

# **CROATIAN NATIONAL BANK**

## **FINANCIAL STATEMENTS**

**For the year ended 31 December 2018**

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

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## INDEPENDENT AUDITOR'S REPORT

To the Council of the Croatian National Bank

### Opinion

We have audited the financial statements of the Croatian National Bank („the Bank”), which comprise the statement of financial position as at 31 December 2018, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

### 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.

### Responsibilities of the Council of the Croatian National Bank

Council of the Croatian National Bank is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as Council of the Croatian National Bank 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, Council of the Croatian National Bank is responsible for assessing the Banks's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

The company was registered at Zagreb Commercial Court: MBS 030022053; paid-in initial capital: Kn 44,900.00; Board Members: Branislav Vrtačnik, Marina Tonžetić, Juraž Moravek and Dražen Nimčević; Bank: Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10 000 Zagreb, bank account no. 2360000-1101896313; SWIFT Code: ZABHR2X IBAN: HR2723600001101896313; Privredna banka Zagreb d.d., Radnička cesta 50, 10 000 Zagreb, bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR3823400091110098294; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, bank account no. 2484008-1100240905; SWIFT Code: RZBHR2X IBAN: HR1024840081100240905.

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## **INDEPENDENT AUDITOR'S REPORT (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 judgment and maintain professional skepticism throughout the audit. We also:

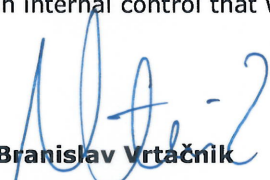
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Council of the Croatian National Bank.
- Conclude on the appropriateness of Council of the Croatian National Bank 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.



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We communicate with the Council of the Croatian National Bank 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.



**Branislav Vrtačnik**  
President of the Management  
Board



**Vanja Vlak**  
Certified Auditor



**Yuri Sidorovich**  
Partner

Deloitte d.o.o.

Zagreb, 15 March 2019

Radnička cesta 80

10 000 Zagreb,

Croatia

*Croatian National Bank*  
*Financial Statements for the year ended 31 December 2018*

## INCOME STATEMENT

| <i>(All amounts are expressed in thousands of kuna)</i>                          | Notes     | 2018             | 2017               |
|--|-----------|------------------|--------------------|
| Interest and similar income  | 3a        | 725,700          | 692,031            |
| Interest and similar expense   | 3b        | (233,094)        | (166,799)          |
| <b>Net interest income</b>   | <b>3</b>  | <b>492,606</b>   | <b>525,232</b>     |
| Fee and commission income  | 4a        | 49,513           | 49,578             |
| Fee and commission expenses  | 4b        | (20,927)         | (19,240)           |
| <b>Net fee and commission income</b>   | <b>4</b>  | <b>28,586</b>    | <b>30,338</b>      |
| Dividend income  |           | 5,111            | 6,652              |
| Net investment result – equity method  |           | 3,407            | 1,792              |
| Net result from financial assets at fair value through profit or loss            | 5         | (76,623)         | (116,849)          |
| Net result from debt securities at fair value through other comprehensive income | 6         | 53,330           | –                  |
| Net exchange differences   | 7         | (602,950)        | (2,658,690)        |
| Other income   | 8         | 5,634            | 6,324              |
| <b>Operating (expenditure)</b>   |           | <b>(90,899)</b>  | <b>(2,205,201)</b> |
| Operating expenses   | 9         | (373,964)        | (346,505)          |
| (Increase)/decrease in impairment losses and provisions                          | 10        | (3,510)          | (2,525)            |
| <b>(Loss)</b>  | <b>35</b> | <b>(468,373)</b> | <b>(2,554,231)</b> |
| – Covered from general reserves  |           | 468,373          | 2,554,231          |

The notes on pages 9 to 88 form an integral part of these financial statements.

*Croatian National Bank*  
*Financial Statements for the year ended 31 December 2018*

## STATEMENT OF COMPREHENSIVE INCOME

| <i>(All amounts are expressed in thousands of kuna)</i>  | <b>Notes</b> | <b>2018</b>      | <b>2017</b>        |
|--|--------------|------------------|--------------------|
| <b>(Loss)</b>  |              | <b>(468,373)</b> | <b>(2,554,231)</b> |
| <b>Other comprehensive income/(loss)</b>   |              | <b>(108,234)</b> | <b>184,389</b>     |
| <i>Other comprehensive income items that are or will be reclassified to profit or loss in subsequent periods</i> |              | <i>(108,234)</i> | <i>184,389</i>     |
| Gains/(losses) from remeasurement of financial assets available for sale (IAS 39)                                |              | –                | 184,389            |
| Debt securities at fair value through other comprehensive income:  |              | (108,234)        | –                  |
| Gains/(losses) from remeasurement  |              | (52,609)         | –                  |
| (Gains)/losses from trading transferred to profit or loss  |              | (53,330)         | –                  |
| Net changes in loss allowances for expected credit losses  |              | (2,295)          | –                  |
| <b>Total comprehensive income/(loss)</b>   |              | <b>(576,607)</b> | <b>(2,369,842)</b> |

*Croatian National Bank*  
*Financial Statements for the year ended 31 December 2018*

## STATEMENT OF FINANCIAL POSITION

| <i>(All amounts are expressed in thousands of kuna)</i>                                   | Notes | 31 December<br>2018       | 31 December<br>2017       |
|---|-------|---------------------------|---------------------------|
| <b>Assets</b>   |       |                           |                           |
| Cash and current accounts with other banks  | 11    | 9,524,804                 | 19,753,776                |
| Deposits with other banks   | 12    | 11,426,141                | 2,418,675                 |
| Financial assets at fair value through profit or loss                                     | 13    | 39,709,543                | 27,680,857                |
| Loans   | 14    | 2,029,317                 | 1,286,777                 |
| Reverse repo agreements   | 15    | 21,278,988                | 17,643,742                |
| Held-to-maturity investments  | 16    | —                         | 19,865,183                |
| Debt securities at amortised cost   | 17    | 682,112                   | —                         |
| Balances with the International Monetary Fund   | 18    | 9,248,636                 | 9,200,198                 |
| Financial assets available for sale   | 19    | —                         | 27,985,759                |
| Debt securities at fair value through other comprehensive income                          | 20    | 43,995,277                | —                         |
| Equity securities at fair value through other comprehensive income – irrevocable election | 21    | 60,218                    | —                         |
| Investments accounted for using the equity method   | 22    | 23,617                    | 22,033                    |
| Accrued interest and other assets   | 23    | 2,577,237                 | 8,435,474                 |
| Property, plant, equipment and intangible assets  | 24    | 579,046                   | 584,297                   |
| <b>TOTAL ASSETS</b>   |       | <b><u>141,134,936</u></b> | <b><u>134,876,771</u></b> |
| <b>Liabilities</b>  |       |                           |                           |
| Banknotes and coins in circulation  | 25    | 35,046,160                | 31,691,425                |
| Due to banks and other financial institutions   | 26    | 69,807,221                | 64,073,140                |
| Repo agreements   | 27    | 9,219,306                 | 12,023,244                |
| Due to the State and State institutions   | 28    | 2,898,000                 | 2,949,201                 |
| Due to the International Monetary Fund  | 29    | 9,230,974                 | 9,179,443                 |
| Accrued interest and other liabilities  | 30    | 461,838                   | 704,405                   |
| <b>Total liabilities</b>  |       | <b><u>126,663,499</u></b> | <b><u>120,620,858</u></b> |
| <b>Equity</b>   |       |                           |                           |
| Initial capital   | 31    | 2,500,000                 | 2,500,000                 |
| Reserves  | 31    | 11,971,437                | 11,755,913                |
| <b>Total equity</b>   |       | <b><u>14,471,437</u></b>  | <b><u>14,255,913</u></b>  |
| <b>TOTAL EQUITY AND LIABILITIES</b>   |       | <b><u>141,134,936</u></b> | <b><u>134,876,771</u></b> |

The financial statements set out on pages 4 to 88 were approved on 15 March 2019 by:

Director of the Accounting Department:

Mario Varović

Governor:

Boris Vujčić



The notes on pages 9 to 88 form an integral part of these financial statements.

*Croatian National Bank*  
*Financial Statements for the year ended 31 December 2018*

### STATEMENT OF CHANGES IN EQUITY

| <i>(All amounts are expressed in thousands of kuna)</i> | Initial capital  | General reserves  | Fair value reserves for financial assets available for sale | Fair value reserve for debt securities at fair value through other comprehensive income | Revaluation reserves on property | Total reserves    | Profit or loss for the year | Total capital     |
|---|------------------|-------------------|---|---|----------------------------------|-------------------|-----------------------------|-------------------|
| <b>As at 1 January 2017</b>                             | <b>2,500,000</b> | <b>13,849,266</b> | <b>(62,624)</b>   | <b>—</b>  | <b>339,113</b>                   | <b>14,125,755</b> | <b>—</b>                    | <b>16,625,755</b> |
| Profit/(Loss)   | —                | —                 | —   | —   | —                                | —                 | (2,554,231)                 | (2,554,231)       |
| Other comprehensive income                              | —                | —                 | 184,389   | —   | —                                | 184,389           | —                           | 184,389           |
| Total comprehensive income                              | —                | —                 | 184,389   | —   | —                                | 184,389           | (2,554,231)                 | (2,369,842)       |
| Depreciation of revalued property                       | —                | 5,233             | —   | —   | (5,233)                          | —                 | —                           | —                 |
| Loss covered from general reserves                      | —                | (2,554,231)       | —   | —   | —                                | (2,554,231)       | 2,554,231                   | —                 |
| <b>As at 31 December 2017</b>                           | <b>2,500,000</b> | <b>11,300,268</b> | <b>121,765</b>  | <b>—</b>  | <b>333,880</b>                   | <b>11,755,913</b> | <b>—</b>                    | <b>14,255,913</b> |
| <i>The effect of the application of IFRS 9</i>          | —                | (16,231)          | (121,765)   | 930,127   | —                                | 792,131           | —                           | 792,131           |
| <b>As at 1 January 2018</b>                             | <b>2,500,000</b> | <b>11,284,037</b> | <b>—</b>  | <b>930,127</b>  | <b>333,880</b>                   | <b>12,548,044</b> | <b>—</b>                    | <b>15,048,044</b> |
| Profit/(Loss)   | —                | —                 | —   | —   | —                                | —                 | (468,373)                   | (468,373)         |
| Other comprehensive income/(loss)                       | —                | —                 | —   | (108,234)   | —                                | (108,234)         | —                           | (108,234)         |
| Total comprehensive income/(loss)                       | —                | —                 | —   | (108,234)   | —                                | (108,234)         | (468,373)                   | (576,607)         |
| Depreciation of revalued property                       | —                | 5,233             | —   | —   | (5,233)                          | —                 | —                           | —                 |
| Loss covered from general reserves                      | —                | (468,373)         | —   | —   | —                                | (468,373)         | 468,373                     | —                 |
| <b>As at 31 December 2018</b>                           | <b>2,500,000</b> | <b>10,820,897</b> | <b>—</b>  | <b>821,893</b>  | <b>328,647</b>                   | <b>11,971,437</b> | <b>—</b>                    | <b>14,471,437</b> |

The notes on pages 9 to 88 form an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

(All amounts are expressed in thousands of kuna)

|  | 2018                | 2017               |
|--|---------------------|--------------------|
| <b>Cash flows from operating activities</b>  |                     |                    |
| Interest received  | 924,676             | 847,583            |
| Interest paid  | (251,999)           | (172,801)          |
| Fees and commissions received  | 49,010              | 48,858             |
| Fees and commissions paid  | (11,321)            | (10,211)           |
| Dividends received and share in profit   | 6,933               | 8,494              |
| Other receipts   | 66,796              | 66,743             |
| Expenses paid  | (324,156)           | (306,330)          |
| Inflows/(outflows) in deposits and reverse repo agreements with other banks  | (12,703,865)        | (7,752,821)        |
| Inflows/(outflows) in loans and reverse repo kuna agreements   | (750,091)           | (161,994)          |
| Sale/(purchase) of held-for-trading securities   | (12,131,436)        | (3,998,648)        |
| Inflows/(outflows) in assets under management with international financial institutions                            | 24,523              | 13,943             |
| Sale/(purchase) of securities held at amortised cost   | (683,331)           | –                  |
| Sale/(purchase) of securities held at fair value through other comprehensive income                                | 4,073,147           | –                  |
| Sale/(purchase) of held-to-maturity securities   | –                   | 1,356,677          |
| Sale/(purchase) of securities available for sale   | –                   | (1,656,846)        |
| Inflows/(outflows) from other assets   | (110,788)           | (105,493)          |
| Inflows/(outflows) in amounts due to the International Monetary Fund   | (51)                | (97)               |
| Issuance of currency in circulation  | 3,354,736           | 3,777,469          |
| Inflows/(outflows) in repo agreements and amounts due to banks and other financial institutions                    | 8,760,785           | 15,912,943         |
| Inflows/(outflows) in amounts due to the State and State institutions  | (42,311)            | (400,381)          |
| Inflows/(outflows) in amounts due to the European Commission   | (240,802)           | (28,958)           |
| Inflows/(outflows) in other liabilities  | (22,442)            | (31,363)           |
| <b>Net cash from operating activities</b>  | <b>(10,011,987)</b> | <b>(7,406,767)</b> |
| <b>Cash flows from investing activities</b>  |                     |                    |
| Purchases of property, equipment and intangible assets   | (30,056)            | (29,066)           |
| <b>Net cash from investing activities</b>  | <b>(30,056)</b>     | <b>(29,066)</b>    |
| <b>Cash flows from financing activities</b>  |                     |                    |
| Payments of allocated profits to the State Budget  | –                   | (33,690)           |
| <b>Net cash from financing activities</b>  | <b>–</b>            | <b>(33,690)</b>    |
| <b>Effect of changes in exchange rates – positive/(negative) exchange differences on cash and cash equivalents</b> | <b>(174,602)</b>    | <b>(304,224)</b>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b>  | <b>(10,216,645)</b> | <b>7,039,787</b>   |
| <b>Cash and cash equivalents at beginning of year</b>  | <b>22,494,962</b>   | <b>15,455,175</b>  |
| <b>Cash and cash equivalents at end of year (Note 34)</b>  | <b>12,278,317</b>   | <b>22,494,962</b>  |

The notes on pages 9 to 88 form an integral part of these financial statements.

## **NOTE 1 – GENERAL INFORMATION AND ACCOUNTING STANDARDS**

### **1.1 General information**

The Croatian National Bank is the central bank of the Republic of Croatia with headquarters in Zagreb, Trg hrvatskih velikana 3. Its status has been defined by the Act on the Croatian National Bank. The Croatian National Bank is owned by the Republic of Croatia, which guarantees for all its obligations. The Croatian National Bank is autonomous and independent in fulfilling its objective and carrying out its tasks. The primary objective of the Croatian National Bank is maintaining price stability.

The Croatian National Bank reports to the Croatian Parliament on the financial condition, the degree of price stability and the fulfilment of monetary policy goals, and is represented by the Governor of the Croatian National Bank.

The tasks performed by the Croatian National Bank as provided by the Constitution and the Act include:

- Determining and implementing monetary and foreign exchange policies;
- Maintaining and managing international reserves of the Republic of Croatia;
- Issuing of banknotes and coins;
- Issuing and withdrawing authorisations and approvals in accordance with laws regulating credit institutions, credit unions, payment institutions, electronic money institutions and payment systems, foreign exchange operations and operations of authorised foreign exchange offices;
- Performing supervision and oversight in accordance with laws regulating the operations of credit institutions, credit unions, payment institutions and electronic money institutions and payment systems;
- Maintaining accounts of credit institutions and performing payment transactions on those accounts, issuing loans to, and receiving deposit funds from credit institutions;
- Regulating and improving the payment system;
- Performing tasks on behalf of the Republic of Croatia as defined by law;
- Promulgating regulations from its area of competence;
- Contributing to overall stability of the financial system; and
- Performing other tasks specified by law.

The bodies of the Croatian National Bank are the Council of the Croatian National Bank and the Governor of the Croatian National Bank.

The Council of the Croatian National Bank comprises eight members: Governor, Deputy Governor and six Vicegovernors of the Croatian National Bank.

*Croatian National Bank*  
*Financial Statements for the year ended 31 December 2018*

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The Council of the Croatian National Bank is competent and responsible for the achievement of the objective and for the carrying out of the tasks of the Croatian National Bank and defines policies with respect to the activities of the Croatian National Bank.

Members of the Council of the Croatian National Bank:

- Prof. D. Sc. Boris Vujčić, Governor (until 8 July 2018 and as of 13 July 2018)
- Relja Martić, Deputy Governor (until 17 July 2018)
- D. Sc. Sandra Švaljek, Deputy Governor (as of 18 July 2018)
- M. Sc. Tomislav Presečan, Vicegovernor (until 17 July 2018)
- M. Sc. Vedran Šošić, Vicegovernor (until 17 July 2018)
- Damir Odak, Vicegovernor (until 17 July 2018)
- D. Sc. Michael Faulend, Vicegovernor
- Bojan Fras, Vicegovernor
- Neven Barbaroša, Vicegovernor
- M. Sc. Slavko Tešija, Vicegovernor (as of 18 July 2018)
- D. Sc. Roman Šubić, Vicegovernor (as of 18 July 2018)
- M. Sc. Martina Drvar, Vicegovernor (as of 18 July 2018).

## 1.2 Accounting standards

The financial statements of the Croatian National Bank have been prepared in accordance with the International Financial Reporting Standards, which comprise the International Accounting Standards (IAS), together with the related Amendments and Interpretations, and the International Financial Reporting Standards (IFRS), together with the related Amendments and Interpretations, as adopted by the European Commission, and published in the Official Journal of the European Union. The preparation of the financial statements of the Croatian National Bank in accordance with the International Financial Reporting Standards as adopted in the European Union is regulated by the Act on the Croatian National Bank and the Accounting Act.

### 1.2.1 Application of new and revised standards and changes in accounting policies

In 2016, 2017 and 2018, new standards and amendments to existing standards as well as interpretation of the International Financial Reporting Interpretations Committee with mandatory application in the EU for the annual periods commencing from 1 January 2018 were published, as presented in the following table.

| <i>Official Journal of the<br/>EU</i> | <i>Standard</i>   |
|---------------------------------------|---|
| OJ L 295, 29.10.2016                  | IFRS 15 – Revenue from Contracts with Customers (new)                                       |
| OJ L 323, 29.11.2016                  | IFRS 9 – Financial Instruments (new)  |
| OJ L 291, 9.11.2017                   | IFRS 4 – Insurance Contracts (amendments)   |
|                                       | IFRS 15 – Revenue from Contracts with Customers (amendments)                                |
| OJ L 34, 8.2.2018                     | Annual Improvements to IFRS Standards, 2014 – 2016 Cycle:                                   |
|                                       | IAS 28 – Interests in Associates and Joint Ventures<br>(amendments)                         |
|                                       | IFRS 1 – First-time Adoption of International Financial Reporting Standards<br>(amendments) |
| OJ L 55, 27.2.2018                    | IFRS 2 — Share-based Payment (amendments)   |
| OJ L 72, 15.3.2018                    | IAS 40 — Investment Property (amendments)   |
| OJ L 87, 3.4.2018                     | IFRIC 22 – Foreign Currency Transactions and Advance Consideration                          |

These standards and interpretation were applied in the compilation of the financial statements for 2018. The application of IFRS 9 – Financial Instruments has a significant impact on the financial statements of the Croatian National Bank, while the application of other above mentioned standards and interpretations does not have a significant impact on the financial statements of the Croatian National Bank.

The accounting policies of the Croatian National Bank applicable to reporting periods beginning on 1 January 2018 are different from the accounting policies applied in the preparation of the last annual financial statements of the Croatian National Bank due to the application of IFRS 9 – Financial Instruments. The Croatian National Bank did not restate the previous periods, but it debited the difference between the previous book value and the book value at the beginning of the reporting period to the general reserves of the Croatian National Bank.

The introduction of IFRS 9 – Financial instruments had an impact on the recognition, valuation and classification of the financial assets of the Croatian National Bank.

The Croatian National Bank classified its liabilities according to IAS 39 as other financial liabilities subsequently measured at amortised cost using the effective interest method, whereas according to IFRS 9 the Croatian National Bank classifies its liabilities as liabilities subsequently measured at amortised cost. Therefore, the introduction of IFRS 9 did not have any impact on financial liabilities.

#### 1.2.1.1 Recognition, valuation and classification of financial assets according to IFRS 9

At initial recognition of financial assets, the Croatian National Bank measures these assets at their fair value.

Financial assets at fair value through profit and loss are initially measured at fair value without transaction costs, whereas for financial assets not designated at fair value through profit and loss fair value is increased by transaction costs.

Following the initial measurement, the Croatian National Bank measures financial assets:

- at amortised cost;
- at fair value through other comprehensive income; or
- at fair value through profit or loss.

