of HRK 208 million (2017: HRK 100 million) include provisions for:

- obligations for employees on the basis of restructuring – HRK 201 million kuna (2017: HRK 95 million)
- remittances and jubilee awards of HRK 7 million (2017: HRK 5 million)

Provisions in amount of HRK 201 million were formed in accordance with IAS 37 on the basis of a restructuring plan that includes a detailed list of employees included in the plan, expenses incurred for each employee and the date of implementation. The major part of the disbursement should be realized by the end of 2019 and early 2020.
Provisions for severance payments and jubilee awards are formed in accordance with IAS 19.
Provision expenses are presented in Note 10 Employee expenses.

Provisions for CHF loans and other liabilities

	2018	**2017**
Balance as at 1 January	3	4
Acquired by merger of Splitska banka d.d.	8	-
Conversions completed by the year-end (Note 11)	(1)	(1)
Balance as at 31 December	**10**	**3**

The provisions for conversion of CHF credits apply to clients who have accepted the conversion in accordance with the Loan Conversion Act of 2015 and have not yet realized the conversion (Note 17)

30. OTHER LIABILITIES

	31.12.2018	**31.12.2017 corrected**
Liabilities in respect of credit card operations	112	1
Amounts due to suppliers	81	27
Funds in transfer	49	11
Accrued expenses for bonuses and other employee benefits	64	41
Salaries and contributions payable	32	14
Liability for payments of deposits previously credited to income	15	5
Liabilities in respect of opening of accounts (escrow accounts)	12	4
Due to State Agency for Deposit insurance and Bank Rehabilitation for saving deposits insurance	13	8
Liabilities for fees	9	-
Accrued expenses	2	1
Advances received	2	2
Value added tax payable	5	2
Other liabilities	38	5
	434	**121**

(All amounts are expressed in millions of HRK)

30. OTHER LIABILITIES (CONTINUED)

Reclassification of comparative data and changes in presentation for 2017:

	31.12.2017 corrected	31.12.2017	Difference	Note
Provision for severance and retention payments	-	98	(98)	29
Accrued expenses for bonuses and other employee benefits	41	34	7	29
Funds in transfer	11	-	11	30
Current income tax liability	-	22	(22)	12b
Tax liabilities from prior years	-	3	(3)	12b
Other liabilities	5	17	(12)	30
Amounts due to suppliers	27	27	-	-
Salaries and contributions payable	14	14	-	-
Due to State Agency for Deposit insurance and Bank Rehabilitation for saving deposits insurance	8	8	-	-
Accrued expenses	1	1	-	-
Provisions for payments of deposits previously credited to income	5	5	-	-
Liabilities in respect of credit card operations	1	1	-	-
Advances received	2	2	-	-
Value added tax payable	2	2	-	-
Liabilities in respect of opening of accounts	4	4	-	-
	121	**238**	**(117)**	

31. SHAREHOLDERS' EQUITY AND RESERVES

SHARE CAPITAL

As of 31 December 2018, the share capital of the Bank consisted of 19,968,774 ordinary shares (2017: 19,968,774 ordinary shares), with a nominal value of HRK 200, which represents HRK 3,993,755 thousand of equity capital of the bank (2017: HRK 3,993,755 thousand). All the ordinary shares provide equal rights and carry one vote per share.

There were no dividend payments during 2018 and 2017.
During 2019, the bank will pay out dividends in the amount of HRK 491 million.

SHARE PREMIUM

The premium on issued shares consists of premiums arising from the issuance of new ordinary shares from previous years in the amount of HRK 167 million and from the premiums arising from the purchase of own ordinary shares from previous years in the amount of HRK 4 million.

(All amounts are expressed in millions of HRK)

31. SHAREHOLDERS' EQUITY AND RESERVES (CONTINUED)

RESERVES

Legal and statutory reserves

	31.12.2018	31.12.2017
Legal reserves	43	41
Statutory reserves	44	41
	87	**82**

The legal reserve has been formed in accordance with Croatian law, which requires 5% of the profit for the year to be transferred to this reserve until it reaches 5% of the issued share capital. The legal reserve, in the amount of up to 5% of the issued share capital, can be utilised to cover current and prior year losses. In addition, in accordance with the Bank's Statute, an additional reserve equivalent to the legal reserve has been created in an amount of up to 5% of the share capital for the purpose of covering impairment losses and for the same purposes as the legal reserve.

Fair value reserves

	31.12.2018	31.12.2017
Reserve for measuring fair value of financial asset at fair value through other comprehensive income	97	54
Expected credit loss on financial asset at fair value through other comprehensive income FVTOCI (Note 18)	11	-
Total fair value reserve	**108**	**54**

Movement in the fair value reserves is as following:

	2018	2017
Balance at 31 December prior year	54	40
Adjustments on initial application of IFRS 9	(5)	
Balance at 1 January	**49**	**40**
Acquired by merger of Splitska banka d.d. – before tax	62	-
Acquired by merger of Splitska banka d.d. – tax	(11)	-
Net new approvals / (termination of recognition)	(4)	14
Tax	1	-
Balance as at 31 December 2018	**97**	**54**

Fair value reserve comprises unrealized gains and losses from the change in the fair value of financial assets through other comprehensive income, which are stated net of the amount of deferred taxes.

(All amounts are expressed in millions of HRK)

31. SHAREHOLDERS' EQUITY AND RESERVES (CONTINUED)

RESERVES (CONTINUED)

Other reserves

	31.12.2018.	31.12.2017.
General banking risks reserves	106	106
Other reserves	3	3
Total other assets	**109**	**109**

According to earlier CNB regulations, the Bank had to create a reserve for general banking risks if the increase of relevant on- and off-balance-sheet exposures at the statement-of-financial-position date exceeded 15% of the prior year-end exposures.

The general banking risk reserve was not transferable to retained earnings or other reserves, or otherwise distributable until the expiry of a consecutive three-year period from the period in which the Bank reported an annual growth over 15%. As the three-year period expired in 2011, the reserve was available to be utilised by the Bank as the Bank's retained earnings.

Other reserves
Other reserves of the Bank refer to the funds collected on the bonds of the Republic of Croatia (Big Bonds from 2004).

RETAINED EARNINGS

Retained earnings refer to the cumulative gains of the Bank retained in previous years adjusted for the effects of applying IFRS 9 at 1 January 2018 and increased for the amount of retained earnings acquired by merger of Splitska banka d.d. on 1 December 2018 and for the amount of profit from the current year. Movement of retained earnings is presented in Statement of changes in shareholders' equity.

32. CONTINGENT LIABILITIES AND COMMITMENTS

	31.12.2018	31.12.2017
Guarantees	1,517	161
Letters of credit	48	8
Approved unused facilities	6,057	1,232
Other	9	-
	7,631	**1,401**
Provisions	(109)	(20)
	7,522	**1,381**

(All amounts are expressed in millions of HRK)

32. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Movement of gross carrying amount:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 December 2017	1,397	-	4	-	1,401
Adjustments on initial application of IFRS 9	(88)	50	38	-	-
Balance as at 1 January 2018	**1,309**	**50**	**42**	**-**	**1,401**
Net new approvals / (termination of recognition)	400	(72)	(9)	-	319
Transfer to Stage 1	60	(45)	(15)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	(4)	(1)	5	-	-
Acquired by merger of Splitska banka d.d.	5,745	68	98	-	5,911
Balance as at 31 December 2018	**7,510**	**-**	**121**	**-**	**7,631**

Movement in impairment allowance:

	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 December 2017	18	-	2	-	20
Adjustments on initial application of IFRS 9	(8)	5	3	-	-
Balance as at 1 January 2018	**10**	**5**	**5**	**-**	**20**
Net new approvals / (termination of recognition)	4	(1)	11	-	14
Transfer to Stage 1	6	(4)	(2)	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Acquired by merger of Splitska banka d.d.	31	-	44	-	75
Balance as at 31 December 2018	**51**	**-**	**58**	**-**	**109**

Movement in impairment allowance in 2017 is as follows:

	2017
Balance as at 1 January	14
Impairment	6
Balance as at 31 December 2017	**20**

(All amounts are expressed in millions of HRK)

33. CASH AND CASH EQUIVALENTS

For the purposes of cash flow statements, cash and cash equivalent comprise the following balances with original maturities of up to 90 days:

	31.12.2018	**31.12.2017**
Cash and balances with Croatian National Bank (*Note 14*)	5,887	2,242
Loans and receivables from banks *(Note 15)*	1,009	117
	6,896	**2,359**

34. CAPITAL RISK MANAGEMENT

The Croatian National Bank ("the CNB"), as the Bank's principal regulator, determines and supervises the capital requirements of the Bank as a whole. The amount of capital allocated to individual operations is based primarily on regulatory requirements. The allocation of capital to specific activities is performed independent of individuals in charge of those activities.

