

KentBank d.d.

ANNUAL REPORT
FOR THE YEAR 2020

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MANAGEMENT BOARD REPORT

About the Bank

In 1998, Štedionica Brod was founded which grew into Banka Brod d.d. in 2002 with its headquarters in Slavonski Brod and a founding share capital of HRK 20,216 thousand. In July 2005, Banka Brod d.d. had a capital increase following which the total share capital amounted to HRK 41,158 thousand.

In July 2011, the Süzer Holding (former Eksen Holding) took over Banka Brod d.d. and at the beginning of 2012, it increased the capital by an additional EUR 10 million, to HRK 117,029 thousand. After acquisition, the Bank was repeatedly recapitalized by its owners, and in 2016 the Bank issued subordinated debt in the amount of EUR 1,5 million, while in 2017 issued subordinated debt amounted to EUR 3,5 million. The debt was financed by the major shareholder. In 2017 the Bank finished squeeze out process of preference shares and preference shares have been delisted from Zagreb Stock Exchange. In previous years preference shares were classified as a liability in the statement of financial position, and included as a capital in the calculation of the capital adequacy and were also registered with the Commercial Court of Zagreb.

In December 2020, the share capital of the Bank increased by HRK 37,381 thousand through conversion of an existing hybrid instrument to regular shares of the Bank.

The Bank had not acquired its own shares in the previous financial years.

In July 2012, the Bank changed its name to KentBank d.d. ("the Bank") and moved its headquarters to Zagreb (Gundulićeva 1). At that time, the Bank had 9 branches/locations (in Zagreb, Slavonski Brod, Požega, Nova Gradiška, Osijek, Pula, Rijeka) and 2 affiliated branches/locations (in Zagreb and Slavonski Brod). At the end of 2020, total number of branches/locations (15) remained the same as it was at the end of 2019. Bank has no legal branches.

In 2016 the Bank achieved an asset growth of 57%, confirming the status of the fastest growing bank in Croatia.

In 2019 Executive Board of the Croatian-Turkish Friendship Association rewarded KentBank with the jubilee recognition for special support and contribution to the development of Croatian-Turkish relations.

For 2019 the Bank has been awarded as "the Most Innovative SME Banking Services Provider" by International Finance, premium business and finance magazine published by UK's International Finance Publications.

Thanks to an improvement in the quality and structure of the balance sheet, in 2020 the Bank is affirmed with a long-term credit rating 'A-' and a short-term credit rating 'A-1' with a 'stable' outlook for both ratings. The rating was confirmed by JCR Eurasia Rating, an international credit rating institution focused on the Eurasia market.

MANAGEMENT BOARD REPORT (CONTINUED)

Over the past few years, the Management Board and the major Shareholder of the Bank have been investing considerable effort in modernization and business improvement. The most important achievements during this period include the modernization of business systems and processes, digitalization of services, introduction of new products, the expansion of the branch network and the strengthening of the capital base and balance sheet.

About the Süzer Group

The Süzer Group was established in Gaziantep in 1952, as a local construction and trading company. The Group grew by rapid, yet balanced expansion beginning in the 1960's and the 1970's in the fields of construction, tourism and foreign trade. With the liberalization of the Turkish economy starting in the 1980s the Group embarked on a new phase of expansion, becoming in due course one of the few Turkish companies whose foreign trade volume exceeds one billion dollars. Today Süzer Group represents Turkey in the international field and has partnerships with world-wide leaders in their own sectors and is one of the leading groups of Turkey with a sustainable growth mission, an innovative vision and domestic, as well as foreign investments.

The Süzer Group portfolio covers a wide range of sectors including real estate development, retail, finance, tourism, service and energy. In Turkey, Süzer Group owns the Ritz Carlton Hotel in Istanbul. Its energy interests are represented by a majority share of Bahçeşehir Gas Distribution Inc., which is the first private company dealing with natural gas distribution in Turkey. The latest projects of the Süzer Group comprise real estate development in the United States.

Business activities of the Bank

KentBank provides banking services based on the activities registered in the court register, comprising corporate and retail banking. In an effort to strengthen and improve its position on the market, the Bank continuously works on development of new services and products, while improving the quality of existing products and services.

The Bank acquires international deposits via web platforms in Germany, Austria and Netherlands. In corporate and SME, the Bank cooperates with Croatian bank for reconstruction and development in loan disbursements as well as activities with trade finance products. The Bank also participates in tenders published by Fund for environment protection and energetic efficiency for subsidy of energetic façade renewal. In 2015 the Bank expanded its activities and registered for two more of them, i.e. the issuing of electronic money and insurance brokerage.

At the end of 2017 the Bank opened Representative office in Istanbul with the goal to strengthen business cooperation between Turkey and Croatia. Through Turkish Desk in Zagreb and Representative office in Istanbul, KentBank enables small, medium and big companies full access to comprehensive financial solutions as well as access to the international banking products and services. The Bank's goal is to create

MANAGEMENT BOARD REPORT (CONTINUED)

new business opportunities for Croatian and Turkish companies, as well as to become a bridge connecting economies of the two countries.

In 2018. The Bank started cooperation with exchange offices.

In 2019 the Bank enabled to its customers, Maestro and Mastercard users to make purchases online with the highest level of protection against unauthorized use of card data through the 3-D Secure system. During 2019 the Bank finalized the project to harmonize internet and mobile banking with EU Directive related with PSD2 (Payment Service Directive) and RTS. In 2020 Bank introduced mobile and physical tokens.

In 2020 during the pandemic, the Bank continued to regularly operate, and adjusted its operations in accordance with the adopted instructions, taking all necessary activities and measures to ensure smooth and continuous operations and at the same time providing necessary liquidity. During the pandemic, liquidity, solvency and capitalization of the Bank were not endangered, and in accordance with the instructions and measures of the civil protection headquarters, the Bank ensured availability of all its products and services.

In 2020 the Bank adopted a package of customer support measures to demonstrate, in these difficult times, that it has a primarily partnership relationship with its customers and to support in difficult times every entrepreneur who gave it his or her confidence. The Bank has prepared supporting measures to address all customers, whether natural or legal, whose business is affected by the COVID-19 virus pandemic by allowing to clients possibility of moratoriums. The clients were also enabled to withdraw cash at no charge at all ATMs of other banks in the Republic of Croatia.

In the future, the Bank will closely monitor further development of the situation and recommendations of the competent state bodies, it will monitor and analyze market opportunities and conditions, and make decisions in accordance with the new circumstances.

MANAGEMENT BOARD REPORT (CONTINUED)

Operations of the Bank in 2020

Negative trends from the beginning of 2020 caused by the Covid-19 pandemic affected the bank's operations and results, but despite the challenging 2020 for the whole banking sector, with the growth in balance sheet, the Bank continued with generating positive results.

On 31 December 2020, the total assets of the Bank amounted to HRK 2,916 million, representing an increase of 17% compared to 31 December 2019. In the structure of asset, loans and receivables from customers represents highest share (53%), cash and deposits at CNB and banks represent share of 23%, financial assets measured at fair value through other comprehensive income represent share of 16%, while other assets represent share of 8%.

Category of customer loans recorded an increase of 7% compared to 2019, with loans amounting to HRK 1,544 million on 31 December 2020. The ratio between the corporate and the retail gross loans at the end of 2020 was 57% compared to 43% (2019: 57% : 43%).

Total deposits amounted to HRK 2,234 million, representing an increase of 10% compared to 31 December 2019. The ratio between term and current deposits at the end of 2020 was 67%: 33%, while at the end of 2019 it was 74% : 26%. Deposits from customers represent 93% of total deposits, and represent an increase of 10% compared to 31 December 2019. Deposits from banks and financial institutions represent an increase of 4% compared to 31 December 2019.

In the structure of the Bank's funding sources, deposits represent 77% of total sources of funds (HRK 2,234 million at 31 December 2020), while the Bank's capital represent 11% of total sources of funds (HRK 309 million at 31 December 2020). Other liabilities represent 12% of total sourced of funds.

In 2020, the Bank's share capital was increased by converting a hybrid instrument in the amount of HRK 37,381 thousand, after which the Bank's share capital amounted to HRK 315,392 thousand.

In 2020, the Bank generated HRK 86 million of interest income, while the interest expenses amounted to HRK 11 million. Net interest income amounted to HRK 75 million and it decreased by 4% comparing to the previous year as a consequence of the continuous reduction of lending interest rates and the reduction of lending activity due to the pandemic, while interest expenses have continuous decreasing trend. Net income from fees and commissions in 2020 amounted to HRK 12 million, which is a 2% decrease compared to the previous year as a consequence of the abolition of part of the fees during the pandemic and reduced revenues from payment operations due to compliance with regulations.

In the structure of income, net interest income has share of 72%, net fee and commission income 11%, while other revenues have share of 17%.

Total income amounted to HRK 104 million, representing an decrease of 6% compared to 2019.

MANAGEMENT BOARD REPORT (CONTINUED)

Total general and administrative expenses amounted to HRK 73 million, which is an increase of 2% compared to the previous year as a result of an increase in employee costs and depreciation, while other administrative expenses decreased. In the expenses structure, 59% refers to staff costs, 29% to administrative expenses, and 12% to depreciation and amortization. The cost / income ratio of the Bank was 70% (2019: 65%).

Impairment losses and provisions amounted to HRK 24 million, 31% more than in the previous year partly due to the updating of macroeconomic indicators used in the calculation of provisions due to emerging economic circumstances and projections caused by the impact of the COVID-19 pandemic.

Profit before tax amounted to HRK 7 million and profit after tax is HRK 5.9 million, return on assets (ROAA) is 0.2% and return on equity (ROAE) 2%.

Development plan

The basic strategic direction of the Bank is by strengthening capital to achieve continuous growth of the banking activities which will ensure the preservation of the loan portfolio quality, good liquidity management practice and capital adequacy, business cost optimization, decrease in NPL, i.e. income growth and profit realization.

The key concept of the operations of the Bank is an individual approach to clients, as well as flexibility and efficiency in decision-making in relation to the larger banking system. Moreover, after changing the owner, the Bank expanded its network and product range to ensure healthy growth and to become an international bank rather than a regional bank.

The focus of the Bank is on the growth of: portfolio, interest earning asset and profit while continuing to increase the number of customers and number of products per customers which will result with growth in fee and commission income. Through the increase in the number of clients, the aim is to increase the share of a vista funds in total deposits of the Bank and reduce the cost of funding sources.

Following the needs of its clients and the trends in the market, especially in the field of digital banking, the Bank is continuously working on the development of new and improvement of existing products, mobile banking and Internet banking, in order to maintain long-term business relationships with clients.

MANAGEMENT BOARD REPORT (CONTINUED)

Strategic objectives

- Raising the market share and strengthening the competitiveness of the Bank on the market;
- Maintenance of good asset quality;
- Maintaining and securing liquidity and funding sources;
- Continue to generate a positive business result;
- Continuous development and strengthening of the Bank's digital services
- Strong increase of the customer base and products per client;
- Increase of a vista deposits
- Increase in share of retail loans in total loan portfolio
- Improvement of sales orientation in all business segments focusing on intensive cross-selling activities between all market segments of business operations
- Investments in projects that contribute to the optimization of business processes (payment machine, simpler and faster loan approval process)
- Improving the security of electronic payment services with aim to improve quality and security of services (mobile and physical tokens)
- Strengthening of existing and implementing new sales channels (internet banking, mobile banking, ATM network and card business);
- Branch modernization
- With the introduction of new products, establish the KentBank as a flexible, efficient and innovative bank that creates value for shareholders, clients, employees and the environment in which it works and operates;
- 'Cross border' - presence in the global market

By further development of Turkish Desk and an open representative office of the Bank in Istanbul, aim is to be recognized as the only Turkish bank in Croatia which connects Turkish investors with Croatia.

In the coming period and in accordance with the applicable regulations and economic circumstances, the Bank intends to continue its activities aimed at establishing the Bank as a dynamic, fast, flexible, efficient, innovative organization, capable of creating new values for shareholders, clients, employees and the environment in which it works and operates.

The Bank does not have any research and development activities besides mentioned.

MANAGEMENT BOARD REPORT (CONTINUED)

Financial risk management

The operations of the Bank are exposed to various types of risks, which arise from the uncontrollable character of the financial market. The Bank tries to control and minimize them. The most significant types of financial risks to which the Bank is exposed are the credit risk, the liquidity risk, market risk and operational risk. The market risk includes the risk of change of interest rates, the risk of change of foreign exchange rates and the change of market value of securities.

a) Credit risk

Credit risk management is described in notes 28, 29 and 33b to the financial statements.

b) Liquidity risk

Liquidity risk management is described in notes 30 and 33c to the financial statements.

c) Market risk

Market risk management is described in notes 31, 32 and 33d to the financial statements.

d) Operational risk management

Operational risk management is described in note 33f to the financial statements.

MANAGEMENT BOARD REPORT (CONTINUED)

Supervisory Board

During 2020, the Supervisory Board of the Bank consisted of three members. Their term of office is four years and they may be reappointed. After the changes in the membership of the Supervisory Board, it currently has three members chosen by the majority shareholder pursuant to the Companies Act and one independent member.

The powers of the Supervisory Board are governed by the Articles of Association of the Bank and by the Operating Procedures Manual of the Supervisory Board, in accordance with the applicable provisions of the Companies Act and the Credit Institutions Act.

The members of the Supervisory Board are as follows:

Mehmet Gani Sonmez	President of the Supervisory Board (appointed from 20 January 2021)
Hasan Ecesoy	President of the Supervisory Board (from 25 March until 17 July 2020)
Meriç Uluşahin	President of the Supervisory Board (end of appointment on 25 March 2020)
Hakan Özgüz	Deputy President of the Supervisory Board
Danijela Roguljić Novak	Supervisory Board Member

The Supervisory Board established an Audit and Risk Committee which consists of all the members of the Supervisory Board. Audit & Risk Committee has the following tasks:

- to monitor the financial reporting process;
- to monitor the effectiveness of internal control system, internal audit and risk management system;
- to oversee internal audit reports;
- to supervise the audit of annual financial and consolidated statements;
- to monitor the independence of the independent auditors or audit firm that performs audit and in particular contracts for additional services,
- to cooperate with the external auditor;
- to discuss the plans and annual internal audit report and the significant issues relating to this area;
- to advise the Supervisory Board on the overall current risk appetite and risk strategy;
- to assist in monitoring the implementation of the risk strategy;
- to examine whether the pricing policy of assets and liabilities takes into account the Bank's business model and risk strategy;
- to propose the Management Board a correction plan if the pricing policy does not reflect the risk taken in relation to the business model and risk strategy;
- to revise the Bank's incentives system;
- to perform other duties in accordance with applicable regulations and its internal act which regulates Committee's operations.

MANAGEMENT BOARD REPORT (CONTINUED)

Management Board

In accordance with the provisions of the Articles of Association of the Bank, the Management Board may consist of up to five (5) members. The members of the Management Board, including the President of the Management Board, may be appointed by the Supervisory Board for a term of up to five (5) years, with possibility of re-election. Only the person who meets the conditions prescribed by the Credit Institutions Act, the Companies Act and the Decision on Suitability of the Croatian National Bank (CNB) may be appointed member of the Management Board with prior approval from the Croatian National Bank.

The Management Board has rights, duties and obligations prescribed by the Companies Act, the Credit Institutions Act and the Articles of Association of the Bank. The Management Board manages the operations of the Bank and its assets and it has the responsibility and the powers to take all the actions and make all the decisions necessary for successful management of the operations of the Bank and its performance.

The members of the Management Board in office from 1 January 2020 to the date of issuance of these financial statements, are as follows:

Hasan Ecesoy	President of the Management Board (appointed from 17 July 2020)
Murat Betoner	President of the Management Board (end of appointment 30 April 2020)
Fikret Kartal	Management Board Member (end of appointment 17 July 2020)
Damir Brkić	Management Board Member
Aleksandra Cvetković	Management Board Member (appointed from 3 February 2021)

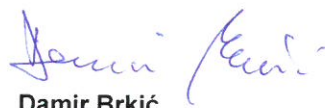
The Management Board, together with the Bank's team, will continuously work on improving the management system of the business processes, the risk management system, the expansion of the product range and the branch network, increasing the Bank's market share and enhancing the overall stability and reputation of the Bank.

For and on behalf of KentBank d.d.



Hasan Ecesoy

President of the Management Board



Damir Brkić

Member of the Management Board



Aleksandra Cvetković

Member of the Management Board

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

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

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

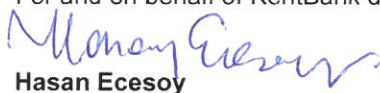
The Management Board is responsible for the submission to the Supervisory Board of its annual report on the Bank together with the annual financial statements for acceptance. If the Supervisory Board approves the annual financial statements, they are deemed confirmed by the Management Board and Supervisory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

The Management Board is also responsible for the preparation and content of the management report in accordance with the Croatian Accounting Act.

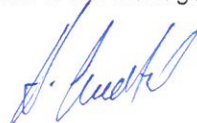
The Management Board is also responsible for the preparation and fair presentation of the supplementary information prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 26 April 2018 (Official Gazette 42/18).

The financial statements set out on pages 17 to 89 as well as the schedules prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of Banks, dated 26 April 2018 (Official Gazette 42/18) presented on pages 90-95 with the reconciliation to statutory financial statements presented on pages 96 to 100 were authorized by the Management Board on 25 March 2021 for issue to the Supervisory Board and are signed below to signify this.

For and on behalf of KentBank d.d.

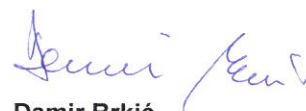

Hasan Ecesoy

President of the Management Board



Aleksandra Cvetković

Member of the Management Board



Damir Brkić

Member of the Management Board

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of KentBank d.d.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of KentBank d.d. (the Bank), which comprise the statement of financial position as at 31 December 2020, income statement and the statement of other comprehensive income, statement of changes in shareholders' equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for banks in Republic of Croatia.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants, including International Independence Standards (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.



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Impairment allowances of Loans to and receivables from customers

Impairment allowances on Loans to and receivables from customers represent management's best estimate of the expected credit losses within the loan portfolios at the reporting date.

