TRANSLATION

HRVATSKA POŠTANSKA BANKA P.L.C.

Annual report for 2020

Zagreb, March 2021

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Content

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Introduction

The Annual report includes a summary of financial information, description of operations and audited financial reports together with the independent auditor's opinion for the year ended December 31, 2020, in English language. Original and official Annual report is published in Croatian.

Legal status

The Annual report includes the annual financial reports prepared in accordance with statutory accounting requirements for banks in Republic of Croatia and audited in accordance with International Standards on Auditing.

The Annual report has been prepared in accordance with the Accounting Act and the Companies Act that require reporting to shareholders at the annual shareholders' meeting of the Management Board. According to the Accounting Law the statutory financial reports are report of financial position, PNL report with a report of comprehensive income, report of changes in equity, cash flow report and notes to the financial reports, and the Companies Act, in accordance Article 250.a and 250.b, prescribes the obligation to submit an annual report on the state of the Bank, and other members of HPB Group.

Abbreviations

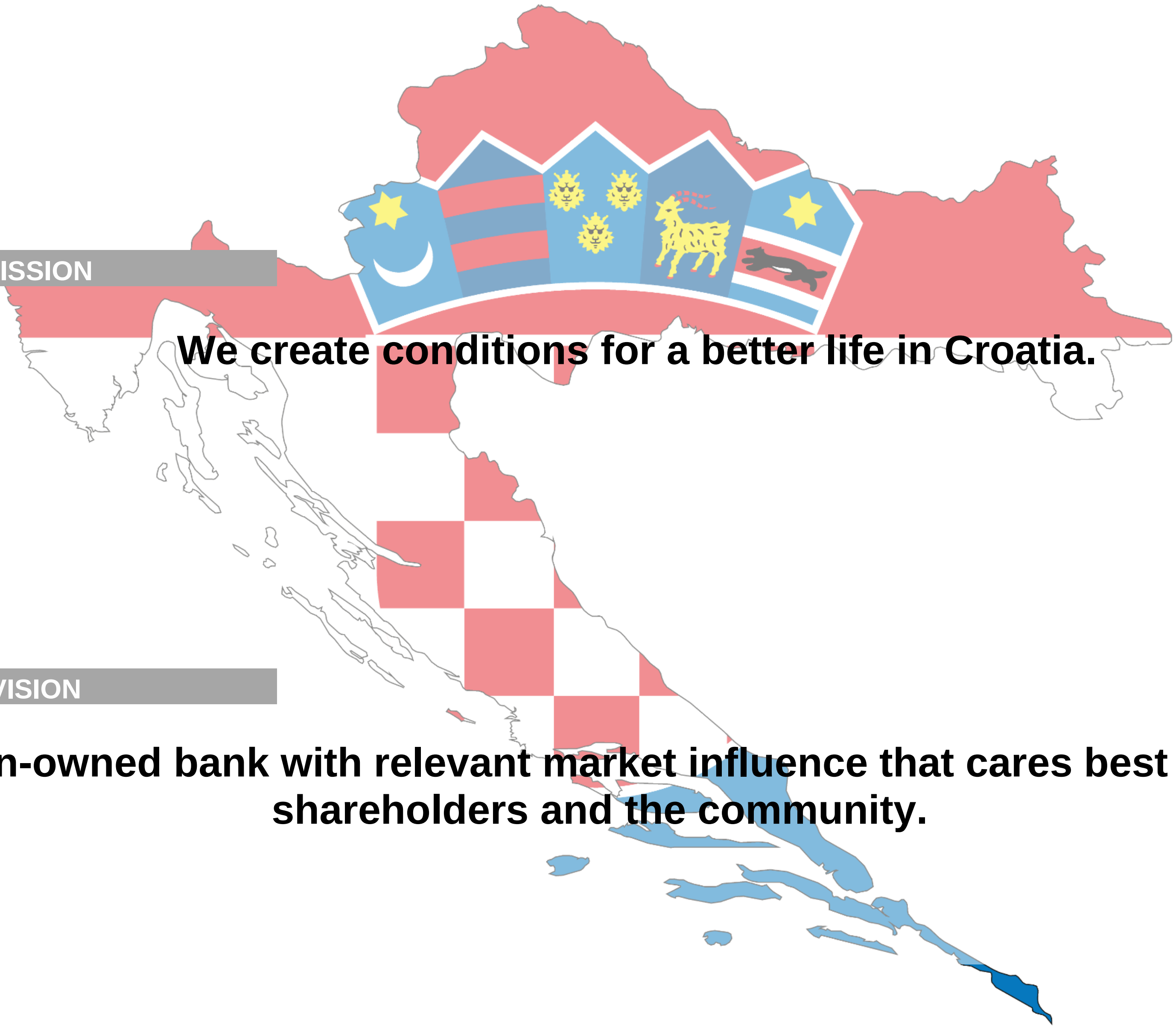
In the Annual report Hrvatska Poštanska Banka p.l.c. is referred to as «the Bank» or «HPB», Hrvatska Poštanska Banka Group is referred to as «the HPB Group» or just «the Group», the Croatian National Bank is referred to as «the CNB» or «HNB», Republic of Croatia is referred to as «RH» or «HR» and the Croatian Bank for Reconstruction and Development is referred to as «the CBRD» or «HBOR»

Exchange rates

For the purpose of translation of foreign currencies into Croatian Kuna, the following exchange rates of the CNB were used:

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

MISSION



We create conditions for a better life in Croatia.

VISION

A Croatian-owned bank with relevant market influence that cares best for clients, shareholders and the community.

Key Financial Indicators

HRK million

Group	2020	2019	2018	2017	2016
Basic Indicators					
Profit/ (Loss) for the Year	183	147	156	8	183
Operating Profit	291	344	308	373	383
Total Assets	25,464	23,773	23,082	20,048	19,686
Loans to Customers	14,723	13,334	11,529	11,141	11,554
Received Deposits	21,207	20,063	20,143	17,208	16,534
Share Capital and Reserves	2,479	2,377	2,016	1,911	1,893
Other Indicators					
Return on Equity	15.10%	12.09%	12.84%	0.65%	15.68%
Return on Assets	0.72%	0.62%	0.68%	0.04%	0.97%
Operating Expenses[1] to Operating Income Ratio	64.10%	61.36%	61.98%	55.19%	53.74%

HRK million

Bank	2020	2019	2018	2017	2016
Basic Indicators					
Profit/ (Loss) for the Year	182	144	152	8	181
Operating Profit	289	323	303	372	379
Total Assets	25,464	23,773	21,233	19,777	19,286
Loans to Customers	14,723	13,339	11,062	10,979	11,398
Received Deposits	21,215	20,071	18,371	16,952	16,282
Share Capital and Reserves	2,473	2,370	2,003	1,905	1,887
Other Indicators					
Return on Equity	14.99%	11.84%	12.50%	0.69%	14.92%
Return on Assets	0.72%	0.60%	0.72%	0.04%	0.94%
Operating Expenses[1] to Operating Income Ratio	63.78%	61.27%	60.14%	54.37%	53.72%
Regulatory Capital	2,312	2,209	1,777	1,654	1,520
Capital Adequacy	21.82%	20.17%	17.86%	18.10%	15.66%

[1]*General and Administrative Expenses, Depreciation and Amortization and Other Cost*

Statement by the president of the Management Board

Statement from the President of the Management Board of the Hrvatska poštanska banka p.l.c.

Esteemed shareholders, clients, dear employees of the HPB Group,

At the end of my first full year as a President of the Management Board of the Hrvatska poštanska banka p.l.c., I am honored to present to you the results of the Bank and the Group.

The global COVID-19 disease pandemic marked not only 2020, but an entire generation. Despite all the aggravating factors arising from the consequences of the pandemic on human health and the economy, the Bank operated extremely successfully in 2020, not only surpassing last year's results and achieving volume growth with reduced capital consumption, but also achieved most of the operating goals. The achievements of the Bank have been accomplished thanks to our employees, of whom I am immensely proud, and I am honored to lead such a motivated team of talented and hardworking people.

In these difficult and challenging conditions, HPB successfully met the capital requirements of the comprehensive assessment conducted by the ECB against the Bank and 4 other largest banks in Croatia, which consisted of asset quality testing (AQR) and stress testing of the bank (stress test). At a micro level, HPB has thus proved that it has a resilient and stable balance sheet, and at the macro level, the successful completion of this process has removed the last obstacle to Croatia's entry into ERM-2 phase, as a prerequisite for joining the euro area, which would be a huge success and important event for our society.

Comment on financial results of Hrvatska poštanska banka p.l.c.

The results achieved in 2020 are primarily result of the responsible capital management, improving the quality of the loan portfolio, strengthening the market position and the emphasis of management on rational cost management. In this way, we made our business more layered, and the Bank was able to adequately respond to the challenges it faced during 2020.

Accordingly, with an increase of HRK 38 million in 2020, the highest level of net profit in corporate history was achieved in the amount of HRK 182 million. However, certain negative effects in the income statement were inevitable due to the impact of the COVID-19 pandemic on the movement of securities prices in the Bank's portfolio, temporary suspension of client fees during the lockdown, lower tourist season and general slowdown in economic activities. Accordingly, net operating income is lower by HRK 35 million. I would like to point out that we still managed to increase net interest income due to agile management of interest expenses and sources of funds. Already at the end of 2019, the Bank started a program of operational rationalization, aimed at reducing costs. Therefore, the level of costs is almost unchanged despite the effects of the pandemic and devastating earthquake in Zagreb in March 2020, while the cost-to-income indicator deteriorated slightly following the aforementioned inevitable decline in revenues, amounting to 63.8 percent, with operating profit of HRK 289 million (2019: HRK 323 million).

Further to the continuous improvements in the risk management system, which were confirmed in 2020 during the comprehensive assessment conducted by the ECB, on the one hand, and temporary supervisory measures and guidelines to facilitate the impact of the pandemic on the Bank's capital on the other total level of other assets decreased by HRK 49 million, with NPL coverage of 62.2% for all exposures, or 74.2% without exposures secured by government guarantees. Significant reversals of provisions for liabilities relate to previously allocated funds for litigation against the Bank, which relate to a final dispute in favor of the Bank during the year.

Comment on financial position of Hrvatska poštanska banka p.l.c.

At the end of 2020, the Bank's assets amounted to HRK 25.5 billion. The year-on-year increase in assets of HRK 1.7 billion, although lower than in the previous year, was achieved on a purely organic basis, with a simultaneous reduction in risk exposure measured by RWA by 3.2 percent, thus making an additional contribution to the Bank's internal capital strengthening.

Loans to customers increased by HRK 1.4 billion, or 10.4 percent, which increased their share in the balance sheet for the second year in a row, and amounted to 58 percent, following the utilization of liquidity inflows due to maturity and sale of securities during the year in order to optimize the return on assets. This did not have a significant impact on the Bank's liquidity position, which is still very comfortable with over HRK 4 billion of high quality liquid assets

(14% of the balance sheet), which is reflected in the indicators LCR (liquidity coverage ratio) and NSFR (net stable funding ratio), which amount to 158% and 151% respectively.

HPB has historically been the Bank that customers trust, what we value and what we are grateful for to our depositors and other investors. Client confidence is reflected in the expansion of the deposit base by HRK 1.1 billion or 5.3 percent, despite of the environment of extremely low interest rates.

In 2020, the Bank's capital was additionally strengthened by over HRK 50 per share, amounting to HRK 2.5 billion. The increase in 2020 was mainly due to the positive effects in the profit and loss account which offset the effects that the outbreak of the pandemic had on the prices of securities in the portfolio in the first quarter of 2020.

The strong capital base and risk exposure optimization measures launched by the Management Board, which I headed during the fourth quarter of 2019, resulted in a capital adequacy ratio of 21.82 percent, the highest capitalization in the Bank's recent history.

Comment on business operations of HPB Group and subsidiaries of HPB p.l.c.

HPB Group, apart from the parent company, Hrvatska poštanska banka, is comprised of HPB Invest d.o.o. (investment fund management company) and HPB-nekretnine d.o.o. (a company specializing in real estate).

Due to this simple structure, the Group's financial results are almost entirely determined by the results of the parent company. Accordingly, the Group generated a net profit of HRK 183 million, emphasizing that both subsidiaries contribute to consolidated results with positive financial results. Accordingly, HPB Invest generated a net profit of HRK 955 thousand, and HPB-nekretnine a net profit of HRK 366 thousand, thus confirming the profitability trend of all components of the HPB Group.

HPB's business operations in 2021

The first year after the crisis that burdened Croatia's GDP by 8.4 percent in 2020 will be demanding for all economic participants and holders of monetary and fiscal policy. Despite everything, we will preserve the trust given to clients and shareholders. Therefore, our main priority in 2021 will be to preserve our market position and capital level in order to further strengthen our reputation as a strong, stable and modern financial institution focused on sustainable growth and progress in an environment of industry transformation and changing consumer habits, adverse demographic trends and declining margins. However, the pressures on the revenue side are nothing new. The optimization and rationalization measures initiated by the Management Board should be fully effective in 2021, which will be partially offset by investments in IT architecture and development projects to ensure business simplification in line with customer needs. This simplification of operations will not be a short-term or easy process, but it is necessary in order to reduce the cost base and at the same time digitalize the bank internally - at the process level, but also externally - in dealing with clients. At the same time, we will not neglect the care for employees and organizational culture focused on achieving goals with sustainable and socially responsible business.

Despite the uncertainties and the crisis, HPB has proven to be a strong and stable Bank that, in accordance with its vision, takes the best care of the needs of its clients, shareholders and the community.

Finally, I would like to personally thank all my colleagues at HPB for their dedicated work and contribution in these new and difficult circumstances, as well as clients, business partners and shareholders for their trust, support and successful cooperation.

Marko Badurina

CEO of HPB p.l.c.

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Management Board of Hrvatska Poštanska Banka p.l.c.

Management Board	**Marko Badurina** *President of the Management Board*	**Anto Mihaljević** *Member of the Management Board*	**Ivan Soldo** *Member of the Management Board*
Area of responsibility	Large Companies and Public Sector Financial Markets Compliance Division Internal Audit Management Board Office HR Legal affairs Strategic development	Retail Direct Channels Banking SME Organization and Project Management Marketing Quality Service Management Business Support IT Corporate Security Procurement and General Affairs Service Development and Sales Personnel Office Products and Delivery Processes Management Division	Credit Risk Management Strategic Risk and Risk Control Collection Management Financial Management ALM
Experience	2019 – HPB d.d. President of the Management Board 2017 – Sberbank d.d. Advisor to the Business Strategy Board for Financial Markets, Investment Banking, Financial Institutions 2013 – Sberbank d.d. Deputy Director of the Financial Markets Division 2012 – Volksbank d.d. Deputy Director of the Financial Markets Division 2007 – Volksbank – Liquidity and Trading Management	2019 – HPB d.d. Member of the Management Board 2019 – Kentbank d.d. Director for Retail 2017 – Allianz Zagreb d.d. Director of Sales Support 2015 – Zagrebačka banka d.d. Sales Management Director for Individual Banking Clients 2010 – Zagrebačka banka d.d. The Director of the Region Zagreb 2005 – Zagrebačka banka d.d. The Director of the Region Sjeverozapadna Hrvatska 2003 – Zagrebačka banka d.d. Leasing Sales Manager 2001 – Zagrebačka banka d.d. Head of Sales Controlling 1999 – Fer count d.o.o. Trainee Auditor	2019 – HPB d.d. Member of the Management Board 2018 – Raiffeisen Bank International AG, Executive Director, Risk Management of Financial Institutions and States 2015 – Raiffeisen Bank International AG, Director, Risk Management of Financial Institutions and States 2013 – Raiffeisen Bank International AG, Risk Manager, Senior Risk Manager 2011 – Raiffeisen Bank International AG Analitičar, Senior Analyst banks and Financial Institutions 2010 – Ipreo Ltd Analitičar Global Markets 2005 – FIMA Fas d.o.o. Assistant Director 2005 – KPMG Croatia d.o.o. Junior Associate

Note: organizational jurisdiction as of December 31, 2020

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Macroeconomic environment

Gross domestic product

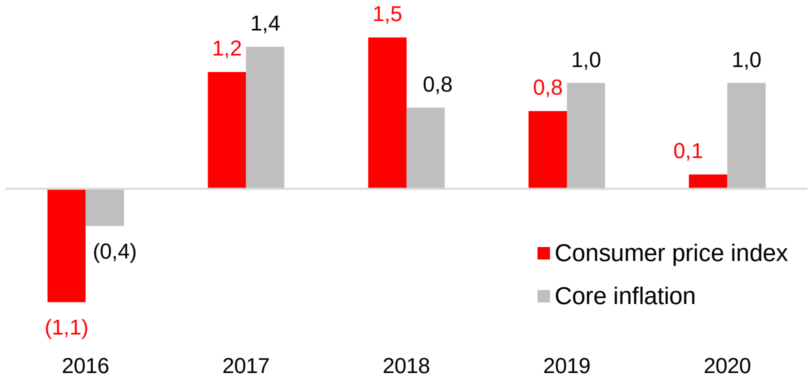
Decomposition of GDP growth by components	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GDP – real growth rate	(0.2%)	(2.4%)	(0.4%)	(0.3%)	2.4%	3.5%	3.4%	2.8%	2.9%	(8.4%)
GDP – nominal growth rate	1.4%	(1.0%)	0.3%	(0.2%)	2.5%	3.4%	4.6%	4.9%	4.4%	(8.0%)
GDP deflator	1.6%	1.4%	0.7%	0.1%	0.1%	(0.1%)	1.2%	2.1%	1.5%	0.4%
Contribution to GDP growth										
- household expenditure	0.7 pp	(1.5 pp)	(0.9 pp)	(1.5 pp)	0.2 pp	1.8 pp	1.8 pp	2.0 pp	2.1 pp	(3.7 pp)
- government expenditure	0.1 pp	(0.2 pp)	(0.0 pp)	0.3 pp	(0.3 pp)	0.1 pp	0.4 pp	0.4 pp	0.6 pp	0.4 pp
- gross investment into fixed capital	(0.5 pp)	(0.6 pp)	0.3 pp	(0.5 pp)	0.7 pp	1.3 pp	1.0 pp	1.3 pp	1.5 pp	(0.6 pp)
- net exports	(0.1 pp)	0.4 pp	(0.3 pp)	1.5 pp	0.4 pp	0.3 pp	(0.7 pp)	(1.9 pp)	0.1 pp	(5.5 pp)
- stock exchange and other	(0.3 pp)	(0.4 pp)	0.6 pp	(0.1 pp)	1.4 pp	0.0 pp	0.9 pp	1.0 pp	(1.4 pp)	1.1 pp
Inter-annual growth of real GDP components										
- household expenditure	+1.1%	(2.4%)	(1.5%)	(2.5%)	+0.4%	+3.1%	+3.1%	+3.3%	+3.5%	(6.2%)
- government expenditure	+0.5%	(1.2%)	(0.1%)	+1.6%	(1.6%)	+0.5%	+2.2%	+2.3%	+3.4%	+2.0%
- gross investment into fixed capital	(2.7%)	(3.3%)	+1.4%	(2.8%)	+3.8%	+6.5%	+5.1%	+6.5%	+7.1%	(2.9%)
- export of goods and services	+2.3%	(1.5%)	+2.5%	+7.4%	+10.3%	+7.0%	+6.8%	+3.7%	+6.8%	(25.0%)
- import of goods and services	+2.5%	(2.4%)	+3.2%	+3.5%	+9.4%	+6.5%	+8.4%	+7.5%	+6.3%	(13.8%)

Source: CBS, www.dzs.hr (MSI Bruto domaći proizvod, obrazac 12.1.1.4.), analysis by HPB

After a five-year period of growth, and due to the exogenous shock caused by the COVID-19 pandemic, in 2020, real GDP fell by 8.4%. Such a sharp decline in GDP is greater than in 2009, when it amounted to 7.3%. Negative net export impact of 5.5 p.p. it contributed most to the overall decline in real GDP, due to the partial or complete closure of emitting markets for tourism services. Accordingly, exports of services fell by HRK 46.7 billion (goods: HRK - 0.8 billion) in 2020, which was only partially offset by a simultaneous decline in imports of goods and services, by HRK 17.1 billion and HRK 11.4 billion, respectively. Household consumption, which in the pre-crisis period was the most significant component of the contribution to GDP growth, in 2020 declined by 6.2%, with impact on GDP of 3.7 pp, due to the lack of consumption as a result of closure of segments of the economy and decline in consumer confidence due to a high degree of uncertainty. The increase in government spending (0.4%) focused primarily on transfers to preserve jobs and mitigate the negative effects of the crisis was the main supporter of stopping more significant decline of GDP in the observed period. Due to the impossibility of closing the production cycle, there was a positive effect on GDP in 2020 in an increase in inventories of 1.1 pp, but which could burden growth in the coming years.

Prices

Consumer price index (y-o-y changes in %)



Source: CNB, www.hnb.hr (forms h-j1 i h-j2), analysis by HPB

The y-o-y rate of change in prices of selected components of the index of consumer prices

	2016	2017	2018	2019	2020
Food and non-alcoholic beverages	(0.5%)	+2.9%	+1.0%	(0.1%)	+1.9%
Alcoholic beverages and tobacco	+0.4%	+2.4%	+2.8%	+4.4%	+3.6%
Clothing and footwear	+0.2%	+0.8%	(1.3%)	(0.9%)	(0.6%)
Housing, water, electricity, gas	(2.5%)	(2.7%)	+2.7%	+3.1%	(1.0%)
Health	+1.8%	+1.1%	+1.4%	(0.9%)	+1.2%
Transport	(4.1%)	+3.3%	+3.5%	(0.3%)	(4.3%)
Communication	(2.4%)	(1.6%)	(0.2%)	(0.2%)	+1.5%
Restaurants and hotels	+1.3%	+5.1%	+3.0%	+3.0%	+1.5%

Source: CBS www.dzs.hr (MSI CIJENE, form 13.1.1.), analysis by HPB

Core inflation is equal to the level of the previous year, however, the inflation rate measured by the consumer price index better represents the significant deflationary pressures caused by the COVID-19 pandemic and the weakening of consumer confidence.

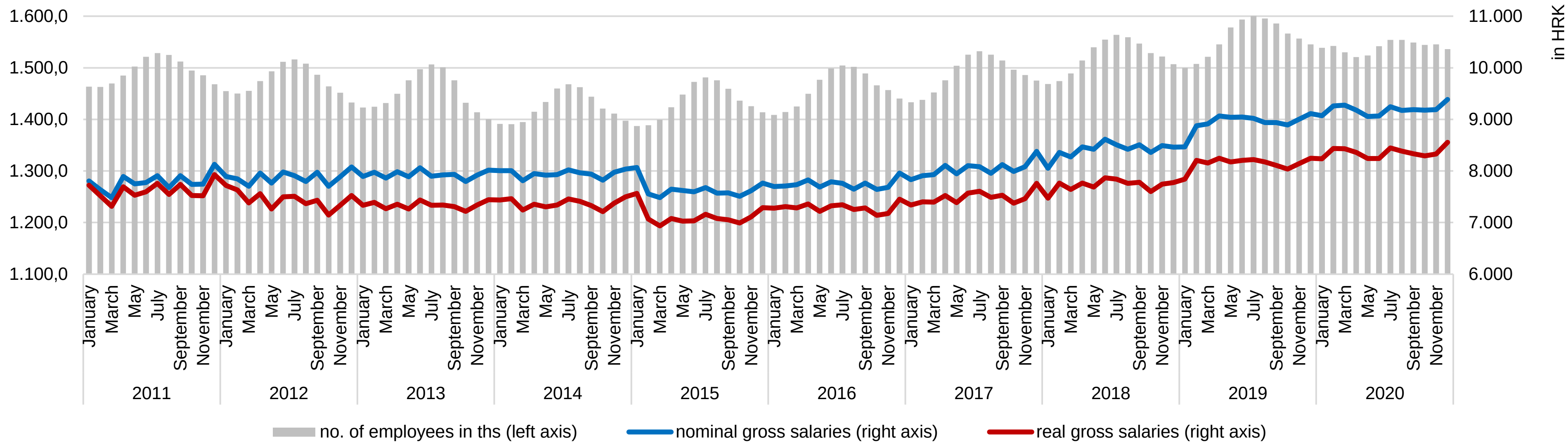
In the observed period, the transport component had the most significant decrease of -4.3%, followed by a decrease in the price of housing costs and overheads. On the other hand, the growth of consumer basket prices was mostly influenced by the growth of highly taxable goods such as alcoholic beverages and tobacco, as well as food and non-alcoholic beverages.

Overview of restaurant and hotel price trends indicates that catering facilities and hotels mitigated the growth of service prices but did not reduce prices in response to the new crisis. Specifically, communication services grew by 1.5% in 2020, for the first time after a long period of falling prices due to intensifying competition.

Rising energy prices in the short term, combined with awakened consumer confidence and affinity for consumption after a year marked by a lockdown could result in rising prices in 2021, while technological progress and the shift of certain parts of social interaction and work to digital channels will have markedly deflationary effects that will mitigate price growth in the long run.

Employment and salaries

Comparative movement of number and gross income of employees



Source: CNB, www.hnb.hr (Bilten, sezonski prilagođene i dodatne vremenske serije), analysis by HPB

After the outbreak of the economic crisis at the end of 2008, employment in Croatia declined until 2014. During this period, the number of employees decreased from a maximum of 1.64 million (July 2008) to 1.39 million (February 2014). However, at the beginning of the economic recovery, the number of employees increased continuously, reaching a slightly lower level of employment at the peak of recovery (July 2019 = 1.60 million) than in the pre-crisis 2000s, due to the changed structure of the economy and labor force with the simultaneous emigration of unemployed and underemployed population in EU countries and other developed countries with labor needs.

Positive trends were interrupted by the outbreak of the COVID-19 pandemic in 2020. However, the effects of the pandemic on reducing the number of employees were limited, primarily due to the timely reaction of the Government, which started the job preservation program in the first quarter of 2020. In absolute terms, the average number of employees in 2020 (= 1.54 million) was lower by only 18 thousand than the average of the pre-crisis 2019, and by over 100 thousand workers higher than in 2014 as the last year of the previous recession = 1.42 million).

Coverage of these measures, supported by the repeated implementation of income tax relief, combined with a very low inflation rate in 2020, has affected the growth of both nominal and real levels of gross wages.

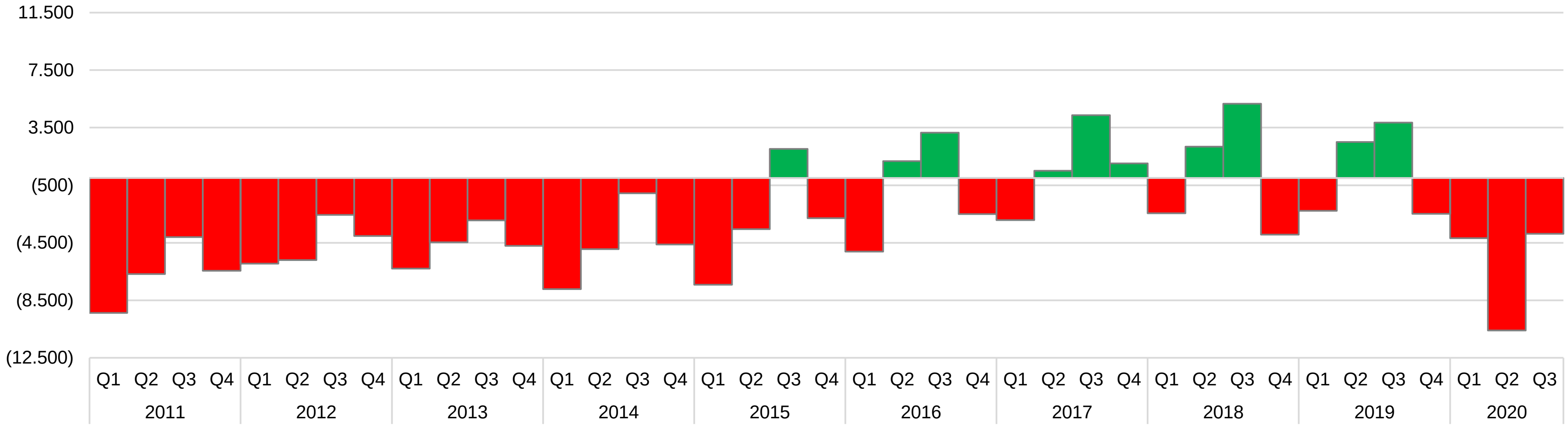
Public finance

As in other macroeconomic categories, the COVID-19 pandemic significantly changed the fiscal balance in 2020. In the first nine months of 2020, consolidated government revenues amounted to HRK 128.0 billion, which is lower by 9% or HRK 12 billion than in the same period last year. This decline in absolute terms far exceeds the decline that occurred at the beginning of the financial crisis in Croatia in 2009, when revenues fell by HRK 8 billion. The largest part of the decline in revenues relates to the absence of indirect tax revenues (mainly VAT due to missing spending) of HRK 10.0 billion (16%), and due to cessation of consumption.

Due to the active role of the Government of the Republic of Croatia in mitigating the consequences of the pandemic through unprecedented aid measures in the country's economic history, expenditures in the first nine months of 2020 amounted to HRK 140 billion, which is HRK 10 billion more than in the same period in 2019. The most significant item in this period was subsidies, which amounted to HRK 12.8 billion, and represent increase by HRK 7.7 billion or 150% than in the same period last year. The next significant item was recorded in the employee benefit account of HRK 37 billion, or 5.9 more than in the pre-crisis year.

As an inevitable effect of the described differences in revenues and expenditures, the increase in net indebtedness for the first nine months of 2020 amounted to HRK 18.7 billion, which is the second largest level of budget deficit since 2011 when the country was in the third year of economic recession.

Difference between total revenues and total expenses of the consolidated government (in HRK million)



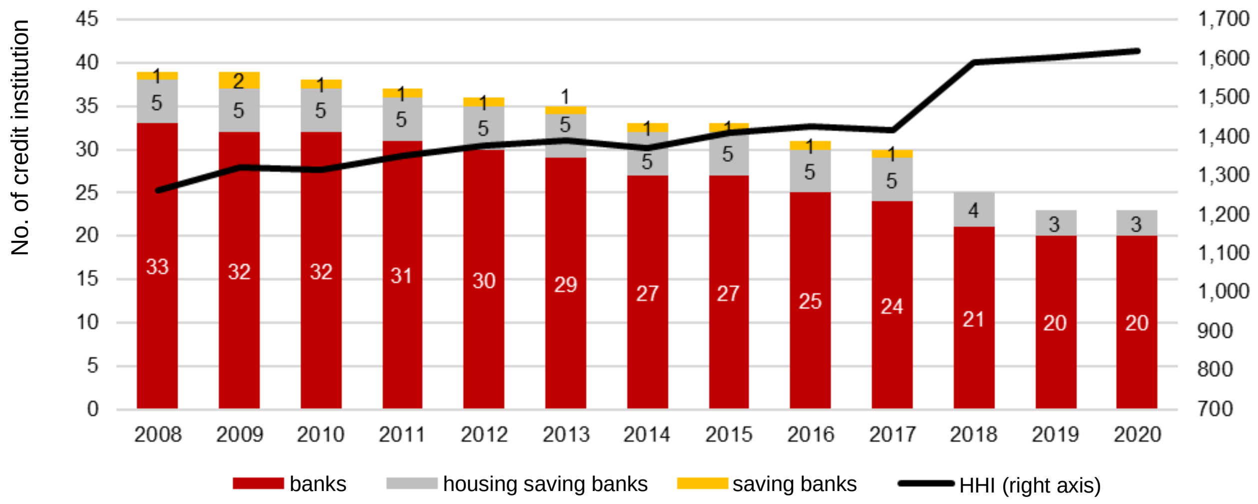
Source: CNB, www.hnb.hr (nefinancijski računi opće države, form h-i_1), analysis by HPB

Business environment

Number of credit institutions in the Croatian market due to market consolidation and discontinued operations of smaller banks continuously decreasin. The onset of the COVID-19 crisis in 2020 slowed down the process of consolidation of the sector in terms of the number of institutions, which did not change in 2020. Accordingly, as of 31.12.2020. 20 commercial banks and 3 housing savings banks operated on the market.

However, regardless of the lack of business combinations in 2020, the concentration of the sector, measured by the market share of the top 5 banks, increased from the already high 74% in 2017 to over 80% at the end of 2019, which further increased to 81.3% in 2020. The Herfindahl-Hirschman Index of Concentration of Assets of Credit Institutions after several years of continuous slight growth, and due to realized business combinations in 2018 and 2019, exceeded the level of 1,600 points, which indicates a moderately concentrated market. The HHI index also rose by an additional 19 points in 2020, due to stronger organic volume growth and the consequent growth of market share, at large banks.

Number od credit institutions and Herfindahl-Hirchman indeks (HHI) of Concentration of Assets of Credit Institutions



Source: CNB, www.hnb.hr (audited indicators of credit institutions from 2008. to 2019, Selected indicators of the structure, concentration and performance of credit institutions as of 31.12.2020), analysis by HPB

A characteristic of the markets in the CEE region is that foreign-owned banks have a dominant share, with Croatia being no exception. Thus, foreign owned banks and savings banks represent 91% of total assets of the credit institutions sector, dominated by Italian, Austrian and Hungarian banks from the European Union.

HPB is one of the two remaining state-owned banks and as of December 31, 2019. ranked sixth among credit institutions in the Republic of Croatia by assets, following the successful merger of Jadranska banka d.d. Šibenik and HPB-Stambena štedionica d.d., with a market share of 5.51 percent. Remaining State Bank - CROATIA BANK d.d. accounts for 0.42% of system assets, whereby domestic state-owned banks account for 5.93% of the share, while domestic privately owned banks account for 3.42% of the share in the assets of credit institutions.

The total assets of the sector increased by a significant HRK 31.4 billion in 2020, which is the largest year-on-year increase since 2008, when the impact of the global financial crisis spilled over into Croatia and the balance sheet of credit institutions stagnated until 2018. This growth in 2020 in the conditions of the COVID-19 pandemic had a further effect on the expansive monetary environment and measures of the Croatian National Bank, thus maintaining the stability and extremely high capitalization of the banking sector. Accordingly, most credit institutions operating in Croatia recorded an increase in assets, with liquid instruments growing the most within the structure (mostly deposits with the CNB) and loans and advances being held while maintaining the quality of assets constant (share of non-performing loans - NPLs was 5.4% at the end of 2020 and at the end of 2019 it was 5.5%). Non-performing loans increased in the household loan portfolio, in which the share of NPLs increased from 5.8% to 7.1%. The share of NPLs in the non-financial corporations decreased from 13.7% to 12.5%, primarily due to the sale of non-performing receivables.

In 2020, credit institutions operated with a net profit of HRK 2.7 billion, which is on a level of half net profit recorded in pre-crisis 2019. Such a sharp decline was due to provisions for losses, a decline in operating income due to the absence of a large part of transaction income due to lockdown and lower tourist season, and smaller gains from trading instruments and dividends. At the same time, after several years of improvement, the cost efficiency indicator, measured by the cost-to-income ratio, has deteriorated to almost 55 percent. In accordance with the supervisory expectations and guidelines of the CNB, all credit institutions maintained profits in 2019, which strengthened the capital of the sector, and the regulatory capital adequacy ratio reached 24.9 percent at the end of 2020.

Key performance indicators of credit institutions (in %)

	2016	2017	2018	2019	2020
Return on assets (ROA)	1.23	0.85	1.21	1.37	0.61
Return on equity (ROE)	9.24	5.91	8.40	9.82	4.43
Cost-to-income ratio (CIR)	51.40	48.98	48.05	46.32	54.97
Non-performing loans ratio (NPL)	12.07	8.73	7.49	5.47	5.43
Non-performing loans coverage	63.62	61.64	60.41	68.01	64.05
Total capital ratio	22.97	23.80	23.14	24.80	24.91
Liquidity coverage ratio (LCR)	193.98	190.83	164.38	173.71	181.94

Source: CNB, www.hnb.hr (Data on credit institution operations as at 31 December 2020, preliminary unaudited), analysis by HPB

Credit institutions – overview of selected indicators of 2020 and ranking of a top-10 banks by category

Market share by asset

Rank	Name of the institution	Share in total assets (%)
1	Zagrebačka banka	26.93
2	Privredna banka Zagreb	20.75
3	Erste&Steiermärkische Bank	15.83
4	OTP banka	9.76
5	Raiffeisenbank Austria	8.04
6	**Hrvatska poštanska banka**	**5.51**
7	Addiko Bank	3.82
8	Sberbank	2.39
9	Podravska banka	0.85
10	Istarska kreditna banka Umag	0.83

Capital

Rank	Name of the institution	Capital adequacy (%)
1	PBZ stambena štedionica d.d.	45.93
2	Zagrebačka banka d.d.	33.16
3	Privredna banka Zagreb d.d.	28.99
4	Addiko Bank d.d.	26.15
5	Samoborska banka d.d.	24.59
6	Raiffeisenbank Austria d.d.	23.78
7	**Hrvatska poštanska banka d.d.**	**21.84**
8	Raiffeisen stambena štedionica d.d.	21.73
9	J&T banka d.d.	19.65
10	Agram banka d.d.	19.50

Liquidity

Rank	Name of the institution	LCR (%)
1	Raiffeisen stambena štedionica d.d.	2,050.88
2	J&T banka d.d.	1,548.70
3	Samoborska banka d.d.	1,394.16
4	Karlovačka banka d.d.	614.62
5	PBZ stambena štedionica d.d.	471.63
6	Istarska kreditna banka Umag d.d.	413.81
7	Imex banka d.d.	369.85
8	Slatinska banka d.d.	288.55
9	Addiko Bank d.d.	248.92
18.	**Hrvatska poštanska banka d.d.**	**175.05**

Return on equity

Rank	Name of the institution	ROE (%)
1	Karlovačka banka d.d.	15.38
2	Wüstenrot stambena štedionica d.d.	10.62
3	Istarska kreditna banka Umag d.d.	8.85
4	Banka Kovanica d.d.	8.19
5	**Hrvatska poštanska banka d.d.**	**7.86**
6	Partner banka d.d.	7.44
7	Agram banka d.d.	6.58
8	Privredna banka Zagreb d.d.	5.41
9	Erste&Steiermärkische Bank d.d.	4.55
10	Croatia banka d.d.	4.51

Return on asset

Rank	Name of the institution	ROA (%)
1	Karlovačka banka d.d.	1.17
2	Privredna banka Zagreb d.d.	0.89
3	Partner banka d.d.	0.88
4	Banka Kovanica d.d.	0.83
5	Istarska kreditna banka Umag d.d.	0.82
6	**Hrvatska poštanska banka d.d.**	**0.77**
7	Agram banka d.d.	0.73
8	Wüstenrot stambena štedionica d.d.	0.65
9	Zagrebačka banka d.d.	0.61
10	Erste&Steiermärkische Bank d.d.	0.57

Profitability

Rank	Name of the institution	Net profit (HRK ths)
1	Privredna banka Zagreb d.d.	816,992
2	Zagrebačka banka d.d.	734,507
3	Erste&Steiermärkische Bank d.d.	389,525
4	OTP banka d.d.	250,742
5	**Hrvatska poštanska banka d.d.**	**190,616**
6	Raiffeisenbank Austria d.d.	131,780
7	Addiko Bank d.d.	87,128
8	Istarska kreditna banka Umag d.d.	30,741
9	Karlovačka banka d.d.	29,502
10	Agram banka d.d.	27,534

Source: CNB, www.hnb.hr (Data on credit institution operations as at 31 December 2020, preliminary unaudited), analysis by HPB

Management Board Statement of Condition of HPB p.l.c.

History and Development of Hrvatska Poštanska Banka p.l.c.

Hrvatska poštanska banka was established at the beginning of the ‘90s as a result of the work of the group of enthusiasts and experts of the Croatian Post and Telecommunications (“HPT”) who, understanding good business practices of the postal banks in Europe, brought the idea of a postal bank to life after Croatia declared independence.

The Bank was established in October in 1991 with its registered office in Zagreb, and its first business address was in Tkalčićeva street 7. The shares of the Bank were subscribed and taken over by 50 founders/shareholders, business partners of “HPT” which was the largest shareholder, and which ensured the premises and the first personnel for the operation of the Bank. As a universal banking organization, the Bank was registered for “all cash, deposit, credit and guarantee operations with legal persons and all banking operations with natural persons, including also the provision of payment services” at the end of October in 1991 in the court register.

Due to retail and corporate needs for banking services, especially in local areas with no banks, the Bank had relied on around 1,100 HPT offices at the time where banking services were introduces including receiving retail deposits, corporate deposits – HPT-business partners.

From May in 1992 the Bank started to provide international foreign exchange payment services and to collect the first foreign exchange deposits. During that year, the advantages of the newly established financial institution were also recognized, in addition to the founders and “HPT”’s business partners, by smaller private businesses which started to place their deposits into the Bank.

Under the Regulation on Recovery of Debts and Funds Placed With Poštanska štedionica Beograd – Croatian subsidiary, Zagreb (dated 25th March 1992, Official Gazette 15/ 92), the Bank was named as legal successor of the mentioned subsidiary which led to a substantial contribution to its potentials and activities (exchanging passbooks and current accounts, taking savers and depositors, recovering claims).

The first years of the Bank’s operation were marked in the light of the war by decline in total economic and investment activities in Croatia, decline in living standard, high inflation rate (even hyperinflation), monetary indiscipline and higher fiscal expenditures. This situation was ended when the Stabilization Program was passed in May in 1995, ending inflation and stabilizing DEM rate of exchange. During that time the Bank was doing mostly retail business by receiving HRD (dinar) and HRK funds from individuals, paying salaries and pensions, placing surpluses on money markets and making short-term loans to legal entities supporting their working capital, mostly to “HPT”, its business partners and founders of the Bank. Even under such complex working conditions, the Bank managed to record a constant balance sheet growth and profit, and was always taking care of preserving the value of the founders’ capital and clients and investors deposits.

In 1995, the building in Jurišićeva 4 was bought and the Bank’s registered office was moved to the new business address. In the same year, the Bank’s acts were aligned with the Companies Act.

The first branch was opened in Split in April in 2003. In July in 2005 the Bank established HPB-nekretnine, a real estate limited liability company and HPB Invest, a limited liability company for investment funds management, forming thus the Hrvatska poštanska banka Group. The development of the Group continued in 2006 with the establishment of HPB Stambena Štedionica, a joint stock company for housing savings, which was successfully merged with the parent company on December 2, 2019. as a result of business rationalization and optimization. In addition to the listed subsidiaries in which the Bank is a parent company and also a one hundred percent owner of all three companies, from July 2018 until April 1, 2019, the Bank become 100% owner of Jadranska banka, Šibenik. In addition to these subsidiaries, the Bank held between 2015 and 2017 the controlling ownership stake (58.2%) in H1 TELECOM, a public limited company.

Through public share offering in September 2015, the Bank’s equity was increased by HRK 550 million by mixed private and public equity investments. The Bank’s shareholding structure includes pension funds, investment funds and other private investors which paid up HRK 305.9 million and acquired the 25.5% ownership stake. The Republic of Croatia paid up HRK 244.1 million and its and the related persons’ ownership stake fell from 99% to 74.5%. In that way the Bank became the credit institution with the most diversified shareholding structure among large banks in Croatia.

HPB's network today is comprised of 6 regional corporate centers (RC Središnja Hrvatska based in Zagreb, RC Sjeverna Hrvatska based in Varaždin, RC Istra i Kvarner based in Rijeka, RC Slavonija based in Osijek, RC Dalmacija – sjever based in Šibenik and RC Dalmacija – jug based in Split within which 16 entrepreneurial centers operate) and 6 regional retail centers distributed on Središnja Hrvatska, Sjeverna Hrvatska, Slavonija, Istra i Kvarner, Dalmacija sjever i Dalmacija jug regions, 52 centers and 6 outlets spread over the entire territory of the HR.

Market position and competition profile of Hrvatska poštanska banka, the largest domestically owned bank, enable it to ensure all financial services to individuals, comprehensive financial services to the government and support to the Croatian economy, especially in the small and medium sized enterprises segment. In cooperation with the Croatian Post plc ("HP") banking products and services are accessible even in the most remote places in country. The strategic determinants of the HPB's development are focused on increasing market share, development of organization and business processes in line with the best global practices.

Overview of key events in HPB corporate history d.d

Project Asset quality review (AQR)

Together with the four largest banks in Croatia, the Bank was subject to a comprehensive assessment by the European Central Bank (ECB) during the period from September 2019 to the beginning of June 2020. This assessment consisted of an Asset quality review (AQR), with the Bank's stress test at the same time, and HPB successfully met the expected criteria in both proceedings.

As a necessary regulatory precondition for establishing close cooperation between the CNB and the ECB, the ECB was authorized to conduct the aforementioned comprehensive assessment of credit institutions in the Republic of Croatia, which includes access to all documentation and information on credit institutions. The establishment of close cooperation is one of the steps in the process of Croatia's accession to the European Monetary Union (EMU), and the conducted analysis was extremely important for achieving this strategic goal of the Republic of Croatia.

Numerous detailed checks of HPB's operations were performed, the most comprehensive of which were checks on processes, policies and accounting data, checking their quality and integrity, as well as checking the quality of the bank's assets on a selected sample and checking the Bank's model for calculating expected credit losses (ECL).

The results of the AQR were evaluated in combination with the results of the Stress test and it was concluded that Hrvatska poštanska banka successfully passed all checks with the following capital adequacy ratios ("CET1 ratio")* compared to the initial CET1 ratio as at 30 June 2019 (= 20.24%):

- CET1 ratio post-AQR: 18.69%
- CET1 ratio in baseline scenario (three-year testing period): 18.85%
- CET1 ratio in adverse scenario (three-year testing period): 6.30%

* *Data published on the website of the European Central Bank:*
https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200605~ca8b62e58f.en.html

This proved to be an additional confirmation of HPB's balance sheet and operations' quality and resilience as well as other institutions that were under assessment. On 27 July 2020 the Decision (EU) 2020/1016 of the European Central Bank of 24 June 2020 on the establishment of close cooperation between the European Central Bank and Croatian National Bank (ESB/2020/31) came into force, thus fulfilling the preconditions for the entry of the Republic of Croatia into the ERM-2 mechanism on the way to EMU membership.

Increase in the share capital of HPB-nekretnine d.o.o.

HPB as the only member and founder of HPB-nekretnine d.o.o. increased its share capital from the amount of HRK 490,000.00, for the amount of HRK 4,270,800.00, to the amount of HRK 4,760,800.00, which is entered in the register of the Commercial Court in Zagreb by Decision *Tt-20-26120-2 dated 1 September 2020.* The bank increased share capital of HPB-nekretnine d.o.o. by entering rights - receivables from HPB-nekretnine d.o.o. on the basis of a long-term loan, by creating a new business share in the nominal amount of HRK 4,270,800.00, which was taken over by the Bank as the only member of the company.

Accordingly, the HPB-nekretnine d.o.o. financial position was strengthened, and the short-term potential of a company is insured in conditions where the volume of business has been reduced due to the consequences of the COVID-19 pandemic, as well as the medium-term development potential for value creation.

Business Activity of Hrvatska poštanska banka

The Bank offers all banking and financial services with the focus on retail and corporates, among which:

- all types of deposit and credit products and services for corporates and retail in domestic and foreign currency,
- transaction services (HRK and FX payments),
- issuing guarantees, avals and similar products,
- factoring, financial lease services,
- securities services,
- services related to lending, such as collecting data, making analysis and providing information on the creditworthiness of legal and natural persons carrying out their business independently;
- performing business related to the sale of insurance policies in accordance with the regulations governing insurance,
- issuing electronic money,
- issuing and managing other payment instruments if the provision of these services is not considered to be payment service provision in accordance with a separate law,
- other banking products and services (safes, Western Union services).

Regulatory Framework

Conditions for the Bank's founding and business as a credit institution in the Republic of Croatia are regulated by the Credit Institutions Act (Official Gazette 159/ 2013, 19/ 2015, 102/ 2015, 15/2018, 70/2019) and the Companies Act (Official Gazette 152/ 2011, 111/ 2012, 68/ 2013 and 110/ 2015, 40/2019).

Offering of investment services and investment activities in the Republic of Croatia are regulated by the Capital Market Act (Official Gazette 65/2018 and 17/2020), the by-laws of Croatian Financial Services Supervisory Agency and EU regulation markets throughout the European Union and payment services offered by the Bank are regulated by the Payments Act (Official Gazette 66/2018), together with certain by-laws.

The Bank's core business is also regulated by the Croatian National Bank's by-laws as the top regulator which regulates the Bank's core business and operations related to the core business.

During 2020, due to increased resilience of credit institutions and maintaining the stability of the financial system during the COVID-19 pandemic, Banks became subject to certain supervisory expectations, through published circulars of the Croatian National Bank, recommendations of the European Banking Authority and recommendations and supervisory expectations of the European central bank, all in connection with the COVID-19 pandemic. These recommendations and expectations relate essentially to certain actions regarding the approval of moratoriums, their treatment and classification and reporting on them, impairment and credit risk management systems, as well as recommendations regarding the suspension of dividend payments and variable remuneration to employees.

Thus, the Decision of the Croatian National Bank on the temporary restriction of distributions (OG 4/2021), which entered into force on 16 January 2021, restricts the distributions to credit institutions until 31 December 2021, which includes the payment of dividends, creating a dividend payment obligation, repurchasing treasury shares, allocating variable receipts and other forms of distribution. The decision was made with the obligation of the Croatian National Bank to review the reasons of restrictions no later than September 30, 2021, whereby the regulator may, depending on the assessment, lift the duration of the temporary restriction before December 31, 2021.

Above Decision was taken in accordance of the authority under Article 144a) of the Credit Institutions Act, according to which the Croatian National Bank is the designated body - when necessary to preserve the stability of the financial system as a whole, strengthen the resilience of the financial system and avoid and reduce systemic risk - authorized to issue bylaws prescribing appropriate measures and instruments. Accordingly, this regulatory measure was adopted due to the uncertainties arising from the duration and dynamics of the COVID-19 pandemic and its consequences.

In addition to the aforementioned normative activity, the Croatian National Bank is also responsible for supervising the operations of credit institutions in the Republic of Croatia. Following the establishment of close cooperation between the Croatian National Bank and the European Central Bank (hereinafter: the ECB), and in accordance with Article 1 of Regulation (EU) no. 468/2014 of the European Central Bank of 16 April 2014 establishing a framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (SSM Framework Regulation) - hereinafter the SSM Regulation, the scope of the ECB's supervisory tasks is also defined, which is limited to the prudential supervision of credit institutions, and supervisory tasks not entrusted to the ECB remain the responsibility of the national supervisory authorities. According to the above, the Croatian National Bank remained solely responsible for the supervision of banks in areas not covered by the SSM Regulation. These areas relate to areas regulated by the Credit Institutions Act and bylaws of the Croatian National Bank, such as restrictions on investment in tangible assets, rules for accounting and classification of exposures, methods of determining credit losses and consumer protection, and monitoring the implementation of national regulations that regulates the prevention of money laundering and terrorist financing. On 10 July 2020 the ECB adopted a Decision on establishing close cooperation with the Croatian National Bank, and as of 1 October 2020 the Republic of Croatia participates in a single supervisory mechanism since the establishment of close cooperation between the Bank and the ECB is one of the preconditions for entering ERM II (Single European Exchange Rate Mechanism II).

The Croatian Financial Services Supervisory Agency is responsible for supervising the provided investment and connected services and the performance of investment activities. The Croatian Deposit Insurance Agency controls the fulfillment of obligations of credit institutions under the Deposit Insurance Act (Official Gazette 82/2015 and 146/2020). The Croatian National Bank implements the rules and determines the procedures and instruments for the resolution of credit institutions in accordance with the Resolution of Credit Institutions and Investment Companies Act (Official Gazette 146/2020). By amending the Law on Credit Institutions, as well as the Law on Resolution of Credit Institutions and Investment Companies, the Croatian National Bank takes over the powers for the resolution of credit institutions, and the Croatian Agency for Supervision of Financial Services over investment companies.

The Personal Data Protection Agency monitors the fulfillment of all rights and obligations in the field of personal data protection on the basis of which the Bank is determined obligations and responsibilities in the process of personal data processing related to the application of regulations covered by the legal framework of personal data protection in Croatia.

The Bank uses the EU regulation which includes regulations adopted by the Parliament and the Council. The most important is Regulation (EU) 575/ 2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) 648/ 2012 (Official Journal of the European Union L 176/ 2013). There are also delegated and implementing regulations of the European Commission which concern conducting business of credit institutions in Croatia, as well as other relevant acts which regulate corporate business activities in the Republic of Croatia, and corporates and credit institutions with headquarters in Croatia in part in which they conduct business with foreign entities (e.g. acts of other countries, international contracts related to anti-money laundry, international payments etc.).

The Bank as an obligator of Act on the Prevention of Money Laundering and Terrorist Financing (OG 108/2017, 39/2019), undertakes in its operations measures, actions and procedures prescribed by this Act in order to prevent and detect money laundering and terrorist financing and implement preventive measures to prevent use of the financial system for money laundering and terrorist financing.

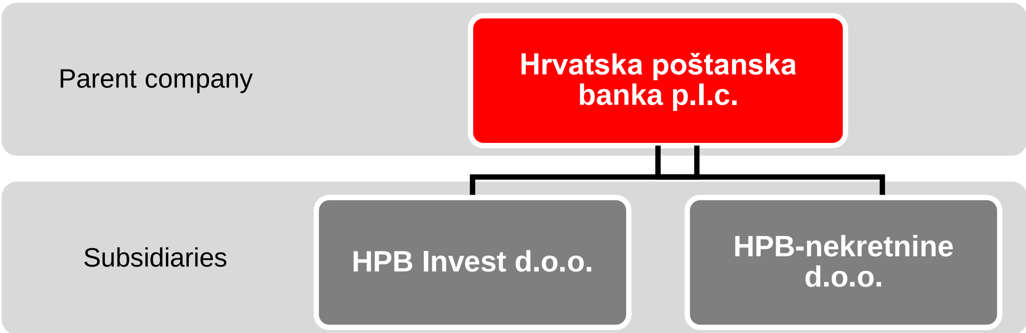
Given that the Republic of Croatia, directly or through companies owned by it, is the majority owner of the Bank's shares, the Bank applies as relevant the special laws and bylaws for companies in majority state ownership.

Overview of HPB Group and Bank's Position in the Group

HPB p.l.c. is part of a group of linked entities according to the Credit Institutions Act, and is 100% owner of the following companies which make HPB Group:

	Industry	State	Ownership %
HPB Invest d.o.o.	Investment fund management	Croatia	100.00
HPB-nekretnine d.o.o.	Real estate and construction	Croatia	100.00

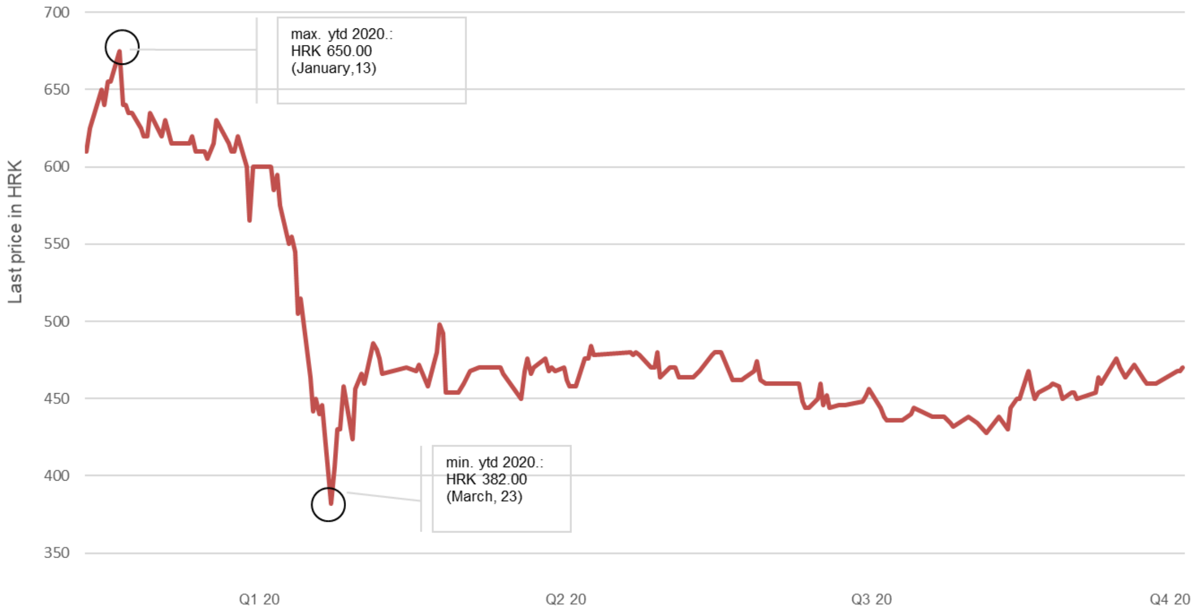
Hrvatska poštanska banka p.l.c. is not a member of a concern in terms of the Companies Act.



HPB-R-A Share

HPB Stock is listed on ZSE's Official market. Last share price at the end of 2020 amounted to HRK 470.00 (trading day 30.12.2020), representing a decrease by 21.67 percent in comparison with the last price achieved in 2019 (HRK 600.00 trading day 30.12.2019).