Although the maximisation of return on the risk-weighted capital is the key basis used in determining the allocation of capital to the Bank's individual activities, it is not the only basis in the decision-making process. Synergies with other activities, availability of the Management Board and other resources, as well as the alignment of the activities with the Bank's long-term strategic goals are also considered. The directors review the Bank's capital management and allocation policies regularly.

The capital adequacy ratio is determined as the ratio of the regulatory capital to the risk-weighted assets, risk exposures, the overall uncovered exposures, foreign exchange risk and operational risk.

The Bank's regulatory capital amounts to HRK 5,288 million (31 December 2017: HRK 1,734 millions) and is composed entirely of the Common Equity Tier 1 (CET1) capital. The capital adequacy ratio is 20,2% (2017: 16,9%). The 2018 data were not audited by the date of issue of these financial statements.

The Bank has to calculate the regulatory capital and the capital adequacy in accordance with the requirements of the European Banking Authority (EBA) and the national discretionary rules of the CNB, which were as follows (the information about the regulatory capital, risk-weighted assets and other risk components were not audited as of the date of issue of these financial statements):

(All amounts are expressed in millions of HRK)

34. CAPITAL RISK MANAGEMENT (CONTINUED)

Regulatory capital

	31.12.2018	31.12.2017
Share capital	3,994	3,994
Share premium	171	171
Retained earnings	975	627
Other reserves	304	191
Transition adjustments (IFRS 9)	55	-
Deductions under EBA requirements	(211)	(3,249)
Common Equity Tier 1 capital	**5,288**	**1,734**
Additional Tier 1 capital	-	-
Core capital	**5,288**	**1,734**
Tier 2 capital	-	-
Regulatory capital	**5,288**	**1,734**
Risk-weighted assets and other risk components	**26,195**	**10,239**
Common Equity Tier 1 capital ratio	20.2%	16.9%
Tier 1 ratio	20.2%	16.9%
Total capital ratio	20.2%	16.9%

35. CREDIT RISK

The Bank is exposed to credit risk, which is the risk that the counterparty will not be able to settle in full the amounts owed as they fall due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or a group of borrowers and industry segments. The Bank monitors the risks and reviews them on an annual or more frequent basis. The exposure to credit risk for all assets is limited by the carrying amount of each asset reported in the statement of financial position. The exposure to credit risk of derivatives which relate to foreign currencies is equal to the sum of the positive current market value of the underlying contract and the potential exposure to the counterparty risk. Additionally, the Bank is exposed to credit risk on off-balance-sheet items, which include undrawn commitments to extend credit, issued guarantees and letters of credit.

The Bank manages its exposure to credit risk by analysing regularly the ability of the borrowers and potential borrowers to repay interest and principal and by revising the credit limits, where necessary, or obtaining collateral, corporate or personal guarantees.

Collateral and other credit enhancements

As at 31 December 2018 fair value of collaterals held as credit enhancements for loans and advances and contingent liabilities amounts to HRK 23 689 million.
Amount and type of necessary collaterals depends on the credit risk assessment of the counterparty.
The Bank implemented guidelines for acceptability of collateral type and assessment parameters.

Main type of collaterals:

- Crediting corporate customers: cash, government guarantees, bank guarantees, mortgage lien and quoted shares
- Crediting retail customers: cash, mortgage lien on real-estate

The Bank accepts guarantees from mother companies as well (corporate guarantees, support letters etc.) for loans approved to subsidiaries, however these types of collaterals are not under the scope of previous review. The Bank also accepts vehicles, inventory, receivables from suppliers and insurance policies as lien, however these types of collaterals are not considered in the afore disclosed amount.

For real-estate loans, LTV is set at 80% with option up to maximum of 95% with further 45% maximum of total placements for "prime" locations in Zagreb, Adriatic coast and capitals of regions in Republic of Croatia.
LTV up to maximum 80% is prescribed for loans with FX clause and for loans for all other locations. Mortgage loans are limited to a maximum up to 62.5% LTV.

The Managements monitors market value of collaterals, seeks additional collaterals in accordance with associated contracts and monitors market value of accepted collaterals during their review of provision adequacy for impairment.
Amounts collected from lien on collateral are used for servicing due liabilities.

(All amounts are expressed in millions of HRK)

35. CREDIT RISK (CONTINUED)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	31.12.2018	31.12.2017
ASSETS		
Cash and balances with the Croatian National Bank	7,547	2,892
Loans and receivables from banks	1,026	117
Financial assets at fair value through profit or loss	11	3
Loans and receivables from customers	25,539	10,739
Of which legal entity	12,418	4,188
Of which individuals	15,666	7,833
Less: impairment allowance	(2,545)	(1,282)
Financial assets that are valued through other comprehensive income	5,265	1,738
Financial assets measured at amortized cost	287	39
Other asset	103	44
	39,778	**15,572**

Exposure to credit risk for commitments and contingencies is as follows:

	31.12.2018	31.12.2017
Guarantees and letters of credit	1,565	169
Approved unused facilities and other liabilities	6,057	1,232
Other	9	-
	7,631	**1,401**

Bank's exposure to credit risk is provided above without taking into account any pledge or collateral.

Concentration of Assets and Liabilities Relating to a Group of Related Parties - Republic of Croatia

	Note	31.12.2018	31.12.2017
Current account with the Croatian National Bank	14	3,759	1,309
Obligatory reserve with the Croatian National Bank	14	2,481	927
Treasury bills of the Ministry of Finance	18	1,898	300
Bonds of the Ministry of Finance	18	2,747	690
Loans and receivables from customers	17	1,764	354
Total asset:		**12,649**	**3,580**
Other borrowed funds	27 i 28	1,333	990
Total liabilities:		**1,333**	**990**

(All amounts are expressed in millions of HRK)

35. CREDIT RISK (CONTINUED)

Concentration of assets with respect to territorial division

	Croatia	Hungary	Austria	Switzerland	Germany	United Kingdom	USA	Other	Total
As at 31 December 2018									
Asset									
Cash and balances with the Croatian National Bank	7,095	768	-	8	-	52	22	423	8,368
Loans and receivables from banks	148	-	5	-	82	98	-	693	1,026
Financial assets at fair value through profit or loss	316	-	-	-	-	-	-	-	316
Loans and receivables from customers	25,358	-	-	-	28	-	40	113	25,539
Equity securities at fair value through profit or loss	6	-	-	-	-	-	72	-	78
Debt securities at fair value through other comprehensive income	4,663	310	-	-	-	-	-	292	5,265
Investments carried at amortized cost	287	-	-	-	-	-	-	-	287
Investments in subsidiaries	323	-	-	-	-	-	-	-	323
Other assets	131	-	-	-	1	-	1	2	135
	38,327	**1,078**	**5**	**8**	**111**	**150**	**135**	**1,523**	**41,337**

	Croatia	Hungary	Austria	Switzerland	Germany	United Kingdom	USA	Other	Total
As at 31 December 2017									
Asset									
Cash and balances with the Croatian National Bank	2,643	13	-	2	282	157	10	62	3,169
Loans and receivables from banks	-	8	-	92	-	17	-	-	117
Financial assets at fair value through profit or loss	11	-	3	-	-	-	-	-	14
Loans and receivables from customers	10,736	-	-	1	-	-	-	2	10,739
Financial assets that are valued through other comprehensive income	1,059	449	-	-	-	-	32	300	1,840
Investments measured at amortized cost	39	-	-	-	-	-	-	-	39
Investments in subsidiaries	3,232	-	-	-	-	-	-	-	3,232
Deferred tax assets	35	-	-	-	-	-	-	-	35
Other assets	69	-	-	-	-	1	3	-	73
	17,824	**470**	**3**	**95**	**282**	**175**	**45**	**364**	**19,258**

35. MARKET RISK

CURRENCY RISK

Currency risk is a risk arising from changes in the exchange rate and causes the fluctuation of a particular financial instrument. The Bank has internally defined the limits for each individual currency position. The currency positions are monitored on a daily basis, and the hedging strategies are used to ensure that positions are maintained within the defined limits.

The open foreign exchange position of the integrated Bank ranged from a minimum of 0.05% to a maximum of 1.37%, while on average it was 0.55%. As of 31 December 2018, the open foreign exchange position of the Bank amounted to HRK 72.3 million, with 98% referring to the EUR position

The tables below analyse the Bank's exposures by principal currencies. The remaining currencies are shown within 'Other currencies'.