This area is determined to be a key audit matter as the determination of the appropriate amount of impairment losses requires the application of significant judgement and use of subjective and complex assumptions by management.

Those assumptions are especially seen in the area of individual significant exposures (those in excess of HRK 500 thousand, individually at a borrower level) and individually non-significant exposures secured by hard collateral (as defined by the Central National Bank ("the CNB")), where expected credit loss is determined on an individual basis by means of a discounted cash flow analysis.

Furthermore, allocation of loan exposures in a proper stage in accordance with *International financial reporting standards 9: Financial instruments* ("IFRS 9") depends on Bank's judgment and assumptions on proper selection of triggers for identification of significant increase in credit risk of customers.

Additionally, COVID-19 pandemic also affected the estimate due to given moratoriums and lower availability of financial information on performance of Debtors in current year. Uncertainty around those factors along with uncertain economic outlook resulted in more complex assessment of this effect onto expected credit loss model.

Accounting policies for impairment allowances of loans to and receivables from customers are disclosed in Note 3.g) Impairment of financial assets.

Our work covered impairment of both Retail receivables and Receivables from corporate counterparties. We assessed the design and tested the operating effectiveness of the controls over impairment calculations, including the quality of underlying data and systems.

With the assistance of a specialist, we assessed the methodology developed to calculate loan loss provision under IFRS 9, concentrating on such aspects as factors for determining a "significant increase in credit risk", allocating loans to stages, appropriateness of models used for calculation of Stage 1 (A1) and Stage 2 (A2) allowances and estimation of key provisioning parameters. We evaluated matrices used in the calculation of probability of default ("PD") and loss given default ("LGD") with a focus on mathematical accuracy. Additionally, with respect to models, we understood and assessed how the current macroeconomic expectations are incorporated in the model as part of forward- looking information.

We examined a sample of exposures and performed procedures to evaluate the adequacy and application of significant parameters for significant increase in credit risk, the possibility for the Bank to use alternative triggers based on availability of historical information, timely identification of exposures with a significant deterioration in credit quality and the classification of instruments in stages according to IFRS 9 (recalculate the creditworthiness of clients, review input parameters such as probability of default, days past due, watch list, restructurings, moratoriums).

Our audit procedures for individually significant exposures included testing of adequacy of staging on a sample of loans and receivables, focusing on those with largest amounts and high-risk, such as watch-listed, restructured or rescheduled exposures, non-performing loans with lower provision coverage or those affected by COVID-19 pandemic as evidenced by taking up moratoriums or exhibiting significant decline in activities.

For impairment allowances in a selected sample of non-performing loans, we assessed the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral, estimates of recovery on default and assessing whether the specific CNB provisioning requirements were complied with. This also included taking into consideration the impact of forbearance.

We also assessed whether the financial statement disclosures appropriately reflect the Bank's exposure to credit risk and are compliant with the statutory accounting requirements for banks in Republic of Croatia. Refer to Note 3.g) Impairment of financial assets, Note 29 Credit portfolio quality and Note 33 Risk and capital management for further details.



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Other information included in the Bank's Annual Report for year 2020

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

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

With respect to the Management Report we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report includes the disclosures required by Article 21 of the Accounting Act.

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

1. the information given in the enclosed Management report for the 2020 financial year are consistent, in all material respects, with the enclosed financial statements;
2. the enclosed Management report for 2020 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

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

Responsibilities of management and Audit Committee for the financial statements

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

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

Audit Committee is 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Auditor's responsibilities for the audit of the financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Bank on 29 March 2017. Our appointment has been renewed annually by shareholder resolution, with the most recent reappointment on 18 March 2020, representing a total period of uninterrupted engagement appointment of 4 years.



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Report on Other Legal and Regulatory Requirements (continued)

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on 24 March 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

Report on Regulatory requirements

In accordance with the Bylaw on the structure and content of the annual financial statements of credit institutions (National Gazette no 42/18) (hereinafter "the Bylaw") the Bank's management has prepared forms which are presented on pages 90 to 95, and which contain a statement of financial position as at 31 December 2020, income statement, statement on other comprehensive income, statement of changes in shareholders' equity and cash flow statement for the year then ended together with reconciliation with the financial statements of the Bank ("financial information"). This financial information is the responsibility of the Bank's management and is, pursuant to statutory accounting regulation as applicable to banks in Croatia, not a required part of the financial statements, but is required by the Bylaw.

Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited financial statements of the Bank which were prepared in accordance with statutory accounting regulation as applicable for banks in Croatia as presented on pages 17 to 89 and are based on underlying accounting records of the Bank.

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

Zvonimir Madunić

Certified auditor and Board member

Ernst & Young d.o.o.

Radnička cesta 50, Zagreb

26 March 2021

Statement of financial position

As at 31 December 2020

	Notes	31 December 2020	31 December 2019
		HRK 000	HRK 000
ASSETS			
Cash and current accounts with banks	12	668,517	321,679
Obligatory reserve with the Croatian National Bank	14	116,740	144,228
Financial assets at fair value through other comprehensive income	15a)	465,686	449,201
Financial investments at amortized cost	15b)	56,878	46,522
Loans to and receivables from customers	17a)	1,544,834	1,449,256
Placements with other banks	16	2,789	2,754
Property, plant and equipment	18a)	37,800	38,925
Right-of-use asset	18b)	8,251	9,934
Intangible assets	18c)	8,981	7,507
Foreclosed assets	19	789	809
Tax prepayment		819	-
Other assets	20	4,194	17,484
TOTAL ASSETS		2,916,278	2,488,299
LIABILITIES			
Current accounts and deposits from banks and financial institutions	21a)	163,504	157,109
Current accounts and deposits from customers	21b)	2,070,687	1,874,619
Interest-bearing borrowings	21c)	328,449	109,982
Provisions for liabilities and charges	23	2,477	1,657
Deferred tax liability		2,086	2,740
Income tax liability	11	-	1,782
Other liabilities	24	40,048	34,759
Subordinated liabilities	22	-	37,306
Total liabilities		2,607,251	2,219,954
EQUITY			
Ordinary share capital	25,25a)	315,392	278,012
Legal reserves	25,25b)	2,453	2,137
Accumulated losses	25	(19,768)	(25,662)
Fair value reserve	25,25c)	10,950	13,858
Total equity		309,027	268,345
TOTAL LIABILITIES AND EQUITY		2,916,278	2,488,299

The accompanying notes on pages 22 to 89 form an integral part of these financial statements.

Statement of changes in shareholders' equity

As at 31 December 2020

<i>HRK 000</i>	Ordinary share capital (Note 25a)	Legal reserves (Note 25b)	Accumulated losses (Note 25)	Fair value reserve (Note 25c)	Total
Balance at 1 January 2019	278,012	2,137	(43,612)	(2,459)	234,078
Change in fair value of financial assets at fair value through other comprehensive income, net of amounts realized	-	-	-	16,318	16,318
Total other comprehensive income/(loss)	-	-	-	16,318	16,318
Profit for the year	-	-	17,950	-	17,950
Total comprehensive income / (loss)	-	-	17,950	16,318	34,268
Transactions with owners recognized directly in equity:					
Balance at 31 December 2019	278,012	2,137	(25,662)	13,858	268,345
Balance at 1 January 2020	278,012	2,137	(25,662)	13,859	268,346
Change in fair value of financial assets at fair value through other comprehensive income, net of amounts realised and deferred tax	-	-	-	(2,909)	(2,909)
Total other comprehensive income/(loss)	-	-	-	(2,909)	(2,909)
Profit for the year	-	-	5,894	-	5,894
Total comprehensive income / (loss)	-	-	5,894	(2,909)	2,985
Transactions with owners recognized directly in equity:					
Conversion of subordinated loan into share capital	37,380	316	-	-	37,696
Balance at 31 December 2020	315,392	2,453	(19,768)	10,950	309,027

The accompanying notes on pages 22 to 89 form an integral part of these financial statements.

Income statement

For the year ended 31 December 2020

	Notes	2020 HRK 000	2019 HRK 000
Interest and similar income	5	86,423	93,460
Interest expense and similar charges	6	(11,304)	(15,529)
Net interest income		75,119	77,931
Fee and commission income	8a)	15,404	16,337
Fee and commission expense	8b)	(3,537)	(4,245)
Net fee and commission income		11,867	12,092
Net realized gains from financial assets at fair value through other comprehensive income	9a)	3,976	6,886
Net realized gains from financial investments at amortized cost	9b)	-	5,071
Net gains from translation of monetary assets and liabilities and foreign exchange spot trading	9c)	11,681	7,347
Other income	9d)	984	473
		16,641	19,777
Total income		103,627	109,800
Depreciation and amortization	18a); 18b)	(8,924)	(7,724)
Staff costs	10a)	(42,508)	(41,685)
Other administrative expenses	10b)	(21,202)	(22,143)
Total general and administrative expenses		(72,634)	(71,552)
Impairment losses and provisions	7	(23,881)	(18,242)
PROFIT BEFORE TAX		7,112	20,006
Income tax expense	11	(1,218)	(2,056)
PROFIT FOR THE YEAR		5,894	17,950

The accompanying notes on pages 22 to 89 form an integral part of these financial statements.

Statement of other comprehensive income
For the year ended 31 December 2020

	2020 <i>HRK 000</i>	2019 <i>HRK 000</i>
PROFIT / (LOSS) FOR THE YEAR	5,894	17,950
Other comprehensive income, net of income tax		
Change in fair value of financial assets at fair value through other comprehensive income, net of amounts realized and deferred tax	(2.908)	16,318
Other comprehensive income for the year	<u>(2.908)</u>	<u>16,318</u>
TOTAL COMPREHENSIVE INCOME	<u>2.986</u>	<u>34,268</u>

The accompanying notes on pages 22 to 89 form an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2020

	Note	2020 HRK 000	2019 HRK 000
<u>Cash flow from operating activities</u>			
Profit / (loss) for the year		5,894	17,951
Depreciation and amortization	18a),18b),18c)	8,924	7,724
Impairment losses and provisions	7	23,881	18,242
Other changes		340	1,235
<i>Changes in operating assets and liabilities</i>			
Decrease or increase in obligatory reserve and compulsory treasury bills with Croatian National Bank		27,488	(10,257)
Increase in placements with other banks with maturity over three months		(35)	(9)
Increase in loans to and receivables from customers		(116,726)	(47,794)
Decrease or increase in other assets		10,999	(14,169)
Increase in deposits from banks and financial institutions		6,395	67,982
Increase in current accounts and deposits from customers		196,068	48,786
Increase in other liabilities and provisions		5,596	12,162
Net cash from operating activities		168,824	101,853
<u>Cash flow from investment activities</u>			
Payments for purchases of financial investments at amortized cost		(11,904)	(842,605)
Proceeds from redemption of financial investments at amortized cost		-	877,924
Payments for purchases of financial assets at fair value through other comprehensive income		(268,936)	(286,681)
Proceeds from sale and redemption of financial assets at fair value through other comprehensive income		249,460	267,529
Payments for purchase of property, plant and equipment and intangible assets		(7,929)	(21,800)
Receipts from sale of property, plant and equipment		255	623
Net cash from investment activities		(39,054)	(5,010)
<u>Cash flow from financing activities</u>			
Receipts from interest-bearing borrowings	21d)	376,081	1,101,512
Repayments of interest-bearing borrowings	21d)	(157,614)	(1,210,574)
Payments for the principal portion of the lease liability	21d)	(1,789)	126
Receipts from subordinated liabilities		-	10,033
Other		390	-
Net cash from financing activities		217,068	(98,903)
Net (decrease) / increase of cash and cash equivalents		346,838	(2,059)
Cash and cash equivalents as at 1 January		321,679	323,738
Cash and cash equivalents as at 31 December	13	668,517	321,679
<u>Operational cash flows from interest</u>			
<i>Interest paid</i>		85,535	12,368
<i>Interest received</i>		9,287	91,583

The accompanying notes on pages 22 to 89 form an integral part of these financial statements.

Notes to the financial statements

1. General information

KentBank d.d. (hereinafter: the Bank), with its headquarters in Zagreb, Gundulićeva 1, was established in the Republic of Croatia and provides commercial banking services. The Bank is entered in the register of the Commercial Court in Zagreb. The Bank's parent company is SUZER HOLDING Anonim Sirketi and the majority stockholder is Mr. Mustafa Suzer.

2. Basis for preparation of the financial statements

a) Statement of Compliance

The Bank's operations are subject to the Credit Institutions Act. The Croatian National Bank ("the CNB") is the central regulatory institution of the banking system in Croatia, which also prescribes accounting banking regulations. In accordance with CNB regulations the financial statements of banks and other credit institutions are prepared in accordance with statutory accounting regulations for banks in the Republic of Croatia. These financial statements are prepared in line with the above-mentioned banking regulations. Where accounting policies of the Bank are aligned with International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU"), reference may be made to certain standards, in force as at 31 December 2020.

These financial statements are a translation based on separately issued statutory financial statements in Croatian.

The accounting regulations of the CNB differ from the IFRS as adopted by the EU especially with regards to measurement and recognition. The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of IFRS as adopted by the EU are as follows:

- In accordance with the CNB Decision on the Classification of Exposure to Risk Groups and the Method of Determining Credit Loss from January 2020 banks are no longer obliged to recognise provision on all performing exposures carried at amortised cost and off- balance sheet exposures at least at the minimum of 0.8%.
- In line with the above-mentioned requirements, in 2020 the Bank reversed provisions in the amount of HRK 4,239 thousand (Note 17c), and recognized an income in the profit and loss account.
- Additionally, the CNB prescribes minimum levels of impairment allowance against certain specifically identified impaired exposures, irrespective of the net present value of expected future cash flows, which may be different from the impairment allowance required to be recognized in accordance with IFRS 9.
- In accordance with local regulations, interest income on impaired exposures is recognized on a cash basis, as opposed to IFRS 9, which prescribes recognition of interest income on impaired exposures through unwinding of the discount.

Notes to the financial statements (continued)

2. Basis for preparation of the financial statements (continued)

a) Statement of Compliance (continued)

- In accordance with local regulations, the Bank recognizes provisions for court cases incorporating the likelihood of the loss into measurement of the provision (i.e. if the likelihood of the loss is estimated to be 10%, the provision will be calculated as 10% of the potential loss), which is contrary to IFRS, which prescribes recognition of the full amount of potential loss, once it is probable that the court case will be lost.

In these financial statements, 31 December 2020 closing balances are fully aligned with the IFRS EU.

Standards, interpretations and amendments to published standards that are not yet effective

IFRS 17 : Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In its March 2020 meeting the Board decided to defer the effective date to 2023. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU. Management has assessed that application of this standard will not have impact on the financial statements.

IFRS 17: Insurance Contracts (Amendments), IFRS 4: Insurance Contracts (Amendments)

The amendments to IFRS 17 are effective, retrospectively, for annual periods beginning on or after January 1, 2023, with earlier application permitted. The amendments aim at helping companies implement the Standard. In particular, the amendments are designed to reduce costs by simplifying some requirements in the Standard, make financial performance easier to explain and ease transition by deferring the effective date of the Standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time. The amendments to IFRS 4 change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023. The Amendments to IFRS 17 have not yet been endorsed by the EU. Management has assessed that application of this standard will not have impact on the financial statements.

Notes to the financial statements (continued)

2. Basis for preparation of the financial statements (continued)

Standards, interpretations and amendments to published standards that are not yet effective (continued)

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

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

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. Management has assessed that application of this standard will not have impact on the financial statements.

IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

Notes to the financial statements (continued)

2. Basis for preparation of the financial statements (continued)

Standards, interpretations and amendments to published standards that are not yet effective (continued)

- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

The amendments have not yet been endorsed by the EU. Management has assessed that application of this standard will not have impact on the financial statements.

IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. Management has assessed that application of this standard will not have impact on the financial statements.

Notes to the financial statements (continued)

2. Basis for preparation of the financial statements (continued)

Standards, interpretations and amendments to published standards that are effective as of January 1, 2020

Conceptual Framework in IFRS standards

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

IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. Management has assessed that application of this standard will not have impact on the financial statements.

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

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. Management has assessed that application of this standard will not have impact on the financial statements.

Notes to the financial statements (continued)

2. Basis for preparation of the financial statements (continued)

Standards, interpretations and amendments to published standards that are effective as of January 1, 2020 (continued)

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

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provide temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). Management has assessed that application of this standard will not have impact on the financial statements.

b) Basis of measurement

These financial statements are prepared on an amortized or historical cost basis except for financial assets recognized on the fair value through other comprehensive income.

The financial statements have been prepared in a format generally adopted and internationally recognized by banks.

c) Judgments and estimates

In preparing the financial statements, the Management Board has made judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, disclosure of commitments and contingencies 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 results of which form the basis of making the judgments 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 recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments of management in the implementation of standards which have a risk of significant adjustment in the following year are described in Note 4.

Notes to the financial statements (continued)

2. Basis for preparation of the financial statements (continued)

Pandemic COVID-19

The operations of the Bank in 2020 were running at unfavorable conditions given the negative trends in the business environment caused by the global pandemic COVID-19. Negative trends caused by the Covid-19 pandemic affected the bank's operations and results. The Bank adjusted its operations in accordance with the adopted instructions, taking all necessary activities and measures.

In response to the crisis caused by the COVID-19 pandemic, the Bank has taken all necessary steps to manage credit risk by complying with all regulatory regulations in order to maintain the quality of the loan portfolio.

Taking into account the consequences of the COVID-19 pandemic on the economy, on 30 September 2020 the Bank updated the Methodology for calculating value adjustments and provisions when determining credit losses, within which the PD model was updated by applying a new macroeconomic scenario due to the COVID-19 pandemic, and greater emphasis was placed on the negative macroeconomic scenario.

Macroeconomics scenario	Before COVID-19	31.12.2020
Fundamental	80%	70%
Optimistic	10%	10%
Pesimistic	10%	20%

Based on the above and with the use of negative z-shift within the PD model, the amount of general provisions in the portfolio measured at amortized cost was increased, and at the end of 2020 accounted for 0.96% of coverage (2019: 0.86%). In addition to total general provisions, the share of stage 2 loans in the Bank's total portfolio increased by 5.65 bp in comparison with 2019.

