# CROATIA BANKA d.d.

# ANNUAL REPORT FOR 2020

# C O N T E N T S

## Introduction

The Annual Report includes the Management Board Report on the Bank's position, financial overview and overview of operations, audited financial statements with the Independent auditor's report and other statutory and regulatory reports for the Croatian National Bank. Unless otherwise noted, all amounts in the Annual Report are presented in thousands of kuna (HRK).

## Legal form

The Annual Report has been prepared in line with the Accounting Act and the Companies Act which require reporting to the shareholders at the annual meeting of shareholders by the company management. Pursuant to the Companies Act, the basic financial statements include the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and notes to the financial statements, and the Companies Act stipulates in Article 250a an obligation to submit an annual report on the Bank's position.

The financial statements have been prepared in line with the legal requirements for bank accounting in Croatia and audited in accordance with International Standards on Auditing.

## Abbreviations

In this Annual Report, Croatia banka d.d. is referred to as the "Bank", the Croatian National Bank as the "CNB", the Croatian Bank for Reconstruction and Development as the "CBRD", the State Agency for Deposit Insurance and Bank Rehabilitation as the "DAB", the Financial Agency as "FINA", European Union as the "EU", International Financial Reporting Standards as "IFRS", Other comprehensive income as "OCI", Profit and loss account as P&L, entity identification number as "OIB" and gross domestic product as the "GDP".

## Exchange rates

For the purpose of translating the amounts in foreign currencies into HRK amounts, the following mid exchange rates of the CNB were used:

| | | |
|---|---|---|
| 31 December 2020 | EUR 1 = HRK 7.536898 | 1 USD = HRK 6.139039 |
| 31 December 2019 | EUR 1 = HRK 7.442580 | USD 1 = HRK 6.649911 |

**Operational summary and key financial indicators**
(amounts in millions of HRK)

| Indicator/Year | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Key indicators** | | | | | |
| Net profit/(loss) | 5 | (25) | (25) | (31) | 2 |
| Operating profit | 12 | 12 | - | 23 | 25 |
| Total assets | 1,921 | 1,969 | 2,306 | 2,491 | 3,110 |
| Loans and advances to customers | 1,114 | 1,125 | 1,081 | 1,153 | 1,591 |
| Total deposits received | 1,572 | 1,638 | 2,037 | 2,156 | 2,609 |
| Capital and reserves | 111 | 107 | 130 | 152 | 190 |

| **Other indicators** | | | | | |
|---|---|---|---|---|---|
| Ratio of operating expenses in operating income | 81.4% | 82.3% | 99.9% | 72.7% | 71.5% |
| Return on equity | 4.4% | (19.1%) | (17.7%) | (17.9%) | 0.9% |
| Return on assets | 0.3% | (1.2%) | (0.9%) | (1.1%) | 0.1% |
| Regulatory capital | 110 | 104 | 126 | 146 | 174 |
| Total capital ratio | 15.01% | 13.20% | 14.98% | 15.85% | 16.81% |

**Historical development of the Bank**

Croatia banka d.d., Zagreb was founded on 22 December 1989, under the name Banka male privrede, d.d., Zagreb. On that day, 50 shareholders paid in socially owned capital contributions to form the initial (share) capital of 22,340,435,000 former Yugoslav dinars, equivalent to DEM 319,149 (which was then the condition for establishing a bank), which was subsequently divided into 4,565 founders' shares. On 25 January 1990 the Bank received from the Yugoslav National Bank the Decision granting full banking licence and had it registered at the court on 18 July 1990. On 4 May 1990 the Bank changed its name from Banka male privrede d.d. Zagreb into Croatia banka male privrede d.d. Zagreb, (abbreviated: "Croatia banka d.d. Zagreb"), and on 21 June 1995 it changed its name into Croatia banka d.d. Zagreb.

As a result of difficulties faced by the Bank, a procedure to rehabilitate the Bank was initiated in 1999 and, pursuant to Article 15(1), Article 16(1) and Article 17(1) of the Bank Rehabilitation and Restructuring Act (Croatian Official Gazette no 44/94) and Section VII of the Decision of the Government of the Republic of Croatia on the rehabilitation and restructuring of Croatia banka d.d. Zagreb of 27 September 1999 and the Decision of the Government of the Republic of Croatia on amendments to the Decision on rehabilitation and restructuring of Croatia banka d.d. Zagreb of 24 May 2000, the General Assembly of Croatia banka d.d. adopted on 13 September 2000 a Decision on issuing new replacement shares in the amount of HRK 204.6 million and a Decision on amendments to the Statute of Croatia banka d.d., which formally ended the process of the Bank's rehabilitation. The DAB contributed capital to the Bank in the amount of the replacement shares, and the Bank continued to operate as a Croatian joint stock company (Croatian: 'dioničko društvo') wholly owned by the State.

**Information on economic trends[1]**

In the third quarter of 2020, real economic activity partially recovered after a sharp decline in real GDP in the previous three months, caused by the global Covid-19 pandemic and measures introduced to combat this disease. Real GDP thus rose 6.9% on a quarterly basis after falling 15.0% in the previous quarter. At the annual level, real GDP was 10.0% lower in the third quarter compared to the same period last year.
In 2020, the GDP could decrease by approximately 8.9% and in 2021 increase by 4.9%. The expected economic growth in 2021 will not imply a return to the level of economic activity before the outbreak of the pandemic. The growth of real economic activity in 2021 could be mostly due to the growth of total exports and domestic demand. The growth of investments could be driven by the greater availability of funds from EU funds, which will also finance significant new investments for the reconstruction of Zagreb after the earthquake. On the other hand, a reduction in income taxation should contribute to the growth of personal consumption. After the recovery of domestic and foreign demand, total imports could also increase.
The main negative risks to economic growth are related to the possibility of the increased spread of the virus and the introduction of more restrictive measures, as well as logistical challenges in organising vaccination of the population and putting vaccines in widespread use and weaker absorption of EU funds than expected. On the other hand, the positive risks stem from the assumption that a large number of the population will be vaccinated before the next tourist season and with better use of EU funds from the available financial envelope compared to the projection.

**Labour market**

Labour market developments in the third quarter of 2020 were driven by resuming more intensive economic activities due to the improved epidemiological situation and the easing of restrictive epidemiological measures. The number of employees at the beginning of the third quarter of 2020 continued to grow at a similar intensity as in June after their number cumulatively decreased by almost 5% from March to May. Total employment at the end of September was 1.6% higher than at the end of the second quarter, total employment at the end of October was lower by 1.4% than in the same month last year.
The decline in unemployment slowed down during August, and accelerated again in September 2020, when the Croatian Employment Service recorded lower unemployment rates due to increased employment. However, as a result of the pandemic, the administrative unemployment rate in October 2020 was 9.2% of the workforce, which is an increase of 2 percentage points compared to October 2019.
The expected growth of economic activity in 2021 could have a smaller positive effect on employment and unemployment indicators due to the measures taken by the Government of the Republic of Croatia to mitigate the consequences of the pandemic, which would buffer the labour market's reaction to the decline in economic activity. Therefore, in 2021, the growth of the number of employees is expected to slow down, while the survey unemployment rate could be reduced to 7% of the workforce. In 2021, the average nominal net salary is expected to increase by about 3.4%, primarily due to the expected increase in salaries in the public sector as a result of the Government's decision and due to the tax relief from January 2021 (reduced income tax rates of 24% and 36% to 20% and 30%).

**Prices**

Annual consumer price inflation slowed significantly in the first ten months of 2020 due to lower energy prices (mostly oil derivatives) and the negative impact on prices of tourism-related services and durable consumer goods. On the other hand, inflationary pressures stemmed from increased excise duties, disruptions in supply chains, rising unit labour costs and costs associated with the implementation of epidemiological measures. It is estimated that average annual consumer price inflation could slow down to 0.2% in 2020 (from 0.8% in 2019, mostly due to declining energy prices). In 2021, average annual consumer price inflation is expected to accelerate to about 1.0%, resulting from the expected increase in the annual rate of change in energy prices.

[1]Macroeconomic trends and forecast, CNB, December 2020

**Information on economic trends (continued)**

**Current and capital account in the balance of payments**

The current and capital account surplus in the third quarter of 2020 decreased sharply compared to the same period last year. The Covid-19 pandemic and the deterioration of economic conditions strongly affected the tourism industry (revenues from the tourist consumption of foreign guests in the third quarter of 2020 were almost halved than in the same period last year).
The current and capital account surplus in the period up to the end of September was 0.8% of the GDP (the estimate for the whole of 2020 is 1.4% of the GDP), which is a significant deterioration compared to the whole of 2019 when a surplus of 4.8% of the GDP was realised. Assuming a recovery in foreign demand and tourism activity in 2021, the current and capital account surplus growth is expected to reach around 3.0% of the GDP.

**Monetary policy**

In the second half of 2020, the CNB maintained a high degree of its expansionary monetary policy. In response to the unfavourable economic and financial circumstances caused by the outbreak of the Covid-19 pandemic, the CNB adopted a series of monetary policy measures in the first half of the year to preserve the stability of the kuna against the euro, provide sufficient kuna and foreign exchange liquidity and ensure the stability of the government securities market. Following the stabilisation of financial conditions in domestic financial markets, there was no need for additional monetary policy measures during the second half of the year. Thus, in order to preserve exchange rate stability, the CNB sold a total of EUR 2.7 billion to banks and by the end of November it had bought EUR 1.7 billion net from the MF, thus creating HRK 12.7 billion. In addition, the CNB held auctions of structural operations in the total amount of HRK 4.3 billion for a period of 5 years at an interest rate of 0.25%. The CNB also placed short-term funds with banks by maintaining regular weekly operations with a fixed interest rate of 0.05%.
The reserve requirement rate fell from 12% to 9% in March, freeing up HRK 6.34 billion for banks.
After depreciation during March and the first half of April, the exchange rate of the kuna against the euro stabilised. The average exchange rate of the kuna against the euro in the first eleven months of 2020 amounted to EUR 7.53 / HRK or 1.6% more than the average exchange rate in the same period last year.
In the current unfavourable economic situation and great uncertainty regarding the dynamics of the economic recovery, the CNB will continue to pursue an expansionary policy of supporting high liquidity.

**Fiscal policy**

According to quarterly data on the execution of the consolidated general government budget according to the ESA 2010 methodology, in the first half of 2020 a budget deficit of HRK 13.2 billion was realised. This reflects the adverse impact of the crisis caused by the Covid-19 pandemic on economic activity and thus tax revenues. Due to these circumstances, budget developments significantly deteriorated compared to the same period last year, when the budget surplus of HRK 0.2 billion was realised.
At the beginning of November 2020, the Government of the Republic of Croatia adopted other amendments to the State Budget and Financial Plans of budget users, which increased the expected general government deficit in 2020 to 8.0% of the GDP, from 6.7% of the GDP, as planned by the first rebalance in May.
In the first half of 2020, there was a strong decline in total consolidated general government revenue of 8.2% compared to the comparable period last year. At the same time, indirect taxes contributed the most to the decline in total revenues, which was reflected in the decline in personal consumption.
On the expenditure side of the consolidated general government budget, in the first half of 2020 there was a strong increase in total expenses of 6.6% compared to the same period last year, mostly due to strong growth in subsidy expenses, primarily reflecting subsidies paid to employers for the purpose of preserving jobs.

**Description of operations**

The Bank's activities include all types of deposit and loan operations for legal entities and natural persons, domestic and foreign payments, issuing guarantees, avals and other forms of guarantees, purchase and sale of securities and other banking activities.

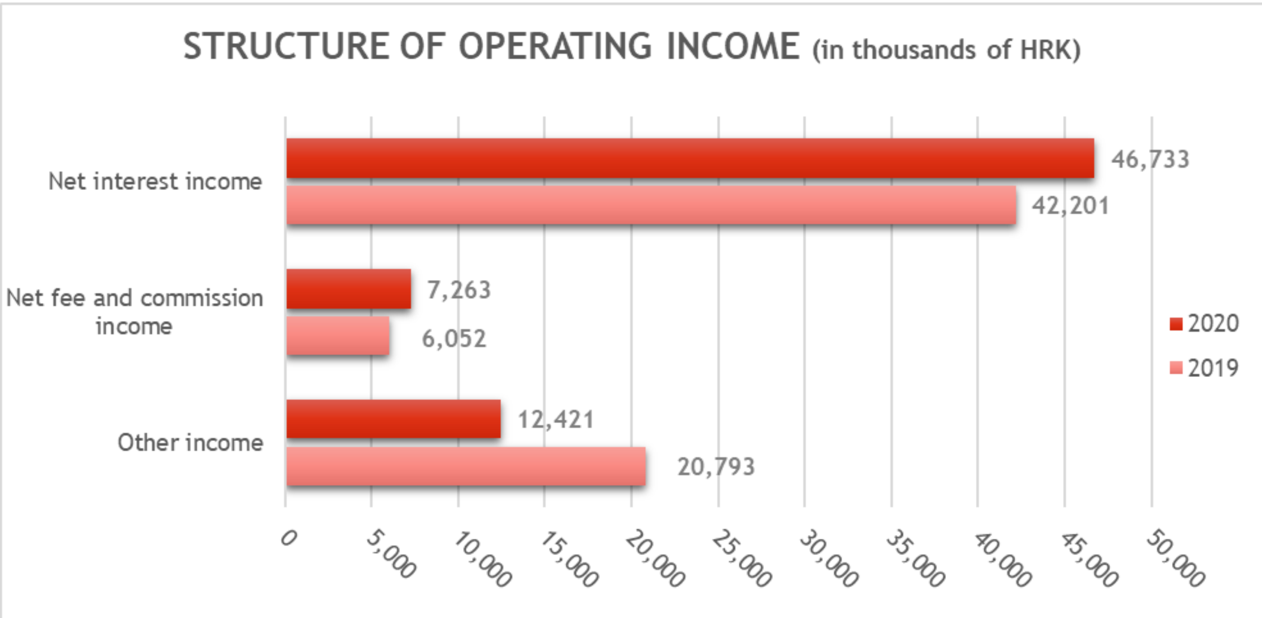
The Bank is wholly-owned (100%) by the state and in terms of assets (HRK 1.9 billion) it ranks 15th among a total of 20 banks. As at 31 December 2020, the Bank has 9 branches and 2 outlets.

As at 31 December 2020, the regulatory capital amounts to HRK 109,540 thousand, and the total capital adequacy ratio is 15.01%.

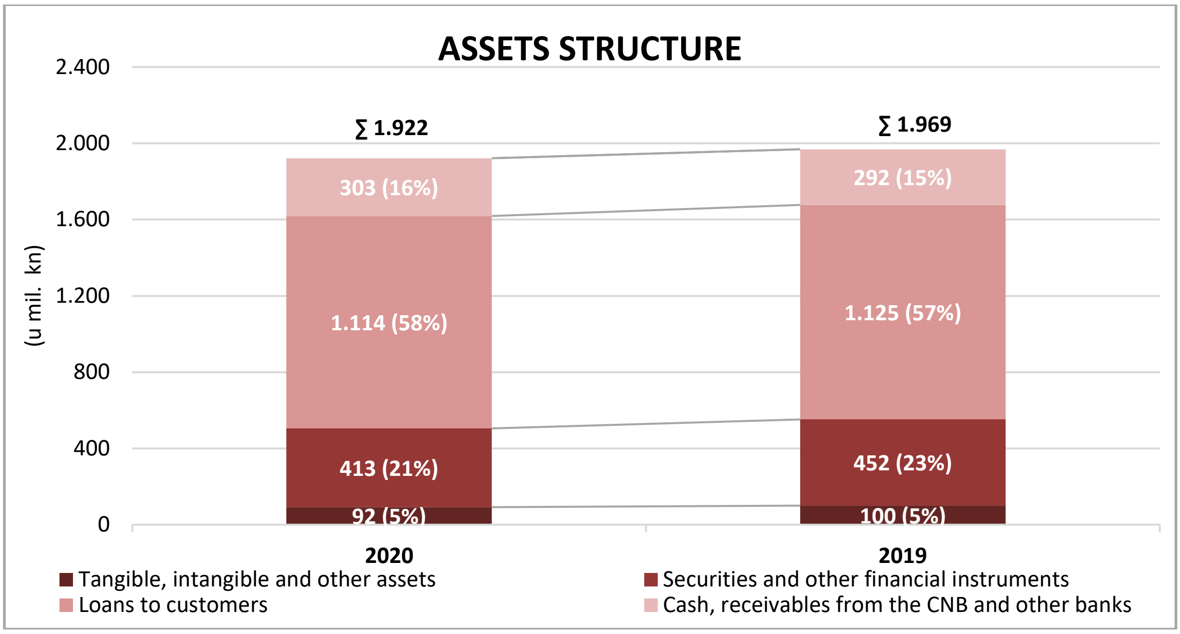
In 2020, the Bank realised profit before tax in the amount of HRK 4,982 thousand and profit after tax in the amount of HRK 4,915 thousand.

The operating profit amounts to HRK 12,351 thousand, and the impairment and provisioning expense amounts to HRK 7,369 thousand.

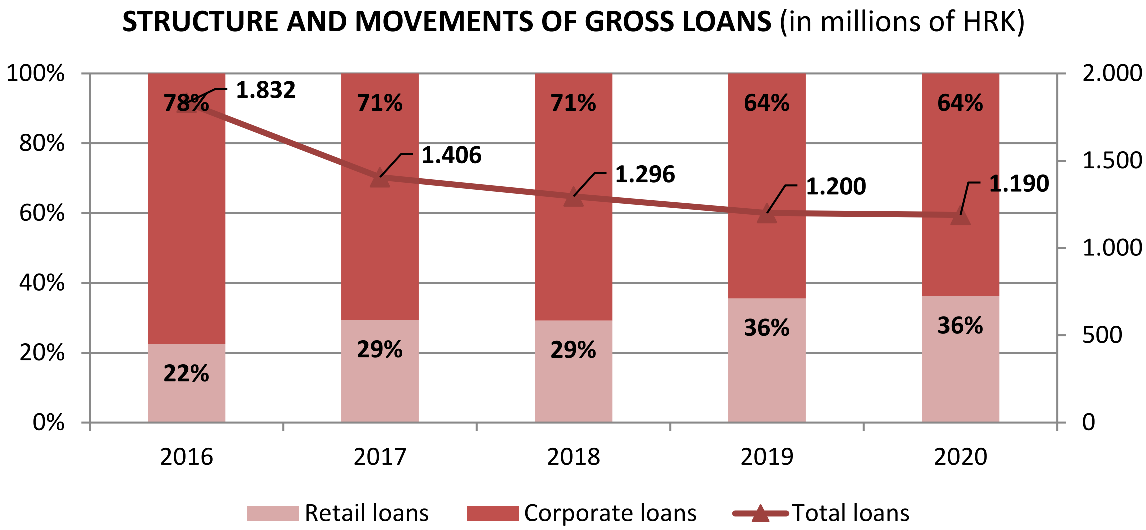
Total net operating income decreased by 3.8%, while operating expenses are down by 4.9% over 2019, which led to an increase in the 2020 operating result. The most significant portion of operating income is net interest income, accounting for 70.4% (HRK 46,733 thousand) of total income.



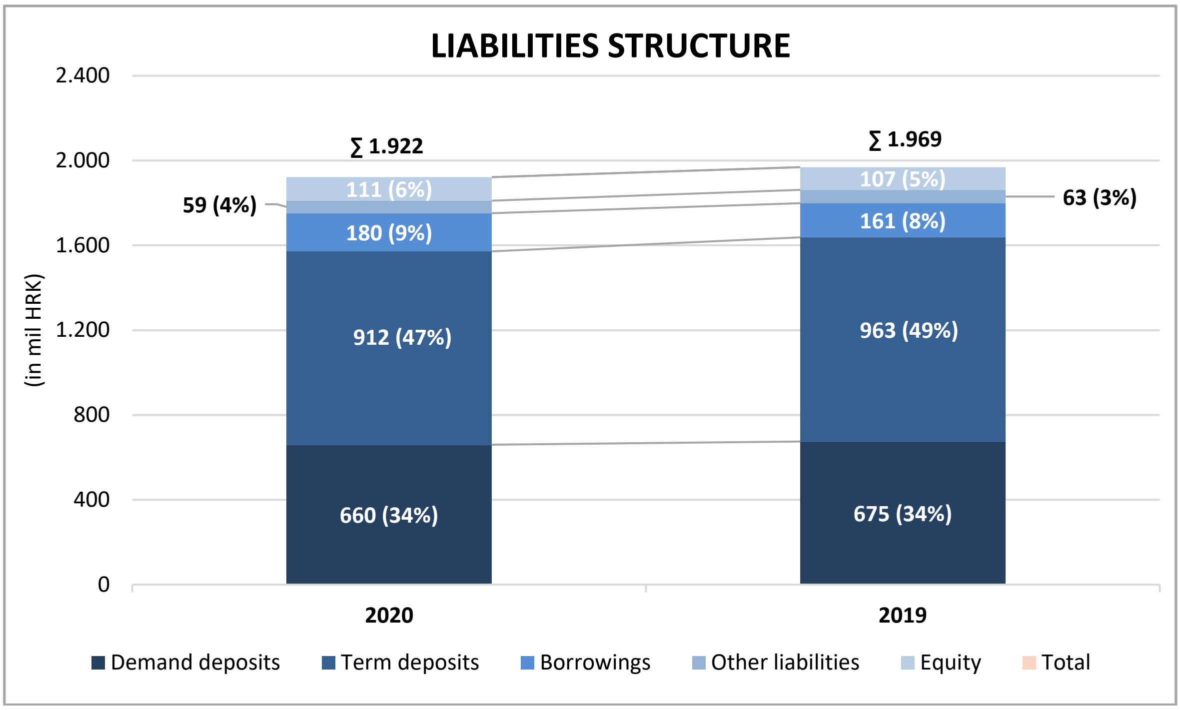
The Bank's assets amounted to HRK 1,922 million at the end of 2020, down by HRK 47 million compared to 2019. Loans and receivables from customers (58%), followed by securities and other instruments (21%) and cash, receivables from the Croatian National Bank and other banks (16%) account for the largest share in the asset structure.




As at 31 December 2020, total gross loans to customers amounted to HRK 1,190 million and are down by 0.8% compared to 2019, mostly due to a decline in corporate loans. In the structure of loans to customers, 64% are corporate loans, and 36% are loans to individuals (including loans to sole traders).

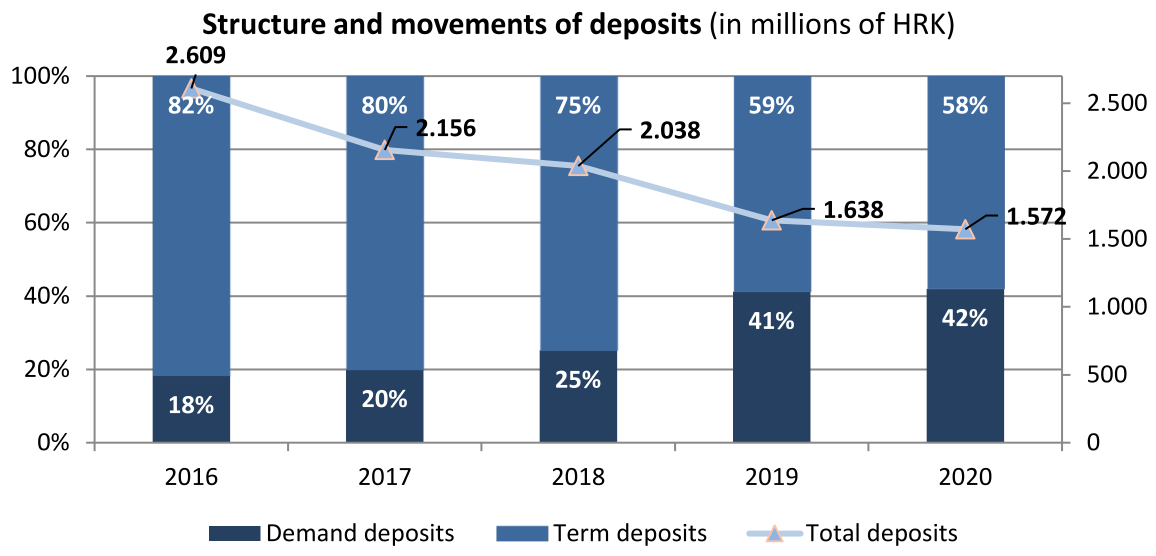



In the liabilities structure, the most significant share of 47% relates to term deposits, followed by demand deposits with 34%.




At the end of 2020, total deposits amounted to HRK 1,572 million and recorded a decrease of 4.1% (or HRK 66 million) compared to the end of 2019, with retail deposits falling by 6.4% and corporate deposits increasing by 7.4%.

Total deposits mainly comprise term deposits (58.0%), followed by demand deposits (42.0%). Total term deposits decreased by 5.3%, and their share in the structure of total deposits decreased by 1.0 percentage point. In 2020, demand deposits recorded a 2.2% decrease.



**Retail banking operations**

The past 2020 was marked by a slowdown in lending activity (HRK 93 million were paid), i.e. a decrease of 26% compared to the previous year (HRK 32 million less). Considering that part of the employers and their employees suffered strong consequences of the pandemic, in the previous year the focus was on good-quality placements and underlying collaterals. In this regard, temporary guidelines for approving non-purpose retail loans were adopted. Based on an internal act, these guidelines helped us direct the activity of the business network in order to implement the aforementioned. Also, significant activities have been undertaken in order to collect receivables.

Deposits decreased by HRK 80 million last year. This is a significantly smaller decrease compared to the year before (HRK 293 million). The decline in deposits was mostly due to the maturities of deposits in closed business units. However, in the last quarter, as a result of the individual client approach, the decline slowed down significantly and even a slight increase was noticeable in the last two months.

The number of current accounts declined by 14% compared to the year before. A part of the current accounts was closed due to inactivity, whereas other current accounts were closed as a result of introducing an account management fee for all clients. The goal of introducing it was to increase client activity and clean up the base of inactive clients. The number of Internet and mobile banking users increased by almost 20%, which is a direct consequence of the COVID-19 crisis and the reduced number of clients visiting the Bank's branches. Although revenues from Internet and mobile banking fees increased, due to reduced visits of customers to the outlets, payment transaction fees decreased, because a slightly higher fee is charged for payments at the outlet.

Revenues from the sale of third-party products continued to grow slightly, although lending activity decreased due to the expansion of the product range as a result of commencing a business cooperation with new business partners (insurance companies, Diners, etc.).

All previously undertaken activities affected the growth of net income from fees and commissions by over 30%, despite a significant decline in fee income from custody operations, which was influenced by a significant reduction in lending activity in investment banking (*margin* and S loans).

**Corporate banking operations**

Corporate deposits (excluding deposits from other banks) account for 25.5% of the Bank's total deposits. Compared to the end of 2019, corporate deposits increased by 7.4% and amounted to HRK 398 million. Of these, demand deposits amount to HRK 275 million, while term deposits amount to HRK 123 million.

At the end of 2020, the total gross loan portfolio of corporate customers amounted to HRK 759 million, which is a decrease of HRK 14 million compared to the end of 2019. This was primarily the result of the sale of non-performing placements and a decrease in the volume of loans to corporations, while loans to small and medium-sized enterprises increased by more than 20%. It is important to note that during 2020, over HRK 60 million of loans were repaid early, primarily in the segment of larger enterprises.

The 2020 business plan relating to corporate customers aimed at retaining the existing quality customers as well as expanding the client base of small and medium enterprises. The volume of off-balance sheet items increased by about 40%, which had a positive effect on the growth of non-interest income.
Fee income was mostly generated in accordance with the planned amounts, primarily due to the adoption of a new tariff of payment transaction fees and stricter control of contractual obligations to perform payment transactions by customers.
The quality of business processes is planned to be continuously improved in cooperation with other organisational units of the Bank, with an emphasis on the lending process. This was largely realised and such strategy is planned to be continued in 2021.

Furthermore, the decision to close the Požega outlet, as an outlet not realising profit, was adopted with the aim of optimising the business network, reducing rental costs and reducing the number of employees.

**Treasury operations**

The Bank maintains its liquidity using available liquid instruments denominated in HRK and foreign currencies (balances on the Bank's accounts, securities, inter-bank loans and repo loans). During 2020, the Bank maintained a high liquidity rate. Unlike in previous years, in order to provide sufficient funds for a possible significant withdrawal of deposits caused by the uncertainties related to the Covid-19 pandemic and to avoid reputational risk, the Bank decided to maintain a larger share in primary liquidity reserves (i.e. around HRK 70 million per day in the CNB account).

In 2020, the Bank used a daily average of HRK 108.9 million of repo loans at an average interest rate of 0.609%, which, compared to 2019, represents a slight decrease in the amount (2019: HRK 110.2 million), but a significant decrease in interest rates (2019: 1.198%). The Bank achieved this by early repayment of HRK 110 million of structural repo loans at an interest rate of 1.2% and a new borrowing in the total amount of HRK 140 million at an interest rate of 0.25%. This simultaneously reduced the interest expense and increased the amount and extended the maturity of liabilities.
As far as foreign currency repo loans are concerned, during 2020 the Bank used an average of HRK 14.5 million daily repo loans in euros, compared to HRK 0.9 million in 2019, but at an interest rate of 0.002%, while the average interest rate in 2019 stood at 0.05%.

In order to manage currency risk and ensure a balanced foreign exchange position, during 2020 the Bank did not use FX swaps. Instead, the Bank used the purchase and sale of foreign exchange only.

In 2020, the securities portfolio (bonds and treasury bills) decreased by 8.6% or HRK 38.5 million. During 2020, the restructuring of the securities portfolio was completed so as to adjust the Bank to changes in regulatory requirements. The Bank thus no longer has foreign currency bonds and bills of the Republic of Croatia in its portfolio.

Furthermore, in 2020, in order to reduce the risk of changes in bond prices, the Bank partially restructured its portfolio by reducing the share of bonds of the Republic of Croatia in the bond portfolio from 51.0% to 40.7% (a decrease of HRK 62.2 million), and the share of EMU zone bonds increased from 49.0% to 59.3% (a decrease by only HRK 12.5 million).
At the same time, the treasury bill portfolio was increased by 25.9% in order to realise surplus liquidity and provide additional liquidity reserves (i.e. to create prerequisites for the possible withdrawal of additional repo loans).

Despite the huge market disruptions caused by the Covid-19 pandemic, which briefly led to a complete absence of demand for securities, the planned trading income was realised, while the negative difference between interest income and interest expenses during the year recorded a downward trajectory.

**Internal controls system and internal audit**

The internal controls system has been established at the Bank’s level by internal acts that define the responsibilities of the Bank’s individual organisational units.

The internal controls system at the Bank has been established as a set of processes and procedures designed for the purpose of adequate risk control, monitoring the efficiency and effectiveness of the Bank’s operations, reliability of its financial and other information, and compliance with regulations, internal acts, standards and codes to ensure stability of the Bank’s operations.

Internal audit is an independent control function and constitutes a part of the Bank's internal control system. Internal audit is independent of all business processes and activities whose operations it audits, assessing in the course of its work the efficiency and effectiveness of the internal control and risk management system in the Bank's business processes.
In the course of the audit implementation, the internal audit function evaluates the internal control system of specific business segments and the adequacy and efficiency of risk management. The adequacy and effectiveness of the system of internal controls, risk management and compliance assessment is determined on the basis of reviewed documentation, processes and internal acts for a particular area of business that was subject to audit.

**Internal Audit**

The Internal Audit Department has been set up as a separate organisational unit, functionally and organisationally independent of activities it audits and other organisational units of the Bank.

Internal Audit constitutes a follow-up internal supervision of the Bank's entire operations and is organised to support and assist the Management Board and represents an advisory, informative and control function that reports to the Bank's Management Board, the Audit and Risk Committee and the Supervisory Board on the Bank's business areas and internal control system operational risks by preparing reports and providing proposals, recommendations and measures to improve the Bank's operations.

The scope and operational methods of the Internal Audit Department are detailed in the Internal Audit Methodology proposed by the department itself, and adopted by the Bank's Management Board.

The Annual Audit Plan is based on documented risk assessments and contains all the relevant elements from the Decision on the management system and internal acts. The Annual Operating Plan of the Internal Audit Department is approved by the Bank’s Management Board based on a prior consent of the Audit Committee and/or the Supervisory Board.