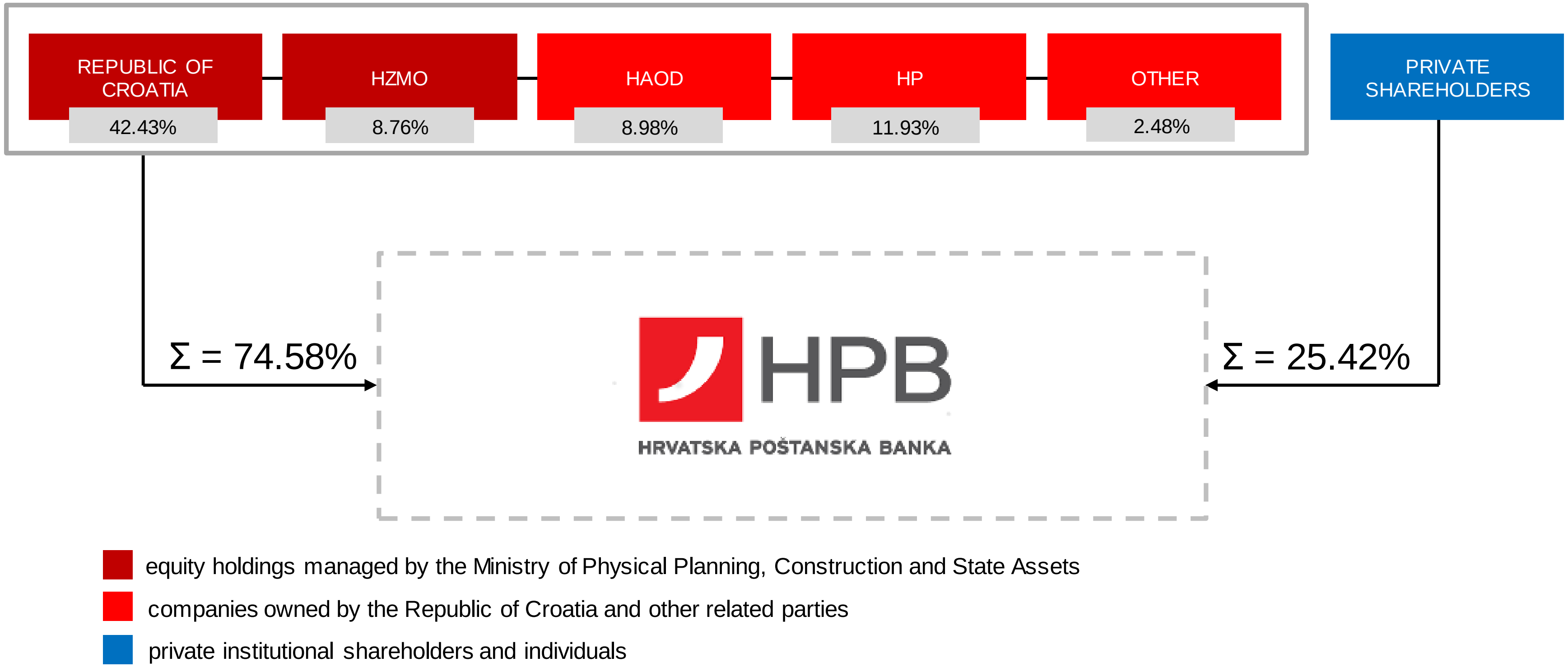
Trading of HPB-R-A stock during the reporting period was as follows:



Stock data and details	
Issue date	December 12, 2000
ISIN	HRHPB0RA0002
Segment	Official market of the Zagreb Stock Exchange
Listed quantity	2,024,625
Share price as at December 30, 2020 (in HRK)	470.00
Market capitalization (in HRK million)	992.07

Ownership Structure of Hrvatska poštanska banka p.l.c.

On December 31, 2020 the Bank's ownership structure was as follows:



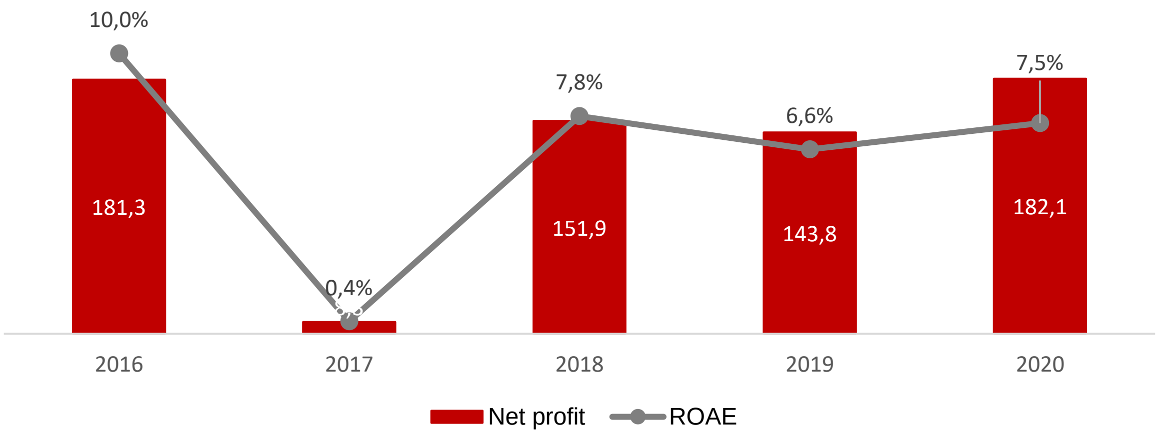
Source: CDCC

On December 31, 2020 Republic of Croatia through the Ministry of Physical Planning, Construction and State Assets controlled 74.6% of the equity and voting rights of the Bank.

Business and financial overview

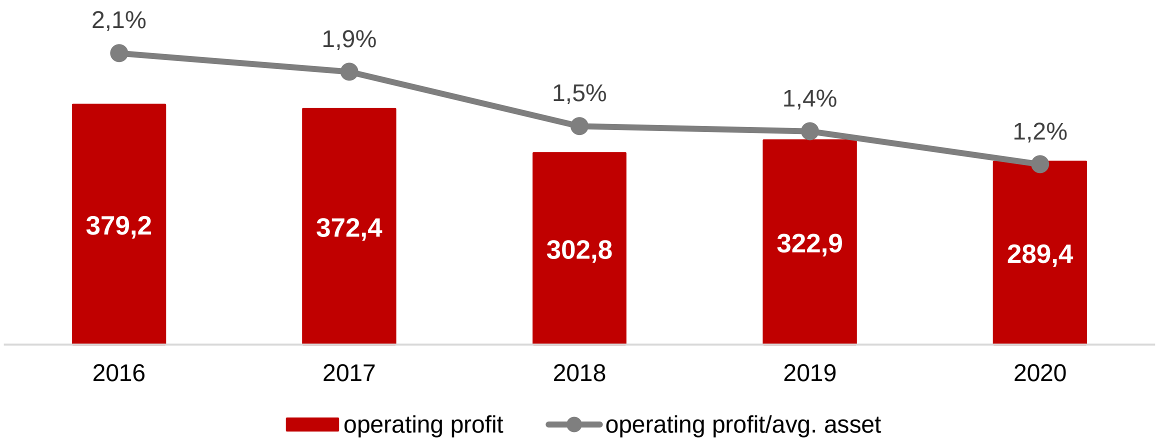
In 2020 the Bank made a net profit after tax in the amount of HRK 182.1 million.

Net profit/(loss)



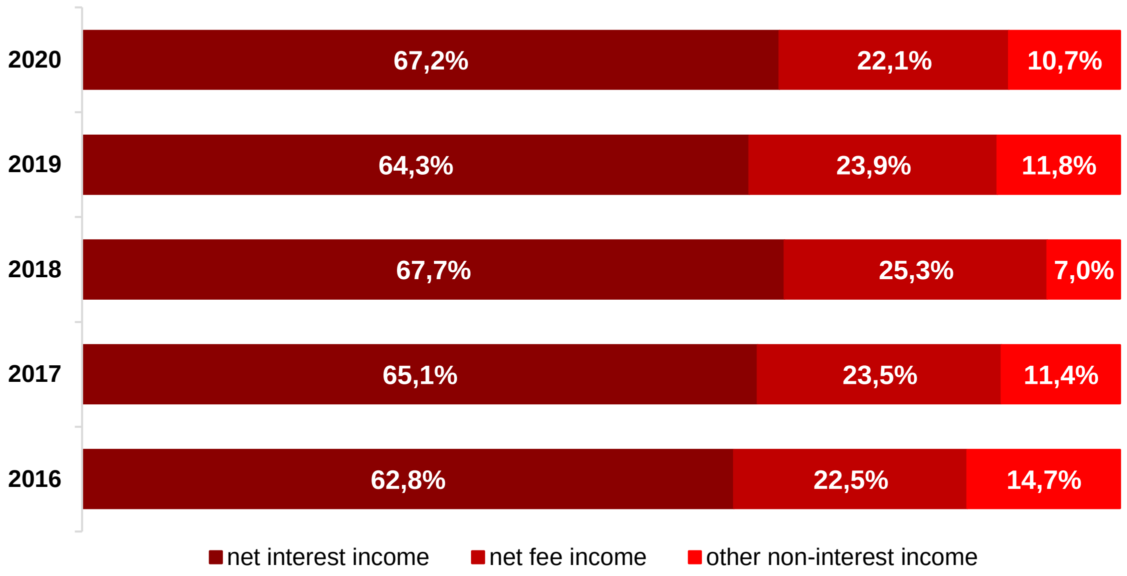
Operating profit before provisions amounts of 289.4 million. Provisions for loan losses and other impairments of financial and non-financial assets amounts HRK 121.4 million, while net income from the reversal of provisions for liabilities and charges amounts to HRK 58.9 million.

Operating profit before provisions



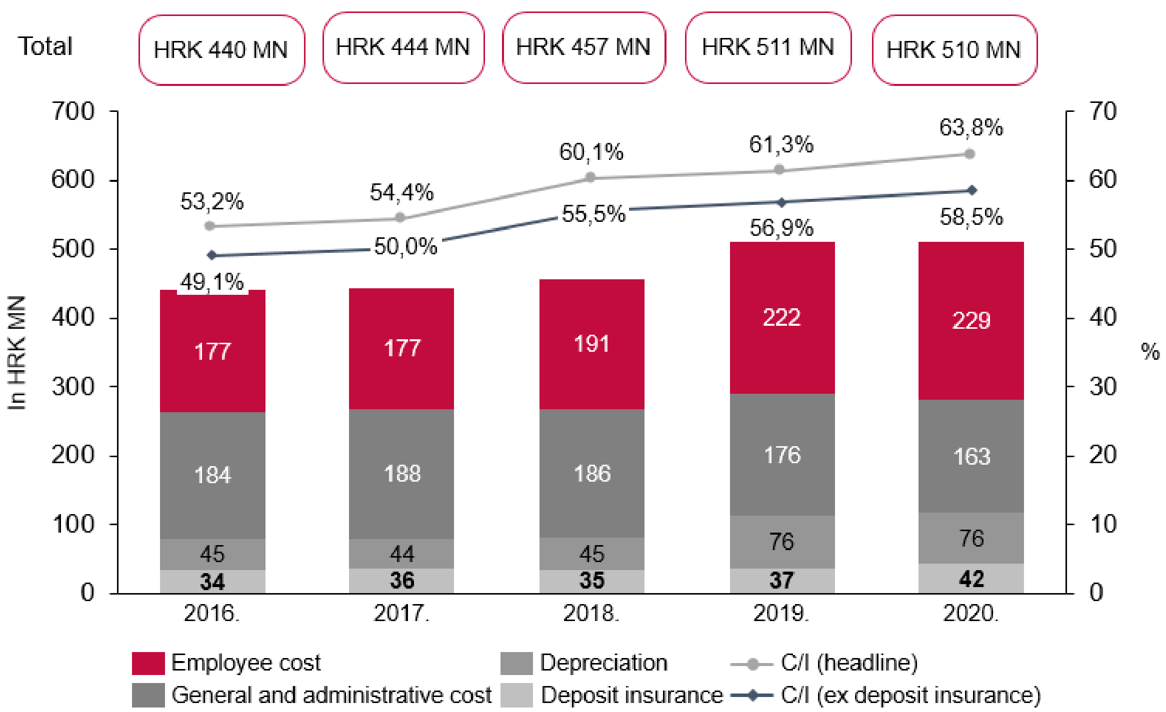
Net interest income in the amount of HRK 537.3 million generates share of 67.2 percent in the total operating income.

Net income composition for the period 01.01.- 31.12.2020

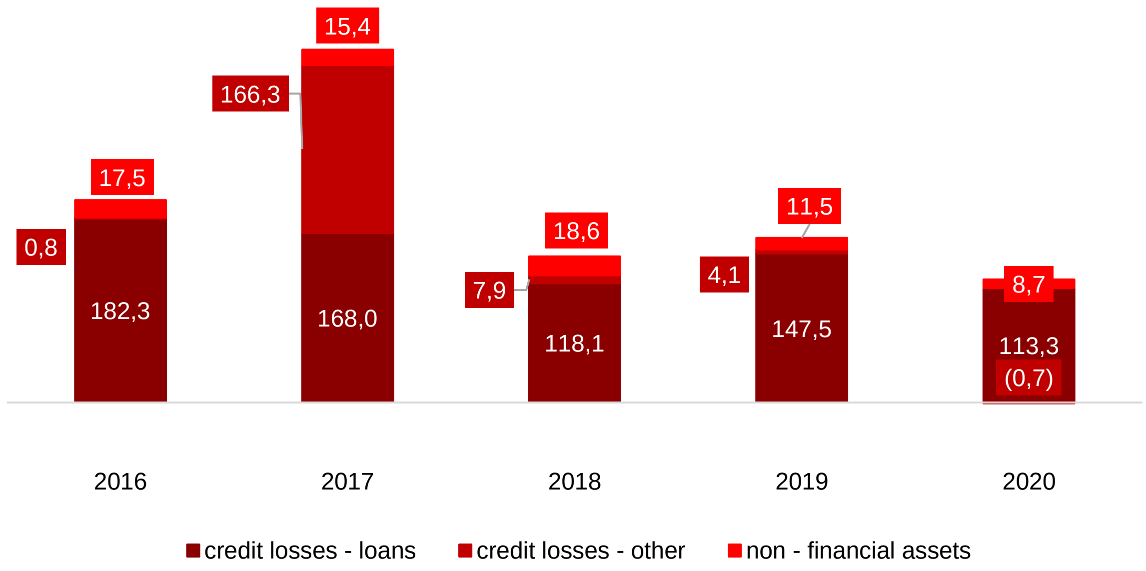


Continuous cost optimization resulted with in reduction of operating expenses that relates to general and administrative costs which are lower by 7.72 percent. Compared to 2019, the cost of employees increased following the merger of Jadranska banka and Štedionica, as well as insurance costs in accordance with the increase in deposits. The Bank will continue its efforts to manage costs as efficiently as possible.

Cost management 2016 – 2020

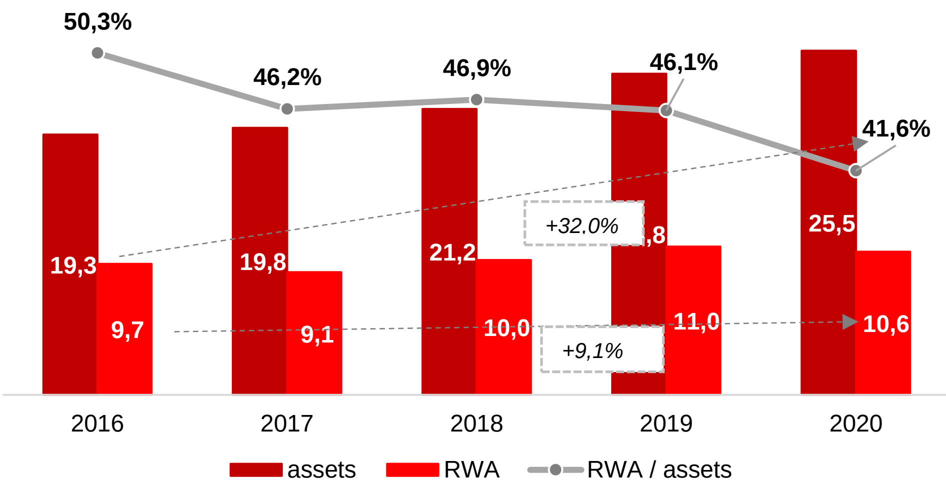


Provisions for losses



Portfolio optimization has resulted in a reduction in risk costs despite the effects of COVID 19.

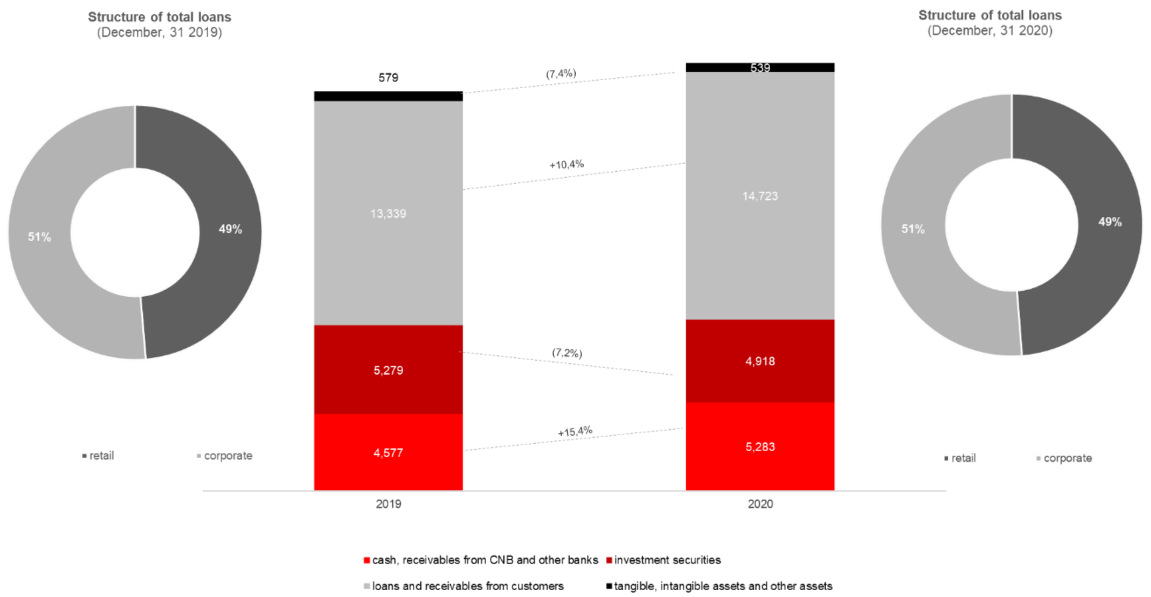
Assets and RWA



In parallel with the growth of assets and loans and receivables from the Bank's customers, the risk-weighted assets decreased as a result of the strengthening of the capital management culture.

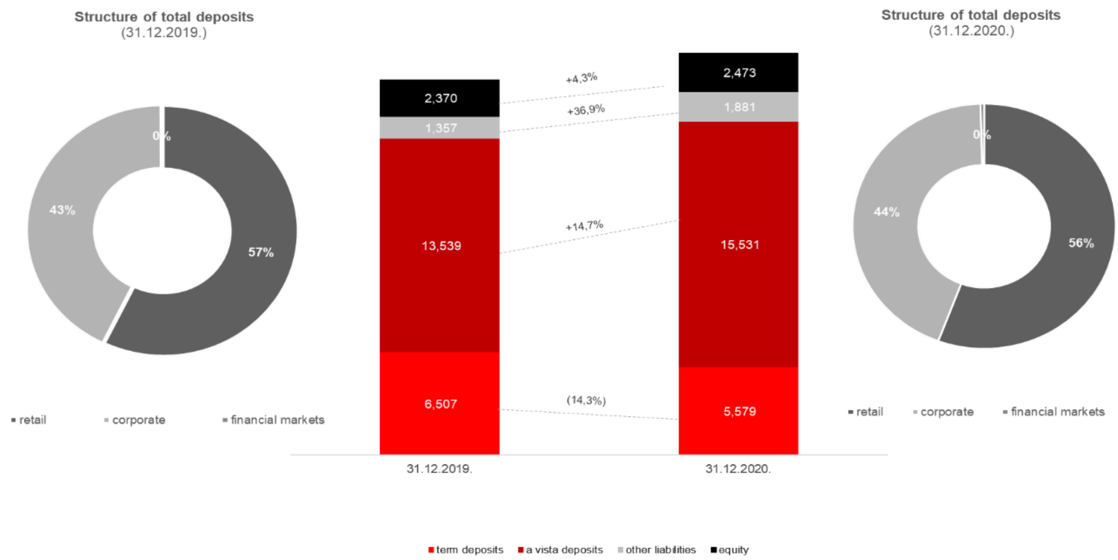
At the end of 2020, the Bank's assets amounted to HRK 25,464 million, which is an increase of HRK 1,691 million (+7.1 percent) compared to 2019. With 57.8 percent, loans and receivables from customers make up the most significant part of the asset structure.

Assets composition



Total deposits grew by 5.3%. Retail and corporate are on the rise, with a noticeable spillover from term deposits (-14.3%) to a vista deposits (+ 14.7%), which has a favorable impact on the average cost of resources.

Liabilities and equity composition



Description of business segments

Retail segment operations

570 thousand	23 thousand
total clients	new clients

Retail business is done through the Bank's own network of 9 regional centers, 52 centers and 6 outlets, as well as HP's distribution channel with more than 1,000 post offices distributed all over the Republic of Croatia.

In the past year, despite the COVID-19 pandemic and the crisis it caused, the Bank recorded the stability of deposits, which as at 31 December 2020 amounted to HRK 11.9 billion. Of that, a vista deposits amounted to HRK 7.5 billion, and term deposits amounted to HRK 4.3 billion, which shows the continuation of the trend of spilling term deposits into a vista deposits.

The total retail gross loan portfolio at the end of 2020 amounted to HRK 7.9 billion. In 2020, faster growth continued in all dimensions in comparison with the sector movement, the share of total retail loans remains on an upward trend. With the growth of housing and non-purpose loans in 2020, they were above the sector, and in 2020 almost HRK 1.8 billion of new credit volume was placed, with very successful participation in the subsidized housing loan program, which is extremely good result considering the circumstances and pandemic impact.

The growth of the deposit and loan portfolio is the result of stable operations, quality services, customer loyalty and the recognition of the Bank as a stable financial participant in Croatian banking industry.

2020 achievements:

<u>Sales / development</u>

In 2020, HPB continued to grow its market share in loans due to maintaining the volume of placements throughout the year.

The pandemic year was marked by two tranches of APN's subsidized housing loan program, where HPB, as a socially responsible institution, continued to support the program, thus facilitating clients' housing needs and supporting the government's demographic measures to keep younger people in Croatia. April and September were APN-oriented months, and the Bank financed a total of 1,080 clients in the amount of HRK 725 mn.

In addition to APN's program of subsidized loans, the Bank also participates in subsidized loans from the area of Osijek-Baranja County, where interest is paid to clients by local self-government units.

The fact that it is recognized on the market as the Bank for housing financing in HRK makes a good opportunity to acquire and build a base of younger working clients, which diversifies the client structure and gets clients with higher incomes. HPB, with a strong and stable retirement customer base, is making strong strides towards younger groups of people for whom it creates special offers and improves its products and services to keep pace with, but also ahead of the competition, and follow digital trends in banking.

Also, 2020 was focused on assistance measures aimed at overcoming the pandemic time, and the Bank offered its clients various measures to facilitate the repayment of liabilities due to the uncertainty that 2020 brought. The Bank has processed more than 3,000 requests to use some of the measures.

The pandemic has made its contribution to the digitalization of the bank's clients. Thus, in 2020, in addition to a larger number of contracted direct banking services, the volume of transactions performed through the Bank's digital services also grew due to an increase in the number of performed transactions, which increased by about 20 percent.

Direct channels Division operations

<u>Card business</u>

550	793 thousand
ATM	valid cards
17	3.030
various card products	EFT-POS terminals

At the end of 2020, the Bank had 793,433 valid cards in its portfolio, which represents a slight increase of 660 card sin comparison with 2019. 98.5% of the total number of valid cards refer to cards issued to retail, and 1.5% to corporate entities.

A total of 28.2 million transactions were made, of which 25.6 million relates to HPB cards. The increase in the number of transactions with the Bank's cards is 6.7% more than in 2019. The total volume of transactions in 2020 increased by 1.3% compared to 2019.

In the same period, the ATM network was optimized and the number of ATMs remained at similar level compared to 2019, while the increase in the number of EFTPOS devices in the retail network was higher by 26% compared to 2019.

The volume of transactions via e-Cash (cash withdrawals at ATMs without a card, via mobile banking) increased by 17% compared to the previous year.

According to the CNB's recommendation, in order to provide the best possible customer service, during the COVID 19 pandemic, the Bank issued cards to all protected account holders and assignees, so that they can use funds from their accounts without coming to the Bank's business centers. Those 26,680 debit cards were issued in the second quarter of 2020.

In addition, the Bank enabled clients to make contactless payments from HRK 100 to HRK 250 without entering a PIN, thus facilitating the use of the card and payment in accordance with epidemiological recommendations.

In the period from April to July 2020, the Bank enabled cash payments by debit and prepaid cards from ATMs of other banks in the Republic of Croatia free of charge, so that customers could have easier and faster cash approach.

Supporting the Ministry of Tourism and the Government of the Republic of Croatia, the Bank signed an Agreement on the implementation of measures to encourage spending in catering and tourism in the Republic of Croatia and issued a new product Debit Visa Croatian Tourist Card, which allows employers to pay up to HRK 2,500 tax-free provision and non-cash payments to other retail and corporate entities, and enables employees to cover the costs of catering and tourist services intended for holidays in the Republic of Croatia. A total of 2,613 cards were issued in 2020.

Following the regulatory requirements for online payment security, the Bank has completed the process according to PSD2 regulations, 3DS 2.0 regulations, SCA "Strong Customer Authentication" and all customers who want and can, pay online using biometrics. PSD2 and 3DS2.0 regulations have also been introduced on the card acceptance side. This has raised the level of security of payments on the Internet to a higher level, which allows our customers a more secure service and an improved user experience.

In addition, the Bank has completed the process of issuing credit cards by replacing it with Chip & Pin authentication, and in order to comply with SCA regulations and ensure the use of cards in a more secure way, 25,963 cards were renewed in 2020.

Digital banking

At the end of 2020, the number of Internet banking users for retail amounted to 69 thousand, which represent a decrease by 1% compared to 2019. Retail clients prefer the mobile banking channel and, accordingly, the number of mobile banking users is growing.

At the end of 2020, the number of mobile banking users is 100 thousand, which represent an increase by 12% compared to 2019. The number of transactions is 68%, and the volume is 42% higher than in 2019.

The number of corporate clients that have a contracted Internet banking service is more than 8 thousand, which is an increase of 12% compared to last year. Also, a large increase is recorded in the number of corporate clients with contracted mobile banking, which is as much as 45% higher than in 2019.

2020 achievements:

- PSD2
  Continuation of the project with the scope of full harmonization with regulations and establishment of production management of the PSD2 channel
- Sepa Instant payment
  HPB is one of the 3 banks in HR that joined the Instant scheme in 2021, thus enabling its customers to pay faster.
  SEPA instant payment is a credit transfer, i.e. payment, initiated by the payer - consumer (individual) or corporate client. What distinguishes an instant credit transfer from a regular credit transfer is the availability of the 24/7/365 service and the execution of transactions and the availability of funds to the recipient within just a few seconds (10 seconds).
- RPIR
  Intensive work on the RPIR service (part of the SEPA instant project) whose production is planned for the first quarter of 2021.
  RPIR is a register in which it is possible to define an indirect way of identifying the recipient's account. This means that the owner will be able to "connect" his transaction accounts (IBANs) with his email, mobile device number, or OIB. Thus, the indirect connection of the account with, for example, the mobile phone / email enables payments in favor of the account by entering an indirect identifier or cell phone no. / email / OIB.
- COVID-19 measures
  A temporary process that allows users to activate / reactivate the mHPB / internet banking service for retail segment, reactivate the mHPB service / internet banking for corporate clients and pay for the issuance of a prepaid card during the pandemic.

- eBranch
  Compliance with the Rules on the minimum technical requirements that must be met by means of video-electronic identification and activities required for non-clients to contract an SS current / gyro account via eBranch online without the need to come to the physical branch.

Overview of Retail Products and Services:

	Product group	Products and services
Retail products and services	Accounts	Current account Basic Account / Basic account for sensitive groups Special purpose accounts Switching payment accounts Giro account – HRK/fx Foreign currency account Children account Kockica SuperSmart HPB account Payment operation – national/foreign, cash/non-cash, HRK/fx Reporting – monthly/annually Business with foreign checks
	Savings	A vista deposit – HRK/fx Motiv Plus deposits – HRK/fx Non-purpose term deposits – HRK/fx Multipurpose term deposits – HRK/fx Term savings with multiple deposits – HRK/fx Children term deposits – HRK/fx Rent deposits- HRK/fx Gift voucher HPB Kockica
	Loans	Housing loans Housing consumer loan in HRK with a combination of fixed and variable interest rates Housing consumer loan in HRK with currency clause EUR with a combination of fixed and variable interest rates housing consumer loan in HRK housing consumer loan in HRK with currency clause EUR housing consumer loan in HRK without a mortgage housing consumer loan in HRK without a mortgage with a currency clause EUR housing consumer loan in HRK based on the Housing Loan Subsidy Act housing consumer loan in HRK with a currency clause EUR based on the Housing Loan Subsidy Act housing consumer loan in HRK for the purchase of apartments under the Program Socially encouraged housing program A housing consumer loan in Kuna with currency clause EUR for the purchase of apartments based on the Socially Incentived Housing Program A housing consumer loan in HRK based on housing savings of HPB-housing savings bank housing consumer loan in HRK with currency clause EUR based on housing savings of HPB-housing savings bank Multipurpose loans Tourist loan in HRK Tourist loan in HRK with currency clause EUR Loan in HRK to finance private renters through HBOR with an interest rate subsidy from the Ministry of Tourism. Loan in HRK with a currency clause EUR for financing private renters through HBOR with an interest rate subsidy from the Ministry of Tourism. Credit for the costs of enrollment in a private high school or grammar school, for undergraduate, graduate and / or postgraduate studies in HRK with a currency clause in EUR Credit for settling the allowed overdraft on the current account in the Bank Non-purpose loans non-purpose cash loan in HRK non-purpose cash loan in HRK with currency clause EUR non-purpose cash loan in HRK with a combination of fixed and variable interest rates non-purpose cash loan in HRK with currency clause EUR with a combination of fixed and variable interest rate non-purpose cash loan for pensioners in HRK Lombard loan secured by term deposit non-purpose cash mortgage loan in HRK with currency clause EUR

Overview of Retail Products and Services (continued):

	Product group	Products and services
Retail products and services	Cards	Debit Mastercard contactless card VISA Electron/Debit current account card Maestro current account card Mastercard debit gyro account card VISA prepaid card VISA prepaid card for young people - IDEEEŠ! Visa installments card Gold Mastercard card Mastercard Pošta & HPB card Mastercard credit card (revolving) Mastercard deferred payment card (charge)
	E - banking	mHPB mToken Internet banking SMS / e-mail services e-account e-cash e-citizens
	HPB Invest	HPB short-term euro bond fund HPB short-term Kuna bond fund HPB bond fund HPB Bond plus fund HPB Global fund HPB Equity fund
	Croatia osiguranje	Car liability policy CPI CO Assets Accident insurance policy Travel health insurance policy Life insurance policy BASIC Life insurance policy PREMIUM CO scholarship EXCLUSIVE Plus Policy Krug života Policy Riziko plus Health insurance policy Voluntary pension fund
	Other	Brokerage services through the channel "Kreditni posrednici" RoboAdvice application consulting services - determining the suitability of open-end investment funds for the client Exchange business Safes

Corporate segment operations

Large corporate and public sector

1,291
total clients

6.2 bn
loan volume

699
local government and self-government units and affiliated companies

6.9 bn
deposit volume

The large corporate and public sector division provides banking services to 1,291 clients, striving to continually improve services and innovate to better meet customer needs. Although 2020 is characterized by new circumstances caused by the COVID-19 pandemic, there has been a further increase in the number of clients, especially in the segment of business with local governments, which is influenced by the launch of the pilot project Payments of Legal Entities in Hrvatska pošta.

The level of gross loans to legal entities in the large corporate and public sector amounts to HRK 6.2 billion. In the structure of gross loans to legal entities, loans to companies and republic funds have a dominant share, with HPB continuing to support companies and activities that generate value for the economy.

During 2020, we enabled businesses that were unable to meet their financial obligations due to the effects of the COVID-19 pandemic to contract assistance measures, such as the introduction of a moratorium on loan repayments and the approval of new liquidity loans. As additional assistance measures, the Bank, in cooperation with CBRD and HAMAG-BICRO, prepared new credit lines to ensure liquidity on favorable terms.

Total deposits of corporate clients of the large corporate and public sector (excluding bank deposits) as at 31 December 2020. They amounted to HRK 6.9 billion, of which demand deposits amounted to HRK 5.8 billion and primarily related to clients from the central government segment. The recorded increase in deposits also stems from a significant acquisition of clients in local government.

During 2020, the trend of decreasing interest rates on the market continued, to which the Bank responded with quality management of interest expenses in the part of deposits. Existing short-term sources limit long-term financing, especially for the volume of significant individual transactions.

The situation of high liquidity of the overall financial system and strong interbank competition posed a major challenge for the Bank. The growth in the volume of loans throughout 2020 stems mostly from lending to state-owned companies, most of which are related to quality collateral, i.e. state guarantees. Such developments were achieved by the large corporate and public sector through acquisitions of creditworthy clients and new placements to quality private and public companies. In addition, the Sector focused on raising the level of service quality by forming sales teams and on introducing new products and entering new market niches that require specialist knowledge.

The development of new products and strengthening of the Bank's specialization continued, especially in the segment of co-financing projects from ESIF funds through the established EU desk in order to provide expertise and achieve excellence in monitoring clients of both public and private sector in financing and implementing projects from ESIF funds. Project financing has also been established with the aim of monitoring large projects in infrastructure, energy, tourism, etc., in order to keep pace with the increase in demand for investment loans.

Successful business cooperation with CBRD and HAMAG-BICRO in all programs, as well as cooperation with the EBRD and the EIB continues.

As before, the large corporate and public sector will continue to cooperate intensively in the coming period and provide credit support to large economic entities, state units, as well as local government units. The focus will be on the dispersion of the loan portfolio in favor of large privately owned companies and local governments and on the growth of non-interest income with the continuous improvement of quality and expansion of the range of services.

New products for business entities, redesign of Internet banking for business entities and improvement of payment and transaction solutions are being prepared.

Small and medium enterprises

10,024	2.3 bn*
total clients	loan volume
6	1.5 bn
regional centers	Deposit volume

**included craftsmen*

HPB provides banking services to more than 10,000 business clients, with an emphasis on business innovation and continuous improvement of financing opportunities, but also in these difficult conditions of refinancing and restructuring of existing liabilities.

In 2020, the Bank faced major challenges in this sector as well due to the COVID 19 epidemic and the earthquakes that hit Zagreb and later Sisak-Moslavina County. In line with this challenging market environment, the SME Sector focuses its efforts on quality management of the existing portfolio with a conservative approach to new investments and focuses on contracting moratoria, reprograms and new sources of liquidity for clients affected by the earthquake and those affected by the COVID 19 pandemic.

As at 31 December 2020, gross placements of business entities in the SME Sector amounted to HRK 2.3 billion, while value adjustments amounted to HRK 516.4 million. Total deposits of business entities in the SME Sector amounted to HRK 1.5 billion, with a vista deposits amounting to HRK 1.3 billion and term deposits to HRK 0.2 billion.

2020 achievements:

- Project „Banka u Pošti“
- Organization – domain changes
- Continuance of cooperation – HAMAG, CBRD, EIB, Ministry of Transport

With the aim of expanding the network of banking services and bringing the bank closer to its clients in every part of the country, HPB continues the project "Banka u Pošti" by providing its services to corporate clients and thus becoming the largest distribution channel of basic banking products and services in Croatia.

On 24 August 2020 project of externalized business with corporate clients started in the channel of the Croatian Post at 8 locations, and on 23 November 2020 the project is being expanded to an additional 113 post office locations with further preparations for the opening of new locations in 2021.
By the end of 2020, 105 corporate clients from the segment of small and medium-sized enterprises will conduct various banking operations through the "Banka u Pošti", such as opening transaction accounts, payment transactions, internet and mobile banking, Visa business cards, etc.

Within the SME Sector, a Division of sales support is established, whose main tasks are sales management, education and information of the sales network and process management.

The sales network is organized in 6 regional centers instead of the previous 12, namely: RC Središnja Hrvatska based in Zagreb, RC Sjeverna Hrvatska based in Varaždin, RC Istra i Kvarner based in Rijeka, RC Slavonija based in Osijek, RC Dalmacija - sjever based in Šibenik and RC Dalmacija - jug based in Split within which 16 entrepreneurial centers operate. The new business model for SMEs aims to achieve the key goal of increasing SME customer satisfaction by providing an excellent customer experience in the sales network and through distribution channels in order to maintain long-term customer loyalty.

In 2020, HPB strengthened its existing cooperation with CBRD, HAMAG BICRO and the EIB through new programs and expansion of existing programs, all in order to provide its customers with the most favorable financing conditions.

HPB actively cooperates with HAMAG BICRO, and based on this cooperation we offer guarantee programs to encourage small and medium enterprises, and we participate in the implementation of a financial instrument co-financed by the European Regional Development Fund under the Operational Program "Competitiveness and Cohesion" (ERDF individual guarantees and ERDF limited portfolio guarantees).

In order to encourage the development of small and medium enterprises, HPB uses the synergy of all business areas within the Bank, but also external strategic partners and other institutions - we achieve accessibility of our services through regional and entrepreneurial centers and through cooperation with partners, Croatian Post and Fina in order to be available to clients throughout Croatia.

Overview of products and services in the corporate segment:

	Product Group	Products and services in 2020
Products and services in corporate segment	Payment operations	Transaction account Entrepreneur Packages Cash pooling Escrow account Cash payments Non-cash payments Reporting on the status and changes on account Solvency data (BON2) SEPA direct payments SEPA credit transfers International payment services EFTPOS E-commerce
	SME financing	Short-term financing Corporate Account Overdraft Loans for Working Capital Revolving loans Loans for refinancing Interfinancing loans Margin loans Loan with fixed-term deposits Loans for preparation of tourist season Agricultural loans Loan for the preparation of exports and for the export of goods based on foreign exchange inflows Discount of bills of exchange of creditworthy companies Discount of securities, bonds, commercial papers and bills of exchange with government institutions Loan based on cession on credit rating companies in the country Loan based on cession from state institutions Purchase of credit rating companies' claims (factoring) Purchase of receivables from state institutions (factoring) Long-term financing Loan for working capital and permanent working capital Loan for investments in fixed assets - investment Loan for refinancing liabilities Loan with fixed-term deposits Loans for preparation of tourist season Agricultural (Agro) Loan Loan to exporters for the purchase of fixed assets Loan for improving energy efficiency and for renewable energy Loan for all kinds of works on common parts of the building Loan for the renewal of buildings damaged in earthquakes Loan for the purchase of ECO MOBILE equipment Frames for financial monitoring Framework for the use of short-term and long-term products (loans, guarantees, letters of credit) The framework for the purchase of receivables Special loan programmes – in cooperation with CBRD Loan program: Entrepreneurship of young people, women and beginners Loan program: Private sector investment Loan program: EU projects Loan program: Export preparation Loan program: Working capital

	Product Group	Products and services in 2020
Products and services in corporate segment	SME financing	Loan program: Financial restructuring Framework Loan - Working capital loans Framework Loan – Investment financing Export Guarantee Bank Insurance Program Working capital loan portfolio insurance program for exporters COVID credit programs - in cooperation with CBRD Framework loan for working capital number: COV3-20-1100795 Export Liquidity Loan Portfolio Insurance Program - Covid-19 Measure-S-OPK-COVID-03/20 Framework loan for working capital number: COV6-20-1101210 Special loan programmes – in cooperation with HAMAG-BICRO ESIF program (individual guarantees co-financed by EU Structural and Investment Funds) ESIF (Limited Portfolio Guarantee) Program HAMAG individual guarantees for rural development 'PLUS' guarantee program COVID credit programs - in cooperation with HAMAG-BICRO Guarantee Program for the allocation of state aid to the maritime sector, transport, transport infrastructure and related activities in the current COVID-19 pandemic Guarantee Program for loans for entrepreneurs active in the field of culture and creative industries Special loan programs - loans in cooperation with MINPO, the City of Zagreb and the counties Program "Credit to Success 2014, Measure 1 - Credit to Competitiveness" with the Ministry of Entrepreneurship and Crafts and Counties Program "Credit to Success 2014, Measure 2 - Credit to Successful Business" with the Ministry of Entrepreneurship and Crafts and Counties Special Credit Programs - in collaboration with the EIB Credit to small and medium-sized enterprises (SMEs) and medium-capitalized (Mid-Cap) enterprises Special Loan Programs - In cooperation with the EBRD Loan for micro, small and medium-sized enterprises Loan to women entrepreneurs Loan for financing the energy efficiency of apartment buildings Loan for financing the energy efficiency of businesses Special loan programmes – other Loans in cooperation with Craftsmen Society of Zagreb Loans for member of Croatian Lawyers' Association Loans in cooperation with the Ministry of Croatian Veterans for micro, small and medium-sized enterprises of Croatian veterans and children of Croatian veterans
	Large corporate financing	Short-term financing Corporate Account Overdraft Loans for Working Capital Revolving loans Loan for refinancing liabilities Interfinancing loan Margin loans Loan with fixed-term deposits Loans for preparation of tourist season Loans for Financing Stocks of Sugar, Wheat and Other Commodities Agricultural (Agro) Loan Loan for the preparation of exports and for the export of goods based on foreign exchange inflows Discount of bills of exchange of creditworthy companies Discount of securities, bonds, commercial papers and bills of exchange with government institutions

	Product Group	Products and services in 2020
Products and services in corporate segment	Large corporate financing	Loan based on cession on credit rating companies in the country Loan based on cession from state institutions Purchase of credit rating companies' claims (factoring) Purchase of receivables from state institutions (factoring) Long-term financing Loans for permanent working capital Loan for investments in fixed assets - investment Loan for refinancing liabilities Loan with fixed-term deposits Loans for preparation of tourist season Agricultural (Agro) Loan Loan to exporters for the purchase of fixed assets Loan for improving energy efficiency and for renewable energy Loan for all kinds of works on common parts of the building Loan for the purchase of ECO MOBILE equipment Project financing Frames for financial monitoring Framework for the use of short-term and long-term products (loans, guarantees, letters of credit) The framework for the purchase of receivables Special Loan Programs - In cooperation with CBRD Loan program: Private sector investment Loan program: Public sector investment Loan program: EU projects Loan program: Export preparation Loan program: Working capital Loan program: Financial restructuring Framework Loan - Working capital loans Framework Loan - Investment Lending Export Performance Bank Guarantee Insurance Program COVID credit programs - in cooperation with CBRD Framework loan for working capital number: COV3-20-1100795 Exporter liquidity loan portfolio insurance program - Covid-19 measure - S-OPK-COVID-03/20 Special Loan Programs - In cooperation with EIB Loan to Mid-Cap Enterprises and Public Sector Entities Loan to public sector entities Loan to private sector entities Special Loan Programs - In cooperation with EBRD Loan to women entrepreneurs Loan for financing the energy efficiency of apartment buildings Loan for financing the energy efficiency of businesses
	Guarantees and letters of credit	Performance guarantees Payment guarantees Counter guarantees and Super guarantees Nostro (import) letter of credit/Stand by letter of credit Loro (export) letter of credit/Stand by letter of credit Documentary collections
	Cards	VISA Business debit VISA Bonus Plus VISA Prepaid business card VISA Business with delayed payment
	E-banking	mHPB mToken Internet banking SMS service
	Deposits	Term deposits in HRK/fx A vista deposits in HRK/fx
	Letter of intent	Non-binding letter of intent Binding letter of intent
	Other	Croatia insurance package Croatia poduzetnik HPB Invest products HPB nekretnine services

Financial markets operations

2020 was marked by a pandemic caused by the COVID-19 virus in both the global and domestic markets. At the beginning of the crisis, there was a significant drop in stock and bond prices caused by uncertainty and fear of investors. However, with coordinated actions of central banks, significant bond repurchase programs were re-launched. Through the pandemic PEPP program, the ECB has pledged to repurchase EUR 1,850 billion by March 2022, while the FED's bond repurchase program is worth USD 120 billion a month until full employment is restored and the inflation target is 2%. The Croatian National Bank also reacted in order to prevent even greater falls in bond prices at the beginning of the crisis and to issue new liquidity. The CNB held a total of 5 fine-tuning operations in which it repurchased HRK 17.88 billion of the nominal value of bonds. The Bank also participated in above operations.

After the initial slowdown of the crisis and the emergence of new liquidity in the market, excess liquidity in the system recorded new highs, and the main challenge remained the management of liquidity reserves in terms of creating an adequate portfolio of liquid instruments with appropriate yields.

Given the historically low yields on treasury bills auctions as well as the yields of money market funds, investments are mostly focused on fixed-income debt instruments.

Although the Bank is still one of the most important participants in the domestic money market, in conditions of extremely high liquidity of the system, which is manifested through falling interest rates, the Bank had a significant activity mainly on the side of placing surpluses in limited periods of seasonal more active demand for local currency (HRK).

Due to such high liquidity, the Bank did not participate in regular repo auctions held by the CNB during 2020 and successfully maintained the prescribed liquidity ratios. In order to manage sources of funds and interest rate risk, the Bank participated in a structural repo auction for 5 years, thus securing HRK fixed sources in the long run. The liquidity coverage ratio at the end of the year is a high level of 156%.

In terms of foreign exchange trading and foreign exchange income in 2020, the Bank achieved a significantly improved result despite a significant reduction in trading volume. The main reason for the excellent result is the good positioning on the currency pair EUR / HRK, which was significantly more volatile and with wider range than in previous years, all due to the pandemic of course. In order to prevent even greater volatility of the EUR / HRK currency pair, the CNB reacted and held a total of 6 foreign exchange interventions in which the Bank also successfully participated.

Regarding sales of treasury products and foreign exchange trading, the Bank maintained its activity in cooperation with corporate clients through contracting spot and forward purchase and sale of foreign currency despite smaller volumes than in previous years.

In the relation to cash operations, the Bank is still one of the most important participants. With a wide network of branches and exchange offices of the Bank and with cooperation with FINA cash services, the Bank offers a competitive service in trading and cash supply. There are also reduced volumes in this area, which is mainly related to exchange operations due to the weak tourist season caused by the pandemic.

<u>Investment banking</u>

Although the capital market in 2020 was marked by significant volatility in both prices and turnover, the total turnover on the ZSE was still 4.5% higher than in the previous year. After a significant drop in prices during March and April, the continuation of the year brought calming and growth of shares, but this was not enough for the recovery and the Crobex index, unlike the world's leading stock indices, fell last year.

During 2020, the Bank participated as a co-arranger in three tranches of bonds issued by the Ministry of Finance of the Republic of Croatia on the domestic market.

Regarding the custody and depository services of pension and investment fund, the Bank improves and harmonizes its services with numerous regulatory requirements and changes, and in this segment, it also records continuous growth of assets under the custody and depository service. The bank received CFSSA approval for the providing deposit services for the first alternative fund in the Republic of Croatia that enables investment in crypto assets.

Financial markets products and services:

Products		Description
Financial markets products and services	Domestic Trading	Trading (buy and sell) in domestic financial instruments Clients decide which stocks they will buy or sell and at which prices, as well as what will be the structure of their portfolio Brokers are obliged to acquaint a client with potential risks, current stock price, specifics of each market, movements of certain stocks and to recommend a portfolio diversification on several shares
	Regional Trading	Trading in financial instruments in Montenegro, Serbia, Macedonia and Bosnia and Herzegovina Clients decide which stocks they will buy or sell and at which prices, as well as what will be the structure of their portfolio Brokers are obliged to acquaint a client with potential risks, current stock price, specifics of each market, movements of certain stocks and to recommend a portfolio diversification on several shares
	Global Trading	Trading in leading global financial instruments. Clients decide which stocks they will buy or sell and at which prices, as well as what will be the structure of their portfolio. Brokers are obliged to acquaint a client with potential risks, current stock price, specifics of each market, movements of certain stocks and to recommend a portfolio diversification on several shares
	Portfolio Management	The portfolio management service is a specialized service that enables users to entrust their funds to the Bank for management. The service is intended for people who, in accordance with their own goals and limitations, want to invest in securities and other financial instruments for a period longer than one year in order to achieve additional income. Every month or even more often, clients receive a report on all activities and changes in the value of financial instruments in their portfolio, i.e. a report on the movement of the value of invested funds
	Investment Services	Investment services include investment advisory services and those related to capital structure consulting, business strategies and related issues, as well as consulting and services related to mergers and acquisitions in companies, and other services in the investment banking segment.
	Securities Issuance	The Bank manages issuances for the following financial instruments: a) debt financial instruments - short-term (commercial papers) and long-term (bonds) b) equity financial instruments - shares When issuing financial instruments, the Bank offers services that cover the entire issuance process, i.e. include all activities related to the organization, preparation and implementation of registration and payment of securities, as well as other tasks for the issuer in order to achieve successful registration and payment.

	Products	Description
Financial markets products and services	Securities Custody	The basis of custody consists primarily of activities related to the storage of assets and the implementation of settlement of transactions and monitoring of corporate activities. Beneficiaries of custody services are active participants in the capital market, investment and pension funds and other institutional investors, as well as retail and corporate clients who invest their assets in financial instruments. Custody services: custody and safekeeping of assets, settlement of transactions of financial instruments on the client's order, determination of the value of assets, notification of activities of joint stock companies, collection of income from financial instruments and reporting, representation at annual general meetings, notification of changes in legislation.
	Depositor of UCITS/ AIF Investment and Pension Fund	A depositary is a credit institution domiciled in the Republic of Croatia or a branch of a credit institution of another member state, established in the Republic of Croatia, which has the approval of the CNB (or the competent authority of that member state) to store and administer financial instruments on behalf of clients including depositary and related services, entrusted to: - control activities of the fund - monitoring the cash flow of the fund - fund asset storage operations The depositary keeps accounts for the fund's assets and separates each individual fund from the assets of other funds, the assets of the depository and other clients of the depository and the management company, controls that the fund's assets are invested with regulatory provisions and acts, informs the Regulator on determination of fund asset and unit prices, executes the orders of the management company in connection with transactions with the fund's assets, reports on corporate actions, provides voting services at the company's general meetings, receives payments of revenues and rights due to the fund, ensures that the fund's revenues are used in accordance with regulatory provisions; acts of the company, reports to the Regulator any significant violation of legal elements and elements of the acts of companies.
	Moj broker - Web Trader	Moj broker – Web Trader service enables trading in securities and monitoring the status of the portfolio via the Internet, regardless of the working hours of the Bank's broker Options: - placing orders for the purchase and / or sale of financial instruments on the ZSE - cancellation or change of order - checking the status of own portfolio - insight into the balance and turnover of brokerage account - overview of stock prices on the ZSE with the 50 best offers in real time - security of data exchange
	Short-term HRK loans for Buying Financial Instruments (Margin Loans)	Short-term HRK loan for the purchase of financial instruments for retail and corporate clients, with the purpose of purchasing financial instruments that are included in the List of financial instruments for margin loans, and in accordance with the daily investment limits for each financial instrument Loan repayment period up to 12 months The loan is approved in the amount of up to 100% of the value of pledged financial instruments, minimum HRK 50 thousand, and maximum HRK 2 million.
	Spot FX Buy/ Sell	Product users: Domestic and foreign retail and corporate clients and financial institutions Product purpose: - Purchase of foreign currencies for payment abroad or deposit on a foreign currency account - Sale of foreign currencies based on inflows from abroad - Foreign currency conversion
	Forward FX Buy/ Sell	Product users: Domestic and foreign retail and corporate clients and financial institutions Product purpose: - Purchase and sale of foreign currencies at a pre-agreed exchange rate on the currency date higher than two business days from the date of agreement - Purchase of foreign currencies for payment abroad or deposit on a foreign currency account - Sale of foreign currencies based on inflows from abroad - Foreign currency conversion

Products		Description
Financial markets products and services	FX Swap	Product users: Domestic and foreign corporate clients and financial institutions Product purpose: - Agreement on the simultaneous purchase and sale of foreign currency at pre-agreed exchange rates. It consists of one spot and one forward transaction of opposite sign. - A SWAP contract is a replacement of two currencies to maturity when they are exchanged again
	Cash trading	Purpose: trading in cash is managed in cash in the position of the Bank, therefore it is to maintain the stock of effective foreign and domestic money at the optimal level
	Given deposits	Product users: Banks Purpose: short-term financing Deadlines: Contracts on a given deposit are usually agreed for terms of up to one year, but it is possible to agree on longer terms Deposit management: Funds are available on the value date until the due date of the contracted deposit
	Received deposits	Product users: Domestic and foreign Banks and financial institutions Purpose: Realization of yield on free HRK/ foreign currency funds Deadlines: Money market deposit agreements are negotiated for a fixed term, usually up to one year Deposit management: It is not possible to use the funds during the term of the deposit; Termination is possible with financial institutions with which there is an agreement on early termination
	Repo/ Reverse repo	Product users: Domestic corporate clients and financial institutions Purpose: - A contract in which one party transfers some form of financial asset (security) to the other in exchange for cash. At the same time, it is agreed that a reverse transaction will be made on a fixed date in the future. - The contract is implemented through two transactions: one purchase and one sale of the security at a pre-agreed price - Represents a loan of a security to one contracting party and cash to another - The repo agreement is structured so that all benefits as well as the associated risks of holding the security remain with the original owner - A reverse repo agreement represents two opposite transactions from those in a repo agreement Deadlines: Repo agreements are agreed mainly as money market deposits for up to one year, but it is possible to agree on longer terms.
	Securities trading (bonds, treasury bills, CNB bills, commercial bills, shares)	Product users: Domestic corporate clients and financial institutions Purpose: Investment of free cash by purchasing debt securities with fixed yields issued by the state, local governments, cities or companies Deadlines: - Short-term debt securities are issued for periods of up to one year - Long-term debt securities are issued for maturities longer than one year

Internal control system and control functions

Risk management

HPB manages risks through a risk management system consisting of a set of procedures and methods established to identify, measure, monitor, manage and manage the risks to which HPB is or may be exposed. The purpose of setting up a risk control system is to manage the risks and minimize their unintended consequences, thereby ensuring the stability of HPB's business (including the fulfillment of all commitments). It is important to note that despite the established risk management system, HPB (and no other credit institution) is able to completely eliminate any of the risks to which it is exposed. The risk management system is regularly updated, including its qualitative and quantitative components, and has been established in accordance with the following principles in risk assumption and management:

- Defining acceptable levels of risk exposure based on internal individual risk exposure limits and regulatory requirements,
- Continued improvement of procedure for determining, measuring, evaluating and monitoring risks to which the Bank is exposed,
- Continued development of measuring and monitoring risk procedures and methods in line with development of control risk function and development of certain IT support.

By the nature of its business, HPB assumes various risks when it comes to contracting business with customers. When taking over (and managing risk), HPB has the following goals:

- Ensuring stable and secure growth through an effective risk management system,
- Improvement of risk profile,
- Ensure the implementation of a comprehensive management system based on the application of harmonized procedures and procedures at the Bank level.

Considering the size and complexity of its activities HPB defined substantial risks which are monitored through the risk management system

- Credit Risk,
- Market Risk,
- Liquidity Risk,
- Interest Risk in the Bank’s book
- Operational Risk

<u>Credit Risk</u>

Credit risk is the risk of loss due to a borrower's default on a credit institution. This risk is assumed by HPB as part of its regular business activities and is also the most significant risk for HPB (and for all credit institutions).

Accordingly, the greatest attention was given to credit risk management through the prescribed policies, procedures and other internal acts of the Bank.

The objective of credit risk management is to ensure a quality credit portfolio, earnings and growth in placements while maximizing the rate of return with an acceptable level of risk-earnings ratio and their relationship to the price of the source of funds.

Credit risk management is organized through:

- The Management Board,
- Authorized committees (Credit Committee) and persons,
- Operating and organizational separation between front and back office activities,
- Credit risk management Department,
- Strategic risk management and risk control Department,

The tendency to assume credit risk is determined by the established limits on credit risk exposure.

For the purposes of credit risk control and management, different risk parameters are monitored (e.g. debtors' creditworthiness, regularity in settlement of HPB liabilities, quality of collateral, regulatory and internal capital adequacy, portfolio quality) and different estimates are made (e.g. credit risk assessment placements prior to approval, estimation of recoverability of placements).

Credit risk is also related to concentration risk and currency induced credit risk which HPB manages in the same way as it manages credit risk.

Market Risk

Market risks include position risk, FX and commodity risk.

- Position risk assumes loss due to price change of financial instruments or financial derivatives
- FX risk assumes loss due to change in exchange rate and/or price of gold
- Commodity risk assumes loss due to price change of commodities.

Market risk management is organized through:

- The Management Board,
- Operating and organizational separation of front and back office trading activities,
- Assets and Liabilities Office,
- Strategic risk management and risk control Department.

The tendency to assume market risks is determined by the established market risk exposure limits. In order to manage market risks, appropriate limits have been established at the portfolio, sub-portfolio and instrument levels with respect to (depending on the nature of the financial instrument) certain market risk exposure measures. Also, stop-loss limits for individual equity securities classified as trading assets have been established.

In measuring and valuing market risk exposure the Bank uses a methodology based on value at risk (VaR) method, duration and PV01 (internal model).

Liquidity risk

Liquidity risk is the risk of loss arising from the credit institution's existing or expected inability to meet its financial obligations as they fall due. Liquidity risk is closely related to the following two risks and the Bank considers them as a whole in terms of risk management:

- Funding liquidity risk is the risk that a credit institution will not be able to successfully meet expected and unexpected current and future cash needs and collateral needs without affecting its regular day-to-day operations or its own operations. financial result.
- Market liquidity risk is the risk arising from the inability of a credit institution to simply offset or eliminate those positions at market price, due to market disturbance or insufficient market depth.

Liquidity risk management in HPB is organized through:

- The Management Board,
- Assets and Liabilities office,
- Assets and Liabilities management committee (Liquidity Subcommittee),
- Strategic risk management and risk control department,
- Financial markets department.

The methodology for measuring or estimating liquidity risk exposure is based on the calculation of the liquidity coverage ratio (LCR), the calculation of structural liquidity exposure indicators including monitoring and reporting on net stable sources of financing (NSFR) and additional monitoring parameters for liquidity reporting (ALMM).

The propensity to assume liquidity risk is determined by the established limits of liquidity risk exposure. In order to manage liquidity risk, appropriate limits have been established in relation to the liquidity ratio and limits for structural liquidity indicators. Also, the limits set by the Decision on reserve requirements and the Decision on the minimum required foreign currency claims of the CNB have been established.

Interest rate risk in the banking book

Interest rate risk in the banking book is the risk of loss arising from possible changes in interest rates that affect the items in the book of non-trading positions.

Managing interest risk in the Bank's book is organized through

- The Management Board,
- The Assets and Liabilities Committee,
- Strategic risk management and risk control department,
- Assets and Liabilities office.