Risk Value (VaR) is the maximum expected loss in the trading portfolio with a statistical confidence of 99%, taking into account the one-day holding period of the position. For the calculation of the risk value, the historical simulation method is used: the portfolio profit / loss is calculated based on a window of 252 trading days (in accordance to each scenario), with the risk values representing 99% percentile of the calculated series of profit and loss results. The scenarios are generated based on historical data (historical movements of market factors).

VaR of the integrated Bank ranged from a minimum 140 thousand kuna to a maximum of 246 thousand kunas, averaging HRK 172 thousand kuna. At 31 December 2018 VaR amounted to HRK 172 thousand kuna.

(All amounts are expressed in millions of HRK)

36. MARKET RISK (CONTINUED)

CURRENCY RISK (CONTINUED)

	EUR	Currency clause EUR	Total in EUR	USD	HRK	Other currencies	Total
As at 31 December 2018							
Asset							
Cash and balances with the Croatian National Bank	447	-	447	52	6,924	945	8,368
Loans and receivables from other banks	715	-	715	309	2	-	1,026
Financial assets at fair value through profit or loss	63	91	154	-	162	-	316
Loans and receivables from customers	2,406	12,475	14,881	97	10,480	81	25,539
Equity securities at fair value through other comprehensive income	-	-	-	72	6	-	78
Debt securities at fair value through other comprehensive income	1,610	12	1,622	461	3,173	9	5,265
Investment at amortized cost	-	-	-	66	220	1	287
Investment in subsidiaries	-	-	-	-	323	-	323
Property and equipment	-	-	-	-	434	-	434
Investment property	-	-	-	-	29	-	29
Intangible asset	-	-	-	-	232	-	232
Goodwill	-	-	-	-	-	-	-
Other Asset	-	14	14	-	120	1	135
Total Asset	**5,241**	**12,592**	**17,833**	**1,057**	**22,105**	**1,037**	**42,032**
Liabilities							
Amounts due to other banks	543	7	550	1	102	-	653
Amounts due to customers	16,043	85	16,128	2125	14,114	693	33,060
Other borrowed funds	-	696	696	-	632	-	1,328
Financial liabilities at fair value through profit or loss	3	-	3	-	10	-	13
Provisions	-	15	15	-	524	-	539
Deferred tax liabilities	-	-	-	-	34	-	34
Current liability for income tax	-	-	-	-	36	-	36
Other Liabilities	-	22	22	-	404	8	434
Total Liabilities	**16,589**	**825**	**17,414**	**2,126**	**15,856**	**701**	**36,097**
Net foreign exchange position	**(11,348)**	**11,767**	**419**	**(1,069)**	**6,249**	**336**	**5,935**

(All amounts are expressed in millions of HRK)

36. MARKET RISK (CONTINUED)

CURRENCY RISK (CONTINUED)

	EUR	Currency clause EUR	Total in EUR	USD	HRK	Other currencies	Total
As at 31 December 2017							
Asset							
Cash and balances with the Croatian National Bank	1,083	-	1,083	18	1,990	78	3,169
Loans and receivables from other banks	8	-	8	18	-	91	117
Financial assets at fair value through profit or loss	-	-	-	-	14	-	14
Loans and receivables from customers	716	5,901	6,617	58	4,055	9	10,739
Financial assets at fair value through other comprehensive income	566	60	626	508	706	-	1,840
Investments at amortized cost	-	-	-	-	39	-	39
Investment in subsidiaries	-	-	-	-	3,232	-	3,232
Property and equipment	-	-	-	-	266	-	266
Investment property	-	-	-	-	-	-	-
Intangible asset	-	-	-	-	32	-	32
Goodwill	-	-	-	-	43		43
Deferred tax asset	-	-	-	-	35	-	35
Other asset	5	-	5	-	68	-	73
Total Asset	**2,378**	**5,961**	**8,339**	**602**	**10,480**	**178**	**19,599**
Liabilities							
Amounts due to other banks	15	-	15	-	12	-	27
Amounts due to customers	6,879	11	6,890	1,193	4,833	267	13,183
Other borrowed funds	3	738	741	-	209	-	950
Financial liabilities at fair value through profit or loss	-	-	-	-	2	-	2
Provisions	-	-	-	-	254	-	254
Current liability for income tax	-	-	-	-	25	-	25
Other Liabilities	8	1	9	1	110	1	121
Total Liabilities	**6,905**	**750**	**7,655**	**1,194**	**5,445**	**268**	**14,562**
Net foreign exchange position	**(4,527)**	**5,211**	**684**	**(592)**	**5,035**	**(90)**	**5,037**

36. MARKET RISK (CONTINUED)

INTEREST RATE RISK

Interest-rate sensitivity of assets and liabilities

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest on a financial instrument remains fixed indicates the extent of the exposure to interest rate risk. The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity of its financial instruments or, for instruments that reprice to a market rate of interest before maturity, the next repricing date. It is the policy of the Bank to manage the exposure to fluctuations in the net interest income arising from changes in interest rates by the degree of repricing mismatch in the statement of financial position. Those assets and liabilities that do not have a contractual maturity date or are not interest bearing are grouped in the 'Non-interest bearing' category. Earnings will also be affected by the currency of the assets and liabilities. The Bank has a significant portion of interest-bearing assets and liabilities denominated in or pegged to foreign currency.

Interest-rate risk management as required by the Croatian National Bank

Pursuant to the Decision on managing banking-book interest rate risk, the Bank has the obligation to measure and evaluate the negative impact of interest rate risk in the banking book on the interest income or gains and economic value in the banking book. For the purpose of Croatian National Bank reporting, and related to the aspect of impact on the economic value in the banking book, the Bank is obliged to apply the higher level of:

1) standard interest-rate shock represented by a parallel positive or negative shift in interest rates by 200 basis points, applying the lower level of rate of 0%, except for the cases in which there is negative interest rate or
2) internally calculated changes of economic value calculated as 1st i 99th percentile attributable daily changes of interest rates during the period of 5 years scaled to a year that lasts 240 days

According to CNB regulations, ratio of change of economic value of the banking book and regulatory capital must not exceed 20%. The Bank has calculated that the internally calculated change of the value calculated using standard interest-rate shock amounts to 3.5% of the regulatory capital (2017: change of interest rates for the 200 basis points resulted in the change of the economic value of the banking book by 2.88%). The Bank has calculated that the negative impact of the interest rate risk in the banking book on the net interest income in the period of one year amounts to HRK 37 million kunas.

Interest-rate risk management as required by the OTP Group

According to the OTP bank Nyrt, Hungary methodology, the Bank estimates the impact of the internally calculated interest rate stress on the economic value of its assets and liabilities by applying the minimum zero rate (0%), except where the interest rate may be negative. The Bank applies internally developed sensitivity assumptions for items with unspecified maturities (e.g. demand deposits), and only unfavourable interest rate movements are considered. The magnitude of the interest rate shock for an individual currency is the higher of the standard interest rate shock (200 bp) and the internally calculated shock, determined as the 1st and 99th percentile of the interest rate change over a period of nine years.

(All amounts are expressed in millions of HRK)

36. MARKET RISK (CONTINUED)

INTEREST RATE RISK (CONTINUED)
Interest-rate sensitivity of assets and liabilities (continued)

	Up to 1 month	1 - 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2018						
Asset						
Cash and balances with the Croatian National Bank	1,307	-	-	-	7,061	8,368
Loans and receivables from other banks	1,026	-	-	-	-	1,026
Financial assets at fair value through profit or loss	-	-	5	153	158	316
Loans and receivables from customers	8,165	1,401	5,299	10,464	210	25,539
Equity securities at fair value through other comprehensive income	-	-	-	-	78	78
Debt securities at fair value through other comprehensive income	-	1,348	689	3,191	37	5,265
Investment at amortized cost	-	-	-	287	-	287
Investment in subsidiaries	-	-	-	-	323	323
Property and equipment	-	-	-	-	434	434
Investment property	-	-	-	-	29	29
Intangible asset	-	-	-	-	232	232
Goodwill	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-
Other asset	-	-	-	-	135	135
Total Asset	**10,498**	**2,749**	**5,993**	**14,095**	**8,697**	**42,032**
Liabilities						
Amounts due to other banks	110	445	33	58	7	653
Amounts due to customers	28,224	1,267	3,069	423	77	33,060
Other borrowed funds	9	129	203	986	1	1,328
Financial liabilities at fair value through profit or loss	-	-	-	-	13	13
Provisions	-	-	-	-	539	539
Deferred tax liability	-	-	-	-	34	34
Current liability for income tax	-	-	-	-	36	36
Other liabilities	-	-	-	-	434	434
Total Liabilities	**28,343**	**1,841**	**3,305**	**1,467**	**1,141**	**36,097**
On-balance sheet interest rate gap	**(17,845)**	**908**	**2,688**	**12,628**	**7,556**	**5,935**