The Internal Audit Department prepares operational reports in accordance with its activities and the plans determined for each area of operation of the Internal Audit Department. In the course of the audit, any identified illegalities, irregularities and deficiencies/weaknesses are assessed according to the risk categories and recommendations are made to eliminate them. In addition to the type of findings and risk category, each identified finding in the audit report shall also state the type of risk to which the finding is related (credit risk, operational risk, business risk, reputational and compliance risk, and information system risk).
Following the audit, the operational report on each audit performed is submitted to the Management Board of the Bank and to the responsible persons of the organisational segment of the Bank competent for the business segment that was subject to audit to the Audit and to the Audit and Risk Committee.

The Internal Audit Department submits quarterly reports on internal audit activities to the Bank's Management Board, the Audit and Risk Committee, the semi-annual and annual report on operations also to the Bank's Supervisory Board, and the annual report also to the Croatian National Bank.

**Corporate Governance Statement**

Pursuant to the provisions of Article 272p of the Companies Act and Article 22 of the Accounting Act, the Management Board of Croatia banka d.d. Zagreb hereby declares that the Bank implements the Corporate Governance Positions for banks on a voluntary basis.

In 2020, the Bank continuously followed and applied the recommendations determined in the CNB's Positions, disclosing all information the disclosure of which is provided by positive regulations as well as making disclosures that are in the interest of the Bank's owners and clients.

Pursuant to the corporate governance requirements and in line with the provisions of the Companies Act, the Supervisory Board performs the internal oversight by regular controls of submitted reports. Members of the Supervisory Board regularly obtain detailed information on the Bank's management and operations. At the Supervisory Board meetings, all issues from the Board's area of responsibilities are discussed and decided on.

The Bank maintains business and other records and business documentation, prepares accounting documents, realistically assesses assets and liabilities, prepares financial statements and other reports in accordance with accounting regulations and standards and the applicable legislation.

Corporate governance at the Bank is implemented not only by meeting regulatory requirements, but it also derives from the culture of corporate and personal integrity of the management and employees. The description of main characteristics in carrying out internal supervision and risk management in relation to financial reporting are contained in this Annual Report.

Nominees for the president and members of the Bank's Management Board must meet all requirements prescribed by legislation governing banking operations and other relevant regulations. Once the Croatian National Bank approves the nominees, the Supervisory Board appoints the president and members of the Management Board with a mandate of up to four years. The powers of the Bank's Management Board are defined by law and the Statute. The division of the respective responsibilities of the Management Board and its president are determined in a separate decision adopted with the consent of the Supervisory Board.

Decisions on amendments to the Statute are adopted at the Bank's General Assembly, in line with the Act and the Statute.
For the purpose of protecting the interests of the owners, clients, employees and all other stakeholders, Croatia banka d.d. Zagreb aims to fully align its operations with the highest corporate governance standards.

**Bank's management structure**

In accordance with the Companies Act, the Credit Institutions Act and the Bank's Statute, the Bank's governance structure comprises the Supervisory Board and the Management Board, whose duties and responsibilities are also regulated by the above regulations.

**Other information**

The Bank did not carry out any research and development activities during 2020.
The Bank did not purchase any treasury shares during 2020.
The Bank does not own other legal entities.
Purchase and sale of financial instruments constitute an integral part of the Bank's operations and are described in detail in these financial statements.
Details about the Bank's financial risk management goals and policies, its exposure to price risk, credit risk, liquidity risk and other risks are provided in the accompanying financial statements.

# Independent Auditor's Report

To the Owner of Croatia Banka d.d.

## Report on the audit of the financial statements

### Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Croatia Banka d.d. (the "Bank") as at 31 December 2020, and the Bank's financial performance and cash flows for the year then ended in accordance with the statutory accounting regulations for banks in the Republic of Croatia as defined in Note 3 to the financial statements.

Our opinion is consistent with our additional report to the Audit Committee dated 15 March 2021.

**What we have audited**

The Bank's financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2020;
- the statement of financial position as at 31 December 2020;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014, and furthermore, we have not provided any non-audit services to the Bank in the period from 1 January 2020 to 31 December 2020.

## Our audit approach

**Overview**

| | |
|---|---|
| **Materiality** | • HRK 1.1 million, which represents 1% of net assets. |
| **Key audit matters** | • Impairment to loans and advances to customers |

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

**Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| **Overall Bank materiality** | HRK 1.1 million |
| **How we determined it** | 1 % of net assets |
| **Rationale for the materiality benchmark applied** | We chose net assets as the benchmark because it is the benchmark which is closely monitored and there is a strong focus on regulatory compliance measured by the adequacy of the capital (net assets). |

**Key audit matters**

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment of loans and advances to customers*<br><br>As at 31 December 2020, the Bank had impairment provisions for loans and advances to customers in the amount of HRK 81,359 thousand.<br><br>Following notes provide information relating to loans and advances to customers and its losses on impairment: Note 19 Loans and advances to customers, Note 4.20.1. Losses on impairment of loans and advances, Note 4 Significant accounting policies and Note 36 Risk management policies.<br><br>Impairment provisions are the management's best estimate of expected credit losses on loans and advances at the reporting date. The amount of the provisions is determined in accordance with statutory accounting regulations applicable to banks in Republic of Croatia as defined in Note 3 to the financial statements.<br><br>The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition. For loans in Stage 1 and Stage 2, the Bank applies expected credit loss calculation in accordance with International Financial Reporting Standard requirements ("IFRS").<br><br>For loans in Stage 3, it is determined as the difference between the book value and the recoverable amount, which represents the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the loans' original effective interest rate.<br><br>We focused on this area because of the significance of these items in the Bank's financial statements and the fact that there is a judgement involved in application of the guidance for calculation of expected credit losses defined by IFRS 9 methodology and Croatian National Bank requirements. | We tested controls for approving and monitoring of loans and advances to customers, including appropriateness of classification of loans, calculation of days past due and calculation of impairment provisions.<br><br>We have selected a sample of loans and advances to customers with the focus on exposures with potentially highest impact on the financial statements due to their size and/or risk profile such as restructured exposures and non-performing loans for which we assessed valuation method and staging adequacy and for which we recalculated expected credit losses.<br><br>For Stage 1 and Stage 2 portfolio we have reviewed expected credit loss calculation methodology and polices for impairment provisions recognized, while for stage 3 we have reviewed supporting documentation and discussed any issues with responsible personnel in the Bank. Also, we have assessed on sample basis adequacy of staging changes in accordance with relevant policies based on additional model adjustments impacted by Covid-19 pandemic.<br><br>For individually impaired exposures, we have assessed key assumptions used in recovery scenarios, such as future cash flow estimates and recoverable value of collateral to ensure the exposures have been classified and measured in accordance with statutory accounting regulations applicable to banks in Republic of Croatia.<br><br>We assessed financial statements disclosures which relate to expected credit losses for loans and advances to customers, including disclosures relating to impact of Covid-19 pandemic.<br><br>Furthermore, we evaluated whether key components of expected credit loss calculation are correctly incorporated in the models and tested on a sample basis the correctness of stage allocation according to the relevant policies in order to conclude expected loss calculation adequacy and compliance with Croatian National Bank requirements and if there are significant deviations to IFRS. |

## Reporting on other information including the Management Report

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

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

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

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

Based on the work undertaken in the course of our audit, in our opinion:

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

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

## Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the statutory accounting regulations for banks in the Republic of Croatia as defined in Note 3 to the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## 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 scepticism throughout the audit. We also:

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent 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 independent auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

## Report on other legal and regulatory requirements

### Appointment

We were first appointed as auditors of the Bank on 27 September 2018. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 29 September 2020, representing a total period of uninterrupted engagement appointment of 3 years.

### Forms in accordance with regulatory requirements

Based on the Decision on the structure and content of annual financial statements of credit institutions (Official Gazette 42/18), "Decision"), the Management Board of the Bank prepared the forms according to Croatian National Bank requirements for the period from 1 January 2020 to 31 December 2020 presented in Appendix 1, entitled the "Statement of financial position (Balance sheet)" and note "Off-balance sheet items" as at 31 December 2020, "Income statement", "Statement of comprehensive income", "Statement of changes in shareholders' equity" and "Cash flow statement" for the year then ended (the "Forms"), together with information to reconcile the Forms to the Bank's financial statements. The Bank's management is responsible for the preparation of these forms and information on reconciliation and they do not represent an integral part of these audited financial statements, but contain information required by the Decision. The financial information in the forms is derived from the Bank's audited financial statements prepared in accordance with statutory accounting regulations for banks in the Republic of Croatia as presented in Appendix 2 and adjusted for the purposes of the Decision.

The engagement partner on the audit resulting in this independent auditor's report is Siniša Dušić.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
24 March 2021

This version of our report is a translation from the original, which was prepared in 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 our report takes precedence over this translation.

Pursuant to the Croatian Accounting Act in force, the Management Board is responsible for ensuring that the financial statements are prepared for each financial year in accordance with statutory accounting regulations for banks in the Republic of Croatia, as defined in Note 3 to the financial statements, in order to give a true and fair view of the financial position and operating results of Croatia banka d.d. (the "Bank") for that period.

The Management Board has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing financial statements.

In preparing the financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also ensure that the financial statements comply with the Croatian Accounting Act in force (Official Gazette 78/15, 134/15, 120/16, 116/18, 42/20 and 47/20). The Management Board is also responsible for safeguarding the assets of the Bank and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Board is responsible for the preparation and the content of the annual report in accordance with Article 19 and 21 of the Accounting Act (Official Gazette 78/15, 134/15, 120/16, 116/18, 42/20 and 47/20), and also for the supplementary regulatory reports.

Signed on behalf of the Management Board:

15 March 2021

| | | |
|---|---|---|
| Danijel Luković<br>President of the Management Board | CROATIA BANKA<br>d.d. Zagreb<br>UPRAVA | Tadija Vrdoljak<br>Member of the Management Board |

| in thousands of HRK | *Note* | **2020** | **2019** |
|---|---|---|---|
| Interest income | *5* | 52,024 | 53,109 |
| Interest expense | *6* | (5,291) | (10,908) |
| **Net interest income** | | **46,733** | **42,201** |
| Fee and commission income | *7* | 10,577 | 9,741 |
| Fee and commission expense | *8* | (3,314) | (3,689) |
| **Net fee and commission income** | | **7,263** | **6,052** |
| Net financial gains | *9* | 3,298 | 10,801 |
| Net foreign exchange losses | *10* | 335 | (23) |
| Other operating income | *11* | 8,858 | 10,305 |
| **Total other income** | | **12,491** | **21,083** |
| Other operating expenses | *12* | (53,213) | (57,147) |
| Impairment losses and provisions | *13* | (8,292) | (37,201) |
| **Total other expenses** | | **(61,505)** | **(94,348)** |
| **Profit/(loss) before tax** | | **4,982** | **(25,012)** |
| **Income tax** | *14* | **(67)** | **30** |
| **Profit/(loss) for the year** | | **4,915** | **(24,982)** |
| **Other comprehensive loss** | | | |
| **Items subsequently transferred to profit or loss** | | **(1,347)** | **3,125** |
| Unrealised gains on valuation of financial assets at fair value through other comprehensive income | | (2,507) | 2,872 |
| Cumulative loss on sale of financial assets at fair value through other comprehensive income transferred to profit or loss | | 1,044 | 711 |
| Deferred tax | | 116 | (458) |
| **TOTAL COMPREHENSIVE INCOME/(LOSS)** | | **3,568** | **(21,857)** |

The accompanying accounting policies and notes are an integral part of these financial statements.

| in thousands of HRK | *Note* | **31 December 2020** | **31 December 2019** |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | *15* | 200,953 | 152,322 |
| Receivables from the Croatian National Bank | *16* | 85,849 | 120,447 |
| Placements with banks | *17* | 15,941 | 18,971 |
| Financial assets at fair value through OCI | *18* | 412,226 | 452,045 |
| Financial assets at fair value through profit or loss | | 434 | 434 |
| Financial assets at amortised cost | | - | 1,203 |
| Loans and advances to customers | *19* | 1,114,343 | 1,125,460 |
| Investment property | *20* | 35,630 | 35,350 |
| Property and equipment | *21* | 7,199 | 8,189 |
| Intangible assets | *21* | 2,711 | 3,152 |
| Foreclosed assets | *22* | 25,685 | 25,758 |
| Assets held for sale | *23* | - | 5,280 |
| Deferred tax assets | *14* | 742 | 693 |
| Other assets | *24* | 19,787 | 19,306 |
| **Total assets** | | **1,921,500** | **1,968,610** |
| **EQUITY AND LIABILITIES** | | | |
| Liabilities to banks | *25* | 4,884 | 18,206 |
| Demand deposits | *26* | 655,111 | 668,867 |
| Term deposits | *27* | 911,578 | 951,015 |
| Borrowings | *28* | 179,681 | 160,891 |
| Lease liabilities | *29* | 2,407 | 3,377 |
| Other liabilities | *29* | 7,671 | 9,963 |
| Provisions | *30* | 49,441 | 49,132 |
| **Total liabilities** | | **1,810,773** | **1,861,451** |
| **EQUITY** | | | |
| Share capital | *31* | 474,600 | 474,600 |
| Accumulated loss | *31* | (364,530) | (369,445) |
| Reserves | *31* | 657 | 2,004 |
| **Total equity** | | **110,727** | **107,159** |
| **Total liabilities and equity** | | **1,921,500** | **1,968,610** |

The accompanying accounting policies and notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2020

| in thousands of HRK | Share capital | Accumulated loss | Reserves | Total |
|---|---|---|---|---|
| **Balance at 1 January 2019** | **474,600** | **(343,382)** | **(1,121)** | **130,097** |
| *Changes in equity in 2019* | | | | |
| Correction of effects of IFRS 9 adoption | - | (931) | - | (931) |
| Effects of IFRS 9 adoption | - | (150) | - | (150) |
| **Balance at 1 January 2019 - restated** | **474,600** | **(344,463)** | **(1,121)** | **129,016** |
| Unrealised change in fair value of available-for-sale financial assets | - | - | 2,872 | 2,872 |
| Cumulative loss on sale of available-for-sale financial assets transferred to profit and loss | - | - | 711 | 711 |
| Deferred tax on available-for-sale financial assets | - | - | (458) | (458) |
| *Net income recognised in other comprehensive income* | - | - | *3,125* | *3,125* |
| Loss for the year | - | (24,982) | - | (24,982) |
| **Balance at 31 December 2019** | **474,600** | **(369,445)** | **2,004** | **107,159** |
| **Balance at 1 January 2020** | **474,600** | **(369,445)** | **2,004** | **107,159** |
| *Changes in equity in 2020* | | | | |
| Unrealised change in fair value of financial assets at fair value through other comprehensive income | - | - | (2,507) | (2,507) |
| Cumulative gains on sale of financial assets at fair value through other comprehensive income transferred to profit and loss | - | - | 1,044 | 1,044 |
| Deferred tax on financial assets | - | - | 116 | 116 |
| *Net income recognised in other comprehensive income* | - | - | *(1,347)* | *(1,347)* |
| Profit for the year | - | 4,915 | - | 4,915 |
| **Balance at 31 December 2020** | **474,600** | **(364,530)** | **657** | **110,727** |

The accompanying accounting policies and notes are an integral part of these financial statements.

| in thousands of HRK | 2020 | 2019 |
|---|---|---|
| **NET CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Profit/loss before tax | **4,982** | **(25,012)** |
| *Adjustment to net cash from operating activities* | | |
| Impairment of loans and other assets (net ) (Note 13) | 7,621 | (1,205) |
| Reversal of provisions for contingent liabilities (net) (Note 13) | 1,393 | 985 |
| Provisions for legal disputes – net (Note 13) | (900) | 36,528 |
| Other provisions (net) (Note 13, Note 30) | 306 | 1,046 |
| Collected receivables previously written-off (Note 13) | (128) | (153) |
| Gains on realisation of financial assets at fair value through OCI (Note 9) | (1,240) | (8,734) |
| Fair valuation gains on investment property (Note 11) | (280) | (904) |
| Gains on foreign currency trading (Note 9) | (2,091) | (2,067) |
| Amortisation and depreciation (Note 21) | 3,190 | 3,610 |
| Foreign exchange (gains)/ losses on translation to the CNB mid exchange rate (Note 10) | (335) | 23 |
| Gains on sale of foreclosed assets (Note 11) | (2,538) | (1,761) |
| Write-off of tangible assets | 1 | 152 |
| Other non-cash items | (67) | (5,336) |
| *Changes in assets and liabilities from operating activities* | | |
| Decrease in receivables from the Croatian National Bank | 34,793 | 23,121 |
| Increase in loans and advances to customers | (38,744) | (104,983) |
| Decrease in other assets | 1,786 | 7,057 |
| Interest received | 52,946 | 62,203 |
| Interest paid | (491) | (910) |
| (Decrease in) liabilities to banks | (13,322) | (92,337) |
| (Decrease in) demand deposits | (13,756) | 160,266 |
| (Decrease in) term deposits | (49,383) | (468,843) |
| Increase/(decrease) in other liabilities | 2,905 | (404) |
| **Net cash flow from operating activities** | **(13,352)** | **(417,659)** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Purchase of financial assets at fair value through OCI | (355,819) | (427,560) |
| Sale of financial assets at fair value through OCI | 390,441 | 738,264 |
| Interest received | 716 | 1,825 |
| Decrease/(Increase) in financial assets at amortised cost | 1,210 | (711) |
| Decrease in financial assets at fair value through profit or loss | - | 58 |
| Purchase of property, equipment and intangible assets | (1,760) | (1,665) |
| Proceeds from the sale of property | 6,821 | 4,377 |
| **Net cash flow from investing activities** | **41,609** | **314,588** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Repayments of borrowings | (1,627) | (919) |
| New borrowings | 21,183 | 48,954 |
| Interest paid | (766) | (1,455) |
| Lease liabilities | (970) | 3,377 |
| Provisions paid for legal disputes | (493) | (2,648) |
| Other payments | - | (395) |
| **Net cash flow from financing activities** | **17,327** | **46,914** |
| **Net change in cash and cash equivalents** | **45,584** | **(56,157)** |
| **Cash and cash equivalents at beginning of year (Note 34)** | **171,516** | **227,673** |
| **Effects of exchange rate changes on cash equivalents** | **-** | **-** |
| **Cash and cash equivalents at end of year (Note 34)** | **217,100** | **171,516** |

The accompanying accounting policies and notes are an integral part of these financial statements.

## 1. GENERAL INFORMATION ABOUT THE BANK

**Legal framework and activities**

Croatia banka d.d. Zagreb ("Bank") was registered in the court register as a joint stock company in 1989 under registration number 080007370. The registered office of the Bank is at Roberta Frangeša Mihanovića 9, Zagreb, Croatia.

Croatia banka d.d. is wholly owned (100%) by the State Agency for Deposit Insurance and Bank Rehabilitation (DAB) which is owned by the Republic of Croatia.

The Bank's activities include all types of deposit and loan operations for legal and natural persons, domestic and foreign payments, issuing guarantees, avals and other forms of guarantees, purchase and sale of securities and other banking activities.

The Bank has 9 branches - Branch Čakovec, Branch Osijek, Branch Pula, Branch Slavonski Brod, Branch Split, Branch Vinkovci, Branch Virovitica, Branch Vukovar, Branch Županja, and 2 outlets: Outlet Šubićeva and Outlet Sky Office.

**Bank bodies**

**Supervisory Board**
The Supervisory Board operates in accordance with the Companies Act, the Credit Institutions Act and the Bank's Statute, whereby its main responsibility is the supervision of Bank's operations and appointment and dismissal of the president and members of the Management Board. In addition, the Supervisory Board approves the Management Board's business policies, financial plans, strategies and policies of risk taking and management, strategies and procedures for assessing the adequacy of internal capital, acts that establish and ensure adequate functioning of the internal control system, plans of control functions operations, salary and other benefits policy, organizational structure of the Bank, and it also decides on other issues as determined by law or the Bank's internal acts.

Members of the Supervisory Board are elected i.e. appointed for a period of four years.

In 2020, the members of the Supervisory Board were:
1 January - 31 December 2020
Maruška Vizek, President
Branka Grabovac, Deputy President
Zdenka Pogarčić, Member
Ana Michieli Pavuna, Member

In 2019, the members of the Supervisory Board were:
1 January - 31 December 2019
Maruška Vizek, President
Branka Grabovac, Deputy President
Zdenka Pogarčić, Member
Ana Michieli Pavuna, Member

## 1. GENERAL INFORMATION ABOUT THE BANK (continued)

**Management Board**

Competences, duties and responsibilities of the Bank's Management Board in conducting business and representing the Bank are determined by the Companies Act, the Credit Institutions Act, the Statute and the Rules of the Bank's Management Board operations.

Management Board manages its business and manages its assets, and it has the responsibility and power to take any action and make any decision necessary for the successful management of the Bank. In the managing of business operations Management Board in particular is responsible for ensuring that the Bank operates in accordance with the rules on risk management in accordance with the Credit Institutions Act and other legislation and internally set regulations and laws; approving and regularly reviewing risk management strategies and policies, including managing risks that arise from the macroeconomic environment in which the Bank operates, and the state of the business cycle of the Bank; ensuring systematic monitoring, assessment and the strategy for maintaining or reaching the adequate amount of capital in relation to risks to which the Bank is exposed in its operations ensuring functioning of the internal controls system for all areas of the Bank's operations; ensuring unobstructed internal audit; ensuring that the Bank keeps business and other records and business documentation, prepares accounting documents, realistically estimates assets and liabilities, prepares financial and other reports in accordance with accounting regulations and standards and the Credit Institutions Act and other regulations adopted on the basis of law; ensuring that the Bank reports and informs the Croatian National Bank in line with the Credit Institutions Act and other regulations adopted on the basis of law; and ensuring the implementation of measures ordered by the Croatian National Bank.

The Management Board consists of at least two to maximum three members, one of which is appointed as the President of the Management Board. The President of the Management Board represents the Bank solely and independently, and a member of the Management Board represents the Bank jointly with another member of the Management Board.

The Bank's Management Board is appointed by the Supervisory for a period of not more than four years, with the option of reappointment.

In 2020, the Management Board Members were as follows:

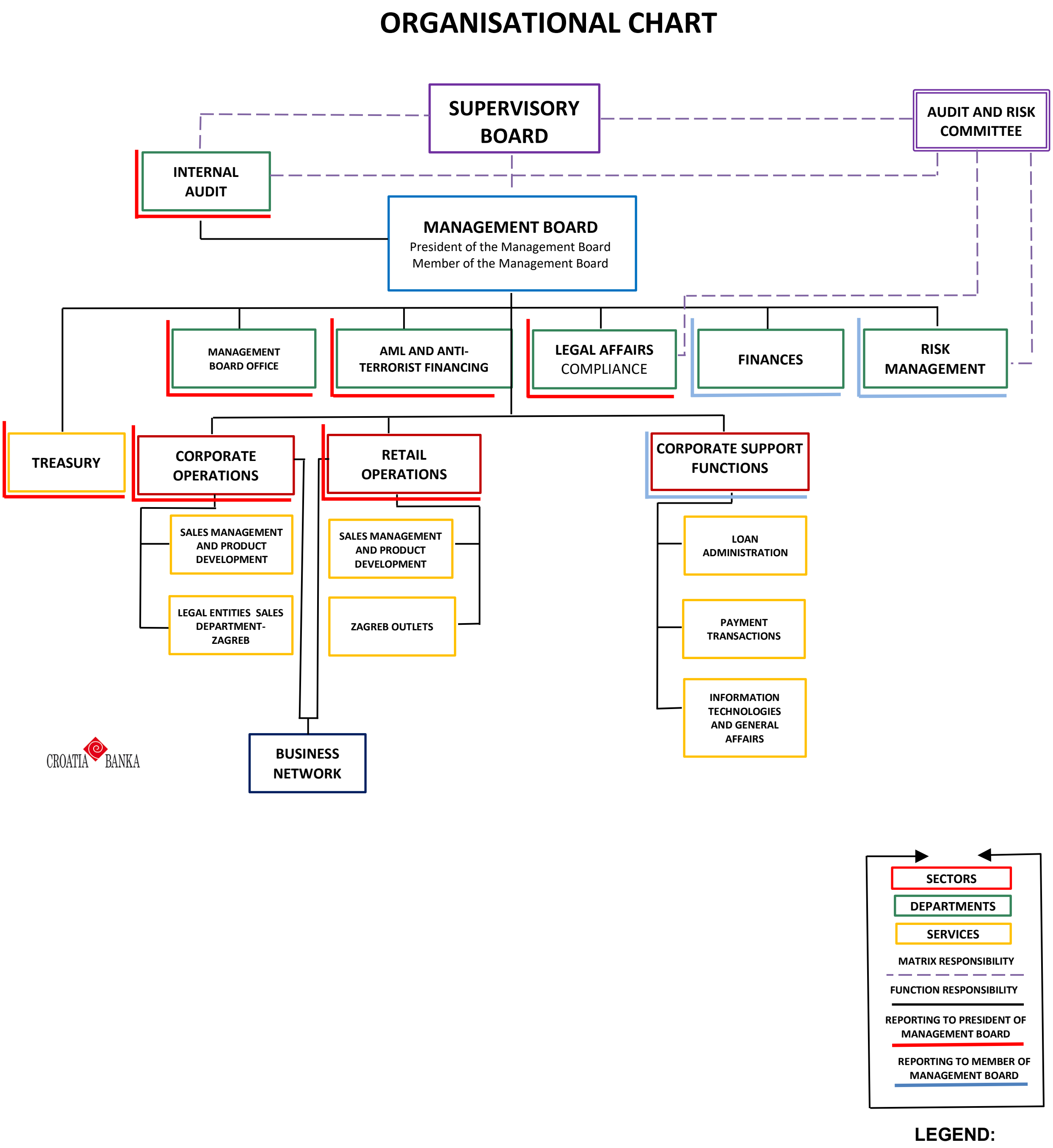
Danijel Luković - President of the Management Board
Tadija Vrdoljak – Member of the Management Board

In 2019, the Management Board Members were as follows:

Danijel Luković - President of the Management Board
Tadija Vrdoljak – Member of the Management Board

## 1. GENERAL INFORMATION (continued)

**Organisational structure**



## 2. GOING CONCERN

**Capital management**

In the previous period, the Bank's owner increased its share capital on several occasions. The most recent increase was made in October 2012 in the amount of HRK 200 million, by converting bonds into equity bonds, representing in aggregate a hybrid instrument, i.e. supplementary capital in the amount of HRK 70 million and contributing HRK 130 million in cash.

Similar to the previous year, in 2020 the Bank's lending activities continued to be focused on extending loans to the government and state-owned companies guaranteed by the Republic of Croatia that, under the applicable regulations, are not subject to capital requirements and still bring a satisfactory level of interest income. Regarding the sources of funds, the Bank recorded a decline in total deposits (especially retail deposits) primarily as a result of the closure of two branches. Therefore, the Bank reduced excessive and unnecessary liquidity reserves, which resulted in significant reduction of interest costs.

As at 31 December 2020, the Bank's regulatory capital amounted to HRK 109,540 thousand. As at 31 December 2020, the total capital ratio is 15.01%.

As at 31 December 2020, the Bank did not meet all capital requirements (the prescribed minimum total capital ratio amounts to 15.19%). In 2020, the Bank activated a new Capital Conservation Plan in accordance with the by-laws defining procedures for failure to meet capital requirements, which was approved by the CNB. The Bank regularly submitted reports on the implementation of measures under the Capital Conservation Plan. Apart from the above, no additional measures were taken by the CNB. By implementing the planned measures from the Capital Conservation Plan, the Bank should achieve a minimum total capital ratio. On 3 February 2020, the State Agency for Deposit Insurance and Bank Rehabilitation, as the owner of the Bank, issued a call for the procurement of legal advisory and support services in the process of the sale of 100% of shares of Croatia Banka d.d., Zagreb. In accordance with the Bank's planned sales process, a virtual data room was set up, which was opened on 10 August 2020 and closed on 26 October 2020. Interested investors submitted their binding offers by 30 November 2020.

## 3. BASIS OF PREPARATION

### Statement of compliance

The financial statements have been prepared in accordance with the statutory accounting requirements for banks in the Republic of Croatia. In the Republic of Croatia, the Bank's operations are defined by the Credit Institutions Act.

The statutory accounting requirements for banks in the Republic of Croatia are based on the International Financial Reporting standards as adopted in the EU ("the IFRS") as stipulated in the Accounting Act and in accordance with the CNB's banking regulations, however, there are certain additional CNB's requirements such as: (1) interest income recognition on off balance accounts on individually significant items in stage 3 which are not fully impaired, and which satisfy regulatory defined past due criteria; (2) CNB prescribes minimum levels of impairment losses against certain specifically identified impaired exposures, which may be different from the impairment loss required to be recognized in accordance with IFRS and (3) The CNB sets minimum provisions for legal disputes filed against the Bank in the amount of 1% of the total amount of the legal dispute in the event that the total amount of the legal dispute exceeds 0.1% of the Bank's assets according to the audited financial statements of the previous year.

In addition to that, prior to 31 December 2020 the CNB required banks to recognise expected credit losses for financial assets in stages 1 and 2 at a minimum of 0.8% of the gross exposure.

The additional CNB's requirements and minimum ECL threshold referred to above did not have a material impact on the reporting entity at 31 December 2020 and for the year ended 31 December 2020. The Bank's balance sheet and balance sheet items as at 31 December 2020, as well as the statement of comprehensive income for the year ended 31 December 2020, are materially aligned with International Financial Reporting Standards, in terms of presentation and disclosure, as well as in terms of recognition and measurement.

The principal accounting policies applied in the preparation of these financial statements are presented below. When a specific accounting policy is aligned with the accounting requirements of the International Financial Reporting Standards, reference may be made to individual standards when setting out the Bank's accounting policies. Unless otherwise stated, these references are to Standards as issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU") applicable as at 31 December 2020.

### Basis of measurement

The financial statements have been prepared on the fair value basis for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are carried at amortised or historical cost.

### Functional and presentation currency

The financial statements have been prepared in HRK, which is the primary currency of the economic environment in which the Bank operates ("the functional currency"), and amounts are rounded to nearest thousand. The official exchange rate as at 31 December 2020 was HRK 7.536898 for EUR 1 (2019: HRK 7.442580) and HRK 6.139039 for USD 1 (2019: HRK 6.649911).

## 3. BASIS OF PREPARATION (continued)

**Impact of the Covid-19 pandemic**

With regard to the issued circular letters of the Croatian National Bank regarding the Covid-19 pandemic, Croatia banka d.d. has adjusted its operations to fully comply with the recommendations of the circular letters issued to date, also with respect to the CNB circular letter under reg. no.: 348/020/20-9/BV dated 23 December 2020.
Until 31 March 2021, the Bank may approve moratoria and restructuring arrangements to a Covid-19 target group of clients who meet the criteria from the CNB circular letters defining uniform methods of deferring the principal and/or interest, i.e. annuities. The Bank is not required to classify them as restructured exposures pursuant to the CNB's Decision on the classification of exposures into risk categories and the method of determining credit losses. The Bank's measures may include debt incurred prior to 20 March 2020. Guided by the amendment to the CNB circular letter dated 23 December 2020 regarding the treatment of the moratoria approved after 1 October 2020 and the total duration of the moratoria of up to 9 months, the Bank has already implemented this amendment. In respect of all moratoria requested by the client and which will be approved prior to 31 March 2021, the Bank shall control the total moratorium duration, which will not exceed nine months.

Restructured Covid-19 exposures are exposures in respect of which a debtor has incurred financial difficulties or in respect of which a debtor's financial difficulties will deteriorate as a result of the Covid-19 pandemic (e.g. a realised revenue decline or expected revenue decline), and for which the Bank has approved a restructuring arrangement that is not considered to be a restructuring within the meaning of the provisions of Article 47 b of EU Regulation 575/2013 and which are not exposures including a materially significant liability exceeding 90 days.