The tendency to assume interest rate risk in a bank ledger is determined by the established limits on interest rate risk exposure in the bank ledger.

In order to manage the interest rate risk in the bank's book, appropriate limits have been established in relation to the ratio of the change in the economic value of the bank's book and regulatory capital and in relation to the change (decrease) in net interest income.

Operational risk

Operational risk is risk of loss stemming from inadequate or unsuccessful internal processes, people or systems or external events, including legal risks.

Operational risk management is organized through:

- The Management Board,
- Structure of operational risk management (Operational risk manager, Support persons for operational risk management, Connection persons),
- Operational Risk Management Committee,
- Corporate Security office,
- Compliance office,
- Strategic risk management and risk control department.

Methodology of measuring, i.e. estimating operational risk exposure is based on collecting and analyzing data on events due to operational risk, self-assessment of risk and controls, estimated IT risk, results of analysis of business effects taking into count implemented going concern plan and estimation of externalized risks. Also, the Bank estimates effect of introducing new products to its risk profile.

The Bank primarily uses measures for mitigating operational risk through internal control system and risk transfer measures (hedge) in cases where applicable. Also, there is going concern management system.

Other risks

Other risks, although present in HPB's business, are less significant than previously described and the methodology and method of managing them are less complex than for the significant risks (described above).

Concentration risk is the risk arising from each individual, direct or indirect, exposure to a single person, group of related persons or central counterparty or group of exposures connected by common risk factors, such as the same economic sector or geographic area, equivalent business or products, i.e. using techniques to for lowering credit risk, including risks related to indirect credit exposure to same collateral provider which can lead to losses that could jeopardize credit institution's going concern or make material change to its risk profile.

Collateral Value Risk assumes inconvenient market movements of assets used as collateral which will be a collateral trigger and cashed in for receivables collection.

Government Risk assumes government bodies or the central bank will not be able to meet its obligations toward other countries or foreign lenders and that other debtor of the country will not be able to meet their obligation to foreign lenders.

Strategic Risk assumes loss due to wrong business decisions, inflexibility to economic changes etc.

Management Risk assumes loss due to credit institution having limited capacity in forming sophisticated management system, mechanism and controls.

Credit Value Adjustment Risk (CVA) assumes portfolio value adjustment at mid-market value (this risk is related to all OTC derivatives for all business activities except credit derivatives recognized for reduction of credit risk weighted exposure). Credit value adjustment reflects current market value of counterparty credit risk for the institution but does not reflect current market value credit risk for the counterparty.

The Bank regularly reports on credit value adjustment risk, which is not significant considering the scope of the Bank's operations.

Compliance risk Compliance assumes potential measures and penalties and the risk of significant financial loss or reputation loss which the credit institution may suffer due to non-compliance with regulations, standards and codes and internal laws.

Business risk assumes negative, unexpected change in the volume of business and / or profit margins that can lead to significant losses and thus decrease the credit institution's market value. First of all, business risk can be caused by a significant deterioration of the market environment and changes in competition or consumer behavior.

Legal risk assumes legal procedures against the Bank due to unfulfilled contractual obligations, legal proceedings against a credit institution and business decision which are not applicable or have a negative effect on the Bank's business and financial position.

Regulatory Risk assumes regulation change which can affect the Bank's business and profitability.

Internal Audit

The management and all employees are responsible for the implementation and application of the elements of internal control systems. The elements of internal control systems are described in the internal regulations and implementing documents of business areas with particular emphasis on preventive control activities and early detection of weaknesses and disadvantages.

Internal Audit provides an independent assessment of the adequacy and effectiveness of internal controls of each audited area.

Internal controls are a set of processes and procedures established for adequate risk control, monitoring of business efficiency, reliability of financial and other information and compliance with internal and external regulations. They represent a reasonable guarantee that the business objectives will be achieved in the prescribed manner, within the set deadlines with the application of applicable regulations. Internal controls are an integral part of the management processes of the management and all employees of the Bank. The basic principles of the internal control system are reflected through:

- clear lines of responsibility,
- delimitation of powers and responsibilities,
- specific control procedures and
- Internal audit function.

Internal audit

Internal audit is organized as an independent and autonomous organizational part whose work is based on the professional principles of internal auditing and related legislation. The management and responsibility of the internal audit function is determined by the principle of dual responsibility, whereby it is administratively accountable to the Management Board, and functionally to the Supervisory Board, i.e. the Audit Committee.

The Internal Audit office is organized by areas and specialized teams and skills are encouraged for each area. Therefore, there are teams for: Information system, Financial markets, Risk management, Retail and general audit.

The Charter of Internal Audit determines the independence and organizational autonomy of the internal audit function.

Access to data, information, persons and spaces is direct and unrestricted. External evaluation of the internal audit function is performed in accordance with internal auditing standards, and the last one was conducted in 2016. In accordance with the general standards of internal audit and legal regulations, the internal audit procedures are carried out through four phases: planning, conducting tests, reporting and monitoring the results.

Planning is based on a documented risk assessment, and the Annual Working Plan is adopted by the Management Board with the prior consent of the Audit Committee and the Supervisory Board.

Internal audit covers all business areas of the Bank and is structurally divided into audits of retail banking, risk management, general audit, information system audit and audit of financial markets.

Reporting on the results of the audited areas is submitted to the responsible person of the audited entity, the competent member of the Management Board of the audited area, the Management Board and the Audit Committee. Each individual report is submitted to the Management Board meeting, thus ensuring that the Management Board has taken note of the audit results, proposed recommendations and measures and deadlines for fulfilling the recommendations and measures. Individual internal audit reports are submitted to the Audit Committee at board meetings. The same is done through the Office of the Administration as part of the regular submission of documentation.

Internal Audit prepares the Report on the work on a semi-annual and quarterly basis and submits it to the Management Board, the Audit and Supervisory Boards, while the quarterly work reports are submitted to the Management Board and the Audit Committee.

The work report contains information on the implementation of the annual work plan, a list of planned and extraordinary tasks performed, a list of planned tasks not performed with reasons for non-implementation of the plan, a summary of the most significant facts identified during audits, the effectiveness of the risk management system and a report on the implementation of proposals, recommendations and measures resulting from the performed audits with the reasons for their non-implementation.

Compliance monitoring function

The compliance monitoring function is organized within the Compliance Department in Compliance and data protection Division, compliance office.

The Executive Director of the Compliance Department is the person responsible for the work of the control function of monitoring compliance, and in addition to the duties and responsibilities prescribed by the Bank's internal acts, in particular

- is responsible for coordinating compliance risk management;
- is obliged to identify and assess the risk of compliance once a year;
- is responsible for the annual work plan, operational plans and work methodology, and the budget of the Compliance Department;
- is obliged to submit a report on the work of the Management Board, the Risk Committee and the Supervisory Board of the Bank at least semi-annually;
- is obliged to issue a general assessment of the Bank's compliance with the regulations governing the provision of investment services and the performance of investment activities once a year;
- is obliged to submit at least an annual report on the work related to the provision of investment services and the performance of investment activities to the Management Board, the Risk Committee and the Supervisory Board.

The Executive Director of the Compliance Department, the Director of the Compliance and Data Protection Division and the employees of the Compliance Department, who perform compliance monitoring activities (hereinafter: the Compliance Monitoring Function) act independently of business areas, processes and activities where compliance risk arises and do not perform tasks in which they could come into conflict of interest. Furthermore, they are authorized to request and obtain access to all information, data and documentation necessary for the performance of tasks within their competence, and other organizational units of the Bank are obliged to cooperate in providing the requested information.

The tasks, scope and manner of work, i.e. work methodology and reporting system of the Compliance Monitoring Function to the Management Board and the Supervisory Board of the Bank are regulated by the following internal acts:

1. Business Compliance Policy;
2. Rulebook on business coordination;
3. Business Compliance Methodology.

Compliance monitoring functions include at least:

1) determining and assessing the compliance risk to which the Bank is or may be exposed,

2) advising the management and other responsible persons on the manner of application of relevant laws, standards and rules, including information on current events in these areas,

3) assessment of the effects that changes in the relevant regulations will have on the credit institution's operations,

4) verification of compliance of new products or new procedures with relevant laws and regulations as well as with amendments to regulations, in cooperation with the risk control function,

5) supervision and verification of the handling of inside information in terms of capital market regulations and keeping of prescribed records and registers,

6) reporting to the Management Board, Supervisory Board and Risk Committee and other control functions on compliance risk,

7) cooperation and exchange of information with the risk control function related to the risk of compliance and risk management,

8) consulting activities in the part of preparation of educational programs related to business compliance,

9) supervision and verification of compliance of operations with relevant regulations and reporting on performed supervision,

10) monitoring and controlling the compliance of the Bank's operations with the professional and ethical standards set out in the Code of Ethics and reporting to the Management Board on the performed controls,

11) monitoring and control activities related to the provision of investment services and investment activities, which includes at least control over the recording of telephone conversations and electronic communications, management of client complaints, investment product management, qualifications and staffing conditions of employees providing investment services and investment services. activities.

The compliance function continuously cooperates with managers and employees of the Bank's organizational units, especially in the part related to consulting on the application of relevant regulations to individual obligations and responsibilities in the business domain, and participates in compliance and implementation activities with regulatory requirements. recognized compliance risk and managed it adequately. In doing so, it is necessary to ensure that the cooperation of the compliance monitoring function with other organizational units does not in any way jeopardize its objectivity and independence.

At the beginning of the business year, and no later than 31 January each year, the Executive Director of the Compliance department submits to the Management Board, Risk Committee and Supervisory Board the annual work plan of the compliance monitoring function, which is adopted by the Bank's Management Board.

Furthermore, the Executive Director of the Compliance department annually, as part of the annual work report, identifies and assesses compliance risk in accordance with the categories of compliance priorities set out in the Compliance policy and assesses the Bank's compliance with relevant regulations.

The annual report shall be submitted to the CNB by 31 March of the current year for the previous year. The compliance monitoring function also cooperates with the other two control functions - the Internal Audit office and the Strategic Risk and Risk Control department - especially in the part related to monitoring the implementation of the recommendations of supervisory and regulatory bodies. Cooperation is aimed at the goal of all three control functions to jointly establish an effective system of internal controls in all areas of business, while avoiding overlap and conflict of jurisdiction.

The Executive Director of the Compliance department, also once a year, as part of the annual report on the provision of investment services and investment activities, provides a general assessment of the Bank's compliance with obligations under the Capital Market Act, Regulation (EU) no. 569/2014, Regulation (EU) no. 600/2014 and regulations issued by CFSSA based on them.

Annual Report The compliance monitoring functions related to the provision of investment services and the performance of investment activities shall be submitted to the Croatian Financial Services Supervisory Agency by 31 March of the current year for the previous year. Supervision of work Compliance monitoring functions are performed by the Internal Audit office as part of the ongoing and comprehensive supervision of the Bank's operations.

Development plan of Hrvatska poštanska banka p.l.c.

The summary and basic framework of the strategy, which is presented in this document, is based on the approved document Business strategy of Hrvatska poštanska banka p.l.c. 2019-2023, which was approved by the Supervisory Board in accordance with Article 48 of the Credit Institutions Act on 24 December 2019. The 2020 targets set in the strategy were largely achieved despite the COVID-19 pandemic due to responsible capital management, cost optimizations started in 2020, adjustments to the cost of resources and other measures taken by the Bank's management to respond to adverse effects of COVID-19 pandemic.

The banking sector in Croatia is extremely well capitalized, strong and resilient. However, banks around the world are not only affected by the COVID-19 pandemic, but also by fintech companies that are taking away part of the market share from banks, especially in the part of payment services. On the other hand, although some regulatory requirements have been mitigated in 2020 to ease the position of banks, in the long run the regulations applicable to credit institutions and companies whose securities are quoted on a regulated market are becoming stricter and generate increased costs. HPB will respond to these trends by striving to increase efficiency through continued cost optimization, greater customer care, full awareness of employees about regulations, and significant investments in digital.

In the following period, the Bank will revise the strategic plan and adjust it to the new circumstance, achieving the desired target in the long run ("vision") while achieving the purpose of HPB's business ("mission"). In order to respond to the challenges of the future, the Bank, considering its specific position as the largest commercial bank on domestic ownership, defined the vision and mission as follows:

MISSION
We create conditions for a better life in Croatia.

VISION
A Croatian-owned bank with relevant market influence that cares best for clients, shareholders and community.

The following areas have been identified as the foundations of development - pillars of development:

PILLARS OF DEVELOPMENT		
CROATIAN POST CHANNEL	**OPERATING MODEL OPTIMIZATION**	**DIGITALIZATION**

The Croatian Post channel is the Bank's most important distinguishing element. Contractual, IT and ownership connection are the basis of the largest branch network in Croatia, which is used to contract and sell part of HPB's financial products. Introducing new products into the HP network will contribute to the results of both strategic partners and benefit customers.

The optimization of the operating model is reflected in the Bank's focus on the need to reduce costs in the context of falling margins, which will be reflected in the advancement of C / I indicators and its convergence to the sector average.

Digitization is the focus of the Bank on monitoring trends in banking and non-banking competition on the one hand, and in a timely manner identifying of increasingly sophisticated needs of customers on the other. Digitization for credit institutions is no longer an advantage but a prerequisite for survival, and will be implemented from two aspects: (i) the client aspect, related to the functionality of products and services, and (ii) the internal aspect, related to automation and process efficiency.

In achieving its business and financial objectives, the Bank's management will initiate the necessary project and operational activities to ensure value creation for shareholders, customers and the economy as a whole, guided by the following guidelines to be promoted in the Bank's business culture:

Efficiency	The Bank and its management strive for simplification of the process and rational use of resources, to create greater value at lower costs.
Profitability	Achieving an adequate and sustainable return on equity in the terms of falling margins and demographic decline is one of the most important priorities in managing the Bank.
Capitalization	Responsible management of capital, maintaining an adequate level of capitalization, with the tendency to minimize capital consumption per unit of placement.
Simplicity	New methods of work, simplicity of organization and business processes will be reflected in the significant improvement of productivity indicators in the medium term.
Risk Management	Basing the business on diversifying the loan portfolio. Preference for smaller exposures, standardized products and quality collateral, in accordance with credit approval rules and decision-making matrices.
Compatibility	Compliance with rules, regulations, and business best practices is a prerequisite that binds all employees of the HPB Group.

Corporate and public sector operations

The strategic focus of the Large Corporate and Public Sector department (“Sector”) continues to be the intensive expansion of business cooperation with existing clients and the acquisition of new ones, based on best banking practice. In doing so, special attention will be paid to the balance between the commercial opportunities provided by the markets and the Bank's need to follow its conservative approach when it comes to risk management.

The further development of the Sector's business is based on increasing the base of active large clients in private domestic and foreign ownership through the provision of credit lines for investments and working capital, documentary business in the country and abroad and a wide range of payment services.

The sector invests great efforts in the development of sophisticated financial monitoring services for "greenfield" investments in the segment of energy, water and communal services, housing and tourism, guided by the principle of supporting the highest quality projects that are adequately capitalized and can be assessed with a high degree of reliability. adequacy of future cash flows from project operations.

In addition, special care is taken to approach clients in accordance with their affiliation with industries, which leads to additional specialization aimed at increasing the quality of the overall business relationship with clients. In doing so, the maximum of branch exposures to credit risk should be considered, all in accordance with the macroeconomic indicators of the respective branches of activity.

The target acquisition groups of clients are all creditworthy clients who have an open account and a stable business relationship with other banks - large systems, state and local government bodies. The aforementioned Bank's approach to customer segmentation will provide the opportunity to offer the highest quality solutions to new customers while maintaining a much-needed level of security in the area of risk management.

The aim of this approach is to apply such a specialist model of sales and business relationship management that will respond to the needs and expectations of customers in the best possible way.

Using various acquisition tools - customer bases, pre-selection, sales promotions, etc. - will allow access to new customers and expand relationships with existing ones. In this sense, the Bank's plan is to fully harmonize the quality of the credit process, the level of authorization in approval of individual products and customer segments, and the offer of product solutions with a high level of flexibility. Automation and digitalization are trends that the Bank has already adopted in order to keep pace with global trends and create a modern sales infrastructure. Development processes are underway and the introduction of a number of automated services based on mobile technologies is expected in the coming period. In this way, the Bank ensures faster and simpler business operations for entrepreneurs with quality long-term business relationship management.

One of the Sector's main focus will continue to be on expanding business cooperation and lending to those clients and industries that largely contribute to increasing the GDP of the Croatian economy - manufacturing, exporters, manufacturing and energy production. In doing so, as an imperative of quality risk management, an individual approach is imposed on each client in assessing its overall financial quality, the potential of the industry in which it operates and the potential of the specific business transaction in which it enters.

From the very beginning of the crisis caused by the COVID-19 pandemic, the Bank has been continuously introducing assistance measures in order to facilitate the financial operations of entrepreneurs and enable the fastest growth of their business activities. The implementation of assistance measures will continue in the coming period, including new measures to mitigate the consequences caused by the earthquake for businesses.

In order to achieve the best possible position on the market, provide the best service to customers and optimize revenue, the Sector will strengthen cooperation with Croatian Post d.d. as a strategic partner, especially in the part of increasing the number of clients from the sphere of Local Government and Self-Government Units and affiliated companies. Significant distribution potential of Croatian Post it provides the Bank with a great opportunity to increase the number of clients, which is already evident from the pilot project that has been running since August 2020 and increase the sales volume of its products and services, primarily in payment and card products that will impact the increase of non-interest income.

The Bank will continue to develop its business relationship with FINA as one of the most dominant partners in terms of total payment transactions and revenue generated by this business line. Activities related to the improvement of business in the area of cash management are being prepared in cooperation with large clients who have the need to deposit it at their locations. Special attention will be paid to further improving the counter operations of the Bank's clients through FINA through joint projects that should enable clients to more easily dispose of their funds after payments are made at FINA locations.

In the deposit business, the emphasis will be on expanding transaction business with large companies and corporations, but also on continuing good cooperation with state and public companies, local self-government units and companies owned by them. In doing so, emphasis will continue to be placed on the optimal ratio of interest expense and the Bank's need for liquidity to be placed on clients' markets. In this context, interest rates on deposits are continuously decreasing without detrimental consequences for the total deposit sphere of the Sector and the Bank. In the area of business with the economy, the Bank is recognized as a partner by clients who place their trust in it through the continuous inflow of new time and a-vista deposits.

The ambition of the Sector and the Bank in the area of business with the economy is to be a reliable partner to clients who will positively influence their business with their expertise while achieving continuous growth of their profitability and a high degree of protection and security of their portfolios. These will be the main guidelines in business in the forthcoming period, which ensures the establishment of Hrvatska poštanska banka as one of the leading credit institutions on the market.

Small and Medium Enterprises operations

The strategic guidelines of the SME department are efficiency and productivity, deepening the strategic partnership with the Croatian Post, digitalization, employee training and synergy with all organizational parts of the Bank, all in order to increase the quality of service and support entrepreneurs who can contribute to faster business development and employment growth.

In the coming period, we expect to strengthen the credit activity of entrepreneurs, which we are ready to support through specialized lending programs through cooperation with cities, counties, ministries and CBRD, HAMAG BICRO, EIB and other partners that will be aimed at supporting entrepreneurs in their business. ventures.

HPB will continue to actively contribute to the balanced development of all regions of Croatia through placement growth and regional expansion. In addition, in order to strengthen the portfolio, we will continuously work on diversifying the Bank's portfolio and increasing the share of micro and small and medium-sized enterprises in it.

Hrvatska poštanska banka is also actively working on the optimization of business processes and the introduction of digital technological solutions. Technological solutions are integrated into the Bank's products and generate added value for clients to whom the Bank provides faster and simpler operations. With the constant introduction of innovations, fast and simple services, HPB is developing in the direction of digital banking.

Focusing to achieve the best possible position on the market, provide the best service to customers and optimize revenues, the SME Business Sector will use the opportunity to further develop cooperation with Croatian Post as a strategic partner primarily in the area of payment operations and product contracting using the distribution channel of Croatian Post.

The Bank will continue to develop its business relationship with Fina as one of the most dominant partners in terms of total payment transactions generated by this business cooperation.
In the deposit operations, the emphasis will be on expanding transaction business with micro, small and medium enterprises. In the area of operations with SME, the Bank is recognized as a partner by clients who place their trust in it through the continuous inflow of new term and a-vista deposits.

The ambition of the SME department is to achieve business and operational excellence in order to provide the fastest, most efficient and competitive customer service and contribute to the development of HPB into a leading SME bank.

Retail operations

Retail banking is a strategic segment of the Bank's business. In the coming period, we will continue development activities to improve existing and introduce new products and raise the quality of services in order to increase the number of working clients. We continue with acquisition offers and cooperation with selected employers and strategic partners, and especially with business cooperation in the part of offers of favorable housing loans with interest rate subsidies by the state and local self-government units.

We are aware that only by constantly improving the level of service can we achieve the planned acquisitions and growth, so we conduct continuous training of employees and measuring the quality of service.

In addition to offering simple and fast products in the coming period, we will continue to develop a new credit process, especially in terms of automation and digitalization, to ensure faster and easier processing of credit applications of retail clients. Also, this year we continue to work on optimizing business processes in branches, primarily aimed at accelerating cash and transaction operations. By creating a new counter application that has a simple and clear input form with always available instructions for working on the screens, we will ensure faster order processing, which significantly improves the quality of service and customer satisfaction.

This year, the Bank will implement the process of automated processing and approval of non-purpose loans through credit-scoring models, and development will continue to improve the functionality for automated approval of card products and overdrafts on citizens' accounts.

Financial market operations

Providing liquidity and managing portfolios in order to support the stable operations of the Bank and its clients is the most important part of financial market activities. We expect still high liquidity in the domestic market, and still low yields on debt securities and a reduced level of trading in 2021.

In the domestic money market, we expect a high level of liquidity through 2021, with low interest rates and more intensive trading in a period of seasonally stronger demand for local currency (HRK).

After a significant decline in 2020, in 2021 we expect a significant recovery in GDP and slightly stronger inflows from tourism and inflows from EU funds. Considering the entry of the Republic of Croatia and the Croatian Kuna into the ERM II, we expect lower volatility of the EUR/HRK exchange rate and a further narrowing of spreads.

The new PEPP bond repurchase program by the ECB totaling EUR 1.850 billion should maintain high liquidity in the euro area and allow favorable conditions for financing within the euro area. We expect short-term rates to continue in negative territory, and a special challenge will be to maintain an appropriate level of liquidity while reducing the costs that the bank has on foreign currency funds with foreign banks and on the account with the CNB.

Given the accession to the exchange rate mechanism, the retention of the investment rating of the Republic of Croatia and the expected GDP growth, we do not expect a significant increase in the yield on debt securities. The possible growth of the yield on reference bonds in the EU, with a stable spread, should not significantly affect the growth of the yield on the domestic market, given the high liquidity and the projected lower budget deficit in 2021. Prolonged uncertainty about COVID 19 and the need to further support vulnerable sectors could affect the intensity of recovery and the projected GDP growth rate.

In the capital market, we expect GDP growth and economic recovery to be reflected in the good results of companies and higher trading volumes on the ZSE. In the investment banking segment, activities will be focused on expanding client's network and revenue growth based on fees from investment services and custody.

Social responsibility

With its socially responsible operations, Hrvatska poštanska banka contributes to sustainable development and encourages others for the general well-being of Croatian society. Every year, HPB improves its business practices and social role by contributing to the creation of preconditions for sustainable development. In accordance with its mission to create conditions for a better life in Croatia, HPB accepts responsibility and takes the best care of clients, shareholders and the community, not only in economic but also in social terms, and contributes to the further development of the country.

Aware that the products it offers, the projects it supports and all the activities and initiatives it initiates affect the environment in which it operates, HPB implements the principles of transparency, security and trust in its operations. We are an active participant in socially responsible projects important for social progress and better living conditions, encourages sustainable entrepreneurial ideas and cares about a healthy environment, human and children's rights, and the community and society. HPB also continuously invests in the development of competencies and the creation of an environment of satisfied and motivated employees.

The values she advocates in this regard are a condition of her long-term business success and a better society as a whole.

1. Labor relations and decent work

Investment in employees' development

Expertise and education of employees and support for lifelong education for added value to the company and employees are one of the priorities of HPB.

The Bank continuously takes care of the expertise and education of its employees, which is still the basis of its competitive strength in the market. In addition, the Bank's employees are required to maintain their expertise in accordance with professional as well as applicable regulatory requirements.

HPB supports and promotes lifelong education and enables employees to acquire the knowledge needed to do their job. Employees are actively trained on and off the workplace through professional consultations, workshops, seminars, congresses and specializations, language courses and training in the use of various computer programs.

The new e-Classroom has been implemented and is being actively used, and training is even more accessible to all employees, regardless of the time of use and the location of the workplace.

The system of employee training through internal trainers continuously educates new and existing employees for individual jobs in order to be trained and sufficiently prepared to perform regular work activities. In 2020, a comprehensive introduction program for new employees was implemented with the aim of faster orientation and integration of employees into the new work environment. The focus of the program is to identify the employer's expectations in a short period of time through the identification of key development areas and to ensure two-way communication between employees and managers through continuous provision of feedback. The HPB Start program also includes a Welcome Day, where employees have the opportunity to get acquainted with various segments of the Bank's business and meet new colleagues.

2020 was also marked by the implementation of a performance management process that enables transparent and targeted monitoring of the work performance of each employee and the provision of feedback on their work in the past period. The mentioned processes are extremely important for increasing the work engagement of employees.

Employees' health and safety regulation

All HPB employees in 2020 were also covered by supplementary health insurance and voluntary health insurance, and they are still encouraged to go for an annual systematic health care review. On the day of the systematic review, employees can use the paid day off to which they are entitled in addition to annual leave. The same goes for days when employees decide to go for voluntary blood donation.

Employees are provided with benefits in the form of discounts for sports activities in cooperation with Multisport, the possibility of more favorable purchase of office furniture for their own needs, more favorable conditions for the use of certain banking products, appropriate cash payments, such as childbirth or jubilee awards, and else.

In 2020, due to two major crisis situations, the COVID-19 pandemic and the devastating earthquake in Zagreb in March, a large number of employees started working from home office in a very short time. The major challenges posed by the pandemic have shifted the focus from development needs to ensure the safety and well-being of employees in the emerging working and living conditions. For this reason, a survey was conducted at the end of the year in which employees' opinions and attitudes about working in extraordinary circumstances were collected. Based on their responses, measures were created to improve working conditions and general well-being of employees, the implementation of which the Bank immediately began.

HPB continued to raise the level of fire protection in 2020 by implementing a fire alarm system, continuously eliminating potential risks that can cause injuries at work, improving microclimate conditions and lighting in the workplace, workplace temperature and ventilation. Employee awareness is raised about possible sudden events where evacuation from the area is required, and evacuation and rescue exercises are conducted regularly.

All legal examinations have been carried out in the function of prevention, i.e. the impact on the health of workers, and since the beginning of the coronavirus pandemic, all preventive activities have been carried out to prevent the spread of infection and protect the health of employees and others.

We are continuously working on improving the quality of the workplace with the application of ergonomics and safety measures at work (replacement of old computer equipment and worn-out chairs in the workplace).

Through 2020, all employees are regularly and timely informed about all important events in the Bank, internal projects, changes in acts, professional training and job vacancies through the internal portal.

2. Human rights

In its business, HPB protects, respects and promotes the human rights and fundamental freedoms of all people, regardless of gender, nationality, language, religion, age, sexual orientation and gender identity, political beliefs and union affiliation, origin, different abilities or other specifics.

As a member of the UN Global Compact, HPB is consistent in implementing the fundamental principles that contribute to responsible and sustainable business important for our own future and the progress of the overall business environment. The Bank has agreed to abide by and align its operations with the principles of the UNDP Global Compact Initiative, which commits itself to advocating for the protection of human rights, respecting the principles set out in the core conventions of the International Labor Organization, and in particular the right to collective association, in relation to employment, participate in the fight against corruption and implement a zero-tolerance policy on corruption.

Aware of its social responsibility, HPB in its regular business activities is guided by the principles of transparency, security and trust, avoiding conflicts of interest, maintaining high quality services, equality, respect for diversity, encouraging anti-corruption behaviors.

The Bank has adopted a Code of Ethics that prescribes the principles of conduct with employees, customers, suppliers, shareholders, regulators, competitors and the community.

Employees

HPB recognizes how useful diversity is and is guided by this idea in employment and in the day-to-day relationship with and management of employees. All employees have equal opportunities for professional development, professional growth and development. In no case is favoritism or discrimination of employees based on gender, gender, age, marital status and condition, nationality, race, religious and political beliefs, trade union membership, sexual orientation and identity, health, disability or bodily harm tolerated.

The balance between the private and business life of an employee is important because it affects employee satisfaction and commitment and ultimately creates a healthy and comfortable work environment.

HPB creates objective and transparent reward systems for its employees that employees are familiar with in a clear and understandable way. Particular care is taken to ensure that business goals are set realistically and that employees are not set unattainable goals that would in any way be a source of additional stress or frustration for employees. Sales goals must not in any way jeopardize the professional relationship of the employee towards the client, and in setting them, the recognition of the client's needs is especially encouraged, bearing in mind the long-term benefit of the client-HPB relationship.

HPB promotes a work environment in which employees are free to express their opinions and ask questions to senior management, report any violations of internal acts, bylaws and regulations, as well as any form of unethical behavior of customers, employees and contractual partners or suppliers with which HPB cooperates.

Clients

When designing products, offering and providing services, HPB does not discriminate against clients based on nationality, religion, gender, gender, race, political beliefs, union membership, etc.

In all forms of communication, the Bank's employees are direct and helpful, professional, efficient, transparent, provide clear and unambiguous information about the products offered by the Bank, and contractual provisions are written in clear and understandable language, avoiding misunderstandings and ambiguities. HPB responds to all complaints within the prescribed period.

All information available to the Bank, regardless of whether the Bank received it from a client or is the result of business, cooperation and provision of services to clients, is confidential. Continuous attention is paid to security and protection, as well as to the improvement of the IT aspect of security and the raising of security standards for the protection of all data available to the Bank. Special attention is paid to the protection of personal data of clients, contractual partners and employees, and the Personal data protection policy has been adopted and is being implemented.

The Bank regularly promotes the importance of financial responsibility and literacy, and with the aim of raising awareness of the importance of good financial management of clients, especially the younger population, cooperates with schools, colleges and student associations.

Shareholders

HPB applies the Corporate Governance Code jointly developed by the CFSSA and the ZSE. The Bank is accountable to shareholders, so that the capital invested in the Bank is protected and increased, so it continuously works to improve its services and products, but also business processes, to ensure greater profitability and reduce costs.

In order to enable potential investors to be informed about the Bank's operations when making their investment decisions, to request and receive relevant information in writing, the Bank has appointed a person in charge of investor relations, available at the e-mail address: investitori@hpb.hr.

Suppliers and partners

The selection of service providers and suppliers who have adopted, and in their business, are guided by the principles of social and corporate responsibility and whose values coincide with the values to which HPB is committed, is encouraged.

3. Environment responsibility

Through its business and conduct, HPB helps and promotes a healthy environment and sustainable development. The Bank believes that environmental and social sustainability is a fundamental aspect for achieving results that are in line with its objectives, and that projects that promote environmental and social sustainability are a top priority.

HPB is continuously improving its digital channels, especially mobile banking and the virtual e-Branch, which relies on remote communication with customers, online contracting of the Bank's products and services, digital documentation and qualified digital document signing. This way of doing business increases the time availability of products and services to existing and potential clients of the Bank, and at the same time has a significant positive impact on the environment. The use of eBranch also reduces the impact of vehicles on the environment, and digital documents and signatures in communication with customers reduce the amount of paper used. Also, the need for office space, energy and resources necessary for the functioning of the Bank is reduced.

The implementation of new functionalities on the Bank's website enables clients to submit many types of forms and requests online, i.e. digitally, which reduces the use of resources such as vehicles, paper, etc. These are the following functionalities: opening accounts for individuals, opening accounts for business users, online credit application for citizens and for business users, online card applications, etc.

Due to the need to support the operational work of production systems in accordance with the growing requirements for ICT capacities, HPB acquired new servers and disk systems intended for the virtualization of IT services that save electricity consumption.

The Bank continuously procures the most modern technological equipment in terms of environmental efficiency. All electronic waste (old computers, printers, fax machines) continued to be adequately disposed of in 2020 by companies authorized to dispose of this type of waste. In all business units of the Bank and in all locations where it operates throughout Croatia, boxes for the collection of old toners have been installed, which are transported and disposed of in an appropriate manner at an authorized company.

During 2020, HPB internally developed and implemented an input account management system. It is a unique application for filing all incoming accounts which, when entering the Bank, if they are not already, become digital (scanning and entry into the application), and then go through a defined process of all control and approval steps. This completely eliminates the need for additional printing or scanning and circulation of original documents, which saves electricity, printing, consumables and archive space, while increasing business efficiency.

By launching the Green Office initiative in 2012, Hrvatska poštanska banka has decided to be an institution that manages energy and waste wisely and rationally by encouraging environmentally responsible behavior among employees, business partners and the community. In the activities of the Green Office, an important place belongs to the education of employees with the aim of reducing the negative impact on the environment and increasing the efficiency of resource use in everyday office operations. Education raises awareness and motivation to change the attitude towards energy consumption and other materials in offices. The implementation of such measures, in addition to reducing costs and negative impact on the environment, increases the quality of work of employees. Since the launch of this initiative, significant energy savings have been implemented.

In its operations, the Bank acts in accordance with the Environmental and social policy, an internal document adopted in 2018 that defines the manner of treating the environmental and social effects of projects financed by the Bank and promotes and encourages programs of great environmental and social benefit.

4. Community support

Hrvatska poštanska banka is a socially responsible institution aware of its impact on the environment, as well as the fact that the business of each entity implies constant care and respect for society. One of the ways in which the Bank expresses its social responsibility is to provide support to the community through donations and various support projects.

We support projects at the local and national level that encourage the creation of new values in order to promote knowledge, sports, excellence and preserve the cultural heritage of our homeland. Special attention is paid to humanitarian associations and actions.

After the earthquake that hit Petrinja, Glina and the surrounding area in December 2020, HPB opened special multi-currency accounts for the payment of donations without charging a fee. In order to help those whose homes were destroyed, and expressing its social responsibility towards the community in which it operates, Hrvatska poštanska banka donated HRK one million to the City of Petrinja. Also, once again a big heart was shown by the employees of HPB, who in a very short time after the earthquake organized and collected about HRK 40 thousand in a few hours and a lot of supplies for the victims of the earthquake. The HPBs thus proved once again that they are #strongertogether.

In addition to sponsorships and donations, the Bank has remained close and accessible to citizens and business partners throughout Croatia, as well as to special groups of citizens, such as young people and students and retirees, with its products and services and their availability, especially through cooperation with the Croatian Post.

During 2020, Hrvatska poštanska banka and Hrvatska pošta strengthened their long-term strategic cooperation with a new project that introduces banking services for business users in post offices. Thus, in HP's offices, business customers were enabled to open accounts with HPB, to contract banking services and products, and to make payment transactions, which made banking service available to them even in the most remote and smallest places throughout Croatia.

Also, in order to enable a favorable and as fast as possible reconstruction after the earthquake that hit Zagreb and its surroundings in March 2020, Hrvatska poštanska banka offered citizens loans for the reconstruction of residential buildings damaged by the earthquake. In addition, after the outbreak of the coronavirus pandemic in Croatia, citizens were offered a wide range of measures to overcome the difficult period financially, from the possibility of a moratorium, contactless payment of up to HRK 250, delivery of pensions to home addresses and more.

Since the mission of HPB is to create conditions for a better life in Croatia, socially responsible projects are of great importance, among which the cooperation with UNICEF in the Guardians of Childhood program stands out. Also, HPB athletes often participate in humanitarian actions, including the Milky Way, which they have been running for several years in a row, and despite special conditions, they will not miss the UNICEF charity race in 2020, which collected kilometers and kunas for programs for children with developmental difficulties.

That HPB has a humanitarian heart is confirmed by HPB humanitarians who, on the eve of the Easter and Christmas holidays, regularly collect gifts every year and visit children from Vugrovac and Dupac, who are growing up without family.

Report on Application of the Corporate Governance Code

Application of the Corporate Governance Code

Pursuant to Article 272p of the Companies Act and Article 22 of the Accounting Act, the Management Board and the Supervisory Board declare that the Bank applies the Corporate Governance Code (Code) developed jointly by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange. ZSE), and is publicly available on their website.

Also, the Bank applies the Code of Corporate Governance of Companies in which the Republic of Croatia has shares or stakes, adopted by the Government of the Republic of Croatia (Official Gazette 132/2017) at the end of 2017.

In addition to the recommendations of these codes, and in accordance with the regulations of credit institutions, we are actively working on continuous improvement of corporate governance in the Bank, bearing in mind the structure and organization of the Bank, strategy and business objectives, distribution of powers and responsibilities. monitoring and reporting on risks in the Bank's operations, as well as establishing appropriate internal control mechanisms.

A description of the basic features of conducting internal control in the company and risk management in relation to financial reporting can be found in the description of the Bank 's operations in Note 2.

Significant shareholders and restrictions on share rights

The Republic of Croatia is the most important individual shareholder of the Bank with 42.43% of the Bank's shares and together with the Croatian Pension Insurance Institute, HP - Croatian Post p.l.c., Croatian Deposit Insurance Agency and NEK Fund holds over 74% of share capital and voting rights at the General Assembly.

In accordance with the Bank's Statute, one share gives the right to one vote, i.e. the right to vote is not limited nor are there any restrictions for exercising the right to vote.

The Bank's shareholders exercise their rights at the General Assembly of the Bank. The General Assembly of the Bank decides on issues determined by the Companies Act and the Bank's Articles of Association. As a rule, the General Assembly is convened by the Bank's Management Board, and must be convened when requested by the Supervisory Board or shareholders in accordance with the relevant provisions of the Companies Act. The right to participate in the General Assembly of the Bank and to exercise the right to vote may be exercised by each shareholder in person or by proxy if he announces his participation in the General Assembly no later than six days before the General Assembly and if he is registered in the Central Depository submitting an application for participation in the work of the General Assembly.

Rules for the Appointment or Removal of the Management Board, Statute Changes and Special Authorizations of the Management Board

In accordance with the Bank’s Statute the Management Board should have at least 2 and no more than 5 members with the Supervisory Board deciding on the number. Members and the president of the Management Board are appointed by the Supervisory Board to a maximum of 5 years, and can be reappointed without time limit. Member of the Management Board must fulfill all the necessary conditions as set by the regulation on the Bank’s business, as well as get the nomination approval by the CNB. The Supervisory Board may, by its decision, recall the President and members of the Management Board when there is an important reason for this, and the President and members of the Management Board are entitled to make written resignations.

The Bank’s Statute can only be changed by the decision of the General Meeting. Decision is approved if voted by 3/4 of the equity holders. A proposed Decision on amendments to the Statue is submitted by the Management Board to the Supervisory Board, which is authorized to accept the proposal and submit it to the General Assembly for consideration.

Supervisory Board Members and Activities

In accordance with the Bank's Statute, the Supervisory Board may have a maximum of seven members elected and recalled by the General Assembly. Only a person who meets the requirements prescribed by laws and regulations governing the operations of banks and who has obtained the prior consent of the Croatian National Bank to perform the function of a member of the Supervisory Board may be elected a member of the Supervisory Board.

The powers of the Supervisory Board are regulated by the Companies Act, the Credit Institutions Act and the Bank's Articles of Association.

In the period from 01.01.2020. to 31.12.2020. The Supervisory Board of the Bank consisted of three members, as follows:

- mr.oec. Marijana Miličević, President
- dr.sc. Željko Lovrinčević, Vice-president
- mr.sc. Marijana Vuraić Kudeljan, Member

The members of the Supervisory Board of the Bank were appointed at the General Assembly held on May 29, 2017 for a term of 4 years and their mandate began on August 12, 2017 upon obtaining the CNB's prior approval in accordance with the terms of the Credit Institutions Act.

The members of the Supervisory Board are not the shareholders of the Bank.

Meetings of the Supervisory Board are usually held once a quarter (quarterly), and more often if necessary, and at least once every six months. The Supervisory Board may make decisions on important and urgent issues without holding a meeting, in which case the members express themselves in writing, by telephone, fax or e-mail.

In 2020, 8 regular meetings of the Supervisory Board were held, at which many issues related to the Bank's operations were discussed. All members of the Supervisory Board were present at the regular sessions, except for two sessions where one member was justifiably absent at each session. Due to exceptional and extraordinary circumstances due to the consequences of the earthquake in the center of Zagreb and the COVID-19 pandemic, and with the aim of implementing the necessary measures to avoid gatherings and personal contacts, the Supervisory Board decided 115 times outside the meeting via e-mail in situations when individual decisions had to be made promptly, most of which referred to the Supervisory Board's consent to the Bank's exposure to individual clients in accordance with legal regulations, as well as to other decisions that required the Supervisory Board's consent.

For the term of office of the current members of the Supervisory Board, to assist in its work, the Supervisory Board, by its Decision of 30 June 2019, appointed the following committees: Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee.

Audit Committee

In the period from 01.01.2020. to 31.12.2020. The Audit Committee consisted of three members, as follows:

- dr.sc. Željko Lovrinčević, President
- Zlatko Benčić, Vice-president
- Ivana Radeljak Novaković, Member

The majority of the members of the Audit Committee are independent of the Bank. In 2020, 6 regular meetings of the Audit Committee were held, which were attended by all members. Issues within the competence of the Supervisory Board were discussed at the sessions. The Audit Committee assisted the Supervisory Board in performing its duties related to overseeing the financial reporting process, the audit process (including the recommendation to the General Assembly for the selection of the external auditor), the effectiveness of the internal audit system, discussing annual work plans and internal audit related to this area. In addition to regular sessions, the Audit Committee decided outside the sessions 7 more times by e-mail, in situations when it was necessary to promptly make certain decisions / conclusions within its competence.

Risk Committee

In the period from 01.01.2020 to 31.12.2020 the Risk Committee was composed of three members as follows:

- mr.sc. Marijana Vuraić Kudeljan, President
- mr.oec. Marijana Miličević, Member
- dr.sc. Željko Lovrinčević, Member

In 2020, the Risk Committee held 3 regular sessions attended by all members, except for one session in which one member was justifiably absent. At the sessions of the Risk Committee, issues within its competence were discussed in accordance with the Law on Credit Institutions and its bylaws. In addition to regular sessions, the Risk Committee decided outside the sessions 7 more times by e-mail, in situations when certain decisions / conclusions within its competence had to be made promptly.

Remuneration Committee

In the period from 01.01.2020 to 31.12.2020 the Remuneration Committee was composed of three members as follows:

- mr.oec. Marijana Miličević, President
- mr.sc. Marijana Vuraić Kudeljan, Member
- dr.sc. Željko Lovrinčević, Member

In 2020, the Remuneration Committee held 2 regular meetings, which were attended by all members. At the sessions of the Remuneration Committee, issues within its competence were discussed in accordance with the Law on Credit Institutions and its bylaws. In addition to regular meetings, the Remuneration Committee decided outside the sessions 11 more times by e-mail, in situations when certain decisions / conclusions within its competence had to be made promptly.

Nomination Committee

In the period from 01.01.2020 to 31.12.2020 the Nomination Committee was composed of three members as follows:

- mr.oec. Marijana Miličević, President
- dr.sc. Željko Lovrinčević, Member
- mr.sc. Marijana Vuraić Kudeljan, Member

In 2020, the Nomination Committee held 2 regular meetings, which were attended by all members. At the meetings of the Nomination Committee, issues within its competence were discussed in accordance with the Law on Credit Institutions and its bylaws. In addition to the regular meetings, the Nomination Committee decided outside the sessions 6 more times by e-mail, in situations when certain decisions / conclusions within its competence had to be made promptly.

Management Board Members and Activities

The privileges, duties and responsibilities of the Bank's Management Board in managing and representing the Bank are determined by the Companies Act, the Credit Institutions Act, the Bank's Statute and the Rules of procedure of the Bank's Management Board activities. The Management Board of the Bank, in accordance with the needs of business processes, establishes permanent and occasional committees and commissions. The Bank's standing committees are the Credit Committee, the Assets and Liabilities Management Committee and the Operational Risk Management Committee.

In the period from 01.01.2020. to 31.12.2020. year, the Management Board consisted of three members, namely:

- mr.sc. Marko Badurina, President of the Management Board
- Ivan Soldo, Member of the Management Board
- Anto Mihaljević, Member of the Management Board.

Members of the Management Board are not the shareholders of the Bank.

Overview of diversity policy

In accordance with the Code of Ethics, the Bank appreciates and respects the natural and cultural differences between people. All employees are equal regardless of gender, age, nationality, ethnic origin, religion, language, social and economic status.

All employees have the same opportunity for success in the Bank and their position depends solely on the performance and performance of each individual.

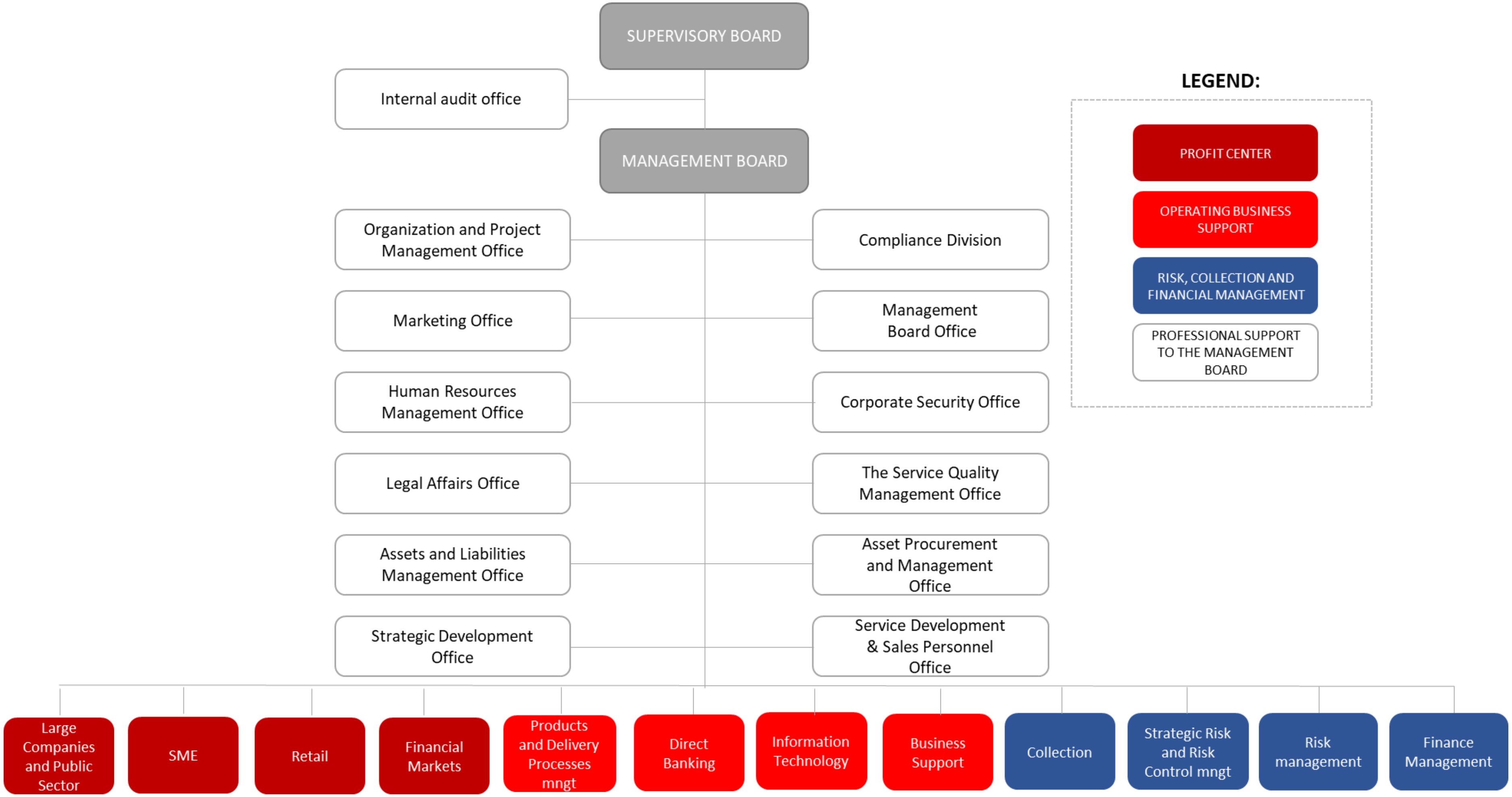
There is no discrimination by sex, age or any other basis in procedure of selecting members of the Management Board, Supervisory Board or other bodies. The Bank has relatively high percentage of female managers, as well as people of different age groups, educational orientation, knowledge and skills and specific work experience. The Bank will keep this policy of gender, age and professional diversity.

The collective experience of members of the Bank's key management consists of a balanced combination of the necessary knowledge and skills to fulfill the responsibilities of all functions and achieve the Bank's objectives.

Key management structure by gender	No during 2018	No during 2019	No during 2020	Share during 2018	Share during 2019	Share during 2020
Male	30	19	20	50.85%	47.50%	57.15%
Female	29	21	15	49.15%	52.50%	42.85%

Hrvatska poštanska banka organizational structure

The Bank's operations are organized through 25 organizational units - 13 sectors and 12 offices, as follows:



The Bank's organizational unites are divided into 4 basic business areas including:

1. Professional support to the Management Board,
2. Profit centers,
3. Operating business support,
4. Risk, collection and financial management.

Business area functionally and technologically connects certain Bank's organization units to ensure efficient management and business organization.

Professional support to the Management Board implies groups of tasks whose purpose is to provide the Management Board with professional support in achieving business goals and organizing and managing the Bank.

Professional support to the Management Board is consisted of:

- Internal audit office,
- Management Board office,
- Compliance division,
- Organization and project management office,
- Human resources management office,
- Marketing office,
- Corporate security office,
- The service quality management office,
- Legal affairs office,
- Asset procurement and management office,
- Assets and liabilities management office,
- Strategic development office,
- Service development and sales personnel office.

Internal audit office is the Bank's organizational unit that evaluates internal control and risk management system, compliance function and performs IT audit.

Management Board office is an organizational unit that provides support in the work of permanent authorities and committees of the Bank, and provides professional support in the management of corporate communications of the Bank and members of the HPB Group.

Compliance division is an organizational unit that takes care of the compliance of the Bank's operations with regulations, manages the system of personal data protection and privacy protection, the system of fraud prevention and the system of prevention of money laundering and terrorist financing in the Bank.

Organization and project management office is an organizational unit that analyzes and improves the organization and business processes and manages projects.

Human resources management office is an organizational unit of the Bank that is engaged in recruiting, developing and rewarding employees of the Bank and regulating labor legal relations with employees and government authorities.

Marketing office is an organizational unit of the Bank that prepares and implements marketing and promotional activities for the Bank.

Corporate security office is an organizational unit of the Bank that takes care of the security of the Bank's information system, people and assets.

The service quality management office is an organizational unit of the Bank that manages the quality of the Bank's service to its clients through continuous implementation of measuring and researching customer satisfaction and proposing improvements to build up the quality of service.

Legal affairs office is an organizational unit of the Bank that provides legal support to all organizational units of the Bank.

Asset procurement and management office is an organizational unit of the Bank that manages the procurement of goods and services, general affairs and registration and archives of the Bank, current business and investments and maintenance of the Bank's operating assets and manages assets taken in exchange for uncollected receivables.

Assets and liabilities management office is an organizational unit of the Bank that manages assets and liabilities, open currency items, market risk positions and liquidity risk positions.

Strategic development office is the organizational unit of the Bank in charge of business development of the Bank and HPB Group, the process of strategic planning and control of the implementation of the strategic plan of the Bank and HPB Group.

Service development and sales personnel office is an organizational unit of the Bank in charge of supporting the development and improvement of the service model and sales staff to organizational units that enter into business relations and do business with retail clients and small and medium enterprises.

Profit center represent related groups of transactions organized into organizational units in which all products and services of the Bank are sold.

Profit centers are consisted of:

- Retail department,
- SME department,
- Large corporate and public sector department,
- Financial markets department.

Retail department is an organizational unit of the Bank that operates on the market and provides banking and financial services to the retail clients on market principles, coordinates the work of regional retail centers and branches of the Bank and the company Hrvatska pošta d.d./Croatian post p.l.c. as a distribution channel.

SME department is an organizational unit of the Bank that operates on the market and establishes business relations with the Bank's clients in the area of business with small and medium-sized enterprises on market principles.

Large corporate and public sector department is an organizational unit of the Bank that operates on the market and establishes business relations with the Bank's clients in the area of business with large corporates and the public sector on market principles.

Financial markets department is an organizational unit of the Bank that trades in financial instruments on behalf and for the account of the Bank, manages liquidity and foreign exchange position of the Bank and provides investment services and investment activities and related services within the Bank's activities.

Operating business support represent related groups of operations organized into organizational units in which support is provided for the sale of products and services and the overall operations of the Bank.

Operating business support is consisted of following departments:

- Products and Delivery Processes management,
- Direct Banking.
- Business Support,
- Information Technology,

Products and Delivery Processes management is an organizational unit that provides efficient processes, products and services that will meet the needs of customers and business and sales goals of the Bank.

Direct Banking is an organizational unit responsible for the smooth operation and development of all direct distribution channels of products and services of the Bank and members of the HPB Group and card business (ATM, POS, WEB, e-Branch, mBanking and eBanking)

Business support is an organizational unit of the Bank that provides operational support to organizational units of the profit centers, performs domestic and foreign payment operations, cash management and supplies the business network of the Bank and Croatian Post with cash.

Information Technology is an organizational unit of the Bank that provides IT support to all organizational units of the Bank.

Risk, collection and financial management represent groups of operations organized into organizational units in which risk management, collection of the Bank's receivables and financial management are performed.

Risk, collection and financial management is consisted of following departments:

- Credit risk management,
- Strategic risk and risk control management,
- Collection management,
- Finance management.

Credit risk management is an organizational unit of the Bank that performs the function of taking risks and manages the process of determining the creditworthiness of clients and assessing the credit risk of placements in the process of approving placements.

Strategic risk and risk control management is an organizational unit of the Bank that manages strategic risks, analyzes and controls all types of risks to which the Bank is exposed or could be exposed in its operations, in order to reduce potential exposure to all types of risks and ensure stability and efficiency of operations.

Collection management is an organizational unit of the Bank that performs receivables restructuring and activities of early and forced collection of receivables.

Finance management is an organizational unit of the Bank which manages the Bank’s accounting system, performs regulatory reports, financial controls and develops management reporting system.

Human resource management in HPB

During 2020, the Bank continued to develop positive practices in human resource management in accordance with the Bank's strategy and corporate values.

The continuous development of the Bank's operations in accordance with the defined strategy is supported by the employment of expert employees in the digital domains of operations and the development of the competencies of existing employees in order to be able to successfully respond to the needs of the market and clients.

Development programs are focused on raising the level of expertise and skills of employees, especially profit centers with the aim of raising the quality of service, consumer protection and digital skills. The total number of hours of training per employee in 2020 was 40.26, of which internal 34.2 and external 6.06.

In 2020, a structured and systematic introduction process was successfully implemented, which enables new employees to effectively orient and integrate into the Bank.

According to the implementation of digital tools for education records and the introduction of a new e-learning platform, 2020 was marked by significant progress in managing the process of development and education of employees. The move towards digital tools has proven to be an extremely good investment, given the large number of employees working from home.

The process of recruiting and selecting candidates is further digitized by introducing online psychological testing and conducting online selection interviews. Furthermore, in 2020, preconditions have been created for the digitalization of the employment approval process, which significantly increases the transparency and the possibility of monitoring the above process.

In 2020, the Bank met the criteria for the holder of the "Izvrsnost u izazovima" certificate as one of the companies that stood out with its quality attitude and care for employees during the pandemic period.

The Bank is in the process of renewing the "Poslodavac Partner" certificate and continues to further improve the human resources management process.

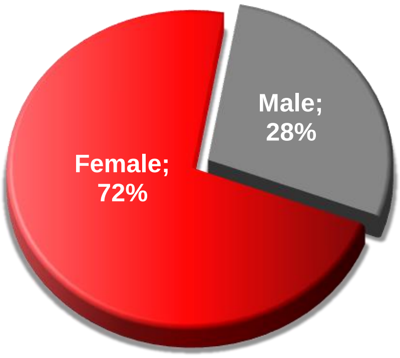
During 2020, a performance management system was implemented for all employee and managerial positions, the implementation of which is supported by the appropriate HRIS module of the HRplus application.

Overview of the movement of the number of employees in the Bank 2016 – 2020

No. of employees	31.12.2016	31.12.2017	31.12.2018	31.12.2019	31.12.2020
Based on the working hours	833	842	1,036	1,063	1,275
At the end of the period	1,067	1,122	1,118	1,252	1,301

All positions in the Bank are located in the Republic of Croatia.

Structure of employees in Hrvatska poštanska banka by gender as of 31.12.2020:

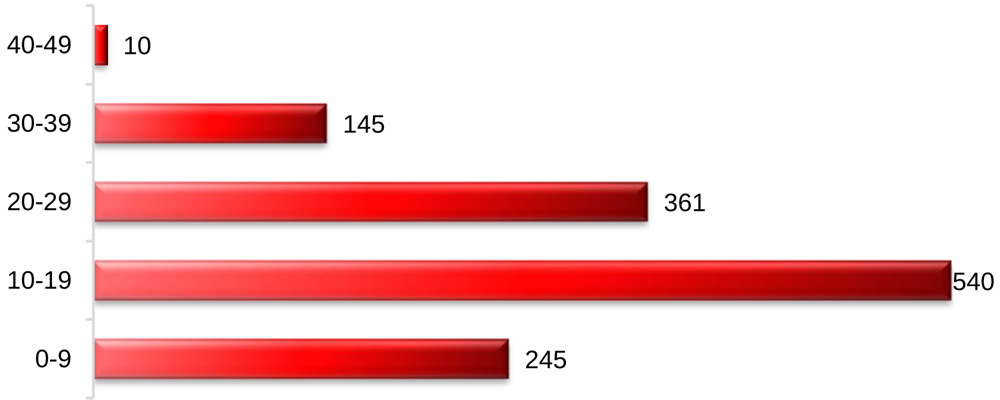


Educational structure of employees in a Bank 2016 – 2020

Employees with high or higher education have a dominant share in the educational structure, depending on the complexity of the job and workplace.