ATR portfolio	31.12.2019		31.12.2020	
	Share	Impairment coverage	Share	Impairment coverage
Stage1	91,97%	0,72%*	87,34%	0,58%
Stage2	1,03%	13,60%	6,68%	5,89%
Stage3	7,00%	79,75%	5,98%	84,33%

*Excluding impact of minimum provision under the CNB rulebook valid in 2019 percentage would be 0,62%

In 2020 the Bank adopted a package of customer support measures to support each client who was contacted Bank for a help and whose business is affected by the COVID-19. In total, as at 31st December 2020 the Bank has approved 363 client requests for moratorium, for 439 loans with a total exposure of 422 million HRK.

The Bank will continue to support each client, and actively monitor and take all necessary actions to identify in a timely manner all possible risks arising from the unfortunately still active pandemic.

Notes to the financial statements (continued)

Analyzing the available public data published by the CNB in the publication Financial Stability (No. 21, 08/2020), the three key activities most affected by the COVID-19 pandemic were identified. Identified critical industries are tourism (accommodation services), catering and transport. Based on the new application in the A2 group is on 30.09.2020. completed 72 placements of total exposure per equity of 163 mHRK with the amount of value adjustments per equity of 7.6 mHRK.

2. Basis for preparation of the financial statements (continued)

d) Functional and reporting currency

Financial statements are prepared in kuna which is the official currency of the environment in which the Bank operates (functional currency), and the amounts are presented in HRK, rounded to the nearest thousand.

Notes to the financial statements (continued)

3. Accounting policies

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

a) Interest income and expense

Interest income and expenses are recognized in the income statement for all interest-bearing instruments using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank does not consider future credit losses. The calculation includes all fees and percentage points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

b) Fee and commission income and expense

Fee and commission income and expense are recognized in the income statement when the related service is provided. Fee and commission income and expense mainly comprise fees receivable for guarantees and letters of credit issued by the Bank on behalf of customers, and fees for domestic and foreign payment transactions.

c) Defined contribution pension plans

The Bank pays contributions to obligatory pension funds on a mandatory contractual basis calculated as percentage of gross salaries. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as staff costs in profit or loss as they accrue.

d) Short term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability for bonus is recognized in the amount expected to be paid under short-term cash bonuses based on the Company's formal plan and when past practice has created a valid expectation by management/key employees that they will receive a bonus as a result of past service provided by the employee and the obligation can be estimated reliably.

The Bank also recognized a liability for other employees' benefits in the amount expected to be paid under jubilee awards based on the management decision.

e) Foreign currencies

Transactions in foreign currencies are translated into Croatian Kuna ("HRK") at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are re-measured at each reporting date at the official mid spot foreign exchange rate of the Croatian National Bank ruling on the reporting date or at the Bank's selling rate if the placement is contracted accordingly.

Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates ruling at the dates when the fair values were determined.

Notes to the financial statements (continued)

3. Accounting policies (continued)

e) Foreign currencies (continued)

Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not retranslated. Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of at fair value through other comprehensive income equity instruments, which are recognized in other comprehensive income (refer below).

Changes in the fair value of monetary (debt) securities denominated in or linked to foreign currency classified as asset recognized through fair value in other comprehensive income are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences are recognized in income as a part of the foreign exchange gains or losses on the revaluation of monetary assets and liabilities presented within financial income or financial expense in the profit or loss. Other changes in the carrying amounts are recognized in other comprehensive income. The translation differences on revaluation of non-monetary financial assets denominated in or linked to foreign currency are classified as asset recognized in other comprehensive income, along with other changes in their fair value.

Official mid spot exchange rates effective as at 31 December 2020 were:

7.536898= 1 EUR;

6.139039 = 1 USD;

6.948371 = 1 CHF.

Official mid spot exchange rates effective as at 31 December 2019 were:

7.44258= 1 EUR;

6.649911 = 1 USD;

6.838721 = 1 CHF.

f) Financial instruments

Classification

Financial assets can be classified in the first two categories and valued at amortized cost or fair value through other comprehensive income only if it is proved that it leads to cash flows that are solely principal and interest payments (SPPI test - "solely payment of principal and interest").

In order to comply with IFRS 9, the methods of implementing the test of contractual cash flow test (SPPI Test) have been defined and business models have been adopted.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money to a debtor with no intention of trading with the receivable and include placements with, and loans to, other banks and loans to and receivables from customers and various other receivables.

Financial investments based on amortized costs

Financial investments based on amortized costs are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. These include debt securities.

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Financial instruments (continued)

Financial assets recognized at fair value through other comprehensive income

Financial assets recognized at fair value through other comprehensive income are those non-derivative financial assets that are classified in those category or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit and loss.

Financial assets recognized at fair value through other comprehensive income intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates, or equity prices.

Financial assets recognized at fair value through other comprehensive income comprise various debt securities.

Other financial liabilities

Other financial liabilities comprise all financial liabilities which are not designated at fair value through profit or loss. Other financial liabilities include current accounts and deposits from financial institutions and customers and various payables.

Recognition and derecognition

Loans and receivables and other financial liabilities are recognized when cash is advanced to borrowers or received from lenders. Regular way purchases of financial assets recognized at fair value through other comprehensive income and financial assets recognized at amortized costs are recognized on the settlement date.

The Bank derecognizes financial assets (in full or in part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights on those financial assets. It occurs when the Bank transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realized, surrendered or have expired. The Bank derecognizes financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change significantly, the Bank will cease recognizing that liability and will instantaneously recognize a new financial liability, with new terms and conditions.

Initial and subsequent measurement

Financial assets and liabilities are recognized initially at their fair value plus, except from the financial assets at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank measures financial assets valued at fair value through other comprehensive income at their fair value. Equity instruments classified as valued at fair value through other comprehensive income, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any impairment. Loans and receivables and held-to-maturity financial investments are measured at amortized cost, decreased if appropriate, for any impairment. Other financial liabilities are measured at amortized cost.

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Financial instruments (continued)

Gains and losses

Gains and losses from a change in the fair value of monetary assets recognized at fair value through other comprehensive income are recognized directly in a fair value reserve within equity and are disclosed in the statement of changes in equity and reserves.

Impairment losses, foreign exchange gains and losses, interest income, amortization of premium or discount on an effective-interest-rate basis on monetary assets are recognised in the income statement.

Foreign exchange differences on non-monetary equity instruments classified as assets valued at fair value through other comprehensive income are recognised in other comprehensive income.

Dividend income is recognized in the income statement when the right to receive has been established. Upon sale or other derecognition of assets valued at fair value through other comprehensive income, any cumulative gains or losses on the instrument are transferred to the income statement. Gains or losses arising from financial assets and financial liabilities carried at amortised cost may also arise, and are included in the income statement when a financial instrument is derecognised or when its value (in the case of assets) is impaired.

Determination of fair value of financial instruments

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

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The Bank recognises the transfer between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Notes to the financial statements (continued)

3. Accounting policies (continued)

f) Financial instruments (continued)

Offsetting of financial instruments

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

g) Impairment of financial assets

IFRS 9 impact

Effective January 1, 2018, in respect of impairment, for the instruments valued at amortized costs and at fair value through other comprehensive income, the Bank is using a model based on the concept of expected losses instead of so far used „loss incurred“, with an aim of faster loss recognition.

IFRS 9 requires companies to enter the expected losses at the level of losses expected in the next 12 months (stage 1) from the initial entry of the financial instrument. The time horizon for calculating the expected loss becomes the entire remaining life of the asset that is the subject of the valuation where the credit quality of the financial instrument has experienced a “significant” credit risk deterioration in relation to the initial measurement (stage 2) or in case the asset is partially or fully non-performing (Stage 3).

For the calculation of impairment, the Bank has been aligned with Decision on the classification of the exposures into risky groups and the manner on determining credit losses. Based on the CNB Decision, The Bank adopted the Rulebook on the classification of the exposure of the Bank into risk categories defining the rules for assessing the deterioration of credit risk and for determining 12-month and lifetime expected credit losses, factoring in macroeconomic projections reflecting the credit cycle (such as GDP growth rate, unemployment, inflation etc). New models had been developed and Bank decided to build models based on migration matrices per days-past due buckets.

In addition, staging for all segments is based on deterioration of credit rating since origination and observed days past due of credit exposures.

Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has direct impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- i. significant financial difficulty of the borrower;
- ii. a breach of contract, such as a default or delinquency in interest or principal payments;
- iii. the Bank granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that it would not otherwise consider;
- iv. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- v. the disappearance of an active market for the financial asset because of financial difficulties;
- vi. measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets

Notes to the financial statements (continued)

3. Accounting policies (continued)

g) Impairment of financial assets (continued)

If there is objective evidence that an impairment loss on loans and receivables or hold-to-collect assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate or in accordance with the percentage prescribed by the CNB in certain eligible circumstances. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

As described in Note 4, portfolio-based provisions are calculated in accordance with the provisions of the Decision on the classification of the exposures into risk categories and the method of determining credit losses (Official Gazette 110/2018) and IFRS 9 standard (see also Note 4).

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

When a loan is uncollectible, it is written off against the related impairment allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as reversals of impairment losses in the income statement.

When possible, the Bank implements loan restructuring rather than initiate enforcement action. This may include the extension of repayment period and other changes in credit conditions. After changing conditions, any further impairment calculation is made with the original effective interest rate applicable prior to changing conditions. The management continuously monitors restructured loans with regards to the fulfillment of the new conditions and security of future payments. These loans are subject to further regular testing of impairment on an individual or group basis (if they are not individually assessed as impaired or if they belong to the portfolio of collectively provisioned loans) using the original effective interest rate.

Financial assets carried at fair value through other comprehensive income

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for financial assets carried at fair value through other comprehensive income, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from other comprehensive income and reserves and is recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as financial assets carried at fair value through other comprehensive income increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through income statement. Impairment losses on equity instruments carried at fair value through other comprehensive income are not reversed through income statement until the final derecognition of the asset.

Notes to the financial statements (continued)

3. Accounting policies (continued)

h) Specific financial instruments

Treasury bills and debt securities

Short-term treasury bills are classified as financial assets carried at fair value through other comprehensive income. Debt securities that the Bank has the intent and ability to hold to maturity are classified as financial investments carried at amortised cost. Other debt securities are classified as financial assets carried at fair value through other comprehensive income.

Placements with other banks

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

Loans to customers

Loans and advances are presented net of impairment allowances to reflect the estimated recoverable amounts.

Current accounts and deposits from banks and customers

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

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

i) Property and equipment

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

Items of property and equipment are shown at cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The Bank capitalise the cost of replacing part of such an item when it is probable that future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other expenditures on repairs and maintenance are expensed as incurred.

Depreciation is calculated on a straight-line basis to write down the cost of such assets to their residual values over their estimated useful life. Land and assets under construction are not depreciated. The estimated useful lives are as follows:

	2020 Years	2019 years
Buildings	10-50	10-50
Electronic equipment and computers	4-5	4-5
Other equipment	2-10	2-10
Furniture and vehicles	4-5	4-5

Notes to the financial statements (continued)

3. Accounting policies (continued)

i) Property and equipment (continued)

The residual value of assets, depreciation method and useful lives are reviewed and adjusted, if necessary, at each reporting date. The net carrying value of an asset is immediately impaired to the recoverable amount if the carrying value of the asset is higher than the estimated recoverable amount. Gains and losses from sale are measured as the difference between the collected amount and the net carrying value, and recognised in the income statement.

From 2014, the Bank applies component approach for newly acquired buildings.

j) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is provided on a straight-line basis to write down the cost of assets to their residual values over their estimated useful life.

The estimated useful lives are as follows:

	2020 Years	2019 years
Software	5	5
Leasehold improvements	up to 5	up to 5

Leasehold improvements are amortised over the shorter of the life of the lease or 5 years. Costs incurred in order to enhance or extend the benefits of computer software programmes beyond their original specifications and lives which can be measured reliably are capitalised to the original cost of the software. All other maintenance is expensed as incurred.

k) Impairment of non-financial assets

The recoverable amount of non-financial assets, other than deferred tax assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest groups of assets that generate separately identifiable cash inflows (cash-generating units).

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

l) Foreclosed assets

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

m) Leases

IFRS 16 applies a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Notes to the financial statements (continued)

3. Accounting policies (continued)

m) Leases (continued)

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Leasehold 5 to 10 years
- Motor vehicles and other equipment 2 to 5 years

The right-of-use assets are presented within Note 18b.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate.

n) Provisions for liabilities and charges

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

o) Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded in off-balance sheet accounts, such as guarantees, commitments to extend credit and letters of credit and undrawn loan commitments. These financial instruments are recorded in the balance sheet if and when they become payable.

Notes to the financial statements (continued)

3. Accounting policies (continued)

p) Income tax

The income tax charge is based on taxable profit 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 other comprehensive income/equity, in which case it is recognised in other comprehensive income/equity. 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 taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the period in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the reporting date.

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

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Bank reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

r) Ordinary share capital and reserves

Ordinary share capital is denominated in HRK at its nominal value. The amounts paid for repurchase of ordinary share capital, including direct costs, are recognised as a decrease in equity and classified as preference shares.

s) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, current accounts with banks and amounts due from banks on demand or with an original maturity of three months or less.

t) Treasury shares

Acquisition of treasury shares is conducted in cases envisaged by the Companies Act, in order to eliminate contingent losses. Redeemed treasury shares are recognised at acquisition cost. Any positive difference created by the sale of treasury shares at a price higher than the acquisition cost is recognised as a capital gain, and any negative difference generated below the cost of acquisition is recognised as a capital loss.

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments

Accounting estimates and judgments

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

Classification of exposures in risk categories and determination of impairment losses

Subject to classification are:

- the criteria for the classification of exposures into risk categories,
- the method of determining credit losses arising from credit risk,
- the method for making balance sheet items' impairment and provisions for off-balance sheet items
- the definitions of eligible instruments of collateral for exposures for the purposes of determining the expected future cash flows.

The Bank shall classify portfolio in risk categories according to the credit risk in accordance with IFRS 9 for the following types of instruments:

- Financial assets carried at amortized costs and
- Financial assets carried at fair value through other comprehensive income except for equity instruments

Throughout the whole contract period the Bank observes and estimates customers' creditworthiness and classifies it into risk categories based on all three indicators:

- i. Customer's creditworthiness;
- ii. Customer's ability to meet the obligations towards the Bank;
- iii. Collaterals quality per each exposure.

The Bank's small loan portfolio comprises the total exposure to one person or group of related persons whose balance in the gross amount on the valuation date is less than 500,000 kuna. Notwithstanding the exposure level, the Bank shall, as a matter of particular importance, observe all exposures approved with the appropriate collaterals.

These placements have the same or similar characteristics in terms of purpose, interest rate and collaterals and are allocated to risk categories only on the basis of the customers' ability to meet the obligations towards the Bank (in accordance with criterion 2).

Guiding with Decision on the classification of the exposures into risk categories and the method of determining credit losses (Official Gazette 110/2018) the Bank will assess credit risk or recovery of placements on a small loan portfolio basis and act in accordance with the criteria of days-past due buckets applicable to partially recoverable placements on an individual basis.

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments (continued)

Classification of exposures in risk categories and determination of impairment losses (continued)

RISK GROUP	IMPAIRMENT	NUMBER OF DAYS
B 1	10%	91-120
B 1	20%	121-180
B 2	30%	181-210
B 2	40%	211-230
B 2	50%	231-250
B 2	60%	251-270
B 3	70%	271-300
B 3	80%	301-330
B 3	90%	331-365
C	100%	More than 365

Risk categories "A-1" and "A-2"

Classification for risk category A is only for those customers who are not in the status of default. The Bank portfolio is classified in following risk subcategories:

- i. A-1 if after the initial recognition of customers' exposure credit risk has not increased considerably;
- ii. A-2 if after the initial recognition of customers' exposure credit risk has increased considerably.
The Bank portfolio is segmented in two groups, one is retail and other is SME&Corporate. The Bank has taken the orderliness of the debtor in settling due obligations as a mandatory indicator; if the debtor is late for paying its due exposures to the Bank for longer than 30 days, but still within the deadlines not exceeding 90 days, the Bank shall classify it to the risk subcategory A -2. Additional indicators are used for the requirements of determining the increased credit risk:
 - a. For SME/Corporate portfolio:
 - i. Negative opinion of the Credit Analysis Unit
 - ii. Decrease in the credit rating in accordance with the Rulebook on clients' ranking (from A to B)
 - iii. Loss from the regular operations
 - iv. Negative EBIDTA
 - v. Decrease in EBITDA for more than 50% in relation to the same period of the previous year
 - vi. Debtor is listed on the list of employers who do not disburse the contributions
 - b. For retail portfolio:
 - i. Negative opinion of the Credit Analysis Unit
 - ii. Debtor has deceased
 - iii. Debtor has opened a special protected account
 - iv. Debtor's current account is in the blockage
 - v. Employer where the debtor works is in the blockage
 - vi. Employer where the debtor works is on the list of employers who do not disburse contributions

For calculation of PD Bank uses available historical data and calculate it through transition matrix. The Bank uses macro variables with three scenarios for purpose of calculation of forward looking element. Bearing in mind the complexity of the IFRS 9 standard in terms of LGD model development on the one hand, as well as the size of the Bank, the relatively simple portfolio structure and a small number of data on the other hand, the Bank decided to use the LGD parameters defined by the Basel Framework. In accordance with its estimate of LGD parameters, the Bank will, if necessary, add a conservative factor of 5 pp. The Bank also use other criteria for classification (financial indicators and other information available for the respective client).

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments (continued)

Classification of exposures in risk categories and determination of impairment losses (continued)

The Bank is obliged to, in accordance with IFRS 9, recognize expected losses and portfolio impairment in the same amount:

- i. expected credit losses in the 12-month period for risk subcategory A-1;
- ii. expected credit losses through entire life of the asset for risk subcategory A-2.

The total impairment of exposures classified in risk subcategories A-1 and A-2 in the period up to 31 December 2019 may not be less than 0.8% of the gross book value of exposure in those risk subcategories proscribed by the Decision on the classification of the exposures into risk categories and the method of determining credit losses (Official Gazette 110/2018), except for financial assets measured at fair value through other comprehensive income.