Covid-19 moratoria are activities relating to deferred repayment or preferential treatment of debtors that have experienced financial difficulties or whose financial difficulties will deteriorate as a result of the Covid-19 pandemic (e.g. realised revenue decline or expected revenue decline), and to which the Bank has granted a moratorium that meets the provisions of the EBA Guidelines (EBA/GL/2020/02) on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis. In 2020, the Bank approved a total moratorium of HRK 498.9 million (of which HRK 383.0 million refers to moratoria granted to state-owned companies). Based on the modifications of Covid-19 placements, the Bank recognised an expense in the amount of HRK 33 thousand. These modifications did not result in the derecognition of loans as interest continued to accrue and as there was no change in maturity. Due to the above reasons, there was no change in business models in 2020.
The Bank may apply preferential treatment to moratoria related to exposures that were classified as risk category A and risk category B or a higher risk category on the day the moratorium was granted, but provided that they were not classified as restructured. The Bank bases its assessment of required provisions on realistic parameters and assumptions that reflect the current situation. Regarding the impact of the Covid-19 pandemic, the Bank additionally supplemented the criteria for determining increased credit risk, i.e. its classification into risk sub-category A2 (Stage 2). In addition to the regular criteria for transition to Stage 2, the Bank applies an additional criterion where all exposures granted a Covid-19 moratorium or restructuring are classified as Stage 2, provided that the party was not previously in a higher risk category (exposures in the amount of HRK 380.3 million relating to the Covid-9 moratorium were transferred from Stage 1 to Stage 2, of which HRK 337.3 million relates to state-owned companies).

## 3. BASIS OF PREPARATION (continued)

### Impact of the Covid-19 pandemic (continued)

### Impact of macroeconomic projections on the expected credit loss model

Based on the CNB circular letters related to the Covid-19 pandemic and related events, in September 2020 the Bank presented to the CNB the results of an expert scoring presenting the impact of macroeconomic projections on the expected credit loss model.
Expert scoring will continue to be used at least on an annual basis during the transition period until the model of expected credit losses is amended.
For 2020, the Bank used scenarios of changes in macroeconomic variables defined by the CNB within the document "Macroeconomic Trends and Forecasts" (July 2020), i.e.:

- Baseline (expected scenario)
- Pessimistic scenario.

Furthermore, in accordance with the planned activities in 2021, the Bank will conduct back-testing of the expected credit loss model and, considering all of the above, it will identify areas for necessary model improvements and prepare an action plan for implementing the necessary improvements.

### Additional information

During 2020, the Bank did not impair the securities portfolio. During March, market prices fell, but later in the year they returned to approximately the same pre-pandemic values.
The Bank did not record any significant impairments of foreclosed assets. The impact of the Covid-19 pandemic was more reflected in the delay of the planned sale of the said property.
The Covid-19 pandemic did not result in a significant increase in provisions for legal disputes against the Bank.

## 4. SIGNIFICANT ACCOUNTING POLICIES

**New and amended standards adopted by the Bank**

The following amended standards are effective since 1 January 2020, but did not have any material impact on the Bank:

- COVID-19-Related Rent Concessions Amendment to IFRS 16 issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020.
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

**New standards and interpretations not yet adopted**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021, and which the Bank has not early adopted.

- Classification of Liabilities as Current or Non-current - Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2023). These narrow-scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The guidance no longer requires that such rights are unconditional. Management's expectations whether the entity will exercise the right to defer settlement do not affect the classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions at the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date and a waiver is obtained after the reporting date. Conversely, a loan is classified as non-current if a covenant is breached after the reporting date. Furthermore, the amendments include clarifying the classification requirements for debt a bank might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other economic resources or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Amendment has not yet been endorsed by the EU. The Bank is currently assessing the impact of the amendments on the financial statements.
- Proceeds before Intended Use, Onerous Contracts - Cost of Fulfilling a Contract, Reference to the Conceptual Framework - narrow-scope amendments to IAS 16, IAS 37 and IFRS 3 and Annual Improvements to IFRS Standards 2018-2020 cycle - amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).
- The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.
- Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

Unless otherwise described above, the new standards and interpretations are either not relevant or not expected to affect significantly the Bank's financial statements.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The significant accounting policies provided below have been consistently applied to all the years presented, unless otherwise stated.

Where the accounting policies are consistent with the accounting principles of International Financial Reporting Standards (hereinafter: "IFRS" or "Standards"), the Bank may refer to specific Standards in the description of the its accounting policies. Unless otherwise stated, these are Standards that have been applied as at 31 December 2019.

### *4.1. Financial assets and liabilities*

***Measurement techniques***

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition, net of prepayments, increased or decreased by the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the amount of maturity and, in the case of financial assets, less the amount of the provision.

An effective interest rate is the rate used to discount the expected future proceeds or payments over the expected life of a financial asset or financial liability of the gross carrying amount of financial assets or the amount of the amortised cost of the financial liability. The calculation does not take into account the expected credit loss and includes transaction costs, premiums or discounts, fees and other payments and proceeds that are considered an integral part of the effective interest rate. An audit of expected future cash flows is carried out using the original effective interest rate.

***Interest income and expense***

Interest income is accounted for using the effective interest rate method applied to the gross carrying amount of financial assets, except for:

- Purchased or originated credit-impaired financial assets. For such assets, a credit-adjusted effective interest rate is used,
- Financial assets that are not purchased or originated credit-impaired financial assets but that subsequently became credit-impaired financial assets. For such assets, the effective interest rate is applied to the amortised cost of such assets in subsequent reporting periods.

The Bank recognises interest income only upon collection of financial assets allocated to Stage 3 of expected credit losses.

***Initial recognition and measurement***

The Bank recognises a financial asset or liability in the statement of financial position only if it becomes a party to the contractual provisions of the instrument.

The Bank initially recognises financial assets (other than trade receivables) or financial liabilities at their fair value, which, in the case of financial assets or financial liabilities not designated at fair value through profit or loss, increases or decreases by transaction costs that may be directly attributed to the acquisition or issue of a financial asset or financial liability.

**FINANCIAL ASSETS**

The Bank classifies financial assets into three basic categories:

- assets subsequently measured at amortised cost,
- assets subsequently measured at fair value through other comprehensive income, and
- assets subsequently measured at fair value through profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *4.1. Financial assets and liabilities (continued)*

Financial assets measured at amortised cost are assets whose purpose is to collect cash flows that are solely payments of principal and interest. The carrying amount is adjusted for the expected credit losses. Interest income is accounted for by applying the effective interest rate.

Financial assets measured at fair value through other comprehensive income are assets whose purpose is to collect contractual cash flows and to sell financial assets where cash flows of an asset are solely principal and interest payments. Changes in the carrying amounts are recognised in other comprehensive income, except for gains or losses on impairment, interest income and exchange rate differences that are recognised in the income statement. Upon derecognition of these financial assets the accumulated gains and losses previously recognised in other comprehensive income are reclassified from equity to profit and loss.

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

***Business model***

The Bank decides on a business model at a level that reflects the method of joint management of financial asset groups (portfolios) to achieve a specific business objective. In assessing the business model for managing financial assets the Bank relies on judgments based on the following information:

- Whether the strategic focus of management is to achieve interest income, in particular maintaining the interest rate profile, adjusting the maturity of financial assets to the maturity of the liabilities that are the source of the asset or the realisation of cash flows by selling assets,
- How to determine and report on portfolio performance,
- Risks affecting the business model's performance and how these risks are managed,
- How the managers are rewarded,
- Frequency, volume and time of sales in previous periods.

With the hold-to-collect business model for the purpose of collecting contracted cash flows or collecting cash flows and selling, the Bank estimates whether the cash flows of a financial instrument represent solely payments of principal and interest (SPPI test).

***Impairment***

The Bank recognises impairment allowances for the expected credit losses for the financial assets measured at amortised cost or measured at fair value through other comprehensive income and for the exposures arising from contingencies.  At the reporting date, the Bank reviews whether there has been a change in the credit risk of the financial instrument after initial recognition and recognises the impairment gains or losses in profit and loss in the amount of expected losses or gains.

The measurement of expected credit losses 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 on the reporting date that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

***Debt modifications***

The Bank sometimes modifies the contracted cash flows of customer loans. When this happens, the Bank reviews whether the new conditions differ significantly from the terms of the contract initially agreed upon. The Bank then takes into account different circumstances:

- If a debtor has financial difficulties, does the modification only reduce the contracted cash flows to the amounts that the debtor expects to be able to pay,
- Has a new significant term been contracted affecting the repayment of the loan, which has a significant impact on the risk profile of the loan,
- A more significant extension of the loan repayment period when the borrower has no financial difficulties,
- Significant changes in the interest rate,
- Changes in the original currency of the loan,
- Adding collaterals, other security instruments or credit enhancement instruments that have a significant impact on credit risk.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *4.1. Financial assets and liabilities (continued)*

If the terms of the loan have changed considerably, the Bank derecognises the original loan and recognises a new loan at fair value and calculates the new effective interest rate on the loan. The date of the new contract is considered to be the date of initial recognition for the purposes of the calculation of the impairment, including any need for a significant increase in credit risk. Any difference in the carrying amount of the loan will be recognised in the income statement as a gain or loss on derecognition.

***Derecognition other than on modification***

Financial assets or a portion thereof, are derecognised when the Bank loses the rights to the cash flows from a financial asset or when it transfers the financial asset in a transaction by which substantially all the risks and rewards of ownership have been transferred to another entity.

The Bank enters into transactions where it retains contractual rights to cash flows from assets, but assumes a contractual obligation to pay those cash flows and transfers all of the significant risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Bank:

- has no obligation to make payments unless it collects equivalent amounts from the assets,
- is prohibited from selling or pledging the assets, and
- has an obligation to remit any cash it collects from the assets without material delay.

**FINANCIAL LIABILITIES**

***Classification and subsequent measurement***

The Bank classifies the financial liabilities and subsequently measures them at amortised cost, except for

- Financial liabilities (including derivatives) designated at fair value through profit or loss.
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or is accounted for using the continuing involvement approach.
- Financial guarantee contracts.

***Derecognition of financial liabilities***

The Bank derecognises financial liabilities only when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.
The difference between the carrying amount of a financial liability (or a portion of a financial liability) that has been met or transferred to another party and the consideration paid, including any non-cash transferred assets or liabilities assumed, is recognised in the income statement.

***Contingent liabilities and commitments***

Financial guarantees are contracts that require the Bank to make specific payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. In the ordinary course of business, the Bank enters into arrangements by which it assumes contingent liabilities maintained on off-balance-sheet accounts and that primarily include guarantees, letters of credit and undrawn loan commitments and limits on lines of credit. Such financial commitments are recognised in the Bank’s statement of financial position if and when they become payable.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *4.2. Income tax*

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities, based on tax rates enacted or substantially enacted at the balance sheet date.

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

### *4.3. Cash and cash equivalents*

Cash and cash equivalents includes cash and current accounts with the Croatian National Bank with an original maturity of up to 90 days and with other banks, deducted for provision for impairment on a collective basis and uncollectible amounts, and items in process of collection.

### *4.4. Property and equipment*

Items of property and equipment are recognised at historical cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight-line basis to allocate the cost of assets to their residual values over their estimated useful lives. Land and assets under construction are not depreciated.

Assets' residual values, depreciation method and estimated useful life are reviewed at each balance sheet date and adjusted if appropriate. The carrying value of an asset is written down immediately to its recoverable amount if the asset's carrying amount exceeds its recoverable amount. Profits and losses on disposals are determined by comparing the amount collected and the carrying amount, and are included in the profit and loss account.

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

| | **2020** | **2019** |
|---|---:|---:|
| Buildings | 2.50-5% | 2.50% |
| Computers | 25% | 25% |
| Furniture and equipment | 10% - 25% | 10% - 20% |
| Vehicles | 20% | 25% |
| Other not listed tangible assets | 5% - 20% | 5% - 10% |

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *4.5. Intangible assets*

Intangible assets are recorded at cost less accumulated amortisation and impairment. Expenditure on development activities is recognized as an intangible asset if it satisfies all the requirements in accordance with IAS 38 "Intangible Assets”. Amortisation is calculated on a straight-line basis over the estimated useful lives of intangible assets.

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

| | 2020 | 2019 |
|---|---|---|
| Intangible assets (other) | 10% - 20% | 10% - 20% |
| Intangible assets – *software* | 20% - 25% | 20% - 25% |

### *4.6. Foreclosed assets*

For assets acquired in lieu of uncollected receivables the Bank assesses the marketability and only marketable assets, the value of which can be measured reliably, are recognised. Such assets are stated at the lower of the cost of related outstanding receivables and the current fair value of that asset. The Bank’s intention is to sell such assets as soon as possible (such assets are not amortised). After initial recognition the foreclosed assets are subsequently measured in accordance with IAS 2 Inventories.

### *4.7. Assets held for sale*

Tangible assets repossessed in exchange for uncollected receivables are stated in the statement of financial position within assets held for sale if the following conditions are met:

- there is a sales plan and activities are carried out to find a buyer,
- the assets are ready for sale in the present state,
- sales are highly probable,
- assets offered for sale at a reasonable price, or when the price of an asset is acceptable in relation to its market value, and it is unlikely that there will be significant deviations from the sale or resignation plan,
- sales should be completed within one year from the date of classification, unless the delay is caused by events or circumstances beyond the control of the Bank and there is sufficient evidence that it will remain in compliance with the asset sales plan.

In cases where due to the aggravating circumstances of sales caused by events or circumstances beyond the control of the Bank and there is sufficient evidence that the Bank has remained consistent with its sales plan, tangible assets repossessed in exchange for uncollected receivables will continue to be recognised, measured and disclosed as an asset held for sale.

This asset category is initially recognised at fair value, net of estimated expected selling costs.

After initial recognition, these assets are subsequently measured at the lower of the net carrying amount and fair value net of transaction costs.
If the above conditions are not met, the Bank's tangible assets repossessed in exchange for uncollected receivables are initially recognised as repossessed assets in accordance with International Accounting Standard 2 Inventories.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *4.8. Investment property*

Investment property is property held by the Bank either to earn rentals or for capital appreciation purposes.

Investment property is carried at cost. At subsequent measurement of investment property, the Bank applies the fair value model. The Bank conducts measurement of fair value on an income basis annually by an independent valuer.

The purchase cost is the amount of money or cash equivalents paid or the fair value of other consideration paid for the purpose of acquiring such property. Transaction costs are included in the initial measurement.

### *4.9. Impairment of non-financial assets*

Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the difference between the asset's carrying amount and its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Property, plant and equipment and intangible assets are reviewed for impairment in the circumstances that indicate that the carrying amount of an asset may not be recoverable.

When the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of property, plant and equipment and intangible assets carried at acquisition cost.

### *4.10. Provisions for liabilities and charges*

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and if it is probable that an outflow of economic resources will be required to settle the obligation, and the amount can be reliably estimated.
Provisions for liabilities and charges are maintained at a level which the Bank's Management Board believes is adequate to absorb probable future losses. Management determines the adequacy of the provisions based upon reviews of individual items, current economic conditions, the risk characteristics of the various categories of transactions, as well as other relevant factors.
When an outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed. Provisions are released only for those costs in respect of which provisions are recognised at inception.

### *4.11. Employee benefits*

The Bank makes payments to the mandatory pension funds on behalf of its employees as required by law. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

The Bank recognises a provision for bonuses where there is a constructive obligation resulting from a contract or past practice. Furthermore, the Bank recognises accrued benefits on the basis of annual vacation days outstanding at the date of the financial statements.

In calculating provisions for termination benefits and jubilee rewards, expected future cash flows arising from the liabilities are discounted, using discount rates that, in the opinion of management, best reflect the time value of money.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *4.12. Share capital and reserves*

Share capital is denominated in HRK at nominal value.

### *4.13. Accumulated losses*

If the Bank recognises a loss for the financial year, it is transferred to accumulated losses.

### *4.14. Fee and commission income and expense*

Fee and commission income comprises mainly fees received from customers for loans, guarantees, letters of credit and other services provided by the Bank. Fees are recognised as income upon the maturity date of services.

Fee and commission expense consists of fees paid to licensed banks for payments services performed in the foreign exchange, as well as for the Financial Agency services (FINA) for domestic payments.

### *4.15. Foreign currencies*

Transactions in foreign currencies are translated into HRK applying the middle exchange rate of CNB at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate defined at the financial statement's date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into HRK at the foreign exchange rate prevailing at the date on which their fair value was determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated at the exchange rate at the transaction date and are not retranslated at the date of the statement of financial position.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the securities. Exchange differences are recognised in the income statement as part of the foreign exchange gains or losses on translation of monetary assets and liabilities.

### *4.16. Leases*

At the inception of the contract, the Bank assesses whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration.

*Bank as lessor*
The accounting treatment of leases in which the Bank is the lessor distinguishes between operating and finance leases. Leases in which the Bank does not transfer a significant portion of the risks and rewards of ownership are classified as operating leases. Lease income from operating leases is recognised on a straight-line basis over the lease term and included in the income statement. The same principle applies to direct costs attributable to negotiating and arranging an operating lease.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.16. Leases (continued)

*Bank as lessee*

*Lease liabilities*

Lease liabilities are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option

Extension and termination options are included in a number of office space and equipment leases of the Bank. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. The majority of extension and termination options held are exercisable only by the Bank and not by the respective lessor. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the Bank's incremental borrowing rate is used, being the rate that the Bank would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank:

- uses an approach that applies a risk-free interest rate adjusted for credit risk, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Bank is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments presented as short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis in profit or loss. Short-term leases are leases with a term of 12 months or less.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.16. Leases (continued)

*Bank as lessee (continued)*

*Right-of-use assets*

The Bank leases office space and cars. Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets arising from a lease are initially measured on a present value basis.
Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made before the commencement date less any lease incentives received,
- any initial direct costs, and
- any costs to be incurred to restore the underlying asset to the original condition required by the terms and conditions of the lease.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

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

| | **2020** |
|---|---|
| Buildings (office space) | 6.8%-50% |
| Cars | 20% |
| Equipment | 50% |

### *4.17. Borrowings*

Borrowings are recognised initially at fair value, net of associated costs. Subsequent measurement is carried at amortised cost and the difference between proceeds net of transaction costs, and the amount payable at maturity is recognised in the income statement during the term of the borrowing as interest expense.

### *4.18. Activities for and on behalf of third parties*

The Bank manages funds for and on behalf of corporate customers. These amounts do not represent the Bank's assets and are excluded from the statement of financial position. For the services provided the Bank charges a fee which is recognised in the statement of profit or loss.

### *4.19. Segment reporting*

A business segment is an integral part of the Bank that engages in business activities from which it may earn revenues or expenses, including transactions with other parts of the Bank. In 2020, the Bank did not apply the internal transfer pricing when determining business performance of individual segments.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *4.20. Accounting estimates and judgments in applying accounting policies*

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which they are incurred if affecting only that period or the period in which they are incurred and future periods if they impact current and future periods. An estimate of impairment losses of a portfolio exposed to credit risk and an estimate of fair value of collateral in the form of real estate as an integral part of the estimate, represent the most significant source of estimate uncertainty. This and other key sources of estimate uncertainty (provisions for legal disputes), that carry considerable risk of possible significant adjustments of assets' and liabilities' carrying value in the next business year, are described below.

#### 4.20.1. Losses on impairment of loans and advances

The Bank monitors the creditworthiness of its customers on an ongoing basis. On-balance sheet and off-balance sheet credit risk exposures are reviewed for impairment on a quarterly basis. Impairment losses are generally charged to the carrying amount of loans and receivables issued to retail and corporate customers and as provisions for risk and charges arising from off-balance sheet exposures to customers, which mostly take on the form of approved, but not utilised loans, guarantees and letters of credit. In addition to individually identified impairment losses, the Bank monitors and recognises, on an ongoing-basis, impairment losses that are known to exist at the financial statements date, but have not been separately identified. Impairment losses on exposures to customers, together with the gross value of loans and advances which were impaired on an individual basis, are summarised below:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Impairment losses on loans and advances to customers | 66,942 | 66,686 |
| Provisions for off-balance sheet credit exposure | 80 | 84 |
| **Total impairment losses and provisions** | **67,022** | **66,770** |
| **Individually impaired gross exposure** | 144,192 | 160,778 |

In assessing unidentified impairment losses of portfolios assessed on a collective basis, the Bank seeks to collect sufficient reliable information about appropriate loss rates, based on its historical experience, adjusted to reflect the current circumstances and the period in which the impairment loss is identified. For more details please refer to Note 36.1. Credit risk.

#### 4.20.2. Legal disputes

The Bank conducts individual assessments of all court proceedings against the Bank. The assessment is conducted by the Bank's Legal Affairs department. As set out in Note 31, the Bank has provided for HRK 44,962 thousand in principal and interest on liabilities for legal disputes (2019: HRK 46,355 thousand). These amounts represent the Bank's best estimate of losses on legal disputes.

#### 4.20.3. Property

Investment property is initially carried at cost. At subsequent measurement of investment property, the Bank applies the fair value model. The Bank conducts measurement of fair value on an income basis annually by an independent valuer.

The sensitivity analysis with regard to changes in property prices (increase or decrease in market price by 1%) is disclosed in Note 20 Investment property, 22 Foreclosed assets and 23 Assets held for sale.

## 5. INTEREST INCOME

### *5.1. Interest income by type of customer*

in thousands of HRK

| | *2020* | 2019 |
|---|---|---|
| Retail | 26,504 | 23,991 |
| Corporate | 23,822 | 25,637 |
| Government units | 1,425 | 2,851 |
| Banks and other financial institutions | 245 | 597 |
| Other organisations | 28 | 33 |
| **Total** | **52,024** | **53,109** |

Interest income comprises income from partially recoverable placements in the amount of HRK 2,936 thousand (2019: HRK 4,769 thousand) of which HRK 2,343 thousand (2019: HRK 4,023 thousand) relates to corporate transactions, and remaining HRK 593 thousand (2019: HRK 745 thousand) relates to retail transactions.

### *5.2. Interest income by portfolio*

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| Financial assets at amortised cost | 51,308 | 51,284 |
| Financial assets at fair value through other comprehensive income | 716 | 1,825 |
| **Total** | **52,024** | **53,109** |

## 6. INTEREST EXPENSE

### *6.1. Interest expense by type of customer*

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| Retail | 3,321 | 7,604 |
| Non-residents | 700 | 1,000 |
| Croatian National Bank | 687 | 1,395 |
| Corporate | 287 | 429 |
| Banks and other financial institutions | 154 | 340 |
| Government units | 67 | 93 |
| Leases | 39 | 0 |
| Other organisations | 36 | 47 |
| **Total** | **5,291** | **10,908** |

### *6.2. Interest expense by portfolio*

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| Financial liabilities measured at amortised cost | 5,291 | 10,908 |
| **Total** | **5,291** | **10,908** |

## 7. FEE AND COMMISSION INCOME

### 7.1. Income from fees by type of customer

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| Corporate | 4,552 | 4,370 |
| Retail | 4,052 | 3,509 |
| Financial institutions | 1,308 | 1,289 |
| Non-residents | 272 | 159 |
| Non-profit institutions | 246 | 251 |
| Government units | 147 | 163 |
| **Total** | **10,577** | **9,741** |

### 7.2. Income from fees by type

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| Payment transaction fees | 3,058 | 3,224 |
| Fees from guarantees and letters of credit | 1,563 | 1,431 |
| Account maintenance fees | 1,995 | 1,148 |
| Online banking fees | 1,164 | 996 |
| Income from fees - sales of third-party products | 942 | 843 |
| Card transaction fees | 561 | 581 |
| Brokerage and custodial fees | 170 | 483 |
| Other fees | 1,124 | 1,035 |
| **Total** | **10,577** | **9,741** |

## 8. FEE AND COMMISSION EXPENSE

### 8.1. Fee and commission expense by type of customer

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| Domestic clients | (1,826) | (2,101) |
| Service fees and commissions to FINA | (1,267) | (1,369) |
| Foreign banks | (129) | (179) |
| Republic of Croatia | (92) | (40) |
| **Total** | **(3,314)** | **(3,689)** |

## 8. FEE AND COMMISSION EXPENSE (CONTINUED)

### 8.2. Fee and commission expense by type

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| Credit card commission | (1,467) | (1,611) |
| FINA's non-cash and cash payment services (customers) | (1,266) | (1,352) |
| Financial institutions service costs | (401) | (525) |
| Authorised exchange office services | (59) | (89) |
| Other commissions | (121) | (112) |
| **Total** | **(3,314)** | **(3,689)** |

## 9. NET FINANCIAL GAINS

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| Income from foreign currency trading | 2,079 | 2,060 |
| Net gains on assets at fair value through other comprehensive income | 1,240 | 8,734 |
| Other | 12 | 7 |
| (Loss) on modification of financial assets | (33) | - |
| **Total** | **3,298** | **10,801** |

## 10. NET FOREIGN EXCHANGE LOSSES

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| Net foreign exchange gains on translation of balance sheet items with currency clause to CNB's middle foreign exchange rate | 10,845 | 2,788 |
| Net foreign exchange (losses) on translation of impairment of provisions for potential losses on loans to CNB's middle foreign exchange rate | (73) | (153) |
| Net foreign exchange (losses) on translation of foreign currency balance sheet items to CNB's middle exchange rate | (10,437) | (2,658) |
| **Total** | **335** | **(23)** |

## 11. OTHER OPERATING INCOME

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| Rental income | 4,554 | 4,559 |
| Net gain on sale of property, plant and equipment and foreclosed assets | 2,538 | 1,761 |
| Gain on fair value adjustment of investment property | 280 | 904 |
| Collection of previously impaired interest receivables | 37 | 17 |
| Other income | 1,449 | 3,064 |
| **Total** | **8,858** | **10,305** |

## 12. OTHER OPERATING EXPENSES

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| Net salaries | (15,076) | (15,438) |
| Contributions, taxes and surtaxes | (5,571) | (5,942) |
| Pension contributions | (4,299) | (4,446) |
| Other staff costs | (2,169) | (1,985) |
| Provisions for employee benefits (Note 30) | (295) | 37 |
| Total staff costs | **(27,410)** | **(27,774)** |
| Depreciation and amortisation (Note 21) | (3,190) | (3,610) |
| Total depreciation and amortisation | **(3,190)** | **(3,610)** |
| Material and services | (13,503) | (15,248) |
| Deposits insurance premium expense | (4,258) | (4,467) |
| Rental expenses | (2,642) | (3,246) |
| Judicial and administrative fees | (268) | (65) |
| Marketing | (265) | (466) |
| Other | (1,677) | (2,271) |
| Total other operating expenses | **(22,613)** | **(25,763)** |
| **Total** | **(53,213)** | **(57,147)** |

As at 31 December 2020, the Bank had 166 employees (31 December 2019: 169 employees).

Staff costs include HRK 4,299 thousand (2019: HRK 4,446 thousand) of prescribed pension contributions paid into mandatory pension funds. Contributions are determined at a certain percentage of employees' gross salaries. Contributions are calculated as a percentage of employees' gross salaries.
In 2020, consultants' services amounted to HRK 713 thousand (2019: HRK 678 thousand), and relate to the audit of annual reports, IT systems, semi-annual reports and other consulting services.

## 13. IMPAIRMENT LOSSES AND PROVISIONS

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| Impairment of interest receivables (Note 19.2) | (505) | 60 |
| Impairment of securities | 826 | 30 |
| Impairment of other assets | 98 | (429) |
| Impairment of foreclosed assets (Note 22) | (1,073) | (717) |
| Impairment of loans and advances to customers (Note 19.2) | (7,179) | (772) |
| Income from collection of written-off loans in previous years | 128 | 153 |
| Provisions and impairment of deposits with banks | 212 | 3,033 |
| Provisions for contingencies (Note 30) | (1,393) | (985) |
| Provision for legal disputes against the Bank (Note 30) | 900 | (36,528) |
| Other provisions | (306) | (1,046) |
| **Total impairment losses and provisions** | **(8,292)** | **(37,201)** |

## 14. INCOME TAX

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| Current income tax | - | - |
| Deferred income tax | 67 | (30) |
| **Total income tax** | **67** | **(30)** |

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| **Profit/(loss) before tax** | **4,982** | **(25,012)** |
| Income tax (18%) | 897 | (4,502) |
| Effect of tax base increasing items | 547 | 5,664 |
| Effect of tax base decreasing items | (429) | (812) |
| Utilisation of tax losses carried forward for which no deferred tax assets were recognised | (948) | (380) |
| **Income tax** | **67** | **(30)** |
| **Effective income tax rate** | **1.34%** | **0.12%** |

**Movement in tax losses carried forward**

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| **Tax losses carried forward from the previous period** | **(42,994)** | **(56,116)** |
| Utilisation of tax losses | 5,261 | 2,112 |
| Expiry of tax losses available for carry forward | - | 11,010 |
| **Tax loss available for carry forward in future periods** | **(37,733)** | **(42,994)** |
| | | |
| Deferred tax assets at 18% (2019: 18%) | (6,792) | (7,739) |
| Unrecognised deferred tax assets | (6,792) | (7,739) |

**Tax losses expire as follows:**

in thousands of HRK

| **Tax loss expiry** | **Tax loss** |
|---|---|
| 2022 | 19,738 |
| 2023 | 17,995 |
| **Total** | **37,733** |

Deferred tax assets arising from tax losses carried forward were not recognised as their utilisation in future periods is uncertain.

## 14. INCOME TAX (CONTINUED)

**Movements in deferred tax assets**

in thousands of HRK

| | Deferred fee income included in effective interest rate on given loans | Unrealised fair value of financial assets through OCI | Amortisation exceeding allowable tax rates | Total |
|---|---|---|---|---|
| **At 1 January 2019** | **778** | **245** | **96** | **1,119** |
| Recognised in profit or loss | 43 | - | (13) | 30 |
| Recognised in other comprehensive income | - | (456) | - | (456) |
| **At 31 December 2019** | **821** | **(211)** | **83** | **693** |
| Recognised in profit or loss | (67) | - | - | (67) |
| Recognised in other comprehensive income | - | 116 | - | 116 |
| **At 31 December 2020** | **754** | **(95)** | **83** | **742** |

## 15. CASH

in thousands of HRK

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Giro account | 152,452 | 111,917 |
| Cash on hand: | | |
| - HRK | 12,787 | 11,033 |
| - foreign currency | 7,394 | 6,255 |
| Cash in foreign currency accounts with domestic banks | 24,739 | 19,684 |
| Cash in foreign currency accounts with foreign banks | 3,699 | 3,568 |
| Cash in foreign currency accounts with domestic financial institutions | 88 | 87 |
| *Expected credit losses* | (206) | (222) |
| **Total** | **200,953** | **152,322** |

## 16. RECEIVABLES FROM THE CROATIAN NATIONAL BANK

| | | in thousands of HRK |
|---|---|---|
| | **31 December 2020** | **31 December 2019** |
| Reserve requirement | | |
| - HRK | 85,951 | 120,744 |
| *Expected credit losses* | *(102)* | *(297)* |
| **Total** | **85,849** | **120,447** |

The CNB determines the reserve requirement for banks, which is deposited with the CNB and held in the form of other liquid receivables.

The reserve requirement ratio as at 31 December 2020 was 9% (2019: 12%) for HRK and foreign currency deposits, borrowings and issued debt securities.

At 31 December 2020, the HRK-denominated portion of the reserve requirement with the CNB amounted to 70% (2019: 70%), and the foreign-currency denominated portion 0% (2019: 0%), while the remaining 30% (2019: 30%) was held in the form of other liquid receivables. This includes the foreign currency portion of the required reserve held in HRK. The foreign-currency portion of the required reserve is maintained through daily balances of foreign-currency receivables on the Target 2 foreign-currency account with the Croatian National Bank as well as on accounts with foreign banks with appropriate ratings. The minimum amount of the foreign-currency required reserve on the CNB Target2 reserve account is 2%, whereas 75% of the foreign-currency portion of the required reserve is included in the calculated HRK-denominated required reserve portion and maintained in HRK.