Qualification	31.12.2016	31.12.2017	31.12.2018	31.12.2019	31.12.2020
Master's degree/doctorate	16	14	12	19	27
University degree	446	475	473	539	566
Higher education	169	187	193	203	210
High school education	435	444	439	490	497
Semi-skilled, skilled and highly skilled	1	1	1	1	1
Total	1,067	1,122	1,118	1,252	1,301

Number of employees in Hrvatska poštanska banka by years of service as of 31.12.2020:



Subsidiaries operations

HPB Invest Ltd

HPB Invest Ltd (hereinafter referred to as the Company) is a company established for the purpose of establishing and managing UCITS funds. HPB Invest d.o.o. on 31.12.2020 manages 6 open-end investment funds with a public offering (HPB Short-term Kuna bond fund, HPB Short-term euro bond fund, HPB Bond fund, HPB Bond plus fund, HPB Global fund and HPB Equity fund).

Total assets of open-end investment funds with a public offering managed by HPB Invest Ltd as at 31 December 2020 amounts to HRK 899 million (2019: HRK 1,023 million). The average assets in 2020 amounted to HRK 885 million, and in the previous year HRK 950 million.

Due to the outbreak of the COVID 19 pandemic, there was a significant decline in assets under management in all funds except the HPB Bond plus fund. The largest decline in assets was recorded by the HPB Bond fund, which has been the main generator of growth in the past few years.

The company, despite difficult market conditions, had no problems with customer payments and ended the year with a positive result.

The asset structure of the funds under management is as follows:

Fund	Asset under management HRK '000	Yield as at 31.12.2020 in %
HPB Equity fund	25,869	0.82%
HPB Global fund	77,377	(2.05%)
HPB Short-term Kuna bond fund	312,064	0.28%
HPB Bond fund	394,589	0.03%
HPB Short-term euro bond fund	29,273	(0.04%)
HPB Bond Plus fund	60,273	3.08%

Market share of HPB Invest as at 31.12.2020 is 5.09%, which represent an increase compared to the previous year when market share was 4.53%

At the end of 2020, the Company had 12 employees, which is a decrease of one employee compared to the previous year.

<u>Development plan</u>

HPB Invest Ltd, a UCITS fund management company, will continue to be committed to professional asset management and high-quality service, in order to ensure the preservation and sustainable growth of the value of their financial assets to its clients. With continuous investment in the development policy of the Company, which includes continuous professional, personnel, organizational and technological improvements, with increasingly demanding legal and regulatory harmonization of operations, HPB Invest Ltd will provide in the long run an attractive range of funds and investment products, which with professional management and appropriate returns can meet all the needs of investors, depending on their investment goals, investment horizon and risk appetite.

<u>Risk exposure</u>

The Company specifically monitors and measures the following risks: credit risk, liquidity risk, operational risk, conflict of interest risk and reputational risk. These risks form the overall risk profile of the Company.

The Company has taken a conservative stance in managing its assets by investing them exclusively in bank deposits, debt securities, money market instruments and money market funds. For this reason, the risk profile of the Company is low, i.e. 1.

At the reporting date, the Company was not exposed to significant market risk and liquidity risk. The majority of the Company's exposure to credit risk at the statement of financial position date arises from the fair value of the instrument whose positive value at reporting date is presented in the statement of financial position.

The Company is exposed to operational risk through its regular operations. The Company manages operational risk by reporting quarterly to the Company's Management Board on events that may qualify as operational risk for the Company.

Risks that may affect the Company's regular operations are the risk of a decrease in assets under management due to the withdrawal of client funds and the risk of a decrease in assets under management due to a decline in the value of assets.

The Company gives special importance to the internal control system in order to be able to monitor the efficiency of operations, compliance with legal regulations, monitoring and detection of risks to which the Company is exposed.

HPB-nekretnine Ltd

HPB-nekretnine Ltd (hereinafter the Company) is a real estate company established in August 2005 and is wholly owned by HPB d.d. The share capital of the Company amounts to HRK 4,760,800.

The Company's core business activities are (1) real estate appraisal and related engineering services such as financial supervision, (2) real estate consulting and mediation services, and (3) real estate operations and management.

HPB-nekretnine Ltd assets as at 31 December 2020 amounts to HRK 10.03 million, and the net profit realized in the previous year is HRK 366 thousand. At the end of 2020, the Company had 13 employees.

<u>Development plan</u>

In the following period, the emphasis will be on regulating internal procedures and price lists and further raising the speed and quality of service for the Bank's clients and the Bank. The Company will build its development and business policy on specific services, as well as examining the market potential for new consulting and engineering services for which the Company is an expert, thus contributing to the visibility and synergy effect of the HPB Group's operations.

<u>Risk exposure</u>

The most significant types of financial risks to which the Company is exposed are market risk and liquidity risk. Market risk implies a difficult to predict volume of demand for specific services of the Company given the uncertainty in the real estate market caused by the earthquake and COVID-19 pandemic. Market risk refers to the inability of tenants to pay rents as well as the possibility of reducing the demand for real estate appraisal services, and related liquidity risk due to the high share of services in the Company's products. The Company manages risks in accordance with the prescribed policies and procedures of Hrvatska poštanska banka p.l.c.

The company owns two properties, one in Osijek and the other in Vinkovci. Negotiations are underway on the sale of real estate in Osijek, and the conditions for the sale will create the conditions for a new investment by the Company. Ownership of real estate in Vinkovci represents a risk in business because share of ownership 322/900 in an office building with a total area of about 10,000 m2, which is in poor construction condition.

Responsibilities of the Management Board for the preparation and approval of the Annual financial statements

Management Board is responsible for preparation of consolidated and separate financial statements of Hrvatska poštanska banka p.l.c. (hereinafter “the Bank”) for each financial year that give a true and fair view of the financial position of the Group and the Bank and their results and cash flows in accordance with applicable standards, and is responsible for keeping the proper accounting records required for the preparation of these financial statements at any given time. The Management Board is also responsible for the whole annual report of the Group, as well as the forms of financial statements prepared in accordance with the Decision of the Croatian National Bank on the structure and content of bank's annual financial statements (Official Gazette 30/17, 44/17 and 42/18). The Management Board has overall responsibility for taking such measures to safeguard the assets of the Bank and the Group and to prevent and detect fraud and other irregularities.

Management Board is responsible for selecting appropriate accounting policies that comply with applicable accounting standards and for their consistent application; making reasonable and prudent judgments and estimates; and preparing the financial statements on an going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is obliged to submit the Annual report to the Supervisory Board for approval, which includes the annual financial statements. If the Supervisory Board gives consent to the financial statements, they are approved by the Management Board and the Supervisory Board of the Bank.

The Management Board is responsible for preparation and contents of the annual report in accordance with the Accounting Act (Official Gazette 78/15,134/15, 120/16, 116/18, 42/20 and 47/20).

Consolidated and separate financial reports presented on pages 93 to 218, as well as Forms drafted in line with CNB Decision on Forms and Contents of Bank Financial Reports dated April 26, 2018 (Official Gazette 42/18), outlined on pages 219 to 232, were approved by the Management Board on March 30, 2020 and have been submitted for acceptance to the Supervisory Board. As a sign of confirmation, financial reports are signed by persons authorized for representation, as follows:

Signed on behalf of Hrvatska poštanska banka, p.l.c.

Marko Badurina

President of the Management Board

Ivan Soldo

Member of the Management Board

Anto Mihaljević

Member of the Management Board

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10000 Zagreb
Trg J. F. Kennedy 6b

Independent Auditor's Report

To the shareholders of Hrvatska poštanska banka d.d., Zagreb

The report on the audit of the separate and consolidated annual financial statements

Opinion

We have audited the separate annual financial statements of Hrvatska poštanska banka d.d., ("the Bank") and the consolidated annual financial statements of the Bank and its subsidiaries ("the Group"), which comprise the separate and consolidated statements of financial position of the Bank and the Group, respectively, as at 31 December 2020, and their respective separate and consolidated statements of profit or loss and other comprehensive income, the separate and consolidated statements of cash flows and the separate and consolidated statements of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We performed the audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the annual financial statements section of our Independent Auditor's report. We are independent of the Bank and the Group in accordance with the Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 23 of the financial statements: The provision for liabilities and charges, in which it was disclosed that the Bank and the Group have decreased their provisions related to a court case in the amount of HRK 89,111 thousand. The reduction of the provision for litigation was based on the decision of the Bank's Management Board to reduce the provision for the litigation based on the second-instance judgment ruled in 2020 in favor of the Bank. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those which were, in our professional judgment, of the utmost importance for our audit of the separate and consolidated annual financial statements of the current period and include most significant recognized risks of significant misstatement as a result of error or fraud with the greatest impact on our audit strategy, the allocation of our available resources and the time spent by the engaged audit team. We have dealt with these matters in the context of our audit of the separate and consolidated annual financial statements as a whole and in forming our opinion about them, and we do not give a separate opinion on these matters.

We have determined that the following matter was key audit matter and should be published in our Independent Auditor's report.

Key audit matters (continued)

Impairment of loans and advances to customers	
As at 31 December 2020, in the consolidated financial statements gross loans and advances to customers amount to HRK 16,303 million, related impairment allowance amounts to HRK 1,581 million and impairment loss recognised in the income statement amounts to HRK 59 million (31 December 2019: gross loans and advances: HRK 14,871 million, impairment allowance: HRK 1,536 million, impairment loss recognised in the income statement: HRK 95 million). As at 31 December 2020, in the separate financial statements gross loans and advances to customers amount to HRK 16,303 million, impairment allowance amounts to HRK 1,581 million and impairment loss recognised in the income statement amounts to HRK 59 million (31 December 2019: gross loans and advances: HRK 14,875 million, impairment allowance: HRK 1,536 million, impairment loss recognised in the income statement: HRK 96 million).	
Key audit matter	**How we addressed the key audit matter**
We focused on this area due to the significance of the amounts involved for the Bank and Group financial annual statements and also because of the nature of the judgements and assumptions that management are required to make. Impairment allowances represent management's best estimate of risk of default and the expected credit losses within the loans and advances at the reporting date. Management makes judgments about the future and various items in the separate and consolidated financial statements are subject to estimation uncertainty. The estimates required for credit loss allowances for loans and advances to customer are significant estimates. The key areas of judgement associated with credit loss allowances for loans and advances to customer are the identification of loans that are deteriorating, the assessment of significant increase in credit risk, forecasts of future cash flows as well as expected proceeds from the realization of collateral and the determination of the expected credit losses of loans and advances to customer which are all inherently uncertain. The impairment allowance is measured as either 12 months expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.	In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion. Our audit procedures in this area included, among others: • reviewing the methodology of the Bank and the Group for the calculation of the expected credit loss and assessing its compliance with the requirements of International Financial Reporting Standards 9: Financial Instruments (“IFRS 9”), • obtaining an understanding of the provisioning process, IT applications used therein, as well as key data sources and assumptions for data used in the expected credit loss model, • assessing and testing of IT control environment for data security and access, • evaluating the design, implementation and operational effectiveness of controls in credit risk management and lending processes, and tested key controls related to the approval, recording and monitoring of loans and advances,

Key audit matters (continued)

Key audit matter	How we addressed the key audit matter
For defaulted loans that are considered to be individually significant or non-performing corporate exposures exceeding HRK 1 million individually, the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis. Impairment allowances for performing exposures and non-performing retail exposures as well as non-performing corporate exposures below HRK 1 million individually (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions. The Bank is continuously recalibrating the model parameters which also requires our increased attention in the audit. Related disclosures accompanying the annual financial statements For additional information see notes 1 (Significant accounting policies) and 3 (Accounting estimates and judgements in applying accounting policies) and notes 11 (Loans and advances to customers) and 2,1 (credit risk section of the note 2 Financial risk management policies).	• testing the design, implementation and operational effectiveness of selected key controls in the areas of customer rating, as well as the controls relating to the identification of loss events and default, appropriateness of classification of exposures between performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the impairment allowances, • testing, on a sample basis, whether the definition of default and the staging criteria were consistently applied in accordance with relevant policies, • evaluating the overall modelling approach of calculation of expected credit losses (ECLs), including the calculation of main risk parameters and macroeconomic factors (probability of default (PD), loss given default (LGD) and exposure at default (EAD)), • testing the adequacy of individual loan loss allowances, on a sample basis, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, • conducting an evidentiary test of the selected sample to assess the correctness of the loan classification, • in certain cases, we used our own judgment to determine the parameters for calculating impairment losses on loans and compared our calculations with the impairment of the value calculated by the Bank, • critically evaluating the impact of COVID-19 pandemic on impairment allowances for expected credit losses and assessing the local regulatory framework impacted by COVID-19 pandemic, • evaluating the accuracy and completeness of the financial statement disclosures.

Other matters

The financial statements of the Bank and the Group for the year ended 31 December 2019 were audited by another auditor, Ernst & Young d.o.o. who on 30 March 2020, expressed an unmodified opinion.

Other information in the Annual Report

Management is responsible for the other information. The other information comprises of the information included in the Annual Report but, does not include the separate and consolidated annual financial statements and our Independent auditor's report on them.

Our opinion on the separate and consolidated annual financial statements does not include other information and, except to the extent otherwise explicitly stated in our report, we do not express any kind of assurance conclusion with on them.

In relation with our audit of the separate and consolidated annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated annual financial statements or with our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. In this sense, we do not have anything to report.

With respect to the Management Board Report of the Bank and of the Group and the Statement on the Implementation of Corporate Governance Code, we also performed procedures required by the Accounting Act in Croatia ("Accounting Act"). Those procedures include considering whether:

- the Management Board Report of the Bank and of the Group has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act;
- the specific information in the Statement on the Implementation of Corporate Governance Code required by Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant sections of the Implementation of Corporate Governance Code") has been prepared in accordance with the requirements of Article 22 of the Accounting Act; and
- the Statement on the Implementation of Corporate Governance Code includes the information specified in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

Based on the work that we performed during the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Board Report of the Bank and of the Group and the relevant sections of the Statement on the Implementation of Corporate Governance Code as part of the Annual report of the Bank for the year 2020 are in accordance with the financial information stated in the separate and consolidated annual financial statements of the Bank and of the Group set out on pages 71 to 228 on which we expressed our opinion as stated in the Opinion section above;
- the information given in the Management Board Report of the Bank and of the Group and the relevant sections of the Statement on the Implementation of Corporate Governance Code is prepared in accordance with the requirements of Articles 21, 22 and 24 of the Accounting Act, respectively;
- the Implementation of Corporate Governance Code includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

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

Responsibilities of Management and those charged with Governance for the Annual Financial Statements

The Management is responsible for the preparation of annual financial statements that give a true and fair view in accordance with IFRS, and for such internal controls as the Management determines necessary to enable the preparation of separate and consolidated annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated annual financial statements, the Management is responsible for assessing the Bank's and the Group'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 the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated annual 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 higher 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 made based on these annual financial statements.

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

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

Auditor's Responsibility for the Audit of the Annual Financial Statements (continued)

- evaluate the overall presentation, structure and content of the separate and consolidated annual financial statements, including the disclosures, and whether the separate and consolidated annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also give a statement to those charged with governance that we have acted in accordance with relevant ethical requirements regarding independence and that we will communicate with them on all relationships and other issues that can reasonably be considered to affect our independence as well as, where applicable, about related protections.

Among the matters we are communicating with those charged with governance, we determine those matters that are of utmost importance in revising the current financial statements for the current period and are therefore key audit matters. We describe these matters in our independent auditor's report unless the law or regulations prevents public disclosure or when, in exceptionally rare circumstances, we decide that the matter should not be reported in our independent auditor's report as it can reasonably be expected that the negative effects of the announcement will surpass the welfare of public interest in such disclosure.

Report on other legal requirements

On 1 September 2020, the General Assembly of the Bank appointed us to conduct an audit of the Bank's separate and consolidated annual financial statements for 2020.

In the audit of the Bank's separate and consolidated annual financial statements for 2020, we have determined the following materiality levels for the financial statements as a whole:

- for the separate annual financial statements: HRK 49 million
- for the consolidated annual financial statements: HRK 49 million

which represents approximately 2% of the of the Bank's or Group's net assets for 2020.

We chose Net assets as the benchmark because, in our view, it is the benchmark against which the performance of the Bank and the Group is commonly measured by users, and is a generally acceptable benchmark.

Our audit opinion is consistent with the additional report for the Bank's auditing board, prepared in accordance with the provisions of Article 11 of Regulation (EU) No. 537/2014.

During the period between the initial date of the audited separate and consolidated annual financial statements of the Bank for the year 2020 and in the business year prior to the aforementioned period, we did not provide the Bank and the Group with prohibited non-assurance services, and we have maintained independence in relation to the Bank and the Group during the performance of the audit.

Report on other legal requirements (continued)

Pursuant to the Decision on the structure and contents of annual financial statements published by Croatian National Bank (OG 42/18 and 122/20), the Bank's Management prepared forms presented on pages 219 to 232 (hereinafter „the Forms"). The financial information in the Forms is derived from the financial statements of the Bank and the Group set out on pages 83 to 218 on which we expressed our opinion as stated in the section Opinion above.

The partner engaged in the audit of the Bank's and Group's annual financial statements for the year 2020 resulting in this Independent auditor's report is Ivan Čajko, certified auditor.

Zagreb, 30 March 2021

BDO Croatia d.o.o.

Trg J. F. Kennedy 6b

10000 Zagreb

Ivan Čajko, Member of the Management Board	Ivan Čajko, certified auditor

Consolidated Statement of Financial Position
as at 31 December 2020

in HRK '000	Notes	31.12.2020.	31.12.2019.
ASSETS			
Cash and Amounts Due from Banks	5	3,684,942	2,771,242
Mandatory Reserve with Croatian National Bank	6	1,219,157	1,558,207
Loans and Receivables from Banks	7	379,399	247,640
Financial Assets at Fair Value through Profit and Loss	8	758,106	634,070
Financial Assets at Fair Value through Other Comprehensive Income	9	4,158,035	4,640,205
Financial Assets at Amortized Cost	10	1,975	4,300
Loans and Receivables from Customers	11	14,722,770	13,334,456
Assets Held for Sale	12	-	20,000
Property and Equipment	14	259,000	259,600
Investment Property	15	73,430	72,759
Intangible Assets	16	91,231	110,130
Deferred Tax Assets, Net		-	3,839
Tax Prepayment		2,714	2,558
Other Assets	18	113,019	114,454
TOTAL ASSETS		25,463,778	23,773,460
LIABILITIES			
Financial Liabilities at Fair Value through Profit and Loss	19	21	863
Deposits from Banks	20	96,635	11,216
Customer Deposits	21	21,110,846	20,051,324
Borrowings	22	1,466,641	981,175
Provisions for Liabilities and Expenses	23	114,258	182,595
Deferred Tax Liabilities, Net		23,483	-
Other Liabilities	24	172,991	169,567
TOTAL LIABILITIES		22,984,875	21,396,741
EQUITY			
Share Capital	25	1,214,775	1,214,775
Treasury shares	25	(477)	(477)
Reserves for treasury shares	25	4,477	4,477
Statutory Reserve	25	30,907	23,718
Other Reserves	25	576,064	511,366
Fair Value Reserve	25	242,231	314,658
Revaluation Reserve	25	22,744	659
Retained Earnings	25	388,182	307,542
TOTAL EQUITY		2,478,902	2,376,719
TOTAL LIABILITIES AND EQUITY		25,463,778	23,773,460

The significant accounting policies and other notes on pages 93-218 form an integral part of these financial statements.

	Notes	2020. HRK '000	2019. HRK '000
Interests and Similar Income	26	585,463	619,280
Interests and Similar Expense	27	(48,236)	(73,824)
Net Interest Income		537,227	545,456
Fees and Commissions Income	28	456,855	539,380
Fees and Commissions Expense	29	(275,141)	(329,853)
Net Fees and Commissions Income		181,714	209,527
Net (Losses) / Gains from Financial Instruments at Fair Value through Profit and Loss	30	(7,744)	48,413
Gains from Financial Instruments at Fair Value through Other Comprehensive Income	31	35,036	5,158
Net Gains from Dealing in Foreign Currencies		54,812	50,872
Other Operating Income	32	9,593	29,840
Trading and Other Income		91,698	134,283
Operating Income		810,639	889,266
General and Administrative Expenses	33	(442,985)	(467,625)
Depreciation and Amortization	14,15,16	(76,630)	(78,050)
Impairment Losses on Loans and Receivables from Customers and Other Assets		(121,364)	(162,918)
Provisions for Liabilities and Expenses	23	58.910	(81,995)
Total Expenses and Provisions		(582,069)	(790,588)
PROFIT BEFORE TAX		228,570	98,678
Income Tax (Expense)/ Income	35	(45,186)	48,238
PROFIT FOR THE YEAR		183,384	146,916

The significant accounting policies and other notes on pages 93-218 form an integral part of these financial statements.

Consolidated Statement of Other Comprehensive Income
for the year ended 31 December 2020

	2020 HRK '000	2019 HRK '000
Profit for the Year	183.384	146.916
Other Comprehensive Income		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation Reserve	(7,533)	(73)
Income Tax Relating to Items That Will Not Be Reclassified Subsequently	1,511	13
	(6,023)	(60)
Items that may be reclassified subsequently to profit or loss:		
Unrealized Gains from Assets Valued through Other Comprehensive Income	(62,615)	265,899
Sale of Financial Assets Valued through Other Comprehensive Income	(32,521)	(3,118)
Income Tax Relating to Items That May Be Reclassified Subsequently	1,826	-
Items that may be reclassified subsequently to profit or loss:	16,796	(48,671)
	(76,515)	214,110
Other Comprehensive Gains/(Losses) for the Year	(82,538)	214,050
Total Comprehensive Income for the Year	100,847	360,967

	2020 HRK '000	2019 HRK '000
Profit/ (Loss) for the Year	183,384	146, 916
The Bank's Owners	183,384	146,916
Earnings per share	*HRK 90.61*	*HRK 72.59*
From active and discontinued parts of Business:		
Basic (in HRK per share)	HRK 90.61	HRK 72.59
Diluted (in HRK per share)	HRK 90.61	HRK 72.59

The significant accounting policies and other notes on pages 93-218 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity and Reserves
for the year ended 31 December 2020

Group	Share Capital	Own Shares	Reserve for Own Shares	Other Reserves	Fair Value Reserve	Revaluation Reserve	Retained Earnings	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2019	1,214,775	(477)	4,477	459,156	100,548	719	236,555	2,015,763
Revaluation Reserve	-	-	-	-	-	(73)	-	(73)
Change in the Fair Value of Financial Assets at Fair Value through Other Comprehensive income	-	-	-	-	265,899	-	-	265,899
Sale of Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	-	(3,118)	-	-	(3,118)
Deferred Tax	-	-	-	-	(48,671)	13	-	(48,658)
Net profit for the period 01.01. - 31.12.2019	-	-	-	-	-	-	146,916	146,916
Total Comprehensive Income for 2019	-	-	-	-	214,110	(60)	146,916	360,967
Distribution of 2018 Profit								
- Transfer to Statutory and Other Reserves	-	-	-	75,929	-	-	(75,929)	-
Balance at 31 December 2019	1,214,775	(477)	4,477	535,085	314,658	659	307,543	2,376,720
Balance at 1 January 2020 (as previously reported)	1,214,775	(477)	4,477	535,085	314,658	659	307,543	2,376,720
Corrected	-	-	-	-	-	28,108	(30,859)	1,336
Balance at 1 January 2020	1,214,775	(477)	4,477	535,085	314,658	28,767	276,683	2,378,056
Revaluation Reserve	-	-	-	-	-	(7,533)	-	(7,533)
Changes in Fair Value of Financial Assets at fair Value through Other Comprehensive Income	-	-	-	-	(58,527)	-	-	(62,615)
Sale of Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	-	(32,521)	-	-	(32,521)
Deferred Tax	-	-	-	-	1,826	-	-	1,826
Revaluation Reserve	-	-	-	-	16,796	1,511	-	18,306
Net loss for the period 01.01. - 31.12.2020	-	-	-	-	-	-	183,384	183,384
Total Comprehensive Income for 2020	-	-	-	-	(72,426)	(6,023)	183,384	100,847
Distribution of 2019 Profit								
- Transfer to Statutory Reserves and other reserves	-	-	-	71,887	-	-	(71,887)	-
Balance as at 31 December 2020	1,214,775	(477)	4,477	606,971	242,231	22,744	388,181	2,478,903

The significant accounting policies and other notes on pages 93-218 form an integral part of these financial statements.

HRK '000	Notes	01.01. – 31.12.2020.	01.01. – 31.12.2019.
Cash Flows from Operating Activities			
Profit/ (Loss) Before Taxation		228,570	98,678
Adjusted by:			
- Depreciation and Amortization	14,15,16	76,081	75,880
- Foreign Exchange (Gains)/Losses	32	8,625	3,398
- Net Impairment Losses on Loans and Receivables from Customers and Other assets		121,364	173,420
- (gains) / losses on provisions for liabilities and charges	23	(58,910)	64,758
- Net Unrealized (Gains)/Losses on Financial Assets at Fair Value through Profit and Loss	30	(82,104)	(93,488)
- Net interest income		(537,335)	(535,969)
- Dividend income		(3,293)	(3,646)
Changes in Operating Assets and Liabilities			
Loans and Receivables from Banks		(133,106)	1,405,829
Mandatory CNB Reserves		339,050	(31,369)
Financial Assets at Fair Value through Profit and Loss		(46,059)	305,895
Financial Assets at amortized cost		2,307	71,925
Financial Assets at fair value through other comprehensive income		226,249	(233,279)
Loans and Receivables from Customers		(1,481,630)	(1,453,275)
Other assets		(7,500)	(21,997)
Deposits from Banks		84,628	(53,094)
Customer Deposits		1,305,923	214,858
Other Liabilities		(11,488)	49
Interest charged		509,425	509,500
Interest paid		(31,426)	(48,068)
Net Cash (Outflow)/ Inflow from Operating Activities Before Tax		509,371	450,005
Income Tax Paid		(461)	(4,165)
Net Cash (Outflow)/ Inflow from Operating Activities		508,910	445,840
Cash Flows from Investing Activities			
Investment in Subsidiaries		-	-
Purchases of Property, Equipment and Intangible Assets		(28,845)	(57,643)
Disposal of Financial Assets Valued through Other Comprehensive Income		656,072	75,013
Acquisition of Financial Assets Valued through Comprehensive Income		(388,780)	(1,852,669)
Maturity of Financial Assets Valued at Amortized Cost		0	-
Dividends Received		3,293	3,646
Net Cash Inflow/(Outflow) from Investing Activities		241,740	(1,831,653)
Cash Flows from Financing Activities			
Increase in Borrowings		744,561	670,006
Repayments of Borrowings		(422,027)	(440,709)
Lease repayments under IFRS 16		(18,682)	(20,493)
Net Cash Outflow from Financing Activities		303,852	229,297
Effect of Foreign Exchange Differences on Cash and Cash Equivalents		-	-
Net (Decrease)/ Increase in Cash and Cash Equivalents		1,054,502	(1,156,516)
Cash and Cash Equivalents at the Beginning of the Year	38	3,037,319	4,193,835
Cash and Cash Equivalents at the End of the Year	38	4,091,822	3,037,319

The significant accounting policies and other notes on pages 93-218 form an integral part of these financial statements.

Separate Statement of Financial Position as at 31 December 2020

HRK '000	Notes	31.12.2020.	31.12.2019.
ASSETS			
Cash and Amounts Due from Banks	5	3,684,902	2,771,207
Mandatory Reserve with the Croatian National Bank	6	1,219,157	1,558,207
Loans to and Receivables from Banks	7	379,399	247,640
Financial Assets at Fair Value through Profit and Loss	8	758,106	634,070
Financial Assets at Fair Value through Other Comprehensive Income	9	4,158,035	4,640,205
Financial Assets at Amortized Cost	10	1,975	4,300
Loans and Receivables from Customers	11	14,722,770	13,339,021
Assets Held for Sale	12	-	20,000
Investments in Subsidiaries	13	9,761	5,490
Property and Equipment	14	258,356	259,531
Investment Properties	15	65,993	64,899
Intangible Assets	16	91,039	109,096
Deferred Tax Assets, Net	17	-	3,839
Tax Prepayment		2,639	2,514
Other Assets	18	111,635	113,139
TOTAL ASSETS		25,463,766	23,773,157
LIABILITIES			
Financial Liabilities at Fair Value through Profit and Loss	19	21	863
Deposits from Banks	20	96,635	11,216
Customer Deposits	21	21,118,434	20,059,494
Borrowings	22	1,466,641	981,175
Provisions for Liabilities and Expenses	23	114,258	182,595
Other Liabilities		23,483	-
TOTAL LIABILITIES	24	171,190	167,602
LIABILITIES		22,990,662	21,402,946
EQUITY			
Share Capital	25	1,214,775	1,214,775
Treasury Shares	25	(477)	(477)
Reserves for Treasury Shares	25	4,477	4,477
Statutory Reserve	25	30,907	23,718
Other Reserve	25	576,064	511,366
Fair Value Reserve	25	242,231	318,746
Revaluation Reserve	25	22,744	659
Retained Earnings	25	382,384	296,947
TOTAL EQUITY		2,473,104	2,370,212
TOTAL LIABILITIES AND EQUITY		25,463,766	23,773,157

The significant accounting policies and other notes on pages 93-218 form an integral part of these financial statements.

Separate Profit and Loss Statement
for the year ended 31 December 2020

	Notes	2020 HRK '000	2019 HRK '000
Interests and Similar Income	26	585,564	600,840
Interests and Similar Expense	27	(48,229)	(64,871)
Net Interest Income		537,335	535,969
Fees and Commissions Income	28	450,156	527,494
Fees and Commissions Expense	29	(273,889)	(327,852)
Net Fees and Commissions Income		176,267	199,642
Net (Losses) / Gains from Financial Instruments at Fair Value through Profit and Loss	30	(7,744)	38,096
Gains from Financial Instruments at Fair Value through Other Comprehensive Income	31a	35,036	5,158
Net Gains from Dealing in Foreign Currencies	31b	54,812	50,234
Other Operating Income	32	3,391	4,748
Trading and Other Income		85,496	98,235
Operating Income		799,097	833,846
General and Administrative Expenses	33	(433,877)	(435,031)
Depreciation and Amortization	14,15,16	(75,816)	(75,880)
Impairment Losses on Loans and Receivables from Customers and Other Assets	34	(121,364)	(163,110)
Provisions for Liabilities and Expenses	23	58.910	64,758
Total Expenses and Provisions		(572,147)	(738,778)
PROFIT BEFORE TAX		226,950	95,068
Income Tax (Expense)/ Income	35	(44,888)	48,704
PROFIT FOR THE YEAR		182,063	143,773

The significant accounting policies and other notes on pages 93-218 form an integral part of these financial statements

Separate Statement of Other Comprehensive Income
for the year ended 31 December 2020

	2020	2019
	HRK '000	HRK '000
Profit for the Year	182,063	143,773
Other Comprehensive Income		
Items that will not be reclassified subsequently to profit or loss:		
Revaluation Reserve	(7,533)	(73)
Income Tax Relating to Items That Will Not Be Reclassified Subsequently	1,511	13
	(6,023)	(60)
Items that may be reclassified subsequently to profit or loss:		
Unrealized gains from Assets at FV though Other Comprehensive income	(62,615)	234,071
Sale from Financial Assets at FV through Other Comprehensive Income	(32,521)	(3,118)
Changes in actuarial gains	1,826	-
Income Tax Relating to Items That May Be Reclassified Subsequently	16,796	(48,671)
	(76,515)	182,282
Other Comprehensive Gains / (Losses) for the Year	(82,538)	182,223
Total Comprehensive Income/ (Loss) for the Year	99,525	325,995

	2020	2019
	HRK '000	HRK '000
Profit for the Year	182,063	143,773
Owners of the Bank	182,063	143,773

The significant accounting policies and other notes on pages 93-218 form an integral part of these financial statements

Separate Statement of Changes in Equity and Reserves for the year ended 31 December 2020

HRK '000	Share Capital HRK '000	Own Shares HRK '000	Reserve for Own Shares HRK '000	Other Reserves HRK '000	Fair Value Reserve HRK '000	Revaluation Reserve HRK '000	Retained Earnings HRK '000	Total HRK '000
Balance at 1 January 2019	1,214,775	(477)	4,477	459,022	96,935	719	227,082	2,002,533
Revaluation Reserve	-	-	-	-		(73)	-	(73)
Change in the Fair Value of Financial Assets Available for Sale	-	-	-	-	234,071	-	-	234,071
Disposal of Financial Assets Available for Sale	-	-	-	-	(3,118)	-	-	(3,118)
Deferred Tax	-	-	-	-	(48,671)	13	-	(48,658)
Net effect of JABA merger	-	-	-	-	39,528	-	(2,496)	37,032
Net effect of HPBSŠ merger	-	-	-	134	-	-	4,518	4,652
Net Profit for 2019	-	-	-	-	-	-	143,773	143,773
Total Comprehensive Income for the Year 2019	-	-	-	134	221,810	(60)	145,795	367,679
Distribution of 2018 Profit								
Transfer to Statutory Reserves and Other reserves	-	-	-	75,929	-	-	(75,929)	-
Balance at 31 December 2019	1,214,775	(477)	4,477	535,084	318,746	659	296,947	2,370,212
Balance at 1 January 2020 (as previously reported)	1,214,775	(477)	4,477	535,084	318,746	659	296,947	2,370,212
Corrected	-	-	-	-	-	28,108	(24,739)	3,368
Balance at 1 January 2020	1,214,775	(477)	4,477	535,084	318,746	28,767	272,208	2,373,580
Revaluation Reserve	-	-	-	-	-	(7,533)	-	(7,533)
Change in the Fair Value of Financial Assets through Other Comprehensive Income	-	-	-	-	(62,615)	-	-	(62,615)
Disposal of Financial Assets through Other Comprehensive Income	-	-	-	-	(32,521)	-	-	(32,521)
Changer in actuarial gains/(losses)	-	-	-	-	1,826	-	-	1,826
Deferred Tax	-	-	-	-	16,796	1,511	-	18,306
Net Profit for 2019	-	-	-	-	-	-	182,062	182,062
Total Comprehensive Income for the Year 2020	-	-	-	-	(76,515)	(6,023)	182,062	99,524
Distribution of 2019 Profit								
Transfer to Statutory Reserves and Other reserves	-	-	-	71,887	-	-	(71,887)	-
Balance at 31 December 2020	1,214,775	(477)	4,477	606,971	242,231	22,744	382,384	2,473,104

The significant accounting policies and other notes on pages 93-218 form an integral part of these financial statements.

Separate Cash Flow Statement
For the year ended 31 December 2020

	Note	2020 HRK '000	2019. HRK '000
Cash Flows from Operating Activities			
Profit/ (Loss) Before Taxation		226,950	95,068
Adjusted by:			
- Depreciation and Amortization	14,15,16	75,816	75,880
- Foreign Exchange Gains	32	8,625	3,398
- Impairment Losses on Loans and Other Assets		121,364	173,420
- Provisions for Liabilities and Expenses	23	(58,910)	64,758
- Net Unrealized (Gains)/ Loss on Financial Assets at FVPL	30	(82,104)	(93,488)
- Net interest income		(537,335)	(535,969)
- Dividend income		(3,293)	(3,646)
Changes in Operating Assets and Liabilities			
Credits to and Receivables from Banks		(133,106)	1,385,724
Mandatory CNB Reserve		339,050	(138,267)
Financial Assets at FVPL		(46,059)	247,708
Financial investments at amortized cost		2,307	95,017
Financial assets at fair value through other comprehensive income		226,249	(173,125)
Credits to and Receivable from Customers		(1,481,336)	(1,196,321)
Other Assets		(7,854)	(50,820)
Deposits from Banks		84,628	(53,094)
Customer Deposits		1,297,428	(472,553)
Other Liabilities		(11,324)	(2,104)
Interest charged		509,425	509,500
Interest paid		(31,426)	(48,068)
Net Cash (Outflow)/ Inflow from Operating Activities Before Tax		499,096	(116,982)
Income Tax Paid		(430)	(3,686)
Net Cash (Outflow)/ Inflow from Operating Activities		498,666	(120,667)
Cash Flows from Investing Activities			
Investment in Subsidiaries		-	-
Purchases of Property, Equipment and Intangible Assets		(28,845)	(48,409)
Disposal of Financial Assets Available for Sale		656,072	553,964
Acquisition of Financial Assets Available for Sale		(388,780)	(1,692,449)
Maturity of Financial Assets Held to Maturity		-	-
Dividends Received		3,293	3,646
Net Cash Outflow from Investing Activities		241,740	(1,183,248)
Dividend expenses		744,561	649,513
Repayment of loans taken		(422,027)	(420,216)
Lease repayments under IFRS 16		(18,682)	(20,493)
Net Cash Inflow from Financing Activities		303,852	208,804
Effect of FX Differences on Cash and Cash Equivalents		-	-
Net increase in cash and cash equivalents		1,044,258	(1,095,111)
Cash and cash equivalents at the beginning of the year	38	3,037,284	4,132,395
Cash and cash equivalents at year end	38	4,081,541	3,037,284

The significant accounting policies and other notes on pages 93-218 form an integral part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Hrvatska Poštanska Bank P.L.C. Zagreb is a joint stock company incorporated and domiciled in the Republic of Croatia, Jurišićeva 4, Zagreb. The Bank is the parent of the Hrvatska Poštanska Bank Group ("the Group).

The Bank has control over following subsidiaries that make the HPB Group:

	Industry	State	Ownership as of 31 December 2020 %
HPB Invest d.o.o.	Investment Funds Management	Croatia	100.00
HPB Nekretnine d.o.o.	Real Estate Agency and Construction	Croatia	100.00

An overview of investments in HPB subsidiaries is presented in note 13, while the consolidation basis is described in note 1, item e).

These financial statements comprise separate and consolidated financial statements of the Bank as defined in IFRS 10 "Consolidated Financial Statements" and International Accounting Standard 27 "Separate Financial Statements".

These financial statements were approved by the Management Board on March 30, 2021 for submission to the Supervisory Board.

The main accounting policies applied in the preparation of these financial statements are summarized below. Where accounting policies coincide with the accounting principles of International Financial Reporting Standards, in the description of the Group's accounting policies, individual Standards may be referred to, and unless otherwise stated, these are the Standards that were in effect at 31 December 2020.

The accompanying financial statements are prepared in accordance with statutory requirements and only as general information and are not intended for any particular purpose or transaction. Therefore, users are advised not to rely exclusively on them in making any decisions, and to conduct further examinations prior to making a decision.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Statement of Compliance

These financial reports are prepared in accordance with the legal requirements applicable to accounting for banks .in the Republic of Croatia. Legal accounting regulations for banks in the Republic of Croatia is based on International financial reporting standard ("IFRS") and special regulations for banks adopted by Croatian National Bank ("the CNB".

In these financial statements as at 31 December 2020 balances are not materially incompliant with balances in accordance with IFRS. At the end of previous financial year as at 31 December 2019 the Bank determined that there are certain differences between the accounting regulations of the CNB and recognition and measurement requirements of IFRS and was not able to determine the amount of variance since the process of implementation of complete impairment model in accordance with IFRS was ongoing.

The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards as at 31 December 2019 are as follows:

- Suspended interest represents already accrued unpaid interest on asset for which individual impairment has been recognized. For the part of the exposure for which the passage of time of default is longer than two years the Bank and the Group carry out the full impairment of accrued unpaid interest through profit and loss, suspend the following accrual in the statement of financial position and present the interest in the off-balance up until the customer makes the payment in cash. The stated is not in accordance with the IFRS 9 „Financial instruments" which requires the interest income from impaired financial assets to be accrued using the method of the effective interest rate.
- In line with CNB Decision on classification of exposures into risk stages and the manner in which credit losses are determined which was put into force at 1 January 2018 („Decision on exposure classification"), CNB prescribes minimum provision for impairment loss for certain exposures for which impairment has been specifically recognized, that may be different from an impairment loss calculated in accordance with IFRS.
- In line with the Decision on exposure classification the CNB prescribes the minimum impairment factors/haircuts and collection deadlines for each collateral type for purposes of estimating future cash flows on the basis of collection through collateral. The stated future cash flows can be different from the future cash flows calculated in accordance with the IFRS.
- In line with the Decision on exposure classification the CNB prescribes minimum total exposure impairment of risk sub-stages A-1 and A-2, which can be different from the impairment loss calculated in accordance with the IFRS.
- In line with the CNB's Decision on Provisions for Court Cases against the Credit Institution of March 31, 2010 there are minimum requirements for the provisions for court cases the credit institution is obliged to fulfill. In line with the Decision a credit institution must diversify court cases into risk categories depending on the loss probability and form provisions accordingly. However, in certain cases required reserves may differentiate from the ones calculated in accordance with the IFRS.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Statement of Compliance (continued)

CNB Decision entered into force as at 1 January 2020 modified the accounting framework. In accordance with the article 21 (2) Decision on exposure classification no minimum total exposure impairment of risk sub-stages A-1 and A-2, which can be different from the impairment loss calculated in accordance with the IFRS is defined. Bank has determined that other abovementioned differences in methodology which are still existing as at 31 December 2020 do not deviate in any material respect from amounts determined in accordance with IFRS.

Significant accounting policies applied in preparation of these financial statements are set out hereafter.

b) Basis of preparation

These financial reports represent the general-purpose financial reports of the Bank and Group. Financial reports are prepared for the reporting period from 1 January 2020 to 31 December 2020.

The financial reports are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss, at fair value through other comprehensive income, derivative financial instruments and property and repossessed assets except those for which a reliable fair value measurement is not available. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at revaluation model, amortized or historical cost.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank and Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account as they value the asset or liability at the measurement date. Fair value for measurement and/ or disclosure purposes in these consolidated and separate financial reports is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16 and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of preparation (continued)

In preparing the financial reports, management is required to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period. Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under current circumstances, the results of which form the basis of making the judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on a regular 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 made by management in the application of applicable standards that have significant effects on financial reports and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of preparation (continued)

New Standards, Interpretation and Changes of Published Standards

(I) New and changed International Financial Reporting Standards are referred to the reporting period

The accounting policies applied during the preparation of these financial statements are consistent with those applied when preparing the Group's and the Bank's annual consolidated and separate financial statements as at 31 December 2019, except for the adoption of new standards applicable from 1 January 2020. The Group and the Bank have not previously adopted any other standards, amendments or interpretations that have been published but are not yet in force.
Although these changes are applicable for the first time in 2019, they do not have a significant impact on the consolidated and separate financial statements of the Group and the Bank.

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

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 3 "Business Combinations" - Definition of a Business - adopted by the EU on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of 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),
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

(II) Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

- Amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9" adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023),
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" - Interest Rate Benchmark Reform — Phase 2 adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

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1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) *Basis of preparation (continued*)

(III) New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at 30 March 2021 (the effective dates stated below is for IFRS as issued by IASB):

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 "Insurance Contracts" including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 1 "Presentation of Financial Statements" - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 16 "Property, Plant and Equipment" - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 3 "Business Combinations" - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- Amendments to 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

The Bank and the Group anticipate that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Bank and the Group in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principals have not been adopted by the EU remains unregulated.

According to the Bank's and the Group's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as at the balance sheet date.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) *Functional and Presentation Currency*

The Bank's and Group financial reports are presented in Croatian Kuna (HRK), which is the functional currency. Amounts are rounded to the nearest thousand (unless otherwise stated).

d) *Changes in the presentation or classification of items within the financial statements*

In 2020, the Bank made reclassifications to certain financial statements items related to historical periods.

More accurate distribution of investment between property and land on the location Jurišićeva 4, Zagreb in accordance with appraisals performed by independent appraiser in 2017. The effects of the correction are shown below:

Effect on the statement of financial position as at December 31, 2019:
(in HRK thousands)

Item	Balance on 1/12/2019 - before reclassification	Effects of reclassification	Balance on 31/12/2019 - after reclassification
			Bank
ASSET			
Property and Equipment			
- Building and Land	119,453	4,108	123,561
Deferred Tax Asset, Net	3,839	5,058	8,897
LIABILITIES			
Deferred Tax Liability, Net	-	5,798	5,798
EQUITY			
- Revaluation reserve	318,746	28,108	346,854
- Retained Earnings	296,947	(24,739)	272,208
STATEMENT OF PROFIT OR LOSS			
Depreciation and Amortization Building and Land	3,501	847	4,348
			Group
ASSET			
Property and Equipment			
- Building and Land	131,232	4,108	135,340
Deferred Tax Asset, Net	3,839	5,058	8,897
LIABILITIES			
Deferred Tax Liability, Net	-	5,798	5,798
EQUITY			
- Revaluation reserve	314,658	28,108	342,766
- Retained Earnings	307,542	(24,739)	282,803
STATEMENT OF PROFIT OR LOSS			
Depreciation and Amortization Building and Land	3,415	847	4,262

d) The basis for consolidation

The financial statements are presented for the Bank and the Group. The Group's financial statements consist of the consolidated financial statements of the parent company and its subsidiaries over which it has control: HPB Nekretnine doo, Real Estate Company, HPB Invest doo, Investment Fund Management Company. All subsidiaries are 100% owned by their parent company, which are also based in Croatia.

As part of consolidation, assets, liabilities, equity, revenues and expenses between Group members are eliminated entirely.

Subsidiaries

Subsidiaries are all the companies managed by the Bank. Subsidiaries are consolidated, i.e. they cease to be consolidated from the moment the Bank acquires or loses control over them. Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income from the date on which the Bank acquired control until the date of termination of control. Income and expenses of JABA are included in the consolidated profit and loss account from the acquisition date. In separate financial reports of the Bank, investments into subsidiaries are stated at acquisition cost less impairment, if any. Accounting policies of subsidiaries are adjusted as needed to ensure accordance with the Group's policies.

Business combinations

Investment cost method is used for posting acquisitions of companies by the Group. Acquisition cost of subsidiaries is measured at fair value of given assets, equities issued and arisen, or liabilities assumed at the date of exchange. Acquired recognizable assets and liabilities and assumed contingent liabilities in business combinations are initially measured at fair value at acquisition date, no matter the amount of minority interest. Excess of acquisition costs over Group share of fair value of acquired recognizable net assets, including intangible assets, result in goodwill.
If acquisition cost is lower than fair value of net assets of the acquired subsidiary, the difference is recognized directly in the profit and loss account.
Acquisition date is defined as a date at which the acquirer gains control over the acquired.

Legal mergers

In the case of legal mergers of Group companies, the pooling method applies, the balances of the merging entity are transferred at net book values from the consolidated financial statements to the successor entity, and no adjustments to prior periods are required.

e) *Interest Income and Expense*

Interest income and expense are recognized in the Profit and loss ("P&L") report as they accrue for all interest bearing financial instruments, including those measured at amortized cost, at fair value through other comprehensive income, using the effective interest rate method.

Such income and expense are presented as interest and similar income or interest expense and similar charges in the P&L report. Interest income and expense also includes fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortization, and other differences between the initial carrying amount of an interest-bearing financial instrument and its value at maturity, recognized on a basis of effective interest rate. Interest income and expense on all trading assets and liabilities are presented as interest income or expense.

For financial assets measured at amortized cost, calculation the effective interest rate is based on gross book value, with the exemption of the following:

(a) purchased or originated credit impaired financial assets. For such financial assets the entity applies to the amortized cost of financial assets on initial recognition the effective credit impaired interest rate;

(b) financial assets that is neither purchased nor originated credit impaired financial assets, but afterwards became credit impaired financial assets. For such financial assets the subject in the following reporting periods to the amortized cost of financial assets applies the effective interest rate

Modification of contracted cash flows

If contracted cash flows from financial assets were to be renegotiated or modified in some other manner, whereby such new deal or modification do not lead to derecognition of the financial assets, the Bank and the Group recalculate gross book value of the financial assets and in the profit and loss recognize the gain or loss. Gross book value of financial assets is recalculated as present value of renegotiated or modified contracted cash flows discounted by initial effective interest rate of the financial assets (for purchased or originated credit impaired financial assets discounted by effective credit impaired interest rate) or if necessary by credit impaired effective interest rate. Book value of modified financial assets is impaired by arisen costs or fees, which are depreciated during the remaining period of the modified financial assets. When the modification of conditions or modification of contracted future cash flows leads to derecognition of existing financial assets and at the same time there are impairment indicators of new financial assets, it represents the purchased or originated credit impaired financial assets (so called POCI). Once classified into the POCI category, the assets remain in it for its remaining lifetime.

f) *Fees and Commissions Income and Expense*

Fee and commission income and expense arise on financial services provided by the Bank and received by the Bank, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by and to the Bank and the Group. Fee and commission income and expense are recognized in the P&L report when the related service is performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognized over the term of the commitment. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank and Group has retained no part for itself, or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts.

g) *Fees and Commissions Income and Expense (continued)*

Asset management fees related to investment fund management are recognized on an accrual basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

h) *Dividend income*

Dividend income on equity investments is recognized in the P&L report when the right to receive dividends is established.

i) *Gains Less Losses from Financial Instruments at Fair Value in P&L and Financial Instruments Measured at Fair Value through Other Comprehensive Income*

Gains less losses from financial instruments at fair value through profit or loss include unrealized and realized gains and losses arising from derivative financial instruments, trading debt securities and other financial instruments designated at fair value through profit or loss.

Gains less losses from financial instruments at fair value through other comprehensive income include realized gains and losses from financial instruments measured at fair value through other comprehensive income.

Financial assets measured at fair value through other comprehensive income are tested at the end of every reporting period in order to determine the existence of indicators of potential impairment. Financial assets are impaired if there is objective evidence that estimated future cash flows were impacted by one or more events after initial recognition of the financial instrument.

Objective impairment evidence may include:

- Significant financial difficulties for issuer or other contract party, or
- Contract breach, for example late payments or non-payment of principal and interest, or
- Likely bankruptcy start or financial restructuring of the debtor, or
- Disappearance of active market for concerned financial assets due to financial difficulties.

Any subsequent increase in fair value after impairment is recognized in other comprehensive income. In relation with debt securities classified at reporting date at fair value though other comprehensive income (previously available for sale), impairment can subsequently be reversed in the profit and loss account if there is evidence there exists objective evidence of increase of fair value in relation with the event that arises after recognition of impairment.

j) *Gains Less Losses Arising from Dealing in Foreign Currencies*

Gains less losses from dealing in foreign currencies include unrealized and realized gains and losses arising from spot dealings in foreign currencies.

k) *Foreign Currencies*

Transactions in foreign currencies are translated into HRK at the rate of exchange applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate applicable at that date. Foreign exchange differences arising on translation are recognized in the P&L report. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in HRK at the foreign exchange rates applicable at the dates when the fair values were determined. 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 recalculated.

The fair value of financial assets through other comprehensive income denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

The official middle exchange rate as of December 31, 2019 was: 7.536898 = 1 EUR; 6.139039 = $ 1; 6. 948371 = 1 CHF.

The official middle exchange rate as of December 31, 2019 was: 7.442580 = 1 EUR; 6.649911 = $ 1; 6.838721 = 1 CHF.

l) *Financial Instruments*

i) Classification

The Bank classifies all financial assets in terms of asset management business model, which is measured as follows:

- Amortized cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit and loss account (FVPL).

Financial liabilities, except for loans granted at interest rate lower than market rates, financial guarantee-based liabilities and financial liabilities measured at FVPL are measured at amortized cost
The classification depends on the intent of the financial instruments'' acquisition. The Board determines the classification of the financial instruments at initial recognition.

Business model assessment

The Bank and the Group determine business models in a manner that best reflects management of financial assets group in order to achieve the business purpose.

Business models of the Bank and the Group are not determined at individual level of each instrument, but at aggregate level of the group of the financial instruments.

Business model assessment is based on reasonably expected scenarios. If cash flows after initial recognition are realized in a manner different than the initially expected, the Bank and the Group do not change the classification of the remaining financial assets held in that business model, but in the future include new information into the assessment of newly approved or purchased financial assets.

l) Financial instruments (continued)

i) Classification (continued)

Business model assessment (continued)

In accordance to IFRS 9, the Bank and the Group classify its financial assets in accordance with the following business models:

- *Business model with the purpose of holding the assets in order to collect contractual cash flows*

Financial assets held within this business model are managed with the intent to generate cash flows by collecting contractual payments during the instrument's lifetime. The Bank and the Group manage the assets within the portfolio in order to collect certain cash flows (instead of managing the entire portfolio yield that is realized by holding and also by selling the assets).

- *Business model with the purpose of collecting cash flows and also by selling the financial assets*

Within this business model the Bank and the Group hold financial assets, which purpose is to collect contracted cash flows and also to sell the financial assets. Within this business model the key management personnel makes the decision that the goal of the business model is realized by collecting cash flows and also by selling the financial assets. One of the goals of the business model is managing daily needs related to liquidity in order to keep a certain interest yield profile or that the duration of the financial assets corresponds to duration of liabilities financed by those assets.

- *Other business models*

Financial assets are measured at fair value through profit and loss account if they are not held within the business model with the intent of holding financial assets to collect contracted cash flows or within the business model with the intent of collecting contracted cash flows and also by selling financial assets. The business model which consequently has measurement at fair value through profit and loss account is the one within the Bank and the Group manage the financial assets with the intent of generating cash flows by selling the assets. The Bank and the Group make decision based on fair value of the assets and manage it in order to realize the fair value.

Financial Markets Sector acquires different types of financial assets, whereby the intent for their acquisition is not unambiguous. Within the context of the IFRS 9 application the model of acquisition of financial assets and its placement within business models will be allocated between Financial Markets Sector and Assets and Liabilities Management Office. Financial Markets Sector when deciding the acquisition of financial assets can place the stated into one of three business models as defined by IFRS 9. Financial Markets Sector more closely describes with the Internal act conditions and manner of acquiring financial assets and its placement into each category in accordance with the chosen business model. Assets and Liabilities Management committee makes decisions, on recommendation of Assets and Liabilities Management Office, on financial assets acquisitions within the business model holding to collect and sale. Investments related to this business model will arise from the Bank's investments into financial assets with the intent of liquidity management – general strategy.

Transactions related to the stated business model are carried out by Financial Markets Sector by directive from Assets and Liabilities Management Office. The Bank places financial instruments within this business model mainly with the purpose of keeping regulatory obligations and prescribed ratios or liquidity reserves in accordance with internal and external limits.

l) Financial instruments (continued)

i) Classification (continued)

Solely Payments of Principal and Interest test (so called SPPI test)

As the next step of the classification process the Bank and the Group asses contracted conditions of financial assets in order to conclude whether the stated assets have contracted cash flows which are solely payments of principal and interest on unpaid amount of the principal. For purposes of applying this test, the 'principal'' is fair value of financial assets at initial recognition, however that amount of the principal can be changed during the financial assets' lifetime (i.e. in case of paying off the principal). The interest covers the fee for time value of cash, for credit risk related to unpaid amount of the principal during certain period and other basic risks and loan costa and also for profit margin. In order to assess the SPPI test result, the Bank and the Group apply assessment and take into consideration important factors such as the currency of financial assets.

However, if contracted cash flows of financial assets are not solely payments of principal and interest on unpaid amount of the principal, such financial assets are subsequently measured at fair value through profit and loss account.

Financial assets and financial liabilities

This category contains two subcategories: financial instruments held for trading (including derivative financial instruments) and financial instruments the Board had initially recognized at fair value through profit and loss account, or those that have to be recognized at fair value through profit and loss account in accordance with IFRS 9. The Bank recognizes financial assets and liabilities at fair value through profit and loss account when:

- Assets and liabilities are managed, measured or are internally presented at fair value,
- Accounting mismatch is eliminated or significantly reduced by recognition, which would otherwise arise, or
- Assets and liabilities contain certain derivative which significantly changes cash flows which would otherwise arise from the contract.

Financial assets at fair value through profit and loss account include equity securities, debt securities, shares in investment funds and derivative financial instruments held for trading. Financial assets held for trading relate to assets purchased or issued mainly for transactions which realize profit in a short-term. Changes in fair value of these assets are recognized through net income from trading.

Financial assets at amortized cost

The Bank and the Group measure financial assets at amortized cost if both following conditions are met:

- Financial assets are held within business model with the intent of holding financial assets in order to collect contracted cash flows
- Based on contracted terms of financial assets for certain dates, cash flows arise which are solely payments of principal and interest on unpaid amount of the principal.

Financial assets at amortized cost of the Bank and the Group arise when the Bank and the Group approve cash instruments to customers with no intention of trading with those receivables and include loans and receivables from banks, loans and receivables from customers, as well as mandatory reserve at Croatian National Bank and debt securities.

l) Financial instruments (continued)

i) Classification (continued)

Financial assets at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income only if both following conditions are met:

- Financial assets are held within business model with the intention of collecting contracted cash flows and also by selling the financial assets
- Based on contract terms of financial assets on certain dates arise cash flows which are solely payments of principal and interest on unpaid amount of the principal.

Gains and losses from financial assets measured at fair value through other comprehensive income are recognized through other comprehensive income, except for gains or losses from impairment and gains and losses from exchange rate differences, up to derecognition of financial assets or its reclassification. If financial assets were derecognized, the cumulative gains or losses previously recognized through other comprehensive income are reclassified from equity into profit and loss account as reclassification adjustment.

Interests calculated by the effective interest rate are recognized in the profit and loss account.

Assets measured at fair value through other comprehensive income cover debt securities.

Investments in an equity instruments which are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, Bank may, at initial recognition, make an irrevocable election to present subsequent changes in the fair value in other comprehensive income. The election is possible for each separate investment. Subsequent changes in the fair value will be presented in other comprehensive income without option of recycling to profit or loss statement.

For these equity instruments Bank will in profit or loss statement recognize dividends from that investments if the entity's right to receive payment of the dividend is established, it is probable that the economic benefits associated with the dividend will flow to the entity and the amount of the dividend can be measured reliably

Other financial liabilities

Other financial liabilities cover all financial liabilities not measured at fair value through profit and loss account.

ii) Recognition and Derecognition

Purchases and sales of financial assets and financial liabilities at fair value through profit or loss, and financial assets held to maturity and available for sale, are recognized on the settlement date. Loans and receivables and financial liabilities at amortized cost are recognized when advanced to borrowers or received from lenders.

The Bank and Group derecognizes financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over financial instrument.

This occurs when the Bank and Group transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realized, surrendered or have expired. At full derecognition of financial assets, the difference between book value (determined at derecognition date) and received consideration is recognized in the profit and loss account.

l) Financial instruments (continued)

ii) Recognition and Derecognition (continued)

The Bank and Group derecognize 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, the Bank will cease recognizing that liability and will instantaneously recognize a new financial liability, with new terms and conditions.