#### *Measurement at amortised cost*

The amortised cost of financial assets is the amount according to which financial assets are measured at initial recognition, minus principal repayments, plus or minus cumulative amortisation, using the effective interest method, all differences between the initial amount and the maturity amount and adjusted for any loss allowance.

The effective interest method is the method of calculating amortised cost of financial assets and allocating and recognising interest income through profit and loss during a certain period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial assets instrument against the gross carrying amount of financial assets.

The gross carrying amount of financial assets is the amortised cost of financial assets prior to loss allowance provisions.

#### *Classification of financial assets*

The Croatian National Bank classifies financial assets as assets subsequently measured at amortised cost, at fair value through other comprehensive income or through profit or loss based on:

- the business model of financial asset management; and
- the characteristics of financial assets with contractual cash flows.

The business model reflects the manner in which the Croatian National Bank manages its financial assets to generate cash flows. The Croatian National Bank applies the following business models:

- the business model to hold the financial assets to collect contractual cash flows;
- the business model to collect contractual cash flows and sell financial assets;
- other business models.

For financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, it is necessary to determine whether the contractual cash flows of the assets are solely payments of principal and interest on the principal amount outstanding. Only those financial assets that meet the "solely payments of principal and interest" condition can be classified into the category of financial assets measured at amortised cost or into the category of financial assets at fair value through other comprehensive income.

It is estimated that the contractual cash flows of the financial assets are solely payments of principal and interest and that they comply with the conditions of the so-called SPPI test (Solely Payments of Principal and Interest) if the financial assets have the following characteristics:

- if they contain a fixed coupon;
- if the principal value is paid at the bond maturity date;
- if they cannot be redeemed before maturity; and
- if they have no linked options, such as conversion, call or put option.

*Financial assets at amortised cost*

A financial asset is measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- 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.

For financial assets classified into the category of financial assets measured at amortised cost, interest income calculated using the effective interest method, foreign currency gains or losses and expected credit losses are recognised directly in profit or loss. In the event of derecognition of financial assets, gains or losses are recognised in profit or loss.

The category of financial assets measured at amortised cost comprises debt securities, cash, deposits with banks and financial institutions, reverse repo agreements, loans, trade and other receivables complying with the definition of financial instruments.

*Financial assets at fair value through other comprehensive income*

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

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

A gain or loss on debt securities measured at fair value through other comprehensive income are recognised in other comprehensive income, except for loss allowance gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified.

All foreign exchange gains and losses on monetary assets are recognised in profit or loss.

If debt securities are 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.

For debt securities measured at fair value through other comprehensive income, the amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if the asset had been measured at amortised cost.

Debt securities held within the business model aimed at collecting contractual cash flows and sales, while cash flows represent solely principal and interest payments, are classified as financial assets at fair value through other comprehensive income.

*Financial assets at fair value through profit or loss*

Financial assets are measured at fair value through profit or loss if they are not measured at amortised cost or at fair value through other comprehensive income.

The Croatian National Bank may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Gains or losses on financial assets at fair value through profit or loss are recognised in profit or loss.

*Investment in equity instruments*

The Croatian National Bank subsequently measures investments in equity instruments at fair value through other comprehensive income.

A change in the fair value of investment in equity instruments is recognised in other comprehensive income.

The amounts recognised in other comprehensive income are not subsequently transferred to profit and loss. Cumulative gain or loss may be transferred within equity.

Dividends on investment in equity instruments are recognised in profit or loss.

Investments in equity instruments include investments in BIS shares, SWIFT shares and ECB paid-up capital. For these investments the cost is the best estimate of fair value because they do not have quoted market prices on an active market and their fair value cannot be reliably measured.

The Croatian National Bank is obliged, only if it changes its business model of financial asset management, to reclassify all financial assets affected by the change of the business model.

#### *Impairment of financial assets*

The Croatian National Bank recognises loss allowances for expected credit losses on a financial asset measured at amortised cost and at fair value through other comprehensive income, a lease receivable and a contract asset.

Loss allowances for financial assets measured at fair value through other comprehensive income are recognised through other comprehensive income and are not reduced from book value of financial assets in the statement of financial position.

If the credit risk of a financial instrument has not increased significantly since initial recognition until the reporting date, the loss allowance is measured at an amount equal to expected credit losses in a twelve month period.

If the credit risk of a financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime expected credit losses of the instrument.

The Croatian National Bank recognises impairment gain or loss in profit or loss in the amount of expected credit losses or reversals.

At each reporting date it is determined whether the credit risk of a financial instrument has increased significantly since initial recognition.

It is assumed that the credit risk of a financial instrument has not had a significant increase since initial recognition if the credit risk of a financial instrument is determined as low at the reporting date.

The credit quality of a financial instrument at initial recognition and a change in the credit quality of a financial instrument since initial recognition is monitored through three stages of credit quality.

Stage 1 includes financial instruments with a low credit risk at initial recognition or with no significant increase in credit risk after initial recognition. For this stage loss allowances are calculated at an amount equal to the amount of expected credit losses in a twelve month period, with interest calculated on the gross carrying amount of the financial asset.

Stage 2 includes financial instruments with a significant increase in credit risk since initial recognition. For financial instruments in this stage loss allowances are calculated at an amount equal to lifetime expected credit losses of the instrument, with interest calculated on the gross carrying amount of the financial asset.

Stage 3 includes financial instruments with a significant increase in credit risk since initial recognition and the financial asset is considered credit impaired. For financial instruments in this stage expected credit losses are calculated for a lifetime of the instrument, with interest calculated based on the amortised cost of the financial asset.

It is assumed that a significant increase in the credit rating of a financial instrument has occurred if the long-term credit rating of a financial instrument, which at initial recognition was within the investment grade, fell below investment grade.

The basic criterion for the classification of a financial instrument in stage 1 is that the long-term credit rating of the financial instrument belongs to the Fitch rating agency's investment grade, and if there is no rating, then the ratings of Moody's and Standard&Poor's are used as a secondary source.

The basic criteria for the transfer of a financial instrument from stage 1 to stage 2 include:

- a downgrade of the long-term credit rating of the financial instrument below the Fitch rating agency's investment grade, and if there is no rating, then the ratings of Moody's and Standard&Poor's are used as a secondary source; and
- contractual payments are more than 30 days past due.

The basic criteria for the classification of a financial instrument into stage 3 include:

- a downgrade of the long-term credit rating below the Fitch rating agency's investment grade, and if there is no rating, then the ratings of Moody's and Standard&Poor's are used as a secondary source; and
- contractual payments are more than 90 days past due.

The value of a financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include important data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the granting of a concession(s) by the lender(s) to the borrower for economic or contractual reasons related to the borrower's financial difficulties, which the lender would not otherwise consider;
- probability that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; and
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit loss.

In addition to the basic criteria for determining the level of credit quality when determining whether a significant increase in credit risk has occurred after initial recognition also taken into account is reasonable and supportable information that is available without undue costs or effort, which may influence the credit risk of a financial instrument.

The Croatian National Bank measures expected credit losses on a financial instrument in the manner that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available on the reporting date without undue costs or effort about past events, current conditions and forecasts of future economic conditions.

Expected credit losses represent an assessment of credit losses based on probability (current value of all cash shortfalls) through the expected lifetime of the financial instrument. The cash shortfall is the difference between all contractual cash flows that are due to the Croatian National bank and cash flows expected by the Croatian National Bank. The model for the calculation of expected credit losses is described in Note 37.1.3.

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1.2.1.2 The impact of the changes in the accounting policies on financial assets

The following table shows the impact of the changes in the accounting policies on the financial assets of the Croatian National Bank at the date of initial application of IFRS 9 – Financial Instruments.

*(All amounts are expressed in thousands of kuna)*

| Financial assets   | Notes | Classification according to IAS 39 | New classification according to IFRS 9                               | 1 January 2018                      |   |
|--|-------|------------------------------------|--|-------------------------------------|---|
|  |       |                                    |  | Carrying amount according to IAS 39 | New carrying amount according to IFRS 9 |
| Cash and current accounts with other banks               | (a)   | loans and receivables              | amortised cost   | 19,753,776                          | 19,753,018                              |
| Deposits with other banks                                | (b)   | loans and receivables              | amortised cost   | 2,418,675                           | 2,418,416                               |
| Financial assets at fair value through profit or loss    |       | fair value through profit or loss  | fair value through profit or loss                                    | 27,680,857                          | 27,680,857                              |
| Loans  | (c)   | loans and receivables              | amortised cost   | 1,286,777                           | 1,286,537                               |
| Reverse repo agreements                                  | (d)   | loans and receivables              | amortised cost   | 17,643,742                          | 17,642,889                              |
| Held-to-maturity investments                             | (e)   | held-to-maturity                   | fair value through other comprehensive income                        | 19,865,183                          | 20,659,537                              |
| Balances with the International Monetary Fund            | (f)   | loans and receivables              | amortised cost   | 9,200,198                           | 9,200,198                               |
| Financial assets available for sale – debt instruments   | (g)   | available for sale                 | fair value through other comprehensive income                        | 27,925,541                          | 27,925,541                              |
| Financial assets available for sale – equity instruments | (h)   | available for sale                 | fair value through other comprehensive income – irrevocable election | 60,218                              | 60,218                                  |
| Other financial assets                                   | (i)   | loans and receivables              | amortised cost   | 75,890                              | 75,777                                  |

- (a) Cash and current accounts with other banks were initially classified as loans and receivables according to IAS 39, and according to IFRS 9 they are classified as financial assets at amortised cost.
- (b) Deposits with other banks were initially classified as loans and receivables according to IAS 39, and according to IFRS 9 they are classified as financial assets at amortised cost.
- (c) Loans were initially classified as loans and receivables according to IAS 39, and according to IFRS 9 they are classified as financial assets at amortised cost.

- (d) Reverse repo agreements were initially classified as loans and receivables according to IAS 39, and according to IFRS 9 they are classified as financial assets at amortised cost.
- (e) Debt securities, initially classified according to IAS 39 as held-to-maturity investments, the Croatian National Bank classified according to IFRS 9 as financial assets at fair value through other comprehensive income. It has been assessed that the objective of the business model for these debt securities is realised by collecting contractual cash flows and selling financial assets, for which reason debt securities held to maturity pursuant to IAS 39 are classified as debt securities at fair value through other comprehensive income pursuant to IFRS 9.
- (f) Balances with the International Monetary Fund were initially classified as loans and receivables according to IAS 39, and according to IFRS 9 they are classified as financial assets at amortised cost.
- (g) Debt securities, initially classified according to IAS 39 as financial assets available for sale, the Croatian National Bank classified according to IFRS 9 as financial assets at fair value through other comprehensive income.
- (h) As regards equity securities, initially classified according to IAS 39 as financial assets available for sale, the Croatian National Bank, when applying IFRS 9, made an irrevocable election to present subsequent changes in fair value within other comprehensive income. For these investments, the cost is the best estimate of fair value.
- (i) Other financial assets were initially classified as loans and receivables according to IFRS 39, and according to IFRS 9 they are classified as financial assets at amortised cost.

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The following table shows the aligned book values of financial assets according to IAS 39 and IFRS 9 as at 1 January 2018.

(All amounts are expressed in thousands of kuna)

| Financial assets  | Carrying amount according to IAS 39 as at 31 December 2017 | Adjustment due to the application of IFRS 9 |                |                |  | Impact on general reserves as at 1 January 2018 |
|---|--|---|----------------|----------------|--|---|
|   |  | Classification                              | Measurement    | Loss allowance | Carrying amount according to IFRS 9 as at 1 January 2018 |   |
| <b>Cash and current accounts with other banks</b>   |  |   |                |                |  |   |
| Opening balance   | 19,753,776   | —   | —              | —              | 19,753,776   | —   |
| Loss allowance for expected credit losses   | —  | —   | —              | (758)          | (758)  | (758)   |
| <b>Total cash and current accounts with other banks</b>                                     | <b>19,753,776</b>  | <b>—</b>                                    | <b>—</b>       | <b>(758)</b>   | <b>19,753,018</b>  | <b>(758)</b>                                    |
| <b>Deposits with other banks</b>  |  |   |                |                |  |   |
| Opening balance   | 2,418,675  | —   | —              | —              | 2,418,675  | —   |
| Loss allowance for expected credit losses   | —  | —   | —              | (259)          | (259)  | (259)   |
| <b>Total deposits with other banks</b>  | <b>2,418,675</b>   | <b>—</b>                                    | <b>—</b>       | <b>(259)</b>   | <b>2,418,416</b>   | <b>(259)</b>                                    |
| <b>Loans</b>  |  |   |                |                |  |   |
| Opening balance   | 1,286,777  | —   | —              | —              | 1,286,777  | —   |
| Loss allowance for expected credit losses   | —  | —   | —              | (240)          | (240)  | (240)   |
| <b>Total loans</b>  | <b>1,286,777</b>   | <b>—</b>                                    | <b>—</b>       | <b>(240)</b>   | <b>1,286,537</b>   | <b>(240)</b>                                    |
| <b>Reverse repo agreements</b>  |  |   |                |                |  |   |
| Opening balance   | 17,643,742   | —   | —              | —              | 17,643,742   | —   |
| Loss allowance for expected credit losses   | —  | —   | —              | (853)          | (853)  | (853)   |
| <b>Total reverse repo agreements</b>  | <b>17,643,742</b>  | <b>—</b>                                    | <b>—</b>       | <b>(853)</b>   | <b>17,642,889</b>  | <b>(853)</b>                                    |
| <b>Held-to-maturity investments</b>   |  |   |                |                |  |   |
| Opening balance   | 19,865,183   | —   | —              | —              | —  | —   |
| Transfer:   |  |   |                |                |  |   |
| — to financial assets at fair value through other comprehensive income (debt instruments)   | —  | (19,865,183)                                | —              | —              | —  | —   |
| <b>Total held-to-maturity investments</b>   | <b>19,865,183</b>  | <b>(19,865,183)</b>                         | <b>—</b>       | <b>—</b>       | <b>—</b>   | <b>—</b>  |
| <b>Financial assets available for sale</b>  |  |   |                |                |  |   |
| Opening balance   | 27,985,759   | —   | —              | —              | —  | —   |
| Transfer:   |  |   |                |                |  |   |
| — to financial assets at fair value through other comprehensive income (debt instruments)   | —  | (27,925,541)                                | —              | —              | —  | —   |
| — to financial assets at fair value through other comprehensive income (equity instruments) | —  | (60,218)                                    | —              | —              | —  | —   |
| <b>Total financial assets available for sale</b>  | <b>27,985,759</b>  | <b>(27,985,759)</b>                         | <b>—</b>       | <b>—</b>       | <b>—</b>   | <b>—</b>  |
| <b>Financial assets at fair value through other comprehensive income</b>                    |  |   |                |                |  |   |
| Opening balance   | —  | —   | —              | —              | —  | —   |
| Addition:   |  |   |                |                |  |   |
| — from held-to-maturity investments   | —  | 19,865,183                                  | 794,354        | —              | 20,659,537   | —   |
| — from financial assets available for sale (debt instruments)                               | —  | 27,925,541                                  | —              | —              | 27,925,541   | —   |
| — from financial assets available for sale (equity instruments)                             | —  | 60,218                                      | —              | —              | 60,218   | —   |
| <b>Total financial assets at fair value through other comprehensive income</b>              | <b>—</b>   | <b>47,850,942</b>                           | <b>794,354</b> | <b>—</b>       | <b>48,645,296</b>  | <b>—</b>  |
| <b>Other financial assets at amortised cost</b>   |  |   |                |                |  |   |
| Opening balance   | 75,890   | —   | —              | —              | 75,890   | —   |
| Loss allowance for expected credit losses   | —  | —   | —              | (113)          | (113)  | (113)   |
| <b>Total other financial assets at amortised cost</b>                                       | <b>75,890</b>  | <b>—</b>                                    | <b>—</b>       | <b>(113)</b>   | <b>75,777</b>  | <b>(113)</b>                                    |
| <b>TOTAL</b>  | <b>89,029,802</b>  | <b>—</b>                                    | <b>794,354</b> | <b>(2,223)</b> | <b>89,821,933</b>  | <b>(2,223)</b>                                  |

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The effect of the application of IFRS 9 on the general reserves and fair value reserves of the Croatian National Bank is shown in the table below.

| <i>(All amounts are expressed in thousands of kuna)</i>   | <b>Effect of the application of IFRS 9<br/>on capital as at 1 January 2018</b> |
|---|--|
| <b>General reserves</b>   |  |
| Provisions for loss allowance for expected credit losses as at 1 January 2018                                       | (16,231)   |
| <b>Total</b>  | <b>(16,231)</b>  |
| <b>Fair value reserve for financial assets available for sale</b>   |  |
| Transfer to fair value reserves for financial assets at fair value through other comprehensive income               | (121,765)  |
| <b>Total</b>  | <b>(121,765)</b>   |
| <b>Fair value reserve for financial assets at fair value through other comprehensive income</b>                     |  |
| Addition from fair value reserves for financial assets available for sale   | 121,765  |
| Classification of investments held to maturity to financial assets at fair value through other comprehensive income | 794,354  |
| Provisions for loss allowance for expected credit losses as at 1 January 2018                                       | 14,008   |
| <b>Total</b>  | <b>930,127</b>   |
| <b>TOTAL</b>  | <b>792,131</b>   |

**1.2.2 Standards and interpretations published in the EU which were not applied in the preparation of the financial statements for 2018**

In 2017, a new standard was published, and in 2018 amendments to the existing standard as well as interpretation of the International Financial Reporting Interpretations Committee with mandatory application in the EU for annual periods commencing from 1 January 2019 were published, as presented in the following table.

| <i>Official Journal of the<br/>EU</i> | <i>Standard</i>                                       |
|---------------------------------------|---|
| OJ L 291, 9.11.2017                   | IFRS 16 – Leases (new)                                |
| OJ L 82, 26.3.2018                    | IFRS 9 – Financial Instruments (amendments)           |
| OJ L 265, 24.10.2018                  | IFRIC 23 – Uncertainty over Income Tax Treatments     |
| OJ L 39, 11.2.2019                    | IAS 28 – Investments in Associates and Joint Ventures |

The application of these standards will not have a significant impact on the financial statements of the Croatian National Bank.

The Croatian National Bank did not early adopt new standards, amendments to standards and their interpretations, adopted by the EU, whose adoption in 2018 is optional (non-binding), given that the

commencement of the financial year is set as 1 January.

### **1.2.3 Standards and interpretations which are not published in the EU**

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) issued additional standards and interpretations, which have not yet been endorsed in the European Union. It is estimated that their application will not have a significant impact on the preparation of the financial statements of the Croatian National Bank.

### **1.3 Basis of preparation**

The financial statements have been prepared under the accrual basis of accounting and using the historical cost convention, except for financial assets at fair value through profit or loss, debt securities in financial assets at fair value through other comprehensive income and debt securities in available for sale financial assets measured at fair value (for the year ended 31 December 2017), buildings measured at revalued amortised cost and land measured at revalued amount, which is their fair value at the revaluation date less subsequent accumulated depreciation of buildings and subsequent accumulated impairment losses.

The functional and presentational currency of the Croatian National Bank is the kuna. The financial statements are expressed in thousands of kunas.

These financial statements are prepared using going concern assumption.

### **1.4 Use of judgements and estimates**

In preparing the financial statements for 2018, the management has made judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. The estimates are based on the management's best estimate of current events and operations, and actual results may differ from these estimates.

The significant judgements made by the management in applying the accounting policies and the key sources of estimation uncertainty were the same as those used in the preparation of the annual financial statements for 2017, except new judgements and estimates related to the provisions of IFRS 9, which are described in Note 1.2.1.

#### 1.4.1 Fair value and fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

Valuation techniques that are used in determining the fair values are the market approach, cost approach and income approach. The market approach uses prices and other relevant information from market transactions with identical or similar assets or liabilities. The cost approach is a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost). The income approach converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount.

The fair value hierarchy consists of three levels of data included in the valuation techniques which are used to measure fair value:

- Level 1 – inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – inputs other than quoted prices observable for the asset or liability, either directly or indirectly;
- Level 3 – inputs are unobservable inputs for the asset or liability (not available and verifiable market data).

In the process of fair value measurements, suitable valuation techniques for which the necessary data are available are used, with maximum use of observable inputs and minimal use of inputs that are not observable in an active market.

The Croatian National Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

More detailed disclosures on fair value measurements of financial assets and liabilities are presented in Note 36.

#### 1.4.2 Losses on impairment of financial assets

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment as described in the accounting policy *Impairment of financial assets* (Notes 1.2.1.1 and 2.6.4).

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#### 1.4.3 Estimation uncertainty relating to litigations and claims

The Croatian National Bank provided HRK 24,822 thousands (2017: HRK 24,822 thousands) in respect of liabilities for court cases. The management estimates these provisions as sufficient.