(All amounts are expressed in millions of HRK)

36. MARKET RISK (CONTINUED)

INTEREST RATE RISK (CONTINUED)

Interest-rate sensitivity of assets and liabilities (continued)

	Up to 1 month	1 - 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2017						
Asset						
Cash and balances with the Croatian National Bank	656	-	-	-	2,513	3,169
Loans and receivables from other banks	117	-	-	-	-	117
Financial assets at fair value through profit or loss	-	-	-	-	14	14
Loans and receivables from customers	4,904	431	1,243	4,124	37	10,739
Financial assets at fair value through other comprehensive income	6	2	444	1,265	123	1,840
Investments at amortized cost	-	-	-	39	-	39
Investment in subsidiaries	-	-	-	-	3,232	3,232
Property and equipment	-	-	-	-	266	266
Investment property	-	-	-	-	-	-
Intangible asset	-	-	-	-	32	32
Goodwill	-	-	-	-	43	43
Deferred tax asset	-	-	-	-	35	35
Other asset	-	-	-	-	73	73
Total Asset	**5,683**	**433**	**1,687**	**5,428**	**6,368**	**19,599**
Liabilities						
Amounts due to other banks	27	-	-	-	-	27
Amounts due to customers	8,581	1,404	2,998	177	23	13,183
Other borrowed funds	2	123	103	714	8	950
Financial liabilities at fair value through profit or loss	-	-	-	-	2	2
Provisions	-	-	-	-	254	254
Current liability for income tax	-	-	-	-	25	25
Other Liabilities	-	-	-	-	121	121
Total Liabilities	**8,610**	**1,527**	**3,101**	**891**	**433**	**14,562**
On-balance sheet interest rate gap	**(2,927)**	**(1,094)**	**(1,414)**	**4,537**	**5,935**	**5,037**

(All amounts are expressed in millions of HRK)

36. MARKET RISK (CONTINUED)

INTEREST RATE RISK (CONTINUED)

The table below summarises the year-end average effective interest rate for monetary financial instruments:

	Interest rate 2018	Interest rate 2017
	%	%
Cash and balances with the Croatian National Bank	0.0	0.0
Loans and receivables from other banks	0.4	0.8
Loans and receivables from other banks	4.4	5.0
Debt securities at fair value through other comprehensive income	1.6	2.5
Investment at amortized cost	4.4	6.8
Amounts due to other banks	0.0	0.0
Amounts due to customers	0.2	0.3
Other borrowed funds	1.5	1.8

36. LIQUIDITY RISK

The Bank is exposed to daily calls for the payment which are settled from available cash resources consisting of overnight deposits, current accounts, matured deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all the demands, as experience has shown that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The management sets limits for the minimum portion of maturing funds available to meet such calls and the minimum level of interbank and other borrowing facilities that should be available to cover unexpected levels of demand. The table below analyses the assets and liabilities of the Bank classified into relevant maturity groupings based on the remaining period to contractual maturity from the date of the statement of financial position.

(All amounts are expressed in millions of HRK)

37. LIQUIDITY RISK (CONTINUED)

As at 31 December 2018	Up to 1 month	1 - 3 months	3 months to 1 year	1 – 3 year	Over 3 years	Undefined	Total
Asset							
Cash and balances with the Croatian National Bank	8,368	-	-	-	-	-	8,368
Loans and receivables from other banks	1,026	-	-	-	-	-	1,026
Financial assets at fair value through profit or loss	316	-	-	-	-	-	316
Loans and receivables from customers	6,797	727	2,741	3,896	11,378	-	25,539
Equity securities at fair value through other comprehensive income	-	-	-	-	78	-	78
Debt securities at fair value through other comprehensive income	32	1,354	692	901	2,286	-	5,265
Investment at amortized cost	68	-	-	10	209	-	287
Investment in subsidiaries	-	-	-	-	-	323	323
Property and equipment	-	-	-	-	-	434	434
Investment property	-	-	-	-	-	29	29
Intangible asset	-	-	-	-	-	232	232
Goodwill	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-
Other asset	120	-	15	-	-	-	135
Total Asset	**16,727**	**2,081**	**3,448**	**4,807**	**13,951**	**1,018**	**42,032**
Liabilities							
Amounts due to other banks	653	-	-	-	-	-	653
Amounts due to customers	24,124	1,899	5,625	889	523	-	33,060
Other borrowed funds	5	-	-	7	1,316	-	1,328
Financial liabilities at fair value through profit or loss	10	1	2	-	-	-	13
Provisions	253	23	16	17	16	214	539
Deferred tax liability	-	-	-	-	-	34	34
Current liability for income tax	36	-	-	-	-	-	36
Other liabilities	434	-	-	-	-	-	434
Total Liabilities	**25,515**	**1,923**	**5,643**	**913**	**1,855**	**248**	**36,097**
Net maturity gap	**(8,788)**	**158**	**(2,195)**	**3,894**	**12,096**	**770**	**5,935**

37. LIQUIDITY RISK (CONTINUED)

As at 31 December 2017	Up to 1 month	1 - 3 months	3 months to 1 year	1 – 3 year	Over 3 years	Undefined	Total
Asset							
Cash and balances with the Croatian National Bank	2,802	101	232	20	14	-	3,169
Loans and receivables from other banks	117	-	-	-	-	-	117
Financial assets at fair value through profit or loss	14	-	-	-	-	-	14
Loans and receivables from customers	1,361	387	1,457	2,305	5,229	-	10,739
Financial assets at fair value through other comprehensive income	123	-	433	559	725	-	1,840
Investments at amortized cost	39	-	-	-	-	-	39
Investment in subsidiaries	-	-	-	-	-	3,232	3,232
Property and equipment	-	-	-	-	-	266	266
Investment property	-	-	-	-	-	-	-
Intangible asset	-	-	-	-	-	32	32
Goodwill	-	-	-	-	-	43	43
Deferred tax asset	-	-	-	-	-	35	35
Other asset	58	-	15	-	-	-	73
Total Asset	**4,514**	**488**	**2,137**	**2,884**	**5,968**	**3,608**	**19,599**
Liabilities							
Amounts due to other banks	27	-	-	-	-	-	27
Amounts due to customers	7,966	1,439	3,294	280	204	-	13,183
Other borrowed funds	47	30	115	245	513	-	950
Financial liabilities at fair value through profit or loss	2	-	-	-	-	-	2
Provisions	-	-	-	-	-	254	254
Current liability for income tax	25	-	-	-	-	-	25
Other Liabilities	121	-	-	-	-	-	121
Total liabilities	**8,188**	**1,469**	**3,409**	**525**	**717**	**254**	**14,562**
Net maturity gap	**(3,674)**	**(981)**	**(1,272)**	**2,359**	**5,251**	**3,354**	**5,037**

37. LIQUIDITY RISK (CONTINUED)

The matching and control of mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Bank. It is not usual for banks ever to be completely matched because of the often uncertain timing and the varied nature of transactions. An unmatched position potentially improves profitability, but may also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest–bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

37. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequately defined or improperly executed business process, human error, inappropriate system operation or as a result of external factors, including legal risk.

The Bank's activities in the area of managing operational risk are in line with the applicable regulations and good operational risk management practice, and are regularly revised to reflect any changes therein. Framework for managing operational risk at the Bank is provided by the Operational Risk Management Rules, the Operational Risk Collection Procedure as well as the Procedure for Managing Key Risk Indicators.

The Bank defined the business continuity management strategy: Business Continuity Plan, as well as the its Crisis Communication Handbook that define the system supporting the continuity of operations in cases where they become temporarily discontinued as a result of an exceptional event.

Operational risks are managed in a decentralised manner: the responsibility for managing operational risks rests with the managers and staff in charge of those organisational units in which operational risks are inherent to the activities performed by those units. They best understand, control and monitor the processes taking place in their organisational units and their duty is to ensure that the processes they manage follow appropriate procedures and are safe from the aspect of incurrence of operational risks. Operational risk management activities that are a joint responsibility of all the Bank's organisational units include the following: identification, measurement, assessment and analysis, as well as monitoring operational risks.