Realized gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

iii) Initial and Subsequent Measurement

Financial assets and liabilities are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank and Group measures financial instruments at fair value through profit or loss and financial assets measured at amortized cost and financial assets at fair value through other comprehensive income. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are initially recognized at acquisition cost and are subsequently measured applying internal models of fair value estimation.

Loans and receivables and held to maturity investments and financial liabilities not designated at fair value through profit or loss are measured at amortized cost.

iv) Determination of Fair Value of Financial Instruments

The fair value of quoted financial assets in an active market is based on their closing price. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Bank and Group uses an internal evaluation model for fair value estimation. Such models include the use of prices achieved in recent transactions, by reference to similar financial instruments, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate. The fair value of non-traded derivatives is estimated at the amount that the Bank and Group would receive or pay to terminate the contract at the reporting date, taking into account current market conditions, its own credit risk and the current creditworthiness of the counterparties

v) Reclassifications

When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. Bank does not reclassify financial liabilities. Reclassifications between categories depend on the category in which the financial instrument was initially recognized.

If the Bank reclassifies financial assets in accordance it will apply the reclassification prospectively from the reclassification date. The Bank will not restate any previously recognized gains, losses (including impairment gains or losses) or interest.

If the Bank reclassifies a financial asset out of the amortized cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

If an entity reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortized cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

l) Financial instruments (continued)

v) Reclassifications (continued)

If an entity reclassifies a financial asset out of the amortized cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortized cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortized cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If an entity reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

If an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

m) Specific Financial Instruments

Cash and Cash Equivalents

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

Derivative Financial Instruments

The Bank and Group uses derivative financial instruments to hedge economically its exposure to currency risk and interest rate risk arising from operating, financing and investing activities. In accordance with its investment policies, the Bank and Group does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied and consequently, all derivative agreements are classified as financial instruments at fair value through profit or loss.

Derivative financial instruments include foreign currency agreements, forward agreements, futures and other financial derivatives and are initially recognized at fair value which is the value of consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on the discounted cash flow. All derivative instruments are presented as assets if their fair value is positive and as liabilities if their fair value is negative.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed as an embedded derivative. Except as required to the contrary by the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and when the hybrid contract is not itself carried at fair

m) *Specific Financial Instruments (continued)*

value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealized gains and losses recognized in the P&L report, unless there is no reliable measure of their fair value. Changes in the fair value of derivatives are included in gains less losses arising from trading with securities

Treasury Bills and Debt Securities

Treasury bills and debt securities that the Bank and Group holds for the purpose of short-term profit taking are classified as at fair value through profit or loss or as financial assets at fair value through other comprehensive income and are carried at fair value. Treasury bills and debt securities that the Bank has the intent and ability to hold to maturity are classified as held to maturity assets.

Equity Securities and Investments in Open-End Investment Funds

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

Placements with Banks

Placements with banks are classified as loans and receivables and measured at amortized cost less impairment losses.

Loans and Receivables from Customers

Loans and receivables from customers are presented net of impairment losses. Purchased loans that the Bank and Group has the intent and ability to hold to maturity are classified as held to maturity assets. In accordance with CNB requirements, the amortization of any discounts included within impairment losses is presented in impairment losses.

Investments in Subsidiaries

In the Bank's separate financial reports, investments in subsidiaries are recorded at cost, except for H1 Telekom plc. which is, as assets held for sale, recorded at the lower of carrying amount and fair value.

Borrowings

Interest-bearing borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between proceeds (net of transaction costs) and redemption value being recognized in the P&L report over the period of the borrowings as interest. The amount is subsequently reduced by not deferred portion of the fee paid at the point of loan approval.

Repurchase Agreements and Linked Transactions

The Bank and Group enters into purchases (sales) of investments under agreements to resell (repurchase) essentially identical investments, or in a series of linked sales and buy-back transactions at a certain future date at a fixed price. The amounts paid are recognized in loans and advances to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the report of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortized cost or at fair value, as appropriate. The proceeds from the sale of the investments are presented as liabilities to either banks or customers.

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

n) *Corporate tax*

Corporate tax expense represents the sum of the tax currently payable and deferred tax.

Current tax payable is based on taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the P&L report and report of other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

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

The measurement of deferred tax liabilities and assets reflects the amount that the Bank and Group expects, at the end of the financial reports date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified in the report of financial position as non-current assets and/ or non-current liabilities. Deferred tax assets are recognized only to the extent that it is probable that the related tax benefit will be realized. At each reporting date, the Bank and Group reviews the unrecognized potential tax assets and the carrying amount of the recognized tax assets.

o) *Property and Equipment*

Recognition and Measurement

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

An item of property whose fair value can be measured reliably is subsequently carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The fair value of land and buildings is determined by the independent professional valuator.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation is recognized in the P&L report on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

Equipment is measured at cost, less accumulated depreciation and accumulated impairment losses.

The estimated useful lives are as follows:

	2020	2019
Buildings	40 years	40 years
Computers	3 years	3 years
Furniture and Equipment	2-4 years	3-4 years
Motor Vehicles	5 years	5 years
Other Assets*	10 years	10 years

**Other assets refer to air conditioning and heating equipment*

Depreciation methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are included in the Profit and Loss Statement.

p) Investment property

Investment property include the Bank's investments in real estate with the intention of selling the same and / or earning from the lease. Real estate investments are initially recognized at cost, including transaction costs. All investments in real estate are valued at fair value. The fair value of such assets is estimated annually on the basis of an independent valuer's estimate, and any gain or impairment loss from the change in fair value is recognized in the income statement as occurred. An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

q) Intangible Assets

Intangible assets are carried at cost less accumulated amortization and impairment. Development costs are capitalized if all the requirements specified in IAS 38 "Intangible Assets" are met.

The Bank and Group intends to capitalize internal employee project costs in the future under a condition of meeting requirements by the IAS 38. Durability of the mentioned intangible assets will correspond to the estimated useful life and its future economic benefits.

Amortization is provided on a straight-line basis over the estimated useful life of an intangible asset. Maintenance costs are recognized as an expense when they are incurred.

Depreciation methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are included in the Profit and Loss Statement.

Amortization of intangible assets is provided on a straight-line basis over the estimated useful life of an asset as follows:

	2020	2019
Leasehold Improvements	range*	range *
Software	3-10 years	3-10 years
Licenses	3-10 years	3-10 years

* Leasehold improvements are amortized in line with the duration of lease contract, average period of amortization is 5 to 7 years.

r) *Impairment of Non-Financial Assets*

The recoverable amount of property and equipment, investment property and intangible 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 levels for which there are separately identifiable cash flows ("cash-generating units"). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

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 recognized.

s) *Non-Current Assets Held for Sale*

The Bank and Group initially recognize (classify) non-current assets as assets held for sale if its value be through sale, rather than used for the purpose of conducting business activities through depreciation. Such assets are classified at the lower of carrying amount or fair market value less costs to sell.

Subsequent measurement of assets held for sale is carried at the lower of carrying value and the current fair market value less costs to sell.

In case of events that may extend the period to perform the sale of the property does not preclude the classification of assets as held for sale if the circumstances beyond the control of the Bank and Group occur and if there is evidence that the Bank and Group will continue in line with the plans to continue selling the same.

The Bank and Group does not perform depreciation of assets held for sale. Impairment losses arising on the subsequent measurement of assets is recorded in the P&L report of the Bank and Group. Subsequent gains from increase in the fair value of previously impaired assets will be recognized in the P&L report at the time of sale.

If it is determined that the non-current assets classified as held for sale do not meet the criteria for initial recognition of the Bank and Group does not recognize those assets as assets held for sale.

Bank and Group does not recognize assets held for sale in the event that such property is sold. Gain or loss on sale of assets held for sale are recognized in the P&L report.

t) *Repossessed asset in exchange for uncollected receivables*

The Bank and Group initially recognize repossessed asset in accordance with IAS 40 "Investment Property" and account for it as described in part Investment property. In case that repossessed asset will be intended for sale and it meet the criteria of relevant IFRS 5 "Non-current Assets Held for Sale", the asset will be recognized and accounted for as long-term tangible asset held for sale.

Only exceptionally, if repossessed asset will be used in regular business activities of the Bank and the Group, it can be decided, at acquisition, that the asset will be put in use and accounted for in accordance with IAS 16 "Property, plant and equipment", as described in part Property and Equipment.

u) *Provisions for Liabilities and Expenses*

The Bank and Group recognize a provision when it has a present obligation as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the obligation. Provisions are also made for off-balance sheet credit risk exposures on a portfolio basis.

Provision for liabilities and charges represent the best estimate of the expenditures needed to settle the present obligation at the reporting date. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Provisions are released only for such expenditure in respect of which provision are recognized at initial recognition. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

v) *Operating Leases*

The contract is, or contains, lease if it conveys the right to use an underlying asset for the defined period of time in exchange for consideration. For such contracts the Bank recognizes right-of-use asset and lease liability.

Leases where the Bank and the Group are lessors in which they retain all the risks and awards related to the ownership, comprise all the tangible and intangible asset at purchase cost less accumulated depreciation or amortization. Rent income from operating lease is recognized in profit or loss statement using straight-line method during the lease period. Initial costs, directly related to the operating lease contract, the Bank recognizes over time in line with the recognition of rent income. For the duration of a lease contract, the Bank recognizes depreciation or amortization and impairment losses on the leased asset aligned with the amortization method applicable for the similar asset owned by the Bank.

For lease contracts where the Bank is a lessee, lease liability is measured at the present value of future lease payments, discounted at incremental discount rate of the lessee at the date of initial recognition. Lease liability is recognized in contracted currency.

v) *Operating Leases (continued)*

On the other hand, the Bank as a lessee recognizes Right-of-Use Asset (RoU) at the date of initial recognition by which the right to use the underlying asset is measured at the amount of present value of future lease payments adjusted for any accruals and prepayments related to the lease contract recognized in the statement of financial position immediately before the date of initial recognition. The Right-of-Use Asset is recognized in Bank's functional currency and is depreciated on a straight-line bases over lease term.

Subsequent measurement of the lease liability includes an increase in book value to reflect interest on the lease obligation and a decrease in value that reflects the lease payments.

Bank opted for the practical expedient in terms of IFRS 16 "Leases" (i.e. Lease Liability and Right-of-Use Asset recognition) in the following cases:

- Short-term leases and
- Leases of low-value items.

In these cases, lease payments are recognized as an expense over the lease term.

The Bank decided to opt for the low-value items expedient and identified, based on the IASB opinion presented in the Basis of conclusion, that the order of magnitude would be USD 5,000 (value of underlying asset).

Bank has opted for the expedient for the intangible asset as well.

VAT is excluded from the calculation of the Right-of-Use Asset and the Lease Liability.

Lease liability is measured at the present value of future lease payments (not paid at that date), discounted at the interest rate implicit in the lease if it can be readily determined. Otherwise, the Bank uses its incremental borrowing rate.

Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow:

- the funds to obtain asset of a similar value to the right-of-use asset;
- over a similar term;
- with a similar security;
- in similar economic environment.

The Bank discloses the information about lease contracts in which it acts as a lessee, separately in the financial statements which comprise the following:

a) Depreciation charge for the right-of-use asset
b) The interest expense on the lease liability
c) Expenses related to the short-term leases (these expenses do not have to include expenses related to contracts with lease period shorter or equal to one month)
d) Expenses related to the leases of low-value items.

w) *Employee Benefits*

Defined Pension Contributions

The Bank and Group pays contributions to pension-insurance funds on a mandatory, contractual basis. The Bank and Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Provisions for Severance Payments and Jubilee Awards

In calculating provisions for severance payments and jubilee awards, the Bank and Group discounts expected future cash flows in respect of the liabilities, using discount rates that, in opinion of the Bank's management, best represent the time value of money. Actuarial gains or losses are recognized in other comprehensive income, whereas interest expense and current period employee expenses are recognized in profit or loss statement.

x) *Share Capital and Reserves*

Share Capital and Reserves

Share capital is denominated in Croatian Kuna and stated at nominal value. The amount of fees paid on repurchase of share capital, including directly attributable costs, is recognized as a deduction from equity and classified as treasury shares.

Dividends

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

Retained Earnings/ Accumulated Losses

All income for the year, retained after appropriations, is transferred to reserves, in accordance with the decision of the General Assembly.

Loss for the period is charged on the accumulated retained earnings. Any remaining loss is allocated in accordance with the regulations applicable to trading companies in the Republic of Croatia.

Earnings per Share

The Bank presents earnings or loss per share data for its ordinary shares. Earnings/ loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

y) *Contingencies and Commitments*

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

z) *Funds Managed for and on Behalf of Third Parties*

The Bank and Group manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Bank's and Group's assets and are excluded from the report of financial position. For the services rendered, the Bank and Group charges a fee which is recognized in the P&L report on an accrued basis.

The Bank's subsidiary also manages six open-end funds with public offering (short-term bond: HPB Cash Fund, HPB Eurocash Fund, bond: HPB Bond Fund, mixed: HPB Global Fund, HPB Bond Fund Plus and equity fund: HPB Equity Fund).

Investment funds assets that is managed by the Bank is not part of consolidated reports of the Group.

The investment of the parent company in the investment funds of the parent company are stated at fair value through profit and loss.

aa) *Segment reporting*

A segment is a distinguishable component of the Bank and Group that is engaged either in providing products or services (business segment) which achieves economic benefits or costs, including the transactions with other parts of the Bank and Group. The Group did not use internal transfer prices in determining the success of the segments.

The Group identified four major segments: banking with legal entities - divided into two sub-sectors (business with large companies and the public sector, small and medium-sized businesses), banking with physical persons, financial markets (including treasury and investment banking with custody) and direct banking. The description of business segments and their financial review is presented in Note 4 to these financial statements.

Group's operations, its total assets as well as the majority of its clients are based in Croatia.

2. RISK MANAGEMENT

This note details the Bank's and Group risk exposures as well as the methods applied by the management to identify, measure and manage those risks for the purpose of preserving capital. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk, interest rate risk in the Bank's non-trading book, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

An integrated system of risk management is established at the Bank and Group level by introducing a set of policies, procedures and manuals, determining the limits of risk levels acceptable to the Bank and monitoring their implementation. The limits are set with respect to the amount of regulatory capital and are applied to all types of risk. Additionally, the Bank sets limits for annual potential losses measured by Value-at-Risk techniques for its market risk exposure.

The responsibility for determining the framework of the Bank's and Group risk management lies with the Bank's Management Board which has delegated the risk management tasks to the Assets and Liabilities Management Committee, Credit Committee and Operational Risk Management Committee.

2.1 Credit risk

The Bank is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties.

The risk that counterparties to financial instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank evaluates debtors' creditworthiness, and in order to minimize credit risk, obtains appropriate collateral.

At reporting date, the Bank's credit risk exposure to derivative financial instruments classified as at fair value through profit or loss is presented by the positive fair value of these instruments, as recorded in the report of financial position. Notional amounts disclosed in the notes to the financial reports do not represent the amounts to be exchanged by the parties in derivative transactions and do not measure the Bank's exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The Bank is exposed to credit risk primarily through loans and receivables from customers. The amount of credit exposure in this regard, as well as held to maturity debt securities recognized at amortized cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to the credit risk through off-balance sheet items, i.e. through commitments arising from unused facilities and guarantees issued, as disclosed in Note 39.

Credit risk management comprises assessment of placements' credit risk, subsequent monitoring, supervision, and evaluation of recoverability of placements and off-balance sheet commitments, as well as formation of required impairments and provisions for identified losses on placements and off-balance sheet commitments, and reporting to the Management Board of the Bank.

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

Assessment of the individual credit risk exposure comprises the following:

- debtors' creditworthiness,
- debtors' timeliness in meeting their obligations,
- collateral quality.

Monitoring of credit risk includes continuous assessment whether elements exist which would indicate a deterioration of the client’s financial position, the client’s exposure to currency risk or an increase in risk due to the decrease of collateral value.

2.1.1. Classification of Exposures in Risk Stages

The Bank classifies placements into risk stages depending on the expected loss in the amount of the principal of the placement, and in accordance with the Decision on Classification of Exposures into Risk Stages and the manner of determining credit losses.

All placements that the Bank estimate are not in the default status are classified into risk stage A. Moreover, in accordance with IFRS 9, the Bank places into sub-stage A-1 the placements for which it is determined that after initial recognition the credit risk of each customer’s exposure had not significantly increased, and into sub-stage A-2 the placements for which it is determined that after initial recognition the credit risk of customer’s exposure had significantly increased. The Bank for these exposures carries out corresponding impairments and make provisions of exposure in the amount equal to expected credit losses in a 12-month period for sub-stage A-1, that is expected credit losses during lifetime for sub-stage A-2. Placements that the Bank estimates are partly recoverable are classified into risk stage B, depending on the loss percentage: into sub-stage B1 (loss is estimated at below 30% of nominal carrying value of the placement), into sub-stage B2 (loss is estimated at between 30% and 70% of nominal carrying value of the placement), and into sub-stage B3 (loss is estimated at above 70%, but below 100% of nominal carrying value of the placement). Placements estimated to be fully irrecoverable are classified into risk stage C.

2.1.2. Placement Impairment Policy

The impairment estimation of the Bank is based on the International Financial Reporting Standard 9 (IFRS 9), whereby the Bank analyzes quantitative and qualitative information.

Credit risk analysis is comprehensive, and it is based on multiple indicators, i.e. is a certain indicator important and could its importance compare with other indicators depending on the type of product, financial assets' features, customer etc. However, some indicators are impossible to determine on individual instrument level and in such case the Bank estimates the indicators for certain parts of financial instruments portfolio.

Furthermore, credit quality analysis predicts for every reporting date the comparison of credit quality of financial instrument at the moment of recognition and at the moment of initial recognition or acquisition, all with the intention of determining if the criteria for classification into "Stage 2" were met.

The Bank differentiates the criteria in order to mark significant increase of credit risk in accordance with different exposure portfolios:

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.2. Placement Impairment Policy (continued)

a) Exposure portfolio towards retail
   - Existence of due debt over 30 days
   - Customer blockade longer than 10 days
   - Other exposure (total < 20% of total customer exposure) in default status

b) Exposure portfolio towards legal persons
   - Existence of due debt over 30 days
   - Customer blockade longer than 10 days
   - Decrease in financial position

c) Exposure portfolio towards central states and banking financial institutions
   - Change (decrease) in customer's credit rating

In addition, while estimating expected losses an important element is also including future factors through macroeconomic scenarios.

Key data for measuring expected credit losses are the following variables:
- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD).
- Expected credit losses for exposures (ECL) in "Stage 1" are calculated as product of 12-month PD, LGD and EAD-a.

Expected credit losses for exposures (ECL) in "Stage 2", that is lifetime expected credit losses are calculated as product of lifetime PD, LGD and EAD discounted at reporting date.

Considering the criteria used at estimating recoverable amount of a placement, the Bank separates the placements to small loans portfolio placements and non-small loans portfolio placements.

Small loans portfolio placements are total placements and off-balance liabilities to one customer or group of related persons for which the total balance is in the gross amount (without impairment or provision) at estimation date lower than HRK 1,000,000.00.

The Bank in general estimates the recoverability of placements to physical persons in accordance with criteria for estimating recoverability of small loans portfolio placements and recoverability of placements to legal persons in accordance with criteria for estimating recoverability of non-small loans placements.

The PD risk parameter is modeled by the Bank based on migration matrices for exposures toward legal and physical persons. The value of lifetime PD represents the cumulative value of the PD risk parameter marginal values depending on the exposure tenor. The approach based on external investment rating is simultaneously used for exposures towards financial institutions and central states.

The LGD risk parameter is modeled based on transactions made after default status date by vintage analysis for exposures toward legal and physical persons. Vintage intervals are defined on an annual basis. Modeling of the LGD risk parameter for exposures toward central states and financial institutions is based on historic payment rates published by credit rating agencies.

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.2. Placement Impairment Policy (continued)

Modeling of the EAD risk parameter, that is exposure at default depends on the profile of repayment. Calculation of exposure at default is generated monthly and summed annually where necessary.

When estimating expected credit losses for off-balance liabilities, conversion factor 1 is used.

Individual Assessment

The recoverable amount of placements that are not classified within the small loan portfolio of the Bank is estimated on an individual basis according to the following criteria:

- debtors' creditworthiness,
- debtors' timeliness in meeting their obligations, and
- collateral quality.

In this respect, credit rating of the debtor and/ or other parties in the loan business (guarantors, co-debtors etc.) is taken into account, as well as days-past-due in debt settlement and type and appraised value of the available collateral. By taking this into consideration, as well as other available information, including info on significant increase in credit risk, the Bank estimates loan recoverability by evaluating future cash flows arising from the placement, which are discounted and compared with placement’s book value. Required impairments are determined in this way. Bank complies with regulations from *Decision on the Classification of Placements and Off-Balance Sheet Liabilities of Credit Institutions* with respect to procedures for restructured placements, placements whose repayment is based on collateral, placements that are not secured by adequate collateral, as well as other regulations regarding eligibility of collateral and appropriate discount factors used for impairment calculations.

At the beginning of 2021 new regulation entered into force (immanent in Decision on amendments to the Decision implementing the part of Regulation (EU) No 575/2013 pertaining to the valuation of assets and off-balance sheet items and the calculation of own funds and capital requirements and Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 regarding the process of identification of default. The most significant changes are:

- changes in materiality thresholds (absolute threshold amounting to HRK 1.750 for due amounts are replaced with absolute threshold amounting to HRK 750 for retail and absolute threshold amounting to 3.750 HRK for corporate, in addition to introduction of new relative threshold at 1% for all segments,
- changes in days past due counter (the counter starts when due amount exceeds both absolute and relative materiality threshold and counting stops when due amount falls below either absolute or relative materiality threshold).

Described changes did not have material effect on Bank’s asset quality – implementation of the new default definition resulted in increase of NPLs in the amount lower than HRK 20 million in gross exposure.

Portfolio Based Assessment

The Bank estimates the recoverable amount of exposures that are classified on a portfolio basis by having regard principally to the debtors' timeliness in meeting their obligations. In arriving at the recoverable amount, the present value of future cash flows from the placements is estimated by reducing the principal by reference to the loan type and the number of days in default. The following tables present the classification of exposures into risk categories and the allocation of the corresponding impairment losses as a percentage of gross principal.

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.2. Placement Impairment Policy (continued)

Group

%	Loans and Receivables from Customers	Impairment Allowance	Loans and Receivables from Banks	Impairment Allowance	Financial Assets valued at Amortized cost	Impairment Allowance	Balances with the CNB	Impairment Allowance	Fees Receivables	Impairment Allowance
2020										
Stage 1	82.27	10.88	99.87	65.76	56.96	22.74	100.00	-	51.17	1.46
Stage 2	4.68	5.09	-	-	-	-	-	-	3.65	-
Stage 3	13.05	84.03	0.13	34.24	43.04	77.26	-	-	45.19	98.54

%	Loans and Receivables from Customers	Impairment Allowance	Loans and Receivables from Banks	Impairment Allowance	Financial Assets valued at Amortized cost	Impairment Allowance	Balances with the CNB	Impairment Allowance	Fees Receivables	Impairment Allowance
2019										
Stage 1	81.91	8.53	99.80	59.01	57.89	34.63	100.00	-	49.99	-
Stage 2	4.82	4.36	-	-	9.38	15.64	-	-	5.05	-
Stage 3	13.26	87.12	0.20	40.99	32.72	49.74	-	-	44.96	100.00

Banka

%	Loans and Receivables from Customers	Impairment Allowance	Loans and Receivables from Banks	Impairment Allowance	Financial Assets valued at Amortized cost	Impairment Allowance	Balances with the CNB	Impairment Allowance	Fees Receivables	Impairment Allowance
2020										
Stage 1	82.27	10.88	99.87	65.76	56.96	22.74	100.00	-	48.98	1.46
Stage 2	4.68	5.09	-	-	-	-	-	-	3.81	-
Stage 3	13.05	84.03	0.13	34.24	43.04	77.26	-	-	47.21	98.54

%	Loans and Receivables from Customers	Impairment Allowance	Loans and Receivables from Banks	Impairment Allowance	Financial Assets valued at Amortized cost	Impairment Allowance	Balances with the CNB	Impairment Allowance	Fees Receivables	Impairment Allowance
2019										
Stage 1	81.92	8.53	99.80	59.01	57.89	34.63	100.00	-	47.90	-
Stage 2	4.82	4.36	-	-	9.38	15.64	-	-	5.26	-
Stage 3	13.26	87.12	0.20	40.99	32.72	49.74	-	-	46.83	100.00

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

Maximum Exposure to Credit Risk before Consideration of Collateral

The table below shows the maximum exposure of the Group and Bank to credit risk as at December 31, 2020 and December 31, 2019, not considering the collateral, if any. The exposures presented below are net of impairment losses and provisions.

Maximum Exposure		Group		Bank	
		2020	2019	2020	2019
	Note	HRK '000	HRK '000	HRK '000	HRK '000
Giro Account with the CNB and Other Banks	5	3,684,942	2,771,242	3,684,902	2,771,207
Mandatory Reserve with the CNB	6	1,219,157	1,558,207	1,219,157	1,558,207
Loans to and Receivables from Banks	7	379,399	247,640	379,399	247,640
Investments measured at amortized cost	10	1,975	4,300	1,975	4,300
Loans and Receivables from Customers	11	14,722,770	13,334,456	14,722,770	13,339,021
Fees Receivable	18	11,995	13,230	10,937	12,295
Off-Balance Sheet Exposure	39	2,330,948	2,133,541	2,330,948	2,133,893
Undisbursed Lending Commitments		1,932,285	1,741,140	1,932,285	1,741,492
Guarantees		388,819	388,803	388,819	388,803
Other Contingent Liabilities		9,844	3,598	9,844	3,598
Total Credit Exposure		22,351,186	20,062,616	22,350,087	20,066,563

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3. Assets Exposed to Credit Risk

Group

2020	Loans and Receivables from Customers HRK '000	Loans to and Receivables from Banks HRK '000	Financial Assets Valued at Amortized cost HRK '000	Balances with the Croatian National Bank HRK '000	Fees Receivable HRK '000
Stage 1	13,412,293	380,360	1,191	3,465,642	10,965
Stage 2	763,210	-	-	-	782
Stage 3	2,128,229	500	900	-	9,684
Total Gross	16,303,732	380,860	2,092	3,465,642	21,431
Expected losses	(1,328,426)	(500)	(90)	-	(9,296)
Portfolio based expected losses	(252,537)	(960)	(26)	-	(140)
Total expected losses	(1,580,962)	(1,460)	(116)	-	(9,436)
Total	14,722,770	379,399	1,975	3,465,642	11,995

Purchased or issued credit impaired financial assets (POCI) for the Group and the Bank in 2020 for the Group and the Bank amounts to HRK 176,014 thousand.

2019	Loans and Receivables from Customers HRK'000	Loans to and Receivables from Banks HRK'000	Financial Assets Valued at Amortized cost HRK'000	Balances with the Croatian National Bank HRK'000	Fees Receivable HRK'000
Stage 1	12,181,351	248,360	2,665	2,572,770	11,669
Stage 2	717,261	-	432	-	1,179
Stage 3	1,972,093	500	1,506	-	10,494
Total Gross	14,870,705	248,860	4,603	2,572,770	23,342
Expected losses	(1,338,416)	(500)	(150)	-	(10,112)
Portfolio based expected losses	(197,833)	(720)	(152)	-	-
Total Identified Losses	(1,536,249)	(1,220)	(302)	-	(10,112)
Total	13,334,457	247,640	4,300	2,572,770	13,230

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3. Assets Exposed to Credit Risk (continued)

Banka

2020	Loans and Receivables from Customers HRK'000	Loans to and Receivables from Banks HRK'000	Financial Assets Valued at Amortized cost HRK'000	Balances with the Croatian National Bank HRK'000	Fees Receivable HRK'000
Stage 1	13,412,293	380,360	1,191	3,465,642	10,047
Stage 2	763,210	-	-	-	782
Stage 3	2,128,229	500	900	-	9,684
Total Gross	16,303,732	380,860	2,092	3,465,642	20,513
Expected losses	(1,328,426)	(500)	(90)	-	(9,436)
Portfolio based expected losses	(252,537)	(960)	(26)	-	(140)
Total expected losses	(1,580,962)	(1,460)	(116)	-	(9,576)
Total	14,722,770	379,399	1,975	3,465,642	10,937

Purchased or issued credit impaired financial assets (POCI) for the Group and the Bank in 2020 for the Group and the Bank amounts to HRK 176,014 thousand.

2019	Loans and Receivables from Customers HRK '000	Loans to and Receivables from Banks HRK '000	Financial Assets Valued at Amortized cost HRK '000	Balances with the Croatian National Bank HRK '000	Fees Receivable HRK '000
Stage 1	12,185,916	248,360	2,665	2,572,770	10,734
Stage 2	717,261	-	432	-	1,179
Stage 3	1,972,093	500	1,506	-	10,494
Total Gross	14,875,916	248,860	4,603	2,572,770	22,407
Expected losses	(1,338,416)	(500)	(150)	-	(10,112)
Portfolio based expected losses	(197,833)	(720)	(152)	-	-
Total expected losses	(1,536,249)	(1,220)	(302)	-	(10,112)
Total	13,339,022	247,640	4,300	2,572,770	12,295

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3. Assets Exposed to Credit Risk (continued)

In accordance with applicable acts, the Bank utilizes the following common types of collateral: bank guarantees; HAMAG-BICRO (Croatian Agency for SMEs, Innovation and Investments) and other corporate guarantees; bills of exchange accepted by a bank; pledged property and equipment; insurance policies; pledged shares, bonds, commercial papers, and units in open-ended investment funds; assignment of receivables (cessions) from corporate clients and the Government; pledged concessions; pledged industrial and intellectual property; and other common financial execution instruments, such as bills of exchange and promissory notes.

Collateral value is reviewed along the lines of internal policies and procedures, and in accordance with good business practice, current market trends as well as the Decision on Classifying Placements and Off-Balance Sheet Liabilities of Credit Institutions. Collateral value in the table below relates to recorded collateral value based on valuation made by certified appraisers without adjustments for discount factors but excluding burdens listed before the Bank and limiting to the amount of exposure which it collateralizes.

Bank		2020	2019
Asset Type	Collateral Type	HRK '000	HRK '000
Loans to and Receivables from Customers			
	Deposits	87,493	145,748
	Debt Securities	28,264	44,369
	Guarantees and Warranties of the Republic of Croatia	2,035,886	1,125,445
	Real Estate –Non-Business Purposes	3,643,135	3,043,748
	Real Estate – Business Purposes	1,779,371	1,796,456
	Movable Property (equipment, supplies, vehicles, ships etc.)	212,055	170,761
	Equity Investments (Single-Stocks and Funds)	101,454	179,865
	Land	233,352	214,789
Total		8,121,010	6,721,182

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3. Assets Exposed to Credit Risk (continued)

Below is presented an overview of due and not yet due receivables aging structure based on days-past-due, with regard to the principal of the loans:

Group in HRK '000	Total	Undue Exposure to Credit Risk	Days Past Due 1-30	Days Past Due 31-60	Days Past Due 61-90	Days Past Due 91-180	Days Past Due 180+
31 December 2020							
Government	2,488,235	2,486,447	1,779	-	-	-	9
Other Corporate Clients	5,765,086	4,988,574	26,328	1,479	1,349	2,266	745,090
Retail	7,923,399	7,458,552	9,057	4,294	3,034	5,044	443,418
Total	16,176,719	14,933,573	37,164	5,773	4,383	7,310	1,188,516
31 December 2019							
Government	2,214,862	2,207,222	7,394	-	-	-	245
Other Corporate Clients	5,322,046	4,425,880	12,895	2,558	12,707	14,683	853,324
Retail	7,204,883	6,767,018	8,822	6,368	22,885	6,578	393,213
Total	14,741,791	13,400,120	29,111	8,926	35,591	21,261	1,246,782

Bank in HRK '000	Total	Undue Exposure to Credit Risk	Days Past Due 1-30	Days Past Due 31-60	Days Past Due 61-90	Days Past Due 91-180	Days Past Due 180+
31 December 2020							
Government	2,488,235	2,486,447	1,779	-	-	-	9
Other Corporate Clients	5,765,086	4,988,574	26,328	1,479	1,349	2,266	745,090
Retail	7,923,399	7,458,552	9,057	4,294	3,034	5,044	443,418
Total	16,176,719	14,933,573	37,164	5,773	4,383	7,310	1,188,516
31 December 2019							
Government	2,214,862	2,207,222	7,394	-	-	-	245
Other Corporate Clients	5,326,611	4,430,445	12,895	2,558	12,707	14,683	853,324
Retail	7,204,883	6,767,018	8,822	6,368	22,885	6,578	393,213
Total	14,746,356	13,404,685	29,111	8,926	35,591	21,261	1,246,782

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3. Assets Exposed to Credit Risk (continued)

The gross amount of fully recoverable placements, where a payment delay of more than 90 days has not been established and no impairment allowance is made on an individual basis at the date of preparation of the financial statements and the coverage of the relevant collateral at its fair value, expressed as a percentage of net loans is as follows:

(a) Stage 1 – expected credit losses in 12 months (risk category A1)

Group 2020 HRK '000	Government Units	Financial Institutions (Excl. Banks)	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total Loans and Receivables from Customers	Loans to and Receivables from Banks	Financial Assets valued at Amortized cost	Balances with the Croatian National Bank	Fees Receivable
Gross Placements	3,900,645	-	2,438,584	3,636,781	36,589	115,622	3,284,072	13,412,293	380,360	1,191	3,465,642	10,965
Expected Portfolio Based Losses	(50,029)	-	(31,277)	(46,645)	(469)	(1,483)	(42,121)	(172,023)	(960)	(26)	-	(140)
Net Placements	3,850,616	-	2,407,307	3,590,136	36,120	114,139	3,241,951	13,240,270	379,399	1,165	3,465,642	10,825
Collateral Value	1,415,781	-	1,616,974	3,301,924	35,643	31	237,156	6,607,509	-	-	-	-
Collateral Coverage (%)	36.77	-	67.17	91.97	98.68	0.03	7.32	49.90	-	-	-	-

Group 2019 HRK '000	Government Units	Financial Institutions (Excl, Banks)	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total Loans and Receivables from Customers	Loans to and Receivables from Banks	Financial Assets valued at Amortized cost	Balances with the Croatian National Bank	Fees Receivable
Gross Placements	2,821,180	-	2,630,217	2,864,683	33,374	110,015	3,721,882	12,181,351	248,360	2,665	2,572,770	11,669
Expected Portfolio Based Losses	(30,310)	-	(28,312)	(30,782)	(359)	(1,182)	(39,994)	(130,939)	(720)	(105)	-	-
Net Placements	2,790,407	-	2,601,905	2,833,901	33,015	108,833	3,681,888	12,049,949	247,640	2,560	2,572,770	11,669
Collateral Value	608,386	-	1,575,037	2,648,520	33,374	26	467,113	5,332,456	-	-	-	-
Collateral Coverage (%)	21.80	-	60.53	93.46	101.09	0.02	12.69	44.25	-	-	-	-

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3. Assets Exposed to Credit Risk (continued)

(a) Stage 1 – expected credit losses in 12 months (risk category A1)

Bank 2020 HRK '000	Government Units	Financial Institutions (Excl. Banks)	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total Loans and Receivables from Customers	Loans to and Receivables from Banks	Financial Assets valued at Amortized cost	Balances with the Croatian National Bank	Fees Receivable
Gross Placements	3,900,645	-	2,438,584	3,636,781	36,589	115,622	3,284,072	13,412,293	380,360	1,191	3,465,642	10,047
Expected Portfolio Based Losses	(50,029)	-	(31,277)	(46,645)	(469)	(1,483)	(42,121)	(172,023)	(960)	(26)	-	(140)
Net Placements	3,850,616	-	2,407,307	3,590,136	36,120	114,139	3,241,951	13,240,270	379,399	1,165	3,465,642	9,907
Collateral Value	1,415,781	-	1,616,974	3,301,924	35,643	31	237,156	6,607,509	-	-	-	-
Collateral Coverage (%)	36.77	-	67.17	91.97	98.68	-	7.32	49.90	-	-	-	-

Bank 2019 HRK '000	Government Units	Financial Institutions (Excl, Banks)	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total Loans and Receivables from Customers	Loans to and Receivables from Banks	Financial Assets valued at Amortized cost	Balances with the Croatian National Bank	Fees Receivable
Gross Placements	2,821,180	-	2,634,782	2,864,683	33,374	110,015	3,721,882	12,185,916	248,360	2,665	2,572,770	10,734
Expected Portfolio Based Losses	(30,310)	-	(28,312)	(30,782)	(359)	(1,182)	(39,994)	(130,939)	(720)	(105)	-	-
Net Placements	2,790,407	-	2,606,470	2,833,901	33,015	108,833	3,681,888	12,054,514	247,640	2,560	2,572,770	10,734
Collateral Value	608,386	-	1,575,037	2,648,520	33,374	26	467,113	5,332,456	-	-	-	-
Collateral Coverage (%)	21.80	-	60.43	93.46	101.09	-	12.69	44.24	-	-	-	-

2. RISK MANAGEMENT (continued))

2.1. Credit risk (continued)

2.1.3. Assets Exposed to Credit Risk (continued)

(b) Stage 2 – lifetime expected credit losses (risk category A2)

The gross balance and the coverage of those assets with collateral at fair value, presented as a percentage of net placements is as follows:

Group 2020 HRK '000	Government units	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	Total	Fee receivables
Gross Amount	9,861	480,302	55,684	1,102	3,257	213,004	763,210	782
Total Portfolio Based Losses	(1,040)	(50,669)	(5,874)	(116)	(344)	(22,470)	(80,513)	-
Net Amount	8,821	429,633	49,810	986	2,913	190,534	682,697	782
Collateral Value	-	396,591	53,390	1,031	-	46,924	497,936	-
Collateral Coverage (%)	-	92.31	107.19	104.59	-	24.63	72.94	-

Group 2019 HRK '000	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	Total	Financial assets at amortized cost	Fee receivables
Gross Amount	333,366	97,744	1,389	2,683	282,079	717,261	432	1,179
Total Portfolio Based Losses	(31,091)	(9,116)	(130)	(250)	(26,308)	(66,894)	(47)	-
Net Amount	302,275	88,628	1,259	2,433	255,771	650,367	385	1,179
Collateral Value	312,456	92,810	1,079	-	75,907	482,252	-	-
Collateral Coverage (%)	103.37	104.72	85.67	-	29.68	74.15	-	-

Bank 2020 HRK '000	Government units	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	Total	Fee receivables
Gross Amount	9,861	480,302	55,684	1,102	3,257	213,004	763,210	782
Total Portfolio Based Losses	(1,040)	(50,669)	(5,874)	(116)	(344)	(22,470)	(80,513)	-
Net Amount	8,821	429,633	49,810	986	2,913	190,534	682,697	782
Collateral Value	-	396,591	53,390	1,031	-	46,924	497,936	-
Collateral Coverage (%)	-	92.31	107.19	104.59	-	24.63	72.94	-

Bank 2019 HRK '000	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	Total	Financial assets at amortized cost	Fee receivables
Gross Amount	333,366	97,744	1,389	2,683	282,079	717,261	432	1,179
Total Portfolio Based Losses	(31,091)	(9,116)	(130)	(250)	(26,308)	(66,894)	(47)	-
Net Amount	302,275	88,628	1,259	2,433	255,771	650,367	385	1,179
Collateral Value	312,456	92,810	1,079	-	75,907	482,252	-	-
Collateral Coverage (%)	103.37	104.72	85.67	-	29.68	74.15	-	-

2. RISK MANAGEMENT (continued))

2.1. Credit risk (continued)

2.1.3. Assets Exposed to Credit Risk (continued)

(b) Stage 3 – default status (risk categories B and C)

Tables below show the amount of loans with impairments, both individual and portfolio based, as well as coverage of these placements by corresponding collateral at fair value in percentage and in relation to net placements as following:

Group 2020 HRK '000	Loans to Customers						Loans to and Receivables from Banks	Financial Assets valued at Amortized cost	Fees Receivable
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total			
Gross Amount	1,461,779	51,656	81,982	18,815	513,997	2,128,229	500	900	9,684
Total Expected Losses	(815,137)	(16,719)	(71,532)	(15,149)	(409,888)	(1,328,425)	(500)	(90)	(9,296)
Net Amount	646,642	34,937	10,450	3,666	104,109	799,804	-	810	388
Collateral Value	897,338	45,574	36,489	-	36,166	1,015,567	-	-	-
Collateral Coverage (%)	138.77	130.45	349.18	-	34.74	126.98	-	-	-

Group 2019 HRK '000	Loans to Customers						Loans to and Receivables from Banks	Financial Assets valued at Amortized cost	Fees Receivable
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total			
Gross Amount	1,191,932	57,484	81,467	14,823	626,387	1,972,093	500	1,506	10,494
Total Expected Losses	(795,170)	(14,869)	(72,408)	(12,833)	(443,136)	(1,338,416)	(500)	(151)	(10,112)
Net Amount	396,762	42,615	9,059	1,990	183,251	633,677	-	1,355	382
Collateral Value	663,196	52,362	35,601	-	135,235	886,394	-	-	-
Collateral Coverage (%)	167.15	122.87	392.99	-	73.80	139.88	-	-	-

2. RISK MANAGEMENT (continued))

2.1. Credit risk (continued)

2.1.3. Assets Exposed to Credit Risk (continued)

(c) Stage 3 – default status (risk categories B and C) (continued)

Bank 2020 HRK '000	Loans to Customers						Loans to and Receivables from Banks	Financial Assets valued at Amortized cost	Fees Receivable
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total			
Gross Amount	1,461,779	51,656	81,982	18,815	513,997	2,128,229	500	900	9,684
Total Expected Losses	(815,137)	(16,719)	(71,532)	(15,149)	(409,888)	(1,328,425)	(500)	(90)	(9,436)
Net Amount	646,642	34,937	10,450	3,666	104,109	799,804	-	810	248
Collateral Value	897,338	45,574	36,489	-	36,166	1,015,567	-	-	-
Collateral Coverage (%)	138.77	130.45	349.18	-	34.74	126.98	-	-	-

Bank 2019 HRK '000	Loans to Customers						Loans to and Receivables from Banks	Financial Assets valued at Amortized cost	Fees Receivable
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	Total			
Gross Amount	1,191,932	57,484	81,467	14,823	626,387	1,972,093	500	1,506	10,494
Total Expected Losses	(795,170)	(14,869)	(72,408)	(12,833)	(443,136)	(1,338,416)	(500)	(151)	(10,112)
Net Amount	396,762	42,615	9,059	1,990	183,251	633,677	-	1,355	382
Collateral Value	663,196	52,362	35,601	-	135,235	886,394	-	-	-
Collateral Coverage (%)	167.15	122.87	392.99	-	73.80	139.88	-	-	-

2. RISK MANAGEMENT (continued))

2.1. Credit risk (continued)

2.1.3. Assets Exposed to Credit Risk (continued)

(d) Prolonged and rescheduled loans to customers

Prolongation of a loan is approved to customers because of common and current financing needs of their business activities. Loans are most often rescheduled when borrowers' business operations are disrupted, with considerable changes made to the previously agreed lending terms and conditions.

Bank	2020 HRK '000	2019 HRK '000
Gross Loans to Customers		
Corporate	436,366	619,551
Retail	98,222	113,931
Total	534,588	733,482

2.1.4. Credit Risk Concentration by Industry

An analysis of the concentration of credit risk by industry is presented in the table below:

		Group
	2020 HRK '000	2019 HRK '000
Public administration, Defense and Compulsory Social Security	2,407,505	2,152,138
Manufacturing	1,106,070	1,130,326
Construction	1,779,478	1,104,932
Transportation and Storage	587,731	591,545
Wholesale and Retail Trade; Motor Vehicles and Motorcycles Repair	641,535	772,066
Professional, Scientific and Technical Activities	173,641	181,206
Accommodation and Food Service Activities	512,851	451,771
Agriculture, Forestry and Fishing	179,206	218,525
Information and Communications	154,581	190,984
Electricity and Gas Supply and Air-Conditioning	273,591	296,928
Arts, Entertainment and Recreation	78,080	67,778
Administrative and Auxiliary Services	55,100	69,398
Other	339,047	338,390
Total Gross Corporate Loans	8,288,416	7,565,988
Gross Retail Loans	7,888,303	7,175,803
Collateralized	8,121,012	6,701,102
Accrued Interests	127,013	128,914
Provision for Impairment Losses	(1,580,962)	(1,536,249)
Total	14,722,770	13,334,456

2. RISK MANAGEMENT (continued))

2.1. Credit risk (continued)

2.1.4 Credit Risk Concentration by Industry (continued)

		Bank
	2020 HRK '000	2019 HRK '000
Public administration, Defense and Compulsory Social Security	2,407,505	2,152,138
Manufacturing	1,106,070	1,130,326
Construction	1,779,478	1,104,932
Transportation and Storage	587,731	591,545
Wholesale and Retail Trade; Motor Vehicles and Motorcycles Repair	641,535	772,066
Professional, Scientific and Technical Activities	173,641	181,206
Accommodation and Food Service Activities	512,851	451,771
Agriculture, Forestry and Fishing	179,206	218,525
Information and Communications	154,581	190,984
Electricity and Gas Supply and Air-Conditioning	273,591	296,928
Arts, Entertainment and Recreation	78,080	67,778
Administrative and Auxiliary Services	55,100	69,398
Other	339,047	342,955
Total Gross Corporate Loans	8,288,416	7,570,553
Gross Retail Loans	7,888,303	7,175,803
Collateralized	8,121,012	6,701,102
Accrued Interests	127,013	128,914
Provision for Impairment Losses	(1,580,962)	(1,536,249)
Total	14,722,770	13,339,021

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of its positions. The main categories of liquidity risk to which the Bank is exposed are as follows:

- liquidity funding risk (structural liquidity risk): risk that the Bank will not be able to meet efficiently its expected and unexpected present and future cash and collateral requirements without impacting its day-to-day operations or its own financial result,
- market liquidity risk, risk that the Bank will not be able to offset its positions or liquidate positions at market price due to a market disturbance or the market being insufficiently deep.

The Bank manages liquidity risk in accordance with the legal and regulatory requirements. In addition to those requirements, liquidity risk management is governed by the following internal regulations:

- Risk Management Policy,
- Liquidity Risk Management Manual.

The system for managing liquidity risk, in line with defined polices, includes:

- estimation and measurement of liquidity risk exposure;
- setting liquidity risk exposure limits,
- reporting and monitoring the limits used,
- the mechanism for the distribution of liquidity costs and benefits,
- control function.

Liquidity risk management is realized through:

- operational management of daily liquidity,
- operational management of short-term liquidity,
- structural liquidity management.

Operational management of daily and short-term liquidity is performed through:

- maintenance, planning and projecting coverage coefficient (LCR) within prescribed limit

Structural liquidity management is performed through:

- maintaining positions in accordance with liquidity risk exposure limits,
- maintaining of Net Stable Funding Ratio (NSFR) in accordance with defined limits;
- diversification of sources of funding.

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk (continued)

Strategic Risks and Risk Control Division is reporting monthly about liquidity risk and liquidity risk exposure limits during sessions of Assets and Liabilities Management Committee.
The Bank submits to the Croatian National Bank a monthly regulatory report on liquidity coverage. The prescribed quantitative requirements include: the amount of liquid assets (C72), the amount of potential outflows (C73), the amount of potential inflows (C74) and the calculation of liquidity coverage (C76).
The Bank kept all the positions for which regulatory limits were imposed during 2019 within the limits of prescribed regulatory limits. The Bank maintains a compulsory reserve and minimally required foreign currency receivables within the limits prescribed by the Mandatory Reserve Decision and the Decree on minimum required foreign currency receivables.

Financial Markets Division reports monthly to Assets and Liability Management Committee about planned outflows and inflows.

Responsibility for liquidity risk management rests with the Bank's Management Board. The Bank’s Asset and Liability Committee is authorized by the Management Board to manage liquidity risk. The Committee makes decisions and conclusions regarding liquidity management in its sessions. Each sector to which these decisions and conclusions made by the committee relate, is obliged to enact them.

As a part of liquidity risk management system, authority, responsibilities and procedures in conditions of liquidity crisis are determined separately.

The Bank prescribes and implements stress tests of its liquidity. Risk Management Division conducts tests of immunity to stress by taking into account all the factors specific to the Bank (internal factors) and market factors (external factors). The Net Sable Funding Ratio, which is an indicator of the Bank's structural liquidity, as of 31.12.2020 is 151% (2019: 141%). At the same time liquidity coverage ratio landed at 158% (2019: 175%)

Long-term liquidity management is achieved by maintaining positions in accordance with the limits of exposure to liquidity risk, diversification of sources of funding, and monitoring and reporting on stable sources of financing.

2.2.1. Maturity Analysis

A maturity analysis of assets and liabilities, as well as equity, of the Bank and Group, based on their remaining contractual maturity, except for financial assets at fair value through profit and loss that are analyzed as current based on their classification and the Bank’s and Group’s trading intention, as at December 31, 2020 and December 31, 2019, is presented in the tables below.
Although significant negligent maturity mismatches have been reported in the first analyzed periods, the Bank does not expect the outflow of deposits in contractual terms in accordance with its own historical experience and knowledge of the customers.
Non-maturity assets that relate to investments in subsidiaries, real estate and equipment, investment property and intangible assets are presented in the maturity category over 3 years. While financial assets related to investments in stocks and mutual funds, also without maturity, are presented in the maturity category up to 30 days.

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk (continued)

2.2.1. Maturity Analysis (continued)

Group 2020 in HRK '000	0-30 Days	31-90 Days	91-360 Days	1 to 3 Years	Over 3 Years	Total
ASSETS						
Cash and Amounts Due from Banks	3,684,942	-	-	-	-	3,684,942
Mandatory Reserve with the Croatian National Bank	1,219,157	-	-	-	-	1,219,157
Loans to and Receivables from Banks	379,281	18	-	50	50	379,399
Financial Assets at Fair Value through P&L	751,142	6,964	-	-	-	758,106
Financial Assets at FV through OCI	-	30,426	681,070	1,251,452	2,195,087	4,158,035
Financial Assets at Amortized Cost	784	1,191	-	-	-	1,975
Loans to and Receivables from Customers	1,209,165	457,848	2,116,029	2,777,147	8,162,581	14,722,770
Properties and Equipment	-	-	-	-	259,000	259,000
Investment Properties	-	-	-	-	73,430	73,430
Intangible Assets	-	-	-	-	91,231	91,231
Tax Prepayment	-	-	2,714	-	-	2,714
Other Assets	101,584	5,894	5,435	72	34	113,019
TOTAL ASSETS	7,346,055	502,341	2,805,248	4,028,721	10,781,413	25,463,778
LIABILITIES						
Financial Liabilities at FV through P&L	-	21	-	-	-	21
Deposits from Banks	21,258	75,377	-	-	-	96,635
Customer Deposits	16,142,920	1,144,851	2,544,270	1,049,085	229,720	21,110,846
Borrowings	1,094	30,696	112,688	274,219	1,047,944	1,466,641
Provisions for Liabilities and Expenses	39,550	1,386	26,598	32,011	14,713	114,258
Deferred tax liabilities, net	-	-	-	-	23,483	23,483
Tax Liabilities	-	-	-	-	-	-
Other Liabilities	34,642	25,093	27,922	58,393	26,941	172,991
Total Equity	-	-	-	-	2,478,902	2,478,902
TOTAL LIABILITIES, EQUITY AND RESERVES	16,239,460	1,277,424	2,711,482	1,413,708	3,821,703	25,463,778
MATURITY GAP	(8,893,405)	(775,083)	93,766	2,615,013	6,959,711	-
CUMMULATIVE MATURITY GAP	(8,893,405)	(9,668,488)	(9,574,722)	(6,959,709)	-	-
OFF-BALANCE	*502,398*	*585,551*	*933,660*	*153,375*	*413,718*	*2,588,702*
Derivatives	-	*257,754*	-	-	-	*257,754*
Off-Balance Contingent Liabilities	*502,398*	*327,797*	*933,660*	*153,375*	*413,718*	*2,330,948*

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk (continued)

2.2.1. Maturity Analysis (continued)

Group 2019 in HRK '000	0-30 Days	31-90 Days	91-360 Days	1 to 3 Years	Over 3 Years	Total
ASSETS						
Cash and Amounts Due from Banks	2,771,242	-	-	-	-	2,771,242
Mandatory Reserve with the Croatian National Bank	1,558,207	-	-	-	-	1,558,207
Loans to and Receivables from Banks	246,870	34	-	50	686	247,640
Financial Assets at Fair Value through P&L	626,789	7,281	-	-	-	634,070
Financial Assets at FV through OCI	-	44,971	561,126	1,584,085	2,450,023	4,640,205
Financial Assets at Amortized Cost	2,361	-	1,939	-	-	4,300
Loans to and Receivables from Customers	1,172,087	405,413	1,720,248	3,107,728	6,928,980	13,334,456
Assets Held for Sale	20,000	-	-	-	-	20,000
Properties and Equipment	-	-	-	-	259,600	259,600
Investment Properties	-	-	-	-	72,759	72,759
Intangible Assets	-	-	-	-	110,130	110,130
Deferred Tax Assets, Net	-	-	-	-	3,839	3,839
Tax Prepayment	-	-	2,558	-	-	2,558
Other Assets	106,975	2,231	5,223	25	-	114,454
TOTAL ASSETS	6,504,531	459,930	2,291,094	4,691,888	9,826,017	23,773,460
LIABILITIES						
Financial Liabilities at FV through P&L	-	863	-	-	-	863
Deposits from Banks	11,211	5	-	-	-	11,216
Customer Deposits	14,204,916	1,346,117	2,979,481	1,163,494	357,316	20,051,324
Borrowings	71,869	6,235	78,976	196,644	627,451	981,175
Deferred tax liabilities, net	32,723	12,270	108,101	25,766	3,735	182,595
Provisions for Liabilities and Expenses	-	-	-	-	-	-
Tax Liabilities	-	-	-	-	-	-
Other Liabilities	20,510	27,114	32,221	51,426	38,296	169,567
Total Equity	-	-	-	-	2,376,719	2,376,719
TOTAL LIABILITIES AND EQUITY	14,341,229	1,392,604	3,198,779	1,437,330	3,403,517	23,773,460
MATURITY GAP	(7,836,698)	(932,674)	(907,685)	3,254,558	6,422,500	-
CUMMULATIVE MATURITY GAP	(7,836,698)	(8,769,372)	(9,677,057)	(6,422,500)	-	-
OFF-BALANCE	*426,507*	*570,895*	*1,036,076*	*88,674*	*269,494*	*2,391,647*
Derivatives	-	*257,754*	-	-	-	*257,754*
Off-Balance Contingent Liabilities	*426,507*	*313,141*	*1,036,076*	*88,674*	*269,494*	*2,133,893*

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk (continued)

2.2.1. Maturity Analysis (continued)

Bank 2020 in HRK '000	0-30 Days	31-90 Days	91-360 Days	1 to 3 Years	Over 3 Years	Total
ASSETS						
Cash and Amounts Due from Banks	3,684,902	-	-	-	-	3,684,902
Mandatory Reserve with the Croatian National Bank	1,219,157	-	-	-	-	1,219,157
Loans to and Receivables from Banks	379,281	18	-	50	50	379,399
Financial Assets at Fair Value through P&L	751,142	6,964	-	-	-	758,106
Financial Assets at FV through OCI	-	30,426	681,070	1,251,452	2,195,087	4,158,035
Financial Assets at Amortized Cost	784	1,191	-	-	-	1,975
Loans to and Receivables from Customers	1,209,165	457,848	2,116,029	2,777,147	8,162,581	14,722,770
Investment in subsidiaries	-	-	-	-	9,761	9,761
Properties and Equipment	-	-	-	-	258,356	258,356
Investment Properties	-	-	-	-	65,993	65,993
Intangible Assets	-	-	-	-	91,039	91,039
Tax Prepayment	-	-	2,639	-	-	2,639
Other Assets	100,613	5,616	5,406	-	-	111,635
TOTAL ASSETS	7,345,044	502,063	2,805,144	4,028,649	10,782,867	25,463,766
LIABILITIES						
Financial Liabilities at FV through P&L	-	21	-	-	-	21
Deposits from Banks	21,258	75,377	-	-	-	96,635
Customer Deposits	16,150,508	1,144,851	2,544,270	1,049,085	229,720	21,118,434
Borrowings	1,094	30,696	112,688	274,219	1,047,944	1,466,641
Provisions for Liabilities and Expenses	39,550	1,386	26,598	32,011	14,713	114,258
Deferred tax liabilities, net	-	-	-	-	23,483	23,483
Other Liabilities	33,795	24,988	27,702	57,764	26,941	171,190
Total Equity	-	-	-	-	2,473,104	2,473,104
TOTAL LIABILITIES, EQUITY AND RESERVES	16,246,205	1,277,319	2,711,258	1,413,079	3,815,905	25,463,766
MATURITY GAP	(8,901,161)	(775,256)	93,886	2,615,570	6,966,962	-
CUMMULATIVE MATURITY GAP	(8,901,161)	(9,676,417)	(9,582,531)	(6,966,961)	-	-
OFF-BALANCE	*502,398*	*585,551*	*933,660*	*153,375*	*413,718*	*2,588,702*
Derivatives	-	*257,754*	-	-	-	*257,754*
Off-Balance Contingent Liabilities	*502,398*	*327,797*	*933,660*	*153,375*	*413,718*	*2,330,948*

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk (continued)

2.2.1. Maturity Analysis (continued)

Bank 2019 in HRK '000	0-30 Days	31-90 Days	91-360 Days	1 to 3 Years	Over 3 Years	Total
ASSETS						
Cash and Amounts Due from Banks	2,771,207	-	-	-	-	2,771,207
Mandatory Reserve with the Croatian National Bank	1,558,207	-	-	-	-	1,558,207
Loans to and Receivables from Banks	246,870	34	-	50	686	247,640
Financial Assets at Fair Value through P&L	626,789	7,281	-	-	-	634,070
Financial Assets at FV through OCI	-	44,971	561,126	1,584,085	2,450,023	4,640,205
Financial Assets at Amortized Cost	2,361	-	1,939	-	-	4,300
Loans to and Receivables from Customers	1,172,136	405,511	1,720,696	3,109,657	6,931,021	13,339,021
Assets Held for Sale	20,000	-	-	-	-	20,000
Investment in subsidiaries	-	-	-	-	5,490	5,490
Properties and Equipment	-	-	-	-	259,531	259,531
Investment Properties	-	-	-	-	64,899	64,899
Intangible Assets	-	-	-	-	109,096	109,096
Deferred Tax Assets, Net	-	-	-	-	3,839	3,839
Tax Prepayment	-	-	2,514	-	-	2,514
Other Assets	105,980	2,070	5,088	-	-	113,138
TOTAL ASSETS	6,503,550	459,867	2,291,363	4,693,792	9,824,585	23,773,157
LIABILITIES						
Financial Liabilities at FV through P&L	-	863	-	-	-	863
Deposits from Banks	11,211	5	-	-	-	11,216
Customer Deposits	14,213,085	1,346,118	2,979,481	1,163,494	357,316	20,059,494
Borrowings	71,869	6,235	78,976	196,644	627,451	981,175
Provisions for Liabilities and Expenses	32,723	12,270	108,101	25,766	3,735	182,595
Other Liabilities	19,317	27,066	32,008	51,044	38,167	167,602
Total Equity and Reserves	-	-	-	-	2,370,212	2,370,212
TOTAL LIABILITIES AND EQUITY	14,348,205	1,392,557	3,198,566	1,436,948	3,396,881	23,773,157
MATURITY GAP	(7,844,655)	(932,690)	(907,203)	3,256,844	6,427,704	-
CUMMULATIVE MATURITY GAP	(7,844,655)	(8,777,345)	(9,684,548)	(6,427,704)	-	-
OFF-BALANCE SHEET	*426,507*	*570,895*	*1,036,076*	*88,674*	*269,494*	*2,391,647*
Derivatives	-	*257,754*	-	-	-	*257,754*
Off-Balance Contingent Liabilities	*426,507*	*313,141*	*1,036,076*	*88,674*	*269,494*	*2,133,893*

2. RISK MANAGEMENT (continued)

2.3. Market Risk

The exposure to market risk occurs in balance sheet and off-balance sheet positions recognized at market (fair) value:

- financial assets at fair value through profit and loss account,
- financial assets at fair value through other comprehensive income,
- positions denominated in foreign currency (including placements and liabilities linked to foreign currencies).