#### 1.5 Changes in presentation of the Statement of Financial Position for 2017

Line items Deposits with other banks, Loans, Reverse repo agreements and Accrued interest and other assets within assets in the Statement of Financial Position are changed relative to the data published for 2017 in such a manner that, in accordance with the best reporting practice, the related accrued interest from line item Accrued interest and other assets were reclassified to line items Deposits with other banks, Loans and Reverse repo agreements.

Within liabilities in the Statement of Financial Position, change was made, in accordance with the best reporting practice, in line items Repo agreements, Due to the State and State Institutions and Accrued interest and other liabilities relative to the data published for 2017 in such a manner that the related accrued interest from line item Accrued interest and other liabilities were reclassified to line items Repo agreements and due to the State and State Institutions.

The effect of the reclassification on some line items of the Statement of Financial Position is shown below:

*(All amounts are expressed in thousands of kuna)*

|   | <b>31/12/2017</b>  |  |                    |
|---|--------------------|--|--------------------|
|   | Published          | Increase/(decrease) of<br>the line item due to<br>reclassification | Reclassified       |
| <b>Assets</b>                           |                    |  |                    |
| Deposits with other banks               | 2,418,253          | 422  | 2,418,675          |
| Loans                                   | 1,265,448          | 21,329   | 1,286,777          |
| Reverse repo agreements                 | 17,641,746         | 1,996  | 17,643,742         |
| Accrued interest and other assets       | 8,459,221          | (23,747)   | 8,435,474          |
| <b>TOTAL ASSETS</b>                     | <b>134,876,771</b> | <b>–</b>   | <b>134,876,771</b> |
| <b>Liabilities</b>                      |                    |  |                    |
| Repo agreements                         | 12,022,248         | 996  | 12,023,244         |
| Due to the State and State institutions | 2,949,012          | 189  | 2,949,201          |
| Accrued interest and other liabilities  | 705,590            | (1,185)  | 704,405            |
| Total liabilities                       | <b>120,620,858</b> | <b>–</b>   | <b>120,620,858</b> |
| Total equity                            | <b>14,255,913</b>  | <b>–</b>   | <b>14,255,913</b>  |
| <b>TOTAL EQUITY AND LIABILITIES</b>     | <b>134,876,771</b> | <b>–</b>   | <b>134,876,771</b> |

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **2.1 Interest income and expense**

Interest income also includes coupons earned on fixed income financial instruments. Interest income is increased for amortised discount and reduced for amortised premium on purchased securities.

Interest income on financial instruments at amortised cost, financial assets at fair value through other comprehensive income and financial assets available for sale (for the year ended 31 December 2017) are recognised in the Income Statement using the effective interest method.

When calculating interest income, the effective interest rate is applied to gross carrying amount of financial assets, except in:

- a purchased or originated credit-impaired financial asset (for such financial assets the effective interest rate adjusted by credit risk is applied to amortised cost of the financial assets from initial recognition); and
- a financial asset that is not a purchased or originated credit-impaired financial asset, but which has subsequently become a credit-impaired financial asset (for such financial assets the effective interest rate is applied to amortised cost).

Interest income on debt securities at fair value through profit or loss is recognised based on the nominal coupon interest rate.

Accrued interest on financial assets with negative interest rate is recognised as interest expense.

Accrued interest on financial liabilities with negative interest rate is recognised as interest income.

### **2.2 Fee and commission income and expense**

Fee and commission income from services provided by the Croatian National Bank is recognised when the service is provided.

Fee and commission expense is included in the Income Statement for the period in which services are received.

### **2.3 Dividend income**

Dividend income on equity investments is recognised in the Income Statement when the right to receive dividends is established.

### **2.4 Foreign exchange gains and losses**

Transactions in foreign currencies are translated into Croatian kuna at the rates of exchange in effect at the dates of the transactions. At each reporting date, items denominated in foreign currencies are retranslated at the exchange rates in effect on that date. Gains and losses on translation of monetary items are recognised in profit or loss in the period in which they arise. Translation is performed using the midpoint exchange rates of the Croatian National Bank.

Gains and losses arising from trading in foreign currencies are included in realised income and expenses in the period in which they occur. All other foreign exchange gains or losses are included in unrealised income and expenses in the period in which they occur.

Non-monetary assets and liabilities denominated in foreign currencies stated at historical cost at the exchange rate valid on the date of transaction are not retranslated at the date of the Statement of Financial Position, i.e. the exchange differences are not recognised for these items.

The exchange rates of major foreign currencies at 31 December 2018 were as follows:

USD 1 = HRK 6.469192 (2017: HRK 6.269733)

EUR 1 = HRK 7.417575 (2017: HRK 7.513648)

XDR 1 = HRK 9.047556 (2017: HRK 8.996799).

### **2.5 Provisions**

Provisions are recognised in the Income Statement at the end of the reporting period.

The Croatian National Bank recognises a provision when it has a present legal or constructive obligation as a result of a past event; when it is probable that an outflow of resources will be required to settle the obligation; and when a reliable estimate can be made of the obligation. No provision is recognised unless all of these conditions have been met.

## **2.6 Financial instruments**

At recognition, valuation and classification of financial assets, starting from the financial statements for 2018, the Croatian National Bank applies the provisions of IFRS 9 – Financial Instruments (refer to Notes 1.2.1 and 37.1.3). In preparing the financial statements for 2017, the provisions of IAS 39 – Financial Instruments: Recognition and Measurement were applied.

### **2.6.1 Classification (for the year ended 31 December 2017)**

#### **2.6.1.1 Financial assets**

Financial assets of the Croatian National Bank are classified into the following categories:

##### **a) Financial assets at fair value through profit or loss**

This category comprises marketable debt securities, acquired principally for the purpose of sale or repurchase in the near future. Assets under management with international institutions and precious metals are also included in this category.

##### **b) Held-to-maturity investments**

Included in this category are investments in debt securities that the Croatian National Bank has the ability and intends to hold to maturity.

##### **c) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments, not quoted on an active market.

This category comprises cash, deposits with banks and financial institutions, reverse repo agreements, loans, trade and other receivables included in the financial assets.

**d) Financial assets available for sale**

Financial assets available for sale comprise debt securities, investments of the Croatian National Bank in equity securities of international financial institutions based on which the membership status in these institutions was realised, and the paid-up capital of the European Central Bank (ECB).

**2.6.1.2 Financial liabilities**

The Croatian National Bank classifies its financial liabilities as other financial liabilities.

**2.6.2 Recognition and derecognition**

The Croatian National Bank recognises and derecognises financial instruments on the settlement date.

**2.6.3 Measurement (for the year ended 31 December 2017)**

Financial instruments are measured initially at fair value plus, in the case of a financial asset or financial liability not designated at fair value through profit and loss, transaction costs.

Subsequent to initial recognition financial assets at fair value through profit or loss are measured at fair value. Gains and losses from changes in the fair value of these assets are recognised in the Income Statement.

Held-to-maturity securities comprise debt securities with fixed or determinable payments and fixed maturities. They are measured at amortised cost using the effective interest method less any impairment.

Loans and receivables are also measured at amortised cost using the effective interest rate method.

Financial assets available for sale are subsequently measured at fair value, except for investments in equity securities with no quoted price in an active market, and whose fair value cannot be reliably measured. Those investments are measured at cost. Gains or losses from changes in fair value (debt) of monetary assets available for sale are recognised directly in the fair value reserve in other comprehensive income and are disclosed in the Statement of Changes in Equity. Impairment losses, gains and losses from foreign exchange, interest income, interest expense if interest rates are negative, amortisation of premium or discount using the effective interest rates on debt assets available for sale are recognized in profit or loss.

Financial liabilities are classified as other financial liabilities and are subsequently measured at amortised cost using the effective interest rate method, with the exception of banknotes and coins in circulation which are measured at their nominal value.

#### **2.6.4 Impairment of financial assets (for the year ended 31 December 2017)**

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment.

##### *a) Financial assets at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account and the amount of the loss is recognised in profit or loss. For calculating impairment loss on loans and receivables or held-to-maturity financial assets with variable interest rates, the contractual effective interest rate at the date of impairment is used as a discount rate.

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

##### *b) Financial assets available for sale*

If there is objective evidence of impairment of financial investment, its new fair value is calculated to determine the amount of impairment.

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised.

The amount of the cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss, but are recognised as fair value reserve in other comprehensive income.

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 impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss. Impairment may be reversed only up to the amount of the previously reported impairment.

## **2.7 Repo and reverse repo agreements**

The Croatian National Bank enters into securities purchase/sale agreements under which it agrees to resell/repurchase the same instrument on a specific future date at a fixed price. Securities purchased with the obligation to resell them in the future are not recognised on the Statement of Financial Position.

Payments arising from those agreements are recognised as amounts due from other banks or financial institutions, and are collateralised by securities underlying the repurchase agreement. Securities sold under repurchase agreements are not derecognised and continue to be recognised in the Statement of Financial Position. Receipts from sales of securities are recognised as amounts due to banks and other financial institutions. The difference between the sale and the repurchase price is included in interest income or expense and accrued over the period of the transaction.

## **2.8 Deposits with other banks**

Amounts due from domestic and foreign banks represent balances on non-transactional accounts.

## **2.9 Balances with the International Monetary Fund**

Balances with the International Monetary Fund (IMF) are denominated in Special Drawing Rights (XDR).

**2.10 Precious metals**

Precious metals that are quoted on the world markets are recognised at their market price. Gains and losses on changes in fair value are included in the Income Statement for the period in which they arise.

**2.11 Currency in circulation**

The official currency in the Republic of Croatia is the Croatian kuna. Banknotes and coins in circulation are carried at nominal value.

**2.12 Cash and cash equivalents**

For the purpose of the Statement of Cash Flows, cash and cash equivalents is defined as cash on hand, foreign currency cash in the CNB treasury vault, current accounts with foreign banks, balances with the International Monetary Fund, funds in the CNB's account at the Croatian Large Value Payment System (CLVPS) and in the account of the CNB in the TARGET2 system.

**2.13 Taxation**

In accordance with relevant legislation the Croatian National Bank is not subject to Croatian income tax.

**2.14 Property, plant, equipment and intangible assets**

Property, plant, equipment and intangible assets are reported in the Statement of Financial Position at cost less accumulated depreciation and impairment losses, except for land and buildings which are carried at revalued amount, representing their fair value at the revaluation date, decreased by accumulated depreciation for buildings, and any impairment losses. Depreciation is provided under the straight-line method.

Gains on revaluation are included as a separate component of other comprehensive income. Losses on revaluation are charged to the revaluation reserve account to the extent of the revaluation surplus previously recognised in equity, and any loss in excess of the previously recognised surplus is charged to the Income Statement for the reporting period.

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The following annual depreciation and amortisation rates are used:

| Asset class                            | Expected useful life in<br>2018<br>(number of years) | Expected useful life in<br>2017<br>(number of years) |
|--|--|--|
| Buildings                              | 20 – 50  | 20 – 50  |
| Computers and computing infrastructure | 5 – 8  | 5 – 8  |
| Furniture and equipment                | 4 – 20   | 4 – 20   |
| Motor vehicles                         | 4  | 4  |
| Software and licences                  | 2 – 10   | 2 – 10   |

### **2.15 Impairment of non-financial assets**

The carrying value of non-financial assets is assessed at the end of each reporting period to determine whether there is any indication that the asset may be impaired. If any such indication exists, the recoverable amount of that asset is estimated. For assets with indefinite useful life and intangible assets not yet available for use, recoverable amount is estimated on every reporting date.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit is greater than its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairment loss is recognised in profit or loss.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use is estimated by discounting expected future cash flows with the discount rate that reflects current market assessments of time value of money and the risks specific to these assets.

An impairment loss recognised in prior periods is assessed at the end of each reporting period to determine if there is any indication that that impairment may have decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

## **2.16 Employee benefits**

The Croatian National Bank pays contributions to the obligatory pension funds. The Croatian National Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefits in the Income Statement as they accrue.

Liabilities for long-term employee benefits, such as jubilee rewards and statutory severance pay, are presented in the balance sheet as the net amount of present value of liabilities for defined benefits on a reporting date. The projected credit unit method is used in the calculation of present value of these liabilities.

## **2.17 Allocation of the surplus of income over expenditures and coverage of the shortfall between income and expenditures**

The surplus of income over expenditures is allocated to general reserves and to the State Budget in accordance with Article 57 of the Act on the Croatian National Bank. The Council of the Croatian National Bank determines the amount of the surplus of income over expenditures to be allocated to general reserves. General reserves for the current financial year may neither be lower than net profit from the value adjustment of balance sheet items to changes in the exchange rate or market prices, nor higher than 20% of the accumulated surplus of income over expenditures. By way of exception, if the surplus of income over expenditures is lower than net profit from the value adjustment of balance sheet items to changes in the exchange rate or market prices, the total surplus of income over expenditures shall be allocated to general reserves. The surplus of income over expenditures remaining after the allocation to general reserves constitutes extraordinary revenue to the State Budget. The Croatian National Bank covers any shortfall between income and expenditures from general reserves. Any shortfall between income and expenditures that cannot be covered from general reserves is covered from the State Budget.

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**NOTE 3 – NET INTEREST INCOME**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>2018</b>           | <b>2017</b>           |
|---|-----------------------|-----------------------|
| Interest and similar income                             | 725,700               | 692,031               |
| Interest and similar expenses                           | <u>(233,094)</u>      | <u>(166,799)</u>      |
|   | <b><u>492,606</u></b> | <b><u>525,232</u></b> |

**a) Interest and similar income**

| <i>(All amounts are expressed in thousands of kuna)</i>     | <b>2018</b>           | <b>2017</b>           |
|---|-----------------------|-----------------------|
| Foreign currency deposits                                   | 6,438                 | 3,489                 |
| Held-for-trading securities                                 | 135,722               | 75,574                |
| Held-to-maturity securities                                 | –                     | 213,312               |
| Securities at amortised cost                                | 2,431                 | –                     |
| Available-for-sale securities                               | –                     | 270,096               |
| Securities at fair value through other comprehensive income | 432,487               | –                     |
| Loans to domestic banks                                     | 16,028                | 4,494                 |
| Foreign currency reverse repo agreements                    | 75,659                | 47,365                |
| Kuna reverse repo agreements                                | –                     | 12,790                |
| Foreign currency repo agreements (negative interest)        | 54,382                | 56,822                |
| Other   | <u>2,553</u>          | <u>8,089</u>          |
|   | <b><u>725,700</u></b> | <b><u>692,031</u></b> |

Interest income is calculated using the effective interest rate method for all financial instruments other than securities held for trading.

**b) Interest and similar expenses**

| <i>(All amounts are expressed in thousands of kuna)</i>      | <b>2018</b>           | <b>2017</b>           |
|--|-----------------------|-----------------------|
| Foreign currency deposits (negative interest)                | 44,754                | 32,373                |
| Foreign currency repo agreements                             | 65,079                | 31,183                |
| Foreign currency reverse repo agreements (negative interest) | 121,741               | 100,004               |
| State Budget deposits  | 1,171                 | 2,704                 |
| Other  | <u>349</u>            | <u>535</u>            |
|  | <b><u>233,094</u></b> | <b><u>166,799</u></b> |

Interest expenses are calculated using the effective interest method.

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**NOTE 4 – FEE AND COMMISSION INCOME**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>2018</b>          | <b>2017</b>          |
|---|----------------------|----------------------|
| Fee and commission income                               | 49,513               | 49,578               |
| Fee and commission expenses                             | <u>(20,927)</u>      | <u>(19,240)</u>      |
|   | <b><u>28,586</u></b> | <b><u>30,338</u></b> |

**a) Fee and commission income**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>2018</b>          | <b>2017</b>          |
|---|----------------------|----------------------|
| Fees for the supervision of credit institutions         | 42,351               | 42,132               |
| Other   | <u>7,162</u>         | <u>7,446</u>         |
|   | <b><u>49,513</u></b> | <b><u>49,578</u></b> |

The Croatian National Bank charges the fee for the supervision of credit institutions based on the Credit Institutions Act. Entities subject to supervision fees are credit institutions with head offices in the Republic of Croatia and branches of credit institutions with head offices outside the Republic of Croatia. The level, calculation base, calculation method and payment method for the supervision fee is determined by the Decision on supervision fees for credit institutions issued by the Governor of the Croatian National Bank.

**b) Fee and commission expenses**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>2018</b>          | <b>2017</b>          |
|---|----------------------|----------------------|
| Securities deposit and custody costs                    | 10,144               | 8,778                |
| Obligatory contribution to EBA budget                   | 3,806                | 3,498                |
| Other   | <u>6,977</u>         | <u>6,964</u>         |
|   | <b><u>20,927</u></b> | <b><u>19,240</u></b> |

Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority – EBA), defines that competent authorities shall form part of a European System of Financial Supervision (ESFS), which also comprises the European Banking Authority (EBA). In accordance with the above Regulation, the Croatian National Bank, as the authority competent for the supervision of credit institutions, forms part of the European System of Financial Supervision (ESFS), and a representative of the Croatian National Bank participates as a member in the Board of Supervisors (BoS), EBA's managing authority. Every year, the EBA budget is adopted by the Board of Supervisors, in the manner laid down in

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Article 63 of the Regulation. The revenues of EBA funding the budget also consist, among other things, of obligatory contributions from the national competent authorities, which are made in accordance with a formula based on the weighting of votes.

**NOTE 5 – NET RESULT FROM FINANCIAL ASSETS AT FAIR VALUE  
 THROUGH PROFIT OR LOSS**

| <i>(All amounts are expressed in thousands of kuna)</i>   | <b>2018</b>     | <b>2017</b>      |
|---|-----------------|------------------|
| Net securities trading result, including net changes in fair value of held-for-trading securities | (101,903)       | (129,989)        |
| Net result from assets under management with international financial institutions                 | 25,391          | 13,404           |
| Net result from revaluation of precious metals  | (111)           | (264)            |
|   | <u>(76,623)</u> | <u>(116,849)</u> |

**NOTE 6 – NET RESULT FROM DEBT SECURITIES AT FAIR VALUE THROUGH OTHER  
 COMPREHENSIVE INCOME**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>2018</b>   | <b>2017</b> |
|---|---------------|-------------|
| Net result from sale of debt securities                 | 53,330        | –           |
|   | <u>53,330</u> | <u>–</u>    |

In 2018, the Croatian National Bank generated gain from the sale of debt securities at fair value through other comprehensive income in the amount of HRK 53,330 thousands.

**NOTE 7 – NET EXCHANGE DIFFERENCES**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>2018</b>      | <b>2017</b>        |
|---|------------------|--------------------|
| Net unrealised exchange differences                     | (592,039)        | (2,641,458)        |
| Net realised exchange differences                       | (10,911)         | (17,232)           |
|   | <u>(602,950)</u> | <u>(2,658,690)</u> |

Decrease in the EUR/HRK exchange rate and increase in the USD/HRK exchange rate between the two reporting dates had the biggest effect on the net exchange differences.

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**NOTE 8 – OTHER INCOME**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>2018</b>  | <b>2017</b>  |
|---|--------------|--------------|
| Sale of numismatics and investment gold                 | 315          | 203          |
| Other income  | 5,319        | 6,121        |
|   | <u>5,634</u> | <u>6,324</u> |

**NOTE 9 – OPERATING EXPENSES**

| <i>(All amounts are expressed in thousands of kuna)</i>     | <b>2018</b>    | <b>2017</b>    |
|---|----------------|----------------|
| Staff costs (Note 9.1)                                      | 173,649        | 168,188        |
| Materials, services and administrative expenses             | 103,352        | 93,419         |
| Costs of production of banknotes and coins of Croatian kuna | 62,166         | 52,918         |
| Depreciation and amortisation costs                         | 34,797         | 31,980         |
|   | <u>373,964</u> | <u>346,505</u> |

Materials, services and administrative expenses include the costs of maintenance of office buildings and other fixed assets, overheads, network programmes maintenance costs, office supplies costs, small inventory costs, professional development costs and other current costs.

The costs of printing banknotes are initially deferred and recognised in the Income Statement over a period of ten years, and the cost of minting coins over a period of twelve years.

**NOTE 9.1 – STAFF COSTS**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>2018</b>    | <b>2017</b>    |
|---|----------------|----------------|
| Net salaries  | 85,121         | 82,048         |
| Contributions from and contributions on salaries        | 46,675         | 44,939         |
| Taxes and surtaxes                                      | 18,617         | 17,383         |
| Other employee related expenses                         | 23,236         | 23,818         |
|   | <u>173,649</u> | <u>168,188</u> |

The average number of employees during 2018 was 659 (2017: 657). Total staff costs for 2018 amount to HRK 173,649 thousands, of which the amount of HRK 28,403 thousands relates to contributions for pension insurance (2017: HRK 168,188 thousands, of which HRK 27,556 thousands was related to contributions for pension insurance).