Department for Operational Risks and Business Continuity Management operates as an independent unit within the Risk Management Sector, Department for Operational Risk Management and is responsible for suggesting the set-up of the operational risk management environment and the rules governing this area, for collecting data about losses caused by operational risks, conducting analysis, documenting and preparing reports on operational risk events and providing assistance and support to all organizational units of the Bank in understanding the structured approach to managing operational risks.

In line with the decentralised operational risk management methodology, process owners are responsible for consistent identification and assessment of operational risks, followed by the establishment and implementation of measures for managing risks identified in the respective areas and processes for which they are responsible.

In order to obtain a full view of the Bank's exposure to the risk, an Operational Risk Management Committee has been established.

The Bank applies a simplified approach in determining the capital requirements for operational risk.

38. RELATED PARTY TRANSACTIONS

The Bank is the parent of the OTP Bank Group in Croatia. The Bank considers to be immediately related to its key shareholders and their subsidiaries; its subsidiaries and associates; the investment funds managed by one of its subsidiaries, OTP invest d.o.o.; Supervisory Board members, Management Board members; close family members of the Management Board members; and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members, in accordance with the definitions contained International Accounting Standard 24 "Related Party Disclosures" (IAS 24).

As at 31 December 2018, the Bank has shares in the following open investment funds managed by OTP Invest d.o.o: OTP uravnoteženi fond, OTP indeksni fond, OTP euro novčani fond, OTP Absolute fond, OTP Short-term bond fond i OTP Novčani fond in the amount of HRK 103 million (2017: HRK 77 million).

The year-end outstanding balances, and the underlying related party transactions during the year, except for investments in subsidiaries (Note 20), were as follows:

	31.12.2018		31.12.2017	
	Receivables	**Liabilities**	**Receivables**	**Liabilities**
OTP bank Nyrt Hungary	773	463	24	13
OTP Bank Romania S.A.	7			
Vojvođanska banka	-	1	-	-
OTP Nekretnine d.o.o.	-	1	-	1
OTP Invest d.o.o.	-	2	1	3
OTP Aventin d.o.o.	24	-	83	1
OTP Leasing d.d.	40	105	19	2
Cresco d.o.o.	10	-	-	1
Splitska banka d.d.*	-	-	-	1
OTP Savjetovanje d.o.o.	-	1	-	-
SB Zgrada d.o.o.	-	4	-	-
SB Leasing d.o.o. u likvidaciji.	92	19	-	-
OTP Osiguranje d.d.	-	41	-	-
Jet Soll	-	-	-	-
OTP Kartyagyarto KFT	-	-	-	-
	946	637	127	22

39. RELATED PARTY TRANSACTIONS (CONTINUED)

	2018		2017	
	Income	Expenses	Income	Expenses
OTP bank Nyrt Hungary	145	16	2	73
Vojvođanska banka	-	-	-	-
OTP Nekretnine d.o.o.	-	5	-	3
OTP Invest d.o.o.	-	-	-	-
OTP Aventin d.o.o.	4	-	5	-
OTP Leasing d.d.	3	1	1	1
Cresco d.o.o.	-	-	-	-
Splitska banka d.d.*	5	-	2	-
OTP Savjetovanje d.o.o.	-	-	-	-
SB Zgrada d.o.o.	-	1	-	-
SB Leasing d.o.o.u likvidaciji	3	1	-	-
OTP Osiguranje d.d.	7	4	-	-
Jet Soll	-	1	-	1
OTP Kartyagyarto KFT	-	1	-	1
	167	**30**	**10**	**79**

Revenue gained and expenses incurred in transactions with Splitska banka d.d. and its subsidiaries are presented for the period from May 2, 2017. The income and expenses of Splitska banka d.d. presented in 2018 refer to the period from 1 January 2018 to 30 November 2018, since Splitska banka d.d. was legally merged to the Bank on 1 December 2018 and was deleted from the court registry on that date as independent business entity.

Remuneration paid to key management personnel for 2018 amounted to HRK 9 million (2017: HRK 8 million) and are comprised of short-term benefits. Included in key management personnel are Management Board members.

Remuneration paid to Supervisory Board members for 2018 amounted to HRK 1 million (2017: HRK 1 million).

39. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

The Bank manages funds on behalf of third parties, which consist mainly of loans provided by one legal person to another through the Bank as agent. These assets are accounted for separately from those of the Bank, and the Bank has no liability in connection with these transactions. The Bank charges a fee for these services.

At 31 December 2018, funds managed by the Bank on behalf of third parties amounted to HRK 195 million (2017: HRK 72 million).

As at 31 December 2018, the total portfolio of securities of domestic and foreign clients the Bank has under custody, including domestic pension and investment funds, amounted to HRK 52,545 million (2017: HRK 419 million), of which HRK 740 million refer to Bank's subsidiaries OTP Invest and OTP Insurance (2017: HRK 498 million - OTP Invest securities portfolio).

40. FAIR VALUE OF FINANCIAL ASSET AND LIABILITIES

The fair value of financial instruments is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's-length transaction. Where available, fair value is based on quoted market prices. However, market prices for a significant portion of financial instruments of the Bank are not readily available. In circumstances where quoted market prices are not readily available, fair value is estimated using alternative techniques or financial assets are measured at cost, amortised cost or indexed cost.

Valuation techniques and assumptions for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined by reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional
- derivatives, and option pricing models for optional derivatives; foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates under contracts with similar maturities; interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from the prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(All amounts are expressed in millions of HRK)

41. FAIR VALUE OF FINANCIAL ASSET AND LIABILITIES (CONTINUED)

2018

	Stage 1	Stage 2	Stage 3	Total
Financial asset at fair value through profit or loss				
Units in open-end investment funds	-	103	-	103
Bonds of Republic of Croatia (listed)	160	-	-	160
Currency swap and forward contracts	-	4	-	4
Interest rate swap	-	7	-	7
Loans	-	31	11	42
	160	**145**	**11**	**316**
Financial asset at fair value through other comprehensive income				
Listed investments				
Debt securities of Republic of Croatia	2,747	-	-	2,747
Debt securities of Foreign countries	620	-	-	620
Equity securities	27	-	47	74
Unlisted investments				
Treasury bills of Republic of Croatia	-	1,898	-	1,898
Equity securities	-	-	4	4
	3,394	**1,898**	**51**	**5,343**
	3,554	**2,043**	**62**	**5,659**
Financial liabilities at fair value through profit or loss				
Currency swap and forward contracts	-	10	-	10
Interest rate swap	-	3	-	3
	-	**13**	**-**	**13**
	3,554	**2,030**	**62**	**5,646**

(All amounts are expressed in millions of HRK)

41. FAIR VALUE OF FINANCIAL ASSET AND LIABILITIES (CONTINUED)

2017

	Stage 1	Stage 2	Stage 3	Total
Financial assets at fair value through profit or loss				
Units in open-end investment funds	-	11	-	11
Bonds of Republic of Croatia (listed)	-	-	-	-
Currency swap and forward contracts		3		3
Interest rate swap	-	-	-	-
Loans	-	-	-	-
	-	**14**	**-**	**14**
Financial asset at fair value through other comprehensive income				
Listed investments				
Debt securities of Republic of Croatia	*690*	-	-	*690*
Debt securities of Foreign countries	*748*	-	-	*748*
Equity securities	*23*	-	*11*	*34*
Unlisted investments				
Treasury bills of Republic of Croatia	-	*300*	-	*300*
Equity securities	-	-	*2*	*2*
Units in open-end investment funds	-	*66*	-	*66*
	1,461	**366**	**13**	**1,840**
	1,461	**380**	**13**	**1,854**
Financial liabilities at fair value through profit or loss				
Currency swap and forward contracts	-	2	-	2
Interest rate swap	-	-	-	-
	-	**2**	**-**	**2**
	1,461	**378**	**13**	**1,852**

(All amounts are expressed in millions of HRK)

41. FAIR VALUE OF FINANCIAL ASSET AND LIABILITIES (CONTINUED)

Fair value of financial assets and financial liabilities of the Bank measured at fair value

Some of the Bank's financial assets are measured at fair value at the end of each reporting period. The table below provides the information about the fair value measurement of financial assets and liabilities, together with the valuation techniques and the inputs to the techniques used.