All trading instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous (i.e. impaired). Trading financial instruments are recognized at fair value, and all changes in market conditions directly affect trading income. The Bank manages their use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed through acquisitions or disposals of financial instruments in accordance with the risk limits set in Market Risk Management Guidelines.

Market risk management of the Bank is conducted in accordance with regulatory requirements, as is defined by internal policies and procedures regarding market risks which are regularly revised by the Risk Management Division.

Strategic Risks and Risk Control Division daily calculates market risk exposure figures, usage of exposure to market risk limits and capital requirements for exposure to market risks.

In the measurement of the market risk exposure, the Bank relies on regulations set out by the Croatian National Bank and monitors:

- Capital requirement calculated by the standard method calculated in accordance with the Directive (EU) no. 575/2013 of European Parliament and Council,
- Value at Risk (VaR) which represents the maximum potential loss that the Bank could incur as a result of changes in market risk factors (interest rates, exchange rate and share prices) for a period of retaining the same position for 10 days at statistical accuracy of 99%. VaR is calculated at the end of the day and does not include daily exposure arising from a change in position. To calculate VaR, a database containing 250 historical figures is used,

In addition, the Bank uses the following internally prescribed measures in measuring exposure to debt instrument position risks:

- Duration (measure of the sensitivity of debt security prices to changes in interest rates),
- PV01 which represents the decline of portfolio value in a scenario where interest rates increase by 0.01%.

Strategic Risks and Risk Control Division reports daily to the Financial Markets Division on the usage of market risk exposure limits, daily to the Financial Management Division regarding the capital requirements for currency risk and position risks, and monthly to the Assets and Liabilities Management Committee on market risk exposure.

2. RISK MANAGEMENT (continued)

2.3. Market Risk (continued)

a) Financial assets at fair value through profit and loss account

The table below shows the movements in those measures at December 31, 2020 and December 31, 2019.

2020	Position HRK'000	VaR
FX Risk	7,543	(116)
Debt Securities Position Risk	623,917	(3,855)
Equity Securities Position Risk	24,254	(2,345)
Investment Fund Position Risk	71,086	(3,155)
Correlation Effect	-	(4,174)
Market Risk		(5,297)

2019	Position HRK'000	VaR
FX Risk	46,327	(231)
Debt Securities Position Risk	515,940	(6,209)
Equity Securities Position Risk	24,212	(1,393)
Investment Fund Position Risk	71,867	(923)
Correlation Effect	-	3,718
Market Risk		(12,474)

b) Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income consist of debt and equity securities.

The table below shows market value and risk value movements for the portfolio of debt and equity securities at fair value through other comprehensive income.

Debt securities	Market Value HRK'000	VaR HRK'000
2020	4,108,988	(17,734)
2019	4,582,928	(42,344)

Equity securities	Market Value HRK'000	VaR HRK'000
2020	22,614	(5,787)
2019	57,269	(10,286)

2. RISK MANAGEMENT (continued)

2.4. Interest Rate Risk in the Bank's Non-Trading Boo

Interest rate risk in the Bank's non-trading book is a risk which can have a negative effect on economic value of the Bank's book and earnings (net interest income), because of variation of market interest rates. Exposure to interest rate risk in the Bank's non-trading book arises as a consequence of:

- mismatch between assets and liabilities distributed according to the possibility of interest rate change criterion (repricing gaps),
- various natures of interest rates (reference rates) applied by the Bank in arranging its lending and borrowing activities.

The Bank and Group manages interest rate risk in its non-trading book in accordance with the legal and regulatory requirements. In line with the Croatian National Bank's Decision on the Management of Interest rate risk in the Bank's and Group's non-trading book, it is required to submit quarterly reports to the Croatian National Bank about the interest rate risk in the bank's non-trading book.

Apart from those regulations, managing interest rate risk in the Bank's non-trading book is regulated by:

- Risk Management Policy, and
- Manual on Managing Interest Rate Risk in the Bank's non-trading book.

The Manual defines the management process, evaluation methods and measures of exposure to interest rate risk in the Bank's non-trading book, as well as exposure limits, manner and frequency of reporting about the Bank's exposure to that The Bank and Group assesses interest rate risk in the bank's non-trading book by observing this risk from two perspectives:

- Perspective of economic value: a potential market value decrease of the Bank's non-trading book because of interest rate movements in the market,
- Profit perspective: a potential decrease of net interest income because of movements in market interest rates.

Perspective of Economic Value of Capital

While estimating the exposure to the interest rate risk which is derived from the deals with which it is not traded from the perspective of economic value of equity, the Bank is allocating sensitive positions in the bank's book to time zones, distinguishing herein positions with fixed interest rate, variable interest rate and interest rate changeable by the Board decision (administrative interest rate) and assesses change in market value of the bank's book due to simulated changes in interest rates. The Bank calculates the ratio of changes in economic value of the bank's book and regulatory equity and maintains it the level lower than 15%. The change in the economic value of the Bank's book as at 31 December 2020 for the Bank was HRK 48,266 thousand or 2.09% of regulatory capital (2019: HRK 18,643 thousand or 0.84% of regulatory capital.

2. RISK MANAGEMENT (continued)

2.4. Interest Rate Risk in the Bank's Non-Trading Book (continued)

Profit Perspective

The prospect of earnings includes a potential decrease in net interest income in case of changes in interest rates on the market. When calculating interest rate risk from a profit perspective, the Bank applies a simulation of interest rate changes observed over a 12-month period and a potential decrease in net interest income is maintained within the limit of 12% of net interest income for the observed period (from the beginning of the year) projected to annual level The potential change in net interest income at the end of 2020 for the Bank amounts to HRK 40.740 thousand (2019: HRK 24.398 thousand).

Likewise, the Bank conducts a minimum yearly test of stress resistance based on more significant intensity of changes in interest rates.

Strategic Risks and Risk Control Division reports to the Bank for the Management of Interest Rate Risk in the Bank's Book of Assets and Liabilities Management.

2.5. Foreign Exchange Risk

The Bank is exposed to FX risk through transactions in foreign currencies.

Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored daily in accordance with legislation and internally set limits, for each currency and for the total balance sheet denominated in or linked to foreign currency.

The Bank manages their currency risk by setting principles and limits for foreign currency exposures and monitoring exposures against these limits. The Bank directs their business activities towards trying to minimize the gap between assets and liabilities denominated in or linked to a foreign currency and maintaining daily business activities within the internal and regulatory limits.

The Bank is exposed to the risk of fluctuations in the euro exchange rate in non-significant ratios. As at 31 December 2020, the amount of the Bank's assets denominated in euro or in euro-denominated currency amounted to HRK 7,669,193 thousand (2019: the Group and the Bank HRK 7,288,931 thousand). Liabilities of the Group denominated in euro or in euro-denominated currencies amounted to HRK 7,614,650 thousand (2019: the Group and the Bank HRK 7,487,868 thousand). Hence the HRK / EUR exchange rate decrease by 1% (HRK appreciation) would influence the Group's result in income in amount of HRK 545 thousand of income (2019: the Group and the Bank HRK 1,989 thousand of income).

The amounts of total assets and liabilities of the Bank and the Group as at 31 December 2020 and 31 December 2019 in HRK and foreign currencies (amounts denominated in HRK with a foreign currency clause refer mainly to the euro) are presented in the tables below.

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Group 2020 HRK '000	HRK	HRK Linked to Foreign Currencies	EUR	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	2,627,205	-	776,947	280,790	3,684,942
Mandatory Reserve with the Croatian National Bank	1,219,157	-	-	-	1,219,157
Loans to and Receivables from Banks	(861)	-	637	379,623	379,399
Financial Assets at Fair Value through P&L	481,091	273,662	3,353	-	758,106
Financial Assets at Fair Value through OCI	2,298,193	1,276,205	533,647	49,990	4,158,035
Financial Assets at Amortized Cost	1,975	-	-	-	1,975
Loans and Receivables from Customers	9,866,279	4,665,588	133,924	56,979	14,722,770
Assets Held for Sale	-	-	-	-	-
Property and Equipment	259,000	-	-	-	259,000
Investment property	73,430	-	-	-	73,430
Intangible Assets	91,231	-	-	-	91,231
Tax Prepayment	2,714	-	-	-	2,714
Other Assets	107,688	-	5,324	7	113,019
TOTAL ASSETS	17,027,196	6,215,455	1,453,832	767,389	25,463,778
LIABILITIES					
Financial Liabilities at Fair Value through P&L	21	-	-	-	21
Deposits from Banks	12,672	-	77,719	6,244	96,635
Customer Deposits	13,323,909	159,428	6,881,994	745,515	21,110,846
Borrowings	978,800	365,969	121,872	-	1,466,641
Provisions for Liabilities and Expenses	114,258	-	-	-	114,258
Deferred Tax Liabilities, net	23,483	-	-	-	23,483
Other Liabilities	165,064	-	7,668	259	172,991
Total Equity	2,478,902	-	-	-	2,478,902
TOTAL LIABILITIES AND EQUITY	17,097,110	525,397	7,089,253	752,018	25,463,778
NETO VALUTNA NEUSKLAĐENOST	(69,914)	5,689,964	(5,635,421)	15,371	-

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Group 2019 HRK '000	HRK	HRK Linked to Foreign Currencies	EUR	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	1,425,166	-	1,095,682	250,394	2,771,242
Mandatory Reserve with the Croatian National Bank	1,558,207	-	-	-	1,558,207
Loans to and Receivables from Banks	16	-	2,645	244,979	247,640
Financial Assets at Fair Value through P&L	440,396	189,547	3,275	852	634,070
Financial Assets at Fair Value through OCI	2,777,864	1,465,841	343,091	53,409	4,640,205
Financial Assets at Amortized Cost	4,300	-	-	-	4,300
Loans and Receivables from Customers	9,096,151	3,853,167	330,472	54,666	13,334,456
Assets Held for Sale	20,000	-	-	-	20,000
Property and Equipment	259,600	-	-	-	259,600
Investment property	72,759	-	-	-	72,759
Intangible Assets	110,130	-	-	-	110,130
Deferred Tax Assets, Net	3,839	-	-	-	3,839
Tax Prepayment	2,558	-	-	-	2,558
Other Assets	109,240	-	5,211	3	114,454
TOTAL ASSETS	15,880,226	5,508,555	1,780,376	604,303	23,773,460
LIABILITIES					
Financial Liabilities at Fair Value through P&L	49	-	-	814	863
Deposits from Banks	3,402	-	1,579	6,235	11,216
Customer Deposits	12,506,374	241,373	6,748,151	555,426	20,051,324
Borrowings	496,118	368,797	116,260	-	981,175
Provisions for Liabilities and Expenses	182,595	-	-	-	182,595
Other Liabilities	157,737	1	11,642	187	169,567
Total Equity	2,376,719	-	-	-	2,376,719
TOTAL LIABILITIES AND EQUITY	15,722,994	610,171	6,877,632	562,662	23,773,460
NET FOREIGN EXCHANGE POSITION	157,232	4,898,384	(5,097,256)	41,641	-

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Bank 2020 HRK '000	HRK	HRK Linked to Foreign Currencies	EUR	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	2,627,165	-	776,947	280,790	3,684,902
Mandatory Reserve with the Croatian National Bank	1,219,157	-	-	-	1,219,157
Loans to and Receivables from Banks	(861)	-	637	379,623	379,399
Financial Assets at Fair Value through P&L	481,091	273,662	3,353	-	758,106
Financial Assets at Fair Value through OCI	2,298,193	1,276,205	533,647	49,990	4,158,035
Financial Assets at Amortized Cost	1,975	-	-	-	1,975
Loans and Receivables from Customers	9,866,279	4,665,588	133,924	56,979	14,722,770
Investments in Subsidiaries	9,761	-	-	-	9,761
Property and Equipment	258,356	-	-	-	258,356
Investment property	65,993	-	-	-	65,993
Intangible Assets	91,039	-	-	-	91,039
Tax Prepayment	2,639	-	-	-	2,639
Other Assets	106,398	(94)	5,324	7	111,635
TOTAL ASSETS	17,027,184	6,215,361	1,453,832	767,389	25,463,766
LIABILITIES					
Financial Liabilities at Fair Value through P&L	21	-	-	-	21
Deposits from Banks	12,672	-	77,719	6,244	96,635
Customer Deposits	13,331,448	159,428	6,882,040	745,518	21,118,434
Borrowings	978,800	365,969	121,872	-	1,466,641
Provisions for Liabilities and Expenses	114,258	-	-	-	114,258
Deferred Tax Liabilities, net	23,483	-	-	-	23,483
Other Liabilities	163,263	-	7,668	259	171,190
Total Equity	2,473,104	-	-	-	2,473,104
TOTAL LIABILITIES AND EQUITY	17,097,50	525,397	7,089,299	752,021	25,463,766
NET FOREIGN EXCHANGE POSITION	(69,866)	5,689,964	(5,635,467)	15,368	-

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Bank 2019 HRK '000	HRK	HRK Linked to Foreign Currencies	EUR	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	1,425,131	-	1,095,682	250,394	2,771,207
Mandatory Reserve with the Croatian National Bank	1,558,207	-	-	-	1,558,207
Loans to and Receivables from Banks	16	-	2,645	244,979	247,640
Financial Assets at Fair Value through P&L	440,396	189,547	3,275	852	634,070
Financial Assets at Fair Value through OCI	2,777,864	1,465,841	343,091	53,409	4,640,205
Financial Assets at Amortized Cost	4,300	-	-	-	4,300
Loans and Receivables from Customers	9,100,716	3,853,167	330,472	54,666	13,339,021
Assets Held for Sale	20,000	-	-	-	20,000
Investments in Subsidiaries	5,490	-	-	-	5,490
Property and Equipment	259,531	-	-	-	259,531
Investment property	64,899	-	-	-	64,899
Intangible Assets	109,096	-	-	-	109,096
Deferred Tax Assets, Net	3,839	-	-	-	3,839
Tax Prepayment	2,514	-	-	-	2,514
Other Assets	107,924	-	5,211	3	113,139
TOTAL ASSETS	15,879,923	5,508,555	1,780,376	604,303	23,773,157
LIABILITIES					
Financial Liabilities at Fair Value through P&L	49	-	-	814	863
Deposits from Banks	3,402	-	1,579	6,235	11,216
Customer Deposits	12,514,478	241,373	6,748,216	555,427	20,059,494
Borrowings	496,118	368,797	116,260	-	981,175
Provisions for Liabilities and Expenses	182,595	-	-	-	182,595
Other Liabilities	155,772	1	11,642	187	167,602
Total Equity	2,370,212	-	-	-	2,370,212
TOTAL LIABILITIES AND EQUITY	15,722,626	610,171	6,877,697	562,663	23,773,157
NET FOREIGN EXCHANGE POSITION	157,297	4,898,384	(5,097,321)	41,640	-

2. RISK MANAGEMENT (continued)

2.6. Operational Risk Management

Operational risk is inherent to all activities, processes, products and systems of the Bank. The Bank ensures appropriate operational risk management by applying procedures and a system of authorizations and responsibilities specified in detail in its internal by-laws, the Risk Management Policy and the Internal Operational Risk Management Manual as root documents. The operational risk management system has been established through appropriate bodies of the Bank and an efficient internal control system.

The Bank defines operational risk as a risk of an event which, as a consequence, exposes the Bank to financial losses, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk. Significant operational risk is a risk of an event resulting in significant loss because of operational risk.

In order to efficiently manage the overall exposure to operational risk, the Bank applies the following:

- Collecting and analyzing internal data about operational risk events,
- Self-assessment of risks and controls,
- Assessment of information technology risk, and
- Business Impact Analysis of unavailability of key business processes.

The Bank assesses the outsourcing risk as an additional exposure to all significant risks arising from the fact that the Bank does not itself perform the outsourced activities, but rather that those activities are performed by external vendors; hence, the impact of outsourcing on the Bank's risk profile is assessed.

The Bank assesses the impact of introducing a new product on the Bank's risk profile, which includes exposure to all significant risks.

For the purpose of efficient operational risk management, the Bank has set up the Operational Risk Management Committee. Based on the reports on the Bank's exposure to operational risk, the Operational Risk Management Committee draws conclusions and makes decisions about appropriate measures necessary to undertake in order to overmaster the exposure to operational risk.

2.7. Capital Management

Capital requirement calculations are based on exposures to customers classified into the prescribed exposure categories, which are then weighted according to risk depending on the exposure category of the customer (exposure to sovereign debt, to institutions, public bodies, individuals, etc.), remaining maturity, type of collateral (i.e. residential or commercial property), diversification of loans, identified number of days past due and the amount of provisions made.
The Bank manages capital in line with internal capital adequacy assessment (ICAAP). It establishes significant risks to which it is exposed or estimates that it may be exposed, calculate or estimate the required capital requirements for exposure to particular risks and establish the total required (internal) capital for the current and subsequent period in accordance with the business plan. In accordance with capital requirements so expressed, capital planning is carried out whereby items of available capital are considered exclusively to items recognized for the purpose of calculating the regulatory capital.

2. RISK MANAGEMENT (continued)

2.7. Capital Management (continued)

U In planning capital needs it is necessary to take into account capital adequacy, i.e. regulatory capital requirements for exposures to credit, market and operational risk.

Regulatory minimum rate of capital adequacy stipulated by law on 31.12.2020. year is 8 percent. The regulatory obligation to maintain the rate of the protection layer of capital is prescribed for the rate of 2.5 percent (2019: 2.5 percent), the protection layer for the protection of capital of 1.5 percent (2019: 1.5 percent) and protective layer for the structural systemic risk to 1.5 percent (2019: -). In addition, to the Bank was assigned a supervisory protective layer of capital in the total amount of 3,17 percent (2019:3,62 percent).

Therefore, the total regulatory requirements as at 31 December 2020 amounts to 15,67% (2019.: 15,62%).
Below is an overview of regulatory capital movements for the Bank:

Bank	2020	2019
	HRK '000	HRK '000
REGULATORY CAPITAL (unaudited)		
Tier-1 Capital	2,311,562	2,209,224
Common Equity Tier-1 Capital	*2,311,562*	*2,209,224*
Tier-2 Capital	-	-
Total regulatory capital	2,311,562	2,209,224
Credit Risk Exposure Using Standardized Approach	8,876,005	9,159,696
Exposure to FX and Position Risk	275,115	404,600
Exposure to Operational risk	1,444,016	1,389,243
Exposure to Credit Value Adjustment Risk	214	804
Total Risk Exposure	10,595,350	10,954,343
Total Capital Adequacy Ratio	21.82%	20.17%

3. SIGNIFICANT ACCOUNTING ESTIMATES

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Group's portfolio exposed to credit risk represents the major source of estimation uncertainty. This and other key sources of estimations uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment Losses on Loans and Receivables

The Group continuously monitors creditworthiness of its customers. In accordance with the requirements of the CNB, the need to reduce the value of the balance sheet and the provision for off-balance sheet exposure to credit risk is estimated quarterly for large exposures or monthly for a portfolio of exposures below HRK 700 thousand. Impairment losses are mainly recognized in relation to the net book value of loans to legal entities and households (presented in Note 11), and as provisions for liabilities and expenses arising from off-balance sheet exposures to customers, most often in the form of approved guarantees, letters of credit and approved unused loans (presented in notes 23 and 39). Impairment losses are also considered for credit exposure to banks and for other assets not carried at fair value and where the primary impairment risk is not a credit risk. Impairment policy of placements is explained in the note 2.1.2.

Following tables represent the summary of impairment losses of loans to and receivables from customers, as well as provisions for off-balance sheet exposures:

Group	Note	2020 HRK '000	2019 HRK '000
Impairment Losses of Loans to and Receivables from Customers	11	1,580,962	1,536,249
Provisions for Off-Balance Sheet Exposures	23	57,794	40,571
Total		1,638,756	1,576,820

Bank	Note	2020 HRK '000	2019 HRK '000
Impairment Losses on Loans to and Receivables from Customers	11	1,580,962	1,536,249
Provisions for Off-Balance Sheet Exposures	23	43,348	40,571
Total		1,624,310	1,576,820

3. SIGNIFICANT ACCOUNTING ESTIMATE (continued)

Financial Assets at Amortized Cost

The Group estimates creditworthiness of its customers and, in accordance with it, estimates impairment losses per balance sheet exposures and provisions for liabilities related to off-balance potential liabilities, whether exposures with no default status or exposure with default status, whereby relevant CNB regulations are taken into account which prescribe credit losses and is based on the International Financial Reporting Standard 9.

Impairment policy is presented in detail in the note 2.1.2. Placement impairment policy. At the end of the year, gross value of impaired assets placed into risk categories B and C, as well as recognized impairment of these exposures, were as follows:

Group	2020	2019
Gross Exposures (in HRK'000)	2,139,313	1,984,593
Impairment Loss (in HRK'000)	1,338,312	1,348,715
Impairment Rate	62.56%	67.96%

Bank	2020.	2019.
Gross Exposures (in HRK'000)	2,139,313	1,984,593
Impairment Loss (in HRK'000)	1,338,452	1,348,715
Impairment Rate	62.56%	67.96%

Each additional decrease of one percentage point in the impairment rate on the gross portfolio at December 31, 2019 would lead to recognition of additional impairment loss amounting to HRK 21,293 thousand for the Bank and Group (2019: Bank and Group HRK 19,846 thousand).

Market Value of Pledged Property and Foreclosed Asset

As disclosed above (note 2.1.3 (c)), loans and receivables from customers include exposures with a book value of HRK 2,128,229 thousand (2019: the Bank and the Group HRK 1,972,093 thousand) classified by the Group and the Bank as impaired due to the disadvantage of payment, which is secured by a pledge over real property, plant and equipment. In assessing the recoverability of pledges based on real estate in a pledge, the market value of the property in the collateral is reduced and reduced to the present value using the impairment factor and the collection deadlines in accordance with CNB regulation.

Market and book value of investment property

Furthermore, as disclosed in Note 15, real estate investments as at 31 December 2020 include real estate, plant and equipment with a gross book value of HRK 244,796 thousand representing assets acquired in exchange for uncollected receivables. All investments in real estate are valued at fair value less costs to sell. The fair value of such assets is estimated annually on the basis of an independent valuer's estimate, and any impairment loss is recognized in the income statement. Profits on the income statement other than prepayments are recognized at the end of recognition. In the period under review, the Group recognized the impairment loss on the current property in the amount of HRK 8,712 thousand (2019: HRK 11,536 thousand). The net book value of the assets under Investments in Property of the Group as at 31 December 2019

3. SIGNIFICANT ACCOUNTING ESTIMATE (continued)

Market and book value of investment property (continued)

amounts to HRK 73,430 thousand (2019: HRK 72,759 thousand) and HRK 65.993 thousand (2019: HRK 64.899 thousand) to the Bank.
The Bank and Group actively sell repossessed asset taken over for uncollected receivables (classified as investment property) and in 2020 objects and land was sold in total amount of HRK 1,595 thousand (2019: HRK 54 thousand). he Bank and Group during reporting period reported loss for stated property in the amount of HRK 8,712 thousand (2019: HRK 11,536 thousand).

In addition to sales of property the Bank during the reporting period realized sales revenue from repossessed tangible assets in the amount of HRK 2,281 thousand (2019: revenue of HRK 1,019 thousand).

Information on repossessed asset taken over in exchange for uncollected receivables of the Bank and the Group, which are classified within Investment Property, and on hierarchy of fair value measures as at 31 December 2020 and 31 December 2019 is disclosed in the note 15 Investment Property.

Fair value of investment property of the Bank is determined on the basis of valuation in the second half of 2019, with the use of discount marketability factor. Property valuations in 2019 were carried out by M7 Real Estate Croatia d.o.o. Valuators of the company M7 Real Estate Croatia d.o.o. acted as independent court experts during evaluation, which possess necessary expert qualifications and newer experience in evaluating fair value of property and they have neither interest in stated assets nor interests related to the amount of valued property on relevant locations. Fair value is evaluated in accordance with the Property Valuation Law (NN 78/2015) and correspondent Property Valuation Methods Regulation (NN 105/2015), under the prescribed by law and appropriate methods, whereby except for the stated acts, a series of factors are taken into account for determining its market value and marketability. Valuation method was not changed through the year.

Fair Value of Derivatives

Fair value of OTC derivatives that are quoted on active market is determined using their closing market price. For derivatives that are not traded on active markets, Bank determines contractual value applying internally developed models for fair value assessment.

Fair Value of Treasury Bills

The Group determines the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia using an internal model which takes into account their remaining maturity and latest available auction prices of equivalent instruments. As at December 31, 2020, the Group and the Bank had no treasury bills classified as financial assets at fair value through profit or loss (2019. -). The carrying amount of treasury bills classified as financial assets at FV through OCI for the Group and the Bank as at 31 December 2020 amounted to HRK 188,212 thousand (the Bank and the Group in 2019: HRK 129,998 thousand).

Provisions for Court Cases Initiated Against the Bank and the Group

In calculating provisions for court, expenses the Bank and Group discounts expected future cash flows with respect to the liabilities using the CNB’s discount rate.

Taxation

The Bank and Group recognizes tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of tax authorities that are entitled to carry out subsequent inspections of taxpayers’ records.

3. SIGNIFICANT ACCOUNTING ESTIMATE (continued)

Actuarial estimates used in calculating provision for termination benefits and jubilee awards

Termination benefits and jubilee awards expense is determined through actuarial assumptions by using method of projected credit unit. Actuarial estimates are based on several relevant assumptions about discount rates, inflation rates, mortality rates and employee fluctuations rate. As a source for mortality rates Croatian statistics institute data was used and retirement age was individually assessed for each employee using employee's age and total work experience as well as defined retirement prerequisites. Annual termination rate, i.e. fluctuation rate, is 7%, whereas for the employees older than 60 years the fluctuation rate is set up at 0%. For the calculation of gross defined payments provisions of the Law on Income tax in force since 1 January 2021 are taken into account. Used discount rate is 0.7% defined in relation to yields on Croatian government bonds. Source for inflation rate is CNB's publication ("Macroeconomic movements and forecasts") from December 2020 and amounts to 1%.

Provision for termination benefits and jubilee awards as at 31 December 2020 amount HRK 4,047 thousand (2019: HRK 5,696 thousand).

COVID-19 impact on business

Negative impact of COVID-19 pandemic affected all areas of life and business and could be considered the most significant event of 2020 which shook up global economy. In Croatia, due to pandemic, after five years of consecutive growth, the real GDP decreased for 8.4% y-o-y in 2020. Such a strong plummet of GDP is even greater than the one in critical 2009. Besides negative macroeconomic movements and overall decrease in economic activity, implementation of citizens protection measures from virus outbreak resulted in additional extraordinary expenses for the Bank and the Group, incurred in order to ensure unobstructed continuance of doing business and employees and clients health protection. During 2020 Bank's and Group's management faced decision making and business management in the circumstances of exceptional uncertainty which required sharpness and courage, though resulted in various improvements in processes in terms of digitalization of business and more agile approach to processes and projects. Furthermore, in 2020 the Bank has performed noticeably successfully, outperforming last year results and incurred volume increase with decreased usage of capital and achieved most of its operational goals. Despite leaving 2020 behind us, the uncertainty regarding the further progress of the pandemic and pace of economic recovery is setting new challenges in front of management of the Bank and the Group and required further monitoring and assessing the impact on financial position and financial performance.

COVID-19 support measures to clients

In 2020 the Bank granted total of 2,501 payment ease measures to those clients affected by COVID-19 pandemic referring to HRK 2.3 billion of exposure:

- Retail: granted 2,161 measures (HRK 397.1 million exposure) out of which 904 measures remain active as at 31.12.2020 (HRK 179.5 million exposure). Approved payment moratoria cover 5.1% of retail portfolio.
- Corporate: granted 340 measures (HRK 1,914 billion exposure) out of which 159 measures remain active as at 31.12.2020 (HRK 1,029 billion exposure). Approved payment moratoria cover 22.6% of corporate portfolio.

3. SIGNIFICANT ACCOUNTING ESTIMATE (continued)

In accordance with maturity dates of corporate placements which still have active payment moratorium in total exposure of HRK 1,029 billion, it is noticeable that the highest share matures during 2021 (in the amount of HRK 202 million) while the difference with slightly decreasing trend is distributed until 2030.

Assessment of default and risk parameters

In accordance with Guidelines from CNB and EBA, the Bank complies with territorial and industrial framework in approval of payment moratoria on group level:

- Territorial moratoria are determined as general and single measure for all corporate clients doing business on territory of Republic of Croatia, which can prove that their business has been affected by COVID-19 pandemic,
- Industrial moratoria is approved to all corporate clients doing business on territory of Republic of Croatia in the tourist sector and to all corporate clients that are generating 50% or more total revenue in the period between 1.6.2020 and 30.9.2020 (for which there is obvious seasonal influence), and which can prove that their business is affected with COVID-19 pandemic.

While approving payment moratoria the Bank did not use COVID-19 as an indicator of significant increase in credit risk which would result in reclassification of a Client to lower risk group as per currently valid directives and guidelines of the regulator.

Upon the availability of inputs for cash flow calculations the Bank plans to examine every client with granted moratoria on individual level, as part of which the classification would be suggested, whether the financial difficulties are temporary or significant, in relation to which the exposures would be flagged as forborne performing („FB PL“), or forborne non-performing exposures („FB NPL“) and adequately classified as Stage 2 and Stage 3, which activities are planned until 30.6.2021:

- For all corporate clients which have agreed moratoria based on COVID-19 measures, the Bank plans to conduct the analysis of significant increase in credit risk indicators, determine financial position and assess other indicators which signal client's inability to settle its obligations. Based on the assessment the individual decisions will be made regarding eventual reclassification of a client
- All retail clients which utilized COVI9-19 measures, the Bank plans to evaluate on individual basis using standard indicators for classification in risk groups

At present, the above mentioned process is in progress and for clients which were covered by COVID-19 measures, that are processed on individual level (at credit application or at client monitoring), financial position is determined, as well as forborne status, according to which the adequate reclassification is proposed.

Assessment of expected credit loss and quantification of risk parameters

The Banks has adopted comprehensive analysis of credit risk based on multiple indicators both with quantitative as well as qualitative information, where, in addition to days past due indicator, other indicators such as deterioration of financial position, early warning signals or certain concessions approved to the borrower.In addition to previous comes the table presentation of share movement in stages from which it can be seen that approved moratoria did not influence exposures from Stage 2:

3. SIGNIFICANT ACCOUNTING ESTIMATE (continued)

STAGE	31.12.2019	31.3.2020	30.6.2020	30.09.2020	30.11.2020
Stage 1	82.64%	81.67%	82.26%	82.13%	81.41%
Stage 2	4.70%	5.09%	4.54%	4.53%	5.09%
Stage 3	12.66%	13.24%	13.20%	13.33%	13.49%

Upon the distribution of exposures to Stage 2, the maximally avoids overrides of quantitative indicators to lower amounts and does not use reverse engineering in order to realize goal shares per stage.

For 2020 the Bank singled out additional HRK 61.7 million of provision for Stage 1 and Stage 2 portfolio mainly due to new macroeconomic scenario adjusted for COVID-19 by which the performing coverage ratio without central government and financial institutions increased from average 1.85% in 2019 to 2.16% in 2020.

Assessment of COVID-19 impacts on the value of non-financial asset

Real estate owned by the Banks covers real estate held for doing business, repossessed asset for uncollected receivables and investment property. Those real estate are measured at fair value which is determined by independent external appraiser as covered in notes 14 and 15. Despite the fact that in 2020 no significant impairment which would be related to the pandemic, fair value of this category of asset should be monitored in the periods ahead due to uncertainty of subsequent reaction of real estate market on the pandemic. Additionally, negative impact on real estate fair value came from earthquakes in March and in December of 2020, in the areas of central Croatia which were hit by earthquakes.

COVID-19 and financial markets movements

In the period of excessive outbreak of pandemic, significant decrease in share and bond prices was noted, caused by the uncertainty and investors' fears. However, coordinated actions of central banks resulted in restarting significant programs of bond repurchases. Through the activities of EBA and CNB the unstoppable drops in securities prices were prevented issuing additional liquidity which led to the stabilization of markets.

Assessment of COVID-19 impact on the going concern

Negative impact of COVID-19 pandemic is unquestionable for 2020, however successful performance of the Bank in challenging year behind us shows Bank's readiness to properly manage crisis and adapt the business towards new settings. Taking into account all the circumstances in significant accounting estimates in these financial statements as well as taking into account the uncertainty of economic recovery the management of the Bank and the Group with reasonable certainty believes that they will continue to operate profitably in the foreseeable future. As a result, these separate and consolidated financial statements were prepared on a going concern basis.

Earthquakes in 2020

Apart from the COVID-19 pandemic, which affected the entire world, 2020 in the Republic of Croatia was marked with devastating earthquakes which hit Zagreb and its surroundings in March and cities Petrinja and Sisak with their surroundings in December. The Bank suffered damages in terms of temporary closing of offices and material damages of buildings owned by the Bank which resulted in increase in rent expenses for the new office space. The

3. SIGNIFICANT ACCOUNTING ESTIMATE (continued)

damages caused by the earthquakes are measured at tens of millions of kuna but did not have material financial impact on Bank's business in 2020.

The Bank adjusted products and services to client's needs affected by the earthquake and launched new credit line for renewal of residential real estate and opened special account for donations. With a will to help those whose homes were damaged in earthquake which hit Petrinja and large part of middle Croatia, the Bank donated one million kuna to the city of Petrinja.

4. SEGMENT REPORTING

The Group's business segments represent the primary reportable segments. The primary format is based on the Group’s management and internal reporting structure. As the Group does not allocate overhead expenses and equity to segments, segment profitability is not reported.

Business Segments

The Group comprises following primary reportable segments:

- Corporate Banking — Includes loans, deposits and other transactions and balances with corporate customers,

  Corporate banking is divided into two sub-segments:

  - Large companies and public sector
  - Small and medium enterprises

- Retail Banking — Includes loans, deposits, direct (card) business, other transactions with retail customers and uninterrupted functioning and development of all direct distribution channels of products and services of the Bank.

- Financial Markets — Group financing operations and the aggregate liquidity and foreign exchange risk activities in respect of borrowings, transactions with debt securities, use of derivatives and investments in liquid assets. It also includes asset management, securities custody and brokerage services.

- Direct banking — Includes the smooth operation and development of all direct distribution channels of the Bank's products and services and card business.

The Group does not apply internal transfer prices in determining the financial results of segments. Internal transfer prices are a tool which the Group uses in reporting management.

Classification of individual sectors for the purposes of notes on the results and position of segments differs from other parts of the financial reports. This primarily refers to the owner of small enterprises, who are part of Corporate Banking in the report of segmentation, while in the financial reports part of positions related to the Retail Banking.

4. SEGMENT REPORTING (CONTINUED)

Group
2020
HRK '000

	Corporate	Retail	Financial Market	Direct banking	Unallocated	Total
Net Interest Income	152,177	306,757	78,283	-	10	537,227
Net Fees and Commissions Income	57,082	94,487	3,356	13,565	13,224	181,714
Trading and Investment Income	-	-	82,104	-	-	82,104
Other Income	6,121	2,601	(7,336)	-	8,208	9,593
Operating Income	215,380	403,845	156,408	13,565	21,441	810,639
General and Administrative Expenses	(36,011)	(200,210)	(6,507)	(38,492)	(161,764)	(442,985)
Depreciation and Amortization	-	-	-	-	(76,630)	(76,630)
Impairment Losses on Loans and Other Assets	(59,527)	(54,899)	48	-	(6,986)	(121,364)
Provisions for Liabilities and Expenses	-	-	-	-	58,910	(58,910)
Operating Expenses	(95,538)	(255,109)	(6,459)	(38,492)	(186,471)	(582,069)
Profit Before Taxation	119,842	148,736	149,949	(24,927)	(165,030)	228,570
Income Tax	-	-	-	-	(45,186)	(45,186)
Profit for the Year	119,842	148,736	149,949	(24,927)	(210,215)	183,384
Segment Assets	7,698,261	8,238,964	9,260,208	220	23	25,197,675
Unallocated Assets	-	-	-	-	266,103	266,103
Total Assets	7,698,261	8,238,964	9,260,208	220	266,103	25,463,778
Segment Liabilities	9,696,627	11,709,847	1,364,293	39,601	3,377	22,817,957
Unallocated Equity and Liabilities	-	-	-	-	2,650,032	2,650,032
Total Equity and Liabilities	9,696,627	11,709,847	1,364,293	39,601	2,653,409	25,463,778

4. SEGMENT REPORTING (CONTINUED)

Group
2019
HRK '000

	Corporate	Retail	Financial Market	Direct banking	Unallocated	Total
Net Interest Income	153,905	288,633	102,928	-	(10)	545,456
Net Fees and Commissions Income	66,470	94,405	3,966	27,387	17,298	209,527
Trading and Investment Income	-	-	94,130	-	10,313	104,443
Other Income	3,893	603	240	-	25,105	29,840
Operating Income	224,267	383,642	201,264	27,387	52,706	889,266
General and Administrative Expenses	(33,220)	(177,763)	(6,756)	(123,349)	(126,536)	(467,625)
Depreciation and Amortization	-	-	-	-	(78,050)	(78,050)
Impairment Losses on Loans and Other Assets	(132,581)	(18,919)	(74)	-	(11,344)	(162,918)
Provisions for Liabilities and Expenses	-	-	-	-	(81,995)	(81,995)
Operating Expenses	(165,801)	(196,682)	(6,830)	(123,349)	(297,925)	(790,588)
Profit Before Taxation	58,466	186,960	194,433	(95,962)	(245,219)	98,678
Income Tax	-	-	-	-	48,238	48,238
Profit for the Year	58,466	186,960	194,433	(95,962)	(196,980)	146,917
Segment Assets	6,895,684	7,605,050	8,864,337	292	4,832	23,370,195
Unallocated Assets	-	-	-	-	403,265	403,265
Total Assets	6,895,684	7,605,050	8,864,337	292	408,097	23,773,460
Segment Liabilities	9,086,229	11,419,428	412,014	25,235	3,687	20,946,593
Unallocated Equity and Liabilities	-	-	-	-	2,826,866	2,826,866
Total Equity and Liabilities	9,086,229	11,419,428	412,014	25,235	2,830,553	23,773,460

4. SEGMENT REPORTING (CONTINUED)

Bank
2020
HRK '000

	Corporate	Retail	Financial Market	Direct banking	Unallocated	Total
Net Interest Income	152,278	306,757	78,290	-	10	537,335
Net Fees and Commissions Income	57,082	94,487	3,356	13,565	7,777	176,267
Trading and Investment Income	-	-	82,104	-	-	82,104
Other Income	6,121	2,601	(7,336)	-	2,006	3,392
Operating Income	215,481	403,845	156,415	13,565	9,792	799,098
General and Administrative Expenses	(36,011)	(200,210)	(6,507)	(38,492)	(152,657)	(433,877)
Depreciation and Amortization	-	-	-	-	(75,816)	(75,816)
Impairment Losses on Loans and Other Assets	(59,527)	(54,899)	48	-	(6,986)	(121,364)
Provisions for Liabilities and Expenses	-	-	-	-	58,910	(58,910)
Operating Expenses	(95,538)	(255,109)	(6,459)	(38,492)	(176,549)	(572,147)
Profit Before Taxation	119,943	148,736	149,956	(24,927)	(166,757)	226,950
Income Tax	-	-	-	-	(44,888)	(44,888)
Profit for the Year	119,943	148,736	149,956	(24,927)	(211,645)	182,063
Segment Assets	7,704,081	8,238,964	9,254,347	220		25,197,612
Unallocated Assets	-	-	-	-	266,154	266,154
Total Assets	7,704,081	8,238,964	9,254,347	220	266,154	25,463,766
Segment Liabilities	9,696,627	11,709,847	1,371,882	39,601	-	22,817,957
Unallocated Equity and Liabilities	-	-	-	-	2,645,809	2,645,809
Total Equity and Liabilities	9,696,627	11,709,847	1,371,882	39,601	2,645,809	25,463,766

4. SEGMENT REPORTING (CONTINUED)

Bank
2019
HRK '000

	Corporate	Retail	Financial markets	Direct banking	Unallocated	Total
Net Interest Income	152,704	288,313	94,957	-	(5)	535,969
Net Fees and Commissions Income	66,319	91,553	3,966	27,387	10,417	199,642
Trading and Investment Income	-	-	93,488	-	-	93,488
Other Income	3,893	603	240	-	13	4,748
Operating Income	222,915	380,469	192,651	27,387	10,425	833,846
General and Administrative Expenses	(33,220)	(177,763)	(6,756)	(123,349)	(93,942)	(435,031)
Depreciation and Amortization	-	-	-	-	(75,880)	(75,880)
Impairment Losses on Loans and Other Assets	(132,581)	(18,919)	(74)	-	(11,536)	(163,110)
Provisions for Liabilities and Expenses					(64,758)	(64,758)
Operating Expenses	(165,801)	(196,682)	(6,830)	(123,349)	(246,115)	(738,778)
Profit Before Taxation	57,114	183,787	185,820	(95,962)	(235,690)	95,069
Income Tax					48,704	48,704
Profit for the Year	57,114	183,787	185,820	(95,962)	(186,986)	143,773
Segment Assets	6,907,122	7,605,050	8,857,429	292	-	23,369,893
Unallocated Assets	-	-	-	-	403,264	403,264
Total Assets	6,907,122	7,605,050	8,857,429	292	403,264	23,773,157
Segment Liabilities	9,086,229	11,419,428	420,184	25,235	-	20,951,076
Unallocated Equity and Liabilities	-	-	-	-	2,822,081	2,822,081
Total Equity and Liabilities	9,086,229	11,419,428	420,184	25,235	2,822,081	23,773,157

5. CASH AND RECEIVABLES FROM BANKS

Group			2020 HRK '000			2019 HRK '000
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Cash in Hand						
Held by the Group	268,548	519,393	787,941	292,010	551,255	843,265
Held by Other Parties	112,131	-	112,131	118,558	-	118,558
Cheques in the Course of Collection	-	29	29	-	4	4
	380,679	519,423	900,102	410,568	551,259	961,827
Amounts Due from Banks						
Current Accounts with Domestic Banks	40	860	900	35	659	694
Current Accounts with Foreign Banks	-	537,456	537,456	-	794,157	794,157
Giro Account with the CNB	2,233,086	13,399	2,246,485	999,201	15,362	1,014,563
	2,233,126	551,715	2,784,840	999,236	810,179	1,809,415
Total	2,613,805	1,071,137	3,684,943	1,409,804	1,361,438	2,771,242

Bank			2020 HRK '000			2019 HRK '000
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Cash in Hand						
Held by the Group	268,548	519,393	787,941	292,010	551,255	843,265
Held by Other Parties	112,131	-	112,131	118,558	-	118,558
Cheques in the Course of Collection	-	29	29	-	4	4
	380,679	519,423	900,102	410,568	551,259	961,827
Amounts Due from Banks						
Current Accounts with Domestic Banks	-	859	859	-	659	659
Current Accounts with Foreign Banks	-	537,456	537,456	-	794,157	794,157
Giro Account with the CNB	2,233,086	13,399	2,246,485	999,201	15,362	1,014,563
	2,233,086	551,714	2,784,800	999,201	810,179	1,809,380
Total	2,613,766	1,071,136	3,684,902	1,409,769	1,361,438	2,771,207

6. MANDATORY RESERVE WITH CROATIAN NATIONAL BANK

Group	2020 HRK '000			2019 HRK '000		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Mandatory Reserve	1,219,157	-	1,219,157	1,558,207	-	1,558,207
Total	1,219,157	-	1,219,157	1,558,207	-	1,558,207

Bank	2020 HRK '000			2019 HRK '000		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Mandatory Reserve	1,219,157	-	1,219,157	1,558,207	-	1,558,207
Total	1,219,157	-	1,219,157	1,558,207	-	1,558,207

Mandatory reserve with the Croatian National Bank represents amounts held at the CNB due to a prescribed obligation by the Croatian National Bank.

The reserve requirement rate amounts to 9 percent of Kuna and foreign currency deposits, loans and debt securities issued (31 December 2019: 12.0%).

The rate of allocating the required minimum Kuna reserve requirement with the Croatian National Bank as at 31 December 2020 was 70% (2019: 70%), while the remaining 30% (2019: 30%) was maintained in the form of other liquid receivables.

By the decision of the CNB Council (effective from January 13, 2016), the obligation to allocate the foreign currency part of the reserve has been abolished. The CNB does not pay any fees on the reserve requirements set aside.

7. LOANS TO AND RECEIVABLES FROM BANKS

	Group		Bank	
	2020	2019	2020	2019
	HRK '000	HRK '000	HRK '000	HRK '000
Short-Term Placements with Foreign Banks	368,342	234,756	368,342	234,756
Total Short-Term Placements and Loans Banks	368,342	234,756	368,342	234,756
Guarantee Deposits with Foreign Banks	11,899	12,833	11,899	12,833
Total Short-Term Placements and Loans Banks	11,899	12,833	11,899	12,833
Short-Term Placements with Domestic Non-Banking Financial Institutions	500	500	500	500
Long-Term Placements with Domestic Non-Banking Financial Institutions	100	736	100	736
Long-Term Placements with Domestic Non-Banking Financial Institutions	600	1,236	600	1,236
Provisions for Impairment Losses (Non-Banking Financial Institutions)	(1,460)	(1,220)	(1,460)	(1,220)
Accrued Interests Not Yet Due	18	34	18	34
Total Interests Receivable	18	34	18	34
Total	379,339	247,640	379,339	247,640

Guarantee deposits mainly relate to deposits for card operations.

Movements in Impairment Allowance

	Group		Bank	
	2020	2019	2020	2019
	HRK '000	HRK '000	HRK '000	HRK '000
Balance at January 1	1,220	5,952	1,220	2,607
JABA migration effect	-	(3,345)	-	-
Increase/(decrease) in Impairment Losses on Loans to and Receivables from Banks	240	(1,387)	240	(1,387)
Balance at December 31	1,460	1,220	1,460	1,220

All placements and loans to other banks of the Group and Bank are in tier 1 and during the year there were no transfers between tiers, except for receivables from banks in the amount of HRK 500 thousand, which is in tier 3 and in previous periods a 100% impairment was carried out.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Trading Instruments				
Listed Debt Securities				
Bonds of the Ministry of Finance	619,551	511,840	619,551	511,840
Listed Debt Securities	619,551	511,840	619,551	511,840
Listed Shares of Investment Funds	71,086	71,867	71,086	71,867
Listed Equity Securities	24,254	24,212	24,254	24,212
Not Listed Equity Securities	20,000	-	20,000	-
	734,892	607,919	734,892	607,919
Futures Fair Value	-	852	-	852
Loans and receivables from customers				
- corporate	5,093	6,676	5,093	6,676
- retail	12,323	13,085	12,323	13,085
	17,415	19,760	17,415	19,760
Accrued Interests Due	14	(891)	(1,165)	14
Accrued Interests Not Yet Due	5,785	6,429	6,964	5,785
Total	758,106	634,070	758,106	634,070

Considering that the criteria of IFRS 5 for classification are no longer met, i.e. due to the current situation on the financial markets, the Bank reclassified investments in equity securities of Drvna Industrija Spačva d.d. in the amount of HRK 20,000 thousand from assets held for sale, in 2020.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Listed Debt Securities				
Bonds of the Ministry of Finance	3,807,305	4,318,350	3,807,305	4,318,350
Corporate Bonds	83,065	89,617	83,065	89,617
	3,890,370	4,407,967	3,890,370	4,407,967
Debt Securities Not Listed				
Treasury Bills of the Croatian Ministry of Finance	188,212	129,998	188,212	129,998
Equity securities Not Listed				
- Corporate	24,095	21,284	24,095	21,284
	24,095	21,284	24,095	21,284
Listed Equity Securities				
- Corporate	22,614	33,667	22,614	33,667
- Non-Banking Financial Institutions	3,352	3,352	3,352	3,352
Provisions for Impairment Losses on Equity Securities	(1,033)	(1,033)	(1,033)	(1,033)
	24,933	35,986	24,933	35,986
Accrued Interests Not Yet Due	30,426	44,971	30,426	44,971
Total	4,158,035	4,640,205	4,158,035	4,640,205

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

Movement in Impairment Allowance for Financial Assets at Fair Value through Other Comprehensive Income

Group and Bank			2020 HRK '000			2019 HRK '000
	Individually Expected Losses	Portfolio Based Expected Losses	Total	Individually Identified Losses	Portfolio Based Losses	Total
At January 1	1,033	14,225	15,258	1,033	10,824	11,857
Increase Impairment Losses	-	577	577	-	3,401	3,401
At December 31	1,033	14,802	15,835	1,033	14,225	15,258

All financial assets of the Group and the Bank that are measured at fair value through other comprehensive income are in Tier 1 and there has been no transfer between stages in the year.

10. FINANCIAL ASSETS AT AMORTISED COST

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Corporative Bonds	900	1,500	900	1,500
Bills of Exchange	1,191	3,103	1,191	3,103
	2,091	4,603	2,091	4,603
Accrued Interest Not Yet due	-	(1)	-	(1)
Provisions for Impairment Losses	(90)	(150)	(90)	(150)
Portfolio Based Impairment for Identified Losses	(26)	(152)	(26)	(152)
Total	1,975	4,300	1,975	4,300

Movement in Impairment Allowance for Financial Assets at Amortized Cost

Group and Bank			2020 HRK '000			2019 HRK '000
	Expected losses	Portfolio Based Expected Losses	Total	Identified losses	Portfolio Based Identified Losses	Total
Balance at January 1	150	152	302	194,498	167	194,665
Increase/ (Decrease) of Impairment Losses	(60)	(126)	(186)	-	-	-
JABA migration effect	-	-	-	28,829	-	28,829
Write-Offs and Other	-	-	-	(223,178)	(15)	(223,192)
Balance at December 31	90	26	116	150	152	302

10. FINANCIAL ASSETS AT AMORTISED COS (CONTINUED)

Group and Bank HRK'000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	2,665	432	1,500	4,603
Arisen or purchased new assets – derecognized or paid off assets (including derecognition)	(1,473)	(432)	(600)	(2,505)
Balance at 31 December 2020	1,191	-	900	2,091
Expected Credit Losses at 1 January 2020	(105)	(47)	(150)	(302)
Arisen or purchased new assets – derecognized or paid off assets (including derecognition)	78	47	60	186
Expected Credit Losses at 31 December 2020	(26)	-	(90)	(116)

Group and Bank HRK'000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	18,672	-	286,029	304,702
Arisen or purchased new assets – derecognized or paid off assets (including derecognition)	(16,008)	432	(80,780)	(96,356)
Write-offs	-	-	(255,982)	(255,982)
Transferred from JABA April 1, 2019	-	-	52,239	52,239
Balance at 31 December 2019	2,665	432	1,506	4,603
Expected Credit Losses at 1 January 2019	(143)	-	(229,307)	(229,450)
Arisen or purchased new assets – derecognized or paid off assets (including derecognition)	38	(47)	29,209	29,200
Write-offs	-	-	229,097	229,097
Transferred from JABA April 1, 2019	-	-	(29,150)	(29,150)
Expected Credit Losses at 31 December 2019	(105)	(47)	(150)	(302)

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Short-Term Loans				
Corporate	1,700,285	1,533,789	1,700,285	1,534,384
Retail	950,314	966,005	950,314	966,005
Total Short-Term Loans	2,650,600	2,499,794	2,650,600	2,500,389
Long-Term Loans				
Corporate	6,588,130	6,032,199	6,588,130	6,036,169
Retail	6,937,989	6,209,798	6,937,989	6,209,798
Total Long-Term Loans	13,526,119	12,241,997	13,526,119	12,245,967
Accrued Interests Due	111,729	112,074	111,729	112,074
Accrued Interests Not Yet Due	15,285	16,840	15,285	16,840
Total Gross Loans	16,303,732	14,870,705	16,303,732	14,875,271
Provisions for Impairment Losses	(1,328,007)	(1,338,102)	(1,328,007)	(1,338,102)
Portfolio Based Impairment Allowance for Identified Losses	(252,955)	(198,147)	(252,955)	(198,147)
Total	14,722,770	13,334,456	14,722,770	13,339,021
Total Impairment Allowance and Provisions as a Percentage of Gross Loans to Customers	9.77%	10.42%	9.77%	10.42%

11. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

Movements in Impairment Allowance

Movements in the impairment allowance on loans to and receivables from customers were as follows:

Group			2020 HRK '000			2019 HRK '000
	Individually Expected Losses	Portfolio Based Expected Losses	Total	Individually Identified Losses	Portfolio Based Losses	Total
Balance at January 1	1,338,102	198,147	1,536,249	1,356,337	138,445	1,494,782
Increase of Impairment Losses	86,878	54,200	141,079	78,469	75,704	154,173
Net Foreign Exchange Loss/ (Gain)	1,487	608	2,095	(1,309)	(680)	(1,989)
Merger effect JABA	-	-	-	31,986	6,286	38,272
Merger effect HPBSŠ	-	-	-	343	2,113	2,456
Write-Offs	(103,035)		(103,035)	(151,445)	-	(151,445)
Other	4,575	-	4,575	-	-	-
Balance at December 31	1,328,007	252,955	1,580,962	1,314,381	221,868	1,536,249

Bank			2020 HRK '000			2019 HRK '000
	Individually Expected Losses	Portfolio Based Expected Losses	Total	Individually Identified Losses	Portfolio Based Losses	Total
Balance at January 1	1,338,102	198,147	1,536,249	1,423,477	138,740	1,562,217
Increase of Impairment Losses	86,878	54,200	141,079	34,460	54,468	88,928
Net Foreign Exchange Loss/ (Gain)	1,487	608	2,095	(1,309)	(680)	(1,989)
Merger effect JABA	-	-	-	31,623	4,493	36,116
Merger effect HPBSŠ	-	-	-	1,296	1,126	2,422
Write-Offs	(103,035)		(103,035)	(151,445)		(151,445)
Other	4,575	-	4,575	-	-	-
Balance at December 31	1,328,007	252,955	1,580,962	1,338,10	198,147	1,536,249

11. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

Expected credit losses analysis for the Group and Bank in 2020 was as follows:

Bank and Group HRK'000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2020	12,185,916	717,261	1,972,093	14,875,271
Arisen or purchased new assets	3,964,983	96,120	284,714	4,345,818
Derecognized or paid off assets (including derecognition)	(2,458,640)	(123,525)	(206,077)	(2,788,242)
Transfer into Stage 1	216,072	(190,405)	(25,667)	-
Transfer into Stage 2	(295,938)	352,279	(56,341)	-
Transfer into Stage 3	(194,719)	(88,238)	282,956	-
Modification based changes (do not result with derecognition)	(4,883)	397	1,099	(3,386)
Write-offs	(498)	(682)	(124,549)	(125,729)
Balance at 31 December 2020	13,412,293	763,209	2,128,229	16,303,732
Expected credit losses at 1 January 2020	(130,939)	(66,894)	(1,338,416)	(1,536,249)
Arisen or purchased new assets	(45,860)	(5,443)	(40,870)	(92,174)
Derecognized or paid off assets (including derecognition)	16,897	2,594	35,954	55,445
Transfer into Stage 1	(12,102)	10,714	1,388	-
Transfer into Stage 2	8,144	(9,970)	1,827	-
Transfer into Stage 3	3,144	9,657	(12,801)	-
Change in expected credit loss	(11,306)	(21,172)	(78,542)	(111,020)
Write-offs	-	-	103,035	103,035
Expected credit losses at 31 December 2020	(172,023)	(80,513)	(1,328,426)	(1,580,962)

Of which purchased or issued credit impaired financial assets (POCI) for the Group were as follows:

HRK'000	POCI
Balance at 1 January 2020, net	95,653
Arisen or purchased new assets – derecognized or paid off assets (including derecognition)	114,768
Collected	(34,407)
Write-offs	-
Balance at 31 December 2020, net	176,014

11. LOANS AND RECEIVABLES FROM CUSTOMERS (NASTAVAK)

Expected credit losses analysis for the Group and Bank in 2019 was as follows:

Bank and Group HRK'000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	9,874,865	669,274	2,012,896	12,557,035
Arisen or purchased new assets	4,131,107	211,618	113,889	4,456,614
Derecognized or paid off assets (including derecognition)	(2,063,463)	(128,724)	(248,761)	(2,440,949)
Transfer into Stage 1	269,814	(249,961)	(19,853)	-
Transfer into Stage 2	(333,576)	350,539	(16,963)	-
Transfer into Stage 3	(82,963)	(140,780)	223,743	-
Modification based changes (do not result with derecognition)	(10,674)	22	(5,105)	(15,757)
Write-offs	-	-	(151,445)	(151,445)
Merger effect JABA 1st April 2019	219,912	1,667	62,792	284,371
Merger effect HPBSŠ 1st December 2019	180,895	3,607	899	185,401
Balance at December 31, 2019	12,185,916	717,261	1,972,093	14,875,270
Expected credit losses at 1 January 2019	(88,904)	(49,541)	(1,356,337)	(1,494,782)
Arisen or purchased new assets	(48,087)	(9,859)	(65,788)	(123,734)
Derecognized or paid off assets (including derecognition)	14,896	4,734	62,347	81,977
Transfer into Stage 1	(21,203)	19,433	1,770	-
Transfer into Stage 2	3,851	(5,656)	1,806	-
Transfer into Stage 3	742	12,968	(13,711)	-
Change in expected credit loss	15,129	(37,938)	(87,619)	(110,428)
Write-offs	-	-	151,445	151,445
Merger effect JABA 1st April 2019	(5,543)	(743)	(31,986)	(38,272)
Merger effect HPBSŠ 1st December 2019	(1,820)	(293)	(343)	(2,456)
Expected credit losses at 31 December 2019	(130,939)	(66,894)	(1,338,416)	(1,536,249)

11. LOANS AND RECEIVABLES FROM CUSTOMERS (NASTAVAK)

Of which purchased or issued credit impaired financial assets (POCI) for the Group were as follows:

HRK'000	POCI
Balance at 1 January 2019, net	111.060
Arisen or purchased new assets – derecognized or paid off assets (including derecognition)	(1.838)
Collected	(22.233)
Write-offs	(27.102)
Merger effect JABA 1st April 2019	35.766
Balance at 31 December 2019, net	95.653

The difference in the position of loans and receivables from customers between the Group and the Bank in 2019 relates to an internally approved loan to a member of the HPB Group - HBP Real Estate in the amount of HRK 4,565 thousand which is in Stage 1 and there were no transfers between stages. During 2020, the Bank converted its receivables from HPB Nekretnine into an increase in the capital of that member of the Group.