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**NOTE 10 – INCREASE/(DECREASE) IN IMPAIRMENT LOSSES AND PROVISIONS**

*(All amounts are expressed in thousands of kuna)*

|  | 2018         | 2017         |
|--|--------------|--------------|
| <b>Impairment losses</b>   |              |              |
| Increase in impairment losses  | —            | 9            |
|  | <u>—</u>     | <u>9</u>     |
| <br><b>Provisions for loss allowances for expected credit losses</b>       |              |              |
| New loss allowances for expected credit losses according to IFRS 9         | 20,390       | —            |
| Reversal of loss allowances for expected credit losses according to IFRS 9 | (15,897)     | —            |
|  | <u>4,493</u> | <u>—</u>     |
| <br><b>Provisions for risks and charges</b>                                |              |              |
| New provisions   | 9,146        | 11,771       |
| Released provisions  | (10,129)     | (9,255)      |
|  | <u>(983)</u> | <u>2,516</u> |
|  | <u>3,510</u> | <u>2,525</u> |

Movements in provisions for loss allowances for expected credit losses are presented in Note 37.1.3.

**NOTE 11 – CASH AND CURRENT ACCOUNTS WITH OTHER BANKS**

*(All amounts are expressed in thousands of kuna)*

|   | 31/12/2018       | 31/12/2017        |
|---|------------------|-------------------|
| Cash on hand                                    | 1,286            | 1,052             |
| Foreign currency cash in the CNB treasury vault | 2,955,058        | 2,995,507         |
| Current accounts with foreign banks             | 6,513,329        | 16,725,450        |
| CNB account in TARGET2 system                   | 55,428           | 31,767            |
|   | <u>9,525,101</u> | <u>19,753,776</u> |
| <br>Loss allowance for expected credit losses   | (297)            | —                 |
|   | <u>9,524,804</u> | <u>19,753,776</u> |

The largest impact on the decrease in the item of Cash and current accounts with other banks came from the

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amounts of funds in current accounts with foreign banks, which stood at HRK 6,513,329 thousands and were down by HRK 10,212,121 thousands from the end of 2017 (31 December 2017: HRK 16,725,450 thousands).

The national component TARGET2-HR commenced work on 1 February 2016 (refer to Note 23).

**NOTE 12 – DEPOSITS WITH OTHER BANKS**

| <i>(All amounts are expressed in thousands of kuna)</i>  | <b>31/12/2018</b> | <b>31/12/2017</b> |
|--|-------------------|-------------------|
| Deposits with foreign central banks                      | 11,297,498        | 2,284,149         |
| Deposits with foreign commercial banks                   | 130,025           | 125,558           |
| Deposits with domestic commercial banks                  | 5,368             | 8,968             |
|  | <b>11,432,891</b> | <b>2,418,675</b>  |
| Loss allowance for expected credit losses                | (6,750)           | –                 |
|  | <b>11,426,141</b> | <b>2,418,675</b>  |
| Geographical concentration of deposits with other banks: |                   |                   |
| <i>(All amounts are expressed in thousands of kuna)</i>  | <b>31/12/2018</b> | <b>31/12/2017</b> |
| Croatia  | 5,347             | 8,968             |
| Europe   | 11,420,794        | 2,409,707         |
|  | <b>11,426,141</b> | <b>2,418,675</b>  |

The largest impact on the increase in the item of Deposits with other banks came from the deposits with foreign central banks, which stood at HRK 11,297,498 thousands and were up by HRK 9,013,349 thousands from the end of 2017 (31 December 2017: HRK 2,284,149 thousands).

**NOTE 13 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

| <i>(All amounts are expressed in thousands of kuna)</i>                      | <b>31/12/2018</b> | <b>31/12/2017</b> |
|--|-------------------|-------------------|
| Held-for-trading securities (Note 13a)                                       | 38,407,144        | 26,419,157        |
| Assets under management with international financial institutions (Note 13b) | 1,296,161         | 1,255,353         |
| Precious metals  | 6,238             | 6,347             |
|  | <b>39,709,543</b> | <b>27,680,857</b> |

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**a) Held-for-trading securities**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>31/12/2018</b>        | <b>31/12/2017</b>        |
|---|--------------------------|--------------------------|
| EUR-denominated securities                              | 32,471,228               | 21,228,675               |
| USD-denominated securities                              | <u>5,935,916</u>         | <u>5,190,482</u>         |
|   | <b><u>38,407,144</u></b> | <b><u>26,419,157</u></b> |

Held-for-trading securities include accrued interest in the amount of HRK 90,083 thousands at 31 December 2018 (31 December 2017: HRK 76,270 thousands).

**b) Assets under management with international financial institutions**

| <i>(All amounts are expressed in thousands of kuna)</i>                                   | <b>31/12/2018</b>       | <b>31/12/2017</b>       |
|---|-------------------------|-------------------------|
| USD-denominated funds entrusted to the management of international financial institutions | <u>1,296,161</u>        | <u>1,255,353</u>        |
|   | <b><u>1,296,161</u></b> | <b><u>1,255,353</u></b> |

**NOTE 14 – LOANS**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>31/12/2018</b>       | <b>31/12/2017</b>       |
|---|-------------------------|-------------------------|
| Loans to domestic banks                                 | <u>2,029,851</u>        | <u>1,286,731</u>        |
| Other loans   | <u>41</u>               | <u>48</u>               |
|   | <b><u>2,029,892</u></b> | <b><u>1,286,779</u></b> |
| Loss allowance for expected credit losses               | <u>(575)</u>            | <u>(2)</u>              |
|   | <b><u>2,029,317</u></b> | <b><u>1,286,777</u></b> |

Loans to domestic banks comprise collateralised credits, which are the instrument to be used to conduct open market operation regulated by the Decision on monetary policy implementation of the Croatian National Bank. A collateralised credit is a reverse transaction used by the Croatian National Bank to provide liquidity to a counterparty against collateral by securities transferred to the pool of eligible assets.

Total fair value of securities in the pool of eligible assets as at 31 December 2018 amounted to HRK 2,501,999 thousands (31 December 2017: HRK 1,591,196 thousands).

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**NOTE 15 – REVERSE REPO AGREEMENTS**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>31/12/2018</b> | <b>31/12/2017</b> |
|---|-------------------|-------------------|
| Foreign currency reverse repo agreements                | 21,280,067        | 17,643,742        |
|   | <b>21,280,067</b> | <b>17,643,742</b> |
| Loss allowance for expected credit losses               | (1,079)           | –                 |
|   | <b>21,278,988</b> | <b>17,643,742</b> |

Investments in foreign currency reverse repo agreements amount to HRK 21,280,067 thousands, which is an increase of HRK 3,636,325 thousands from end-2017 when they stood at HRK 17,643,742 thousands.

Total fair value of collateral obtained by foreign currency reverse repo agreements (sovereign bonds of countries rated Aaa to Baa1, debt securities of international financial institutions rated Aaa to Aa1 and guaranteed bonds rated Aaa) as at 31 December 2018 amounts to HRK 21,584,610 thousands (31 December 2017: HRK 17,696,512 thousands).

**NOTE 16 – HELD-TO-MATURITY INVESTMENTS**

Held-to-maturity investments comprise the following:

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>31/12/2018</b> | <b>31/12/2017</b> |
|---|-------------------|-------------------|
| Debt securities   | –                 | 19,748,691        |
| Accrued interest  | –                 | 116,492           |
|   | –                 | <b>19,865,183</b> |

**NOTE 17 – DEBT SECURITIES AT AMORTISED COST**

Investments in foreign currency debt securities at amortised cost comprise the following:

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>31/12/2018</b> | <b>31/12/2017</b> |
|---|-------------------|-------------------|
| Debt securities   | 679,403           | –                 |
| Accrued interest  | 2,793             | –                 |
|   | <b>682,196</b>    | –                 |
| Loss allowance for expected credit losses               | (84)              | –                 |
|   | <b>682,112</b>    | –                 |

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**NOTE 18 – BALANCES WITH THE INTERNATIONAL MONETARY FUND**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>31/12/2018</b>       | <b>31/12/2017</b>       |
|---|-------------------------|-------------------------|
| Membership quota  | 6,490,722               | 6,454,341               |
| Special Drawing Rights (XDR) and deposits               | <u>2,757,914</u>        | <u>2,745,857</u>        |
|   | <b><u>9,248,636</u></b> | <b><u>9,200,198</u></b> |

**NOTE 19 – FINANCIAL ASSETS AVAILABLE FOR SALE**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>31/12/2018</b> | <b>31/12/2017</b>        |
|---|-------------------|--------------------------|
| Debt securities   | —                 | 27,925,541               |
| BIS shares  | —                 | 41,914                   |
| SWIFT shares  | —                 | 80                       |
| ECB paid-up capital                                     | <u>—</u>          | <u>18,224</u>            |
|   | <b><u>—</u></b>   | <b><u>27,985,759</u></b> |

Debt securities available for sale include accrued interest in the amount of HRK 161,286 thousands as at 31 December 2017.

**NOTE 20 – DEBT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

Debt securities at fair value through other comprehensive income comprise the following:

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>31/12/2018</b>        | <b>31/12/2017</b> |
|---|--------------------------|-------------------|
| Debt securities   | 43,756,015               | —                 |
| Accrued interest  | <u>239,262</u>           | <u>—</u>          |
|   | <b><u>43,995,277</u></b> | <b><u>—</u></b>   |

**NOTE 21 – EQUITY SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – IRREVOCABLE ELECTION**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>31/12/2018</b>    | <b>31/12/2017</b> |
|---|----------------------|-------------------|
| BIS shares  | 41,914               | —                 |
| SWIFT shares  | 80                   | —                 |
| ECB paid-up capital                                     | <u>18,224</u>        | <u>—</u>          |
|   | <b><u>60,218</u></b> | <b><u>—</u></b>   |

Equity securities comprise paid up capital of the European Central Bank (ECB), BIS shares and SWIFT shares. For these investments the cost is the best estimate of fair value because they do not have quoted market prices on an active market and their fair value cannot be reliably measured.

Based on the ownership holding of 2,441 shares of the Bank for International Settlements (BIS), in the nominal value of XDR 5,000 per share, the Croatian National Bank is a member of the BIS, which enables it the option to use services which the BIS provides to central banks and other financial organisations. In accordance with the Statute of the BIS, 25% of the shares subscribed was paid, while the remaining 75% is payable upon call for payment. In 2018, the Croatian National Bank received a dividend in the amount of HRK 5,111 thousands (2017: HRK 6,652 thousands).

The Croatian National Bank is also a member of the Society for Worldwide Interbank Financial Telecommunication (SWIFT). Based on this membership, the Croatian National Bank participates in international transfers of financial messages. Six SWIFT shares in the nominal value of EUR 125 per share which the Croatian National Bank holds are fully paid in.

According to Article 28 of the Statute of the European System of Central Banks (ESCB), the national central banks (NCBs) of the ESCB are the only subscribers of the ECB's capital. Subscriptions depend on the shares which are regulated by Article 29 of the Statute of the ESCB and the amounts are adjusted every five years.

Since the Republic of Croatia is not part of the euro area, transitional provisions of Article 47 of the ESCB's Statute are applied, according to which the Croatian National Bank had an obligation to subscribe and pay in 3.75% of the capital to the ECB as a contribution to cover ECB's operating costs. The Croatian National Bank, as a national central bank outside the euro area is not entitled to receive an appropriate share of the profit distribution of the ECB, and there is no obligation to cover the loss of the ECB. Following the amendment to the ECB's capital key since 1 January 2014, the contribution of the CNB in the ECB capital amounts to 0.6023%. The CNB's share in issued and paid capital of the ECB amounts to EUR 65,199,017.58 and EUR 2,444,963.16 respectively.

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**NOTE 22 – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>31/12/2018</b> | <b>31/12/2017</b> |
|---|-------------------|-------------------|
| Investment in Croatian Monetary Institute               | 23,617            | 22,033            |
|   | <b>23,617</b>     | <b>22,033</b>     |

The investment of the Croatian National Bank in the Croatian Monetary Institute represents investment in an associate in accordance with IAS 28 and it is accounted for using the equity method. The portion of the Croatian National Bank share in the capital of the Croatian Monetary Institute is 42.6%.

The Croatian Monetary Institute is a domestic company whose core operation is the production of coins and medals of gold and other precious metals, production of coins and commemorative circulation coins, manufacturing of jewellery and related products, trade in gold and other precious metals, trade with jubilee coins and with medals of gold and other precious metals, production of license plates and other registered activities associated with those listed here.

The following table presents summarised financial information of the Croatian Monetary Institute:

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>2018</b> | <b>2017</b> |
|---|-------------|-------------|
| Total assets  | 74,558      | 65,549      |
| <i>Non-current assets</i>                               | 25,464      | 21,060      |
| <i>Current assets</i>                                   | 48,747      | 44,309      |
| <i>Prepaid expenses</i>                                 | 347         | 180         |
| Total liabilities                                       | 18,242      | 12,881      |
| <i>Long-term provisions</i>                             | 200         | 341         |
| <i>Current liabilities</i>                              | 18,032      | 12,528      |
| <i>Accrued expenses</i>                                 | 10          | 12          |
| Equity  | 56,316      | 52,668      |
| Total revenue   | 86,979      | 66,985      |
| Total expenses  | (77,314)    | (61,768)    |
| Profit before tax                                       | 9,665       | 5,217       |
| <i>Income tax</i>                                       | (1,740)     | (940)       |
| Profit for the financial year                           | 7,925       | 4,277       |

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The summarised financial information of the Croatian Monetary Institute for 2018 is presented based on the preliminary financial statements of the Croatian Monetary Institute for 2018 as the final official financial statements of the Croatian Monetary Institute for 2018 were not yet available at the time of preparation of these financial statements.

**NOTE 23 – ACCRUED INTEREST AND OTHER ASSETS**

*(All amounts are expressed in thousands of kuna)*

|   | <b>31/12/2018</b>       | <b>31/12/2017</b>       |
|---|-------------------------|-------------------------|
| Accrued interest                          | 10,742                  | 11,104                  |
| Other participants funds in TARGET2       | 2,061,243               | 7,955,757               |
| Prepaid expenses                          | 431,888                 | 377,101                 |
| Numismatics                               | 12,415                  | 12,496                  |
| Other assets                              | 68,513                  | 86,506                  |
|   | <b><u>2,584,801</u></b> | <b><u>8,442,964</u></b> |
| Loss allowance for expected credit losses | <u>(7,564)</u>          | <u>(7,490)</u>          |
|   | <b><u>2,577,237</u></b> | <b><u>8,435,474</u></b> |

The major portion of prepaid expenses in the amount of HRK 418,184 thousands (2017: HRK 366.746 thousands) relates to the prepaid expenses of printing banknotes and minting coins.

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**NOTE 24 – PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS**

(All amounts are expressed in thousands of kuna)

|  | Land and buildings | Computers and computing infrastructure | Furniture and equipment | Motor vehicles | Assets under development – property, plant, equipment | TOTAL PROPERTY, PLANT AND EQUIPMENT | Software and licences | Assets under development – intangible assets | TOTAL INTANGIBLE ASSETS | TOTAL property, plant, equipment and intangible assets |
|--|--------------------|--|-------------------------|----------------|---|-------------------------------------|-----------------------|--|-------------------------|--|
| <b>Balance at 1 January 2017</b>           |                    |  |                         |                |   |                                     |                       |  |                         |  |
| Cost or revaluation                        | 498,520            | 167,941                                | 41,746                  | 10,066         | 20,877  | 739,150                             | 88,987                | 18,351                                       | 107,338                 | 846,488  |
| Accumulated depreciation/amortisation      | (20,951)           | (120,738)                              | (34,178)                | (9,980)        | —   | (185,847)                           | (69,971)              | —  | (69,971)                | (255,818)  |
| <b>Net book value</b>                      | <b>477,569</b>     | <b>47,203</b>                          | <b>7,568</b>            | <b>86</b>      | <b>20,877</b>   | <b>553,303</b>                      | <b>19,016</b>         | <b>18,351</b>                                | <b>37,367</b>           | <b>590,670</b>   |
| <b>For the year ended 31 December 2017</b> |                    |  |                         |                |   |                                     |                       |  |                         |  |
| Opening net book amount                    | 477,569            | 47,203                                 | 7,568                   | 86             | 20,877  | 553,303                             | 19,016                | 18,351                                       | 37,367                  | 590,670  |
| Additions                                  |                    |  |                         |                | 19,812  | 19,812                              | —                     | 5,800  | 5,800                   | 25,612   |
| Brought into use                           | 1,762              | 27,813                                 | 1,156                   | 222            | (30,953)  | —                                   | 14,412                | (14,412)                                     | —                       | —  |
| Net written off                            | —                  | (2)                                    | (4)                     | —              | —   | (6)                                 | —                     | —  | —                       | (6)  |
| Charge for the year                        | (8,159)            | (17,046)                               | (2,224)                 | (57)           | —   | (27,486)                            | (4,493)               | —  | (4,493)                 | (31,979)   |
| <b>Closing net book amount</b>             | <b>471,172</b>     | <b>57,968</b>                          | <b>6,496</b>            | <b>251</b>     | <b>9,736</b>  | <b>545,623</b>                      | <b>28,935</b>         | <b>9,739</b>                                 | <b>38,674</b>           | <b>584,297</b>   |
| <b>Balance at 31 December 2017</b>         |                    |  |                         |                |   |                                     |                       |  |                         |  |
| Cost or revaluation                        | 500,282            | 193,654                                | 41,996                  | 9,431          | 9,736   | 755,099                             | 87,336                | 9,739  | 97,075                  | 852,174  |
| Accumulated depreciation/amortisation      | (29,110)           | (135,686)                              | (35,500)                | (9,180)        | —   | (209,476)                           | (58,401)              | —  | (58,401)                | (267,877)  |
| <b>Net book value</b>                      | <b>471,172</b>     | <b>57,968</b>                          | <b>6,496</b>            | <b>251</b>     | <b>9,736</b>  | <b>545,623</b>                      | <b>28,935</b>         | <b>9,739</b>                                 | <b>38,674</b>           | <b>584,297</b>   |

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**NOTE 24 – PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (continued)**

| <i>(All amounts are expressed in thousands of kuna)</i> | Land and buildings | Computers and computing infrastructure | Furniture and equipment | Motor vehicles | Assets under development – property, plant, equipment | TOTAL PROPERTY, PLANT AND EQUIPMENT | Software and licences | Assets under development – intangible assets | TOTAL INTANGIBLE ASSETS | TOTAL property, plant, equipment and intangible assets |
|---|--------------------|--|-------------------------|----------------|---|-------------------------------------|-----------------------|--|-------------------------|--|
| Cost or revaluation                                     | 500,282            | 193,654                                | 41,996                  | 9,431          | 9,736   | 755,099                             | 87,336                | 9,739  | 97,075                  | 852,174  |
| Accumulated depreciation/amortisation                   | (29,110)           | (135,686)                              | (35,500)                | (9,180)        | –   | (209,476)                           | (58,401)              | –  | (58,401)                | (267,877)  |
| <b>Net book value</b>                                   | <b>471,172</b>     | <b>57,968</b>                          | <b>6,496</b>            | <b>251</b>     | <b>9,736</b>  | <b>545,623</b>                      | <b>28,935</b>         | <b>9,739</b>                                 | <b>38,674</b>           | <b>584,297</b>   |
| <b>For the year ended 31 December 2018</b>              |                    |  |                         |                |   |                                     |                       |  |                         |  |
| Opening net book amount                                 | 471,172            | 57,968                                 | 6,496                   | 251            | 9,736   | 545,623                             | 28,935                | 9,739  | 38,674                  | 584,297  |
| Additions   |                    |  |                         |                | 27,487  | 27,487                              | –                     | 2,067  | 2,067                   | 29,554   |
| Brought into use  | 999                | 19,037                                 | 1,788                   | 229            | (22,053)  | –                                   | –                     | (1,940)                                      | –                       | –  |
| Net written off   | –                  | –                                      | (8)                     | –              | –   | (8)                                 | –                     | –  | –                       | (8)  |
| Charge for the year                                     | (8,191)            | (19,532)                               | (2,178)                 | (103)          | –   | (30,004)                            | (4,793)               | –  | (4,793)                 | (34,797)   |
| <b>Closing net book amount</b>                          | <b>463,980</b>     | <b>57,473</b>                          | <b>6,098</b>            | <b>377</b>     | <b>15,170</b>   | <b>543,098</b>                      | <b>26,082</b>         | <b>9,866</b>                                 | <b>35,948</b>           | <b>579,046</b>   |
| <b>Balance at 31 December 2018</b>                      |                    |  |                         |                |   |                                     |                       |  |                         |  |
| Cost or revaluation                                     | 501,282            | 211,511                                | 43,230                  | 9,241          | 15,170  | 780,434                             | 89,270                | 9,866  | 99,136                  | 879,570  |
| Accumulated depreciation/amortisation                   | (37,302)           | (154,038)                              | (37,132)                | (8,864)        | –   | (237,336)                           | (63,188)              | –  | (63,188)                | (300,524)  |
| <b>Net book value</b>                                   | <b>463,980</b>     | <b>57,473</b>                          | <b>6,098</b>            | <b>377</b>     | <b>15,170</b>   | <b>543,098</b>                      | <b>26,082</b>         | <b>9,866</b>                                 | <b>35,948</b>           | <b>579,046</b>   |

Revalued amounts of land and buildings were determined based on appraisals performed by independent experts in 2014. Valuation technique used to determine fair value was income approach. Certain significant inputs for valuation were not observable market data (Level 3 of fair value hierarchy). If the land and buildings were carried at cost less depreciation, their net book value as at 31 December 2018 would be HRK 135,333 thousands. Property, plant and equipment of the Croatian National Bank are not pledged, either as part of mortgage agreements or as a fiduciary relationship.