Risk categories „B“ and „C“

Exposure to the customers classified as in default are classified in risk subcategory B-1 or worse and appropriate impairment is recognized. Impairment according to the risk subcategory B-1 must be at least 2%.

Exceptionally, the Bank may estimate that impairment of exposure to a customer in the status of default in risk subgroup B-1 is less than 2%, but the Bank shall take into account the likelihood or probability of credit loss in a way that reflects the probability of the credit loss and likelihood of a lack of credit loss, even if the likelihood of credit loss is very small.

At the year end, the ratio of impairment allowance in the total gross value of impaired loans was as follows:

	2020				2019			
	HRK 000				HRK 000			
	Corporate	Retail	Other	Total	Corporate	Retail	Other	Total
Gross value of impaired loans	59,942	70,028	3,400	133,370	65,890	62,617	4,469	132,976
Impairment rate	79%	85%	85%	83%	65%	88%	77%	77%

Assuming that the portfolio remains at the same level, each additional increase of one percentage point in the impairment rate on the gross impaired portfolio at 31 December 2020 would cause an additional impairment loss in the amount of HRK 399 thousand (in 2019: HRK 561 thousand).

The Management Board believes that both individual and collective impairment losses and provisions are sufficient.

Notes to the financial statements (continued)

4. Significant accounting estimates and judgments (continued)

Legal cases

The Bank performs a risk classification of lawsuits taking into consideration the following principles: legal grounds of the claim; prior legal practice; opinions of relevant outsourced attorneys and other independent legal or other experts.

Lawsuits are classified into three groups: where the Bank expects a fully successful outcome; where the Bank expects to lose the case; and uncertain lawsuits, where the probability of a successful or unsuccessful outcome cannot be readily determined.

The Management Board believes that the provisions for legal cases are sufficient at the reporting date.

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of a taxpayer's records. The Bank did not recognise deferred tax asset on tax losses carried forward as it is not probable there would be sufficient taxable profits to utilise them before their expiry.

Fair value hierarchy

Fair value hierarchy is presented in Note 34.

Notes to the financial statements (continued)

5. Interest and similar income

a) Interest income analyzed by product:

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Interest income from loans to and receivables from customers	77,250	83,649
Interest income from financial investments at amortized cost	4,794	5,121
Interest income from financial assets at fair value through other comprehensive income	4,226	4,678
Interest income from deposits	153	12
TOTAL	86,423	93,460

b) Interest income analyzed by sectors:

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Companies	40,459	42,518
Individuals (retail)	36,347	39,836
Central government and local authorities	5,086	7,550
Financial institutions	3,992	2,954
Other	539	602
TOTAL	86,423	93,460

6. Interest expense and similar charges

a) Interest expense analyzed by product:

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Interest expense from term deposits	9,057	12,691
Interest expense from borrowings	1,016	1,812
Other	820	724
Interest expense demand deposits	411	302
TOTAL	11,304	15,529

Notes to the financial statements (continued)

6. Interest expense and similar charges (continued)

b) Interest expense analyzed by sector:

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Interest expense to individuals (retail)	6,070	9,056
Interest expense to financial institutions	2,422	3,201
Interest expense to companies	1,508	1,517
Interest expense to non-residents	1,071	1,473
Other	233	282
TOTAL	11,304	15,529

7. Impairment losses and provisions

	2020			
	<i>HRK 000</i>			
	Stage 1	Stage 2	Stage 3	Total
Impairment of loans to and receivables from customers	10,832	4,478	5,839	21,149
Impairment of other assets (Note 20a)	30	(2)	254	282
Impairment of financial investments at amortised cost (Note 15b)	-	-	1,549	1,549
Impairment of financial investments at fair value through OCI	24	-	59	83
Provisions for court cases (Note 23a)	7	-	-	7
Provisions for off-balance-sheet exposure to credit risk (Note 23b)	858	(4)	(43)	811
TOTAL	11,751	4,472	7,658	23,881

	2019			
	<i>HRK 000</i>			
	Stage 1	Stage 2	Stage 3	Total
Impairment of loans to and receivables from customers	(1,112)	1,678	15,126	15,692
Impairment of other assets (Note 20a)	(30)	-	394	362
Impairment of financial investments at amortised cost (Note 15b)	427	-	1,402	1,829
Impairment of financial investments at fair value through OCI	159	-	-	159
Provisions for court cases (Note 23a)	161	-	-	161
Provisions for off-balance-sheet exposure to credit risk (Note 23b)	158	(231)	112	39
TOTAL	(237)	1,447	17,032	18,242

Notes to the financial statements (continued)

8. Fee and commission income and expense

a) Fee and commission income

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Payment transaction fees	10,867	12,873
Loan approval fees	3,707	2,241
Other banking services	830	1,223
TOTAL	15,404	16,337

b) Fee and commission expenses

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Card business	1,146	1,484
FINA commission	1,097	1,252
Domestic banks	990	1,237
Domestic clients	253	220
CNB	51	52
TOTAL	3,537	4,245

9a. Net realised gains from financial assets at fair value through other comprehensive income

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Domestic sovereign bonds at fair value through other comprehensive income	2,839	6,648
Domestic corporate bonds at fair value through other comprehensive income	-	-
Foreign sovereign bonds at fair value through other comprehensive income	1,137	215
Financial institutions bonds at fair value through other comprehensive income	-	23
TOTAL	3,976	6,886

Notes to the financial statements (continued)

9b. Net realised gains from financial investments at amortised cost

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Foreign sovereign bonds at amortised cost	-	5,071
TOTAL	-	5,071

9c. Net gains/(losses) from translation of monetary assets and liabilities and foreign exchange spot trading

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Net gains/(losses) from translation of monetary assets and liabilities		
- items denominated in foreign currency	(10,415)	(2,409)
- items linked to foreign currency	9,867	2,614
Net gain from foreign exchange spot trading	12,229	7,142
TOTAL	11,681	7,347

9d. Other income

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Income from reversal of provisions	286	-
Income from operating lease	229	5
Net gain from sale of assets	190	13
Income from invoiced notaries expenses	53	159
Other	226	296
TOTAL	984	473

Notes to the financial statements (continued)

10. Staff costs and other administrative expenses

a) Staff costs

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
- Net salaries to employees	24,021	22,652
- Contributions, taxes and surtaxes from salaries	12,116	11,437
- Contributions on salaries	5,479	5,127
- Other	892	2,469
TOTAL	42,508	41,685

Staff costs include HRK 6,654 thousand (2019: HRK 6,134 thousand) of defined pension contributions payable into obligatory pension plans.

During 2020, average number of employees was 186 (2019: 189).

b) Other administrative expenses

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Costs of deposit insurance	4,256	4,110
Maintenance expenses	3,553	3,491
Other services	2,992	3,098
Mail and phone expenditure	1,349	1,266
Material costs and similar charges	1,331	1,160
Intellectual services	1,099	1,088
Insurance and protection expenses	931	890
Rent expenses	787	817
Marketing and advertisement expenditure	787	1,132
Other expenditure	4,117	5,091
TOTAL	21,202	22,143

11. Income tax

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Accounting profit before tax	7,112	20,006
Income tax at 18% (2019: 18%)	1,280	3,601
Non-deductible expenses	718	1,230
Non-taxable income	(780)	(1,008)
Income tax for the year	1,218	3,823
Utilization of carry forward tax losses	-	(1,767)
Income tax expense recognised in profit or loss	1,218	2,056
Effective income tax rate	17%	10%

Notes to the financial statements (continued)

12. Cash and current accounts with banks

	2020			2019		
	<i>HRK 000</i>			<i>HRK 000</i>		
	HRK	Foreign currency	Total	HRK	Foreign currency	Total
Current accounts with the CNB	446,781	103,737	550,518	157,760	107,891	265,651
Current accounts with other banks	-	74,649	74,649	-	22,143	22,143
Cash in hand	33,532	9,817	43,350	24,130	9,755	33,885
TOTAL	480,313	188,204	668,517	181,890	139,789	321,679

13. Cash and cash equivalents

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Cash on accounts with the CNB (Note 12)	550,518	265,651
Cash on accounts with other banks (Note 12)	74,649	22,143
Cash in hand (Note 12)	43,350	33,885
TOTAL	668,517	321,679

14. Obligatory reserve with Croatian National Bank

The obligatory reserve represents amounts required to be deposited with the CNB and is not available for use in the Bank's day-to-day operations.

Banks are obliged to calculate obligatory reserve in kuna and foreign currency at a rate which, as at 31 December 2020, accounted for 9% of kuna and foreign currency funds (31 December 2019: 12%).

The part of the obligatory reserve calculated in kuna is increased by 75% (31 December 2019: 75%) of the calculated obligatory reserve on eligible foreign currency funding sources. 70% of the obligatory reserve should be deposited into a special account held with the CNB, while the rest may be maintained in eligible liquid assets.

After reduction by 75% (31 December 2019: 75%) which is added to obligatory reserve requirement calculated in kuna, the remainder of 25% of obligatory reserve calculated in foreign currency is maintained in foreign currency. Foreign currency obligatory reserve calculated on the basis of foreign currency funds from non-residents and foreign funds received from legal entities in a special relationship with the bank amounts 100% (31 December 2019: 100%) and can be maintained in eligible liquid assets.

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Allocated obligatory reserve in HRK	116,740	144,228
Total	116,740	144,228

Notes to the financial statements (continued)

15. Financial investments

a) Financial assets at fair value through other comprehensive income

	2020	2019
	HRK 000	HRK 000
Domestic sovereign bonds	346,481	320,170
Domestic sovereign treasury bills	67,760	79,514
Foreign corporate bonds	34,773	20,005
Foreign sovereign bonds	16,672	29,512
	<hr/>	<hr/>
From which		
Listed	397,926	369,687
Unlisted	67,760	79,514
	<hr/>	<hr/>
TOTAL	465,686	449,201

Financial assets at fair value through other comprehensive income are all in Stage 1 and there were no transfer between stages during the 2020.

b) Financial investments at amortised cost

	2020	2019
	HRK 000	HRK 000
Foreign corporate bonds	21,744	23,500
Foreign sovereign bonds	15,555	15,320
Factoring – receivables from companies	11,770	6,402
Factoring – receivables from state and local authorities	11,340	3,284
Bills of exchange – companies	412	412
Impairment allowance	(3,943)	(2,396)
	<hr/>	<hr/>
TOTAL	56,878	46,522

Movement in impairment allowance against financial investments at amortised cost:

	2020	2019
	HRK 000	HRK 000
Balance at 1 January	2,396	567
Charge recognized in profit or loss (Note 7)	1,547	1,829
	<hr/>	<hr/>
Balance at 31 December	3,943	2,396

Notes to the financial statements (continued)

16. Placements with other banks

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Placements with other domestic banks - in HRK	10,221	10,221
Impairment allowance on placements with other banks in HRK	(10,221)	(10,221)
Placements with other domestic banks - in foreign currency with original maturity over 3 months	2,789	2,754
TOTAL	2,789	2,754

a) Movement in impairment allowance against placements with other banks in HRK:

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Balance at 1 January	10,221	10,221
Charge / (release) recognized in profit or loss	-	-
Balance at 31 December	10,221	10,221

17. Loans to and receivables from customers

a) Analysis according to types of loans

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Short-term loans:		
Companies	185,435	222,667
Retail customers	23,673	77,321
Other customers	901	624
Total short-term loans	210,009	300,612
Long-term loans:		
Companies	773,738	672,740
Retail customers	670,979	568,489
Other customers	22,213	23,436
Total long-term loans	1,466,930	1,264,665
Total short-term and long-term loans	1,676,939	1,565,277
Impairment allowance	(132,105)	(116,021)
TOTAL	1,544,834	1,449,256

Impairment allowance against loans to and receivables from customers includes also expected credit losses calculated against placements with banks and other receivables.

Notes to the financial statements (continued)

17. Loans to and receivables from customers (continued)

a) Analysis according to types of loans (continued)

The classification above is based on original contractual maturity, while the remaining contractual maturities are analyzed in Note 30.

b) Loans by industry/product

	2020	2019
	HRK 000	HRK 000
Services	278,628	294,615
Manufacturing	237,915	188,290
Construction	125,605	108,156
Tourism	122,376	102,685
Trade	112,694	128,195
Agriculture	60,961	43,550
Other	18,979	30,540
Gross corporate	957,158	896,031
Cash loans	364,287	411,230
Housing loans	171,717	107,550
Tourist loans	41,521	36,313
Overdraft	7,239	7,508
Credit card receivables	5,131	5,632
Mortgage loans	4,091	4,343
Educational loans	-	4
Other	101,685	73,230
Retail gross	695,671	645,810
Other gross	24,110	23,436
Total gross	1,676,939	1,565,277
Impairment allowance	(132,105)	(116,021)
TOTAL	1,544,834	1,449,256

Notes to the financial statements (continued)

17. Loans to and receivables from customers (continued)

c) Impairment allowance for loans and receivables from customers

	2020			
	<i>HRK 000</i>			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	1,414,308	21,434	129,534	1,565,276
New assets originated or purchased	471,126	33,317	8,530	512,973
Assets derecognised or repaid (excluding write offs)	2,152	102	832	3,086
Transfers to Stage 1	19,083	(15,046)	(4,038)	-
Transfers to Stage 2	(132,858)	132,913	(55)	-
Transfers to Stage 3	(17,578)	(2,301)	19,879	-
Collection	(379,495)	(3,594)	(17,124)	(400,213)
Amounts written off	-	-	(4,190)	(4,190)
Foreign exchange adjustments	7	-	-	7
At 31 December 2020	1,376,745	166,825	133,369	1,676,939

	2020			
	<i>HRK 000</i>			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2020	13,190	2,918	99,913	116,021
New assets originated or purchased	5,437	2,186	606	8,229
Assets derecognised or repaid (excluding write offs)	(2,152)	(102)	(831)	(3,085)
Transfers to Stage 1	(2,516)	1,467	1,049	-
Transfers to Stage 2	6,670	(6,694)	24	-
Transfers to Stage 3	7,184	500	(7,684)	-
(Increase / Reversal of provisions)	(15,582)	9,551	21,100	15,069
Amounts written off	-	-	(4,122)	(4,122)
Foreign exchange adjustments	(7)	-	-	(7)
At 31 December 2020	12,224	9,826	110,055	132,105

Notes to the financial statements (continued)

17. Loans to and receivables from customers (continued)

c) Impairment allowance for loans and receivables from customers

	2019			
	<i>HRK 000</i>			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	1,398,623	10,411	113,292	1,522,326
New assets originated or purchased	567,632	13,710	2,336	583,678
Assets derecognised or repaid (excluding write offs)	3,061	513	1,982	5,556
Transfers to Stage 1	5,366	(3,268)	(2,098)	-
Transfers to Stage 2	(3,267)	3,395	(128)	-
Transfers to Stage 3	(16,523)	(715)	17,238	-
Collection	(540,584)	(2,612)	(665)	(543,861)
Amounts written off	-	-	(2,464)	(2,464)
Foreign exchange adjustments	-	-	41	41
At 31 December 2019	1,414,308	21,434	129,534	1,565,276

	2019			
	<i>HRK 000</i>			
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2019	12,821	3,009	89,342	105,172
New assets originated or purchased	5,743	630	8,650	15,023
Assets derecognised or repaid (excluding write offs)	(3,061)	(513)	(1,982)	(5,556)
Transfers to Stage 1	4,829	(1,495)	(3,334)	-
Transfers to Stage 2	(934)	1,707	(773)	-
Transfers to Stage 3	(910)	(10)	920	-
(Increase / Reversal of provisions)	(5,298)	(410)	9,595	3,887
Amounts written off	-	-	(2,464)	(2,464)
Foreign exchange adjustments	-	-	(41)	(41)
At 31 December 2019	13,190	2,918	99,913	116,021

Net impairment charge for loans to and receivables from customers is included in the analysis within Note 7 Impairment losses and provisions and is recognized in profit or loss.

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets

a) Movement in property, plant and equipment in thousand HRK

	Land	Buildings	Equipment	Furniture and vehicles	Assets under construction	Total
Cost						
Balance at 1 January 2020	425	39,027	17,486	3,522	505	60,965
Additions	-	-	2,355	510	(881)	1,984
Transfer	-	-	(210)	(233)	443	-
Write-off and disposals	-	-	(1,814)	(80)	(4)	(1,898)
Balance 31 December 2020	425	39,027	17,817	3,719	63	61,051
Depreciation						
Balance as at 1 January 2020	-	7,318	11,624	3,098	-	22,040
Charge for the year	-	895	1,939	223	-	3,057
Write-off and disposals	-	-	(1,767)	(79)	-	(1,846)
Balance 31 December 2020	-	8,213	11,796	3,242	-	23,251
Net carrying amount						
1 January 2020	425	31,709	5,862	424	505	38,925
Net carrying amount						
31 December 2020	425	30,814	6,021	477	63	37,800

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets (continued)

a) Movement in property, plant and equipment in thousand HRK (continued)

	Land	Buildings	Equipment	Furniture and vehicles	Assets under construction	Total
Cost						
Balance at 1 January 2019	425	39,661	14,788	3,642	104	58,620
Additions	-	6	2,385	31	801	3,223
Transfer	-	-	400	-	(400)	-
Write-off and disposals	-	(640)	(87)	(151)	-	(878)
Balance 31 December 2019	425	39,027	17,486	3,522	505	60,965
Depreciation						
Balance as at 1 January 2019	-	6,439	10,248	2,927	-	19,614
Charge for the year	-	905	1,401	255	-	2,561
Write-off and disposals	-	(26)	(25)	(84)	-	(135)
Balance 31 December 2019	-	7,318	11,624	3,098	-	22,040
Net carrying amount						
1 January 2019	425	33,222	4,540	715	104	39,006
Net carrying amount						
31 December 2019	425	31,709	5,862	424	505	38,925

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets (continued)

b) Movement in right-of-use assets thousand HRK

	Leasehold	Motor vehicles	Total
Cost			
Balance at 1 January 2020	12,643	468	13,111
Additions	2,046	27	2,073
Disposal	(442)	-	(442)
Balance 31 December 2020	14,247	495	14,742
Depreciation			
Balance as at 1 January 2020	3,006	171	3,177
Charge for the year	3,296	172	3,468
Disposal	(154)	-	(154)
Balance 31 December 2020	6,148	343	6,491
Net carrying amount 1 January 2020	9,637	297	9,934
Net carrying amount 31 December 2020	8,099	152	8,251

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets (continued)

b) Movement in right-of-use assets thousand HRK

	Leasehold	Motor vehicles	Total
Cost			
Balance at 1 January 2019	12,679	385	13,063
Additions	345	83	428
Disposal	(381)	-	(381)
Balance 31 December 2019	12,643	468	13,111
Depreciation			
Balance as at 1 January 2019	-	-	-
Charge for the year	3,115	171	3,286
Disposal	(109)	-	(109)
Balance 31 December 2019	3,006	171	3,177
Net carrying amount 1 January 2019	-	-	-
Net carrying amount 31 December 2019	9,637	297	9,934

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets (continued)

c) Movement in intangible assets in thousand HRK

	Leasehold improvements	Software	Assets in preparation	Total
Cost				
Balance at 1 January 2020	11,377	16,617	1,244	29,238
Additions	100	177	3,596	3,873
Transfer	488	757	(1,245)	-
Write off	(1,025)	(7,219)	-	(8,244)
Balance 31 December 2020	10,940	10,332	3,595	24,867
Amortisation				
Balance as at 1 January 2020	10,718	11,013	-	21,731
Charge for the year	511	1,888	-	2,399
Write off	(1,025)	(7,219)	-	(8,244)
Balance 31 December 2020	10,204	5,682	-	15,886
Net carrying amount 1 January 2020	659	5,604	1,244	7,507
Net carrying amount 31 December 2020	736	4,650	3,595	8,981

Assets in preparation is related to Core system improvements and investing into new business application for managing the financing process..