Financial asset / financial liabilities	Fair value as at 2018	Fair value as at 2017	Fair value level	Valuation method(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Share in open-end investment funds (note 16)	Which are held for trading: Asset: 103 Valued through other comprehensive income : Asset: -	Which are held for trading: Asset: 11 Valued through other comprehensive income: Asset: 66	Stage 2	The purchased purchase price by the fund established on the basis of net assets of the funds	Not applicable	Not applicable
2) Currency swaps and forward contracts (Note 16)	Asset: 4 Liabilities: 10	Asset: 3 Liabilities: 2	Stage 2	Discounted cash flow. Future cash flow is estimated by the forward rates available at the end of the reporting period and contracted forward rates, discounted using a rate reflecting the credit risk of various other parties to the contract.	Not applicable	Not applicable
3) Interest rate swap (Note 16)	<u>Held for trading</u> Asset: 7 Liabilities: - <u>Fair value protection:</u> Asset: - Liabilities: 3 <u>Cash flow protection:</u> Asset: - Liabilities: -	<u>Held for trading</u> Asset: - Liabilities: - <u>Fair value protection:</u> Asset: - Liabilities: - <u>Cash flow protection:</u> Asset: - Liabilities: -	Stage 2	Discounted cash flow. Future cash flow is estimated by forward rates (from the yield curve available at the end of the reporting period) and contracted interest rates, discounted using a rate that reflects the credit risk of various other parties to the contract.	Not applicable	Not applicable
4) Debt securities listed (Note 16 and Note 18)	Debt securities held for trading and are quoted in Croatia - from the Republic of Croatia: 160	Debt securities held for trading and are quoted in Croatia - from the Republic of Croatia: -	Stage 1	Prices quoted on an active market.	Not applicable	Not applicable
	Debt securities that are valued through other comprehensive income - issued by the Republic of Croatia: 2.747 - issued by foreign countries: 620	Debt securities that are valued through other comprehensive income - issued by the Republic of Croatia: 690 - from foreign countries: 748	Stage 1	Prices quoted on an active market.	Not applicable	Not applicable
5) Equity securities (Note 18)	Listed in Croatia - shares: 2 Listed abroad - shares: 25	Listed in Croatia - shares: - Listed abroad shares: 22	Stage 1	Listed prices on the active market	Not applicable	Not applicable
	Listed abroad: - shares: 47	Listed abroad: - shares: 11	Stage 3	Quoted ordinary share prices adjusted for conversion factor and estimated risk	Not applicable	Not applicable
	Not quoted: - shares: 4	Not quoted: - shares: 2	Stage 3	Quoted ordinary share prices adjusted for conversion factor and estimated risk	Not applicable	Not applicable

(All amounts are expressed in millions of HRK)

41. FAIR VALUE OF FINANCIAL ASSET AND LIABILITIES (CONTINUED)

Financial asset / financial liabilities	Fair value as at 2018	Fair value as at 2017	Fair value level	Valuation method(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
6) Debt securities that are not quoted (note 18)	Treasury bills issued by the Republic of Croatia: 1.898	Treasury bills issued by the Republic of Croatia: 300	Stage 2	Discounted cash flow. Discounted by applying a rate that reflects the market interest rate, including the credit risk of various other parties to the contract.	Not applicable	Not applicable
7) Loans (note 16)	Loans: 31	Loans: -	Stage 2	Discounted cash flow. Discounted by applying a rate that reflects the market interest rate, including the credit risk of various other parties to the contract.	Not applicable	Not applicable
	Loans: 11	Loans: -	Stage 3	Discounted cash flow. Discounted by applying the effective interest rate.	Not applicable	Not applicable

Movement of financial instruments at fair value in stage 3

The fair-value hierarchy level of financial instruments is determined at the beginning of each reporting period. The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities reported at fair value:

	Total
Balance as at 31 January 2017	11
Total gains and losses recognized in other comprehensive income	3
Balance as at 31 December 2017	**14**
Acquired by the merger of Splitska banka d.d.	33
Total gains and losses recognized in other comprehensive income	4
Balance as at 31 December 2018	**51**

Financial instruments not measured at fair value

In arriving at the fair value of these financial instruments certain assumptions, estimates and methods were used. Because of the relatively short period to maturity, the fair values of Loans and receivables from banks, Held-to-maturity investments and Amounts due to other banks are considered not to differ significantly from their carrying amounts.

For investments measured at amortized cost, corporate bonds with longer maturities are valued at quoted prices on the market or the price is derived by discounting cash flows, while for corporate bills of exchange, due to shorter maturities, it is assumed that the fair value does not differ significant from their carrying amount.

41. FAIR VALUE OF FINANCIAL ASSET AND LIABILITIES (CONTINUED)

Financial instruments not measured at fair value (continued)

The fair values of Loans and receivables from customers and Amounts due to customers were estimated using the expected future cash flows using as the discount rate the current average market rate for identical loans and deposits. Partly recoverable and fully irrecoverable loans and receivables were not considered in measuring the fair value because their recoverable amount is assumed to reflect their fair price.

Because of the specific features of the credit lines provided by HBOR and their restricted transferability as well as the standardised terms and conditions HBOR applies to all commercial banks, the carrying amount of the credit lines is assumed to reflect their fair values.

Balance as at 31 December 2018 **In millions of HRK**

			Fair value			
	Note	**Carrying amount**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial asset						
Loans and receivables from banks	*15*	1,026	-	-	1,026	**1,026**
Loans and receivables from customers	*17*	25,539	-	-	25,895	**25,895**
Investments at amortization cost	*19*	287	227		66	**293**
Financial liabilities						
Liabilities to other banks	*26*	653	-	-	653	**653**
Liabilities to customers	*27*	33,060	-	-	33,059	**33,059**

41. FAIR VALUE OF FINANCIAL ASSET AND LIABILITIES (CONTINUED)

Financial instruments not measured at fair value (continued)

Balance as at 31 December 2017 **In millions of HRK**

	Note	Carrying amount	Fair value			
			Stage 1	**Stage 2**	**Stage 3**	**Total**
Financial assets						
Loans and receivables from banks	*15*	117	-	-	117	**117**
Loans and receivables from customers	*17*	10,739	-	-	10,913	**10,913**
Investments held to maturity	*19*	39	-	-	39	**39**
Financial liabilities						
Liabilities to other banks	*26*	27	-	-	27	**27**
Liabilities to Customers	*27*	13,183	-	-	13,184	**13,184**

41. SUBSEQUENT EVENTS

On 28 September 2018, the Bank has signed a contract for the purchase of 50% stake in OTP Leasing d.d. with Merkantil Bank Zrt. from Budapest for a price of HRK 47 million. The Croatian National Bank approved the transaction in February 2019. With this purchase, the Bank became the majority owner of OTP Leasing d.d. with a share of 60%.

Pursuant to the Accounting Act of the Republic of Croatia, the Croatian National Bank adopted a Decision on the structure and content of the Annual Financial Statements of credit institutions, Official Gazette 42/18 ("Decision").
In the following tables, the financial statements are presented in accordance with the aforementioned Decision.
The amounts for 2017 are reclassified.

Statement of profit or loss

In millions HRK	In accrodance with Croatian Nationaln Bank decision 2018	Accounting standards for banks in Croatia 2018	Difference 2018	In accrodance with Croatian Nationaln Bank decision 2017	Accounting standards for banks in Croatia 2017	Difference 2017
Interest income	652	646	6	636	634	2
(Interest expense)	(48)	(48)	-	(78)	(78)	-
(Expenses on share capital repayable on demand)	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Fee and commission income	197	197	-	171	171	-
(Fee and commission expense)	(58)	(58)	-	(47)	(47)	-
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	2	2	-	-	-	-
Gains or (-) losses on financial assets and liabilities held for trading, net	116	116	-	(5)	(5)	-
Gains or (-) losses on non-trading financial assets mandatory at fair value through profit or loss, net	(3)	(3)	-	-	-	-
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-	-	-	-
Gains or (-) losses from hedge accounting, net	-	-	-	-	-	-
Exchange differences [gain or (-) loss], net	(34)	(34)	-	82	83	(1)
Gains or (-) losses on derecognition of non-financial assets, net	-	-	-	-	-	-
Other operating income	16	22	(6)	14	16	(2)
(Other operating expenses)	(53)	-	(53)	(43)	-	(43)
Totak operating income, net	**787**	**840**	(53)	**730**	**774**	(44)
(Administrative expenses)	(435)	(488)	53	(368)	(517)	149
(Depreciation)	(49)	(49)	-	(45)	(40)	(5)
Modification gains or (-) losses, net	-	-	-	-	-	-
(Provisions or (-) reversal of provisions)	(17)	(46)	29	(131)	(152)	21
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(29)	-	(29)	(121)	-	(121)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-	-	-	-	-
(Impairment or (-) reversal of impairment on non-financial assets)	(43)	-	(43)	-	-	-
Negative goodwill recognised in profit or loss	-	(43)	43	-	-	-
Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates accounted for using the equity method	-	-	-	-	-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	-	-	-
Profit or (–) loss before tax from continuing operations	**214**	**214**	-	**65**	**65**	-
(Tax expense or (-) income related to profit or loss from continuing operations)	(48)	(48)	-	(13)	(13)	-
Profit or (–) loss after tax from continuing operations	**166**	**166**	-	**52**	**52**	-
Profit or (-) loss after tax from discontinued operations	-	-	-	-	-	-
Profit or (-) loss before tax from discontinued operations	-	-	-	-	-	-
(Tax expense or (-) income related to discontinued operations)	-	-	-	-	-	-
Profit or (-) loss for the year	**166**	**166**	-	**52**	**52**	-
Attributable to minority interest (non-controlling interests)	-	-	-	-	-	-
Attributable to owners of the parent	166	166	-	52	52	-