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**NOTE 25 – BANKNOTES AND COINS IN CIRCULATION**

*(All amounts are expressed in thousands of kuna)*

|  | <b>2018</b>              | <b>2017</b>              |
|--|--------------------------|--------------------------|
| Banknotes and coins in circulation as at January 1                         | 31,691,425               | 27,913,956               |
| Increase/ (decrease) of banknotes and coins in circulation during the year | <u>3,354,735</u>         | <u>3,777,469</u>         |
| <b>Banknotes and coins in circulation – total as at December 31</b>        | <b><u>35,046,160</u></b> | <b><u>31,691,425</u></b> |

| In HRK       | Nominal value | 31/12/2018  |                                  | 31/12/2017  |                                  |
|--------------|---------------|-------------|----------------------------------|-------------|----------------------------------|
|              |               | Pieces      | Value<br>in thousands of<br>kuna | Pieces      | Value<br>in thousands of<br>kuna |
| Coins        | 0.01          | 127,112,305 | 1,271                            | 126,056,491 | 1,261                            |
| Coins        | 0.02          | 85,032,936  | 1,701                            | 84,309,178  | 1,686                            |
| Coins        | 0.05          | 388,085,489 | 19,404                           | 369,123,646 | 18,456                           |
| Coins        | 0.10          | 562,603,334 | 56,260                           | 536,756,301 | 53,676                           |
| Coins        | 0.20          | 432,115,443 | 86,423                           | 408,202,196 | 81,640                           |
| Coins        | 0.50          | 252,008,177 | 126,004                          | 237,455,696 | 118,728                          |
| Coins        | 1             | 285,547,074 | 285,547                          | 265,716,254 | 265,716                          |
| Coins        | 2             | 173,131,930 | 346,264                          | 157,534,402 | 315,069                          |
| Coins        | 5             | 115,028,414 | 575,142                          | 104,769,354 | 523,847                          |
| Coins        | 25            | 1,242,984   | 31,075                           | 1,234,048   | 30,851                           |
| Banknotes    | 5             | 4,126,781   | 20,634                           | 4,129,038   | 20,645                           |
| Banknotes    | 10            | 49,360,032  | 493,600                          | 46,514,754  | 465,147                          |
| Banknotes    | 20            | 34,932,870  | 698,658                          | 32,213,788  | 644,276                          |
| Banknotes    | 50            | 20,042,044  | 1,002,102                        | 18,352,875  | 917,644                          |
| Banknotes    | 100           | 41,562,344  | 4,156,234                        | 38,649,766  | 3,864,977                        |
| Banknotes    | 200           | 82,108,672  | 16,421,734                       | 73,168,029  | 14,633,606                       |
| Banknotes    | 500           | 7,500,941   | 3,750,471                        | 7,322,538   | 3,661,269                        |
| Banknotes    | 1,000         | 6,973,636   | 6,973,636                        | 6,072,931   | 6,072,931                        |
| <b>TOTAL</b> |               |             | <b>35,046,160</b>                |             | <b>31,691,425</b>                |

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**NOTE 26 – DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS**

| <i>(All amounts are expressed in thousands of kuna)</i>      | <b>31/12/2018</b>        | <b>31/12/2017</b>        |
|--|--------------------------|--------------------------|
| Kuna reserve requirements                                    | 23,482,632               | 22,148,237               |
| Foreign currency accounts of TARGET2 system participants     | 2,061,243                | 7,955,757                |
| Other deposits from domestic banks                           | 44,210,060               | 33,874,005               |
| Deposits from foreign banks and other financial institutions | 72                       | 72                       |
| Court-mandated deposits                                      | 53,214                   | 95,069                   |
|  | <b><u>69,807,221</u></b> | <b><u>64,073,140</u></b> |

Due to banks and other financial institutions also comprises foreign currency accounts of participants in TARGET2 system. TARGET2 (*Trans-European Automated Real-time Gross settlement Express Transfer system*) is a payment system for the settlement of payment transactions in euro on a gross basis in real time. TARGET2 is a system with the Single Shared Platform (SSP), jointly administered by Banca d'Italia, Banque de France and Deutsche Bundesbank on behalf of the Eurosystem. In addition to this Note to the financial statements, business activities related to TARGET2 are presented in the balance sheet positions "Cash and current accounts with other banks" (Note 11) and "Accrued interest and other assets" (Note 23).

**NOTE 27 – REPO AGREEMENTS**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>31/12/2018</b>       | <b>31/12/2017</b>        |
|---|-------------------------|--------------------------|
| Foreign currency repo agreements                        | 9,219,306               | 12,023,244               |
|   | <b><u>9,219,306</u></b> | <b><u>12,023,244</u></b> |

Total fair value of collateral given in repo agreements as at 31 December 2018 amounted to HRK 9,239,198 thousands (31 December 2017: HRK 11,884,102 thousands).

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**NOTE 28 – DUE TO THE STATE AND STATE INSTITUTIONS**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>31/12/2018</b>       | <b>31/12/2017</b>       |
|---|-------------------------|-------------------------|
| Domestic currency account balances                      | 2,866,339               | 2,908,755               |
| Foreign currency denominated deposit account balances   | <u>31,661</u>           | <u>40,446</u>           |
|   | <b><u>2,898,000</u></b> | <b><u>2,949,201</u></b> |

**NOTE 29 – DUE TO THE INTERNATIONAL MONETARY FUND**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>31/12/2018</b>       | <b>31/12/2017</b>       |
|---|-------------------------|-------------------------|
| Kuna-denominated bills of exchange                      | 6,472,018               | 6,435,967               |
| Net cumulative allocations                              | 2,742,649               | 2,727,262               |
| Other IMF's accounts                                    | <u>16,307</u>           | <u>16,214</u>           |
|   | <b><u>9,230,974</u></b> | <b><u>9,179,443</u></b> |

The bills of exchange denominated in the Croatian kuna relate to the membership of the Republic of Croatia in the International Monetary Fund.

**NOTE 30 – ACCRUED INTEREST AND OTHER LIABILITIES**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>31/12/2018</b>     | <b>31/12/2017</b>     |
|---|-----------------------|-----------------------|
| Accrued interest  | 17,647                | 10,692                |
| Amounts due to employees                                | 7,459                 | 6,764                 |
| Taxes and contributions                                 | 6,478                 | 7,014                 |
| Obligations to European Commission in EUR               | 793                   | 768                   |
| Obligations to European Commission in HRK               | 334,614               | 575,492               |
| Due to the Ministry of Finance                          | 15,202                | 15,600                |
| Trade payables  | 17,807                | 20,849                |
| Long-term provisions for risks and charges              | 46,766                | 47,749                |
| Other liabilities                                       | <u>15,072</u>         | <u>19,477</u>         |
|   | <b><u>461,838</u></b> | <b><u>704,405</u></b> |

The European Commission has opened EUR and HRK transaction accounts and the European Development

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Fund Account in euro with the Croatian National Bank for the performance of payment transactions.

Included in long-term provisions for risks and charges HRK 24,822 thousands (2017: HRK 24,822 thousands) are in respect of legal actions and HRK 21,944 thousands (2017: HRK 22,927 thousands) in respect of provisions for employee benefits.

The following tables present movements in long-term provisions for risks and charges:

| <i>(All amounts are expressed in thousands of kuna)</i> | Court<br>cases | Employee<br>benefits | Total         |
|---|----------------|----------------------|---------------|
| <b>As at 1 January 2018</b>                             | <b>24,822</b>  | <b>22,927</b>        | <b>47,749</b> |
| Released provisions                                     | –              | (10,129)             | (10,129)      |
| New provisions  | –              | 9,146                | 9,146         |
| Recognised in profit or loss                            | –              | (983)                | (983)         |
| Amounts paid  | –              | –                    | –             |
| <b>As at 31 December 2018</b>                           | <b>24,822</b>  | <b>21,944</b>        | <b>46,766</b> |

| <i>(All amounts are expressed in thousands of kuna)</i> | Court<br>cases | Employee<br>benefits | Total         |
|---|----------------|----------------------|---------------|
| <b>As at 1 January 2017</b>                             | <b>24,562</b>  | <b>20,670</b>        | <b>45,232</b> |
| Released provisions                                     | –              | (9,255)              | (9,255)       |
| New provisions  | 260            | 11,512               | 11,772        |
| Recognised in profit or loss                            | 260            | 2,257                | 2,517         |
| Amounts paid  | –              | –                    | –             |
| <b>As at 31 December 2017</b>                           | <b>24,822</b>  | <b>22,927</b>        | <b>47,749</b> |

#### **NOTE 31 – EQUITY**

The equity funds of the Croatian National Bank consist of the capital and reserves.

The capital in the amount of HRK 2,500,000 thousands may not be transferred or pledged. Reserves comprise general and specific reserves. General reserves are formed for the purpose of covering general operational risks of the Croatian National Bank, they are not limited in size, and they are formed in accordance with the Act on

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the Croatian National Bank. Specific reserves are formed for the purpose of covering identified losses in accordance with decisions of the Council of the Croatian National Bank.

Total reserves as at 31 December 2018 amount to HRK 11,971,437 thousands, which is an increase of HRK 215,524 thousands from 31 December 2017 when they stood at HRK 11,755,913 thousands. The effect of the application of IFRS 9 at 1 January 2018 resulted in an increase in total reserves in the amount of HRK 792,131 thousands, while other comprehensive loss in the amount of HRK 108,234 thousands and the coverage of losses for 2018 in the amount of HRK 468,373 thousands charged to general reserves had an impact on the decrease in general reserves.

**NOTE 32 – MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

The following table presents maturity analysis of assets and liabilities depending on the expected maturity date or the settlement date:

- twelve months after the reporting period,
- more than twelve months after the reporting period.

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### 32.1 Maturity analysis of assets and liabilities

| <i>(All amounts are expressed in thousands of kuna)</i>                                   | <b>Up to 12 months</b>    | <b>More than 12 months</b> | <b>Total</b>              |
|---|---------------------------|----------------------------|---------------------------|
| <b>As at 31 December 2018</b>   |                           |                            |                           |
| <b>Assets</b>   |                           |                            |                           |
| Cash and current accounts with other banks  | 9,524,804                 | –                          | 9,524,804                 |
| Deposits with other banks   | 11,420,794                | 5,347                      | 11,426,141                |
| Financial assets at fair value through profit or loss                                     | 38,407,144                | 1,302,399                  | 39,709,543                |
| Loans   | –                         | 2,029,317                  | 2,029,317                 |
| Reverse repo agreements   | 21,278,988                | –                          | 21,278,988                |
| Debt securities at amortised cost   | –                         | 682,112                    | 682,112                   |
| Balances with the International Monetary Fund   | 2,753,217                 | 6,495,419                  | 9,248,636                 |
| Debt securities at fair value through other comprehensive income                          | 43,995,277                | –                          | 43,995,277                |
| Equity securities at fair value through other comprehensive income – irrevocable election | –                         | 60,218                     | 60,218                    |
| Investments accounted for using the equity method   | –                         | 23,617                     | 23,617                    |
| Accrued interest and other assets   | 2,159,053                 | 418,184                    | 2,577,237                 |
| Property, plant, equipment and intangible assets  | 6                         | 579,040                    | 579,046                   |
| <b>Total assets</b>   | <b><u>129,539,283</u></b> | <b><u>11,595,653</u></b>   | <b><u>141,134,936</u></b> |
| <b>Liabilities</b>  |                           |                            |                           |
| Banknotes and coins in circulation  | 35,046,160                | –                          | 35,046,160                |
| Due to banks and other financial institutions   | 69,807,149                | 72                         | 69,807,221                |
| Repo agreements   | 9,219,306                 | –                          | 9,219,306                 |
| Due to the State and State institutions   | 2,898,000                 | –                          | 2,898,000                 |
| Due to the International Monetary Fund  | –                         | 9,230,974                  | 9,230,974                 |
| Accrued interest and other liabilities  | 461,215                   | 623                        | 461,838                   |
| <b>Total liabilities</b>  | <b><u>117,431,830</u></b> | <b><u>9,231,669</u></b>    | <b><u>126,663,499</u></b> |
| <b>Net position</b>   | <b><u>12,107,453</u></b>  | <b><u>2,363,984</u></b>    | <b><u>14,471,437</u></b>  |

Notes: According to convention, the amount of the kuna component of reserve requirements of HRK 23,482,632 thousands is stated in the position Due to banks and other financial institutions with a maturity of less than 12 months. The calculation, maintenance and allocation of reserve requirements is performed on a monthly basis, and a change in the amount of reserves may result from changes in the base for calculation, the reserve requirement rate and the percentage of the reserves banks are required to hold in their accounts with the Croatian National Bank. In practice, these liabilities may be considered as having a maturity of over 12 months and in that case the short-term liabilities would be lower than the short-term assets. Debt securities at fair value through other comprehensive income and at fair value through profit or loss are included in the period up to 12 months due to their high tradability in the secondary market, regardless of their contractual maturities.

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**32.1 Maturity analysis of assets and liabilities (continued)**

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>Up to 12 months</b>    | <b>More than 12 months</b> | <b>Total</b>              |
|---|---------------------------|----------------------------|---------------------------|
| <b>As at 31 December 2017</b>                           |                           |                            |                           |
| <b>Assets</b>   |                           |                            |                           |
| Cash and current accounts with other banks              | 19,753,776                | —                          | 19,753,776                |
| Deposits with other banks                               | 2,409,707                 | 8,968                      | 2,418,675                 |
| Financial assets at fair value through profit or loss   | 26,419,157                | 1,261,700                  | 27,680,857                |
| Loans   | —                         | 1,286,777                  | 1,286,777                 |
| Reverse repo agreements                                 | 17,643,742                | —                          | 17,643,742                |
| Held-to-maturity investments                            | 3,402,220                 | 16,462,963                 | 19,865,183                |
| Balances with the International Monetary Fund           | 2,741,186                 | 6,459,012                  | 9,200,198                 |
| Financial assets available for sale                     | 27,925,541                | 60,218                     | 27,985,759                |
| Investments accounted for using the equity method       | —                         | 22,033                     | 22,033                    |
| Accrued interest and other assets                       | 8,068,728                 | 366,746                    | 8,435,474                 |
| Property, plant, equipment and intangible assets        | 200                       | 584,097                    | 584,297                   |
| <b>Total assets</b>                                     | <b><u>108,364,257</u></b> | <b><u>26,512,514</u></b>   | <b><u>134,876,771</u></b> |
| <b>Liabilities</b>                                      |                           |                            |                           |
| Banknotes and coins in circulation                      | 31,691,425                | —                          | 31,691,425                |
| Due to banks and other financial institutions           | 64,073,068                | 72                         | 64,073,140                |
| Repo agreements   | 12,023,244                | —                          | 12,023,244                |
| Due to the State and State institutions                 | 2,949,201                 | —                          | 2,949,201                 |
| Due to the International Monetary Fund                  | —                         | 9,179,443                  | 9,179,443                 |
| Accrued interest and other liabilities                  | 703,617                   | 788                        | 704,405                   |
| <b>Total liabilities</b>                                | <b><u>111,440,555</u></b> | <b><u>9,180,303</u></b>    | <b><u>120,620,858</u></b> |
| <b>Net position</b>                                     | <b><u>(3,076,298)</u></b> | <b><u>17,332,211</u></b>   | <b><u>14,255,913</u></b>  |

Notes: According to convention, the amount of the kuna component of reserve requirements of HRK 22,148,237 thousands is stated in the position Due to banks and other financial institutions with a maturity of less than 12 months. The calculation, maintenance and allocation of reserve requirements is performed on a monthly basis, and a change in the amount of reserves may result from changes in the base for calculation, the reserve requirement rate and the percentage of the reserves banks are required to hold in their accounts with the Croatian National Bank. In practice, these liabilities may be considered as having a maturity of over 12 months and in that case the short-term liabilities would be lower than the short-term assets. Debt securities available for sale and at fair value through profit or loss are included in the period up to 12 months due to their high tradability in the secondary market, regardless of their contractual maturities.

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**NOTE 33 – CONTINGENT LIABILITIES AND COMMITMENTS AND TREASURY INVENTORY SYSTEM**

**Legal actions:** At 31 December 2018, there were several legal actions outstanding against the Croatian National Bank. In the opinion of the management and internal legal advisers of the Croatian National Bank, the Bank may lose certain cases. As a result, provisions for potential losses on such cases were made by the Bank in the amount of HRK 24,822 thousands (refer to Note 30).

**Capital commitments:** As at 31 December 2018, the capital commitments of the Croatian National Bank amounted to HRK 4,050 thousands (2017: HRK 2,178 thousands).

**Treasury inventory system**

| <i>(All amounts are expressed in thousands of kuna)</i>   | <b>31/12/2018</b>        | <b>31/12/2017</b>        |
|---|--------------------------|--------------------------|
| Banknotes and coins not in circulation                    | 50,672,208               | 51,291,978               |
| Inventory of government stamps and bill-of-exchange forms | 141,629                  | 174,938                  |
|   | <b><u>50,813,837</u></b> | <b><u>51,466,916</u></b> |

**NOTE 34 – CASH AND CASH EQUIVALENTS**

| <i>(All amounts are expressed in thousands of kuna)</i>   | <b>31/12/2018</b>        | <b>31/12/2017</b>        |
|---|--------------------------|--------------------------|
| Cash on hand (Note 11)                                    | 1,286                    | 1,052                    |
| Foreign currency cash in the CNB treasury vault (Note 11) | 2,955,058                | 2,995,507                |
| Current accounts with foreign banks (Note 11)             | 6,513,329                | 16,725,450               |
| Funds with the IMF  | 2,753,216                | 2,741,186                |
| CNB account in TARGET2 system (Note 11)                   | 55,428                   | 31,767                   |
|   | <b><u>12,278,317</u></b> | <b><u>22,494,962</u></b> |

**NOTE 35 – RESULT FOR THE YEAR**

| <i>(All amounts are expressed in thousands of kuna)</i>                         | <b>31/12/2018</b> | <b>31/12/2017</b> |
|---|-------------------|-------------------|
| (Shortfall between income and expenditures)/surplus of income over expenditures | (468,373)         | (2,554,231)       |
| Covered from general reserves   | 468,373           | 2,554,231         |
|   | <b><u>—</u></b>   | <b><u>—</u></b>   |

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The Croatian National Bank realised the shortfall between income and expenditures for the year 2018 in the amount of HRK 468,373 thousands. The financial result was mainly due to the impact of net unrealised exchange differences for 2018 which are negative and amount to HRK 592,039 thousands (refer to Note 7). The Croatian National Bank covers the shortfall between income and expenditures for 2018 in the amount of HRK 468,373 thousands from general reserves.

The Croatian National Bank realised the shortfall between income and expenditures for the year 2017 in the amount of HRK 2,554,231 thousands. The financial result was mainly due to the impact of net unrealised exchange differences for 2017 which are negative and amount to HRK 2,641,458 thousands (refer to Note 7). The shortfall between income and expenditures for 2017 in the amount of HRK 2,554,231 thousands was covered from general reserves.

**NOTE 36 – FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

In the process of determination of the fair value of financial assets and liabilities a market approach is used as a valuation technique. As a part of a hierarchical approach to the determination of fair value, the Croatian National Bank uses the first hierarchical valuation level (Level 1), which means that inputs are observable market values which reflect quotation prices for the same assets or liabilities in active markets. If price quotations are not available, fair value is calculated based on the models recognized by GIPS standards (Global Investment Performance Standards). The input data used are observable market values (interest rates), which correspond to Level 2 of fair value hierarchy.

During the reporting period there were no reclassifications between the levels of fair value hierarchy.