## 17. PLACEMENTS WITH BANKS

| | | in thousands of HRK |
|---|---|---|
| | **31 December 2020** | **31 December 2019** |
| Deposits with foreign banks | 15,516 | 18,547 |
| Deposits with domestic banks | 425 | 420 |
| Accrued interest | - | 5 |
| *Expected credit losses* | - | *(1)* |
| **Total** | **15,941** | **18,971** |

## 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in thousands of HRK

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Foreign government bonds | 139,638 | 152,097 |
| Bonds of the Republic of Croatia with a currency clause | 86,826 | 103,696 |
| Treasury bills with a currency clause of the Republic of Croatia | 90,443 | 89,311 |
| HRK-denominated treasury bills of the Republic of Croatia | 84,972 | 49,987 |
| HRK-denominated bonds of the Republic of Croatia | 8,950 | 45,379 |
| Foreign currency bonds of the Republic of Croatia | - | 8,876 |
| Shares | 494 | 493 |
| Foreign corporate bonds | 227 | 218 |
| Corporate bills of exchange | - | 132 |
| *Expected credit losses* | - | *(132)* |
| Accrued interest | 676 | 1,988 |
| **Total** | **412,226** | **452,045** |

Changes in financial assets at fair value through other comprehensive income during the year are presented in the table below:

in thousands of HRK

| | Treasury bills | Bonds | Shares | Accrued interest | TOTAL |
|---|---|---|---|---|---|
| **At 1 January 2020** | **139,298** | **310,266** | **493** | **1,988** | **452,045** |
| Purchase | 175,766 | 180,053 | - | - | 355,819 |
| Change in fair value | - | (644) | - | - | (644) |
| Sale | (139,010) | (251,431) | - | - | (390,441) |
| Other (write-off, foreign exchange differences) | (639) | (2,603) | 1 | (1,312) | (4,553) |
| **At 31 December 2020** | **175,415** | **235,641** | **494** | **676** | **412,226** |

| | Treasury bills | Bonds | Shares | Accrued interest | TOTAL |
|---|---|---|---|---|---|
| **At 1 January 2019** | **376,669** | **369,954** | **439** | **5,619** | **752,681** |
| Purchase | 188,967 | 238,539 | 54 | - | 427,560 |
| Change in fair value | - | 2,542 | - | - | 2,542 |
| Sale | (427,910) | (310,354) | - | - | (738,264) |
| Other (write-off, foreign exchange differences) | 1,572 | 9,585 | - | (3,631) | 7,526 |
| **At 31 December 2019** | **139,298** | **310,266** | **493** | **1,988** | **452,045** |

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

As at 31 December 2020, the Bank has pledged, based on received HRK 140,000 thousand of structured loans with financial insurance by the Croatian National Bank and HRK 36,931 thousand of repo loans received from Erste&Steiermärkische Bank (2019: HRK 110,000 thousand of structured loans received from the Croatian National Bank and HRK 40,000 thousand of repo loans received from Erste&Steiermärkische Bank) the treasury bills in the total amount of HRK 187,371 thousand (2019: HRK 168,451 thousand of treasury bills and government bonds).
There were no securities received as pledge as at 31 December 2020, since there were no placements in repo loans (2019: no pledges).

Financial instruments carried at fair value are categorised into three levels of the IFRS fair value hierarchy, as follows:

- Level 1 - instruments that are valued using quoted prices in active markets, liquid markets. These instruments include: liquid debt securities that are traded on liquid stock markets and shares in investment funds.
- Level 2 - instruments that are valued using valuation techniques that use observable market data. These are instruments whose fair value is determined in the amount of similar instruments traded in active markets, or where all the inputs used for valuation techniques are observable on the market.
  These instruments include less liquid debt securities that are valued based on a model that uses level 1 input.
- Level 3 - instruments measured using valuation techniques that are not based on observable market data. These are instruments whose fair value cannot be determined directly by reference to observable market information and for whose value calculation different valuation techniques are used. These instruments include illiquid debt securities and illiquid equity securities.

The following note shows net financial assets categorised according to the stated fair value hierarchy:

in thousands of HRK

| | 31 December 2020 | | | | 31 December 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Foreign currency bonds | 140,354 | - | - | 140,354 | 162,029 | - | 218 | 162,247 |
| HRK-denominated bonds | 95,963 | | | 95,963 | 150,007 | | | 150,007 |
| Treasury bills | - | 175,415 | - | 175,415 | - | 139,298 | - | 139,298 |
| Shares | - | - | 494 | 494 | - | - | 493 | 493 |
| **Total** | **236,317** | **175,415** | **494** | **412,226** | **312,036** | **139,298** | **711** | **452,045** |

## 19. LOANS AND ADVANCES TO CUSTOMERS

### *19.1. Analysis by type of customer*

Analysis by type of customer and credit quality levels (including accrued interest and provision for interest):

in thousands of HRK

| | 31 December 2020 | | | | 31 December 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | **TOTAL** | Level 1 | Level 2 | Level 3 | **TOTAL** |
| **Retail** | | | | | | | | |
| Cash loans | 204,343 | 34,206 | 9,235 | 247,784 | 200,944 | 10,936 | 9,795 | 221,675 |
| Loans for agriculture | 37,118 | 3,001 | 4,516 | 44,635 | 46,172 | 4,867 | 6,158 | 57,197 |
| Housing loans | 45,023 | 9,744 | 587 | 55,354 | 45,637 | 1,009 | 1,042 | 47,688 |
| Margin loans | 4,669 | 2,000 | - | 6,669 | 26,765 | - | - | 26,765 |
| Other loans | 15,141 | 5,125 | 2,510 | 22,776 | 12,943 | 5,382 | 1,598 | 19,923 |
| Overdrafts on transaction accounts | 16,329 | 1,364 | 1,831 | 19,524 | 15,256 | 114 | 1,573 | 16,943 |
| Mortgage loans | 11,948 | 1,425 | 1,189 | 14,562 | 13,033 | 352 | 1,207 | 14,592 |
| Loans for tourism | 106 | 7,888 | 3,142 | 11,136 | 3,258 | 4,942 | 3,129 | 11,329 |
| Lombard loans | 8,030 | 568 | - | 8,598 | 10,699 | 71 | 144 | 10,914 |
| **Total retail loans** | **342,707** | **65,321** | **23,010** | **431,038** | **374,707** | **27,673** | **24,646** | **427,026** |
| *Expected credit losses (principal)* | (5,241) | (1,713) | (5,827) | (12,781) | (4,520) | (663) | (8,294) | (13,477) |
| *Expected credit losses (interest)* | - | - | (161) | (161) | - | - | (139) | (139) |
| *Total expected credit losses* | **(5,241)** | **(1,713)** | **(5,988)** | **(12,942)** | **(4,520)** | **(663)** | **(8,433)** | **(13,616)** |
| Accrued interest | 1,628 | 417 | 161 | 2,206 | 1,854 | 202 | 139 | 2,195 |
| **Total retail loans, net** | **339,094** | **64,025** | **17,183** | **420,302** | **375,470** | **27,212** | **16,352** | **415,605** |
| **Corporate** | | | | | | | | |
| Syndicated loan | 55,669 | 330,974 | - | 386,643 | 394,709 | - | - | 394,709 |
| Investment loans | 41,227 | 51,022 | 60,054 | 152,303 | 49,836 | 45,914 | 69,947 | 165,697 |
| Working-capital loans | 48,745 | 26,993 | 18,893 | 94,631 | 49,292 | 8,348 | 19,148 | 76,788 |
| Other loans | 7,671 | 6,690 | 44,304 | 58,665 | 16,836 | 7,812 | 50,398 | 75,046 |
| Lombard loans | 385 | 46,018 | - | 46,403 | 458 | 45,401 | - | 45,859 |
| Overdrafts on transaction accounts | 10,783 | 3,626 | 1,912 | 16,321 | 8,051 | 2,790 | 1,332 | 12,173 |
| Loans for agriculture | 3,159 | 1,222 | - | 4,381 | 1,456 | 1,284 | 139 | 2,879 |
| Loans for payments under guarantees | - | - | - | - | 282 | - | - | 282 |
| **Total corporate loans** | **167,639** | **466,545** | **125,163** | **759,347** | **520,920** | **111,549** | **140,964** | **773,433** |
| *Expected credit losses (principal)* | (1,508) | (2,224) | (64,253) | (67,985) | (2,439) | (1,205) | (62,878) | (66,522) |
| *Expected credit losses (interest)* | - | - | (432) | (432) | - | - | (30) | (30) |
| *Total expected credit losses* | **(1,508)** | **(2,224)** | **(64,685)** | **(68,417)** | **(2,439)** | **(1,205)** | **(62,908)** | **(66,552)** |
| Accrued interest | 315 | 2,364 | 432 | 3,111 | 2,261 | 683 | 30 | 2,974 |
| **Total corporate loans, net** | **166,446** | **466,685** | **60,910** | **694,041** | **520,742** | **111,027** | **78,086** | **709,855** |
| ***Total loans (gross)*** | **512,289** | **534,647** | **148,766** | **1,195,702** | **899,742** | **140,107** | **165,779** | **1,205,628** |
| *Total provisions for loans* | (6,749) | (3,937) | (70,673) | (81,359) | (6,959) | (1,868) | (71,341) | (80,168) |
| **Total loans and advances to customers, net** | **505,540** | **530,710** | **78,093** | **1,114,343** | **892,783** | **138,239** | **94,438** | **1,125,460** |

As at 31 December 2020, the gross exposure arising from partly recoverable and non-recoverable loans was HRK 148,766 (2019: HRK 165,779 thousand), and the associated impairment losses amounted to HRK 70,673 thousand (2019: HRK 71,341 thousand).

## 19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

### *19.2. Changes in impairment losses and provision for potential losses*

Changes in impairment losses and provisions for potential losses are as follows:

in thousands of HRK

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **At 1 January** | **6,959** | **1,868** | **71,341** | **80,168** | **6,209** | **852** | **213,877** | **220,938** |
| ***Impact on P&L*** | | | | | | | | |
| Net impairment losses i.e. provisions (Note 13) | 78 | 1,623 | 5,478 | 7,179 | 761 | 1,980 | (1,969) | 772 |
| Net impairment on interest receivable (Note 13) | 1 | 417 | 87 | 505 | 2 | 6 | (68) | (60) |
| Foreign exchange differences | 18 | 29 | 25 | 72 | (13) | (8) | (134) | (155) |
| ***Without impact on P&L*** | | | | | | | | |
| Write-off | (307) | - | (6,258) | (6,565) | - | (962) | (140,365) | (141,327) |
| **At 31 December** | **6,749** | **3,937** | **70,673** | **81,359** | **6,959** | **1,868** | **71,341** | **80,168** |

## 19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

### 19.2. Changes in impairment losses and provision for potential losses (continued)

The table below sets out an analysis of impairment losses by different types of loans within the Retail and Corporate category:

*HRK thousand*

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **At 1 January** | | | | | | | | |
| **Retail** | | | | | | | | |
| **At 1 January** | **4,520** | **663** | **8,433** | **13,616** | **2,616** | **202** | **37,181** | **39,999** |
| Overdrafts on transaction accounts | 205 | 82 | 314 | 601 | 416 | 4 | (118) | 302 |
| Mortgage loans | 14 | 30 | 43 | 87 | 77 | 4 | 12 | 93 |
| Housing loans | 88 | 275 | (61) | 302 | 91 | 11 | (1,046) | (944) |
| Cash loans | 434 | 500 | (1,237) | (303) | 432 | 72 | (2,589) | (2,085) |
| Loans for agriculture | (17) | (40) | (787) | (844) | 671 | 124 | (5,350) | (4,555) |
| Margin loans | (92) | 7 | - | (85) | (72) | (3) | - | (75) |
| Lombard loans | (3) | 5 | (23) | (21) | 17 | (4) | 23 | 36 |
| Loans for tourism | (81) | 172 | - | 91 | 76 | 152 | (1,618) | (1,390) |
| Other loans | 173 | 20 | (693) | (500) | 196 | 101 | (18,062) | (17,765) |
| **At 31 December** | **5,241** | **1,714** | **5,989** | **12,944** | **4,520** | **663** | **8,433** | **13,616** |
| **Corporate** | | | | | | | | |
| **At 1 January** | **2,439** | **1,205** | **62,908** | **66,552** | **3,593** | **650** | **176,696** | **180,939** |
| Investment loans | 76 | 34 | (392) | (282) | 52 | 33 | (1,348) | (1,263) |
| Loans for payments under guarantees | - | - | - | - | - | - | (2,056) | (2,056) |
| Working-capital loans | (1,022) | 465 | - | (557) | (1,336) | - | - | (1,336) |
| Loans for agriculture | 183 | 343 | 939 | 1,465 | (152) | (4) | (35,677) | (35,833) |
| Loans for tourism | 31 | 103 | 1,424 | 1,558 | 222 | 655 | (46,062) | (45,185) |
| Lombard loans | 32 | 2 | (13) | 21 | (7) | 30 | (4,016) | (3,993) |
| Other loans | - | 71 | - | 71 | (9) | (293) | - | (302) |
| Overdrafts on transaction accounts | - | - | - | - | (1) | 2 | (671) | (670) |
| Syndicated loan | (231) | - | (182) | (413) | 77 | 132 | (23,958) | (23,749) |
| **At 31 December** | **1,508** | **2,223** | **64,684** | **68,415** | **2,439** | **1,205** | **62,908** | **66,552** |
| **At 31 December** | **6,749** | **3,937** | **70,673** | **81,359** | **6,959** | **1,868** | **71,341** | **80,168** |

## 19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

## 19.3. Changes in gross loans and impairment losses by credit risk stages

### 19.3.1. Changes in gross loans by credit risk stages

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **At 1 January 2019** | **809,953** | **118,398** | **367,901** | **1,296,252** |
| From Stage 1 to Stage 2 | (8,830) | 8,830 | - | - |
| From Stage 1 to Stage 3 | (4,880) | - | 4,880 | - |
| From Stage 2 to Stage 1 | 3,478 | (3,478) | - | - |
| From Stage 2 to Stage 3 | - | (450) | 450 | - |
| From Stage 3 to Stage 2 | - | 336 | (336) | - |
| New assets | 292,727 | 147,740 | 134,534 | 575,001 |
| Derecognition of assets | (192,706) | (131,269) | (341,650) | (665,625) |
| **At 31 December 2019** | **899,742** | **140,107** | **165,779** | **1,205,628** |
| **At 1 January 2020** | **899,742** | **140,107** | **165,779** | **1,205,628** |
| From Stage 1 to Stage 2 | (402,752) | 402,752 | - | - |
| From Stage 1 to Stage 3 | (4,850) | - | 4,850 | - |
| From Stage 2 to Stage 1 | 5,205 | (5,205) | - | - |
| From Stage 2 to Stage 3 | - | (21,705) | 21,705 | - |
| From Stage 3 to Stage 2 | 971 | - | (971) | - |
| New assets | 131,490 | 78,920 | (15,636) | 194,774 |
| Derecognition of assets | (117,517) | (60,222) | (26,961) | (204,700) |
| **At 31 December 2020** | **512,289** | **534,647** | **148,766** | **1,195,702** |

Note: The above amounts do not include interest receivable.

### 19.3.2. Changes in impairment losses by credit risk stages

HRK thousand

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | TOTAL | Stage 1 | Stage 2 | Stage 3 | TOTAL |
| ***Retail*** | | | | | | | | |
| From Stage 1 to Stage 2 | 476 | - | - | 476 | - | (67) | - | (67) |
| From Stage 1 to Stage 3 | - | - | 1,734 | 1,734 | - | - | (923) | (923) |
| From Stage 2 to Stage 1 | - | (57) | - | (57) | (3) | - | - | (3) |
| New assets | 1,120 | 1,030 | 950 | 3,100 | 2,215 | (187) | 2,804 | 4,832 |
| Derecognition and changes in provisions | (102) | (126) | (256) | (484) | (343) | (111) | (2,207) | (2,661) |
| Foreign exchange differences | - | - | - | - | (5) | - | - | (5) |
| ***Corporate*** | | | | | | | | |
| From Stage 1 to Stage 2 | - | (313) | - | (313) | - | 19 | - | 19 |
| From Stage 1 to Stage 3 | - | - | - | - | - | - | (390) | (390) |
| From Stage 2 to Stage 1 | - | - | (10) | (10) | (6) | - | - | (6) |
| Issues and acquisitions | 153 | 1,798 | 3,403 | 5,354 | 685 | (452) | 8,476 | 8,709 |
| Derecognition and changes in provisions | (1,568) | (292) | (256) | (2,116) | (1,785) | 2,784 | (9,797) | (8,798) |
| Foreign exchange differences | 18 | 29 | 25 | 72 | (8) | (8) | (134) | (150) |
| **Total (impact on P&L)** | **97** | **2,069** | **5,590** | **7,756** | **750** | **1,978** | **(2,171)** | **557** |

In 2020, the Bank sold a portion of its non-performing corporate and retail loans. The gross loans sold amounted to HRK 4,237 thousand.

## 20. INVESTMENT PROPERTY

| in thousands of HRK | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Investment property | 35,630 | 35,350 |
| **Total** | **35,630** | **35,350** |

Investment property is property held by the Bank either to earn rentals or for capital appreciation purposes. In 2020, the Bank performed an increase in the value of the said asset in accordance with a new estimate of its market value.

Investment property is initially measured at cost and the fair value is subsequently adjusted under the income method by an independent valuer. Revenue is determined on the basis of income earned on the market and is determined from the sum of the capitalised pure income and the determined value of land that is discounted on the day of valuation. The Bank conducts fair value measurement on an annual basis.
Investment property contains one property on the basis of which the Bank earns rental income. The contract with the lessee was concluded for an indefinite period and due to a very good business relationship of many years and the attractive location, the Bank does not expect to terminate the contract in the subsequent period of 5 years. Under the contract, the Bank has no obligation to invest in the premises, and incurred no costs in this respect.

Sensitivity to fluctuations in property prices by 1% is presented in the table below:

| in thousands of HRK | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | Decrease | Increase | Decrease | Increase |
| Investment property | (356) | 356 | (354) | 354 |

### *20.1. Lease income*

The Bank has one property classified as an investment property and it realised lease income from this property in the amount of HRK 4,263 thousand (2019: HRK 4,031 thousand).
Future expected operating lease income is presented below:

**31 December 2020**

| in thousands of HRK | Up to 1 year | 1 to 2 years | 2 to 5 years |
|---|---|---|---|
| Future lease receivables | 4,500 | 4,500 | 4,500 |

**At 31 December 2019**

| in thousands of HRK | Up to 1 year | 1 to 2 years | 2 to 5 years |
|---|---|---|---|
| Future lease receivables | 4,400 | 4,400 | 4,400 |

## *20. INVESTMENT PROPERTY (CONTINUED)*

### *20.2. Fair value hierarchy*

in thousands of HRK

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **At 31 December 2020** | | | | |
| Investment property | - | - | 35,630 | 35,630 |
| **Total assets** | **-** | **-** | **35,630** | **35,630** |

in thousands of HRK

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **At 31 December 2019** | | | | |
| Investment property | - | - | 35,350 | 35,350 |
| **Total assets** | **-** | **-** | **35,350** | **35,350** |

## 21. *Property, equipment and intangible assets*

in thousands of HRK

| | Land and buildings | Furniture and vehicles | Equipment and other tangible assets | Tangible assets under construction | Right-of-use assets | Total tangible assets | Intangible assets | Total |
|---|---|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | | | |
| **At 1 January 2019** | **12,403** | **4,146** | **18,430** | **191** | **3,059** | **38,229** | **32,112** | **70,341** |
| Additions | - | 5 | 172 | - | 1,388 | 1,565 | 1,488 | 3,053 |
| Transfer from account during the year | - | - | - | (131) | - | (131) | - | (131) |
| Disposals and retirements | - | (172) | (479) | - | (161) | (812) | (54) | (866) |
| **At 31 December 2019** | **12,403** | **3,979** | **18,123** | **60** | **4,286** | **38,851** | **33,546** | **72,397** |
| **At 1 January 2020** | **12,403** | **3,979** | **18,123** | **60** | **4,286** | **38,851** | **33,546** | **72,397** |
| Additions | - | 15 | 361 | 197 | 218 | 791 | 1,024 | 1,815 |
| Right-of-use assets | - | - | - | - | (55) | (55) | - | (55) |
| Disposals and retirements | - | (652) | (3,376) | - | - | (4,028) | (8,374) | (12,402) |
| **At 31 December 2020** | **12,403** | **3,342** | **15,108** | **257** | **4,449** | **35,559** | **26,196** | **61,755** |
| ***Accumulated depreciation/amortisation*** | | | | | | | | |
| **At 1 January 2019** | **8,869** | **4,035** | **16,620** | **-** | **-** | **29,524** | **28,606** | **58,130** |
| Charge for the year 2019 | **187** | **43** | **539** | **-** | **999** | **1,768** | **1,842** | **3,610** |
| Disposals and retirements | **-** | **(172)** | **(458)** | **-** | **-** | **(630)** | **(54)** | **(684)** |
| **At 31 December 2019** | **9,056** | **3,906** | **16,701** | **-** | **999** | **30,662** | **30,394** | **61,056** |
| Charge for the year 2020 | **187** | **34** | **361** | **-** | **1,143** | **1,725** | **1,465** | **3,190** |
| Disposals and retirements | **-** | **(652)** | **(3,375)** | **-** | **-** | **(4,027)** | **(8,374)** | **(12,401)** |
| **At 31 December 2020** | **9,243** | **3,288** | **13,687** | **-** | **2,142** | **28,360** | **23,485** | **51,845** |
| **Net book amount at 31 December 2019** | **3,347** | **73** | **1,422** | **60** | **3,287** | **8,189** | **3,152** | **11,341** |
| **Net book amount at 31 December 2020** | **3,160** | **54** | **1,421** | **257** | **2,307** | **7,199** | **2,711** | **9,910** |

During the year, the Bank retired certain items of property and equipment with a total cost of HRK 12,401 (2019: HRK 682 thousand) and sold a portion in the amount of HRK 1 thousand (2019: HRK 23 thousand).

At 31 December 2020, the Bank does not own any assets pledged as collateral, nor did it have any such assets in 2019.

At 31 December 2020, the balance of assets still in use although fully written off amounts to HRK 15,732 thousand (2019: HRK 26,766 thousand).

## 22. FORECLOSED ASSETS

Changes in foreclosed assets in exchange for uncollected receivables are as follows:

in thousands of HRK

| | At 31 December 2020 | At 31 December 2019 |
|---|---|---|
| **At 1 January** | **25,758** | **28,518** |
| Increase based on assets foreclosed | 3 | 573 |
| Decrease due to impairment (Note 13) | (1,073) | (717) |
| Decrease due to sale of foreclosed assets | (4,283) | (2,616) |
| Increase due to reclassification of assets held for sale (Note 23) | 5,280 | - |
| **Balance** | **25,685** | **25,758** |

In 2020, the Bank sold foreclosed assets in the amount of HRK 4,283 thousand (2019: HRK 2,616 thousand) and realised a gain in the amount of HRK 2,538 thousand (2019: HRK 1,761 thousand).

Sensitivity to fluctuations in property prices by 1% is presented in the table below:

in thousands of HRK

| | **31 December 2020** | | **31 December 2019** | |
|---|---|---|---|---|
| | Decrease | Increase | Decrease | Increase |
| Foreclosed assets | (257) | 257 | (258) | 258 |

## 23. ASSETS HELD FOR SALE

in thousands of HRK

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Assets held for sale | - | 5,280 |
| **Total** | **-** | **5,280** |

In the previous year, the Bank has reclassified tangible assets no longer used for business activities (business premises in Zadar and Poreč) to assets held for sale at their net book value, since the assets' fair value exceeds their net book value. Despite the intensive sale activities concerning these assets, the Bank failed to sell them within the expected deadlines. Therefore, in 2020 they were reclassified to foreclosed assets and depreciation in the amount of HRK 923 thousand was charged as if these assets had always been depreciated, which resulted in a decrease in the net book amount from HRK 5,280 thousand to HRK 4,357 thousand (Note 22).

Sensitivity to fluctuations in property prices by 1% is presented in the table below:

in thousands of HRK

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | Decrease | Increase | Decrease | Increase |
| Assets held for sale | - | - | (53) | 53 |

## 24. OTHER ASSETS

in thousands of HRK

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Receivables from the state | 17,759 | 17,759 |
| Other receivables from employees | 4,183 | 4,462 |
| Other receivables | 2,742 | 2,479 |
| Fees and commissions receivable | 1,917 | 2,347 |
| Trade receivables | 1,871 | 2,216 |
| Cash in transit | 70 | 1,953 |
| Receivables from domestic legal entities based on paid court costs | 557 | 913 |
| Receivables for third-party deposits made at court | 13 | 13 |
| Provisions for expected credit losses* | (9,325) | (12,836) |
| **Total other assets** | **19,787** | **19,306** |

* In 2020, the amount of HRK 2,828 thousand was written off, which related to the previously fully impaired loan exposure.

## 25. LIABILITIES TO BANKS

in thousands of HRK

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Demand deposits | | |
| - HRK | 4,235 | 5,823 |
| - foreign currency | 649 | 630 |
| **Total demand deposits** | **4,884** | **6,453** |
| Term deposits | | |
| - HRK | - | 11,750 |
| - foreign currency | - | - |
| **Total term deposits** | **-** | **11,750** |
| Accrued interest | - | 3 |
| **Total** | **4,884** | **18,206** |

## 26. DEMAND DEPOSITS

in thousands of HRK

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Demand deposits - retail | | |
| - in HRK | 151,747 | 129,848 |
| - in foreign currencies | 197,109 | 245,116 |
| **Total retail** | **348,856** | **374,964** |
| | | |
| Demand deposits - corporate | | |
| - in HRK | 157,657 | 139,826 |
| - in foreign currencies | 17,470 | 19,250 |
| **Total corporate** | **175,127** | **159,076** |
| | | |
| Demand deposits - financial institutions | | |
| - in HRK | 360 | 488 |
| - in foreign currencies | 2 | 2 |
| **Total financial institutions** | **362** | **490** |
| | | |
| Demand deposits - government and other institutions | | |
| - in HRK | 56,084 | 67,551 |
| - in foreign currencies | 16,065 | 16,309 |
| **Total government and other institutions** | **72,149** | **83,860** |
| | | |
| Restricted deposits | | |
| - in HRK | 11,876 | 4,184 |
| - in foreign currencies | 15,123 | 14,903 |
| **Total restricted deposits** | **26,999** | **19,087** |
| | | |
| Deposits of foreign entities | | |
| - in HRK | 2,073 | 2,281 |
| - in foreign currencies | 29,545 | 29,109 |
| **Total foreign entities** | **31,618** | **31,390** |
| | | |
| **Total** | **655,111** | **668,867** |

## 27. TERM DEPOSITS

in thousands of HRK

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Deposits - retail | | |
| - in HRK | 145,526 | 139,164 |
| - in foreign currencies | 578,194 | 631,340 |
| ***Total retail*** | **723,720** | **770,504** |
| Deposits - corporate | | |
| - in HRK | 81,821 | 93,224 |
| - in foreign currencies | 5,011 | 1,415 |
| ***Total corporate*** | **86,832** | **94,639** |
| Deposits - financial institutions | | |
| - in HRK | 20,000 | - |
| - in foreign currencies | - | - |
| ***Total financial institutions*** | **20,000** | **-** |
| **Deposits of government and other institutions - in HRK** | **16,109** | **13,109** |
| Deposits of foreign entities | | |
| - in HRK | 1,863 | 1,621 |
| - in foreign currencies | 58,861 | 66,390 |
| ***Total foreign entities*** | **60,724** | **68,011** |
| ***Deposits of non-profit organisations - in foreign currencies*** | **213** | **213** |
| Accrued interest | **3,980** | **4,539** |
| **Total** | **911,578** | **951,015** |

## 28. BORROWINGS

in thousands of HRK

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Croatian National Bank | 140,000 | 110,000 |
| Domestic banks | 2,586 | 49,210 |
| Foreign banks | 36,931 | - |
| Accrued interest | 164 | 1,681 |
| **Total** | **179,681** | **160,891** |

## 29. OTHER LIABILITIES

in thousands of HRK

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Amounts due to employees | 2,263 | 2,239 |
| Deferred income and accrued expenses | 1,752 | 1,738 |
| Liabilities for savings deposit insurance | 1,066 | 1,036 |
| Trade payables | 850 | 1,007 |
| Fees and commissions payable | 140 | 177 |
| Other liabilities | 1,600 | 3,766 |
| **Total** | **7,671** | **9,963** |

in thousands of HRK

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Lease liabilities | | |
| - current | 788 | 1,158 |
| - non-current | 1,619 | 2,219 |
| **Total** | **2,407** | **3,377** |

Liabilities from financial instruments relate to bank and customer deposits and other borrowings.

| | Liabilities from financial instruments | Lease liabilities | Total debt | Cash and cash equivalents | Net debt |
|---|---|---|---|---|---|
| **At 1 January 2019** | **(114,311)** | **(3,209)** | **(117,520)** | **227,673** | **110,153** |
| Accrued interest | (1,455) | (51) | (1,506) | - | **(1,506)** |
| New leases / new borrowings | (48,954) | (1,388) | (50,342) | - | **(50,342)** |
| Expired leases | - | 163 | 163 | - | **163** |
| Cash flow | *3,829* | *1,108* | 4,937 | *(56,157)* | **(51,220)** |
| **At 1 January 2020** | **(160,891)** | **(3,377)** | **(164,268)** | **171,516** | **7,248** |
| Accrued interest | (766) | (39) | (805) | - | **(805)** |
| New leases / new borrowings | (21,183) | (217) | (21,400) | - | **(21,400)** |
| Expired leases | - | 54 | 54 | - | **54** |
| Cash flow | *3,159* | *1,172* | 4,331 | *45,584* | **49,915** |
| **At 31 December 2020** | **(179,681)** | **(2,407)** | **(182,088)** | **217,100** | **35,012** |

## 30. PROVISIONS

in thousands of HRK

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Provisions for legal disputes | 44,962 | 46,355 |
| Provision for contingent liabilities and commitments | 3,338 | 1,944 |
| Provisions for termination benefits | 350 | - |
| Provisions for unused vacation days | 101 | 156 |
| Other provisions | 690 | 677 |
| **Total** | **49,441** | **49,132** |

Movements in provisions are presented as follows:

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| **At 1 January** | **49,132** | **13,944** |
| Income from reversal of provisions for legal disputes against the bank (Note 13) | (2,095) | (2,601) |
| New provisions for legal disputes (Note 13) | 1,195 | 39,129 |
| Changes in provisions for commitments and contingencies (Note 13) | 1,393 | 985 |
| Cost of provisions for termination benefits, vacation days etc. (Note 13) | 295 | (37) |
| Changes in other provisions | 14 | 483 |
| Changes in payments made under legal disputes | (493) | (2,648) |
| Changes in payments made under termination benefits | - | (123) |
| **At 31 December** | **49,441** | **49,132** |

In 2020, the Bank paid HRK 493 thousand from the provisions for legal disputes (2019: HRK 2,648 thousand). Provisions for off-balance-sheet exposure to credit risk and legal disputes are recognised as other losses from impairment and provisions in profit or loss (Note 13).

## 31. SHARE CAPITAL

The only shareholder of the Bank as at 31 December 2020 and 2019 is the State Agency for Deposit Insurance and Bank Rehabilitation.

in thousands of HRK

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Share capital | 474,600 | 474,600 |
| Accumulated loss | (369,445) | (344,463) |
| Reserves | 657 | 2,004 |
| Profit/(loss) for the period | 4,915 | (24,982) |
| **Total equity** | **110,727** | **107,159** |

Share capital in the amount of HRK 474,600 thousand (2019: HRK 474,600 thousand) consists of 4,746,000 shares with a nominal value of HRK 100 per share (2019: 4,746,000 shares with a nominal value of HRK 100 per share). Each share carries one vote.

## 32. CONTINGENT LIABILITIES AND COMMITMENTS

in thousands of HRK

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Guarantees | 63,431 | 56,837 |
| Revolving loans | 59,649 | 37,068 |
| Other common risk-bearing off-balance sheet items | 58,256 | 41,462 |
| Unbacked letters of credit | 10,137 | 2,194 |
| **Total** | **191,473** | **137,561** |

The item “Other common risk-bearing off-balance sheet items” relates to liabilities based on the payment of approved but unused amounts of the framework that clients can use in the form of various types of products (credit, guarantee, letter of credit).

## 33. LEGAL DISPUTES

There are 60 pending legal disputes against the Bank.

In accordance with internal bylaws and legal regulations, the Bank assesses the potential outflow of cash regarding disputes carrying a risk of loss and forms appropriate provisions.

As at 31 December 2020, the provisions for losses from legal disputes filed against the Bank amounted to HRK 49,441 thousand (2019: HRK 46,355 thousand).