Statement of other comprehensive income

In millions HRK	In accrodance with Croatian Nationaln Bank decision 2018	Accounting standards for banks in Croatia 2018	Difference 2018	In accrodance with Croatian Nationaln Bank decision 2017	Accounting standards for banks in Croatia 2017	Difference 2017
Profit or (–) loss for the year	**166**	**166**	-	**52**	**52**	-
Other comprehensive income (3. + 15.)	**55**	**55**	-	**14**	**14**	-
Items not to be reclassified to profit or loss (from 4. to 10. + 13. + 14.)	29	29	-	-	-	-
Tangible assets	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Actuarial gains or (-) losses on defined benefit pension plans	-	-	-	-	-	-
Non-current assets and disposal groups held for sale	-	-	-	-	-	-
Share of other recognised income and expense of entities accounted for using the equity method	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	29	29	-	-	-	-
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	-	-	-	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-	-	-	-	-
Income tax relating to items that will not be reclassified	-	-	-	-	-	-
Items that may be reclassified to profit or loss (from 16. to 23.)	**26**	**26**	-	**14**	**14**	-
Hedges of net investments in foreign operations (effective portion)	-	-	-	-	-	-
Foreign currency translation	-	-	-	-	-	-
Cash flow hedges (effective portion)	-	-	-	-	-	-
Hedging instruments (not designated elements)	-	-	-	-	-	-
Debt instruments at fair value through other comprehensive income	36	36	-	17	17	-
Non-current assets and disposal groups held for sale	-	-	-	-	-	-
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-
Income tax relating to items that may be reclassifies to profit or (-) loss	(10)	(10)	-	(3)	(3)	-
Total comprehensive income for the year (1. + 2.; 25. + 26.)	**221**	**221**	-	**66**	**66**	-
Attributable to minority interest (non-controlling interest)	-	-	-	-	-	-
Attributable to owners of the parent	221	221	-	66	66	-

Presentation of the reconciliation of items presented in the Statement of profit or loss and Statement of other comprehensive income presented as part of the Annual Report and items presented in accordance with the CNB Decision:

Penalty interest income is presented as part of Interest income position in accordance with the Decision while in the Annual Report they are presented as part of Other operating income.

In accordance with the Decision part of the Other expenses is presented as part of the Other operating expenses while in the Annual Report all Other expenses and Operating expenses are shown in the position of Other operating expenses.

In accordance with the Decision operating expenses (excluding other operating expenses) and employee expenses are presented in the Administrative expenditure position, while in the Annual Report, employee expenditure and other operating expenses are stated in separate positions.

In accordance with the Decision, the write-off of goodwill is presented in the impairment position on non-financial assets while in the Annual Report the write-off of goodwill is displayed as a separate position.

In accordance with the Decision provisions for off-balance sheet liabilities and provisions for litigations are presented as part of the Provisions item while in the Annual Report the provisions for impairment of financial instruments are presented in that position as well. Impairment of financial instruments in accordance with the Decision is presented in a separate position called Impairment or Reversal of impairment loss on financial assets not measured at fair value through profit or loss.

The following are additional differences in the Statement of profit or loss as reported for year 2017:
In accordance with the Decision, the impairment loss for non-financial assets is stated as part of the Depreciation position while in the Annual Report this amount is presented in the position of Other operating expenses.
In accordance with the Decision, Provision for pensions and other liabilities to employees are stated as part of Provisions, while in the Annual Report they are part of Administrative expenses (employee expenses).

In accordance with the Decision, the exchange rate differences on impairment are expressed as part of Impairment position or the Reversal of impairment losses on financial assets not measured at fair value through profit or loss while in the Annual Report these foreign exchange differences are stated as part of Foreign exchange differences

(All amounts are expressed in millions of HRK)

Statement of financial position

Assets	In accordance with Croatian National Bank decision 2018	Accounting standards for banks in Croatia 2018	Difference 2018	In accordance with Croatian National Bank decision 2017	Accounting standards for banks in Croatia 2017	Difference 2017
Cash, cash balances at central banks and other demand deposits	**5,887**	**9,394**	**(3,507)**	**2,259**	**3,286**	**(1,027)**
Cash on hand	821	821	-	277	277	-
Cash balances at central banks	3,759	6,240	(2,481)	1,309	2,236	(927)
Other demand deposits	1,307	2,333	(1,026)	673	773	(100)
Financial assets held for trading	**171**	**171**	-	**3**	**3**	-
Derivatives	11	11	-	3	3	-
Equity instruments	-	-	-	-	-	-
Debt securities	160	160	-	-	-	-
Loans and advances	-	-	-	-	-	-
Non-trading financial assets mandatory at fair value through profit or loss	**145**	**145**	-	**11**	**11**	-
Equity instruments	103	103	-	11	11	-
Debt securities	-	-	-	-	-	-
Loans and advances	42	42	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	**5,343**	**5,343**	-	**1,840**	**1,840**	-
Equity instruments	78	78	-	36	36	-
Debt securities	5,265	5,265	-	1,804	1,804	-
Loans and advances	-	-	-	-	-	-
Financial assets at amortised cost	**29,552**	**25,826**	**3,726**	**11,885**	**10,778**	**1,107**
Debt securities	288	287	1	39	39	-
Loans and advances	29,264	25,539	3,725	11,846	10,739	1,107
Derivatives – Hedge accounting	-	-	-	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-
Investments in subsidiaries, joint ventures and associates	323	323	-	3,232	3,232	-
Tangible assets	463	463	-	266	266	-
Intangible assets	232	232	-	75	75	-
Tax assets	-	-	-	47	35	12
Other assets	21	135	(114)	13	73	(60)
Non-current assets and disposal groups classified as held for sale	12	-	12	16	-	16
Total assets	**42,149**	**42,032**	**117**	**19,647**	**19,599**	**48**

(All amounts are expressed in millions of HRK)

Statement of financial position (continued)

Liabilities and equity	In accordance with Croatian National Bank decision 2018	Accounting standards for banks in Croatia 2018	Difference 2018	In accordance with Croatian National Bank decision 2017	Accounting standards for banks in Croatia 2017	Difference 2017
Financial liabilities held for trading	**10**	**13**	**(3)**	**2**	**2**	**0**
Derivatives	10	13	(3)	2	2	0
Short positions	-	-	-	-	-	-
Deposits	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Deposits	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-
Financial liabilities measured at amortised cost	**34,960**	**35,041**	**(81)**	**14,145**	**14,160**	**(15)**
Deposits	34,951	35,041	(90)	14,145	14,160	(15)
Debt securities issued	-	-	-	-	-	-
Other financial liabilities	9	-	9	-	-	-
Derivatives – Hedge accounting	3	-	3	-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-
Provisions	569	539	30	265	254	11
Tax liabilities	79	70	9	40	25	15
Share capital repayable on demand	-	-	-	-	-	-
Other liabilities	593	434	159	158	121	37
Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-
Total liabilities	**36,214**	**36,097**	**117**	**14,610**	**14,562**	**48**
Equity	-	-	-	-	-	-
Share capital	3,994	3,994	0	3,994	3,994	-
Share premium	171	171	0	171	171	-
Equity instruments issued other than capital	-	-	-	-	-	-
Other equity	-	-	-	-	-	-
Accumulated other comprehensive income	108	108	-	54	54	-
Retained earnings	1,300	1,466	(166)	575	627	(52)
Revaluation reserves	-	-	-	-	-	-
Other reserves	196	196	-	191	191	-
(-) Treasury shares	-	-	-	-	-	-
Profit or loss attributable to owners of the parent	166	-	166	52	-	52
(-) Interim dividends	-	-	-	-	-	-
Minority interests (Non-controlling interests)	-	-	-	-	-	-
Total equity	**5,935**	**5,935**	**-**	**5,037**	**5,037**	**-**
Total liabilities and equity	**42,149**	**42,032**	**117**	**19,647**	**19,599**	**48**

Presentation of the reconciliation of items presented in the Statement of financial presented as part of the Annual Report and items presented in accordance with the CNB Decision:

Assets
In the Annual Report, the CNB's mandatory reserve is presented in the Cash and balances with Croatian National Bank, while loans and receivables from banks are presented separately in Loans and receivables from banks. In accordance with the Decision these positions are presented as part of Financial assets at amortized cost in Loans and advances.