Notes to the financial statements (continued)

18. Property, plant and equipment and intangible assets (continued)

c) Movement in intangible assets in thousand HRK (continued)

	Leasehold improvements	Software	Assets in preparation	Total
Cost				
Balance at 1 January 2019	11,891	12,311	471	24,673
Additions	5	3,835	1,244	5,084
Transfer	-	471	(471)	-
Write off	(519)	-	-	(519)
Balance 31 December 2019	11,377	16,617	1,244	29,238
Amortisation				
Balance as at 1 January 2019	10,434	9,719	-	20,153
Charge for the year	583	1,294	-	1,877
Write off	(299)	-	-	(299)
Balance 31 December 2019	10,718	11,013	-	21,731
Net carrying amount 1 January 2019	1,457	2,592	471	4,520
Net carrying amount 31 December 2019	659	5,604	1,244	7,507

Notes to the financial statements (continued)

19. Foreclosed assets

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Properties acquired in exchange for uncollectible receivables	789	809
TOTAL	789	809

The book value of the foreclosed assets approximates the fair value of these assets.

20. Other assets

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Receivables for fees and commissions	1,431	1,385
Receivables for advances	1,219	333
Prepaid expenses	760	754
Receivables from customers	139	98
Other receivables	2,106	16,247
Impairment allowance	(1,461)	(1,333)
TOTAL	4,194	17,484

In 2019, 14,604 HRK of other receivables refers to financial instruments in process of collection and are collected as of January 02, 2020.

a) *Movement in impairment allowance against other assets*

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Balance at 1 January	1,333	1,139
Charge	704	458
Reversal	(421)	(94)
<i>Net charge recognized in profit or loss (Note 7)</i>	<i>283</i>	<i>364</i>
Write off	(155)	(170)
Balance at 31 December	1,461	1,333

Notes to the financial statements (continued)

21. Current accounts and deposits and interest-bearing borrowings

a) Current accounts and deposits from banks and financial institutions

	<i>HRK 000</i>					
	2020			2019		
	HRK	Foreign currency	Total	HRK	Foreign currency	Total
Term deposits	119,521	41,982	161,503	109,180	46,888	156,068
Current accounts	1,969	32	2,001	1,040	1	1,041
TOTAL	121,490	42,014	163,504	110,220	46,889	157,109

b) Current accounts and deposits from customers

ba) Current accounts from customers

	<i>HRK 000</i>					
	2020			2019		
	HRK	Foreign currency	Total	HRK	Foreign currency	Total
Corporate	328,982	109,351	438,333	246,714	49,838	296,552
Retail	95,482	167,400	262,882	78,796	129,089	207,885
State and other institutions	8,346	22,221	30,567	15,257	92	15,349
Total current accounts	432,810	298,972	731,782	340,767	179,019	519,786

bb) Term deposits from customers

	<i>HRK 000</i>					
	2020			2019		
	HRK	Foreign currency	Total	HRK	Foreign currency	Total
Retail	259,279	868,891	1,128,170	250,422	912,077	1,162,499
Corporate	130,403	74,979	205,382	125,341	57,798	183,139
State and other institutions	5,355	-	5,355	9,195	-	9,195
Total term deposits	395,037	943,870	1,338,907	384,958	969,875	1,354,833

Notes to the financial statements (continued)

21. Current accounts and deposits and interest-bearing borrowings (continued)

b) Current accounts and deposits from customers (continued)

bc) Total current accounts and deposits from customers

	2020			2019		
	HRK	Foreign currency	Total	HRK	Foreign currency	Total
Retail	354,760	1,036,291	1,391,051	329,218	1,041,166	1,370,384
Corporate	459,384	184,330	643,714	372,055	107,636	479,691
State and other institutions	13,701	22,221	35,922	24,452	92	24,544
TOTAL	827,845	1,242,842	2,070,687	725,725	1,148,894	1,874,619

c) Interest-bearing borrowings

	2020	2019
	HRK 000	HRK 000
Repo loan	264,363	55,707
Borrowings from Croatian Bank for Reconstruction and Development	64,087	54,276
TOTAL	328,450	109,983

Repo loans are contracted with maturity up to 19 days and up to five years with interest rate 0,01% - 0,25% (2019: up to five years with interest rate 1,20%). Domestic and foreign sovereign bonds are used as collateral (note 15a).

d) Net cash from financing activities

	1 January 2020	Cash flow	Foreign exchange movement	Changes in fair values	Other	31 December 2020
Short-term loans	(109,276)	(159,937)	126	-	-	(269,087)
Long-term loans	(706)	(58,947)	291	-	-	(59,362)
Subordinated loan	(37,306)	-	(483)	-	37,789	-
Total liabilities	(147,288)	(218,884)	(66)	-	37,789	(328,449)

Notes to the financial statements (continued)

21. Current accounts and deposits and interest-bearing borrowings (continued)

d) Net cash from financing activities (continued)

	1 January 2019	Cash flow	Foreign exchange movement	Changes in fair values	Other	31 December 2019
Short-term loans	(129,336)	20,027	33	-	-	(109,276)
Long-term loans	(89,708)	89,128	(126)	-	-	(706)
Dividend payable	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-
Subordinated loan	(37,180)	(2)	(124)	-	-	(37,306)
Total liabilities	(256,224)	109,153	(217)	-	-	(147,288)

22. Subordinated liabilities

In 2020 the Bank converted hybrid instrument in equity in the amount of HRK 37.381 thousand.

23. Provisions for liabilities and charges

	2020 HRK 000	2019 HRK 000
Provisions for identified losses for off-balance-sheet exposure to credit risk (Note 27)	2,271	1,458
Provisions for legal cases initiated against the Bank	206	199
TOTAL	2,477	1,657

Movements in provisions are included in the analysis in Note 7 Impairment losses and provisions and are recognized in profit or loss.

a) Movements in provisions for legal cases initiated against the Bank:

	2020 HRK 000	2019 HRK 000
Balance at 1 January	199	105
Increase in provisions	7	335
Release of unused amounts	-	(80)
<i>Net charge recognized in profit or loss (Note 7)</i>	<i>7</i>	<i>255</i>
Used during year	-	(161)
Balance at 31 December	206	199

Notes to the financial statements (continued)

21. Current accounts and deposits and interest-bearing borrowings (continued)

b) Movements in provisions for identified losses on off-balance-sheet exposure to credit risk

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Balance at 1 January	1,458	1,419
(Release) / charge in provisions recognised in profit or loss (Note 7)	811	39
Write offs	-	-
Balance at 31 December	2,271	1,458

24. Other liabilities

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Liabilities for closed accounts	14,790	2,805
Liabilities for leasing	8,418	10,033
Liabilities for loan prepayments	6,128	8,826
Liabilities to employees	4,367	5,731
Liabilities to suppliers	2,641	3,621
Liabilities for taxes and contributions	205	157
Other liabilities	3,499	3,586
TOTAL	40,048	34,759

Liabilities for closed accounts represents accounts that are being closed due to customers death or customers who are not being evaluated under the Anti-Money Laundering Act.

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Balance at 1 January 2020	10,033	13,063
Additions	1,949	517
Accretion of interest	174	214
Payments	(3,447)	(3,484)
Disposals	(291)	(277)
Balance at 31 December 2020	8,418	10,033

Notes to the financial statements (continued)

25. Equity

	2020	2019
	HRK 000	HRK 000
Ordinary share capital (Note 25a)	315,392	278,012
Legal and capital reserves (Note 25b)	2,453	2,137
Accumulated losses	(19,768)	(25,662)
Fair value reserve (Note 25c)	10,950	13,858
TOTAL	309,027	268,345

a) Ordinary share capital

Ordinary share capital amounts to HRK 315,392 thousand (31 December 2019: HRK 278,012 thousand) and is divided into 82,998 ordinary shares (31 December 2019: 73,161 shares) with a nominal value of HRK 3,800,00 each. In 2020 the Bank converted hybrid instrument in share capital in the amount of HRK 37.381 thousand.

The shareholder structure was as follows:

Shareholder	ISIN	Number of ordinary shares at 31 December 2020	% of the ordinary share capital	Number of ordinary shares at 31 December 2019	% of the ordinary share capital
SÜZER HOLDING A.S.	BRBA-R-A	82,998	100,00	73,161	100,00
TOTAL		82,998	100,00	73,161	100,00

b) Legal and capital reserves

Legal reserves represent accumulated transfers from retained earnings in accordance with the Croatian Company Law, which stipulates that a minimum of 5% of current profits is transferred to undistributable legal reserves, until such reserves along with other capital reserves reach a minimum of 5% of the issued capital. The legal reserve can be used for covering losses from previous years if the losses are not covered from the profit of the current year, or if there are no other available reserves.

	2020	2019
	HRK 000	HRK 000
Legal reserves	2,137	2,137
Capital reserves	316	-
TOTAL	2,453	2,137

Notes to the financial statements (continued)

25. Equity (continued)

c) Fair value reserve

Fair value reserve comprises positive fair value of HRK 10,950 thousand (2019: HRK 13,859 thousand). Deferred tax asset is recognized in the amount of HRK 654 thousand as at 31 December 2020.

During the year HRK 3,976 thousand was realized to profit or loss (Note 9a) (2019: HRK 6,886 thousand).

	2020	2019
	HRK 000	HRK 000
Balance at 1 January	13,859	(2,459)
<i>Gross fair value reserve at 1 January</i>	16,439	(3,217)
<i>Deferred tax</i>	(2,740)	602
<i>Accumulated impairment</i>	159	210
Net gains/(losses) from change in fair value of financial assets at fair value through other comprehensive income	331	30,855
Deferred tax (charge)/gain on net losses from change in fair value of financial assets at fair value through other comprehensive income	654	(2,740)
Net gains on disposal of financial assets at fair value through other comprehensive income - transfer to income statement	(3,976)	(11,956)
Deferred tax (charge) on net gains transferred to income statement on disposal of financial assets at fair value through other comprehensive income – transfer to income statement	-	-
Net impairment charge recognised in profit or loss	83	159
<i>Gross fair value reserve change</i>	(3,645)	18,889
<i>Deferred tax change</i>	654	(2,740)
<i>Impairment allowance change</i>	83	159
Balance at 31 December	10,950	13,859

Notes to the financial statements (continued)

26. Related parties transactions

The Bank considers that it has an immediate related-party relationship with its key shareholders and their direct and indirect subsidiaries, the Supervisory Board members, Management Board members and other executive management (together "key management personnel"), close family members of key management personnel, and entities controlled by key management personnel or their close family members, in accordance with the definitions contained in International Accounting Standard 24 "Related Party Disclosures".

The majority owner of the Bank is Süzer Holding Anonim Sirketi which is headquartered in Turkey, The Bank entered into banking transactions with the majority owner during the year, generating income and expense for the year, and assets and liabilities at year end.

Related party transactions as at and for the year ended 31 December 2020 and 31 December 2019 were as follows:

SUZER HOLDING	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Loans to and receivables from customers	44	156
Other receivables	3	-
	<u>47</u>	<u>156</u>
Received deposits		
Current accounts	161	163
Term deposits	7,329	7,681
Subordinated liability	-	37,213
Other liabilities	1,853	-
	<u>9,343</u>	<u>45,057</u>
SÜZER HOLDING	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Interest income on loans to and receivables from customers	2	1
Other income	51	4
	<u>53</u>	<u>5</u>
Expenses on received deposits		
Term deposits	(560)	(735)
	<u>(560)</u>	<u>(735)</u>

Notes to the financial statements (continued)

26. Related parties transactions (continued)

Key management personnel	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Loans to and receivables from customers	2,532	2,358
Other receivables	7	-
	<u>2,539</u>	<u>2,358</u>
Received deposits		
Current accounts	2,234	2,266
Term deposits	1,979	2,407
Other liabilities	438	-
	<u>4,651</u>	<u>4,673</u>
	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Interest income on loans to and receivables from customers	100	132
Other income	11	6
	<u>111</u>	<u>138</u>
Expenses on received deposits		
Term deposits	(14)	(16)
	<u>(14)</u>	<u>(16)</u>

Compensation to key management personnel was:

	2020	2019
	<i>HRK 000</i>	<i>HRK 000</i>
Compensation to key management personnel	14,261	11,802
	<u>14,261</u>	<u>11,802</u>

The key management personnel in the Bank are the members of the Management and Supervisory Board, procurators and executive directors and other senior management. The expense of contributions paid to mandatory pension funds in the year ended 31 December 2020 for key management personnel amounted to HRK 1,776 thousand (for year ended 31 December 2019: HRK 1,564 thousand),

Notes to the financial statements (continued)

27. Contingencies and commitments

Commitments include guarantees and unused overdraft facilities on current accounts of retail customers,

	2020			
	HRK 000			
	Stage 1	Stage 2	Stage 3	Total
Issued guarantees and letter of intent	289,100	-	-	289,100
Issued letters of credit	145	-	-	145
Unused overdraft facilities	191,980	29	51	192,060
TOTAL	481,225	29	51	481,305
Identified provisions for off-balance-sheet exposure to credit risk (Note 23)	(2,238)	(11)	(22)	(2,271)
TOTAL	478,987	18	29	479,034

	2019			
	HRK 000			
	Stage 1	Stage 2	Stage 3	Total
Issued guarantees and letter of intent	164,395	0	0	164,395
Issued letters of credit	0	0	0	0
Unused overdraft facilities	118,888	0	226	119,114
TOTAL	283,283	0	226	283,509
Identified provisions for off-balance-sheet exposure to credit risk (Note 23)	(1,253)	-	(205)	(1,458)
TOTAL	282,030	-	21	282,051

Notes to the financial statements (continued)

28. Maximum exposure to credit risk and concentration of credit risk

a) Maximum exposure to credit risk

	Note	2020 HRK 000	2019 HRK 000
Current accounts with the CNB and other banks	12	625,167	287,794
Obligatory reserve with the CNB and compulsory CNB bills	14	116,740	144,228
Placements with other banks	16	2,789	2,754
Debt securities at fair value through other comprehensive income	15a)	465,686	449,201
Financial investments at amortised cost	15b)	56,879	46,522
Loans to and receivables from customers	17a)	1,544,834	1,449,256
Income tax prepayment		819	-
Other assets	20	3,435	16,731
Total exposure to credit risk from balance-sheet items		2,816,349	2,396,486
Exposure to credit risk from off balance sheet items is as follows:			
Guarantees and letters of intent	29	287,847	163,705
Letters of credit	29	144	0
Unused overdraft facilities	29	191,044	118,352
Total exposure to credit risk from off-balance-sheet items		479,035	282,057
TOTAL		3,295,384	2,678,543

b) Concentration of credit risk

Concentration of credit risk towards State and local authorities

	Note	2020 HRK 000	2019 HRK 000
Current account with the CNB	12	550,518	265,651
Obligatory reserve with the CNB and compulsory CNB bills	14	116,740	144,228
Treasury bills issued by Ministry of Finance at fair value through other comprehensive income	15a)	67,760	79,514
Bonds issued by Republic of Croatia at fair value through other comprehensive income	15a)	346,481	320,170
Financial investments at amortised cost	15b)	11,340	3,284
Income tax prepayment		819	-
Other receivables		123	91
Impairment allowance		(2,443)	(3,295)
TOTAL		1,091,338	809,643

Notes to the financial statements (continued)

28. Maximum exposure to credit risk and concentration of credit risk (continued)

The impairment allowance presented in the above table relates to expected credit losses calculated on the related balances, which is in these financial statements offset against loans to and receivables from customers and is presented for illustrative purpose only, Income tax prepayment is not a financial asset, but is also presented for illustrative purposes.

Apart from exposures towards state and local authorities, the maximum exposure to credit risk towards one customer (including groups of related parties) at the end of 2020 amounted to HRK 60,326 thousand (2019: HRK 52,631 thousand).

29. Credit portfolio quality

The Bank applies an internal system of assessment of portfolio quality based on the assessment system prescribed by the CNB. The tables below present the credit quality by class of financial asset and ageing analysis of due outstanding receivables.

Collateral and other security instruments

The amount and type of the necessary collateral depends on the assessment of counterparty credit risk. The Bank has defined guidelines for acceptance of the type of collateral and evaluation of collateral.

Basic types of collateral are:

- Deposits
- Mortgages over real estate
- Charges over movable property
- Guarantees.

In the following tables, category other customers and companies from note 17 are included within corporate.