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**a) Financial assets and liabilities measured at fair value**

The following table presents the fair value hierarchy for financial assets measured at fair value.

| <i>(All amounts are expressed in thousands of kuna)</i>                                 | 31/12/2018        |                   | Total             |
|---|-------------------|-------------------|-------------------|
|   | Level 1           | Level 2           |                   |
| <b>Financial assets at fair value through profit or loss</b>                            |                   |                   |                   |
| <i>Foreign securities held for trading</i>  |                   |                   |                   |
| Government securities   | 22,194,327        | 12,445,864        | 34,640,191        |
| Guaranteed bonds  | 1,671,505         | —                 | 1,671,505         |
| Securities of international financial institutions                                      | 1,448,282         | —                 | 1,448,282         |
| Bank bonds with government guarantees   | 298,237           | 348,929           | 647,166           |
| <i>Total securities held for trading (Note 13a)</i>                                     | 25,612,351        | 12,794,793        | 38,407,144        |
| <i>Assets under management with international financial institutions (Note 13b)</i>     | 1,296,161         | —                 | 1,296,161         |
| <i>Precious metals</i>  | 6,238             | —                 | 6,238             |
| <b>Total financial assets at fair value through profit or loss</b>                      | <b>26,914,750</b> | <b>12,794,793</b> | <b>39,709,543</b> |
| <b>Financial assets at fair value through other comprehensive income</b>                |                   |                   |                   |
| <i>Foreign securities at fair value through other comprehensive income</i>              |                   |                   |                   |
| Government securities   | 40,991,916        | 257,318           | 41,249,234        |
| Securities of international financial institutions                                      | 2,221,105         | —                 | 2,221,105         |
| Bank bonds with government guarantees   | 524,938           | —                 | 524,938           |
| <i>Total debt securities at fair value through other comprehensive income (Note 20)</i> | 43,737,959        | 257,318           | 43,995,277        |
| <b>Total financial assets at fair value through other comprehensive income</b>          | <b>43,737,959</b> | <b>257,318</b>    | <b>43,995,277</b> |
| <b>Total</b>  | <b>70,652,709</b> | <b>13,052,111</b> | <b>83,704,820</b> |

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| (All amounts are expressed in thousands of kuna)                                    | 31/12/2017        |                  |                   |
|---|-------------------|------------------|-------------------|
|   | Level 1           | Level 2          | Total             |
| <b>Financial assets at fair value through profit or loss</b>                        |                   |                  |                   |
| <i>Foreign securities held for trading</i>  |                   |                  |                   |
| Government securities   | 15,972,972        | 7,542,913        | 23,515,885        |
| Guaranteed bonds (public sector collateral)   | 858,415           | —                | 858,415           |
| Securities of international financial institutions                                  | 1,679,306         | —                | 1,679,306         |
| Bank bonds with government guarantees   | 302,922           | 62,629           | 365,551           |
| <i>Total securities held for trading (Note 13a)</i>                                 | <i>18,813,615</i> | <i>7,605,542</i> | <i>26,419,157</i> |
| <i>Assets under management with international financial institutions (Note 13b)</i> | <i>1,255,353</i>  | —                | <i>1,255,353</i>  |
| <i>Precious metals</i>  | <i>6,347</i>      | —                | <i>6,347</i>      |
| <b>Total financial assets at fair value through profit or loss</b>                  | <b>20,075,315</b> | <b>7,605,542</b> | <b>27,680,857</b> |
| <b>Financial assets available for sale</b>  |                   |                  |                   |
| <i>Foreign securities available for sale</i>  |                   |                  |                   |
| Government securities   | 24,978,162        | —                | 24,978,162        |
| Guaranteed bonds (public sector collateral)   | 63,097            | —                | 63,097            |
| Securities of international financial institutions                                  | 2,201,256         | —                | 2,201,256         |
| Bank bonds with government guarantees   | 683,026           | —                | 683,026           |
| <i>Total debt securities available for sale (Note 18)</i>                           | <i>27,925,541</i> | —                | <i>27,925,541</i> |
| <b>Total financial assets available for sale</b>                                    | <b>27,925,541</b> | —                | <b>27,925,541</b> |
| <b>Total</b>  | <b>48,000,856</b> | <b>7,605,542</b> | <b>55,606,398</b> |

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**b) Financial assets and liabilities not measured at fair value**

Debt securities held to maturity, classified as investment held to maturity pursuant to IAS 39, i.e. as financial assets at amortised cost pursuant to IFRS 9, are measured at amortised cost. The comparison of book and fair values is presented in the following table.

| <i>(All amounts are expressed in thousands of kuna)</i> | <b>Debt securities</b> |                   |
|---|------------------------|-------------------|
|   | <b>Book value</b>      | <b>Fair value</b> |
| <b>31/12/2018</b>                                       | <b>682,112</b>         | <b>693,107</b>    |
| <b>31/12/2017</b>                                       | <b>19,865,183</b>      | <b>20,659,249</b> |

In determining the fair value of debt securities measured at amortised cost Level 1 of fair value hierarchy input data was used.

Investments in equity securities are designated as financial assets at fair value through other comprehensive income and include investments in BIS shares, SWIFT shares and ECB paid-up capital. For these investments, the cost is the best estimate of fair value.

The fair values of remaining financial assets and liabilities of the Croatian National Bank are approximately equal to the accounting values due to the short maturities of the instruments.

## **NOTE 37 – RISK MANAGEMENT**

The Croatian National Bank manages international reserves of the Republic of Croatia based on the principles of liquidity and safety. The Bank maintains high liquidity of international reserves and appropriate risk exposures, and seeks to achieve a favourable return on its investments within the defined limits.

Risks inherent to managing international reserves consist primarily of financial risks such as credit risk, liquidity risk and market risk. However, attention is given also to operating risk.

Operating risk is the risk of loss due to inappropriate or inefficient internal processes, employees or systems or due to the events external to the Bank. Operating risk is managed by strict segregation of duties and responsibilities, formalised methodologies and procedures and by conducting regular internal and external audits.

### **NOTE 37.1 – CREDIT RISK**

Credit risk is the risk that the counterparty will not settle its liability i.e. the possibility that invested funds will not be recovered in full or within the planned schedule.

The Croatian National Bank manages its credit risk exposure by investing its international reserve funds into high-quality instruments with minimum risk, such as government bonds, government guaranteed bonds, bank bonds with government guarantee and guaranteed bonds, into instruments of international financial institutions with high credit rating and into both collateralised and non-collateralised deposits. Collateralised deposits represent deposits secured by government bonds in the amount equal to, or in excess of the value of the deposit.

Its assessment of counterparties' creditworthiness is based on ratings of major internationally recognized rating agencies (Moody's, Standard & Poor's, and Fitch).

International reserves placements are limited per types of issuer and per types of financial institutions, which diversifies credit risk.

The Croatian National Bank invests the international reserve funds in government bonds and government guaranteed bonds of countries rated Aaa to Baa3 (Moody's), guaranteed bonds with ratings from Aaa to Aa2,

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reverse repo agreements with commercial banks with ratings of Aaa to Baa3, deposits with central banks rated Aaa to Baa3, instruments with international financial institutions rated Aaa to A2, and deposits placed with commercial banks rated Aaa to A3 for the purpose of carrying out foreign currency transactions.

Presentation of financial assets exposed to credit risk in the tables Maximum exposure to credit risk and credit risk by counterparty credit rating and Geographical concentration of credit risk (Notes 37.1.1 and 37.1.2) differ from the presentation in the Statement of Financial Position as they are based on management reports. Reconciliation is not practicable. Some of the differences are:

- Line item Deposits in Notes 37.1.1 and 37.1.2 includes line items Cash and current accounts with other banks, Deposits with other banks and Balances with the International Monetary Fund from the Statement of Financial Position. Additionally, deposits are split by currency and recipient (international financial institutions, foreign and domestic banks). Balances of deposits presented in Notes 37.1.1 and 37.1.2 include accrued negative interest, included in line item Accrued interest and other liabilities in the Statement of Financial Position.
- Securities are divided by financial asset category in the Statement of Financial Position, while they are additionally divided by issuer and currency in Notes Maximum exposure to credit risk and credit risk by counterparty credit rating and in Geographical concentration of credit risk.
- Line item Reverse repo agreements from the Statement of Financial Position is divided per currency in Notes 37.1.1 and 37.1.2 and includes accrued negative interest presented in line item Accrued interest and other liabilities.
- Line item Other financial assets denominated in foreign currency and Other financial assets in kuna presented in Notes 37.1.1 and 37.1.2 are part of line item Accrued interest and other assets from the Statement of Financial Position.

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**NOTE 37.1 – CREDIT RISK (continued)**

**37.1.1 Maximum exposure to credit risk and credit risk by counterparty credit rating**

| <i>(All amounts are expressed in thousands of kuna)</i>               | Rating<br>(Moody's)    | 31/12/2018        | 31/12/2017        |
|---|------------------------|-------------------|-------------------|
| <b>Foreign securities held for trading</b>                            |                        |                   |                   |
| Government securities   |                        |                   |                   |
|   | Aaa                    | 16,405,704        | 12,087,078        |
|   | Aa1                    | 541,447           | 628,572           |
|   | Aa2                    | 9,133,250         | 5,357,803         |
|   | Aa3                    | 185,661           | –                 |
|   | A2                     | 371,597           | 150,296           |
|   | Baa1                   | 3,045,501         | –                 |
|   | Baa2                   | –                 | 4,062,557         |
|   | Baa3                   | 3,559,857         | –                 |
|   | AAA <sup>a</sup>       | 539,210           | 958,834           |
|   | AA+ <sup>b</sup>       | 37,247            | –                 |
|   | AA <sup>a</sup>        | 820,717           | 270,745           |
| Total government securities   |                        | 34,640,191        | 23,515,885        |
| Guaranteed bonds  | Aaa                    | 1,671,505         | 858,415           |
| Securities of international financial institutions                    |                        |                   |                   |
|   | Aaa                    | 248,105           | 249,899           |
|   | Aa1                    | 1,051,631         | 1,278,014         |
|   | No rating <sup>d</sup> | 148,546           | 151,393           |
| Total securities of international financial institutions              |                        | 1,448,282         | 1,679,306         |
| Bank bonds with government guarantees                                 |                        |                   |                   |
|   | Aaa                    | 423,764           | 75,910            |
|   | Aa1                    | 223,402           | 289,641           |
| Total bank bonds with government guarantee                            |                        | 647,166           | 365,551           |
| <b>Total foreign-currency denominated securities held for trading</b> |                        | <b>38,407,144</b> | <b>26,419,157</b> |
| <b>Foreign-currency denominated securities held to maturity</b>       |                        |                   |                   |
| Government securities   |                        |                   |                   |
|   | Aaa                    | –                 | 1,405,283         |
|   | Aa1                    | –                 | 3,313,934         |
|   | Aa2                    | –                 | 7,335,811         |
|   | Aa3                    | –                 | 5,069,818         |
|   | AAA <sup>e</sup>       | –                 | 143,615           |
|   | AA <sup>b</sup>        | –                 | 573,965           |
| Total government securities   |                        | –                 | 17,842,426        |
| Securities of international financial institutions                    |                        |                   |                   |
|   | Aa1                    | –                 | 1,796,909         |
| Total securities of international financial institutions              |                        | –                 | 1,796,909         |
| Bank bonds with government guarantees                                 |                        |                   |                   |
|   | Aa1                    | –                 | 225,848           |
| Total bank bonds with government guarantee                            |                        | –                 | 225,848           |
| <b>Total foreign-currency denominated securities held to maturity</b> |                        | <b>–</b>          | <b>19,865,183</b> |

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**NOTE 37.1 – CREDIT RISK (continued)**

**37.1.1 Maximum exposure to credit risk and credit risk by counterparty credit rating (continued)**

| (All amounts are expressed in thousands of kuna)                        | Rating<br>(Moody's) | 31/12/2018     | 31/12/2017        |
|---|---------------------|----------------|-------------------|
| <b>Foreign currency debt securities at amortised cost</b>               |                     |                |                   |
| Government securities   |                     |                |                   |
|   | Aaa                 | 79,168         | —                 |
|   | AAA <sup>e</sup>    | 257,788        | —                 |
| Total government securities   |                     | 336,956        | —                 |
| Securities of international financial institutions                      |                     |                |                   |
|   | Aaa                 | 145,176        | —                 |
|   | Aa1                 | 200,064        | —                 |
| Total securities of international financial institutions                |                     | 345,240        | —                 |
| <b>Foreign currency debt securities at amortised cost</b>               |                     | <b>682,196</b> | <b>—</b>          |
| <i>Expected credit losses</i>   |                     | <i>(84)</i>    | <i>—</i>          |
| <b>Total foreign currency securities at amortised cost</b>              |                     | <b>682,112</b> | <b>—</b>          |
| <b>Foreign securities available for sale</b>                            |                     |                |                   |
| Government securities   |                     |                |                   |
|   | Aaa                 | —              | 5,117,967         |
|   | Aa1                 | —              | 3,464,733         |
|   | Aa2                 | —              | 11,566,026        |
|   | Aa3                 | —              | 3,220,880         |
|   | A2                  | —              | 924,715           |
|   | AAA <sup>e</sup>    | —              | 683,841           |
| Total government securities   |                     | —              | 24,978,162        |
| Guaranteed bonds  | Aaa                 | —              | 63,097            |
| Securities of international financial institutions                      |                     |                |                   |
|   | Aaa                 | —              | 1,442,983         |
|   | Aa1                 | —              | 758,273           |
| Total securities of international financial institutions                |                     | —              | 2,201,256         |
| Bank bonds with government guarantees                                   |                     |                |                   |
|   | Aa1                 | —              | 683,026           |
| Total bank bonds with government guarantee                              |                     | —              | 683,026           |
| <b>Total foreign-currency denominated securities available for sale</b> |                     | <b>—</b>       | <b>27,925,541</b> |

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**NOTE 37.1 – CREDIT RISK (continued)**

**37.1.1 Maximum exposure to credit risk and credit risk by counterparty credit rating (continued)**

| (All amounts are expressed in thousands of kuna)   | Rating<br>(Moody's) | 31/12/2018        | 31/12/2017        |
|--|---------------------|-------------------|-------------------|
| <b>Foreign currency debt securities at fair value through other comprehensive income</b>       |                     |                   |                   |
| Government securities  |                     |                   |                   |
|  | Aaa                 | 6,583,197         | —                 |
|  | Aa1                 | 6,861,422         | —                 |
|  | Aa2                 | 19,250,254        | —                 |
|  | Aa3                 | 6,203,176         | —                 |
|  | A2                  | 891,057           | —                 |
|  | AAA <sup>c</sup>    | 830,818           | —                 |
|  | AA+ <sup>b</sup>    | 597,032           | —                 |
|  | AA <sup>a</sup>     | 32,278            | —                 |
| Total government securities  |                     | 41,249,234        | —                 |
| Securities of international financial institutions   |                     |                   |                   |
|  | Aaa                 | 1,469,999         | —                 |
|  | Aa1                 | 751,106           | —                 |
| Total securities of international financial institutions                                       |                     | 2,221,105         | —                 |
| Bank bonds with government guarantees  |                     |                   |                   |
|  | Aa1                 | 524,938           | —                 |
| Total bank bonds with government guarantee   |                     | 524,938           | —                 |
| <b>Foreign currency debt securities at fair value through other comprehensive income</b>       |                     | <b>43,995,277</b> | <b>—</b>          |
| <i>Expected credit losses</i>  |                     | <i>(11,712)</i>   | <i>—</i>          |
| <b>Total foreign currency debt securities at fair value through other comprehensive income</b> |                     | <b>43,983,565</b> | <b>—</b>          |
| <b>Total foreign currency securities</b>   |                     | <b>83,072,821</b> | <b>74,209,881</b> |
| <b>Foreign currency reverse repo agreements</b>  |                     |                   |                   |
|  | Aaa                 | 7,395,964         | 6,254,989         |
|  | Aa1                 | 2,594,708         | 2,347,909         |
|  | Aa2                 | 3,146,014         | 6,800,228         |
|  | Aa3                 | 1,004,569         | 1,369,619         |
|  | Baa1                | 5,440,351         | —                 |
|  | AAA <sup>e</sup>    | 777,228           | 538,858           |
|  | AA+ <sup>b</sup>    | 909,795           | —                 |
|  | AA <sup>b</sup>     | —                 | 325,265           |
| Foreign currency reverse repo agreements   |                     | 21,268,629        | 17,636,868        |
| <i>Expected credit losses</i>  |                     | <i>(1,079)</i>    | <i>—</i>          |
| <b>Total foreign-currency reverse repo agreements</b>  |                     | <b>21,267,550</b> | <b>17,636,868</b> |

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**NOTE 37.1 – CREDIT RISK (continued)**

**37.1.1 Maximum exposure to credit risk and credit risk by counterparty credit rating (continued)**

| (All amounts are expressed in thousands of kuna)     | Rating<br>(Moody's) | 31/12/2018             | 31/12/2017        |
|--|---------------------|------------------------|-------------------|
| <b>Foreign currency deposits</b>                     |                     |                        |                   |
|  | Aaa                 | 6,566,970              | 18,661,410        |
|  | Aa1                 | 70                     | 68                |
|  | Aa2                 | 2,099,459              | 375,492           |
|  | Aa3                 | 510                    | 1,270             |
|  | A1                  | 318                    | 588               |
|  | A2                  | 9,193,360              | —                 |
|  | A3                  | 162                    | 433               |
|  | No rating           | <sup>c</sup> 55        | 28                |
| Total deposits                                       |                     | 17,860,904             | 19,039,289        |
| Deposits with international financial institutions   | No rating           | <sup>d</sup> 2,887,939 | 2,871,415         |
| <b>Foreign currency deposits</b>                     |                     | <b>20,748,843</b>      | <b>21,910,704</b> |
| <i>Expected credit losses</i>                        |                     | (7,026)                | —                 |
| <b>Total foreign currency deposits</b>               |                     | <b>20,741,817</b>      | <b>21,910,704</b> |
| <b>Other foreign currency financial assets</b>       |                     |                        |                   |
|  | Aa2                 | —                      | 962               |
|  | Aa3                 | 1,180                  | 290               |
|  | A1                  | 319                    | 1,754             |
|  | A2                  | —                      | 167               |
|  | Baa1                | 2,311                  | 999               |
| <b>Other foreign currency financial assets</b>       |                     | <b>3,810</b>           | <b>4,172</b>      |
| <i>Expected credit losses</i>                        |                     | —                      | —                 |
| <b>Total other foreign currency financial assets</b> |                     | <b>3,810</b>           | <b>4,172</b>      |
| <b>Loans in kuna</b>                                 |                     |                        |                   |
|  | No rating           | <b>2,029,892</b>       | <b>1,286,779</b>  |
| <i>Expected credit losses</i>                        |                     | (575)                  | (2)               |
| <b>Total loans in kuna</b>                           |                     | <b>2,029,317</b>       | <b>1,286,777</b>  |
| <b>Kuna deposits</b>                                 |                     |                        |                   |
| Other deposits of domestic commercial banks          |                     |                        |                   |
|  | BBB–                | <sup>c</sup> 1,232     | 1,292             |
|  | No rating           | 4,136                  | 7,677             |
| <b>Kuna deposits</b>                                 |                     | <b>5,368</b>           | <b>8,969</b>      |
| <i>Expected credit losses</i>                        |                     | (21)                   | —                 |
| <b>Total kuna deposits</b>                           |                     | <b>5,347</b>           | <b>8,969</b>      |

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**NOTE 37.1 – CREDIT RISK (continued)**

**37.1.1 Maximum exposure to credit risk and credit risk by counterparty credit rating  
(continued)**

| (All amounts are expressed in thousands of kuna) |  | Rating<br>(Moody's) | 31/12/2018         | 31/12/2017         |
|--|--|---------------------|--------------------|--------------------|
| <b>Other financial assets in kuna</b>            |  | No rating           | <u>55,700</u>      | <u>79,209</u>      |
| <i>Expected credit losses</i>                    |  |                     | <u>(7,564)</u>     | <u>(7,490)</u>     |
| <b>Total other financial assets in kuna</b>      |  |                     | <u>48,136</u>      | <u>71,719</u>      |
| <b>TOTAL</b>                                     |  |                     | <u>127,168,798</u> | <u>115,129,089</u> |

<sup>a</sup> The ratings according to Fitch Ratings and Standard&Poor's.

<sup>b</sup> The ratings according to Standard & Poor's.

<sup>c</sup> Demand funds with Clearstream.

<sup>d</sup> Investments in the BIS and IMF which are not rated, but are considered institutions of high-credit score.

<sup>e</sup> The ratings according to Fitch Ratings.