## 34. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purposes of preparing the cash flow statement are presented in the table below:

in thousands of HRK

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Cash on hand and on current accounts with banks (Note 15) | 201,159 | 152,544 |
| Balances with other banks with maturities up to 3 months (Note 17) | 15,941 | 18,972 |
| **Total** | **217,100** | **171,516** |
| Expected credit losses (Note 15, 17) | (206) | (223) |
| **Total** | **216,894** | **171,293** |

## 35. RELATED PARTY TRANSACTIONS

The Bank is wholly owned (100%) by the State Agency for Deposit Insurance and Bank Rehabilitation (DAB). The Bank considers to be directly related to its shareholder, Supervisory Board and Management Board members and other executives (jointly referred to as "the key management personnel"), their close family members, companies under common control or under significant influence of Management Board members and their close family members, in accordance with the definition of related parties provided in International Accounting Standard 24 "Related Party Disclosures" (IAS 24). Key management personnel includes members of the Management Board and the Supervisory Board, directors of Sectors and directors of control functions. As at 31 December 2020, key management personnel comprised 16 employees (2019: 20 employees).

The balances of assets and liabilities as well as income and expenses as at 31 December 2020 and 31 December 2019 and for the years then ended resulting from key transactions with related parties are as follows:

in thousands of HRK

| **2020** | Receivables | Liabilities | Income | Expenses |
|---|---|---|---|---|
| DAB (sole shareholder) | 18 | 34,629 | 50 | 4,283 |
| **Key management** | | | | |
| Short-term (a vista deposits, bonuses, salaries, benefits) | 525 | 1,338 | 13 | 3,692 |
| Pension contributions | - | - | - | 923 |
| Long-term (loans, term deposits and other) | 5,296 | 2,080 | 167 | 14 |
| State in narrow and broad definitions | 748,862 | 210,910 | 15,741 | 1,942 |
| **Total** | **754,701** | **248,957** | **15,971** | **10,854** |

in thousands of HRK

| **2019** | Receivables | Liabilities | Income | Expenses |
|---|---|---|---|---|
| DAB (sole shareholder) | 9 | 39,522 | 7 | 4,493 |
| **Key management** | | | | |
| Short-term (a vista deposits, bonuses, salaries, benefits) | 395 | 710 | 7 | 4,974 |
| Pension contributions | - | - | - | 982 |
| Long-term (loans, term deposits and other) | 3,055 | 1,331 | 45 | 17 |
| State in narrow and broad definitions | 653,008 | 124,230 | 10,560 | 5,674 |
| **Total** | **656,467** | **165,793** | **10,619** | **16,140** |

## 35. RELATED PARTY TRANSACTIONS (CONTINUED)

***Key management personnel***

Key management personnel does not hold any of the Bank's shares. Loans and receivables from customers include HRK 5,749 thousand (2019: HRK 3,055 thousand) of loans to key management personnel. During the year, the Bank collected interest in the amount of HRK 166 thousand (2019: HRK 45 thousand) from loans and receivables from key management personnel granted at annual interest rates ranging from 2.75% to 4.38% (2019: from 1.25% to 3.00%). The balance of current accounts and customer deposits includes term deposits of key management personnel in the amount of HRK 1,990 thousand (2019: HRK 1,331 thousand). The interest that the Bank paid on those deposits in 2020 amounted to HRK 14 thousand (2019: HRK 17 thousand) at an annual interest rate ranging from 0.10% - 1.00% (2019: 0.15% - 2.00%).

In 2020, costs of the Supervisory Board amounted to HRK 350 thousand (2019:  HRK 373 thousand).

***State in narrow and broad definition***

Transactions with the state in narrow and broad definition comprise transactions with:

- the Central Government
- local governments
- public non-financial companies
- public insurance companies and pension funds
- public auxiliary financial institutions
- other public monetary financial institutions
- other public financial intermediaries.

***Most significant receivables from the state in narrow and broad definition are as follows:***

As at 31 December 2020, the exposure to the state in narrow and broad definitions comprises the exposure to the state-owned company Hrvatske autoceste d.o.o. in the amount of HRK 322,426 thousand (2019: HRK 329,822 thousand) under a syndicated loan.

The Bank's exposure to HŽ Cargo amounted to HRK 55,617 thousand (2019: HRK 65,431 thousand). The receivables from Borovo d.d. amounted to HRK 46,200 thousand (2019: HRK 48,523 thousand). The receivables from the Đuro Đaković Group amounted to HRK 9,166 thousand (2019: HRK 4,446 thousand).

The Bank's exposures to the Ministry of Finance under the Ministry's quoted bonds in the amount of HRK 96,286 thousand (2019: HRK 159,925 thousand), and treasury bills issued by the Ministry of Finance in the amount of HRK 175,414 thousand (2019: HRK 139,927 thousand).

The restricted deposit of the Ministry of Finance amounted HRK 15,073 thousand (2019: HRK 14,885 thousand).

As at 31 December 2020, the Restructuring and Sale Centre holds HRK 12,026 thousand on the transaction account at the Bank (2019: HRK 17,803 thousand).

As at 31 December 2020, the Bank’s shareholder, the State Agency for Deposit Insurance and Bank Rehabilitation, holds HRK 34,616 thousand on the transaction account (2019: HRK 39,483 thousand).

As at 31 December 2020, the amount owed by the Bank for loans received from the Croatian Bank for Reconstruction and Development (joint customer funding with CBRD) was HRK 2,589 thousand (31 December 2019: HRK 4,216 thousand).

All the above-mentioned significant transactions with the state and state-owned companies were entered into at arm’s length.

## 35. RELATED PARTY TRANSACTIONS (CONTINUED)

***Most significant income and expenses from the state in narrow and broad definition are as follows:***

Income recognised in the income statement in 2020 treated as key transactions is as follows:

- income from loans to Hrvatske autoceste in 2020 amounts to HRK 6,006 thousand (2019: HRK 5,983 thousand)
- income from loans to HŽ Cargo in 2020 amounts to HRK 2,577 thousand (2019: HRK 3,164 thousand)
- income from securities of the Republic of Croatia amount to HRK 672 thousand (2019: HRK 1,820 thousand)

Expenses recognised in the income statement treated as key transactions are as follows:

- costs of loans received from CBRD in 2020 in the amount of HRK 92 thousand (2019: HRK 113 thousand)
- expenses in respect of DAB relate to costs for the savings deposit insurance in the amount of HRK 4,258 thousand (2019: HRK 4,467 thousand)

***Off-balance sheet contingent liabilities to key management personnel and the state in narrow and broad definition:***

in thousands of HRK

| 31 December 2020 | Key management personnel | State in narrow and broad definition |
|---|---|---|
| Credit lines and other off-balance-sheet items | 160 | 7,888 |

| 31 December 2019 | | |
|---|---|---|
| Credit lines and other off-balance-sheet items | 267 | 2,028 |

The Bank's maximum off-balance sheet exposure within the group State in narrow and broad definition relates to the customer Bošnjaci Municipality in the amount of HRK 1,973 thousand (2019: Zračna luka Zagreb in the amount of HRK 993 thousand). All exposures presented in this note are on a net basis (i.e. less identified and unidentified impairment losses).

## 36. RISK MANAGEMENT POLICIES

Details on the Bank's exposure to risks and methods Management applies for risk control are described below. The most significant types of financial risks the Bank is exposed to are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and price risk.

### *36.1. Credit risk*

In its business activities the Bank is continuously exposed to credit risk arising from its lending and investing and in cases where it acts as an intermediary on behalf of customers or other third parties.

The Bank’s primary exposure to credit risk arises from loans and receivables from customers and banks and investment securities. In addition, the Bank is exposed to credit risk on its off-balance sheet items, reflecting its commitments under undrawn facilities and guarantees issued.

Credit risk is the greatest individual risk arising from the Bank's operations; therefore, all organisational units and functions of the Bank monitor the risk closely. Credit risk management and control are centralised in the Risk Management Department which regularly reports to the Management Board, other bodies of the Bank, the Supervisory Board and senior management.

For the purpose of credit risk management, the Bank has spread its principal credit risk management activities over the following processes:

- loan approval
- loan monitoring
- loan portfolio analysis
- non-performing loans
- early warning of increased credit risk
- loan classification according to risk degrees.

Establishing appropriate relations between the individual processes is a particularly important process, as it helps prevent any process overlaps and misalignment and establishes the necessary level of segregation of duties and responsibilities for the processes.

Organisational responsibilities for credit risk management are divided among the responsibility structures of sales and back-office/organisational units/functionalities, among control and management functions, and operation support, and are additionally positioned for all credit risk management segments, including:

- risk identification,
- risk measurement and assessment,
- risk management,
- risk controls and  risk reporting.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.1. Credit risk (continued)

Loan analysis is organisationally placed within the Risk Management Department whose scope of responsibilities directly affect the credit risk management, primarily in developing analyses and opinions regarding the Bank's credit risk appetite, which includes the following sub-processes:

- Providing opinion on new credit placements
- Providing opinion on proposals for changes in conditions of existing placements
- Analysing the viability of proposed renewal and restructuring of existing placements
- Periodic reviews of all existing placements

In analysing placements that belong to the credit risk management area, the Risk Management Department also estimates the acceptability of credit risk by individual placements, in accordance with the standards and criteria of best banking practice, i.e. application of the effective (external and internal) normative regulations. It communicates its views/principles of assessing the credit risk acceptability to decision-making individuals and bodies responsible for loans.

Further responsibilities of staff engaged in loan analysis include monitoring credit risk exposure, including the early warning of increased credit risk. The duties and responsibilities of the Risk Management Department include the credit portfolio control activity, which ensures, in cooperation with other organisational units at the Bank, timely identification of customers with potential risk. Such an approach involves a complex management of business relations with customers aiming at decreasing credit risk costs and improving the quality of the Bank's credit portfolio.

Credit risk control is based on an individual approach to the credit risk assessment specifically tailored to individual customers, including identification of customers with a potential risk, analysis and classification of customers with potential risk, determining the form and manner of managing business relations with customers, and following-up.

Special attention is paid to managing exposures to related parties by reference to the effective organisational normative and operational rules, as well as other aspects of credit risk exposure defined by the Credit Institutions Act and the related by-laws and internal acts governing its implementation.

#### *36.1.1. Credit risk management*

The expected credit losses are calculated as a sum of PD (Probability of Default), Loss Given Default (LGD) and Exposure at Default (EAD) over the remaining expected life of the financial asset and are discounted at the reporting date at the effective interest rate for exposures with a significant increase in credit risk (Stage 2 Contracts). On the other hand, for exposures classified as Stage 1, the expected credit loss is calculated over a one-year period, i.e. the expected credit loss of 1 year is estimated.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.1. Credit risk (continued)

### 36.1.1. Credit risk management (continued)

**Increase in credit risk since initial recognition**

| | Significant increase in credit risk since initial recognition | Observable impairment factors |
|---|---|---|
| ***STAGE 1***<br>***Performing*** | ***STAGE 2***<br>***Underperforming*** | ***STAGE 3***<br>***Non-performing*** |
| • 12-month expected<br>• credit losses<br>• Initial recognition<br>• Credit quality has not<br>• deteriorated significantly | • Lifetime expected credit losses<br>• Significant increase in credit risk since initial recognition | • Lifetime expected credit losses<br>• Impairment of financial assets |

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers quantitative and qualitative information and expert credit assessments based on historical experience. For the purpose of proper allocation of income-based exposures, criteria for determining a significant increase in credit risk (transition from Stage 1 to Stage 2) were defined:

- If the debtor defaults on payment of due exposures for more than 30 days, but does not exceed a period of 90 days. This provision does not apply to exposures to the central government and other exposures for which the Bank can prove that a 30-day default is not a relevant indicator;
- The debtor has watch-list or exit status/monitoring and days past due do not exceed 90 days;
- The debtor meets the blockage criterion (in line with internal segmentation, for natural persons if continuous blockage exceeds 10 days, and for others if continuous blockage exceeds 15 days) and the number of days past due does not exceed 90 days.
- If the debtor has been granted a Covid-19 Moratorium or Covid-19 Restructuring Arrangement and the debtor has not previously been classified in a higher-risk category.

In addition to assessing the risk of default, the Bank also defines the default status. It is considered that the status of default of a particular debtor (Stage 3) has occurred when one of the following conditions or both of the following conditions have been met:

a) The Bank considers it likely that the debtor will not fully meet its obligations, not taking into account the possibility of recovery from the collateral;

b) if the debtor is more than 90 days past due.

Exceptionally, for the exposures from the retail exposures category the Bank assesses the default status based on an individual product and if it has a balance sheet exposure towards a debtor with the default status and the gross carrying amount of exposure with the default status accounts for more than 20% of gross carrying amount of all balance sheet exposures to that debtor, all on-balance sheet and off-balance sheet exposures by all products of that debtor are considered to be in default.

When defining the default status, the Bank uses objective evidence of partial or complete irrecoverability of placements.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.1. Credit risk (continued)

#### 36.1.1. Credit risk management (continued)

The following is considered as objective evidence of partial recoverability of placements:

- observable significant financial difficulties of the debtor;
- if the debtor is in default for more than 90 days or in the event of a frequent delinquency in interest and/or principal payments or failure to perform other contractual provisions;
- if the Bank makes a payment on the given guarantees and the debtor does not settle the obligation within 90 days;
- if cash flows from operations and secondary sources (insurance instruments) are not sufficient to settle the contractual obligations, taking into account the timeliness of settlement (days past due);
- if the debtor requires exposure restructuring, write-offs of liabilities and other actions that result in the decrease of the client's original liabilities

The following is considered to be objective evidence of total irrecoverability/loss:

- bankruptcy, liquidation or termination of business for other reasons, while at the same time the Bank has no recognised and separate satisfaction and/or exclusion rights over the assets of the debtor or other collaterals and it is estimated that the Bank cannot expect to collect a portion of its receivables due to the debtor's insufficient funds and/or the recovery priority order in bankruptcy proceedings;

- if the debtor is in continuous default for more than 365 days, and the Bank does not have adequate collaterals;

- if the placement is the subject of a legal dispute for which it is presumed that the Bank could lose it in its entirety.

In order to determine the increased credit risk in addition to the quantitative indicators, the Bank conducts a placements monitoring process and a system of early increased credit risk detection for the purpose of timely identification of clients with increased risk exposure and for the purpose of establishing adequate placement / client monitoring at an already established increased degree of risk, all in order to avoid and/or reduce potential losses on placements.

The following monitoring statuses (risk zones) were established for the placement/client portfolio:

- STANDARD - standard exposure - monitored every 12 months, with the exception of the Financial Markets Sector for which exposure is monitored every 3 months
- WATCH - potentially problematic exposure - monitored within a year, every 3 to 9 months,
- EXIT - problematic exposure where the Bank exits from a business relationship with a client - exposure is monitored every 3 months,
- NO MONITORING NECESSARY

Expected credit loss measurement

The key inputs for measuring the expected credit loss are the following variables:

- PD - probability of default
- LGD - loss given default
- EAD - exposure at default

Expected credit losses for the exposures (ECL) in Stage 1 are calculated by multiplying the 12-month PD with LGD and EAD.

Lifetime expected credit losses are calculated by multiplying the lifetime PD with LGD and EAD and discounting it at the reporting date.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.1. Credit risk (continued)

#### 36.1.1. Credit risk management (continued)

Probability of default (PD) i.e. the probability of a transition from a performing to the non-performing status.

The basis for estimating lifetime PD is the empirical default rate. The empirical default rates and consequently the estimated lifetime PDs are calculated at the segment level:

- Corporate
- SME
- Retail
- Public
- Financials
- Retail Overdraft

Loss given default (LGD), loss expressed in percentage given default). The Bank decided to apply the 45% LGD on all exposures until it develops an internal collection model.

Exposure at default (EAD) is the value a bank is exposed to when a loan defaults. The Bank calculates the exposure at default:

- For products with cash flows (mortgages, long-term loans, investment loans, bonds...) EAD is calculated based on cash flows received from repayment plans.

For other products with no cash flow the CFF factor 1 applies.

### 36.2. Credit risk measurement

***Loans and receivables (including contingent liabilities)***

The Bank assesses the probability of default by individual clients using internal assessment tools created for all categories of customers in line with the internal acts and applicable laws.

Loans and contingent liabilities are classified into the following three key risk categories:

1.1. fully recoverable loans (risk category A) – loans assessed as fully recoverable (principal and interest) or contingent liabilities that are not expected to result in an outflow of the Bank's resources or if there is an outflow, that will be fully recovered. The Bank must allocate the exposures in risk category A to the following risk sub-categories:

   - A-1 if after initial recognition the credit risk of a certain exposure of the debtor has not increased significantly,
   - A-2 if after initial recognition the credit risk of a certain exposure of the debtor has increased significantly.

1.2. partly recoverable loans (risk category B) – loans assessed as not recoverable at contractual amounts (principal and interest) or contingent liabilities expected to result in an outflow of the Bank's resources in excess of the estimated recoverable amount.

1.3. irrecoverable loans (risk category C) – loans assessed as fully irrecoverable or insignificantly recoverable and contingent liabilities expected to result in an outflow of the Bank's resources assessed as fully irrecoverable.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.2. Credit risk measurement (continued)

Managing credit risk of a portfolio of workout or non-performing (bad) loans is the responsibility of a separate unit within the Bank which is in charge of working out such debt (Workout and Non-performing Loan Department), both owed by legal entities and natural persons. These activities are primarily aimed at realising positive effects of the implementation of various forms of financial consolidation of clients' business, including various forms of prolongation, renewal or restructuring of loans with the aim of their recovery and realisation of the maximum possible level of receivables collection and improvement in the credit and guarantee portfolio of the Bank, as well as cases of full or partial stabilisation of the clients' business by taking consolidation measures, enabling the inclusion of such loans in "performing" ones.

The Risk Management Department estimates future cash flows from non-performing loans on the basis of which provisions for impairment are determined. Such assessment is prepared for all loans managed.

In accordance with the provisions of IFRS 9 for performing loans the Bank appropriately impairs and provides for exposures equalling the following:

- 12-month expected credit losses for risk sub-category A-1,
- lifetime expected credit losses for risk sub-category A-2.

The Bank makes provisions for expected credit losses on loans and their impairment as follows:

a) on an individual basis

   - for loans classified in the "large loans portfolio"

b) on a collective basis

   - for loans classified in the "small loans portfolio" and current accounts

The small loans portfolio comprises the total Bank's exposure to one person or a group of related persons that is not individually significant, i.e. at the date of assessment does not exceed HRK 250,000. Thereby the total exposure amount includes all active balance sheet and off-balance sheet items that are subject to classification in risk categories.

The large loans portfolio, individually significant exposure, make the total exposure to one person or a group of related persons whose total exposure at the date of assessment exceeds HRK 250,000.

The credit risk assessment on an individual basis is a separate estimation of future cash flows and determining the existence or non-existence of expected credit losses for each individual loan and each individual off-balance sheet liability that the Bank is obliged to apply in assessing loans and off-balance sheet liabilities that are an integral part of individually significant exposure.

Credit risk assessment on a collective basis is a collective estimation of future cash flows and determining the existence or non-existence of expected credit losses for groups with similar characteristics of credit risk and off-balance sheet liabilities, and is performed in the following cases:

- in assessing expected credit losses for loans included in the small loans portfolio and current accounts.

The credit risk exposure is also managed by a regular analysis of the ability of the existing clients and potential clients to settle their liabilities of repaying interest and principal and by changing credit limitations where necessary. Further specific measures for credit risk control and mitigation are stated below.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.3. Risk limit control and mitigation policies

***(a) Security instruments***

The Bank uses policies of security instruments for receivables that prescribe the main rules aimed at minimising the risk from credit operations. Security instruments for receivables represent the secondary collection source, while the clients' operations and their ability to generate sufficient cash funds for settling financial liabilities are the primary source of collecting the Bank's receivables. The rules that prescribe the obligation to take security instruments for which the normative acts prescribe the conditions for acceptability, individually for each of the specific security instruments categories are standardised. Also, specific modalities of credit protection aimed at decreasing or mitigating credit risks are determined.

The most significant types of security instruments for loans and receivables are as follows:

a) Mortgage over property,
b) Pledge over operating/tangible assets,
c) Pledge over financial instruments such as debt and equity securities,
d) Insurance policies for loan receivables, life insurance policies with redemption values and other instruments whose quality based on evidence may be equalised with the quality of other above-mentioned instruments.

Non-current financial assets, loans to companies and natural persons are generally secured by appropriate security instruments.

In addition, in order to reduce credit loss, the Bank requires additional collaterals from the contractual parties as soon as indicators of impairment for individual relevant loans and advances are determined. The collateral held as security for all financial assets other than loans and advances is determined on the basis of the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

***(b) Commitments to extend credit***

Loan commitments are unused granted loan amounts in the form of loans, guarantees or letters of credit. With respect to credit risk from loan commitments, the Bank is potentially exposed to loss in the amount equal to the total unused commitments.

However, the potential loss amount is lower than the total amount of unused commitments, since the majority of commitments depends on maintaining specific credit standards by the clients. The Bank monitors the remaining period to loan maturities as non-current liabilities generally have a higher degree of credit risk compared to current liabilities.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.4. Impairment and provisioning policies

The amount of provisions for expected credit losses in the portfolio of clients monitored on an individual basis is determined using the dynamic approach, on the basis of the calculation of the loan's recoverable value, calculated as the net present value of estimated future cash flows discounted at the effective interest rate of the loan at the moment when it was assessed as "non-performing" (for loans granted at fixed rates it is the original effective rate calculated at the moment of granting). The regulations of the Croatian National Bank on minimum rates of provisions for expected credit losses are also taken into account.
Security instruments for which the nominal value is discounted are as follows:

- pledge over housing property
- pledge over other property and movables for which a market exists and which may be sold in acceptable time periods.

Discounting future cash flows to the present value is calculated individually for all long-term loans from the large loans portfolio for which an impairment loss was identified and it is estimated that their future cash flow from operating activities and cash flow from security instruments will not be sufficient.
Based on the timely repayment criteria, loans in the large loans portfolio are classified into the following risk categories:

1) risk category "A" includes loans that meet the following criteria:
- the debtor's current financial situation and estimated future cash flows do not rise any doubts with respect to the debtor's further operations and settlement of their current and future liabilities to the Bank and other creditors,
- the debtor settles their liabilities to the Bank in contracted terms, and only exceptionally and occasionally after their maturity,
- the loans are secured by adequate security instruments for receivables.

The Bank must allocate the exposures in risk category A to the following risk sub-categories:

- A-1 if after initial recognition the credit risk of a certain exposure of the debtor has not increased significantly,
- A-2 if after initial recognition the credit risk of a certain exposure of the debtor has increased significantly.

The Bank has prescribed the following indicators for determining increased credit risk of the debtor and classifying it in risk sub-category A-2:

- If the debtor defaults on payment of due exposures for more than 30 days, but does not exceed a period of 90 days. This provision does not apply to exposures to the central government and other exposures for which the Bank can prove that a 30-day default is not a relevant indicator;
- The debtor has watch-list or exit status/monitoring and days of delay do not exceed 90 days;
- The debtor meets the blockage criterion (in line with internal segmentation, for natural persons if continuous blockage exceeds 10 days, and for others if continuous blockage exceeds 15 days) and the number of days past due does not exceed 90 days;
- If the debtor has been granted a Covid-19 Moratorium or Covid-19 Restructuring Arrangement and the debtor has not previously been classified in a higher-risk category.

2) risk category B1 - loans for which expected credit losses do not exceed 30% of the nominal carrying amount of individual loans.
3) risk category B2 - loans for which expected credit losses are over 30% and less than 70% of the nominal carrying amount of individual loans.
4) risk category B3 - loans for which expected credit losses are over 70% and less than 100% of the nominal carrying amount of individual loans.

5) risk category C - fully irrecoverable loans are considered to be the Bank's receivables arisen on a disputable legal basis and other receivables for which, due to an exceptionally poor asset and financial position of the debtor, and due to the lack of adequate security instruments, no cash flows may be expected for settling the debtor's liabilities to the Bank. The Bank is obliged to classify such loans in risk category C. Loans classified in risk category C, 100% impaired, are recorded by the Bank in the balance sheet until all legal procedures are finalised related to the termination of the debtor's liability, in line with the policies and procedures of the credit institution and the law that regulates civil obligations.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.4. Impairment and provisioning policies (continued)

Specific provisions for impairment for the remaining portfolio of non-performing small loans (exposures below HRK 250 thousand) are calculated by reference to the regularity of payment.

Based on the timely repayment criteria, loans in the small loans portfolio and current accounts are classified into the following risk categories:

1) Risk category "A" includes fully recoverable loans. For a loan to remain classified in the risk category "A" (whereby the criteria for risk categories A1 and A2 are the same as for large loans), the following conditions must be met:

   - the debtor's past due liabilities to the Bank do not exceed 90 days

   - the full loan amount is covered by a guarantee deposit.

2) Risk category "B" or "C" loans must be provided for on the basis of the number of days past due.

3) Risk category "C" includes loans that do not meet the conditions for classification in risk categories "A" and "B", i.e. 100% irrecoverable loans, as follows:

- loans with default in payments more than 365 days;
- loans classified in the 100% provision position according to specially determined tables.

### *36.5. Debt securities*

For the purpose of realising future yield, the Bank usually invests surplus liquid funds in high-quality government debt securities and foreign bonds.

### *36.6. Past due loans and not past due loans and receivables*

**Past due loans and receivables by type at 31 December 2020**

in thousands of HRK

| Past due | Cash | Investments and working capital | Agriculture and tourism | Credit cards and overdrafts | Housing | Other | Total |
|---|---|---|---|---|---|---|---|
| Up to 30 days | 353 | 3,730 | 859 | 6,884 | 4 | 218 | 12,048 |
| 31-60 days | 128 | 2,498 | 171 | - | - | 106 | 2,903 |
| 61-90 days | 33 | - | - | - | - | 3 | 36 |
| Over 90 days | 309 | 62,543 | 1,074 | 1,556 | - | 19,887 | 85,369 |
| Not past due | 246,961 | 202,129 | 58,048 | 27,405 | 55,350 | 505,453 | 1,095,346 |
| **Total** | **247,784** | **270,900** | **60,152** | **35,845** | **55,354** | **525,667** | **1,195,702** |

## *36. RISK MANAGEMENT POLICIES (CONTINUED)*

### 36.6. Past due loans and receivables (continued)

**Past due loans and receivables by type at 31 December 2019**

in thousands of HRK

| Past due | Cash | Investments and working capital | Agriculture and tourism | Credit cards and overdrafts | Housing | Other | Total |
|---|---|---|---|---|---|---|---|
| Up to 30 days | 174 | 2,403 | 567 | 4,958 | 4 | 896 | 9,002 |
| 31-60 days | 79 | 15,149 | 364 | - | 2 | 939 | 16,533 |
| 61-90 days | 104 | - | - | - | 2 | 5 | 111 |
| Over 90 days | 2,072 | 56,255 | 1,794 | 1,414 | - | 23,991 | 85,526 |
| Not past due | 219,246 | 190,934 | 68,681 | 22,744 | 47,680 | 545,171 | 1,094,456 |
| **Total** | **221,675** | **264,741** | **71,406** | **29,116** | **47,688** | **571,002** | **1,205,628** |

### 36.7. Unimpaired loans

**Unimpaired loans at 31 December 2020**

in thousands of HRK

| | Cash | Investments and working capital | Agriculture and tourism | Credit cards and overdrafts | Housing | Other | Total |
|---|---|---|---|---|---|---|---|
| Not past due | 238,477 | 186,955 | 51,629 | 27,018 | 54,763 | 478,034 | 1,036,876 |
| Past due | 72 | 3,943 | 865 | 5,084 | 4 | 92 | 10,060 |
| **Total** | **238,549** | **190,898** | **52,494** | **32,102** | **54,767** | **478,126** | **1,046,936** |

**Unimpaired loans at 31 December 2019**

in thousands of HRK

| | Cash | Investments and working capital | Agriculture and tourism | Credit cards and overdrafts | Housing | Other | Total |
|---|---|---|---|---|---|---|---|
| Not past due | 211,731 | 171,424 | 61,469 | 22,599 | 46,643 | 518,071 | 1,031,937 |
| Past due | 149 | 3,049 | 521 | 3,611 | 3 | 758 | 8,091 |
| **Total** | **211,880** | **174,473** | **61,990** | **26,210** | **46,646** | **518,829** | **1,040,028** |

Unimpaired loans and receivables refer to placements classified in risk categories A1 and A2. The placements in risk categories A1 and A2 are loans and receivables regularly repaid by clients and not impaired by the Bank.

The line item 'Other' comprises the participation in syndicated loans which in 2020 amounted to HRK 386,642 thousand (2019: HRK 396,335 thousand), as well as lombard loans in the amount of HRK 55,001 thousand (2019: HRK 56,774 thousand), margin loans in the amount of HRK 4,669 thousand (2019: HRK 26,960 thousand) and mortgage loans in the amount of HRK 13,373 thousand (2019: HRK 13,442 thousand). The remaining balance consist of individual smaller loans intended for diverse purposes.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.7. Impaired loans (continued)

**Impaired loans at 31 December 2020**

in thousands of HRK

| | Cash | Investments and working capital | Agriculture and tourism | Credit cards and overdrafts | Housing | Other | Total |
|---|---|---|---|---|---|---|---|
| Not past due | 8,484 | 15,174 | 6,419 | 387 | 587 | 27,419 | 58,470 |
| Past due | 751 | 64,828 | 1,239 | 3,356 | 0 | 20,122 | 90,296 |
| **Total** | 9,235 | 80,002 | 7,658 | 3,743 | 587 | 47,541 | 148,766 |
| **Impairment** | **4,172** | **38,756** | **1,562** | **2,146** | **75** | **24,461** | **71,172** |

**Impaired loans at 31 December 2019**

in thousands of HRK

| | Cash | Investments and working capital | Agriculture and tourism | Credit cards and overdrafts | Housing | Other | Total |
|---|---|---|---|---|---|---|---|
| Not past due | 7,515 | 19,510 | 7,212 | 145 | 1,037 | 27,100 | 62,519 |
| Past due | 2,280 | 70,758 | 2,204 | 2,761 | 5 | 25,073 | 103,081 |
| **Total** | **9,795** | **90,268** | **9,416** | **2,906** | **1,042** | **52,173** | **165,600** |
| **Impairment** | **4,253** | **38,797** | **1,580** | **2,165** | **81** | **24,465** | **71,341** |

The line item 'Other' mainly comprises loans to customers undergoing pre-bankruptcy in the amount of HRK 23,690 thousand (2019: HRK 14,248 thousand) and loans for financial restructuring in the amount of HRK 18,643 thousand (2019: HRK 17,972 thousand). The remaining balance consist of individual smaller loans intended for diverse purposes.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.8. Structure of loans and off-balance contingent liabilities by type of activity

**Structure of loans and off-balance contingent liabilities by type of activity as at 31 December 2020**

in thousands of HRK

| Activity sector | Total loans and off-balance sheet liabilities | Unimpaired loans and off-balance sheet liabilities | Impaired loans and off-balance sheet liabilities | Impairment and provisions | % of impairment and provisions |
|---|---|---|---|---|---|
| Agriculture, hunting, forestry and fishing | 91,123 | 81,243 | 9,880 | 6,374 | **7.00** |
| Processing industry | 191,557 | 140,616 | 50,941 | 26,497 | **13.83** |
| Civil engineering | 419,016 | 381,415 | 37,601 | 27,153 | **6.48** |
| Wholesale and retail trade, repair of motor vehicles and household items | 100,473 | 76,581 | 23,892 | 8,811 | **8.77** |
| Service activities | 159,344 | 145,617 | 13,727 | 2,581 | **1.62** |
| Financial intermediation | 21,827 | 21,827 | 0 | 328 | **1.50** |
| Foreign financial institutions | 0 | 0 | 0 | 0 | **0.00** |
| CNB | 0 | 0 | 0 | 0 | **0.00** |
| **Other activities** | 38,081 | 34,916 | 3,165 | 2,826 | **7.42** |
| **Activity sectors outside the National Classification of Activities** | 364,969 | 351,971 | 12,998 | 9,607 | **2.63** |
| **TOTAL** | **1,386,389** | **1,234,185** | **152,204** | **84,179** | **6.07** |

**Structure of loans and off-balance contingent liabilities by type of activity as at 31 December 2019**

in thousands of HRK

| Activity sector | Total loans and off-balance sheet liabilities | Unimpaired loans and off-balance sheet liabilities | Impaired loans and off-balance sheet liabilities | Impairment and provisions | % of impairment and provisions |
|---|---|---|---|---|---|
| Agriculture, hunting, forestry and fishing | 106,778 | 97,551 | 9,227 | 7,004 | **6.56** |
| Processing industry | 195,325 | 144,568 | 50,757 | 25,927 | **13.27** |
| Construction | 397,007 | 358,415 | 38,592 | 27,791 | **7.00** |
| Wholesale and retail trade, repair of motor vehicles and household items | 66,513 | 41,535 | 24,978 | 6,724 | **10.11** |
| Service activities | 174,630 | 147,710 | 26,920 | 2,031 | **1.16** |
| Financial intermediation | 16,004 | 16,004 | 0 | 242 | **1.51** |
| Foreign financial institutions | 0 | 0 | 0 | 0 | **0.00** |
| CNB | 0 | 0 | 0 | 0 | **0.00** |
| Other activities | 36,315 | 31,002 | 5,312 | 2,605 | **7.17** |
| Activity sectors outside the National Classification of Activities | 350,617 | 336,501 | 14,117 | 9,682 | **2.76** |
| **TOTAL** | **1,343,189** | **1,173,286** | **169,903** | **82,006** | **6.11** |

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.9. Loans and advances to customers in risk categories B and C for which provisions have been made

in thousands of HRK

| | Retail | Corporate customers | Total |
|---|---|---|---|
| **31 December 2020** | | | |
| Total exposure | 23,171 | 125,595 | 148,766 |
| Provisions | 5,988 | 64,685 | 70,673 |
| Total net exposure | 17,183 | 60,910 | 78,093 |
| Market value of collateral | 11,890 | 67,338 | 79,228 |
| % of collateral coverage | 69.20% | 110.55% | 101.45% |

in thousands of HRK

| | Retail | Corporate customers | Total |
|---|---|---|---|
| **31 December 2019** | | | |
| Total exposure | 24,785 | 140,994 | 165,779 |
| Provisions | 8,433 | 62,908 | 71,341 |
| Total net exposure | 16,352 | 78,086 | 94,438 |
| Market value of collateral | 11,821 | 79,106 | 90,927 |
| % of collateral coverage | 72.29% | 101.31% | 96.28% |

### 36.10. Credit risk sensitivity analysis

As part of the macroeconomic factors sensitivity analysis regarding credit risk provisions, the Bank analyses the effects of macroeconomic indicators and parameters on future operations by increasing the B and C placements, the "bad" migration of NPLs etc.
The Bank uses the stress test scenario of the Croatian National Bank as published in Financial Stability from July 2015 as the basis for creating a stress test scenario. In this document, the CNB develops two stress scenarios (baseline and adverse), and the Bank uses a combination of both.