Notes to the financial statements (continued)

29. Credit portfolio quality (continued)

As at 31 December 2020

	Neither past due nor impaired		Past due but not impaired	Specifically impaired	Total
	Low-risk grades	Standard and sub-standard grades			
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Current accounts with banks (Note 12)	-	625,167	-	-	625,167
Obligatory reserve with CNB and compulsory CNB bills (Note 14)	-	116,740	-	-	116,740
Debt securities at fair value through other comprehensive income (Note 15a)	-	465,686	-	-	465,686
Financial investments at amortised cost (Note 15b)	-	56,834	-	44	56,878
Placements with other banks (Note 16)	-	2,789	-	-	2,789
Loans to and receivables from customers (Note 17a)	-	1,511,879	9,642	23,314	1,544,835
* retail	-	900,793	5,003	12,872	918,668
* corporate and other	-	611,086	4,639	10,442	626,167
Tax prepayment	-	819	-	-	819
Other assets	-	3,425	10	-	3,435
TOTAL	-	2,783,339	9,652	23,358	2,816,349

As at 31 December 2019

	Neither past due nor impaired		Past due but not impaired	Specifically impaired	Total
	Low-risk grades	Standard and sub-standard grades			
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Current accounts with banks (Note 12)	-	287,794	-	-	287,794
Obligatory reserve with CNB and compulsory CNB bills (Note 14)	-	144,228	-	-	144,228
Debt securities at fair value through other comprehensive income (Note 15a)	-	449,201	-	-	449,201
Financial investments at amortised cost (Note 15b)	-	44,897	-	1,625	46,522
Placements with other banks (Note 16)	-	2,754	-	-	2,754
Loans to and receivables from customers (Note 17a)	-	1,401,651	17,982	29,622	1,449,255
* retail	-	568,835	5,973	7,373	582,181
* corporate and other	-	832,816	12,009	22,249	867,074
Other assets	-	16,731	-	-	16,731
TOTAL	-	2,347,256	17,982	31,247	2,396,485

Notes to the financial statements (continued)

29. Credit portfolio quality (continued)

	2020			
Gross exposure (per Stages)	HRK 000			
	Stage 1	Stage 2	Stage 3	Total
Current accounts with the CNB and other banks	625,167	-	-	625,167
Obligatory reserve with the CNB and compulsory CNB bills	116,740	-	-	116,740
Placements with other banks	2,789	-	-	2,789
Debt securities at fair value through other comprehensive income	465,686	-	-	465,686
Financial investments at amortised cost	56,835	-	44	56,879
Loans to and receivables from customers	1,364,520	157,000	23,314	1,544,834
Tax prepayment	819	-	-	819
Other assets	3,421	10	4	3,435
Total exposure to credit risk from balance-sheet items	2,635,977	157,010	23,362	2,816,349
Exposure to credit risk from off balance sheet items is as follows:				
Guarantees and letters of intent	287,847	-	-	287,847
Letters of credit	144	-	-	144
Unused overdraft facilities	190,996	17	31	191,044
Total exposure to credit risk from off balance-sheet items	478,987	17	31	479,035
Total exposure to credit risk from balance and off balance-sheet items	3,114,964	157,027	23,393	3,295,384

Notes to the financial statements (continued)

29. Credit portfolio quality (continued)

	2019			
Gross exposure (per Stages)	HRK 000			
	Stage 1	Stage 2	Stage 3	Total
Current accounts with the CNB and other banks	287,794	-	-	287,794
Obligatory reserve with the CNB and compulsory CNB bills	144,228	-	-	144,228
Placements with other banks	449,201	-	-	449,201
Debt securities at fair value through other comprehensive income	44,897	-	1,625	46,522
Financial investments at amortised cost	2,754	-	-	2,754
Loans to and receivables from customers	1,401,118	18,516	29,622	1,449,256
Other assets	16,712	12	7	16,731
Total exposure to credit risk from balance-sheet items	2,346,704	18,528	31,254	2,396,486
Exposure to credit risk from off balance sheet items is as follows:				
Guarantees and letters of intent	164,395	-	-	164,395
Letters of credit	-	-	-	-
Unused overdraft facilities	118,888	6	21	118,915
Total exposure to credit risk from off balance-sheet items	283,283	6	21	283,310
Total exposure to credit risk from balance and off balance-sheet items	2,629,987	18,534	31,275	2,679,796

Notes to the financial statements (continued)

29. Credit portfolio quality (continued)

Analysis of past due but not impaired loans:

	As at 31 December 2020						
	Due up to 30 days	Due 31 - 90 days	Due 91 - 180 days	Due 181- 365 days	Due 1 to 2 years	Due over 2 years	Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Loans to and receivables from customers	8,848	684	86	6	5	13	9,642
Financial investments at amortised cost	10	-	-	-	-	-	10
Total	8,858	684	86	6	5	13	9,652

	As at 31 December 2019						
	Due up to 30 days	Due 31 - 90 days	Due 91 - 180 days	Due 181- 365 days	Due 1 to 2 years	Due over 2 years	Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Loans to and receivables from customers	16,122	1,416	331	105	6	2	17,982
Financial investments at amortised cost	-	635	-	-	-	-	635
Total	16,122	2,051	331	105	6	2	18,617

Notes to the financial statements (continued)

29. Credit portfolio quality (continued)

Analysis of individually impaired loans (net):

	As at 31 December 2020							
	Undue	Due up to 30 days	Due 31 - 90 days	Due 91 - 180 days	Due 181-365 days	Due 1 to 2 years	Due over 2 years	Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Retail loans to and receivables from customers	4,729	45	1,240	1,897	1,708	66	758	10,443
Corporate loans to and receivables from customers	6,528	-	283	3,134	536	1,613	777	12,871
Financial investments at amortised cost	-	-	-	-	-	44	-	44
Total	11,257	45	1,523	5,031	2,244	1,723	1,535	23,358

	As at 31 December 2019							
	Undue	Due up to 30 days	Due 31 - 90 days	Due 91 - 180 days	Due 181-365 days	Due 1 to 2 years	Due over 2 years	Total
	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000	HRK 000
Retail loans to and receivables from customers	1,375	5	562	1,111	3,119	189	1,012	7,373
Corporate loans to and receivables from customers	6,595	-	-	8,546	2,975	3,637	496	22,249
Financial investments at amortised cost	-	-	-	1,625	-	-	-	1,625
Total	7,970	5	562	11,282	6,094	3,826	1,508	31,247

Analysis of due amounts is based on the highest delay category per individual exposures.

Undue individually impaired loans relate to restructured loans retained in category impaired after restructuring.

Notes to the financial statements (continued)

30. Maturity profile of assets and liabilities

Assets and liabilities are allocated within time buckets according to their remaining contractual maturity period. Obligatory reserve is analyzed according to the time buckets of the funds representing the base for its calculation. Other items without contractual maturity are presented in the bucket over 3 years.

As at 31 December 2020

HRK 000

ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Cash and current accounts with banks	668,517	-	-	-	-	668,517
Obligatory reserve with CNB and compulsory CNB bills	43,910	11,795	32,040	23,717	5,278	116,740
Financial assets at fair value through other comprehensive income	15,537	-	67,760	113,263	269,126	465,686
Financial investments at amortised cost	-	10,974	15,394	25,909	4,601	56,878
Loans to and receivables from customers	102,114	64,594	234,809	482,481	660,836	1,544,834
Placements with other banks	-	528	2,261	-	-	2,789
Property, plant and equipment	-	-	-	-	37,800	37,800
Right of use assets	276	548	2,158	3,082	2,187	8,251
Intangible assets	-	-	-	-	8,981	8,981
Foreclosed assets	-	-	-	-	789	789
Tax prepayment	-	-	-	819	-	819
Other assets	4,194	-	-	-	-	4,194
TOTAL ASSETS	834,548	88,439	354,422	649,271	989,598	2,916,278
LIABILITIES						
Current accounts and deposits from banks and financial institutions	46,063	70,423	26,812	20,206	-	163,504
Current accounts and deposits from customers	794,297	155,317	586,377	433,687	101,009	2,070,687
Interest-bearing borrowings	59,319	2,148	10,157	17,663	239,162	328,449
Provisions for liabilities and charges	-	-	-	-	2,477	2,477
Lease liability	278	552	2,181	3,139	2,268	8,418
Other liabilities	31,634	-	(10)	414	1,678	33,716
TOTAL LIABILITIES	931,591	228,440	625,517	475,109	346,594	2,607,251
EQUITY						
Ordinary share capital	-	-	-	-	315,392	315,392
Legal and other reserves	-	-	-	-	2,453	2,453
Fair value reserve	-	(34)	13	36	10,935	10,950
Accumulated losses	-	-	-	-	(19,768)	(19,768)
TOTAL EQUITY	-	(34)	13	36	309,012	309,027
TOTAL LIABILITIES AND EQUITY	931,591	228,406	625,530	474,145	655,606	2,916,278
MATURITY GAP	(97,043)	(139,967)	(271,108)	174,126	333,992	-

Notes to the financial statements (continued)

30. Maturity profile of assets and liabilities (continued)

As at 31 December 2019		HRK 000				
ASSETS	Up to 1 month	1 to 3 months	3 to 12 months	1 to 3 years	Over 3 years	Total
Cash and current accounts with banks	321,679	-	-	-	-	321,679
Obligatory reserve with CNB and compulsory CNB bills	48,766	12,356	50,242	27,127	5,737	144,228
Financial assets at fair value through other comprehensive income	-	19,996	59,518	23,551	346,136	449,201
Financial investments at amortised cost	-	29,758	15,138	1,625	-	46,521
Loans to and receivables from customers	115,229	77,830	260,513	396,935	598,749	1,449,256
Placements with other banks	-	521	2,233	-	-	2,754
Property, plant and equipment	-	-	-	-	38,925	38,925
Right of use assets	276	552	2,405	4,213	2,488	9,934
Intangible assets	-	-	-	-	7,507	7,507
Foreclosed assets	-	-	-	-	809	809
Other assets	17,485	-	-	-	-	17,485
TOTAL ASSETS	503,435	141,013	390,049	453,451	1,000,351	2,488,299
LIABILITIES						
Current accounts and deposits from banks and financial institutions	64,536	28,482	54,040	-	10,051	157,109
Current accounts and deposits from customers	622,419	145,580	653,713	382,140	70,767	1,874,619
Interest-bearing borrowings	59,831	14,565	21,832	9,319	4,436	109,983
Subordinated liability	-	-	-	-	37,306	37,306
Provisions for liabilities and charges	-	-	-	-	1,657	1,657
Lease liability	273	548	2,402	4,250	2,560	10,033
Other liabilities	29,277	-	15	(5)	15	29,248
TOTAL LIABILITIES	776,282	189,175	732,002	395,704	126,762	2,219,955
EQUITY						
Ordinary share capital	-	-	-	-	278,012	278,012
Legal and other reserves	-	-	-	-	2,137	2,137
Fair value reserve	-	(1)	11	(123)	13,970	13,857
Accumulated losses	-	-	-	-	(25,662)	(25,662)
TOTAL EQUITY	-	(1)	11	(123)	268,457	268,344
TOTAL LIABILITIES AND EQUITY	776,282	189,175	732,013	395,581	395,249	2,488,299
MATURITY GAP	(272,847)	(48,161)	(341,964)	57,870	605,102	-

Notes to the financial statements (continued)

31. Exposure to foreign currency risk

Foreign currency structure of the balance sheet is presented in the following tables:

As at 31 December 2020		HRK 000				
ASSETS	EUR (and EUR linked)	USD	CHF	Other currencies	HRK	Total
Cash and current accounts with banks	60,403	6,788	9,982	7,294	584,050	668,517
Obligatory reserve with CNB and compulsory CNB bills	-	-	-	-	116,740	116,740
Financial assets at fair value through other comprehensive income	126,118	51,453	-	-	288,115	465,686
Financial investments at amortised cost	17,532	21,396	-	-	17,950	56,878
Loans to and receivables from customers	965,749	2,235	1,570	(32)	575,312	1,544,834
Placements with other banks	2,789	-	-	-	-	2,789
Property, plant and equipment	-	-	-	-	37,800	37,800
Right of use assets	-	-	-	-	8,251	8,251
Intangible assets	-	-	-	-	8,981	8,981
Foreclosed assets	-	-	-	-	789	789
Tax prepayment	-	-	-	-	819	819
Other assets	-	-	-	-	4,194	4,194
TOTAL ASSETS	1,172,591	81,872	11,552	7,262	1,643,001	2,916,278
LIABILITIES						
Current accounts and deposits from banks and financial institutions	41,986	28	-	-	121,490	163,504
Current accounts and deposits from customers	1,138,850	80,372	10,601	5,901	834,963	2,070,687
Interest-bearing borrowings	59,166	-	-	-	269,283	328,449
Provisions for liabilities and charges	-	-	-	-	2,477	2,477
Other liabilities	-	-	-	-	42,134	42,134
TOTAL LIABILITIES	1,240,002	80,400	10,601	5,901	1,270,347	2,607,251
EQUITY						
Ordinary share capital	-	-	-	-	315,392	315,392
Legal and other reserves	-	-	-	-	2,453	2,453
Fair value reserve	-	-	-	-	10,950	10,950
Accumulated losses	-	-	-	-	(19,768)	(19,768)
TOTAL EQUITY	-	-	-	-	309,027	309,027
TOTAL LIABILITIES AND EQUITY	1,240,002	80,400	10,601	5,901	1,579,374	2,916,278
NET ASSETS/ LIABILITIES AND EQUITY	(67,411)	1,472	951	1,361	63,627	-

Notes to the financial statements (continued)

31. Exposure to foreign currency risk (continued)

As at 31 December 2019

HRK 000

ASSETS	EUR (and EUR linked)	USD	CHF	Other currencies	HRK	Total
Cash and current accounts with banks	15,083	3,355	9,763	3,697	289,781	321,679
Obligatory reserve with CNB and compulsory CNB bills	-	-	-	-	144,228	144,228
Financial assets at fair value through other comprehensive income	134,112	36,965	-	-	278,124	449,201
Financial investments at amortised cost	18,215	23,100	-	-	5,207	46,522
Loans to and receivables from customers	1,331,285	969	-	(53)	117,054	1,449,255
Placements with other banks	2,754	-	-	-	-	2,754
Property, plant and equipment	-	-	-	-	38,925	38,925
Right of use assets	-	-	-	-	9,934	9,934
Intangible assets	-	-	-	-	7,507	7,507
Foreclosed assets	-	-	-	-	809	809
Other assets	-	-	-	-	17,485	17,485
TOTAL ASSETS	1,501,449	64,389	9,763	3,644	909,054	2,488,299
LIABILITIES						
Current accounts and deposits from banks and financial institutions	46,889	-	-	-	110,220	157,109
Current accounts and deposits from customers	1,043,753	83,341	10,971	2,890	733,664	1,874,619
Interest-bearing borrowings	109,982	-	-	-	-	109,982
Subordinated liability	37,306	-	-	-	-	37,306
Provisions for liabilities and charges	-	-	-	-	1,657	1,657
Other liabilities	-	-	-	-	39,281	39,281
TOTAL LIABILITIES	1,237,930	83,341	10,971	2,890	884,822	2,219,954
EQUITY						
Ordinary share capital	-	-	-	-	278,012	278,012
Legal and other reserves	-	-	-	-	2,137	2,137
Fair value reserve	-	-	-	-	13,858	13,858
Accumulated losses	-	-	-	-	(25,662)	(25,662)
TOTAL EQUITY	-	-	-	-	268,345	268,345
TOTAL LIABILITIES AND EQUITY	1,237,930	83,341	10,971	2,890	1,153,167	2,488,299
NET ASSETS/ LIABILITIES AND EQUITY	263,519	(18,952)	(1,208)	754	(244,113)	-

Notes to the financial statements (continued)

31. Exposure to foreign currency risk (continued)

Sensitivity of profit and loss to exchange rate fluctuations

The table below represents sensitivity of the profit or loss to exchange rate fluctuations. The effect of exchange rate fluctuations is presented using VaR (value-at-risk - 500 observations and 99% confidence level) on the currencies for which the Bank has significant exposures as follows:

Currency risk	2020	2019
Maximum overall open foreign currency position including options (% of the regulatory capital)	7,81%	2,94%
Open FX position including options in u EUR (% of the regulatory capital)	7,09%	2,41%
Open FX position including options in u USD (% of the regulatory capital)	0,24%	0,77%
VaR (EUR) / open FX position of the Bank in EUR (% of the regulatory capital)	0,15%	0,10%
VaR (USD) / open FX position of the Bank in USD (% of the regulatory capital)	0,78%	0,58%

32. Exposure to interest-rate risk

The following table shows sensitivity of Bank equity (economic value) to reasonable interest rate movements (parallel shift), on condition that all other variables are constant. The sensitivity presented below is prepared based on methodology used to prepare sensitivity report "EVKI" as reported to regulator (Croatian National Bank).

Currency	Changes in interest rate	Sensitivity of equity value to interest rate movements		2020	
		HRK 000	Changes in interest rate	HRK 000	Sensitivity of equity value to interest rate movements
HRK	100 bp	2,540	200 bp	5,079	
EUR	100 bp	(5,413)	200 bp	(10,827)	
Other	100 bp	(50)	200 bp	(100)	
TOTAL		(2,924)		(5,848)	

Currency	Changes in interest rate	Sensitivity of equity value to interest rate movements		2019	
		HRK 000	Changes in interest rate	HRK 000	Sensitivity of equity value to interest rate movements
HRK	100 bp	11,192	200 bp	22,385	
EUR	100 bp	(5,668)	200 bp	(11,335)	
Other	100 bp	68	200 bp	136	
TOTAL		5,592		11,186	

Notes to the financial statements (continued)

32. Exposure to interest-rate risk (continued)

Analysis of loans by type of interest rate

	As at 31 December 2020		As at 31 December 2019	
	Interest rate type			
	Fixed	Variable	Fixed	Variable
Assets	46,98%	53,02%	55,60%	44,40%
Liabilities	70,65%	29,35%	75,51%	24,49%

Average effective interest rates

The average effective interest rates for interest-earning financial assets and interest-bearing financial liabilities during the year calculated on average quarterly balances for the Bank are as follows:

	2020 Effective interest rate	2019 Effective interest rate
Cash and current accounts with banks	(0,13%)	(0,22%)
Obligatory reserve with the CNB and compulsory CNB bills	-	-
Placements with other banks	0,59%	0,04%
Debt securities at fair value through other comprehensive income	0,92%	1,13%
Financial assets at amortised cost	8,95%	6,89%
Loans to and receivables from customers	5,20%	5,84%
Current accounts and deposits from banks and financial institutions	0,53%	0,61%
Current accounts from customers	0,07%	0,06%
Term deposits from customers	0,66%	0,89%
Interest-bearing borrowings	0,57%	1,08%
Subordinated liability	-	1,45%

Notes to the financial statements (continued)

33. Risk and capital management

Note 33 complements notes 28 to 32, whereby note 33 provides general risk management policies and principles, notes 28 to 32 provide quantitative disclosures of exposure to various risks.

a) Financial risk management

The operations of the Bank are exposed to various types of risk, which arise from the uncontrollable character of the financial market. The Bank tries to control and minimize the risks. The most significant types of financial risk to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes the risk of change of interest rates, risk of change of foreign exchange rates and change of market value of securities,

b) Credit risk

Credit risk is the most significant type of risk to which the Bank is exposed in its operations,. Credit risk arises from the inability of the other party to service their liabilities as they fall due. The Bank monitors the exposure to credit risk and the quality of the portfolio on a regular basis.