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**NOTE 37.1 – CREDIT RISK (continued)**

**37.1.2 Geographical concentration of credit risk**

*(All amounts are expressed in thousands of kuna)*

**Balance at 31 December 2018**

| <b>Instrument</b>                                  | <b>Euro area</b>   | <b>Other</b>      | <b>Total</b>       |
|--|--------------------|-------------------|--------------------|
| Government securities                              | 69,007,855         | 7,218,526         | 76,226,381         |
| Guaranteed bonds                                   | 1,671,505          | –                 | 1,671,505          |
| Securities of international financial institutions | 3,522,728          | 491,899           | 4,014,627          |
| Bank bonds with government guarantees              | 1,172,104          | –                 | 1,172,104          |
| <b>Total foreign currency securities</b>           | <b>75,374,192</b>  | <b>7,710,425</b>  | <b>83,084,617</b>  |
| <b>Foreign currency reverse repo agreements</b>    | <b>11,885,761</b>  | <b>9,382,868</b>  | <b>21,268,629</b>  |
| Deposits   | 17,855,781         | 5,123             | 17,860,904         |
| Deposits with international financial institutions | –                  | 2,887,939         | 2,887,939          |
| <b>Total foreign currency deposits</b>             | <b>17,855,781</b>  | <b>2,893,062</b>  | <b>20,748,843</b>  |
| <b>Other foreign currency financial assets</b>     | <b>–</b>           | <b>3,810</b>      | <b>3,810</b>       |
| <b>Loans in Croatia</b>                            | <b>–</b>           | <b>2,029,892</b>  | <b>2,029,892</b>   |
| <b>Kuna deposits</b>                               | <b>–</b>           | <b>5,368</b>      | <b>5,368</b>       |
| <b>Other financial assets in kuna</b>              | <b>–</b>           | <b>55,700</b>     | <b>55,700</b>      |
| <b>TOTAL</b>                                       | <b>105,115,734</b> | <b>22,081,125</b> | <b>127,196,859</b> |
| <b>31 December 2018</b>                            |                    |                   |                    |

Note: The table shows gross carrying amount of financial instruments.

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**NOTE 37.1 – CREDIT RISK (continued)**

**37.1.2 Geographical concentration of credit risk (continued)**

*(All amounts are expressed in thousands of kuna)*

**Balance at 31 December 2017**

| <b>Instrument</b>                                  | <b>Euro area</b>  | <b>Other</b>      | <b>Total</b>       |
|--|-------------------|-------------------|--------------------|
| Government securities                              | 59,506,904        | 6,829,569         | 66,336,473         |
| Guaranteed bonds                                   | 921,512           | –                 | 921,512            |
| Securities of international financial institutions | 5,195,921         | 481,550           | 5,677,471          |
| Bank bonds with government guarantees              | 1,274,425         | –                 | 1,274,425          |
| <b>Total foreign currency securities</b>           | <b>66,898,762</b> | <b>7,311,119</b>  | <b>74,209,881</b>  |
| <b>Foreign currency reverse repo agreements</b>    | <b>6,345,814</b>  | <b>11,291,054</b> | <b>17,636,868</b>  |
| Deposits   | 19,032,426        | 6,863             | 19,039,289         |
| Deposits with international financial institutions | –                 | 2,871,415         | 2,871,415          |
| <b>Total foreign currency deposits</b>             | <b>19,032,426</b> | <b>2,878,278</b>  | <b>21,910,704</b>  |
| <b>Other foreign currency financial assets</b>     | <b>457</b>        | <b>3,715</b>      | <b>4,172</b>       |
| <b>Loans in Croatia</b>                            | <b>–</b>          | <b>1,286,779</b>  | <b>1,286,779</b>   |
| <b>Kuna deposits</b>                               | <b>–</b>          | <b>8,969</b>      | <b>8,969</b>       |
| <b>Other financial assets in kuna</b>              | <b>–</b>          | <b>79,209</b>     | <b>79,209</b>      |
| <b>TOTAL<br/>31 December 2017</b>                  | <b>92,277,459</b> | <b>22,859,123</b> | <b>115,136,582</b> |

Note: The table shows gross carrying amount of financial instruments.

### **37.1.3 Model for the calculation of expected credit losses**

The calculation of expected credit losses at the Croatian National Bank is made according to the following formula:

$$\text{ECL} = \text{EAD} \times \text{LGD} \times \text{PD}$$

where:

- **EAD** is exposure at default;
- **LGD** is loss given default;
- **PD** is probability of default.

In the ECLC application the CNB calculates the ECL at the lowest technically possible analytical level, taking into account the logic of granularity of the ECL calculation, but guided by the conservatism principle typical of central bank operations.

The estimate of ECL reflects an unbiased and probability weighted amount that is determined by the assessment of three possible scenarios (realistic, pessimistic and optimistic scenarios). According to peer review results, three different PD values are defined according to the realistic, pessimistic and optimistic scenario for ECL calculation. In the pessimistic scenario, the PD/ECL value is 25% higher than in the real scenario, whereas in the optimistic scenario it is 25% lower than in the realistic scenario.

EAD is the gross carrying amount of a financial instrument on the date of initial recognition, that is, on the date of the ECL calculation.

LGD or loss given default means the ratio of loss on exposure due to the default of the other contractual party and the exposure amount at the time of default. LGD determines the amount of the possible loss, that is, the part of the exposure that the CNB can lose.

PD is the probability of default of the other contractual party during a one-year period.

PD for the twelve-month period is calculated by means of three internally developed models:

1. internal model for the calculation of PD for foreign currency financial instruments that are part of international reserves;
2. internal model for the calculation of PD for kuna financial instruments;
3. internal model for other receivables.

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PD for the lifetime period is calculated by means of the matrix multiplication concept, with the starting point being the calculated PD value for 12-month ECL calculation.

The table below shows the changes in reservations for expected credit losses in the reporting period:

(All amounts are expressed in thousands of kuna)

| Financial assets   | Loss allowance for expected credit losses as at 1 January 2018 | Decrease in loss allowance during the period | Increase in loss allowance during the period | Loss allowance for expected credit losses as at 31 December 2018 |
|--|--|--|--|--|
| Cash and current accounts with other banks   | 758  | (1,594)                                      | 1,133  | 297  |
| Deposits with other banks  | 259  | (7,024)                                      | 13,515                                       | 6,750  |
| Loans  | 242  | (339)  | 672  | 575  |
| Reverse repo agreements  | 853  | (4,687)                                      | 4,913  | 1,079  |
| Debt securities at amortised cost  | —  | (9)  | 93   | 84   |
| Financial assets at fair value through other comprehensive income – debt instruments | 14,008   | (3,763)                                      | 1,467  | 11,712   |
| Other financial assets   | 7,603  | (47)   | 8  | 7,564  |
| <b>TOTAL</b>   | <b>23,723</b>  | <b>(17,463)</b>                              | <b>21,801</b>                                | <b>28,061</b>  |

Gains and losses on loss allowances are translated into kuna based on the exchange rate valid on the transaction date, while provisions for loss allowances for expected credit losses reported in foreign currencies are again translated at the date of the statement of financial position using the exchange rate valid on that date. The total increase in provisions for loss allowances for expected credit losses in the reporting period is HRK 4,338 thousands. In the income statement, line item (Increase)/decrease in loss allowance and provisions shows an increase in loss allowances for expected credit losses in the amount of HRK 4,493 thousands (refer to Note 10), while net positive exchange differences in line items provisions for loss allowances for expected credit losses totalling HRK 155 thousands are shown in line item net unrealised exchange differences (refer to Note 7).

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The following table shows loss allowances for expected credit losses by the stage of credit quality of financial instruments at the beginning and at the end of the reporting period.

(All amounts are expressed in thousands of kuna)

| Financial assets   | Loss allowance for expected credit losses<br>as at 1 January 2018 |         |              | Loss allowance for expected credit losses<br>as at 31 December 2018 |          |              |
|--|---|---------|--------------|---|----------|--------------|
|  | Stage 1   | Stage 2 | Stage 3      | Stage 1   | Stage 2  | Stage 3      |
| Cash and current accounts with other banks   | 758   | —       | —            | 297   | —        | —            |
| Deposits with other banks  | 259   | —       | —            | 6,750   | —        | —            |
| Loans  | 240   | —       | 2            | 573   | —        | 2            |
| Reverse repo agreements  | 853   | —       | —            | 1,079   | —        | —            |
| Debt securities at amortised cost  | —   | —       | —            | 84  | —        | —            |
| Financial assets at fair value through other comprehensive income – debt instruments | 14,008  | —       | —            | 11,712  | —        | —            |
| Other financial assets   | 113   | —       | 7,490        | 74  | —        | 7,490        |
| <b>TOTAL</b>   | <b>16,231</b>   |         | <b>7,492</b> | <b>20,569</b>   | <b>—</b> | <b>7,492</b> |

**NOTE 37.2 – LIQUIDITY RISK**

Liquidity risk is the risk of inability to settle all the liabilities and obligations arising from the operations of the Croatian National Bank as they fall due. Hence, the Croatian National Bank has to ensure, through its strategy, sufficient liquid funds on a daily basis to settle all of its liabilities and commitments.

Liquidity risk is controlled by investing the international reserve funds into highly marketable bonds and partly in deposit instruments with short maturities.

Liquid funds include all assets that are convertible into cash within a period of one to three days. The Croatian National Bank invests international reserves into deposits with maturities of up to three months and into securities with maturities of less than ten years, provided that those securities are readily convertible into cash at any time.

At 31 December 2018, approximately 70% of net international reserves were liquid (2017: approximately 68% of net international reserves were liquid).

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**NOTE 37.2 – LIQUIDITY RISK (continued)**

In the following tables, the financial liabilities of the Croatian National Bank are classified into relevant groupings by remaining contractual maturity from the reporting date. The tables have been drawn up based on the undiscounted cash flows of financial liabilities on the earliest date on which payment could be required and include both interest and principal cash flows, as well as future interest expenses.

*(All amounts are expressed in thousands of kuna)*

**Balance at 31 December 2018**

|   | <b>Up to 1<br/>month</b> | <b>1 to 3<br/>months</b> | <b>3 months<br/>to 1 year</b> | <b>1 to 5<br/>years</b> | <b>Over 5 years</b> | <b>Total</b>       |
|---|--------------------------|--------------------------|-------------------------------|-------------------------|---------------------|--------------------|
| <b>Liabilities</b>                            |                          |                          |                               |                         |                     |                    |
| Banknotes and coins in circulation            | 35,046,160               | –                        | –                             | –                       | –                   | 35,046,160         |
| Due to banks and other financial institutions | 69,807,149               | –                        | –                             | –                       | 72                  | 69,807,221         |
| Repo agreements                               | 9,219,390                | –                        | –                             | –                       | –                   | 9,219,390          |
| Due to the State and State institutions       | 2,898,000                | –                        | –                             | –                       | –                   | 2,898,000          |
| Due to the International Monetary Fund        | –                        | –                        | –                             | –                       | 9,230,974           | 9,230,974          |
| Accrued interest and other liabilities        | 400,752                  | 24,556                   | 46,766                        | –                       | 623                 | 472,697            |
| <b>Total liabilities</b>                      | <b>117,371,451</b>       | <b>24,556</b>            | <b>46,766</b>                 | <b>–</b>                | <b>9,231,669</b>    | <b>126,674,442</b> |

*(All amounts are expressed in thousands of kuna)*

**Balance at 31 December 2017**

|   | <b>Up to 1<br/>month</b> | <b>1 to 3<br/>months</b> | <b>3 months<br/>to 1 year</b> | <b>1 to 5<br/>years</b> | <b>Over 5 years</b> | <b>Total</b>       |
|---|--------------------------|--------------------------|-------------------------------|-------------------------|---------------------|--------------------|
| <b>Liabilities</b>                            |                          |                          |                               |                         |                     |                    |
| Banknotes and coins in circulation            | 31,691,425               | –                        | –                             | –                       | –                   | 31,691,425         |
| Due to banks and other financial institutions | 64,073,068               | –                        | –                             | –                       | 72                  | 64,073,140         |
| Repo agreements                               | 12,023,913               | –                        | –                             | –                       | –                   | 12,023,913         |
| Due to the State and State institutions       | 2,949,201                | –                        | –                             | –                       | –                   | 2,949,201          |
| Due to the International Monetary Fund        | –                        | –                        | –                             | –                       | 9,179,443           | 9,179,443          |
| Accrued interest and other liabilities        | 639,604                  | 19,898                   | 47,749                        | –                       | 788                 | 708,039            |
| <b>Total liabilities</b>                      | <b>111,377,211</b>       | <b>19,898</b>            | <b>47,749</b>                 | <b>–</b>                | <b>9,180,303</b>    | <b>120,625,161</b> |

**NOTE 37.3 – MARKET RISK**

Market risk is the risk of fluctuations in fair value or future cash flows of a financial instrument due to changes in market prices. Market risk includes currency risk, interest rate risk and other price risks.

Foreign exchange risk (risk of changes in value of one currency against another) is the risk of fluctuation in fair value or future cash flows of a financial instrument due to changes in foreign exchange rates.

Interest rate risk is the risk of fluctuations in fair value or future cash flows of a financial instrument due to changes in market interest rates.

Other price risks include the risk of fluctuations in fair value or future cash flows of financial instruments due to changes in market prices that do not arise from interest rate or foreign exchange risk.

**NOTE 37.3.1 – Foreign exchange risk**

The Croatian National Bank holds most of its assets in foreign currencies, which exposes it to foreign exchange risk in terms of fluctuations in the exchange rates of the kuna against the euro and the US dollar, which affect the Income Statement and, consequently, the financial performance of the Croatian National Bank.

The Croatian National Bank takes on exposure to foreign exchange risk only in respect of the net international reserves, covering part of the reserves it manages in accordance with its own guidelines. A high proportion of the euro contributes to reducing volatility due to the stable exchange rate of the euro against the kuna. Although VaR analysis for foreign exchange risk and various stress tests are made, the currency structure is not defined by these measures but primarily by the currency structure of debt and imports. Accordingly, VaR limits are not set, nor is back-testing implemented.

The portion of international reserves formed out of the allocated foreign exchange reserve requirement, the Ministry of Finance funds, repo deals and funds in Special Drawing Rights (XDR) are managed passively, based on the currency structure of foreign currency obligations; hence, there is no exposure to foreign exchange risk on this basis.

Currency VaR for a period of one year with a confidence level of 95% is HRK 3.6 billion.

**NOTE 37.3.1 – Foreign exchange risk (continued)**

**37.3.1.1 Sensitivity analysis – impact of percentage fluctuations in exchange rates on the Income Statement**

*2018 Sensitivity analysis*

*(All amounts are expressed in thousands of kuna)*

| 2018   | USD               | EUR                   |
|--|-------------------|-----------------------|
| Exchange rate appreciation/depreciation                          | +/-5%             | +/-1%                 |
| Impact of fluctuations in exchange rates on the Income Statement | 816,681/(816,681) | 1,010,146/(1,010,146) |

The table above shows the sensitivity of the result of the CNB reported in the Income Statement for the year in the case of an increase/decrease in the EUR/HRK exchange rate by  $\pm 1\%$  and in the case of an increase/decrease in the USD/HRK exchange rate by  $\pm 5\%$ . Historically, the yearly volatility of the USD/HRK exchange rate has been five times higher than the EUR/HRK exchange rate volatility.

A positive figure denotes an increase in the result of the Income Statement if the Croatian kuna exchange rate appreciates against the relevant currency by the percentages specified above (i.e. the kuna value depreciates in relation to the relevant currency), while the negative figure denotes a decrease in the result of the Income Statement if the Croatian kuna exchange rate depreciates against the relevant currency (i.e. the kuna value appreciates in relation to relevant currency).

In case of a 1% decrease in the EUR/HRK exchange rate as at 31 December 2018, the result of the CNB reported in the Income Statement for the year would be lower by approximately HRK 1,010,146 thousands, while for a 5% decrease in the USD/HRK exchange rate, the result would be lower by approximately HRK 816,681 thousands.

*Calculation methodology*

The amount of the net euro and net US dollar international reserves as at balance sheet date is multiplied by the difference between the EUR/HRK exchange rate or the USD/HRK exchange rate valid at that date and those rates increased/decreased by the relevant percentages.

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*2017 Sensitivity analysis*

*(All amounts are expressed in thousands of kuna)*

| <b>2017</b>  | <b>USD</b>        | <b>EUR</b>        |
|--|-------------------|-------------------|
| Exchange rate appreciation/depreciation                          | +/-5%             | +/-1%             |
| Impact of fluctuations in exchange rates on the Income Statement | 778,416/(778,416) | 876,301/(876,301) |

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**NOTE 37.3.1 – Foreign exchange risk (continued)**

**37.3.1.2 CNB exposure to foreign exchange risk – analysis of assets and liabilities by currency**

*(All amounts are expressed in thousands of kuna)*

**Balance at 31 December 2018**

|   | EUR                | USD               | XDR              | Other<br>foreign<br>currencies | HRK                  | Total              |
|---|--------------------|-------------------|------------------|--------------------------------|----------------------|--------------------|
| <b>Assets</b>   |                    |                   |                  |                                |                      |                    |
| Cash and current accounts with other banks  | 9,518,562          | 3,783             | –                | 2,106                          | 353                  | 9,524,804          |
| Deposits with other banks   | 10,986,223         | 434,571           | –                | –                              | 5,347                | 11,426,141         |
| Financial assets at fair value through profit or loss                                     | 32,471,228         | 7,232,077         | –                | –                              | 6,238                | 39,709,543         |
| Loans   | –                  | –                 | –                | –                              | 2,029,317            | 2,029,317          |
| Reverse repo agreements   | 20,841,834         | 437,154           | –                | –                              | –                    | 21,278,988         |
| Debt securities at amortised cost   | 682,112            | –                 | –                | –                              | –                    | 682,112            |
| Balances with the International Monetary Fund   | –                  | –                 | 9,248,636        | –                              | –                    | 9,248,636          |
| Debt securities at fair value through other comprehensive income                          | 35,634,483         | 8,360,794         | –                | –                              | –                    | 43,995,277         |
| Equity securities at fair value through other comprehensive income – irrevocable election | –                  | –                 | –                | –                              | 60,218               | 60,218             |
| Investments accounted for using the equity method   | –                  | –                 | –                | –                              | 23,617               | 23,617             |
| Accrued interest and other assets   | 2,066,974          | 17                | –                | –                              | 510,246              | 2,577,237          |
| Property, plant, equipment and intangible assets  | –                  | –                 | –                | –                              | 579,046              | 579,046            |
| <b>Total assets</b>   | <b>112,201,416</b> | <b>16,468,396</b> | <b>9,248,636</b> | <b>2,106</b>                   | <b>3,214,382</b>     | <b>141,134,936</b> |
| <b>Liabilities</b>  |                    |                   |                  |                                |                      |                    |
| Banknotes and coins in circulation  | –                  | –                 | –                | –                              | 35,046,160           | 35,046,160         |
| Due to banks and other financial institutions   | 2,061,243          | –                 | –                | –                              | 67,745,978           | 69,807,221         |
| Repo agreements   | 9,091,635          | 127,671           | –                | –                              | –                    | 9,219,306          |
| Due to the State and State institutions   | 23,467             | 6,965             | –                | 1,229                          | 2,866,339            | 2,898,000          |
| Due to the International Monetary Fund  | –                  | –                 | 9,230,974        | –                              | –                    | 9,230,974          |
| Accrued interest and other liabilities  | 22,281             | 18                | 10,429           | 2                              | 429,108              | 461,838            |
| <b>Total liabilities</b>  | <b>11,198,626</b>  | <b>134,654</b>    | <b>9,241,403</b> | <b>1,231</b>                   | <b>106,087,585</b>   | <b>126,663,499</b> |
| <b>Net position</b>   | <b>101,002,790</b> | <b>16,333,742</b> | <b>7,233</b>     | <b>875</b>                     | <b>(102,873,203)</b> | <b>14,471,437</b>  |

Note: Line items of the Statement of financial position are shown at net carrying amount (minus expected credit losses), as presented in the Statement of financial position.

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**NOTE 37.3.1 – Foreign exchange risk (continued)**

**37.3.1.2 CNB exposure to foreign exchange risk – analysis of assets and liabilities by currency**

**(continued)**

*(All amounts are expressed in thousands of kuna)*

**Balance at 31 December 2017**

|   | EUR                | USD               | XDR              | Other foreign currencies | HRK                 | Total              |
|---|--------------------|-------------------|------------------|--------------------------|---------------------|--------------------|
| <b>Assets</b>   |                    |                   |                  |                          |                     |                    |
| Cash and current accounts with other banks            | 19,745,948         | 3,483             | –                | 3,960                    | 385                 | 19,753,776         |
| Deposits with other banks                             | 2,284,149          | 125,558           | –                | –                        | 8,968               | 2,418,675          |
| Financial assets at fair value through profit or loss | 21,228,675         | 6,445,835         | –                | –                        | 6,347               | 27,680,857         |
| Loans   | –                  | –                 | –                | –                        | 1,286,777           | 1,286,777          |
| Reverse repo agreements                               | 15,266,795         | 2,376,947         | –                | –                        | –                   | 17,643,742         |
| Held-to-maturity investments                          | 19,865,183         | –                 | –                | –                        | –                   | 19,865,183         |
| Balances with the International Monetary Fund         | –                  | –                 | 9,200,198        | –                        | –                   | 9,200,198          |
| Financial assets available for sale                   | 19,754,351         | 8,171,190         | –                | –                        | 60,218              | 27,985,759         |
| Investments accounted for using the equity method     | –                  | –                 | –                | –                        | 22,033              | 22,033             |
| Accrued interest and other assets                     | 7,962,466          | 13                | –                | –                        | 472,995             | 8,435,474          |
| Property, plant, equipment and intangible assets      | –                  | –                 | –                | –                        | 584,297             | 584,297            |
| <b>Total assets</b>                                   | <b>106,107,567</b> | <b>17,123,026</b> | <b>9,200,198</b> | <b>3,960</b>             | <b>2,442,020</b>    | <b>134,876,771</b> |
| <b>Liabilities</b>                                    |                    |                   |                  |                          |                     |                    |
| Banknotes and coins in circulation                    | –                  | –                 | –                | –                        | 31,691,425          | 31,691,425         |
| Due to banks and other financial institutions         | 7,955,757          | –                 | –                | –                        | 56,117,383          | 64,073,140         |
| Repo agreements                                       | 10,480,300         | 1,542,944         | –                | –                        | –                   | 12,023,244         |
| Due to the State and State institutions               | 28,347             | 11,431            | –                | 669                      | 2,908,754           | 2,949,201          |
| Due to the International Monetary Fund                | –                  | –                 | 9,179,443        | –                        | –                   | 9,179,443          |
| Accrued interest and other liabilities                | 15,403             | 283               | 13,786           | 20                       | 674,913             | 704,405            |
| <b>Total liabilities</b>                              | <b>18,479,807</b>  | <b>1,554,658</b>  | <b>9,193,229</b> | <b>689</b>               | <b>91,392,475</b>   | <b>120,620,858</b> |
| <b>Net position</b>                                   | <b>87,627,760</b>  | <b>15,568,368</b> | <b>6,969</b>     | <b>3,271</b>             | <b>(88,950,455)</b> | <b>14,255,913</b>  |

**NOTE 37.3.2 – Interest rate risk**

Interest rate risk is the risk of a decline in the value of the Croatian National Bank's foreign currency portfolios of international reserves due to possible changes in interest rates on the fixed-yield instrument markets.