On this basis, the Bank uses the following parameters and indicators in stress testing:

- Increase in B and C placements in total placements by 20%,
- Arranging new defaults in a way that in B1 risk category comprises 60% of placements, and the remaining 40% of newly-defaulted placements is included in B2,
- Transfer from risk category B1 to B2, from B2 to B3 and from B3 to C at 5% exposure,
- VICR stress tests are subtracted from the projected new value adjustments.

The result of the applied test according to the latest testing would be a decline in regulatory capital of the Bank by 11%.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### *36.11.* Credit quality of financial assets

The credit quality of financial assets as rated by external agencies is given below:

in thousands of HRK

| | Rating agency | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| **Cash** | | **200,953** | **152,322** |
| Ba1 | Moody's | 179,234 | - |
| Ba2 | Moody's | - | 132,074 |
| A1 | Moody's | 3,280 | 3,408 |
| Ba3 | Moody's | - | 3,626 |
| Baa1 | Moody's | 418 | 158 |
| Baa2 | Moody's | 3,601 | - |
| BB+ | Fitch | 6,727 | - |
| BBB+ | Fitch | 5,416 | - |
| BBB- | Fitch | - | 1,498 |
| No rating | - | 2,277 | 11,558 |
| **Receivables from the Croatian National Bank** | | **85,849** | **120,447** |
| Ba2 | Moody's | 85,849 | 120,447 |
| **Placements with banks** | | **15,941** | **18,971** |
| Aaa | Moody's | 15,516 | 18,552 |
| BBB + | Fitch | 425 | - |
| No rating | - | - | 419 |
| **Financial assets at fair value through OCI** | | **412,226** | **452,045** |
| Ba1 | Moody's | 271,191 | 335,808 |
| Aaa | Moody's | 67,837 | 47,343 |
| Aa2 | Moody's | 36,023 | 68,401 |
| Aa3 | Moody's | 35,778 | 36,353 |
| No rating | - | 1,397 | 493 |
| **Financial assets at fair value through profit or loss** | | **434** | **434** |
| No rating | - | 434 | 434 |
| **Financial assets at amortised cost** | | **-** | **1,203** |
| No rating | - | - | 1,203 |
| **Loans and advances to customers** | | **1,114,343** | **1,125,460** |
| No rating | - | 1,114,343 | 1,125,460 |
| **Other financial assets** | - | **5,122** | **5,566** |
| No rating | | 5,122 | 5,566 |

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### *36.12.* Concentration risk

The Bank manages, limits and controls concentrations of credit risk in accordance with the Credit Policy wherever such risk is identified – in particular, with respect to individual clients and groups, industries and countries. Concentration is determined at the level of exposure of a particular debtor (at the level of a group of related persons) in relation to regulatory capital (over 10% of the recognised capital) and also by exposure of a particular activity to the total exposure of the Bank.

The Bank establishes credit risk levels it undertakes by placing limitations on the amount of risk accepted in relation to one client, or a group of clients, and to geographical and industry segments. Limitations on the credit risk level to products, industry sectors and countries are approved by the Bank's Management.

The exposure to any borrower is further limited by sub-limits covering both balance sheet and off-balance sheet exposures, as well as daily limits (the liability settlement risk) in relation to the items traded. The actual exposure in relation to limitations is monitored on a daily basis.

### *36.13.* Liquidity risk

Liquidity risk is the risk of loss arising from the existing or expected Bank's inability to settle its cash liabilities at maturities. This risk arises due to a mismatch of maturities of assets and liabilities, and is manifested as the risk that it will not be possible to convert a receivable into cash within a suitable term and at a suitable price, i.e. that it will not be possible to convert any non-cash form of assets into cash within a certain period without loss.

The Treasury, the Risk Management Department and the Asset-Liability Committee (hereinafter: the ALCO) are responsible for liquidity risk management, while the Bank's Management Board makes decisions, whereby precise roles in the liquidity management process are allocated to the following organisational parts or Bank's functionalities.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.13. Liquidity risk (continued)

The allowed excess of liquidity indicators and the strategy defining the reasons for allowing the excess are documented by the minutes of the ALCO meeting.

At the moment of escalation of exceeding regulatory limits (where applicable), the Risk Management Department immediately informs the Bank's Management Board, the Audit and Risk Committee, the Supervisory Board and the CNB, and if internal limits are exceeded or early warning indicators are reached, the Bank's Management Board and the LICO / ALCO committees are notified. At the relevant meeting of the LICO / ALCO committees, a strategy is adopted to reduce the limits to acceptable proportions.

The Risk Management Department controls limits within the monthly report, and reports the exceeding of limits on the ALCO meetings.

Sources of Bank financing are deposits and equity capital. The Bank continually reassesses liquidity risk by identifying and following changes in financing that are necessary for accomplishing business aims set according to Bank strategy. Moreover, the Bank manages a portfolio of liquid assets as part of its liquidity risk management strategy.

The Bank adjusts its operations concerning liquidity risk according to legal provisions and internal policies. The Bank manages assets and sources of funds from a viewpoint of financial flows, cash flows and concentration, all with the aim of adjusting cash inflows with Bank outflows.

Managing in that way assumes identification of known, expected and potential cash outflows and the production of different asset and liabilities management strategies in order to secure the Bank's needs for cash inflows. According to the stated, the liquidity risk management system comprises the evaluation and measurement of liquidity risk exposure, setting limits of liquidity risk exposure and reporting and supervision of limit utilization.

Liquidity risk management is realized by operative management of short-term liquidity and by management of long-term liquidity. Management of short-term liquidity is realized with maintenance of a regular liquidity reserve in HRK and by planning and forecasting daily and weekly cash flows. The Bank produces daily, weekly, monthly and annual liquidity plans and evaluates current and future outflows and inflows based on them.

Indicators related to a possible crisis in the Bank’s liquidity and general crisis of the banking system liquidity are monitored by the Risk Management Department and the Treasury, they are determined by the Risk Management Service and reported to the Management Board, Liquidity Committee and/or the Asset-Liability Committee.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.13. Liquidity risk (continued)

Future outflows under financial liabilities that as at 31 December 2020 reflect undiscounted cash flows including future interest payments in the amount of HRK 5,154 thousand on received deposits and borrowings, classified by remaining maturities. Asset items are classified by maturities of the carrying amounts.

in thousands of HRK

| 2020 | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash | 200,953 | - | - | - | - | **200,953** |
| Receivables from the Croatian National Bank | 85,849 | - | - | - | - | **85,849** |
| Placements with banks | 15,516 | - | 425 | - | - | **15,941** |
| Financial assets at fair value through other comprehensive income | 75 | 253 | 175,763 | 60,132 | 176,003 | **412,226** |
| Financial assets at fair value through profit or loss | - | - | - | - | 434 | **434** |
| Loans and advances to customers | 94,939 | 78,088 | 140,525 | 235,352 | 565,439 | **1,114,343** |
| Other financial assets | - | - | - | - | 5,122 | **5,122** |
| **Total assets** | **397,332** | **78,341** | **316,713** | **295,484** | **746,998** | **1,834,868** |
| **EQUITY AND LIABILITIES** | | | | | | |
| Liabilities to banks | 4,884 | - | - | - | - | **4,884** |
| Demand deposits | 655,111 | - | - | - | - | **655,111** |
| Term deposits | 79,295 | 108,232 | 522,678 | 187,448 | 17,144 | **914,797** |
| Borrowings | 37,096 | 252 | 544 | 1,259 | 142,466 | **181,617** |
| Lease liabilities | 72 | 145 | 571 | 1,086 | 533 | **2,407** |
| Other financial liabilities | 8,325 | | | | | **8,325** |
| **Total equity and liabilities** | **784,783** | **108,629** | **523,793** | **189,793** | **160,143** | **1,767,141** |

| Off-balance-sheet items | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|---|
| Guarantees | 3,076 | 8,294 | 21,659 | 24,574 | 5,828 | **63,431** |
| Unbacked letters of credit | 929 | 8,121 | 1,088 | - | - | **10,138** |
| Revolving loans and credit lines | 46,298 | - | 118 | - | 13,232 | **59,648** |
| Other common risk-bearing off-balance sheet items | 6,174 | - | 27,108 | 9,502 | 15,471 | **58,255** |
| **TOTAL OFF-BALANCE SHEET ITEMS** | **56,477** | **16,415** | **49,973** | **34,076** | **34,531** | **191,472** |
| **Net assets/liabilities and equity** | **(443,928)** | **(46,703)** | **(257,053)** | **71,615** | **552,324** | **(123,745)** |

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.13. Liquidity risk (continued)

Future outflows under financial liabilities that as at 31 December 2019 reflect undiscounted cash flows including future interest payments in the amount of HRK 11,446 thousand on received deposits and borrowings, classified by remaining maturities. Asset items are classified by maturities of the carrying amounts.

in thousands of HRK

| 2019 | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash | 152,322 | - | - | - | - | **152,322** |
| Receivables from the Croatian National Bank | 120,447 | - | - | - | - | **120,447** |
| Placements with banks | 7,218 | - | 11,753 | - | - | **18,971** |
| Financial assets at fair value through other comprehensive income | 1,035 | 44,337 | 152,835 | 112,200 | 141,638 | **452,045** |
| Financial assets at fair value through profit or loss | - | - | - | - | 434 | **434** |
| Financial assets at amortised cost | 1,203 | - | - | - | - | **1,203** |
| Loans and advances to customers | 130,122 | 46,680 | 143,120 | 233,954 | 571,584 | **1,125,460** |
| Other financial assets | - | - | - | - | 5,566 | **5,566** |
| **Total assets** | **412,347** | **91,017** | **307,708** | **346,154** | **719,222** | **1,876,448** |
| **EQUITY AND LIABILITIES** | | | | | | |
| Liabilities to banks | 6,455 | 11,753 | - | - | - | **18,208** |
| Demand deposits | 668,867 | - | - | - | - | **668,867** |
| Term deposits | 79,887 | 103,691 | 439,734 | 314,441 | 17,710 | **955,463** |
| Borrowings | 53,382 | 314 | 714 | 21,623 | 91,854 | **167,887** |
| Lease liabilities | 103 | 206 | 849 | 1,228 | 991 | **3,377** |
| Other financial liabilities | 8,228 | - | - | - | - | **8,228** |
| **Total equity and liabilities** | **816,922** | **115,964** | **441,297** | **337,292** | **110,555** | **1,822,030** |

| Off-balance-sheet items | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|---|
| Guarantees | 6,847 | 13,188 | 17,398 | 16,522 | 2,882 | 56,837 |
| Unbacked letters of credit | 2,194 | - | - | - | - | 2,194 |
| Revolving loans and credit lines | 30,478 | - | 162 | 1 | 6,427 | 37,068 |
| Other common risk-bearing off-balance sheet items | 547 | 399 | 9,043 | 19,708 | 11,765 | 41,462 |
| **TOTAL OFF-BALANCE SHEET ITEMS** | **40,066** | **13,587** | **26,603** | **36,231** | **21,074** | **137,561** |
| **Net assets/liabilities and equity** | **(444,641)** | **(38,534)** | **(160,192)** | **(27,369)** | **587,593** | **(83,143)** |

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### *36.14. Market risk*

Market risks represent potential effects that external conditions may have on the value of assets, liabilities and off-balance sheet positions of the Bank, and are caused by changes in prices and movements in financial markets.

All instruments held for trading are subject to market risk, the risk that future changes in market conditions can make an instrument unfavourable or lead to value reduction.

The Bank manages financial instruments available for sale according to changes in market conditions. Exposure to market risk is formally managed by buying or selling instruments according to limits set by Management.

Market risk is the risk of loss on balance sheet and off-balance sheet positions arising from unfavourable movements in prices on some of the 4 fundamental markets: debt securities, foreign currencies, commodity and equity securities markets.

Market risks are as follows:

- Interest rate risk
- Currency risk
- Price risk – risk of a change in prices of equity and debt securities

Interest rate risk is defined by the impact of changes in market interest rates on the Bank's financial results. The Bank's daily activities depend on the interest rate risk impacted by the terms of collection of assets and liabilities in relation to interest income and expenses or the terms in which interest rates change. These terms are controlled by the ALCO by defining the interest rate limits and coordinating activities that the Bank has to take.

Interest rate risk is described in more detail in section 38.3.2. of the Report.

The Bank's activities are exposed to the risk of changes in the value of the main currencies, which impacts the Bank's financial result and cash flow. The Bank controls foreign currency assets and foreign currency liabilities with the aim to avoid an inadequate currency risk.
The Management Board defined internal limits of the open foreign currency position.

Currency risk is described in more detail in the following chapter of the Report (item 38.3.1.).

Market risk is managed in the Treasury, Risk Management Department and the ALCO, and the Bank's Management Board is informed and makes decisions.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.14. Market risk (continued)

#### *36.14.1. Currency risk*

Currency risk is the risk of loss that results from currency changes.

Exposure to currency risk materializes from holding assets and liabilities and/or off-balance sheet items denominated and/or indexed in foreign currency, or when they are structurally unadjusted in cases of unfavourable movement of the kuna towards international currencies as well as unfavourable mutual movements of currencies.

The currency risk management process includes: identifying the Bank's exposure to currency risk, measuring currency risk exposure, defining boundaries and limits of currency risk exposure, instruments and processes for risk optimisation, currency risk management process supervision, reporting on the currency risk exposure.

At the end of each working day, the Bank adjusts its total open FX position so that the total open FX position (increased by the position in gold) does not exceed the amount of regulatory capital determined in line with the regulations of the Croatian National Bank.

The Bank uses the Value at Risk methodology (VaR) to evaluate exposure to market risk and expected maximum loss for the position in trading and other activities. VaR represents a statistically based evaluation of potential losses on the existing portfolio due to unfavourable market movements.

The Value at Risk method measures the maximum expected loss for the Bank in case of most unfavourable foreign currency movements in an observed time interval with normal market conditions and a given level of significance based on historical data. The Bank directs its business activities primarily trying to minimize the mismatch between assets' and liabilities' items denominated in foreign currency or carrying a FX clause. The Bank manages its assets and liabilities by matching the currencies of the individual asset and liability items to optimise the relationship between risk and profitability in unfavourable inter-currency movements.

The potential maximum daily loss of the open foreign currency position (VaR: 95% reliability) as of 31 December 2020 amounted to HRK 9.4 thousand (2019: HRK 5.9 thousand).

The sensitivity of currency risk measurement is carried out using monthly stress tests. Stress test is based on the simulation of the exchange rate fluctuation with respect to the openness of the position of the most significant currencies (EUR, USD, CHF, AUD). Data used are based on the historical movements of the Kuna exchange rate according to the 4 most significant currencies mentioned above in the last 2 years.
When performing the testing, 3 levels of intensity are carried out: the geometric mean of the exchange rate fluctuations that exclude extreme fluctuations; 95 percentile or maximum possible exchange rate fluctuation with 95% probability of fluctuation; 99 percentile or maximum possible exchange rate fluctuation with 99% probability of fluctuation.

in thousands of HRK

| CURRENCY | LONG/SHORT POSITIONS 31 Dec. 2020 | % OF RECOGNISED CAPITAL | Scenario 1 | Scenario 2 | Scenario 3 |
|---|---|---|---|---|---|
| EUR - OPEN POSITION | 226,000 | 0.21% | 77 | 327 | 756 |
| USD - OPEN POSITION | -81,000 | -0.08% | -160 | -730 | -1,214 |
| CHF - OPEN POSITION | 86,000 | 0.08% | 107 | 435 | 836 |
| AUD - OPEN POSITION | 120,000 | 0.11% | 274 | 1,445 | 2,401 |
| TOTAL | | | **298** | **1,477** | **2,779** |

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.14. Market risk (continued)

### 36.14.1. Currency risk (continued)

FX assets and liabilities of the Bank as at 31 December 2020 are presented as follows:

in thousands of HRK

| 2020 | EUR | USD | Other | HRK, currency clause | Total FX equivalents | HRK | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash | 13,627 | 3,188 | 19,080 | - | 35,895 | 165,058 | **200,953** |
| Receivables from the Croatian National Bank | - | - | - | - | - | 85,849 | **85,849** |
| Placements with banks | 425 | 7,981 | 7,535 | - | 15,941 | - | - |
| Financial assets at fair value through other comprehensive income | 140,410 | - | - | 177,455 | 317,865 | 94,361 | **412,226** |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 434 | **434** |
| Loans and advances to customers | 1,780 | 2,527 | 81 | 595,400 | 599,788 | 514,555 | **1,114,343** |
| Investment property | - | - | - | - | - | 35,630 | **35,630** |
| Property and equipment | - | - | - | - | - | 7,199 | **7,199** |
| Intangible assets | - | - | - | - | - | 2,711 | **2,711** |
| Foreclosed assets | - | - | - | - | - | 25,685 | **25,685** |
| Assets held for sale | - | - | - | - | - | - | **-** |
| Deferred tax assets | - | - | - | - | - | 742 | **742** |
| Other assets | - | - | - | - | - | 19,787 | **19,787** |
| **Total assets** | **156,242** | **13,696** | **26,696** | **772,855** | **969,489** | **952,011** | **1,921,500** |
| **EQUITY AND LIABILITIES** | | | | | | | |
| Liabilities to banks | 566 | 84 | 178 | - | 828 | 4,056 | **4,884** |
| Demand deposits | 259,028 | 5,071 | 11,215 | - | 275,314 | 379,797 | **655,111** |
| Term deposits | 619,600 | 9,746 | 15,451 | - | 644,797 | 266,781 | **911,578** |
| Borrowings | 36,931 | - | - | 363 | 37,294 | 142,387 | **179,681** |
| Lease liabilities | - | - | - | - | - | 2,407 | **2,407** |
| Other liabilities | 132 | 2 | - | - | 134 | 7,537 | **7,671** |
| Provisions | 85 | 8 | - | - | 93 | 49,348 | **49,441** |
| **Total liabilities** | **916,342** | **14,911** | **26,844** | **363** | **958,460** | **852,313** | **1,810,773** |
| **EQUITY** | | | | | | | |
| Share capital | - | - | - | - | - | 474,600 | **474,600** |
| Accumulated loss | - | - | - | - | - | (364,530) | **(364,530)** |
| Revaluation reserves | - | - | - | - | - | 657 | **657** |
| **Total equity** | - | - | - | - | - | 110,727 | **110,727** |
| **Total liabilities and equity** | **916,342** | **14,911** | **26,844** | **363** | **958,460** | **963,040** | **1,921,500** |
| Net assets/liabilities and equity | (760,100) | (1,215) | (148) | 772,492 | 11,029 | (11,029) | - |

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.14. Market risk (continued)

### 36.14.1. Currency risk (continued)

FX assets and liabilities of the Bank as at 31 December 2019 are presented as follows:

in thousands of HRK

| 2019 | EUR | USD | Other | HRK, currency clause | Total FX equivalents | HRK | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash | 8,396 | 1,468 | 19,660 | - | 29,524 | 122,798 | **152,322** |
| Receivables from the Croatian National Bank | - | - | - | - | - | 120,447 | **120,447** |
| Placements with banks | 419 | 10,645 | 7,907 | - | 18,971 | - | **18,971** |
| Financial assets at fair value through other comprehensive income | 162,305 | - | - | 193,911 | 356,216 | 95,829 | **452,045** |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 434 | **434** |
| Financial assets at amortised cost | - | - | - | - | - | 1,203 | **1,203** |
| Loans and advances to customers | 5,883 | 3,772 | 86 | 628,486 | 638,227 | 487,233 | **1,125,460** |
| Investment property | - | - | - | - | - | 35,350 | **35,350** |
| Property and equipment | - | - | - | - | - | 8,189 | **8,189** |
| Intangible assets | - | - | - | - | - | 3,152 | **3,152** |
| Foreclosed assets | - | - | - | - | - | 25,758 | **25,758** |
| Assets held for sale | - | - | - | - | - | 5,280 | **5,280** |
| Deferred tax assets | - | - | - | - | - | 693 | **693** |
| Other assets | - | - | - | - | - | 19,306 | **19,306** |
| **Total assets** | **177,003** | **15,885** | **27,653** | **822,397** | **1,042,938** | **925,672** | **1,968,610** |
| **EQUITY AND LIABILITIES** | | | | | | | |
| Liabilities to banks | 540 | 91 | 187 | - | 818 | 17,388 | **18,206** |
| Demand deposits | 307,046 | 6,045 | 11,774 | - | 324,865 | 344,002 | **668,867** |
| Term deposits | 676,199 | 10,194 | 16,099 | 11,297 | 713,789 | 237,226 | **951,015** |
| Borrowings | - | - | - | 1,157 | 1,157 | 159,734 | **160,891** |
| Lease liabilities | - | - | - | 2,934 | 2,934 | 443 | **3,377** |
| Other liabilities | 132 | 2 | - | - | 134 | 9,832 | **9,963** |
| Provisions | - | - | - | - | - | 49,132 | **49,132** |
| **Total liabilities** | **983,917** | **16,332** | **28,060** | **15,388** | **1,043,697** | 817,757 | 1,861,451 |
| **EQUITY** | | | | | | | |
| Share capital | - | - | - | - | - | 474,600 | 474,600 |
| Accumulated loss | - | - | - | - | - | (369,445) | **(369,445)** |
| Revaluation reserves | - | - | - | - | - | 2,004 | 2,004 |
| **Total equity** | - | - | - | - | - | **107,159** | **107,159** |
| **Total liabilities and equity** | **983,917** | **16,332** | **28,060** | **15,388** | **1,043,697** | **924,916** | **1,968,610** |
| Net assets/liabilities and equity | (806,914) | (447) | (407) | 807,009 | (759) | (756) | - |

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.14. Market risk (continued)

#### 36.14.2. Interest rate risk

Interest rate risk in the banking book is the risk of loss arising from possible changes in interest rates, impacting the items in the banking book. This risk arises due to a mismatch of assets and liabilities with respect to their type, base and amount of interest rates.

The risk of interest rate change is the risk of a decrease in net interest income due to changes in interest rates and a decrease in the economic value of capital due to changes in interest rates.

Interest rate risk is the result of a temporary mismatch in the revaluation of assets, liabilities and off-balance sheet items; early repayment of loans, deposit withdrawal (term and without term) or the difference in the movements of active and passive interest rates (basic (primary) risk).

The Bank's operations are subject to the risk of interest rate changes to the extent that interest-bearing assets and liabilities mature or their interest rates change in different periods or in different amounts. Risk management activities are directed to optimizing net interest income according to the Bank's business strategy, at the given market rates.

Activities of managing “asset-liability” risks are performed in the context of the Bank's sensitivity to interest rate changes. Exposure to risk of interest rate changes is a consequence of assets' and liabilities' items mismatch considering the possibility of interest rate changes, and it is supervised by applying an analysis of the assets' and liabilities' mismatch. The aim of interest rate risk management is to secure an optimal and stable net interest margin, and thus net profit. Interest rate risk is minimized by accepting deposits and approving loans as well as with investments carrying fixed interest rates.

The main elements of the interest rate risk management are as follows:

- interest rate risk sensitivity analysis;
- establishing internal limits and boundaries (limit of a decrease in economic value or maturity periods);
- control of performing/fulfilling/meeting the set limits;
- testing the resistance to stress for interest rate risk and the analysis of the results obtained;
- introducing hedging operations if required.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.14. Market risk (continued)

### 36.14.2. Interest rate risk (continued)

The table below shows the carrying amounts of the Bank's assets and liabilities at 31 December 2020, classified into categories by the earlier of contractual repricing and maturity.

in thousands of HRK

| 2020 | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 3 years | Over 3 years | Non-interest-bearing | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash | - | - | - | - | - | 200,953 | **200,953** |
| Receivables from the Croatian National Bank | - | - | - | - | - | 85,849 | **85,849** |
| Placements with banks | 15,941 | - | - | - | - | - | **15,941** |
| Financial assets at fair value through other comprehensive income | - | - | 184,367 | 59,165 | 168,694 | - | **412,226** |
| Financial assets at fair value through profit or loss | - | - | - | - | - | 434 | **434** |
| Loans and advances to customers | 176,867 | 373,484 | 336,469 | 74,761 | 121,470 | 31,292 | **1,114,343** |
| Investment property | - | - | - | - | - | 35,630 | **35,630** |
| Property and equipment | - | - | - | - | - | 7,199 | **7,199** |
| Intangible assets | - | - | - | - | - | 2,711 | **2,711** |
| Foreclosed assets | - | - | - | - | - | 25,685 | **25,685** |
| Deferred tax assets | - | - | - | - | - | 742 | **742** |
| Other assets | - | - | - | - | - | 19,787 | **19,787** |
| **Total assets** | **192,808** | **373,484** | **520,836** | **133,926** | **290,164** | **410,282** | **1,921,500** |
| **EQUITY AND LIABILITIES** | | | | | | | |
| Liabilities to banks | 4,884 | - | - | - | - | - | **4,884** |
| Demand deposits | 24,629 | - | - | - | - | 4,441 | **655,111** |
| Term deposits | 78,575 | 106,927 | 519,322 | 185,856 | 16,920 | 3,978 | **911,578** |
| Borrowings | 175,422 | 239 | 499 | 1,183 | 671 | 1,667 | **179,681** |
| Lease liabilities | | | | | | 2,407 | **2,407** |
| Other liabilities | - | - | - | - | - | 7,671 | **7,671** |
| Provisions | - | - | - | - | - | 49,441 | **49,441** |
| **Total liabilities** | **283,510** | **107,166** | **1,145,862** | **187,039** | **17,591** | **69,605** | **1,810,773** |
| **EQUITY** | | | | | | | |
| Share capital | - | - | - | - | - | 474,600 | **474,600** |
| Accumulated loss | - | - | - | - | - | (364,530) | (364,530) |
| Revaluation reserves | - | - | - | - | - | 657 | **657** |
| **Total equity** | - | - | - | - | - | **110,727** | **110,727** |
| **Total liabilities and equity** | **283,510** | **107,166** | **1,145,862** | **187,039** | **17,591** | **180,332** | **1,921,500** |
| **Net assets/liabilities and equity** | **(90,702)** | **266,318** | **(625,026)** | **(53,113)** | **272,573** | **229,950** | - |

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.14. Market risk (continued)

### 36.14.2. Interest rate risk (continued)

The table below shows the carrying amounts of the Bank's assets and liabilities at 31 December 2019, classified into categories by the earlier of contractual repricing and maturity.

in thousands of HRK

| 2019 | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 3 years | Over 3 years | Non-interest-bearing | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash | - | - | - | - | - | 152,322 | **152,322** |
| Receivables from the Croatian National Bank | - | - | - | - | - | 120,447 | **120,447** |
| Placements with banks | 18,971 | - | - | - | - | - | **18,971** |
| Financial assets at fair value through other comprehensive income | - | 43,295 | 151,314 | 108,013 | 133,042 | 16,381 | **452,045** |
| Financial assets at fair value through profit or loss | - | 112 | 322 | - | - | - | **434** |
| Financial assets at amortised cost | 57 | 858 | 288 | - | - | - | **1,203** |
| Loans and advances to customers | 213,439 | 337,930 | 364,257 | 68,463 | 106,315 | 35,056 | **1,125,460** |
| Investment property | - | - | - | - | - | 35,350 | **35,350** |
| Property and equipment | - | - | - | - | - | 8,189 | **8,189** |
| Intangible assets | - | - | - | - | - | 3,152 | **3,152** |
| Foreclosed assets | - | - | - | - | - | 25,758 | **25,758** |
| Assets held for sale | - | - | - | - | - | 5,280 | **5,280** |
| Deferred tax assets | - | - | - | - | - | 693 | **693** |
| Other assets | - | - | - | - | - | 19,306 | **19,306** |
| **Total assets** | **232,467** | **382,195** | **516,181** | **176,476** | **239,357** | **421,934** | **1,968,610** |
| **EQUITY AND LIABILITIES** | | | | | | | |
| Liabilities to banks | 6,455 | 11,751 | - | - | - | - | **18,206** |
| Demand deposits | 15,938 | - | 648,941 | - | - | 3,988 | **668,867** |
| Term deposits | 79,484 | 102,805 | 435,727 | 313,114 | 15,858 | 4,027 | **951,015** |
| Borrowings | 45,012 | 290 | 650 | 21,495 | 91,777 | 1,667 | **160,891** |
| Lease liabilities | 103 | 206 | 849 | 1,228 | 991 | - | **3,377** |
| Other liabilities | - | - | - | - | - | 9,963 | **9,963** |
| Provisions | - | - | - | - | - | 49,132 | **49,132** |
| **Total liabilities** | **146,992** | **115,052** | **1,086,167** | **335,837** | **108,626** | **68,777** | **1,861,451** |
| **EQUITY** | | | | | | | |
| Share capital | - | - | - | - | - | 474,600 | **474,600** |
| Accumulated loss | - | - | - | - | - | (369,445) | **(369,445)** |
| Revaluation reserves | - | - | - | - | - | 2,004 | **2,004** |
| **Total equity** | - | - | - | - | - | **107,159** | **107,159** |
| **Total liabilities and equity** | **146,992** | **115,052** | **1,086,167** | **335,837** | **108,626** | **175,936** | **1,968,610** |
| **Net assets/liabilities and equity** | **85,475** | **267,143** | **(569,986)** | **(159,361)** | **130,731** | **245,998** | **-** |

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.14. Market risk (continued)

### 36.14.2. Interest rate risk (continued)

The table below shows effective interest rates for interest-bearing assets and liabilities.

in thousands of HRK

| | 2020 | 2019 |
|---|---|---|
| | *in %* | *in %* |
| **Assets** | | |
| Cash | (0.50)-0.00 | (0.71)-0.00 |
| Placements with banks | (0.90)-1.30 | (1.13)-2.45 |
| Financial assets at fair value through other comprehensive income | 0.00-6.50 | 0.08-6.50 |
| Loans and advances to customers | 2.10-7.10 | 1.60-7.49 |
| **Equity and liabilities** | | |
| Liabilities to banks | 0.01-0.03 | 0.00-0.15 |
| Demand deposits | 0.00-0.05 | 0.00-1.50 |
| Term deposits | 0.01-1.45 | 0.01-1.50 |
| Borrowings | 0.00-1.20 | 0.05-1.20 |

### *36.14.3 Price risk*

Price risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The risk is managed by setting maximum volumes, limits and other restrictions. The Bank manages this risk by regularly measuring, monitoring and reporting on the duration and prescribed limits according to the financial asset model fair value through OCI and at amortised cost.