12. ASSETS HELD FOR SALE

At the end of 2019, the Group planned to compensate its investments in Drvna Indrustrija Spačva d.d. by sale and not by realizing its share rights. These investments are currently up for sale and the Bank has made all the necessary measures in order to sell them in an acceptable time period usual for these types of transactions.

In the reporting period, there was no impairment of assets held for sale (2019: HRK 0).

Investment into assets held for sale by asset type was as follows:

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Equity Stakes – net	-	20,000	-	20,000
Total as of December 31	-	20,000	-	20,000

Considering that the criteria of IFRS 5 for classification are no longer met, i.e. due to the current situation on the financial markets, the Bank reclassified investments in equity securities of Drvna Industrija Spačva d.d. in the amount of HRK 20,000 thousand from assets held for sale, in 2020.

	Industry	Domicile	Ownership at December 31, 2020 %
Drvna Industrija Spačva d.d.	Other Carpentry and Components Production	Croatia	18,95

13. INVESTMENTS IN SUBSIDIARIES

a) The Bank's subsidiaries are as follows:

	Industry	Domicile	Ownership at December 31, 2020 %
HPB Invest Ltd	Investment Fund Management	Croatia	100
HPB Nekretnine Ltd	Real Estate Agency and Construction	Croatia	100

b) Investments in Subsidiaries that are fully consolidated in financial reports of the Group, are as follows:

	2020 HRK '000	2019 HRK '000
HPB Invest Ltd	5,000	5,000
HPB Nekretnine Ltd	4,761	490
Total	9,761	5,490

The following table presents summary financial information on subsidiaries:

	2020 u HRK '000	2019* u HRK '000
Short Term Assets	9,561	10,316
Long Term Assets	8,380	8,988
Short Term Liabilities	(1,753)	(2,853)
Long Term Liabilities	(629)	(4,481)
Net Assets, Book Value of Subsidiaries	15,559	11,970
Share of Revenue and Profit of Subsidiaries	100%	100%
Revenue	17,985	71,812
Net profit	1,322	3,144

** Assets, liabilities and net assets include HPB Invest and HPB Nekretnine, while income and net income include Jadranska banka d.d. and HPB-Stambena štedionica until the time of merger.*

c) Movements of Investments in Subsidiaries:

At 14 July 2018 the Bank acquired 100% shares in Jadranska banka d.d., as previously disclosed in note 1. Total acquisition costs amount to HRK 122,750 thousand, which are comprised of basic acquisition price paid in cash in the amount of HRK 12,750 thousand and recapitalization in the amount of HRK 110,000 thousand. During 2019 the remaining amount of HRK 1,485 thousand of acquisition price was paid in. During 2020, the Bank converted its receivables from HPB Nekretnine into an increase in the capital of that member of the Group.

13. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

d) Acquired assets and liabilities at acquisition date

As at July 14, 2018, the Bank acquired a 100% interest in Jadranska banka d.d. Total acquisition costs amount to HRK 122,750 thousand, consisting of a basic acquisition fee paid in cash in the amount of HRK 12,750 thousand and a recapitalization in the amount of HRK 110,000 thousand. During 2019, the remaining HRK 1,485 thousand was paid.

	1st April 2019
Cash and Accounts at CNB	244,110
Receivables from Other Financial Institutions	-
Financial Assets at Amortized Cost	568,486
Financial assets at fair value through profit or loss	83
Financial Assets at Fair Value through Other Comprehensive Income	809,325
Other Assets	8,310
Property and Equipment	18,813
Intangible Assets	8,231
Total Assets	1,657,359
Liabilities to Customers	1,439,555
Other Borrowings	-
Provisions	49,174
Other Liabilities	8,482
Total Liabilities	1,497,211
Total assets and liabilities	160,148

Jadranska banka d.d. is included in the result of the group until the date of the merger and the loss for the period (01.01.-31.03.2019.) is HRK 3.3 million.

As at December 2, 2019, the merger of HPB Stambena Stedionica d.d. was carried out at book value. The net assets merged to the Bank are as follows:

	30th November 2019
Money and receivables from banks	69,242
Placements and loans to other banks	-
Placements to the population	182,945
Available-for-sale financial assets	-
Financial assets at fair value through profit or loss	111,412
Property and Equipment	75
Intangible Assets	236
Net deferred tax assets	154
Profit tax prepaid	479
Other assets	627
Total assets	365,169
Liabilities to Customers	318,121
Provision for liabilities and charges	4
Other Liabilities	3,479
Total Liabilities	321,604
Net assets and liabilities	43,564

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14. PROPERTY NAD EQUIPMNET

Group				IFRS 16		
2020	Land and Buildings	Computers, Equipment and Motor Vehicles	Assets Under Constructi on	Building and land	Computers, equipment and motor vehicles	Total
HRK'000						
Purchase Cost or Estimated Value						
Balance at January 1 2020	233,884	253,919	(3,418)	100,368	25,750	610,503
Reclassification and correction of previous periods	5,803	-	-	- -	-	5,803
Increase / Revaluation of land	1,725	-	-	32,509	1,902	36,136
Decrease / Revaluation of building	(7,533)	36	-	182	-	(7,316)
Additions	-	-	13,899	-	-	13,899
Write-offs and other reductions	(707)	(43,138)	-	(3,222)	-	(47,067)
Transferred into Use	4,672	8,862	(13,533)	-	-	1
Balance at December 31 2020	237,845	219,679	(3,052)	129,836	27,651	611,958
Accumulated Depreciation						
Balance at January 1, 2020	(102,652)	(226,136)	-	(17,657)	(4,457)	(350,903)
Depreciation Cost	(4,636)	(14,448)	-	(19,148)	(4,931)	(43,162)
Revaluation of land and building	-	-	-	-	-	-
Reclassification and correction of previous periods	(1,695)	-	-	-	-	(1,695)
Write-offs	-	42,802	-	-	-	42,802
Balance at December 31 2020	(108,983)	(197,782)	-	(36,805)	(9,388)	(352,958)
Net Book Value						
Balance at January 1 2020	131,232	27,782	(3,418)	82,711	21,293	259,600
Balance at December 31 2020	128,861	21,896	(3,052)	93,031	18,264	259,000

14. PROPERTY AND EQUIPMNET (CONTINUED)

Group				IFRS 16		
2019 HRK'000	Land and Buildings	Computers, Equipment and Motor Vehicles	Assets Under Construction	Building and land	Computers, equipment and motor vehicles	Total
Purchase Cost or Estimated Value						
Balance at January 1 2019	196,852	262,027	3,169	97,146	21,193	580,387
Increases JABA migration	20,467	14,313	4,914	-	-	39,693
Increases HPBSŠ migration	-	529	-	-	-	529
Increase / Revaluation	-	27	(4,914)	27	-	(4,860)
Increases / Revaluation of JABA	5,912	-	(4,717)	0	-	1,195
Additions	-	(136)	30,510	3,197	4,573	38,144
Write-offs and other reductions	(16)	(44,551)	-	(2)	(16)	(44,585)
Transferred into Use	10,670	21,710	(32,380)	-	-	-
Balance at December 31 2019	233,884	253,919	(3,418)	100,368	25,750	610,503
Accumulated Depreciation						
Balance at January 1, 2019	(84,380)	(231,485)	-	-	-	(315,865)
Depreciation Cost	(3,415)	(15,161)	-	(17,657)	(4,457)	(40,690)
Increasing JABA migration	(14,852)	(13,398)	-	-	-	(28,250)
Increasing HPBSS migration	-	(455)	-	-	-	(455)
Write-Offs	(6)	34,363	-	-	-	34,357
Balance at December 31 2019	(102,652)	(226,136)	-	(17,657)	(4,457)	(350,903)
Net Book Value						
Balance at January 1 2019	112,472	30,542	3,169	97,146	21,193	264,522
Balance at December 31 2019	131,232	27,782	(3,418)	82,711	21,293	259,600

Assets under construction as of 31 December 2020 refer to investments in equipment and construction objects at purchase cost of HRK 3,052 thousand (2019: HRK 3,418 thousand). The carrying amount of the land owned by the Group as at 31 December 2020 amounts to HRK 19,564 thousand (2019: HRK 45,941 thousand).

14. PROPERTY AND EQUIPMENT WITH RIGHT OF USE (CONTINUED)

Bank				IFRS 16		
2020 HRK'000	Land and Buildings	Computers, Equipment and Motor Vehicles	Assets Under Construction	Building and land	Computers, equipment and motor vehicles	Total
Purchase Cost or Estimated Value						
Balance at January 1 2020	206,311	235,282	1,065	100,479	25,766	568,903
Reclassification and correction of previous periods	5,803	-	-	-	-	5,803
Increase / Revaluation of land	1,725	-	-	32,509	1,902	36,136
Decrease / Revaluation of building	(7,533)	-	-	-	-	(7,533)
Additions	-	-	13,899	-	-	13,899
Write-offs and other reductions	(707)	(43,745)	-	(3,214)	-	(47,666)
Transferred into Use	4,672	8,862	(13,533)	-	-	1
Balance at December 31 2020	210,271	200,398	1,431	129,774	27,668	569,543
Accumulated Depreciation						
Balance at January 1, 2020	(86,858)	(200,400)	-	(17,657)	(4,457)	(309,372)
Depreciation Cost	(4,636)	(14,395)	-	(18,951)	(4,931)	(43,162)
Revaluation of land and building	-	-	-	-	-	-
Reclassification and correction of previous periods	(1,695)	-	-	-	-	(1,695)
Write-offs	-	42,793	-	-	-	42,802
Balance at December 31 2020	(93,189)	(172,002)	-	(36,606)	(9,388)	(311,187)
Net Book Value						
Balance at January 1 2020	119,453	34,882	1,065	82,822	21,309	259,531
Balance at December 31 2020	117,082	28,397	1,431	93,165	18,280	258,356

14. PROPERTY AND EQUIPMENT WITH RIGHT OF USE (CONTINUED)

Bank				IFRS 16		
2019. HRK'000	Land and Buildings HRK'000	Computers, Equipment and Motor Vehicles HRK'000	Assets Under Construction HRK'000	Building and land	Computers, equipment and motor vehicles	Total HRK'000
Purchase Cost or Estimated Value						
Balance at January 1 2019	169,263	239,354	2,936	97,146	21,193	529,892
Reversal of impairment loss	-	-	-	-	-	-
Revaluation of buildings and land	-	-	-	-	-	-
Increasing JABA migration	21,876	14,313	4,914	-	-	41,102
Increasing HPBSS migration	-	529	-	-	-	529
Increase / Revaluation	-	-	(4,914)	-	-	(4,914)
Increases /Revaluation of JABA	5,912	-		-	-	5,912
Additions	-	-	30,510	3,333	4,573	38,416
Write-offs and other reductions	-	(40,625)		-	-	(40,625)
Transferred into Use	10,670	21,710	(32,380)	-	-	-
Balance at December 31 2019	207,720	235,282	1,065	100,479	25,766	570,312
Accumulated Depreciation						
Balance at January 1, 2019.	(68,505)	(211,575)	-	-	-	(280,080)
Depreciation Cost	(3,501)	(15,587)	-	(17,657)	(4,457)	(41,202)
Revaluation of buildings and land	-	-	-	-	-	-
Increasing JABA migration	(16,260)	(13,398)	-	-	-	(29,659)
Increasing HPBSS migration	-	(455)	-	-	-	(455)
Write-Offs	-	40,615	-	-	-	40,615
Balance at December 31 2019	(88,267)	(200,400)	-	(17,657)	(4,457)	(310,781)
Net Book Value						
Balance at January 1 2019	100,758	27,780	2,936	97,146	21,193	249,812
Balance at December 31 2019	119,453	34,882	1,065	82,822	21,309	259,531

Assets under construction as at 31 December 2020 refer to investments in equipment and construction objects at a purchase price of HRK 1,431 thousand (2019: HRK 1,065 thousand). The carrying amount of the land owned by the Bank as at 31 December 2020 amounts to HRK 19,564 thousand (2019: HRK 45,941 thousand).

There are no mortgages or other pledged rights on the properties owned by the Bank for the benefit of other parties.

Right of Use Asset (RoU) assets as at 31 December 2020 amounted to HRK 111,445 thousand (at the initial recognition date of the lease contract it amounted to HRK 118,339 thousand). Useful property is recognized in the functional currency of the entity and amortized on a straight-line basis over the life of the lease.

15. INVESTMENT PROPERTY

Group	Note	2020 HRK '000	2019 HRK '000
Purchase Cost			
Balance as at January 1		247,983	170,299
Additions		12,104	22,667
Disposals		(4,001)	(2,829)
Balance as at December 31		256,086	190,137
Accumulated Depreciation			
Balance as at January 1		(3,430)	(2,918)
Amortization for the Year (subsidiary)		(424)	(512)
Balance as at December 31		(3,853)	(3,430)
Impairment Loss			
Balance at January 1		(171,794)	(112,103)
Impairment		(8,712)	(4,730)
Disposals		1,703	2,885
Balance at December 31	18	(178,803)	(113,948)
Net Book Value			
Balance as at January 1		72,759	55,278
Balance as at December 31		73,430	72,759

Bank	2020 HRK '000	2019 HRK '000
Purchase Cost		
Balance as at January 1	236,693	159,009
Additions (including JABA)*	12,104	22,667
Disposals	(4,001)	(2,829)
Balance as at December 31	244,796	178,847
Impairment Loss		
Balance as at January 1	(171,794)	(112,103)
Impairment	(8,712)	(4,730)
Disposal	1,703	2,885
Balance as at December 31	(178,803)	(113,949)
Net Book Value		
Balance as at January 1	64,899	46,906
Balance at December 31	65,993	64,899

**Increases in 2019 include assets acquired for outstanding receivables from the merger of Jadranska banka d.d., as described in Note 18. Other assets. The total net book value of the acquired assets is HRK 4,703 thousand.*

15. INVESTMENT PROPERTY (CONTINUED)

Assets taken over in exchange for uncollected receivables classified as investment property as at 31 December 2020 have the gross book value in the amount of HRK 244,797 thousand. Impairment based on valuation assessment with application of discount marketability factor related to investment property amounts to HRK 178,803 thousand (2019: 171,795 thousand), while net book value of these assets amounts to HRK 65,993 thousand (2019: 64,899 thousand).

Fair value hierarchy of investment properties as at December 31, 2020 and December 31, 2019 was as follows:

Group	Level 1	Level 2	Level 3	Fair Value as at December 31 2020
- Land	-	-	38,540	38,540
- Buildings	-	-	33,674	33,674
- Equipment	-	-	1,216	1,216
TOTAL	-	-	73,430	73,430

Group	Level 1	Level 2	Level 3	Fair Value as at December 31 2019
- Land	-	-	40,320	40,320
- Buildings	-	-	30,701	30,701
- Equipment	-	-	1,737	1,737
TOTAL	-	-	72,759	72,759

Bank	Level 1	Level 2	Level 3	Fair Value as at December 31 2020
- Land	-	-	37,875	37,875
- Buildings	-	-	26,902	26,902
- Equipment	-	-	1,216	1,216
TOTAL	-	-	65,993	65,993

Bank	Level 1	Level 2	Level 3	Fair Value as at December 31 2019
- Land	-	-	39,655	39,655
- Buildings	-	-	23,506	23,506
- Equipment	-	-	1,737	1,737
TOTAL	-	-	64,899	64,899

Disclosure of the investment valuation in real estate is presented in Note 3. Property is assessed in accordance with the Real Estate Estimates Act (OG 78/2015) and the related Property Ordinance (NN 105/2015), according to law prescribed and appropriate methods consideration is given to a number of factors in determining its current market value. The valuation method has not changed during the year.

During the year there were no items that would be reclassified from level 3 indicator to level 1 indicator or vice versa by hierarchy of fair value measures.

16. INTANGIBLE ASSETS

Group 2020 HRK'000	Software	Leasehold Improvements	Licenses	Assets Under Construction	Total
Cost					
Balance as at January 1	308,780	96,067	83,472	18,297	506.616
Increase	-	707	-	13,537	14.244
Transferred into Use	12,121	913	3,655	(16,690)	-
Amounts Written-Off	(19,917)	(5,051)	(18,036)	-	(43.004)
Balance as at December 31	300,984	92,636	69,091	15,144	477.855
Accumulated Amortization					
Balance as at January 1	(268,130)	(60,240)	(68,116)	-	(396.486)
Depreciation cost	(20,662)	(6,032)	(6,348)	-	(33.042)
Amounts Written-Off	19,917	5,004	17,983	-	42.904
Balance as at December 31	(268,875)	(61,268)	(56,481)	-	(386.624)
Net Book Value					
Balance as at January 1	40,650	35,827	15,356	18,297	110.130
Balance as at December 31	32.109	31,368	12,610	15,144	91,231

Group 2019 HRK'000	Software	Leasehold Improvements	Licenses	Assets Under Construction	Total
Balance as at January 1					
Increase	265,288	92,466	70,767	28,975	457.496
Increases / Jaba Migration	9,094	-	-	31,711	40.805
Increases / HPBSS Migration	18,426	4,359	-	7,534	30.319
Transferred into Use	384	112	-	236	732
Amounts Written-Off	15,189	10,255	12,705	(50,230)	(12.080)
Balance as at December 31	399	(11,125)	-	69	(10.657)
	308,780	96,067	83,472	18,297	506.616
Accumulated Amortization					
Balance as at January 1	(217,782)	(61,325)	(62,757)	-	(341.864)
Depreciation cost	(31,412)	(5,842)	(5,359)	-	(42.613)
Increase JABA	(18,273)	(4,121)	-	-	(22.394)
Increase HPBSS	(384)	(112)	-	-	(496)
Amounts Written-Off	(279)	11,161	-	-	10.882
Balance as at December 31	(268,130)	(60,240)	(68,116)	-	(396.486)
Net Book Value					
Balance as at January 1	47,506	31,141	8,010	28,975	115.632
Balance as at December 31	40,650	35,827	15,356	18,297	110,130

Assets under construction as at 31 December 2020 mainly refer to investments into the application software and investments in other assets at purchased cost in the amount of HRK 15,144 thousand (2019: HRK 18,297 thousand), which are under construction due to future use by the Group.

16. INTANGIBLE ASSETS (CONTINUED)

Bank 2020 HRK'000	Software	Leasehold Improvements	Licenses	Assets Under Construction	Total
Cost					
Balance as at January 1	278,752	90,683	82,988	21,087	473.510
Increase	-	707	-	14,239	14.946
Transferred into Use	12,121	913	3,655	(16,690)	(1)
Amounts Written-Off	(19,917)	(5,051)	(18,036)	-	(43.004)
Balance as at December 31	270,956	87,252	68,607	18,636	445.451
Accumulated Amortization					
Balance as at January 1	(240,262)	(56,352)	(67,801)	-	(364.414)
Depreciation cost	(20,522)	(6,032)	(6,348)	-	(32.902)
Amounts Written-Off	19,917	5,004	17,983	-	42.904
Balance as at December 31	(240,867)	(57,380)	(56,165)	-	(354.412)
Net Book Value					
Balance as at January 1	38,491	34,331	15,188	21,087	109.096
Balance as at December 31	30.089	29,872	12,442	18,636	91,039

Bank 2019 HRK'000	Software	Leasehold Improvements	Licenses	Assets Under Construction	Total
Cost					
Balance at January 1	244,975	87,118	70,283	28,653	431.028
Increase	-	-	-	34,907	34.907
Increases / Jaba Migration	18,426	4,359	-	7,534	30.319
Increases / HPBSS Migration	384	112	-	236	732
Brought into Use	15,189	10,255	12,705	(50,244)	(12.094)
Amounts Written-Off	(222)	(11,161)	-	-	(11.382)
Balance at December 31	278,752	90,683	82,988	21,087	473.510
Accumulated Amortization					
Balance at January 1	(198,634)	(57,072)	(62,442)	-	(318.147)
Depreciation cost	(23,193)	(6,208)	(5,359)	-	(34.759)
Increase JABA	(18,273)	(4,121)	-	-	(22.394)
Increase HPBSS	(384)	(112)	-	-	(496)
Amounts Written-Off	222	11,161	-	-	11.382
Balance at December 31	(240,262)	(56,352)	(67,801)	-	(364.414)
Net Book Value					
Balance at January 1	46,342	30,046	7,841	28,652	112.881
Balance at December 31	38.491	34,331	15,188	21,087	109,096

Assets under construction as at 31 December 2020 mainly refer to investments into the application software and investments in other assets at purchased cost in the amount of HRK 18,636 thousand (2019: HRK 21,087 thousand), which are under construction due to future use by the Group.

17. NET DEFERRED TAX ASSETS

a) Recognized Deferred Tax Assets and Liabilities (Group)

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Group in 2020 are presented below:

Group 2020 HRK'000	2020	Recognized as in the P&L Statement	Recognized as Other Comprehensive Income	2019 (restated)	Restatement	2019 (previously reported)
Deferred Tax Assets						
Loans and Advances to Customers	4,212	(738)	-	4,950	-	4,950
Other Provisions	1,907	-	-	1,907	-	1,907
Financial Assets	15,104	1,549	-	13,556	-	13,556
Deferred tax assets - impairment of land	4,748	(311)	-	5,058	5,058	-
Deferred tax assets - IFRS 16	329	-	-	329	-	329
Fair Value Reserve	8,334	(45,464)	-	53,798	-	53,798
Deferred Tax Liabilities						
Borrowings	(510)	77	-	(587)	-	(587)
Revaluation Reserve	(4,434)	-	1,511	(5,943)	(5,798)	(145)
Fair Value Reserve	(53,173)	-	16,796	(69,968)	-	(69,968)
Deferred Tax Assets, Net	(23,483)	(44,888)	18,306	3,100	(739)	3,839

Changes in temporary differences and portions of the Group's deferred tax assets and deferred tax liabilities in 2019 are presented as follows:

Group 2019 HRK'000	2019	Recognized as in the P&L Statement	Merger JABA	Merger HPBSŠ	Recognized as Other Comprehensive Income	2018
Deferred Tax Assets						
Loans and Advances to Customers	4,950	(562)	(23)	208	-	5,625
Restructuring Costs	-	-	(2,971)	-	-	2,971
Other Provisions	1,907	-	1,907	(298)	-	3
Financial Assets	13,556	(1,975)	-	-	-	15,531
Deferred tax assets - IFRS 16	329	329	-	-	-	-
Fair Value Reserve	53,798	52,532	-	-	-	1,266
Deferred Tax Liabilities						
Tangible Assets	-	-	1,064	-	-	(1,064)
Intangible Assets	-	-	30	-	-	(30)
Borrowings	(587)	35	-	-	-	(622)
Deferred tax liability - HPBSS merger	-	55	-	3	-	-
Revaluation Reserve	(145)	-		-	13	(158)
Fair Value Reserve	(69,968)	-	4,297	-	(48,670)	(25,595)
Prepaid expenses	-	-	-	-	-	(61)
Deferred Tax Assets, Net	3,839	50,413	4,304	(87)	(48,657)	(2,134)

17. NET DEFERRED TAX ASSETS (CONTINUED)

b) Recognized Deferred Tax Assets and Liabilities (Bank)

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2020 are presented below:

Bank 2020 HRK'000	2020	Recognized as in the P&L Statement	Recognized as Other Comprehensive Income	2019 (restated)	Restatement	2019 (previously reported)
Deferred Tax Assets						
Loans and Advances to Customers	4,212	(738)	-	4,950	-	4,950
Other Provisions	1,907	-	-	1,907	-	1,907
Financial Assets	15,104	1,549	-	13,556	-	13,556
Deferred tax assets - impairment of land	4,748	(311)	-	5,058	5,058	-
Deferred tax assets - IFRS 16	329	-	-	329	-	329
Recognized tax loss	8,334	(45,464)	-	53,798	-	53,798
Deferred Tax Liabilities						
Borrowings	(510)	77	-	(587)	-	(587)
Revaluation Reserve	(4,434)	-	1,511	(5,943)	(5,798)	(145)
Fair Value Reserve	(53,173)	-	16,796	(69,968)	-	(69,968)
Deferred Tax Assets, Net	(23,483)	(44,888)	18,306	3,100	(739)	3,839

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2019 are presented below:

Bank 2019	2019	Recognized in the P&L Report	Merger JABA	Merger HPBSŠ	Recognized as Other Comprehensive Income	2018
Deferred Tax Assets						
Loans and Advances to Customers	4,950	(562)	-	208	-	5,304
Other Provisions	1,907	-	1,907	-	-	-
Financial Assets	13,556	(1,975)	-	-	-	15,531
Deferred tax assets - IFRS 16	329	329	-	-	-	-
Recognized tax loss	53,798	52,532	-	-	-	1,266
Deferred Tax Liabilities						
Borrowings	(587)	35	-	-	-	(622)
Deferred tax liability - HPBSS merger	-	55	-	(55)	-	-
Revaluation Reserve	(145)	-	-	-	13	(158)
Fair Value Reserve	(69,968)	-	-	-	(48,670)	(21,298)
Deferred Tax Assets, Net	3,839	50,413	1,907	153	(48,657)	23

18. OTHER ASSETS

u HRK '000	Group 31.12.2020	Group 31.12.2019	Bank 31.12.2020	Bank 31.12.2019
Fees Receivable	21,431	23,341	20,513	22,406
Items in Course of Collection*	28,279	31,286	28,279	31,286
Prepaid expenses	13,921	12,483	13,662	12,339
Other Receivables	73,164	70,314	72,957	70,079
Total Other Assets, Gross	136,795	137,424	135,410	136,110
Impairment Loss	(23,775)	(22,971)	(23,775)	(22,971)
Total Other Assets	113,019	114,453	111,635	113,139
Discontinued Operations	-	-	-	-
Total	113,019	114,453	111,635	113,139

** The instruments used in the billing process relate mainly to the assets in the sale-purchase agreement effective in the amount of HRK 13,607 thousand (2019: HRK 20,842 thousand), as well as other accounts receivable (population, card transactions, payment transactions, effective sales etc.).*

Movements in Impairment Allowance

Movements in the impairment allowance on other assets were as follows:

	Group 2020 HRK '000	Group 2019 HRK '000	Bank 2020 HRK '000	Bank 2019 HRK '000
Balance at January 1	22,971	115,710	22,971	14,699
(Decrease)/Increase in Impairment Losses	1,311	4,996	1,311	4,988
Reclassification of Assets acquired from JABA to Note 15. Investment Property	-	(93,694)	-	-
Effect of JABA merger	-	-	-	7,269
Effect of HPBSS merger	-	-	-	56
Foreign Exchange Currencies	(148)	220	(148)	220
Used Impairments and Other	(359)	(4,262)	(359)	(4,262)
Balance at December 31	23,775	22,971	23,775	22,971

During the merger of JABA, the Bank reclassified assets acquired for uncollected receivables in 2019 as Real Estate Investments in accordance with IFRS accounting policies and requirements. The net book value of assets reclassified to Note 15 is HRK 4,703 thousand (impairment allowance for the item is HRK 93,694 thousand).

19. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Negative Fair Value of Cross Currency Swaps	-	814	-	814
Negative fair value “swap”	21	49	21	49
Balance at December 31	21	863	21	863

20. DEPOSITS FROM BANKS

Group			2020 HRK '000			2019 HRK '000
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Demand Deposits	12,665	8,593	21,258	3,396	7,815	11,211
Term Deposits	-	75,369	75,369	-	-	-
Interest Payable Not Yet Due	8	-	8	5	-	5
Total	12,673	83,962	96,635	3,401	7,815	11,216

Bank			2020 HRK '000			2019 HRK '000
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Demand Deposits	12,665	8,593	21,258	3,396	7,815	11,211
Term Deposits	-	75,369	75,369	-	-	-
Interest Payable Not Yet Due	8	-	8	5	-	5
Total	12,673	83,962	96,635	3,401	7,815	11,216

21. DEPOSITS FROM CUSTOMERS

Group			2020 HRK '000			2019 HRK '000
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Demand Deposits						
Retail	4,874,332	2,573,118	7,447,449	4,135,922	2,200,298	6,336,221
Corporate	4,561,505	981,375	5,542,880	4,118,385	547,616	4,666,001
Restricted Deposits						
Retail	8,893	6,503	15,396	6,673	5,284	11,957
Corporate	1,380,480	1,137,133	2,517,614	1,527,646	989,083	2,516,729
	10,825,210	4,698,129	15,523,339	9,788,626	3,742,281	13,530,907
Term Deposits						
Retail	1,712,786	2,633,743	4,346,529	2,092,790	3,033,031	5,125,821
Corporate	941,615	290,491	1,232,105	858,298	522,561	1,380,859
	2,654,401	2,924,234	5,578,635	2,951,087	3,555,593	6,506,680
Interests Payable - Not Yet Due	3,727	5,144	8,872	8,035	5,702	13,737
Total	13,483,338	7,627,508	21,110,846	12,747,748	7,303,576	20,051,324

Bank			2020 HRK '000			2019 HRK '000
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Demand Deposits						
Retail	4,874,332	2,573,118	7,447,449	4,135,922	2,200,298	6,336,221
Corporate	4,569,046	981,423	5,550,470	4,126,489	547,682	4,674,171
Restricted Deposits						
Retail	8,893	6,503	15,396	6,673	5,284	11,957
Corporate	1,380,480	1,137,133	2,517,614	1,527,646	989,083	2,516,729
	10,832,751	4,698,177	15,530,929	9,796,730	3,742,347	13,539,077
Term Deposits						
Retail	1,712,785	2,633,743	4,346,528	2,092,790	3,033,031	5,125,821
Corporate	941,615	290,491	1,232,105	858,298	522,561	1,380,859
	2,654,400	2,924,234	5,578,634	2,951,087	3,555,593	6,506,680
Interests Payable - Not Yet Due	3,727	5,144	8,872	8,035	5,702	13,737
Total	13,490,879	7,627,556	21,118,434	12,755,852	7,303,642	20,059,494

Restricted deposits mainly relate to client deposits which are predetermined for special purposes, such as those based on court orders.

22. UZETI KREDITI

Group	2020 HRK '000			2019 HRK '000		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Long-term loans from HNB	400,000	-	400,000	-	-	-
Long-term loans from banks	-	121,850	121,850	-	116,198	116,198
Long-term loans HBOR	828,629	-	828,629	758,458	-	758,458
Leasing	13,151	101,377	114,528	13,505	92,454	105,959
Accrued Interests Due	130	-	130	2	-	2
Accrued Interests not Yet Due	1,482	22	1,503	496	62	558
Total	1,243,392	223,249	1,466,641	772,461	208,714	981,175

Bank	2020 HRK '000			2019 HRK '000		
	HRK	Foreign Currency	Total	HRK	Foreign Currency	Total
Long-term loans from HNB	400,000	-	400,000	-	-	-
Long-term loans from banks	-	121,850	121,850	-	116,198	116,198
Long-term loans HBOR	828,629	-	828,629	758,458	-	758,458
Leasing	13,151	101,377	114,528	13,505	92,454	105,959
Accrued Interests Due	130	-	130	2	-	2
Accrued Interests not Yet Due	1,482	22	1,503	496	62	558
Total	1,243,392	223,249	1,466,641	772,461	208,714	981,175

The Bank applied modified retrospective approaches in accordance with IFRS 16 and accounting policies, as the lessee used exceptional recognition for the lease of "low value" assets (EFTPOS devices) and short-term leases, i.e. leases with a 12-month or shorter period.

During the most recent period in 2020, the Bank recognized as an expense on a pro rata basis HRK 988 thousand (2019: HRK 1,178 thousand) for the most powerful low value assets, or HRK 272 thousand (2019: HRK 724 thousand) for short-term leases.

VAT is exempt from accrued property and the lease obligation.

The weighted average incremental borrowing rate at December 31, 2020 was 5.07 percent (at the date of initial application of IFRS 16 is 5.02%).

Changes in Lease Liabilities

	Bank	
	2020 HRK '000	2019 HRK '000
Balance as of January 1st	105,959	118,339
New contracts	25,446	7,910
Modifications	1,734	-
Lease payments	18,682	20,493
Exchange rate fluctuations	70	203
Balance at December 31	114,528	105,959

Future minimal Lease Payments

	Bank	
	2020 HRK '000	2019 HRK '000
up to one year	23,099	22,008
from one to five years	56,240	57,833
over five years	35,190	26,118
Total	114,528	105,959

23. PROVISIONS FOR LIABILITIES AND EXPENSES

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Litigation Provisions	29,868	116,488	29,868	116,488
Provision for Contingent Liabilities	14,445	2,293	14,445	2,293
Provisions for Other Liabilities	26,596	25,537	26,596	25,537
Provisions for Off-Balance Sheet Exposures	43,348	38,278	43,348	38,278
Other provisions	-	-	-	-
Total	114,258	182,595	114,258	182,595

The most significant impact on the movement of provisions for litigation during 2020 was the reversal of provisions for litigation in the amount of HRK 89,111 thousand with regard to the second-instance judgment reversing the first-instance judgment and rejecting the claim ordering the Bank to pay the plaintiff. Additional provisions for the aforementioned dispute were formed in the last quarter of 2019 according to the then estimated probability of loss of disputes and outflows on them, which is the most significant impact of the movement on provisions for litigations in 2019.

In addition to the information presented above related to the movements of provisions per litigation during 2020 and 2019, the Bank had additional net provisions for litigation in 2020 in the amount of HRK 2,491 thousand (2019: HRK 2,513 thousand).

Movements in Provisions for Liabilities and Expenses

The movements in provisions for liabilities and expenses were as follows*:*

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Balance at January 1	182,595	107,681	182,595	77,435
Increase/ (Decrease) in Provisions in the P&L Report	(58,910)	76,320	(58,910)	64,758
Effect JABA merger	-	-	-	39,727
Effect HPBSS merger	-	-	-	1,900
Other	(9,427)	(1,405)	(9,427)	(1,225)
Balance at December 31	114,258	182,595	114,258	182,595

24. OTHER LIABILITIES

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Trade Accounts Payable	9,588	9,871	9,328	9,369
Salaries Amounts to Be Withheld from Salaries, Taxes and Contributions	18,486	19,133	17,995	18,640
Provisions for Retirement Benefits, Termination Benefits and Similar Liabilities	9,265	8,752	9,265	8,752
Fees Payable	4,847	6,930	4,743	6,517
Items in Course of settlement	64,816	56,609	64,816	56,609
Prepaid Deferred Income	4,694	5,475	4,694	5,475
Other Liabilities	58,803	58,081	58,183	57,523
Provision for employee reward	2,166	4,716	2,166	4,716
Total active business parts	172,665	169,567	171,190	167,602
Withheld business parts	-	-	-	-
Total	172,665	169,567	171,190	167,602

25. EQUITY

a) Share Capital

As at 31 December 2020, the authorized, registered and fully paid-up share capital of the parent company of the Group amounted to HRK 1,214,755 thousand (2019: 1,214,755 thousand) and included 2,024,625 (2019: 2,024,625) of the approved ordinary the nominal value of HRK 600.00.

At 31 December 2020, the Bank had 795 treasury shares (2019: 795) in the total amount of HRK 477 thousand (2019: HRK 477 thousand). Reserve for own shares as of 31 December 2020 amounted to HRK 4,477 thousand (2019: HRK 4,477 thousand).

The ownership structure is as follows:

	2020		2019	
	Paid-In Capital HRK'000	Ownership (%)	Paid-In Capital HRK'000	Ownership (%)
Republic of Croatia	515,421	42.43%	515,421	42.43%
Hrvatska Pošta d.d.	144,966	11.93%	144,966	11.93%
State Agency for Deposit Insurance and Bank Resolution	109,091	8.98%	109,091	8.98%
Croatian State Pension Insurance Fund	106,387	8.76%	106,387	8.76%
Fund NEK	28,727	2.36%	28,727	2.36%
Others	310,183	25.54%	310,183	25.54%
Total	1,214,775	100.00%	1,214,775	100.00%

25. EQUITY (CONTINUED)

b) Capital Gain

Capital gain is the excess amount paid with respect to nominal value of shares at the issue of new shares. In 2020 there were no capital gains from emitting new shares (2019: 0).

c) Fair Value Reserve

The fair value reserve includes unrealized gains and losses on changes in the fair value of financial assets at fair value through other comprehensive income, net of tax.

The movements of fair value reserve during 2020 and 2019 were as follows:

Group	2020 HRK '000	2019 HRK '000
Balance at January 1	314,658	100,548
Net Unrealized (Loss)/Gain from Financial Assets at FV through OCI	(58,527)	265,899
The Cumulative Loss on the Sale of Financial Assets at FV through OCI Transferred to the P&L Report	(32,521)	(3,118)
Changes in actuarial gains	1,826	-
Deferred tax relating to the change in the revaluation of financial assets at fair value through other comprehensive income	16,796	(48,671)
Balance at December 31	242,231	314,658

Bank	2020 HRK '000	2019 HRK '000
Balance at January 1	318,746	96,935
Net Unrealized (Loss)/Gain from Financial Assets at FV through OCI	(62,615)	234,072
The Cumulative Loss on the Sale of Financial Assets at FV through OCI Transferred to the P&L Report	(32,521)	(3,118)
Changes in actuarial gains	1,826	-
Deferred tax relating to the change in the revaluation of financial assets at fair value through other comprehensive income	16,796	(48,671)
Other changes	-	39,528
Balance at December 31	242,231	318,746

25. EQUITY (CONTINUED)

d) Revaluation Reserve

Revaluation reserve in the amount of HRK 22,744 thousand (2019: HRK 28,767 thousand), net of tax, results from revaluation of land and buildings of the Bank. In 2020, the reduction in the revaluation reserve amounted to HRK 6,023 thousand (2019: an increase of HRK 28,048 thousand). The movements of revaluation reserve in 2020 and 2019 were as follows:

Group and Bank	2020 HRK ‘000	2019 HRK ‘000
Balance at January 1 (previously reported)	659	719
Restatement	28,108	-
Balance at January 1 (restated)	28,767	-
Decrease in the Revaluation Reserve on Depreciation of Assets	(7,533)	(73)
Deferred Tax Related to Revaluation Reserve	1,511	13
Balance at December 31	22,744	659

The restatement of previous periods relates to the adjustment of the redistribution of assets between construction and land, which had an impact on revaluation reserves and retained earnings with a total effect of HRK 3,368 thousand on the capital of the Bank and the Group. Deferred tax is related to the change in the revaluation of financial assets at fair value through other comprehensive income.

e) Proposed Dividends

Dividend liabilities are not recognized until they are approved at the Shareholders' General Meeting. In 2020 there were no dividend payments (2019: there were no dividend payments).

f) Legal and other reserves

The Bank is obliged to form a legal reserve by allocating 5% of net profit for the year, until the reserves reach 5% of the share capital.

Statutory reserves amount to HRK 30,907 thousand for the Group and Bank (2019: HRK 23,718 thousand Bank and Group), before 2019 result allocation, which was disclosed in the retained earnings position.

Other reserves for the Bank and Group as at 31 December 2020 amount to HRK 576,064 thousand (2019: HRK 511,366 thousand)

g) Retained earnings

In August 2020, the General Assembly of the Bank passed a Decision to divide the portion of profit in 2019 amounting to HRK 71,886 thousand, after allocating the legal reserve, and other reserves to retained earnings within capital and reserves (2019: HRK 75,929 thousand). The restatement i.e. decrease of previous periods relates to the adjustment of the redistribution of assets between construction and land, which had an impact on revaluation reserves and retained earnings with a total effect of HRK 3,368 thousand on the capital of the Bank and the Group.

h) Financial Leverage Ratio

In line with article 429 of Regulation EU 575/ 2013 from January 01, 2014, calculus of financial leverage ratio between common tier-1 equity and total exposure is mandatory for each credit institution.

Financial leverage ratio for the Bank is as follows:

	2020	2019
Financial Leverage Ratio (%)	8.64	8.96

26. INTEREST AND SIMILAR INCOME

a) Analysis by Product:

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Loans and Advances to Customers				
- Corporate	173,206	182,334	173,306	181,133
- Individuals	332,305	333,740	332,305	324,553
	505,510	516,074	505,611	505,686
Loans and Advances to Customers	(1,347)	1,454	(1,347)	1,419
Debt Securities	81,201	101,625	81,201	93,608
Bills of Exchange	100	127	100	127
Total	585,463	619,280	585,564	600,840

b) Analysis by Source:

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Corporate	113,385	120,108	113,485	118,987
Retail	332,305	333,740	332,305	324,553
Government and Public Sector	139,945	160,774	139,945	152,683
Banks and Other Financial Institutions	(1,235)	3,227	(1,235)	3,192
Other Organizations	1,064	1,432	1,064	1,425
Total	585,463	619,280	585,564	600,840

27. INTEREST AND SIMILAR EXPENSE

a) Analysis by Product

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Borrowings	12,886	12,846	12,886	12,846
Customer Deposits				
- Corporate	13,718	21,028	13,718	21,024
- Retail	20,137	39,290	20,137	30,424
	33,855	60,319	33,855	51,448
Deposits from Banks	791	95	791	18
Other	704	564	697	559
Total	48,236	73,824	48,229	64,871

b) Analysis by Recipient

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Corporate	8,310	13,722	8,310	13,722
Retail	20,137	39,290	20,137	30,424
Government and Public Sector	2,752	4,531	2,752	4,527
Banks and other Financial Institutions	15,920	14,936	15,920	14,857
Others	1,116	1,344	1,109	1,341
Total	48,236	73,824	48,229	64,871

Within the Legal entity item, HRK 5,342 thousand relates to interest expense in accordance with IFRS16 (2019: HRK 5,247 thousand)

28. FEES AND COMMISSIONS INCOME

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Cash Payment Operations	219,683	259,775	219,683	259,775
Non-Cash Payment Operations	52,825	55,633	52,855	54,969
Retail and Credit Card Operations	141,735	174,862	141,735	171,793
Letters of Credit Guarantees and Foreign-Exchange Payment Operations	14,650	20,057	14,650	19,906
Other Fees and Commissions Income	27,963	29,052	21,234	21,051
Total	456,855	539,380	450,156	527,494

29. FEES AND COMMISSIONS EXPENSE

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Cash Payment Operations	194,662	226,058	194,662	225,984
Non-Cash Payment Operations	12,339	14,333	12,337	13,912
Card Operations	52,923	75,218	52,923	75,001
Other Fees and Commission Expense	15,216	14,244	13,966	12,955
Total	275,141	329,853	273,889	327,852

30. GAINS LESS LOSSES ARISING FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Net Unrealized Losses/ (Gains) on Financial Assets at Fair Value Through Profit or Loss				
Realized Gains/ (Losses)				
- Debt securities	-	53	-	217
- Equity Securities	17	8,027	17	8,027
- Investment Funds	-	24	-	24
- Forward Contracts, OTC	44	58	44	58
	61	8,162	61	8,326
Unrealized Gains/ (Losses)				
- Debt securities	(7,007)	31,318	(7,007)	20,841
- Equity Securities	(914)	6,661	(914)	6,661
- Investment Funds	126	2,317	126	2,313
- Forward Contracts, OTC	(10)	(45)	(10)	(45)
	(7,805)	40,251	(7,805)	29,770
Total	(7,744)	48,413	(7,744)	38,096

31.a) GAINS LESS LOSSES FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Realized Gains on Disposal of Debt Securities at FV through OCI	35,036	5,158	35,036	5,158
Total	35,036	5,158	35,036	5,158

31.b) GAINS LESS LOSSES FROM TRADING IN FOREIGN CURRENCIES

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Profit from trading in foreign currencies	51,471	47,019	51,471	46,725
Other trading in foreign currencies	3,342	3,852	3,342	3,509
Total	54,812	50,872	54,812	50,234

32. OTHER OPERATING INCOME

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Dividend Income	3,293	3,646	3,293	3,646
Net Foreign Exchange Gain from Translation of Monetary Assets and Liabilities	(8,626)	(3,325)	(8,625)	(3,398)
Income on Dormant Customer Accounts	25	79	25	16
Other income	14,902	29,441	8,698	4,484
Total	9,953	29,840	3,391	4,748

33. GENERAL AND ADMINISTRATIVE EXPENSES

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Materials and Services	109,070	124,931	106,749	116,195
Administration and Marketing	9,398	17,554	9,386	15,784
Postage and Telecommunications	22,752	24,116	22,282	22,661
Staff Costs	234,860	237,276	229,153	221,897
Savings Deposit Insurance Costs	42,002	39,348	42,002	36,790
Other General and Administrative Expenses	24,892	24,400	24,304	21,703
Total	442,974	467,625	433,877	435,031

a) Staff Costs

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Net Salaries and Other Employee Costs	129,501	123,680	126,383	114,990
Taxes and Contributions (including contributions payable by employers)	92,930	97,000	90,581	91,270
Provision for severance pay, jubilee awards, vol. employee vacations	(106)	(413)	(106)	(413)
Other Fees to Employees	12,297	16,476	12,176	15,931
Provisions for Bonuses to Employees	237	533	119	119
Fees to Supervisory Board Members	234,860	237,277	229,153	221,897
Total				

As at December 31, 2020, the Bank had 1,301 employees (2019: 1,252) and the Group had 1,326 employees (2019: 1,281).

34. IMPAIRMENT LOSSES ON LOANS TO AND RECEIVABLES FROM CUSTOMERS AND OTHER ASSETS

		Group		Bank	
	Notes	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Individually Identified / Expected Impairment Losses					
Loans to and Receivables from Customers	11	(86,878)	(88,436)	(86,878)	(89,095)
Financial Assets at FV through P&L	8	27,807	(6,588)	27,807	(6,588)
Financial Assets at FV through OCI	9	(577)	(3,437)	(577)	(3,401)
Financial Assets at Amortized Cost	10	(60)	(60)	(60)	(60)
Other Assets	18	(1,311)	(5,268)	(1,311)	(4,988)
Investment property	15	(8,712)	(4,730)	(8,712)	(4,730)
Tangible and intangible assets	14,16	1,725	-	1,725	-
Gains from Recovery of Placements Written-Off in Previous Years		842	219	842	219
Total Cost		(67,164)	(108,300)	(67,164)	(108,642)
Portfolio Based Identified / Expected Impairment Losses					
Loans to and Receivables from Customers	11	(54,074)	(54,603)	(54,074)	(54,453)
Financial Assets at Amortized Cost	10	(126)	(15)	(126)	(15)
Total Cost		(54,200)	(54,618)	(54,200)	(54,468)
Total Portfolio Based and Individually expected / Identified Losses					
Loans to and Receivables from Customers	11	(140,953)	(143,039)	(140,953)	(143,548)
Financial Assets at FV through P&L	8	27,807	(6,588)	27,807	(6,588)
Financial Assets at FV through OCI	9	(577)	(3,437)	(577)	(3,401)
Financial Assets at Amortized Cost	10	(186)	(75)	(186)	(75)
Other Assets	18	(1,311)	(5,268)	(1,311)	(4,988)
Investment property	15	(8,712)	(4,730)	(8,712)	(4,730)
Tangible and intangible assets	14,16	1,725	-	1,725	-
Gains from Recovery of Placements Written-Off in Previous Years		842	219	842	219
Total Cost		(121,364)	(162,918)	(121,364)	(163,110)

35. CORPORATE TAX

Total recognized corporate tax expense, calculated at the corporate tax rate of 18%, comprises corporate tax expense recognized in the P&L report and movements in deferred tax recognized in equity, as follows:

Income Tax Expense Recognized in the P&L Statement

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Current Tax	(298)	(466)	-	-
Recognized Deferred Tax assets	(44,888)	50,413	(44,888)	50,413
Other tax (cost)	-	(1,709)	-	(1,709)
Total Current Tax Recognized in the P&L Report	(45,186)	48,238	(44,888)	48,704

The movement of deferred tax assets and liabilities with recognition effects in other comprehensive income and the income statement is set out in Note 17. Net deferred tax assets / liabilities.

Reconciliation of Income Tax Expense

The reconciliation between income tax expense and profit before tax is shown as follows:

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Profit Before Taxation	228,570	98,678	226,950	95,068
Income Tax at the Rate of 18%	(41,143)	(18,359)	(40,851)	(17,112)
Tax Non-Deductible Expenses	(11,872)	(14,674)	(11,863)	(16,504)
Non-Taxable Income	9,635	4,642	9,632	5,691
Recognized Deferred Tax Assets	(1,806)	76,629	(1,806)	76,629
	(45,186)	48,238	(44,888)	48,704
Effective Income Tax Rate	*19.77%*	*(48.9%)*	*19.78%*	*(51.2%)*

Recognized Deferred Tax in Respect of Tax Losses Disposable in Prospective Periods

The Bank, as the Mother company of the Group, as at 31 December 2020 incurred HRK 33,908 thousand of accumulated unused tax losses that it can utilize until 31 December 2024. Pre-tax profit after tax increase and decrease amounted to HRK 239,343 thousand.

In 2019, the Bank recognized deferred tax assets on the basis of the remaining unused transfer tax loss at the rate of 18 percent, in accordance with International Accounting Standard 12 “Income Taxes”, Article 34 (OG 136/09): “Deferred tax assets should be recognized for transferable unused tax losses and unused tax benefits to the extent that it is probable that future taxable profit, for which unused tax losses and unused tax benefits may be used, will be available.

In 2020, the Bank abolished the proportional part of previously recognized deferred assets in relation to the used transferred tax losses in the calculation of tax expense.

36. EARNINGS PER SHARE

For the purpose of calculating earnings per share, earnings are accounted for as the profit / loss for the current period intended for the shareholders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares in circulation during the year after the decrease of the number of regular treasury shares. The weighted average number of ordinary shares used in calculating the basic earnings per loss was 2,023,830 (2019: 2,023,830). Given that there is no effect on options, convertible bonds or similar effects, the weighted average number of ordinary shares used to calculate the diluted / diluted earnings per share would be the same as the number used to calculate the basic earnings per share, or 2,023,830 (2010: 2,023,830), as shown below:

a) Basic Earnings Per Share

Profit and weighted average number of ordinary shares outstanding:

	2020 HRK '000	2019 HRK '000
Current Year Profit/ Distributable to the Bank's Owners	182,063	143,773
Profit Used to Calculate Basic Earnings Per Share	182,063	143,773
Weighted Average Ordinary Shares Outstanding Used to Calculate Basic Earnings Per Share	2,023,830	2,023,830
Basic Earnings Per Share from Active Operations	89.96	71.04

b) Diluted Earnings Per Share

Profit used to calculate diluted Earnings Per Share

	2020 HRK '000	2019 HRK '000
Profit Used to Calculate Earnings Per Share		143,773
Adjustments	-	-
Profit Used to Calculate Diluted Earnings Per Share	182,063	143,773

Adjustments of weighted average ordinary shares outstanding used to calculate diluted earnings per share compared to weighted average ordinary shares outstanding used to calculate earnings per share:

	2020	2019
Weighted Average Ordinary Shares Outstanding Used to Calculate Earnings Per Share	2,023,830	2,023,830
Shares Issued Without Cost:		
- Options for Employees	-	-
- Partially Payed Ordinary Shares	-	-
- Convertible Bonds	-	-
- Other	-	-
Weighted Average Ordinary Shares Outstanding Used to Calculate Diluted Earnings Per Share	2,023,830	2,023,830
Diluted Earnings Per Share	89.96	71.04

37. CONCENTRATION OF ASSETS AND LIABILITIES

The assets and liabilities of the Bank are significantly concentrated on amounts directly due from and to the Republic of Croatia. The amounts at year end, including accrued interest, are as follows:

		Group		Bank	
	Notes	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Giro Account with the CNB	5	2,246,485	1,014,563	2,246,485	1,014,563
Mandatory Reserve with the Croatian National Bank	6	1,219,157	1,558,207	1,219,157	1,558,207
Bonds of the Republic of Croatia		4,460,155	4,877,781	4,460,155	4,877,781
Treasury Bills of the Croatian Ministry of Finance		188,212	129,998	188,212	129,998
Loans and Advances to the Republic of Croatia		2,192,767	2,026,916	2,192,767	2,026,916
Deposits from the Republic of Croatia		(3,207,102)	(2,887,228)	(3,207,102)	(2,887,228)
Total		7,099,675	6,720,236	7,099,675	6,720,236

The Bank's exposure towards local government and state institutions not directly funded by the State Budget (excluding state owned companies) is presented below:

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Loans	1,446,454	745,405	1,446,454	745,405
Deposits	(463,745)	(515,712)	(463,745)	(515,712)
Total	982,709	229,693	982,709	229,693

38. CASH AND CASH EQUIVALENTS

u HRK '000		Group		Bank	
	Note	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Cash and Amounts Due from Banks	5	3,684,942	2,771,242	3,684,902	2,771,207
Deposits with Banks with Original Maturities of Up to 90 Days		368,360	234,791	368,360	234,791
Items in Course of Collection	18	28,279	31,286	28,279	31,286
Total		4,081,582	3,037,319	4,081,541	3,037,284

39. CONTINGENT LIABILITIES

	Group		Bank	
	2020 HRK '000	2019 HRK '000	2020 HRK '000	2019 HRK '000
Guarantees Denominated in HRK	334,258	323,803	334,258	323,803
Guarantees Denominated in Foreign Currency	54,562	65,000	54,562	65,000
Letters of Credit	9,844	3,598	9,844	3,598
Undrawn Lending Commitments	1,932,285	1,741,140	1,932,285	1,741,492
Total	2,330,948	2,133,541	2,330,948	2,133,893

As at December 31, 2020, the Group and the Bank recognized the provision based on off-balance sheet risks arising from the issuance of guarantees, letters of credit and unused loans, the Group in the amount of HRK 43,348 thousand (2019: Bank HRK 38,278 thousand; Group HRK 38,278 thousand) included in Provisions for liabilities and charges (Note 23).

40. DERIVATIVE INSTRUMENTS AND DEALINGS IN FOREIGN CURRENCIES

The Bank and Group had the following derivative contracts, accounted for as trading instruments, open at year-end:

Group	Contracted Amount, Remaining Life					Fair Value	
	Up to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total	Assets	Liabilities
2020	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Forward Foreign Exchange Contracts - OTC	-	-	-	-	-	-	-
Cross Currency Swap Contracts - OTC	75,450	-	-	-	75,450	-	21
Total	75,450	-	-	-	75,450	-	21

Bank	Contracted Amount, Remaining Life					Fair Value	
	Up to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total	Assets	Liabilities
2020	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Forward Foreign Exchange Contracts - OTC	-	-	-	-	-	-	-
Cross Currency Swap Contracts - OTC	75,450	-	-	-	75,450	-	21
Total	75,450	-	-	-	75,450	-	21

41. RELATED PARTY TRANSACTIONS

The Bank is the parent of the Hrvatska Poštanska Bank Group.

Key shareholders of the Bank are the Republic of Croatia as the largest shareholder with an ownership stake of 42.43 percent, and Hrvatska Pošta d.d. ("HP") with a stake of 11.93 percent.

Other significant state-owned shareholders include: State agency for deposits insurance and bank resolution ("DAB"), the Croatian Pension Insurance Institute ("HZMO") and Fund for financing the decommissioning of the Krško Nuclear Power Plant and the disposal of NEK radioactive waste and spent nuclear fuel ("NEK fund"). These shareholders together own 74.46% of the Bank's shares. The remaining 25.54% (2019: 25.54%) are publicly traded.

a) Key Transactions with Related Parties

Hrvatska Pošta d.d. ("HP") performs domestic payment transactions for and on behalf of the Bank. Exposure to Hrvatska Pošta d.d. mainly comprises fees receivable based on domestic payment transactions performed for and on behalf of the Bank, as well as placements in debt securities issued by Hrvatska Pošta d.d. Liabilities towards Hrvatska Pošta d.d. mainly relate to demand and term deposits. Income and expenses mostly relate to commissions for services provided.

Exposure to the state is shown in Note 37, *Concentration of assets and liabilities*.

The exposure to members of HPB Group mainly consists of investment into share capital. The Bank performs payment transactions on behalf of its subsidiaries and, accordingly, recognizes income. Expenses payable to HPB Nekretnine relate to the services performed by the subsidiary in respect of estimation of collateral.

Key management did not have regular shares at the end of the reporting period (2019: -).