In accordance with the Decision the impairment of interest on debt securities is reported as part of Loans and advances at amortized cost, while in the Annual Report it is presented as part of the Debt securities at the amortized cost as a reduction.

In accordance with the Decision, pre-paid loan approval revenue and prepaid card revenue are expressed in Other liabilities measured at amortized cost, while in the Annual Report fees for loan approval are presented as part of the Loans and advances and card fees as part of the Other assets at amortized cost.

In accordance with the Decision, receivables for credit cards together with penalty interest rates for credit cards are presented as part of the Loans and advances at amortized cost, while in the Annual Report they are presented in the position of Other assets at amortized cost.

In accordance with the Decision, Assets acquired in lieu of uncollected receivables are presented in a separate position, while in the Annual Report they part of the Other assets.

Liabilities

In accordance with the Decision, some deposits are stated in the position of Other Liabilities measured at amortized cost, while in the Annual Report they are stated as part of the Liabilities due to customers.

In accordance with the Decision, loans received from financial institutions, other short-term and long-term loans and issued subordinated debt instruments are presented in separate positions, while in the Annual Report they are presented within the aggregate position of Other liabilities.

In accordance with the Decision, liabilities for the payment of previously paid deposits and provisions for bonuses and other employee remuneration are presented as part of the Provisions, while in the Annual Report they are presented within the positions of Other liabilities.

In accordance with the Decision, the value added tax liability and other taxes and contributions to the Republic of Croatia are presented in the position of Tax liabilities, while in the Annual Report they are presented as part of Other liabilities.

Equity

In accordance with the Decision, the profit for year is presented in a separate position, while in the Annual Report it is presented as part of the Retained earnings

For the year ended 31 December 2018

(All amounts are expressed in millions of HRK)

Statement of changes in equity

2018	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Non-controlling interest: Accumulated Other Comprehensive Income	Non-controlling interest: Other items	Total
Balance at 1 January 2018 (before restatement)	3,994	171	-	-	54	575	-	191	-	52	-	-	-	5,037
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	(1)	(53)	-	-	-	-	-	-	-	(54)
Restated balance at 1 January 2018 (1. + 2. + 3.)	**3,994**	**171**	**-**	**-**	**53**	**522**	**-**	**191**	**-**	**52**	**-**	**-**	**-**	**4,983**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	(5)	-	5	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	52	-	-	-	(52)	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	731	-	-	-	-	-	-	-	731
Total comprehensive income for the year	-	-	-	-	55	-	-	-	-	166	-	-	-	221
Balance at 31 December 2018 (from 4. to 20.)	**3,994**	**171**	**-**	**-**	**108**	**1,300**	**-**	**196**	**-**	**166**	**-**	**-**	**-**	**5,935**

(All amounts are expressed in millions of HRK)

Statement of changes in equity (continued)

2017	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Non-controlling interest: Accumulated Other Comprehensive Income	Non-controlling interest: Other items	Total
Balance at 1 January 2017 (before restatement)	822	171	-	-	40	452	-	191	-	123	-	-	-	1,799
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restated balance at 1 January 2017 (1. + 2. + 3.)	**822**	**171**	**-**	**-**	**40**	**452**	**-**	**191**	**-**	**123**	**-**	**-**	**-**	**1,799**
Issuance of ordinary shares	3,172	-	-	-	-	-	-	-	-	-	-	-	-	3,172
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	123	-	-	-	(123)	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	14	-	-	-	-	52	-	-	-	66
Balance at 31 December 2017 (from 4. to 20.)	**3,994**	**171**	**-**	**-**	**54**	**575**	**-**	**191**	**-**	**52**	**-**	**-**	**-**	**5,037**

(All amounts are expressed in millions of HRK)

Statement of cash flows

	2018	2017
Operating activities – indirect method		
Profit/(loss) before tax	214	65
Adjustments:	-	-
Impairment and provisions	41	152
Depreciation	49	39
Net unrealised (gains)/losses on financial assets at fair value through statement of profit or loss	-	-
Loss/(profit) from the sale of tangible assets	6	(5)
Other non-cash items	(561)	(558)
Changes in assets and liabilities from operating activities		
Deposits with the Croatian National Bank	(40)	(36)
Deposits with financial institutions and loans to financial institutions	(18)	-
Loans and advances to other clients	(293)	(449)
Securities and other financial instruments at fair value through other comprehensive income	164	188
Securities and other financial instruments held for trading	(43)	(4)
Securities and other financial instruments at fair value through statement of profit of loss, not traded	(92)	-
Securities and other financial instruments at fair value through statement of profit or loss	-	-
Securities and other financial instruments at amortized cost	2	(3)
Other assets from operating activities	(37)	13
Deposits from financial institutions	530	7
Transaction accounts of other clients	2,546	1,635
Savings deposits of other clients	(380)	27
Time deposits of other clients	(1,209)	(1,079)
Derivative financial liabilities and other traded liabilities	3	-
Other liabilities from operating activities	89	109
Interest received from operating activities [indirect method]	678	648
Dividends received from operating activities [indirect method]	-	-
Interest paid from operating activities [indirect method]	(67)	(96)
(Income taxes paid)	(37)	(22)
Net cash flow from operating activities	**1,545**	**631**
Investing activities		
Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(88)	(44)
Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	-	(3,172)
Cash receipts from the sale / payments for the purchase of securities and other financial instruments held to maturity	-	-
Dividends received from investing activities	-	-
Other receipts/payments from investing activities	-	-
Net cash flow from investing activities	**(88)**	**(3,216)**
Financing activities		
Net increase/(decrease) in loans received from financing activities	(339)	(93)
Net increase/(decrease) of debt securities issued	-	-
Net increase/(decrease) of Tier 2 capital instruments	-	-
Increase of share capital	-	3,172
(Dividends paid)	-	-
Other receipts/(payments) from financing activities	-	-
Net cash flow from financing activities	**(339)**	**3,079**
Net increase/(decrease) of cash and cash equivalents	**1,118**	**494**
Cash and cash equivalents at the beginning of period	**2,359**	**1,865**
Effect of exchange rate fluctuations on cash and cash equivalents	1	-
Cash and cash equivalents acquired by merger of Splitska banka d.d.	3,418	-
Cash and cash equivalents at the end of period	**6,896**	**2,359**

Presentation of the reconciliation of items presented in the Statement of cash flows as part of the Annual Report and items presented in accordance with the CNB Decision:

In accordance with the Decision, Impairment and provisions is presented in three separate items in the Annual report: Impairment Losses, Provisions for legal actions and off-balance sheet items and Other releases of provisions.

In accordance with the Decision, the position Other non-cash items includes the write-off of goodwill, interest income and interest expense, while in the Annual report they are presented as separate items: Goodwill write off, Interest income and Interest expense, respectively.

The item Financial assets and liabilities carried at fair value through profit or loss as presented in the Annual report is presented in accordance with the Decision as three separate items: Securities and other financial instruments held for trading, Securities and other financial instruments at fair value through statement of profit of loss - not traded, Derivative financial liabilities and other traded liabilities

The item Amounts due to customers as presented in the Annual is presented in accordance with the Decision as three separate items: Transaction accounts of other clients, Savings deposits of other clients and Time deposits of other clients.

In accordance with the Decision, other banking institutions are presented as part of the Deposits from financial institutions, while in the Annual report they are presented as part of Loans and receivables from customers position.

The Other liabilities position in accordance with the Decision is presented in the Annual report as part of Other liabilities and Provisions.

The Cash receipts from the sale / payments for the purchase of tangible and intangible assets position in accordance with the Decision is presented in the Annual report as Purchases of tangible and intangible assets and Proceeds from disposal of tangible and intangible assets