**Stress testing interest rate risk in the banking book**

Interest rate risk in the banking book is the risk of loss arising from possible changes in interest rates, impacting the items in the banking book. For the purposes of the stress tests, the Bank uses a simplified calculation of the changes in the economic value of the banking book, as defined in the Decision on interest rate risk in the banking book.
The Bank performs the shock-test to determine the impact of a one-off increase or decrease of interest rates by 100 basis points over a one-year period. As at 31 December 2020 it amounted to HRK 3,135 thousand or 6.91% (2019: HRK 13,205 thousand or 7.71%). The impact relates to the impact of the interest gap on the expected annual interest margin at 100 basis points. Potential risk is due to premature repayment of asset items due to the potential downward interest rates movement of the competition together with the equity and liabilities contracted for a longer term at a fixed interest rate.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### *36.15. Market risk measurement techniques*

Measurement techniques used for measuring and controlling market risks are the Value at Risk (VaR) method and stress tests.

***VaR method***

The VaR method measures the Bank's maximum loss (the maximum expected loss) in case of unfavourable movements in FX exchange rates in a set time interval under normal market conditions and the set level of reliability on the basis of historical data.

**Currency exposure limits**

The Bank defines its basic position limit by maintaining the open foreign currency position within 2% of eligible capital, i.e. the targeted open foreign currency position on the last day of the month is less than 2% of eligible capital.

Within a month, the Bank may use the following position limits as follows, provided that:

- the total open FX position does not exceed 25 of the Bank's regulatory capital,
- the maximum allowed open FX position in EUR amounts to 20% of the regulatory capital,
- the maximum allowed open FX position in USD amounts to 10% of the regulatory capital,
- the maximum allowed open FX position by individual currencies, other than EUR and USD, amounts to 5% of the regulatory capital.

| | Internal limit | At 31 December 2020 |
|---|---|---|
| Bank's total open FX position | 25.00% | 1.93% |
| Maximum open FX position in EUR | 20.00% | 1.4% |
| Maximum open FX position in USD | 10.00% | (0.08)% |
| Maximum open FX position in other currencies | 5.00% | 0.11% AUD |

***Daily VAR calculation***

In accordance with the provisions of the Basel II agreement on market risk measurement, the Bank has opted for the VaR method for calculating its FX position exposure to changes in foreign currency exchange rates (the impact of unfavourable movements in rates on the amount of open FX position).
For calculating VAR, the Bank develops the application of the Variance-Covariance Model, which implies the assessment of the present open risk on the basis of movements in exchange rates.
The Risk Management Department reports on the Bank's FX Department under Value-at-Risk methodology on a daily basis, and to the ALCO at their meetings.

**Stress tests**

Stress testing is a risk management technique used for assessing potential impacts of specific events and/or changes in several risk factors on the Bank's financial position.
The purpose of the stress testing is to determine whether the Bank has an appropriate level of capital in case of the occurrence of specific events and/or changes in several risk factors. These are unfavourable events that are difficult to foresee (extreme, but possible) and that impact the Bank's capital, risk profile and profit. The stress test may be divided into the scenario analysis and sensitivity analysis.

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### 36.15. Market risk measurement techniques (continued)

The scenario analysis is a type of stress test which estimates the impact of simultaneous changes of several risk factors on the Bank's financial position in clearly defined stress circumstances. The sensitivity analysis is a type of stress test which estimates the impact of a particular risk factor on the Bank's financial position without the stress cause being identified. The stress test is performed semi-annually.

In performing liquidity stress tests, the Bank assumes a liquidity shock on the market, such as deposit withdrawal or inability to place on the market the instruments the Bank possesses without incurring significant loss. In doing so, potential outflows are estimated under scenario and sensitivity analyses. In defining a scenario, the Bank considers the circumstances that may arise upon the expiry of a significant volume of deposits or losing a part of its unsecured sources of funding, including deposits from major customers etc. The baseline scenarios used for the purpose of the analysis, with individual factors having two levels of disturbance intensity, are defined as follows:
1) Internal crisis of the Bank,
2) Market crisis
3) A combination of both.
VaR is not used in performing liquidity stress tests, as in extreme circumstances the losses exceed the expected losses in a much larger number of instances than envisaged using VaR.

***Stress testing interest rate risk in the banking book***
Interest rate risk in the banking book is the risk of loss arising from possible changes in interest rates, impacting the items in the banking book. For the purposes of the stress tests, the Bank uses a simplified calculation of the changes in the economic value of the banking book, as defined in the Decision on interest rate risk in the banking book.
The Bank performs the shock-test to determine the impact of a one-off increase or decrease of interest rates by 100 basis points over a one-year period.

| TIME ZONES * | ESTIMATED MODIFIED DURATION * | WEIGHTED (200bp)* |
|---|---|---|
| UP TO 1 MONTH | 0.04 | 0.08% |
| FROM 1 TO 3 MONTHS | 0.16 | 0.32% |
| FROM 3 TO 6 MONTHS | 0.36 | 0.72% |
| FROM 6 TO 12 MONTHS | 0.71 | 1.43% |
| FROM 1 TO 2 YEARS | 1.38 | 2.77% |
| FROM 2 TO 3 YEARS | 2.25 | 4.49% |
| FROM 3 TO 4 YEARS | 3.07 | 6.14% |
| FROM 4 TO 5 YEARS | 3.85 | 7.71% |
| FROM 5 TO 7 YEARS | 5.08 | 10.15% |
| FROM 7 TO 10 YEARS | 6.63 | 13.26% |
| FROM 10 TO 15 YEARS | 8.92 | 17.84% |
| FROM 15 TO 20 YEARS | 11.21 | 22.43% |
| OVER 20 YEARS | 13.01 | 26.03% |

The economic value in relation to regulatory capital, pursuant to the methodology of the CNB (200 bp), calculated on 31 December 2020, is as follows:

| | **Internal limit** | **Internal early warning system** | **At 31 December 2020** |
|---|---|---|---|
| Change in economic value/regulatory capital | 15% | 13% | 12.41% |

## 36. RISK MANAGEMENT POLICIES (CONTINUED)

### *36.16. Operational risk*

The Bank is exposed to operational risk in all of its business activities. The objective of operational risk management is to identify all occurrences of operational risk, to control and minimise operational risk exposure.

The Bank seeks to achieve optimum operational risk management in accordance with the principles defined by the Bank's regulator and policies, with a view to mitigating and avoiding operational risks. In this regard, the Bank collects data on operational risk events, monitors key risk indicators, conducts scenario analysis, assesses operational risk in its operations, reports to Management on operational risk exposure and proposes measures to reduce, avoid and transfer operational risk. Operational risk does not have a material effect on the Bank's operations.

## 37. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined as the price that would be received from selling an asset or paid for transferring a liability in an orderly transaction between market participants at the measurement date, the so-called exit price. Financial assets measured at fair value through other comprehensive income are stated at fair value.

The table below summarises the year-end fair value estimates made by the Management Board.

in thousands of HRK

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| **Financial assets** | | | | |
| Cash | 200,953 | 152,322 | 200,953 | 152,322 |
| Receivables from the Croatian National Bank | 85,849 | 120,447 | 85,849 | 120,447 |
| Placements with banks | 15,941 | 18,971 | 15,941 | 18,971 |
| Loans and advances to customers | 1,114,343 | 1,125,460 | 1,084,208 | 1,096,750 |
| Financial assets at FV through OCI | 412,226 | 452,045 | 412,226 | 452,045 |
| Financial assets at FV through P&L | 434 | 434 | 434 | 434 |
| **Financial liabilities** | | | | |
| Deposits from banks | 4,884 | 18,206 | 4,884 | 18,206 |
| Deposits from customers | 1,566,689 | 1,619,882 | 1,564,803 | 1,603,686 |
| Borrowings | 179,681 | 160,891 | 179,681 | 160,891 |

Loans and receivables from customers and deposits from customers represent aggregate balances received from/owed to corporate and retail customers that bear interest at different average variable rates, and their effects are presented separately in the following tables.

in thousands of HRK

| Corporate customers | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| **Financial assets** | | | | |
| Loans and receivables from customers | 694,041 | 792,142 | 692,160 | 789,527 |
| **Financial liabilities** | | | | |
| Deposits from customers | 397,791 | 375,013 | 397,720 | 374,928 |

## 37. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

in thousands of HRK

| Retail | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Financial assets** | | | | |
| Loans and receivables from customers | 420,302 | 333,318 | 392,048 | 307,223 |
| **Financial liabilities** | | | | |
| Deposits from customers | 1,168,898 | 1,244,869 | 1,167,083 | 1,228,758 |

An overview of key methods and assumptions used in estimating the fair values of financial instruments is set out below.

***Loans and receivables from banks***

Loans and receivables are reported net of provision for impairment. The estimated fair value of loans and receivables represents the discounted amount of future cash flows. Future cash flows are discounted using the current market rates to arrive at the fair value of those assets.

***Loans and receivables from customers***

Loans and receivables are reported net of provision for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows. Future cash flows are discounted using current market rates to arrive at their fair value. Future expected losses are not considered, and no adjustment is performed to reflect any amounts doubtful of collection (including timing uncertainty) for exposures under due and reprogrammed amounts as well as under exposures not yet due but required to be monitored more closely.

***Deposits from banks***

The fair value estimate of fixed-maturity deposits is based on expected cash flows discounted at currently valid market rates on deposits with similar remaining maturities, however, the fair value cannot be lower than the nominal amount for those deposits that may be called by customers at any time.

Due to their short maturity, Management considers that their carrying amounts do not differ from their fair values.

***Deposits from customers***

The fair value estimate of fixed-maturity deposits is based on cash flows discounted at currently valid market rates on deposits with similar remaining maturities, however, the fair value cannot be lower than the nominal amount for those deposits that may be called by customers at any time. The value of client relationships is not taken into account in fair value evaluation.

## 38. CAPITAL MANAGEMENT

The main goal in managing the Bank's capital is to ensure the compliance with all regulatory capital requirements and maintain the credit rating and total capital rate to improve operations.

The Bank manages its capital structure and adjusts it in accordance with changes in economic conditions and the characteristics of its business risks.

In managing capital, the Bank also follows the principles of:

- Compliance with all legally prescribed capital requirements
- Maintaining the Bank's ability to continue as a going concern and achieve the Bank's objectives
- Maintaining a strong capital base that will enable a continued and sustainable development with the aim to achieve positive results in the income statement.

The Bank's regulatory capital and the total capital rate, calculated in accordance with the requirements of Regulation (EU) No. 575/2013 only for the Bank, were as follows:

in thousands of HRK

| | **31 December 2020** | **31 December 2019** |
|---|---|---|
| **Regulatory capital** | | |
| ***Tier 1 capital*** | | |
| Issued share capital | 474,600 | 474,600 |
| Share premium | - | - |
| Accumulated loss | (364,530) | (369,445) |
| Legal, statutory and other reserves | - | - |
| Deductions according to the Regulation (EU) No. 575/2013 /i/ | (530) | (1,600) |
| Total Tier 1 capital | 109,540 | 103,555 |
| ***Additional capital*** | - | - |
| Total additional capital | - | - |
| Deductions from investments in banks and other financial institutions | - | - |
| **Total regulatory capital** | **109,540** | **103,555** |

/i/ The amount includes intangible assets, unrealised losses on financial assets at fair value through other comprehensive income and 0.1% on the entire portfolio of financial assets and liabilities measured at fair value.

At 31 December 2020, the Bank's regulatory capital amounted to HRK 109,540 thousand (2019: HRK 103,555 thousand).

## 39. CAPITAL MANAGEMENT (CONTINUED)

in thousands of HRK

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Total capital ratio according to Regulation EU No. 575/2013** | | |
| *Capital requirements* | | |
| Credit risk exposure | 49,112 | 52,965 |
| *Balance sheet items* | *47,010* | *51,377* |
| *Off-balance sheet items* | *2,102* | *1,588* |
| Currency risk exposure | - | - |
| Operational risk exposure | 9,284 | 9,797 |
| **Capital requirements for total capital ratio** | **58,396** | **62,762** |
| *Additional capital requirements* | | |
| Capital requirements for prescribed additional capital rate | 23,286 | 25,027 |
| Capital conservation buffer | 18,249 | 19,613 |
| Systemic risk buffer | 10,949 | 11,768 |
| **Total capital requirements** | **110,880** | **119,170** |
| **Common Equity Tier 1 capital ratio** | **15.01%** | **13.20%** |
| **Tier 1 capital ratio** | **15.01%** | **13.20%** |
| **Total capital ratio** | **15.01%** | **13.20%** |

The comparative information presents the total capital ratio in accordance with the requirements of Regulation (EU) No. 575/2013. As at 31 December 2020, the total capital ratio is 15.01% (2019: 13.20%).

As at 31 December 2020 and 31 December 2019, the Bank did not meet all capital requirements (the prescribed minimum total capital ratio amounts to 15.19%). In 2020, the Bank activated a new Capital Conservation Plan in accordance with the by-laws defining procedures in cases of non-compliance with capital requirements, which was approved by the CNB. In 2020, the Bank regularly submitted reports on the implementation of measures under the Capital Conservation Plan. Apart from the above, no additional measures were taken by the CNB.

*Legal reserves*

The Companies Act requires that 5% of profit for the year is added to this reserve until 5% of issued share capital is reached. The legal reserve, amounting to 5% of the issued share capital, may be used to cover the current and prior year losses.

*Fair value reserve*

The fair value reserve includes unrealized gains and losses on changes in fair value of financial assets through other comprehensive income as well as foreign exchange differences resulting from non-monetary financial assets through other comprehensive income.

*Accumulated loss*

Accumulated loss includes losses accumulated from previous years.

## 40. CONCENTRATION OF ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS

The concentration of assets, liabilities and off-balance sheet items is presented below:

in thousands of HRK

| | 31 December 2020 | | | 31 December 2019 | | |
|---|---|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Off-balance sheet items** | **Assets** | **Liabilities** | **Off-balance sheet items** |
| **Geographical region** | | | | | | |
| Republic of Croatia | 1,759,451 | 1,828,435 | 191,460 | 1,792,798 | 1,868,382 | 137,537 |
| Europe | 146,496 | 34,355 | 6 | 124,521 | 37,581 | 11 |
| Other | 15,553 | 58,710 | 7 | 51,291 | 62,647 | 13 |
| **Total by geographical region** | **1,921,500** | **1,921,500** | **191,473** | **1,968,610** | **1,968,610** | **137,561** |
| **Sector** | | | | | | |
| Republic of Croatia (state) | 300,540 | 22,878 | 3,255 | 326,783 | 25,358 | 1,050 |
| Croatian National Bank | 220,997 | 232,342 | - | 210,868 | 236,915 | - |
| Trade and commerce | 72,141 | 25,685 | 29,220 | 57,541 | 29,377 | 11,499 |
| Finance | 78,457 | 88,180 | 2,678 | 75,620 | 61,602 | 2,513 |
| Tourism | 22,528 | 2,130 | 78 | 33,280 | 2,702 | 964 |
| Agriculture | 86,580 | 8,809 | 5,152 | 105,935 | 12,327 | 2,001 |
| Industry | 530,971 | 33,542 | 91,656 | 537,171 | 35,534 | 70,816 |
| Individuals | 357,240 | 1,156,704 | 16,254 | 344,886 | 1,240,549 | 16,661 |
| Other | 252,046 | 351,230 | 43,180 | 276,526 | 324,246 | 32,057 |
| **Total by sector** | **1,921,500** | **1,921,500** | **191,473** | **1,968,610** | **1,968,610** | **137,561** |

## 41. EVENTS AFTER THE BALANCE SHEET DATE

As at 31 December 2020, the Bank did not meet all capital requirements (the prescribed minimum total capital ratio amounts to 15.19%). In 2020, the Bank activated the Capital Conservation Plan in accordance with the by-laws defining procedures in cases of non-compliance with capital requirements, which was approved by the CNB. In 2020, the Bank regularly submitted reports on the implementation of measures under the Capital Conservation Plan. Apart from the above, no additional measures were taken by the CNB. On 16 February 2021, the Bank received a new CNB Decision approving the new Capital Conservation Plan until 31 December 2021.

The existence of novel coronavirus SARS-Cov2 was confirmed in early 2020 and has also spread to Croatia, causing disruptions to businesses and economic activity.

The impact of the Covid-19 on the Bank's operations is currently difficult to analyse as it is not possible to estimate the length of time and the extent of this event. The preliminary analyses conducted by the Bank indicate the expected negative impact on the economy as a whole and as such on the Bank's operations.

The Government of the Republic of Croatia has adopted a number of measures aimed at assisting the economy of the Republic of Croatia as a whole. The Croatian National Bank has also adopted a number of measures related to the current situation, which include, inter alia, measures relating to the preservation of banks' capital structures and the liquidity of the banking system. The Management expects that these measures will have a positive impact or mitigate the potential reduction in capital adequacy.

The Management Board expects the Bank to have adequate resources to continue in business for the foreseeable future given the favourable maturity matching, portfolio structure, stated measures of the Government of the Republic of Croatia and the Croatian National Bank.  For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

## SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK

The basic financial statements provided below were prepared within the reporting framework and the basic financial statements stipulated by the CNB's Decision on the structure and content of annual financial statements of banks (hereinafter referred to as the 'Decision').

**Statement of financial position (Balance sheet)**
**as at 31 December 2020**

**BAN-BIL form**

| Entity: CROATIA BANKA d.d. | | | | |
|---|---|---|---|---|
| Description | AOP mark | Note no. | Previous year (net) | Current year (net) |
| 1 | 2 | 3 | 4 | 5 |
| **Assets** | | | | |
| **1. Cash, cash receivables from central banks and other demand deposits** (AOP 002 to 004) | 001 | | 152,320,941 | 200,953,482 |
| 1.1. Cash on hand | 002 | | 17,119,913 | 20,129,033 |
| 1.2. Cash receivables from central banks | 003 | | 114,953,255 | 159,104,926 |
| 1.3. Other demand deposits | 004 | | 20,247,773 | 21,719,523 |
| **2. Financial assets held for trading (AOP 006 to 009)** | 005 | | 0 | 0 |
| 2.1. Derivatives | 006 | | 0 | 0 |
| 2.2. Equity instruments | 007 | | 0 | 0 |
| 2.3. Debt securities | 008 | | 0 | 0 |
| 2.4. Loans and advances | 009 | | 0 | 0 |
| **3. Financial assets that are not traded and that must be carried at fair value through profit or loss** (AOP 011 to 013) | 010 | | 434,448 | 434,448 |
| 3.1. Equity instruments | 011 | | 0 | 0 |
| 3.2. Debt securities | 012 | | 0 | 0 |
| 3.3. Loans and advances | 013 | | 434,448 | 434,448 |
| **4. Financial assets at fair value through profit or loss** (AOP 015 to 016) | 014 | | 0 | 0 |
| 4.2. Debt securities | 015 | | 0 | 0 |
| 4.3. Loans and advances | 016 | | 0 | 0 |
| **5. Financial assets at fair value through other comprehensive income** (AOP 018 to 020) | 017 | | 452,045,966 | 412,226,973 |
| 5.1. Equity instruments | 018 | | 493,233 | 493,926 |
| 5.1. Debt securities | 019 | | 451,552,733 | 411,733,047 |
| 5.2. Loans and advances | 020 | | 0 | 0 |
| **6. Financial assets at amortised cost** (AOP 022+023) | 021 | | 1,290,076,531 | 1,239,804,153 |
| 6.1. Debt securities | 022 | | 1,203,271 | 0 |
| 6.2. Loans and advances | 023 | | 1,288,873,260 | 1,239,804,153 |
| **7. Derivatives - hedge accounting** | 024 | | 0 | 0 |
| **8. Changes in fair value of hedged items in hedging the portfolio against interest rate risk** | 025 | | 0 | 0 |
| **9. Investments in subsidiaries, joint ventures and associates** | 026 | | 0 | 0 |
| **10. Tangible assets** | 027 | | 43,538,625 | 47,186,051 |
| **11. Intangible assets** | 028 | | 3,151,982 | 2,710,638 |
| **12. Tax assets** | 029 | | 906,625 | 839,452 |
| **13. Other assets** | 030 | | 26,345,198 | 21,972,605 |
| **14. Non-current assets and disposal groups held for sale** | 031 | | 5,280,062 | 0 |
| **15. TOTAL ASSETS** (AOP 001 + 005 + 010 + 014 + 017 + 021 + 024 to 031) | 032 | | 1,974,100,378 | 1,926,127,802 |
| Description | AOP mark | Note no. | Previous year (net) | Current year (net) |

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| | | | | Liabilities |
| **16. Financial liabilities held for trading** (AOP 034 to 038) | **033** | | 0 | 0 |
| 16.1. Derivatives | **034** | | 0 | 0 |
| 16.2. Short-term items | **035** | | 0 | 0 |
| 16.3. Deposits | **036** | | 0 | 0 |
| 16.4. Debt securities issued | **037** | | 0 | 0 |
| 16.5. Other financial liabilities | **038** | | 0 | 0 |
| **17. Financial liabilities at fair value through profit or loss** (AOP 040 to 042) | **039** | | 0 | 0 |
| 17.1. Deposits | **040** | | 0 | 0 |
| 17.2. Debt securities issued | **041** | | 0 | 0 |
| 17.3. Other financial liabilities | **042** | | 0 | 0 |
| **18. Financial liabilities at amortised cost** (AOP 044 to 046) | **043** | | 1,800,866,310 | 1,753,588,990 |
| 18.1. Deposits | **044** | | 1,797,317,094 | 1,751,046,282 |
| 18.2. Debt securities issued | **045** | | 0 | 0 |
| 18.3. Other financial liabilities | **046** | | 3,549,216 | 2,542,708 |
| **19. Derivatives - hedge accounting** | **047** | | 0 | 0 |
| **20. Changes in fair value of hedged items in hedging the portfolio against interest rate risk** | **048** | | 0 | 0 |
| **21. Provisions** | **049** | | 48,975,404 | 48,989,622 |
| **22. Tax payable** | **050** | | 765,439 | 274,375 |
| **23. Share capital repayable on demand** | **051** | | 0 | 0 |
| **24. Other liabilities** | **052** | | 16,333,654 | 12,547,488 |
| **25. Liabilities of disposal groups held for sale** | **053** | | 0 | 0 |
| **26. TOTAL LIABILITIES**(AOP 033 + 039 + 043 + 047 to 053) | **054** | | 1,866,940,807 | 1,815,400,475 |
| Equity | | | | |
| **27. Share capital** | **055** | | 474,600,000 | 474,600,000 |
| **28. Share premium** | **056** | | 0 | 0 |
| **29. Issued equity instruments except for equity** | **057** | | 0 | 0 |
| **30. Other equity instruments** | **058** | | 0 | 0 |
| **31. Accumulated other comprehensive income** | **059** | | 2,004,350 | 657,030 |
| **32. Retained earnings** | **060** | | -344,462,904 | -369,444,779 |
| **33. Revaluation reserves** | **061** | | 0 | 0 |
| **34. Other reserves** | **062** | | 0 | 0 |
| **35. Treasury shares** | **063** | | 0 | 0 |
| **36. Profit or loss attributable to owners of the parent company** | **064** | | -24,981,875 | 4,915,076 |
| **37. Dividends for the year** | **065** | | 0 | 0 |
| **38. Minority (non-controlling) interests** | **066** | | 0 | 0 |
| **39. TOTAL EQUITY**(AOP 055 to 066) | **067** | | 107,159,571 | 110,727,327 |
| **40. TOTAL LIABILITIES AND EQUITY** (AOP 054+067) | **068** | | 1,974,100,378 | 1,926,127,802 |

## SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

### Income statement for the period from 1 January 2020 to 31 December 2020 – BAN-RDG form

| Entity: CROATIA BANKA d.d. | | | | |
|---|---|---|---|---|
| Description | AOP mark | Note no. | Previous year | Current year |
| 1 | 2 | 3 | 4 | 5 |
| 1. Interest income | 069 | | 53,109,928 | 52,062,859 |
| 2. Interest expense | 070 | | 10,910,069 | 5,330,020 |
| 3. Expenses from share capital repayable on demand | 071 | | 0 | 0 |
| 4. Dividend income | 072 | | 0 | 0 |
| 5. Fee and commission income | 073 | | 9,741,076 | 10,576,453 |
| 6. Fee and commission expense | 074 | | 3,688,501 | 3,313,846 |
| 7. Gains or losses on derecognition of financial assets and liabilities not carried at fair value through profit or loss, net | 075 | | 8,734,036 | 1,239,805 |
| 8. Gains or losses on financial assets and liabilities held for trading, net | 076 | | 2,039,512 | 2,090,376 |
| 9. Gains or losses on financial assets not traded and carried at fair value through profit or loss, net | 077 | | 0 | 0 |
| 10. Gains or losses on financial assets and liabilities at fair value through profit or loss, net | 078 | | 0 | 0 |
| 11. Hedging gains/losses, net | 079 | | 0 | 0 |
| 12. Foreign exchange gains or losses, net | 080 | | 3,208 | 334,531 |
| 13. Gains or losses on derecognition of non-financial assets, net | 081 | | 0 | 0 |
| 14. Other operating income | 082 | | 9,953,186 | 8,741,397 |
| 15. Other operating expenses | 083 | | 547,190 | 246,934 |
| **16. TOTAL OPERATING INCOME; NET**(AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 to 082 - 083) | 084 | | 68,435,185 | 66,154,621 |
| 17. Administrative expenses | 085 | | 52,959,792 | 45,502,901 |
| 18. Contributions in cash to recovery committees and deposit insurance schemes | 086 | | 0 | 4,272,955 |
| 19. Depreciation and amortisation | 087 | | 3,609,957 | 4,112,766 |
| 20. Gains or losses on changes, net | 088 | | 0 | -32,647 |
| 21. Provisions or reversal of provisions | 089 | | 38,222,183 | 716,461 |
| 22. Impairment or reversal of impairment of financial assets not carried at fair value through profit or loss | 090 | | -2,090,865 | 6,384,826 |
| 23. Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates | 091 | | 0 | 0 |
| 24. Impairment or reversal of impairment of non-financial assets | 092 | | 716,507 | 150,392 |
| 25. Negative goodwill recognised in profit or loss | 093 | | 0 | 0 |
| 26. Share of profit or loss on investments in subsidiaries, joint ventures and associates accounted for using the equity method | 094 | | 0 | 0 |
| 27. Gains or losses on non-current assets and disposal group classified as held for sale not qualifying for classification as discontinued operations | 095 | | 0 | 0 |
| **28. PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS** (AOP 084 - 085 - 086 + 087 - 088 do 091+ 092 to 094) | 096 | | -24,982,389 | 4,981,672 |
| 29. Tax expense or income relating to profit or loss from continuing operations | 097 | | -30,138 | 66,597 |

| Description | AOP mark | Note no. | Previous year | Current year |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| **30. PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS** (AOP 095 - 096) | **098** | | -24,952,251 | 4,915,076 |
| **31. Profit or loss after tax from discontinued operations** (AOP 099 - 100) | **099** | | -29,624 | 0 |
| 31.1. Profit or loss before tax from discontinued operations | **100** | | **-29,624** | **0** |
| 31.2. Tax expense or income relating to discontinued operations | **101** | | | |
| **32. PROFIT OR LOSS FOR THE YEAR** (AOP 097 + 098; 102 + 103) | **101** | | -24,981,875 | 4,915,076 |
| 33. Attributable to minority (non-controlling) interest | **103** | | | |
| 34. Attributable to owners of the parent company | **104** | | | |
| **STATEMENT OF OTHER COMPREHENSIVE INCOME** | | | | |
| **1. Profit or loss for the year** (AOP 101) | **105** | | -24,981,875 | 4,915,076 |
| **2. Other comprehensive income** (AOP 106 to 118) | **106** | | 3,125,782 | -1,347,320 |
| **2.1. Items that will not be reclassified to profit or loss** (AOP 107 to 113 + 116 + 117) | **107** | | 0 | 0 |
| 2.1.1. Tangible assets | **108** | | 0 | 0 |
| 2.1.2 Intangible assets | **109** | | 0 | 0 |
| 2.1.3 Actuarial gains or losses on defined benefit pension plans | **110** | | 0 | 0 |
| 2.1.4. Non-current assets and disposal groups held for sale | **111** | | 0 | 0 |
| 2.1.5. Share of other recognised income and expenses from entities accounted for using the equity method | **112** | | 0 | 0 |
| 2.1.6. Changes in fair value of equity instruments carried at fair fair value through other comprehensive income | **113** | | 0 | 0 |
| 2.1.7. Gains or losses on hedge accounting of equity instruments carried at fair value through other comprehensive income, net | **114** | | 0 | 0 |
| 2.1.8. Changes in fair value of equity instruments carried at fair value through other comprehensive income (hedged item) | **115** | | 0 | 0 |
| 2.1.9. Changes in fair value of equity instruments carried at fair value through other comprehensive income (hedging instrument) | **116** | | 0 | 0 |
| 2.1.10. Changes in fair value of financial liabilities carried at fair value through profit or loss attributable to changes in credit risk | **117** | | 0 | 0 |
| 2.1.11. Income tax relating to items that will not be reclassified | **118** | | 0 | 0 |
| **2.2. Items that may be reclassified to profit or loss** (AOP 119 to 126 ) | **119** | | 3,125,782 | -1,347,320 |
| 2.2.1. Net investment in foreign operations hedge (effective share) | **120** | | 0 | 0 |
| 2.2.2. Foreign currency translation | **121** | | 0 | 0 |
| 2.2.3. Cash flow hedges (effective share) | **122** | | 0 | 0 |
| 2.2.4. Hedging instruments (not determined elements) | **123** | | 0 | 0 |
| 2.2.5. Debt instruments at fair value through other comprehensive income | **124** | | 3,583,366 | -1,463,231 |
| 2.2.6. Non-current assets and disposal groups held for sale | **125** | | 0 | 0 |
| 2.2.7. Share of other recognised income and expenses from investments in subsidiaries, joint ventures and associates | **126** | | 0 | 0 |
| 2.2.8. Income tax on items that may be reclassified to profit or loss | **127** | | -457,584 | 115,911 |
| **3. Total comprehensive income for the year** (AOP 104 + 105 and AOP 128 + 129) | **128** | | -21,856,093 | 3,567,756 |
| 4. Attributable to minority (non-controlling) interest | **129** | | | |
| 5. Attributable to owners of the parent company | **130** | | | |

## SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

### Statement of cash flows, indirect method – POD-NTI form

| Entity; CROATIA BANKA d.d. | | | | |
|---|---|---|---|---|
| Description | AOP mark | Note no. | Previous year | Current year |
| 1 | 2 | 3 | 4 | 5 |
| **Operating activities and adjustments** | | | | |
| 1. Profit/loss before tax | **001** | | -25,012,013 | 4,981,673 |
| 2. Impairment losses and provisions | **002** | | 37,338,896 | 7,496,938 |
| 3. Depreciation and amortisation | **003** | | 3,609,957 | 4,112,766 |
| 4. Net unrealised gains/losses on financial assets and liabilities at fair value through profit or loss | **004** | | -10,800,470 | -3,330,181 |
| 5. Gains/losses on sale of tangible assets | **005** | | -1,761,091 | -2,538,322 |
| 6. Other non-cash items | **006** | | -6,050,806 | -680,051 |
| **Movements in assets and liabilities from operating activities** | | | | |
| 7. Deposits with CNB | **007** | | 23,120,738 | 34,792,769 |
| 8. Deposits with financial institutions and loans to financial institutions | **008** | | 0 | 0 |
| 9. Loans and advances to other customers | **009** | | -68,956,904 | -35,579,853 |
| 10. Securities and other financial instruments at fair value through other comprehensive income | **010** | | 312,529,449 | 35,337,509 |
| 11. Securities and other financial instruments held for trading | **011** | | 0 | 0 |
| 12. Securities and other financial instruments not actively traded but carried at fair value through profit or loss | **012** | | 0 | 0 |
| 13. Securities and other financial instruments mandatorily carried at fair value through profit or loss | **013** | | 0 | 0 |
| 14. Securities and other financial instruments carried at amortised cost | **014** | | -710,876 | 1,210,109 |
| 15. Other assets from operating activities | **015** | | -32,105,029 | 4,242,559 |
| **Increase/decrease in operating liabilities** | | | | |
| 16. Deposits from financial institutions | **016** | | -92,336,649 | -13,321,135 |
| 17. Transaction accounts of other customers | **017** | | 159,233,318 | -13,315,566 |
| 18. Savings deposits of other customers | **018** | | 1,030,673 | -440,041 |
| 19. Term deposits of other customers | **019** | | -468,843,981 | -48,666,584 |
| 20. Derivative financial liabilities and other trading liabilities | **020** | | 0 | 0 |
| 21. Other liabilities | **021** | | 1,144,462 | -4,277,230 |
| 22. Outstanding interest from operating activities | **022** | | 64,028,243 | 53,662,238 |
| 23. Dividend received from operating activities | **023** | | 0 | 0 |
| 24. Interest paid from operating activities | **024** | | -909,595 | -490,570 |
| 25. Income tax paid | **025** | | 0 | 0 |
| **A) Net cash flows from operating activities** (AOP 001 to 025) | **026** | | -105,451,679 | 23,197,028 |
| **Investing activities** | | | | |
| 1. Proceeds from sale/payments for purchase/of tangible and intangible assets | **027** | | 2,713,530 | 5,061,961 |
| 2. Proceeds from sale/payments for purchases/of investments in subsidiaries, jointventures and associates | **028** | | 0 | 0 |
| 3. Proceeds from collection/payments for purchases/of securities and other financial instruments from investing activities | **029** | | 0 | 0 |
| 4. Dividends received from investing activities | **030** | | 0 | 0 |
| 5. Other proceeds/payments from investing activities | **031** | | 0 | 0 |
| **A) Net cash flows from investing activities (AOP 027 to 031)** | **032** | | 2,713,530 | 5,061,961 |
| **Financing activities** | | | | |
| 1. Net increase/decrease in borrowings from financing activities | **033** | | 46,579,748 | 19,555,861 |
| 2. Net increase/decrease in issued debt securities | **034** | | 0 | 0 |
| 3. Net increase/decrease in instruments of additional capital | **035** | | 0 | 0 |
| 4. Share capital increase | **036** | | 0 | 0 |
| 5. Dividend paid | **037** | | 0 | 0 |
| 6. Other proceeds/payments from financing activities | **038** | | 0 | -2,228,327 |
| **C) Net cash flows from financing activities** (AOP 033 to 038) | **039** | | 46,579,748 | 17,327,534 |
| **D) Net increase / decrease in cash and cash equivalents** (AOP 026+032+039) | **040** | | -56,158,401 | 45,586,523 |
| **Cash and cash equivalents at beginning of year** | **041** | | 227,672,844 | 171,514,443 |
| **Effects of foreign currency exchange rate fluctuations on cash and cash equivalents** | **042** | | 0 | 0 |
| **Cash and cash equivalents at end of year** (AOP 040+041+042) | **043** | | 171,514,443 | 217,100,966 |

## SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

### CHANGES IN EQUITY for the period from 1 January 2020 to 31 December 2020 - BANK-PK form

| Position description | AOP mark | Note no. | Attributable to equity holders of the parent | | | | | | | | | | | Minority interest | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Equity | Share premium | Issued equity instruments except for equity | Other equity stakes | Accumulated other comprehensive income | Retained earnings | Revaluation reserves | Other reserves | Treasury shares | Profit / loss attributable to owners of the parent company | Dividends for the year | Accumulated other comprehensive income | Other items | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 (4 to 16) |
| **1. Opening balance (before restatement)** | **01** | | **474,600,000** | | | | **2,004,350** | **-369,444,779** | | | | | | | | **107,159,571** |
| 2. Effects of corrections of errors | **02** | | | | | | | | | | | | | | | |
| 3. Effects of changes in accounting policies | **03** | | | | | | | | | | | | | | | |
| **4. Opening balance (current period) (AOP 01 to 03)** | **04** | | **474,600,000** | **0** | **0** | **0** | **2,004,350** | **-369,444,779** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **107,159,571** |
| 5. Issue of ordinary shares | **05** | | | | | | | | | | | | | | | 0 |
| 6. Issue of preference shares | **06** | | | | | | | | | | | | | | | 0 |
| 7. Issue of other equity instruments | **07** | | | | | | | | | | | | | | | 0 |
| 8. Execution or expiry of other issued equity instr. | **08** | | | | | | | | | | | | | | | 0 |
| 9. Debt to equity swaps | **09** | | | | | | | | | | | | | | | 0 |
| 10. Capital reduction | **10** | | | | | | | | | | | | | | | 0 |
| 11. Dividends | **11** | | | | | | | | | | | | | | | 0 |
| 12. Purchase of treasury shares | **12** | | | | | | | | | | | | | | | 0 |
| 13. Sale or extinguishment of treasury shares | **13** | | | | | | | | | | | | | | | 0 |
| 14. Reclassification of financial instruments from equity instruments to liabilities | **14** | | | | | | | | | | | | | | | 0 |
| 15. Reclassification of financial instruments from liabilities to equity instruments | **15** | | | | | | | | | | | | | | | 0 |
| 16. Transfers between equity instr. components | **16** | | | | | | | | | | | | | | | 0 |
| 17. Increase or decrease in equity instruments resulting from business combinations | **17** | | | | | | | | | | | | | | | 0 |
| 18. Share-based payments | **18** | | | | | | | | | | | | | | | 0 |
| 19. Other increase or decrease in equity instruments | **19** | | | | | | | | | | | | | | | 0 |
| 20. Total comprehensive income for the year | **20** | | | | | | -1,347,320 | | | | | 4,915,076 | | | | 3,567,756 |
| **21. Closing balance (current period) (AOP 04 to 20)** | **21** | | **474,600,000** | **0** | **0** | **0** | **657,030** | **-369,444,779** | **0** | **0** | **0** | **4,915,076** | **0** | **0** | **0** | **110,727,327** |

## SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

**Balance sheet reconciliation as at 31 December 2020**

Mismatches of items in the balance sheet disclosed in the Annual Report in relation to the standard prescribed in CNB's Decision relate to the following categories:

in thousands of HRK

| Item | | CNB Decision | Annual Report | Difference |
|---|---|---|---|---|
| **1. Cash, cash receivable from central banks and other demand deposits** | **001** | **200,953** | **302,743** | **(101,790)** |
| 1.1. Cash on hand | 002 | 20,129 | - | 20,129 |
| 1.2. Cash receivables from central banks | 003 | 159,105 | - | 159,105 |
| 1.3. Other demand deposits | 004 | 21,720 | - | 21,720 |
| *Cash* | | - | 200,953 | (200,953) |
| *Receivables from the Croatian National Bank* | | - | 85,849 | (85,849) |
| *Placements with banks* | | - | 15,941 | (15,941) |
| **2. Financial assets held for trading (AOP 006 to 009)** | **005** | - | - | - |
| 2.1. Derivatives | 006 | - | - | - |
| 2.2. Equity instruments | 007 | - | - | - |
| 2.3. Debt securities | 008 | - | - | - |
| 2.4. Loans and advances | 009 | - | - | - |
| **3. Financial assets that are not traded and mandatorily carried at fair value through profit or loss (AOP 011 to 013)** | **010** | **434** | **434** | **-** |
| 3.1. Equity instruments | 011 | - | - | - |
| 3.2. Debt securities | 012 | - | - | - |
| 3.3. Loans and advances | 013 | 434 | - | 434 |
| *Financial assets at fair value through profit or loss* | | | 434 | (434) |
| **4. Financial assets at fair value through profit or loss (AOP 015+016)** | **014** | - | - | - |
| 4.2. Debt securities | 015 | - | - | - |
| 4.3. Loans and advances | 016 | - | - | - |
| **5. Financial assets at fair value through other comprehensive income (AOP 018 to 020)** | **017** | **412,226** | **412,226** | **-** |
| 5.1. Equity instruments | 018 | 494 | - | 494 |
| 5.1. Debt securities | 019 | 411,733 | - | 411,733 |
| 5.2. Loans and advances | 020 | - | - | - |
| *Financial assets at fair value through profit or loss* | | - | 412,226 | (412,226) |
| **6. Financial assets at amortised cost (AOP 022+023)** | **021** | **1,239,804** | **1,114,343** | **125,461** |
| 6.1. Debt securities | 022 | - | - | - |
| *Financial assets at amortised cost* | | - | - | - |
| 6.2. Loans and advances | 023 | 1,239,804 | - | 1,239,804 |
| *Loans and advances to customers* | | - | 1,114,343 | (1,114,343) |
| **7. Derivatives - hedge accounting** | **024** | **-** | **-** | **-** |
| **8. Changes in fair value of hedged items in hedging the portfolio against interest rate risk** | **025** | **-** | **-** | **-** |
| **9. Investments in subsidiaries, joint ventures and associates** | **026** | **-** | **-** | **-** |
| **10. Tangible assets** | **027** | **47,186** | **-** | **47,186** |
| *Investment property* | | - | 35,630 | (35,630) |
| *Property, plant and equipment* | | - | 7,199 | (7,199) |
| *Foreclosed assets* | | - | 25,685 | (25,685) |
| **11. Intangible assets** | **028** | **2,711** | **-** | **2,711** |
| **12. Tax assets** | **029** | **839** | **-** | **839** |
| *Deferred tax assets* | | - | 742 | (742) |
| **13. Other assets** | **030** | **21,974** | **-** | **21,974** |
| *Other assets* | | - | 19,787 | (19,787) |
| **14. Non-current assets and disposal groups held for sale** | **031** | **-** | **-** | **-** |
| **15. TOTAL ASSETS (AOP 001+005+010+014 +017+021+024 to 031)** | **032** | **1,926,128** | **1,921,500** | **4,628** |

## SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

### Balance sheet reconciliation as at 31 December 2020 (continued)

in thousands of HRK

| Item | | CNB Decision | Annual Report | Difference |
|---|---|---|---|---|
| **Liabilities** | | | | |
| **16. Financial liabilities held for trading (AOP 034 to 038)** | **033** | - | - | - |
| 16.1. Derivatives | 034 | - | - | - |
| 16.2. Short-term items | 035 | - | - | - |
| 16.3. Deposits | 036 | - | - | - |
| 16.4. Debt securities issued | 037 | - | - | - |
| 16.5. Other financial liabilities | 038 | - | - | - |
| **17. Financial liabilities at fair value through profit or loss (AOP 040 to 042)** | **039** | - | - | - |
| 17.1. Deposits | 040 | - | - | - |
| 17.2. Debt securities issued | 041 | - | - | - |
| 17.3. Other financial liabilities | 042 | - | - | - |
| **18. Financial liabilities at amortised cost (AOP 044 to 046)** | **043** | **1,753,589** | **1,751,254** | **2,335** |
| 18.1. Deposits | 044 | 1,751,046 | - | 1,751,046 |
| 18.2. Debt securities issued | 045 | - | - | - |
| 18.3. Other financial liabilities | 046 | 2,543 | - | 2,543 |
| *Liabilities to banks* | | - | 4,884 | (4,884) |
| *Demand deposits* | | - | 655,111 | (655,111) |
| *Term deposits* | | - | 911,578 | (911,578) |
| *Borrowings* | | - | 179,681 | (179,681) |
| **19. Derivatives - hedge accounting** | **047** | - | - | - |
| **20. Changes in fair value of hedged items in hedging the portfolio against interest rate risk** | **048** | - | - | - |
| **21. Provisions** | **049** | **48,990** | **49,441** | **(451)** |
| **22. Tax payable** | **050** | **274** | - | **274** |
| **23. Share capital repayable on demand** | **051** | - | - | - |
| **24. Other liabilities** | **052** | **12,547** | - | **12,547** |
| *Other liabilities* | | - | 10,078 | (10,078) |
| **25. Liabilities of disposal groups held for sale** | **053** | - | - | - |
| **26. TOTAL LIABILITIES (AOP 033 + 039 + 043 + 047 to 053)** | **054** | **1,815,400** | **1,810,773** | **4,628** |
| **Equity** | | | | |
| **27. Share capital** | **055** | **474,600** | **474,600** | - |
| **28. Share premium** | **056** | - | - | - |
| **29. Issued equity instruments except for equity** | **057** | - | - | - |
| **30. Other equity instruments** | **058** | - | - | - |
| **31. Accumulated other comprehensive income** | **059** | **657** | **657** | - |
| **32. Retained earnings** | **060** | **(369,445)** | **(369,445)** | - |
| **33. Revaluation reserves** | **061** | - | - | - |
| **34. Other reserves** | **062** | - | - | - |
| **35. Treasury shares** | **063** | - | - | - |
| **36. Profit or loss attributable to owners of the parent company** | **064** | **4,915** | **4,915** | - |
| **37. Dividends for the year** | **065** | - | - | - |
| **38. Minority (non-controlling) interests** | **066** | - | - | - |
| **39. TOTAL EQUITY (AOP 055 to 066)** | **067** | **110,727** | **110,727** | - |
| **40. TOTAL CAPITAL AND RESERVES (AOP 054+067)** | **068** | **1,926,128** | **1,921,500** | **4,628** |

## SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

**Balance sheet reconciliation as at 31 December 2020 (continued)**

**ASSETS**

Cash on hand, Cash receivable from central banks and Other demand deposits are items separately dislosed under the CNB standard, while in the Annual Report those items are disclosed within Cash, Receivables from the CNB and Placements with banks. The exception is the separate required reserve with the CNB, which is disclosed within Receivables from the Croatian National Bank in the Annual Report, while it is disclosed within "Loans and advances (at amortised cost)" in the CNB report.

In the Annual Report, Loans and advances to customers include amounts of principal and accrued interest, less any loan prepayments and collected interest income relating to future periods. In the CNB report, the principal and interest amounts net of the accrued interest income of the future period are disclosed under Loans and advances (at amortised cost) and the amounts of the loan prepayments are disclosed under Other liabilities (not offset). This item also includes the separate required reserve with the CNB, which is disclosed within Receivables from the Croatian National Bank in the Annual Report. Other receivables are disclosed within Loans and advances in the CNB Report, while in the Annual Report they are disclosed within Other assets.

Also, the item Tangible assets consists of the inventory amount in the CNB report, while inventories in the Annual Report are disclosed within Other assets. Foreclosed assets are disclosed separately in the Annual Report, while they are disclosed within Other assets in the CNB report.

Finally, the balance sheet disclosed in the Annual Report and the CNB Report differ due to the reduction in the prepayment of Loans and advances in the Annual Report and offsetting tax assets and deferred tax liabilities.

**LIABILITIES AND EQUITY**

Financial liabilities carried at amortised cost disclosed in the CNB report in the Annual Report are disclosed within Liabilities to Banks, Demand Deposits, Term Deposits and Borrowings. The difference in amounts refers to Deposits for Custody and Brokerage Services that are reported in the CNB Statement under Other Liabilities and Fees and Commissions payable that are disclosed within Other Liabilities in the Annual Report.

## SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

### Income statement reconciliation as at 31 December 2020

in thousands of HRK

| Item | | CNB Decision | Annual Report | Differen ce |
|---|---|---|---|---|
| 1. Interest income | 069 | 52,063 | 52,024 | 39 |
| 2. Interest expense | 070 | 5,330 | 5,291 | 39 |
| 3. Expenses from share capital repayable on demand | 071 | - | - | - |
| 4. Dividend income | 072 | - | - | - |
| 5. Fee and commission income | 073 | 10,577 | 10,577 | - |
| 6. Fee and commission expense | 074 | 3,314 | 3,314 | - |
| 7. Gains or losses on derecognition of financial assets and liabilities not carried at fair value through profit or loss, net | 075 | 1,240 | - | 1,240 |
| 8. Gains or losses on financial assets and liabilities held for trading, net | 076 | 2,090 | - | 2,090 |
| *Net (expense )/income from financial operations* | | | *3,298* | *(3,298)* |
| 9. Gains or losses on financial assets not traded and carried at fair value through profit or loss, net | 077 | - | - | - |
| 10. Gains or losses on financial assets and liabilities at fair value through profit or loss, net | 078 | - | - | - |
| 11. Hedging gains/losses, net | 079 | - | - | - |
| 12. Foreign exchange gains or losses, net | 080 | 335 | - | 335 |
| *Net foreign exchange gains/losses* | | - | *335* | *(335)* |
| 13. Gains or losses on derecognition of non-financial assets, net | 081 | - | - | - |
| 14. Other operating income | 082 | 8,741 | 8,858 | (117) |
| 15. Other operating expenses | 083 | 248 | - | 248 |
| 16. TOTAL OPERATING INCOME; NET (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 to 082 - 083) | 084 | 66,155 | 66,487 | (332) |
| 17. Administrative expenses | 085 | 45,503 | - | 45,503 |
| 18. Contributions in cash to recovery committees and deposit insurance schemes | 086 | 4,273 | - | 4,273 |
| 19. Depreciation and amortisation | 087 | 4,113 | - | 4,113 |
| *Other operating expenses* | | - | *53,213* | *(53,213)* |
| 20. Gains or losses on changes, net | 088 | (33) | - | *(33)* |
| 21. Provisions or reversal of provisions | 089 | 716 | - | 716 |
| 22. Impairment or reversal of impairment of financial assets not carried at fair value through profit or loss | 090 | 6,385 | - | 6,385 |
| 23. Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates | 091 | - | - | - |
| 24. Impairment or reversal of impairment of non-financial assets | 092 | 150 | - | 150 |
| *Impairment losses and provisions* | | - | *8,292* | *(8,292)* |
| 25. Negative goodwill recognised in profit or loss | 093 | - | - | - |
| 26. Share of profit or loss on investments in subsidiaries, joint ventures and associates accounted for using the equity method | 094 | - | - | - |
| 27. Gains or losses on non-current assets and disposal group classified as held for sale not qualifying for classification as discontinued operations | 095 | - | - | - |
| **28. PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS (AOP 084 - 085 - 086 + 087 - 088 to 091+ 092 to 094)** | **096** | **4,982** | **4,982** | **-** |
| 29. Tax expense or income relating to gains or losses on continuing operations | 097 | 67 | 67 | - |
| **30. PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS (AOP 095 - 096)** | **098** | **4,915** | **4,915** | **-** |
| 31. Profit or loss after tax from discontinued operations (AOP 099 - 100) | 099 | - | - | - |
| 31.1. Profit or loss before tax from discontinued operations | 100 | 4,915 | 4,915 | - |
| 31.2. Tax expense or income relating to discontinued operations | 101 | - | - | - |
| **32. PROFIT OR LOSS FOR THE YEAR (AOP 097 + 098; 102 + 103)** | **102** | **4,915** | **4,915** | **-** |
| 33. Attributable to minority (non-controlling) interest | 103 | - | - | - |
| 34. Attributable to owners of the parent company | 104 | - | - | - |

## SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

**Income statement reconciliation as at 31 December 2020 (continued)**

The item Net income from financial operations in the Annual Report consists of gains from trading in securities and foreign exchange gains that are disclosed separately in the CNB statement within Gains or losses on derecognition of financial assets and financial liabilities not carried at fair value through profit or loss and Gains or losses on financial assets and liabilities held for trading. The difference results from the gains on swap transactions disclosed in the CNB form within Gains or losses on financial assets and liabilities held for trading", while in the Annual Report it is disclosed within Net Foreign Exchange Losses.

Other operating expenses in the Annual Report in the CNB are disclosed separately within Administrative Expenses, Depreciation and Amortisation and Other Operating Expenses.

Impairment losses and provisions in the Annual Report in the CNB report are presented separately within Provisions or reversal of provisions, Impairment or reversal of impairment of financial assets not carried at fair value through profit or loss and Impairment or reversal of impairment of non-financial assets.

## SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

### Cash flow statement reconciliation for 2020

in thousands of HRK

| Item | | CNB Decision | Annual Report | Difference |
|---|---|---|---|---|
| **Operating activities and adjustments** | | | | |
| 1. Profit/loss before tax | 001 | 4,982 | 4,982 | - |
| 2. Impairment losses and provisions | 002 | 7,497 | - | 7,497 |
| *Impairment allowance for loans and other assets (net)* | | - | 7,621 | (7,621) |
| *Provisions for contingent liabilities (net)* | | - | 1,393 | (1,393) |
| *Provisions for legal disputes (net)* | | - | (900) | 900 |
| *Other provisions (net)* | | - | 306 | (306) |
| *Collected receivables previously written off* | | - | (128) | 128 |
| 3. Depreciation and amortisation | 003 | 4,113 | 3,190 | 923 |
| 4. Net unrealised gains/losses on financial assets and liabilities at fair value through profit or loss | 004 | (3,330) | - | (3,330) |
| *(Gains)/losses on realisation of available-for-sale financial assets* | | - | (1,240) | 1,240 |
| *Gains on currency trading* | | - | (2,091) | 2,091 |
| 5. Gains/losses on sale of tangible assets | 005 | (2,538) | (2,538) | - |
| 6. Other non-cash items | 006 | (680) | - | (680) |
| *Investment property fair valuation* | | - | (280) | 280 |
| *Foreign exchange losses on translation to mid-exchange rate of CNB* | | - | (335) | 335 |
| *Write-off of tangible assets* | | - | 1 | (1) |
| *Other non-cash items* | | - | - | - |
| **Movements in assets and liabilities from operating activities** | | | | |
| 7. Deposits with CNB | 007 | 34,793 | 34,793 | - |
| 8. Deposits with financial institutions and loans to financial institutions | 008 | - | - | - |
| 9. Loans and advances to other customers | 009 | (35,580) | - | (35,580) |
| *Increase in loans and advances to customers* | | - | (38,744) | 38,744 |
| 10. Securities and other financial instruments at fair value through other comprehensive income | 010 | 35,338 | - | 35,338 |
| 11. Securities and other financial instruments held for trading | 011 | - | - | - |
| 12. Securities and other financial instruments not actively traded but measured at fair value through profit or loss | 012 | - | - | - |
| 13. Securities and other financial instruments mandatorily carried at fair value through profit or loss | 013 | - | - | - |
| 14. Securities and other financial instruments carried at amortised cost | 014 | 1,210 | - | 1,210 |
| *Increase in financial assets at amortised cost* | | - | - | - |
| 15. Other assets from operating activities | 015 | 4,241 | - | 4,241 |
| *Decrease in other assets* | | - | 1,786 | (1,786) |
| *Increase/(decrease) in other liabilities* | | - | 2,905 | (2,905) |
| **Increase/decrease in operating liabilities** | | | | |
| 16. Deposits from financial institutions | 016 | (13,321) | - | (13,321) |
| *Increase/(decrease) in bank borrowings* | | - | (13,322) | 13,322 |
| 17. Transaction accounts of other customers | 017 | (13,316) | - | (13,316) |
| 18. Savings deposits of other customers | 018 | (440) | - | (440) |
| *Increase/(decrease) in demand deposits* | | - | (13,756) | 13,756 |
| 19. Term deposits of other customers | 019 | (48,667) | - | (48,667) |
| *Decrease in term deposits* | | - | (49,383) | 49,383 |
| 20. Derivative financial liabilities and other trading liabilities | 020 | - | - | - |
| 21. Other liabilities | 021 | (4,277) | - | (4,277) |
| 22. Outstanding interest from operating activities | 022 | 53,662 | - | 53,662 |
| *Interest received* | | - | 52,946 | (52,946) |
| 23. Dividend received from operating activities | 023 | - | - | - |
| 24. Interest paid from operating activities | 024 | (491) | - | (491) |
| *Interest paid* | | - | (491) | 491 |
| 25. Income tax paid | 025 | - | (67) | 67 |
| **A) Net cash flows from operating activities (AOP 001 to 025)** | **026** | **23,195** | **(13,352)** | **36,547** |

## SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

**Cash flow statement reconciliation for 2020 (continued)**

in thousands of HRK

| Item | | CNB Decision | Annual Report | Difference |
|---|---|---|---|---|
| **Investing activities** | | | | |
| 1. Proceeds from sale/payments for purchases/of tangible and intangible assets | 027 | 5,062 | - | 5,062 |
| *Purchase of property, equipment and intangible assets* | | - | (1,760) | 1,760 |
| *Proceeds from the sale of property* | | - | 6,821 | (6,821) |
| *Decrease/(increase in ) financial assets at amortised cost* | | - | 1,210 | (1,210) |
| 2. Proceeds from sale/payments for purchases/investments in subsidiaries, jointventures and associates | 028 | - | - | - |
| 3. Proceeds from collection/payments for purchases of/securities and other financial instruments from investing activities | 029 | - | - | - |
| 4. Dividends received from investing activities | 030 | - | - | - |
| 5. Other proceeds/payments from investing activities | 031 | - | - | - |
| *Interest received* | | - | 716 | (716) |
| *Purchase of financial assets at fair value through OCI* | | - | (355,819) | 355,819 |
| *Sale of financial assets at fair value through OCI* | | - | 390,441 | (390,441) |
| *Decrease in financial assets at fair value through profit or loss* | | | - | - |
| **B) Net cash flows from investing activities (AOP 027 to 031)** | **032** | **5,062** | **41,609** | **(36,547)** |
| **Financing activities** | | | | |
| 1. Net increase/decrease in borrowings from financing activities | 033 | 19,556 | - | 19,556 |
| *Repayments of borrowings* | | - | (1,627) | 1,627 |
| *New borrowings* | | - | 21,183 | (21,183) |
| *Interest paid* | | - | (766) | 766 |
| 2. Net increase/decrease in issued debt securities | 034 | - | - | - |
| 3. Net increase/decrease in instruments of additional capital | 035 | - | - | - |
| 4. Share capital increase | 036 | - | - | - |
| 5. Dividend paid | 037 | - | - | - |
| 6. Other proceeds/payments from financing activities | 038 | (2,229) | - | (2,229) |
| *Lease liabilities* | | - | (970) | 970 |
| *Provisions paid for legal disputes* | | - | (493) | 493 |
| *Other payments* | | - | - | - |
| **C) Net cash flows from financing activities** (AOP 033 to 038) | **039** | **17,327** | **17,327** | - |
| **D) Net increase/decrease in cash and cash equivalents** (AOP 026+032+039) | **040** | **45,584** | **45,584** | - |
| **Cash and cash equivalents at beginning of year** | **041** | **171,516** | **171,516** | - |
| **Effects of foreign currency exchange rate fluctuations on cash and cash equivalents** | **042** | - | - | - |
| **Cash and cash equivalents at end of year** (AOP 040+041+042) | **043** | **217,100** | **217,100** | - |

Mismatches of items in the income statement disclosed in the Annual Report in relation to the structure and contents prescribed in CNB's decision relate to the following categories:

According to the CNB's instruction, impairment losses and provisions are disclosed in one amount within Impairment losses and provisions, while in the Annual Report they are disclosed within Impairment of loans and other assets, Provisions for contingent liabilities, Provisions for legal disputes and Other provisions.

Items Transaction accounts of other customers and Savings deposits of other customers are disclosed separately in the CNB report, while in the Annual Report they are disclosed together within the Increase/(Decrease in demand deposits.

## SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

Purchase of financial assets at fair value through OCI and Sale of financial assets at fair value through OCI are disclosed in the Annual Report within Investing activities, while they are disclosed within Securities and other financial instruments at fair value through the OCI within the operating activities in the CNB report.

**Reconciliation of the statement of comprehensive income and statement of changes in equity**

The Statement of comprehensive income and the Statement of changes in equity prepared under the CNB standard do not differ from the Annual Report.

## SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

In accordance with Article 164 of the Credit Institutions Act, the Bank is obliged to disclose the following data relating to the previous financial year:

1. Banking and financial services provided, the nature of its activities and the geographic location of services provision;
2. Total income;
3. Number of employees on a full-time equivalent basis;
4. Amount of income tax; and
5. Amount of state subsidies received.

**Ad.1.**

In accordance with the Credit Institutions Act, the Bank engages in the following banking and financial services in the country and abroad:

- Receiving cash deposits,
- Granting of loans and other placements on its own behalf and for its own account,
- Issuing means of payment in the form of electronic money,
- Issuing guarantees and other commitments,
- Factoring,
- Finance leasing,
- Lending, including customer loans, mortgage loans and financing commercial transactions (including forfeiting),
- Trading on its own behalf and for its own account or on its own behalf and for the account of the client: money market instruments and other transferable securities, foreign currencies, including currency exchange, financial futures and options, currency and interest rate instruments,
- Payment transactions in the country and abroad in accordance with special laws,
- Collection, analysis and provision of information on the creditworthiness of legal entities and natural persons who perform activities independently,
- Issuing and management of payment instruments,
- Rental of safe deposit boxes,
- Representation in insurance,
- Receipt and transfer of orders in relation to one or more financial instruments,
- Execution of orders on behalf of clients,
- Trading for own account,
- Underwriting services, i.e. the sale of financial instruments with a purchase obligation,
- Underwriting Services, i.e. the sale of financial instruments without a purchase obligation,
- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash management and security instruments,

**SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)**

- Providing loans to investors to allow carrying out transactions with one or more financial instruments, if the transactions involve a company that grants loans,
- Foreign exchange services, if related to the provision of investment services,
- Services related to underwriting or selling financial instruments with a purchase obligation.

In accordance with the National Classification of Activities, the activities of Croatia banka are defined as: 64.19 Other monetary mediation.

In 2020, Croatia banka performed its services in the Republic of Croatia.

**Ad.2.**

In 2020, Croatia banka realised a total net income of HRK 66,487 thousand.

**Ad.3.**

As at 31 December 2020, Croatia banka had 152 employees based on the number of hours of work, and at the end of 2019 the number of employees was 162.

**Ad. 4.**

Income tax is based on taxable income for the year and comprises current and deferred tax. In 2020, the Bank realised a tax gain of HRK 5,269 thousand. No income tax was paid as the Bank used the tax relief from previous periods. The amount reported under income tax relates to net deferred tax assets on prepaid/paid benefits.

**Ad.5**.

In 2020, Croatia banka did not receive any state subsidies.

**NAME AND REGISTERED OFFICE**

| | |
|---|---|
| Name | Croatia banka d.d. |
| Address | Roberta Frangeša Mihanovića 9<br>10110 Zagreb |
| Legal form | Joint stock company |
| Country of registration | Croatia |
| Entity registration number | 080007370 |
| Entity identification no. (OIB) | 32247795989 |
| Website | www.croatiabanka.hr |
| Telephone | 0800 57 57 |
| Fax | 01 2391 244 |
| E-mail | info@croatiabanka.hr |
| IBAN: | HR0324850031000009027 |

## SUPPLEMENTARY REPORT FOR THE CROATIAN NATIONAL BANK (CONTINUED)

### BUSINESS NETWORK

| City | Address | Telephone | Fax |
|---|---|---|---|
| Čakovec Branch | Ulica Ivana Mažuranića 2<br>40000 Čakovec | 040 310 160<br>040 311 672 | 040 310 643 |
| Osijek Branch | Ulica Josipa Jurja Strossmayera 4<br>31000 Osijek | 031 203 001<br>031 203 005 | 031 203 002 |
| Pula Branch | Istarska ulica 14<br>52100 Pula | 052 451 202<br>052 451 304 | 052 451 505 |
| Slavonski Brod Branch | Trg Ivane Brlić Mažuranić 15<br>35000 Slavonski Brod | 035 442 112 | 035 442 110 |
| Split Branch | Ulica Domovinskog rata 49A<br>21000 Split | 021 539 795 | 021 539 794 |
| Vinkovci Branch | Duga ulica b.b.<br>32100 Vinkovci | 032 331 377<br>032 331 453 | 032 331 213 |

| City | Address | Telephone | Fax |
|---|---|---|---|
| Virovitica Branch | Trg kralja Zvonimira 10<br>33000 Virovitica | 033 725 441 | 033 725 602 |
| Vukovar Branch | Josipa Jurja Strossmayera 5<br>32000 Vukovar | 032 450 520 | 032 450 490 |
| Šubićeva Outlet, Zagreb | Šubićeva 67<br>10000 Zagreb | 01 4623 024 | 01 4623 027 |
| Sky Office Outlet | R.F. Mihanovića 9<br>10110 Zagreb | 01 2391 294<br>01 2391 282 | 01 2391 240 |
| Sale to corporate customers Zagreb | R.F. Mihanovića 9<br>10110 Zagreb<br>Sky Office Tower | 01 2391 105<br>01 2391 650 | 01 2391 288 |
| Županja Branch | Strossmayerova 5<br>32270 Županja | 032 831 051 | 032 833 424 |