Credit risk management is principally implemented through the selection of customers with good credit-standing and seeking adequate collateral.

In granting placements, the quality, i.e creditworthiness of the customer, is the main criteria. The Bank additionally reduces exposure to credit risk by securing placements with collateral. The Bank has established a Risk Assessment and Measurement Unit, (within the Risk Management Department) in charge of regular credit risk management and monitoring. Risk Management Department also participates in the process of granting all significant placements, as well as in the process of approving the Bank's lending policies.

In measurement of credit risk of loans and advances to customers and banks, the Bank uses three major factors:

- (i) the creditworthiness;
- (ii) regular settlement of contractual obligations;
- (iii) the quality of collateral, as explained below.

i) The Bank assesses creditworthiness using internal rating tools. They have been developed internally and combine statistical and empirical analysis based on loan officers' judgment, and if required, they are assessed in comparison with available external data.

ii) Settlement of obligations means payment of all obligations within contractual maturities, without establishing a new receivable.

(iii) The quality of the collateral is determined by marketability, protection of legal documentation and the possibility of enforcing collection.

Notes to the financial statements (continued)

33. Risk and capital management (continued)

b) Credit risk (continued)

The Bank structures the levels of credit risk by placing limits on the amount of risk accepted in relation to one borrower and a group of related parties, and industrial segments. Limits on the level of credit risk by industry sectors are regularly reviewed.

Exposure to credit risk is also managed by regular analysis of the ability of borrowers and potential borrowers to meet all obligations to the Bank and by changing lending limits where appropriate. The assessment of possible losses is monitored on a regular basis to enable timely identification of such placements and calculation of impairment losses.

c) Liquidity risk

Liquidity risk represents the risk that the Bank will not be able to settle its liabilities as they fall due, and finance or liquidate assets on the basis of acceptable prices.

In order to ensure the quality of funding sources, the Bank funds itself from various sources: deposits of retail customers, special participations, assets from the money market funds, and share capital, which reduces dependence on only one source, and consequently liquidity risk.

The Bank prepares strategies in order to ensure that the needs of the Bank for cash funds in certain currencies are covered. The Bank's strategy is oriented towards ensuring adequate liquidity level which meets both estimated and unforeseen needs for cash funding. In case of an unforeseen need for cash funds, the Bank could take actions such as control of the Bank's credit activity, withdrawal of the available lines of credit and other necessary measures,

The Bank manages its assets and sources of funding taking into consideration financial flows, cash flows and concentrations, all with the aim of matching the cash inflows and outflows of the Bank. Such management includes the identification of known, expected and potential cash outflows and making different strategies of assets and liabilities management in order to ensure the needs of the Bank for cash inflows. Accordingly, liquidity risk management system includes: assessment and measurement of liquidity risk exposure, setting and monitoring limits as well as reporting on their utilization.

Liquidity risk management is achieved by operational short-term liquidity management and long-term liquidity management.

The Management Board of the Bank is responsible for liquidity risk management.

d) Market risk

- *Foreign currency risk* mainly arises from transactions in EUR, USD and CHF, or linked to EUR, USD, CHF and to a lesser extent, other currencies.

Control and mitigation of foreign currency risk is implemented by monitoring foreign currency deposit and simultaneous contracting of loans with foreign currency clause. Foreign currency risk is controlled on a daily basis, according to regulatory, but also internally determined limits of certain currencies.

Notes to the financial statements (continued)

33. Risk and capital management (continued)

d) Market risk (continued)

The Bank directs its business activities trying to minimize gaps between assets and liabilities denominated in foreign currency directly or with foreign currency clauses. The Bank manages its assets and liabilities by matching certain foreign currency assets with liabilities in order to optimize the risk and profitability relationship due to currency movements.

- Interest rate risk is the risk of change of the prices of financial assets at fair value through other comprehensive income as a result of the changes in interest rates. Interest rate risk is controlled through monitoring the interest rate sensitivity of assets and liabilities.

Risk management activities are mainly carried out in the context of the Bank's sensitivity to interest rate changes. Exposure to interest rate risk is the result of mismatch between assets and liabilities, which carry variable and /or fixed rates and / or reprice at a different time and it is monitored using the analysis of mismatch between assets and liabilities.

The objective of interest rate risk management is to ensure an optimal and stable net interest margin. In accordance with its asset and liability management policy, the Bank monitors the mismatch between assets and liabilities in the statement of financial position, using various criteria for possible change of interest rate. The calculation represents the amount of changes in the value of equity resulting from simultaneous changes in interest rates by 100 basis points (stress test 200 basis points). The above amount should be within 10% change of economic value of regulatory capital,

- *Price risk* is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than fluctuations resulting from currency and interest rate), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Bank's investment in open-ended investment funds represent its exposure to price risk,

e) Capital management

The primary goals of the Bank related to capital management are alignment with all legal capital requirements, by concurrently retaining sufficient capital adequacy for the purpose of supporting business activity, in order to maximise the value for shareholders.

The Bank manages the structure of equity and risks arising from its business activity.

The Bank's regulatory capital requirements were based on EU Regulation No 575/2013 in 2020 and 2019.

In 2020 The Bank's regulatory capital consists of Tier 1 capital (all qualifies as Common Equity Tier 1 ("CET1") capital, which includes ordinary share capital, accumulated losses, reserves and loss for the period after adjustment intangible assets. In 2019 the HRK 37,213 thousand of subordinated liability contracted in 2016 and 2017 is included fully in Tier 2 capital.

Notes to the financial statements (continued)

33. Risk and capital management (continued)

e) Capital management (continued)

The table below summarises the composition of regulatory capital and ratios of the Bank (risk weighted assets have been unaudited as of the date of the issuance of these financial statements):

	Unaudited 31 December 2020 HRK 000	Audited 31 December 2019 HRK 000
Regulatory capital		
Issued ordinary share capital and preference shares	315,392	278,012
Reserves – legal	2,453	2,137
Losses in previous years	(25,662)	(25,662)
Subordinated liability	-	37,213
Adjustment for intangible assets	(8,520)	(7,507)
Adjustment for financial assets at fair value through other comprehensive income	(466)	(449)
Other comprehensive income	10,950	13,858
Total regulatory capital	294,147	297,602
Risk-weighted assets		
Credit risk-weighted assets	1,533,846	1,508,856
Exposure to operational risk	176,264	158,091
Exposure to currency risk	22,820	8,626
Total risk weighted assets	1,732,930	1,675,573
Common Equity Tier 1 capital ratio	16,97%	15,54%
Tier 1 capital ratio	16,97%	15,54%
Total capital adequacy ratio	16,97%	17,76%

Prescribed minimal capital ratios in accordance with Article 92 of EU Regulation No 575/2013 are as follows:

- Common Equity Tier 1 capital ratio of 4,5% of the total risk exposure amount,
- Tier 1 capital ratio of 6% of the total risk exposure amount,
- Total capital ratio of 8% of the total risk exposure amount,

In addition to regulatory prescribed minimal capital adequacy ratios and in accordance with Articles 117 and 130 of CNB's Credit Institutions Act and Articles 129 and 133 of CRD IV, the Bank is also obliged to maintain specifically set capital buffers.

The Bank is compliant with the CNB prescribed total capital ratio in both 2020 and 2019.

f) Operational risk management

Operational risk represents risk of loss due to inadequate or unsuccessful internal processes, employees or due to external events.

Responsibility for the implementation of operational risk management system and control of operational risk management at the level of the Bank is assigned to the Risk control function.

Notes to the financial statements (continued)

34. Fair values

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

Cash and balances with Croatian National Bank

The carrying value of cash and balances with the CNB approximate their fair value due to short-term maturity of these financial instruments.

Placements with other banks

Placements with other banks are stated at amortized cost. The fair value calculated by discounting the expected future cash flows of principal and interest is not significantly different from their book values in light of their short-term maturities.

Loans and advances

Management has considered the fair value of loans and advances. As most of the Bank's loan portfolio is contracted with variable interest rates and the Bank's portfolio of loans and advances with fixed rates and longer-term maturity were predominantly originated recently, management considers that the fair value of the overall portfolio of loans and advances, calculated by discounting expected future principal and interest cash flows (assuming that loan repayments will occur at contractual repayment dates taking into account existing identified impairment losses) would not be significantly different from the carrying amount before allowances for expected credit losses. The fair value of non-performing loans to customers is estimated using a discounted cash flow analysis.

It is not possible for the Bank to estimate the difference between the effect of expected credit losses calculated in accordance with the CNB regulations, which are included in the carrying value of loans and advances, and the effect on the discounted cash flow calculations referred to above as an estimate of the fair value of expected future losses which would reduce future cash flows.

Financial investments at amortised cost

The fair value of financial investments at amortised cost in the opinion of the Management Board, also approximates their book value.

Deposits from banks and customers

For demand deposits, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values. As most of the Bank's deposits with fixed interest rates are due within one year, although the interest rate being above the market rate, there is no significant difference between the fair value of these deposits and their carrying value.

Interest-bearing borrowings

There is no significant difference between carrying and fair value.

Notes to the financial statements (continued)

34. Fair values (continued)

Determination of fair value and fair value hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly (indicative prices in active markets)
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

There were no transfers between levels in 2020 and 2019.

	LEVEL 1	LEVEL 2	LEVEL 3	2020
Financial assets	HRK 000	HRK 000	HRK 000	TOTAL HRK 000
Financial assets at fair value through other comprehensive income				
Local Government bonds	346,481	-	-	346,481
Local Corporate bonds	-	-	-	-
Local treasury bills	-	67,760	-	67,760
Foreign sovereign bonds	16,672	-	-	16,672
Foreign corporate bonds	34,773	-	-	34,773
Total	397,926	67,760	-	465,686

	LEVEL 1	LEVEL 2	LEVEL 3	2019
Financial assets	HRK 000	HRK 000	HRK 000	TOTAL HRK 000
Financial assets at fair value through other comprehensive income				
Local Government bonds	320,170	-	-	320,170
Local Corporate bonds	-	-	-	-
Local treasury bills	-	79,514	-	79,514
Foreign sovereign bonds	29,512	-	-	29,512
Foreign corporate bonds	20,005	-	-	20,005
Total	369,687	79,514	-	449,201

Appendix 1 – Supplementary schedules for CNB

Croatian National Bank adopted on 10 May 2018 the Decision on the Structure and Content of the Financial Statements of Banks (Official Gazette 42/18),

Supplementary schedules for the CNB prepared pursuant to the above Decision are presented below along with the reconciliation of the supplementary schedules for CNB with the statutory financial statements, prepared in accordance with the accounting regulations applicable for banks in Croatia

Appendix 1 – Supplementary schedules for CNB

INCOME STATEMENT for the period 01.01.2019. to 31.12.2020.

Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
1. Interest income	069	94.372.264	87.610.231
2. Interest expenses	070	15.602.201	11.811.774
3. Expenses on share capital repayable on demand	071		
4. Dividend income	072		
5. Fee and commission income	073	16.303.995	15.369.445
6. Fee and commission expenses)	074	4.327.059	3.599.110
7. Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	075	11.956.230	3.973.975
8. Gains or (-) losses on financial assets and liabilities held for trading, net	076	7.142.021	12.229.220
9. Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	077		
10. Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	078		
11. Gains or (-) losses from hedge accounting, net	079		
12. Exchange differences [gain or (-) loss], net	080	246.318	-541.834
13. Gains or (-) losses on derecognition of non-financial assets, net	081		
14. Other operating income	082	1.655.636	1.064.415
15. (Other operating expenses)	083	6.719.976	5.417.724
16. TOTAL OPERATING INCOME, NET (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 to 082 - 083)	084	105.027.228	98.876.844
17. Administrative expenses	085	58.837.532	58.953.322
18. Depreciation	086	7.724.182	8.923.622
19. Modification gains or (-) losses, net	087		
20. Provisions or (-) reversal of provisions	088	374.419	819.701
21. Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	089	18.084.113	23.067.947
22. Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates	090		
23. Impairment or (-) reversal of impairment on non-financial assets	091		
24. Negative goodwill recognised in profit or loss	092		
25. Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	093		
26. Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	094		
27. PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS	095	20.006.982	7.112.252
28. Tax expense or (-) income related to profit or loss from continuing operations	096	2.056.498	1.218.216
29. PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (AOP 095 - 096)	097	17.950.484	5.894.036
30. Profit or (-) loss after tax from discontinued operations (AOP 099 - 100)	098	0	0
30 Profit or (-) loss before tax from discontinued operations	099		
30 Tax expense or (-) income related to discontinued operations	100		
31. PROFIT OR (-) LOSS FOR THE YEAR (AOP 097 + 098; 102 + 103)	101	17.950.484	5.894.036
32. Attributable to minority interest [non-controlling interests]	102		
33. Attributable to owners of the parent	103		

Appendix 1 – Supplementary schedules for CNB

BALANCE SHEET AS AT 31.12.2020.

Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
Assets			
1.Cash, cash balances at central banks and other demand deposits	001	320.973.836	666.959.594
1.1 Cash on hand	002	33.884.674	43.349.755
1.2 Cash balances at central banks	003	265.040.295	549.296.420
1.3 Other demand deposits	004	22.048.867	74.313.419
2.Financial assets held for trading	005	0	0
2.1 Derivatives	006		
2.2 Equity instruments	007		
2.3 Debt securities	008		
2.4 Loans and advances	009		
3.Non-trading financial assets mandatorily at fair value through profit or loss	010	15	15
3.1 Equity instruments	011	15	15
3.2 Debt securities	012		
3.3 Loans and advances	013		
4.Financial assets designated at fair value through profit or loss	014	0	0
4.2 Debt securities	015		
4.3 Loans and advances	016		
5.Financial assets at fair value through other comprehensive income	017	449.200.565	465.686.451
5.1 Equity instruments	018		
5.1 Debt securities	019	449.200.565	465.686.451
5.2 Loans and advances	020		
6.Financial assets at amortised cost	021	1.658.615.885	1.723.285.119
6.1 Debt securities	022	38.238.688	36.790.942
6.2 Loans and advances	023	1.620.377.197	1.686.494.177
7.Derivatives – Hedge accounting	024		
8.Fair value changes of the hedged items in portfolio hedge of interest rate risk	025		
9.Investments in subsidiaries, joint ventures and associates	026		
10. Tangible assets	027	48.860.500	46.050.154
11. Intangible assets	028	7.506.805	8.981.623
12. Tax assets	029	352.729	2.139.172
13. Other assets	030	3.129.153	4.481.815
14. Non-current assets and disposal groups classified as held for sale	031		
15. TOTAL ASSETS	032	2.488.639.488	2.917.583.943
Liabilities			
16. Financial liabilities held for trading	033	0	0
16.1 Derivatives	034		
16.2 Short positions	035		
16.3 Deposits	036		
16.4 Debt securities issued	037		
16.5 Other financial liabilities	038		
17. Financial liabilities designated at fair value through profit or loss	039	0	0
17.1 Deposits	040		
17.2 Debt securities issued	041		
17.3 Other financial liabilities	042		
18. Financial liabilities measured at amortised cost	043	2.189.182.018	2.571.169.268
18.1 Deposits	044	2.179.122.804	2.562.679.455
18.2 Debt securities issued	045		
18.3 Other financial liabilities	046	10.059.214	8.489.813

Appendix 1 – Supplementary schedules for CNB

19. Derivatives – Hedge accounting	047		
20. Fair value changes of the hedged items in portfolio hedge of interest rate risk	048		
21. Provisions	049	2.081.595	3.131.279
22. Tax liabilities	050	5.262.723	3.776.355
23. Share capital repayable on demand	051		
24. Other liabilities	052	23.767.754	30.479.433
25. Liabilities included in disposal groups classified as held for sale	053		
26. TOTAL LIABILITIES	054	2.220.294.090	2.608.556.335
Capital			
27. Capital	055	278.011.800	315.392.400
28. Share premium	056		
29. Equity instruments issued other than capital	057		
30. Other equity	058		
31. Accumulated other comprehensive income	059	13.858.335	10.950.195
32. Retained earnings	060	-43.612.584	-25.662.099
33. Revaluation reserves	061		
34. Other reserves	062	2.137.362	2.453.077
35. (-) Treasury shares	063		
36. Profit or loss attributable to owners of the parent	064	17.950.485	5.894.035
37. (-) Interim dividends	065		
38. Minority interests [Non-controlling interests]	066		
39. TOTAL EQUITY	067	268.345.398	309.027.608
40. TOTAL EQUITY AND TOTAL LIABILITIES	068	2.488.639.488	2.917.583.943

Appendix 1 – Supplementary schedules for CNB

CASH FLOW STATEMENT - Indirect method in the period from 01.01.2019. to 31.12.2020.