41. RELATED PARTY TRANSACTIONS (CONTINUED)

b) Amounts arising from transactions with related parties

Assets and liabilities and off-balance sheet exposure and income and expense as at and for the years ended December 31, 2020 and December 31, 2019 of the Group and Bank, arising from transactions with related parties were as follows:

Group

2020	Exposure* HRK'000	Liabilities HRK'000	Income HRK'000	Expenses HRK'000
Key Shareholders				
Republic of Croatia				
Hrvatska Pošta d.d.	216,793	231,773	230,555	229,508
Subsidiaries				
HPB Invest Ltd	-	-	-	-
HPB Nekretnine d.o.o.	-	-	-	-
HPB Stambena Štedionica d.d.	-	-	-	-
Jadranska banka d.d.	-	-	-	-
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	665	2,186	10	22,690
Long-Term Benefits (loans and deposits)	3,635	621	97	312
Companies Under Significant Influence	20,000	750	7	22
Total	241,093	235,330	230,669	252,532

2019	Exposure* HRK'000	Liabilities HRK'000	Income HRK'000	Expenses HRK'000
Key Shareholders				
Republic of Croatia	-	-	-	-
Hrvatska Pošta d.d.	213,888	263,467	268,044	254,802
Subsidiaries				
HPB Invest Ltd	-	-	-	-
HPB Nekretnine d.o.o.	-	-	-	-
HPB Stambena Štedionica d.d.	-	-	-	-
Assets Held for sale	-	-	-	-
H1 TELEKOM				
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	942	1,921	16	22,956
Long-Term Benefits (loans and deposits)	8,438	137	443	285
Companies Under Significant Influence	20,000	276	563	-
Total	243,269	265,801	269,066	278,043

** Exposure includes advances in cash and in kind, contingent liabilities and receivables, interest and other receivables and includes HRK 16,046 thousand (2019: HRK 18,315 thousand) off-balance sheet exposures. Expenses do not include value adjustments, unrealized gains / losses on securities or loss provisions.*

41. RELATED PARTY TRANSACTIONS (CONTINUED)

b) Amounts arising from transactions with related parties (continued)

Bank

2020	Exposure* HRK'000	Liabilities HRK'000	Income HRK'000	Expenses HRK'000
Key Shareholders				
Republic of Croatia				
Hrvatska Pošta d.d.	216,793	231,773	230,555	229,508
Subsidiaries				
HPB Invest Ltd	5,061	5,870	3,000	-
HPB Nekretnine d.o.o.	7,200	6678	644	1,541
HPB Stambena Štedionica d.d.	-	-	-	-
Jadranska banka d.d.	-	-	-	-
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	725	2,189	9	20,785
Long-Term Benefits (loans and deposits)	3,225	883	76	12
Companies Under Significant Influence	20,000	750	7	22
Total	253,004	248,143	234,291	251,868

2019	Exposure* HRK'000	Liabilities HRK'000	Income HRK'000	Expenses HRK'000
Key Shareholders				
Republic of Croatia				
Hrvatska Pošta d.d.	213,888	263,467	268,044	254,802
Subsidiaries				
HPB Invest Ltd	5,075	6,973	3,508	-
HPB Nekretnine d.o.o.	4,800	6636	1,216	2,122
HPB Stambena Štedionica d.d.	-	-	618	-
Jadranska banka d.d.	-	-	89	-
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	953	1,878	13	18,874
Long-Term Benefits (loans and deposits)	7,640	400	397	244
Companies Under Significant Influence	20,000	276	563	-
Total	252,356	279,629	274,447	276,042

** Exposure includes cash and cash advances, contingent liabilities, commitments and interest and other receivables, and includes HRK 17,189 thousand (2019: HRK 18,636 thousand) of off-balance sheet exposures. Expenses do not include value adjustments, unrealized gains / losses on securities or loss provisions. In 2019, revenues and expenses of JABA are included into the consolidated P&L account from acquisition date.*

41. RELATED PARTY TRANSACTIONS (CONTINUED)

c) State owned companies

Major shareholders of the Bank, which together own 74.46% of its shares, are state agencies or state-owned companies, all mainly funded from the State Budget. Accordingly, transactions and balances with other state-owned companies, including credit risk exposures guaranteed by the state, also represent related party relationships. The Bank has a significant exposure to these parties, which is disclosed in Note 37.

42. REPURCHASE AND RESALE AGREEMENTS

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.
Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognized and the proceeds are accounted for as interest-bearing borrowings. At the end of the year assets sold under repurchase agreements were as follows:

	Book Value of Receivables HRK'000	Fair Value of Collaterals HRK'000	Repurchase Date	Repurchase Price HRK'000
Loans to Customers – Repo Agreements				
2020	400,790	420,856	March 2025	401,319
2019	-	-	-	-

Related Party Transactions, in accordance with IFRS 9: Financial Instruments, are recognized as repurchase agreements.

The Group also purchases financial instruments provided that they are re-sold at a contracted future date ("resale agreement"). The seller agrees to buy the same or similar instruments on the agreed future date. Re-sale is contracted as a client financing instrument and is recorded as loans and advances to customers and the purchased financial instrument is not recognized.

	Book Value of Receivables HRK'000	Fair Value of Collaterals HRK'000	Repurchase Date	Repurchase Price HRK'000
Loans to Customers – Reverse Repo Agreements				
2020	27,275	4,604	January 2021	27,276
2019	42,554	44,369	January 2020	42,559

43. FUNDS MANAGED FOR AND ON BEHALF OF CORPORATE AND RETAIL CUSTOMERS

The Group manages funds on behalf of and for the account of legal entities, households and investment funds (including investment funds of the Group), which holds and manages assets or invests funds in various financial instruments at the client's request. For services provided, the Bank receives a fee income. This asset is not the Group's assets and is not recognized in the statement of financial position. The Group is not exposed to credit risks from such placements or guarantees for investments.

As at December 31, 2020, the total assets of the Bank, including HPB Group funds, amounted to HRK 6.16 billion (2019: HRK 6.07 billion).

Furthermore, as at 31 December 2020, total assets of investment and pension funds for which the Bank performs depositors' business amounted to HRK 6.03 billion (2019: HRK 5.97 billion).

The Bank also manages other credit exposure, as follows:

	2020 HRK '000	2019 HRK '000
Assets		
Corporate	58,006	55,366
Retail	483,200	495,655
Giro Accounts	635,490	579,655
Total Assets	1,176,696	1,130,676
Liabilities	67,314	65,204
Croatian Employment Office	10,114	8,889
Counties	1,084,975	1,043,149
Government of the Republic of Croatia	8,849	8,464
Other Liabilities	5,445	4,970
Total Liabilities	1,176,696	1,130,676

44. AVERAGE INTEREST RATES

Average interest rates calculated as the weighted average of each category of interest-earning asset and interest-bearing liability, are presented below:

Group

Assets	Average interest rates 2020	Average interest rates 2019
Cash and Amounts Due from Banks	(0.12%)	(0.16%)
Loans to and Receivables from Banks	0.42%	1.34%
Financial Assets at FV Through P&L	1.93%	2.05%
Financial Assets at FV through OCI	1.63%	2.10%
Financial Assets at Amortized Cost	5.35%	2.53%
Loans and Receivables from Customers	3.63%	4.16%
Liabilities		
Deposits from Banks	(0.03%)	(0.05%)
Customer Deposits	(0.25%)	(0.27%)
Borrowings	(1.05%)	(1.59%)

Bank

Assets	Average interest rates 2020	Average interest rates 2019
Cash and Amounts Due from Banks	(0.12%)	(0.16%)
Credits to and Receivables from Banks	0.42%	1.34%
Financial Assets at FV Through P&L	1.93%	2.05%
Financial Assets at FV through OCI	1.63%	2.10%
Financial Assets at Amortized Cost	5.35%	2.53%
Loans and Receivables from Customers	3.63%	4.16%
Liabilities		
Deposits from Banks	(0.03%)	(0.05%)
Customer Deposits	(0.25%)	(0.27%)
Borrowings	(1.05%)	(1.59%)

45. FER VRIJEDNOST FINANCIJSKIH INSTRUMENENAT

Fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's-length transaction.

Financial instruments at fair value through profit or loss or financial assets at fair value through other comprehensive income are measured at fair value. Financial assets valued at amortized cost are measured at amortized cost less impairments. Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are disclosed at their fair value that arises from price quotes of these instruments on active markets. Financial liabilities at fair value through profit or loss are disclosed at fair values calculated on the basis of available conditions of these 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/ or disclosure purposes in these consolidated financial reports is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

Loans

The fair value of loans and advances is calculated based on discounted expected future cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. Expected future cash flows are estimated considering credit risk and any indication of impairment including portfolio-based provisions for performing (i.e. A-risk rated) loans calculated at rates prescribed by the CNB. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. The Bank has a limited portfolio of loans with fixed rates, where there is a difference between the fair value and the carrying amount.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Investments carried at cost

For equity investments for which a quoted market price is not available, fair value is, where possible, estimated using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date. Where discounted cash flow techniques provide insufficiently reliable valuations due to a number of uncertainties related to estimations of future cash flows, investments are carried at cost less impairment.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, 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.

Borrowings

Most of the Bank's long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the reporting date to the Bank for new debt of similar type and remaining maturity.

The following table represents the Bank's estimate of the fair value hierarchy of financial instruments as of December 31, 2020 and December 31, 2019.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Group December 31, 2020	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
FINANCIAL ASSETS					
Cash and Receivables from Banks	3,684,942	Level 1	Cash and Cash Equivalents	3,684,942	-
Mandatory Reserve with the Croatian National Bank	1,219,157	Level 1	Cash Equivalent	1,219,157	-
Loans to and Receivables from Banks	379,399	Level 3	Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows	379,399	-
Financial Assets at Fair Value through P&L	758,106			758,106	-
- Ministry of Finance Treasury Bills	-	Level 2	Ministry of Finance Treasury Bills	-	-
- Ministry of Finance Bonds	619,551	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	619,551	-
- Open-End Investment Fund Investments	71,086	Level 1	*Value of an Individual Share on Given Date*	71,086	-
- Equity Securities	24,254	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	24,254	-
- Equity Securities – Not Listed	20,000	Level 3	Internal valuation	20,000	-
- Fair Value of Forwards	-	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	-	-
Loans and Receivables from customers	17,415	Level 3	Present Value of Discounted Future Cash Flows	17,415	-
- Interest Receivables, not due	5,798	Not Applicable	Not Applicable	5,798	-
Financial Assets at Fair Value through OCI	4,158,035			4,158,035	-
- Ministry of Finance Treasury Bills	188,212	Level 2	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	188,212	-
- Ministry of Finance Bonds	3,807,305	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	3,807,305	-
- Foreign Country Securities	-	Level 1	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Corporate Bonds of State-Run Companies	83,065	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	83,065	-
- Corporate Bonds of Other Companies		Level 3	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows		-
- Equity Securities – Not Listed	24,095	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B.	24,095	-
- Equity Securities – Listed	24,933	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	24,933	-
- Interest Receivables, not due	30,426	Not Applicable	Not Applicable	30,426	-
Financial Assets at Amortized Cost	1,975	Level 3	Present Value of Future Discounted cash Flows	1,975	-
Loans and Receivables from Customers	14,395,471	Level 3	Present Value of Future Discounted Cash Flows	14,722,770	(328,107)
Total Financial Assets	24,596,227			24,924,384	(328,107)
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through P&L	21	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	21	-
Deposits from Banks	96,639	Level 3	Present Value of Discounted Cash Flows Under Currently Effective Interest Rates	96,635	(4)
Customer Deposits	21,119,160	Level 3	Present Value of Discounted Cash Flows Under Currently Effective Interest Rates	21,110,846	(8,315)
Borrowings	1,487,332	Level 3	Present Value of Discounted Cash Flows Under Currently Effective Interest Rates	1,466,641	(20,691)
Total Financial Liabilities	22,703,152			22,674,143	(29,009)
TOTAL					(357,167)

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Group December 31, 2019	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
FINANCIAL ASSETS					
Cash and Receivables from Banks	2,771,242	Level 1	Cash and Cash Equivalents	2,771,242	-
Mandatory Reserve with the Croatian National Bank	1,558,207	Level 1	Cash Equivalent	1,558,207	-
Loans to and Receivables from Banks	247,640	Level 3	Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the FV is the Present Value of Discounted CF	247,640	-
Financial Assets at FV through P&L	634,070			634,070	-
- Ministry of Finance Treasury Bills	-	Level 2	Ministry of Finance Treasury Bills	-	-
- Ministry of Finance Bonds	511,840	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	511,840	-
- Open-End Investment Fund Investments	71,867	Level 1	*Value of an Individual Share on Given Date*	71,867	-
- Equity Securities	24,212	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	24,212	-
- Fair Value of Forwards	852	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	852	-
-loans and receivables from customers	19,760	Level 3		19,760	-
- Interest Receivables not due	5,538	Not Applicable	Not Applicable	5,538	-
Financial Assets Available for Sale	4,640,205			4,640,205	-
- Ministry of Finance Treasury Bills	129,998	Level 3	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	129,998	-
- Ministry of Finance Bonds	4,318,350	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	4,318,350	-
- Foreign Country Securities	-	Level 1	*Mark-to-Model* Using Internal Model for Determining the PV of Future CF	-	-
- Corporate Bonds of State-Run Companies	89,617	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	89,617	-
- Corporate Bonds of Other Companies		Level 3	*Mark-to-Model* Using Internal Model for Determining the PV of Future CF		-
- Equity Securities – Not Listed	21,284	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B.	21,284	-
- Equity Securities – Listed	35,986	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	35,986	-
- Interest Receivables not due	44,971	Not Applicable	Not Applicable	44,971	-
Financial Assets Held to Maturity	4,300	Level 3	Present Value of Future Discounted cash Flows	4,300	-
Loans and Receivables from Customers	13,045,974	Level 3	Present Value of Future Discounted Cash Flows	13,334,456	(288,482)
Total Financial Assets	22,901,637			23,190,119	(288,482)
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through P&L	863	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	863	-
Deposits from Banks	11,216	Level 3	Present Value of Discounted Cash Flows Under Currently Effective Interest Rates	11,216	-
Customer Deposits	20,063,185	Level 3	Present Value of Discounted Cash Flows Under Currently Effective Interest Rates	20,051,324	(11,861)
Borrowings	1,004,720	Level 3	Present Value of Discounted Cash Flows Under Currently Effective Interest Rates	981,175	(23,545)
Total Financial Liabilities	21,079,984			21,044,579	(35,406)
TOTAL					(323,888)

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Bank December 31, 2020	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
FINANCIAL ASSETS					
Cash and Receivables from Banks	3,684,902	Level 1	Cash and Cash Equivalents	3,684,902	-
Mandatory Reserve with the Croatian National Bank	1,219,157	Level 1	Cash Equivalent	1,219,157	-
Loans to and Receivables from Banks	379,399	Level 3	Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows	379,399	-
Financial Assets at Fair Value through P&L	759,271			759,271	-
- Ministry of Finance Treasury Bills	-	Level 2	Ministry of Finance Treasury Bills	-	-
- Ministry of Finance Bonds	619,551	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	619,551	-
- Open-End Investment Fund Investments	71,086	Level 1	*Value of an Individual Share on Given Date*	71,086	-
- Equity Securities	24,254	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	24,254	-
- Equity Securities – Not Listed	20,000	Level 3	Internal valuation	20,000	-
- Fair Value of Forwards	-	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	-	-
Loans and Receivables from customers	17,415	Level 3	Present Value of Discounted Future Cash Flows	17,415	-
- Interest Receivables, not due	6,964	Not Applicable	Not Applicable	6,964	-
Financial Assets at Fair Value through OCI	4,158,035			4,158,035	-
- Ministry of Finance Treasury Bills	188,212	Level 2	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	188,212	-
- Ministry of Finance Bonds	3,807,305	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	3,807,305	-
- Foreign Country Securities	-	Level 1	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Corporate Bonds of State-Run Companies	83,065	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	83,065	-
- Corporate Bonds of Other Companies	-	Level 3	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Equity Securities – Not Listed	24,095	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B.	24,095	-
- Equity Securities – Listed	24,933	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	24,933	-
- Interest Receivables, not due	30,426	Not Applicable	Not Applicable	30,426	-
Financial Assets at Amortized Cost	1,975	Level 3	Present Value of Future Discounted cash Flows	1,975	-
Loans and Receivables from Customers	14,395,471	Level 3	Present Value of Future Discounted Cash Flows	14,722,770	(328,157)
Total Financial Assets	24,597,351			24,925,509	(328,157)
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through P&L	21	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	21	-
Deposits from Banks	96,639	Level 3	Present Value of Discounted Cash Flows Under Currently Effective Interest Rates	96,635	(4)
Customer Deposits	21,126,749	Level 3	Present Value of Discounted Cash Flows Under Currently Effective Interest Rates	21,118,434	(8,315)
Borrowings	1,487,332	Level 3	Present Value of Discounted Cash Flows Under Currently Effective Interest Rates	1,466,641	(20,691)
Total Financial Liabilities	22,710,741			22,681,732	(29,009)
TOTAL					(357,167)

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Bank December 31, 2019	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
FINANCIAL ASSETS					
Cash and Receivables from Banks	2,771,207	Level 1	Cash and Cash Equivalents	2,771,207	-
Mandatory Reserve with the Croatian National Bank	1,558,207	Level 1	Cash Equivalent	1,558,207	-
Loans to and Receivables from Banks	247,640	Level 3	Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the PV of Discounted CFs	247,640	-
Financial Assets at Fair Value in P&L	634,070			634,070	-
- Ministry of Finance Treasury Bills	-	Level 3	Ministry of Finance Treasury Bills	-	-
- Ministry of Finance Bonds	511,840	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	511,840	-
- Open-End Investment Fund Investments	71,867	Level 1	*Value of an Individual Share on Given Date*	71,867	-
- Equity Securities	24,212	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	24,212	-
- Fair Value of Forwards	852	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	852	-
Loans and Receivables from customers	19,760	Level 3	Present Value of Discounted Future Cash Flows	19,760	-
- Interest Receivables not due	5,538	Not Applicable	Not Applicable	5,538	-
Financial Assets at Fair Value through OCI	4,640,205			4,640,205	-
- Ministry of Finance Treasury Bills	129,998	Level 3	*Mark-to-Model* Using Internal Model for Determining the PV of Future CFs	129,998	-
- Ministry of Finance Bonds	4,318,350	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	4,318,350	-
- Foreign Country Securities	-	Level 1	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Corporate Bonds of State-Run Companies	89,617	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	89,617	-
- Corporate Bonds of Other Companies	-	Level 3	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	-	
- Equity Securities – Not Listed	21,284	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B.	21,284	-
- Equity Securities - Listed	35,986	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	35,986	-
- Interest Receivables not due	44,971	Not Applicable	Not Applicable	44,971	-
Financial Assets at Amortized Cost	4,300	Level 3	Present Value of Future Discounted cash Flows	4,300	-
Loans and Receivables from Customers	13,050,539	Level 3	Present Value of Future Discounted Cash Flows	13,339,021	(288,482)
Total Financial Assets	22,906,167			23,194,649	(288,482)
FINANCIAL LIABILITIES					
Financial Assets at Fair Value Through P&L	863	Level 3	Internal valuation Model for FX Contracts Using Future Cash Flows	863	-
Deposits from Banks	11,216	Level 3	Present Value of Discounted Cash Flows Under Currently Effective Interest Rates	11,216	-
Customer Deposits	20,071,355	Level 3	Present Value of Discounted Cash Flows Under Currently Effective Interest Rates	20,059,494	(11,861)
Borrowings	1,004,720	Level 3	Present Value of Discounted Cash Flows Under Currently Effective Interest Rates	981,175	(23,545)
Total Financial Liabilities	21,088,154			21,052,749	(35,406)
TOTAL					(323,888)

46. ENCUMBERED ASSETS OF THE CREDIT INSTITUTION

The Bank under the term encumbered assets means the pledged assets, given as collateral, subject to some form of pledge or serves to improve the credit position from which it cannot be withdrawn freely. Also, the assets for which the withdrawal must be previously approved are considered to be encumbered assets

In the structure of assets, the Bank has recorded encumbered assets in the amount of HRK 2,663,217 thousand (2019: 2,752,502) thousand. Encumbered assets of the Bank represent 10.46 percent of Bank's assets.

Encumbered assets of the Bank include a total of HRK and foreign currency reserve requirements, which include the amounts held in the accounts with the CNB, as well as funds on reserve maintenance accounts in the total amount of HRK 1,935,792 thousand (2019: 2,445,894 thousand - in the reporting year mandatory reserve rate was reduced from 12% to 9%).

Bank is in agreement with the CNB, during 2020, in response to the strengthening of liquidity position, caused Covid-19 crisis, contracted repo loan on the basis of which it pledged Croatian bonds in the total amount of HRK 420,856 thousand. The remaining amount of encumbered assets relates to a pledged loan of HRK 294,670 thousand as collateral for a foreign currency loan from the European Investment Bank and guarantee deposits of HRK 11,899 thousand.

Table form of encumbered assets of the Group and Bank are presented as at December 31, 2020:

	31 December 2020		31 December 2019	
Group HRK '000	Book Value	Fair Value	Book Value	Fair Value
Equity Instruments	-	-	-	-
Securities	420,856	420,856	-	-
Mandatory Reserve and Balances on Nostro Accounts on Which Mandatory Reserve is Maintained	1,935,792	1,935,792	2,445,894	2,445,894
Loans to Customers and Other Assets	306,569	306,569	305,961	305,961
Total	2,663,217	2,663,217	2,752,502	2,752,502

	31 December 2020		31 December 2019	
Bank HRK '000	Book Value	Fair Value	Book Value	Fair Value
Equity Instruments	-	-	-	-
Securities	420,856	420,856	-	-
Mandatory Reserve and Balances on Nostro Accounts on Which Mandatory Reserve is Maintained	1,935,792	1,935,792	2,445,894	2,445,894
Loans to Customers and Other Assets	306,569	306,569	305,961	305,961
Total	2,663,217	2,663,217	2,752,502	2,752,502

47. EVENTS AFTER THE REPORTING DATE

There were no significant events after the balance sheet date until the publication of these financial statements.

Balance Sheet as at 31 December 2020

Position	AOP	Note	Previous Period (net)	Current Period (net)
1	2	3	4	5
Assets				
1. Cash and Balances with the CNB and Other a vista deposit (AOP 002 to 004)	001		2,772,746,813	3,662,460,152
1.1. Cash in Register	002		961,912,026	900,072,987
1.2. Cash Balances with CNB	003		1,014,563,142	2,224,401,393
1.3. Other a Vista Deposits	004		796,271,645	537,985,772
2. Financial Assets Held for Trading (AOP 006 to 009)	005		612,871,552	719,257,423
2.1. Derivatives	006		852,203	0
2.2. Equities	007		96,079,539	95,340,654
2.3. Debt securities	008		515,939,810	623,916,769
2.4. Loans and Advances	009		0	0
3. Financial Assets not for Trading at Fair Value through Profit and Loss Account (AOP 011 to 013)	010		21,199,086	18,865,901
3.1. Equities	011		0	0
3.2. Debt Securities	012		0	0
3.3. Loans and Advances	013		21,199,086	18,865,901
4. Financial Assets at Fair Value through Profit and Loss Account (AOP 015 + 016)	014		0	0
4.2. Debt Securities	015		0	0
4.3. Loans and Advances	016		0	0
5. Financial Assets at Fair Value through Other Comprehensive Income (AOP 018 to 020)	017		4,640,197,866	4,158,015,469
5.1. Equities	018		57,269,384	49,027,711
5.1. Debt Securities	019		4,582,928,482	4,108,987,758
5.2. loans and Advances	020		0	0
6. Financial Assets at Amortized Cost (AOP 022+023)	021		15,217,710,292	16,413,935,375
6.1. Debt Securities	022		4,305,695	1,978,784
6.2. Loans and Advances	023		15,213,404,597	16,411,956,591
7. Derivatives – hedge accounting	024		0	0
8. Changes in Fair Value of Hedge Items in Interest Rate Risk Portfolio Hedging	025		0	0
9. Investments in Subsidiaries, Joint Ventures and Associates	026		5,490,000	9,760,843
10. Tangible Assets	027		324,429,807	326,523,749
11. Intangible Assets	028		109,095,746	91,038,847
12. Tax Assets	029		77,154,110	2,797,956
13. Other Assets	030		43,734,032	40,321,774
14. Non-current Assets and Disposal Groups Classified as Held for Sale	031		20,000,000	20,000,000
15. TOTAL ASSETS (AOP 001 + 005 + 010 + 014 + 017 + 021 + 024 do 031)	032		23,844,629,304	25,462,977,489

Balance Sheet as at 31 December 2020 (continued)

Position	AOP	Note	Previous Period (net)	Current Period (net)
1	2	3	4	5
Liabilities				
16. Financial Liabilities Held for Trading (AOP 034 to 038)	033		863,025	21,172
16.1. Derivatives	034		863,025	21,172
16.2. Short Positions	035		0	0
16.3. Deposits	036		0	0
16.4. Issued Debt Securities	037		0	0
16.5. Other Financial Liabilities	038		0	0
17. Financial Liabilities at Fair Value through Profit and Loss Account (AOP 040 to 042)	039		0	0
17.1. Deposits	040		0	0
17.2. Issued Debt Securities	041		0	0
17.3. Other Financial Liabilities	042		0	0
18. Financial Liabilities at Amortized Cost (AOP 044 to 046)	043		21,056,875,186	22,688,405,792
18.1. Deposits	044		20,944,398,925	22,569,135,023
18.2. Issued Debt Securities	045		0	0
18.3. Other Financial Liabilities	046		112,476,261	119,270,769
19. Derivatives – Hedge Accounting	047		0	0
20. Changes in Fair Value of Hedge Items in Interest Rate Risk Portfolio Hedging	048		0	0
21. Provisions	049		196,063,323	125,688,739
22. Tax Liabilities	050		72,429,129	25,697,310
23. Share Capital Returned at Request	051		0	0
24. Other Liabilities	052		148,186,715	150,060,287
25. Liabilities Included into Disposal Groups for Classified as Held for Sale	053		0	0
26. TOTAL LIABILITIES (AOP 033 + 039 + 043 + 047 do 053)	054		21,474,417,378	22,989,873,300
Equity				
27. Share Capital	055		1,214,775,000	1,214,775,000
28. Premium on Equity	056		0	0
29. Issued Equity Instruments Except for Capital	057		0	0
30. Other Equity Instruments	058		0	0
31. Accumulated Other Comprehensive Income	059		264,974,555	264,974,555
32. Retained Earnings	060		200,321,464	200,321,464
33. Revaluation Reserves	061		0	0
34. Other Reserves	062		611,448,026	611,448,026
35. Treasury Equities	063		-477,000	-477,000
36. Profit or Loss belonging to Mother Company Owners	064		182,062,145	182,062,145
37. Dividends During Business Year	065		0	0
38. Minority Interests (Non-controlling Interests)	066		0	0
39. TOTAL ASSETS (AOP 055 do 066)	067		2,473,104,190	2,473,104,190
40. TOTAL LIABILITIES AND EQUITY (AOP 054+067)	068		25,462,977,490	25,462,977,490

Profit and Loss Account for period from 1 January to 31 December 2020

Position	AOP	Note	Previous Period (net)	Current Period (net)
1	2	3	4	5
1. Interest Income	069		603,977,673	588,918,099
2. Interest Expense	070		68,008,691	51,583,346
3. Share Capital Returned at Request Expenses	071		0	0
4. Dividend Income	072		3,645,670	3,292,513
5. Fee and Commissions Income	073		527,494,435	450,155,698
6. Fee and Commissions Expense	074		327,852,440	273,888,635
7. Gains or Losses from derecognition of Financial Assets and Liabilities not measured at Fair Value through Profit and Loss Account, net	075		5,158,277	35,035,565
8. Gains or Losses from Financial Assets and Liabilities Held for Trading, net	076		87,516,168	47,068,263
9. Gains or Losses from Financial Assets Not for trading Measured at Fair Value through Profit and Loss Account, net	077		813,430	-571,077
10. Gains or Losses from Financial Assets and Liabilities at Fair Value through Profit and Loss Account, net	078		0	0
11. Gains or Losses from Hedge Accounting, net	079		0	0
12. Exchange Rate Differences (Gain or Loss), net	080		-3,398,215	-8,624,819
13. Gains or Losses from Derecognition of Non-financial Assets, net	081		0	0
14. Other Operating Income	082		4,500,059	10,448,879
15. Other Operating Expenses	083		43,512,701	13,223,239
16. TOTAL OPERATING INCOME, NET (AOP 069 - 070 - 071 + 072 + 073 - 074 + 075 to 082 - 083)	084		790,333,665	787,027,901
17. Administrative Expenses	085		391,518,366	381,956,776
18. Contributions in cash to recovery committees and deposit insurance schemes	086		0	42,002,367
19. Depreciation	087		75,879,820	75,816,110
20. Gains or Losses from Changes, net	088		-15,756,307	-3,386,347
21. Provisions or Termination of Provisions	089		64,757,476	-61,671,217
22. Impairment or Termination of Impairment of Financial Assets Not Measured at Fair Value through Profit and Loss Account	090		135,818,040	109,876,155
23. Impairment or Termination of Impairment of Investments into Subsidiaries, Joint Ventures and Associates	091		0	0
24. Impairment or Termination of Impairment of Non-financial Assets	092		15,879,260	8,711,610
25. Negative Goodwill recognized through Profit or Loss	093		0	0
26. Profit or Loss Share from Investments into Subsidiaries, Joint Ventures and Associates accrued by Share Method	094		0	0
27. Gains or Losses from Non-current Assets and Disposal Groups Classified as Held for Sale Not Qualified as Continuation of Business	095		0	0
28. PROFIT OR LOSS BEFORE TAX FROM CONTINUING BUSINESS (AOP 084 - 085 - 086 + 087 - 088 do 091+ 092 to 094)	096		95,068,139	226,949,753
29. Tax Expenses or Income related to Profit or Loss from Continuing Business	097		-48,704,376	-44,887,608
30. PROFIT OR LOSS AFTER TAX FROM CONTINUING BUSINESS (AOP 095 - 096)	098		143,772,515	182,062,145
31. Profit or Loss After Tax from Non-continuing Business (AOP 099 - 100)	099		0	0
30.1. Profit or Loss After Tax from Non-continuing Business	100		0	0
30.2. Tax Expenses or Income related to Non-continuing Business	101		0	0
32. PROFIT OR LOSS FOR THE YEAR (AOP 097 + 098; 102 + 103)	102		143,772,515	182,062,145
33. Attributable to Minority Interests (Non-Controlling Interests)	103		0	0
34. Attributable to Owners of the Mother Company	104		0	0

Position	AOP	Note	Previous Period (net)	Current Period (net)
1	2	3	4	5
COMPREHENSIVE INCOME STATEMENT				
1. Profit or loss for the Year (AOP 101)	104		143,772,515	182,062,145
2. Other Comprehensive Income (AOP 106 + 118)	105		319,405,173	-55,927,631
2.1. Items – not to be reclassified to P&L (AOP 107 do 113 + 116 + 117)	106		661,142	22,082,822
2.1.1. Tangible Assets	107		806,271	26,372,071
2.1.2. Intangible Assets	108		0	0
2.1.3. Actuarial gains or losses from employer's pension benefits programmed	109		0	1,825,625
2.1.4. Non-current Assets and Disposal Groups Held for Sale	110		0	0
2.1.5. Other recognized income and expenses from entities recognized at share method	111		0	0
2.1.6. Changes in Fair Value of Equities at Fair Value through Other Comprehensive Income	112		0	0
2.1.7. Gains or Losses from Hedge Accounting of Equities at Fair Value through OCI, net	113		0	0
2.1.8. Changes of fair Value of Equities at Fair Value through OCI (Hedge Item)	114		0	0
2.1.9. Changes in Fair Value of Equities at Fair Value through OCI (Hedge Instrument)	115		0	0
2.1.10. Changes in Fair Value of Financial Liabilities at Fair Value through P&L Due to Changes in Credit Risk	116		0	0
2.1.11. Income tax on items not to be reclassified to P&L	117		-145,129	-4,289,250
2.2. Items that might be reclassified to P&L (AOP 119 to 126)	118		318,744,031	-78,010,453
2.2.1 Hedge on Net Investments to Foreign Operations (effective share)	119		0	0
2.2.2. FX Exchange	120		0	0
2.2.3. Cash flow Hedge (effective share)	121		0	0
2.2.4. Hedge Risk Instruments (Undetermined Elements)	122		0	0
2.2.5. Debt Instruments at Fair Values through OCI	123		388,712,233	-95,134,699
2.2.6. Non-current Assets and Disposal Groups Held for Sale	124		0	0
2.2.7. Share of other income and expenses from investments in subsidiaries, joint ventures and associates	125		0	0
2.2.8. Income tax on items that might be reclassified to P&L	126		-69,968,202	17,124,246
3. Total other comprehensive income for the year (AOP 104 + 105 and AOP 128 + 129)	127		463,177,688	126,134,514
4. Attributable to Minority Interests (Non-Controlling Interests)	128		0	0
5. Attributable to Owners of the Mother Company	129		0	0

Regulatory Financial Statements for the Croatian National Bank

Changes in Equity During 2020

Position	AOP oznaka	Note	Distributable to parent equity holders											Minority interest		Total
			Capital	Share premium	Equity instrument issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	Treasury reserves	Profit or loss attributable to owners of the parent	Interim dividends	Accumulated other comprehensive income	Other items	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17 (4 do 16)
1. Opening balance (before restatement)	**01**		1,214,775,000	0	0	0	319,405,173	153,174,469	0	539,561,769	-477,000	143,772,514	0	0	0	2,370,211,925
2. The effects of error correction	**02**		0	0	0	0	-661,142	-24,739,262	28,768,739	0	0	0	0	0	0	3,368,335
3. Effects of changes in accounting policy	**03**		0	0	0	0	0	0	0	0	0	0	0	0	0	0
4. Opening balance (current period) (AOP form 01 to 03)	**04**		1,214,775,000	0	0	0	318,744,031	128,435,207	28,768,739	539,561,769	-477,000	143,772,514	0	0	0	2,373,580,260
5. Issuance of ordinary shares	**05**		0	0				0	0	0					0	0
6. Issuance of preferred shares	**06**		0	0	0			0	0	0					0	0
7. Issuance of other equity instruments	**07**				0			0	0	0					0	0
8. Execution or expiration of other issued proprietary instruments	**08**				0			0	0	0					0	0
9. Converting debt into equity instruments	**09**		0	0	0	0		0	0	0					0	0
10. Reduction of capital	**10**		0	0				0	0	0	0	0			0	0
11. Dividends	**11**		0	0	0	0		0	0	0	0		0		0	0
12. Purchase of treasury shares	**12**							0	0	0	0			0	0	0
13. Sale or cancelation of treasury shares	**13**							0	0	0	0			0	0	0
14. Reclassification of financial instruments from equity instruments in liabilities	**14**		0	0	0	0									0	0
15. Reclassification of financial instruments from liability in equity instruments	**15**		0	0	0	0									0	0
16. Transfers among components of instruments	**16**				0	0	0	71,886,257	0	71,886,257		-143,772,514	0	0	0	0
17. Increase or decrease equity instruments as a consequence of business combination	**17**		0	0	0	0	0	0	0	0	0				0	0
18. Stock based payments	**18**		0	0		0					0				0	0
19. Other increase or decrease in equity	**19**				0	0	0	0	0	0	0	0	0	0	0	0
20. Total comprehensive income for the current	**20**						-76,513,440	0	-6,024,776	0		182,236,646		0	0	99,698,430
21. Closing balance (current period) (AOP from 04 to 02)	**21**		1,214,775,000	0	0	0	242,230,591	200,321,464	22,743,963	611,448,026	-477,000	182,236,646	0	0	0	2,473,278,690

Cash Flow for the Year 2020

	2020. HRK '000	2019. HRK '000
Operating Activities and Impairment		
1. Profit/ (Loss) Before Tax	226,950	95,068
2. Impairment Losses and Provisions	62,454	227,868
3. Depreciation and Amortization	75,816	75,880
4. Net Unrealized (Losses)/ Gains on Financial Assets and Liabilities at Fair Value	(82,104)	(29,769)
5. Gains/ (Losses) on Sale of Tangible Assets	(2,308)	(1,059)
6. Other Non-monetary Items	8,625	3,398
Changes in Operating Assets		
7. CNB Deposits	339,050	(138,267)
8. Treasury Bills of the Ministry of Finance and the CNB bills	-	55,529
9. Loans and Advances to Other Customers	(1,820,386)	(2,522,582)
10. Securities and Other Financial Instruments at Fair Value through OCI	226,249	(1,027,334)
11. Securities and Other Financial Instruments Held for Trading	(46,059)	66,113
12. Securities and Other Financial Instruments Not Actively Trading and Measured at Fair Value through P&L	-	-
13. Securities and Other Financial Instruments Mandatory at Fair Value through P&L	2,333	(19,523)
14. Securities and Other Financial Instruments Measured at Amortized Cost	-	-
15. Other Operating Assets	(7,854)	19,377
Net Increase/ Decrease in Operating Liabilities		
16. Deposits from Financial Institutions	105,943	113,290
17. Transaction Accounts of Other Customers	1,152,816	929,778
18. Saving Deposits of Other Customers	720,175	1,333,782
19. Term Deposits of Other Customers	(928,046)	(659,126)
20. Derivative Financial Liabilities and Other Liabilities Not for Trading	(842)	418
21. Other Liabilities	(11,324)	131,098
22. Collected Interest from Operating Activities	509,425	1,538
23. Received Dividend from Operating Activities	-	3,646
24. Paid Interest from Operating Activities	(31,426)	(16,630)
25. Income Tax Paid	(430)	(1,977)
A) Net Cash Flows from Operating Activities	499,057	(1,359,484)
Investing Activities		
1. Proceeds from Sale/ (Payments for Purchases) of Tangible and Intangible Assets	(28,845)	(48,409)
2. Proceeds from Sale of/ Payments for Investments in Subsidiaries, Associates and Joint Ventures	-	-
3. Proceeds from/ (Payments to Acquire) Securities and Other Financial Instruments from Investing Activities	267,292	70,954
4. Dividends Received from Investing Activities	3,293	-
5. Other inflows / outflows from Investing Activities	-	-
B) Net Cash Flows from Investing Activities	241,740	22,545
Financing Activities		
1. Net Increase/ (Decrease) in Borrowings from Financing Activities	322,534	244,986
2. Net Increase/ (Decrease) in Issued Debt Securities	-	-
3. Net increase / (Decrease) of Additional Capital Instruments	-	-
4. Increase in Share Capital	-	-
5. Dividend Paid	-	-
6. Other inflows / outflows from Financing Activities	(18,682)	-
C) Net Cash Flows from Financing Activities	303,852	244,986
D) Net Increase in Cash and Cash Equivalents	1,044,649	(1,091,953)
Cash and Cash Equivalents at the Beginning of the Year	3,037,284	4,132,395
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents	(392)	(3,158)
Cash and Cash Equivalents at the End of the Year	4,081,541	3,037,284

Balance Sheet Reconciliation as at 31 December 2020

ASSETS

Statutory reporting

Regulatory reporting

in HRK '000	Regulatory reporting	Cash and amounts due from banks	Mandatory reserve with CNB	Loans and receivables from banks	Financial assets at fair value through profit and loss	Financial assets at fair value through other comprehensive income	Financial assets ant amortized cost	Loans and receivables from customers	Assets held for sale	Investments in subsidiaries	Property and land	Investment property	Intangible assets	Net deferred tax assets	Tax prepayment	Other assets	Reconciliation between statutory and regulatory reporting
Cash in register	900,073	(900,102)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(29)
Deposits with the CNB	2,224,401	(2,224,401)		-	-	-	-	-	-	-	-	-	-	-	-	-	0
Other a vista deposits	537,986	(538,315)	-		-	-	-	-	-	-	-	-	-	-	-		(329)
Financial assets held for trading	719,242	-	-	-	(739,242)	-	-	-	-	-	-	-	-	-	-	-	(20,000)
Financial assets non for trading, mandatory measured at fair value through profit and loss	18,864	-	-	-	(18,864)	-	-	-	-	-	-	-	-	-	-	-	(0)
Financial assets at fair value through other comprehensive income	4,158,035	-	-	-	-	(4,158,035)	-	-	-	-	-	-	-	-	-	-	0
Financial assets measured at amortized cost - debt securities	1,975	-	-	-	-	-	(1,975)	-	-	-	-	-	-	-	-	-	0
Financial assets measured at amortized	16,411,957	-	(1,219,157)	(379,399)	-	-	-	(14,743,283)	-	-	-	-	-	-	-	-	70,118
Investments in subsidiaries, joint ventures and associates	9,761	-	-	-	-	-	-	-	-	(9,761)	-	-	-	-	-	-	-
Tangible assets (less depreciation)	326,524	-	-	-	-	-	-	-	-	-	(258,356)	(65,993)	-	-	-	(2,175)	0
Intangible assets	91,039	-	-	-	-	-	-	-	-	-	-	-	(91,039)	-	-	-	0
Tay assets	2,798	-	-	-	-	-	-	-	-	-	-	-	-	23,483	(2,639)	-	23,642
Other assets	40,322	(22,084)	-	-	-	-	-	20,513	-	-	-	-	-	-	-	(109,461)	(70,710)
Non current assets and disposable groups classified as held for sale	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20,000
Total assets	**25,462,977**	(3,684,902)	(1,219,157)	(379,399)	(758,106)	(4,158,035)	(1,975)	(14,722,770)	-	(9,761)	(258,356)	(65,993)	(91,039)	23,483	(2,639)	(111,635)	**22,693**

1. Cash in register in the amount of HRK 900,073 thousand, Other a vista deposits in the amount of HRK 537,986 thousand, Financial assets at FV through OCI in the amount of HRK 4,158,035 thousand, Financial assets at amortized cost/Debt securities in the amount of HRK 1,975 thousand, Financial assets at amortized cost\Loans and advances in the amount of HRK 16,411,957 thousand, Tax assets in the amount of HRK 2,798 thousand, Other assets in the amount of HRK 40,322 thousand, Financial liabilities at amortized cost in the amount of HRK 22,688,405 thousand, Provisions in the amount of HRK 125,689 thousand, Tax liabilities in the amount of HRK 25,697 thousand and Other liabilities in the amount of HRK 150,060 thousand, within Regulatory reports, are presented within items Cash and accounts with banks in the amount of HRK 3,684,902

thousand, Financial assets at fair value through OCI in the amount of HRK 4,158,035 thousand, Financial investments at amortized cost in the amount of HRK 1,975 thousand, Mandatory CNB reserve in the amount of HRK 1,219,157 thousand, Loans and advances from banks in amount of HRK 379,399 thousand, Loans and advances to customers in the amount of 14,743,283 thousand, Assets held for sale in the amount of HRK 20,000 thousand, Property, plant and equipment in the amount of HRK 258,356 thousand, Investment property in the amount of HRK 65,993 thousand, Other assets in the amount of HRK 111,635 thousand, Bank deposits in the amount of HRK 9,635 thousand, Deposits from customers in the amount of HRK 21,118,434 thousand, Borrowings in the amount of 1,466,641 thousand, Provisions for liabilities and costs in the amount of HRK 114,258 thousand and Other liabilities in the amount of HRK 171,190 thousand in the statutory financial reports.

2. The amount of HRK 9,761 thousand presented within the item Investments into subsidiaries, joint ventures and associates in the regulatory financial reports is disclosed within the item Investments into subsidiaries in the statutory financial reports.
3. The amount of HRK 25.697 thousand of deferred tax liabilities is disclosed within the regulatory financial reports in the item Tax liabilities within liabilities, while in the principal financial reports it is netted within the item Net deferred tax assets.

Differences in other items are purely semantic in nature and there is no irreconciliation between balance sheets for 2020 in the regulatory financial reports and principal financial reports.

Statutory reporting

Regulatory reporting

in HRK '000	Regulatory reporting	Financial liabilities at fair value through profit and loss	Deposits from banks	Customer deposits	Borrowing	Provision for liabilities and expenses	Current tax liability	Other liabilities	Reconciliation between statutory and regulatory reporting
Financial liabilities held for trading	21	(21)	-	-	-	-	-	-	-
Financial liabilities at amortized cost	22,688,405	-	(96,635)	(21,118,434)	(1,466,641)	-	-	-	6,694
Provisions	125,689	-	-	-	-	(114,258)	-	-	11,431
Tax liabilities	25,697	-	-	-	-	-	-		25,697
Other liabilities	150,060	-	-	-	-	-	-	(171,190)	(21,129)
Total liabilities	**22,989,872**	**(21)**	**(96,635)**	**(21,118,434)**	**(1,466,641)**	**(114,258)**	**-**	**(171,190)**	**22,693**

CAPITAL

			Statutory reporting									
		Regulatory reporting	Share capital	Capital gain	Treasury shares	Reserves for treasury shares	Statutory reserves	Other reserves	Fair value reserve	Revaluation reserve	Retained earning/(recovered loss)	Reconciliation between statutory and regulatory reporting
Regulatory reporting – Distributable to parent equity holders	Share capital	1,214,775	(1,214,775)									-
	Premium on equity											-
	Issued equity instruments											-
	Other equity instruments											-
	Accumulated other comprehensive income	264,975							(242,231)	(22,744)		- 0
	Retained earnings	200,321									(200,321)	- 0
	Revaluation	-										-
	Other reserves	611,448				(4,477)	(30,907)	(576,064)				0
	Treasury equities	(477)			477							-
	Profit or loss belonging to mother company owners	182,063									(182,063)	0
	Dividends during business year											-
Minority interest	Accumulated other comprehensive income											-
	Other											-
	TOTAL EQUITY	**2,473,105**	**(1,214,775)**	**-**	**477**	**(4,477)**	**(30,907)**	**(576,064)**	**(242,231)**	**(22,744)**	**(382,384)**	**0**

Changes in equity and reserves statement for 2020 reconciliation

Except for differences in terminology between regulatory and principal financial reports, the reconciliation refers to:

- Other reserves in regulatory financial report are within treasury shares reserves, statutory reserves and other reserves in the statutory financial reports
- Accumulated other comprehensive income in the regulatory financial reports is within items fair value reserve and revaluation reserve in the statutory financial reports
- Profit / loss attributable to mother company owners in regulatory financial reports is within the item retained earnings / (uncovered loss) in the statutory financial reports

Regulatory Financial Statements for the Croatian National Bank

PROFIT AND LOSS ACCOUNT FOR 2020 RECONCILIATION

Regulatory reporting

in HRK '000	Total regulatory reporting	Statutory reporting: Interests and similar income	Interests and similar expense	Fees and commission income	Fees and commission expense	Gains less losses arising from financial instruments at fair value through	Gains less losses arising from financial instruments available from sale	Gains less losses arising from dealing in foreign currencies	Other operating income	General administrative expenses	Depreciation and amortization	Impairment losses on loans and receivables from customers and other assets	Provisions for liabilities and expenses	Profit before tax	Deferred income tax (expense)/income	Profit for the year	Total statutory reporting	Reconciliation between statutory and regulatory reporting
Interest income	588,918	585,564															585,564	**(3,354)**
Interest expense	(51,583)		(48,229)														(48,229)	**3,354**
Dividend income	3,293								3,293								3,293	**(0)**
Fee and commission income	450,156			450,156													450,156	**(0)**
Fee and commission expense	(273,889)				(273,889)												(273,889)	**0**
Gains of losses from recognition of financial assets and liabilities not measured at fair value through profit and loss account, net	35,036						35,036										35,036	-
Gains or losses from financial assets and liabilities held for trading, net	47,068					(7,173)		54,812									47,639	**571**
Gains or losses on non-trading financial assets measured at fair value through profit or loss, net	(571)					(571)											(571)	-
Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net																	-	-
Gains or losses from hedge accounting, net																	-	-
Exchange rate differences (gain or loss), net	(8,625)								(8,625)								(8,625)	**0**
Other operating income	10,449								8,723			1,725					10,449	**(0)**
Other operating expense	(13,223)									(33,690)							(33,690)	**(20,467)**
Administrative expense	(381,957)									(358,184)							(358,184)	**23,773**
Cash contributions to recovery committees and deposit insurance system	(42,002)									(42,002)							(42,002)	**(0)**
Depreciation	(75,816)										(75,816)						(75,816)	**(0)**
Gains or losses from changes, net	(3,386)											(577)					(577)	**2,809**
Provisions or reversal of provisions	61,671												58,910				58,910	**(2,761)**
Impairment or reversal of an impairment loss on a financial asset not measured at fair value through profit or loss	(109,876)											(113,801)					(113,801)	**(3,925)**
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and																	-	-
Impairment or reversal of impairment of non-financial assets	(8,712)											(8,712)					(8,712)	**0**
PROFIT OR LOSS BEFORE TAX FROM CONTINUING BUSINESS (AOP 084 - 085 - 086 + 087 - 088 to 091+ 092 to 094)	226,950													226,950			226,950	**0**
Tax expense or income related to operating profit or loss from continuing business	(44,888)														(44,888)		(44,888)	**0**
PROFIT OR LOSS AFTER TAX FROM CONTINUING BUSINESS (AOP 095 - 096)	182,063															182,063	182,063	**(0)**
Profit or loss after tax from continuing operations (AOP 099 - 100)																	-	-
- Profit or loss before tax from non-continuing business																	-	-
- Tax expenses or income related to non-continuing business																	-	-
PROFIT OR LOSS FOR THE CURRENT YEAR (AOP 097 + 098; 102 + 103)	**182,063**															**182,063**	**182,063**	**(0)**

Reconciliation of the statement of changes in profit and loss for 2020

1. The amount of HRK 3,354 thousand disclosed within Interest expense in regulatory financial reports is disclosed within Interest and similar income in statutory financial reports.
2. The amount of HRK 10,449 thousand within Other operating income, the amount of HRK 13,223 thousand within Other operating expenses in the amount of HRK 381,957 thousand within Administrative expenses and amount of HRK 61,671 thousand within Provisions or termination of provisions in regulatory financial reports are disclosed within Other operating income in the amount of HRK 3,391 thousand, General and administrative expenses in the amount of HRK 433,877 thousand, as well as within Provisions for liabilities and costs in the amount of HRK 58,910 thousand within statutory financial reports.

Differences in other items are purely semantic in nature and there is no mismatch between profit and loss accounts for 2020 in the regulatory financial reports and statutory financial reports.

Cash Flows Statement for 2020 Reconciliation

OPERATING ACTIVITIES

	Regulatory Financial Reports	Principal Financial Reports	Difference
Operating Activities and Impairment			
1. Profit/ (Loss) Before Tax	226,950	226,950	(0)
2. Impairment Losses and Provisions	62,454		62,454
- Impairment losses from loans to customers and other assets		121,364	(121,364)
- losses from provisions for liabilities and expenses		(58,910)	58,910
3. Depreciation	75,816	75,816	(0)
4. Net Unrealized (Losses)/ Gains on Financial Assets and Liabilities at Fair Value	(82,104)	(82,104)	0
5. Gains/ (Losses) on Sale of Tangible Assets	(2,308)		(2,308)
6. Other Non-monetary Items	8,625		8,625
- (profit) / loss from exchange rate differences		8,625	(8,625)
- net interest income		(537,335)	537,335
- dividend income		(3,293)	3,293
Changes in Operating Assets			
7. CNB Deposits	339,050		339,050
Net (increase)/decrease in mandatory CNB reserve		339,050	(339,050)
8. Deposits with financial institutions and loans to financial institutions	-		-
Increase in placements and loans to other banks		-	-
9. Loans and Advances to Other Customers	(1,820,386)		(1,820,386)
Net (increase)/decrease in loans and receivables from customers		(1,481,336)	1,481,336
10. Securities and Other Financial Instruments at Fair Value through OCI	226,249		226,249
Net (increase)/decrease in loans and receivables through OCI		226,249	(226,249)
11. Securities and Other Financial Instruments Held for Trading	(46,059)		(46,059)
Net (increase)/decrease in financial assets at fair value through P&L		(46,059)	46,059
12. Securities and Other Financial Instruments Not Actively Trading and Measured at Fair Value through P&L	-		-
13. Securities and Other Financial Instruments Mandatory at Fair Value through P&L	2,333		2,333
14. Securities and Other Financial Instruments Measured at Amortized Cost	-		-
Net (increase)/decrease in financial assets measured at amortized Cost		2,307	(2,307)
15. Other Operating Assets	(7,854)		(7,854)
Net (increase)/decrease in other assets		(7,854)	7,854
Interest charged		509,425	(509,425)
Interest paid		(31,426)	31,426
Increase/ decrease in operating liabilities			
16. Deposits from Financial Institutions	105,943		105,943
17. Transaction Accounts of Other Customers	1,152,816		1,152,816
18. Saving Deposits of Other Customers	720,175		720,175
19. Term Deposits of Other Customers	(928,046)		(928,046)
Net (increase)/decrease in deposits from banks		84,628	(84,628)
Net increase/(decrease) in deposits from customers		1,164,322	(1,164,322)
20. Derivative Financial Liabilities and other trading liabilities	(842)		(842)
21. Other Liabilities	(11,324)		(11,324)
Net increase/(decrease) in other liabilities		(11,324)	11,324
22. Collected Interest from Operating Activities	509,425		509,425
23. Received Dividend from Operating Activities	-		-
24. Paid Interest from Operating Activities	(31,426)		(31,426)
25. Income Tax Paid	(430)	(430)	-
A) Net Cash Flows from Operating Activities	499,057	356,644	142,413

Regulatory Financial Statements for the Croatian National Bank

Cash Flows Statement for 2020 Reconciliation (continued)

INVESTING ACTIVITIES

	Regulatory Financial Reports	Principal Financial Reports	Difference
Investing Activities			
1. Proceeds from Sale/ (Payments for Purchases) of Tangible and Intangible Assets	(28,845)	(28,845)	-
2. Proceeds from Sale of/ Payments for Investments in Subsidiaries, Associates and Joint Ventures	-	-	-
Sales in financial assets at fair value through other comprehensive income		656,072	(656,072)
Acquisition of financial assets at fair value through other comprehensive income		(388,780)	388,780
3. Proceeds from/ (Payments to Acquire) Securities and Other Financial Instruments from Investing Activities	267,292		267,292
Net sales/(acquisition) of financial investments at amortized cost		-	-
4. Dividends Received from Investing Activities	3,293		3,293
Dividend inflows		3,293	(3,293)
5. Other inflows / outflows from Investing Activities	-		-
B) Net Cash Flows from Investing Activities	241,740	241,740	-

FINANCING ACTIVITIES

	Regulatory Financial Reports	Principal Financial Reports	Difference
Financing Activities			
1. Net Increase/ (Decrease) in Borrowings from Financing Activities	322,534		322,534
Increase in borrowings		744,561	(744,561)
Borrowings repayment		(422,027)	422,027
Lease repayment in accordance with IFRS 16		(18,682)	18,682
2. Net Increase/ (Decrease) in Issued Debt Securities	-		-
3. Net increase / (Decrease) of Additional Capital Instruments	-		-
4. Increase in Share Capital	-		-
Increase in share capital		-	-
5. Dividend Paid	-		-
Dividend outflows		-	-
6. Other inflows / outflows from Financing Activities	-		-
C) Net Cash Flows from Financing Activities	322,534	303,852	18,682

TOTAL

	Regulatory Financial Reports	Statutory Financial Reports	Difference
Cash and Cash Equivalents at the Beginning of the Year	3,037,284	3,037,284	-
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents	(392)		(392)
Cash and Cash Equivalents at the End of the Year	4,081,541	4,081,541	(-)

Cash Flows Statement for 2020 Reconciliation (continued)

1. The amount of HRK 62,454 thousand within Impairment and Provisions in regulatory financial reports is disclosed within Losses from impairment of loans and receivables from customers and other assets in the amount of HRK 121,364 thousand and within Provisions for liabilities and costs in the amount of HRK (58,910) thousand in statutory financial reports.
2. The amount of HRK 8,625 thousand within Other non-monetary items in regulatory financial reports is disclosed within (gains)/losses from FX differences in statutory financial reports
3. The amount of HRK 339,050 thousand within Accounts with CNB in regulatory financial reports is disclosed within Net (increase)/decrease in mandatory CNB reserve in statutory financial reports.
4. The amount of HRK 3,293 thousand within Dividends received from operating activities in regulatory financial reports is disclosed within Dividend inflows (Cash flows from investing activities) in statutory financial reports.
5. Gains/losses from sale of tangible assets in the amount of HRK 2,308 thousand, Loans and advances to other clients in the amount of HRK 1,820,386 thousand, Securities and other financial instruments at fair value through other comprehensive income in the amount of HRK 226,249 thousand, Securities and other financial instruments held for trading in the amount of HRK 46,059 thousand, Securities and other financial instruments mandatory at fair value through profit and loss account in the amount of HRK 2,333 thousand, Other assets from operating activities in the amount of HRK 7,854 thousand, Deposits from financial institutions in the amount of HRK 105,943 thousand, Transaction accounts of other customers in the amount of HRK 1,152,816 thousand, Saving deposits from other customers in the amount of HRK 720,175 thousand, Term deposits in the amount of HRK 928,046 thousand, Derivative financial liabilities and other liabilities for trading in the amount of HRK 842 thousand, Other liabilities in the amount of HRK 11,324 thousand, Collected interest from operating activities in the amount of HRK 509,425 thousand, Paid interest from operating activities in the amount of HRK 31,426 thousand, Inflows from securities and other financial instruments from investing activities collection in the amount of HRK 267,292 thousand and Net decrease in loans received from financing activities in the amount of HRK 322,534 thousand within regulatory reports are disclosed within Net increase in loans and advances to customers in the amount of HRK 1,481,336 thousand, Net decrease in financial assets at fair value through profit and loss account in the amount of HRK 46,059 thousand, Net increase in financial assets at fair value through other comprehensive income in the amount of HRK 226,249 thousand, Net decrease in financial assets carried at amortized cost in the amount of HRK 2,307 thousand, Net decrease in other assets in the amount of HRK 7,854 thousand, Net decrease in deposits from banks in the amount of HRK 84,628 thousand, Net decrease in customer deposits in the amount of HRK 1,164,322 thousand, Net decrease in other liabilities in the amount of HRK 11,324 thousand, and on sale of financial assets available for sale in the amount of HRK 656,072 thousand and acquisition of financial assets available for sale in the amount of HRK 388,780 thousand, as and to Increase in borrowings in the amount of HRK 744,561, Repayment of borrowings in the amount of HRK 422,027 thousand and Repayment of leases in accordance with IFRS 16 in the amount of HRK 18,682 thousand in the Financial Statements..

Differences in other items are purely semantic in nature and there is no mismatch between cash flows statements for 2020 in the regulatory financial reports and Statutory financial reports.

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