Net international reserves, which are managed in accordance with its own guidelines, are invested in trading and investment portfolios. An investment portfolio may be formed as a portfolio measured at fair value through other comprehensive income and as a portfolio measured at amortised cost that serve as a long-term source of stable income and are of long average maturity.

The Croatian National Bank has, through the Income Statement, an open exposure to interest rate risk only with the trading portfolios, while with the investment portfolios, it almost has no exposure to interest rate risk.

Trading portfolios have short duration, and thus interest rate risk is minimised. The portfolio measured at amortised cost, from the standpoint of interest rate risk, has no effect on the Income Statement, while securities of the portfolio measured at fair value through other comprehensive income is, generally, sold only in situations favourable to the CNB. However, regardless of that, even for portfolios measured at fair value through other comprehensive income, their duration and interest rate risk are taken into account.

The part of the reserves that consists of the Ministry of Finance funds, the funds based on repo agreements with banks, swap interventions in the domestic foreign exchange market, the membership in the IMF and other property owned by other legal entities, the CNB operates in accordance with commitments, in order to protect it against interest rate risk.

**NOTE 37.3.2 – Interest rate risk (continued)**

**37.3.2.1 Sensitivity analysis – exposure of the CNB's net international reserves to fluctuations in interest rates**

*2018 Sensitivity analysis*

*(All amounts are expressed in thousands of kuna)*

| 2018   | USD        | EUR           |
|--|------------|---------------|
| Yield curve increase/decrease  | +/-1 b. p. | +/-1 b. p.    |
| Effect of a change in the level of the yield curve on the financial result | (445)/445  | (3,602)/3,602 |

Should as at 31 December 2018 the entire USD yield curve increase by 1 basis point (0.01%), the result of the Croatian National Bank reported in the Income Statement for the year would be lower by approximately HRK 445 thousands, while in the case of the EUR yield curve increasing by 1 basis point, the result would be lower by approximately HRK 3,602 thousands.

For a 1 basis point decrease of the yield curve, the result reported in the Income Statement would be higher by approximately the same amounts.

*Calculation methodology*

The values of USD and EUR trade portfolios as at 31 December 2018 were multiplied by modified duration and by 1 basis point (0.01%). Modified duration denotes by how many basis points the value of the portfolio will decrease should the interest rate curve increase by 1 percentage point.

*2017 Sensitivity analysis*

*(All amounts are expressed in thousands of kuna)*

| 2017   | USD        | EUR           |
|--|------------|---------------|
| Yield curve increase/decrease  | +/-1 b. p. | +/-1 b. p.    |
| Effect of a change in the level of the yield curve on the financial result | (409)/409  | (2,626)/2,626 |

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**NOTE 37.3.2 – Interest rate risk (continued)**

**37.3.2.2 Interest rate risk analysis**

*(All amounts are expressed in thousands of kuna)*

**Balance at 31 December 2018**

|   | Up to 1 month      | 1 to 3 months     | 3 months to 1 year | 1 to 5 years     | Over 5 years   | Non-interest bearing | Total              | Average EIR as at 31/12 |
|---|--------------------|-------------------|--------------------|------------------|----------------|----------------------|--------------------|-------------------------|
| <b>Assets</b>   |                    |                   |                    |                  |                |                      |                    |                         |
| Cash and current accounts with other banks  | 6,568,757          | –                 | –                  | –                | –              | 2,956,047            | 9,524,804          | -0.53                   |
| Deposits with other banks   | 5,731,651          | 5,694,631         | –                  | –                | –              | (141)                | 11,426,141         | -0.31                   |
| Financial assets at fair value through profit or loss                                     | 38,317,061         | –                 | –                  | –                | –              | 1,392,482            | 39,709,543         | 0.12                    |
| Loans   | –                  | –                 | –                  | 2,015,500        | 41             | 13,776               | 2,029,317          | 1.24                    |
| Reverse repo agreements   | 16,816,159         | 4,463,460         | –                  | –                | –              | (631)                | 21,278,988         | -0.49                   |
| Debt securities at amortised cost   | –                  | –                 | –                  | –                | 679,403        | 2,709                | 682,112            | 0.43                    |
| Balances with the International Monetary Fund   | 2,753,217          | –                 | –                  | –                | –              | 6,495,419            | 9,248,636          | 1.10                    |
| Debt securities at fair value through other comprehensive income                          | 43,756,015         | –                 | –                  | –                | –              | 239,262              | 43,995,277         | 0.96                    |
| Equity securities at fair value through other comprehensive income – irrevocable election | –                  | –                 | –                  | –                | –              | 60,218               | 60,218             | –                       |
| Investments accounted for using the equity method   | –                  | –                 | –                  | –                | –              | 23,617               | 23,617             | –                       |
| Accrued interest and other assets   | –                  | –                 | –                  | –                | –              | 2,577,237            | 2,577,237          | –                       |
| Property, plant, equipment and intangible assets  | –                  | –                 | –                  | –                | –              | 579,046              | 579,046            | –                       |
| <b>Total assets</b>   | <b>113,942,860</b> | <b>10,158,091</b> | <b>–</b>           | <b>2,015,500</b> | <b>679,444</b> | <b>14,339,041</b>    | <b>141,134,936</b> | <b>–</b>                |
| <b>Liabilities</b>  |                    |                   |                    |                  |                |                      |                    |                         |
| Banknotes and coins in circulation  | –                  | –                 | –                  | –                | –              | 35,046,160           | 35,046,160         | –                       |
| Due to banks and other financial institutions   | 2,061,243          | –                 | –                  | –                | –              | 67,745,978           | 69,807,221         | –                       |
| Repo agreements   | 9,219,130          | –                 | –                  | –                | –              | 176                  | 9,219,306          | -0.69                   |
| Due to the State and State institutions   | 2,022,914          | –                 | –                  | –                | –              | 875,086              | 2,898,000          | 0.00                    |
| Due to the International Monetary Fund  | 2,742,648          | –                 | –                  | –                | –              | 6,488,326            | 9,230,974          | 1.10                    |
| Accrued interest and other liabilities  | –                  | –                 | –                  | –                | –              | 461,838              | 461,838            | –                       |
| <b>Total liabilities</b>  | <b>16,045,935</b>  | <b>–</b>          | <b>–</b>           | <b>–</b>         | <b>–</b>       | <b>110,617,564</b>   | <b>126,663,499</b> | <b>–</b>                |
| <b>Net position</b>   | <b>97,896,925</b>  | <b>10,158,091</b> | <b>–</b>           | <b>2,015,500</b> | <b>679,444</b> | <b>(96,278,523)</b>  | <b>14,471,437</b>  | <b>–</b>                |

Notes: Line items of the Statement of financial position are shown at net carrying amount (minus expected credit losses), as presented in the Statement of financial position. Accrued interest and expected credit losses are shown in column Non-interest bearing.

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**NOTE 37.3.2 – Interest rate risk (continued)**

**37.3.2.2 Interest rate risk analysis (continued)**

*(All amounts are expressed in thousands of kuna)*

Balance at 31 December 2017

|   | Up to 1 month     | 1 to 3 months    | 3 months to 1 year | 1 to 5 years     | Over 5 years      | Non-interest bearing | Total              | Average EIR as at 31/12 |
|---|-------------------|------------------|--------------------|------------------|-------------------|----------------------|--------------------|-------------------------|
| <b>Assets</b>   |                   |                  |                    |                  |                   |                      |                    |                         |
| Cash and current accounts with other banks            | 16,757,217        | –                | –                  | –                | –                 | 2,996,559            | 19,753,776         | -0.54                   |
| Deposits with other banks                             | 1,545,474         | 864,070          | –                  | –                | –                 | 9,131                | 2,418,675          | -0.45                   |
| Financial assets at fair value through profit or loss | 26,342,887        | –                | –                  | –                | –                 | 1,337,970            | 27,680,857         | 0.05                    |
| Loans   | –                 | –                | –                  | 1,265,400        | 21,329            | 48                   | 1,268,777          | 1.46                    |
| Reverse repo agreements                               | 17,641,746        | –                | –                  | –                | –                 | 1,996                | 17,643,742         | -0.45                   |
| Held-to-maturity investments                          | –                 | 601,220          | 2,779,011          | 2,377,255        | 13,991,205        | 116,492              | 19,865,183         | 1.02                    |
| Balances with the International Monetary Fund         | 2,741,186         | –                | –                  | –                | –                 | 6,459,012            | 9,200,198          | 0.74                    |
| Financial assets available for sale                   | 27,764,255        | –                | –                  | –                | –                 | 221,504              | 27,985,759         | 0.95                    |
| Investments accounted for using the equity method     | –                 | –                | –                  | –                | –                 | 22,033               | 22,033             | –                       |
| Accrued interest and other assets                     | –                 | –                | –                  | –                | –                 | 8,435,474            | 8,435,474          | –                       |
| Property, plant, equipment and intangible assets      | –                 | –                | –                  | –                | –                 | 584,297              | 584,297            | –                       |
| <b>Total assets</b>                                   | <b>92,792,765</b> | <b>1,465,290</b> | <b>2,779,011</b>   | <b>3,642,655</b> | <b>14,012,534</b> | <b>20,184,516</b>    | <b>134,876,771</b> | <b>–</b>                |
| <b>Liabilities</b>                                    |                   |                  |                    |                  |                   |                      |                    |                         |
| Banknotes and coins in circulation                    | –                 | –                | –                  | –                | –                 | 31,691,425           | 31,691,425         | –                       |
| Due to banks and other financial institutions         | 7,955,757         | –                | –                  | –                | –                 | 56,117,383           | 64,073,140         | –                       |
| Repo agreements                                       | 12,022,248        | –                | –                  | –                | –                 | 996                  | 12,023,244         | -0.68                   |
| Due to the State and State institutions               | 851,046           | –                | –                  | –                | –                 | 2,098,155            | 2,949,201          | 0.10                    |
| Due to the International Monetary Fund                | 2,727,262         | –                | –                  | –                | –                 | 6,452,181            | 9,179,443          | 0.74                    |
| Accrued interest and other liabilities                | –                 | –                | –                  | –                | –                 | 704,405              | 704,405            | –                       |
| <b>Total liabilities</b>                              | <b>23,556,313</b> | <b>–</b>         | <b>–</b>           | <b>–</b>         | <b>–</b>          | <b>97,064,545</b>    | <b>120,620,858</b> | <b>–</b>                |
| <b>Net position</b>                                   | <b>69,236,452</b> | <b>1,465,290</b> | <b>2,779,011</b>   | <b>3,642,655</b> | <b>14,012,534</b> | <b>(76,880,029)</b>  | <b>14,255,913</b>  | <b>–</b>                |

Note: Fixed interest rate is charged on presented interest bearing amounts, except on the part of the position Cash and current accounts with other banks, amounting to HRK 6,568,757 thousands (31 December 2017: HRK 16,757,217 thousands), and the part of the position Financial assets at fair value through profit or loss (*floaters*) in the amount of HRK 715,290 thousand (31 December 2017: HRK 490,604 thousands), as well as on the part of the position Due to the State and State institutions, amounting to HRK 2,022,914 thousands (31 December 2017: HRK 851,046 thousands), on which variable floating rate is charged.

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**NOTE 37.3.3 – Other price risks**

The Croatian National Bank is exposed to other price risks on funds entrusted to the management of international financial institutions and precious metals since price risks affect the change in value of these financial instruments.

**37.3.3.1 Sensitivity analysis – impact of changes in prices of financial instruments on the Income Statement**

*2018 Sensitivity analysis – funds entrusted to the management of international financial institutions*

*(All amounts are expressed in thousands of kuna)*

**2018**

|  |                 |
|--|-----------------|
| Financial assets price exposed to price risk increase/decrease | +/-1%           |
| Effect of change in the level of price on the Income Statement | 12,962/(12,962) |

The table shows the sensitivity of the Croatian National Bank Income Statement result in the case of a rise or fall of prices of financial instruments by  $\pm 1\%$ .

A positive number implies an increase in the Income Statement if there is an increase in the prices of financial instruments by the selected percentage, while a negative number implies a reduction in the Income Statement if prices of financial instruments fall.

In the case of increase in prices of a financial instrument by 1% compared to the prices recorded on 31 December 2018, the result of Croatian National Bank in the Income Statement would be higher by approximately HRK 12,962 thousands, while the fall in prices by 1% would result in the Income Statement being lower by approximately HRK 12,962 thousands.

*2018 Sensitivity analysis – precious metals*

*(All amounts are expressed in thousands of kuna)*

**2018**

|  |           |
|--|-----------|
| Financial assets price exposed to price risk increase/decrease | +/-5%     |
| Effect of change in the level of price on the Income Statement | 312/(312) |

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The table shows the sensitivity of the Croatian National Bank Income Statement result in the case of a rise or fall of prices of precious metals by  $\pm 5\%$ .

A positive number implies an increase in the Income Statement if there is an increase in the prices of financial instruments by the selected percentage, while a negative number implies a reduction in the Income Statement if prices of financial instruments fall.

In the case of increase in prices of precious metals by 5% compared to the prices recorded on 31 December 2018, the result of the Croatian National Bank in the Income Statement would be higher by approximately HRK 312 thousands, while the fall in prices by 5% would result in the Income Statement being lower by approximately HRK 312 thousands.

*Calculation methodology*

Investments in financial assets exposed to price risks as at 31 December 2018 in the balance sheet has been increased or reduced by the selected percentage change in the price of financial instruments.

*2017 Sensitivity analysis – funds entrusted to the management of international financial institutions*

*(All amounts are expressed in thousands of kuna)*

**2017**

|  |                 |
|--|-----------------|
| Financial assets price exposed to price risk increase/decrease | +/-1%           |
| Effect of change in the level of price on the Income Statement | 12,554/(12,554) |

*2017 Sensitivity analysis – precious metals*

*(All amounts are expressed in thousands of kuna)*

**2017**

|  |           |
|--|-----------|
| Financial assets price exposed to price risk increase/decrease | +/-5%     |
| Effect of change in the level of price on the Income Statement | 317/(317) |

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## NOTE 38 – RELATED PARTIES

While performing regular activities, the Croatian National Bank enters into transactions with related parties. In accordance with IAS 24 Related Party Disclosures, related parties are the State and State bodies of the Republic of Croatia, the Croatian Monetary Institute and key management of the Croatian National Bank. Companies and other legal entities owned by the Republic of Croatia (including credit institutions) are not considered to be related parties. Transactions with related parties took place at normal market conditions.

a) Relations with the State and State bodies of the Republic of Croatia

The Croatian National Bank is in the exclusive ownership of the Republic of Croatia, but in achieving its objective and in carrying out its tasks the Croatian National Bank is independent and autonomous.

In relations with the State bodies of the Republic of Croatia, the Croatian National Bank acts as a depository institution, that is, keeps the accounts of the Republic of Croatia and executes payment transactions across these accounts. Under market conditions, the Croatian National Bank can perform fiscal agency services for the Republic of Croatia related to:

- issuance of debt securities of the Republic of Croatia, as a registrar or as a transfer agent of the entire issuance;
- payment of the amount of principal, interest and other charges related to securities;
- other issues associated with these operations, if they are consistent with the objective of the Croatian National Bank.

Relations with the Croatian State and Croatian State bodies are presented in the following table:

| <i>(All amounts are expressed in thousands of kuna)</i> |  | <b>2018</b>      |                       | <b>2017</b>    |                       |
|---|--|------------------|-----------------------|----------------|-----------------------|
|   |  | <i>State</i>     | <i>State entities</i> | <i>State</i>   | <i>State entities</i> |
| <b>ASSETS</b>   |  |                  |                       |                |                       |
| Accrued interest and other assets                       |  | 1,788            | 246                   | 1,773          | 370                   |
| <b>TOTAL</b>  |  | <b>1,788</b>     | <b>246</b>            | <b>1,773</b>   | <b>370</b>            |
| <b>LIABILITIES</b>                                      |  |                  |                       |                |                       |
| Deposits  |  | 2,174,061        | 723,938               | 996,084        | 1,952,929             |
| Accrued interest and other liabilities                  |  | —                | —                     | 189            | —                     |
| <b>TOTAL</b>  |  | <b>2,174,061</b> | <b>723,938</b>        | <b>996,273</b> | <b>1,952,929</b>      |
| <b>REVENUES</b>   |  |                  |                       |                |                       |
| <b>EXPENDITURE</b>                                      |  |                  |                       |                |                       |
| Interest and similar expenses                           |  | 1,171            | —                     | 2,704          | —                     |
| <b>TOTAL</b>  |  | <b>1,171</b>     | <b>—</b>              | <b>2,704</b>   | <b>—</b>              |

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State bodies that are considered related parties are the State Agency for Deposit Insurance and Bank Resolution and the Croatian Health Insurance Fund.

b) Associated entities

The investment of the Croatian National Bank in the Croatian Monetary Institute represents the investment in an associate in accordance with IAS 28. The share of ownership of the Croatian National Bank in the Croatian Monetary Institute capital is 42.6%. Detailed disclosures on the investment in an associate are presented in Note 22.

Relations with the Croatian Monetary Institute are presented in the following table:

| <i>(All amounts are expressed in thousands of kuna)</i>                  | <b>2018</b>   | <b>2017</b>   |
|--|---------------|---------------|
| <b>ASSETS</b>  |               |               |
| Investments accounted for using the equity method                        | 23,617        | 22,033        |
| Other assets   | 14,846        | 9,013         |
| <b>TOTAL</b>   | <b>38,463</b> | <b>31,046</b> |
| <b>LIABILITIES</b>   |               |               |
| Other liabilities  | 167           | 1             |
| <b>TOTAL</b>   | <b>167</b>    | <b>1</b>      |
| <b>REVENUES</b>  |               |               |
| Gains in the alignment of investments in the Croatian Monetary Institute | 3,407         | 1,792         |
| Other income   | 76            | 33            |
| <b>TOTAL</b>   | <b>3,483</b>  | <b>1,825</b>  |
| <b>EXPENDITURE</b>   |               |               |
| Minting of Kuna and Lipa coins*  | 76,386        | 63,044        |
| Other  | 124           | —             |
| <b>TOTAL</b>   | <b>76,510</b> | <b>63,044</b> |

\* Total coins production cost invoiced by the Croatian Monetary Institute in the reporting period. The presented costs differ from costs recognised in profit or loss in the reporting period, since the cost of minting coins are recognised in the Income Statement in accordance with the cost deferral policy (refer to Note 9).

c) Key management of the Croatian National Bank

The Council of the Croatian National Bank is responsible for the achievement of the objective and performance of tasks of the Croatian National Bank. The Council of the Croatian National Bank establishes policies related to the activities of the Croatian National Bank. In line with the aforementioned, key management of the Croatian National Bank is composed of members of the Council of the Croatian National Bank.

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The Council of the Croatian National Bank comprises Governor, Deputy Governor and six Vicegovernors.

Short-term compensations to the key management of the Croatian National Bank for 2018 amounted to HRK 8,731 thousands, of which HRK 1,235 thousands refers to pension insurance contributions (2017: HRK 8,967 thousands, of which HRK 1,243 thousands refers to pension insurance contributions).

**NOTE 39 – EVENTS AFTER THE REPORTING PERIOD**

After 31 December 2018 there were no significant events that would have an impact on the financial statements of the Croatian National Bank.