Amounts in HRK

Position name	AOP code	Previous period	Current period
1	2	4	5
OPERATING ACTIVITIES AND ADJUSTMENTS			
1. Profit / (loss) before tax	001	17.950.484	5.894.034
2. Impairment	002	-4.342.217	23.067.947
3. Depreciation	003	7.724.181	8.923.622
4. Net unrealised profit/(loss) from financial assets and liabilities at fair value through income statement	004		
5. (Gains) / losses from sale of tangible assets	005		
6. Other non-monetary items	006		
Change from assets and liabilities from operating activities			
7. Deposits with CNB	007	-10.257.404	27.488.417
8. Deposits at financial institution and loans to financial institutions	008		
9. Loans to other clients	009	-33.126.084	-116.673.344
10. Financial assets at fair value through other comprehensive income	010	-18.991.744	-19.394.025
11. Financial assets held for trading	011	0	0
12. Non-trading financial assets mandatorily at fair value through profit or loss	012	-15	0
13. Financial assets designated at fair value through profit or loss	013	0	0
14. Financial assets at amortised cost	014	0	0
15. Other assets from operating activities	015	2.866.921	-3.819.800
Net increase/(decrease) in operating liabilities			
16. Deposits with banking institutions	016	0	0
17. Current accounts	017	66.390.092	212.921.797
18. Saving accounts	018	-176.116	30.649
19. Time deposits	019	50.664.851	-47.846.485
20. Derivative financial liabilities and other financial liabilities held for sale	020	0	0
21. Other liabilities	021	12.059.726	5.225.311
22. Unpaid interest from operating activities	022	0	0
23. Dividends received	023	0	0
24. Paid interest from operating activities	024	0	0
25. Paid income tax	025	0	0
A) Net cash inflow / (outflow) from operating activities (AOP 001 do 025)	026	90.762.675	95.818.123
INVESTMENT ACTIVITIES			
1. Cash receipts from (payments to acquire) tangible and intangible assets	027	-21.798.647	-5.857.715
2. Cash receipts from the disposal of (payments for the investment in) subsidiaries, associates and joint ventures	028	0	0
3. Cash receipts from sales of (cash payments to acquire) securities and other financial instruments from investment activities	029	28.114.056	1.447.746
4. Dividends received	030	0	0
5. Other receipts from (payments for) investments	031	10.039.445	-1.253.686
B) Net cash inflow / (outflow) from investment activities (AOP 027 do 031)	032	16.354.854	-5.663.655
FINANCIAL ACTIVITIES			
1. Net increase / (decrease) in received loans	033	-109.044.927	218.450.690
2. Net increase / (decrease) of issued debt securities	034	0	0
3. Net increase / (decrease) of subordinated and hybrid instruments	035	0	0
4. Proceeds from issue of share capital	036	0	37.380.600
5. (Dividends paid)	037	0	0
6. Other proceeds (payments) from financing activities	038	0	0
C) Net cash inflow / (outflow) from financial activities (AOP 033 do 038)	039	-109.044.927	255.831.290
D) Net increase / (decrease) of cash and cash equivalents (AOP 026+032+039)	040	-1.927.398	345.985.758
Cash and cash equivalents at the beginning of the year	041	322.909.875	320.973.836
Effect of currency exchange rate conversion on cash and cash equivalents	042		
Cash and cash equivalents at the end of the year (AOP 040+041+042)	043	320.982.477	666.959.594

Appendix 1 – Supplementary schedules for CNB

STATEMENT OF CHANGES IN EQUITY in the period from 1.1.2019. to 31.12.2020.

Amounts in HRK

Position name	AOP code	Attributable to shareholders of the Bank											Minority interest		Total equity and reserves
		Share capital	Share premium	Equity instruments issued except capital	Other equity holdings	Accumulated other comprehensive income	Retained earnings/loss	Revaluation reserves	Other reserves	Treasury shares	Profit / loss attributable to owners of the parent company	Dividends during the business year	Accumulated other comprehensive income	Other items	
1	2	4	5	6	7	8	9	10	11	12	13	14	15	16	17 (4 to 16)
1. Balance at 1 January 2019	01	278.011.800	0	0	0	13.858.334	-25.662.099	0	2.137.362	0	0	0	0	0	268.345.397
2. Effect of error correction	02														0
3. Changes in accounting policies	03														0
4. Restated balance at 1 January 2018 (001+002)	04	278.011.800	0	0	0	13.858.334	-25.662.099	0	2.137.362	0	0	0	0	0	268.345.397
5. Issuance of ordinary shares	05														0
6. Issuance of Preferred Shares	06														0
7. Issuance of other equity instruments	07														0
8. Reduction or expansion of other issued equity instruments	08														0
9. Converting Debt to Owners instruments	09														0
10. Reduction of capital	10														0
11. Dividends	11														0
12. Purchase of treasury shares	12														0
13. Sale or cancellation of treasury shares	13														0
14. Reclassification of Financial Instruments from equity instruments in liabilities	14														0
15. Reclassification of Financial Instruments from liabilities to equity instruments	15	37.380.600													37.380.600
16. Transfers between components of equity instruments	16														0
17. Increase or decrease in ownership instruments as a result of business combination	17														0
18. Share-based payments	18														0
19. Other increase or decrease in ownership instruments	19								315.715						315.715
20. Total comprehensive income for the current year	20					-2.908.140	5.894.034								2.985.894
Balance at 31 December 2020 (003+010+011+012+013+016)	22	315.392.400	0	0	0	10.950.194	-19.768.065	0	2.453.077	0	0	0	0	0	309.027.606

Appendix 2

Reconciliation of the statutory financial statements with the supplementary schedules for CNB from Appendix 1

a) Comparison of profit and loss account

Statutory financial statements		Supplementary schedules for CNB			Difference	Explanation of difference
Position name	Amount in HRK '000	Position name	AOP code	Amount in HRK '000		
Interest and similar income	86.423	1. Interest income	069	87.610	- 1.187	HRK -34 thousand of Interest income from placements to non-banking financial institutions is presented within Fees and commission income for CNB reporting (Note 1), HRK -1.151 of Cancellation interest with premature deliverance of deposit is presented in interest expense in financial statements (Note 2), HRK -2 of Interest income from Financial instrument through other comprehensive income is presented under Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss (Note 3)
Interest expense and similar charges	- 11.304	2. Interest expense	070	- 11.812	508	HRK -86 thousand of Interest expenses banks is presented within Other operating expenses for CNB reporting (Note 4), HRK -495 of Interest expenses CNB is presented within Other operating expenses for CNB report (Note 5), HRK 1.151 refer to Note 2 above, HRK -62 of Expenses for Savedo deposits is presented within Fee and commission expense for CNB reporting (Note 6)
		3. Expenses on share capital repayable on demand	071			
		4. Dividend income	072			
Fee and commission income	15.404	5. Fee and commission income	073	15.369	35	HRK 34 see Note 1 above, HRK 1 is rounding difference
Fee and commission expense	- 3.537	6. Fee and commission expenses)	074	- 3.599	62	HRK 62 Refer to Note 6 above
Net realised gains from financial assets available for sale	3.976	7. Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	075	3.974	2	HRK -541 thousand of foreign exchange differences in relation to dealing with foreign currencies reclassified to Exchange differences [gain or (-) loss], net for CNB reporting (Note 7), HRK -7 thousand of Realized gain/loss from assets at fair value through other comprehensive income is presented within Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss for CNB reporting (Note 8), HRK 2 see Note 3 above
Net gains from translation of monetary assets and liabilities, fixing of CHF rate and foreign exchange spot trading	11.681	8. Gains or (-) losses on financial assets and liabilities held for trading, net	076	12.229	- 548	
		9. Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	077			
		10. Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	078	-	-	
		11. Gains or (-) losses from hedge accounting, net	079	-	-	
		12. Exchange differences [gain or (-) loss], net	080	- 542	542	Refer to Note 7 above, HRK 1 is rounding difference
		13. Gains or (-) losses on derecognition of non-financial assets, net	081	-	-	
Other income	984	14. Other operating income	082	1.064	- 80	income from reversal of unused vacation day provision (HRK -35 thousand) included in staff costs in statutory financial statements. (Note 9). And written-off amount of fixed assets (HRK -45 thousand) is presented in Other operating expenses for CNB reporting (Note 10)

Appendix 2

Reconciliation of the statutory financial statements with the supplementary schedules for CNB from Appendix 1 (continued)

b) Comparison of profit and loss account continued

Statutory financial statements		Supplementary schedules for CNB			Difference	
Position name	Amount in HRK '000	Position name	AOP code	Amount in HRK '000	Difference	Explanation of difference
		15. (Other operating expenses)	083	- 5.418	5.418	Refer to Note 4, Note 5, Note 10, and HRK 4,526 thousand of other expenses is presented in other administrative expenses in financial reporting (Note 11), HRK 265 thousand of expenses for unused vacation is presented as Staff cost in financial reporting (Note 12), HRK 1 thousand is rounding difference
Staff costs	- 42.508				- 42.508	HRK -42,278 thousand of expenses for salaries, taxes and contribution and other expenses related to employees are presented within Administrative expenses for CNB reporting (Note 13), HRK 35 thousand refer to Note 9 above, HRK -265 refer to Note 12 above
Other administrative expenses	- 21.202	17. Administrative expenses	085	- 58.953	37.751	HRK 42,278 refer to Note 13 above HRK -4,526 refer to Note 11 above, HRK -1 is rounding difference
Depreciation and amortisation	- 8.924	18. Depreciation	086	- 8.924	-	
		19. Modification gains or (-) losses, net	087	-	-	
		20. Provisions or (-) reversal of provisions	088	- 820	820	HRK 7 thousand refers to Note 8, HRK 812 thousand for offbalance liabilities is presented in Impairment losses and provisions in Financial statements (Note 14), HRK 1 is rounding difference
Impairment losses and provisions	- 23.881	21. Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	089	- 23.068	- 813	HRK -812 Refer to Note 14, HRK -1 is rounding difference
		22. Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates	090		-	
		23. Impairment or (-) reversal of impairment on non-financial assets	091		-	
		24. Negative goodwill recognised in profit or loss	092		-	
		25. Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	093		-	
		26. Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	094	-		
PROFIT (LOSS) BEFORE TAX	7.112	22. PROFIT/(LOSS) BEFORE TAX		7.110	- 2	HRK 2 represents rounding difference
Income tax expense	- 1.218	23. INCOME TAX		- 1.218	-	
LOSS FOR THE YEAR	5.894	24. PROFIT/(LOSS) FOR THE PERIOD	095	5.892	2	HRK 2 represents rounding difference

Appendix 2

Reconciliation of the statutory financial statements with the supplementary schedules for CNB from Appendix 1 (continued)

c) Comparison of statement of financial position

Statutory financial statements		Supplementary schedules for CNB				
Name of line	Amount in HRK '000	Name of position	AOP code	Amount in HRK '000	Difference	Explanation of difference
ASSETS		ASSETS				
Cash and current accounts with banks	668.517	1.Cash, cash balances at central banks and other demand deposits	001	666.960	-1.557	
		1.1 Cash on hand	002	43.350	0	HRK -1.557 thousand of Reservations that are determined on an aggregate basis is presented in Financial statements In Financial investments at amortised cost (Note 1)
		1.2 Cash balances at central banks	003	549.296	0	
		1.3 Other demand deposits	004	74.313	0	
Obligatory reserve with Croatian National Bank and compulsory CNB bills	116.740				116.740	HRK 116,740 thousand of Obligatory reserve with Croatian National Bank and compulsory CNB bills is presented in Financial assets at amortised costs for CNB reporting (Note 2)
Placements with other banks	2.789				2.789	HRK 2,789 thousand of Placements with other banks is presented in Financial assets at amortised costs for CNB reporting (Note 3)
		2.Financial assets held for trading	005	0	0	
		2.1 Derivatives	006	-	0	
		2.2 Equity instruments	007	-	0	
		2.3 Debt securities	008	-	0	
		2.4 Loans and advances	009	-	0	
		3.Non-trading financial assets mandatorily at fair value through profit or loss	010	0	0	
		3.1 Equity instruments	011	-	0	
		3.2 Debt securities	012	-	0	
		3.3 Loans and advances	013	-	0	
		4.Financial assets designated at fair value through profit or loss	014	0	0	
		4.2 Debt securities	015	-	0	
		4.3 Loans and advances	016	-	0	
Financial assets at fair value through other comprehensive income	465.686	5.Financial assets at fair value through other comprehensive income	017	465.686	0	
		5.1 Equity instruments	018	-	0	
		5.1 Debt securities	019	465.686	0	
		5.2 Loans and advances	020	-	0	
		6.Financial assets at amortised cost	021	1.723.285	0	
Financial investments at amortised cost	56.878	6.1 Debt securities	022	36.791	20.087	HRK 20,088 of Factoring is presented in Loans and advances in CNB reporting (Note 4) 1 is rounding difference
Loans to and receivables from customers	1.544.834	6.2 Loans and advances	023	1.686.494	-141.660	HRK -116,740 thousand refer to Note 2 above, HRK -2,789 thousand refer to Note 3 above, HRK -20,088 refer to Note 4 above, HRK -1,557 thousand refer to Note 1, HRK -409 thousand of Receivables of Noninterest income and Accrued fees on Loans is presented in Other assets in Financial statements (Note 5), -77 HRK of deferred fees is presented in Other Liability in financial statement (Note 13)
		7.Derivatives – Hedge accounting	024	0	0	
		8.Fair value changes of the hedged items in portfolio hedge of interest rate risk	025	0	0	
		9.Investments in subsidiaries, joint ventures and associates	026	0	0	
Foreclosed assets	789				789	HRK 789 of Foreclosed assets is Presented in Other assets in CNB reporting (Note 6)
Property, plant and equipment	37.800	10. Tangible assets	027	46.050	-8.250	HRK -8,251 of Tangible assets presented in CNB reporting is shown under Right of use assets (Note 7), -1 thousand is rounding difference
Right of use assets	8.251				8.251	Refer to Note 7 above
Intangible assets	8.981	11. Intangible assets	028	8.982	-1	-1 thousand is rounding difference
Income tax prepayment	819	12. Tax assets	029	2.139	-1.320	HRK92 thousand payment for other taxes to Tax Government is presented in Other assets in Financial statements (Note 8) HRK1,228 advanced payment for income tax is presented in Other liabilities in Financial statements (Note 9)
Other assets	4.194	13. Other assets	030	4.482	-288	HRK 92 thousand refer to Note 8, HRK -789 refer to Note 6, HRK 409 thousand refer to Note 5 above,
		14. Non-current assets and disposal groups classified as held for sale	031	0	0	
TOTAL ASSETS	2.916.278	15. TOTAL ASSETS	032	2.917.584	-1.306	

Appendix 2

Reconciliation of the statutory financial statements with the supplementary schedules for CNB from Appendix 1 (continued)

b) Comparison of statement of financial position (continued)

Statutory financial statements		Supplementary schedules for CNB				
Name of line	Amount in HRK '000	Name of position	AOP code	Amount in HRK '000	Difference	Explanation of difference
LIABILITIES		LIABILITIES				
		16. Financial liabilities held for trading	033	0	0	
		16.1 Derivatives	034	0	0	
		16.2 Short positions	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 designated at fair value through profit or loss	039	0		
		17.1 Deposits	040	0		
		17.2 Debt securities issued	041	0		
		17.3 Other financial liabilities	042	0		
Subordinated liabilities	-				0	
Current accounts and deposits from banks and financial institutions	163.504	18. Financial liabilities measured at amortised cost	043	2.571.169		
Current accounts and deposits from customers	2.070.687	18.1 Deposits	044	2.562.679	-8.529	Difference of HRK -8529 thousand of Payables for income distribution and Fees for deposits and Liabilities for leasing is presented in statements under Other Liabilities (Note 10).
Interest-bearing borrowings	328.449	18.2 Debt securities issued	045	0		
		18.3 Other financial liabilities	046	8.490		
		19. Derivatives – Hedge accounting	047	0		
		20. Fair value changes of the hedged items in portfolio hedge of interest rate risk	048	0		
Provisions for liabilities and charges	2.477	21. Provisions	049	3.131	-654	HRK -654 of Accruals for unused vacation is presented in Financial statements as Other liabilities (Note 11).
		22. Tax liabilities	050	3.776	-3.776	HRK -2,548 of Tax liabilities is presented in Financial statements as Other liabilities (Note 12) difference -1,228 HRK see Note 9 above
		23. Share capital repayable on demand	051	0	0	
Deferred tax liability	2.086				2.086	HRK 2,086 of Deferred tax liability is presented in Financial statements as Other liabilities (Note 15)
Other liabilities	40.048	24. Other liabilities	052	30.479	9.569	HRK 654 refer to Note 11 above, HRK 2,548 refer to Note 12 above, HRK 8,529 refer to Note 10, 77 see Note 13 above, -2,086 refer to Note 15 above-1 thousand is rounding difference
		25. Liabilities included in disposal groups classified as held for sale	053	0	0	
Total liabilities	2.607.251	26. TOTAL LIABILITIES	054	2.608.556	-1.305	
EQUITY		EQUITY			0	
Issued share capital	315.392	27. Capital	055	315.392	0	
		28. Share premium	056	0	0	
		29. Equity instruments issued other than capital	057	0	0	
		30. Other equity	058	0	0	
Fair value reserve	10.950	31. Accumulated other comprehensive income	059	10.950	0	
Accumulated loss	- 19.768	32. Retained earnings	060	-25.662	5.894	Profit for the year is a separate line of equity for CNB reporting.
		33. Revaluation reserves	061	0	0	
Legal and other reserves	2.453	34. Other reserves	062	2.453	0	
		35. (-) Treasury shares	063	0	0	
		36. Profit or loss attributable to owners of the parent	064	5.894	-5.894	Profit for the year is a separate line of equity for CNB reporting.
		37. (-) Interim dividends	065	0	0	
		38. Minority interests [Non-controlling interests]	066	0	0	
Total equity	309.027	39. TOTAL EQUITY	067	309.028	-1	
TOTAL LIABILITIES AND EQUITY	2.916.278	40. TOTAL EQUITY AND TOTAL LIABILITIES	068	2.917.584	-1.306	

Appendix 2

Reconciliation of the statutory financial statements with the supplementary schedules for CNB from Appendix 1 (continued)

c) Comparison of cash flow statement

Differences in Cash and cash equivalents arise from different classification of items of statement of financial position for statutory reporting and CNB reporting as well as elimination of non-cash transactions from movements for statutory financial reporting purposes.

d) Comparison of statement of changes in equity

In statutory financial statements loss for the year and accumulated loss are both included in accumulated loss, while they are separately presented for CNB reporting.